ANNUAL REPORT 2007

usu
SOFTWARE AG

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ANNUAL REPORT 2007

FOREWORD

When USU was founded in 1977, there were around 300 computer experts to every mainframe computer. Today we have the opposite situation. Often, only a single IT specialist is available for 300 systems. And we, USU, help him to do his various jobs well. With our tools.

Thirty years ago, the demand for application programs was so great that waiting times for orders on hand in software development exceeded five years. These days, projects which last more than a year are regarded as Methusalahs. And we, USU, help our customers by enabling them to use new software quickly. With our consulting business.

In the past, lumbering dialog systems took an annoying five seconds to provide a single response. Now, search machines provide us with hundreds of thousands of responses within a fraction of a second which, it has to be said, can also be quite annoying. This is why we, USU, help users to find the right response quickly. With our knowledge management tools.

Computer systems are machines which have the potential to do absolutely anything. To our delight, they can be used anywhere. Much to our chagrin, however, they do not necessarily also make everything easier. On the contrary. As every user knows only too well.

Fortunately, there are companies like USU which never give up and focus their attentions on certain topics. Suddenly everything becomes easier, and you never even noticed it: As little as thirty years ago, it was inconceivable that a single employee would be able to manage the availability of hundreds of computers. Inconceivable that application programs could control entire business processes with one click of a mouse.

Thirty years ago, we could only dream of generating precisely the information we need in any given situation from billions upon billions of facts.

Today, the dream has come true thanks to technologies such as those provided by USU and which in 2007 gave us our best business performance since the company was founded thirty years ago. Everything is going extremely well. Compared to yesterday. Compared to tomorrow, however, there is still a lot to do. USU has no worries about the next thirty years.

Yours,
Bernhard Oberschmidt

CORPORATE GOVERNANCE REPORT 2007

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 2007.

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 19, 2007:

“The Management Board and Supervisory Board of USU Software AG declare that since the last declaration of compliance on December 12, 2006, the recommendations of the Government Commission for the German Corporate Governance Code in the version dated June 12, 2006 or since their validity in the version dated June 14, 2007, have been complied with and will be complied with in future, although the following recommendations have not been and/or will not be complied with:

According to clause 2.3.2 of the Code (in the version dated June 14, 2007), the convening of the Annual General Meeting together with the convening documents are to be transmitted electronically to all domestic and foreign financial service providers, shareholders and associations of shareholders if the approval requirements are fulfilled.

USU Software AG standardly transmits the convening of the Annual General Meeting together with the convening documents to domestic and foreign financial service providers, shareholders and associations of shareholders in printed form if requested. The aforementioned convening together with documents is also published on the company's internet site. If any foreign financial service provider, shareholder or association of shareholders also requests electronic transmission of the convening and the convening documents, the company will also provide these documents where possible insofar as the approval requirements are fulfilled.

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 introduce a deductible subsequently.

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 clauses 5.3.1 and 5.3.2 of the Code as well as clause 5.3.3. of the Code (in the version dated June 14, 2007), the Supervisory Board is to form committees such as an Audit Committee or a Nomination Committee.

As the Supervisory Board of USU Software AG comprises three members, no committees have been or will be formed. Regardless of this, the Supervisory Board carries out the duties intended for such committees.

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.

Remuneration for assuming the Deputy Chair in the Supervisory Board or membership or the Chair in a committee of the Supervisory Board was and is not provided for. Nor did the articles of association of USU Software AG initially provide for performance-oriented remuneration of the members of the Supervisory Board. By resolution of the Annual General Meeting on July 12, 2007, a performance-oriented remuneration of the Supervisory Board was introduced in addition to the fixed remuneration with effect of January 1, 2008.

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 2007 fiscal year, the Management Board spokesman und sole member of the Management Board of USU Software AG, Bernhard Oberschmidt, received a fixed compensation of EUR 132.0 thousand. In addition, the Company awarded the Management Board a social security supplement of EUR 10.4 thousand and contributed EUR 12.0 thousand to the private pension. There was also a monetary value benefit of EUR 17.5 thousand for the private use of company vehicles. During the reporting year, the performance-oriented variable component was EUR 70.5 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 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 *(EUR thousand)*				
	Fixed compensation	**Supplement for social security and pension**	**Monetary advantage from private use of company vehicles**	**Variable compensation**
2007	132.0	22.4	17.5	70.5 [1)]
2006	128.5	23.0	17.2	52.0
[1)] of which for the previous year: EUR 12. 5 thousand				

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. The Annual General Meeting of USU Software AG on July 12, July approved a new regulation with effect of the 2008 fiscal year on the basis of which a variable component was introduced for the compensation of the members of the Supervisory Board in accordance with the regulations of the Corporate Governance Code. The old regulation continues to apply to the 2007 fiscal year. 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 did not include a variable component for the 2007 fiscal year.

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 in addition to the reimbursement of expenses 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. Variable components in the compensation of the Supervisory Board were and are not provided for.

Group-wide compensation for the Supervisory Board of the USU Group was EUR 72.5 thousand in the 2007 fiscal year.

Further details under the Corporate Governance Report

Directors' dealings and securities held in executive bodies

As of December 31, 2007, shares held by members of the Company's boards in USU Software AG, Möglingen, were as follows.

Shareholdings subject to mandatory disclosure	2007 shares	2006 shares
Management Board		
Bernhard Oberschmidt	18,696	18,696
Supervisory Board		
Udo Strehl*)	1,989,319	1,989,319
Erwin Staudt	50,000	17,100
Günter Daiss	35,500	5,500

*) *Through Udo Strehl Private Equity GmbH, a further 3,689,848 voting shares (2006: 4,172,348) 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 (2006: 32,000) voting rights in USU Software AG pursuant to section 22 (1) sentence 1 No. 1 WpHG.

The Supervisory Board members Erwin Staudt and Günter Daiss each purchased 30,000 shares in USU Software AG on May 23, 2007 over the counter from Udo Strehl Private Equity GmbH (USPEG), whose majority shareholder is Udo Strehl, Chairman of the Supervisory Board of USU Software AG. On this date, USPEG sold a total of 240,000 shares in USU Software AG to the two members of the Supervisory Board of USU Software AG and to institutional investors over the counter.

Another over-the-counter sale of 250,000 shares in USU Software AG was made to institutional investors by USPEG on July 13, 2007.

On August 24, 2007, Supervisory Board member Erwin Staudt purchased 2,900 shares in USU Software AG via the Stuttgart Stock Exchange, and USPEG bought 7,500 shares via the electronic trading system XETRA.

The Supervisory Board members Udo Strehl, Erwin Staudt and Günter Daiss promptly informed USU Software AG of the securities transactions conducted. The Company promptly published the notification of these securities transactions on its homepage at www.usu-software.de.

