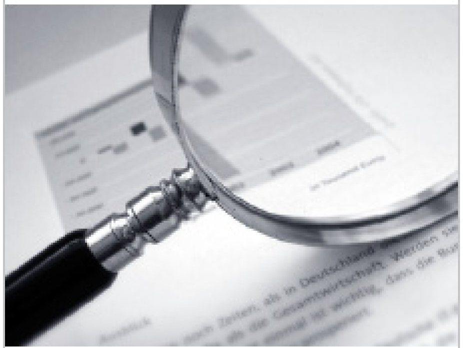


ANNUAL REPORT 2003

USU SOFTWARE AG

Contents

SUPERVISORY BOARD REPORT

Dear shareholders,

For USU Software AG and the Group, the 2003 financial year focused completely on the improvement of the earnings situation. In so doing, the Group has come significantly closer to achieving its target of breaking even. In the course of the 2003 financial year, the Supervisory Board was kept informed of the development and the situation of the company and the Group. In so doing, the Supervisory Board observed the duties and control functions it is responsible for according to the rules and statutes and provided consultation to the Management Board with regard to the strategic orientation of the company and the Group and its business policy. Any legal business requiring agreement by the Supervisory Board and strategic decisions of the Management Board were resolved after thorough investigation and discussion.

In the six ordinary and two telephone meetings of the Supervisory Board of the company, business development was discussed as well as the asset, financial and earnings situation of USU Software AG and of the Group. Additionally, the Supervisory Board was also in close contact with the Management Board outside of these joint meetings and was regularly informed of important business transactions. The focus was not only on the extension of the cost savings programme but also on the concentration of business activities, and in this context, also on the progress made with regard to earnings improvement. In the context of the further concentration of business activities, the Supervisory Board also authorised the sale of software and brand rights of the areas eBusiness, eProcurement and Shop Systems, which no longer form part of the core portfolio, to the Wilken Group. Also, it dealt with the development of the risk management system of the company and the implementation of the Corporate Governance Codex, extended by the German Corporate Governance Code Government Committee on 21 May 2003. The corresponding Declaration of Compliance in line with section 161 of the German Stock Corporation Act was provided by the Supervisory Board and the Management Board on 16 December 2003.

In the context of streamlining the management structures of the company, the Supervisory Board of USU Software AG was reduced from six to three members at the Annual General Meeting on 12 June 2003. In anticipation of this, the Supervisory Board members Karl-Heinz Achinger, Klaus Langer and Dr Thomas Gutschlag retired from the Supervisory Board, as scheduled. At this point I wish to thank Karl-Heinz Achinger, Klaus Langer and Dr Thomas Gutschlag for their excellent work and their commitment to the company.

Due to the reduction of the Supervisory Board to three members during the reporting period, no committees were formed. Following a corresponding resolution by the Annual General Meeting, the Supervisory Board appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft as auditors and, at the same time, stipulated the focus of the audit for the 2003 financial year. Ernst & Young AG Wirtschaftsprüfungsgesellschaft audited the 2003 annual financial statements, including the accounting, the consolidated financial statements 2003 and the Management report for the company and the Group for the period from 1 January to 31 December 2003 and granted an unqualified audit opinion.

The Supervisory Board was presented the documentation for the annual financial statements of the Management Board, the 2003 annual financial statements and the consolidated financial statements 2003, the Management report for the company and the Group and the audit reports of the auditor in a timely manner. Following intensive examination and comprehensive discussion with the Management Board and the auditor at the balance sheet meeting on 10 March 2004, the Supervisory Board agreed with the result obtained by the auditor and raised no objections. The Supervisory Board approved the annual financial statements 2003 and the consolidated financial statements 2003 of the company. The annual financial statements 2003 of USU Software AG are thereby adopted.

On behalf of the entire Supervisory Board, I wish to thank the members of the Management Board and the employees of USU Software AG and their subsidiaries for their great performance and their loyalty to the USU Software Group. Despite the difficult market situation your strong support assisted in levelling the company's way to profitability and sustained success.

Möglingen, 10 March 2004

Markus Kress
Chairman of the Supervisory Board

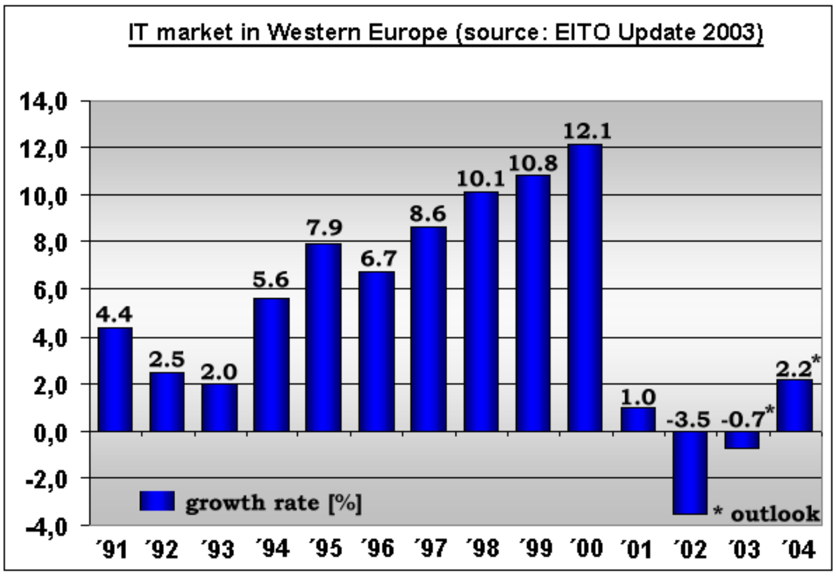
Management Report and Group Management Report
USU Software AG (formerly: USU-Openshop AG), Möglingen for 2003

Explanations to pro forma disclosures. *The 2003 reporting period covers the twelve months from January 1 to December 31, 2003. Correspondingly, the comparative period for the prior year covers the twelve months from January 1, 2002 to December 31, 2002. USU AG, Möglingen, the major subsidiary was consolidated for the first time on March 11, 2002. In order to allow comparison of the disclosures for the 2003 reporting period with those of the prior period, additional pro forma disclosures on the consolidated income statement have been made to reflect the situation that would have eventuated had USU AG been consolidated on January 1, 2002.*

Development of the economy as a whole. Overall, economic development varied widely around the globe in 2003. Whereas gross domestic product in the USA returned to levels of nearly 3.0% (prior year: 2.2%), according to research by the ifo-Institut, the euro zone recorded growth of just 0.5% (prior year: 0.9%). In Germany, GDP fell for the first time since 1993. According to the Federal Statistics Office, the German economy shrunk by 0.1% after recording growth of a mere 0.2% in the 2002. In its spring report for 2003, the "Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute e.V" (joint venture of German economic research institutes) forecast growth of 0.5% for 2003.

The major causes of the recessive economy were the lack of corporate investment and low levels of private spending.

Development of the industry. As a result of the sustained lack of investment, the market volume of the European IT sector fell for the second year in a row. According to studies carried out by the Bundesverband Informationswirtschaft, Telekommunikation und Neue Medien e.V. (BITKOM - German Association for Information Technology, Telecommunications and New Media), the western European IT market shrunk by 0.7%. According to the BITKOM figures, the German IT market was hit by an even greater fall of approx. 2%.



Business development. Owing to the on-going weakness in the economy, and the associated reticence of companies to invest in information technology, the USU Software Group suffered from falling revenues over the course of fiscal 2003.

After a successful first quarter, business development remained below expectations in the following two quarters. In spite of a significant need for companies to rationalize and renew their infrastructures, urgently required IT investments were postponed or scaled back. In addition, pressure on prices increased. As a consequence, license income from product business declined as well as revenue from solution business, which is consulting-intensive. In reaction, restructuring measures were initiated within the USU Software Group in the course of the third quarter of 2003 in order to bring the costs of the Group down to match the lower income levels.

It is not planned to sell any further strategic investments or merge them with the parent. On the other hand, a resolution was passed to close cost intensive branches in Wiesbaden and Berlin and to concentrate on the German locations, Möglingen, München and Bonn and the Austrian branch in Vienna. There are further Group locations in Cham and Brno and Prostejov, held via the Swiss subsidiary, USU (Schweiz) AG and the Czech subsidiary, USU Software s. r. o. As a result of the concentration, the headcount has fallen to 212 (prior year: 283). These measures led to additional restructuring expenses in fiscal 2003.

At the end of the fiscal year, a slight recovery began in the consulting field. Owing to the fact that the number of consulting staff had been cut previously, the utilization of capacity improved significantly. Only in the high-margin licence business did the actual order intake remain below expectations.

Overall, a significantly better result was achieved in spite of the difficult economy and falling revenues. The restructuring measures initiated have laid the groundwork for breaking even in fiscal 2004 even without any additional growth in sales.

Development of sales and results. USU Software AG and its subsidiaries recorded group sales of EUR 19.1 million in the fiscal year 2003 (prior year: EUR 19.5 million). Whereas consulting, maintenance and other items yielded sales totaling EUR 16.8 million (prior year: EUR 15.2 million), the weak investments being made in IT had a dramatic impact on license income. This resulted in an overall fall in revenues from license business to EUR 2.3 million (prior year: EUR 4.3 million).

In a segment-by-segment analysis, EUR 11.0 million (prior year: EUR 11.9 million) of sales is attributable to Business Solutions and EUR 8.1 million (prior year: EUR 7.7 million) to IT-Controlling.

Owing to the concentration effected in the product range in the prior year by spinning-off, selling or discontinuing activities of USU Software AG and its subsidiaries, pro forma sales fell from EUR 24.0 million in the prior year to EUR 19.1 million in fiscal year 2003. In addition, the poor economic environment had an impact on pro forma sales development.

As a result of the lower level of business activity and the required adjustment of human resources in the consulting field, the cost of sales fell from EUR 15.0 million in the prior year to EUR 12.8 million. The cost base of the Group fell significantly owing to the cost-savings initiated in central administrative departments, marketing and sales as well as research and development in the prior year and continued in fiscal year 2003.

In the central departments alone, expenses in 2003 fell in comparison to the same period last year by 60% to EUR 3.2 million (prior year: EUR 8.3 million). In addition to an adjustment in administrative staff, cost savings in materials had the greatest impact here. Sales and marketing expenses were reduced from EUR 7.6 million in 2002 to EUR 4.1 million in the reporting period by reorganizing the sales function and concentrating marketing activities on direct marketing campaigns and individual events.

In research and development too, expenses were slashed to EUR 3.1 million (prior year EUR: 5.5 million) by focusing on activities involving the core products of the Group.

As in the prior year, the cost-saving measures led to unavoidable expenses for severance payments, continued wage payments and rental and restoration obligations which were however much lower than the associated savings. After inclusion of income from releasing unnecessary accruals established in the prior year, the consolidated restructuring expenses of the USU Software Group amount to EUR 0.3 million (prior year: EUR 7.8 million).

Taking account of personnel income of EUR 0.1 million from the stock option plan (prior year EUR: -0.1 million) and further income and expenses totaling EUR 0.1 million (prior year: EUR 0.2 million) Group earnings before interest, tax, depreciation and goodwill impairment (EBITDA) came to EUR -3.3 million (prior year: EUR -22.1 million, pro forma prior year: EUR -23.6 million).

Considering the sustained fall in sales, especially in license business, and the restructuring measures implemented in the Group, it was decided to subject the goodwill carried by the USU Software Group to an impairment test. This led to a need to writedown goodwill by EUR 5.0 million (prior year: EUR 15.2 million). This impairment led to an extraordinary burden on the result of the fourth quarter of 2003. Together with depreciation on property, plant and equipment and amortization of financial assets and intangible assets of EUR 1.0 million (prior year: EUR 2.4 million) as well as the impairment loss recorded on fixed assets of EUR 0.1 million (prior year: EUR 1.4 million), the non-cash charges for depreciation and amortization amounted to EUR 6.0 million (prior year: EUR 19.0 million).

After inclusion of depreciation and amortization in the result, EBIT for the fiscal year 2003 amounts to EUR -9.3 million (prior year: EUR -41.1 million, pro forma prior year: EUR -44.2 million). Including interest and taxes in the result leads to a net loss after minority interests for the year of EUR -7.2 million (prior year: EUR -38.4 million, pro forma prior year: EUR -43.8 million). In spite of the unfavorable economic conditions and the need to undertake additional restructuring measures within the Group, this result marks a major improvement on the prior year. With an average number of 17,043,581 shares in circulation (prior year: 15,753,608, pro forma prior year: 16,940,339), earnings per share comes to EUR -0.42 (prior year: EUR -2.44 per share, pro forma: EUR -2.58 per share).

The fourth quarter of 2003 was mainly burdened by the impairment loss recorded on goodwill of EUR 5.0 million. This means that the net result on sales of EUR 4.3 million (prior year: EUR 5.5 million) was EUR -5.0 million (prior year: EUR 0.1 million). Earnings before interest and taxes (EBIT) amount to EUR -5.4 million (prior year: EUR -0.7 million). By contrast, earnings before interest, tax and depreciation and amortization (EBITDA) for the last quarter of fiscal 2003 improved to EUR -0.3 million in comparison to the same period last year (EUR -1.1 million).

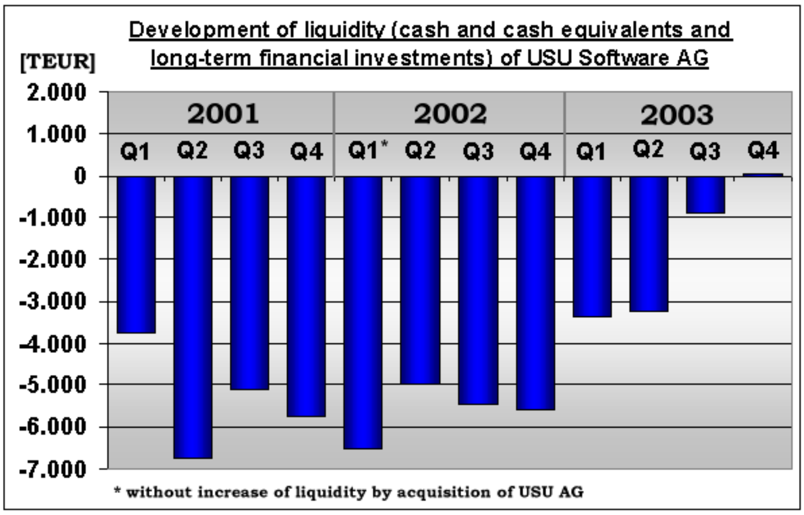
Net assets and financial position. As of December 31, 2003 the reinvestment of current securities, which had matured, in long-term investments led to a reduction of current assets of EUR 22.9 million (prior year: EUR 65.8 million). Simultaneously, fixed assets climbed to EUR 52.4 million (prior year: EUR 20.6 million). Owing to well-functioning receivables management, trade receivables fell to EUR 4.3 million in fiscal year 2003 (prior year: EUR 5.7 million). The impairment test conducted at the end of the fiscal year 2003 and the subsequent need to record an impairment led to a lower carrying value for goodwill of EUR 14.4 million (prior year: EUR 17.3 million).

Cash and cash equivalents fell from EUR 12.0 million as of December 31, 2002 to EUR 7.7 million at the end of the fiscal year. In addition to cash outflows related to the net loss for the year, the targeted reduction in Group liabilities led to a reduction of liquidity. By the end of fiscal 2003, liabilities had been cut back by EUR 4.3 million to EUR 8.7 million (prior year: EUR 13.0 million). This reduction is primarily due to a fall of EUR 3.8 million in personnel-related accruals and liabilities to EUR 1.5 million due to the pay-out of severance payments and wage continuation payments and a reduction in accrued vacation. Simultaneously, trade payables were scaled back in comparison to the prior year to EUR 0.9 million (prior year: EUR 2.1 million). Other short-term liabilities mainly contain liabilities of EUR 3.5 million (prior year: EUR 4.6 million) for wage tax, church tax and social security contributions and accruals for rent and restoration commitments, personnel expenses and outstanding invoices.

