ANNUAL REPORT 2002

usu·openshop

Management Report and Group Management Report
USU-Openshop AG, Möglingen, (previously: OpenShop Holding AG, Ulm)
for the 2002 financial year

Notes on the pro forma information. *The reporting period covers the four quarters of 2002, consisting of the 12 months from January 1, 2002 to December 31, 2002. The consolidation of USU AG, Möglingen, took place as of March 11, 2002.*
To secure comparability of the figures for the four quarters of 2002 with those of the following period, additional pro forma information on the consolidated profit and loss account has been provided, showing a pro forma consolidation of USU AG as of January 1, 2002.

General economic development. The 2002 financial year was characterised by an extremely unstable economic development. With the global economy initially stabilizing after overcoming the recessionary phase in 2001, economic growth again declined to the end of 2002.
On a regional basis there was a very different development of the economy. World wide the real gross domestic product (GDP) rose on an annual basis by 2.5%, while in the euro zone there was GDP growth of only 0.8%. Germany has a decisive share in the low growth in Europe, with GDP moving up only 0.2% against the previous year. A combination of weak domestic demand and a considerable decline in investments produced the weak general overall economic development.

Industry development. The uncertain general economic development, which went hand in hand with some drastic savings cuts in the investment area, impacted the market for information technology (IT) in intensified form. Overall the European market for information technology stagnated in 2002. According to a survey from the German Association of Information Technology, Telecommunications and New Media e.V. (BITKOM), the market volume for IT in Germany even declined considerably. After growth of the German IT market of some 10% in 2000, followed by stagnation in 2001, there was a decline of 3.5% in 2002.

Business development. In the wake of the negative market development and the complicated economic conditions, USU-Openshop AG restructured the operating business in the 2002 financial year.

After the formal takeover of USU AG, the Openshop areas e-Business and e-Business Integration were combined with USU Knowledge Management to form the Business Solutions divisions within the USU-Openshop Group. The primarily alignment of objectives was set to short-term profitability of the group. As a result the next step was focusing the product range to solutions generating profits on a sustained basis.

As a result of enormous expenditure in development and marketing in the loss-making areas Shopsystems and e-Procurement, it was resolved to spin off these areas. For this reason an exclusive licensing partnership was closed with the Wilken Group in Ulm for the distribution and further development of these eCommerce products, thus safeguarding the interests of clients and employees. The cooperation provides security for our client investments and the continuing employment by Wilken of some of the employees at the USU-Openshop Ulm branch. As part of this spin-off, the USU-Openshop Ulm location was closed. At the same time employees of the former Logistics division in Wiesbaden were taken on by the management consultants Eracon AG.

In connection with this concentration of operations in the USU-Openshop Group, there was a thorough company reorganisation. The Management Board was reduced. The management of the group subsidiary USU AG was strengthened with comprehensive areas of expertise and responsibility and the restructuring completed within a short period.

In the solutions company Business Solutions there was a focus on:

- Components for individual client solutions,
- Knowledge Business solutions, integrating cross-sector knowledge and business processes,
- Solutions, including for the public sector,
- Services such as Consulting, Coaching and Project Management, as well as
- Technical Services such as technical support for EAI or complete systems management.

Within the product company IT-Controlling, the company is now concentrating on the Valuemation product suite with its three main components:

- Infrastructure Management,
- Service and Change Management and
- IT Finance Management.

and the Safir suite designed for small and medium-sized companies.

Initial successes of these extensive measures impacted as early as the fourth quarter. After the losses in the first three quarters, which peaked at the start of the third quarter, the company considerably reduced the quarterly loss to TEUR 840 in the last quarter of the 2002 financial year.
After interest and taxes USU-Openshop even posted a positive quarterly result. In a difficult market environment, the objective of a break even on a quarterly basis was thus achieved to the end of the 2002 financial year.

Over the whole year, a high net loss was generated due to the losses of the first nine months. Across the group this was characterised by high restructuring and non-recurring expenses combined with goodwill impairment. In addition to this one-off expenditure, considerable investment restraint on the part of clients and planning for longer operating cycles negatively impacted the development of sales and earnings.

Development of sales and earnings. Across the group in the 2002 financial year, USU-Openshop generated sales of EUR 19.5 million (PY: EUR 3.5 million). EUR 7.7 million of this came from the new IT-Controlling segment. Sales of EUR 11.9 million were generated with the solutions of the Business Solutions segment, composed of the former e-Business divisions of USU-Openshop and Knowledge Management and e-Business Integration at USU.

Broken down by type of sales, EUR 4.3 million (PY: EUR 2.9 million) was for the license business. Consultancy, maintenance and other posted a total of EUR 15.2 million (PY: EUR 0.6 million).

A combination of restructuring the operating business and the negative general economic conditions meant that the company posted a decline in sales on a pro forma basis. As a result of the reduction and the spin-off of those portfolio elements with loss-making areas which will not post a profit in the medium-term, combined with investment lags and budget reductions on the part of clients, pro forma sales declined from EUR 37.3 million in the previous year to EUR 24.0 million in the reporting period.

Despite an increase of the average number of employees from 165 in the 2001 financial year to 330 in the reporting period as a result of the fusion with USU, selling and marketing expenses, research and development and general administrative expenses were reduced in comparison to the previous year from EUR 26.8 million to EUR 21.4 million.

This included non-recurring expenses of EUR 3.7 million as a result of restructuring the company, made up largely on value adjustments on receivables and inventories, provisions for warranty claims and expiring contracts as well as internal non-recurring expenses. In addition, within the context of the restructuring of the company, USU-Openshop made non-scheduled write-downs of EUR 1.4 million on the fixed assets. In addition, there were restructuring expenses of EUR 7.8 million for settlements and continued salary payments to released employees, continued rental payments and obligations to return premises in original condition as a result of the concentration of the group branches and other necessary measures to concentrate the business areas to segments which would be profitable on a sustained basis. Total restructuring and non-recurring expenses thus amounted to EUR 12.9 million.

As a result of the non-recurring charges mentioned, earnings before interest, taxes, depreciation and goodwill impairment (EBITDA) were EUR -21.8 million (PY: EUR -26.7 million). Due to the restructuring and portfolio adjustment and the changed earnings prospects of the company which resulted, a revaluation of the segments was made in the 2002 financial year 2002. This impairment test required by US-GAAP produced non-scheduled write-downs on goodwill totalling EUR 15.2 million (PY: EUR 0.9 million).

Together with the deprecation on tangible, intangible and financial assets of EUR 2.7 million (PY: EUR 1.5 million) and non-recurring write-downs on fixed assets of EUR 1.4 million (PY: EUR 0.5 million), these goodwill write-downs resulted to a negative impact on earnings not affecting liquidity of EUR 19.3 million (PY: EUR 2.9 million).

Including these write-downs, a result before interest and taxes of EUR -41.1 million (PY: EUR -29.6 million) was generated. Including interest and taxes, the net loss for the 2002 financial year was EUR -38.4 million (PY: EUR -26.1 million). Pro forma the net loss was EUR -43.8 million (PY: -EUR 30.7 million).

With an average number of shares of 15,753,455 (PY: 9,500,000), earnings per share were EUR -2.44 (PY: EUR -2.75 per share).

The negative result of the 2002 financial year resulted primarily from the first three quarters, which were marked by the realignment and restructuring of the company. In contrast, in the last quarter of the 2002 financial year, with sales of EUR 5.5 million USU-Openshop considerably improved the operating result to EUR -0.8 million. In the fourth quarter of 2002, the net result after interest and taxes was positive, at EUR 0.1 million. Thus USU-Openshop achieved the objective of a positive net quarterly result, despite negative general economic conditions.

Assets and financial situation. As a result of the fusion with USU AG, the balance sheet total at USU-Openshop increased to EUR 86.4 million (PY: EUR 69.8 million). On the assets side, the USU takeover resulted in goodwill of EUR 17.3 million in the fixed assets position, together with an increase of intangible assets to EUR 2.2 million (PY: EUR 1.1 million). As a result of the shift from long-term bonds into short-term investments with a term of less than a year, fixed assets declined to EUR 20.6 million (PY: EUR 51.8 million). This was counterbalanced by an increase of current assets to EUR 65.8 million (PY: EUR 18.0 million). As a result of the consolidation of USU AG trade receivables also moved up to EUR 5.7 million (PY: EUR 1.7 million).

On the liabilities side, the fusion with USU and the nominal capital increase of EUR 7.7 million made in this context is reflected in the increase of shareholders' equity to EUR 72.9 million (PY: EUR 60.8 million). This produces an equity ratio of 84.4% (PY: 87.2%). As a result of the restructuring measures implemented, short-term accruals and liabilities increased from EUR 8.9 million in the previous year to EUR 12.1 million in the reporting period. This figure includes personnel accruals and liabilities of EUR 3.8 million (PY: EUR 2.3 million) due to the necessary reduction of personnel levels and short-term accruals and liabilities of EUR 4.6 million (PY: EUR 2.7 million) for empty office premises and outstanding invoices.

At the end of the 2002 financial year, cash and investments totalled EUR 55.3 million (PY: EUR 60.9 million).

Cash flow and investments. In the 2002 financial year, cash flow from ordinary business operations was impacted by the high net loss and rental payments for unused business premises, payments for employee settlements and salary payments to released employees arising in conjunction with the restructuring measures. As a result, net outflows from ordinary business operations totalled EUR 16.1 million E (PY: EUR 18.3 million).

The main impact on cash flow from investment activities was the takeover of USU AG and the reinvestment of maturing investments. The financing of the purchase price of the USU Group with shares of USU-Openshop AG, impacted the liquid funds of the USU Group as inflows to the USU-Openshop Group. At the same time, investments in tangible and intangible assets were reduced considerably. This resulted in cash inflows from investment activities of EUR 18.4 million (PY: EUR -1.9 million).

Cash flow from financing activities relates primarily to the repayment of short-term liabilities and the acquisition of own shares. In the reporting period, the resulting outflows from financing activities totalled EUR 1.8 million (PY: EUR 0.8 million).

Subsidiaries, joint ventures and cooperations. The chief event in the 2002 financial year was the takeover of USU AG. In the Extraordinary General Meeting on February 8, 2002, the shareholders of the company approved the capital increase required for the fusion with a majority of 99.7%. This capital increase was registered with effect from March 11, 2002. The takeover of a 95.99% stake in USU AG was thus officially completed. A further resolution related to the change of the company from Openshop Holding AG to USU-Openshop AG.

It was also resolved to move the headquarters of the company to Möglingen, near Ludwigsburg. This resolution became effective with the entry on May 23, 2002. With the foundation of the USU subsidiary USU (Switzerland) AG, the company completed a further strategic step towards the further development of the distribution network. The objective of the presence in Switzerland is to service clients on a local basis, to increase awareness of the company in Switzerland and to gain new clients for the product and solution business.

Via the group subsidiary USU a cooperation was made with Sun Microsystems, the leading producer of hardware and software for network computing. On the basis of a reseller and service contract, Sun markets the USU ValueControl product in Germany and Austria. The objective is to offer clients in the area of IT infrastructure a convincing overall one-stop solution which creates transparency, and which also exploits cost saving potential with an exact allocation of IT services. An attractive solution portfolio has resulted from the bundled competences which offers clients significant value-added, at the same time covering the requirements of an economically viable deployment of IT. In doing so, Sun’s service range for infrastructures has been extended with the USU solution ValueControl. At the same time, the product range in the area of IT inventory administration has been extended by means of the cooperation with TS.Census International. USU-Openshop markets the TS.Census product on the basis of a reseller and OEM contract.

USU-Openshop has agreed a joint venture with the Dortmund participation company Dovest. Here USU-Openshop acquired a 30% stake in Quantum Solutions GmbH. Quantum is an SAP systems company for SMEs and industrial companies and has an excellent reputation in the SAP field. Quantum currently operates with 15 consultants. With its SAP product expertise and the many years of experience in consultancy and product business for SAP/R3-based solutions, USU-Openshop has supplemented its product and services portfolio with an important segment, often requested by clients. There is an option to acquire the remaining stake in Quantum at a later point.

Finally, an exclusive licensing partnership for the marketing and further development of the eCommerce products was concluded with the Wilken Group. Within the framework of the extensive cooperation, Wilken as producer of business software is extending its product range in the area of shop systems and eProcurement with solutions and applications based on the transaction platform Openshop Business 2. The licensing partnership secures Wilken the exclusive software and brand rights in Germany, Austria and Switzerland. In addition, USU-Openshop and Wilken have agreed to use further options of cooperation in partnership, for example in the area of IT controlling.

Research and Development. In the 2002 financial year, the focus of the research and development activities at USU-Openshop was on the continued development of the three main components of the Valuemation Suite (Infrastructure Management, Service and Change Management and IT Finance Management) in the area of IT controlling.

