ANNUAL REPORT 2005

USU SOFTWARE AG

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Foreword

Yes, we've done it. USU Software AG is now posting positive figures in terms of operations for the Group as a whole. Net profit after taxes amounted to exactly EUR 1,047,582 in 2005. This is borne out in black and white.

I admit that it was not before time – for our shareholders and especially our employees. Their patience has been severely tested.

Knowing that you're doing the right thing and hoping that the market finally rewards it are two completely different things. But now they do go together: our knowledge and our market. The figures prove this in black and white.

The product business made a clear recovery in the second half of 2005. Our consultancy business also developed satisfactorily. In short: We are in profit. This Annual Report explains why – in black and white.

The fact that the share price did not reflect this at year-end 2005 should not, for once, be a source of confusion for us. After all, the analysts see us in a positive light – which we also have in black and white.

All this gives us an inner confidence, which matches the confidence our customers have in the ability of our products and services to meet the demands of the future. They, too, can see the success of their collaboration with us in black and white.

We have a good feeling for 2006 and beyond. Our shareholders, customers and employees will see the fruits of this. Year after year. And, of course, in black and white.

Yours,
Bernhard Oberschmidt
Spokesperson for the Management Board of USU Software AG

Corporate Governance

The term “corporate governance” encompasses the entire system of managing and supervising a company. The purpose of good and sustained corporate governance is to promote the trust of international and national investors, customers, employees and the general public in the responsible management and supervision of listed companies.

The main standards of the German corporate governance system are compiled by the Government Commission for the German Corporate Governance Code and contained in the Corporate Governance Code (hereinafter referred to as the “Code”). The Code came into force in 2002 and was last updated in 2005.

The Code essentially defines three categories of standards. The statutory requirements contained in the Code must be observed by the Company and are binding in that respect. Although companies are permitted to deviate from the Code’s recommendations, they are obliged to disclose this annually. The Code also contains proposals, which do not have to be adhered to. Moreover, there is no obligation to disclose this lack of adherence.

Declaration of Compliance with the Corporate Governance Code

The Management Board and Supervisory Board of USU Software AG have made an emphatic commitment to implementing the major recommendations of the Code and submitted the following declaration on December 12, 2005:

The Board of Management and Supervisory Board of USU Software AG declare that the recommendations of the "Government Commission for the German Corporate Governance Code" in the version dated 2 June 2005, announced in the official section of the electronic Federal Gazette on 20 July 2005 by the Federal Ministry of Justice have been and will be complied with, although the following recommendations have not been and/or will not be applied:

According to clause 3.8 of the Code, a suitable deductible shall be agreed if the company takes out a D&O policy for the Board of Management and Supervisory Board.

USU Software AG had already taken out D&O insurance prior to the Code coming into force; this did not provide for any deductible. There was and is no intention to subsequently introduce a deductible.

Clause 4.2.1 of the Code provides that the Board of Management shall comprise several persons.

The Board of Management of USU Software AG comprised and comprises one person who simultaneously acts as the spokesperson for the Board of Management.

According to clause 4.2.3 of the Code, the Supervisory Board shall agree a cap for extraordinary and unforeseen developments for variable Board of Management compensation components with long-term effect and contain a degree of risk (e.g. phantom stocks). The concrete details of these compensation components shall be published both on the interset site and in the annual report together with the essential features of the compensation system.

The total compensation package for the Board of Management of USU Software AG comprised and comprises both fixed and variable elements. There was and is no intention to provide an additional variable compensation component with long-term incentive effect and which contains a degree of risk and a cap. Therefore, the extent to which the remuneration system has been published on the internet and in the company's annual report has not exceeded statutory requirements, nor will it do so in the future. For further details, please refer to clause 4.2.4 which follows.

According to clause 4.2.4 of the Code, the compensation of the Board of Management members is to be shown in the notes to the consolidated financial statements according to fixed, performance-related and long-term incentive components. The figures should be individualised.

USU Software AG has not provided individualised information regarding the compensation of the Board of Management members and does not intend to do so. The information regarding the compensation of the Board of Management has been and will be indicated in the notes to the consolidated financial statements as total earnings for all Directors, according to fixed and variable component. In the event that the company's Board of Management acts as the sole Board of Management, there will be no disclosure of the compensation whatsoever.

According to clause 5.1.2 of the Code, an age limit for Board of Management members is to be stipulated.

USU Software has not implemented a set age limit for Board of Management members in the past and does not intend to do so.

According to clause 5.4.1 of the Code, an age limit for Supervisory Board members shall be set for proposed appointments to the Supervisory Board.

USU Software AG has not implemented a set age limit for Supervisory Board members in the past and does not intend to do so.

According to Article 5.4.7 of the Code, Supervisory Board members should obtain separate remuneration for assuming the Chair or the Deputy Chair or being a member in a Supervisory Board committee. Furthermore, members of the Supervisory Board should receive a performance-oriented remuneration alongside a fixed remuneration. Furthermore, remuneration and benefits granted by the company to members of the Supervisory Board should be detailed separately in the Corporate Governance Report.

The USU Software AG articles of association do not provide for remuneration for assuming the Deputy Chair of the Supervisory Board, nor for membership in or Chair of a Supervisory Board committee, nor for performance-oriented remuneration for members of the Supervisory Board. Information on the remuneration of the Supervisory Board including any benefits which may be granted were provided in the Notes to the Group annual financial statements. In the future, the total remuneration of all Supervisory Board members will be stated in the Corporate Governance Report, broken down into fixed and variable shares.

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

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

Further details under the Corporate Governance Report

Remuneration of members of the Supervisory Board (clause 5.4.7 of the Code)

The total remuneration of the Supervisory Board in the 2005 fiscal year were EUR 50 k and were all of the fixed variety. The articles of association of USU Software AG have not provided for and are not planned to provide for variable remuneration by the Supervisory Board.

Directors' dealings and securities held by the Boards (clause 6.6 of the Code)

The shares and stock options held by board members of USU Software AG as at December 31, 2005 were as follows:

Board stock reports	Shares	Stock options
Board of Management		
Bernhard Oberschmidt	18.696	0
Supervisory Board		
Udo Strehl	1.989.319	0
Günter Daiss	0	0
Erwin Staudt	10.100	0

On February 4, 2005, the Chairman of the Supervisory Board, Udo Strehl, transferred and/or deposited 32,000 shares of USU Software AG from his private assets into the "Knowledge is the Future" foundation. Mr. Strehl is also the managing director of this foundation. Through Udo Strehl Private Equity GmbH (USPEG), Udo Strehl can also be allocated 4,172,348 voting rights in USU Software AG as the majority shareholder of USPEG pursuant to Sec. 22 Sentence 1 No. 1 WpHG.

On November 10, 2005, a member of the Supervisory Board, Erwin Staudt, purchased 10,100 shares of USU Software AG via the Stuttgart Stock Exchange.

Supervisory Board members Udo Strehl and Erwin Staudt immediately informed USU Software AG of the investments quoted. The Company immediately published details of the investments on its homepage at www.usu-software.de.

Stock option programs and similar securities-oriented incentive systems (clause 7.1.3 of the code)

Immediately after the IPO, the Company issued a stock option plan for its staff. The stock options were issued to staff in several tranches in 2000 and 2001. No stock options were issued after this. For further information on the stock option program of USU Software AG, please refer to *Contingent capital* in the notes to this annual report. USU Software AG does not operate any other securities-oriented incentive system.

Dear Shareholders,

With an increase in sales of 11.6 % compared to the previous year, reaching the operating break-even point and a net profit for the year of EUR 1.05 million, USU Software AG (hereinafter “USU Group” or “USU”) successfully met all of its targets for the Group as a whole in 2005.

With the takeover of Omega Software GmbH (“OMEGA”), the USU Group expanded its portfolio as well as its market presence. Thanks to the extended partner network, the proportion of foreign business in total sales increased to over 11 %. In addition, USU laid the foundations for the Group’s future growth with the new product versions and innovations.

By strictly implementing its strategy, the Management Board of the USU Group managed to achieve a sustained turnaround. During the 2005 fiscal year, the Supervisory Board was in constant contact with the Management Board and was constantly informed pursuant to Sec. 90 (1) and (2) AktG of the development and situation of USU Software AG and the Group, corporate planning (including risk management) and all key business transactions and projects. For its part, the Supervisory Board advised and supervised the Management Board and was involved in all decisions of material importance. In addition, the Chairman of the Supervisory Board and the spokesperson for the Management Board regularly exchanged information and views.

A total of six meetings of the Supervisory Board were held in the reporting year. The Supervisory Board also made one resolution by means of a written circulation procedure. All members of the Supervisory Board personally attended five of the meetings in 2005, with one member taking part in the sixth meeting by conference call.

In the meetings of the Supervisory Board, the focus was on discussing business development, strategic planning, and the asset, financial and earnings situation of USU Software AG and the Group. To this end, the Management Board reported regularly on the development of sales, earnings and profitability of the Company and the Group as a whole, along with this liquidity. There was also a detailed report on the business progress of the two segments IT Management Solutions and Business Solutions. Using this as a basis, the Management Board gave details of the continued corporate planning for USU Software AG and the Group, and presented the key points and assumptions of the financial, investment and personnel planning.

The Supervisory Board was extensively informed in advance of and unanimously approved all legal transactions requiring approval and business of significant importance to the profitability or liquidity of the Company. In particular, these concerned the takeover of OMEGA and the associated capital increase through contributions in kind from authorized capital, and the profit transfer agreement with OMEGA.

The Supervisory Board meetings also discussed the risk management system of USU Software AG and the Group as a whole and the implementation of the provisions of the German Corporate Governance Code. On December 12, 2005, the Management Board and Supervisory Board of USU Software AG issued the relevant Declaration of Compliance in line with Sec. 161 of the German Stock Corporation Act and made it permanently available on the Company's homepage. The Supervisory Board also discussed the management contract of the Management Board spokesperson Bernhard Oberschmidt, and agreed unanimously to extend it by five years to May 31, 2011.

At the Annual General Meeting on July 7, 2005, Günter Daiss and Erwin Staudt were confirmed as members of the Supervisory Board, having already been legally appointed in this capacity for USU Software AG since November 2, 2004. Since the Supervisory Board comprises three members, no committees were set up in the 2005 fiscal year, as in the previous year.

In line with the resolution of the Annual General Meeting, the Supervisory Board appointed Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, as auditors for the 2005 fiscal year and at the same time coordinated the focus of the audit for the 2005 fiscal year. Pursuant to clause 7.2.1 of the German Corporate Governance Code, the Supervisory Board obtained in advance a declaration from the auditors confirming that no professional, financial, personal or other relationship exists between the auditors, its boards and audit managers on the one hand and the Company and its board members on the other.

Prof. Dr. Binder, Dr.Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft audited the 2005 annual financial statements in accordance with the rules of the German Commercial Code (HGB), the 2005 consolidated financial statements pursuant to IFRS and the management report on the Company and the Group for the fiscal year from January 1, 2005 to December 31, 2005 and granted each with an unqualified audit opinion.

The Supervisory Board was presented with the annual and consolidated financial statements, the management report on the Company and the Group as well as the auditors' reports for checking in a timely manner. At the accounts meeting on March 8, 2006, the auditors also reported on the key results of the audit.

Following examination and extensive discussion with the Management Board and the auditors, the Supervisory Board concurred with the result of their auditors and raised no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted.

Furthermore, the Management Board of USU Software AG issued its related parties report for the fiscal year from January 1, 2005 to December 31, 2005 in line with Sec. 312 of the German Stock Corporation Act. Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, audited the report and granted the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the Company's compensation with respect to the transactions listed in the report was not inappropriately high."

The Supervisory Board submitted the Management Board's related parties report for the fiscal year from January 1, 2005 to December 31, 2005 and the auditors' audit report. The examination by the Supervisory Board pursuant to Sec. 314 of the German Stock Corporation Act did not raise any objections to the final declaration of the Management Board.

After the successful conclusion to the 2005 fiscal year, on behalf of the entire Supervisory Board I would like to express my heartfelt thanks to all employees of USU Software AG and its subsidiaries for their unstinting commitment and loyalty. Whether they are dealing directly with customers, developing our products, or providing administrative support to the operational units, our staff's patience and dedication have made a significant contribution to the success of the USU Group. My special thanks go to the Chairman of USU Software AG, Bernhard Oberschmidt, for his unflagging work, personal commitment, and extremely positive cooperation.

Möglingen, March 8, 2006

For the Supervisory Board
Udo Strehl
Chairman of the Supervisory Board of USU Software AG

Management Report and Group Management Report

2005

USU SOFTWARE AG

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Management Report and Group Management Report for 2005
USU Software AG, Möglingen

Overall economic development

Over the year, the economic upswing in the European target market of USU Software AG remained muted. The high oil price and modest development of the disposable income were mainly responsible for dampening domestic demand in the Euro zone. In addition, investments increased only slightly, notwithstanding the low level of interest up to the middle of the year. In contrast, there was a noticeable recovery in Europe in the second half of 2005, which was partly the result of a strong export business. According to forecasts by the ifo Institut, average GDP growth over the year in the member states of the European Union (EU) amounted to 1.6 %, compared to 2.4 % in 2004.

The German economy also profited from the dynamic global economy in the second half of 2005, which had a positive effect on demand from abroad. After a reserved first six months, the economic recovery was reflected in the subsequent quarters by an increased tendency of businesses to invest, owing to improved profit prospects. At the same time however, private consumer expenditure remained low, as a result of uncertain income and employment prospects. Consequently, German GDP increased in 2005 by 0.9 %.

Development of the industry

The IT industry was a key growth engine of the overall European economy in 2005. According to figures from the European Information Technology Observatory (EITO), growth in the market volume of information technologies in Europe was above average at 3.7 % (PY: 3.0 %). After the reluctance to invest in previous years, IT providers benefited in particular from the necessary modernization of companies' and organizations' existing IT infrastructures. Growth in software and IT services was particularly strong. While the European software market for system and user programs rose by 4.8 % (PY: 4.4 %), EITO estimates that sales of IT services in Europe increased by 4.6 % (PY: 3.6 %).

In Germany, the IT market also grew in 2005 by over 3 %. While EITO forecasts an increase in German IT sales of 3.3 % (PY: 1.8 %), the Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (BITKOM) predicts a growth rate of 3.1 % (PY: 1.6 %). Both EITO and BITKOM agree that software providers and IT service providers were the major beneficiaries of companies' increased expenditure in the German IT market.

Business development

Over the 2005 fiscal year, USU Software AG and its subsidiaries (hereinafter “USU Group” or “USU”) registered a significant increase in the willingness of companies to invest in the products and services of the Group as a whole. Thanks to the target-oriented development and market launch of new product lines, the expansion of the portfolio following the acquisition of Omega Software GmbH (“OMEGA”), and the extension of the national and international partner network, USU laid the foundations for the successful business development at the start of 2005. As a result, license revenues increased significantly in the second half of the reporting period. This positive performance can be attributed to the Company’s own license agreements for existing and new customers plus important successes in the partner business. Highlights were the successful implementation of international projects for renowned companies such as the Italian Railways, Italian Post Office, Athens Airport and the new Bangkok Airport.

The consulting and service business developed very satisfactorily throughout the 2005 fiscal year, proving once more to be a key pillar of the Group. As a result of increasing orders, the USU Group began in the 2005 fiscal year to integrate employees of the Czech Group subsidiary USU Software s.r.o. into national and international consulting projects, to be able to react more flexibly to the order situation. If required, USU also makes use of external consulting resources in order to ensure a consistently high utilization of employed consultants. By minimizing unproductive capacities, the USU Group responded to the threat of falling profits as a result of sustained price competition in the consulting business.

Despite an intensification of sales and marketing activities as well as of research and development work, the cost base only increased moderately compared to sales, which increased the sales margin accordingly. The acquisition of OMEGA also had a positive effect on sales and earnings. The company’s financial data were consolidated in these financial statements with effect from February 23, 2005.

Overall, the USU Group achieved a positive operating result and a significant increase in the net profit. The Company’s defined objectives for the reporting year were thus successfully attained.

Development of sales and costs

Group sales

In fiscal 2005, the USU Group increased Group sales by 11.6 % or EUR 2,175 k over the previous year to EUR 20,861 k (PY: EUR 18,686 k). This increase was mainly the result of organic growth and the acquisition in February 2005 of OMEGA, with a consolidated sales contribution of EUR 1,527 k.

At EUR 15,668 k (PY: EUR 13,658 k) or 75.1 %, the consultancy business made the biggest contribution to Group sales. Software licenses, mainly comprising license revenues for the USU products Valuemation and KnowledgeMiner, contributed a total of 12.9 % or EUR 2,690 k (PY: EUR 2,587 k) to the USU Group sales. Maintenance income in the reporting period totaled EUR 2,277 k (PY: EUR 1,898 k), a consolidated sales contribution of 10.9 %. The remaining sales proceeds amounted to EUR 226 k (PY: EUR 633 k) or 1.1 % of Group sales and consist principally of merchandise.

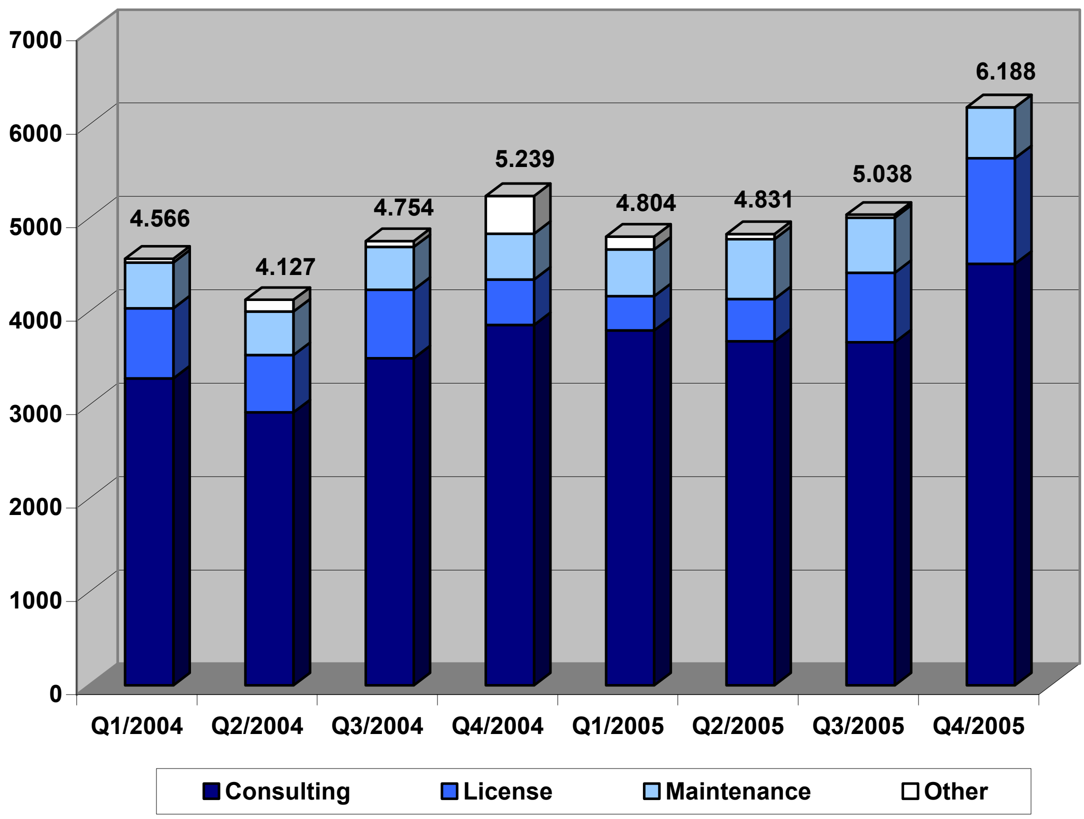

Diagram: Quarterly sales development in EUR k for fiscal 2004 and 2005 as per IFRS

The proportion of consolidated sales of the USU Group outside Germany rose in the reporting period to 11.3 % (PY: 8.8 %). Thanks to the expansion of the international partner network and the strengthening of collaboration, the proportion of foreign Group sales across USU exceeded 10 % for the first time in fiscal 2005.