No stock options or convertible bonds issued by USU Software AG were held by any member of the Company's bodies.

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.

REPORT OF THE SUPERVISORY BOARD OF USU SOFTWARE AG

Dear shareholders,

With a sales increase of 19.7% over the previous year to EUR 31.0 million, an increase of 50.3% in operating earnings (EBITDA) to EUR 3.5 million and a 117.4% increase in net profit to EUR 4.5 million, USU Software AG has generated the best net profit in the Company's history. All subsidiaries of USU Software AG contributed to this successful development. As a result of the positive business development of USU Software AG, the Supervisory Board has approved the Management Board's suggestion for the appropriation of net profit to propose to the Company's Annual General Meeting a dividend of EUR 0.15 for each entitled share. This is a dividend increase of 50% compared with the previous year.

Performance of Supervisory Board duties

In the 2007 fiscal year, the Supervisory Board intensively monitored the business development of USU Software AG and the Group and was in close contact with the Management Board during the year. In the process, pursuant to section 90 (1) and (2) AktG the Management Board informed the Supervisory Board regularly 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. The Supervisory Board performed its tasks and duties comprehensively in accordance with the law, the articles of association and the rules of procedure and continually supervised and advised the Management Board. At no point during the fiscal year did the Supervisory Board consider it necessary to take inspection or audit measures pursuant to section 111 (2) sentences 1 and 2 AktG. Since the Supervisory Board comprises three members, no committees were set up in the 2007 fiscal year, as was the case in the previous year.

The Supervisory Board was directly involved in all decisions of major importance. In addition, the Chairman of the Supervisory Board and the spokesperson for the Management Board regularly exchanged information and views.

Meetings of the Supervisory Board and focal points of discussion

The Supervisory Board held a total of six meetings in the reporting period. 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, which were regularly attended by the spokesman of the Management Board and which were also attended by area management where necessary, a main focus was on discussion 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 the Company reported in particular on the development of sales, earnings and profitability as well as the liquidity of the Company and the Group as a whole. The Supervisory Board was also informed about the development of business in the two segments Product Business and Solutions Business as well as the development of the newly created segments Business Development and Project Office. 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, particularly the profit and loss transfer agreement with LeuTek GmbH. Other topics discussed in the Supervisory Board meetings were the integration of LeuTek GmbH into the Group as a whole, the expansion of partner management in connection with the internationalization strategy, risk management at USU Software AG and in the Group as a whole, the development of the Company's share price, the agenda items for the 2007 Annual General Meeting, the compensation of the Supervisory Board and the implementation of the provisions of the German Corporate Governance Code. Pursuant to clause 5.6 of the German Corporate Governance Code, the Supervisory Board performed an efficiency audit during the final meeting of the 2007 fiscal year.

Corporate Governance and Declaration of Compliance

The responsible management and control of USU Software AG and the Group directed towards sustained value creation were also the focus of the activities of the Management Board and the Supervisory Board of the Company during the reporting year. The Supervisory Board is committed to these principles of Corporate Governance and acts accordingly. On December 19, 2007, 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 subsequently 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 to this annual report "Corporate Governance Report 2007".

Audit of the annual and consolidated financial statements

In accordance 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 2007 fiscal year and at the same time coordinated the focus of the audit for the 2007 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 2007 annual financial statements in accordance with the rules of the German Commercial Code (HGB), the 2007 consolidated financial statements pursuant to IFRS and the management report on the Company and the Group (summarized management report) for the fiscal year from January 1, 2007 to December 31, 2007 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 14, 2008, 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, 2007, amounting to EUR 2,225 thousand as determined in accordance with the German Commercial Code as follows:

- To pay a dividend of EUR 0.15 per share for 10,281,054 shares: EUR 1,542 thousand
- To carry forward the remaining profit: EUR 683 thousand.

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, 2007 to December 31, 2007 (hereinafter referred to as "Dependency Report") in line with section 312 of the German Stock Corporation Act and came to the following concluding declaration:

"I declare that USU Software AG, in line with the circumstances that were known to me at the relevant point in time at which legal transactions were undertaken, received an appropriate counterperformance for each legal transaction. Measures detrimental to the Company were not taken."

Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, audited the Dependency 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."

Both the Management Board's Dependency Report and the auditor's audit report were made available to the Supervisory Board. 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

The fact that the Company generated the highest net profit in its history in the 2007 fiscal year is due largely to the extraordinary commitment of the employees of USU Software AG and its subsidiaries. On behalf of all the Supervisory Board, I would like to extend my thanks to all employees of the USU Group for their tireless commitment, their loyalty and their excellent performance. My special thanks go to the spokesman of the Management Board of USU Software AG, Mr. Bernhard Oberschmidt, for his tireless work and his personal commitment as well as the extremely positive and reliable cooperation.

Möglingen, March14, 2008

For the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board of USU Software AG

Company and Group Management Report

(Combined Management Report)

2007

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COMPANY AND GROUP MANAGEMENT REPORT FOR 2007
(COMBINED MANAGEMENT REPORT)

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, Möglingen, Germany, which no longer operate.

In fiscal 2007, USU increased Group sales compared to the previous year by 19.7% to EUR 31,047 thousand (2006: EUR 25,930 thousand). This increase resulted largely from strong product business, in which – in addition to the subsidiaries USU AG and OMEGA Software GmbH (hereinafter: "OMEGA") – LeuTek GmbH (hereinafter: "LeuTek"), acquired in November 2006, played a significant role. During the reporting period, the USU Group achieved a strong increase in profitability. Thus EBITDA in fiscal 2007 rose by 50.3% to EUR 3,482 thousand (2006: EUR 2,313 thousand). As a result, USU achieved the highest result in the history of the company, even though the EBITDA of EUR 4 million originally announced was not achieved in full during the reporting period. In fiscal 2007, EBIT improved by 91.4% to EUR 1,892 thousand (2006: EUR 988 thousand), EBT rose by 59.4% to EUR 2,357 thousand (2006: EUR 1,479 thousand). Due to the release of deferred tax liabilities which were recognized as income in connection with the amortization of intangible assets capitalized in the course of company acquisitions, as well as the deferred tax assets included in net profits on the tax losses of USU Software AG, which were recognized on the basis of the profit and loss transfer agreement concluded with LeuTek, USU achieved total consolidated tax income of EUR 2,179 thousand (2006: EUR 607 thousand) in fiscal 2007. After taxes, USU doubled its net profit in the reporting period to EUR 4,536 thousand (2006: EUR 2,086 thousand) and as a result achieved exactly the planned increase in consolidated net profit. Earnings per share rose from EUR 0.23 in 2006 to EUR 0.44 in the reporting year. The Management Board and Supervisory Board of USU Software AG will therefore propose to the Company's Annual General Meeting on June 19, 2008, to increase the dividend to EUR 0.15 for each entitled share (2006: EUR 0.10). As a result, the USU Software AG shareholders participate in the Company's success, as announced.