Owing to the accumulated loss, equity fell to EUR 66.7 million (prior year: EUR 72.9 million). Total assets as of December 31, 2003 amounted to EUR 75.3 million (prior year: EUR 86.4 million). This results in a ratio of equity to total assets of 88.5% (prior year: 84.4%).

Cash and cash equivalents and long-term financial investments total EUR 47.8 million as of December 31, 2003 (prior year: EUR 55.3 million).

Cash flow and investments. The development of cash flow from operating activities reflects the improvement in the earnings of the Company, the reduction in depreciation and amortization and the cut-back in liabilities and accruals.



Overall, net cash used in operating activities was scaled back significantly to a level of EUR 5.7 million (prior year: EUR 16.1 million).

Net receipts from investing activities in the fiscal year 2003 amounted to EUR 0.3 million (prior year: EUR 18.4 million). This is mainly attributable to the cash payments received from financial investments which matured in the period and were not reinvested in full.

Simultaneously, the completion of the acquisition of the subsidiary, USU AG, led to cash outflows. Whereas the acquisition of approx. 96% of USU AG using shares of USU Software AG led to cash inflows, the cash acquisition of the remaining 4% of USU AG in fiscal year 2003 led to a corresponding cash outflow.

Capital expenditure for property, plant and equipment and intangible assets was kept at a low level.

Cash flow from financing activities in the year 2003 was influenced by the sale of treasury stock, leading to cash receipts accordingly. In the prior year, cash was paid for the repayment of short-term liabilities to banks and for the acquisition of treasury stock.

The resulting net cash receipts from financing activities in fiscal year 2003 totaled EUR 1.1 million (prior year: EUR -1.8 million).

Cooperations and equity investments. The Company has expanded its network in its core activities, IT-Controlling and Business Solutions, and tightened up its product portfolio and Group structure.

As regards partner business, USU AG, a group subsidiary, entered into an agreement with the Telekom subsidiary, T-Systems, governing collaboration on IT controlling. With this deal, T-Systems has expanded its range of system integration products. Their objective is to offer a convincing total solution for IT cost controlling and cost allocation which creates transparency and allows proactive cost management.

Subsequent to USU Software AG spinning off the development and sales of its Shop Systems segment and eBusiness and eProcurement segments as part of a license deal to the Wilken Group, the rights to the software and trademarks were sold to the Wilken Group in fiscal year 2003. An additional move to simplify the Group structure involved merging the two inactive subsidiaries, OpenShop Capital GmbH, Möglingen and PSS Informationssysteme GmbH, Ludwigsburg with USU Software AG effective January 1, 2003.

A further step in this direction entailed selling the 51% share in Knowledge Text Software GmbH & Co. KG, a joint venture of the Group subsidiary, USU AG, and texttech Informationsmanagement und Texttechnologie Leipzig GmbH. In future, texttech will continue to develop the technology underlying automatic text analysis and networking topics

(Topic MapBuilder) of larger unstructured databases on its own. Simultaneously, USU AG retains the exclusive global license to sell Topic MapBuilder which will be used in conjunction with USU KnowledgeMiner as part of the Company's knowledge management solutions.

Moreover, the acquisition of all shares in USU AG was completed on December 30, 2003. Prior to this date, USU Software AG had held approx. 98.9% of the common stock of the subsidiary. At the general shareholders' meeting of USU AG on June 13, 2003, a resolution was passed to transfer all shares of USU AG held by minority interests to USU Software AG in return for reasonable cash compensation. The assignment of the remaining shares in USU AG to USU Software AG became effective upon registration of this resolution of the general meeting in the commercial register.

Research and development. The research and development activities of the USU Software Group concentrated on the Valuemation product group with its modules for Infrastructure Management, Service/Change Management and IT Finance Management within IT Controlling as well as on USU KnowledgeMiner for its Business Solutions segment.

Valuemation is a modern integrated product platform which provides users with an exact summary of the commercial investment of their information technology. In the process, the central applications for IT asset management, license management, IT billing and service/change management bring together all the commercial and technical information of a company's IT infrastructure in one common database. This product suite developed by the USU Software Group offers a high degree of transparency concerning available IT resources on the one hand and the associated costs on the other. By optimizing its existing IT equipment and avoiding over-capacities in hardware and software, Valuemation allows a rapid return on investment.

The primary objective of Valuemation Version 2.2 was the continued development of the various modules. In addition to the planned extension in functionalities, improvements based on other customer needs determined in best practice taskforces were incorporated in the new version.

The technology of Valuemation was given an excellent rating by the industry, the Meta Group to name just one.

In the Business Solutions segment, attention was placed on developing version 4.0 of USU KnowledgeMiner. This application is a user-friendly and intuitive software product for structuring topics and simplifying information access in heterogeneous IT environments. Apart from simple full text searches and queries by category or data field, USU KnowledgeMiner also offers a natural speech search.

As a meta search machine, the USU application can mine the most diverse sources of knowledge such as emails, HTML pages or office files for research purposes – regardless of their structure or terminology. By making an automatic text analysis and interacting with the user, the system generates an informative semantic network from the texts available. A visualization function allows the relevant topics and objective connections inherent in the search results to be viewed accordingly. The integrated learning function of USU KnowledgeMiner means that the system will be able to respond to a query already posed simpler, faster and more efficiently each time.

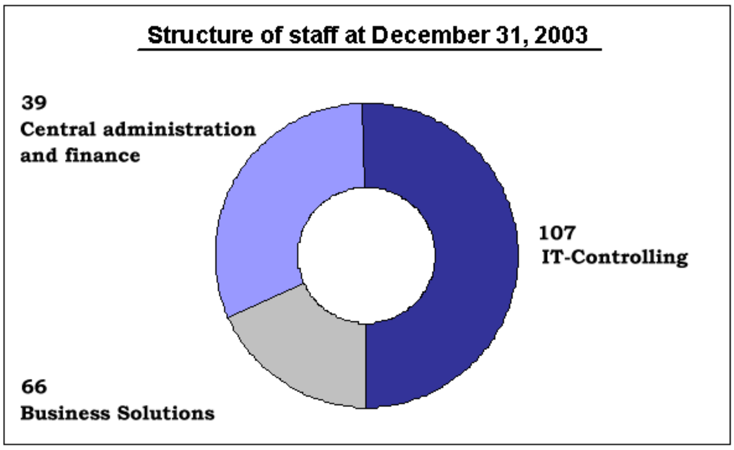
Due to the discontinuation of research and development activities for the former eCommerce products of USU Software AG and the focus on Valuemation and USU KnowledgeMiner, research and development expenses fell in comparison to the prior year to EUR 3.1 million (prior year: EUR 5.5 million.) All research and development expenses were expensed as in prior years and not capitalized.

Development of orders. Overall, the weak development of the IT market in 2003 is reflected in the lower level of orders in the books of the USU Software Group. In particular, the reluctance of IT companies to invest led to a drop in license-related orders. Simultaneously, the prevailing price competition and related fall in consulting fees had a negative impact on the order backlog. The total order backlog at the end of the reporting period was EUR 4.5 million (prior year: EUR 5.9 million).

In the course of fiscal year 2003, the USU Software Group carried out numerous projects with old and new customers alike. The city of Cologne, Schering, Volkswagen and VR Kreditwerk decided for products from the Business Solutions segment. In the IT controlling segment, the USU Software Group was able to support customers such as Aspecta, DEVK, Hanover Re, MAN, MTU Aero Engines, T-Online or Wüstenrot & Württembergische in administering and billing their IT resources.

Owing to a discernible rise in the willingness of companies selling software products and services to invest, the management board is expecting an increase in the order intake over fiscal year 2004. To this extent the management board is projecting a slight rise in the order intake for the full year.

Employees. Further restructuring measures were necessary in fiscal year 2003 owing to the continuing stagnation in the economy, the decline in the levels of investment in IT by other companies and the related effect on the sales and results of USU Software AG. Further concentration of the Company's equity investments and Group branches was carried out in this regard, leading to an adjustment of the headcount.



Due to the above measures, the headcount of the USU Software Group fell to 212 by the end of fiscal year 2003 (prior year: 283). Broken down by segment, there were 107 employees in the IT-Controlling segment, 66 in Business Solutions and 39 in central administration and finance. Broken down by functional unit, the USU Software Group had 77 staff working in consulting and services, 67 employees in research and development, 42 employees in administration and finance and 26 employees in sales and marketing. In the coming year the Company is planning for a headcount of almost 200 for the Group as a whole.

Employee training is a key success factor, particularly in times of recession. For this reason, USU Software AG made a targeted investment in the expertise and training of its staff during the reporting period. In the process, focus was placed on professional training such as IT Infrastructure Library (ITIL) certification. Simultaneously, a career plan and personal development model was introduced and established to promote highly-skilled staff and bind them to the Company.

Development and situation of the Company. USU Software AG completely divested of its former eCommerce activities in fiscal 2003 by selling its software and trademark rights, which had been spun off previously as part of an exclusive license deal with the Wilken Group. An additional move to simplify the Group structure involved merging the two inactive subsidiaries, OpenShop Capital GmbH, Möglingen and PSS Informationssysteme GmbH, Ludwigsburg, with USU Software AG effective January 1, 2003. In the wake of these measures and the restructuring of the Company initiated in the prior year, it reduced its workforce as of December 31, 2003 to two employees (prior year: 18 employees).

Sales rose in fiscal year 2003 to EUR 0.6 million (prior year: EUR 0.4 million) and are primarily a result of income from consulting projects. As of December 31, 2003 other operating income amounted to EUR 0.9 million (prior year: EUR 0.9 million). This includes income from the sale of the software and trademark rights to Wilken.

For the first time, the results of ordinary activities were positive, amounting to EUR 1.1 million (prior year EUR -16.9 million). This improvement in the result primarily reflects the significant reduction in personnel expenses from EUR 7.0 million in the prior period to EUR 0.1 million in fiscal 2003 as well as a massive cutback of other operating expenses from EUR 8.3 million in 2002 to EUR 1.5 million in the reporting period. This includes income from other periods mainly from the release of unneeded accruals and specific valuation allowances that had been set up in the prior year. Due to the existing tax loss carryforwards, no income taxes were incurred. As a result, the net income from the year is EUR 1.1 million (prior year: EUR -16.9 million).

Total assets as of December 31, 2003 amounted to EUR 58.2 million (prior year: EUR 59.5 million). Shares in affiliated companies rose from EUR 8.0 million in 2002 to EUR 10.2 million in the reporting period, chiefly due to the successful conclusion of the full acquisition of USU AG, a subsidiary. Long-term investments amounted to EUR 34.6 million (prior year: EUR 34.5 million). Cash and cash equivalents sank to EUR 1.6 million (prior year: EUR 8.8 million). Simultaneously, liabilities were scaled back to EUR 0.9 million (prior year: EUR 2.5 million) and other accruals brought down to EUR 1.6 million (prior year: EUR 2.3 million). Other accruals mainly consist of accruals for outstanding invoices and the payments due to the minority shareholders of USU AG from the squeeze out.

Receivables and other assets amounted to EUR 8.5 million (prior year: EUR 3.5 million) and are primarily composed of a loan of EUR 4.0 million granted to the subsidiary USU AG in 2003.

Owing to the successful resale of treasury stock at acquisition cost, the value of securities classified as current assets fell to EUR 3.3 million (prior year: EUR 4.6 million).

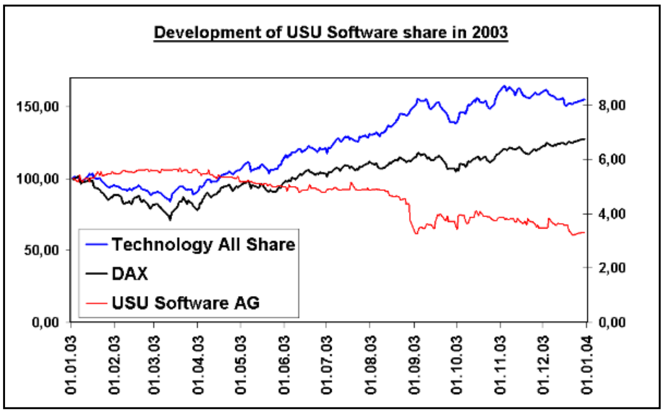
Owing to the net profit generated for the year, the accumulated loss fell to EUR 65.5 million (prior year: EUR 67.4 million). This increased equity to EUR 55.8 million (prior year: EUR 54.7 million). Consequently, the ratio of equity to total assets improved to 95.8% (prior year: 91.9%).

The future development of USU Software AG depends heavily on the business development of its subsidiaries. Reference is made to the Group's risk reporting for the risks faced by USU Software AG.

Change of name, changes in the supervisory board. A resolution of the shareholders' meeting dated June 12, 2003 to change the articles of incorporation and bylaws was filed with commercial register effective August 6, 2003. This mainly affected the change of name to "USU Software AG" (formerly: USU-Openshop AG) and the reduction of the supervisory board from six to three members. Three members of the supervisory board, Karl-Heinz Achinger, Klaus Langer and Dr. Thomas Gutschlag, had retired from the supervisory board beforehand, as scheduled The supervisory board still comprises Markus Kress, as the chairman supported by Werner Preuschhof and Udo Strehl.

Simultaneously, the resolution passed by the shareholders' meeting to change the articles of incorporation and bylaws was entered in the commercial register. This change serves to adjust the articles to legal requirements.

The Company's share. After three years of heavy losses, the share markets grew once again in 2003 on the back of positive economic forecasts. Initially the leading share indices remained weak until March 2003, only to recover directly thereafter and close the year at a significantly higher level. Primarily, the tech-based indices such as the successor of the Nemax All Share index, the Technology All Share, or the Nasdaq Composite rose by over 50%. But even the main German stock index, the DAX and the Dow Jones Industrial Average recorded hikes of 37% and 25%.



The share of USU Software AG did not participate in this overall trend and lost roughly a third of its value over the course of the year. Whereas the share price of USU Software AG stabilized at the level of EUR 5 in the beginning of the year, from the middle of August 2003 investors began to divulge of their stock which produced a fall to EUR 3.30 by the end of fiscal 2003. In subsequent trading, the Company's share has proved to be very volatile, selling for between EUR 3.0 and 4.0. By the time the financial statements were completed, the share price of USU Software AG stood at EUR 3.36.

At the beginning of 2003, the USU Software AG share was admitted to the prime standard segment of the Frankfurt stock exchange. Since January 2004, the share has also been listed in the Gate-M segment of the Stuttgart stock exchange. The decision to list the shares on both public stock exchanges means that USU Software AG can guarantee continuous trading of the share for its investors and ensures a high degree of transparency.

Corporate Governance. On February 26, 2002, the government commission called into being by the Minister for Justice in September 2001 passed the German Corporate Governance Code (the "code"). The aim of the code is to bolster the confidence of national and international investors in the management of German companies. In this context, the management board and the supervisory board of a publicly listed company must make an annual declaration that the recommendations of the "Government Commission on the German Corporate Governance Code" have been and will be applied or which recommendations have not been or will not be applied.

The management board and the supervisory board of USU Software AG gave high priority to meeting the rulings of the code in order to strengthen the confidence of shareholders, customers and employees for the long-term. Consequently, the major points of the code in the version amended on May 21, 2003 were met in fiscal 2003. A full copy of the corresponding declaration by the management board and the supervisory board of USU Software AG dated December 16, 2003 follows. It was published immediately after been made on the homepage of the Company under http://www.usu-software.de and can be obtained there at any time.

Declaration of compliance by the management board and supervisory board of USU Software AG (formerly: USU-Openshop AG) pursuant to Sec. 161 AktG

The Board of Management and Supervisory Board of USU Software AG declare that the recommendations of the "Government Commission for the German Corporate Governance Code" (hereinafter shortened to "the Code") announced in the official section of the electronic Federal Gazette by the Federal Ministry of Justice have been and will be complied with, although the following recommendations have not been and/or will not be applied:

According to clause 3.8 of the Code, a suitable deductible shall be agreed if the company takes out a D&O policy for the Board of Management and Supervisory Board.
USU Software AG had already taken out D&O insurance prior to the Code coming into force; this did not provide for any deductible. There was and is no intention to subsequently introduce a deductible.