Sales by segment

Sales in Business Solutions increased over the previous year by 14.5 % to EUR 11,603 k (PY: EUR 10,136 k). This segment benefited from the increased willingness of businesses and public organizations to invest. Along with IT consulting and project support, USU generated numerous orders in the knowledge-driven solutions business with the further developed product USU KnowledgeMiner and the new products KnowledgeMiner Executive Edition and SolutionBase. As a result of the continued high productive utilization of employed consultants, freelance employees were used when required in fiscal 2005 and Czech employees were deployed for various consulting projects. The USU Group also began to employ additional staff in this segment.

The IT Management Solutions segment generated an increase in sales of 8.2 % to EUR 9,216 k (PY: EUR 8,516 k). As well as successful USU projects, the external company acquisition of OMEGA and the orders generated by USU partners had a particularly positive impact on the development of this segment. The licensing business performed especially well following the launch of the new version 3.0 of Valuemation in the second half of fiscal 2005.

Sales not assigned to the segments rose slightly from EUR 34 k in 2004 to EUR 42 k.

Operating costs

In the reporting period, function-related expenditure for the Group subsidiary USU Software s.r.o. was no longer centrally posted to the research and development items, but according to their origin. The previous year’s figures were adjusted accordingly in this respect. In total, operating function costs increased only moderately compared to the increase in sales by 4.3 % or EUR 850 k to EUR 20,745 k (PY: EUR 19,896 k).

The ***cost of sales*** increased in fiscal 2005 by EUR 556 k to EUR 13,125 k (PY: EUR 12,569 k). This includes staff costs totaling EUR 5,604 k (PY: EUR 5,675 k) and fees for freelance staff and material costs amounting to EUR 7,521 k (PY: EUR 6,894 k). Primarily due to the deployment of employees from the Czech subsidiary USU Software s.r.o. in various projects, the increase in sales costs was below average compared to the development of consulting revenues. Accordingly, ***gross income from sales*** increased by EUR 1,619 k to EUR 7,736 k (PY: EUR 6,117 k) in the reporting period.

Marketing and selling expenses reduced slightly in fiscal 2005 by EUR 155 k to EUR 2,726 k (PY: EUR 2,881 k). At EUR 1,812 k (PY: EUR 1,832 k), the proportion of staff costs remained virtually unchanged. Material costs totaled EUR 914 k (PY: EUR 1,048 k) and contained significantly reduced advertising costs and costs for trade fairs and events. The reduction of this expenditure item reflects the measures introduced in 2004 to focus marketing activities on direct marketing. The USU Group launched a product and marketing offensive in this respect in fiscal 2005 for the new versions of the Company-developed software products Valuemation and USU KnowledgeMiner with extended online service offers. The marketing activities were rounded off by USU-specific events and attendance at selected IT trade fairs and events. The partner business was also supported by selected national and international events.

General administrative expenses increased compared to 2004 by EUR 432 k to EUR 2,486 k (PY: EUR 2,054 k). At EUR 1,443 k (PY: EUR 1,444 k), the proportion of staff costs was virtually the same as the previous year's level. At the same time, material costs increased from EUR 610 k in 2004 to EUR 1,043 k in fiscal 2005. This was partly the result of a tax refund and other special factors that had led to a reduction in this expenditure item in 2004. The material costs contain principally stock exchange costs, legal and consulting costs, fees for external services and insurance costs.

Research and development expenses increased slightly from EUR 2,392 k in 2004 to EUR 2,408 k in fiscal 2005. Following the expansion of the development team from 61 employees as at December 31, 2004 to 65 at the end of 2005, the proportion of staff costs rose compared to the previous year to EUR 1,856 k (PY: EUR 1,683 k). As a result of lower depreciation and a reduction in external services, material costs declined in the reporting period to EUR 552 k (PY: EUR 709 k).

The net figure for ***other operating income and expense*** totaled EUR 148 k in fiscal 2005 (PY: EUR 49 k) and includes income from writing back provisions.

Earnings situation

As a result of the clear sales expansion generated by organic and acquisitional growth on the one hand and the comparatively moderate cost trend on the other, the USU Group achieved a positive ***earnings before interest, taxes and depreciation (EBITDA)*** figure for the first time in fiscal 2005 of EUR 974 k (PY: EUR -499 k). If write-downs of EUR 710 k (PY: 662 k) are included, the Company recorded an improvement in ***earnings before interest and taxes (EBIT)*** of EUR 1,425 k to EUR 264 k (PY: EUR -1,161 k).

The special distribution to shareholders of USU Software AG in February 2005 totaling EUR 34,206 k reduced the interest income accordingly in the subsequent period. Consequently, the cumulative ***interest income*** during the reporting period of EUR 544 k (PY: EUR 1,687 k) was below the previous year's figure. However, ***earnings before taxes (EBT)*** exceeded the 2004 figure, owing to the positive operational business development of EUR 808 k (PY: 526 k).

Thanks mainly to the capitalization of deferred tax assets on tax losses, the USU Group achieved a ***tax yield*** in the reporting period totaling EUR 240 k (PY: EUR -162 k).

At EUR 1,048 k (PY: EUR 364 k), the **consolidated net profit** increased by a total of EUR 648 k. This represents an improvement of 187.9 %.

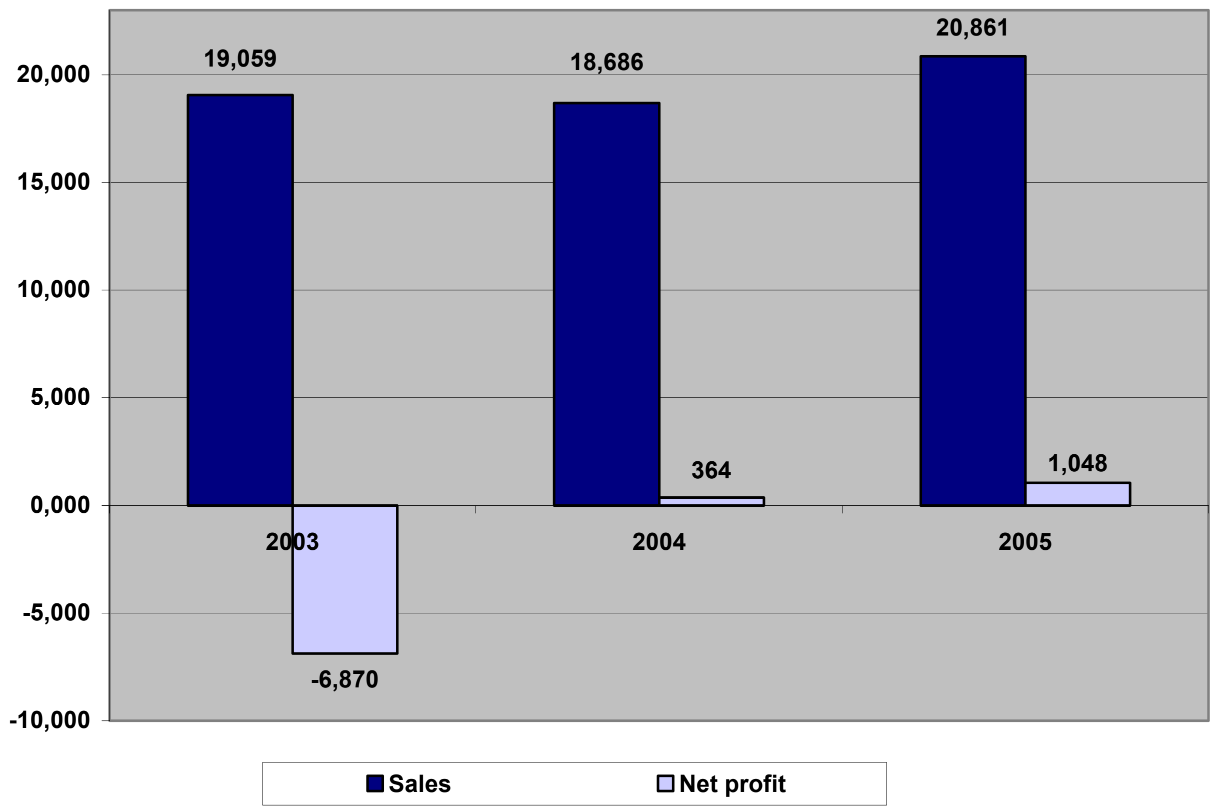

Diagram: Sales and earnings development since 2003 in EUR k

Although the average number of shares in circulation in the reporting period rose to 8,830,128 (PY: 8,551,643) no-par bearer shares, USU also significantly increased the ***earnings per share***. This tripled from EUR 0.04 to EUR 0.12 in fiscal 2005.

Assets and financial situation

To pay out the special distribution to shareholders of USU Software AG totaling EUR 34,206 k, the ***current assets*** were reduced to EUR 22,880 k (December 31, 2004: EUR 56,356 k), primarily due to the sale of securities. ***Marketable securities*** reduced accordingly to EUR 5,908 k (December 31, 2004: EUR 40,088 k). The ***cash on hand and bank balances*** at December 31, 2005 amounted to EUR 9,813 k (PY: EUR 7,771 k). After the cash distribution, liquid funds and cash equivalents totaled EUR 15,721 k at the end of fiscal 2005 (PY: EUR 47,859 k).

At the end of fiscal 2005, ***receivables and other assets*** totaled EUR 6,371 k (December 31, 2004: EUR 7,812 k). While ***trade receivables*** declined to EUR 4,103 k (PY: EUR 4,613 k), ***other current assets*** reduced sharply from EUR 1,368 k at December 31, 2004 to EUR 387 k at the end of the reporting period. This decline reflects mainly the sale of securities and the associated loss of interest accrued for these capital investments. ***Non-current assets*** increased in the reporting period to EUR 20,106 k (December 31, 2004: 17,099 k), mainly due to the increase in ***goodwill*** to EUR 17,674 k (December 31, 2004: 14,938 k) following the takeover of OMEGA.

Under the OMEGA acquisition, which was partly financed by the capital increase in return for a contribution in kind from authorized capital, the ***subscribed capital*** of the USU Group increased further to EUR 9,135 k (December 31, 2004: EUR 8,606 k) and the ***capital reserve*** to EUR 49,192 k (December 31, 2004: EUR 47,601 k). At the same time, the ***balance sheet loss*** reduced from EUR 22,250 k as at December 31, 2004 to EUR 21,206 k at the end of the reporting period, thanks to the net profit generated in fiscal 2005. ***Equity*** increased to a total of EUR 36,092 k (December 31, 2004: EUR 33,145 k). ***External capital*** declined following the payment of the distribution amount, which was posted in 2004 as a liability, from EUR 40,310 k at year-end 2004 to EUR 6,894 k at December 31, 2005. With a balance sheet total of EUR 42,986 k (December 31, 2004: EUR 73,455 k), the equity ratio increased at the end of fiscal 2005 to 84.0 % (December 31, 2004: 45.1 %).

Cash flow and investments

The development of ***cash flow from ordinary activities*** reflects in particular the improvement in the consolidated result of the USU Group and the decline in receivables. Consequently, net revenue from ordinary activities increased from EUR 620 k in 2004 to EUR 2,665 k in the reporting period.

There was a positive ***cash flow from investment activities*** in fiscal 2005 of EUR 33,591 k (PY: EUR -440 k). Income from the sale and the maturity of securities of EUR 48,658 k (PY: EUR 3,321 k) was offset by new investments in the reporting period in low-risk, short-term securities totaling EUR 14,164 k (PY: EUR 3,422 k). The total funds released were principally used for the cash distribution to shareholders of USU Software AG in February 2005. Expenditure of the USU Group net of cash received in fiscal 2005 amounted to EUR 738 k, mainly due to the acquisition of OMEGA, while the subsequent acquisition payments for the complete acquisition of the Group subsidiary USU AG in 2004 amounted to EUR 12 k. Investment in fixed assets and other intangible assets totaled EUR 174 k (PY: EUR 350 k) in fiscal 2005 and involved principally the acquisition of new hardware and software.

Cash flow from financing activities in fiscal 2005 was entirely attributable to the special distribution. Net expenditure in the reporting period totaled EUR 34,206 k (PY: EUR 65 k).

In total, the liquid funds of the USU Group in the reporting period increased by EUR 2,042 k (PY: EUR 115 k) to EUR 9,813 k (PY: EUR 7,771 k).

Orders on hand

The orders on hand of the entire USU Group at the end of fiscal 2005 amounted to EUR 6,021 k (PY: EUR 4,448 k), i.e. EUR 1,573 k above the 2004 value. This includes firm orders of EUR 848 k of Omega Software GmbH acquired in February 2005.

The year-end order book as at the reporting date shows the USU Group's fixed future sales based on binding contracts that are already in place. It primarily comprises project related orders as well as maintenance agreements.

Collaborations and internationalization

The USU Group pursues a strategy of tapping new sales markets by acquiring strategic partners at home and abroad. In this area, USU purposefully expanded its partner network in fiscal 2005.

In the IT Management Solutions segment, the USU Group collaborated with EDS Global Field Services, a subsidiary of the globally active EDS Group. With a headcount approaching 11,000, EDS GFS is responsible for over 10.5 million IT systems in 45 countries around the world. Using a reseller and service agreement, EDS GFS markets the Valuemation product suite in the EMEA (Europe, Middle East and Africa) sales region, managing design services, implementation, customizing, and support for the joint customers. The partnership produced several new Valuemation customers in 2005.

In Italy, USU collaborates with DATAMAT SpA, Rome, and EVOCA srl, Orvieto. On the basis of a marketing and service partnership, DATAMAT and EVOCA will accelerate the marketing of Valuemation. With the Italian Railways (Ferrovie dello Stato) and Italian Post Office (Poste Italiane), the country’s two biggest companies have already opted for Valuemation.

USU has formed a partnership with Belgian IT service provider CRBS, Antwerp, to market Valuemation and manage customer services in the Benelux countries (Belgium, the Netherlands, Luxembourg). CRBS also offers one-stop services from product implementation and integration through consulting and training.

In Business Solutions, the USU Group has formed collaborations with BTB GmbH and LIS.TEC GmbH. Together with BTB and LIS.TEC, USU has set up a partnership alliance under the name of BLU-Team, with a view to jointly offering a broad and professional solution portfolio based on IBM products. This offering will be enhanced by the partners’ own products, such as USU KnowledgeMiner.

Research and development

The core R & D activities of the USU Group in fiscal 2005 focused on further developing the established Group products and on extending the product portfolio.

In the IT Management Solutions segment, the USU Group achieved a key milestone with the market launch of version 3.0 of Valuemation. Valuemation offers all core products and modules needed to present, administer and manage the entire IT assets of a company or group and to allocate the costs involved per user on one platform. As part of our drive to expand our international presence, Valuemation is now available in three different languages. As a result, further development activities for Valuemation are focusing on customer-driven functionality enhancements and extending the reporting capability. As well as Valuemation, following the acquisition of OMEGA and the INSEL software product, the USU Group now has a second one-stop solution in IT Management Solutions, which is aimed primarily at SMEs and the public sector. The main development activities for INSEL were the new modules for cable and risk management as well as interface enhancement.

The research and development activities in Business Solutions concentrated on further developing the USU KnowledgeMiner product and developing new solutions based on this software. For management teams, USU developed its own edition of USU KnowledgeMiner with special functions for automated information supply. The KnowledgeMiner Executive Edition provides simple and comprehensive access to all the relevant information from any internal and external data sources. The aim of the new solution management software is to ensure the provision of solutions in the required quantity, quality and actuality. The USU SolutionBase is particularly suited to the solution management requirements of call centers and service desks.

So that we can also offer our customers products and solutions based on the latest technology in the future, the USU Group constantly and systematically investigates the use of new technologies. USU also designs its own innovations in its ongoing drive to improve and expand its product portfolio.

Total research and development expenses in fiscal 2005 across the Group amounted to EUR 2,408 k (PY: EUR 2,392 k). All research and development expenses were expensed as in previous years and not capitalized.

Employees

As at December 31, 2005, the USU Group employed 199 (PY: 189) staff. This figure does not include both members of the USU Management Board, 48 freelance staff (who are used for project work when required), and 3 apprentices. The absolute increase in staff numbers was largely the result of the acquisition of OMEGA Software GmbH, which involved the addition of 12 employees in February 2005.

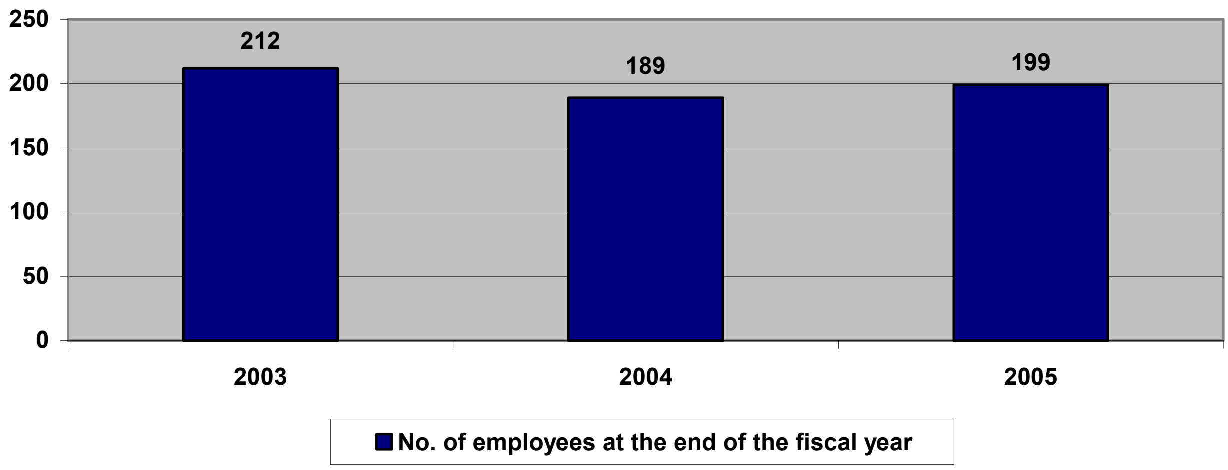

Diagram: The USU Group's employee development since 2003

Broken down by functional unit, 84 employees were employed in consulting and services, 65 in research and development, 23 in sales and marketing and 27 in central administration and finance.

Broken down by segment, the USU Group had 129 staff working in IT Management Solutions, 50 in Business Solutions, and 20 in central administration and finance.

The average total headcount of the USU Group in fiscal 2005 was 197 (PY: 189) employees. Personnel expenses in the reporting period totaled EUR 10,715 k (PY: EUR 10,634 k). As a result, the personnel costs ratio was 51.4 % (PY: 56.9%) of Group sales.