Overall economic development

The European economy recorded considerable growth in 2007, although this decelerated over the course of the year. In the first quarter of 2007, economic growth in the Euro zone moved up by 3.2% year-on-year. However in the final quarter 2007, it was clearly below this figure at 2.3%. Over the year as a whole, gross domestic product (GDP) adjusted for special effects in the Eurozone increased by 2.7% year-on-year according to information from the Statistical Office of the European Commission (Eurostat), after an increase of 2.9% in 2006.

The German economy also expanded in the reporting period, but also faced declining growth rates in the course of the year. Whilst the rise of German GDP was 3.7% in the first quarter of 2007, this dropped to just 1.8% by the fourth quarter of 2007. Over the year as a whole, economic growth of 2.6% (2006: 2.9%) was achieved.

Sector performance

In 2007, the European IT industry proved to be a significant growth engine for the overall economy. According to forecasts from the European Information Technology Observatory (EITO), IT market volume in Europe rose by 4.4% in 2007 (2006: 3.6%). According to EITO, European providers of software and IT services achieved above-average growth rates of 6.5% (2006: 6.3%) and 5.5% (2006: 5.3%). BITKOM sees a similar trend for the German IT market. Thus, in accordance with BITKOM forecasts, the German IT market ought to have recorded growth of 3.5% in 2007, after an increase of 2.8% in 2006. BITKOM anticipates growth rates of 6.0% (2006: 5.5%) and 4.9% (2006: 4.5%) for the software and IT service market segments.

Business development

In fiscal 2007, USU Software AG and its subsidiaries generated the best net profit in the Company's history. Primarily in the first three quarters of 2007, the USU Group recorded a considerable sales and earnings increase compared with the previous year, driven by large contracts in the Business Service Management segment with such companies as Fiducia AG, which is the largest IT service provider in the German cooperative financial network, the IT subsidiary of Allianz-Versicherung, Allianz Shared Infrastructure Services GmbH and the TV broadcaster regulated by public law, ZDF. But in the Knowledge Management sector as well, companies like Berliner Stadtreinigungsbetriebe, Kabel Deutschland GmbH, Roche Diagnostics GmbH and Volkswagen AG also decided to use USU solutions.

However, in the traditionally strong final quarter, there was a noticeable reluctance to invest, which – dominated by insecurities in view of the international financial crisis – was particularly evident in the sector of financial services companies. International partner business was also not as successful as expected in this respect. In spite of positive agreements with Abraxas Informatik AG, Wiener Städtische Versicherung AG and WAVE Solutions Information Technology GmbH and an extended order from the Italian post office (Poste Italiane), total growth outside Germany remained lower than anticipated. With the independent consultancy firm Pink Elephant having awarded the USU product line Valuemation the highest international certification for IT service management and market analysts having rated it number one worldwide, USU is expecting a noticeable expansion of the international partner business in the next few years. The market research company Forrester has already rated USU Software AG as one of the world's top 5 companies in the IT asset management sector. Another US-based market research company, ECP, has announced that USU has the same market position in the configuration management database (CMDB) sector, the key component of efficient IT management. This means that USU is established as a globally recognized provider for holistic business service management and has thus laid the foundation for future expansion of domestic, as well as international business.