Clause 4.2.1 of the Code provides that the Board of Management shall comprise several persons.
The Board of Management of USU Software AG comprised and comprises one person who simultaneously acts as the spokesperson for the Board of Management.

According to clause 4.2.3 of the Code, the Supervisory Board shall agree a cap for extraordinary and unforeseen developments for variable Board of Management compensation components with long-term effect and contain a degree of risk (e.g. phantom stocks). The concrete details of these compensation components shall be published both on the internet site and in the annual report together with the essential features of the compensation system.
The total compensation package for the Board of Management of USU Software AG comprised and comprises both fixed and variable elements. There was and is no intention to provide an additional variable compensation component with long-term incentive effect and which contains a degree of risk and a cap. Therefore, the extent to which the remuneration system has been published on the internet and in the company's annual report has not exceeded statutory requirements, nor will it do so in the future. For further details, please refer to clause 4.2.4 which follows.

According to clause 4.2.4 of the Code, the compensation of the Board of Management members is to be shown in the notes to the consolidated financial statements according to fixed, performance-related and long-term incentive components.
The figures should be individualised. USU Software AG has not provided individualised information regarding the compensation of the Board of Management members and does not intend to do so. The information regarding the compensation of the Board of Management has been and will be indicated in the notes to the consolidated financial statements as total earnings for all Directors, according to fixed and variable component. In the event that the company's Board of Management acts as the sole Board of Management, there will be no disclosure of the compensation whatsoever.

According to clause 5.1.2 of the Code, an age limit for Board of Management members is to be stipulated.
USU Software has not implemented a set age limit for Board of Management members in the past and does not intend to do so.

According to clause 5.4.1 of the Code, an age limit for Supervisory Board members shall be set for proposed appointments to the Supervisory Board.
USU Software AG has not implemented a set age limit for Supervisory Board members in the past and does not intend to do so.

According to clause 5.4.5 of the Code, Supervisory Board members are to receive a separate remuneration for functions including taking over the chairmanship or becoming a member of a Supervisory Board committee. In addition, the members of the Supervisory Board are to receive a performance-related compensation component on top of a fixed amount. The compensation paid by the company to the Supervisory Board members, or benefits granted to them, are to be separately indicated in the notes to the consolidated financial statements.
The articles of association of USU Software AG has not provided for and are not planned for provide for either compensation for being a member or the chairman of a Supervisory Board committee or a performance-related compensation for members of the Supervisory Board. The information regarding the remuneration of the Supervisory Board, including any benefits granted, has been and will be indicated in the notes to the consolidated financial statements as total earnings for all Supervisory Board members, according to fixed amount and variable compensation.

According to clause 7.1.2 of the Code, interim reports are to publicly accessible within 45 days of the end of the reporting period.

In the past, USU Software AG has published interim reports in accordance with the relevant stock exchange rules and regulations, immediately after they have been completed, and at the very latest within two months of the end of the reporting period. This policy will continue to apply.

Signed
Board of Management and Supervisory Board of USU Software AG

Möglingen, December 16, 2003

Risk reporting. The early and systematic identification, assessment and management of risks posing a critical threat to the enterprise is a key success factor of any company. This means that all segments of the Company and its subsidiaries must be included in the Company's risk management and that an awareness of risks be instilled throughout the Group.

Within the USU Software Group the risk management system was developed further in 2003 and tailored to the individual characteristics of the Group. Using our own software product, Valuemation Risk Manager, the management board and the supervisory board working in conjunction with the risk officer of the Group have implemented a system optimized to monitoring the specific risks faced by the Company with regard to their potential impact on the Company's net assets, financial position and results of operations.

The existing and potential risks to the various segments are analyzed and recorded regularly and reviewed in terms of their local likelihood of occurrence and possible impact. The results obtained in this manner flow into clearly defined risk management strategies and form the basis for further strategic planning of the Company.

The risks that were assessed by risk management as posing a threat to the Company's continued existence or which could have a material effect on the Company's net assets, financial position or results of operations are listed below. In addition, there is a possibility that risks which have not yet been identified or those currently classified as immaterial could also have a negative impact on business development.

Market risks and competitive risks

The USU Software Group sells its software products and solutions and consulting services on a very competitive market that has been heavily affected by the recent weakness of the economy. The market volume for IT products, solutions and services fell by almost 6% in 2002 and 2% in 2003 as a consequence of the reticence of companies in the domestic market to make new investments. This has resulted in increasing downward pressure on prices and a price war on the market.

USU Software AG is countering this trend with a Group-wide cost-saving program and concentrating on its core business. In this regard, the product portfolio and the organization of the Group have been made leaner to match the change in the market conditions.

The resulting productivity increases and a significant fall in the cost base have put USU Software AG in a good position to succeed on the market. Nevertheless it cannot be ruled out that the sustained weakness in the economy and unfavorable market trends as well as the increasing price competition and intensifying price war will have a negative impact on the business development of the Company.

Research and development risks

Continuous market-oriented development of the Company’s own software products and solution components is an important guarantor of future growth. In this context, shorter development times for new product versions are becoming increasingly important. Simultaneously, the Company must constantly adjust to any technological changes and take these a step further through its own innovations.

By concentrating on Valuemation in the IT Controlling segment and USU KnowledgeMiner in the Business Solutions segment, USU Software AG has bundled its research and development activities in a logical way. Currently, the development process is further optimized in this regard and our quality management expanded.

Although the Company’s products and solutions are well-positioned in the German-speaking region, there is a latent risk that a deterioration in market conditions will make additional technical, financial and human resources necessary, with a corresponding impact on the Company’s net assets, financial position and results.

Product and project-related risks

As with any software product, there is a risk that the software products from USU Software AG contain programming errors which have not yet been discovered. Such errors may only occur in interaction with other software products or only become apparent during operation. The related operational defects could lead to liability and warranty claims and damage the customer relationship and/or the image of the Company.

As the Company's internally generated software is mainly used within the context of larger projects, there is an additional risk that the development period and cost estimates guaranteed by contract cannot be kept to, which would lead to claims for damages being made against the Company. This would have a corresponding impact on the net assets, financial position and results of operations of the Company. To avoid such risks, the USU Software Group has expanded its internal quality management function. Moreover, the Company is covered by a third party liability insurance policy.

Personnel and management risks

The entrepreneurial success of USU Software AG and its subsidiaries depends to a significant degree on its professional staff and management. Every manager and skilled employee occupying a key position who leaves the company can have a negative impact on the business development of the Company and the net assets, financial position and results of operations. The same holds true for the failure to attract new experts. To counter this risk, the Company has introduced a career and personal development model to promote line experts and managers and bind them to the Company. Additional training possibilities complement this offer. Competition on the labor market for skilled personnel has dropped off significantly, improving the Company's recruiting potential for the foreseeable future.

IT risks

As a software producer, USU Software AG is particularly dependent on the long-term functionality and absolute security of its computer center, its networks and the respective IT systems. Damaging interference from outside or inside the Company could lead to a complete or partial breakdown of the IT infrastructure or loss of data security, negatively impacting net assets, financial position and the results of operations accordingly.

For this reason an extensive risk prevention concept has been installed to counter the IT risks facing the USU Software Group. This concept is tied into the Company's risk management accordingly.

Financial risks

The Company has large financial resources at its disposal which are currently deposited in short-term investments. The complete or partial loss of an investment or several investments could have an adverse effect on the Company's net assets, financial position and results of operations. To hedge the risk of financial loss, USU Software AG invests in low-risk investments with short terms to maturity.

Outlook. After three years of contraction, German gross domestic product bottomed out in the fiscal year 2003, with many signs of a budding economic recovery. A strong recovery can already be seen in the USA. The ifo Institut is forecasting economic growth of 4.2% for the USA for the year 2004. In the euro zone the ifo Institut is also forecasting a significant recovery of the economy, with growth of 2.0% projected. Owing to the rise in private consumption and increasing investment volume, the ifo Institut is also expecting the German economy to grow by approx. 1.8% overall in 2004.

The backlog in IT expenditure is also expected to dissolve to a major extent. BITKOM, for example, forecasts that the western European market for IT will grow by 2.2% in 2004 after contracting in 2003. In particular, the market for software and IT services should grow at even higher rates.

The German IT market is expected to grow by only 1%, but grow again nevertheless. However, at 4% the German market for software will grow significantly faster than the total market. The same holds true for IT services, which are expected to expand by 2%.

These forecasts have been confirmed by a recent study on the German IT market from International Data Corporation (IDC). According to this report, software and services will be the major beneficiaries of the rising IT expenditures expected from public authorities, the telecommunications industry and utilities in particular. Among other products, the market will be demanding software solutions that cut IT operating costs. In addition, the private sector is likely to once again focus on issues such as knowledge management.

With its portfolio of products, solutions and services, the USU Software Group has positioned itself well in these sectors and can rely on long-term customer relationships.

Due to the positive market forecasts and the first successfully completed projects, the management board of the Company is expecting demand for consulting and also license business to rise slightly over the course of the year. Seen in absolute terms, Group sales will fall initially because of the pruning done to the product portfolio and the rationalization of the Group structure which have led to some business activities being spun off or discontinued. According to the Company's planning, sales are likely to lie between EUR 16 to 18 million. Most of this sales revenue will be generated by the subsidiary, USU AG.

As a direct consequence of the sale of the software and trademarks under exclusive license to the Wilken Group, USU Software AG itself will only realize modest sales from consulting projects. In addition, the Company will generate interest income from the high amount of cash and cash equivalents and capital investments it carries. Overall, USU Software AG is expecting to make a net profit in fiscal 2004.

In view of the restructuring measures realized by the end of 2003 and the related fall in its cost base, the management board is expecting the USU Software Group to enter the profit zone in the course of 2004. For the full year, net income of between EUR 1.0 and 1.5 million is expected.

Möglingen, February 11, 2004

Bernhard Oberschmidt

Spokesperson for the management board

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

	Notes No.	2003 KEUR	2002 KEUR
ASSETS			
Current assets			
Cash and cash equivalents	7	7,656	12,001
Debt securities	17	5,622	43,344
Accounts receivable, less allowance for doubtful accounts of KEUR 736 and KEUR 3,097 at December 31, 2003 and 2002, respectively	8	4,291	5,680
Cost and estimated earnings in excess of billings	9	498	296
Prepaid expenses and other current assets		4,814	4,460
Total current assets		22,881	65,781
Property and equipment, net	10, 11	373	649
Goodwill	10, 13	14,385	17,279
Other intangible assets	10, 12, 14	1,566	2,199
Investments in associated company	16, 43	270	311
Debt securities	17	34,563	0
Other non-current assets		1,273	193
Total non-current assets		52,430	20,631
Total assets		75,311	86,412

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

	Notes No.	2003 KEUR	2002 KEUR
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables		921	2,063
Billings in excess of cost and estimated earnings	9	593	222
Amounts due to associated companies		267	228
Payroll-related accruals and liabilities		1,523	3,759
Tax-related liabilities		73	302
Other accruals and liabilities	27	3,517	4,641
Deferred revenue		850	931
Total current liabilities		7,744	12,146
Pension liability	28	910	775
Convertible debt	31	0	94
Total long term liabilities		910	869
Total liabilities		8,654	13,015
Commitments and contingencies			
Minority interests		0	469
Shareholders' equity			
Common stock (25,811,186 shares authorized, 17,211,186 shares issued, 17,103,285 outstanding)	31	17,211	17,211
Additional paid-in capital	31	137,730	137,848
Treasury stock	31	-714	-1,859
Accumulated deficit	31	-87,545	-80,304
Accumulated other comprehensive income/(loss)	31	-25	54
Deferred compensation	31	0	-22
Total shareholders' equity		66,657	72,928
Total liabilities and shareholders' equity		75,311	86,412

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Notes No.	2003 KEUR	2002 KEUR
Net revenues	5	19,059	19,542
Cost of sales		-12,820	-15,001
Gross profit		6,239	4,541
Selling expenses		-4,120	-7,573
General and administrative expenses		-3,187	-8,303
Research and development costs		-3,111	-5,526
Goodwill impairment/amortization	13	-4,957	-15,218
Stock compensation expense	31	97	-97
Restructuring expense	26	-281	-7,793
Asset impairment charges	10, 12, 26	-40	-1,389
Operating loss		-9,360	-41,358
Interest income, net		1,930	2,270
Equity in earnings of associated companies		-38	-310
Other income/expense, net		105	533
Loss before taxes and minority interests		-7,363	-38,865
Income taxes	30	65	37
Loss before minority interest		-7,298	-38,828
Minority interests		57	379
Net loss		-7,241	-38,449
Loss per share:			
Basic and diluted (in EUR)	32	-0.42	-2.44
Weighted average number of shares outstanding:			
Basic and diluted		17,043,581	15,753,608

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003 KEUR	2002 KEUR
Cash flow from operating activities:		
Net loss	-7,241	-38,449
Adjustments to reconcile net loss to net cash used in operating activities		
Minority interests	-57	-379
Depreciation and amortization	952	2,438
Asset impairment charges	40	1,389
Goodwill impairment	4,957	15,218
Other non-cash expenses/income	267	443
Changes in operating assets and liabilities:		
Accounts receivable	1,388	2,082
Cost and estimated earnings in excess of billings	-202	1,596
Inventory	0	1,509
Prepaid expenses and other assets	-1,436	1,364
Trade payables and amounts due to associated companies	-1,103	-997
Personnel-related accruals and liabilities and pension liability	-2,102	-1,129
Taxes related liabilities	-229	-697
Other accruals and liabilities	-908	-500
Net cash used in operating activities	-5,674	-16,112
Cash flow from investing activities:		
Acquisitions, net of cash acquired	-2,466	10,229
Divestiture, net of cash disposed of	-20	0
Purchase of property and equipment	-140	-276
Purchase of intangible assets	-7	-135
Proceeds from the sale of fixed assets	64	52
Sale of certificate of deposit	0	10,226
Sale of debt securities - held to maturity	40,568	29,038
Sale of debt securities - available for sale	1,635	761
Purchase debt securities - held to maturity	-37,702	-30,591
Purchase debt securities - available for sale	-1,654	-859
Net cash provided by investing activities	278	18,445

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003 KEUR	2002 KEUR
Cash flow from financing activities:		
Repayments of short-term debt to banks	0	-1,160
Repayment of convertible debt	-94	-18
Purchase of treasury stock	0	-619
Sale of treasury stock	1,145	0
Net cash provided by (used in) financing activities	1,051	-1,797
Increase (decrease) in cash and cash equivalents	-4,345	536
Cash and cash equivalents at the beginning of the year	12,001	11,465
Cash and cash equivalents at the end of the year	7,656	12,001
Supplemental cash flow information		
Cash payments for:		
Interest	14	12
Taxes on income	43	1

Noncash transactions

In 2002, the Company acquired USU AG in exchange for 7,711,186 shares with a fair value of KEUR 50,770

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common stock Number	Common stock KEUR	Additional paid-in capital KEUR	Treasury stock KEUR
Balance at January 1, 2002	**9,500,000**	**9,500**	**94,942**	**-1,240**
Purchase of USU AG	7,711,186	7,711	43,059	0
Purchase of treasury stock	0	0	0	-619
Adjustment of deferred compensation	0	0	-153	0
Amortization of deferred compensation expense	0	0	0	0
Net loss	0	0	0	0
Net unrealized gains/-losses on available for sale debt securities	0	0	0	0
Foreign currency translation adjustment	0	0	0	0
Comprehensive loss				
Balance at December 31, 2002	**17,211,186**	**17,211**	**137,848**	**-1,859**
Sale of treasury stock	0	0	0	1,145
Adjustment of deferred compensation	0	0	-118	0
Reversal of deferred compensation expense	0	0	0	0
Net loss	0	0	0	0
Net unrealized gains/-losses on available for sale debt securities	0	0	0	0
Foreign currency translation adjustment	0	0	0	0
Comprehensive loss				
Balance at December 31, 2003	**17,211,186**	**17,211**	**137,730**	**-714**

	Accumulated deficit KEUR	Deferred Compensation KEUR	Accumulated other Comprehensive income/loss KEUR	Total KEUR	Comprehensive loss KEUR
Balance at January 1, 2002	**-41,855**	**0**	**-543**	**60,804**	
Purchase of USU AG	0	-272	0	50,498	
Purchase of treasury stock	0	0	0	-619	
Adjustment of deferred compensation	0	153	0	0	
Amortization of deferred compensation expense	0	97	0	97	
Net loss	-38,449	0	0	-38,449	-38,449
Net unrealized gains/-losses on available for sale debt securities	0	0	60	60	60
Foreign currency translation adjustment	0	0	537	537	537
Comprehensive loss					**-37,852**
Balance at December 31, 2002	**-80,304**	**-22**	**54**	**72,928**	
Sale of treasury stock	0	0	0	1,145	
Adjustment of deferred compensation	0	118	0	0	
Reversal of deferred compensation expense	0	-96	0	-96	
Net loss	-7,241	0	0	-7,241	-7,241
Net unrealized gains/-losses on available for sale debt securities	0	0	-85	-85	-85
Foreign currency translation adjustment	0	0	6	6	6
Comprehensive loss					**-7,320**
Balance at December 31, 2003	**-87,545**	**0**	**-25**	**66,657**	

The accompanying notes are an integral part of these consolidated financial statements.