The Infrastructure Management components provides transparent mapping and management of the entire IT portfolio over its complete life cycle, from procurement to disposal. In addition to a marked reduction on the cost side, the Service/Change Management secures an increase in IT service quality and thus client satisfaction. In the area of IT Finance Management, exact knowledge of the distribution of costs clarifies the value of corporate IT and how the relevant IT service flows can be tracked and allocated to individual cost centres on the basis of use. USU-Openshop thus offers a comprehensive portfolio for holistic IT controlling.

In the Business Solutions segment, USU-Openshop focused the research and development activities on client-oriented solutions such as process portals. These target holistic integration and activation of knowledge as a production factor in certain core processes of companies which are often all too poorly structured in order to obtain a quantifiable jump in productivity. Using successful process models, knowledge management technologies are formed to make individual solutions. The accent in this area was on the further development of USU KnowledgeMiner, a software product for topic structuring and standardisation of the information access in the intranet, extranet and internet. By deploying USU KnowledgeMiner, relevant topics can be extracted from existing data sources and mapped visually by means of topic networks.

Group expenses for research and development in the 2002 financial year totalled EUR 5.5 million (PY: EUR 9.6 million EUR).

Order development. Against the balance sheet date at the end of the 2001 financial year 2001, the order book as of December 31, 2002 was EUR 5.9 million (PY: EUR 0.5 million). This absolute increase was the result of the consolidation of USU AG. In contrast, on a pro forma basis there was a considerable decrease of the order book (pro forma PY: EUR 8.9 million). This was due chiefly to two factors: the investment restraint on the IT market and the portfolio streamlining implemented in the group.
In connection with the realignment of the portfolio, there was a concentration on the IT Controlling and Business Solutions segments as a result of the now completed restructuring.

Over the reporting period, large project orders were achieved in both in the product area of the IT Controlling segment and in the solution areas of the Business Solutions segment. Therefore, not only did Lufthansa Systems and Wüstenrot & Württembergischen opt for the new Valuemation product suite, but Deutsche WOOLWORTH GmbH &Co. OHG and MTU Friedrichshafen GmbH did the same. It was satisfying that in German-speaking countries outside Germany, new renowned clients were gained for USU-Openshop, for example Swiss Re, the Austrian Ministry for National Defence and the Erste Bank der oesterreichischen Sparkassen.

As a result of the current order situation and the positive development in Austria and Switzerland, USU-Openshop expects orders to develop in a stable fashion in the first half of 2003, with an upward trend to the end of the financial year.

Staff development. In comparison to the end of the 2002 financial year, the work force increased considerably as a result of the fusion with USU AG, from 161 employees as of December 31, 2001 to 283 employees on December 31, 2002. However, on a pro forma basis including the USU AG staff as of December 31, 2001 (pro forma previous year: 455 employees), there was a sharp reduction of the workforce, This decline in the staffing level was necessary particularly within the framework of bundling the operating business units and the locations.

Broken down into the newly formed segments of the company, 122 employees worked in the IT Controlling area, 114 in Business Solutions and 47 in the central office area.
Particularly in phases of restructuring and realignment, motivation and measures to improve commitment of highly qualified staff are necessary. For this reason, the training and vocational training measures were extended in targeted fashion. From the beginning of the 2003 financial year, the company will launch an additional career model, targeting primarily a long-term promotion of employees and increasing staff loyalty.

Furthermore, for the current 2003 financial year, a program for company-related profit sharing has been initiated in addition to the established performance-oriented remuneration. With a variable component of their salary, company members will participate more strongly when positive results are achieved, but at the same time carry a possible loss element. The targeted performance incentive aims to make an additional contribution to achieving a positive development of the group result and aligning the staff more strongly to a performance-related approach.

Development and status of the AG. In the 2002 financial year, USU-Openshop AG, Möglingen, implemented extensive realignment measures, resulting from the slump in the e-Business market and the resulting downturn in operating business. The restructuring of the company took place at the same time as the takeover of USU AG. The measures which have since been implemented resulted in a considerable reduction of staff numbers to 18 employees as of December 31, 2002 (PY: 133 employees).

With the rigorous discontinuation of loss-marking areas, sales declined accordingly at USU-Openshop AG to EUR 0.4 million (PY: EUR 1.9 million). Here it should be noted that up to the 2000 financial year, the company acted as a holding and did not generate revenues from the assumption of operating functions until the 2001 financial year.
The result from ordinary operations was EUR -16.9 million (PY: EUR -29.7 million). Key elements here were personnel expenses of EUR 6.4 million (PY: EUR 8.4 million), expenses of EUR 3.4 million (PY: EUR 13.4 million) for the assumption of losses at Openshop Internet Software GmbH and other operating expenses of EUR 8.3 million (PY: EUR 6.5 million). Overall an annual result of EUR -16.9 million was posted (PY: EUR -29,7 million).

At the end of the 2002 financial year, the balance sheet total at USU-Openshop AG was EUR 59.5 million (PY: EUR 69.5 million). While shareholders' equity declined to EUR 54.7 million (PY: EUR 63.9 million) due to the balance sheet deficit, share capital moved up to EUR 17.2 million (PY: EUR 9.5 million) as a result of the capital increase implemented for the takeover of USU AG. Amounts due from Group companies declined to TEUR 23 (PY: EUR 1.7 million).

This reduction resulted from the assumption of the net loss at Openshop GmbH and from value adjustments of TEUR 1.7 million. A complete value adjustment of inventories was also made (PY: EUR 0.9 million). Inventories predominantly included licenses intended for resale, but for which there was no deployment as a result of restructuring.

Changes on the Management and Supervisory Boards. In the wake of the fusion of Openshop and USU there were re-elections for the Supervisory Board at the Extraordinary General Meeting of the company on February 8, 2002. As the Supervisory Board was to be filled according to parity principle, former Supervisory Board members Dr. Roland Mecklinger, Dr. Klaus Neugebauer and Klaus C. Plönzke resigned to the end of the Annual General Meeting. New appointments to the Supervisory Board were Dr. Frank-Oliver Lehmann, Karl-Heinz Achinger and Werner Preuschhof. At the same time the former Chairman of the Management Board at USU AG, Udo Strehl, was appointed as Co-CEO. In addition, USU Management Board members Bernhard Oberschmidt and Harald Weimer assumed Management Board positions at USU-Openshop AG. In the course of the reconstitution, Management Board members Timo Weithöner and Uwe Hagenmeier resigned.

In the context of the USU-Openshop AG Annual General Meeting on July 4, 2002, Udo Strehl was appointed to the Supervisory Board of the company. As scheduled, Udo Strehl had previously resigned from the Management Board of the company and assumed his Supervisory Board mandate from Dr. Frank Oliver Lehmann, who resigned from his Supervisory Board position.

In the context of the realignment of USU-Openshop AG, Bruno Rücker and Harald Weimer also resigned from the Management Board of the company at the beginning of August 2002.

Bernhard Oberschmidt now acts as the sole member of the Management Board and Speaker of the USU-Openshop AG Management Board.

Share. Last year, stock markets posted a negative performance for the third year in succession, a negative result which was particularly drastic in 2002. While the DOW JONES INDUSTRIAL AVERAGE declined by 16.8% and the S&P-500 index ended 23.4% lower, the NASDAQ COMPOSITE INDEX moved down by 31.5%. The slump was even more dramatic on the German stock markets. The DAX posted a negative performance of 43.9%; the NEMAX All Share tumbled by 63.0%.

In this market environment, the USU-Openshop share performed well, but still posted a loss on the year. At the end of the previous year the price of the USU-Openshop AG share on Xetra was EUR 6.50. On December 31, 2002, this figure was EUR 5.25. With the assumption of 95.99% of USU AG, the downward slide of the stock price was visibly halted. Due to the takeover offer providing for a share exchange of USU shares into Openshop shares at a 5:7 ratio, USU-Openshop implemented a EUR 7,711,186 capital increase by issuing 7,711,186 new shares of the company. The new USU-Openshop shares resulting from this capital increase were used to service the USU shares and were traded on the Frankfurt Neuer Markt under a separate securities identification number (WKN) 780471 until the end of September 2002. As of September 25, 2002 they were transferred to USU-Openshop shares with the securities identification number WKN 780470.

In the rest of the year, the collapse of the eCommerce business, with the resulting decline in sales and earnings, negatively impacted the performance of the share. As a result of restructuring and non-recurring expenses combined with the 9-month loss heavily impacted by goodwill write-downs, the USU-Openshop share fell to an interim low of EUR 4.88 on Xetra at the end of the 2002 financial year. On floor trading the year low was EUR 4.50. After the USU-Openshop AG Management Board published the target of achieving break-even in last quarter of 2002, and was able to underscore this with positive transactions, the shares of the company again moved above the EUR 5 level. At the time this annual report was published, the price of the USU-Openshop share on Xetra was EUR 5.50.

Effective from February 4, 2003, the shares of USU-Openshop AG were approved to the trading segment of the regulated market with additional listing requirements (Prime Standard). The switch into Prime Standard was accompanied by the discontinuation of the Neuer Markt listing. The Prime Standard segment was created in the context of the resegmentation of the stock exchange by the Exchange Council of the Frankfurt Stock Exchange for companies who address both national and international investors, and thus fulfil correspondingly high requirements in terms of transparency. As has been the case, USU-Openshop will continue to use international accounting standards, continue quarterly reporting, publish the most important financial dates of the company in the corporate calendar, hold at least one analysts meeting a year and publish ad hoc-disclosures and company reports in both German and English.

Corporate Governance. Good and responsible corporate governance is essential for the long-term success of a company. For this reason the principles of corporate governance and control set out in the German Corporate Governance Code have been largely met at USU-Openshop.

Accordingly on December 19, 2002 the USU-Openshop AG Management and Supervisory Boards submitted a declaration of conformity in line with §161 of the German Stock Corporation Act and published it promptly on the homepage of the company. The complete wording of the declaration of conformity is available under http://www.usu-openshop.de.

Risk management. The management and controlling of risks which jeopardize the continued existence of the company are important instruments for successful company management. Especially in the difficult economic situation in the 2002 financial year, which was characterised by restructuring measures at USU-Openshop AG, the close coordination between the Management Board, the Supervisory Board and leading executives in relation to risk management demonstrated its usefulness as a targeted analysis and management instrument. In the course of the restructuring and resegmentation of the operating business, the Management and Supervisory Boards resolved the ongoing development of the risk management system to ensure that risk is managed in an optimum fashion at all times.

A concept was developed in conjunction with the risk management officer of the group subsidiary USU, with the objective of involving the operating units even more extensively in risk controlling, thus integrating risk management right down to junior management level. In this way, awareness of corporate risk is developed and real-time reporting secured as the basis for timely initiation of necessary measures. It is intended to conclude this project during the course of the 2003 financial year.

The core of risk management will remain the ongoing monitoring of the order, sales and earnings situation, together with the development of costs and liquidity. For this purpose there is a regular and systematic analysis of the corporate development at USU-Openshop AG and its group subsidiaries in regular management meetings.

Despite the extensive measures to manage risk which have been implemented, the USU-Openshop AG Management Board cannot preclude individual risks or several risks together jeopardizing the assets, financial and earnings situation in the corporation.

A description is given below in line with the Law on Control and Transparency in Business (KonTraG), showing the risks which have been assessed in the risk management process as jeopardizing the continued existence of the company or as possibly having a material impact on the company's assets, financial and earnings situation:

Risks to future development

The analysis of the ***market and competitive situation*** is crucial for risk management at USU-Openshop. The general economic situation was extremely difficult in the 2002 financial year, directly impacting the whole IT industry. Investment restraint resulted in a considerable slump in growth in the global software and IT market. According to forecasts from market research institutes, there will only be very slow growth of the economy as a whole in 2003. For the software and IT market, only stagnation or at best a slight recovery can be anticipated.

USU-Openshop is indirectly impacted by these developments and has thus taken the measures necessary to react to the changed general conditions. With the restructuring and realignment of the operating business, and the focusing of the product portfolio, the company is positioned in lucrative niche markets. Despite these extensive measures, it is possible that a continuing negative macroeconomic and in particular industry-specific trend will result in a restrained development of company business.

Due to this concentration on niche markets with growth potential, USU-Openshop is also subject to intense competition in the IT Controlling and Business Solutions areas. Although the company has aligned the product and solution range to the changed market trends and has generated a considerable innovation surge with the development of the Valuemation product suite, there is that danger of ferocious competition, also on price, in times of declining investments.

Furthermore, the company depends largely on ***market acceptance of company software products***, in particular the Valuemation product suite, for future growth. Even if the response to the Valuemation launch is very positive and the Knowledge Management products have been successfully implemented in various projects, it cannot be guaranteed that this acceptance will remain on a permanent basis. Here the company is also subject to ***rapid technological change***. Especially in the IT Controlling segment, but also in the Business Solutions segment, the success of the company depends on alignment to changing market trends and the company's ability to innovate. In a market environment with intensifying competition and rapid technological changes, there is the risk that the continuing development of the Valuemation product suite could tie up considerable technical, personnel and financial resources in the company, which would have a corresponding impact on the financial and earnings situation.

