ANNUAL REPORT 2006

USU SOFTWARE AG

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ANNUAL REPORT 2006

FOREWORD

Each year around USD 1,000 billion are spent worldwide on global technology – ten times more than in 1977, the year in which USU was founded. An estimated 90% of the global economy volume is controlled on some form by information technology (IT). More than 60 years ago, in 1943, Thomas J. Watson, the founder of IBM, could not possibly have imagined that there would ever be more than 5 computers in the whole world. Today, there are around one billion. The reason for his mistake: Only scientists would use computers, not business people. Kenneth Olsen, the founder of Digital Equipment, was mistaken because he believed that only business people would use computers, not private individuals.

Today, we know: Everything turned out differently. There are now more computers in private homes than in industry. But two topics always remained the same, over the decades and over all target groups:

1. How do we open up to the advantages of computers?
2. How do we control information technologies?

Behind these two questions, long-standing issues, is the business model of the USU Group. We started out in software consultancy. In the past, we helped our customers discover the advantages. We call it project business. However, we have also been in the product business for almost two decades. Here, we focus mainly on the second question. We ensure that our customers have their IT infrastructures under control. Our customers' success is reflected in our company figures: In 2006, sales increased by 24% to EUR 26 million with profit growth of 100% to over EUR 2 million.

Business success in 2006 shows that for our customers the questions of IT structure are the most important as only in this way is it possible to benefit fully. Experts refer to this connection between structure and benefit as Business Service Management (BSM). We benefit from this. As it is our field of expertise. But do we ourselves have the appropriate structure to grow with this field?

For us, this was the decisive question in 2006. We found a good answer. And it functions as became immediately clear when we acquired the company LeuTek in the fourth quarter of 2006. In doing so, we expanded our range of IT management to include the monitoring of computing centers, for example. Decisive, however, was the fact that the new employees immediately settled down in our company. This is the most difficult hurdle in any company acquisition. We overcame it. Quite simply: Because our structure is the right one. The structure alone gives every employee the orientation he or she needs – in a market in which everything turns out differently, on the one hand, and differently to what is expected on the other.

Yours,

Bernhard Oberschmidt

Spokesperson for the Management Board of USU Software AG

CORPORATE GOVERNANCE REPORT 2006

Corporate Governance

Corporate Governance encompasses the entire system of managing and monitoring a company including its organization, its corporate principles and guidelines as well as the system of internal and external control and monitoring mechanisms. 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 2006.

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, 2006:

The Management Board 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 June 12, 2006, announced in the official section of the electronic Federal Gazette on July 24 2006 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 2.2.2 of the Code, in the event of new shares being issued the shareholders should always be granted a subscription right corresponding to their share in the subscribed capital.

The Management Board of USU Software AG was authorized by the Annual General Meeting, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders under certain conditions in accordance with Section 6 clause 3 of the articles of association. This particularly concerns capital increases in return for contributions in kind for the purpose of acquiring companies or stakes in companies. In the 2006 fiscal year, a capital increase through contributions in kind from authorized capital was approved for the acquisition of LeuTek GmbH by the Management Board of USU Software AG with the approval of the Supervisory Board, for which the subscription right of the shareholders was excluded.

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 Management Board 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 Management Board shall comprise several persons.

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

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

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

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

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

According to clause 5.4.7 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 and will in the future also be provided in the Notes to the Group annual financial statements as well as in the Corporate Governance Report as the total remuneration of all Supervisory Board members 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.

Report on the Compensation of the Management Board and the Supervisory Board

Compensation of the Management Board

The compensation of the Management Board, divided into a fixed and a variable component, is specified at an appropriate level by the Supervisory Board taking into account all remuneration in the scope of consolidation on the basis of a performance assessment. The variable component is based on the achievement of targets set annually by the Supervisory Board. This is fixed after conclusion of the annual planning for the particular fiscal year. The amount of the variable compensation actually paid out depends on the degree to which the agreed quantitative and qualitative targets are met.

In the 2006 fiscal year, the fixed compensation of USU Software AG's Management Board spokesperson and sole member of the Management Board, Bernhard Oberschmidt, in the Group as a whole was EUR 128.5 thousand. In addition, the Company awarded the Management Board a social security supplement of EUR 11.0 thousand and contributed EUR 12 thousand to the private pension. There was also a monetary value benefit of EUR 17.2 thousand to the Management Board for the private use of company vehicles. The variable compensation component, measured against the achievement of targets for Group EBIT of the USU Group for 2006, is expected to be EUR 52.0 thousand.

The aforementioned compensation includes all remuneration of the Management Board spokesperson, Bernhard Oberschmidt, in the group. The sole member of the Management Board of USU Software AG is also the Management Board spokesperson of the Group subsidiary USU AG, President of the Group subsidiary USU (Schweiz) AG and Managing Director of the Group subsidiary Openshop Internet Software GmbH.

Compensation of the sole member of the Management Board, Bernhard Oberschmidt, for the 2006 fiscal year in EUR thousand			
Fixed compensation	**Supplement for social security and pension**	**Monetary advantage from private use of company vehicles**	**Variable compensation**
128.5	23.0	17.2	52.0

Table: Individualized Management Board compensation of USU Software AG and the Group

Compensation of the Supervisory Board

The compensation of the Supervisory Board of USU Software AG is regulated by Section 17 of the articles of association. Accordingly, every member of the Supervisory Board of USU Software AG receives a fixed compensation of EUR 12.5 thousand in addition to the reimbursement of expenses for every full fiscal year of membership of the Supervisory Board. The Chairman of the Supervisory Board receives double the amount. The compensation of the Supervisory Board of USU Software AG does not include any variable components.

The members of the Supervisory Board of USU Software AG are also represented in the Supervisory Board of the Group subsidiary USU AG. The compensation of the Supervisory Board of USU AG was approved by resolution of the Annual General Meeting of this company on May 22, 2000 in accordance with Section 12 of the articles of association of USU AG and is valid until otherwise decided by the Annual General Meeting. Accordingly, each member of the Supervisory Board of USU AG receives an annual fixed compensation for each year of membership of the Supervisory Board amounting to EUR 5.0 thousand, the Chairman of the Supervisory Board receives EUR 10.0 thousand and the Deputy Chairman EUR 7.5 thousand. The compensation of the Supervisory Board of USU AG does not contain any variable components.

Group-wide compensation for the Supervisory Board of the USU Group was EUR 72.5 thousand in the 2006 fiscal year.

Further details under the Corporate Governance Report

Directors' dealings and securities held by the Boards

The shares and stock options held by board members of USU Software AG as at December 31, 2006 were as follows:

Board stock reports	Shares	Stock options
Management Board		
Bernhard Oberschmidt	18,696	0
Supervisory Board		
Udo Strehl*	1,989,319	0
Günter Daiss	5,500	0
Erwin Staudt	17,100	0

** Through Udo Strehl Private Equity GmbH, a further 4,172,348 voting shares in USU Software AG can also be allocated to Udo Strehl as majority shareholder in this company pursuant to Section 22 (1) Sentence 1 No. 1 WpHG. Furthermore, through "Knowledge is the Future" foundation, Udo Strehl, as Managing Director of this foundation is allocated 32,000 voting rights in USU Software AG pursuant to Section 22 (1) Sentence 1 No. 1 WpHG.*

On October 31, 2006, members of the Supervisory Board, Erwin Staudt and Günter Daiss purchased of USU Software AG 7,000 shares and 5,500 shares respectively on the Stuttgart Stock Exchange. Supervisory Board members Erwin Staudt and Günter Daiss 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

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.

SUPERVISORY BOARD REPORT

Dear Shareholders,

2006 was another successful fiscal year. With a sales increase of almost 25% and consolidated net profit twice that of the previous year, USU Software AG and its subsidiaries (hereinafter: “Group”, “USU Group” or “USU”) clearly exceeded its own targets. With this positive business development, USU Software AG created the foundation for the first payment of a dividend to shareholders. The Supervisory Board has thus approved the Management Board’s suggestion on the appropriation of net profit to propose to the Annual General Meeting of USU Software AG a dividend payment of EUR 0.10 for each entitled share.

The USU Group is also well-equipped for the future. Thanks to the development of new product versions and innovations, in the 2006 fiscal year USU has selectively extended its own range. With the acquisition of LeuTek GmbH, USU supplemented its Group-wide portfolio and positioned itself strategically in the market for business service management. This created the foundation for further expansion of the international product and solution business and, as a result, for future growth.

Performance of Supervisory Board duties

In the 2006 fiscal year, the Supervisory Board intensively monitored the business development of USU Software AG and the Group and was constantly in contact with the Management Board. In doing so, the Supervisory Board, the Supervisory Board was constantly informed pursuant to Section 90 (1) and (2) AktG of the development and situation including the profitability of USU Software AG and the Group, corporate planning, risk management and all key business transactions and projects. For its part, as in previous years, the Supervisory Board supervised and regularly advised the Management Board and was directly 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 in writing, by telephone or in person.

Meetings of the Supervisory Board and focal points of discussion

The Supervisory Board held a total of eight meetings in the 2006 fiscal year. All Supervisory Board members personally attended all meetings of the Supervisory Board or took part by conference call. In the meetings of the Supervisory Board, a main focus was on discussing business development, the asset, financial and earnings situation and the strategic planning of USU Software AG and the Group. To this end, the Management Board of USU AG reported regularly on the development of sales, earnings and profitability as well as the liquidity of the Company and the Group as a whole. Area management also reported to the Supervisory Board on the development of business in 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 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 the 2006 fiscal year, this concerned the acquisition of LeuTek and the associated capital increase through contributions in kind from the authorized capital and the granting of a loan to the Management Board of a Group subsidiary. The Supervisory Board meetings also discussed the risk management system of USU Software AG and the Group as a whole, development of the Company's share price and the implementation of the provisions of the German Corporate Governance Code.

Corporate Governance and Declaration of Compliance

The responsible management and control of USU Software AG and the Group directed towards sustained value creation are the focus of the activities of the Management Board and the Supervisory Board of the Company. The Supervisory Board is committed to these principles of Corporate Governance and acts accordingly. On December 12, 2006, the Supervisory Board discussed the points of the Corporate Governance Code with the Management Board. The Management Board and Supervisory Board of USU Software AG issued the relevant Declaration of Compliance in line with Section 161 of the German Stock Corporation Act on the same day and made it permanently available on the Company's homepage. This Declaration of Compliance and other information regarding Corporate Governance at USU Software AG can be found in the previous chapter of the 2006 fiscal year "Corporate Governance Report 2006".

Meetings of the Supervisory Board and Committees

The mandates of all members of the Supervisory Board ended as planned with the end of the ordinary Annual General Meeting of USU Software AG on July, 20 2006. For this reason, a new election took place during the Annual General Meeting at which the previous members of the Supervisory Board, Günter Daiss, Erwin Staudt and Udo Strehl, were re-elected for a further term of office in accordance with Section clause 2 of the articles of association. In accordance with clause 5.4.3 of the German Corporate Governance Code, the election of the Supervisory Board was carried out on an individual basis. Udo Strehl was again elected from the members of the Supervisory Board as Chairman and Günter Daiss was elected as the Deputy Chairman of the Supervisory Board. Since the Supervisory Board comprises three members, no committees were set up in the 2006 fiscal year.

Audit of the annual and consolidated financial statements

In line with a corresponding 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 2006 fiscal year and at the same time coordinated the focus of the audit for the 2006 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 2006 annual financial statements in accordance with the rules of the German Commercial Code (HGB), the 2006 consolidated financial statements pursuant to IFRS and the management report on the Company and the Group for the fiscal year from January 1, 2006 to December 31, 2006 and granted each an unqualified audit opinion. The Supervisory Board was presented with the aforementioned financial statement documents including the Management Board’s proposal on the appropriation of the net profit for checking in a timely manner. At the accounts meeting on March 12, 2007, 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. At the same time, the Supervisory Board approved the Management Board’s proposal for appropriation of the net profit to use the unappropriated surplus of USU Software AG as at December 31, 2006, amounting to EUR 1,548,735.47, as determined in accordance with the German Commercial Code as follows:

- To pay a dividend of EUR 0.10 per share for 9,081,054 shares:
  EUR 908,105.40
- To carry forward the remaining profit:
  EUR 640,630.07

Furthermore, the Management Board of USU Software AG, as parent company of the USU Group, compiled its related parties report for the fiscal year from January 1, 2006 to December 31, 2006 in line with Section 312 of the German Stock Corporation Act and came to the following concluding declaration:

“We declare that our Company, in line with the circumstances that 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.”

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, 2006 to December 31, 2006 and the auditors’ audit report. The examination by the Supervisory Board pursuant to Section 314 of the German Stock Corporation Act did not raise any objections to the final declaration of the Management Board.

Concluding remarks and thanks

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 loyalty and commitment. Without their personal commitment, the success for the USU Group would not have been possible in the first place. My special thanks go to the Chairman of the Management Board of USU Software AG, Bernhard Oberschmidt, for his unflagging commitment which has benefited the whole USU Group, and the extremely positive cooperation.

Möglingen, March 12, 2007

For the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board of USU Software AG

Management Report and Group Management Report 2006

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MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT FOR 2006

SUMMARY

As parent of the Group, USU Software AG, Möglingen, Germany, directly or indirectly participates in the operating companies USU AG, Möglingen, Germany, LeuTek GmbH, Leinfelden-Echterdingen, Germany, Omega Software GmbH, Obersulm, Germany, USU Software s.r.o., Brno, Czech Republic, and USU (Schweiz) AG, Zug, Switzerland. There are also participations in Openshop Internet Software GmbH, Möglingen, Germany, and Gentner PROCommunication GmbH i.L., Möglingen, Germany, which no longer operate.

LeuTek GmbH (hereinafter: “LeuTek”) was acquired as at November 6, 2006 by USU Software AG and consolidated in the present consolidated financial statements as at the date of acquisition. LeuTek complements the portfolio of USU Software AG and its subsidiaries (hereinafter: “USU Group” or “USU”) in the fields of systems and process management. With the extended portfolio, USU has positioned itself strategically in the market for business service management.

In the 2006 fiscal year, USU increased Group sales compared to the previous year by 24.3% to EUR 25,930 thousand (PY: EUR 20,861 thousand). In addition to the acquisition of LeuTek in November 2006, organic growth in the high-margin product business of the subsidiaries USU AG and Omega Software GmbH (hereinafter: “OMEGA”) particularly contributed to this positive business development. During the reporting period, the USU Group achieved an above-average increase in profitability. A significant share of the USU Group’s profit was provided by USU AG. In connection with the profit generation of USU AG and the positive taxable income expected in the future, it was necessary to create deferred tax assets included in net profits on the tax losses of USU AG amounting to EUR 655 thousand in accordance with IFRS. This led at the same time to an unscheduled goodwill amortization for the same amount included in net loss at USU Software AG. The balanced after-tax effect of these measures is not recognized in income. Accordingly, in the 2006 fiscal year, earnings before interest, taxes and depreciation (EBITDA) increased by 137.5% to EUR 2,313 thousand (PY: EUR 974 thousand). Earnings before interest and taxes (EBIT) adjusted for the unscheduled amortization improved by 531.8% to EUR 1,668 thousand (PY: EUR 264 thousand). With a twofold increase of the consolidated net profit to EUR 2,101 thousand (PY: EUR 1,048 thousand), the increase in the USU Group’s profit in the reporting year considerably exceeded the forecasts from the Management Board of USU Software AG.

Earnings per share rose from EUR 0.12 EUR in 2005 to EUR 0.23 in the reporting year. As already announced, the Management Board and the Supervisory Board of USU Software AG will propose to the ordinary Annual General Meeting on July 12, 2006 to distribute a dividend of EUR 0.10 for each entitled share. Thus, the shareholders of USU Software AG will participate for the first time directly in the Company's success.

Overall economic development

In 2006, there was a sharp upswing in the European core market of USU Software AG. Supported by strong domestic demand and dynamic export business, gross domestic product (GDP) adjusted for special effects in the Euro zone increased by 2.7% according to information from the Statistical Office of the European Commission (Eurostat), in comparison with the previous year. In 2005, economic growth in the Euro zone was 1.4%.

There was also considerable growth in the German economy over the reporting period. Here, growth was stimulated primarily by high demand from abroad, increased private consumer spending and increased investment by companies. Overall, according to studies carried out by the German Federal Office of Statistics, Germany experienced economic growth of 2.7% in 2006 (PY: 0.9%).

Development of the industry

In 2006, the IT industry also proved to be a growth engine for the overall economy. Above all, the areas of software and IT services in which USU Software AG and its subsidiaries operate reported an above-average increase in the market volume due to rising company investments in information technology. According to studies by the European Information Technology Observatory (EITO), the European software market for system and application programs grew by 6.3% in the period investigated, following an increase of 5.5% in 2005. According to EITO calculations, sales with IT services in Europe increased by 5.3% (PY: 4.3%).

The German market for information technology also benefited from the increased willingness of the economy to invest in IT to support company-related business processes. According to forecasts from the German Association for Information Technology, Telecommunications and New Media (BITKOM), in 2006 the software and IT services market segments achieved growth rates of 5.5% (PY: 4.5%) and 4.5% (PY: 4.4%).