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

CONSOLIDATED FOOTNOTES FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

A. THE COMPANY

USU Software AG was founded on November 25, 1998. USU Software AG and its subsidiaries (the “Company”) develop and sell complete software and hardware solutions in two business segments – IT Controlling, for the management of IT costs, and Business Solutions, for optimizing knowledge-intensive core processes in the Company.

The Company supports customers whose aim is to optimize the efficiency of their IT by means of effective controlling. In the Business Solutions segment, the Company acts as a solutions provider combining IT know-how and its expertise in implementing complete, customized systems.

The Company includes subsidiaries in Germany, Switzerland, and the Czech Republic. The Company also has a sales office in Austria. Most of the Company’s customers are companies in the German financial services, telecommunications, services and manufacturing industries.

The Company is listed on the Prime Standard segment of the Frankfurt stock exchange.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) *Basis of presentation*

The accompanying consolidated financial statements are presented in Euro (”EUR”) in accordance with accounting principles generally accepted in the United States of America (US-GAAP). All amounts are stated in thousands of Euro ("KEUR"), except share and per share data.

2) *Basis of consolidation*

The accompanying consolidated financial statements include the financial statements of USU Software AG and the companies which USU Software AG controls by holding a majority of the financial interests. Investments in which the Company exercises a significant but not controlling influence – generally companies in which a holding of 20% to 50% is held – are accounted for as associated companies using the equity method. All material intercompany accounts and transactions have been eliminated.

Companies in which the Company has a holding of less than 20 % are accounted for using the cost method.

3) *Consolidation group*

The Group is comprised of USU Software AG and five domestic and foreign subsidiaries (2002: eight). One company (2002: two) is accounted for in the 2003 consolidated financial statements using the equity method.

4) *Use of estimates*

The preparation of financial statements in conformity with US-GAAP requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Areas requiring significant estimates include percentage of completion accounting, allowance for doubtful accounts, contingencies, restructuring reserve and other accruals. In addition, significant estimates and assumptions are required in the determination of the fair value of the Company's tangible long-lived assets, intangible assets and reporting units used in determining goodwill impairment testing.

5) *Revenue recognition*

The Company generates revenues from licensing the rights to use its software products to end users and from the sale of professional services and maintenance.

The Company licenses software in multiple element arrangements in which a customer purchases a combination of software, post-contract customer support ("PCS") and professional services. PCS, or maintenance, includes rights to upgrades, when and if available, telephone support, updates and enhancements. Professional services relate to consulting services and training. When vendor specific objective evidence ("VSOE") of fair value exists for all elements in a multiple element arrangement, revenue is allocated to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when the same element is sold separately. The Company determines VSOE of fair value of PCS based on renewal rates for the same term PCS. In a multiple element arrangement whereby VSOE of fair value of all undelivered elements exists but VSOE of fair value does not exist for one or more delivered elements, revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue, assuming all other criteria for revenue recognition have been met.

Revenue allocated to PCS is recognized ratably over the contractual term (typically one to two years). Revenues allocated to professional services are recognized as the services are performed. If the professional services are not essential to the functionality of the software, the fees allocated to the software license are recognized when (i) delivery has occurred, (ii) the sales price has been fixed and is determinable (iii) collectability is reasonably assured and (iv) evidence of an arrangement exists. If customer acceptance is included in the contract, the sales are recognized upon acceptance or expiration of the acceptance period.

In cases where the license fee payments are contingent upon the performance of services or the professional services that are essential to the functionality, revenues from both the license and service elements are deferred and recognized under the percentage of completion method of accounting as the services are performed. Percentage of completion is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion (cost method).

However, in situations when reliable estimates of progress to completion and estimated costs to be incurred cannot be made, the completed contract method is used. There were no such contracts during the years ended December 31, 2003 and 2002.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Also included in costs and estimated earnings on uncompleted contracts are amounts that the Company seeks or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to both scope and price, or other customer-related causes of unanticipated additional contract costs, claims and pending change orders. These amounts are recorded when realization is probable and can be reasonably estimated. No profit is recognized on the costs in connection with these amounts. Pending change orders involve the use of estimates. Therefore, it is reasonably possible that revisions to the estimated recoverable amounts of recorded pending change orders will be made in the future. Any litigation costs incurred in this respect are expensed as incurred.

The percentage of completion method is based on the use of estimates. Due to the uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will need to be subsequently revised. Such revisions to costs and income are recognized in the period in which the revisions are determined.

6) Foreign currency translation

The functional currency of each of the Company's subsidiaries is the local currency of the country in which each subsidiary is located. Assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Shareholders' equity accounts are translated using historical exchange rates. Revenues and expenses are translated at average exchange rates in effect during the year. Differences arising from the translation are recorded in accumulated other comprehensive income (loss). Transactions in foreign currencies are translated at the exchange rate in effect at the date of each transaction.

Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated for inclusion in a consolidated balance sheet are recognized in the statement of operations and are included in “other income/expense, net”.

7) Cash and cash equivalents

Cash on hand and bank deposits with original maturities of three months or less are considered to be cash and cash equivalents. The carrying value of these investments approximates fair value.

8) Receivables and other assets

Receivables and other assets are stated at the lower of cost or net realizable value as of the balance sheet date.

The Company performs ongoing credit evaluations of its customers' financial condition and does not require collateral. The Company evaluates the collectability of its accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations to the Company, the Company records a specific allowance against the amounts due to the Company, and thereby reduces the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. The Company records its bad debt expenses as selling and marketing expenses.

9) Cost and estimated earnings

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues have been recorded but the amounts have not been billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract.

As of December 31, 2003 and 2002 costs and estimated earnings on uncompleted contracts and related amounts billed are as follows:

	2003 KEUR	2002 KEUR
Cost and estimated earnings	984	359
less billings to date	-1,079	-285
	-95	74

Such amounts are included on a contract by contract basis in the accompanying consolidated balance sheets under the following captions:

	2003 KEUR	2002 KEUR
Cost and estimated earnings in excess of billings	498	296
Billings in excess of cost and estimated earnings	-593	-222
	-95	74

10) Accounting for long-lived assets

The cost of fixed assets includes major expenditures and replacements that extend useful lives or increase capacity and interest cost associated with significant capital additions. For all periods presented, interest costs allocable to these projects have been insignificant and have not been capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the appropriate accounts. Any gains or losses on disposition of such assets are recorded as other income or expense. Maintenance and minor repairs are charged to operations as incurred.

The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable over the remaining useful life, the Company compares undiscounted net cash flows estimated to be generated by those assets with the carrying amount of those assets. To the extent that these cash flows are less than the carrying amounts of the assets, the Company records impairment losses to write the asset down to fair value. Fair values are determined based on prices for similar assets.

During the year ended December 31, 2002, the Company recognized impairments of purchased software and property and equipment totaling KEUR 988, recorded as asset impairment charges in the accompanying consolidated statement of operations. The impaired assets are from the Business Solutions segment.

11) Property and equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The useful lives are as follows:

EDP equipment	3 years
Fixtures	10 years
Other equipment, furniture and office equipment	2 to 11 years

Depreciation on property and equipment during the year ended December 31, 2003 amounted to KEUR 394 (2002: KEUR: 1,029).

For further details, please refer to the schedule of consolidated fixed assets.

12) Intangible assets (other than goodwill)

Purchased software and maintenance agreements are stated at cost and amortized using the straight-line method over the estimated useful lives of the assets. The useful life is generally 3 to 4 years. Amortization for the year ended December 31, 2003 amounted to KEUR 558 (2002: KEUR 1,409). The estimated amortization for the next five years amounts to KEUR 398, KEUR 354, KEUR 157, KEUR 112 and KEUR 73.

Beginning on January 1, 2002, brand names with an indefinite useful life are no longer amortized but rather are tested at least annually for impairment. In conjunction with the impairment testing, the fair value of the brand names are determined using discounted cash flows. During the year ended December 31, 2003, an impairment in the amount of KEUR 40 (2002: KEUR 401) was recorded on these assets as the actual cash inflows from these brand names were less than planned. The brand names are included in the segments IT-Controlling and Business Solutions.

13) Goodwill

Beginning on January 1, 2002, goodwill is no longer amortized but rather is tested at least annually for impairment. Due to declining capital expenditures of the Company's customers and increasing price pressures in the software industry, the operating profit and cash flows were lower than expected in 2003. As a result, the Company revised its future earnings and cash flow forecast. The 2003 impairment test led to a impairment of goodwill in the amount of KEUR 4,957 (2002: KEUR 15,218). The fair values of the reporting units were determined by estimating the present value of future cash flows.

The changes in the amount of goodwill for the years ended December 31, 2003 and 2002, by reportable segment, are as follows:

	Business Solutions KEUR	IT-Controlling KEUR	Consolidated KEUR
Balance at January 1, 2002	0	0	0
Acquired during the year	15,889	16,608	32,497
Impairment	-3,435	-11,783	-15,218
Balance at December 31, 2002	12,454	4,825	17,279
Acquired during the year	612	1,451	2,063
Impairment	-4,957	0	-4,957
Balance at December 31, 2003	8,109	6,276	14,385

14) Software development

The Company accounts for its software development costs in accordance with SFAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". The capitalization of software development costs begins with the technological feasibility and ends with the general release to customers. In accordance with SFAS 86, the Company has defined technology feasibility as a working model. Due to the short time between technological feasibility and general release to customers, no costs have been capitalized as such costs are immaterial. The Company has expensed these software development costs as research and development.

The Company accounts for software developed for internal use in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". In accordance with the standard, certain direct costs incurred in connection with software development can be capitalized during the application development stage. No costs have been capitalized under this standard during 2003 or 2002.

15) Research and development costs

Research and development costs are expensed as incurred.

16) Investment in associated company

Investment in associated company contain the equity method carrying amount as of December 31, 2003 of ValueSolution GmbH & Co. KG, Möglingen. Due to the bankruptcy of Quantum Solutions GmbH, Dortmund, the Company no longer exercises significant influence in Quantum Solutions GmbH and thus discontinued the equity method of accounting during 2003.

17) Debt securities

Held to maturity debt securities

Held to maturity securities are stated at amortized cost. Unrealized holding losses which are other than temporary are recognized in earnings. Realized gains and losses are shown in other income/expense, net and computed on an item by item basis.

Held to maturity debt securities are as follows as of December 31:

	Acquisition cost KEUR	Nominal value KEUR	Carrying Amount KEUR	Fair Value KEUR
2003	37,702	37,100	37,522	37,659
2002	40,640	40,568	40,618	40,732

The Company intends and is in a position to hold these debt securities until they mature. The securities held as of December 31, 2003 mature in 2005, with the exception of KEUR 2,959 which mature in 2004. The securities held in 2002 matured in 2003. The gross unrealized gains and losses as of December 31, 2003 and 2002 are immaterial.

Available for sale debt securities

Debt securities classified as available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of related tax effects. Realized gains and losses from the sale of securities are shown in other income/expense, net and computed on an item by item basis.

Available for sale debt securities are as follows as of December 31:

	Acquisition Cost KEUR	Gross Unrealized Gains KEUR	Gross Unrealized Losses KEUR	Fair Value KEUR
2003	2,688	28	-53	2,663
2002	2,632	103	-9	2,726

As of December 31, 2003, KEUR 696 of the available for sale debt securities mature within one year, KEUR 1,814 between one and five years, nil between five and ten and KEUR 153 in more than ten years.

The proceeds from the sale of available for sale debt securities in the year ended December 31, 2003 included gross realized gains of KEUR 135 (2002: KEUR 85) and gross realized losses of KEUR 5.

18) Credit risk

The Company is exposed to credit risk in cash and cash equivalents, trade receivables, marketable debt securities. Cash and cash equivalents and marketable securities are held at recognized, internationally active banks. The Company monitors the creditworthiness of these companies and does not expect any losses. As the Company does not have any collateral, the maximum risk which the Company is exposed to amounts to the amount recognized in the consolidated balance sheet. Receivables with recognizable risks are provided for with adequate allowances.

The Company operates in countries where political, economic, social and legal developments could have an impact on the operational activities. The effects of such risks on the Company's results of operations, which arise during the normal course of business, are not reasonably determinable and are therefore not included in the accompanying consolidated financial statements.

19) Advertising costs

Advertising costs are expensed as incurred and included in selling expenses. For the year ended December 31, 2003, the Company incurred costs of KEUR 590 (2002: KEUR 610).

20) Income taxes

USU Software AG computes the income tax burden using the asset and liability method in accordance with SFAS 109, "Accounting for Income Taxes". Under this standard, deferred taxes are determined according to the difference between the US-GAAP carrying value in the balance sheet and the tax law values of assets and liabilities based on the enacted statutory tax rates for those years in which the difference is expected to reverse. A valuation allowance is calculated on deferred tax assets if it is more likely than not that the tax benefit will lapse rather than be realized.

21) Stock Compensation:

The Company has one stock option plan as of December 31, 2003 (2002: three), which is described in Note 31. The Company accounts for stock-based awards to employees using the intrinsic value method prescribed in APB 25, "Accounting for Stock Issued to Employees". Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock ("intrinsic value"), and is recognized over the vesting period. The intrinsic value of the options for which the measurement date has not been reached is measured on the basis of the current market value of the Company's stock at the end of each period.

SFAS 123, "Accounting for Stock-Based Compensation", as amended by SFAS 148, established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. In accordance with the provisions of SFAS 123, the Company has elected to account for stock-based awards issued to employees using the intrinsic value method as described above. The Company has adopted the disclosure requirements of SFAS 123, as amended.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	2003	2002
Net loss		
As reported (KEUR)	-7,241	-38,449
Add: -income/ expense in accordance with APB 25	-97	97
Add: income in accordance with SFAS 123	456	2,065
Pro forma	-6,882	-36,287
Loss per share - basic and diluted		
As reported (EUR)	-0.42	-2.44
Add: -income/expense in accordance with APB 25	-0.01	0.01
Add: income in accordance with SFAS 123	0.03	0.13
Pro forma	-0.40	-2.30

During 2003 and 2002, stock options were forfeited in conjunction with the reduction in employees. The pro forma income for the year ended December 31, 2003 of KEUR 456 (2002: KEUR 2,065) results from reversing compensation charges which had been recognized in prior years related to these options.

22) Comprehensive income/ loss

SFAS 130, “Reporting Comprehensive Income”, establishes rules for the reporting of comprehensive income and its components. Comprehensive income/ loss is defined as all changes in equity from non-owner sources. For the Company, comprehensive income/ loss consists of net losses, net unrealized gains on debt securities and changes in the cumulative foreign currency translation adjustments. The Company reports comprehensive income/ loss in the consolidated statement of shareholders’ equity (see Note 31).