The USU Group plans to expand its workforce further in fiscal 2006. As well as acquiring new employees, motivating and committing existing staff is of vital importance. The USU Group is therefore constantly investing in the research and training of its employees. For example, training measures were continued as required in 2005 under the Group-wide Value Academy, USU's career plan and personal development model. The focus was on specialist themes and on developing soft skills. Numerous staff events rounded off the range of measures to promote and motivate the USU Group's staff in the long term.

Transactions of key importance

Acquisition of Omega Software GmbH

Effective February 23, 2005, USU Software AG purchased all shares in OMEGA. With the OMEGA takeover, USU strengthened its market position through the complementary portfolio and the expansion of the target market, particularly in the public sector and SMEs. An important business area of OMEGA is providing services and marketing products in IT service management. Thanks to the expanded portfolio, the USU Group is now even better equipped to optimize the strategic use of IT. The stake in OMEGA therefore means that the Company's shareholder value will be increased on a sustained basis. OMEGA will continue as an independent unit under the same management as before. Please also refer to ***Changes in the Group's organization*** in the consolidated notes to this annual report.

Capital increase in return for a contribution in kind

For the takeover of OMEGA, there was a capital increase in return for a contribution in kind from authorized capital effective June 23, 2005. In this respect, the subscribed capital increased by EUR 529,411, while the authorized capital was reduced by the corresponding amount. At the same time, the capital reserve increased by EUR 1,591 k. The subscription rights of the shareholders were excluded, as capital increases with contribution in kind are intended to acquire companies or stakes in companies.

Cash distribution

On February 18, 2005, the shareholders resolved in favor of a special distribution effective July 15, 2004 for EUR 4.00 per share to acquire the shares entitling distribution. The total distribution amount was EUR 34,206 k.

Corporate Governance

Corporate Governance encompasses the essential standards for the transparent and value-oriented management and control of listed companies. These standards were worked out by the Government Commission on the German Corporate Governance Code and summarized as recommendations to be implemented in the Corporate Governance Code (the "Code"). The Code came into force in 2002 and was last updated in 2005.

Pursuant to Article 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a listed company must make an annual declaration as to how far these recommendations have been and will be complied with.

The Management Board and Supervisory Board of USU Software AG have made an emphatic commitment to implementing the major recommendations of the Code and submitted the corresponding declaration on December 12, 2005. As in the previous year, the significant points of the Code were and will be implemented with a few exceptions. Both the current declarations and those of previous years are available at any time on the homepage of the company under http://www.usu-software.de.

The USU share (ISIN DE000A0BVU28)

As at December 31, 2005 9,135,004 (PY: 8,605,593) no-par bearer shares of USU Software AG had been issued with an imputed share in subscribed capital of EUR 1.00. Of these, 0.6 % or 53,950 shares were imputed to be held by the Company. The increase in the number of shares and/or subscribed capital was the result of a capital increase in return for a contribution in kind from authorized capital to partly finance the external company purchase of Omega Software GmbH.

The shares of USU Software AG are listed on the Prime Standard of the Frankfurt Stock Exchange and on Gate-M of the Baden-Württemberg Stock Exchange under securities identification number A0BVU2 and International Securities Identification Number (ISIN) DE000A0BVU28 and are authorized for trading on the regulated market of these stock exchanges.

The performance of the USU share in fiscal 2005 was dominated by the special distribution to shareholders of EUR 4.00 per share. During this cash distribution, the Company share was traded "ex capital repayment". The price of the USU share reflects this distribution: After finishing at EUR 7.44 at year-end 2004, the closing price of the USU share on December 31, 2005 stood at EUR 3.45 on the Xetra electronic trading system.

Supplementary report

There were no transactions of key importance after balance sheet date December 31, 2005 that had a significant effect on the development of business of USU Software AG and the Group as a whole. In this respect, there were no major changes to the asset, financial and earnings situation of the Company or Group.

Report on links with associated companies and related parties

In line with Sec. 312 of the German Stock Corporation Act, the Board of Management at USU Software AG submitted a related parties report with the following concluding declaration: “We declare that our Company, in line with the circumstances which were known to us at the relevant point in time at which legal transactions were undertaken, received an appropriate counterperformance for each legal transaction. Measures detrimental to our Company were not taken.”

Development and situation of USU Software AG

All the following figures relate to the individual financial statements of USU Software AG in accordance with HGB.

In fiscal 2005, USU Software AG focused primarily on participation transactions. As a result, the company did not generate any sales in the reporting period, as in the previous year.

Other operating income of EUR 593 k (PY: EUR 634 k) mainly contains income from writing back provisions and cost allocation within the Group companies as well as book profits from sales of securities.

Personnel expenses increased compared to the previous year to EUR 244 k (PY: EUR 74 k). Two employees were transferred from the Group subsidiary USU AG to USU Software AG, increasing the number of staff responsible for the administration of the Company and for providing support to the Group subsidiaries to three (PY: one) as at the end of fiscal 2005. Also included in personnel expenses for the first time as a result of the change to the employment contract was the remuneration of the Management Boards Spokesperson.

Other operating expenses of EUR 794 k (PY: EUR 839 k) primarily relate to stock exchange costs and costs for investor relations, legal and consultancy fees and the cost of services utilized.

The income from profit transfer agreements of EUR 98 k consists exclusively of the profit of the Omega Software GmbH in the period from October 1 through December 31, 2005. On May 19, 2005, USU Software AG concluded a profit transfer agreement with OMEGA, under which OMEGA is obliged from October 1, 2005 to transfer its entire profit to USU Software AG for at least five years. At the same time, USU Software AG undertakes to offset every net loss made by OMEGA during the contract period that cannot be offset by removing reserves accumulated during the contract period.

Net interest income including write-downs on securities amounted to EUR 194 k (PY: EUR 1,358 k) and mostly contains income from investing the Company's resources. As a result of the special distribution on February 18, 2005 to the Company's shareholders of EUR 34,206 k in total, this net interest income was considerably lower than in 2004. Consequently, the profit of USU Software AG in fiscal 2005 of EUR -153 k (PY: EUR 1,082 k) was, in total, below that of 2004.

There were major changes to the balance sheet items in fiscal 2005 as a result of the special distribution to USU Software AG shareholders.

On the assets side of the balance sheet, the cash distribution is reflected in a reduction of the fixed and current assets. To finance the payment of the distribution amount of EUR 34,206 k in total, securities were sold at the beginning of the reporting year. Consequently, financial assets reduced from their 2004 figure of EUR 31,804 k to EUR 11,504 k at December 31, 2005, and marketable securities declined from EUR 15,981 k at December 31, 2004 to EUR 3,119 k at the end of fiscal 2005.

Receivables and other assets reduced to EUR 1,912 k (December 31, 2004: EUR 4,479 k). This was partly the result of the repayment of the loan to the Group subsidiary USU AG plus interest of EUR 2,058 k in total. Cash and cash equivalents therefore increased to EUR 7,219 k (December 31, 2004: EUR 5,588 k).

On the liabilities side, liabilities reduced following the special distribution to EUR 343 k (December 31, 2004: EUR 34,673 k). Including provisions of EUR 385 k (December 31, 2004: EUR 522 k), total external capital amounted to EUR 728 k (December 31, 2004: EUR 35,195 k).

Equity increased compared to 2004 to EUR 23,033 k (PY: EUR 22,657 k), primarily due to the increase in subscribed capital. Under the OMEGA acquisition, which was partly financed by the capital increase in return for a contribution in kind from authorized capital, the subscribed capital of the USU Group increased by EUR 529 k to EUR 9,135 k (PY: EUR 8,606 k).

Following the sharp reduction in liabilities, the equity ratio rose from 39.2 % at December 31, 2004 to 96.9 % at the end of fiscal 2005.

In future, USU Software AG's focus on participation transactions will make the company very dependent on the performance of its subsidiaries, particularly USU AG. Attention is drawn to the Group risk report with regard to the risks associated therewith.

Risk report

The systematic management of risks and opportunities is crucial to the Company's success. During the course of its operational activities, USU Software AG and its subsidiaries are exposed to an array of risks and opportunities, which are intrinsically tied to its managerial dealings. To identify, evaluate, manage, and tackle these risks, the USU Group management operate a central risk management system. The aim of this system is to ensure a Group-wide awareness of risk in the corporate and organizational structure of the USU Group. To map risks within the Group individually, the Group uses the Valuemation Risk Manager software, a module of its internally developed Valuemation suite.

The process of risk management begins with the identification and recording of relevant risks by the Management Board, the management team and the relevant department manager. Risks are documented and assessed with regard to the potential loss they may generate and the likelihood of their occurring. A risk matrix visualizes and classifies the results and, depending on the risk classification inferred, specific strategies are then implemented to manage and tackle risk.

All activities are summarized in a risk report by the company's Risk Manager. On the basis of this report the Management Board and management team monitor risks continuously and advise the Supervisory Board regularly on major risks and on changes to risks.

It is clear from the company's risk report that there are no risks that might pose a threat to the company's continued existence either currently or in the foreseeable future. Nevertheless, the Management Board of USU Software AG cannot guarantee that several risks whose cumulative impact might pose a threat to the company's existence might not impact on the assets, liabilities, financial position or results of operations of the Company. The risks that are classified as grave as part of the risk management or which could have a material effect on the company's net assets, financial position or results or operations are listed below:

Market risks and competitive risks

USU Software AG operates as a software and IT company in a market which has changed dramatically in recent years when the economy has been sluggish. While the IT market in the core German market of the USU Group achieved annual growth rates of up to 11.6 % up to 2000, growth slumped in subsequent years and was negative in 2002 and 2003. The market has recovered again since 2004 and BITKOM estimates that it will put on 3.4 % in 2006.

The sharp fall in demand since 2000 has led to increasing downward pressure on prices and a fight for survival. In addition, major software companies are trying to expand their own product range and open up new markets through diversification and acquisitions. Changing customer requirements are leading to ever-shorter innovation and development cycles.

USU Software AG has reacted to these changes and expanded its portfolio and the target market of the IT Management Solutions segment of the Group as a whole through the takeover of Omega Software GmbH. With the IT Management Solutions and Business Solutions segments, the USU Group as a niche provider for knowledge driven solutions is concentrating on promising future issues within information technology. Its long-standing relationships with and proximity to its customers also allow the USU Group to look at their respective problems more flexibly and provide more individual solutions.

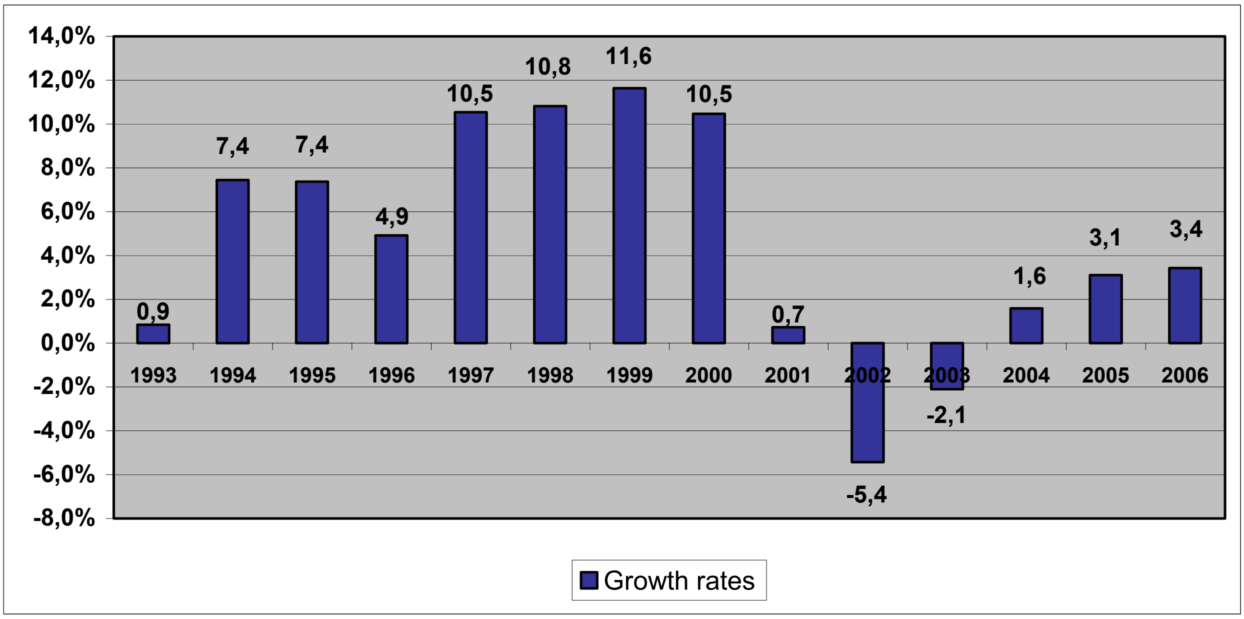

Diagram: Development of the IT market in Germany in percentages

Thanks to the specialist consulting knowledge of USU staff and the implementation of the Group's own products in customers' existing IT systems, it was possible to maintain the previous year's price structure for product and solution-related consulting services at an almost constant level. In contrast, price competition in the general consulting business remained high. The USU Group responded to the potential fall in profits in fiscal 2005 by integrating staff of the Group's Czech subsidiary USU Software s.r.o. in consulting projects, by deploying external consulting resources as required, and by further reducing unproductive capacities. Experience from the projects and feedback from the various customer events in the form of suggestions for improvement are immediately deployed for further developing the established software products as well as new products, thus building a foundation for new and follow-up business in the future.

Research and development risks

Increased competition and changing consumer attitudes have led to the necessity of reducing the development cycles for new product versions drastically in some cases and of including customer requirements in new releases very rapidly. At the same time, demands are increasing because of rapid, technological change.

To take account of this development, the USU Group continues its high level of research and development activities through its own development company in the Czech Republic. Around 50 employees work at continuously refining the Group's own software products in line with market developments and the demands of product management. The development process is rounded off with tests and quality management measures. Thanks to close contact with leading market analysts, any technical changes can be addressed rapidly. Thanks to its position at the cutting edge of technology, the USU Group also devises its own innovations to improve and extend its product portfolio.

Product, project-related and legal risks

The software developed and marketed by USU Software AG and its subsidiaries may, as with virtually any software, contain programming errors that may occur despite thorough checks and extensive tests. The resultant operational defects could lead to liability and warranty claims that may damage the USU Group.

The company's internally generated software is mainly used within the context of larger projects, where the company makes fixed, contractual commitments with regard to functionalities, development periods and project costs. There is a risk therefore that the planned timetable and cost estimates cannot be met because of product defects or faults in performance, which in turn may lead to claims for damages by the client or a loss being made on the order in question.

To avoid product and project risks of this kind, the USU Group has refined its internal quality management and project monitoring function. The Group is also covered by a third party liability insurance policy to minimize risk, which provides cover against damage to data, data media and implementations as well as damage arising from material defects caused by the lack of agreed quality from EUR 50 k to a maximum of EUR 5 million per claim.

Personnel and management risks

The successful implementation of corporate strategy and the entrepreneurial success of USU Software AG and its subsidiaries depend to a significant degree on the performance of its professional staff and management. The company is therefore particularly reliant on highly qualified personnel to satisfy future market demands and customer requirements. The loss of management staff or employees in key positions can be just as detrimental to the company as the failure to attract new experts. This is why the promotion of employees as required is of major importance to the USU Group. Specific educational and training measures, a career and personal development model as well as numerous employee events also serve to bind professional and management staff to the company. A positive corporate culture also helps to attract and retain newly qualified employees.

IT risks

As a software and IT company, USU Software AG is particularly dependent on the long-term functionality and security of its computer center, its networks and the respective IT systems. A complete or partial breakdown of the IT infrastructure, as well as unauthorized access to the source codes of internally generated software products, to customer and project documentation or to other critical data could have a negative impact on the Group's performance.

To avoid risks of this kind, an extensive risk prevention concept has been in place for several years to counter the IT risks facing the USU Software Group. This concept is integrated in the Group's risk management system.

Participation risks

USU Software AG is indirectly exposed to the risk environment of its various subsidiaries. The Company's relationships with its subsidiaries put it at risk from its legal and contractual contingencies. Another potential risk in this respect arises from the recoverable value of the participation in the newly acquired OMEGA. However, the risk relating to this subsidiary only exists if the asset, financial and earnings situation is permanently damaged.

In connection with the 100 % takeover of the Group subsidiary USU AG and the 2003 squeeze-out procedure, arbitration proceedings are pending on the appropriateness of the cash compensation paid to the USU AG shareholders. Based on the report created under the squeeze-out procedure and the subsequent audit of this report by the legally appointed competent auditor, the Management Board of USU Software AG assumes that the cash compensation paid to USU AG shareholders was appropriate.

Goodwill risks

Instead of scheduled amortization, goodwill in the consolidated balance sheet is now subject at least once a year to an impairment test. The result of the test can either result in confirmation of the reported goodwill or however in an unscheduled writedown that reduces the annual profit, which could have a negative effect on the asset, financial and earnings situation of USU Software AG.

The impairment test conducted on December 31, 2005 did not indicate any impairment loss to the assets assigned to this balance sheet item. Following the positive business performance of both Company segments, USU Software AG also expects the reported goodwill to be subsequently confirmed.

Bad debt risks

Potential bad debt risks from deliveries and services are minimized by an active debt management. Moreover, the Company makes an adequate provision against this risk in the balance sheet. Overall, therefore, the bad debt risk is limited.

Financial and liquidity risks

Even after the special distribution, with EUR 15 million USU Software AG still has extensive financial resources for future investments, potential acquisitions and to secure its operating business. These funds are currently deposited mainly in short-term investments to generate interest income. The Group is therefore exposed to the risk of a complete or partial loss of an investment or several investments.

To limit the risk of financial loss, the Group therefore invests primarily in low-risk investments with short terms to maturity. It does not make capital investments in speculative securities or shares.

Forecast report

General economy

The economic momentum is set to gather pace in the Euro zone in 2006. As a result of rising company profits, the ifo Institut anticipates an appreciable increase in investments. Consumption in Europe will also recover slightly. According to ifo projections, GDP growth in the 25 member states of the EU will amount to 2.2 % (2005: 1.6 %).

The prospects are also encouraging for the German economy. Here, ifo predicts that exports will continue to be the mainstay of the economy. Alongside expanding investment, the ifo Institute expects consumption to recover in 2006 as a result of the announced increase in sales tax in 2007. Over the year, the German GDP will increase by 1.7 % (2005: 0.9 %) on an unadjusted basis.

Industry

The IT industry will again contribute to global growth in the coming year. In Europe alone, EITO predicts an increase in IT market volumes of 4.2 % in 2006, after 3.7 % in the previous year. The IT services and software segments will enjoy above-average growth rates of 5.4 % and 5.0 % respectively.

For Germany, the German Association for Information Technology, Telecommunications and New Media (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V., BITKOM) expects total IT sales to increase by 3.3 % (2005: 3.1 %), with software and IT services again experiencing above-average growth at 5.0 % and 4.7 % respectively.