Business development

In all quarters of the 2006 fiscal year, USU Software AG and its subsidiaries recorded a significant sales and earnings increase compared with the previous year. Particularly pleasing was the development of the product business both in Germany and abroad, in which USU primarily operates by way of partner companies.

During the reporting period, the USU Group made further progress towards expanding foreign activities. In the USA, for example, several new customers were obtained such as the catering service company Guckenheimer, the energy Group Avista and the diagnostics company Roche Diagnostics. In Italy, the projects for the Italian post office (Poste Italiane) and Italian railways (Ferrovie dello stato) were extended. Trenitalia, a subsidiary of Ferrovie dello stato, was also added to the customer base.

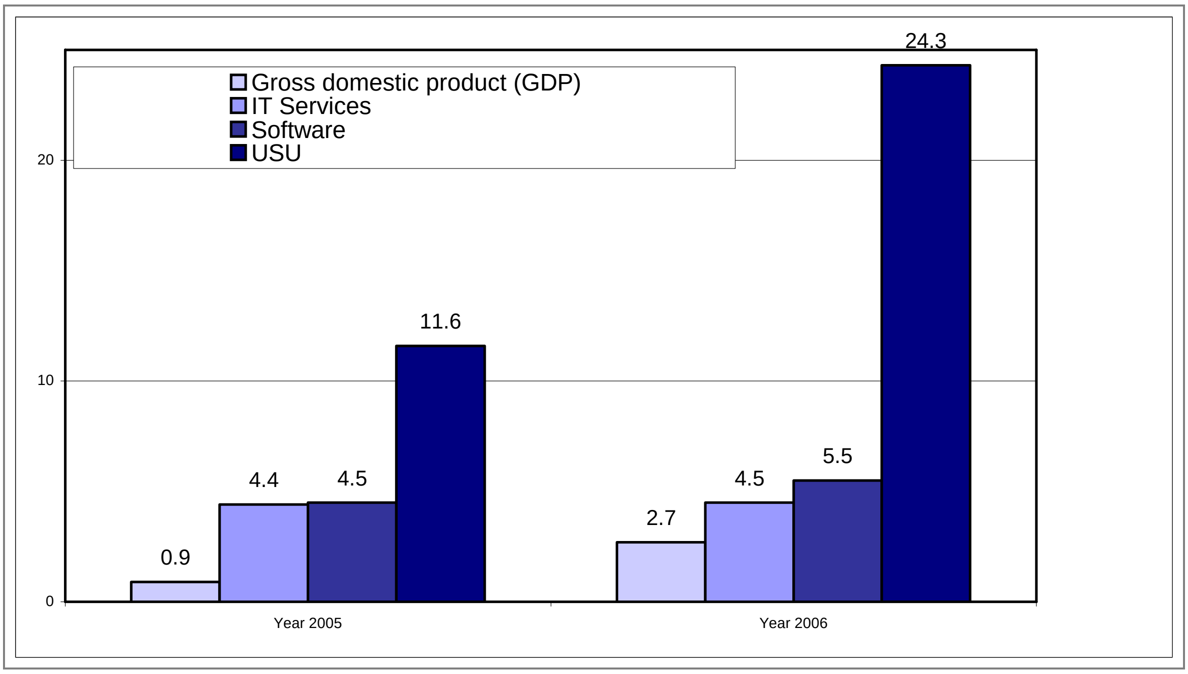


Diagram: Comparison between German economic and market growth versus sales growth of the USU Group

On the German domestic market, USU also achieved successful project agreements for new and existing customers. New customers included ARAG, BMW, Cordial, ITERGO, O2 and techem. The acquisition of LeuTek GmbH at the beginning of November 2006 also had a positive effect on sales and earnings. The company's financial data were consolidated in these financial statements with effect from November 6, 2006.

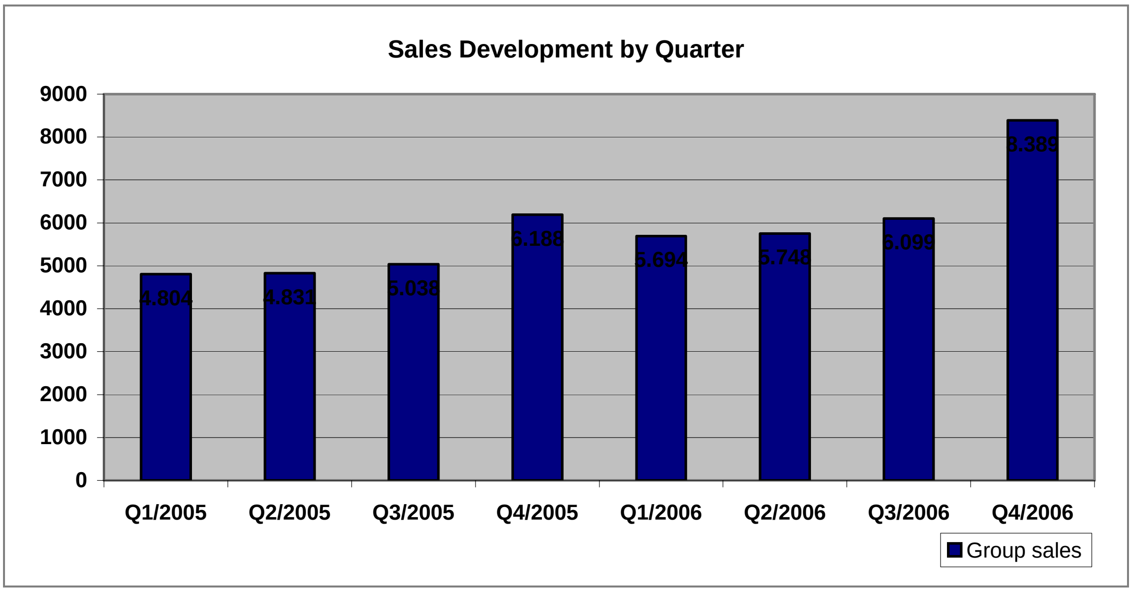
LeuTek is a software company which develops and markets standard software for systems and process management. The LeuTek products, ZIS-System, ZISGUI and ZISSLM, monitor, visualize, automate and control all systems and processes required for IT operation. The company, which was established in 1984, is an ideal addition to the product range of USU and will make a significant contribution to consolidating the market position in the business service management (BSM) growth market. In a sub-division of BSM, IT asset management, USU is already one of the world's five largest manufacturers according to an analysis carried out by the market research company Forrester. In the next few years, this top positioning is to be consolidated and expanded through the internationalization of the USU Group. To this end, a new structure for the USU Group was developed, specified and implemented as at January 1, 2007. As a result of streamlining the central areas of sales, consultancy and development, which are supported by the new main unit Business Development and Project Office, the merging of the IT Management Solutions and Business Solutions segments in connection with the Business Service Management alignment of the USU Group is also organizationally implemented. Here, USU's main objective is to further increase the high growth rates in the operating business in future.

Development of sales and costs

Group sales

In fiscal 2006, the USU Group increased Group sales by 24.3% or EUR 5,069 thousand over the previous year to EUR 25,930 thousand (PY: EUR 20,861 thousand). This positive development was mainly the result of successful product and solution business in Germany and abroad. In addition to organic growth, the acquisition of LeuTek in November 2006 contributed to the positive business development.

Due primarily to the acquisition of numerous new customers, continued good business with existing customers and additional sales successes in international partner business, USU reported an above-average increase in license revenues of 51.0% to EUR 4,063 thousand (PY: EUR 2,690 thousand). The share of income from software licenses in total sales increased from 12.9% in the previous year to 15.7% in the reporting year. As with the expansion of the licensing business, the USU Group recorded an increase of 27.8% in maintenance income to EUR 2,910 thousand (PY: EUR 2,277 thousand), which corresponds to a Group-wide sales contribution of 11.2% (PY: 10.9%). The consultancy business contributed a 17.8% increase in sales over the previous year, totaling EUR 18,457 thousand (PY: EUR 15,668 thousand). As a result, the share of consultancy revenues in Group sales was 71.2% (PY: 75.1%). Other sales revenue totaled EUR 500 thousand (PY: EUR 226 thousand) or 1.9% (PY: 1.1%) of Group sales and consists principally of merchandise.



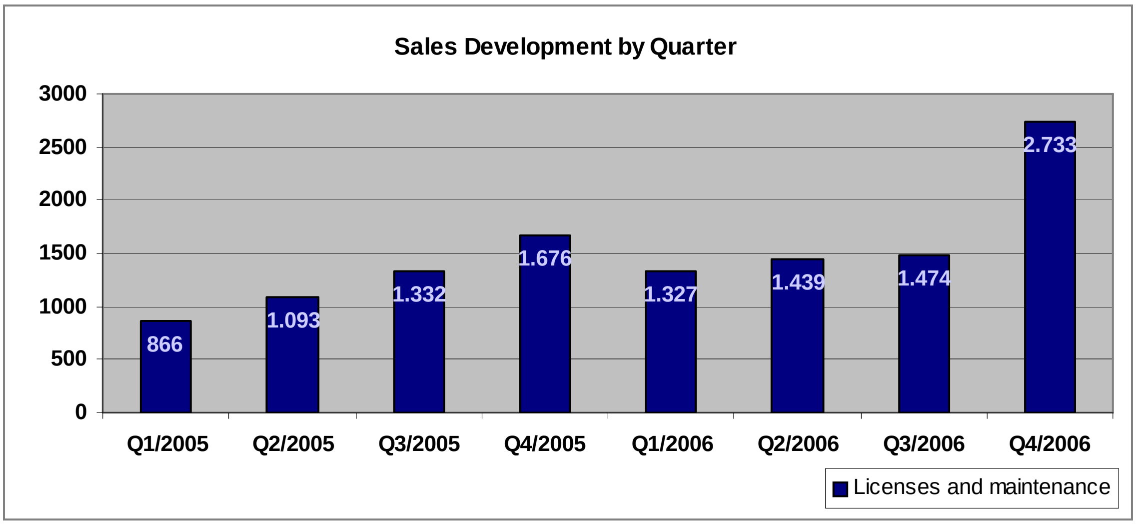


Diagram: Sales development by quarter for the 2006 and 2005 fiscal years IFRS in EUR thousand

Sales of the USU Group generated outside Germany increased by 30% in the reporting period to EUR 3,057 thousand (PY: EUR 2,352 thousand). Accordingly, the share in Group sales increased slightly to 11.8% (PY: 11.3%). Here, it must be taken into account that the sales contribution of LeuTek only includes a small foreign share in the 2006 fiscal year. The USU Group pursues the strategy of opening up additional sales markets by obtaining new strategic partnerships as well as extending existing ones in Germany and abroad, into which LeuTek products will also be incorporated in the future.

Sales by segment

The IT Management Solutions segment generated a significant increase in sales from 55.9% to EUR 14,368 thousand (PY: EUR 9,216 thousand). This increase is primarily the result of strong product business and the associated license and product-related consultancy revenues. This will also result in higher maintenance revenues for USU in future. As well as its own organic projects, the external company acquisition of LeuTek and the orders generated by international USU partners also had a particularly positive impact on the development of this segment.

Compared with 2005, the Business Solutions segment generated a slight decline in sales of 1.0% to EUR 11,488 thousand (PY: EUR 11,603 thousand), which resulted exclusively from the pure consultancy business. In this business segment, USU increasingly focused on the higher-margin, product-related solutions business. As a result, in the 2006 fiscal year the license and maintenance sales of the Business Solutions segment increased by 25% over the previous year.

Sales not assigned to the segments rose from EUR 42 thousand in 2005 to EUR 74 thousand in the reporting period.

Operating costs

In comparison with the sales increase, the increase in the operating function costs was below-average in the 2006 fiscal year at 17.2% or EUR 3,563 thousand to EUR 24,308 thousand (PY: EUR 20,745 thousand).

Cost of sales increased over the previous year by 15.9% to EUR 15,208 thousand (PY: EUR 13,125 thousand). The increase in sales costs in comparison with the development of consultancy revenues was below average as a result of the expansion of the product-related internal consultancy team, the increased use of employees of the Czech Group subsidiary USU Software s.r.o. in consultancy projects and the resulting lower-level use of freelance workers. As a result of the simultaneous expansion of the product business, the cost of sales ratio fell significantly to 58.7% (PY: 62.9%) of Group sales. Accordingly, ***gross income from sales*** increased by 38.6% to EUR 10,722 thousand (PY: EUR 7,736 thousand), which corresponds to a gross margin of 41.3% (PY: 37.1%).

Marketing and selling expenses were increased purposefully in the 2006 fiscal year by 29.3% to EUR 3,525 thousand (PY: EUR 2,726 thousand) over the previous year. The increase in this expenses item reflects the expansion of partner management and marketing activities, amongst other things. In addition to the increased attendance at trade fairs and special events, numerous USU-specific events were also held. The expenses ratio for marketing and sales increased slightly to 13.6% (PY: 13.1%).

General administrative expenses increased compared to 2005 by 8.7% to EUR 2,703 thousand (PY: EUR 2,486 thousand). The relatively moderate increase in this expense item was exclusively the result of higher costs such as legal and consulting costs, fees for external services and stock exchange costs. Accordingly, the ratio for general administrative expenses fell significantly to 10.4% (PY: 11.9%) of Group sales.

Research and development costs amounted to EUR 2,872 thousand in the reporting period (PY: EUR 2,408 thousand), an increase of 19.3% over the previous year. This reflects the expansion of the USU Group's development from 65 employees as at December 31, 2005 to 84 employees at the end of the fiscal year, which is due primarily to the acquisition of LeuTek. In terms of Group sales, the expense ratio for research and development was 11.1% (PY: 11.5%).

The net figure for ***other operating income and expense*** totaled EUR 46 thousand in the 2006 fiscal year (PY: EUR 148 thousand). While other operating income primarily consists of income from writing back provisions, other operating expenses included charitable donations.

Earnings situation

As a result of expanding the high-margin product business and a comparatively moderate cost trend, in 2006 the USU Group continued the earnings trend of the previous years and achieved a considerable increase in profitability. A significant portion of the USU Group's earnings was contributed by USU AG, a Group subsidiary of USU Software AG. Following the net profits generated in the two previous years as well as the positive earnings prospects for the coming year, according to IFRS regulations the available deferred tax assets were to be reported in the balance sheet for the first time. The level of the deferred tax assets on the tax loss carry forwards is based on the forecast tax profit of USU AG in the 2007 fiscal year, on the basis of this Company's planning. In connection with the necessary realization of part of USU AG's tax loss carry forwards, a goodwill amortization of the same amount which impacted expenses became necessary at USU Software AG. The net after-tax effect of these measures totals zero.

In the 2006 fiscal year, the USU Group increased ***earnings before interest, taxes and depreciation (EBITDA)*** from operations by 137.5% to EUR 2.313 thousand (PY: EUR 974 thousand). Including the operations-related scheduled amortization of EUR 645 thousand (PY: EUR 710 thousand), recorded an improvement in ***earnings before interest and taxes (EBIT)*** of 531.8% to EUR 1,668 thousand (PY: EUR 264 thousand), after adjustment for the unscheduled goodwill amortization. Taking into account the special effect already explained with regard to the ***goodwill amortization*** amount to EUR 655 thousand (PY: EUR 0 thousand) and the cumulative ***interest income*** of EUR 491 thousand (PY: EUR 544 thousand), the USU Group generated ***earnings before taxes (EBT)*** totaling EUR 1,504 thousand (PY: EUR 808 thousand). Adding current taxes on income to the deferred tax assets on unused tax loss carry forwards results in total tax income for the reporting period of EUR 597 thousand (PY: EUR 240 thousand). With a twofold increase of the consolidated net profit to EUR 2,101 thousand (PY: EUR 1,048 thousand), the increase in the USU Group's profits in the reporting year was considerably higher than that forecast by the USU Software AG Management Board. With the average number of shares in circulation at 9,127,081 (PY: 8,830,128), USU also significantly increased ***earnings per share*** from EUR 0.12 in 2005 to EUR 0.23 in the 2006 fiscal year.