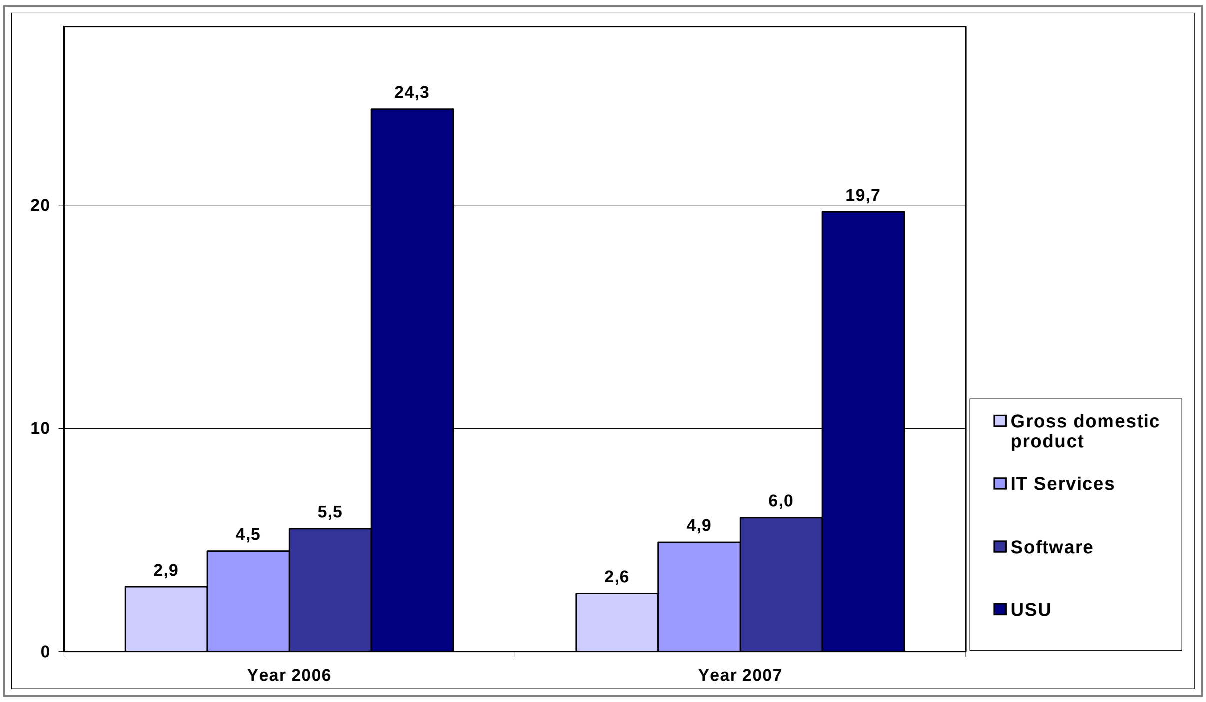


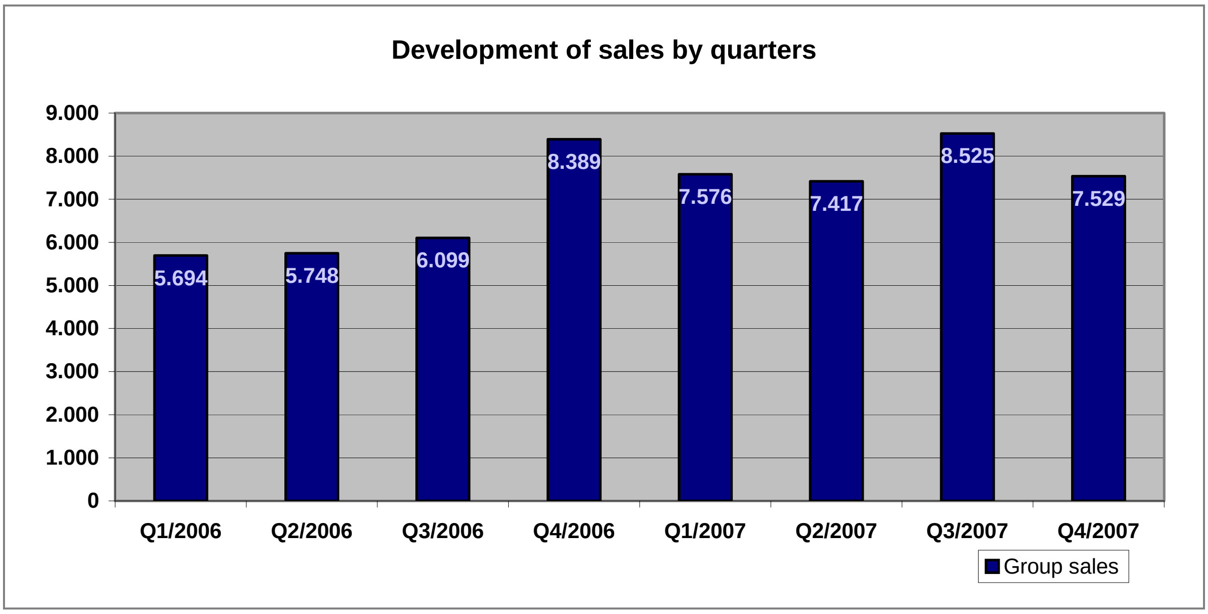
Diagram: Comparison between German economic and market growth versus sales growth of the USU Group

Development of sales and costs

Group sales

In fiscal 2007, the USU Group increased Group sales according to IFRS by 19.7% or EUR 5,117 thousand over the previous year to EUR 31,047 thousand (2006: EUR 25,930 thousand). This increase chiefly results from strong product business, with contributions from last year's acquisition LeuTek GmbH, as well as the subsidiaries USU AG and OMEGA Software GmbH. Thus license income alone rose by 23.0% year-on-year to EUR 4,997 thousand (2006: EUR 4,063 thousand) in the reporting period. Accordingly, the share of income from software licenses in total sales increased from 15.7% in the previous year to 16.1% in the reporting year. As a positive consequence of the continuous rise in organic license business and resultant additional maintenance income, in conjunction with the acquisition-based growth from the LeuTek takeover, the USU Group generated a 119.9% year-on-year increase in maintenance income to EUR 6,398 thousand (2006: EUR 2,910 thousand). This corresponds to a Group-wide sales contribution of 20.6% (2006: 11.2%). USU raised product-based consultancy income and consultancy income from the non product-based service business only slightly by 1.7% to EUR 18,765 thousand (2006: EUR 18,457 thousand). In this sector, the intensified competition for highly qualified staff on the labor market led to restricted growth. Accordingly, the share of consultancy revenues in Group sales fell to 60.4% (2006: 71.2%).

Other income totaled EUR 887 thousand (2006: EUR 500 thousand) or 2.9% (2006: 1.9%) of Group sales in fiscal 2007. This chiefly includes sales from merchandise.



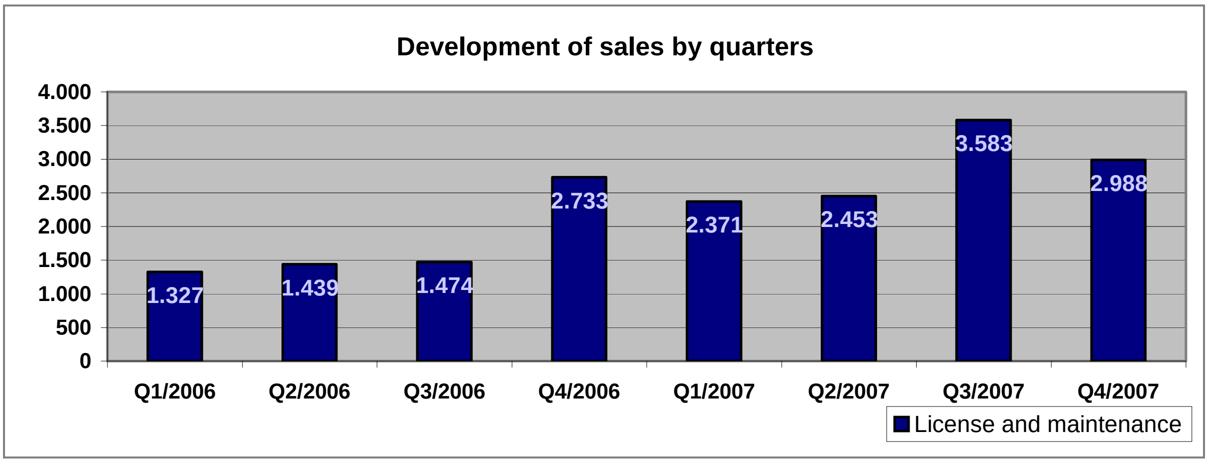


Diagram: Sales by quarter for the 2007 and 2006 fiscal years according to IFRS in EUR thousand

Sales by segment

In keeping with the USU Group's focus on the Business Service Management (BSM) growth market and the resulting merging of cross-divisional product business, the USU Group underwent a process of reorganization as of January 1, 2007. The merging of the segments saw the Sales, Consultancy and Development sectors being expanded to create central units, complemented by the new main units Business Development and Project Office. The product portfolio of the Product Business division covers activities centered on the USU product range in the BSM market as well as the systems for Knowledge Management. The Service Business division contains consulting services for the purpose of IT projects as well as individual application development.

The Product Business division enabled USU to generate a year-on-year sales increase of 21.7% to EUR 21,542 thousand (2006: EUR 17,707 thousand). Sales growth from the Service Business division totaled 16.2%, or EUR 9,469 thousand (2006: EUR 8,149 thousand). The sales not assigned to the segments amounted to EUR 36 thousand (2006: EUR 74 thousand) in fiscal 2007. In regional terms, the sales share of the USU Group generated outside Germany fell to 7.7% (2006: 11.8%) due to strong domestic business.

Operating costs

At the start of 2007, the reporting of amortization of intangible assets recognized in the course of company acquisitions was adjusted. For the purpose of transparency, this amortization is no longer assigned to the function costs but shown in a separate item. The previous year's figures were adjusted accordingly.