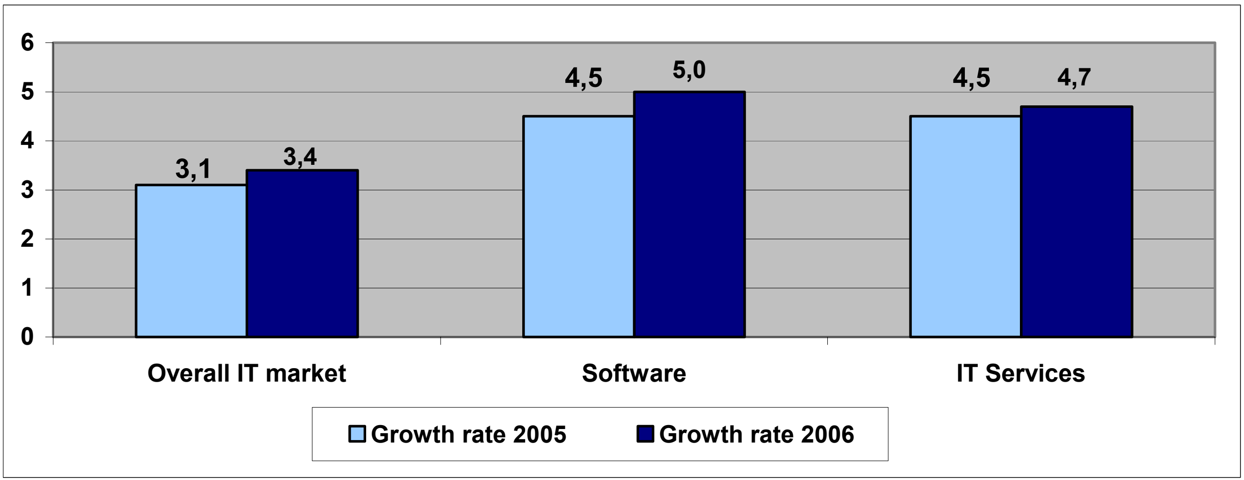

Diagram: Development of the IT market segments in Germany in percentages

Outlook

Taking into account the improvement in the general economy and the Company's successes in its licensing and consulting business, the Management Board of USU Software AG is looking forward to a positive performance in 2006. With regard to the forecasts however, it must be borne in mind that the actual results may differ significantly from the expectations for the potential development.

After the successful market launch of the new product versions Valuemation 3.0 and KnowledgeMiner 4.1, plus the related expansion of the product and solutions business in the second half of 2005, the Management Board anticipates a further increase in the high-margin license revenues in subsequent quarters. Additional contributions will come from the INSEL product suite of Omega Software GmbH, acquired in February 2005, and the new product developments KnowledgeMiner Executive Edition and SolutionBase.

A further success factor in 2006 will be the partnership business. After the clear rise in foreign sales in 2005, the Management Board of USU Software AG accordingly expects the USU Group to increase license revenues with domestic and foreign partners in 2006. To this end, the USU Group plans to expand its market presence both in and outside Europe.

In the consulting business, USU intends to increase its workforce and intensify the integration of employees of the Group's Czech subsidiary USU Software s.r.o. in national and international projects. The Management Board therefore anticipates that the high utilization of employed consultants will continue, and that the price will continue its steady development.

As in previous years, the Group subsidiary USU AG will be the principal mainstay of sales in the Group as a whole. The Management Board also expects the recently acquired OMEGA to have a positive effect on sales and profits in 2006. USU Software AG alone will again not conduct any operations in fiscal 2006 and will concentrate primarily on acquiring and holding participations in other companies. As a result, the success of USU Software AG will be heavily dependent on the success of its subsidiaries. The company will also realize interest income with its existing holdings of cash and cash equivalents.

For the reasons outlined above, therefore, the Management Board expects to generate an increase in Group sales above the market average in the coming years, together with an above-average profit improvement, both in the individual segments and in the Group as a whole. The Management Board is already planning for USU Software AG shareholders to participate in the Company's success for fiscal 2006 in the form of a dividend payment.

Möglingen, February 24, 2006

Bernhard Oberschmidt
Spokesperson for the Management Board

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USU Software AG, Möglingen

Consolidated Balance Sheet

A S S E T S

	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Assets			
Non-current assets			
Intangible assets	(11)	1,560	1,187
Goodwill	(12)	17,674	14,938
Property, plant and equipment	(13)	413	410
Other non-current assets		459	564
		20,106	**17,099**
Current assets			
Inventories		50	45
Work in process	(14)	531	501
Receivables and other assets			
Trade receivables	(15)	4,103	4,613
Income tax receivables	(16)	1,881	1,831
Other current assets	(17)	387	1,368
Prepaid expenses	(18)	207	139
Current investments	(19)	5,908	40,088
Cash on hand and bank balances	(20)	9,813	7,771
		22,880	**56,356**
		42,986	**73,455**

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

USU Software AG, Möglingen

Consolidated Balance Sheet

L I A B I L I T I E S

	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Equity and liabilities			
Equity	(21)		
Subscribed capital		9,135	8,606
Capital reserve		49,192	47,601
Legal reserve		4	0
Treasury shares		-714	-714
Other comprehensive income		-319	-98
Accumulated losses		-21,206	-22,250
		36,092	**33,145**
Non-current liabilities			
Pension provisions	(22)	561	422
		561	**422**
Current liabilities			
Provisions for income taxes		16	122
Personnel-related provisions and liabilities	(23)	1,849	1,751
Other provisions and liabilities	(24)	2,344	1,704
Liabilities to shareholders	(25)	0	34,206
Payments on account	(26)	553	281
Trade payables	(27)	864	1,056
Deferred income	(28)	707	768
		6,333	**39,888**
		42,986	**73,455**

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

USU Software AG, Möglingen

Consolidated Income Statement

	Note	2005 EUR k	2004 *) EUR k
Sales revenue	(30)	20,861	18,686
Cost of sales	(31)	-13,125	-12,569
Gross profit		**7,736**	**6,117**
Sales and marketing expenses	(32)	-2,726	-2,881
General administrative expenses	(33)	-2,486	-2,054
Research and development expenses	(34)	-2,408	-2,392
Other operating income	(35)	232	182
Other operating expenses		-84	-133
Result of ordinary operations (EBIT)		**264**	**-1,161**
Interest income	(36)	618	1,737
Interest expenses	(37)	-74	-50
Profit before tax (EBT)		**808**	**526**
Income taxes	(38)	240	-162
Net profit for the year		**1,048**	**364**
Earnings per share (in EUR):			
Basic and diluted		0.12	0.04
Weighted average number of shares outstanding:			
Basic and diluted		8,830,128	8,551,643

**) Adjusted previous year's values*

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

USU Software AG, Möglingen

Consolidated Statement of Accumulated Earnings

	Note	2005 EUR k	2004 *) EUR k
Actuarial losses from pension provisions	(22)	-244	-102
Currency translation difference		25	13
Unrealized profits/losses from market evaluation of securities	(19)	-2	16
Equity change not impacting income		**-221**	**-73**
Net profit for the year		**1,048**	**364**
Overall result		**827**	**291**

**) Adjusted previous year's values*

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

USU Software AG, Möglingen

Consolidated Statement of Cash Flow

	Note	2005 EUR k	2004 *) EUR k
Cash flow from ordinary operations:			
Result before income taxes and interest income		264	-1,161
Adjustments for:			
Depreciation and amortization		710	662
Income taxes paid/refunded		-253	-107
Interest received		1,624	2,068
Other non-cash income and expenses		159	19
Change in working capital:			
Inventories		-5	-45
Work in process		84	-3
Trade receivables		815	-322
Prepaid expenses and other assets		63	1,347
Trade payables		-192	135
Personnel-related provisions and liabilities and pensions provisions		-40	234
Other provisions and liabilities		-564	-2,207
Net cash flow from ordinary activities	(40)	**2,665**	**620**
Cash flow from investing activities			
Business acquisitions less cash and cash equivalents acquired	(41)	-738	-12
Capital expenditure in property, plant and equipment		-141	-266
Capital expenditure in intangible assets		-33	-84
Sales of non-current assets		9	23
Sale of held-to-maturity securities		26,523	3,000
Sale of available-for-sale securities		22,135	321
Investments in held-to-maturity securities		-9,923	0
Investments in available-for-sale securities		-4,241	-3,422
Net cash flow from investing activities		**33,591**	**-440**

**) Adjusted previous year's values*

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

USU Software AG, Möglingen

Consolidated Statement of Cash Flow

	Note	2005 EUR k	2004 *) EUR k
Cash flow from financing activities			
Distribution to shareholders	(42)	-34,206	0
Costs of capital reduction		0	-65
Net cash flow from financing activities		**-34,206**	**-65**
Difference from currency translation of cash and cash equivalents		**-8**	**0**
Net decrease/increase of cash and cash equivalents		**2,042**	**115**
Cash and cash equivalents at January 1		**7,771**	**7,656**
Cash and cash equivalents at December 31		**9,813**	**7,771**

**) Adjusted previous year's values*

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

USU Software AG, Möglingen

Consolidated Statement of Changes in Equity

	Subscribed capital Number of shares	Subscribed capital EUR k	Capital reserve EUR k	Legal reserve EUR k	Treasury shares EUR k	Accumulated losses *) EUR k
Consolidated equity at January 1, 2004	**17,211,186**	**17,211**	**137,730**	**0**	**-714**	**-87,077**
Capital increase	0	35,300	-35,300	0	0	0
Capital reduction	0	-43,905	9,699	0	0	0
Share reduction at a ratio of 2 : 1	-8,605,593	0	0	0	0	0
Loss carryforward offset against capital reserve	0	0	-64,463	0	0	64,463
Costs of capital reduction	0	0	-65	0	0	0
Net profit for the year	0	0	0	0	0	364
Unrealized gains/losses on marketable securities, net	0	0	0	0	0	0
Non-income-impacting treatment of actuarial losses	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0
Consolidated equity at December 31, 2004	**8,605,593**	**8,606**	**47,601**	**0**	**-714**	**-22,250**
Capital increase	529,411	529	1,591	0	0	0
Net profit for the year	0	0	0	0	0	1,048
Unrealized gains/losses on marketable securities, net	0	0	0	0	0	0
Non-income-impacting treatment of actuarial losses	0	0	0	0	0	0
Transfer to legal reserve	0	0	0	4	0	-4
Currency translation differences	0	0	0	0	0	0
Consolidated equity at December 31, 2005	**9,135,004**	**9,135**	**49,192**	**4**	**-714**	**-21,206**

**) The previous year's values were adjusted based on the retrospective application of IAS 19 (2004). Please refer to the consolidated notes under "2. New Accounting Policies to be Applied Voluntarily".*

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

USU Software AG, Möglingen

Consolidated Statement of Changes in Equity

	Other comprehensive income			
	Currency translation EUR k	Securities measured at fair value EUR k	Actuarial losses (IAS19)*) EUR k	Total EUR k
Consolidated equity at January 1, 2004	**0**	**-25**	**0**	**67,125**
Capital increase	0	0	0	0
Capital reduction	0	0	0	-34,206
Share reduction at a ratio of 2 : 1	0	0	0	0
Loss carryforward offset against capital reserve	0	0	0	0
Costs of capital reduction	0	0	0	-65
Net profit for the year	0	0	0	364
Unrealized gains/losses on marketable securities, net	0	16	0	16
Non-income-impacting treatment of actuarial losses	0	0	-102	-102
Currency translation differences	13	0	0	13
Consolidated equity at December 31, 2004	**13**	**-9**	**-102**	**33,145**
Capital increase	0	0	0	2,120
Net profit for the year	0	0	0	1,048
Unrealized gains/losses on marketable securities, net	0	-2	0	-2
Non-income-impacting treatment of actuarial losses	0	0	-244	-244
Transfer to legal reserve	0	0	0	0
Currency translation differences	25	0	0	25
Consolidated equity at December 31, 2005	**38**	**-11**	**-346**	**36,092**

**) The previous year's values were adjusted based on the retrospective application of IAS 19 (2004). Please refer to the consolidated notes under "2. New Accounting Policies to be Applied Voluntarily".*

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

Consolidated Notes for the 2005 Fiscal Year

USU Software AG, Möglingen

A. THE COMPANY

The parent of the Group, USU Software AG, has its registered offices in Spitalhof, 71696 Möglingen, Germany and has been registered since the beginning of 2006 in the commercial register of the district court of Stuttgart (previously in the district court of Ludwigsburg), Dept. B, no. 206442. USU Software AG and its subsidiaries (the "Group") develop and market holistic software solutions in two business segments – IT Management Solutions for management and controlling of IT costs and Business Solutions for optimizing knowledge-intensive core processes within companies.

The Group comprises subsidiaries in Germany, Switzerland and the Czech Republic. The Group also maintains a permanent establishment in Austria. The customers of the Group are mainly based in Germany in the fields of financial services, telecommunications, automobile and consumer goods, services and trade as well as the public sector.

The Company is listed in the Prime Standard segment of the Frankfurt Stock Exchange as well as in the Gate-M segment of the Baden Württemberg Stock Exchange.

B. ACCOUNTING AND MEASUREMENT PRINCIPLES

1. Important accounting policies

The consolidated financial statements were prepared as per Sec. 315 of the German Commercial Code according to the International Financial Reporting Standards (IFRS) valid on balance sheet day as issued by the International Accounting Standards Boards (IASB), London. In the previous year, the Company had already prepared the consolidated financial statements in accordance with IFRS, thus making use of the exempting provisions contained in Sec. 292 a of the German Commercial Code, which has since been deleted.

This involved observing all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) applicable as of the balance sheet date and the corresponding interpretations of the IASB (International Financial Reporting Interpretations Committee (IFRIC) – formerly known as the Standing Interpretations Committee (SIC)). The financial statements of consolidated subsidiaries have all been uniformly prepared in accordance with IFRS.

The consolidated financial statements have been prepared in euro. All figures in the consolidated financial statements are shown in thousand euro ("EUR k") except for figures pertaining to shares. The balance sheet date is December 31.

The consolidated financial statements have been prepared on the basis of the historical cost convention apart from financial assets held-for-trading or classified as available for sale. These are reported at fair value.

On February 24, 2006, the Management Board released the consolidated financial statements to the Supervisory Board.

2. New accounting standards to be applied voluntarily

In addition to the aforementioned IFRS, application of which is obligatory for fiscal 2005, the IASB has published further IFRS and IFRICs which have already obtained the endorsement of the EU but application of which will not become obligatory until a later point in time.

On December 16, 2004 the IASB published amendments to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures". This supplement to the regulation includes not only the extension of the disclosure requirement in the Notes but also the taking into account of the actuarial profits and losses not affecting the net income as an alternative to the existing methods. The Company used this regulation for the first time in the 2005 consolidated financial statements ahead of schedule and changed the previous accounting methods in which the actuarial profits and losses were reported in the general administrative expenses.

By using this option, the Company offset the actuarial loss of EUR 244 k without affecting the income, which was incurred in 2005 mainly by adjusting the discounting rate from 5 % to 4.5 % with the other comprehensive income. As this accounting option may only be applied retroactively, the reporting for the previous year was adjusted accordingly and the actuarial loss of EUR 102 k affecting income that was reported in the previous year was also offset without an effect on income with the equity. In consequence, earnings for the previous year increased accordingly by EUR 102 k to EUR 364 k and the earnings per share for the previous year increased by EUR 0.01 to EUR 0.04. The application of this accounting option also makes it necessary to prepare a separate overall income statement containing all profits and losses affecting and not affecting income.

In connection with the application of this accounting option, the Company also decided to report the annual interest effect of the pension provision affecting income as well as the income from the plan assets amounting to net EUR 28 k in the interest income. Previously, such amounts were reported in the general administrative expenses. The previous year's expenses amounting to net EUR 32 k were reclassed accordingly.

The Company decided to use the accounting option so that the reported consolidated result would no longer be impacted by external, thus non-influenceable, factors such as long-term interest development and their effects on the pension provision to be formed as of each balance sheet date. The Company believes that this will provide a better insight into the earnings situation of the Company.

3. Recently announced accounting regulations

In August 2005, the IASB published IFRS 7 "Financial Instruments: Disclosures", which is expected to lead to a fundamental restructuring of the disclosure requirement for financial instruments. With IFRS 7, companies are to disclose more information on the type and the extent of risks arising from financial instruments, in addition to the disclosure requirements which already exist with regard to the amount stated, the reporting and the evaluation of financial instruments. The standard will apply as of January 1, 2007 and will not be applied ahead of schedule.

Moreover, the new standards that are not yet binding and will not be applied ahead of schedule are not expected to have any significant impact on the consolidated financial statements.

4. Changes in reporting in comparison with the previous year

To improve the clarity and transparency of the consolidated financial statements, the following changes in reporting were made in comparison with 2004:

- the liabilities to shareholders reported in the previous year within other provisions and liabilities as a result of the distribution agreed in the previous year are now reported within a new item “Liabilities to shareholders” as a result of their significance for the statement of the consolidated financial statements.

- In the 2004 consolidated financial statements, other operating income and expenses were reported net and broken down in the Notes. The presentation has been changed this year and the two items are reported separately.

- In the 2004 consolidated financial statements, research and development expenses of the Group company USU Software s.r.o. also included amounts that are to be assigned to the general administrative expenses. In the 2005 consolidated financial statements, these functional costs were recorded separately and the previous year’s reporting was adjusted. Accordingly, the 2004 research and development expenses decreased by EUR 182 k while administrative expenses increased.

In the 2005 fiscal year, the Company applied the revised regulations of IAS 19 and reported the actuarial profits and losses in equity with no effect on income. In this connection, in order to improve the presentation of the Company’s earnings situation, the current interest expenses from the addition to the pension provision and earnings from the plan assets are no longer reported in the general administrative expenses but are reported net in the interest income.

5. Consolidation principles

The consolidated financial statements incorporate the financial statements of USU Software AG and all entities in which USU Software AG holds either directly or indirectly the majority of the voting rights.

Equity interests are consolidated using the purchase method, which involves offsetting the acquisition costs against the Group’s percentage of equity in the subsidiary at the time of acquisition. Any debit difference remaining after offsetting is assigned to the assets and liabilities insofar as their fair values differ from the carrying amounts. Any remaining goodwill from first-time consolidation is recorded separately. In accordance with IFRS 3, goodwill is not written down as scheduled over its useful life but is subject at least once annually to an impairment test that may lead to a devaluation (impairment-only approach). If shares in fully consolidated subsidiaries are acquired successively, any resulting goodwill is also recorded in intangible assets.

Intercompany sales, income and expenses and all intercompany receivables and liabilities and contingencies are eliminated.

6. Consolidated Group

The Group is composed of USU Software AG and seven German and foreign subsidiaries (2004: six subsidiaries).

In addition to the parent, the following companies were consolidated:

Consolidated Group

Name and registered offices of the company	Equity investment in %	Subscribed capital EUR k	Equity Dec. 31, 2005 EUR k	Net income 2005 EUR k
USU AG, Möglingen	100.00	5,738	5,812	513
Omega Software GmbH, Obersulm *)	100.00	77	1,068	98
USU Software s.r.o., Brno, Czech Republic	100.00	58	196	-19
USU (Schweiz) AG, Zug, Switzerland	100.00	68	-344	21
Openshop Internet Software GmbH, Ludwigsburg	100.00	40	-777	81
Gentner GmbH ProCOMMUNICATION, Möglingen	100.00	51	-1,577	-4
ValueSolution Verwaltungs-GmbH i.L., Möglingen	100.00	26	28	0

*) *The reported net income refers to the abbreviated fiscal year from October 1 to December 31, 2005 prior to transfer to USU Software AG.*

Quantum Solutions GmbH, Dortmund, in which the Company holds 30 % of the shares, was not consolidated as insolvency proceedings were filed for this company and thus control can no longer be exercised. It was not possible to make any disclosures on equity and net income in this regard, as no up-to-date financial statements were available.