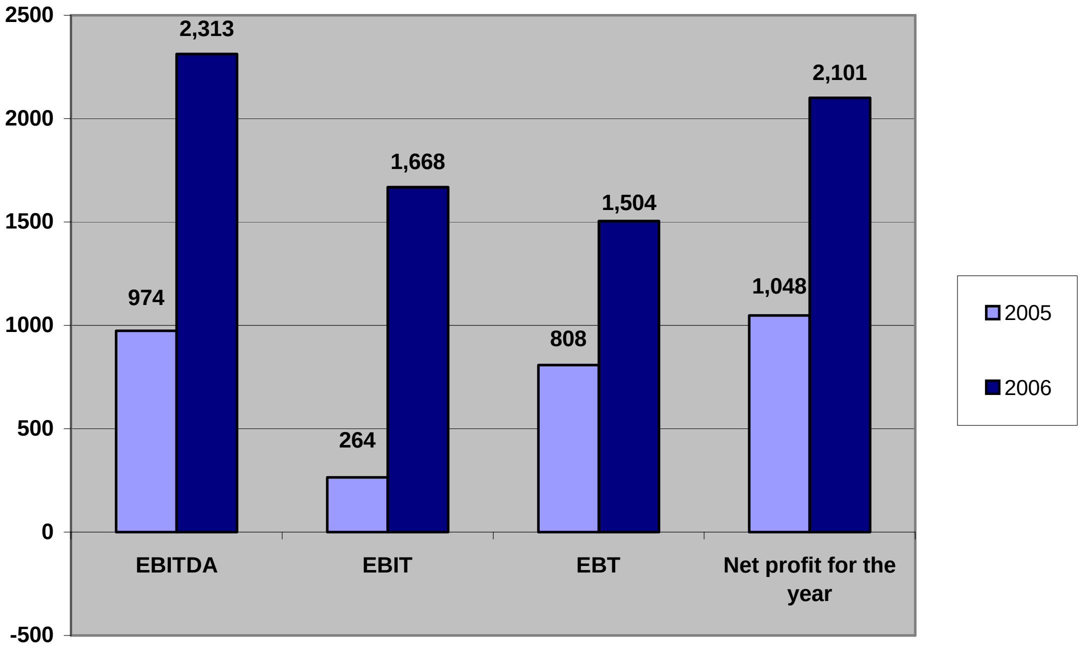


Diagram: Sales and earnings development of the USU Group in EUR thousand

Assets and financial situation

At the end of fiscal 2006, the USU Group's ***non-current assets*** rose to EUR 35,115 thousand (PY: EUR 20,106 thousand), due primarily to the increase in ***goodwill*** to EUR 27,993 thousand (PY: EUR 17,674 thousand) arising from the acquisition of LeuTek. As part of the LeuTek acquisition, USU gained ***intangible assets***, the customer base, advantageous agreements, software rights, trademarks and the order book, all of which led to a corresponding increase in this balance sheet item to EUR 4,814 thousand (PY: EUR 1,560 thousand) based on the preliminary performance of a purchase price allocation. As a result of the positive business development and prospects of the subsidiary USU AG, ***deferred tax assets*** on USU AG's unused tax losses totaling EUR 808 thousand (PY: EUR 0 thousand) were capitalized for the first time in the reporting period.

Current assets were reduced to EUR 16,870 thousand (PY: EUR 22,880 thousand) at the end of 2006. This resulted primarily from payment of the purchase price as consideration for the acquisition of LeuTek and payment of the earn-out for OMEGA which was acquired in 2005. At the same time, ***cash on hand and bank balances*** were reduced to EUR 5,566 thousand (PY: EUR 9,813 thousand). In this connection, ***marketable securities*** were also sold, with the result that this balance sheet item declined to EUR 2,834 thousand (PY: EUR 5,908 thousand). Following acquisition of LeuTek, the total liquid and near-liquid funds as at December 31, 2006 were EUR 8,400 thousand (PY: EUR 15,721 thousand). The ***receivables and other assets*** totaled EUR 7,114 thousand (PY: EUR 6,371 thousand). While ***trade receivables*** rose as at the balance sheet date to EUR 5,575 thousand (PY: 4,103 thousand) due to the consolidation of LeuTek and sales-related inventory increases at the subsidiary USU AG, ***income tax receivables*** declined due to the recovery of prepaid taxes to EUR 923 thousand (PY: EUR 1,881 thousand).

In connection with the capital increase through contributions in kind from authorized capital partly to finance (also see: *Transactions of key importance*), the USU Group's ***subscribed capital*** at the end of the 2006 fiscal year increased to EUR 10,335 thousand (PY: EUR 9,135 thousand) and the ***capital reserve*** increased to EUR 52,320 thousand (PY: EUR 49,192 thousand). At the same time, the ***balance sheet loss*** declined from EUR 21,206 thousand in 2005 to EUR 19,182 thousand at the end of the 2006 fiscal year as a result of the net profit for the year. In total, ***equity*** increased by December 31, 2006 to EUR 42,650 thousand (PY: EUR 36,092 thousand). Primarily as a result of increased personnel-related provisions for compensated absences and variable wages, external capital increased to EUR 9,335 thousand (PY: EUR 6,894 thousand) as at the balance sheet date. With a balance sheet total of EUR 51,985 thousand (PY: EUR 42,986 thousand), the equity ratio was 82.0% (PY: 84.0%).

Cash flow and investments

Primarily as a result of the acquisition of LeuTek, the USU Group recorded a decline in cash and cash equivalents without securities to EUR 5,566 thousand (PY: EUR 9,813 thousand).

In the 2006 fiscal year, the USU Group generated a positive ***cash flow*** of EUR 2,388 ***from operating activities*** after a cash flow of EUR 2,665 thousand in 2005. While in the reporting year, it was the increased operating result that primarily led to net revenues from ordinary activities, in 2005 the interest received on capital investments was the main factor influencing this item.

In the 2006 fiscal year, the ***cash flow from investment activities*** in the USU Group was dominated by the acquisitions effected by USU Software AG, while the figure for 2005 mainly reflects the sales of securities to finance the Company's special distribution. During the reporting period, this resulted in net expenditure for investing activities totaling EUR 6,629 thousand, compared with corresponding net revenues of EUR 33,591 thousand in the 2005 fiscal year.

The net expenditure for business acquisitions less cash and cash equivalents acquired which, in addition to the acquisition of LeuTek in November 2006, included payment of the earn-out obligation for OMEGA amounting to EUR 9,172 thousand in the reporting period. In 2005, the business acquisition of OMEGA resulted in corresponding net expenditure of EUR 738 thousand. To finance part of the fixed purchase price payment due as consideration for the acquisition of Leutek and the earn-out payment for OMEGA, acquired in February 2005, securities to the amount of EUR 10,479 thousand were sold in the reporting year. This disposal was offset in the same period by new investments in low-risk, short-term securities totaling EUR 7,570 thousand. In the previous fiscal year, this produced a positive balance of EUR 34,494 thousand, which was used primarily to finance the cash distribution to the USU Software AG shareholders.

In the 2006 fiscal year, investments in fixed assets and other intangible assets totaled EUR 382 thousand (PY: EUR 174 thousand). The increase in this item chiefly reflects the USU Group's higher level of investment in new hardware and software.

During the reporting period, there were no changes to ***cash flow from financing activities***, which would have led to corresponding net revenue or expenditure. Net expenditure in the 2005 fiscal year for the special distribution by USU Software AG totaled EUR 34,206 thousand.

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 the 2006 fiscal year, the business development of USU Software AG was very pleasing, with the Company generating a total net profit for the year of EUR 1,702 thousand (PY: EUR -153 thousand). The significant profit improvement resulted in particular from the Company's participation transactions. Since 2004, USU Software AG has focused mainly on acquiring and holding participations in other companies. As a result, the company did not generate any sales in the reporting period, as in the previous year.

The Company's earnings mainly originate from USU AG, acquired in 2002, Omega Software GmbH, acquired in 2005, the management of central functions for the subsidiaries of USU Software AG and the investment of liquid funds.

As the sole proprietor, USU Software AG has decided in favor of a dividend distribution for the 2006 fiscal year by the Group subsidiary USU AG with effect from December 31, 2006. Consequently, in the reporting period, USU Software AG generated earnings from participations totaling EUR 1,400 thousand (PY: EUR 0 thousand).

As a result of the profit transfer agreement with the subsidiary OMEGA, the Company generated earnings of EUR 648 thousand (PY: EUR 98 thousand). 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.

The offsetting of services rendered within the Group is an important item and, as such, is included in Other operating income which increased to EUR 651 thousand (PY: EUR 593 thousand) compared to 2005. Net interest income including earnings and the reversal or amortization of securities amounted to EUR 316 thousand (PY: EUR 194 thousand). This mostly includes income from investing the Company's resources, mainly in short-term investments.

On the expenditure side, personnel expenses increased over the previous year to EUR 339 thousand (PY: EUR 244 thousand), which resulted from the increase in the workforce at USU Software AG during 2005 from one employee to three, including the Management Board. In the 2006 fiscal year, therefore, the Company's personnel expenses included the full annual expenditure for the three employees, including the Management Board compensation, for the first time. Other operating expenses amounting to EUR 974 thousand (PY: EUR 794 thousand) included costs for services rendered to the Group subsidiaries, legal and consulting costs, costs connected with the acquisition of LeuTek and stock exchange costs as well as associated investor relations costs.

The result of ordinary operations at USU Software AG totaled EUR 1,702 thousand in the reporting year (PY: EUR -153 thousand). Including the loss carry forward from the previous year, the Company achieved an unappropriated surplus of EUR 1,549 thousand (PY: EUR -153 thousand). The Management Board proposes to use this to pay a dividend of EUR 0.10 per share to all authorized shareholders of USU Software AG.

As at December 31, 2006, the Company's balance sheet total was EUR 27,264 thousand (PY: EUR 23,761 thousand). On the assets side, as a result of the acquisition of LeuTek GmbH during the year, the fixed assets as at December 31, 2006 increased to EUR 23,365 thousand (PY: EUR 11,504 thousand). This included almost all shares in affiliated companies. Current assets declined at the end of the reporting period to EUR 3,876 thousand (PY: EUR 12,250 thousand), which is mainly attributable to the payment of the fixed purchase price component as consideration for LeuTek. Moreover, in the 2006 fiscal year, the final earn-outs were paid for OMEGA, acquired in 2005. This led to a total decline in liquid funds and securities of EUR 358 thousand (PY: EUR 10,153 thousand). Receivables and other assets increased as of the balance sheet date to EUR 3,305 thousand (PY: EUR 1,912 thousand). This primarily includes receivables related to the subsidiaries USU AG and OMEGA from the approved distribution of net profit or profit transfer for the 2006 fiscal year.

On the liabilities side, equity increased as at December 31, 2006 to EUR 25,935 thousand (PY: EUR 23,033 thousand). In addition to the significant increase in the unappropriated surplus to EUR 1,549 thousand (PY: EUR –153 thousand), this increase was the result of the capital increase through contributions in kind to finance partly LeuTek and the associated increase in authorized capital to EUR 10,335 thousand (PY: EUR 9.135 thousand). At the end of the reporting period, external capital totaled EUR 1,329 thousand (PY: EUR 728 thousand). This mainly comprised costs for fulfilling obligations in accordance with company law and personnel–related obligations, sales tax liabilities and liabilities related to the earn-out regulation contained in the LeuTek purchase agreement for the 2006 fiscal year. Accordingly, the equity ratio as at December 31, 2006 was 95.1% after 96.9% on the balance sheet date 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, Leutek and OMEGA. Attention is drawn to the Group risk report with regard to the risks associated therewith.

Orders on hand

Compared to the balance sheet date at the end of 2005, Group-wide orders on hand of the USU Group increased as at December 31, 2006 by 81.6% to EUR 10,936 thousand (PY: EUR 6,021 thousand). This includes firm orders of EUR 3,940 thousand of LeuTek GmbH acquired in November 2006.

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.

Research and development

So that we can offer our customers products and solutions based on the latest technology, 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. In this respect, research and development activities were purposefully expanded in the 2006 fiscal year.

For the IT management of large companies and higher-range SMEs, USU offers Valuemation, a modular product suite for central presentation, administration and management of the entire IT assets of a company or a Group as well as allocation of costs involved per user on one platform. In the reporting year, Valuemation was extended as part of the development of the new version, Valuemation 3.1. It now includes features such as application management which ensures safe, comprehensive and workflow-supported order processing for all orders from users or employees regarding new software and hardware, entitlements and other IT services. On the basis of customer requirements, various added specialist functions such as single sign on, product-side consideration of the worldwide time zones, e.g. for escalation of user tickets and additional standard reports were integrated into Valuemation.

In the INSEL product range of the Group subsidiary OMEGA, USU has another IT management solution-for SMEs and public authorities. In 2006, INSEL was extended to include new report functions and a graphic workflow for visualization of processes. The INSEL-DNA tool was also developed for the fully automated determination of all hardware components and installed software products by scanning the entire company network.

In November 2006, LeuTek GmbH was acquired. The company's products, ZIS-System, ZISGUI and ZISSLM monitor, visualize, automate and control all systems and processes required for IT operation. With these functionalities, the ZIS products are ideal additions to the Valuemation product suite and complete the USU portfolio oriented towards business service management (BSM). Therefore, in addition to the planned further development, work immediately began on connecting the LeuTek products to Valuemation.

In the case of the USU KnowledgeMiner product line, a web-based, modular research tool, the focus was on development of the new 4.4 version. As well as the redesign of the message management for actively providing the user with requirement-related messages, new functions were added to the presentation of result documents. Moreover, the new version of USU KnowledgeMiner can be integrated into Microsoft Office applications. This means that all document contents such as e-mails that are relevant to the user can be accessed at the click of a button on the navigation bar. Within the BSM strategy, a project for comprehensive connection of the USU KnowledgeMiner to the Valuemation product suite was also launched.

After the USU Group had already developed and successfully marketed two new software solutions in KnowledgeMiner Executive Edition and SolutionBase, in the reporting year another knowledge management module was also developed, which supports specialist departments such as call and service centers in finding the quickest way of providing quality-assured responses and solutions. The new AnswerBase module maps problem-related questions and answers. With the help of learning mechanisms, the system, which has been registered for patent, optimizes the order of questions for the first time so as to generate solutions more quickly. Reusable, automatically generated question and answer combinations reduce the cost and effort of maintenance for such decision trees by up to 90%. In practice, this means a very short processing period for enquiries is guaranteed.

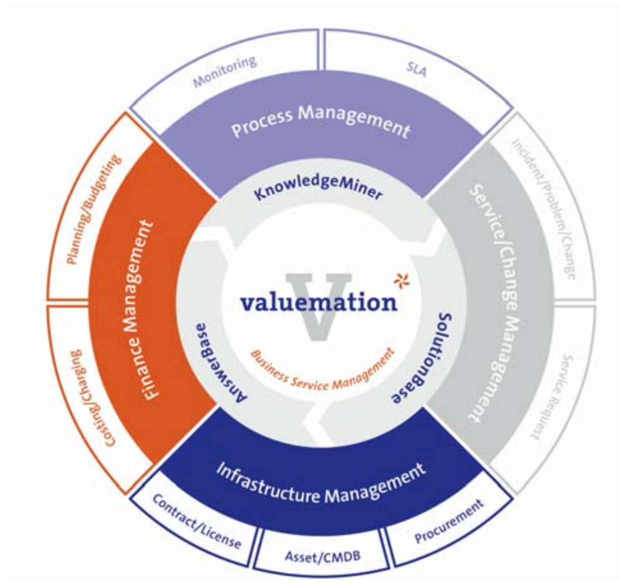


Diagram: The USU Group's new Valuemation product suite

Overall, the research and development activities carried out in the 2006 fiscal year resulted in Group-wide expenditure of EUR 2,872 thousand (PY: EUR 2,408 thousand). As in previous years, this was expensed and not capitalized.

In the 2007 fiscal year, development activities will focus on the further development of the Group core products on the basis of a defined roadmap. As part of the strategic alignment towards business service management, the comprehensive integration of the USU KnowledgeMiner product line and complete connection of the ZIS products to Valuemation is planned for the holistic implementation of the BSM product suite.

Employees

As at December 31, 2006, the staff in the USU Group increased by 17.1% over the previous year to a total of 233 (PY: 199) employees. This figure does not include the two members of the USU Management Board, 55 freelance staff who are used for project work when required, 9 temporary workers and 3 apprentices.

The absolute increase in staff primarily results from the acquisition of LeuTek GmbH and further personnel increases at the Group subsidiary USU AG. At the same time, the IT staff built up for Red Hat Inc. were released from the Czech Group subsidiary USU Software s.r.o. as planned.

Broken down by segment, the USU Group employed 154 (PY: 129) staff working in IT Management Solutions, 57 (PY: 50) in Business Solutions, and 22 (PY: 20) in central administration. Broken down by functional unit, at the end of the reporting period 91 (PY: 84) employees were employed in consulting and services, 84 (PY: 65) in research and development, 26 (PY: 23) in sales and marketing and 32 (PY: 27) in central administration.

The average total headcount of the USU Group in fiscal 2006 was 214 employees (PY: 197) employees. Personnel expenses in the reporting period totaled EUR 12,050 thousand (PY: EUR 10,715 thousand). As a result, the personnel costs ratio was 46.5% (PY: 51.4%) of Group sales.