Cost of sales increased over the previous year by just 1.7% to EUR 15,158 thousand (2006: EUR 14,908 thousand), primarily as a result of increased expenditure on external products in the course of LeuTek's augmented merchandise business. As a result of the considerable expansion of the product-based licensing and maintenance business, the cost of sales ratio fell to 48.8% (2006: 57.5%) of Group sales. Accordingly, ***gross income from sales*** increased by 44.1% from EUR 11,022 thousand in the previous year to EUR 15,889 thousand during the reporting period. This represents a gross margin of 51.2% (2006: 42.5%).

Marketing and selling expenses jumped purposefully year-on-year by 53.1% to EUR 5,396 thousand (2006: EUR 3,525 thousand). This resulted in particular from organic expansion of the marketing and sales team, from marketing and sales campaigns for LeuTek acquired in November 2006, further increased activity in the field of international partner management, as well as the increased presence of USU at special events, such as trade fairs and conferences. The expenses ratio for marketing and sales increased from 13.7% in 2006 to 17.4% in the reporting period.

As a result of a streamlined and efficient administration organization, ***general administrative expenses*** remained at the same level as in the previous year – EUR 2,727 thousand (2006: EUR 2,703 thousand) – even in the context of the LeuTek takeover. In this area, USU successfully generated synergies as a result of the outsourced central administrative activities in finance, personnel and internal services at LeuTek being assumed by employees in the USU Group. As a result of the sales increase, the ratio of administrative expenses to Group sales in fiscal 2007 fell to 8.8% (2006: 10.4%).

The ***research and development expenses*** rose substantially year-on-year by 69.4% to EUR 4,866 thousand (2006: EUR 2,872 thousand). The main reasons behind this increase are increased personnel expenses resulting from the expansion of the development team at the end of fiscal 2006 as part of the expansion of LeuTek, planned expenses resulting from integration of the LeuTek products into the USU product suite Valuemation with a view to creating a holistic Business Service Management product line as well as additional expenses for the market-specific adaptation of the Group's products to the expanded international target markets of the USU Group. In terms of Group revenues, the expenses ratio for research and development in 2007 totaled 15.7% (2006: 11.1%).

Net ***other operating income and expenses*** totaled EUR 198 thousand in fiscal 2007 (2006: EUR 46 thousand). Whilst other operating income and expenses include in particular costs resulting from equipment sales, other operating expenses included costs related to expenses resulting from the change in the exchange rate for the Group subsidiary USU Software s.r.o. based in the Czech Republic, as well as charitable donations.

Earnings situation

The USU Group increased ***earnings before interest, taxes and depreciation (EBITDA)*** in fiscal 2007 by 50.3% to EUR 3,482 thousand (2006: EUR 2,313 thousand), thus generating the best result in the history of the company. In particular, the successful operating business performance in product business in addition to rising licensing and maintenance income led to this significant increase in operating earnings.

Amortization at the USU Group totaled EUR 1,590 thousand (2006: EUR 1,325 thousand) during the reporting period. Amortization of intangible assets recognized in the course of company acquisitions accounted for EUR 971 thousand (2006: EUR 325 thousand) of this. Despite this additional amortization, USU generated a 91.4% increase in ***earnings before interest and taxes (EBIT)*** to EUR 1,892 thousand (2006: EUR 988 thousand).

Net financial income in fiscal 2007 totaled EUR 465 thousand (2006: EUR 491 thousand); ***earnings before taxes (EBT)*** totaled EUR 2,357 thousand (2006: EUR 1,479 thousand). At the same time, USU posted total consolidated ***tax income*** of EUR 2,179 thousand (2006: EUR 607 thousand) in the reporting period. This resulted from the release of deferred tax liabilities which were recognized as income in connection with the amortization of intangible assets capitalized in the course of company acquisitions as well as the deferred tax assets included in net profits on the tax losses of USU Software AG, which were formed on the basis of the profit and loss transfer agreement concluded with LeuTek.

Overall total, the USU Group increased its ***net profit for the year*** in fiscal 2007 by 117.4% to EUR 4,536 thousand (2006: EUR 2,086 thousand). As a result, USU doubled its ***earnings per share*** to EUR 0.44 (2006: EUR 0.23) with an average of 10,281,054 shares outstanding (2006: 9,127,081).

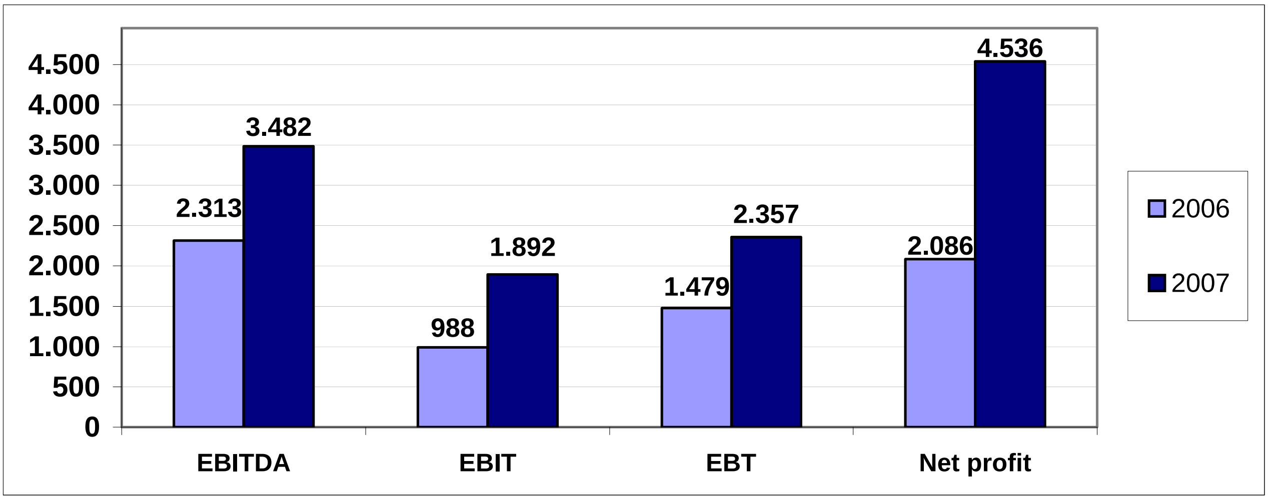


Diagram: Sales and earnings of the USU Group in EUR thousand

Assets and financial situation

As of December 31, 2007, the USU Group's ***non-current assets*** decreased to EUR 35,028 thousand (2006: EUR 35,950 thousand), due primarily to the scheduled amortization of intangible assets in line with their economic useful life. The increase in ***current assets*** to EUR 18,241 thousand (2006: EUR 16,870 thousand) chiefly results from the rise in cash and cash equivalents from EUR 8,400 thousand at the end of fiscal 2006 to EUR 9,921 thousand at the end of fiscal 2007.