23) New U.S. accounting standards

In June 2002, the FASB issued SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities” which addresses the accounting for restructuring and similar costs. This standard supersedes Emerging Issues Task Force (“EITF”) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” This standard requires that a liability associated with an exit activity that does not involve a newly acquired company in a business combination, or a disposal activity covered by SFAS No. 144, be recognized when the liability is incurred instead of recognizing the liability at the date of a company’s commitment to an exit plan, as was required under EITF Issue No. 94-3. The statement establishes that the fair value of the liability is the objective for initial measurement of the liability and requires that the liability be updated for any changes in its fair value each reporting period. With respect to one-time employee termination costs, SFAS No. 146 changed the accounting in situations where the employee to be terminated is required to render service between the notification date of their termination and the date the employee will be terminated in order to receive any termination benefits. For these situations when the required post-notification service period extends beyond the minimum retention period required by local law, the fair value liability will be amortized over the service period. The Company adopted this new standard for the exit or disposal activities that were initiated in 2003.

In January 2003, the FASB issued Interpretation No. 46 ("FIN No. 46") "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" and in December 2003 issued a revised version of FIN No. 46. FIN No. 46 introduces a new consolidation model, the variable interests model, to determine control and consolidation of variable interest entities (VIE). A VIE is an entity that, by design, lacks sufficient equity or is structured such that the decision-making ability of its equity holders is limited. FIN No. 46 generally requires consolidation of a VIE by its primary beneficiary. A VIE's primary beneficiary is the enterprise that, as a result of its interest in the VIE, absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both. The adoption of this standard and its revision in 2003 did not have a material effect on the consolidated financial statements of USU Software AG.

C. NOTES TO THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS

24) Acquisitions

USU AG, Möglingen

In conjunction with the acquisition of the majority of the shares of USU AG, Möglingen, USU Software AG made a tender offer to the shareholders of USU AG from December 20, 2001 through February 1, 2002 which was publicized in the "Börsenzeitung" and "Bundesanzeiger" on December 20, 2001.

The tender offer was seven to five, i.e. each shareholder of USU AG received seven shares of USU Software AG for five shares of USU AG. The tender offer was contingent upon approval by the Company's shareholders of the contribution in kind and the registry of the capital increase in the commercial register.

At the expiration of the tender offer, 5,507,990 shares of USU AG (95.99%) were registered for exchange for shares of the Company. Using the relationship of 7:5, this represents 7,711,186 shares of USU Software AG. The fair value of the shares issued was based on the closing price of USU Software AG's shares two days before, the day of and two days after the announcement of the tender offer.

The capital increase in exchange for a contribution in kind was entered into the commercial register on March 11, 2002. USU AG and its subsidiaries' operations are included in the consolidated statement of operations from March 11, 2002.

The business purpose of USU AG is the development and sale of software as well as EDP consulting. The main reason for the acquisition of USU AG was the expansion of operative business activities due to the diversification of the product portfolio. USU AG had an established product portfolio comprising e-business integration and the areas of knowledge management and IT controlling. In addition, USU AG has relationships with a number of regular customers from the top 1000 companies and in the upper mid-market, which offered a high potential for cross-selling. In the area of e-business in particular, it was intended that USU Software AG would profit from the complementary strengths of the two companies. The exploitation of synergy effects in sales and organization is expected to lead to profits in the medium term.

In accordance with the purchase method of accounting, all acquired assets and liabilities assumed are recorded at fair value. The excess of the purchase price paid over the fair value of the assets acquired and liabilities assumed is capitalized as goodwill.

The purchase price of the 95.99% investment in USU AG amounted to KEUR 51,801, including direct acquisition costs and was allocated as follows:

	KEUR
Cash and cash equivalents	11,460
Marketable securities	2,448
Accounts receivable	5,417
Cost and estimated earnings on uncompleted contracts	1,579
Intangible assets	3,808
Goodwill	32,349
Other assets	4,208
Accounts payable	-1,421
Payroll-related accruals and liabilities	-2,588
Other current accruals and liabilities	-1,231
Deferred revenue	-1,018
Other liabilities	-3,210
	51,801

The following intangible assets were acquired:

	KEUR	Weighted average useful life in months
Intangible assets with finite lives		
Purchased software	2,133	48
Order backlog	344	6
Maintenance agreements	280	36
In process research and development	207	
	2,964	
Intangible assets with indefinite lives		
Brand names	844	
	3,808	

The in process research and development was expensed immediately. KEUR 267 of the goodwill is deductible for tax purposes.

The following unaudited pro forma summary presents the combined results of the Company as if USU AG and its subsidiaries had been acquired by USU Software AG at the beginning of the fiscal years 2002. The pro forma amounts include the effects of the fair value adjustments made under the purchase method. The pro forma amounts do not include any possible synergies from mergers and acquisitions. The pro forma information is provided for comparative purposes only. It does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined companies.

	2002 (unaudited) KEUR
Pro forma net revenues	23,980
Pro forma loss before income taxes and minority interests	-41,829
Pro forma net loss	-43,782
Pro forma basic loss per share (EUR)	-2.58
Pro forma diluted loss per share (EUR)	-2.58
Pro forma weighted average shares outstanding	16,940,339

During the year ended December 31, 2003 USU Software AG acquired a further 230,381 (approximately 4.01%) shares of USU AG for KEUR 1,529 in cash consideration. As a result, USU Software AG held 100% of the shares in USU AG as of December 31, 2003. In conjunction with this acquisition, the Company also repurchased USU AG's outstanding stock options and convertible debt for KEUR 599. Direct acquisition costs totaled KEUR 338. The acquisition resulted in additional goodwill of KEUR 2,063.

25) <u>Credit lines</u>

As of December 31, 2003, the Company maintains several bank lines of credit providing for borrowings of up to KEUR 248 (2002: KEUR 1,233) at an interest rate of 8.25% (2002: 8.25%). The use of the credit lines is unrestricted. As of December 31, 2002 and 2003 nil had been drawn.

26) <u>Restructuring costs</u>

The Company incurred restructuring costs during the year ended December 31, 2001 from the downsizing of business operations in the USA and business activities in Germany. The amount of KEUR 1,231 accrued in 2001 for severance payments and continued salary payments were paid out during 2002.

During 2002 a decision was made to discontinue research and development for the loss-generating shop systems and e-Procurement products of the Company. An exclusive license partnership was therefore entered into with the Wilken Group, Ulm, for the sale and further development of these products. At the same time, the employees of the former Wiesbaden logistics segment were taken over by Mainzer Unternehmensberatung Eracon AG.

As part of the restructuring plan, the management board was downsized and the Company thoroughly reorganized. During the year ended December 31, 2002, restructuring costs were incurred at the Neu-Ulm, Munich, Hannover, Wiesbaden and Möglingen locations. They pertain to severance payments and continued salary payments to employees who have been laid off, rent agreements for vacant premises and commitments to restore the premises to their original condition as well as other restructuring measures.

During the year ended December 31, 2002, 124 employees have been laid off in connection with the discontinuation and outsourcing of major operative entities. Costs from severance payments and continued salary payments totaled KEUR 5,189. During 2002, severance payments and continued salary payments to laid off employees of KEUR 3,242 had been paid out. The Company made payments of KEUR 1,909 in 2003. The remaining unused accrual for severance payments and continued salary payments of KEUR 38 was released.

The board of management approved further restructuring measures during 2003 to eliminate overcapacity in both the productive and administrative departments and 43 employees were laid off during 2003. Costs from severance payments and continued salary payments totaled KEUR 746, of which KEUR 446 had been paid out by year end. The remaining accrual for severance payments and continued salary payments is KEUR 300 at December 31, 2003 and will be paid in the first six months of 2004.

During the year ended December 31, 2001, the Company has set up an accrual of KEUR 810 for rental obligations of future rent payments. During 2002 the Company also added an amount of KEUR 1,696 to the accrual for future rent payments and obligations to restore vacant offices to their original state. The Company made payments of KEUR 749 and KEUR 1,087 in 2003 and 2002, respectively. The Company released KEUR 558 of the accrual during 2003 as the Company was able to renegotiate its lease agreements.

In addition, other restructuring costs totaling KEUR 908 were incurred and paid in full in 2002 mainly for cancellation of telephone contracts, legal costs and training costs for laid off employees.

All the aforementioned expenses are recorded in the consolidated statement of operations as “restructuring expense”.

The above costs are summarized in the following table:

	Jan. 1, 2002	Additions	Payments	Dec. 31, 2002	Additions	Payments	Changes in estimate	Dec. 31, 2003
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Severance and salary continuation	1,231	5,189	-4,473	1,947	746	-2,355	-38	300
Rental and restoration obligations	810	1,696	-1,087	1,419	131	-749	-558	243
Other	0	908	-908	0	0	0	0	0
	2,041	7,793	-6,468	3,366	877	-3,104	-596	543

In conjunction with the restructuring in 2002, the Company recorded impairment losses due to the permanent impairment of fixed assets of KEUR 988 (See Note 10).

27) Other accruals and liabilities

Other accruals and liabilities contain mainly payroll withholding liabilities for income and church tax and social security contributions, exit costs for rental agreements, severance, outstanding invoices and personnel costs.

28) Pension accrual

The Company maintains a defined benefit pension plan for a former member of USU AG's board of management and current member of the supervisory board. The pension plan calls for fixed monthly payments. The pension accrual was calculated using the projected unit credit method. Retroactive plan amendments and actuarial gains and losses are recognized in the period they are determined. The Company has entered into an insurance contract to cover the costs of the pension obligation. As of December 31, 2003 and 2002, the cash value of this contract amounted to KEUR 1,017 and KEUR 193, respectively, and is shown as other noncurrent assets. This asset is independent of the pension plan and does not qualify as a plan asset. The Company uses a measurement date of December 31 for the plan.

Information regarding this pension plan is as follows

	2003 KEUR	2002 KEUR
Change in projected benefit obligation		
PBO at January 1	775	0
Business combinations	0	737
Service cost	0	5
Interest cost	46	33
Actuarial losses	89	0
PBO at December 31	910	775
Accrued pension liability	910	775
Accumulated benefit obligation, which is fully unfunded	910	775

Net periodic pension cost is comprised of the following components:

	2003 KEUR	2002 KEUR
Service cost	0	5
Interest cost	46	33
Recognition of actuarial losses	89	0
Net periodic pension cost	135	38

The calculation of the projected benefit obligation and the net periodic pension costs was calculated using the following assumptions:

	2003	2002
Discount rate used to determine		
benefit obligations at December 31	5.5%	6.0%
Discount rate used to determine		
net periodic pension cost for the years ended	6.0%	6.0%

The Company's subsidiary, USU AG has a defined contribution plan for the members of the board of management. The payments under these deferred compensation agreement will be made by an insurance company. The Company is not obligated to make payments in addition to those made by the insurance company. The related insurance premiums of KEUR 6 and KEUR 36 for the year ended December 31, 2003 and 2002, respectively, were expensed as incurred.

29) Fair value of financial instruments

The fair value of a financial instrument is the amount at which that asset (liability) could be bought or sold in a current transaction between willing parties.

For cash and cash equivalents, receivables and payables, the carrying amounts reported in the consolidated balance sheets approximate fair value. Due to their short term nature, the carrying amount of current liabilities approximate their fair values.

The fair value of the marketable securities is determined based on quoted market prices. There is no material difference between fair value and carrying value.

30) Income tax

Income tax benefit consists of the following:

	2003 KEUR	2002 KEUR
Current taxes	65	-4
Deferred taxes	0	41
	65	37

The income of the Company is generally subject to 25% (2002: 25%) corporate income tax plus a solidarity surcharge of 5.5% of corporate income tax plus an effective municipal trade tax of 10.9% (2002: 10.9%). The tax rate including the solidarity surcharge and municipal trade tax is 37.3% (2002: 37.3%). The German government increased the corporate income tax rate from 25% to 26.5% for the tax year 2003. As there is a full valuation allowance on the deferred taxes, the change did not have a material effect.

The following table shows the reconciliation of expected income taxes to the reported tax expense using the German corporate tax rate of 26.375% for 2003 (2002: 26.375%) plus the effective rate trade tax of 10.9% (2002: 10.9%) for a combined statutory rate of 37.3% (2002: 37.3%).

	2003 KEUR	2002 KEUR
Loss before income taxes and minority interest	-7,363	-38,865
Expected tax benefit	2,746	14,497
Change in valuation allowance	-863	-9,031
Non-taxable goodwill impairment/amortization	-1,849	-5,676
Other	31	247
Actual tax benefit	65	37

Deferred tax assets and liabilities are summarized as follows:

	2003 KEUR	2002 KEUR
Deferred tax assets		
• Tax loss carry forwards	32,858	31,764
• Accruals	323	666
Deferred tax assets, gross	33,181	32,430
Deferred tax liabilities		
• Intangible assets	-342	-509
• Treasury stock	-138	-120
• Cost and estimated earnings	-220	-74
• Other	-350	-459
Deferred tax liabilities, gross	-1,050	-1,162
Gross tax benefit	32,131	31,268
less: valuation allowance	-32,131	-31,268
Deferred tax assets, net	0	0

Due to the lack of profitability in recent years, a valuation allowance was established equivalent to the net amount of deferred tax assets.

Any future reversal of the valuation allowance of KEUR 3,552 on the deferred tax asset resulting from the IPO-cost in 2000 will not result in an tax benefit but will be offset against the additional paid-in capital

Any future reversal of the valuation allowance of KEUR 2,708 on the deferred tax asset relating to the loss carryforward acquired from USU AG will not result in an tax benefit but will be recorded as a reduction to goodwill.

In conjunction with the dissolution of Openshop Internet Software, Inc. in 2002, the tax loss carryforwards in the USA were forfeited.

The Company has the following loss carryforwards for tax purposes:

	2003 KEUR
German - Income tax	85,256
German - Trade tax	81,820

Loss carryforwards for German taxes do not expire. However, due to recent legislation, there are limitations on the amounts which can be offset with taxable income each year.

31) Shareholders' equity

Nominal value of shares

The capital stock of the Company amounts to EUR 17,211,186. The capital stock was divided up into 17,211,186 shares of no par value bearer shares each representing EUR 1 of capital stock. The Company holds 107,901 of these shares in its own treasury.

Capital increase

At the shareholders' meeting on February 8, 2002, the shareholders approved a capital increase in exchange for a contribution in kind through the issuance of up to 8,033,720 new no par value bearer shares, each representing EUR 1 of capital stock and participating in earnings since January 1, 2002. The capital increase served the purpose of executing the tender offer made to the shareholders of USU AG. The capital stock was increased by EUR 7,711,186 on March 11, 2002 and the increase was recorded in the commercial register.

Authorized capital

At the annual general meeting of July 4, 2002, the management board was authorized to increase the capital stock of the Company, with the approval of the supervisory board, through July 3, 2007 for cash contributions or contribution in kind for new shares of up to EUR 8,600,000. The shareholders are generally to be granted the statutory subscription rights. With the approval of the supervisory board, the management board is authorized to preclude the statutory subscription right of the shareholders for fractional amounts and, to the extent necessary, give bearers of swap or subscription rights issued by the Company a subscription right to the new shares to the extent to which they would be entitled after exercising such swap or subscription right. The management board was also authorized, with the approval of the supervisory board, to preclude the subscription rights of the shareholders to capital increases paid in cash up to a maximum of 10% of the capital stock at the time of the first exercise of the authorized capital, provided the issue price of the new shares does not fall materially short of the market price shares in the same category. The management board is further authorized, with the approval of the supervisory board, to preclude the subscription rights of the shareholders for non-cash capital increases for the purpose of acquiring companies or investments in companies.