Within the framework of the company's operating activities there are also ***product and project risks***. Software developed internally and externally and marketed by USU-Openshop may have – as does almost all software – programming errors which have not been identified. The resulting defective functions could result in liability and impair the basis of confidence of existing and future clients.
Furthermore, the products and services of the company are offered largely within the framework of complex projects where USU-Openshop also gives firm commitments relating to the time frame for completion and installation and in respect to total project costs. There is the risk that the time and cost framework established cannot ultimately be adhered to. Exceeding the framework could result in claims for damages on the part of the client and to negative profit contributions for the respective order. For this reason, USU-Openshop has taken out insurance against such risks.

In addition, the sustained success of the USU-Openshop Group depends on its ability to recruit qualified staff and to keep them on a long-term basis. Although there has been considerably easing in the ***competition for qualified staff***, the loss of highly qualified staff and the lack of new staff with the necessary knowledge could impair company growth on a sustained basis.

As a result of the restructuring of the company, USU-Openshop AG is now indirectly exposed to the risks of the whole group. Furthermore, the reorganisation resulting from the realignment placed the company management of USU-Openshop AG under the responsibility of a single-member Management Board and further executives. The ***retirement of the Management Board or executives*** could also negatively impact the business development of the company.

Outlook. After the successful completion of the restructuring activities in the 2002 financial year, the cost savings achieved resulted in a break-even on a quarterly basis in the fourth quarter of 2002. With the concentration of the operating business on the two segments Business Solutions and IT Controlling and the related focus of the portfolio and the locations, USU-Openshop has laid the foundation for sustained success. However, on the sales side the company expects only modest growth, due to the general global political uncertainties and the continued negative general economic situation. A material risk factor is considered to be the short- and medium-term development of the general economy. Thus the leading economic institutes have already reduced their forecasts and are now predicting overall growth of between 0.5% and 1.0% in 2003. Even last year, growth of 2.4% was forecast for 2003.

In the industry there is no uniform trend. Thus BITKOM expects a further decline of 1.7% in market volume for the German IT market in 2003. However, this is primarily caused by lower demand for computer hardware. For software products and IT Services on the other hand, stagnation is anticipated. According to a study of the European Information Technology Observatory (EITO), there will be growth across Europe in the current year of 3.0% in the software area and 4.6% in the IT services area.

Here EITO sees a trend towards smaller, less expensive IT projects which promise a rapid return on investment. The focus of attention here is the optimisation of the internal IT infrastructure. The IT Trends study of Cap Gemini Ernst & Young produced a similar result, rating the area of portals as central, alongside cost transparency and optimisation of the IT infrastructure. It is precisely in these areas that USU-Openshop has successfully positioned itself with its two business segments and has established itself as a niche supplier.

In view of the above forecasts and on the basis of the focused product ranges, the company expects, overall, a stable trend in the consulting and solution business for the Business Solutions segment. For the IT Controlling segment, revenues are expected to increase again, especially in the license business, after the launch of the Valuemation product suite and the projects transactions which have already been concluded. Sales increases are expected particularly from the group subsidiary USU AG. As an individual company, USU-Openshop AG will generate sales as a result of the licensing partnership with Wilken and from consultancy projects. Furthermore, USU-Openshop AG will generate corresponding interest income due to the high level of liquid funds and investments. With its considerably reduced cost structure, the USU-Openshop AG Management Board is optimistic of generating a positive overall result.

Across the group, USU-Openshop is targeting a slight increase in sales and net income.

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

	Notes No.	2002 KEUR	2001 KEUR
ASSETS			
Current assets			
Cash and cash equivalents	7	12,001	11,465
Debt securities	18	43,344	0
Accounts receivable, less allowance for doubtful accounts of KEUR 3,097 and KEUR 1,028 at December 31, 2002 and 2001, respectively	8	5,680	1,745
Cost and gross profit in excess of billings	9	296	191
Inventory	10	0	907
Prepaid expenses and other current assets		4,460	3,673
Total current assets		65,781	17,981
Property and equipment, net	11, 12	649	1,218
Goodwill	11, 14	17,279	0
Other intangible assets	11, 13, 15	2,199	1,072
Investments in associated companies	17, 45	311	0
Certificate of deposite	18	0	10,226
Debt securities	18	0	39,245
Other noncurrent assets	30	193	0
Total non-current assets		20,631	51,761
Total assets		86,412	69,742

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

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

	Notes No.	2002 KEUR	2001 KEUR
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term amounts payable to banks	27	0	579
Trade payables	29	2,063	1,637
Billings in excess of cost and estimated earnings	9	222	0
Amounts due to associated companies		228	0
Payroll-related accruals and liabilities	29	3,759	2,300
Tax-related liabilities		302	609
Other accruals and liabilities	29	4,641	2,703
Deferred revenue		931	1,110
Total current liabilities		12,146	8,938
Pension liability	30	775	0
Convertible debt	33	94	0
Total long term liabilities		869	0
Total liabilities		13,015	8,938
Commitments and contingencies			
Minority interests		469	0
Shareholders' equity			
Common stock	33	17,211	9,500
Additional paid-in capital	33	137,848	94,942
Treasury stock	33	-1,859	-1,240
Accumulated deficit	33	-80,304	-41,855
Accumulated other comprehensive income/(loss)	33	54	-543
Deferred compensation	33	-22	0
Total shareholders' equity		72,928	60,804
Total liabilities and shareholders' equity		86,412	69,742

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

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Notes No.	2002 KEUR	2001 KEUR
Net revenues	5	19,542	3,528
(Thereof with related parties KEUR 0 in 2002 and KEUR 468 in 2001, respectively)			
Cost of sales		-15,001	-1,362
Gross profit		4,541	2,166
Selling expenses		-7,573	-12,604
General and administrative expenses		-8,303	-4,643
Research and development costs		-5,526	-9,601
Goodwill impairment/amortization	14	-15,218	-874
Stock compensation expense	33	-97	0
Restructuring expense	28	-7,793	-3,140
Asset impairment charges	11, 28	-1,389	-531
Operating loss		-41,358	-29,227
Interest income		2,282	3,630
Interest expenses		-12	-192
Equity in earnings of associated companies		-310	-921
Other income/expense, net		533	574
Loss before taxes and minority interests		-38,865	-26,136
Income taxes	32	37	0
Loss before minority interest		-38,828	-26,136
Minority interests		379	0
Net loss		-38,449	-26,136
Loss per share:			
Basic and diluted	34	-2,44	-2,75
Weighted average number of shares outstanding:			
Basic and diluted		15,753,455	9,500,000

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

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002 KEUR	2001 KEUR
Cash flow from operating activities:		
Net loss	-38,449	-26,136
Adjustments to reconcile net loss to net cash used in operating activities		
Minority interests	-379	0
Depreciation and amortization	2,438	1,301
Asset impairment charges	1,389	531
Goodwill impairment	15,218	874
Other non-cash expenses/income	443	1,545
Changes in operating assets and liabilities:		
Accounts receivable	2,082	1,502
Cost and estimated earnings	1,596	457
Inventory	1,509	-504
Prepaid expenses and other current assets	1,364	-598
Trade payables	-997	-418
Personnel-related accruals and liabilities	-1,129	1,478
Taxes payable	-697	-179
Other accruals and liabilities	-500	1,803
Net cash used in operating activities	-16,112	-18,344
Cash flow from investing activities:		
Acquisitions, net of cash acquired	10,229	0
Purchase of property and equipment	-276	-923
Purchase of intangible assets	-135	-1,184
Proceeds from the sale of fixed assets	52	0
Sale of certificate of deposit	10,226	0
Sale of debt securities - held to maturity	29,038	25,625
Sale of debt securities - available for sale	761	0
Purchase of certificate of deposit	0	-10,226
Purchase debt securities - held to maturity	-30,591	-15,185
Purchase debt securities - available for sale	-859	0
Net cash provided by (used in) investing activities	18,445	-1,893

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

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002 KEUR	2001 KEUR
Cash flow from financing activities:		
Cash received from short-term debt to banks	0	535
Repayments of short-term debt to banks	-1,160	-46
Repayment of convertible debt	-18	0
Purchase of treasury stock	-619	-1,240
Net cash used in financing activities	-1,797	-751
Increase (decrease) in cash and cash equivalents	536	-20,988
Cash and cash equivalents at the beginning of the year	11,465	32,453
Cash and cash equivalents at the end of the year	12,001	11,465
Supplemental cash flow information		
Cash payments for:		
Interest	12	5
Taxes on income	1	0

The Company acquired USU AG in exchange for 7,711,186 with a fair value of KEUR 50,770

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

USU-OPENSHOP AG, MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common stock Number	KEUR	Additional paid-in capital KEUR	Treasury stock KEUR
Balance at January 1, 2001	**9,500,000**	**9,500**	**94,942**	**0**
Purchase of treasury stock	0	0	0	-1,240
Net loss	0	0	0	0
Foreign currency translation adjustment	0	0	0	0
Comprehensive loss				
Balance at December 31, 2001	**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
Unrealized gains on 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**

	Accumu-lated deficit KEUR	Deferred Compen-sation KEUR	Accumu-lated other Compre-hensive income/loss KEUR	Total KEUR	Compre-hensive loss KEUR
Balance at January 1, 2001	**-15,719**	**0**	**-281**	**88,442**	
Purchase of treasury stock	0	0	0	-1,240	
Net loss	-26,136	0	0	-26,136	-26,136
Foreign currency translation adjustment	0	0	-262	-262	-262
Comprehensive loss					**-26,398**
Balance at December 31, 2001	**-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
Unrealized gains on 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**	

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

USU-OPENSHOP AG MÖGLINGEN
(PREVIOUSLY: OPENSHOP HOLDING AG, ULM), GERMANY

CONSOLIDATED FOOTNOTES FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

A. THE COMPANY

USU-Openshop AG was founded on November 25, 1998, as ZARO Vermögensverwaltung AG, Ebersbach/Fils, Germany. It was subsequently renamed OpenShop Holding AG and moved its statutory seat to Ulm, Germany. In conjunction with the acquisition of USU AG (see Note 25), the shareholders voted on February 8, 2002 to rename the company to USU-Openshop AG and move its statutory seat to Möglingen, Germany. OpenShop AG has been listed at the Frankfurt Stock Exchange in the segment Neuer Markt since March 21, 2000. Effective February 4, 2003 the listing has been changed to the Prime Standard segment.

USU-Openshop AG and its subsidiaries (the "Company") develop, sell and install software and hardware solutions, and offer consulting, training and other services for companies, in particular in the areas of electronic data processing and online services. The services offered by the Company range from software development and sales via technical and organizational advice, training, maintenance, support and operation to systems integration and consulting.

With its acquisition of 95.99% of USU AG in fiscal 2002, USU-Openshop AG has extended the services it offers to include the development, sale and installation of complete and comprehensive information technology solutions which combine intra-company knowledge and processes.

The Company's customers are mainly in Germany, most of them working in financial services, telecommunications, services and industry.

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.

Certain prior year balances have been reclassified to conform with the Company's current year presentation.

2) Basis of consolidation

The accompanying consolidated financial statements include the financial statements of USU-Openshop AG and the companies which USU-Openshop AG controls by holding a majority of the voting shares. 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-Openshop AG and eight domestic and foreign subsidiaries (2001: four). Two companies (2001: 0) are accounted for in the consolidated financial statements using the equity method. In the reporting year five companies were included in the consolidated financial statements for the first time. One entity has been removed from the consolidation group.

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, the 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, from the sale of professional services and maintenance.

Sales relating to the sale of standard software licenses 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 an acceptance is agreed in the contract, the sales are recognized upon acceptance or expiration of the acceptance period.

Revenues from professional services are recognized as the services are performed. If a license arrangement includes both software and service elements, the license fee is allocated to services and other elements of the arrangement based on their fair value based on customary selling prices. The resulting license fees allocated to the software are recognized upon delivery provided, that the services are not essential to the functionality of the software; the services exclude significant customization or modification of the software and the payment terms for the software are not subject to acceptance criteria.

In cases where the license fee payments are contingent upon the performance of services or the services include software customization or modification, 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 can not be made, the completed contract method is used. There were no such contracts during the years ended December 31, 2002 and 2001.

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 at their estimated net realizable value 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. Pending losses are recognized in the period in which they are first identified.

Sales revenues from maintenance agreements are recognized over the term of the contract. If maintenance is included free or at a discount rate in a software license arrangement, the amounts related to the maintenance are segregated from the software license fee and recognized ratably over the maintenance period based on the fair value based on customary selling prices.

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 to 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 and expenses" for that period. The foreign currency exchange loss recognized in the statement of operations for the year ended December 31, 2002 was KEUR -123 (2001: gain of KEUR 238).

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. Receivables with recognizable risks are provided for by adequate allowances, while uncollectible receivables are written off. Accounts are classified as overdue or delinquent based on management's judgment.

The Company performs ongoing credit evaluations to reduce credit risk and requires no collateral from its customers. 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 reduce 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.