On the equity and liabilities side of the balance sheet, ***current and non-current liabilities*** dropped from EUR 10,185 thousand at the end of fiscal 2006 to EUR 6,790 thousand at the end of fiscal 2007. EUR 2,697 thousand (2006: EUR 2,755 thousand) of this is attributable to personnel-related provisions and liabilities. The decline in external capital is primarily due to completely netting the deferred tax liabilities as of December 31, 2006 – adjusted in the course of the final purchase price allocation – totaling EUR 2,157 thousand against the deferred tax assets from the tax loss carryforwards of USU Software AG. The resultant tax income, together with the positive operating earnings of the USU Group, led to strong net income of EUR 4,536 thousand which – adjusted for the dividend payment totaling EUR 908 thousand to the company's shareholders on July 18, 2007 – led to an increase in ***equity*** to EUR 46,479 thousand (2006: EUR 42,635 thousand). With a ***balance sheet total*** of EUR 53,269 thousand (2006: EUR 52,820 thousand), the equity ratio totaled 87.3% at the end of fiscal 2007 (2006: 80.7%).

Cash flow and investments

Primarily due to the investment of cash and cash equivalents in securities and through the dividend payment made to the company's shareholders, the USU Group recorded a decline in cash and cash equivalents without securities to EUR 5,064 thousand (2006: EUR 5,566 thousand) in the reporting period.

Net cash from operating activities increased year-on-year to EUR 2,878 thousand (2006: EUR 2,388 thousand), partly as a result of the USU Group's improvement in earnings.

***Net* cash from investing activities** totaling EUR -2,465 thousand (2006: EUR -6,629 thousand) is primarily due to the reinvestment of cash and cash equivalents in securities with a short term. The acquisition of LeuTek GmbH in the previous fiscal year led to an increase in net expenditure from investing activities. In fiscal 2007, investments in property, plant and equipment and intangible assets totaled EUR 381 thousand (2006: EUR 382 thousand) and include predominantly cash flows for reinvestments and replacements in hardware and software.

Cash flow from financing activities totaled EUR -908 thousand (2006: EUR 0 thousand) in the reporting period due to the dividend distribution to the shareholders of USU Software AG effected on July 18, 2007.

Current situation of the Group

With fiscal 2007 also having ended successfully, the current economic situation of the USU Group can be considered very positive. Due to strategic development of the product portfolio, continued expansion of staff, a favorable liquidity position, existing orders on hand and positive feedback from potential customers at trade fairs and USU-specific events, USU now considers itself to be in a good position to achieve targets set in fiscal 2008.

Development and situation of USU Software AG

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

USU Software AG focuses 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 LeuTek GmbH, acquired in 2006, and Omega Software GmbH, acquired in 2005, as well as the management of central functions for the subsidiaries of USU Software AG.

As a result of the profit and loss transfer agreement with the subsidiaries LeuTek and OMEGA, the company generated income of EUR 2,029 thousand (2006: EUR 648 thousand) in fiscal 2007. On December 29, 2006, USU Software AG concluded a profit transfer agreement with LeuTek, under which LeuTek is obliged from January 1, 2007, to transfer its entire profit to USU Software AG for at least five years. 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 undertook to offset every net loss made by LeuTek and OMEGA during the contract period that cannot be offset by writing back reserves 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 828 thousand (2006: EUR 651 thousand) over the previous year. Other operating expenses also dropped to EUR 791 thousand (2006: EUR 974 thousand). This chiefly includes costs for services rendered to the Group subsidiaries, legal and consulting costs, stock exchange costs as well as associated investor relations costs.

Personnel expenses increased over the previous year to EUR 392 thousand (2006: EUR 339 thousand). As in the previous year, the workforce at USU Software AG comprised three full-time employees, including the Management Board, .

The result of ordinary operations at USU Software AG totaled EUR 1,710 thousand in fiscal 2007 (2006: EUR 1,702 thousand) just exceeding that of the previous year. Taking account of income taxes of EUR 126 thousand (2006: EUR 0 thousand), the Company generated net profit for the year of EUR 1,584 thousand (2006: EUR 1,702 thousand). Net profit totaled EUR 2,225 thousand (2006: EUR 1,549 thousand) in the reporting period. As in the previous year, the Management Board proposes to use this to pay a dividend to all authorized shareholders of USU Software AG, which is to be EUR 0.15 per share for fiscal 2007.

At the end of fiscal 2007, the Company's balance sheet total was EUR 27,526 thousand (2006: EUR 27,264 thousand). Due to the unappropriated new surplus, equity increased to EUR 26,611 thousand (2006: EUR 25,935 thousand) to the end of the reporting period. Accordingly, the equity ratio improved against the previous year to 96.7% (2006: 95.1%).

With virtually unchanged liquidity, cash flow from ordinary operations saw a marked increase from EUR 274 thousand to EUR 1,132 thousand. This was countered by cash outflows largely resulting from payments related to the acquisition of LeuTek in 2006 and as a result of dividend distribution for fiscal 2006.

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. Please refer 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 fiscal 2006, Group-wide orders on hand in the USU Group increased as at December 31, 2007, by 18.6% to EUR 12,966 thousand (2006: EUR 10,936 thousand).

The year-end order book as at the reporting date shows the USU Group's fixed future sales based on binding contracts. They primarily comprise 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 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, a considerable funds were again invested in the ongoing development of the Group's products in fiscal 2007. Total research and development expenses in fiscal 2007 amounted to EUR 4,866 thousand (2006: EUR 2,872 thousand).

Research and Development at the USU Group focused in 2007 on ongoing development of the integrated Business Service Management solution Valuemation - a modular product suite for central presentation, monitoring, 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 addition to combining both ZIS products from LeuTek and the Knowledge Center Suite developed by USU AG with Valuemation, the focus was on functional improvements, such as visualization components for the central database (CMDB), additions to the report range and revision of Valuemation's graphical user interface. Innovation-specific development projects set out in the roadmap were also implemented. These projects are geared towards future market requirements and cover topics such as automated monitoring of IT components (inventory scanning) and visualization of system dependencies between the IT components (automatic dependency mapping).

In addition, there was targeted further development of the INSEL product suite designed by the subsidiary OMEGA for the IT management suite in medium-sized companies, the software products ZIS system, ZISGUI and ZISSLM of Group subsidiary LeuTek for the monitoring, visualization, automation and controlling of all systems and processes required for IT operation, as well as USU AG's Knowledge Center Suite, a modular web-based product line in the knowledge management sector.