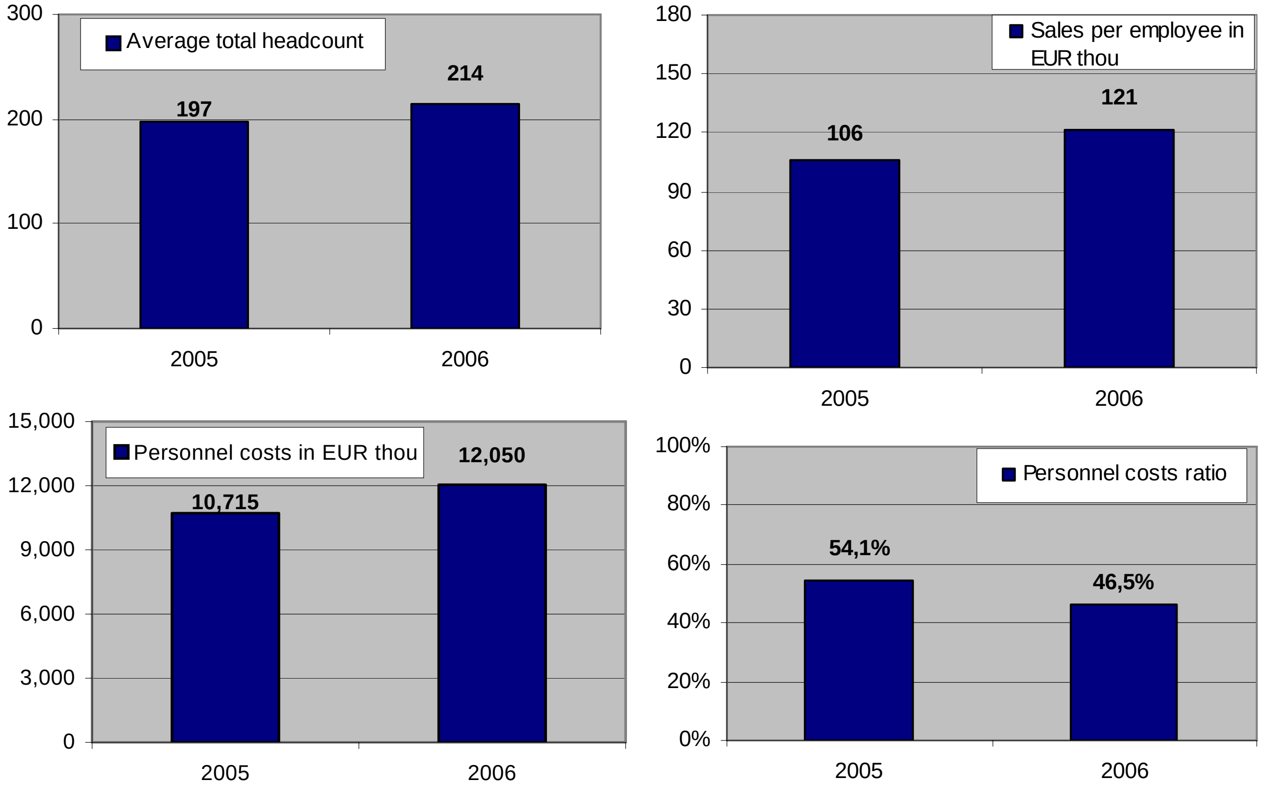


Diagram: Key personnel-related figures of the USU Group

A further increase in the number of USU employees is planned for the 2007 fiscal year. In addition to acquiring new highly-qualified employees, personnel activities are to concentrate on motivating and committing existing staff. The USU Group is therefore constantly investing in the research and training of its employees. For example, numerous training measures were carried out in 2006 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 diverse range of measures to promote and motivate the USU Group's staff in the long term.

Transactions of key importance

Acquisition of LeuTek GmbH

With effect of November 6, 2006, USU Software AG acquired all shares in LeuTek GmbH, Leinfelden-Echterdingen. The software company LeuTek, which in legal terms will continue to exist independently, is a manufacturer of standard software for systems and process management. The purpose of the acquisition is to expand the product range and the customer structure of USU in order to consolidate its market position in the growth market of business service management. 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 LeuTek, there was a capital increase in return for a contribution in kind from authorized capital effective December 18, 2006. In this respect, the subscribed capital increased by EUR 1,200,000, while the authorized capital was reduced by the corresponding amount. At the same time, the capital reserve increased by EUR 3,128 thousand. The subscription rights of the shareholders were excluded, as capital increases with contribution in kind are intended to acquire companies or stakes in companies.

Essential features of the compensation system

Compensation of the Management Board

The compensation of the Management Board, divided into a fixed and a variable component, is specified at an appropriate level by the Supervisory Board taking into account all remunerations in the scope of consolidation on the basis of a performance assessment. The variable component is based on the achievement of targets set annually by the Supervisory Board. This is fixed after conclusion of the annual planning for the particular fiscal year. The amount of the variable compensation actually paid out depends on the degree to which the agreed quantitative and qualitative targets are met.

In the 2006 fiscal year, the fixed compensation of USU Software AG's Management Board spokesperson and sole Management Board member, Bernhard Oberschmidt, in the Group as a whole was EUR 128.5 thousand. In addition, the Company awarded the Management Board a social security supplement of EUR 11.0 thousand and contributed EUR 12 thousand to the private pension. There was also a monetary value benefit of EUR 17.2 thousand to the Management Board for the private use of company vehicles. The variable compensation component, measured against the achievement of targets for Group EBIT of the USU Group for 2006, is expected to be EUR 52.0 thousand.

The aforementioned compensation includes all remunerations of the Management Board spokesperson, Bernhard Oberschmidt, in the scope of consolidation. The sole member of the Management Board of USU Software AG is also the Management Board spokesperson of the subsidiary USU AG, President of the subsidiary USU (Schweiz) AG and Managing Director of the subsidiary Openshop Internet Software GmbH.

Compensation of the sole member of the Management Board, Bernhard Oberschmidt, for the 2006 fiscal year in EUR thousand			
Fixed compensation	**Supplement for social security and pension**	**Monetary advantage from private use of company vehicle**	**Variable compensation**
128.5	23.0	17.2	52.0

Table: Individualized Management Board compensation of USU Software AG and the Group

Compensation of the Supervisory Board

The compensation of the Supervisory Board of USU Software AG is regulated by Article 17 of the articles of association. Accordingly, every member of the Supervisory Board of USU Software AG receives a fixed compensation of EUR 12.5 thousand in addition to the reimbursement of expenses for every full fiscal year of membership of the Supervisory Board. The Chairman of the Supervisory Board receives double the amount. The compensation of the Supervisory Board of USU Software AG does not include any variable components.

The members of the Supervisory Board of USU Software AG are also represented in the Supervisory Board of the Group subsidiary USU AG. The compensation of the Supervisory Board of USU AG was approved by resolution of the Annual General Meeting of this company on May 22, 2000 in accordance with Article 12 of the articles of association of USU AG and is valid until otherwise decided by the Annual General Meeting. Accordingly, each member of the Supervisory Board of USU AG receives an annual fixed compensation for each year of membership of the Supervisory Board amounting to EUR 5.0 thousand, the Chairman of the Supervisory Board receives EUR 10.0 thousand and the Deputy Chairman EUR 7.5 thousand. The compensation of the Supervisory Board of USU AG does not contain any variable components.

Group-wide compensation for the Supervisory Board of the USU Group was EUR 72.5 thousand in the 2006 fiscal year.

Further information in accordance with Section 289 (4) and Section 315 (4) of the 4 German Commercial Code

Subscribed capital, shares and shareholder structure

As at December 31, 2006 10,335,004 (PY: 9,135,004) no-par bearer shares of USU Software AG had been issued with an imputed share in subscribed capital of EUR 1.00. Of these, 0.5% 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 finance partly the external company purchase of LeuTek GmbH. Within the scope of this acquisition, Peter Scheufler, a former and now Managing Director of LeuTek, was granted a total of 1,200,000 shares in USU Software AG (new USU shares). This corresponds to 11.6% of all issued shares. The new USU shares participate in profits from January 1, 2007 and from the date of announcement of the agreement relating to contribution of capital, November 6, 2006, may not be pledged, sold to third parties or offered for sale to third parties in defined lock-up periods without previous permission of USU. A third of the new USU shares are subject to a lock-up of 12, 24 and 36 months each.

Moreover, of the 10,335,004 issued shares of USU Software AG, 6,193,667 shares or 59.9% are assigned to the major shareholder and Chairman of the Supervisory Board, Udo Strehl. The Chairman of the Supervisory Board holds 1,989,319 of these shares directly. Through Udo Strehl Private Equity GmbH (USPEG), a further 4,172,348 shares are allocated to the Chairman of the Supervisory Board of USU Software AG as majority shareholder of USPEG. A further 32,000 shares in USU Software AG are allocated to Udo Strehl through the “Knowledge is the Future” foundation of which he is the sole Managing Director.

Management Board authorizations regarding the issue of shares and share buy-back

At the Annual General Meeting of July 4, 2002 the Management Board was authorized to increase The Company’s capital by up to EUR 8,600 thousand 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). By resolution of the Annual General Meeting on July 15, 2004 authorized capital was reduced to EUR 4,300 thousand. As a result of the acquisitions of LeuTek and OMEGA there were two capital increases against contribution in kind, which reduced the authorized capital to EUR 2,571 thousand as at December 31, 2006.

By resolution of the ordinary Annual General Meeting on March 2, 2000, the subscribed capital of USU Software AG was further conditionally increased by EUR 757 thousand by issue of 756,911 no-par value bearer shares for granting option rights to members of the Management Board, Company employees and employees of affiliated companies (contingent capital). By resolution of the Annual General Meeting on July 15, 2004 authorized capital was reduced to EUR 378 thousand. The contingent capital increase is only carried out to the extent that the bearers of the options issued exercise their rights. As a stock option agreement was concluded with several persons, on the balance sheet date 19,060 shares were still outstanding.

By resolution of the Annual General Meeting on July 20, 2006, the Company’s Management Board was also authorized to acquire treasury shares in one or more installments, subject to approval of the Supervisory Board, at any time up to and including January 19, 2008. The acquired shares, together with other shares which the Company may hold as a result of earlier authorization to acquire treasury shares may not exceed a share of 10% in Company’s capital at the time of this authorization.

Legal specifications and articles of association of USU Software AG

Pursuant to Section 84 AktG and Section 8 clause 2 of the articles of association of USU Software AG, the Management Board is nominated or recalled by the Supervisory. In urgent cases, pursuant to Section 85 AktG, legal appointment of a member of the Management Board is possible, whose mandate terminates as soon as the vacancy has been filled. Pursuant to Section 18 of the articles of association, the Supervisory Board is also authorized to approve changes to the articles of the association which only concern their version. Pursuant to Sec. 179 clause 1 AktG, any other change to the articles of association requires the agreement of the Annual General Meeting. Pursuant to Sec. 179 clause 2 AktG, this requires a majority of at least three quarters of the subscribed capital represented during voting. In line with Sec. 133 AktG, Annual General Meeting decisions that do not affect the articles of association require a simple majority of votes.

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 2006.

Pursuant to Sec. 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 on submitted the corresponding declaration on December 12, 2006. 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)

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 2006 was volatile. While the lowest price for the USU share on XETRA in 2006 was EUR 3.22, the share peaked during the reporting period at EUR 4.10. Over the year as a whole, the USU share increased from EUR 3.45 as at December 31, 2005 to EUR 4.00 as at December 31, 2006, which equates to appreciation of 15.9%.

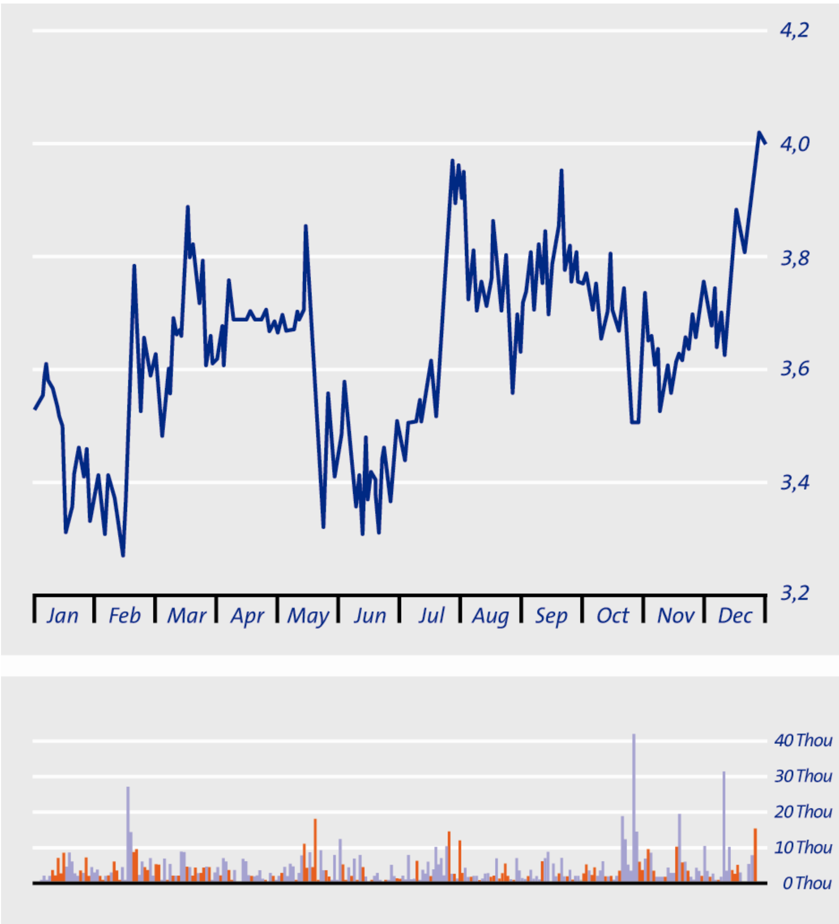


Diagram: price performance of the USU Software AG share in 2006

Supplementary report

There were no transactions of key importance after balance sheet date December 31, 2006 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

In line with Sec. 312 of the German Stock Corporation Act, the Management Board of USU AG submitted a report on links with associated companies with the following concluding declaration:
"We declare that our Company, in line with the circumstances that 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."

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 opportunities and risks, which are intrinsically tied to its managerial dealings. To identify, evaluate, manage, and tackle these risks, the USU Group management operates 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 Risk Manager of the Company and the Group. 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 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 highly-competitive market which has changed dramatically in recent years. 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. In this connection, several of the Company's competitors, particularly those outside Europe, were acquired by globally operating groups. 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 Group as a whole through the takeover of LeuTek GmbH. With the expanded portfolio, USU is strategically positioned in the growth market for business service management solutions and 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. 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 a constant level. At the same time, in the 2006 fiscal year, the employees of the Czech Group subsidiary USU Software s.r.o. were integrated into consultancy projects and external consulting resources were deployed as required in order to respond to a potential fall in profits. 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 such product and project risks, the USU Group has refined its internal quality management and strengthened its project monitoring function with the creation of the new Project Office segment. 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 thousand 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 and its subsidiaries are particularly dependent on the long-term functionality and security of their computer center, 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 USU AG, OMEGA and the newly acquired LeuTek. However, the risk relating to these subsidiaries 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 in accordance with IFRS 3. The result of the impairment test can either result in confirmation of the reported goodwill or however in a 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, 2006 did not indicate any impairment loss to the assets assigned to this balance sheet item. Following the positive business performance, USU Software AG does not expect any subsequent writedown that may reduce the annual profit for the Group as a whole. Nevertheless, in connection with the capitalization of part of the deferred taxes to the tax loss carry forwards which was recognized in income, necessary in accordance with IFRS 3, goodwill amortization of the same amount which was recognized in expenses became necessary at the Group subsidiary USU AG. The net after-tax effect equals zero, thus presenting no risk to USU Software AG or the Group either now or in the future.

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 acquisition of LeuTek, with EUR 15 million USU Software AG still has extensive group-wide 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.

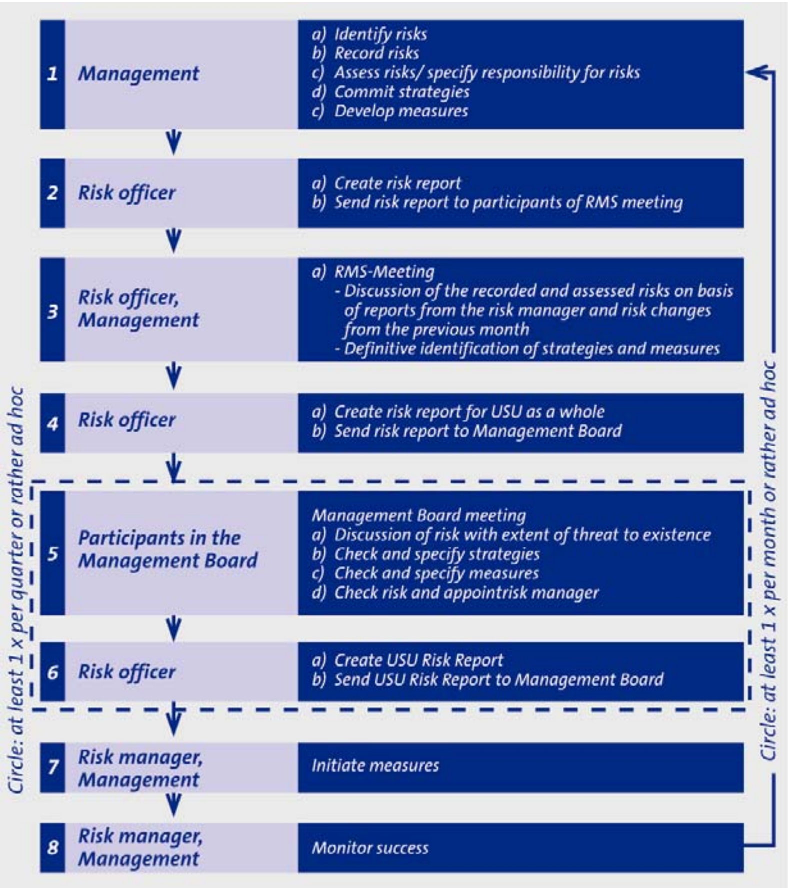


Diagram: Risk management process of the USU Group

Forecast report

General economy

In its fall report, the Working Group of German Economic Research Institutes [Arbeitsgemeinschaft deutscher wirtschafts-wissenschaftlicher Forschungsinstitute e.V. (ARGE)] forecast slightly weaker expansion of the European economy for 2007. However, this expansion will remain strong in the long-term comparison. According to ARGE, the main reasons are declining stimulation from foreign trade and a decrease in domestic demand. Nevertheless, GDP in the Euro zone is expected to increase by 2.1% in 2007, after a corresponding GDP increase of 2.7% in 2006 – the highest growth rate since 2000.