Included in other assets is a loan receivable in the amount of KEUR 511 (2001: KEUR 170), which has been fully reserved as of December 31, 2002 (2001: KEUR 85). The addition to the reserve during the year ended December 31, 2002 was KEUR 426 (2001: KEUR 85). The average impaired loan balance outstanding during 2002 was KEUR 128 (2001: KEUR 28). When the collectability of interest is in doubt, it is recognized on a cash basis. KEUR 22 (2001: nil) of interest was recognized under the cash basis of accounting during the year ended December 31, 2002. The loan bears interest at twelve month EURIBOR plus 2% margin per annum, due in arrears.

9) Cost and estimated earnings in excess of billings

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues have been recorded but the amounts cannot be 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, 2002 and 2001 costs and estimated earnings on uncompleted contracts and related amounts billed are as follows:

	2002 KEUR	2001 KEUR
Costs and estimated earnings	359	191
less billings to date	(285)	0
Costs and estimated earnings in excess of billings	74	191

Such amounts are included on a contract by contract in the accompanying Consolidated Balance Sheets under the following captions:

	2002 KEUR	2001 KEUR
Cost and estimated earnings in excess of	296	191
Billings in excess of cost and estimated earnings	(222)	0
	74	191

10) Inventory

Inventory are valued at the lower of cost or market. Cost is determined using specific identification. As of December 31, 2001, inventory comprised mainly purchased licenses held for sale. During the year ended December 31, 2002, licenses totaling KEUR 907 were fully written off as there is no anticipated market for such licenses.

11) 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 (2001: KEUR 531), recorded as asset impairment charges in the accompanying statement of operations and reflected as impairment in the accompanying schedule of fixed assets. The impaired assets are from the segment Business Solutions. See also Note 28.

12) 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 10 years

Depreciation on property and equipment during the year ended December 31, 2002 amounted to KEUR 1,029 (2001: KEUR: 710).

For further details, please refer to the schedule of fixed assets (Exhibit A to the notes of the financial statements). The column shown as “acquisition” represents the additions from USU AG and subsidiaries.

<u>*13) Intangible assets (other than goodwill)*</u>

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 customarily 3 to 4 years. The systematic amortization for the year ended December 31, 2002 amounted to KEUR 1,409 (2001: KEUR 545). The estimated amortization for the five years amounts to KEUR 770, KEUR 598, KEUR 158, KEUR 158 and nil.

Beginning on January 1, 2002, trademarks and brand names with an indefinite useful life are no longer amortized but rather will be tested at least annually for impairment. In conjunction with the impairment testing, the fair value of the trademarks and brand names are determined using discounted cash flows. Trademarks acquired in previous years with a carrying amount of KEUR 69 as of December 31, 2001, have a finite useful life of 3 years. The brand names acquired from USU in 2002 have an indefinite life. During the year ended December 31, 2002, an impairment in the amount of KEUR 401 was recorded on these assets as the actual cash inflows from these trademarks and brand names were less than planned and recorded as asset impairment charges in the accompanying statement of operations. The trademarks and brand names are included in the segments IT-Controlling and Business Solutions. During the year ended December 31, 2001, the trademarks were stated at cost and amortized using the straight-line method over their estimated useful lives of three years. The systematic amortization amounted to KEUR 46 in 2001. In addition, an impairment amounting to KEUR 309 was recorded in 2001.

<u>*14) Goodwill*</u>

On January 1, 2002, the Company adopted SFAS 141 „Business Combinations“ and SFAS 142 „Goodwill and Other Intangible Assets“.

In accordance with SFAS 142, goodwill is no longer amortized. Instead, Goodwill and other intangible assets with indefinite lives are tested at least annually for impairment. The impairment test as of September 30, 2002 led to a impairment of goodwill in the amount of KEUR 15,218, as the operations have not developed as planned. The fair values of the reporting units were calculated using the present value of future cash flows.

A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of scheduled amortization of goodwill is presented in the following table. No tax effects have been considered on goodwill as the goodwill is not tax deductible.

	2002	2001
Net loss		
As reported (KEUR)	-38,449	-26,136
Add: amortization of goodwill	0	228
Add: amortization of trademarks	0	46
Less: tax effects	0	-18
Pro forma	-38,449	-25,880
Loss per share - basic and diluted		
As reported (EUR)	-2.44	-2.75
Add: amortization of goodwill	0,00	0,02
Pro forma	-2.44	-2.73

The changes in the amount of goodwill for the years ended December 31, 2002 and 2001, by reportable segment, are as follows:

	Business Solutions KEUR	IT-Controlling KEUR	Consolidated KEUR
Balance at January 1, 2001	920	0	920
Scheduled amortization	-228	0	-228
Reduction in purchase price	-46	0	-46
Impairment	-646	0	-646
Balance at December 31, 2001	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

15) 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 under this standard, 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 material costs have been capitalized under this standard during 2002 or 2001.

16) Research and development costs

Research and development costs are expensed as incurred.

17) Investments in associated companies

Investments in associated companies contain the equity method carrying amounts of ValueSolution GmbH & Co. KG, Möglingen, and Quantum Solutions GmbH, Dortmund.

18) 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 include the following items as of December 31, 2002:

Name of issuer	Interest	Maturity date	Acquisition cost KEUR	Nominal value KEUR	Carrying Amount KEUR	Fair Value KEUR
DaimlerChrysler	5.50%	21.03.2003	10,049	10,000	10,035	10,035
DG Hypobank	3.75%	12.11.2003	14,994	15,000	14,994	15,108
HSBC Bank plc	4.70%	15.09.2003	9,514	9,500	9,514	9,514
LBBW	4.11%	21.05.2003	3,083	3,068	3,075	3,075
Bankhaus Bauer AG	3.82%	12.09.2003	3,000	3,000	3,000	3,000
			40,640	40,568	40,618	40,732

Held to maturity debt securities include the following items as of December 31, 2001:

Name of issuer	Interest	Maturity date	Acquisition cost TEUR	Nominal Value TEUR	Carrying Amount TEUR	Fair Value TEUR
Rheinische Hypothekenbank	5.50%	05.02.2002	24,391	24,000	24,063	24,127
Deutsche Bank Bond	4.75%	24.06.2002	5,137	5,113	5,133	5,137
DaimlerChrysler Bond	5.50%	21.03.2003	10,049	10,000	10,049	10,049
			39,577	39,113	39,245	39,313

The Company intends and is in a position to hold the debt securities until they mature. The gross unrealized gains and losses as of December 31, 2002 and 2001 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 include the following items:

	Acquisition Cost KEUR	Gross Unrealized Gains KEUR	Gross Unrealized Losses KEUR	Fair Value KEUR
Available for sale securities	2,632	103	-9	2,726

As of December 31, 2002, KEUR 806 of the available for sale debt securities mature within one year, KEUR 907 between one and five years, KEUR 615 between five and ten and KEUR 398 in more than ten years.

The proceeds from the sale of available for sale debt securities amounted to KEUR 761 in the year ended December 31, 2002 and included gross realized gains of KEUR 85.

Certificate of deposit

The certificate of deposit is stated at amortized cost. It is issued from the Landesbank Baden-Württemberg. Its acquisition cost of TEUR 10,226 equals its face value. The certificate of deposit bore interest at 4.47% per annum.

19) 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 balance sheet. Receivables with recognizable risks are provided for with adequate allowances (See Note 8).

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 financial statements.

20) Marketing costs

Marketing costs are expensed as incurred. For the year ended December 31, 2002, the company incurred costs of KEUR 610 (2001: KEUR 956).

21) Income taxes

USU-Openshop AG computes the income tax burden using the 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.

22) Stock Compensation:

The Company has three stock option plans as of December 31, 2002, which are described in Note 33. 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. Nevertheless, 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.

	2002	2001
Net loss		
As reported (KEUR)	-38,449	-26,136
Add: expense in accordance with APB 25	97	0
Add: income/ -expense in accordance with SFAS 123	2,065	-2,614
Pro forma	-36,287	-28,750
Loss per share - basic and diluted		
As reported (EUR)	-2.44	-2.75
Add: expense in accordance with APB 25	0,01	0,00
Add: income/ -expense in accordance with SFAS 123	0.13	-0.28
Pro forma	-2.30	-3.03

During 2002, stock options were forfeited in conjunction with the reduction in employees. The pro forma income of KEUR 3,560 results from reversing compensation charges which had been recognized in prior years related to these options.

23) Other 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, 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 33).

24) New U.S. accounting standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (SFAS 143). SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the associated fixed asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with early application encouraged.

The Company will adopt SFAS 143 on January 1, 2003, however it does not anticipate that adoption of SFAS 143 will have a material impact on its results of operations, its financial position or its cash flows.

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 is required to adopt this new standard for any exit or disposal activities that are initiated after December 31, 2002. The impact of the adoption of SFAS No. 146 on the Company's future financial position or results of operations will depend upon the timing of and facts underlying any future exit or disposal activities.

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

25) Acquisitions

USU AG, Möglingen

In conjunction with the acquisition of the majority of the shares of USU AG, Möglingen, USU-Openshop 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-Openshop 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-Openshop AG. The fair value of the shares issued was based on the closing price of USU-Openshop 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 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-Openshop 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, 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 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 estimtated 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 infinite lives		
Trademarks	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 the USU-Openshop AG at the beginning of the fiscal years 2002 and 2001. 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. Further, it was assumed no goodwill impairment was necessary in 2001. 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	2001 (unaudited) KEUR
Pro forma net revenues	23,980	37,308
Pro forma loss before income taxes and minority interests	-41,829	-31,262
Pro forma net loss	-43,782	-30,660
Pro forma basic loss per share (EUR)	-2.54	-1.78
Pro forma diluted loss per share (EUR)	-2.54	-1.78

Quantum Solutions GmbH, Dortmund

On October 29, 2002, the Company purchased EUR 7,500 of the EUR 25,000 share capital, representing 30%, of Matterhorn 179. VV GmbH, which on the same day was renamed Quantum Solutions GmbH (hereafter “Quantum”) and moved its seat to Dortmund. The remaining shareholdings of 70% of the face value of EUR 17,500 are held by Dovest Beteiligungen GmbH, Dortmund.

On October 28, 2002, Dovest Beteiligungen GmbH purchased the SAP related operations of Quantum GmbH (hereafter „Quantum alt“) and on October 29, 2002 sold these operations to Quantum for KEUR 300.

Quantum’s operations include the planning, development and sale of software and information systems, especially SAP based software and information systems as well as the consulting, training and support with the implementation and use of these systems.

The purchase contract also grants USU-Openshop AG an option to purchase the remaining share capital of Quantum from Dovest Beteiligung GmbH. The exercise price is variable based on earnings before interest and taxes (EBIT) of Quantum in fiscal year 2003. The Company can exercise the option from January 31, 2003 through December 31, 2003.

The purchase price for the 30% shareholding in Quantum amounted to KEUR 200, including direct acquisition costs. The Company accounts for this investment under the equity method. The KEUR 148 excess of purchase price over Quantum’s underlying equity of KEUR 52 is being accounted for as goodwill. As of December 31, 2002, the underlying equity of the Company’s investment was KEUR 1.

26) Important contracts

On November 5, 2002, the Company entered into an exclusive license agreement with the Wilken Group, Ulm for the sale and continued development of eCommerce products. As part of the agreement, the Wilken Group has assumed the employment contracts of certain employees of USU-Openshop AG and Openshop Internet Software GmbH and is entitled to use the trademark “Openshop”. The agreement has a term of five years.

27) Credit lines

As of December 31, 2002, the Company maintains several bank lines of credit providing for borrowings of up to KEUR 1,233 (2001: nil) at an interest rate of 8.25%. As of December 31, 2002 nil (2001: nil) had been drawn. The use of the credit lines is unrestricted.

28) Restructuring costs

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.

In the course of restructuring, the management board was downsized and the Company thoroughly reorganized. During the year ended December 31, 2002, the restructuring costs were incurred at the locations Neu-Ulm, Munich, Hannover, Wiesbaden and Möglingen. 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, 2001, restructuring costs were incurred in the Group both 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. KEUR 1,099 of severance and continued salary payments were paid during 2001. During 2001, 101 employees have been laid off.

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 total KEUR 5,189. By year end, severance payments and continued salary paymentsto laid off employees of KEUR 3,242 had been paid out. The remaining accrual for severance payments and continued salary payments is KEUR 1,947 at December 31, 2002. The outstanding payments will probably become due in the first half of 2003.

During the year ended December 31, 2001, the Company has set up an accrual of KEUR 810 for rental obligations of furutre 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 1,087 in 2002. The remaining accrual amounts to KEUR 1,419. The payments are expected in the next three years.