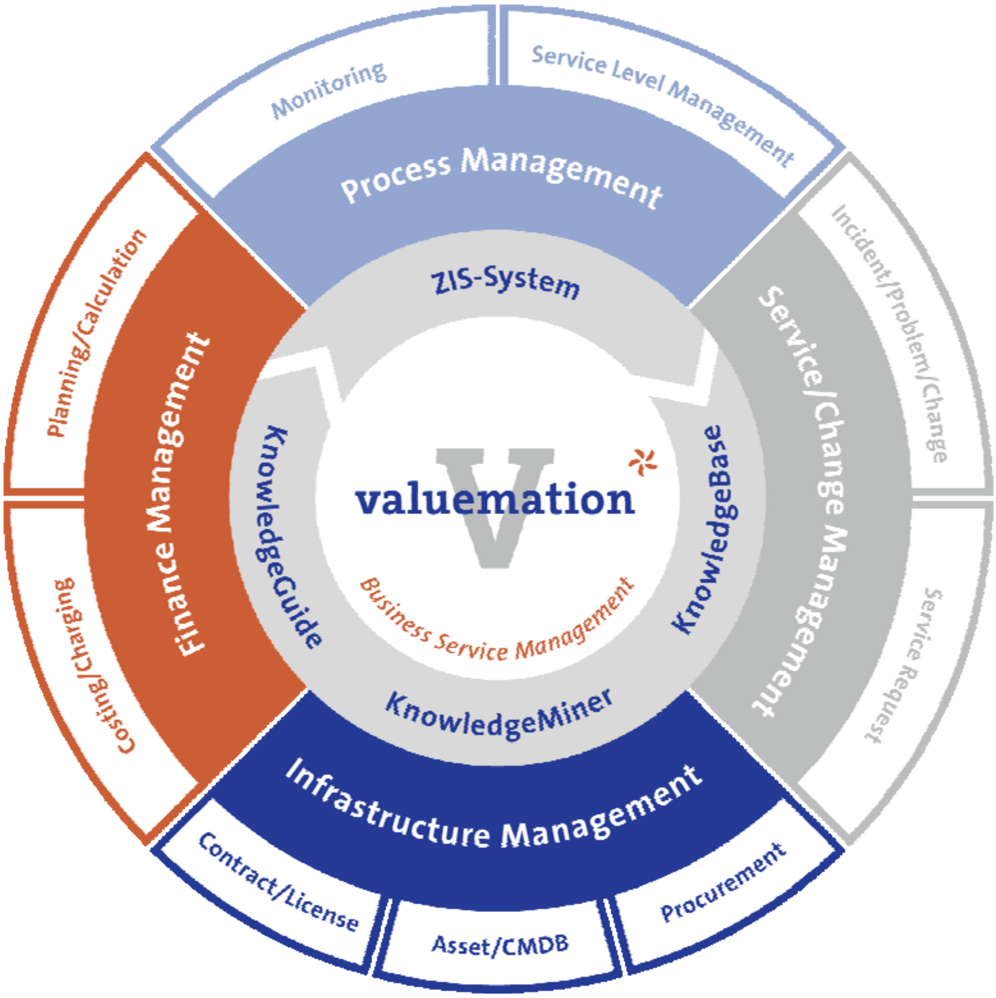


Diagram: The USU Group's new Valuemation product suite

Employees

The total number of employees in the USU Group as at December 31, 2007, was 245 (2006: 233). This means that staff in the Group increased by 5.2% over the previous year. This figure does not include the two members of the USU Management Board, 61 freelance staff who are used for project work when required, 14 temporary workers and 4 apprentices.

Broken down by segment, the USU Group employed 181 (2006: 164) staff-members in Product Business, 46 (2006: 52) in Service Business and 18 (2006: 17) in central administration.

Broken down by functional unit, at the end of the reporting period 96 (2006: 91) employees were employed in consulting and services, 87 (2006: 84) in research and development, 34 (2006: 26) in sales and marketing and 28 (2006: 32) in central administration.

The average total headcount of the USU Group in fiscal 2007 was 239 employees (2006: 214). Accordingly, the generated average sales contribution per employee rose to EUR 130 thousand (2006: EUR 121 thousand). Personnel expenses in the same period amounted to EUR 14,716 thousand (2006: 12,050 thousand). The personnel costs ratio was 47.4% (2006: 46.5%) of Group sales.