According to ARGE, the German economy is expected to report a declining growth rate in 2007 as a result of the restrictive financial policy and the weakening momentum of the global economy. Nonetheless, the tendency of overall economic production will remain upward due partly to continuing high levels of investment by companies. Overall, ARGE forecasts GDP growth of 1.4% in 2007 for the German economy as a whole, after 2.7% in 2006 according to the German Federal Office of Statistics.

Industry

According to studies by the European Information Technology Observatory (EITO), the IT market will continue to develop dynamically throughout Europe. For 2007, EITO forecasts a 4.0% growth in market volume for information technology, following growth of 3.6% in 2006. According to EITO, there will again be above-average increases in the software and IT services segments in which USU operates. As a result, in Europe EITO expects growth in 2007 to be 6.5% (2006: 6.3%) for the software market segment and 5.4% (2006: 5.3%) for the IT services market segment.

For the German IT industry, BITKOM anticipates growth of 2.9% in 2007, after a forecast increase of 2.5% in 2006. According to BITKOM, the software and IT services segments in the German market are expected to record above-average growth rates of 5.7% (2006: 5.5%) and 4.6% (2006: 4.5%) respectively in 2007.

Outlook

After the positive business development of recent quarters, the Management Board of USU Software AG expects the Company's development in the near future to be just as dynamic, driven primarily by the product and solutions business. In addition to organic growth, LeuTek, which was acquired in November 2006, is also expected to contribute to considerable sales and earnings growth in the 2007 fiscal year. Together with LeuTek, USU now offers an integrated portfolio for business service management, which has enormous potential both in Germany and abroad. This is confirmed by the independent market research company, Forrester, among others. Recently, Forrester classified USU with its Valuemation product suite as one of the five world-leading companies for IT asset management.

In the expanded Group structure, the Management Board plans to obtain further market share as a result of selective marketing campaigns – both in direct national and international partnership marketing. After successfully gaining the first customers in the USA, additional project successes in Europe and the expansion of the partner management, the Management Board expects foreign business to further expand in the 2007 fiscal year.

As in previous years, the Group subsidiary USU AG will be the mainstay of sales in the Group as a whole. OMEGA and LeuTek are also expected to have positive effects on sales and profits. In fiscal 2007 USU Software AG will concentrate primarily on acquiring and holding participations in other companies alone and does not conduct any operations. For this reason, the success of USU Software AG will also be determined primarily by the business development of the subsidiaries in the subsequent period.

Overall, the Management Board plans to increase Group sales in 2007 to between EUR 32 million and EUR 33 million, thus generating Group EBIT before unscheduled goodwill amortization of considerably more than EUR 3 million.

In addition, the Company anticipates positive tax effects on profit. On July 12, 2007, a profit transfer agreement with LeuTek GmbH is to be submitted to the Annual General Meeting of USU Software AG for approval. Insofar as the Annual General Meeting approves the proposal of the Management Board and Supervisory Board, according to the Management Board USU Software AG will also generate profits in future. For 2007, the capitalization of deferred taxes including the associated goodwill amortization required by IFRS would have a positive after-tax effect of around EUR 1.5 million.

With regard to the forecasts however, it must be borne in mind that the actual results of this planning may differ significantly from the expectations for the potential development.

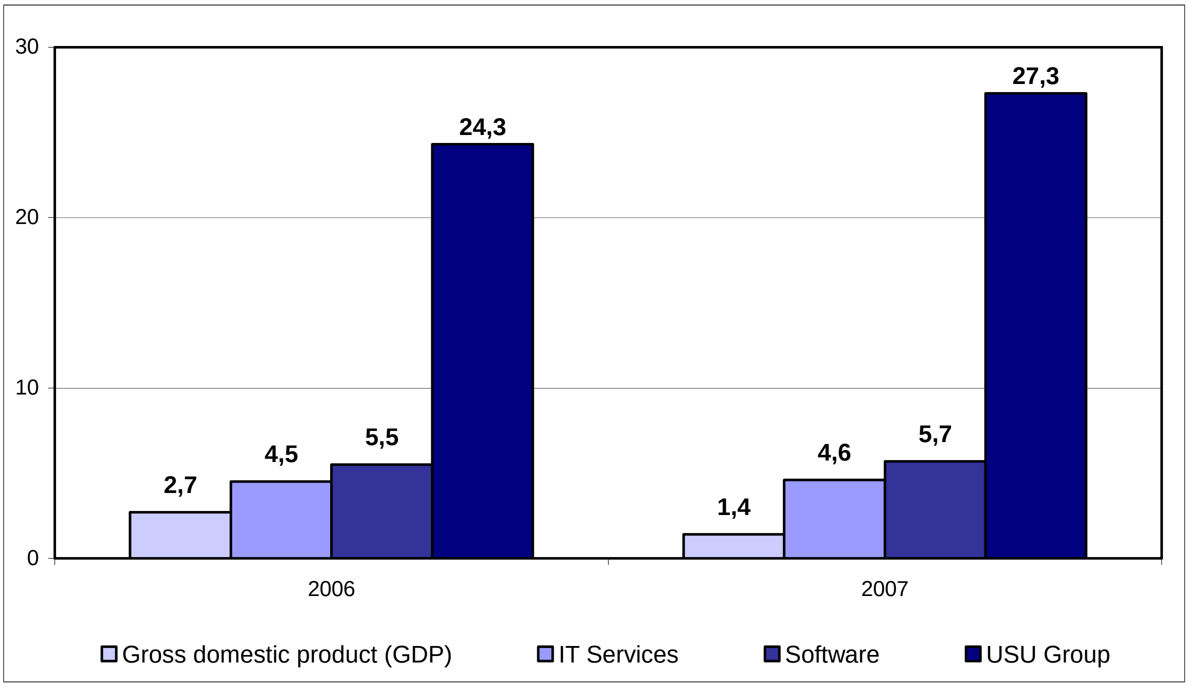
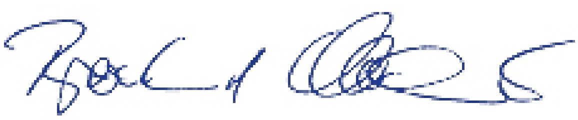


Diagram: Forecast comparison of German economic and market growth versus sales growth of the USU Group

Should the aforementioned measures and forecasts actually occur, the Management Board expects to generate consolidated net profit of more than EUR 4.5 million in 2007. The shareholders of USU Software AG are to participate in the Company's operating success in the form of a dividend.

USU Software AG
The Management Board

Möglingen, March 9, 2007



Bernhard Oberschmidt
Spokesperson for the Management Board

Consolidated Financial Statements 2006

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CONSOLIDATED FINANCIAL STATEMENTS

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED BALANCE SHEET

A S S E T S

	Note	Dec. 31, 2006 EUR thou	Dec. 31, 2005 EUR thou
Assets			
Non-current assets			
Intangible assets	(9)	4,814	1,560
Goodwill	(10)	27,993	17,674
Property, plant and equipment	(11)	611	413
Deferred tax assets	(27)	808	0
Other non-current assets	(12)	889	459
		35,115	**20,106**
Current assets			
Inventories		309	50
Work in process	(13)	659	531
Receivables and other assets			
Trade receivables	(14)	5,575	4,103
Income tax receivables	(15)	923	1,881
Other current assets	(16)	616	387
Prepaid expenses	(17)	388	207
Securities	(18)	2,834	5,908
Cash on hand and bank balances	(19)	5,566	9,813
		16,870	**22,880**
		51,985	**42,986**

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, 2006 EUR thou	Dec. 31, 2005 EUR thou
Equity and liabilities			
Equity	(20)		
Subscribed capital		10,335	9,135
Capital reserve		52,320	49,192
Legal reserve		81	4
Treasury shares		-714	-714
Other comprehensive income		-190	-319
Accumulated losses		-19,182	-21,206
		42,650	**36,092**
Non-current liabilities			
Deferred tax liabilities	(27)	1,307	0
Pension provisions	(21)	596	561
		1,903	**561**
Current liabilities			
Provisions for income tax		707	16
Personnel-related provisions and liabilities	(22)	2,755	1,849
Other provisions and liabilities	(23)	1,864	2,344
Liabilities from received payments	(24)	300	553
Trade payables	(25)	1,076	864
Deferred income	(26)	730	707
		7,432	**6,333**
		51,985	**42,986**

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

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED INCOME STATEMENT

	Note	2006 EUR thou	2005 EUR thou
Sales revenue	(28)	25,930	20,861
Cost of sales	(29)	-15,208	-13,125
Gross profit		**10,722**	**7,736**
Sales and marketing expenses	(30)	-3,525	-2,726
General administrative expenses	(31)	-2,703	-2,486
Research and development expenses	(32)	-2,872	-2,408
Other operating income	(33)	176	232
Other operating expenses		-130	-84
Result of ordinary operations		**1,668**	**264**
Goodwill amortization	(34)	-655	0
Interest income	(35)	698	618
Interest expenses	(36)	-207	-74
Profit before tax		**1,504**	**808**
Income taxes	(37)	597	240
Net profit for the year		**2,101**	**1,048**
Earnings per share (in EUR):			
Basic and diluted		0.23	0.12
Weighted average number of shares outstanding:			
Basic and diluted		9,127,081	8,830,128

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

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Breakdown of revenues and expenses reported:

	Note	2006 EUR thou	2005 EUR thou
Actuarial losses from pension provisions	(21)	25	-244
Currency translation difference		22	25
Unrealized losses from market evaluation of securities	(18)	-71	-2
Deferred taxes on value changes directly recognized in equity	(27)	153	0
Equity change not impacting income		**129**	**-221**
Net profit for the year		**2,101**	**1,048**
Overall result		**2,230**	**827**

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

USU SOFTWARE AG

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2006 EUR thou	2005 EUR thou
Cash flow from ordinary operations:			
Result from ordinary activities		1,668	264
Adjustments for:			
Scheduled depreciation and amortization		645	710
Income taxes paid/refunded		-16	-253
Interest received		506	1,624
Other non-cash income and expenses		-103	159
Change in working capital:			
Inventories		141	-5
Work in process		42	84
Trade receivables		-225	815
Prepaid expenses and other assets		1,002	63
Trade payables		-8	-192
Personnel-related provisions and liabilities and pension provisions		-60	-40
Other provisions and liabilities		-1,204	-564
Net cash flow from ordinary activities	(39)	**2,388**	**2,665**
Cash flow from investing activities:			
Acquisition of subsidiaries less cash and cash equivalents acquired		-9,172	-738
Capital expenditure in property, plant and equipment		-281	-141
Capital expenditure in other intangible assets		-101	-33
Repayment of short-term loans		120	0
Granting short-term loans		-135	0
Sales of property, plant and equipment		31	9
Sale of held-to-maturity securities		0	26,523
Sale of available-for-sale securities		10,479	22,135
Investments in held-to-maturity securities		0	-9,923
Investments in available-for-sale securities		-7,570	-4,241
Net expenditure for investing activities	(40)	**-6,629**	**33,591**

USU SOFTWARE AG, MÖGLINGEN

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2006 EUR thou	2005 EUR thou
Cash flow from investing activities:			
Distribution to shareholders		0	-34,206
Net cash flow from financing activities	(41)	**0**	**-34,206**
Difference from currency translation of cash and cash equivalents		**-6**	**-8**
Net decrease/increase of cash and cash Equivalents		**-4,247**	**2,042**
Cash and cash equivalents at January 1		**9,813**	**7,771**
Cash and cash equivalents at December 31	(19)	**5,566**	**9,813**

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

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Subscribed capital		Capital reserve	Legal reserve	Treasury shares	Accumu-lated loss
	Number of shares	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
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 income for the year	0	0	0	0	0	1,048
Unrealized losses on Marketable securities	0	0	0	0	0	0
Treatment of actuarial losses not recognized in income	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**
Capital increase	1,200,000	1,200	3,128	0	0	0
Net income for the year	0	0	0	0	0	2,101
Unrealized losses on Marketable securities	0	0	0	0	0	0
Treatment of actuarial profits not recognized in income	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0
Transfer to legal reserve	0	0	0	77	0	-77
Currency translation differences	0	0	0	0	0	0
Consolidated equity at December 31, 2006	**10,335,004**	**10,335**	**52,320**	**81**	**-714**	**-19,182**

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Other comprehensive income			
	Currency translation	Securities measured at fair value	Actuarial. profits/ losses	Total
	EUR thou	EUR thou	EUR thou	EUR thou
Consolidated equity at December 31, 2004	**13**	**-9**	**-102**	**33,145**
Capital increase	0	0	0	2,120
Net income for the year	0	0	0	1,048
Unrealized losses on Marketable securities	0	-2	0	-2
Treatment of actuarial losses not recognized in income	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**
Capital increase	0	0	0	4,328
Net income for the year	0	0	0	2,101
Unrealized losses on Marketable securities	0	-71	0	-71
Treatment of actuarial profits not recognized in income	0	0	25	25
Deferred taxes	0	31	122	153
Transfer to legal reserve	0	0	0	0
Currency translation differences	22	0	0	22
Consolidated equity at December 31, 2006	**60**	**-51**	**-199**	**42,650**

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

USU SOFTWARE AG, MÖGLINGEN

CONSOLIDATED NOTES FOR THE 2006 FISCAL YEAR

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, industry, 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. 315a 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 and as they are to be applied within the European Union. 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. 7.22acres 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 International Accounting Standards Board (IASB) and the 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 thousands of euro (“EUR thou”) 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 March 9, 2007, the Management Board released the consolidated financial statements to the Supervisory Board.

The annual financial statements of USU Software AG prepared as at December 31, 2006 in accordance with the regulations of the German Commercial Code and these consolidated financial statements are submitted to the commercial register of the district court of Stuttgart and published in the electronic Federal Gazette.

2. 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.

In August 2005, the IASB also announced an amendment to **IAS 1 ("Presentation of Financial Statements")** regarding information on capital in connection with the publication of IFRS 7. Accordingly, the financial statements must include information which allows users of the financial statements to assess the targets, methods and processes concerning capital management. The amendment to IAS 1 is to be applied for fiscal years beginning on or after January 1, 2007. The first application of this amendment by USU may lead to further disclosures.

On July 20, 2006, the IASB published **IFRIC 10 ("Interim Financial Reporting and Impairment")**. According to this, impairment performed on certain assets in earlier annual financial statements cannot be reversed in later annual financial statements. According to IFRIC, this prohibition also applies if impairments were performed in a previous interim report. IFRIC 10 applies for fiscal years that begin after November 1, 2006. The interpretation will have no significant impact on the consolidated financial statements.

On November 30, 2006, the IASB published **IFRS 8 ("Operating Segments")**. IFRS 8 replaces IAS Segment Reporting, which previously applied to segment reporting. IFRS 8 requires companies to provide financial and descriptive information concerning segments to be reported on. Segments to be reported on are operating units for which separate financial information is available and on the basis of which corporate decisions are made. IFRS 8 is binding for fiscal years beginning on or after January 1, 2006. The first application of this amendment by USU may lead to further disclosures.

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.

3. 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 revalued equity in the subsidiary at the time of acquisition. 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).

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

4. Consolidated Group

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

In addition to the parent, the following companies were consolidated. The disclosures on equity and net income represent the values in accordance with the respective country-specific accounting regulations:

Consolidated Group Name and registered office of the company	Equity investment in%	Subscribed capital EUR thou	Equity Dec. 31, 2006 EUR thou	Net income 2006 EUR thou
USU AG, Möglingen [1)]	100.00	5,738	7,352	1,540
LeuTek GmbH, Leinfelden-Echterdingen	100.00	26	2,412	2,260
Omega Software GmbH, Obersulm [2)]	100.00	77	970	648
USU Software s.r.o., Brno, Czech Republic	100.00	58	207	0
USU (Schweiz) AG, Zug, Switzerland	100.00	68	-343	-10
Openshop Internet Software GmbH, Ludwigsburg	100.00	40	-779	-2
Gentner PROCommunication GmbH i.L., Möglingen	100.00	51	-1,580	-2

[1)] *Equity before distribution of net profit to USU Software AG*

[2)] *Net income before / equity after profit transfer to USU Software AG*

The former subsidiary ValueSolution Verwaltungs-GmbH i.L., Möglingen, was removed from the commercial register on completion of the liquidation procedure on November 14, 2006.

5. 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 in “Other comprehensive income” with no effect on income.

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

	Closing rate		Annual average	
Currency (1 EUR)	Dec. 31, 2006	Dec. 31, 2005	2006	2005
Swiss francs (CHF)	1.6069	1.5551	1.5768	1.5478
Czech krone (CZK)	27.485	29.000	28.304	29.844

6. 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 primarily include use of the percentage of completion method, determining the probable economic useful life of intangible assets, deciding in favor of not capitalizing software development costs, allowances for doubtful debts, contingent liabilities, pension provisions and other provisions as well as the estimation of the feasibility of tax benefits in the form of capitalization of deferred taxes on tax loss carry forwards.