Contingent capital

The capital stock of the Company was conditionally increased by shareholder resolution of March 2, 2000 by EUR 756,911 by issuing 756,911 no par value shares made out to the bearer. The contingent increase in capital serves to grant option rights to members of the board and employees of the Company as well as members of management and employees of affiliated enterprises. The contingent capital increase is only carried out to the extent that holders of issued option rights make use of them. The new shares participate in the profit from the beginning of each fiscal year in the course of which they originate as a result of an exercise of option rights.

Treasury stock

By resolution of the annual general meeting dated July 4, 2002 the management board of the Company was authorized through January 3, 2004 to acquire treasury stock, in one or several steps, subject to approval from the supervisory board pursuant to Sec. 71 (1) No. 8 AktG [“Aktiengesetz”: German Stock Corporation Law].

Prior to 2003, the Company had acquired 292,580 shares for KEUR 1,859. During the year ended December 31, 2003 184,679 treasury stock with an imputed share in equity of EUR 184,679 corresponding to 1% of common stock as of December 31, 2003, was sold at a price of EUR 6.18 per share. The proceeds from sale of KEUR 1,145 remained in the Company.

As of December 31, 2003, the Company held 107,901 (2002: 292,580) treasury shares representing an imputed share of the capital stock of EUR 107,901 (2002: EUR 292,580) or 0.6% (2002: 1.7 %) of the capital stock at December 31, 2003.

Other comprehensive income/loss

The changes in the components of accumulated other comprehensive income/loss for the years ended December 31, 2003 and 2002, and the related tax effects are as follows:

in KEUR	2003 Pre-tax	2003 Tax effects	2003 Net	2002 Pre-tax	2002 Tax effects	2002 Net
Unrealized gains/ -losses on securities						
Net unrealized -losses/ gains arising during the period	-49	-13	-62	179	-66	113
Reclassification adjustments for gains included in net loss	-36	13	-23	-85	32	-53
Net unrealized -losses/ gains	-85	0	-85	94	-34	60
Foreign currency translation adjustments	6	0	6	537	0	537
Other comprehensive income/ -loss	-79	0	-79	631	-34	597

The cumulative balances of components other comprehensive loss are as follows:

	Debt securities KEUR	Cumulative translation adjustments KEUR	Total KEUR
Balance at January 1, 2002	0	-543	-543
Changes in 2002	60	537	597
Balance at December 31, 2002	60	-6	54
Changes in 2003	-85	6	-79
Balance at December 31, 2003	-25	0	-25

During the year ended December 31, 2002, the Company reclassified KEUR 537 of cumulative translation adjustment from other comprehensive income to earnings in conjunction with the dissolution of Openshop Internet Software, Inc.

Stock options

The Company has a stock option plan for employees of the Company. The objectives of the plan include attracting and retaining personnel and promoting the success of the Company by providing employees the opportunity to acquire common stock.

The Company issued stock options to employees in several tranches. Each award has an expiration date of six years from the date of grant. The option rights entitle the bearer to purchase common shares in the Company at a price which is equal to 115% of the share price at the time of the issuance of the stock options. The options vest in installments of 25% each on the date of issuance after 2 through 5 years. The options become exercisable on the same dates if and only if, prior to exercise, the share price of USU Software AG achieves a value of 115% of the share price at the date of issuance.

In 2000, the Company issued two portions of stock options to employees (Award #1, #2). In 2001 the Company issued four portions of stock options to employees (Award #3, #4, #5, #6). No options were granted during the years ended December 31, 2003 and 2002.

During the year ended December 31, 2000, the performance criterion of appreciation in stock value for Award #1 had been met. At December 31, 2003, the performance criteria of appreciation in stock value for Award #2 through #6 have not been met. The Company has not recognized compensation expense for these awards as of December 31, 2003 and 2002 and will not recognize compensation expense for these awards in the future as the strike price will be equal to the fair market value on the measurement date (when the performance criterion is met).

The status of the Company's stock compensation plan as of December 31, 2003 and 2002 is summarized below.

	Award 1	Award 2	Award 3	Award 4	Award 5	Award 6
Date of grant	20.03.00	31.10.00	01.03.01	01.05.01	01.06.01	01.08.01
Exercise price in EUR	62,10	22,43	9,03	7,46	7,77	7,48
Balance at January 1, 2002	125.223	77.632	80.000	14.364	105.652	6.000
Granted	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	-120.206	-55.004	-80.000	-9.364	-72.532	-6.000
Balance at December 31, 2002	5.017	22.628	0	5.000	33.120	0
Granted	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Forfeited	-2.913	-20.440	0	0	-33.120	0
Balance at December 31, 2003	2.104	2.188	0	5.000	0	0
Exercisable at December 31, 2003	2.104	0	0	0	0	0

Awards of USU AG options:

259,147 USU AG stock options („Award USU“) were outstanding on the acquisition date. The Company did not exchange these options for those of USU Software AG. USU AG had granted the stock options in multiple tranches during its year ended March 31, 2002. Each Award has an expiration date of five years from the date of grant. The option rights entitle the bearer to purchase common shares in the Company at a price which is equal to 120% of the share price at the time of the issuance of the stock options. The options vest in installments of 30%, 30% and 40% after 2, 3 and four years, respectively. The options become exercisable on the same dates if and only if, prior to exercise, the share price of USU AG achieves a value of 120% of the share price at the date of issuance.

At December 31, 2003, the performance criteria of appreciation in stock value for Award USU has not been met. The Company has not recognized compensation expense for this award as of December 31, 2003. In conjunction with the acquisition of the shares of USU AG held by minority shareholders in 2003 the options were repurchased at their aggregate fair value of approximately KEUR 43 calculated using the Black Scholes model.

During its fiscal years 1998 through 2002, USU AG had issued multiple tranches of convertible debt instruments with nominal values of EUR 26.00/EUR 25.56 to directors, members of the supervisory board and employees. The conversion feature entitles the bearer to convert each bond into 46.00/46.06 USU AG shares for an additional payment of EUR 102.26. Both the directors and the employees had the right to convert the bonds in July 2002/March 2003. Until conversion, the Company accounts for the instruments as debt. On March 11, 2002, 4,077 convertible debt instruments were outstanding. At the time of the acquisition, the Company has not exchanged the conversion features for options in shares of USU Software AG. The convertible debt instruments which were convertible in July 2002 were repurchased by USU AG at nominal value plus the intrinsic value of the conversion feature. In conjunction with the acquisition of the shares of USU AG held by minority shareholders in 2003 the remaining outstanding convertible debt instruments were also repurchased at the intrinsic value of the conversion feature in the amount of KEUR 556 plus the nominal value.

The status of the USU AG’s stock compensation plans as of December 31, 2003 and 2002 is summarized below.

	Convertible debt	Award USU
Exercise price in EUR	2.79	10.18
Balance at January 1, 2002	0	0
Outstanding at time of acquisition of USU AG	187,547	259,147
Forfeited	-13,575	-50,203
Repurchased	-37,720	0
Balance at December 31, 2002	136,252	208,944
Repurchased	-136,252	-208,944
Balance at December 31, 2003	0	0

32) Loss per share

In accordance with SFAS 128, “Earnings per Share”, basic loss per share is calculated using income available to common shareholders divided by the weighted average of common shares outstanding during the year. Diluted loss per share is similar to basic loss per share except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares, such as options, had been issued. For all periods presented, no potentially dilutive securities have been included in the calculation of diluted loss per share as such amounts would be antidilutive in periods in which a loss has been reported. The aggregate number of potential common share equivalents that have been excluded from the diluted loss per share calculation was 2,104 and 5,017 for the years ended December 31, 2003 and 2002, respectively, and related entirely to stock options.

D. OTHER DISCLOSURES

33) Related parties

Landesbank Baden-Württemberg

The Landesbank Baden-Württemberg (hereinafter referred to as LBBW) announced according to section 20 paragraph 1 AktG on October 12, 2001 that 3i Group plc. sold all its shares in USU Software AG to LBBW and LBBW owns more than 25% of the share capital of the Company.

Included in cash and cash equivalents in the accompanying consolidated balance sheets as of December 31, 2003 are KEUR 1,362 (2002: KEUR 8,566) of time deposits which are held at LBBW. These time deposits have maturities of 3 months or less. In addition, the certificate of deposit of KEUR 10,226 held at December 31, 2001 was cashed during 2002.

In connection with the purchase of the shares of USU AG, LBBW provided consulting services to the Company for business combinations. The total fees for consulting and other services provided by the LBBW amounted to KEUR 262 in 2003 (2002: KEUR 644).

As of December 31, 2001, the Company had a bank overdraft of KEUR 572, which was repaid in 2002.

Karin Weiler-Strehl

Karin Weiler-Strehl is the wife of Udo Strehl, member of the Company’s Supervisory Board and major shareholder of the parent company USU Software AG. Karin Weiler-Strehl works as a consultant for the Company on a project basis. The Company incurred consulting expenses for Karin Weiler-Strehl of KEUR 15 (2002: KEUR 167) in the year ended December 31, 2003.

The Company has rented a building from Spitalhof GbR, an investee of Karin Weiler-Strehl. The rent payments amounted to KEUR 226 (2002: KEUR 166) for the year ended December 31, 2003. In addition to the rental contract, the Company’s subsidiary USU AG had granted Spitalhof GbR a building cost subsidy of KEUR 183. If the rent contract is terminated before December 31, 2007, regardless of the reason, the building cost subsidy will be forfeited. In case of the termination of the rent contract on December 31, 2007, or in case of an extension the building cost subsidy bears interest of 2.5%. Due to the low interest rate, the building cost subsidy was discounted to its net present value and is accumulated to the repayment value. The Company had a receivable resulting from the building cost subsidy of KEUR 201 (2002: KEUR 195) as of December 31, 2003. The Company had interest income of KEUR 6 (2002: KEUR 13) during the year ended December 31, 2003.

The management board confirms that all the above transactions with related parties were performed at arm's length conditions.

34) *Contingent liabilities and other financial commitments*

Operating leases

The Company is party to lease and rental agreements for various facilities and vehicles. The annual payments from these agreements are as follows:

Year ended December 31,	KEUR
2004	754
2005	403
2006	356
2007	235
	1,748

During the year ended December 31, 2003, the expenses resulting from lease and rental agreements amounted to KEUR 1,236 (2002: KEUR 2,657).

Legal Matters

The Company may be subject to litigation from time to time in the ordinary course of business. As of December 31, 2003 and 2002, the Company's management and its legal advisors were not aware of any claims which could materially affect the business, net assets, financial position or results of the Company. Legal costs are expensed as incurred.

35) *Segment reporting, geographical information, and major customers*

Segment reporting

The Company's two segments which meet the reporting criteria in SFAS 131 "Disclosure about Segments of an Enterprise and Related Information" are:

- Business Solutions
- IT-Controlling

Business Solutions encompasses procurement and sales solutions such as e-procurement systems, internet-based shop solutions and marketplaces for electronic commerce, technically based topics such as EAI, portals or systems management, which are implemented using the Company's own methods and tried and tested process models, industry-based solutions, such as field staff systems for financial service providers and customized systems to optimize knowledge-intensive business processes.

IT-Controlling comprises products and services for IT asset management, facility management, license management, service/change management and IT cost allocation.

Segment results are measured by modified operating result, which is operating result prior to goodwill impairment and amortization of fair value adjustments to intangibles acquired from USU AG. The accounting policies are substantially the same as those described in previous footnotes.

The information in the following table is derived from the Company's internal financial reporting for corporate management purposes.

	2003 KEUR	2002 KEUR
Revenues		
IT-Controlling	8,067	7,663
Business Solutions	10,992	11,879
	19,059	19,542
Modified gross margin		
IT-Controlling	3,769	3,665
Business Solutions	2,583	1,221
	6,352	4,886
Modified operating result		
IT-Controlling	-3,267	-3,751
Business Solutions	-984	-21,343
	-4,251	-25,094
Depreciation and amortization (without Impairment)		
IT-Controlling	478	108
Business Solutions	474	2,330
	952	2,438
Capital expenditures		
IT-Controlling	97	225
Business Solutions	50	386
	147	611

Reconciliation to consolidated financial statements

A reconciliation of modified gross margin from segment reporting to the gross margin reported in the consolidated statement of operations is as follows:

	2003 KEUR	2002 KEUR
Gross margin - segment reporting	6,352	4,886
Amortization of fair value adjustments to intangibles acquired from USU AG	-113	-345
Gross margin - consolidated statement of operations	6,239	4,541

A reconciliation of modified operating result to operating loss as reported in the consolidated statement of operations is as follows:

	2003 KEUR	2002 KEUR
Modified operating result	-4,251	-25,094
Goodwill impairment	-4,957	-15,218
Amortization of fair value adjustments to intangibles acquired from USU AG	-152	-1,046
Operating loss	-9,360	-41,358

Classes of revenue

	2003 KEUR	2002 KEUR
Professional services	13,846	13,064
License revenues	2,291	4,315
Maintenance revenues	2,012	1,964
Other	910	199
	19,059	19,542

Geographical information

Revenues are allocated to countries generally based on the location of the customer. Assets are allocated on the basis of the location of the subsidiary reporting these assets. During the year ended December 31, 2003 and 2002, sales outside Germany did not account for more than 10% of the consolidated sales. As of December 31, 2003 and 2002, less than 10% of long lived assets were located outside of Germany

Major customers

During the year ended December 31, 2003, 12% of the consolidated sales were with one customer. The five largest customers accounted for approximately 29% of the consolidated revenues. During the year ended December 31, 2002, 10% of the consolidated sales were with one customer. The five largest customers accounted for 35% of the consolidated revenues.

E. ADDITIONAL LOCAL DISCLOSURE REQUIREMENTS

36) Exemption from the duty to prepare consolidated financial statements pursuant to German GAAP pursuant to sec. 292a HGB.

As a publicly listed company, the parent company makes use of the option provided by sec. 292a German Commercial Code (HGB) concerning the obligation to prepare consolidated financial statements under German law and prepares consolidated financial statements pursuant to US-GAAP.

In accordance with the interpretation by the German Standardization Committee (DRSC) in DRS 1 the consolidated financial reporting of the parent company is in line with Directive 83/349/EWG.

37) Differences between US-GAAP and HGB

The main differences between US-GAAP and German GAAP (HGB) as these pertain to the consolidated financial statements of USU Software AG are listed below:

The German and US accounting systems are based on fundamentally different considerations: While the accounting according to HGB emphasizes the principle of prudence and the protection of creditors, the prime objective of US accounting is to provide information of relevance to investors for the decision-making process.

The comparability of the financial statements, both between fiscal years and between different companies, as well as the determination of profits on an accrual basis are accorded more importance under US-GAAP than under HGB.

Revenue recognition (SOP 97-2, SOP 81-1 and ARB No. 45)

Under German law, revenues and expenses in connection with long-term construction contracts are recorded according to the principle of realization. Under US-GAAP they are recognized according to the percentage of completion method.

When recognizing revenues from sales of software and services, further requirements are made regarding the allocation of contract price to the individual elements which may go beyond the customary criteria of risk transfer for revenue recognition under HGB.

Intangibles assets (including goodwill)

Pursuant to HGB and US-GAAP, intangible assets purchased for a consideration have to be capitalized. However, intangible assets not purchased for a consideration or internally generated cannot be capitalized under HGB rules.

Pursuant to US-GAAP, there is an option to capitalize directly allocable external costs associated with the generation of intangible assets. In this way, the incidental costs associated with obtaining patents and legally protected know-how can be capitalized. In addition, the direct expenses that arise in connection with the internal generation of computer software for internal use have to be capitalized.

According to SFAS 141 there are extensive recognition provisions for intangible assets acquired in the course of a business acquisition. This also applies to items which do not constitute assets as defined under commercial law.

US-GAAP stipulates that goodwill from a company acquisition has no longer to be subject to scheduled amortization but should at least once a year undergo a test of its adequate valuation and, if necessary, be subject to extraordinary amortization.

Under HGB, on the other hand, it is possible to capitalize subsequent systematic depreciation or to offset it against reserves without effect on income.