7. Currency and currency translation

Business transactions are generally translated at the exchange rate prevailing on the date of the transaction. Monetary items in foreign currencies are translated on every balance sheet date at their closing rates. Non-monetary items that are reported at their historical cost are translated at the rate as of the date on which the business transaction took place. Non-monetary items that are reported at their fair value are translated at the rate which was current at the time the fair value was derived. Differences arising from currency translations at closing rates have an impact on income.

The financial statements of consolidated entities prepared in foreign currency are translated on the basis of the functional currency concept using the modified closing rate method.

Consolidated foreign subsidiaries are viewed as being economically independent foreign entities because they are financially, economically and organizationally autonomous. Corresponding to the functional currency concept, measurement is in local currency. Apart from equity, the balance sheet items in the financial statements of foreign subsidiaries are translated at the closing rate whereas the income statement is translated at the average exchange rate of the reporting year. All translation differences are reported under a reserve for currency translation under equity.

Goodwill and hidden reserves and burdens are translated at the historical rates prevailing on the date on which goodwill and hidden reserves were determined.

Translation of the financial statements of the most important subsidiaries not located in the euro zone into EUR was at the following exchange rates:

	Closing rate		Annual average	
Currency (1 EUR)	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Swiss francs (CHF)	1.5551	1.5429	1.5478	1.5428
Czech krone (CZK)	29.000	30.464	29.844	31.878

8. Use of significant estimates and assumptions

Preparation of the annual financial statements in compliance with IFRS requires the Management Board to make use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on balance sheet date and the reported amounts of revenues and expenses during the reporting period as well as the related disclosures in the notes to the financial statements. Actual results may differ from those estimates.

Areas requiring significant estimates include use of the percentage of completion method, determining the probable economic useful life of fixed assets, allowance for doubtful debts, contingent liabilities, provisions for restructuring expenses and other provisions.

In addition, significant estimates and assumptions are required to determine the fair value of the Company’s property, plant and equipment and intangible assets and for testing goodwill for impairment.

The cash flows underlying the discounted cash flow evaluation in the scope of the goodwill impairment test are based on current business plans and internal planning. A planning horizon of three years was assumed. Assumptions concerning the future development of sales and expenses are made. Should significant assumptions differ from the actual values, this may lead to goodwill impairment impacting income in the future.

9. General accounting policies

The financial statements of USU Software AG and its German and foreign subsidiaries are prepared in accordance with uniform accounting policies as required by IAS 27.28.

9.1. Intangible assets and goodwill

Intangible assets and goodwill acquired for a consideration are measured at cost in line with IAS 38. Intangible assets contain software, maintenance agreements and customer base which are amortized as scheduled over their useful lives of between three to ten years using the straight line method. Intangible assets with an indefinite useful life – these items include goodwill and trademarks and brands – are not amortized on a scheduled basis but are subject to an impairment test at least once yearly pursuant to IAS 36.

9.2. Property, plant and equipment

Property, plant and equipment are measured at cost pursuant to IAS 1 less accumulated depreciation. Repair costs are expensed immediately. Depreciation is measured on a straight-line basis over the prospective useful life of the assets. Useful lives are as follows:

IT hardware	3 years
Leasehold improvements	10 years
Other equipment, furniture and fixtures	3 to 15 years

9.3. Impairment tests

The recoverable value of all intangible assets with indefinite useful lives including goodwill is subject to an impairment test at the end of each fiscal year. The impairment test is performed annually in December. For all other intangible assets and property, plant and equipment, an impairment test is only carried out when there is an indication that the carrying amount of the asset is no longer recoverable. There was no indication in fiscal years 2004 and 2005 that any items of property, plant and equipment and intangible assets with finite useful lives were impaired.

An impairment loss is recognized if the recoverable amount of the asset falls short of its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from an asset. The recoverable amount is determined for each asset individually or, if that is not possible, for the cash-generating unit (CGU) to which the asset belongs.

Impairment testing of intangible assets with indefinite useful lives is conducted on an item-by-item basis. These assets take the form of trademarks and brands.
Any goodwill acquired in the course of a business combination is allocated to the CGUs in order to conduct the annual impairment test. In accordance with the definition of a cash-generating unit, the smallest identifiable group of assets is identified that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Owing to the internal reporting structures, cash flows are planned at the segment level with the consequence that the Business Solutions and IT Management Solutions segments also represent their CGUs.

Basic assumptions must be made to determine the cash flows expected for each CGU. These include assumptions on the financial planning and the discount factors used to determine present value.

A reversal of impairment losses recognized in prior years is recorded where there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. Any reversal is posted to income. A reversal or reduction of an impairment loss, however, may not be so high that it exceeds the carrying amount of the asset at amortized cost which would have resulted if no impairment losses had been recognized in prior periods.

Impairment losses recorded on goodwill are not reversed.

9.4. Financial instruments

Pursuant to IAS 39, financial instruments are broken down into the following categories:

(a) Financial assets held for trading,

(b) Held-to-maturity investments,

(c) Loans and receivables originated by the Company

(d) Available-for-sale financial assets.

Financial assets with fixed or determinable payments and fixed maturity that the Company intends and has the ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity financial assets. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margins are classified as held-for-trading financial assets. All other financial assets apart from loans and receivables originated by the Company are classified as available-for-sale financial assets.

Held-to-maturity financial assets are disclosed under non-current assets unless they are due within 12 months of the balance sheet date. Held-for-trading financial assets are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets if the management intends to sell them within 12 months of balance sheet date.

Purchases or sales of financial assets are accounted for using the trade date method.

The initial recognition of a financial asset is at cost, which corresponds to the fair value of the consideration given or received; transaction costs are included.

Changes in the fair value of held-for-trading financial assets are recorded in the net profit or loss for the period. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method. if it is likely that the value of financial assets measured at amortized cost is impaired, the impairment is recorded against earnings. In an impairment loss recorded in a prior period decreases and the decrease in the impairment (i.e. a write-up) can be objectively related to an event occurring after the impairment loss, the write-up is included in net profit and loss. However, after reinstatement an asset may not be carried at an amount exceeding the carrying value that would have ensued had no impairment been recognized.

Loans and receivables originated by the entity that are not held for trading purposes are carried at the lower of amortized cost or fair value.

Available-for-sale financial assets are carried at fair value. Unrealized gains and losses are reported under "other comprehensive income". Gains and losses realized from the sale of securities are reported under interest income. The gain on sale is calculated on an item-by-item basis.

Financial instruments whose carrying amount approximates their fair value due to their highly liquid nature comprise cash and cash equivalents, securities, trade receivables and payables as well as current liabilities to banks.

The fair value of marketable securities is based on market prices.

9.5. Other non-current assets

Other non-current assets are carried at amortized cost after allowing for any specific risks of non-collection.

9.6. Inventories

Inventories are carried at the lower of cost or net realizable value, with reference being made to prices on the sales market. Inventories are composed of licenses from third-party providers.

Due consideration in the form of appropriate mark-downs is given to inventory risks relating to obsolescence. Inventories were not written down on balance sheet date as there had been no fall in their net realizable value.

9.7. Work in process

Work in process relating to service agreements and customer-specific construction contracts is accounted for using the percentage of completion method. This method involves determining the degree of completion by comparing the costs incurred to date to the estimated total costs of the contract. If in any one period it is found that total contract costs will exceed total contract revenue, the expected loss is recognized immediately as an expense.

9.8. Receivables and other assets

All receivables and other assets are carried at amortized cost after allowing for any specific risks of non-collection.

The risks of default associated with trade receivables are recognized by a portfolio-based valuation allowance. This involves classifying all receivables on the basis of the number of days they are overdue.

Depending on the number of days overdue, valuation allowances ranging from 25 % to 100 % are recorded on the basis of past experience.

9.9. Cash on hand and bank balances

These items contain cash and on-call deposits as well as current fixed term and overnight deposits. The carrying amount of these items approximates their fair value.

9.10. Deferred taxes

Deferred taxes are calculated using the balance-sheet-oriented liability method pursuant to IAS 12. This involves creating deferred taxation items for all substantial temporary differences between recognition and measurement pursuant to IFRS and the tax base. Deferred tax assets are also recognized for unused tax losses where it can be reasonably assumed that they can be used in future. Deferred taxes are measured taking into account the respective national income tax rates which apply in the individual countries at the time of realization or which are expected (basis: applicable tax law).

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Allowances on deferred tax assets are recognized if it is more likely than not that the tax benefit will be lost.

9.11. Treasury shares

Treasury shares are measured at market value on the day of acquisition plus acquisition costs and reported under equity. The Company initially holds the repurchased shares as treasury stock on the balance sheet. With the authorization of the Annual General Meeting, the treasury shares may be used as acquisition currency and for calling in. There are currently no plans to call in shares.

9.12. Other comprehensive income

In this item, changes in equity not impacting income are reported if they are not based on capital transactions with shareholders (e.g. capital increases or distributions). These include the debit difference from currency translation, actuarial gains and losses from the evaluation of pension obligations and unrealized gains and losses from the market evaluation of securities held for sale.

9.13. Pension provisions

The actuarial calculation of the pension provision for a former member of the Management Board was based on the projected unit credit method for the commitment to a pension payout pursuant to IAS 19. This procedure takes into account the pension guaranteed on the balance sheet date as well as increases in the guaranteed pension to be expected in the future. The calculation is based on an actuarial report incorporating biometric actuarial calculations. Actuarial gains and losses are offset against equity without impact on earnings. Current interest effects are reported in the interest income.

9.14. Other provisions

Other provisions are only created when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Non-current provisions are discounted in those cases where the time value of money is significant.

9.15. Liabilities

Liabilities are measured at amortized cost.

9.16. Payments received on account

Payments on account received from customers that are not related to services already rendered are recognized as liabilities. Where they relate to services already rendered on a project, they are deducted from contract costs plus unbilled contract revenues.

9.17. Contingent liabilities and subsequent events

Contingent liabilities are potential or existing commitments which relate to past events and which are not expected to result in an outflow of resources. They are not recorded on the face of the balance sheet. The commitments disclosed in these notes correspond to the potential liability as of balance sheet date.

Events after the balance sheet date that provide evidence of conditions that existed at the balance sheet are known as adjusting events and are considered in the consolidated financial statements. Events after the balance sheet data that are indicative of conditions that arose after the balance sheet date are known as non-adjusting events and are not considered in the consolidated balance sheet but are disclosed in the notes if material.

9.18. Leasing

Lease payments on operating leases are recorded as an expense in the income statement on a straight-line basis over the term of the lease. A lease is classified as an operating lease if the lease agreement does not substantially transfer all risks and rewards incidental to ownership to the entity.

All leases are reviewed regularly to assess whether they meet the classification criteria as operating or finance leases.

9.19. Sales revenue

The Group generates sales revenue from licensing the rights to use its software products to end users, and from the sale of professional services, and service contracts (post-contract customer support - "PCS"). Professional services comprise consulting services for software and training. PCS services include rights to updates and telephone support.

If these services are rendered individually, the revenue from software licenses is recognized when delivery has occurred, the sales price has been fixed or is determinable, the collection is reasonably assured and evidence of an agreement exists. Revenues allocated to professional services are recognized upon performance of the service. Revenue generated by PCS is recognized over the term of the contract (normally one or two years.

The Group offers to its customers combinations of its services in single agreements (multiple-element agreement) or in several separate agreements (bundle of contracts). Whether in a multiple-element agreement or in a bundle of contracts, the customer acquires a combination of software, professional services and PCS. Where a bundle of contracts or a multiple-element arrangement does not constitute a contract in the sense of IAS 11, the Group recognizes the revenue ensuing from these arrangements at the fair value of their components (customary prices). The customary price is defined as the price which would be demanded if the service was sold separately.

For PCS the customary price is determined on the basis of the renewal rates for PCS of equivalent duration. If these are not available, the price list issued by the Management Board of the Group is used. In those cases where the services or PCS in the bundle of contracts fall short of the customary price, the difference on any license revenues already realized from the services or PCS is deferred and released over the term of the service contract or PCS.

In cases where the license fee payments are contingent upon the performance of services which constitute a major modification or extension of the functionality of the software, the sales revenue for the software license and service elements is deferred and recognized using the percentage of completion method. The percentage of completion (POC) is measured principally by comparing the volume of services already performed to the total estimated volume of services needed to complete the contract.

Work in process also includes amounts which 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 only recognized to the extent that they are likely to be realized and when they can be reliably estimated. Pending change orders involve the use of estimates. Therefore it is possible that revisions to the estimated recoverable amounts need to be made in future for the reasons stated above.

Potential losses on uncompleted contracts are expensed immediately in the period in which they are determined.

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

9.20. Cost of sales

The cost of sales includes all costs which can be directly or indirectly allocated to sales revenue. This includes wages and salaries, and any fees and royalties paid for third party licenses.

9.21. Research and development costs

Research and development expenses are incurred by the Group in association with the development of software. Pursuant to IAS 38 research expenses may not be recognized as assets. Development expenses by contrast, may be recognized provided that all the recognition criteria are met. Software development expenses may be recognized in the development phase once the software has become technically feasible. The development phase ends when the software version has been placed on the market. The Group identifies technical feasibility with production of a corresponding working model. Owing to the short time spans between technical feasibility and the date on which the software is launched on the market, no development expenses were recognized for the period as such costs are immaterial. The Group has expensed all its research and development expenditure for the period.

9.22. Finance cost

Finance cost is expensed as incurred.

9.23. Share-based compensation

With the release of IFRS 2: Share-based Payments in February 2004, IFRS now has clear standards governing the accounting of stock option plans. As the stock option plans of the Company were passed by resolution prior to November 7, 2002, application of IFRS 2 is not mandatory. Reference is made to “Options Issued to Employees” with regard to the disclosures required by IFRS 2.

C. CHANGES IN THE GROUP'S ORGANIZATION

10. Acquisitions

Omega Software GmbH, Obersulm

On February 16, 2005 and with effect of February 23, 2005, all of the equity and voting rights in Omega Software GmbH ("OMEGA") were acquired. The transaction was carried using the purchase method. The first-time consolidation of OMEGA took place on February 23, 2005. The consolidated earnings of OMEGA for the period from the first-time consolidation to the balance sheet date totaled EUR 229 k.

The primary business activities of OMEGA are rendering services and selling products in the field of IT service management. USU products and services merge all the economic, strategic and technical knowledge of IT onto one platform. The product ranges of the two companies, which ideally complement one another, have now been merged under the one roof "IT Management Solutions". This underscores the Company's strategy of providing customers with solutions which they can use to convert their entrepreneurial knowledge into added value. With this expanded portfolio, the USU Group is now even better placed to optimize the strategic use of IT so that the participation in OMEGA will make a sustained contribution to increasing the value of the company. OMEGA is continuing as an independent entity under its previous manager.

The acquisition costs are composed of two major price components. A portion of the purchase price was to be settled in a cash payment of EUR 650 k. In addition there is a variable performance-related portion of not more than EUR 1,200 k (discounted: EUR 1,137 k), as part of a so-called earn-out clause. Another portion of the purchase price was to be settled by issue of 529,411 shares from the authorized capital of USU Software AG. The value of this component was determined by the fair value of the shares issued on February 23, 2005 as EUR 2,144 k on the basis of the closing price of the USU share at the Frankfurt stock exchange, which was EUR 4.05. The capital increase was registered in the commercial register of the district court of Ludwigsburg on June 23, 2005.

Taking into account the performance-related purchase price component and the fair value of the shares issued, the direct acquisition costs less incidental acquisition costs totaled EUR 3,931 k. The incidental acquisition costs totaled EUR 53 k.

The acquisition price for the 100 % participation in Omega Software GmbH at the date of acquisition (February 23, 2005) was as follows:

	Previous carrying amounts EUR k	Fair value EUR k
Intangible assets	3	797
Property, plant and equipment	122	122
Work in process	115	115
Trade receivables	365	305
Marketable securities	413	413
Other assets	238	238
Deferred revenue	-114	-114
Liabilities to banks	-14	-14
Personnel-related liabilities	-44	-44
Provisions for income taxes	-107	-107
Other provisions	-75	-74
Deferred tax liabilities, net	0	-279
	902	**1,358**
Good will attributable		2,626
		3,984

The non-tax-deductible intangible assets of EUR 794 k revealed in the scope of the purchase price allocation break down as follows:

	EUR k	Estimate useful life Years
Purchased software	49	6
Customer base	555	10
Advantageous contracts	76	4
Order situation	45	1
Trademarks	69	-
	794	

The following pro-forma financial key ratios present the consolidated sales and the consolidated earnings of the company as if OMEGA had already been acquired by USU Software AG at the beginning of the 2005 fiscal year. The pro-forma earnings include fictitious amortization of hidden reserves which were revealed in the course of the acquisition. The pro-forma calculation does not include any synergies which may arise from the merger:

	EUR k
Pro-forma sales revenue	21,146
Pro-forma profit	1,080

USU (Schweiz) AG, Zug, Switzerland

Effective July 1, 2005, USU AG acquired the remaining 20 % minority interests in USU (Schweiz) AG for a purchase price of EUR 49 k. The transaction resulted in goodwill of EUR 49 k.

D. NOTES TO THE CONSOLIDATED BALANCE SHEETS

11. Intangible assets

Reference is made to the disclosures in the Consolidated Statement of Changes in Non-Current Assets (Attachments A and B) with regard to the developments of intangible assets.

Intangible assets include trademarks and brands of EUR 530 k (2004: EUR 461 k). From a legal perspective, the trademarks and brands have indefinite economic lives. And from a commercial perspective, the end of their useful life cannot be discerned at this stage.

The annual impairment test of trademarks and brands is done on an item-by-item basis in terms of their value in use. The value in use is calculated as the present value of the cash flows from an assumed license of the trademarks and brands to a third party. License income is determined on the basis of the license revenues forecast in the financial and mid-term planning of the management. Reference is made to our comments on goodwill with regard to the development of the financial and mid-term planning and associated value added factors (Consolidated Note 12). License revenues are calculated as a constant percentage of sales revenue over the planning period.

The present value was determined using a discount rate of 10.2 % (PY: 10.4 %). The respective discount rates are composed of a risk-free rate and a market risk premium weighted to reflect the risk structure of the Group..

The trademarks and brands relate to both the IT Management Solutions segment as well as the Business Solutions segment.

If amortization is performed on the basis of the impairment tests, it is reported under cost of sales in the income statement.

12. Goodwill

Goodwill contains amounts from the transfer of business operations (asset deals) as well as from capital consolidation. These amounts have been allocated to the two cash generating units (CGUs), Business Solutions and IT Management Solutions, and compared with the value in use of the CGUs in the course of impairment testing.

Value in use is determined on the basis of the present value of the respective CGU. The financial planning of the respective CGU as approved by the Supervisory Board for the following fiscal period has been used as a basis for determining the cash flows needed to calculate present value. This is extrapolated by the management of the Group to arrive at the mid-term planning. The planning period for the financial planning and the mid-term planning amounts to a total of three years.

The detailed financial planning is derived by the management of the Group from expected sales revenues and related cash flows. Projected sales revenues define the number of consultants required and the associated cash outflows. This is based on past experience and also external market data on sales projections. Payments associated with fixed costs are rolled forward on the basis of past experience. The most significant value drivers in the planning are projected sales revenues and EBIT calculated on this basis. The EBIT margin is mainly determined by projected revenues from licensing the Company's own software products. Moreover, EBIT projections consider future wage and salary increases and rising costs for freelance workers.