Beginning in the 2006 fiscal year, for example, deferred tax assets on tax loss carry forwards were created at USU AG for the first time as a result of the positive earnings development in 2005 and 2006 as well as positive earnings planning for 2007. As a precaution, initially only deferred tax assets on tax loss carry forwards amounting to, but not exceeding, the planned earnings of USU AG approved by the Supervisory Board for the 2007 planning year were created.

In addition, significant estimates and assumptions are required to determine the fair value of the Company’s property, plant and equipment and intangible assets, in particular in the event of business acquisitions in the scope of purchase price allocation (cf. Note 8), 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.

7. 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.

7.1 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 bases 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.

7.2 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

7.3 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 2005 and 2006 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 disposal costs is the amount obtainable from the sale of an asset in an arm’s length transaction less disposal costs. 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 unlimited 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.

Moreover, the goodwill reduction is to be recognized as an expense at the same level as deferred taxes from loss carry forwards of subsidiaries initially assessed as not being able to be capitalized are to be recognized as income due to a subsequent assessment increasing their value.

7.4 Financial instruments

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

(a) Financial assets which are reported at fair value impacting income,

(b) Held-to-maturity investments,

(c) Loans and receivables and

(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 are classified as financial assets reported at fair value impacting income. 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 recognized or derecognized using the trade date.

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.

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.

Financial assets to be held to maturity 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.

7.5 Non-current financial instruments

Long-term financial instruments, with the exception of the asset values of non-qualified insurance policies contained in them, are carried at amortized cost after allowing for any specific risks of non-collection.

The reported carrying amounts correspond approximately to the respective fair values.

7.6 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.

7.7 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.

7.8 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.

7.9 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.

7.10 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.

Deferred taxes are not discounted and are reported in the consolidated balance sheet as non-current assets (liabilities).

7.11 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.

7.12 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 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 as well as corresponding deferred taxes.

7.13 Pension provisions

The actuarial calculation of the pension provision for a former member of the Management Board of USU AG and pension provisions for the majority of employees of the former LeuTek GmbH 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 insofar as they concern one-off payments. The calculation is based on an actuarial report incorporating biometric actuarial calculations. Actuarial gains and losses are offset against equity without impact on earnings. Past service costs and current interest effects are recorded in interest income.

7.14 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.

7.15 Liabilities

Liabilities are measured at amortized cost.

7.16 Liabilities from 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.

7.17 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 consolidated notes if material.

7.18 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. The Company has no financial leases.

7.19 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.

7.20 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.

7.21 Research and development expenses

Research and development expenses are incurred by the Group in association with the (further) 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.

7.22 Finance cost

Finance cost is expensed as incurred.

7.23 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 in accordance with IFRS. 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

8. Acquisitions in fiscal 2006

LeuTek GmbH, Leinfelden-Echterdingen

On November 6, 2006, acquired all of the equity and voting rights in LeuTek GmbH (hereinafter: "LeuTek"). The transaction was accounted for using the purchase method. The first-time consolidation of LeuTek took place on November 11, 2006.

The primary business activities of LeuTek are rendering services and selling products in the field of systems and process management. With its portfolio, LeuTek monitors, visualizes and automates all systems and processes required for IT operation. USU products and services merge all the economic, strategic and technical knowledge of IT onto one platform. The product lines of the two companies, which complement each other perfectly, will in future form an integrative suite for business service management – as a central module for individual issues or as an overall solution. In doing so, the systems address all disciplines pertaining to the de facto standard ITIL (IT Infrastructure Library) – from configuration management to incident, problem, change, service level and availability management.

Thanks to the expanded portfolio, which is assigned to the IT Management Solutions segment, the USU Group is positioning itself strategically in the market for business service management and is now able to optimize its customers' strategic use of IT on a holistic level both in Germany and abroad so the participation in LeuTek will lead in the long-term to an increase in the Company's shareholder value. LeuTek is continuing as an independent entity under its previous manager.

The purchase costs break down as follows: One part of the purchase costs was to be paid in cash. The cash payment amounted to EUR 8,840 thousand and was paid on November 10, 2006. In addition, 1,200,000 shares were issued from the authorized capital of USU Software AG. On the date of acquisition (November 6, 2006), the fair value of the issued shares totaled EUR 4,344 thousand on the basis of the closing price of EUR 3.62 for the USU share on the XETRA electronic trading system. The approved capital increase was registered in the commercial register of the district court of Stuttgart on December 18, 2006.

In addition to the aforementioned cash payment and the shares issued by USU, further cash payments were agreed (earn-out). These payments depend on the gross earnings generated by LeuTek between 2006 and 2008. Two options are planned for the seller:

a) an annual cash payment for each individual fiscal year 2006, 2007 and 2008 or

b) a cumulative cash payment for the fiscal years 2006 to 2008, taking into account part payments already made.

The maximum cash payment in both cases will be EUR 2,850 thousand. For 2006, the obligation due in the short term from the earn-out regulation is EUR 421 thousand.

As it is not possible to make a reliable to evaluation of the entire variable purchase price component for as at the date of compiling the financial statements, the earn-out was not taken into account in the acquisition costs as at December 31, 2006 for the 2007 and 2008 fiscal years. As soon as the earn-out can be reliably valued, the acquisition costs for LeuTek will be adjusted accordingly.

Therefore, the direct acquisition costs for LeuTek initially amount to EUR 13,605 thousand. The incidental acquisition costs totaled EUR 278 thousand. This results in a preliminary total acquisition price of EUR 13,883 thousand.

The breakdown of acquisition costs for this acquisition could not be completed for reasons of time and is to be determined during the first six months of 2007. The preliminary difference between the purchase price and the preliminary fair values of the acquired assets and liabilities identified thus far amounts to EUR 10,974 thousand and is reported as goodwill. Determination of the preliminary goodwill is shown in the following overview:

	Previous carrying amounts in acc. with IFRS EUR thou	Fair value EUR thou
Intangible assets	46	3,546
Property, plant and equipment	185	185
Inventories	399	399
Work in process	170	170
Trade receivables	1,246	1,246
Other assets	564	564
Prepaid expenses	87	87
Cash and cash equivalents	1,102	1,102
Pension provisions	-157	-157
Provisions for income tax	-620	-620
Personnel-related provisions	-752	-752
Other provisions	-79	-79
Liabilities from received payments	-100	-100
Trade liabilities	-174	-174
Other liabilities	-691	-691
Deferred income	-474	-474
Deferred tax liabilities	-13	-1,343
	739	2,909
Goodwill attributable		10,974
		13,883

USU expects the goodwill actually acquired to comprise only the anticipated synergy potential and the expertise of the employees.

The non-tax-deductible intangible assets of EUR 3,500 thousand revealed in the scope of the preliminary purchase price allocation break down as follows:

	EUR thou	Estimated useful life Years
Purchased software	700	6
Customer base	1,300	10
Advantageous contracts	1,100	4
Order situation	100	1
Trademarks	300	-
	3,500	

The following pro-forma financial key ratios present the consolidated sales and the consolidated earnings of the company as if LeuTek, whose earnings contribution since the date of acquisition was EUR 503 thousand, had already been acquired by USU Software AG at the beginning of the 2006 fiscal year. The pro-forma earnings include fictitious amortization of hidden reserves disclosed in the course of the acquisition and depreciated interest income due to the financing of the share of the acquisition cost to be paid in cash, as well as depreciated consultancy expenses resulting from new contractual regulations and corresponding deferred taxes. The pro-forma calculation does not include any synergies which may arise from the merger:

	2006
	EUR thou
Pro-forma sales revenue	31,935
Pro-forma profit	2,617

The pro-forma figures determined are not necessarily indicators of how business may have developed if the acquisition had taken place at an earlier date. It must be emphasized that these results do not include the actual short and medium-term effects of this acquisition on sales and earnings. Moreover, these figures do not necessarily reflect the future development.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

9. 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 830 thousand (PY: EUR 530 thousand). 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 saved license income from an assumed license of the trademarks and brands to a third party. Saved 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 10). Saved 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 9.8% (PY: 10.2%) for the trademarks and brands of USU AG and 10.6% (PY: 11.1%) for OMEGA. 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.

10. Goodwill

Goodwill contains amounts from the transfer of business operations (asset deals) as well as from capital consolidation. In addition to the other carrying amounts, 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%.

The present value was determined using a weighted discount rate of 8.8% for the Business Solutions CGU (PY: 9.3%) and a weighted discount rate of 10.55% for the IT Management Solutions CGU (PY: 11.05%). 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.

Moreover, goodwill is to be recognized as expenses at the same level at which deferred taxes from loss carry forwards of subsidiaries initially recorded at the time of acquisition as not being able to be capitalized are recognized in income. As a result of the positive earnings development in recent years, deferred tax assets of EUR 655 thousand were created on tax loss carry forwards recognized in income at the subsidiary USU AG for the first time in the 2006 fiscal year . Goodwill was accordingly amortized by the same amount. Therefore, the net after-tax effect of this accounting requirement pursuant to IAS 12.68 is not recognized in income. The changes in goodwill for each entity in fiscal years 2006 and 2005 are shown in the following table.

	Business Solutions EUR thou	IT Management Solutions EUR thou	Group EUR thou
January 1, 2005	**8,657**	**6,281**	**14,938**
Subsequent expenditure (increase in reserves for the arbitration proceedings on the squeeze-out of USU AG)	42	19	61
Acquisition of OMEGA	0	2,626	2,626
Acquisition of the 20% minority shares in USU (Schweiz) AG	0	49	49
December 31, 2005	**8,699**	**8,975**	**17,674**
Acquisition of LeuTek GmbH	0	10,974	10,974
Amortization of capitalization of deferred taxes from lost carry forwards recognized in income (USU AG)	-380	-275	-655
December 31, 2006	**8,319**	**19,674**	**27,993**

11. Property, plant and equipment

Scheduled depreciation of property, plant and equipment in fiscal year 2006 amounted to EUR 254 thousand (PY: EUR 253 thousand). 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.

12. Non-current financial instruments

The non-current financial instruments primarily include asset values of insurance policies amounting to EUR 405 thousand (PY: EUR 0 thousand), whereby the persons entitled to maintenance have no access to the insurance. Furthermore, the item includes a subsidized construction loan to the lessor of an office building in the amount of EUR 231 thousand (PY: EUR 221 thousand) as well as a Management Board loan of EUR 135 thousand (PY: EUR 0 thousand) (see Note 42.5).

13. Work in process

The following table gives an overview of the work in process as of December 31, 2006 and 2005 and the associated billings:

	2006 EUR thou	2005 EUR thou
Contract costs plus unbilled contract earnings	766	1,197
of which agreements for services pursuant to IAS 18	413	864
of which construction contracts pursuant to IAS 11	353	333
less amounts from progress billings	-407	-1,219
Balance	**359**	**-22**
of which: work in process	659	531
of which: liabilities from payments received	-300	-553

Sales revenues of EUR 1,697 thousand (PY: EUR 1,302 thousand) were realized in fiscal 2006 as a result of construction contracts pursuant to IAS 11.

14. Trade receivables

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

	2006 EUR thou	2005 EUR thou
Trade receivables	5,963	4,342
Value allowance as of January 1	-243	-307
Utilizations in the fiscal year	0	115
Value allowances in the fiscal year	-145	-47
Valuation allowance as of December 31	-388	-239
	5,575	**4,103**

15. Income tax receivables

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

16. Other current assets

Other current assets are composed of the following items:

	2006 EUR thou	2005 EUR thou
Short-term loans	327	459
Impairments	-287	-419
Interest accrued on securities	72	71
Other receivables	504	276
	616	**387**

17. Prepaid expenses

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

18. Current investments

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

Year	Acquisition costs EUR thou	Unrealized gains EUR thou	Unrealized losses EUR thou	Fair value EUR thou
2006	2,907	23	-96	2,834
2005	5,910	43	-45	5,908

As of December 31, 2006 EUR 876 thousand (PY: EUR 4,138 thousand) of the available-for-sale securities were due within one year, EUR 1,958 (PY: EUR 1,770 thousand) due within one and five years and EUR 0 (PY: EUR 0 thousand) after more than ten years. The proceeds from the sale of available-for-sale securities in the 2006 fiscal year include gross gains totaling EUR 0 thousand (PY: EUR 183 thousand) and gross losses of EUR 27 thousand (PY: EUR 49 thousand).

19. Cash on hand and bank balances

This item breaks down as follows:

	2006 EUR thou	2005 EUR thou
Fixed-term and overnight deposits	4,604	9,183
On-call deposits	958	629
Cash	4	1
	5,566	**9,813**

20. Equity

The development of equity is shown in the Equity Statement (Attachment 5).

20.1 Subscribed capital and shares

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

As part of the acquisition of LeuTek, 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 1,200 thousand.

As of December 31, 2006, the subscribed capital of the Company amounts to EUR 10,335 thousand and is divided into 10,335,004 no-par bearer shares with an imputed share in subscribed capital of EUR 1.00 each.

20.2 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 LeuTek, the capital reserve was increased by EUR 3,144 thousand in return for a contribution in kind. Transaction costs of EUR 16 thousand incurred in connection with the capital reserve were offset against the capital reserve.

20.3 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 thousand 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 thousand to EUR 4,300 thousand.

As part of the acquisition of Omega Software GmbH on February 23, 2005, 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 thousand to EUR 3,771 thousand.

With the acquisition of LeuTek GmbH on November 6, 2006, a further capital increase was carried out against contribution in kind from the authorized capital. In this connection, the authorized capital decreased by EUR 1,200 thousand to EUR 2,571 thousand (PY: EUR 3,771 thousand).

20.4 Contingent capital

The subscribed capital of the Company was conditionally increased by shareholder resolution of March 2, 2000 by EUR 757 thousand 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 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 thousand from EUR 757 thousand to EUR 2,309 thousand and reduced likewise by EUR 1,931 thousand from EUR 2,309 thousand to EUR 378 thousand.

20.5 Treasury shares

By resolution of the Annual General Meeting on July 20, 2006, 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 19, 2008.

As of December 31, 2006, the Company continues to hold 53,950 treasury shares (PY: 53,950) with an imputed share in subscribed capital of EUR 54 thousand or 0.5% (PY: 0.6%) of the subscribed capital as at December 31, 2006.

20.6 Earnings per share

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

		2006	2005
Net profit:	in EUR thou	2,101	1,048
Annual average number of shares:		9,127,081	8,830,128
Basic earnings per share:	in EUR	0.23	0.12

The number of shares outstanding as at the balance sheet date is determined as follows:

	2006	2005
Number of shares as of January 1	9,135,004	8,605,593
Treasury shares as of January 1	-53,950	-53,950
Issue of new shares (contribution in kind OMEGA)	0	529,411
Issue of new shares (contribution in kind LeuTek)	1,200,000	0
	10,281,054	**9,081,054**

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.

20.7 Appropriation of net profit

The Management Board proposes to distribute a dividend of EUR 0.10 per share for 9,081,054 shares (EUR 908 thousand) from the unappropriated surplus of USU Software AG as of December 31, 2006. The 1,200,000 new shares issued as part of the acquisition of LeuTek will participate in profit as of January 1, 2007. Treasury shares do not participate in profit.

20.8 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 2006. All options issued in tranches 3 and 6 lapsed on December 31, 2002. All options issued in tranches 1 and 2 lapsed in the 2006 fiscal year.

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, 2006 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, 2005	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
Granted	0	0	0	0
Exercised	0	0	0	0
Lapsed	1,052	1,094	0	0
Outstanding as of December 31, 2006	0	0	2,500	16,560
Exercisable as of December 31, 2006	0	0	0	0

21. Pension provisions

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. As a result of the business acquisition, the pension obligations of LeuTek were also assumed. The pension commitments to the LeuTek employees remain unchanged. These provide for a one-off payment for the recipients in the form of a capital settlement at the age of 65.

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. (PY: 0% p.a.), an interest base of 4.5% (PY: 4.5%) and annual pension increases of 2.0% p.a. (2004: 2.0% p.a.) (PY: 2.0% p.a.) and 0% at LeuTek. During the service period, it is assumed that subsequent contributions will rise by an annual amount of 1.0% at USU AG. The annual return on plan assets is projected to be 3.5% (PY: 3.5%) at USU AG and 4% at LeuTek. In accordance with regulations of IAS 19, actuarial gains and losses are posted to income in a separate line in other comprehensive income. The pension obligation has been measured as of December 31.

As of December 31, 2006, the Company charged directly EUR 321 thousand in actuarial losses offset against gains in 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. Insofar as they were pledged to the beneficiaries, insurance policies were identified as qualified plan assets.