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

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

The above costs are summarized in the following table:

	Jan. 1, 2001	Additions	Payments	Dec. 31, 2001	Additions	Payments	Dec. 31, 2002
Severance and salary continuation	0	2,330	-1,099	1,231	5,189	-4,473	1,947
Rental and restoration obligations	0	810	0	810	1,696	-1,087	1,419
Other	0	0	0	0	908	-908	0
	0	3,140	-1,099	2,041	7,793	-6,468	3,366

In addition, the Company recorded impairment losses due to the permanent impairment of fixed assets of KEUR 988 (2001: KEUR 531). (See footnote 11)

29) Other accruals and liabilties

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

30) Pension accrual

Resulting from the acquisition of USU AG, the Company maintains a defined pension plan for a former member of USU AG’s board of management. 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, 2002, the cash value of this contract amounted to KEUR 193 and is shown as other noncurrent assets. This asset is independent of the pension plan and does not qualify as a plan asset.

Information regarding this pension plan is as follows

	2002 KEUR
Change in projected benefit obligation	
PBO at January 1	0
Business combinations	737
Service cost	5
Interest cost	33
PBO at December 31, 2002	775
Accrued pension liability	775

Net periodic pension cost is comprised of the following components:

	2002 KEUR
Service cost	5
Interest cost	33
Net periodic pension cost	38

The projected benefit obligation was calculated using a discount rate of 6% per year and increase in the pension payments of 2% per annum.

The Company's susbsidiary, USU AG has defined contribution plan with 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 of the insurance company. The related insurance premium of KEUR 36 for the year ended December 31, 2002 were expensed as incurred.

31) 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.

32) Income tax

Income tax benefit consists of the following:

	2002 KEUR	2001 KEUR
Current taxes	-4	0
Deferred taxes	41	0
	37	0

Effective January 1, 2001, income for German stock corporations are taxed at a single rate. The income of the Company is subject to 25% corporate income tax plus a solidarity surcharge of 5.5% of corporate income tax plus an effective municipal trade tax of 14.9%. The tax rate including the solidarity surcharge and municipal trade tax is 37.3% (2001: 38.7%). In 2002, 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 2002 (2001: 26.375%) plus the effective rate trade tax of 14.9% (2001: 12.27%) for a combined statutory rate of 37.3% in 2002 (2001: 38.7%).

	2002 KEUR	2001 KEUR
Loss before income taxes	-38,865	-26,136
Expected tax benefit	14,497	10,115
Change in valuation allowance	-9,031	-9,819
Change in tax rates	341	0
Non-taxable goodwill impairment/amortization	-5,676	-338
Other non-taxable (income)/ expenses	337	-18
Other	-431	60
Actual tax benefit	37	0

Deferred tax assets and liabilities are summarized as follows:

	2002 KEUR	2001 KEUR
Deferred tax assets		
• Tax loss carry forwards	31,764	18,996
• Accruals	666	0
• Other	0	871
Deferred tax assets, gross	32,430	19,867
Deferred tax liabilities		
• Intangible assets	-509	0
• Treasury stock	-120	-24
• Prepayments	-74	-60
• Other	-459	-254
Deferred tax liabilities, gross	-1,162	-338
Gross tax benefit	31,268	19,529
less: valuation allowance	-31,268	-19,529
Deferred tax assets, net	0	0

Due to the limited history of business operations and the lack of profitability to date, a valuation allowance was established equivalent to the net amount of deferred tax assets.

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 set off from the additional paid-in capital

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:

	2002 KEUR
German - Income tax	86,371
German - Trade tax	82,935

Loss carryforwards for German taxes do not expire.

33) 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 292,580 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 with the entry of the increase 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 by cash contribution or contribution in kind by up to EUR 8,600,000 by issuing new shares. 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 shareholders' meeting of July 4, 2002, the authorization given to the management board by resolution of the shareholders' meeting from June 12, 2001 to purchase own shares pursuant to sec. 71 (1) No 8 AktG was revoked and replaced by a new authorization.

By this new resolution of the shareholders' meeting from July 4, 2002 the management board of the Company was authorized – subject to the approval of the supervisory board - pursuant to sec. 71 (1) No 8 AktG to purchase shares of the Company in one or several steps through January 3, 2004.

In compliance with the principle of equal treatment (Sec. 53a AktG), the purchase is made via the stock exchange or a public offer made to all shareholders. When making a purchase via the stock exchange, the amount paid by the Company for the acquisition of each share must be no more than 10% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to acquisition. In the case of a public offer, the amount paid by the Company for the acquisition of each share must be no more than 20% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to acquisition.

The management board is authorized, subject to the consent of the supervisory board, to redeem treasury stock purchased on account of the aforementioned authorization.

The management board is authorized to grant treasury stock purchased on account of this authorization to third parties as consideration in connection acquisition of companies, parts of companies, shares or other investments in companies. The price at which the shares are granted must be no more than 10% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to the obligation to purchase becoming effective. In this case, the subscription right of the shareholders to the purchased shares is precluded.

The Company purchased the following treasury stock in the period ending December 31, 2002:

Purchase date	Number of shares	share capital in %[1)]	Purchase cost in KEUR
December 13, 2001	107,901	1.1	713
December 28, 2001	92,099	1.0	589
February 7, 2002	59,001	0.6	375
February 11, 2002	700	0.0	5
June 24, 2002	32,879	0.2	177
	292,580		1,859

[1)] The percentage of capital stock refers to the date of acquisition.

As of December 31, 2002, the Company held 292,580 own shares representing an imputed share of the capital stock of EUR 292,580 k or 1.7% of the capital stock at that time. The average purchase price amounted to EUR 6.35.

The Company intends to use these shares for the aforementioned purposes according to the authorizations of June 12, 2001 and July 4, 2002, respectively.

Other comprehensive income/loss

The changes in the components of other comprehensive income/loss for the years ended December 31, 2002 and 2001, and the related tax effects are as follows:

in KEUR	2002 Pre-tax	2002 Tax effects	2002 Net	2001 Pre-tax	2001 Tax effects	2001 Net
Unrealized gains on securities arising during the period	179	-66	113	0	0	0
Reclassification adjustments for gains included in net loss	85	-32	53	0	0	0
Net unrealized gains on debt securities	94	-34	60	0	0	0
Foreign currency translation adjustments	537	0	537	-262	0	-262
Other comprehensive loss	631	-34	597	-262	0	-262

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

	Debt securities KEUR	Cumulative translation adjustments KEUR	Total KEUR
Balance at January 1, 2001	0	-281	-281
Changes in 2001	0	-262	-262
Balance at December 31, 2001	0	-543	-543
Changes in 2002	60	537	597
Balance at December 31, 2002	60	-6	54

During the year ended December 31, 2002, the Company reclassified KEUR 543 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 developed a stock option plan for employees of the company. The objectives of the plans 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-Openshop 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 year ended December 31, 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, 2002, 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, 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 plans as of December 31, 2002 and 2001 is summarized below.

	Award 1	Award 2	Award 3	Award 4	Award 5	Award 6
Date of grant	20.03.2000	31.10.2000	01.03.2001	01.05.2001	01.06.2001	01.08.2001
Exercise price in EUR	62.10	22.43	9.03	7.46	7.77	7.48
Balance at						
January 1, 2001	170,526	129,746	0	0	0	0
Granted	0	0	80,000	14,364	105,652	6,000
Excercised	0	0	0	0	0	0
Forfeited	-45,303	-52,114	0	0	0	0
Balance at						
December 31, 2001	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
Exercisable at						
December 31, 2002	5.017	0	0	0	0	0
Remaining contractual						
life in years	2.25	2.83	3.17	3.33	3.42	3.67

The weighted average fair value of options granted during the year ended December 31, 2001 was approximately EUR 4.26 per option. The fair value of options granted is calculated using the Black Scholes option pricing model using the following assumptions: risk free interest rate 4.28% to 4.86%, expected term 2 to 5 years, expected dividend yield 0% and volatility between 72% and 110%.

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 the USU-Openshop 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, 2002, the performance criteria of appreciation in stock value for Award USU have not been met. The Company has not recognized compensation expense for these awards as of December 31, 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).

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 (DM 200). Both the directors and the employees have 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. The Company has not exchanged the conversion features for options in shares of USU-Openshop 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.

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

	Convertible debt	Award USU
Exercise price in EUR	2.79	10.18
Balance at January 1, 2001	0	0
Granted	0	0
Purchase of USU	187,547	259,147
Exercised	-13,575	-50,203
Forfeited	0	0
Repurchased	-37,720	0
Balance at December 31, 2002	136,252	208,944
Exercisable at December 31, 2002	0	0
Remaining contractual life in years	0.25	3.75

<u>*34) Loss per share*</u>

In accordance with SFAS 128, "Earnings per Share", basic earnings per share are calculated using income available to common shareholders divided by the weighted average of common shares outstanding during the year. Diluted earnings per share are similar to basic earnings 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 5,017 and 125,223 for the years ended December 31, 2002 and 2001, respectively, and related entirely to stock options.

D. OTHER DISCLOSURES

<u>*35) Related parties*</u>

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-OpenShop AG to LBBW. LBBW now 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, 2002 are KEUR 9,846 of time deposits of which 87% are with 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 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 important shareholder of the parent company USU-Openshop AG. Karin Weiler-Strehl was member of the Supervisory Board of the USU AG until December 1, 1999. Karin Weiler-Strehl works as a consultant for the Company on a project by project basis. The Company had consulting expenses for Karin Weiler-Strehl of KEUR 167 in the year ended December 31, 2002.

The Company has rented a building from Karin Weiler-Strehl. The rent payments amounted to KEUR 166 for the year ended December 31, 2002. In addition to the rental contract, the Company has granted Spitalhof GbR on October 31, 1996, 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 195 as of December 31, 2002. The Company had interest income of KEUR 13 during the year ended December 31, 2002.

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

36) Contingent liabilities and other financial commitments

Operating leases

The group companies are parties to lease and rental agreements for various facilities and vehicles. The annual payments from these agreements are as follows:

Year ended December 31,	KEUR
2003	1,640
2004	1,075
2005	533
2006	362
2007	230
Thereafter	0
	3,840

During the year ended December 31, 2002, the expenses resulting from lease and rental agreements amounted KEUR 2,657 (2001: KEUR 1,589)

Legal Matters

The Company may be subject to litigation from time to time in the ordinary course of business. As of March 31, 2001 and 2000, 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.

37) Segment reporting, geographical information, and major customers

Segment reporting

Due to restructuring and the acquisition of USU AG and its subsidiaries, the Company has changed its internal reporting and segment reporting. Prior year amounts were adjusted accordingly.

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

The former segments Partner Management, Logistic-Solutions and e-Solutions and Services were added to the new segment Business Solutions.

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, licence 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.

	2002 KEUR	2001 KEUR
Revenues		
IT-Controlling	7,663	0
Business Solutions	11,879	3,528
	19,542	3,528
Modified gross margin		
IT-Controlling	3,665	0
Business Solutions	1,221	2,166
	4,886	2,166
Modified operating result		
IT-Controlling	-3,751	0
Business Solutions	-21,343	-28,581
	-25,094	-28,581
Depreciation and amortization (without Impairment)		
IT-Controlling	108	0
Business Solutions	2,330	1,529
	2,438	1,529
Capital expenditures		
IT-Controlling	225	0
Business Solutions	386	2,107
	611	2,107

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:

	2002 KEUR	2001 KEUR
Gross margin - segment reporting	4,886	2,166
Amortization of fair value adjustments to intangibles acquired from USU AG	-345	0
Gross margin - consolidated statement of operations	4,541	2,166

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

	2002 KEUR	2001 KEUR
Modified operating result	-25,094	-28,581
Goodwill impairment	-15,218	-646
Amortization of fair value adjustments to intangibles acquired from USU AG	-1,046	0
Operating loss	-41,358	-29,227

Classes of revenue

	2002 KEUR	2001 KEUR
Professional services	13,064	0
License revenues	4,315	2,921
Maintenance revenues	1,964	607
Other	199	0
	19,542	3,528

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, 2002 and 2001, sales outside Germany did not account for more than 10% of the consolidated sales. As of December 31, 2002 and 2001, less than 10% of long lived assets were located outside of Germany

Major customers

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. During the year ended December 31, 2001, 14% of the consolidated sales were with one customer. The five largest customers accounted for approximately 50% of the consolidated revenues.

E. ADDITIONAL LOCAL DISCLOSURE REQUIREMENTS

38) 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.

39) 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-Openshop 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 stated 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:

<u>Foreign currency receivables and payables</u>
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.

<u>Marketable securities</u>
Marketable securities are to be accounted for at amortized 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.

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

Differently to US-GAAP, under HGB expenses in conjunction with stock option plans first occur with the capital flow.

40) Headcount

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

	2002	2001
Professional services and operations	110	40
Research and development	104	58
Administration and finance	62	23
Sales and marketing	54	44
	330	165

As of December 31, 2002, the group employs 283 people altogether.

41) Personnel expense

Personnel expense can be stated as follows:

	2002 TEUR	2001 TEUR
Wages and salaries	19,448	13,782
Social security and pension costs of which KEUR 169 was for retirement benefits (2001: KEUR 14)	2,812	1,594
	22,260	15,376

42) 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”.