Based on the mid-term planning, management has forecast a terminal value which assumes annual growth of 1.0 %.

A weighted discount factor of 9.3% (PY: 8.9 %) was used to determine the present value of the Business Solutions CGU and a weighted discount factor of 11.05 % (PY: 10.65 %) for the IT Management Solutions CGU. The respective discount rates are composed of a risk-free base rate and a market risk premium weighted to reflect the risk structure of the Group and the CGU concerned. The base rate and the market risk premium correspond to the interest rates prevailing on the respective balance sheet dates.

The changes in goodwill for each reporting entity in fiscal years 2005 and 2004 are shown in the following table:

	Business Solutions EUR k	IT Management Solutions EUR k	Group EUR k
January 1, 2004	8,650	6,276	14,926
Subsequent expenditure	7	5	12
December 31, 2004	**8,657**	**6,281**	**14,938**
Subsequent expenditure (increase in provisions for the arbitration proceedings on the squeeze-out of USU AG)	42	19	61
Acquisition of Omega Software GmbH	0	2,626	2,626
Acquisition of the 20 % minority interests in USU (Schweiz) AG	0	49	49
December 31, 2005	**8,699**	**8,975**	**17,674**

13. Property, plant and equipment

Scheduled depreciation of property, plant and equipment in fiscal year 2005 amounted to EUR 253 k (2004: EUR 216 k). There are no restrictions on the Group's power to dispose of property, plant and equipment. Nor have any items been assigned as collateral.
Reference is made to the disclosures in the Consolidated Statement of Changes in Non-Current Assets (Attachments A and B) with regard to the classification of property, plant and equipment.

14. Work in process

The following table gives an overview of the work in process as of December 31, 2005 and 2004 and the associated billings:

	2005 EUR k	2004 EUR k
Contract costs plus unbilled contract earnings	1,197	1,090
of which agreements for services pursuant to IAS 18	864	344
of which construction contracts pursuant to IAS 11	333	746
less progress billings	-1,219	-870
Balance	**-22**	**220**
of which: future receivables	531	501
of which: liabilities	-553	-281

Sales revenues of EUR 1,302 k (2004: EUR 1,940 k) were realized in fiscal 2005 as a result of construction contracts pursuant to IAS 11.

15. Trade receivables

All trade receivables are due in the short term. This item breaks down as follows:

	2005 EUR k	2004 EUR k
Trade receivables	4,342	4,920
Valuation allowance as of January 1	-307	-736
Utilizations in the fiscal year	115	316
Value allowances in the fiscal year	-47	0
Reversals of valuation allowances	0	113
Valuation allowance as of December 31	-239	-307
	4,103	**4,613**

16. Income tax receivables

Income tax receivables result from tax on investment income and the solidarity surcharge on interest income.

17. Other current assets

Other current assets are composed of the following items:

	2005 EUR k	2004 EUR k
Short-term loans	459	510
Impairments	-419	-510
Interest accrued on securities	71	1,192
Other receivables	276	176
	387	**1,368**

18. Prepaid expenses

Prepaid expenses primarily contain deferred trade fair expenses and expenses associated with service contracts.

19. Current investments

Current investments comprise available-for-sale bonds. This item breaks down as follows:

Year	Acquisition costs EUR k	Unrealized gains EUR k	Unrealized losses EUR k	Fair value EUR k
2005	5,910	43	-45	5,908
2004	40,102	145	-159	40,088

As of December 31, 2005, EUR 4,138 k (2004: EUR 38,313 k) of the available-for-sale securities were due within one year, EUR 1,770 k (2004: EUR 1,775 k) due within one and five years and EUR 0 k (2004: EUR 0 k) after more than ten years. The proceeds from the sale of available-for-sale securities in the 2005 fiscal year include gross gains totaling EUR 183 k (2004: EUR 0 k) and gross losses of EUR 49 k (2004: EUR 2 k).

20. Cash on hand and bank balances

This item breaks down as follows:

	2005 EUR k	2004 EUR k
Fixed-term and overnight deposits	9,183	6,960
On-call deposits	629	810
Cash	1	1
	9,813	**7,771**

21. Equity

The development of equity is shown in the Equity Statement.

21.1. Subscribed capital and shares

As of December 31, 2004, the subscribed capital of the Company amounted to EUR 8,606 k and was divided into 8,605,593 no-par bearer shares with an imputed share in subscribed capital of EUR 1.00 each.

As part of the acquisition of Omega Software GmbH, a capital increase was carried out in return for a contribution in kind from the authorized capital. In this connection, the subscribed capital increased by EUR 529 k.

As of December 31, 2005, the subscribed capital of the Company amounts to EUR 9,135 k and is divided into 9,135,004 no-par bearer shares with an imputed share in subscribed capital of EUR 1.00 each.

21.2. Capital reserve

The capital reserve primarily contains the cash premium from the issue of shares by USU Software AG. In connection with the acquisition of Omega Software GmbH, the capital reserve was increased by EUR 1,591 k in return for a contribution in kind. Transaction costs of EUR 24 k incurred in connection with the capital reserve were offset against the capital reserve.

21.3. Authorized capital

At the Annual General Meeting of July 4, 2002 the Management Board was authorized to increase capital by up to EUR 8,600 k by issuing new shares in return for a cash contribution or a contribution in kind any time up to and including July 3, 2007 subject to approval of the Supervisory Board (authorized capital). The shareholders must be granted subscription rights to any such increase. The Management Board is authorized, subject to approval of the supervisory board, to exclude the statutory subscription rights of the shareholders for fractional amounts to the extent required to grant bearers of convertible bonds or subscription rights issued by the Company new shares to which they are entitled by exercise of their conversion or subscription rights. The Management Board is 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 for shares in the same category. The Management Board is further authorized, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders for capital increases in return for contributions in kind for the purpose of acquiring companies or stakes in companies. By resolution of the Annual General Meeting on July 15, 2004 authorized capital was reduced by EUR 4,300 k to EUR 4,300 k.

As part of the acquisition of Omega Software GmbH, a capital increase was carried out in return for a contribution in kind from the authorized capital. In this connection, the authorized capital decreased by EUR 529 k and totals EUR 3,771 k as at December 31, 2005 (PY: EUR 4.300 k).

21.4. Contingent capital

By resolution of the Annual General Meeting on March 2, 2000, the subscribed capital of the of the Company was increased by EUR 756,911 k by issuing 756,911 no-par value bearer shares. The contingent increase of capital serves to grant option rights to members of the Management Board and employees of the Company as well as members of management and employees of affiliated entities. The contingent capital increase is only carried out to the extent that the bearers of the options issued exercise their rights. The new shares participate in profits from the beginning of the fiscal year in which the options are exercised.

By resolution of the Annual General Meeting on July 15, 2004 contingent capital was increased in the same proportion as the increase in subscribed capital, by EUR 1,552,418.00 from EUR 756,911.00 to EUR 2,309,329.00 and reduced likewise by EUR 1,930,874.00 from EUR 2,309,329.00 to EUR 378,455.00.

21.5. Treasury shares

By resolution of the Annual General Meeting on July 7, 2005, the Management Board of the Company was once again authorized pursuant to Sec. 71 (1) No. 8 AktG to acquire treasury shares in one or more installments, subject to approval of the Supervisory Board, at any time up to and including January 6, 2007.

In fiscal year 2004, pursuant to a resolution of the Annual General Meeting on July 15, 2004 the shares (107,901) were reduced at a ratio of 2 : 1 (53,950). In the course of this transaction, one treasury share was sold.

As of December 31, 2005, the Company continues to hold 53,950 treasury shares (2004: 53,950) with an imputed share in subscribed capital of EUR 53,950,00 or 0.6 % (2004: 0.6 %) as at December 31, 2005.

21.6. Earnings per share

Basic earnings per share for the separate periods is calculated pursuant to IAS 33 by dividing the Group’s net profit for the year by the number of shares outstanding.

		2005	2004
Net profit:	in EUR k	1,048	364
Annual average number of shares:		8,830,128	8,551,643
Basic earnings per share:	in EUR	0.12	0.04

The number of shares outstanding can be determined as follows:

	2005	2004
Number of shares as of January 1	8,605,593	17,211,186
Reduction of shares at a ratio of 2:1	0	8,605,593
Treasury shares as of January 1 (after reduction)	-53,950	-53,950
Issue of new shares (contribution in kind OMEGA)	529,411	0
	9,081,054	**8,551,643**

When calculating the diluted earnings per share, common shares that may result from the exercise of subscription rights and the conversion of other rights to shares of USU Software AG are additionally taken into account. At USU Software AG this only concerns the outstanding stock options granted to employees. As the exercise price of employee stock options in all tranches is above the fair value of shares in USU Software AG, these outstanding options do not have a dilutive effect and were consequently not considered in the calculation of diluted earnings per share. Thus, diluted earnings per share correspond to basic earnings per share.

21.7. Employee stock options

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

The Company has issued stock options to employees in several tranches. Each tranche expires six years after the grant date. The options 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 issue. The options can be exercised in installments of 25 % in years 2 – 5 after the date of issue on the same calendar date on which they were issued. Exercise on these dates is contingent on the share price of USU Software AG exceeding, on any particular day prior to exercise, 115 % of the share price on the date of issue.

In 2000 the Company issued two tranches of stock options to employees (tranche 1 and tranche 2) and four tranches in 2001 (tranches 3, 4, 5, and 6). No options were issued in fiscal years 2002 and 2003. All options issued in tranches 3 and 6 lapsed on December 31, 2002.

The exercise criteria for tranche 1 were met in fiscal year 2000. As of December 31, 2005 the share price had not risen sufficiently to meet the exercise criteria for tranches 2 to 6 inclusive.

The number of outstanding shares in fiscal year 2004 was reduced at a ratio of 2 : 1. As a result of the share reduction and with regard to § 9 of the year 2000 stock option plan, the number of subscription rights associated with the respective tranches was reduced at the same ratio. The exercise prices defined in the plan were doubled accordingly.

As a result, the status of the Company's employee stock option plans as of December 31, 2005 can be summarized as follows:

	Tranche 1	Tranche 2	Tranche 4	Tranche 5
Date of issue	Mar. 20, 2000	Oct. 31, 2000	May 01, 2001	June 01, 2001
Strike price in EUR	**124.20**	**44.86**	**14.92**	**15.54**
Outstanding as of January 1, 2004	**1,052**	**1,094**	**2,500**	**16,560**
Granted	0	0	0	0
Exercised	0	0	0	0
Lapsed	0	0	0	0
Outstanding as of December 31, 2004	**1,052**	**1,094**	**2,500**	**16,560**
Granted	0	0	0	0
Exercised	0	0	0	0
Lapsed	0	0	0	0
Outstanding as of December 31, 2005	**1,052**	**1,094**	**2,500**	**16,560**
Exercisable as of December 31, 2005	**1,052**	**0**	**0**	**0**

22. Pension provision

The company maintains a pension plan for a former Management Board member and a current member of the Supervisory Board. This defined benefit plan guarantees the beneficiaries a vested right to pay-out of a life-long monthly pension.

The pension provision was calculated using the projected unit credit method pursuant to IAS 19. The future benefit obligation has been valued using actuarial calculations. These were based on the 2005 G mortality tables assuming employee turnover of 0 % p.a. (2004: 0 % p.a.), an interest base of 4.5 % (2004: 5.0 %) and annual pension increases of 2.0 % p.a. (2004: 2.0 % p.a.). During the service period, it is assumed that subsequent contributions will rise by an annual amount of 1.0 %. The annual return on plan assets is projected to be 3.5 % (2004: 3.5 %). In accordance with regulations of the amended IAS 19, actuarial gains and losses are posted to income in a separate line in other comprehensive income. The previous year's reporting was adjusted accordingly. The pension obligation has been measured as of December 31.

As of December 31, 2005, the Company had offset EUR 346 k in actuarial losses without an impact on income against the other comprehensive income.

It is the business policy of the Company to take out insurance policies to cover the actuarial present value of the pension obligation. This insurance policy was identified as qualified plan assets.

Development of the pension obligation:

	2005 EUR k	2004 EUR k
Present value of benefit obligation as of January 1	1,061	909
Interest cost	53	50
Actuarial losses recorded without impact on income	237	102
Present value of benefit obligation as of December 31	**1,351**	**1,061**

Development of plan assets:

	2005 EUR k	2004 EUR k
Fair value of plan assets as of January 1	639	494
Income from plan assets (interest income)	24	18
Payments into plan assets	134	127
Actuarial losses recorded without impact on income	7	0
Fair value of plan assets as of December 31	**790**	**639**

Development of the obligation posted in the balance sheet:

	2005 EUR k	2004 EUR k
Present value of pension obligation	1,351	1,061
Fair value of plan assets	790	639
Obligation reported	**561**	**422**

Both the interest expense arising from the accrued interest of the pension reserve and earnings from the plan assets were posted to earnings in the interest income.

A pension commitment was made to the Management Board members of the subsidiary USU AG. This pension commitment was covered by an insurance policy. This defined contribution plan does not result in any further liability for the Group than the premiums payable to the insurer. The sum of all defined contribution pension expenses excluding social security contributions amounts to EUR 19 k in the fiscal year (2004: EUR 34 k).

23. Personnel-related provisions and liabilities

The provisions and liabilities recognized for employee-related issues are all current and comprise the following items:

	2005 EUR k	2004 EUR k
Vacation and variable remuneration	1,414	1,347
Social security contributions and wage tax	435	404
	1,849	**1,751**

24. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2005 EUR k	2004 EUR k
Outstanding invoices	275	790
Other liabilities	375	390
Other provisions	1,694	524
	2,344	**1,704**

Other provisions mainly comprise a provision for purchase price obligations associated with the acquisition of Omega Software GmbH (earn-out clause), provisions for business costs and other recognizable individual risks. Other provisions developed as follows in the 2005 fiscal year:

In EUR k	Balance Jan. 1, 2005	Consolid-ation	Addit-ions	Utilizations	Releases	Balance Dec. 31, 2005
Operating obligations	262	0	268	189	39	302
Other obligations	262	36	1,245	126	25	1,392
	524	**36**	**1,513**	**315**	**64**	**1,694**

25. Liabilities to shareholders

A capital decrease was carried out in the previous year with the purpose of repayment to shareholders. The liabilities of EUR 34,206 incurred towards shareholders were repaid in full with the dividend distribution of EUR 4.00 per share on February 18, 2005 and are posted separately on the balance sheet for purposes of clarity.

26. Payments on account

This item is a result of the payments received on account which exceed the services rendered on a particular contract. Reference is made here to our comments on work in process (Consolidated Note 14). All payments on account qualify as current liabilities.

27. Trade payables

All trade payables are due within 12 months.

28. Deferred income

Deferred income comprises the income from maintenance and support agreements for software billed in the reporting period. These agreements generally have a term of one year.

29. Deferred taxes

Deferred taxes break down as follows:

	2005 EUR k	2004 EUR k	Addition: Acquisition of OMEGA Feb. 23, 2005 EUR k	Impact on profit and loss 2005 EUR k
Deferred tax assets:				
Provisions	97	69	0	28
Prepaid expenses	52	78	0	-26
Financial instruments	0	5	0	-5
Other	30	30	0	0
Receivables	16	0	23	-7
From unused tax losses	614	578	0	36
Deferred tax assets, gross	**809**	**760**	**23**	**26**
Deferred tax liabilities:				
Intangible assets	539	332	302	95
Treasury shares	197	119	0	-78
Work in process	57	150	0	93
Financial instruments	16	54	0	38
Receivables	0	105	0	105
Deferred tax liabilities, gross	**809**	**760**	**302**	**253**
Balance	**0**	**0**	**279**	**279**
Net deferred taxes reported in the balance sheet:				
Deferred tax assets:	**0**	**0**	**0**	
Deferred tax liabilities:	**0**	**0**	**279**	

As of December 31, 2005 deferred tax assets of approx. EUR 64,200 k (2004: EUR 64,100 k) were not recognized on unused German tax losses as it is not expected that adequate taxable income will be generated in the near future. For the same reason, deferred tax assets were not recognized on unused foreign tax losses of approx EUR 410 k (2004: EUR 430 k).

Tax losses of EUR 20,252 k have not been recognized by the tax authorities and are not included in the total unused tax losses as a result. Unused tax losses for German income tax can be carried forward indefinitely though there are some restrictions under German tax law on the amount which can be used to offset taxable income. The unused tax losses on foreign income can be carried forward for a maximum of seven years.

E. NOTES TO THE CONSOLIDATED INCOME STATEMENT

30. Sales revenue

A breakdown of sales revenue by segment can be found in the section on segment reporting (Section G of the Consolidated Notes).
Revenues from the sales of goods and services break down as follows:

	2005 EUR k	2004 EUR k
Consulting	15,668	13,568
Licenses	2,690	2,587
Maintenance	2,277	1,898
Other	226	633
	20,861	**18,686**

31. Cost of sales

The cost of sales includes the following expenses:

	2005 EUR k	2004 EUR k
Personnel expenses	5,604	5,675
Fees for freelancers and hired workers	5,094	4,059
Scheduled depreciation	437	308
Other expenses	1,990	2,527
	13,125	**12,569**

32. Sales and marketing expenses

Sales and marketing expenses include the following expenses:

	2005 EUR k	2004 EUR k
Personnel expenses	1,812	1,832
Scheduled depreciation	23	15
Other expenses	891	1,034
	2,726	**2,881**

33. General administrative expenses

General administrative expenses include the following:

	2005 TEUR	2004 TEUR
Personnel expenses	1,443	1,444
Scheduled depreciation	99	92
Other expenses	944	518
	2,486	**2,054**

34. Research and development expenses

Research and development expenses comprise:

	2005 EUR k	2004 EUR k
Personnel expenses	1,856	1,683
Scheduled depreciation	150	247
Other expenses	402	462
	2,408	**2,392**

35. Other operating income

Other operating income includes income from the release of provisions totaling EUR 63 k.

36. Interest income

Interest income chiefly comprises realized price gains and interest income from financial assets.

37. Interest expenses

Interest expenses chiefly comprise interest from long-term provisions. There were no interest expenses as a result of using credit lines.

38. Income taxes

Income taxes break down as follows:

	2005 EUR k	2004 EUR k
Income taxes for the fiscal year	-44	-7
Income taxes for previous years	5	-150
Deferred taxes	279	-5
Tax income/expenses	**240**	**-162**

Tax expenses for prior periods mainly relate to tax back-payments for fiscal years 1996 to 1999.

The income generated by the Company is subject to a corporate income tax rate of 25 % (2004: 25 %) plus the solidarity surcharge of 5.5 % of corporate income tax and an effective municipal trade tax rate of 10.9 % (2004: 10.9 %). The compounded tax rate including the solidarity surcharge and the effective trade tax rate amounts to 37.2 % (2004: 37.2 %).