Development of the pension obligation:

	2006 EUR thou	2005 EUR thou	2004 EUR thou
Present value of benefit obligation as of January 1	1,351	1,061	909
Additions from company acquisition (LeuTek)	250	0	0
Past service costs (LeuTek)	4	0	0
Interest cost	63	53	50
Actuarial gains/losses recorded without impact on income	-4	237	102
Present value of benefit obligation as of December 31	**1,664**	**1,351**	**1,061**

Development of plan assets:

	2006 EUR thou	2005 EUR thou	2004 EUR thou
Fair value of plan assets as of January 1	790	639	494
Additions from company acquisition (LeuTek)	93	0	0
Income from plan assets (interest income)	30	24	18
Payments into plan assets	134	134	127
Actuarial gains/losses recorded without impact on income	21	-7	0
Fair value of plan assets as of December 31	**1,068**	**790**	**639**

Development of the obligation posted in the balance sheet:

	2006 EUR thou	2005 EUR thou	2004 EUR thou
Present value of pension obligation	1,664	1,351	1,061
Fair value of plan assets	1,068	790	639
Obligations reported	**596**	**561**	**422**

The following amounts were reported in the Income Statement:

	2006 EUR thou	2005 EUR thou	2004 EUR thou
Past service costs	-4	0	0
Interest cost	-63	-53	-50
Income from the plan assets (interest income)	30	24	18
	-37	**-29**	**-32**

Both the interest and past service costs arising from the accrued interest of the pension reserve and earnings from the plan assets were recognized as interest income.

A pension commitment was made to a Management Board member of the Group 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 amounted to EUR 22 thousand in 2006 (PY: EUR 19 thousand).

22. Personnel-related provisions and liabilities

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

	2006 EUR thou	2005 EUR thou
Vacation and variable remuneration	2,470	1,414
Personnel-related liabilities	285	435
	2,755	**1,849**

23. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2006 EUR thou	2005 EUR thou
Earn-out obligation towards shareholders	421	1,137
Outstanding invoices	294	275
Other liabilities	523	375
Other provisions	626	557
	1,864	**2,344**

Other provisions mainly comprise provisions for fulfilling obligations in accordance with company law and other recognizable individual risks. Other provisions developed as follows in the 2006 fiscal year:

In EUR thousand	Balance Jan 1, 2006	Consolidation	Additions	Utilizations	Releases	Balance Dec. 31, 2006
Operating obligations	302	0	292	190	65	339
Other obligations	255	79	19	51	15	287
	557	**79**	**311**	**241**	**80**	**626**

24. Liabilities from payments received 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 13). The liabilities from payments on account qualify as current liabilities.

25. Trade payables

All trade payables are due within 12 months.

26. 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.

27. Deferred taxes

Deferred taxes break down as follows:

	2006 EUR thou	2005 EUR thou	Addition: acquisition of LeuTek EUR thou	Change impacting income 2006 EUR thou	Change not impacting income 2006 EUR thou
Deferred tax assets:					
Provisions	209	97	0	-10	122
Prepaid expenses	10	52	0	-42	0
Financial instruments	31	0	0	0	31
Long-term financial instruments	25	30	0	-5	0
Receivables	0	16	0	-16	0
From tax losses carry forwards	1,499	614	0	885	0
Deferred tax assets, gross	**1,774**	**809**	**0**	**812**	**153**
Deferred tax liabilities:					
Provisions	13	0	13	0	0
Intangible assets	1,757	539	1,330	112	0
Treasury shares	186	197	0	11	0
Work in process	137	57	0	-80	0
Financial instruments	36	16	0	-20	0
Receivables	144	0	0	-144	0
Deferred tax liabilities, gross	**2,273**	**809**	**1,343**	**-121**	**0**
Balance	**-499**	**0**	**-1,343**	**691**	**0**

Net deferred taxes reported in the balance sheet:			
Deferred tax assets:	**808**	**0**	**0**
Deferred tax liabilities:	**1,307**	**0**	**1,343**

As of December 31, 2006 deferred tax assets of approx. EUR 61,959 thousand (PY: EUR 64,188 thousand) were not recognized on German tax loss carry forwards 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 foreign tax loss carry forwards of approx EUR 439 thousand (PY: EUR 410 thousand).

Tax loss carry forwards of EUR 20,252 thousand (PY: EUR 20,525 thousand) have not been recognized by the tax authorities and are not included in the total tax loss carry forwards as a result. Tax loss carry forwards 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 tax loss carry forwards on foreign income can be carried forward for a maximum of seven years.

E. NOTES TO THE CONSOLIDATED INCOME STATEMENT

28. 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:

	2006 EUR thou	2005 EUR thou
Consulting	18,457	15,668
Licenses	4,063	2,690
Maintenance	2,910	2,277
Other	500	226
	25,930	**20,861**

29. Cost of sales

The cost of sales includes the following expenses:

	2006 EUR thou	2005 EUR thou
Personnel expenses	6,502	5,604
Fees for freelancers and hired workers	5,815	5,094
Scheduled depreciation	477	437
Other expenses	2,414	1,990
	15,208	**13,125**

30. Sales and marketing expenses

Sales and marketing expenses include the following expenses:

	2006 EUR thou	2005 EUR thou
Personnel expenses	1,869	1,812
Scheduled depreciation	33	23
Other expenses	1,623	891
	3,525	**2,726**

31. General administrative expense

	2006 EUR thou	2005 EUR thou
Personnel expenses	1,377	1,443
Scheduled depreciation	82	99
Other expenses	1,244	944
	2,703	**2,486**

32. Research and development expenses

Research and development expenses comprise:

	2006 EUR thou	2005 EUR thou
Personnel expenses	2,302	1,856
Scheduled depreciation	57	150
Other expenses	513	402
	2,872	**2,408**

33. Other operating income

Other operating income includes income from the release of provisions totaling EUR 87 thousand (PY: EUR 63 thousand).

34. Goodwill amortization

As a result of the positive earnings development in recent years for the subsidiary USU AG deferred tax assets of EUR 655 thousand were created on tax loss carry forwards and recognized as income for the first time in the 2006 fiscal year (see Note 10). Goodwill was accordingly amortized by the same amount. Therefore, the net after-tax effect of this accounting requirement pursuant to IAS 12.68 resulted in no effect on income.

35. Interest income

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

36. Interest expenses

Interest expenses chiefly comprise interest from long-term provisions and realized price losses from the sale of securities. There were no interest expenses as a result of using credit lines.

37. Income taxes

Income taxes break down as follows:

	2006 EUR thou	2005 EUR thou
Income taxes for the fiscal year	-78	-44
Income taxes for previous years	-16	5
Deferred taxes	691	279
Tax income	**597**	**240**

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

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

	2006 EUR thou	2005 EUR thou
Profit before income tax	1,504	808
Theoretical tax expense 37.2% (PY: 37.2%)	-559	-301
Changes in the theoretical tax expense owing to:		
Release of allowance for deferred taxes on tax loss carry forwards	655	240
Unrecognized deferred taxes on tax loss carry forwards	822	301
Goodwill amortization	-244	0
Tax refunds/back payments for other periods	-16	5
Non-deductible expenses	-10	-5
Deviation from foreign tax rates	-9	-3
Other	-42	3
Tax income	**597**	**240**

38. Other notes to the income statement

The average headcount in the fiscal year was:

	2006	2005
Consulting and services	96	84
Research and development	67	63
Administration and finance	27	26
Sales and marketing	24	24
	214	**197**

Personnel expenses break down as follows:

	2006 EUR thou	2005 EUR thou
Wages and salaries	10,243	9,053
Social security, pensions and other benefit costs	1,807	1,662
	12,050	10,715

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 cash flow statement correspond to the cash on hand and bank balances item in the balance sheet (see Consolidated Note 19). 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.

39. Net cash flow from operating activities

In the 2006 fiscal year, the USU Group generated a positive cash flow of EUR 2,388 thousand from operating activities after a cash flow of EUR 2,665 thousand in 2005. While in the reporting year, it was the increased operating result that primarily led to net revenues from operating activities, in 2005 the interest received on capital investments was the main factor influencing this item.

40. Net cash flow from investment activities

In the 2006 fiscal year, the cash flow from investment activities in the USU Group was dominated by the acquisitions effected by USU Software AG, while the figure for 2005 mainly reflects the sales of securities to finance the Company’s special distribution. During the reporting period, this resulted in net expenditure for investing activities totaling EUR 6,629 thousand, compared with corresponding net revenues of EUR 33,591 thousand in the 2005 fiscal year.

The net expenditure for business acquisitions less cash and cash equivalents acquired which, in addition to the acquisition of LeuTek in November 2006, included payment of the earn-out obligation for OMEGA amounted to EUR 9,172 thousand in the reporting period. In 2005, the business acquisition of OMEGA resulted in corresponding net expenditure of EUR 738 thousand. To finance partly the fixed purchase price payment due as consideration for the acquisition of Leutek and the earn-out payment for OMEGA, acquired in February 2005, securities to the amount of EUR 10,479 thousand were sold in the reporting year. This disposal was offset in the same period by new investments in low-risk, short-term securities totaling EUR 7,570 thousand. In the previous fiscal year, this produced a positive balance of EUR 34,494 thousand, which was used primarily to finance the cash distribution to the USU Software AG shareholders.

In the 2006 fiscal year, investments in fixed assets and other intangible assets totaled EUR 382 thousand (PY: EUR 174 thousand). The increase in this item chiefly reflects the USU Group’s higher level of investment in new hardware and software.

41. Net cash flow from investment activities

During the reporting period, there were no changes to cash flow from financing activities, which would have led to corresponding net revenue or expenditure. Net expenditure in the 2005 fiscal year for the special distribution by USU Software AG totaled EUR 34,206 thousand.

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 in the 2006 and 2005 fiscal years was 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). Thanks to the acquisition of LeuTek, this segment also includes the monitoring, visualization and control of all systems and processes required for IT operation.

In fiscal 2006, EUR 3,057 thousand (11.8%, 2005: 11.3%) of consolidated sales revenue was generated outside Germany. Likewise, 1.4% (PY: 2.7%) of the consolidated assets were located outside Germany. For this reason, the Company has not provided any more information on the geographical data pursuant to IAS 14 (secondary reporting format).

EUR thousand	Business Solutions		IT Management Solutions		Not allocated		Consolidation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	11,488	11,603	14,368	9,216	74	42	-	-	25,930	20,861
Intersegment sales	-	43	-	-	-	-	-	-43	-	-
Total sales	**11,488**	**11,646**	**14,368**	**9,216**	**74**	**42**	**0**	**-43**	**25,930**	**20,861**
Earnings from operating activities	1,898	1,965	2,104	363	-2,334	-2,064	-	-	1,668	264
Goodwill amortization	-380	-	-275	-	-	-	-	-	- 655	-
Net financial income	-	-	-	-	491	544	-	-	491	544
Taxes	-	-	-	-	597	240	-	-	597	240
Net profit/loss for the Group	**1,518**	**1,965**	**1,829**	**363**	**-1,246**	**-1,280**	**-**	**-**	**2,101**	**1,048**
Segment assets/Group assets	10,796	11,297	29,974	13,622	11,215	18,066	-	-	51,985	42,986
of which goodwill	8,319	8,699	19,674	8,975	-	-	-	-	27,993	17,674
Segment liabilities/ Group liabilities	1,230	1,522	3,977	2,434	4,128	2,938	-	-	9,335	6,894
Capital expenditure	110	54	260	84	13	36	-	-	383	174
Depreciation and amortization	413	135	597	449	290	126	-	-	1,300	710
of which goodwill	380	-	275	-	-	-	-	-	655	-
Employees (as of Dec. 31)	57	50	154	129	22	20	-	-	233	199

Intersegment sales in the 2005 fiscal year were 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:

	2006 EUR thou	2005 EUR thou
Segment assets	40,770	24,919
Unallocated assets		
Non-current investments	2,834	5,908
Cash on hand and bank balances	5,366	9,612
Deferred tax assets	808	0
Income tax receivables	923	1,881
Other assets	1,284	666
	11,215	**18,067**
Group assets	**51,985**	**42,986**

	2006 EUR thou	2005 EUR thou
Segment liabilities	5,207	3,956
Unallocated liabilities		
Deferred tax liabilities	1,307	0
Pension provisions	433	561
Other income tax liabilities	707	16
Other liabilities	1,681	2,361
	4,128	**2,938**
Group liabilities	**9,335**	**6,894**

H. OTHER DISCLOSURES

42. 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 2006, the business relationships described below existed between members of the Management Board and the Supervisory Board and the entities included in the consolidated financial statements.

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

42.1 Udo Strehl / Udo Strehl Private Equity GmbH

There are no trading obligations between the Group and the Chairman of the Supervisory Board, Udo Strehl, who is also a major shareholder of the parent of the Group, USU Software AG, 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 the 2006 fiscal year, net cost reimbursements of EUR 34 thousand (PY: EUR 22 thousand) were made in favor of Udo Strehl Private Equity GmbH. The costs of car leasing, travel expenses and telecommunications for EUR 22 thousand were also paid (PY: EUR 20 thousand).

42.2 Karin Wailer-Strehl

Karin Wailer-Strehl is the wife of Udo Strehl. The Company engages the consulting services of Ms. Wailer-Strehl on the basis of an annual contract. The expenses for these consulting contracts with Ms. Wailer-Strehl amounted to EUR 29 thousand in the 2006 fiscal year (PY: EUR 14 thousand).

The subsidiary USU AG rents an office building from Spitalhof Garr, in which Karin Wailer-Strehl has a stake. The rental payments in the year ending December 31, 2006 amounted to EUR 242 thousand (PY: EUR 237 thousand). In a supplement to the rent agreement, USU AG granted Spitalhof Garr a subsidized construction loan of EUR 183 thousand 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, 2006, the receivable from this subsidized construction loan amounted to EUR 231 thousand (PY: EUR 221 thousand). The interest income from compounding the loan amounted to EUR 10 thousand in the fiscal year ending December 31, 2006 (PY: EUR 10 thousand).

42.3 Earn-out obligation toward shareholders

The obligation from the earn-out remuneration for the 2006 fiscal year towards the former majority shareholder of LeuTek amounted to EUR 421 thousand and is recorded in other provisions and liabilities.

In the 2006 fiscal year, the earn-out obligation in the amount of EUR 1,200 thousand towards the former shareholders of OMEGA which was accrued as of December 31, 2005 was paid out in full.

42.4 Loans to shareholders

There is a short-term loan of EUR 62 thousand to the Managing Director of OMEGA, who also holds a minority interest in USU Software AG. The loan bears interests of 4% p.a.

42.5 Remuneration of management and the Supervisory Board

Management of the Group's business is the responsibility of the members of the Management Board of USU Software AG and USU AG:

Bernhard Oberschmidt (Chief Executive Officer)

Klaus Bader (Executive Vice President)

In the 2006 fiscal year, remuneration of the members of the Management Board totaled EUR 434 thousand (PY: EUR 420 thousand).

Fixed remuneration: EUR 271 thousand (PY: EUR 265 thousand).

Variable remuneration: EUR 109 thousand (PY: EUR 104 thousand).

Monetary value of benefits from private use of company vehicle: EUR 32 thousand (PY: EUR 32 thousand).

Contribution-related pension expenses: EUR 22 thousand (PY: EUR 19 thousand).

In the 2006 fiscal year, a loan of EUR 140 thousand was made to a member of the Management Board of USU AG. The loan has a term of March 31, 2016 and bears interest of 3.5% p.a. until December 31, 2010 and subsequently to the amount of the 12-month EURIBOR. Repayments are to be made on the basis of a certain percentage of the variable remuneration. In 2006, a total of EUR 5 thousand was repaid. As of December 31, 2006 the loan was valued at EUR 135 thousand.

The total remuneration of the Supervisory Board in the year ending December 31, 2006 amounted to EUR 73 thousand (PY: EUR 73 thousand).

Reference is made to the comments in Consolidated Note 21 with regard to the pension provision set up for a member of the Supervisory Board and former member of the Management Board.

43. Auditor's fees

a) Financial statements (individual and consolidated financial statements):	EUR 83 thou	(PY: 61 thou)
b) Other certification or valuation services:	EUR 0 thou	(PY: EUR 6 thou)
c) Other services:	EUR 63 thou	(PY: EUR 7 thou)

44. Other notes

44.1 Contingent liabilities

As of December 31, 2006 and December 31, 2005, there were no contingent liabilities to report.

44.2 Other financial obligations

The Company has leased some of its office and operating equipment as well as its vehicles (operating leases) and offices. 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 offices, 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:

	2006 EUR thou	2005 EUR thou
Obligations from operating leases		
In one year	352	431
In more than one to five years	211	416
In more than five years	0	0
	563	**847**
Other financial obligations from office rental		
In one year	808	663
In more than one to five years	60	455
In more than five years	0	0
	868	**1,118**
	1,432	**1,965**

Expenses for operating leases and rent agreements amounted to EUR 936 thousand in the 2006 fiscal year (PY: EUR 928 thousand).

Further financial obligations totaling EUR 2,429 thousand exist towards a shareholder of the Company and concern the maximum cash payment from the earn-out clause in connection with the acquisition of LeuTek (Consolidated Note 8).

45. 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, 2006 and 2005, 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, 2006. By order of the court, a valuation report is being produced which will determine the value of a USU AG share as of June 13, 2004. The report had not been submitted as at the balance sheet date. A balance-sheet risk provision of EUR 61 thousand has been created for the expected legal, court and expert costs.

Moreover, the tax audit of USU AG and USU Software AG which began in June 2006 for the fiscal years from 2000 to 2004 is still ongoing.

There were no further significant events prior to release of the consolidated financial statements by the Management Board to be reported.

46. Company boards

46.1 Management Board

The member of the Management Board of the parent company in fiscal year 2006 was:

Bernhard Oberschmidt, Spokesperson of the Management Board
Diplom-Ökonom

The total remuneration of the active member of the Management Board in fiscal 2006 was EUR 221 thousand. Details can be found in the “Essential features of the compensation system” section of the Management Report and Group Management Report.