Unrealized gains

Only unrealized losses are recognized in accordance with HGB. In contrast, under US-GAAP, companies are required in certain cases to recognize unrealized gains. This is the case in the following situations:

Foreign currency receivables and payables
Under HGB, receivables and payables denominated in foreign currency are translated at either the historical rate or the exchange rate at the balance sheet date, whichever is more unfavorable. In accordance with US-GAAP, SFAS 52, such receivables and liabilities are translated at the spot rate at the balance sheet date, resulting in both unrealized gains and losses being recorded in income.

Marketable securities
According to HGB marketable securities are to be accounted for at cost or the lower value at the balance sheet date. Under US-GAAP, marketable securities are accounted for in accordance with SFAS 115 and is dependent upon classification. The marketable securities in these consolidated financial statement are available for sale securities. Available for sale securities are recorded at fair value, so that unrealized gains are also recognized. The change in the fair values is recorded as a component of other comprehensive income/loss.

Deferred taxes

According to HGB, deferred taxes are to be recognized on all timing differences between the stated amounts in the tax balance sheet and consolidated balance sheet (“timing differences”), whereby the calculation uses the current tax rate. No deferred taxes are to be recognized on differences, which will only reverse after very long time period or through sale or liquidation and tax loss carryforwards.

In accordance with US-GAAP, SFAS 109, deferred taxes are to be recognized on all temporary differences, even those which will only reverse after very long time period or through sale or liquidation (“temporary differences”). In addition, deferred taxes are to be recognized on tax loss carryforwards. The enacted tax rate expected to be in effect at time of reversal is used to calculate the deferred taxes. At each balance sheet date, deferred taxes are reviewed for recoverability and if it is more likely than not that the tax benefit will lapse rather than be realized, a valuation needs to be recorded.

GAS 10 of GASC (German Accounting Standards Committee) has largely brought German accounting into line with US-GAAP.

Accruals (SFAS 5, SFAS 87 and SFAS 88)

Under US-GAAP, the possibilities to recognize accruals are far more restricted than under HGB. Accruals have to be recognized when an obligation exists towards a third party, its utilization is probable and the anticipated accrual amount can be reliably estimated. Expense accruals are not permitted under US-GAAP.

Under US-GAAP, pension accruals – unlike under German accounting principles – are determined taking anticipated wage and salary increases into account. For calculation purposes, the US-GAAP figure includes the market interest rates of the countries concerned and not the discount rate of 6% applicable in German tax law.

Minority interests

HGB follows the entity theory, which requires that minority interest be classified as a part of equity. In addition, the income or loss attributable to minority interest is included in the consolidated entity's net income or loss. Under US-GAAP, in accordance with the parent company theory, minority interest is not considered part of equity but is classified separately between equity and liabilities. The income or loss attributable to minority interest is recorded as income or expense and is therefore excluded from the consolidated entity's net income or loss.

Stock Option Plans

Under US-GAAP stock compensation expense is recorded at the measurement date at its intrinsic value whereas under HGB expenses in conjunction with stock option plans are not recognized until the options are exercised or the stock is transferred.

38) Headcount

The average number of employees in the fiscal year amounted to:

	2003	2002
Professional services and operations	91	110
Research and development	73	104
Administration and finance	50	62
Sales and marketing	32	54
	246	330

As of December 31, 2003, the group employs 212 (2002: 283) people.

39) Personnel expense

Personnel expense can be stated as follows:

	2003 KEUR	2002 KEUR
Wages and salaries	13,449	19,448
Social security and pension costs of which KEUR 37 was for retirement benefits (2002: KEUR 169)	2,092	2,812
	15,541	22,260

40) Mandatory disclosures concerning investment holdings

Following announcements have been published:

Börsenzeitung No. 64 dated April 4, 2002

"Pursuant to Sec. 21 (1) WpHG (Securities Trading Act), Mr. Udo Strehl, Asperg, has informed us that his share of the voting rights in USU-Openshop AG passed the 10% threshold on March 25, 2002, and now comes to 23.47%."

Börsenzeitung No. 64 dated April 4, 2002

"Pursuant to Sec. 25 (1) Securities Trading Act, USU AG makes the following announcement: USU-Openshop AG informed USU AG pursuant to Sec. 21 (1) WpHG that its share of the voting rights in USU AG passed the 75% threshold on March 25, 2002 and now comes to 95.99%. USU-Openshop AG hereby announces this acquisition of a controlling interest pursuant to Sec. 35 (1) WpÜG (Securities Acquisition and Takeover Act). There are no special allocation circumstances pursuant to Sec. 30 WpÜG".

41) Management board and supervisory board

Management Board

Bernhard Oberschmidt, Diplom-Ökonom
Spokesperson for the management board

With regard to the total remuneration for the management board, the Company makes use of the protective clause pursuant to Sec. 286 (4) HGB.

In conjunction with the repurchase of the USU AG stock options the Company paid KEUR 19 (2002: nil) to former members of the board of management.

Supervisory Board

Markus Kress, Diplom-Wirtschaftsingenieur, Chairman
Member of the board of management of tecways AG, Munich
Chairman of the supervisory board of USU AG, Möglingen
Supervisory board member of IWL AG, Ulm

Werner Preuschhof, Diplom-Kaufmann
Business consultant
Chairman of the supervisory board of Planbusiness Market Enabling AG, Hamburg
Chairman of the supervisory board of Novomind AG, Hamburg
Supervisory board member of USU AG, Möglingen
Supervisory board member of s24 direkt AG, Hamburg

Udo Strehl, business consultant
Business consultant
Supervisory board member of USU AG, Möglingen

Dr. Thomas Gutschlag, Diplom-Volkswirt until May 31, 2003
Member of the board of management of Blättchen und Partner AG, Leonberg
Supervisory board member of Plambeck Holding AG, Cuxhaven
Supervisory board member of Quoka AG, Lampertheim

Klaus Langer, German public auditor, tax advisor until May 31, 2003
Wirtschaftsprüfer, Steuerberater
Supervisory board member of 4MBO International Electronic AG, Plochingen
Supervisory board member of Müller Weingarten AG, Weingarten
Supervisory board member of Müller – Die lila Logistik AG

Karl-Heinz Achinger, business consultant until April 30, 2003
Business consultant
Chairman of the supervisory board of Magix AG, Munich
Chairman of the supervisory board of Tiscon AG Infosystems, Ulm
Supervisory board member of Software AG, Darmstadt
Supervisory board member of Dosch & Amand Systems AG, Munich
Supervisory board member of debitel AG, Stuttgart
Supervisory board member of RWE Systems AG, Dortmund
Supervisory board member of teleson AG, Stuttgart

The remuneration of the supervisory board amounted to KEUR 70 (prior year: KEUR 107) and exclusively comprises fixed payments.

In conjunction with the repurchase of the USU AG stock options the Company paid KEUR 39 (2002: nil) to former members of the supervisory board.

Stocks, convertible bonds and stock options of members of the Company's management and supervisory board

The following table should be read in connection with the details on the Company's management and supervisory boards' securities holdings published in the interim reports of USU Software AG, and especially with respect to retired members of the management board. As of December 31, 2003, stocks of USU Software AG, Möglingen, were held by the members of the Company's management board as follows. Convertible bonds and stock options of USU Software AG were not held.

Reportable securities	Shares (Quantity)
Management board	
Bernhard Oberschmidt	37,393
Supervisory board	
Markus Kress	283,772
Werner Preuschhof	0
Udo Strehl	4,042,638
Dr. Thomas Gutschlag	0
Klaus Langer	0
Karl-Heinz Achinger	0

42) Declaration Pursuant to Sec. 161 AktG on the German Corporate Governance

The management and supervisory boards of USU Software AG issued the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on December 16, 2003 and have made it permanently available to the shareholders on the Internet site of USU Software AG at http://www.usu-software.de/. Further details on the declaration of compliance are contained in the management report on these consolidated financial statements. The declaration of compliance by the management and supervisory boards of the listed subsidiary USU AG was issued at the same time and published on the website of USU AG at http://www.usu.de until the delisting on January 26, 2004.

43) Schedule of investment holdings

The following companies have been included in the consolidated financial statements (direct investments of USU Software AG):

(Amounts in accordance with US GAAP)

Name and headquarters	Share %	Equity as of Dec. 31, 2003 in KEUR	Net income/ loss 2003 in KEUR
USU AG, Möglingen	100.0	6,094	-4,055
OpenShop Internet Software GmbH, Möglingen [1)]	100.0	-880	362
Quantum Solutions GmbH, Dortmund [2)]	30.0	4	-171

[1)] The figures for net income are shown prior to the loss absorption by USU Software AG, while the figures for equity are shown after the loss absorption.
[2)] The figures are for 2002 as Quantum Solutions GmbH filed for bankrupcy during 2003 and to date no financial statements have been prepared for fiscal 2003.

The following companies have been included in the consolidated financial statements (indirect investments of USU Software AG via USU AG):

(Amounts in accordance with US GAAP)

Name and headquarters	Share %	Equity as of Dec. 31, 2003 in KEUR	Net income/loss for the year 2003 in KEUR
Gentner PROCommunication GmbH, Möglingen	100.0	-1,568	79
USU Software s.r.o., Brno, Czech Republic	100.0	134	13
USU (Schweiz) AG, Cham, Switzerland	80.0	-114	-255
ValueSolution Software GmbH & Co. KG, Möglingen	49.9	934	-177

Möglingen, February 11, 2004

Bernhard Oberschmidt
Spokesperson for the management board

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

SCHEDULE OF CONSOLIDATED FIXED ASSETS FOR THE YEAR ENDED DECEMBER 31, 2003

	ACQUISITION AND PRODUCTION COSTS				
	Jan. 1, 2003 KEUR	Impairment KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2003 KEUR
Intangible Assets					
Goodwill	17,279	-4,957	2,063	0	14,385
Purchased software	2,145	0	7	134	2,018
Brand names	512	-40	0	0	472
Maintenance agreements	280	0	0	0	280
	20,216	**-4,997**	**2,070**	**134**	**17,155**
Property and Equipment					
Land and fixtures	66	0	13	0	79
Computer hardware, furniture and office equipment	986	0	127	40	1,073
	1,052	**0**	**140**	**40**	**1,152**
Investments					
Investments in associated companies	311	0	-41	0	270
	311	**0**	**-41**	**0**	**270**
	21,579	**-4,997**	**2,169**	**174**	**18,577**

	ACCUMULATED DEPRECIATION AND AMORTIZATION				NET BOOK VALUE	
	Jan. 1, 2003 KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2003 KEUR	Dec. 31, 2003 KEUR	Dec. 31, 2002 KEUR
Intangible Assets						
Goodwill	0	0	0	0	14,385	17,279
Purchased software	684	502	92	1,094	924	1,461
Brand names	0	0	0	0	472	512
Maintenance agreements	54	56	0	110	170	226
	738	**558**	**92**	**1,204**	**15,951**	**19,478**
Property and Equipment						
Land and fixtures	22	18	0	40	39	44
Computer hardware, furniture and office equipment	381	376	18	739	334	605
	403	**394**	**18**	**779**	**373**	**649**
Investments						
Investments in associated companies	0	0	0	0	270	311
	0	**0**	**0**	**0**	**270**	**311**
	1,141	**952**	**110**	**1,983**	**16,594**	**20,438**

Audit Opinion

We have audited the consolidated financial statements, comprising the balance sheet, statement of operations and statement of shareholders' equity and statement of cash flows as well as the notes to the consolidated financial statements, prepared by USU Software AG, Möglingen, for the fiscal year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements are the responsibility of the Company's board of management. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with the accounting principles generally accepted in the United States (US GAAP), based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the IDW ["Institut der Wirtschaftsprüfer in Deutschland": Institute of Public Auditors in Germany]. Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with US GAAP.

Our audit, which also extends to the combined management report prepared by the board of management for the fiscal year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the combined management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the combined management report for the fiscal year from January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the Group management report in accordance with German law.

Stuttgart, February 16, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Baierl
Wirtschaftsprüfer
[German Public Auditor]

Viering
Wirtschaftsprüfer
[German Public Auditor]

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

BALANCE SHEET AS OF DECEMBER 31, 2003

A S S E T S

	Notes	2003 EUR	2002 KEUR
FIXED ASSETS			
Financial assets	(1)		
Shares in affiliated companies		10,176,532.40	8,011
Long-term investments		34,638,600.00	34,543
		44,815,132.40	42,554
		44,815,132.40	42,554
CURRENT ASSETS			
Receivables and other assets	(2)		
Trade receivables		85,910.76	303
Receivables from affiliated companies		4,509,449.54	24
Other assets		3,869,951.51	3,176
		8,465,311.81	3,503
Securities			
Treasury shares	(3)	344,204.00	1,536
Other securities		3,000,000.00	3,075
		3,344,204.00	4,611
Cash on hand and bank balances		1,584,950.71	8,809
		13,394,466.52	16,923
PREPAID EXPENSES		0,00	9
		58,209,598.92	59,486

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

BALANCE SHEET AS OF DECEMBER 31, 2003

EQUITY AND LIABILITIES

	Notes	2003 EUR	2002 KEUR
EQUITY			
Subscribed capital	(4)	17,211,186.00	17,211
Capital reserve	(7)	103,770,253.46	103,353
Revenue reserves			
Reserve for treasury stock	(8)	344,204.00	1,536
Accumulated loss	(9)	-65,544,403.73	-67,434
		55,781,239.73	54,666
ACCRUALS			
Other accruals	(10)	1,564,711.52	2,313
LIABILITIES	(11)		
Payments received on account of orders		0.00	542
Trade payables		56,095.99	0
Liabilities to affiliated companies		112,164.71	1,050
Other liabilities		695,386.97	915
		863,647.67	2,507
		58,209,598.92	59,486

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

INCOME STATEMENT
FOR THE FISCAL YEAR 2003

	Notes	2003 EUR	2002 KEUR
Sales	(14)	587,894.46	350
Increase or decrease in finished goods and work in process		0.00	-34
Other operating income	(15)	885,038.07	940
Cost of materials			
Cost of raw materials, consumables and supplies and of purchased merchandise		48,539.17	985
Cost of purchased services		491,759.00	58
Personnel expenses			
Wages and salaries		56,360.52	6,374
Social security, pension and other benefit costs		25,461.32	664
- thereof for old-age pensions: EUR 0 (prior year: KEUR 64)			
Amortization and depreciation on intangible assets and property, plant and equipment		0.00	306
Other operating expenses	(16)	1,489,348.39	8,321
Income from profit and loss transfer agreements		361,540.29	0
Other interest and similar income including gains on the sale of financial assets and current securities		1,922,993.43	2,415
- thereof from affiliated companies: EUR 71,000.00 (prior year: KEUR 221)			
Amortization and losses on the sale of financial assets and current securities	(17)	542,219.52	533
Expenses from loss absorption		0.00	3,366
Interest and similar expenses		4,329.07	0
Result from ordinary activities		1,099,449.26	-16,936
Extraordinary income	(18)	15,988.85	0
Extraordinary result		15,988.85	0
Other taxes		0.00	6
Net income / net loss for the year		1,115,438.11	-16,942
Loss carryforward from prior year		-67,434,035.84	-49,718
Withdrawals from the reserve for treasury shares		774,194.00	0
Additions to reserves for treasury shares		0.00	-774
Accumulated loss		-65,544,403.73	-67,434

USU SOFTWARE AG (PREVIOUSLY: USU-OPENSHOP AG), MÖGLINGEN

NOTES FOR THE FISCAL YEAR 2003

A General

These financial statements have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB ["Handelsgesetzbuch": German Commercial Code] as well as in accordance with the relevant provisions of the AktG ["Aktiengesetz": German Stock Corporation Act]. As a publicly listed company, the Company is regarded as a large corporation pursuant to Sec. 267 (3) Sentence 2 HGB. The classification of the notes to the financial statements is therefore in line with the requirements for large corporations.

The income statement has been prepared using the cost-summary method.

B Accounting and Valuation Methods

The following accounting and valuation methods, which have essentially remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

With regard to **financial assets,** equity investments and securities are recorded at the lower of cost or net realizable value, while loans are disclosed at nominal value. Valuation allowances are set up for loans subject to risk in terms of their collectability.