43) Management board and supervisory board

Management board

In the fiscal year 2002 the management board consisted of:

Bernhard Oberschmidt, Chairman — since February 8, 2002
Diplom-Ökonom (qualified economist)

Bruno Rücker, Chairman — through August 6, 2002
Diplom-Kaufmann (qualified businessman)

Udo Strehl — from February 8, 2002 through July 4, 2002
Business consultant

Harald Weimer — from February 8, 2002 through August 6, 2002
Diplom-Betriebswirt (qualified business administrator)

Uwe Hagenmeier — through February 8, 2002
Diplom-Ingenieur (qualified engineer)

Timo Weithöner — through February 8, 2002
Entrepreneuer

The total remuneration of the management board in the fiscal year amounted to KEUR 2,236 (2001: KEUR 1,083), thereof variable KEUR 253. The total remuneration includes severances of KEUR 1,533.

Supervisory board

In the fiscal year 2002 the supervisory board consisted of:

Markus Kress, Diplom-Wirtschaftsingenieur (qualified industrial engineer), Chairman
Member of the management board of tecways AG, Munich
Chairman of the supervisory board of USU AG, Möglingen
Member of the supervisory board of IWL AG, Ulm

Dr. Thomas Gutschlag, Diplom-Volkswirt (qualified economist)
Member of the management board of Blättchen und Partner AG, Leonberg
Member of the supervisory board of Plambeck Holding AG, Cuxhaven
Member of the supervisory board of Quoka AG, Lampertheim

Klaus Langer, Certified Public Accountant, Certified Tax Consultant
Member of the supervisory board of 4MBO International Electronic AG, Plochingen
Member of the supervisory board of Müller Weingarten AG, Weingarten

Karl-Heinz Achinger, Businees Consultant — since February 8, 2002
Chairman of the management board of Software AG, Darmstadt
Chairman of the supervisory board of Magix AG, Munich
Chairman of the supervisory board of Tiscon AG Infosystems, Ulm
Member of the supervisory board of debitel AG, Stuttgart,
Member of the supervisory board of RWE Systems AG, Dortmund,
Member of the supervisory board of Dosch & Amand Systems AG, Munich,
Member of the supervisory board of USU AG, Möglingen.

Werner Preuschhof, Diplom-Kaufmann (qualified businessman) — since February 8, 2002
Chairman of the supervisory board of Planbusiness Market Enabling AG, Hamburg
Chairman of the supervisory board of Novomind AG, Hamburg

Dr. Frank Oliver Lehmann, Diplom-Kaufmann (qualified businessman) — from February 8, 2002
Executive Director (Banque AIG, London), London — through July 4, 2002

Udo Strehl, Business Consultant — since July 4, 2002
Member of the supervisory board of USU AG, Möglingen

Dr. Ing. Roland Mecklinger, Business Consultant — until February 8, 2002
Member of the supervisory board of ELMOS Semiconductor AG, Dortmund

Dr. Klaus Neugebauer, Business Consultant — until February 8, 2002
Member of the supervisory board of Webfair AG, Munich
Member of the supervisory board of Equita KGaA, Bad Homburg

Klaus C. Plönzke, Businessman — until February 8, 2002
Chairman of the management board of Plönzke Holding AG, Wiesbaden
Member of the supervisory board of Business Technology Consulting AG, Oldenburg
Member of the supervisory board of Viveon AG, Munich
Member of the supervisory board of equinet Venture Partners AG, Frankfurt
Member of the supervisory board of Apus4 AG, Bern

The total fixed remuneration of the management board in the fiscal year amounted to KEUR 107 (2001: KEUR 77).

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-Openshop AG, and especially with respect to retired members of the management board. As of December 31, 2002, stocks of USU-Openshop AG, Möglingen, were held by the members of the Company's management board as follows. Convertible bonds and stock options of USU-Openshop AG were not held.

Reportable securities	Shares (Quantity)
Management board	
Bernhard Oberschmidt	37,393
Supervisory board	
Markus Kress	283,772
Udo Strehl	4,038,638
Karl-Heinz Achinger	0
Werner Preuschhof	0
Klaus Langer	0
Dr. Thomas Gutschlag	0

44) Declaration of compliance with the German Corporate Governance Code by the management board and supervisory board of USU-Openshop AG pursuant to Sec. 161 AktG.

On December 19, 2002, the management board and supervisory board of USU-Openshop AG made its first declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG, and made it permanently available to shareholders on the USU-Openshop AG website http://www.usu-openshop.com. More details on the declaration of compliance are contained in the group management report and management report attached to this report. At the same time, the management board and supervisory board of the publicly listed subsidiary USU AG made their declaration of compliance and published it on the website of USU AG http://www.usu.de.

45) Schedule of investment holdings

The following companies have been included in the consolidated financial statements (Amount in accordance with US-GAAP):

Name and statutory seat	Ownership in %	Equity Dec. 31, 2002 KEUR	Net income/ (loss) 2002 KEUR
USU AG, Möglingen [1]	96,0%	10,729	-8,475
Gentner PROCommunication GmbH, Möglingen [1] [2]	100,0%	-1,647	-200
USU Software s.r.o., Brno, Czech Republic [1] [2]	100,0%	95	10
USU (Schweiz) AG, Cham, Switzerland [1] [2]	80,0%	-78	-146
Knowledge Text Software GmbH & Co. KG, Möglingen [1] [2]	51,0%	66	-56
ValueSolution Software GmbH & Co. KG, Möglingen [1] [2]	49,9%	617	-40
Openshop Internet Software GmbH, Munich	100,0%	-4,506	-3,344
Openshop Capital GmbH, Ulm	100,0%	98	-1
PSS Informationssysteme GmbH, Neu-Ulm	100,0%	-468	-30
Quantum Solutions GmbH, Dortmund [3]	30,0%	4	-171

[1] The net income/(loss) for USU AG and its subsidiaries and investment are for the abbreviated fiscal year from April 1, 2002 through December 31, 2002.

[2] The shares of these companies are held indirectly through USU AG.

[3] The amounts for Quantum Solutions AG are for the abbreviated fiscal year from November 1, 2002 through December 31, 2002.

Möglingen, February 2003

Bernhard Oberschmidt
Speaker of the management board

USU-OPENSHOP AG, MÖGLINGEN (PREVIOUSLY: OPENSHOP HOLDING AG), GERMANY

SCHEDULE OF FIXED ASSETS FOR THE FISCAL YEAR 2002 (EXHIBIT A)

	ACQUISITION AND PRODUCTION COSTS						
	Jan. 1, 2002 KEUR	Adoption of SFAS 142 KEUR	Acquisition of USU AG KEUR	Impair-ment KEUR	Addtions KEUR	Disposals KEUR	Dec. 31, 2002 KEUR
Intangible Assets							
Goodwill	1.066	-1.066	32.349	-15.218	148	0	17.279
Purchased software	1.951	0	2.133	-1.893	135	181	2.145
Trademarks and brand names	138	-69	844	-401	0	0	512
Maintenance agreements	0	0	280	0	0	0	280
	3.155	-1.135	35.606	-17.512	283	181	20.216
Property and Equipment							
Land and fixtures	0	0	64	0	0	42	22
Computer hardware, furniture and office equipment	2.310	0	705	-1.368	276	937	986
	2.310	0	769	-1.368	276	979	1.008
Investments							
Investments in associated	0	0	569	0	52	310	311
Certificate of deposit	10.226	0	0	0	0	10.226	0
Debt securities, held to	39.575	0	0	0	0	39.575	0
	49.801	0	569	0	52	50.111	311
	55.266	-1.135	36.944	-18.880	611	51.271	21.535

	ACCUMULATED DECPRECIATION						NET BOOK	
	Jan. 1, 2002 KEUR	Adoption SFAS 142 KEUR	Impair-ment KEUR	Additions KEUR	Disposals KEUR	Dec. 31 2002 KEUR	Dec. 31, 2002 KEUR	Dec. 31, 2001 KEUR
Intangible Assets								
Goodwill	1.066	-1.066	0	0	0	0	17.279	0
Purchased software	948	0	-1.476	1.355	143	684	1.461	1.003
Trademarks and brand names	69	-69	0	0	0	0	512	69
Maintenance agreements	0	0	0	54	0	54	226	0
	2.083	-1.135	-1.476	1.409	143	738	19.478	1.072
Property and Equipment								
Land and fixtures	0	0	0	15	37	-22	44	0
Computer hardware, furniture and office equipment	1.092	0	-797	1.014	928	381	605	1.218
	1.092	0	-797	1.029	965	359	649	1.218
Investments								
Investments in associated	0	0	0	0	0	0	311	0
Certificate of deposit	0	0	0	0	0	0	0	10.226
Debt securities, held to	330	0	0	0	330	0	0	39.245
	330	0	0	0	330	0	311	49.471
	3.505	-1.135	-2.273	2.438	1.438	1.097	20.438	51.761

Audit Opinion

We, Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (formerly: Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH), have audited the consolidated financial statements of USU-Openshop AG (formerly: OpenShop Holding AG consisting of consolidated balance sheet sheet, consolidated statement of operations, statement of changes in stockholders' equity, cash flow statement and notes to the consolidated financial statements for the fiscal year from January 1, 2002 to December 31, 2002. The preparation and the content of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with the US Generally Accepeted Accounting Principles (US-GAAP), based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with the German audit regulations and the generally accepted German 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. In the course of the audit the documentation supporting the carrying amounts and disclosures in the consolidated financial statements is examined on a test basis. 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 and group management report prepared by the executive board for the fiscal year from January 1 to December 31, 2002, has not led to any reservations. In our opinion, the combined management report group management report 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 group management report for the fiscal year from January 1, 2002 to December 31, 2002 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.

Ernst & Young
Revisions- und Treuhandgesellschaft mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Viering Wirtschaftsprüfer	Boelcke Wirtschaftsprüfer

Stuttgart, Febuary 28, 2003

USU-OPENSHOP AG, MÖGLINGEN
(FORMERLY: OPENSHOP HOLDING AG, ULM)

BALANCE SHEET AS OF DECEMBER 31, 2002

A S S E T S

	Notes	2002 EUR	2001 EUR
FIXED ASSETS	(1)		
Intangible assets			
Licenses and software		0.00	323,716.15
Property, plant and equipment			
Other equipment, furniture and fixtures		0.00	133,348.96
Financial assets			
Shares in affiliated companies		8,011,281.79	356,686.50
Long-term investments		34,543,250.00	49,537,808.44
		42,554,531.79	49,894,494.94
		42,554,531.79	50,351,560.05
CURRENT ASSETS			
Inventories			
Work in process		0.00	33,500.00
Merchandise		0.00	900,000.00
Payments on account		0.00	10,644.61
		0.00	944,144.61
Receivables and other assets	(2)		
Trade receivables		302,803.94	1,161,695.50
Receivables from affiliated companies		23,488.67	1,688,936.51
Other assets		3,175,562.79	3,433,291.93
		3,501,855.40	6,283,923.94
Securities			
Treasury shares	(3)	1,536,045.00	1,240,000.00
Other securities		3,075,420.77	0.00
		4,611,465.77	1,240,000.00
Cash on hand. bank balances		8,809,069.64	10,634,519.84
		16,922,390.81	19,102,588.39
PREPAID EXPENSES		9,069.27	84,803.32
		59,485,991.87	69,538,951.76

USU-OPENSHOP AG, MÖGLINGEN
(FORMERLY: OPENSHOP HOLDING AG, ULM)

BALANCE SHEET AS OF DECEMBER 31, 2002

EQUITY AND LIABILITIES

	Notes	2002 EUR	2001 EUR
EQUITY			
Subscribed capital	(4)	17,211,186.00	9,500,000.00
Capital reserve	(7)	103,352,606.46	102,874,457.46
Revenue reserve			
Reserve for treasury stock	(8)	1,536,045.00	1,240,000.00
Accumulated deficit	(9)	-67,434,035.84	-49,718,158.37
		54,665,801.62	63,896,299.09
ACCRUALS			
Other accruals	(10)	2,312,703.26	3,291,462.43
LIABILITIES	(11)		
Liabilities due to banks		0.00	572,658.02
Payments received on account of orders		0.00	35,000.00
Trade payables		542,384.38	963,721.52
Liabilities due to affiliated companies		1,050,294.67	0.00
Other liabilities		914,807.94	779,810.70
		2,507,486.99	2,351,190.24
		59,485,991.87	69,538,951.76

USU-OPENSHOP AG, MÖGLINGEN
(FORMERLY: OPENSHOP HOLDING AG, ULM)

INCOME STATEMENT
FOR THE FISCAL YEAR 2002

	Notes	2002 EUR	2001 EUR
Sales	(12)	350,191.42	1,911,152.79
Change in inventories of finished goods and work in process		-33,500.00	33,500.00
Other operating income	(13)	939,975.75	685,284.92
Cost of materials			
Cost of raw materials, consumables and supplies and of purchased merchandise	(14)	-984,952.11	-12,237.26
Cost of purchased services		-58,176.43	-443,598.46
Personnel expenses			
Salaries and wages		-6,373,896.20	-8,434,184.65
Social security, pension and other benefit costs		-663,768.46	-1,051,093.37
- thereof for old-age pensions: EUR 63,748.61 (prior year: EUR 13,109.98)			
Amortization of intangible assets and depreciation on property, plant and equipment	(15)	-306,351.88	-606,056.48
Other operating expenses	(16)	-8,320,881.82	-6,464,026.57
Other interest and similar income		2,415,005.44	4,420,561.95
- thereof from affiliated companies EUR 221,136.00 (prior year: EUR 852,224.00)			
Amortization of financial assets and securities classified as current assets	(17)	-532,923.93	-6,388,697.21
Expenses from loss absorption		-3,366,370.44	-13,368,881.37
Interest and similar expenses	(18)	-400.80	-306.76
Result of ordinary operations		-16,936,049.46	-29,718,582.47
Other taxes		-5,634.01	-1,245.19
Net loss for the year		-16,941,683.47	-29,719,827.66
Loss carryforward from the prior year		-49,718,158.37	-19,998,330.71
Transfers to reserve for treasury shares	(8)	-774,194.00	0.00
Accumulated deficit		-67,434,035.84	-49,718,158.37

USU-OPENSHOP AG, Möglingen
(formerly: OpenShop Holding AG, Ulm)

Notes for the fiscal year 2002

(1) General

The Company has applied the provisions of the HGB [“Handelsgesetzbuch”: German Commercial Code] and the AktG [“Aktiengesetz”: German stock corporation act] for the classification in the balance sheet and income statement,

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

To improve clarity of presentation, the titles of various balance sheet items have been adjusted according to Sec. 265 (6) HGB.