46.2 Supervisory Board

Members of the Supervisory Board in fiscal 2006 were:

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

Günter Daiss, Deputy Chairman
Insurance Officer

Chairman of the Supervisory 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,
Economics graduate
Full-time president of VfB Stuttgart 1893 e.V., Stuttgart
Member of the Supervisory Board of Grenke Leasing AG, Baden-Baden
Member of the Advisory 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

47. 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.

47.1 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.

47.2 Liquidity risks

In order to meet its financial obligations, the Group needs cash and cash equivalents which are largely covered by ongoing operations. Moreover, the Company has credit lines to cover any liquidity bottlenecks.

47.3 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.

47.4 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).

47.5 Exchange rate risks

The Company performs insignificant transactions in foreign currency and is therefore only subject to a limited extent to exchange rate fluctuations which accordingly 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, 2006, 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	2006 Shares	2005 Shares
Management Board		
Bernhard Oberschmidt	18,696	18,696
Supervisory Board		
Udo Strehl *)	1,989,319	1,989,319
Erwin Staudt	17,100	10,100
Günter Daiss	5,500	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 (1) Sentence 1 No. 1 WpHG.*
A further 32,000 shares in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" foundation of which he is the Managing Drector pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG.

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, 2006 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, March 9, 2007

Bernhard Oberschmidt

Spokesperson for the Management Board

USU SOFTWARE AG, MÖGLINGEN

Attachment A to the Consolidated Notes

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSESTS FOR 2006

	Historical cost					Accumulated depreciation and amortization					Carrying amounts	
	Jan. 1, 2006 EUR thou	Company acquisition EUR thou	Additions EUR thou	Dis-posals EUR thou	Dec. 31, 2006 EUR thou	Jan. 1, 2006 EUR thou	Additions EUR thou	Dis-posals EUR thou	Currency changes EUR thou	Dec. 31, 2006 EUR thou	Dec. 31, 2006 EUR thou	Jan. 1, 2006 EUR thou
Intangible assets												
Software acquired	2,352	846	101	0	3,299	1,951	228	0	2	2,181	1,118	401
Trademarks and brands	1,051	300	0	0	1,351	521	0	0	0	521	830	530
Maintenance agreements	356	1,100	0	0	1,456	238	88	0	0	326	1,130	118
Customer base	555	1,300	0	0	1,855	44	75	0	0	119	1,736	511
	4,314	**3,546**	**101**	**0**	**7,961**	**2,754**	**391**	**0**	**2**	**3,147**	**4,814**	**1,560**
Goodwill	37.308	10,974	0	0	48,282	19,634	655	0	0	20,289	27,993	17,674
	37,308	**10,974**	**0**	**0**	**48,282**	**19,634**	**655**	**0**	**0**	**20,289**	**27,993**	**17,674**
Property, plant and equipment												
Leasehold improvements	87	0	6	0	93	58	7	0	0	65	28	29
Other equipment, furniture and fixtures	1,094	185	275	374	1,180	710	247	358	-2	597	583	384
	1,181	**185**	**281**	**374**	**1,273**	**768**	**254**	**358**	**-2**	**662**	**611**	**413**
Deferred tax assets	0	0	808	0	808	0	0	0	0	0	808	0
	0	**0**	**808**	**0**	**808**	**0**	**0**	**0**	**0**	**0**	**808**	**0**
Long-term financial instruments	**459**	**402**	**167**	**139**	**889**	**0**	**0**	**0**	**0**	**0**	**889**	**459**
	43,262	**15,107**	**1,357**	**513**	**59,213**	**23,156**	**1,300**	**358**	**0**	**24,098**	**35,115**	**20,106**

USU SOFTWARE AG, MÖGLINGEN

Attachment B to the Consolidated Notes

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSESTS FOR 2005

	Historical cost					Accumulated depreciation and amortization					Carrying amounts	
	Jan. 1, 2005 EUR thou	Company acquisition EUR thou	Additions EUR thou	Dis-posals EUR thou	Dec. 31, 2005 EUR thou	Jan. 1, 2005 EUR thou	Additions EUR thou	Dis-posals EUR thou	Currency changes EUR thou	Dec. 31, 2005 EUR thou	Dec. 31, 2005 EUR thou	Jan. 1, 2005 EUR thou
Intangible assets												
Software acquired	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												
Leasehold improvements	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**
Long-term financial instruments	**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**

AUDITOR´S REPORT

We 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, 2006. 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 responsibility 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 management report and 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 management report and Group 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 did not lead 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, March 9, 2007

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

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

Annual Financial Statements 2006

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ANNUAL FINANCIAL STATEMENTS

USU SOFTWARE AG, MÖGLINGEN

BALANCE SHEET AS OF DECEMBER 31, 2006

ASSETS

	Note	Dec. 31, 2006 EUR thou	Dec. 31, 2005 EUR thou
A. ASSETS			
Financial assets	(1)		
1. Shares in affiliated companies		23,325	11,464
2. Other loans		40	40
		23,365	**11,504**
B. CURRENT ASSETS			
I. Receivables and other assets			
	(2)		
1. Receivables from affiliated companies		2,712	312
2. Other assets		593	1,600
		3,305	**1,912**
II. Securities			
1. Treasury shares	(3)	213	185
2. Other securities		0	2,934
		213	**3,119**
III. Cash on hand and bank			
Balances		**358**	**7,219**
		3,876	**12,250**
C. PREPAID EXPENSES		**23**	**7**
		27,264	**23,761**

USU SOFTWARE AG, MÖGLINGEN

BALANCE SHEET AS OF DECEMBER 31, 2006

EQUITY AND LIABILITIES

	Note	Dec. 31, 2006 EUR thou	Dec. 31, 2005 EUR thou
A. EQUITY			
I. Subscribed capital	(4)	10,335	9,135
II. Capital reserve	(7)	13,838	13,866
III. Revenue reserve			
Reserve for treasury shares	(8)	213	185
IV. Accumulated profit (accumulated loss)		1,549	-153
		25,935	**23,033**
B. ACCRUALS			
Other accruals	(9)	**431**	**385**
C. LIABILITIES	(10)		
1. Trade payables			
2. Other liabilities		55	9
		843	334
		898	**343**
		27,264	**23,761**

USU SOFTWARE AG, MÖGLINGEN

INCOME STATEMENT
FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2006

		Note	2006 EUR thou	2006 EUR thou	2005 EUR thou	2005 EUR thou
1.	Other operating income	(13)		**651**		**593**
2.	Personnel expenses					
	a) Wages and salaries		293		214	
	b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 12 thousand; PY: EUR 12 thousand)		46	**339**	30	**244**
3.	Other operating expenses	(14)		**974**		**794**
4.	Income from participations (of which from affiliated companies: EUR 1,400 thousand; PY: EUR 0 thousand)	(15)	1,400		0	
5.	Income from profit transfer agreements	(16)	648		98	
6.	Income from other securities and loans of financial assets		22		91	
7.	Other interest and similar income (of which from affiliated companies: EUR 0 thousand; PY: EUR 58 thousand)		294		313	
8.	Amortization of financial assets and securities classed as current assets	(17)	0		210	
				2,364		**292**
9.	Result from ordinary activities = net income for the year			**1,702**		**-153**
10.	Loss carry forward from previous year			**-153**		**0**
11.	Drawings from capital reserve			**28**		**0**
12.	Drawings from reserve for treasury shares			**0**		**210**
13.	Additions to capital reserve			**0**		**-210**
14.	Addition to reserve for treasury shares			**-28**		**0**
15.	Accumulated profit (accumulated loss)			**1,549**		**-153**

USU SOFTWARE AG, MÖGLINGEN

NOTES FOR THE 2006 FISCAL YEAR

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.

Unless otherwise stated, amounts are stated in thousands of euro (EUR thousand).

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 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).

Disclosures on equity investments (disclosures on equity and net income represent the values in accordance with the respective country-specific accounting regulations):

	Share in% Dec. 31, 2006	Equity in EUR thou Dec. 31, 2006	Net income in EUR thou 2006
USU AG, Möglingen [1)]	100.0	7,352	1,540
LeuTek GmbH, Leinfelden-Echterdingen	100.0	2,412	2,260
Omega Software GmbH, Obersulm [2)]	100.0	970	648
Openshop Internet Software GmbH, Ludwigsburg	100.0	-779	-2

1) Equity before the distribution of net profit to USU Software AG

2) Net income before/equity after profit transfer to USU Software AG.

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

	Share in% Dec. 31, 2006	Equity in EUR thou Dec. 31, 2006	Net income in EUR thou 2006
Gentner GmbH ProCOMMUNICATION i.L., Möglingen	100.0	-1,580	-2
USU Software s.r.o., Brno, Czech Republic	100.0	207	0
USU (Schweiz) AG, Zug, Switzerland	100.0	-343	-10

The former subsidiary ValueSolution Verwaltungs-GmbH i.L., Möglingen, was removed from the commercial register on completion of the liquidation procedure on November 14, 2006.

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 tax refund claims for EUR 564 thousand.

3. Treasury shares

By resolution of the Annual General Meeting on July 20, 2006, 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 19, 2008.

As of December 31, 2006, the Company held 53,950 treasury shares with an imputed share in the capital stock of EUR 54 thousand. This corresponds to 0.5% (December 31, 2005: 0.6%) of the capital stock as of December 31, 2006.

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 213 thousand as of December 31, 2006. For adjustment to the increase in the price at the balance sheet date in comparison to the previous year, a value adjustment to the amount of EUR 28 thousand was carried out.

4. Subscribed capital

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

As part of the acquisition of LeuTek 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 1,200 thousand.

As of December 31, 2006, the subscribed capital of the Company amounts to EUR 10,335 thousand and is divided into 10,335,004 no-par bearer shares with an imputed share in subscribed capital of EUR 1.00 each.

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 thousand 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 thousand to EUR 4,300 thousand.

As part of the acquisition of Omega Software GmbH on February 23, 2005, 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 thousand to EUR 3,771 thousand.

With the acquisition of LeuTek GmbH on November 6, 2006, a further 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 1,200 thousand to EUR 2,571 thousand (PY: EUR 3,771 thousand).

6. Contingent capital

The subscribed capital of the Company was conditionally increased by shareholder resolution of March 2, 2000 by EUR 757 thousand 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 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 thousand from EUR 757 thousand to EUR 2,309 thousand and reduced likewise by EUR 1,931 thousand from EUR 2,309 thousand to EUR 378 thousand.

In connection with the contingent capital a stock option agreement was concluded with several persons, according to which 19,060 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	Mar 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, 2006	1,052	1,094	2,500	16,560
Granted	0	0	0	0
Exercised	0	0	0	0
Lapsed	1,052	1,094	0	0
Outstanding as of December 31, 2006	0	0	2,500	16,560
Exercisable as of December 31, 2006	0	0	0	0

7. Capital reserve

Following a corresponding addition to the reserve for treasury shares, the capital reserve decreased by EUR 28 thousand, finishing at EUR 13,838 thousand as of December 31, 2006.

8. Reserve for treasury shares

Corresponding to the treasury shares reported under the item “Treasury shares”, a reserve for treasury shares exists at EUR 213 thousand. In fiscal 2006, an amount of EUR 28 thousand was added to this due to a value adjustment pursuant to Sec. 280 para 1 HGB and removed from the capital reserve accordingly (EUR 61 thousand).

9. Other accruals

Other accruals mainly comprise costs for fulfilling obligations in accordance with company law (EUR 251 thousand), personnel-related obligations (EUR 101 thousand) and costs for the arbitration proceedings in connection with the still-pending squeeze-out procedure of USU AG (EUR 61 thousand).

10. Liabilities

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

Other liabilities contain liabilities of EUR 0 thousand for social security (PY: EUR 2 thousand) and EUR 417 thousand for taxes (PY: EUR 332 thousand). There are also liabilities towards a shareholder arising from the acquisition of shares of LeuTek GmbH amounting to EUR 421 thousand.

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 2007 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 thousand to the benefit of Openshop Internet Software GmbH.

12. Other financial obligations

Apart from the contingent liabilities, there were other financial obligations totaling EUR 2,439 thousand at balance sheet date. Of this, EUR 2,429 thousand concerns the maximum permissible increase amount to the purchase price paid so far for the shares in LeuTek GmbH (earn-out clause), should certain future conditions apply. A further EUR 10 thousand resulted from a tenancy.

D. Notes to the income statement

13. Other operating income

Other operating income consists of income from other periods related to the reversal of accruals (EUR 62 thousand), the reversal of allowances for loans of financial assets (EUR 132 thousand) and income from increased valuations of marketable securities (EUR 28 thousand). Moreover, the item contains proceeds from the offsetting of services rendered within the Group (EUR 314 thousand).

14. Other operating expenses

Other operating expenses mostly include costs connected to investor relations or costs linked to the Annual General Meeting (EUR 258 thousand). Costs were also incurred for services provided by the subsidiary USU AG (EUR 285 thousand) and ongoing legal and consulting costs (EUR 76 thousand). The item also includes one-off costs in connection with the acquisition of the shares in LeuTek GmbH totaling EUR 94 thousand as well as losses from the sale of securities amounting to EUR 46 thousand.

15. Income from participations

This item contains the income from participations acquired by USU AG.

16. Income from profit transfer agreements

On March 2, 2000 the Company concluded a profit transfer agreement with Openshop Internet Software GmbH. A profit transfer agreement was also concluded with Omega Software GmbH on May 19, 2005. With the agreement, Openshop Internet Software GmbH and Omega Software GmbH are committed to transferring their entire profits 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 for Openshop Internet Software GmbH in 2004 as Openshop Internet Software GmbH’s net profit for the year was used to offset pre-contractual loss carry forwards with analogous application of Sec. 301 AktG.

In the 2006 fiscal year, Omega Software GmbH generated profits of EUR 648 thousand which has been transferred to USU Software AG on the basis of the profit transfer agreement.

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

In the fiscal year 2006, 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 2006 were:

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

Günter Daiss, Deputy Chairman
Insurance officer,
Chairman of the Supervisory 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,
Economics graduate
Full-time president of VfB Stuttgart 1893 e.V., Stuttgart
Member of the Supervisory Board of Grenke Leasing AG, Baden-Baden
Member of the Advisory 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, Economics graduate, Spokesperson of the Management Board

20. Total remuneration of the Management Board

The total remuneration of the Management Board in fiscal 2006 was EUR 221 thousand. Details can be found in the "Essential features of the compensation system" section of the 2006 Management Report and Group Management Report.

21. Total remuneration of the Supervisory Board

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

22. Auditor's fees

Audit (individual and consolidated financial statements)	EUR 42 thousand	(PY: EUR 38 thousand)
Other certification and valuation services	EUR 0 thousand	(PY: EUR 6 thousand)
Other services	EUR 61 thousand	(PY: EUR 7 thousand)

23. Reporting obligation pursuant to Sec. 160 AktG

On December 21, 2006, Peter Scheufler, Germany, informed the Company in accordance with Sec. (1) WpHG that on December 18, 2006 his share of voting rights in USU Software AG exceeded the thresholds of 5% and 10% and now amounts to 11.61%.

24. Employees

The average number of employees during the 2006 fiscal year was 2 (PY: 1) (not including the Management Board).

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 and published in the electronic Federal Gazette. 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, 2006 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.

27. Appropriation of net profit

The Management Board proposes to use the net profit of EUR 1,549 thousand as of December 31, 2006 as follows:

- Payment of a dividend of EUR 0.10 per share for 9,081,054 shares or EUR 908 thousand (the 1,200,000 new shares issued as part of the acquisition of LeuTek GmbH will not participate in profits until January 1, 2007 and treasury shares are non-participating)

- To carry forward the remaining profit of EUR 641 thousand.

Möglingen, March 9, 2007

Bernhard Oberschmidt
Spokesperson of the Management Board

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENTS OF CHANGES IN NON-CURRENT ASSETS FOR 2006

	Historical cost				Accumulated depreciation and amortization			Carrying amounts	
	Jan. 1, 2006	Additions	Disposals	Dec. 31, 2006	Jan. 1, 2006	Disposals	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Financial assets									
Shares in affiliated companies	11,724	11,861	0	23,585	260	0	260	23,325	11,464
Equity investments	200	0	0	200	200	0	200	0	0
Other loans	459	0	132	327	419	132	287	40	40
	12,383	11,861	132	24,112	879	132	747	23,365	11,504

AUDITOR´S REPORT

We 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 management report and Group management report of the USU Software AG, Möglingen, for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report and Group 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 and the management report and Group 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 asset, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the management report and the group 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 consolidated financial statements and the management report and Group 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 and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead 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 management report and the Group management report are consistent with the annual 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, March 9, 2007

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

Schupeck
Wirtschaftsprüfer [German Public Auditor]

Barth
Wirtschaftsprüfer [German Public Auditor]

FINANCIAL CALENDAR FOR 2007*

March 27, 2007	Balance sheet conference
March 27, 2007	Consolidated financial statements 2006
May 23, 2007	3-month report 2007
July 12, 2007	Annual General Meeting
August 22, 2007	6-month report 2007
November 12, 2007	9-month report 2007

**These are preliminary dates for the 2007 fiscal year.*
Any changes that are made will be posted on the Company's website at www.usu-software.de

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