The following table reconciles the current income tax expense to the tax expense using the theoretical tax rate of the parent:

	2005 EUR k	2004 EUR k
Profit before income taxes	808	526
Theoretical tax expense 37.2 % (2004: 37.2 %)	-301	-196
Changes in the theoretical tax expense owing to:		
Release of allowance for deferred taxes on unused tax losses	240	0
Unrecognized deferred tax assets on unused tax losses	301	234
Tax refunds/back-payments for other periods	5	-150
Non-deductible expenses	-5	-47
Deviation from foreign tax rates	-3	-10
Other	3	7
Tax income/expenses	**240**	**-162**

39. Other notes to the income statement

The average headcount in the fiscal year was:

	2005	2004
Consulting and services	84	74
Research and development	63	61
Administration and finance	26	28
Sales and marketing	24	26
	197	**189**

Personnel expenses break down as follows:

	2005 EUR k	2004 EUR k
Wages and salaries	9,053	8,990
Social security, pensions and other benefit costs	1,662	1,644
	10,715	**10,634**

F. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows how the cash funds of the Group have changed in the course of the reporting year as a result of cash inflows and outflows. The effects of acquisitions and other changes in the consolidation group have been eliminated. When purchased, subsidiaries are included for the first time; only the actual cash flows are shown in the cash flow statement. In accordance with IAS 7, a distinction is made between cash flows from operating, investing, and financing activities. The cash and cash equivalents reported in the financial planning correspond to the cash on hand and bank balances item in the balance sheet (see Consolidated Note 20). Investments in securities are made with a view to profit with less focus on liquidity. For this reason, securities are not included in cash and cash equivalents.

Cash flows from investing and financing activities are derived from the actual cash payments, whereas cash flows from operating activities are calculated indirectly from net profit for the period. This indirect calculation eliminates the effects contained in balance sheet items due to currency translation and changes in the consolidated Group. As a result, changes in the balance sheet items concerned cannot always be derived from the consolidated balance sheet.

40. Net revenue/expenditure from ordinary business operations

The development of net revenue/expenditure from ordinary business operations reflects in particular the improvement in the consolidated result of the USU Group and the decline in receivables. As a result, net revenue from ordinary business operations increased from EUR 620 k in the previous year to EUR 2,665 k in fiscal 2005.

41. Net revenue/expenditure from investments

Payments of EUR 689 k were made to acquire OMEGA. A further EUR 49 k was paid to acquire the remaining 20 % of shares in USU Schweiz AG. Please refer to Consolidated Note 10.

In fiscal 2004, securities valued at amortized cost of EUR 34,315 k were reclassified from held-to-maturity under non-current assets to available-for-sale financial instruments under current assets. This transaction is also a non-cash transaction that has been eliminated from the cash flow statement accordingly.

42. Net revenue/expenditure from financing activities

The 2004 increase in company funds (EUR 35,300 k) is a non-cash transaction involving a reclassification between two items of equity and has been eliminated from the cash flow statement. The same applies to the reduction of capital (EUR 43,905 k), to the extent that it was used to increase the capital reserve (EUR 9,699 k). As of December 31, 2004, the capital reduction had not resulted in a payout to the shareholders (EUR 34,206 k). This transaction therefore also represents a non-cash reclassification under equity in the previous year and has also been eliminated from the cash flow statement.

Finally, in fiscal 2005 funds of EUR 34,206 k were paid out as a dividend following the capital measure resolved in the previous year.

G. SEGMENT REPORTING

A breakdown of asset, capital and income figures and other financial indicators by business segment pursuant to IAS 14 is shown in the attached summary "Segment reporting".

Primary segment reporting is by business segment.

The product portfolio of the Business Solutions segment includes professional services (portal solutions, EAI integration solutions and software engineering), public solutions for centralized activities such as eGovernment, budget management or crisis management and knowledge solutions integrating various knowledge sources in business processes such as call center environments or in quality assurance.

The IT Management Solutions offers goods and services related to infrastructure management (efficient management of IT resources, contracts and software licenses), service/change management (compliance and formalizing IT service processes including procurement, support and maintenance) as well as finance management (transparency, planning, budgeting and accurate charging of IT costs and services).

In fiscal 2005, EUR 2,352 k (11.3 %, 2004: 8.8 %) of consolidated sales revenue was generated outside of Germany. Likewise, 2.7 % (2004: 0.8 %) of the consolidated assets were located outside of Germany. For this reason, the Company has refrained from providing any more information on the geographical data pursuant to IAS 14 (secondary reporting format).

EUR k	Business Solutions		IT Management Solutions		Not allocated		Consoli-dation		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External sales	11,603	10,136	9,216	8,516	42	34	0	0	20,861	18,686
Intersegment sales	43	74	0	0	0	0	-43	-74	0	0
Total sales	**11,646**	**10,210**	**9,216**	**8,516**	**42**	**34**	**-43**	**-74**	**20,861**	**18,686**
EBIT	1,965	1,319	363	-134	-2,064	-2,346	0	0	264	-1,161
Net financial income		-	-	-	544	1,687	-	-	544	1,687
Taxes	-	-	-	-	240	-162	-	-	240	-162
Net profit/loss for the Group	**1,965**	**1,319**	**363**	**-134**	**-1,280**	**-821**	**-**	**-**	**1,048**	**364**
Segment assets / Group assets	11,297	11,891	13,622	11,371	18,066	50,193	-	-	42,986	73,455
of which goodwill	8,699	8,657	8,975	6,281	0	0	-	-	17,674	14,938
Segment liabilities / Group liabilities	1,522	2,188	2,434	2,271	2,938	35,851	-	-	6,894	40,310
Capital expenditure	54	91	84	213	36	46	-	-	174	350
Depreciation and amortization	135	104	449	371	126	187	-	-	710	662
Non-cash expenses excl. depreciation and amortization	-	-	-	-	182	195	-	-	182	195
Employees (as of Dec. 31)	50	49	129	115	20	25	-	-	199	189

Inter-segment sales are measured at transfer prices. These have been derived from market prices for the same or similar goods or services delivered to third parties.

Segment assets and liabilities can be reconciled to consolidated assets and liabilities as follows:

	2005 EUR k	2004 EUR k
Segment assets	24,919	23,262
Unallocated assets		
Non-current investments	5,908	40,088
Cash on hand and bank balances	9,612	7,281
Income taxes	1,881	1,831
Other assets	666	993
	18,067	50,193
Group assets	**42,986**	**73,455**

	2005 EUR k	2004 EUR k
Segment liabilities	3,956	4,459
Unallocated liabilities		
Liabilities from capital reduction	0	34,206
Pension provision	561	422
Liabilities to tax authorities	320	189
Other liabilities	2,057	1,034
	2,938	35,581
Group liabilities	**6,894**	**40,310**

H. OTHER DISCLOSURES

43. Related parties

According to IAS 24, related parties are people or entities who control the Group or who can exercise a significant influence on it, including members of the Management and Supervisory Boards or any people or entities over whom the Group can exercise significant influence. Entities which are fully consolidated do not qualify as related parties.

According to IAS 24.3, the top management and the members of the Supervisory Board are seen as related parties. In fiscal 2005, there were no material business relationships with members of the Management Board or of the Supervisory Board or the entities included in the consolidated financial statements other than those described below.

The Management Board confirms that all the related party transactions described below were carried out at arm's length.

43.1 Udo Strehl / Udo Strehl Private Equity GmbH

There are no trading obligations between the Group and the Chairman of the Supervisory Board, Udo Strehl, and Udo Strehl Private Equity GmbH. Payments to Udo Strehl and Udo Strehl Private Equity GmbH are a result of cost reimbursements and compensation of out-of-pocket expenses. In fiscal 2005, net payments of EUR 0 k (2004: EUR 6 k) were made in favor of Udo Strehl and EUR 22 k (2004: EUR 8 k) in favor of Udo Strehl Private Equity GmbH. The costs of car leasing, travel expenses and telecommunications for EUR 20 k were also paid.

43.2 Karin Weiler-Strehl

Karin Weiler-Strehl is the wife of Udo Strehl, Chairman of the Supervisory Board of the Group and major shareholder of the parent of the Group, USU Software AG. The Company engages the consulting services of Ms. Weiler-Strehl on a project-by-project basis. The expenses for these consulting contracts with Ms. Weiler-Strehl amounted to EUR 14 k in the fiscal year (2004: EUR 23 k).

The subsidiary USU AG rents an office building from Spitalhof GbR, in which Karin Weiler-Strehl has a stake. The rental payments in the fiscal year ending December 31, 2005 amounted to EUR 237 k (2004: EUR 232 k). In a supplement to the rent agreement, USU AG granted Spitalhof GbR a subsidized construction loan of EUR 183 k for construction expenses. Should the rent agreement be terminated prior to December 31, 2007, for whatever reason, the subsidized construction loan will lapse and be repayable in full. In the event that the rent agreement is terminated on December 31, 2007, as agreed, or renewed, the subsidized construction loan bears interest of 2.5 %. Due to the low interest rate, the subsidized construction loan has been discounted to its present value and will be compounded over its term to arrive at the full amount repayable when it matures. As of December 31, 2005, the receivable from this subsidized construction loan amounted to EUR 221 k (2004: EUR 211 k). The interest income from compounding the loan amounted to EUR 10 k in the fiscal year ending December 31, 2004 (2004: EUR 10 k).

43.3 Remuneration of management and the Supervisory Board

Management of the Group's business is the responsibility of the following people:

Bernhard Oberschmidt (Chief Executive Officer)
Klaus Bader (Executive Vice President)
Bernd Wagner (Executive Vice President)
Frank Dreher (Senior Vice President)
Gerald Lamatsch (Senior Vice President)

Remuneration of this upper management circle totaled EUR 879 k in the fiscal year 2005 (2004 adjusted : EUR 852 k) and breaks down as follows:

Fixed remuneration: EUR 552 k (2004: EUR 548 k)
Variable remuneration: EUR 243 k (2004: EUR 210 k)
Monetary value of benefits from private use of company vehicles: EUR 64 k (2004: EUR 60 k)
Contribution-related pension expenses: EUR 19 k (2004: EUR 34 k)

In the fiscal year 2005, total remuneration of the Supervisory Board totaled EUR 50 k (2004: EUR 67 k).

Reference is made to the comments in Consolidated Note 22 with regard to the pension provision set up for a member of the Supervisory Board and former member of the Management Board.

44. Auditor’s fees

a) Financial statements (individual and consolidated financial statements):	EUR 61 k
b) Other certification and valuation services :	EUR 6 k
c) Other services	EUR 7 k

45. Other notes

45.1 Contingent liabilities

As of December 31, 2005 and December 31, 2004, there were no contingent liabilities to report.

45.2 Other financial obligations

The Company has leased some of its office and operating equipment as well as its vehicles (operating leases). The interest rates stipulated in the lease agreements are customary market rates. There are no bargain purchase or renewal options contained in the lease agreements for office and operating equipment or for leased vehicles. There were no sale and lease-back transactions in either of the fiscal years. The annual expected minimum payments for leases and rent agreements as well as the purchase commitments and other financial obligations break down as follows:

	2005 EUR k	2004 EUR k
Operations from operating leases		
in one year	431	365
in more than one to five years	416	499
in more than five years	0	0
	847	**864**
Other financial obligations		
in one year	663	417
in more than one to five years	455	617
in more than five years	0	0
	1,118	**1,034**
	1,965	**1,898**

Expenses for operating leases and rent agreements amounted to EUR 928 k (2004: EUR 992 k).

46. Litigation, other contingent liabilities and subsequent events

In the course of its ordinary operations, the Company can become involved in legal disputes, claims for damages, criminal investigations, court cases and product liability disputes and commercial law cases. The outcome of currently pending and/or future litigation cannot be predicted with certainty so that expenses may be incurred as a result of decisions that will not be fully covered by insurance and that may have significant effects on the business, its financial position its operating results. According to the estimates of the Company and its legal counsel as of December 31, 2005 and 2004, decisions that will significantly influence the net assets, financial position and the results of operations of the Group are not to be expected from litigation currently pending.

A decision in the arbitrary proceedings with regard to the appropriateness of the cash compensation due to the squeeze-out of the minority shareholders of USU AG was still outstanding as of December 31, 2005. By order of the court, a valuation report is being produced which will determined the value of a USU AG share as of June 13, 2004. The report had not been submitted as at the balance sheet date. The Company made a balance-sheet provision of about EUR 130 k for the expected legal, court and expert costs.
There were no further significant events prior to release of the consolidated financial statements by the Management Board to be reported.

47. Company boards

47.1 Management Board

The member of the Management Board of the parent company in fiscal year 2005 was:

Bernhard Oberschmidt, Spokesperson of the Management Board
Diplom-Ökonom

47.2 Supervisory board

Members of the Supervisory Board in fiscal 2005 were:

Udo Strehl, Chairman
Managing director of Udo Strehl Private Equity GmbH
Chairman of the Supervisory Board of USU AG, Möglingen

Günter Daiss, Deputy Chairman
Versicherungskaufmann,
Chairman of the Management Board of G. W. Barth AG, Freiberg a. N.
Deputy Chairman of the Supervisory Board of USU AG, Möglingen
Member of the Administrative Board of Kreissparkasse Ludwigsburg, Ludwigsburg

Erwin Staudt,
Diplom-Volkswirt
Full-time president of VfB Stuttgart 1893 e.V., Stuttgart
Member of the Supervisory Board of Grenke Leasing AG, Baden-Baden
Member of the Supervisory Board of Hahn Verwaltungs-GmbH, Fellbach
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU AG, Möglingen

48. Financial risk management

In its financial activities, the Group is subject to various risks that are assessed, managed and monitored by a systematic risk management. The Group's management of credit risks, liquidity exposures and market risks (exchange rates, interest rates, share prices) is explained below.

48.1 Credit risks

The Group is exposed to credit risks associated with its cash and cash equivalents, trade receivables and marketable securities.

Cash and cash equivalents and marketable securities are deposited with banks of good standing and companies with good credit ratings. The Group constantly monitors the credit worthiness of these companies and does not expect any default. As no collateral has been issued, the maximum risk of default is the amount carried in the balance sheet.

The risk of default for trade receivables is minimized by constant monitoring of the credit worthiness of the counterparty. As no general netting agreements are concluded with customers, the sum of the amounts reported under assets also represents the maximum credit risk. In the event that the Company becomes aware of any indications that the ability of certain customer to meet its financial obligations is impaired, the Group recognizes a specific bad debt allowance to reduce the net amount of the receivable to the amount deemed most likely to be recovered. Moreover, the Group recognizes the risks of non-collection by means of a portfolio-based measurement of receivables.

48.2 Liquidity risks

In order to meet its financial obligations, the Group needs cash and cash equivalents which, owing to the two IPOs, are available to it. Moreover, the Company has credit lines to cover any liquidity bottlenecks.

48.3 Stock market risks

By investing its financial assets, the Company is exposed to stock market fluctuations. Specifically, there is a risk of financial loss caused by changes in stock market prices. One way of countering this risk is through diversification of the investment portfolio. When selecting bonds, a minimum rating of BBB (Standard & Poor's) is generally required.

48.4 Interest rate risks

Interest rate risk is the exposure of the Company to the negative effects on its net assets and results of operations caused by changes in interest rates. As the Company is not highly geared, its interest rate exposure relates solely to income from securities. This risk is countered by pursuing an investment policy with a short to mid-term horizon (up to 18 months).

48.5 Exchange rate risks

The Company performs insignificant transactions in foreign currency and is therefore subject to exchange rate fluctuations which have an effect on the assets and income of the Company listed in euro. Transaction risks are also incurred on financial assets denominated in foreign currencies.

I. INVESTMENTS OF THE COMPANY'S BOARD MEMBERS

In conjunction with the public disclosures in the interim financial statements of USU Software AG, the following table summarizes the securities held by members of the Company's boards, including their former members. As of December 31, 2005, shares held by members of the Company's boards in USU Software AG, Möglingen, were as follows. No stock options or convertible bonds issued by USU Software AG were held.

Shareholdings subject to mandatory disclosure	2005 shares	2004 shares
Management board		
Bernhard Oberschmidt	18,696	18,696
Supervisory board		
Udo Strehl *)	1,989,319	2,021,319
Erwin Staudt	10,100	0
Günter Daiss	0	0

*) An additional 4,172,348 shares of USU Software AG can be allocated to Udo Strehl via Udo Strehl Private Equity GmbH as the majority shareholder of the company, pursuant to Sec. 22 Sentence 1 No. 1 WpHG

On February 4, 2005, Udo Strehl transferred or deposited 32,000 shares of USU Software AG from his private assets into the "Wissen ist Zukunft" foundation. Mr. Strehl is also the managing director of this foundation.

J. DECLARATION OF COMPLIANCE

The Management Board and Supervisory Board of USU Software AG issued the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on December 12, 2005 and have made it permanently available to the shareholders on the internet site of USU Software AG at http://www.usu-software.de. Further details of the declaration of compliance is contained in the combined management report attached to these consolidated financial statements.

Möglingen, February 24, 2006

Bernhard Oberschmidt

Spokesperson for the Management Board

USU Software AG, Möglingen

Consolidated Statement of Changes in Non-Current Assets for 2005 (Attachment A)

	Historical cost					Accumulated depreciation and amortization					Carrying amount	
	Jan 1, 2005	Company acquisition	Additions	Disposals	Dec 31, 2005	Jan 1, 2005	Additions	Disposals	Currency	Dec 31, 2005	Dec 31, 2005	Jan 1, 2005
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Intangible assets												
Software acquired/ order situation	2,223	97	33	1	2,352	1,611	341	1	0	1,951	401	612
Trademarks and brands	982	69	0	0	1,051	521	0	0	0	521	530	461
Maintenance agreements	280	76	0	0	356	166	72	0	0	238	118	114
Customer base	0	555	0	0	555	0	44	0	0	44	511	0
	3,485	**797**	**33**	**1**	**4,314**	**2,298**	**457**	**1**	**0**	**2,754**	**1,560**	**1,187**
Goodwill	34,572	2,736	0	0	37,308	19,634	0	0	0	19,634	17.674	14.938
	34,572	**2,736**	**0**	**0**	**37,308**	**19,634**	**0**	**0**	**0**	**19,634**	**17,674**	**14,938**
Property, plant and equipment												
Land and buildings	84	0	3	0	87	49	9	0	0	58	29	35
Other equipment, furniture and fixtures	865	122	138	31	1.094	490	244	28	4	710	384	375
	949	**122**	**141**	**31**	**1,181**	**539**	**253**	**28**	**4**	**768**	**413**	**410**
Other non-current assets												
Construction subsidy	211	0	10	0	221	0	0	0	0	0	221	211
Custodial account	353	0	19	134	238	0	0	0	0	0	238	353
	564	**0**	**29**	**134**	**459**	**0**	**0**	**0**	**0**	**0**	**459**	**564**
	39,570	**3,655**	**203**	**166**	**43,262**	**22,471**	**710**	**29**	**4**	**23,156**	**20,106**	**17,099**

USU Software AG, Möglingen

Consolidated Statement of Changes in Non-current Assets for 2004 (Attachment B)

	Historical cost					Accumulated depreciation and amortization					Carrying amount	
	Jan 1, 2004	Company acquisition	Additions	Disposals	Dec 31, 2004	Jan 1, 2004	Additions	Disposals	Currency	Dec 31, 2004	Dec. 31, 2004	Jan 1, 2004
	TEUR	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Intangible assets												
Software acquired/ order situation	3,913	0	84	1,774	2,223	2,989	390	1,772	4	1,611	612	924
Trademarks and brands	982	0	0	0	982	521	0	0	0	521	461	461
Maintenance agreements	280	0	0	0	280	110	56	0	0	166	114	170
	5,175	**0**	**84**	**1,774**	**3,485**	**3,620**	**446**	**1,772**	**4**	**2,298**	**1,187**	**1,555**
Goodwill	34,560	12	0	0	34,572	19,634	0	0	0	19,634	14,938	14,926
	34,560	**12**	**0**	**0**	**34,572**	**19,634**	**0**	**0**	**0**	**19,634**	**14,938**	**14,926**
Property, plant and												
Land and buildings	79	0	5	0	84	40	9	0	0	49	35	39
Other equipment, furniture and fixtures	1,073	0	261	469	865	739	207	456	0	490	375	334
	1,152	**0**	**266**	**469**	**949**	**779**	**216**	**456**	**0**	**539**	**410**	**373**
Financial assets												
Equity investments in associates	270	0	0	270	0	0	0	0	0	0	0	270
	270	**0**	**0**	**270**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**270**
Non-current investments												
Held-to-maturity securities	34,692	0	0	34,692	0	129	248	377	0	0	0	34,563
	34,692	**0**	**0**	**34,692**	**0**	**129**	**248**	**377**	**0**	**0**	**0**	**34,563**
Other non-current assets												
Construction subsidy	201	0	10	0	211	0	0	0	0	0	211	201
Custodial account	516	0	0	163	353	0	0	0	0	0	353	516
	717	0	10	163	564	0	0	0	0	0	564	717
	76,566	**12**	**360**	**37,368**	**39,570**	**24,162**	**910**	**2,605**	**4**	**22,471**	**17,099**	**52,404**