The financial statements have been prepared in euro.

Since March 21, 2000, USU-Openshop AG, Möglingen, (‘USU-Openshop AG’) has been listed on the Frankfurt Stock Exchange in the Neuer Markt segment. As of February 4, 2003, it moved to the Prime Standard segment.

As a publicly listed company, USU-Openshop AG is regarded as a large corporation pursuant to Sec. 267 (3) Sent. 2 HGB. The classification of the notes to the financial statements is therefore in line with the requirements for large corporations.

(2) Accounting and Valuation Methods

Intangible assets are generally stated at acquisition cost net of scheduled amortization.

Property, plant and equipment is stated at acquisition cost less scheduled depreciation. The Company generally applies the straight-line method of depreciation. Depreciation is carried out pro rata temporis. Pursuant to Sec. 6 (2) EStG [“Einkommenssteuergesetz”: German Income Tax Law], low-value assets are expensed in full in the year of acquisition.

In the course of restructuring the USU-Openshop Group, essentially all intangible assets and property, plant and equipment were sold to USU AG, Möglingen (‘USU AG’) as of the end of the fiscal year. Assets that were no longer of use within the Group were sold to third parties during the year.

Financial assets are valued at the lower of cost or market as of balance sheet date.

Inventories are generally valued at acquisition cost taking the lower of cost or market principle into account.

Receivables and other assets are stated at nominal value or at the lower realizable value at the balance sheet date. Appropriate bad debt allowances are made for receivables where there are recognizable risks that they may not be collectible; uncollectible receivables are written off. A general bad debt valuation allowance is set up in recognition of the general credit risk. The written-down receivables have been deducted from the net receivables portfolio to determine the valuation allowance.

Current securities are valued at the lower of cost or market as of balance sheet date.

As a consequence of the allocation to the reserve for treasury stock, the result for the year is not disclosed separately as net loss for the year and loss carryforward as in the prior year but as net accumulated deficit pursuant to Sec. 268 (1) HGB. The prior year disclosure has been adjusted accordingly.

Other accruals have been created for contingent liabilities and potential losses from pending transactions. They have been created on the basis of prudent commercial judgement and cover all known risks as at balance sheet date. Accruals for expenses as defined by Sec. 249 (2) HGB have not been created.

Liabilities have been stated at repayment value.

Receivables and liabilities in foreign currencies have been booked at the exchange rate prevailing at the time of the transaction. Exchange rate losses resulting by balance sheet date from realization or valuation at the balance sheet date exchange rates are included in the income statement.

(3) Notes to the Financial Statements

II. Notes to the Balance Sheet

1. Fixed assets

The development of fixed assets in the fiscal year 2002 is shown in Exhibit A to these notes.

As of the balance sheet date, USU-Openshop AG held investments in:

Name and location of registered offices	Share in %	Equity Dec. 31, 02 EUR '000	Equity Dec. 31, 01 EUR '000	Net result for the year 2002 EUR '000	Net result for the year 2001 EUR '000
USU AG, Möglingen [1]	95.99%	10,148	18,605	-8,457	-9,260
OpenShop Internet Software GmbH, Munich [2]	100.0%	-1,241	-1,241	-16,942	-29,720
OpenShop Capital GmbH, Möglingen	100.0%	98	99	-1	0
PSS Informationssysteme GmbH, Neu-Ulm	100.0%	-469	-438	-31	-152
Quantum Solutions GmbH, Dortmund [3]	30.0%	4	-	-171	-

[1] The prior-year figures of USU AG refer to equity as of March 31, 2002 and the net result for the fiscal year from April 1, 2001 to March 31, 2002. USU AG's net loss for the year refers to the abbreviated fiscal year from April 1 to December 31, 2002.

[2] The information on the net result for the year is as prior to loss assumption by USU-Openshop AG and that on the equity as after loss assumption.

[3] The information on Quantum refers to the abbreviated fiscal year from November 1 to December 31, 2002, since Quantum GmbH was founded as of November 1, 2002.

The following investments are held indirectly through USU AG, Möglingen:

Name and location of registered offices	Share in %	Equity Dec. 31, 2002 KEUR	Net result for the year 2002 KEUR
Gentner PROCommunication GmbH, Möglingen [1)]	100.0%	-1,647	-235
USU Software s.r.o., Brno, Czech Republic [1)]	100.0%	142	67
USU (Switzerland) AG, Cham, Switzerland [1)]	80.0%	-79	-148
Knowledge Text Software GmbH & Co. KG, Möglingen [1)]	51.0%	66	-56
ValueSolution Software GmbH & Co. KG, Möglingen [1)]	49.9%	617	-319

1) The net result of USU AG and its subsidiaries and investments for 2002 refers to the abbreviated fiscal year from April 1, 2002 to December 31, 2002.

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 stock

By resolution of the shareholders' meeting of July 4, 2002, the authorization given to the management board by resolution of the shareholders' meeting from June 12, 2001 to purchase own shares pursuant to sec. 71 (1) No 8 AktG was revoked and replaced by a new authorization.

By this new resolution of the shareholders' meeting from July 4, 2002 the management board of the Company was authorized – subject to the approval of the supervisory board - pursuant to sec. 71 (1) No 8 AktG to purchase shares of the Company in one or several steps through January 3, 2004.

In compliance with the principle of equal treatment (Sec. 53a AktG), the purchase is made via the stock exchange or a public offer made to all shareholders. When making a purchase via the stock exchange, the amount paid by the Company for the acquisition of each share must be no more than 10% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to acquisition. In the case of a public offer, the amount paid by the Company for the acquisition of each share must be no more than 20% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to acquisition.

The management board is authorized, subject to the consent of the supervisory board, to redeem treasury stock purchased on account of the aforementioned authorization.

The management board is authorized to grant treasury stock purchased on account of this authorization to third parties as consideration in connection acquisition of companies, parts of companies, shares or other investments in companies. The price at which the shares are granted must be no more than 10% higher or lower than the average closing price of the Company's stock in electronic trading on the Frankfurt Stock Exchange in the ten trading days prior to the obligation to purchase becoming effective. In this case, the subscription right of the shareholders to the purchased shares is precluded.

The Company purchased the following treasury stock in the period ending December 31, 2002:

Purchase date	Amount	Share capital stock in % [1)]	Acquisition cost in KEUR
December 13, 2001	107,901	1.1	713
December 28, 2001	92,099	1.0	589
February 7, 2002	59,001	0.6	375
February 11, 2002	700	0.0	5
June 24, 2002	32,879	0.2	177
	292,580		1,859

[1)] The percentage of capital stock refers to the date of acquisition.

As of December 31, 2002, the Company held 292,580 own shares representing an imputed share of the capital stock of EUR 292,580 k or 1.7% of the capital stock at that time.

The Company intends to use these shares for the aforementioned purposes according to the authorizations of June 12, 2001 and July 4, 2002, respectively.

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 KEUR 1,536 as of December 31, 2002.

4. Subscribed capital

In the course of the takeover of the majority of the shares in USU AG, a public takeover bid was submitted exclusively to the shareholders of USU AG in the period from December 20, 2001 to February 1, 2002 (hereafter also ‘conversion offer’).

The conversion ratio was five to seven, i.e. each shareholder of USU AG received seven shares of the Company for five USU shares.

When the conversion offer expired, a total of 5,507,990 shares of USU AG (95.99%) had been registered for conversion to new shares of the Company. With the conversion ratio of 5:7, this corresponds to 7,711,186 shares of the Company.

The new shares were created in the course of the capital increase through contribution in kind decided by the extraordinary shareholders’ meeting on February 8, 2002. The contribution in kind to the Company provided by the shareholders of USU AG who have accepted the conversion offer was their shares in USU AG. The subscription rights of the previous shareholders present when the resolution on the capital increase through contributions in kind was passed were excluded. The capital increase through contributions in kind was filed with the Company’s commercial register on March 11, 2002.

The new shares are 7,711,186 freely transferable, individual bearershares with an arithmetic share in the capital stock of EUR 1.00 each and profit participation from January 1, 2002 onwards.

The Company’s subscribed capital of EUR 9,500,000.00 was increased by EUR 7,711,186.00 to EUR 17,211,186.00 through the acquisition of USU AG. Subscribed capital as at December 31, 2002 amounts to EUR 17,211,186.00 and is divided into 17,211,186 non-par shares with an arithmetic nominal value of EUR 1.00 each.

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. The shareholders are generally to be granted one stock option. 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 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 was 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 listed 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 65,765 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	March 20, 2000	Oct. 31, 2000	March 1, 2001	May 1, 2001	June 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, 2001	170,526	129,746	0	0	0	0
Granted	0	0	80,000	14,364	105,652	6,000
Exercised	0	0	0	0	0	0
Expired	-45,303	-52,114	0	0	0	0
Outstanding as of December 31, 2001	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
Exercisable as of December 31, 2002	5.017	0	0	0	0	0

7. *Capital reserve*

The capital reserve was reduced by EUR 1,240,000.00 from EUR 104,114,157.46 to EUR 102,874,457.46 in the prior year to establish a reserve for treasury stock. This allocation to reserves was corrected in the reporting year by that amount for which there was no sufficient capital reserve in terms of Sec. 272 (2) No 4 HGB in the prior year. Therefore, EUR 478,149.00 were retransferred from the reserve for treasury stock to the capital reserve.

8. *Reserve for treasury stock*

Corresponding to the treasury stock reported under the item ‘treasury stock, a reserve for treasury stock was set up at EUR 1,536,045. EUR 478,149,00 thereof were allocated to the capital reserve and the remaining difference of EUR 774,194.00 was transferred from the accumulated deficit to the reserve for treasury stock.

9. *Accumulated deficit*

To improve the presentation of equity, the loss carryforward is included in the accumulated deficit in this fiscal year pursuant to Sec. 268 (1) HGB. The prior year disclosure has been adjusted accordingly. The loss carryforward included in the fiscal year totals EUR 49,718,158.37 (prior year: EUR 19,998,330.71).

10. *Other accruals*

In the scope of restructuring measures, costs were incurred for severance payments and salaries (KEUR 980) as well as for unused rented space and obligations to restore locations to their original state (KEUR 400). Other accruals also principally comprise expenses for the shareholders’ meeting (KEUR 251), a lump sum for warranties (KEUR 108), expenses of the preparation and audit of the financial statements (KEUR 105), and outstanding invoices (KEUR 161).

11. *Liabilities*

All liabilities have a remaining term of up to one year, in analogy to the prior year.

Other liabilities contain liabilities of KEUR 23 for social security (prior year: KEUR 173), and of KEUR 1,201 for taxes (prior year: KEUR 440).

III. Notes to the Income Statement

12. Sales

The table below shows sales by activity and by region:

	2002 KEUR	2001 KEUR
Licenses		
Germany	89	1,586
	89	1,586
Services		
Germany	215	216
Abroad	21	106
	236	322
Other		
Germany	25	3
	25	3
	350	1,911

13. Other operating income

Other operating income contains compensation for marketing and development services provided by the company SKYVA International GmbH, Ladenburg, amounting to KEUR 500. In addition, other operating income includes cost allocations to USU AG for the use of vehicles and fringe benefits from the use of vehicles.

14. Cost of raw materials, consumables and supplies and of purchased merchandise

This item contains expenses from valuation allowances of KEUR 900 for licenses that are to be resold.

15. Amortization of intangible assets and depreciation of property, plant and equipment

The intangible assets and property, plant and equipment had been fully sold as of December 31, 2002. Amortization on intangible assets and depreciation of property, plant and equipment is therefore disclosed as pro rata temporis amortization/depreciation until the date of disposal of the assets.