Receivables and other assets are stated at their nominal value. Specific bad debt allowances provide for all foreseeable valuation risks. **Foreign currency receivables** are generally stated at the lower of the exchange rate on the date recorded and balance sheet date.

Securities classified as current assets were stated at the lower of cost or market value in accordance with Sec. 253 (3) HGB.

Other accruals account for all contingent liabilities and potential losses from pending transactions. They are recorded at the amounts required according to prudent business judgment.

Liabilities are recorded at the amount repayable. **Foreign currency liabilities** are stated at the higher of the exchange rate on the date recorded and balance sheet date.

C Notes to the Balance Sheet

1 Fixed Assets

The development of the individual fixed asset items, including amortization and depreciation for the fiscal year, is shown in the analysis of fixed assets.

Information on Equity Investments

	Share %	Equity as of Dec. 31, 2003 in KEUR	Net income/ loss 2003 in KEUR
USU AG, Möglingen	100.0	6,094	-4,055
OpenShop Internet Software GmbH, Möglingen [1)]	100.0	-880	362
Quantum Solutions GmbH, Dortmund [2)]	30.0	4	-171

[1)] The figures for net income are shown prior to the loss absorption by USU Software AG, while the figures for equity are shown after the loss absorption.
[2)] The disclosures relate to fiscal year 2002 as insolvency proceedings were filed for Quantam in fiscal 2003 and to date no financial statements have been prepared for fiscal 2003.

The following equity investments are held indirectly via USU AG, Möglingen:

	Share %	Equity as of Dec. 31, 2003 in KEUR	Net income/loss for the year 2003 in KEUR
Gentner PROCommunication GmbH, Möglingen	100.0	-1,568	79
USU Software s.r.o., Brno, Czech Republic	100.0	134	13
USU (Schweiz) AG, Cham, Switzerland	80.0	-114	-255
ValueSolution Software GmbH & Co. KG, Möglingen	49.9	934	-177

2 Receivables and Other Assets

As in the prior year, receivables and other assets do not include any items that have a remaining term of more than one year.

3 Treasury Shares

By resolution of the shareholders' meeting dated July 4, 2002, the Company's management board was authorized once again to acquire treasury shares in one or several steps with the approval of the supervisory board in the period until January 3, 2004 pursuant to Sec. 71 (1) No 8 AktG.

As of December 31, 2002, the Company held 292,580 treasury shares with an imputed share in the capital stock of EUR 292,580.00, i.e. 1.7% of the capital stock as of December 31, 2002.

In fiscal 2003 the Company sold 184,679 treasury shares with an imputed share in capital stock of EUR 184,679.00, which represents 1% of the capital stock as of December 31, 2003, at a price of EUR 6.18 per share. The gain on sale of KEUR 1,145 was retained by the Company.

As of December 31, 2003, the Company held 107,901 treasury shares with an imputed share in the capital stock of EUR 107,901.00, i.e. 0.6% of the capital stock as of December 31, 2003.

The treasury shares acquired by the Company are valued in agreement with the lower of cost or market principle and are recorded as treasury shares worth EUR 344,204.00 as of December 31, 2003.

4 Subscribed Capital

The subscribed capital of the Company amounts to EUR 17,211,186.00. It is divided into 17,211,186 bearer shares of no-par value with an imputed share in subscribed capital of EUR 1.00 each. Of this amount, the company holds 107,901 as treasury shares.

5 Authorized Capital

At the annual shareholders' meeting on July 4, 2002, the management board was authorized to increase the capital stock of the Company with the approval of the supervisory board by up to EUR 8,600,000.00 until July 3, 2007 through contributions in cash or in kind or issuing new shares (authorized capital). The shareholders are generally to be granted a subscription right. With approval by the supervisory board, the management board is authorized to preclude the legal subscription right of the shareholders for fractional amounts and to the extent necessary to give bearers of conversion or subscription rights previously issued by the Company a subscription right to the new shares to the extent to which they would be entitled after exercising such conversion or subscription rights. The management board is also authorized, with the approval of the supervisory board, to preclude the subscription right of the shareholders for capital increases in exchange for cash contributions up to a maximum 10% of the existing capital stock of the Company upon the first exercise of the authorized capital, provided the issue amount of the new shares does not fall materially short of the price of the listed shares in the same category. The management board is further authorized, with the approval of the supervisory board, to preclude the subscription rights of the shareholders for capital increases with contributions in kind, provided the capital increase with contributions in kind is carried out for the purpose of acquiring companies or investments in companies.

6 Conditional Capital

The capital stock of the Company was conditionally increased by a shareholder resolution passed on March 2, 2000 by EUR 756,911.00 through the issue of 756,911 bearer shares. The conditional increase in capital serves to grant option rights to members of the board and employees of the Company as well as members of management and employees of affiliated companies. The conditional capital increase is only carried out to the extent that holders of issued option rights exercise them. The new shares participate in profit from the beginning of the fiscal year in which they originate when option rights are exercised.

In connection with the conditional capital a stock option agreement was concluded with several persons, according to which 9,292 shares are still outstanding as of the balance sheet date.

The main conditions are set out in the following table:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Date of issue	Mar. 20, 2000	Oct. 31, 2000	Mar. 1, 2001	May 1, 2001	Jun. 1, 2001	Aug. 1, 2001
Exercise price in EUR	62.10	22.43	9.03	7.46	7.77	7.48
Outstanding as of January 1, 2002	125,223	77,632	80,000	14,364	105,652	6,000
Granted	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Expired	-120,206	-55,004	-80,000	-9,364	-72,532	-6,000
Outstanding as of December 31, 2002	5,017	22,628	0	5,000	33,120	0
Granted	0	0	0	0	0	0
Exercised	0	0	0	0	0	0
Expired	-2,913	-20,440	0	0	-33,120	0
Outstanding as of December 31, 2003	2,104	2,188	0	5,000	0	0
Exercisable as of December 31, 2003	2,104	0	0	0	0	0

7 Capital Reserve

The increase in the capital reserve is due to the disposal of treasury shares carried out in the fiscal year and the write-down of the treasury shares available at the end of the fiscal year and the corresponding withdrawal from the reserve for treasury shares and the allocation to the capital reserve.

	EUR
Capital reserve as of January 1, 2003	103,352,606.46
Withdrawal from the reserve for treasury shares	417,647.00
Capital reserve as of December 31, 2003	103,770,253.46

8 Reserve for Treasury Shares

Corresponding to the treasury shares reported under the item 'treasury shares', a reserve for treasury shares was set up at EUR 344,204.00. The reserve for treasury shares developed as follows in fiscal year 2003:

	EUR
Reserve for treasury shares as of January 1, 2003	1,536,045.00
Allocation to the accumulated loss	-774,194.00
Allocation to the capital reserve	-417,647.00
Reserve for treasury shares as of December 31, 2003	344,204.00

9 Accumulated Loss

The accumulated loss contains a loss carryforward of KEUR 67,434 (prior year: KEUR 49,718).

10 Other Accruals

Other accruals mainly contain the costs of KEUR 583 (prior year: KEUR 0) for the squeeze out of the minority interests in USU AG, costs of KEUR 232 (prior year: KEUR 251) for the annual shareholders' meeting and other outstanding invoices of KEUR 158 (prior year: KEUR 161).

11 Liabilities

As in the prior year, all liabilities have a remaining term of less than a year.

Other liabilities contain liabilities of KEUR 3 for social security (prior year: KEUR 23) and KEUR 692 for taxes (prior year: KEUR 888).

12 Contingent Liabilities

USU Software AG issued a letter of comfort for Openshop Internet Software GmbH, Möglingen. According to the letter, USU Software AG, Möglingen, is obliged to manage the subsidiary in fiscal 2004 and equip it with sufficient financial resources to meet its liabilities. Furthermore, USU Software AG issued a letter of subordination for all receivables due from Openshop Internet Software GmbH.

The Company entered into a profit and loss transfer agreement with Openshop Internet Software GmbH on March 2, 2000. Openshop Internet Software GmbH is obliged to transfer all profit to USU Software AG for the duration of the agreement. It may only make additions to its free reserves upon approval from USU Software AG. In return, USU Software AG is obliged to offset any net loss for the year incurred during the term of the agreement if the loss cannot be covered through the reversal of the company's free reserves set up during the term of the agreement.

13 Other Financial Obligations

There are no other financial obligations as of the balance sheet date. In the prior year there were other financial obligations of KEUR 393 from future rent and lease agreements.

D Notes to the Income Statement

14 Sales

The table below shows sales by segment and by region:

	2003 KEUR	2002 KEUR
Licenses		
Germany	0	89
	0	89
Services		
Germany	492	215
Abroad	0	21
	492	236
Other		
Germany	66	0
Abroad	30	25
	96	25
	588	350

15 Other Operating Income

Other operating income primarily includes income related to other periods from collections of receivables written off in the prior year (KEUR 382), income from the reversal of accruals (KEUR 222) and book gains from the disposal of intangible assets for which capitalization is prohibited pursuant to Sec. 248 (2) HGB (KEUR 200).

16 Other Operating Expenses

Other operating expenses mostly include costs connected to investor relations or costs linked to the IPO (KEUR 321). Costs were also incurred for services provided by the subsidiary USU AG (KEUR 308) and legal and consulting costs (KEUR 382).

17 Amortization and Losses from the Disposal of Financial Assets and Securities Classified as Current Assets

Amortization of shares in affiliated enterprises amount to KEUR 200 (prior year: KEUR 259). Amortization and losses from the disposal of long-term investments and other securities amount to KEUR 120 (prior year: KEUR 14) and KEUR 222 for treasury shares (prior year: KEUR 260). We also refer to the analysis of fixed assets.

18 Extraordinary Income

The extraordinary income results from the merger of the subsidiaries PSS Informationssysteme GmbH, Ludwigsburg, and Openshop Capital GmbH, Möglingen, with USU Software AG.

E Other Notes

19 Supervisory Board

Markus Kress, Diplom-Wirtschaftsingenieur, Chairman
Member of the management board of tecways AG, Munich
Member of the management board of Brill Gartengeräte GmbH, Witten
Chairman of the supervisory board of USU AG, Möglingen
Supervisory board member of IWL AG, Ulm

Werner Preuschhof, Diplom-Kaufmann
Business Consultant
Chairman of the supervisory board of Planbusiness Market Enabling AG, Hamburg
Chairman of the supervisory board of Novomind AG, Hamburg
Supervisory board member of USU AG, Möglingen
Supervisory board member of s24 direkt AG, Hamburg

Udo Strehl
Business consultant
Supervisory board member of USU AG, Möglingen

Dr. Thomas Gutschlag, Diplom-Volkswirt — until May 31, 2003
Member of the management board of Blättchen & Partner AG, Leonberg
Supervisory board member of Plambeck Holding AG, Cuxhaven
Supervisory board member of Quoka AG, Lampertheim

Klaus Langer — until May 31, 2003
German public auditor, tax advisor
Supervisory board member of 4MBO International Electronic AG, Plochingen
Supervisory board member of Müller Weingarten AG, Weingarten
Supervisory board member of Müller – Die lila Logistik AG, Besigheim

Karl-Heinz Achinger — until April 30, 2003
Business Consultant
Chairman of the supervisory board of Magix AG, Munich
Chairman of the supervisory board of Tiscon AG Infosystems, Ulm
Supervisory board member of Software AG, Darmstadt
Supervisory board member of Dosch & Amand Systems AG, Munich
Supervisory board member of debitel AG, Stuttgart
Supervisory board member of RWE Systems AG, Dortmund
Supervisory board member of teleson AG, Stuttgart

20 Management Board

Bernhard Oberschmidt, Diplom-Ökonom (qualified economist)
Spokesperson for the management board

21 Total Remuneration for the Management Board

With regard to the total remuneration for the management board, the Company makes use of the protective clause pursuant to Sec. 286 (4) HGB.

22 Total Remuneration of the Supervisory Board

The remuneration of the supervisory board amounted to KEUR 70 (prior year: KEUR 83) and exclusively comprises fixed payments.

23 Reporting Obligation Pursuant to Sec. 160 AktG

Landesbank Baden-Württemberg informed the Company on October 12, 2001 in accordance with Sec. 20 (1) AktG that it will take over all the shares held by 3i Group plc. in the Company as part of a package sale and that it now holds more than a quarter of the Company's capital stock.

Furthermore, following announcements have been published:

Börsenzeitung No. 64 dated April 4, 2002

"Pursuant to Sec. 21 (1) WpHG (Securities Trading Act), Mr. Udo Strehl, Asperg, has informed us that his share of the voting rights in USU-Openshop AG passed the 10% threshold on March 25, 2002, and now comes to 23.47%."

24 Employees

The average number of employees during the fiscal year was as follows:

	2003	2002
Administration and finance	3	9
Sales and marketing	2	13
Research and development	1	29
Professional services and consulting	0	2
	6	53

25 Group Relationships

USU Software AG is the parent company of the companies contained in the list of equity investments. These companies are affiliated to USU Software AG. Pursuant to Sec. 292a HGB, USU Software AG prepares exempting consolidated financial statements in accordance with US GAAP for the smallest and the largest group of companies. The consolidated financial statements are submitted to both the *Bundesanzeiger* (German Federal Gazette) and the commercial register for public disclosure. The consolidated statements are also available upon request from USU Software AG.

26 Declaration Pursuant to Sec. 161 AktG on the German Corporate Governance Code

The management and supervisory boards of USU Software AG issued the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on December 16, 2003 and have made it permanently available to the shareholders on the Internet site of USU Software AG at http://www.usu-software.de. Further details on the declaration of compliance are contained in the management report and group management report in the annual report. The declaration of compliance by the management and supervisory boards of the listed subsidiary USU AG was issued at the same time and published on the website of USU AG at http://www.usu.de until it was delisted on January 26, 2004.

Möglingen, February 11, 2004

Bernhard Oberschmidt
Management board

ANALYSIS OF FIXED ASSETS FOR THE FISCAL YEAR 2003

	ACQUISITION AND PRODUCTION COSTS				
	Jan. 1, 2003 EUR	Additions EUR	Disposals EUR	Mergers EUR	Dec. 31, 2003 EUR
Financial assets					
Shares in affiliated companies	8,759,110.93	2,465,345.40	0.00	-588,000.00	10,636,456.33
Loans to affiliated companies	594,022.94	0.00	594,022.94	0.00	0.00
Long-term investments	34,557,250.00	34,692,230.00	34,557,250.00	0.00	34,692,230.00
	43,910,383.87	37,157,575.40	35,151,272.94	-588,000.00	45,328,686.33

	ACCUMULATED AMORTIZATION / DEPRECIATION					NET BOOK VALUES	
	Jan. 1, 2003 EUR	Additions EUR	Disposals EUR	Mergers EUR	Dec. 31, 2003 EUR	Dec. 31, 2003 EUR	Dec. 31, 2002 KEUR
Financial assets							
Shares in affiliated companies	747,829.14	200,093.79	0.00	-487,999.00	459,923.93	10,176,532.40	8,011
Loans to affiliated companies	594,022.94	0.00	594,022.94	0.00	0.00	0.00	0
Long-term investments	14,000.00	53,630.00	14,000.00	0.00	53,630.00	34,638,600.00	34,543
	1,355,852.08	253,723.79	608,022.94	-487,999.00	513,553.93	44,815,132.40	42,554

Audit Opinion

We have audited the annual financial statements, together with the bookkeeping system, and the combined management report of USU Software AG (formerly: USU-Openshop AG), Möglingen, for the fiscal year from January 1 to December 31, 2003. The maintenance of the books and records and the preparation of the financial statements and the combined management report in accordance with German commercial law are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole, the combined management report provides a suitable understanding of the Company's position and suitably presents the risks to future development.

Stuttgart, February 16, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Baierl
Wirtschaftsprüfer
[German Public Auditor]

Viering
Wirtschaftsprüfer
[German Public Auditor]