Auditor´s Report

We have audited the consolidated financial statements prepared by USU Software AG, Möglingen, comprising the balance sheet, the income statement, the statement of accumulated earnings, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the combined management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Paragraph 1 HGB [Handelsgesetzbuch: German Commercial Code] are the responsebility of the parent company´s management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net asset, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated 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 annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Paragraph 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 24, 2006

Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schupeck	Barth
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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usu SOFTWARE AG

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USU Software AG, Möglingen

Balance Sheet as of December 31, 2005

ASSETS

	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
A. ASSETS			
Financial assets	(1)		
1. Shares in affiliated companies		11,464	10,188
2. Long-term investments		0	21,616
3. Other loans		40	0
		11,504	**31,804**
B. CURRENT ASSETS			
I. Receivables and other assets	(2)		
1. Trade receivables		0	32
2. Receivables from affiliated companies		312	2,190
3. Other assets		1,600	2,257
		1,912	**4,479**
II. Securities			
1. Treasury shares	(3)	185	395
2. Other securities		2,934	15,586
		3,119	**15,981**
III. Cash on hand and bank balances		**7,219**	**5,588**
		12,250	**26,048**
C. PREPAID EXPENSES		**7**	**0**
		23,761	**57,852**

USU Software AG, Möglingen

Balance Sheet as of December 31, 2005

EQUITY AND LIABILITIES

	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
A. EQUITY			
I. Subscribed capital	(4)	9,135	8,606
II. Capital reserve	(7)	13,866	13,656
III. Revenue reserve			
Reserve for treasury shares	(8)	185	395
IV. Accumulated loss		-153	0
		23,033	**22,657**
B. ACCRUALS			
Other accruals	(9)	**385**	**522**
C. LIABILITIES	(10)		
1. Trade payables		9	43
2. Liabilities to affiliated companies		0	232
3. Other liabilities		334	34,398
		343	**34,673**
		23,761	**57,852**

USU Software AG, Möglingen

Income Statement
for the Fiscal Year from January 1 to December 31, 2005

		Note	2005 EUR k	2005 EUR k	2004 EUR k	2004 EUR k
1.	Other operating income	(13)		593		634
2.	Personnel expenses					
	a) Wages and salaries		214		60	
	b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 12 k (PY: EUR 0 k)		30	244	14	74
3.	Other operating expenses	(14)		794		839
4.	Income from profit transfer agreements	(15)	98		0	
5.	Income from other securities and loans of financial assets		91		902	
6.	Other interest and similar income (of which from affiliated companies: EUR 58 k; PY: EUR 113 k)	(16)	313		896	
7.	Amortization of financial assets and securities classed as current assets	(17)	210		437	
8.	Interest and similar expenses		0	292	3	1,358
9.	Result from ordinary activities			-153		1,079
10.	Other taxes			0		3
11.	Net loss (PY: net income)			-153		1,082
12.	Loss carryforward from the previous year			0		-65,544
13.	Drawings from capital reserve			0		64,513
14.	Drawings from reserve for treasury shares			210		0
15.	Income from reduction of capital			0		43,905
16.	Additions to capital reserve (in previous year due to regular capital reduction)			-210		-9,699
17.	Additions to reserve for treasury shares			0		-51
18.	Repayment obligations to shareholders due to capital reduction			0		-34,206
19.	Accumulated loss			-153		0

Notes for the 2005 Fiscal Year

USU Software AG, Möglingen

A. General

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

B. Accounting and valuation methods

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

With regard to **financial losses**, equity investments and securities are recorded at the lower of cost or net realizable value. These items are written down to reflect any impairment losses.

Receivables and other assets are stated at their nominal value. Specific bad debt allowances provide for existing bad debt risks.

Securities valued as current assets are stated at the lower of cost or net realizable value at balance sheet date. Zero bonds are valued at balance sheet date.

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

Liabilities are stated at the repayment amount.

C. Notes to the balance sheet

1. Fixed assets

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

Information on equity investments:

	Share in % Dec. 31,2005	Equity in EUR k Dec. 31,2005	Net income in EUR k 2005
USU AG, Möglingen	100.0	5,812	513
Openshop Internet Software GmbH, Ludwigsburg	100.0	-777	81
Omega Software GmbH, Obersulm 1)	100.0	1,068	98
Quantum Solutions GmbH, Dortmund 2)	30.0	4	-171

1) The reported net income relates to the abbreviated fiscal year from Oct. 1 to Dec. 31, 2005, before transfer to USU Software AG.

2) Insolvency proceedings were filed for Quantum in fiscal 2005. The data shown here originate from the financial statements of December 31, 2002; no significant details exist for the fiscal years

2003-2005.

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

	Share in % Dec. 31,2005	Equity in EUR k Dec. 31,2005	Net income in EUR k 2005
Gentner GmbH ProCOMMUNICATION, Möglingen	100.0	-1,577	-4
USU Software s.r.o., Brno, Czech Republic	100.0	196	-19
USU (Schweiz) AG, Zug, Switzerland	100.0	-344	21
ValueSolution Verwaltungs-GmbH i.L., Möglingen	100.0	28	0

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. The “Other assets” item contains corporate income tax refund claims for EUR 1,570 k.

3. Treasury shares

By resolution of the Annual General Meeting dated July 7, 2005, the Company’s Management Board was authorized again to acquire treasury shares in one or several steps with the approval of the Supervisory Board in the period until January 6, 2007 pursuant to Sec. 71 (1) No 8 AktG.

As of December 31, 2005, the Company held 53,950 treasury shares with an imputed share in the capital stock of EUR 54 k, i.e. 0.6 % of the capital stock as of December 31, 2005.

The treasury shares acquired by the Company are valued at amortized cost in agreement with the lower of cost or market principle and are recorded as treasury shares worth EUR 185 k as of December 31, 2005. For the adjustment to the lower market price as at balance sheet date, an amortization of EUR 210 k was necessary.

4. Subscribed capital

For the acquisition of all shares in Omega Software GmbH, Obersulm, there was a capital increase in return for a contribution in kind from authorized capital. This increased subscribed capital by EUR 529 k from EUR 8,606 k to EUR 9,135 k as at December 31, 2005.

The company’s subscribed capital is divided into 9,135,004 bearer shares of no-par value with an imputed share in subscribed capital of EUR 1.00 each. Of this amount, the Company holds 53,950 as treasury shares.

5. Authorized capital

At the Annual General Meeting of July 4, 2002 the Management Board was authorized to increase capital by up to EUR 8,600 k by issuing new shares in return for a cash contribution or a contribution in kind any time before July 3, 2007 subject to approval of the Supervisory Board (authorized capital). The shareholders must generally be granted subscription rights to any such increase. The Management Board is authorized, subject to approval of the Supervisory Board, to exclude the statutory subscription rights of the shareholders for fractional amounts to the extent required to grant bearers of convertible bonds or subscription rights issued by the Company new shares to which they are entitled by exercise of their conversion or subscription rights. 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 for shares in the same category. The Management Board is further authorized, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders for capital increases in return for contributions in kind for the purpose of acquiring companies or stakes in companies.

By resolution of the Annual General Meeting on July 15, 2004, authorized capital was reduced by EUR 4,300 k to EUR 4,300 k.

For the takeover of Omega Software GmbH, there was a capital increase in return for a contribution in kind from authorized capital. This reduced authorized capital by EUR 529 k, resulting in a figure as at December 31, 2005 of EUR 3,771 k.

6. Contingent capital

The subscribed capital of the Company was conditionally increased by shareholder resolution of March 2, 2000 by EUR 757 k by issuing 756,911 no-par bearer shares. The contingent increase of capital serves to grant option rights to members of the Management Board and employees of the Company as well as members of management and employees of affiliated companies. The contingent capital increase is only carried out to the extent that the bearers of the options issued exercise their rights. The new shares participate in profits from the beginning of the fiscal year in which the options are exercised.

By resolution of the Annual General Meeting on July 15, 2004 contingent capital was increased in the same proportion as the increase in subscribed capital, by EUR 1,552 k from EUR 757 k to EUR 2,309 k and reduced likewise by EUR 1,931 k from EUR 2,309 k to EUR 378 k.

In connection with the contingent capital a stock option agreement was concluded with several persons, according to which 21,206 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 4	Tranche 5
Date of issue	March 20, 2000	Oct. 31, 2000	May 1, 2001	June 1, 2001
Strike price in EUR	**124.20**	**44.86**	**14.92**	**15.54**
Outstanding as of January 1, 2004	**1,052**	**1,094**	**2,500**	**16,560**
Issued	0	0	0	0
Exercised	0	0	0	0
Lapsed	0	0	0	0
Outstanding as of December 31, 2004	**1,052**	**1,094**	**2,500**	**16,560**
Issued	0	0	0	0
Exercised	0	0	0	0
Lapsed	0	0	0	0
Outstanding as of December 31, 2005	**1,052**	**1,094**	**2,500**	**16,560**
Exercisable as of December 31, 2005	**1,052**	**0**	**0**	**0**

7. Capital reserve

Following drawings from the reserve for treasury shares, the capital reserve increased by EUR 210 k, finishing at EUR 13,866 k as of December 31, 2005.

8. Reserve for treasury shares

Corresponding to the treasury shares reported under the item “treasury shares”, a reserve for treasury shares exists at EUR 185 k. In fiscal 2005, an amount of EUR 210 k was withdrawn due to a value adjustment pursuant to Sec. 253 para. 3 clause 1 HGB and added to the capital reserve.

9. Other accruals

Other accruals comprise mainly costs for fulfilling obligations in accordance with company law, costs for the arbitration proceedings in connection with the still-pending squeeze-out procedure of USU AG and other outstanding invoices.

10. Liabilities

As in the prior year, all liabilities have a remaining term of less than a year. Other liabilities contain liabilities of EUR 2 k for social security (PY: EUR 1 k) and EUR 332 k for taxes (PY: EUR 190 k).

11. Contingent liabilities

USU Software AG issued a letter of comfort for Openshop Internet Software GmbH, Ludwigsburg. According to the letter, USU Software AG, Möglingen, is obliged to manage the subsidiary in fiscal 2006 and equip it with sufficient financial resources to meet its liabilities. Above and beyond that, USU Software AG issued a letter of subordination for all its receivables of a total of EUR 790 k to the benefit of Openshop Internet Software GmbH.

12. Other financial obligations

Apart from the contingent liabilities, there were other financial obligations totaling EUR 1,210 k at balance sheet date. Of this, EUR 1,200 k concern the maximum permissible increase amount to the purchase price paid so far for the shares in Omega Software GmbH (earn-out clause), should certain future conditions apply. A further EUR 10 k resulted from a tenancy.

D. Notes to the income statement

13. Other operating income

Other operating income consists chiefly of income from other periods related to the reversal of accruals (EUR 250 k), book profits from sales of securities (EUR 149 k) and the reversal of allowances for loans of financial assets (EUR 80 k). Moreover, the item contains proceeds from the offsetting of services rendered within the Group (EUR 90 k).

14. Other operating expenses

Other operating expenses mostly include costs connected to investor relations or costs linked to the Annual General Meeting (EUR 255 k). Costs were also incurred for services provided by the subsidiary USU AG (EUR 199 k) and legal and consulting costs (EUR 139 k).

15. Income from profit transfer agreements

On March 2, 2000, the Company concluded a profit transfer agreement with Openshop Internet Software GmbH. With the agreement, Openshop Internet Software GmbH is committed to transferring its entire profit to USU Software AG during the contract period. Transfer to the free reserves is only possible with the consent of USU Software AG. In return, USU Software AG undertakes to offset every net loss incurred during the contract period, if this cannot be offset by the reversal of free accruals formed during the contract period.

No income from profit transfers was recorded in 2004 and 2005 as Openshop Internet Software GmbH net profit for the year was used to offset pre-contractual loss carryforwards in with analogous application of Sec. 301 AktG.

On May 19, 2005 the Company concluded a profit transfer agreement with Omega Software GmbH. With this agreement, Omega Software GmbH undertakes to transfer its entire profits to USU Software AG over the contract period. A transfer to the free reserves is only possible with the consent of USU Software AG. In return, USU Software AG undertakes to offset every net loss incurred during the contract period if this cannot be offset by the reversal of free accruals formed during the contract period.

In the abbreviated fiscal year from October 1 to December 31, 2005, Omega Software GmbH generated profits of EUR 98 k which has been transferred to USU Software AG on the basis of the profit transfer agreement.

16. Other interest and similar income

In the previous year, this item contained income from fixed-interest securities of the property, plant and equipment amounting to EUR 902 k, which pursuant to commercial law principles is to be recorded under the separate item “Income from other securities and loans on financial assets (No. 5). The previous year’s post was adjusted accordingly.

17. Amortization of financial assets and securities classified as current assets

In the fiscal year 2005, this item refers only to amortization of treasury shares as per Sec. 253 (3) Sentence 1 HGB to the lower value on the balance sheet date.

E. Other notes

18. Supervisory Board

Members of the Supervisory Board in fiscal year 2005 were:

Udo Strehl, Chairman
Managing director of Udo Strehl Private Equity GmbH
Chairman of the Supervisory Board of USU AG, Möglingen

Günter Daiss, Deputy chairman
Versicherungskaufmann,
Chairman of the Management Board of G. W. Barth AG, Freiberg a. N.
Deputy chairman of the Supervisory Board of USU AG, Möglingen
Member of the Administrative Board of Kreissparkasse Ludwigsburg, Ludwigsburg

Erwin Staudt,
Diplom-Volkswirt
Full-time president of VfB Stuttgart 1893 e.V., Stuttgart
Member of the Supervisory Board of Grenke Leasing AG, Baden-Baden
Member of the Supervisory Board of Hahn Verwaltungs-GmbH, Fellbach
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU AG, Möglingen

19. Management Board

Bernhard Oberschmidt, Diplom-Ökonom
Spokesperson of the Management Board

20. Total remuneration of the Management Board

The Company has elected to exercise the protective clause of Sec. 286 (4) HGB with regard to the total remuneration paid to the Management Board.

21. Total remuneration of the Supervisory Board

The remuneration of the Supervisory Board amounted to EUR 50 k (PY: EUR 67 k) and is composed entirely of fixed payments.

22. Auditor’s fees

a) Audit (individual and consolidated financial statements):	EUR 38 k
b) Other certification and valuation services:	EUR 6 k
c) Other services:	EUR 7 k

23. Reporting obligation pursuant to Sec. 160

During the fiscal year 2005, there were no changes in the Group affiliations to trigger the reporting obligation pursuant to Sec. 160 Paragraph.1 No.8 AktG.

24. Employees

The average number of employees during the fiscal year 2005 was 1 (2004: 2).

25. Group affiliations

USU Software AG is the parent company of the companies contained in the list of equity investments. These companies are affiliated to USU Software AG. Pursuant to Sec. 315 a Paragraph 1 of the German Commercial Code, USU Software AG prepares consolidated financial statements in accordance with IFRS for the smallest and the largest group of companies. The consolidated financial statements are to be submitted to the commercial register in Stuttgart. The consolidated statements are also available upon request from USU Software AG in Möglingen. They are also available on the internet site of USU Software AG at http://www.usu-software.de.

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

The management and Supervisory Boards of USU Software AG issued the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG on December 12, 2005 and have made it permanently available to the shareholders on the internet site of USU Software AG at http://www.usu-software.de. More information of the declaration of compliance can be found in the combined management report of the Company and the Group attached to these financial statements.

Möglingen, February 24, 2006

Bernhard Oberschmidt

Spokesperson for the Management Board

USU Software AG, Möglingen

Consolidated Statements of Changes in Non-Current Assets for 2005 (Appendix to the Notes)

	Historical cost				Accumulated depreciation and amortization			Carrying amount	
	Jan 1, 2005	Additions	Disposals	Dec. 31, 2005	Jan 1, 2005	Disposals	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Financial assets									
Shares in affiliated companies	10,448	1,276	0	11,724	260	0	260	11,464	10,188
Equity investments	200	0	0	200	200	0	200	0	0
Long-term investments	21,937	0	21,937	0	321	321	0	0	21,616
Other loans	510	0	51	459	510	91	419	40	0
	33,095	1,276	21,988	12,383	1.291	412	879	11,504	31,804

Auditor´s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of the USU Software AG, Möglingen, for the business year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation 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 management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch: German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the 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 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, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and 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. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 24, 2006

Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schupeck Wirtschaftsprüfer [German Public Auditor]	Barth Wirtschaftsprüfer [German Public Auditor]

The existence of the USU Group depends on its ability to recognize market trend, technological developments and customer requirements quickly and comprehensively, in order to derive from these innovations suitable for the market and to market them successfully.

Being responsible for the future of the Group and its members, the Management Board has formed an advisory board whose members are to advise and inform the Company from the perspectives of the market, IT knowledge and practice and general managerial experience.

In the 2005 fiscal year, the following were members of the advisory board:

Chairman:
Bernhard Dorn, *Management Consultant, formerly Managing Director of IBM Deutschland GmbH*

Deputy Chairman:
Wilhelm Barthelmeß, *Chairman of the Management Board of ISB AG, a subsidiary of Fiducia AG*

Active managers from the fields of economics and research:

Karl-Heinz Holzwarth, *Accenture Technology Solutions GmbH*

Werner Schmidt, *Member of the Management Board of LVM-Versicherung*

Ralf Stankat, *member of the Management Board of VR Kreditwerk AG*

Jörn Stapelfeld, *Member of the Management Board of Volksfürsorge Versicherungsgruppe*

Werner Strohmayr, *Member of the Supervisory Board of HUK-COBURG Lebens- / Krankenversicherung*

Prof. Dr. Herbert Weber, *Head of Fraunhofer Institut "Software and Systems Engineering"*

Klaus-Rüdiger Willer, *Managing Director of W&W Informatik GmbH*

Former managers from the fields of economics and research:

Harald Koch, *Management Consultant, former Chairman of the Management Board of dvg*

Hans-Peter Martykan, *Management Consultant, former managing director of AGIS mbH*

Alfred Sigl, *former deputy Chairman of the Management Board of Barmer Ersatzkasse*

The Management Board extends its thanks to the members of the advisory board for their helpful suggestions and ideas.

Financial Calendar for 2006*

March 20, 2006	Annual report 2005
May 18, 2006	3-month report 2006
July 20, 2006	Annual General Meeting
August 17, 2006	6-month report 2006
November 16, 2006	9-month report 2006

*presumably dates for fiscal year 2006.

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