16. Other operating expenses

Other operating expenses mainly contain valuation allowances totaling KEUR 2,365 for trade receivables and receivables due from affiliated companies as well as for payments on account or bad debts and are to be regarded as non-recurring. In addition, there were non-recurring expenses from losses of KEUR 190 from the disposal of fixed assets.

17. *Amortization of financial assets and of investments classified as current assets*

The loans and shares in OpenShop Internet Software GmbH, Möglingen, and a purchase price back payment to the former shareholders of PSS Informationssysteme GmbH, Neu-Ulm, was fully amortized in the fiscal year.

The following amounts were recorded:

Investment in OpenShop Internet Software GmbH	KEUR 257
Back payment for purchase price PSS Informationssysteme GmbH	KEUR 2

KEUR 14 of the amortization of financial assets and securities classified as current assets is accounted for by long-term investments and KEUR 260 by treasury stock. Please also refer to the analysis of fixed assets (Exhibit B).

18. *Interest and similar expenses*

As in the previous year, interest and similar expenses does not include any interest and similar expenses paid to affiliated companies.

IV. *Other Disclosures*

19. *Contingent liabilities*

USU-Openshop AG has issued a letter of comfort for OpenShop Internet Software GmbH, Möglingen, OpenShop Capital GmbH, Möglingen, and PSS Informationssysteme GmbH, Neu-Ulm, by which USU-Openshop AG, Möglingen, is obliged to equip these subsidiaries in fiscal 2003 with sufficient financial resources for them to meet their liabilities.

On March 10, 1999, USU-Openshop AG issued a letter of subordination to OpenShop Internet Software GmbH, subordinating its receivables related to the current account agreement to all receivables of current and future creditors for as long as and to the extent that OpenShop Internet Software GmbH is indebted.

The Company entered 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-Openshop AG for the duration of the agreement. It may only make additions to its free reserves upon approval from USU-Openshop AG. In return, USU-Openshop AG is obliged for the duration of the agreement 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. The Company absorbed a net loss for the year of EUR 3,366,370.44 from OpenShop Internet Software GmbH.

20. *Other financial commitments*

Other financial commitments from future lease and rental obligations amount to KEUR 393. Other financial commitments can be allocated to future periods as follows:

Fiscal year as of December 31	KEUR
2003	185
2004	134
2005	74
Thereafter	0
	393

21. Employees

The average number of employees in the fiscal year was:

	2002	2001
Research and development	29	59
Marketing and sales	13	4
Administration and finance	9	21
Professional services and consulting	2	39
	53	123

22. 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 a quarter of the Company's capital stock.

23. Management board

The following were members of the Management Board in fiscal year 2002:

Bernhard Oberschmidt, Chairman — since February 8, 2002
Diplom-Ökonom (qualified economist)

Bruno Rücker, Chairman — through August 6, 2002
Diplom-Kaufmann (qualified businessman)

Udo Strehl — from February 8, 2002 through July 4, 2002
Business consultant

Harald Weimer — from February 8, 2002 through August 6, 2002
Diplom-Betriebswirt (qualified business administrator)

Uwe Hagenmeier — through February 8, 2002
Diplom-Ingenieur (qualified engineer)

Timo Weithöner — through February 8, 2002
Entrepreneuer

Total remuneration of the management board members amounted to KEUR 1,198 (prior year KEUR 948) in the fiscal year, KEUR 105 thereof were variable. Severance payments of KEUR 593 are also included in the total.

24. Supervisory board

The following were members of the supervisory board in fiscal year 2002:

Markus Kress, Diplom-Wirtschaftsingenieur (qualified industrial engineer), Chairman
Member of the management board of tecways AG, Munich
Chairman of the supervisory board of USU AG, Möglingen
Member of the supervisory board of IWL AG, Ulm

Dr. Thomas Gutschlag, Diplom-Volkswirt (qualified economist)
Member of the management board of Blättchen und Partner AG, Leonberg
Member of the supervisory board of Plambeck Holding AG, Cuxhaven
Member of the supervisory board of Quoka AG, Lampertheim

Klaus Langer, Certified Public Accountant, Certified Tax Consultant
Member of the supervisory board of 4MBO International Electronic AG, Plochingen
Member of the supervisory board of Müller Weingarten AG, Weingarten

Karl-Heinz Achinger, Businees Consultant — since February 8, 2002
Chairman of the management board of Software AG, Darmstadt
Chairman of the supervisory board of Magix AG, Munich
Chairman of the supervisory board of Tiscon AG Infosystems, Ulm
Member of the supervisory board of debitel AG, Stuttgart,
Member of the supervisory board of RWE Systems AG, Dortmund,
Member of the supervisory board of Dosch & Amand Systems AG, Munich,
Member of the supervisory board of USU AG, Möglingen.

Werner Preuschhof, Diplom-Kaufmann (qualified businessman) — since February 8, 2002
Chairman of the supervisory board of Planbusiness Market Enabling AG, Hamburg
Chairman of the supervisory board of Novomind AG, Hamburg

Dr. Frank Oliver Lehmann, Diplom-Kaufmann (qualified businessman) — from February 8, 2002 through July 4, 2002
Executive Director (Banque AIG, London), London

Udo Strehl, Business Consultant — since July 4, 2002
Member of the supervisory board of USU AG, Möglingen

Dr. Ing. Roland Mecklinger, Business Consultant — until February 8, 2002
Member of the supervisory board of ELMOS Semiconductor AG, Dortmund

Dr. Klaus Neugebauer, Business Consultant — until February 8, 2002
Member of the supervisory board of Webfair AG, Munich
Member of the supervisory board of Equita KGaA, Bad Homburg

Klaus C. Plönzke, Businessman — until February 8, 2002
Chairman of the management board of Plönzke Holding AG, Wiesbaden
Member of the supervisory board of Business Technology Consulting AG, Oldenburg
Member of the supervisory board of Viveon AG, Munich
Member of the supervisory board of equinet Venture Partners AG, Frankfurt
Member of the supervisory board of Apus4 AG, Bern

Total remuneration of the supervisory board members amounted to KEUR 83 (prior year KEUR 77) in the fiscal year and did not contain any variable components.

25. Group relationships

USU-Openshop AG is the parent company of the companies contained in the list of equity investments. These companies are affiliated to USU-Openshop AG. Pursuant to Sec. 292a HGB, USU-Openshop 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 German Federal Gazette ('Bundesanzeiger') and the commercial register for public disclosure. The consolidated statements are also available upon request from USU-Openshop AG.

26. Declaration of the management and the supervisory board pursuant to Sec. 161 AktG

The management and supervisory boards of USU-Openshop AG issued the first declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on December 19, 2002 and have made it permanently available to the shareholders on the Internet site of USU-Openshop AG at http://www.usu-openshop.com. Further details on the declaration of compliance are contained in the 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 web page of USU AG at http://www.usu.de.

Möglingen, February 2003

USU-Openshop AG

Bernhard Oberschmidt
Spokesperson of the management board

EXHIBIT B

ANALYSIS OF FIXED ASSETS FOR THE FISCAL YEAR 2002

	ACQUISITION AND PRODUCTION COSTS			
	Jan. 1, 2002 EUR	Additions EUR	Disposals EUR	Dec. 31, 2002 EUR
INTANGIBLE ASSETS				
Licenses and software	684.284,37	18.519,72	702.804,09	0,00
PROPERTY, PLANT AND EQUIPMENT				
Other equipment, furniture and fixtures	292.601,99	20.810,59	313.412,58	0,00
FINANCIAL ASSETS				
Shares in affiliated companies	845.519,96	7.913.590,97	0,00	8.759.110,93
Loans to affiliated companies	5.736.428,47	0,00	5.142.405,53	594.022,94
Long-term investments	49.637.898,44	24.508.250,00	39.588.898,44	34.557.250,00
	56.219.846,87	32.421.840,97	44.731.303,97	43.910.383,87
	57.196.733,23	32.461.171,28	45.747.520,64	43.910.383,87

	ACCUMULATED DEPRECIATION				NET BOOK VALUES	
	Jan. 1, 2002 EUR	Allocations EUR	Reversals EUR	Dec. 31, 2002 EUR	Dec. 31, 2002 EUR	Dec. 31, 2001 EUR
INTANGIBLE ASSETS						
Licenses and software	360.568,22	252.686,96	613.255,18	0,00	0,00	323.716,15
PROPERTY, PLANT AND EQUIPMENT						
Other equipment, furniture and fixtures	159.253,03	53.664,92	212.917,95	0,00	0,00	133.348,96
FINANCIAL ASSETS						
Shares in affiliated companies	488.833,46	258.995,68	0,00	747.829,14	8.011.281,79	356.686,50
Loans to affiliated companies	5.736.428,47	0,00	5.142.405,53	594.022,94	0,00	0,00
Long-term investments	100.090,00	14.000,00	100.090,00	14.000,00	34.543.250,00	49.537.808,44
	6.325.351,93	272.995,68	5.242.495,53	1.355.852,08	42.554.531,79	49.894.494,94
	6.845.173,18	579.347,56	6.068.668,66	1.355.852,08	42.554.531,79	50.351.560,05

Audit Opinion

We, Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (formerly: Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH), have audited the annual financial statements, together with the bookkeeping system, and the management report of USU-Openshop AG (formerly: OpenShop Holding AG) for the fiscal year from January 1 to December 31, 2002. The maintenance of books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's management. 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 have conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the German generally accepted 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 annual 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 annual 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 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.

Ernst & Young
Revisions- und Treuhandgesellschaft mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Viering Wirtschaftsprüfer [German Public Auditor]	Boelcke Wirtschaftsprüfer [German Public Auditor]

Stuttgart, February 28, 2003

Supervisory Board report

In the 2002 financial year, the Supervisory Board performed its control functions comprehensively and advised the Management Board extensively on corporate strategy and policy. All legal transactions requiring approval and strategic decisions by the Management Board were concluded following in-depth assessment and discussion.

The focus of the eight meetings of the Supervisory Board was primarily on the development of business and the net assets, financial position and results of operations of the company, the status of the integration of USU AG into the group as a whole, developments regarding the reorientation and restructuring of USU-Openshop AG and investment, personnel and earnings planning. In addition, the risk management of the company and the implementation of the Corporate Governance Code were discussed. With regard to the latter, the Supervisory Board issued a declaration of conformity in line with § 161 of the German Stock Corporation Act on December 19, 2002, together with the Management Board of ÚSU-Openshop AG. Beyond the regular meetings of the Supervisory Board, the Supervisory Board was also in ongoing contact with the Management Board and received regular status reports concerning the current and future development of the company.

The resolutions relating to corporate strategy were of particular significance. Following the incorporation of USU AG, a resolution was passed in July 2002 to bundle operating business within the two segments IT-Controlling and Business Solutions. As a result of this strategic reorientation, Bruno Rücker and Harald Weimer left the Management Board of the company. At the same time, the site concept was revised and staffing was adapted in line with the development of the company. As this process developed further, an exclusive licensing partnership was also concluded with Wilken.

The Supervisory Board formed a Personnel and Audit Committee in the reporting period. In its three meetings, the Personnel Committee focussed on Management Board issues regarding recruitment, dismissals and remuneration. The three meetings of the Audit Committee concentrated on the interim reports of the company and on issues concerning accounting, auditing of financial statements and risk management. The Audit Committee mandated Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (formerly Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH) to audit the annual financial statements following approval by the Annual General Meeting and concurrently determined the focal points for auditing for the 2002 financial year.

The annual financial statements and the consolidated financial statements, including the accounting system, as well as the management report and the group management report of USU-Openshop AG as of December 31, 2002 were audited by Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (formerly Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH), who issued an unqualified opinion. The documents of the Management Board relating to the financial statements and the audit reports of the auditors on the annual financial statements and the consolidated financial statements were submitted to the Supervisory Board in good time. These were examined by the Audit Committee and discussed with the Management Board of the company and the auditors at the balance sheet meeting. Following its own examinations and discussion with the auditors, the Supervisory Board does not have any objections and approves the annual financial statements and consolidated financial statements of the company. The financial statements of USU-Openshop AG are herewith adopted.

As a result of the merger with USU AG, former members of the Supervisory Board Dr. Roland Mecklinger, Dr. Klaus Neugebauer and Klaus C. Plönzke left the Supervisory Board at the Extraordinary General Meeting of the company on February 8, 2002. Karl-Heinz Achinger, Werner Preuschhof and Dr. Frank Oliver Lehmann were elected as new members of the Supervisory Board. At the Annual General Meeting on July 4, 2002, Udo Strehl was elected to the Supervisory Board of the company and assumed his position on the Supervisory Board from Dr. Frank Oliver Lehmann, who had resigned from his position on the Supervisory Board. On behalf of the entire Supervisory Board, I would like to thank the management and employees of the company for their hard work and personal commitment during the 2002 financial year.

Möglingen, March 17, 2003

Markus Kress
Chairman of the Supervisory Board