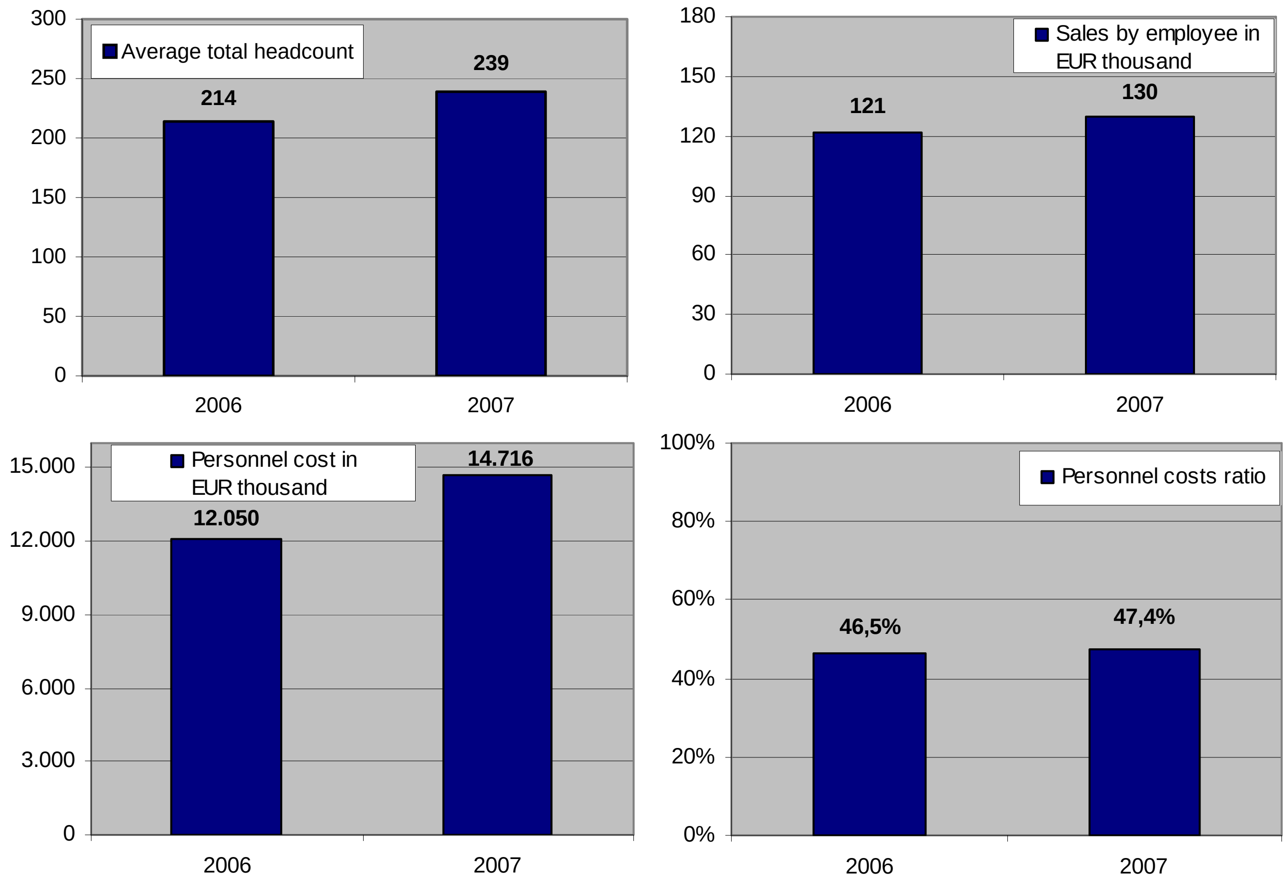


Diagram: Key personnel-related figures of the USU Group

In order to achieve planned growth, a further increase in the number of USU employees is planned for fiscal 2008. In addition to acquiring new highly qualified employees, personnel activities are to concentrate on motivating and committing existing staff. The partial variability of many USU employees' wages and salaries is also to be seen in this context; an incentive which will be an additional reward for both individual performance and the success of the Group as a whole.

The USU Group is therefore constantly investing in the research and training of its employees. For example, numerous training measures were carried out in 2007. At the end of 2007, USU also implemented a new career plan and personal development model under the slogan "USU – U Step Up". As a result, USU offers its employees and management, in addition to specialist training and developing soft skills, ongoing refresher courses and opportunities to hone personal development. Numerous staff events round off the diverse range of measures to promote and motivate the USU Group's staff in the long term.

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 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 fiscal 2007, the Management Board spokesman und sole member of the Management Board of USU Software AG, Bernhard Oberschmidt, received a fixed compensation of EUR 132.0 thousand. In addition, the Company awarded the Management Board a social security supplement of EUR 10.4 thousand and contributed EUR 12.0 thousand to the private pension. There was also a monetary value benefit of EUR 17.5 thousand for the private use of company vehicles. During the reporting year, the performance-oriented variable component was EUR 70.5 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 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 *(EUR thousand)*				
	Fixed compensation	**Supplement for social security and pension**	**Monetary advantage from private use of company vehicles**	**Variable compensation**
2007	132.0	22.4	17.5	70.5 [1)]
2006	128.5	23.0	17.2	52.0
[1)] of which for the previous year: EUR 12.5 thousand				

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 Company's articles of association. The Annual General Meeting of USU Software AG on July 12, 2007 approved a new regulation with effect of fiscal 2008 on the basis of which a variable component was introduced for the compensation of the members of the Supervisory Board in accordance with the regulations of the Corporate Governance Code. The old regulation continues to apply to fiscal 2007. 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 did not include a variable component for fiscal 2007.

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 in addition to the reimbursement of expenses 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. Variable components in the compensation of the Supervisory Board were and are not provided for.

Group-wide compensation for the Supervisory Board of the USU Group was EUR 72.5 thousand in fiscal 2007.

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

Subscribed capital, shares and shareholder structure

As at December 31, 2007, 10,335,004 no-par bearer shares of USU Software AG – the same number as in the previous year – had been issued with an imputed share in subscribed capital of EUR 1.00. Of these, 0.5% or 53,950 shares were held by the Company. Moreover, 55.3% or 5,711,167 shares were 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 3,689,848 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.

Peter Scheufler, a former partner and now Managing Director of LeuTek, is allocated a total of 11.6% or 1,200,000 shares in USU Software AG. Of these, 400,000 shares are subject to a lock-up until November 6, 2008, whilst a further 400,000 are subject to a lock-up until November 6, 2009, which may not be pledged, sold to third parties or offered for sale to third parties in this time without the prior permission of USU.

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

At the Annual General Meeting of July 12, 2007, the Management Board was authorized to increase The Company’s capital by up to EUR 5,167,502 by issuing new shares in return for a cash contribution or a contribution in kind any time up to and including July 11, 2012 subject to approval of the Supervisory Board (authorized capital).

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. All options lapsed or expired on December 31, 2007.

By resolution of the Annual General Meeting on July 12, 2007, 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 11, 2009. 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% of the Company’s capital at the time of this authorization.

Legal specifications and articles of association of USU Software AG

Pursuant to section 84 of the German Stock Corporation Act and Section 8 clause 2 of the articles of association of USU Software AG, the Management Board is nominated or recalled by the Supervisory Board. In urgent cases, pursuant to section 85 of the German Stock Corporation Act, 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 of the German Stock Corporation Act, any other change to the articles of association requires the agreement of the Annual General Meeting. Pursuant to sec. 179 clause 2 of the German Stock Corporation Act, this requires a majority of at least three quarters of the subscribed capital represented during voting. In line with sec. 133 of the German Stock Corporation Act, 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 2007.

Pursuant to Sec. 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a listed company must make an annual decision as to how far these recommendations have been and will be complied with. The Management Board and Supervisory Board of USU Software AG have made an emphatic commitment to implementing the major recommendations of the Code and submitted the corresponding declaration on December 19, 2007. 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 at http://www.usu-software.de.

The USU share (ISIN DE000A0BVU28)

The shares of USU Software AG are listed in the Prime Standard of the Frankfurt Stock Exchange under securities identification number A0BVU2 and International Securities Identification Number (ISIN) DE000A0BVU28 and are authorized for trading on the regulated market of this stock exchange.

The performance of the USU share in fiscal 2007 was volatile – whilst the share peaked at a closing price of EUR 5.29 on April 5, 2007, the lowest price for the USU share was EUR 3.79 on August 23, 2007. As of December 31, 2007, the share generated an annual performance of 5.0% to EUR 4.20 (2006: EUR 4.00). In the same period, the Technology All Share rose by 23.1% while the German Share Index (DAX) increased by 22.3%.

Diagram: Price performance of the USU Software AG share in 2007

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: "I declare that USU Software AG, in line with the circumstances that were known to me at the relevant point in time at which legal transactions were undertaken, received an appropriate counterperformance for each legal transaction. Measures detrimental to the Company were not taken."

Supplementary report

There were no transactions of key importance after balance sheet date of December 31, 2007, which 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.

Risk report

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.

These business actions include accessing and utilizing opportunities which serve to safeguard and expand the USU Group's competitive capability. Business opportunities are considered to be part of both the annual planning process and corporate strategy, which is subject to ongoing development.

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. 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.

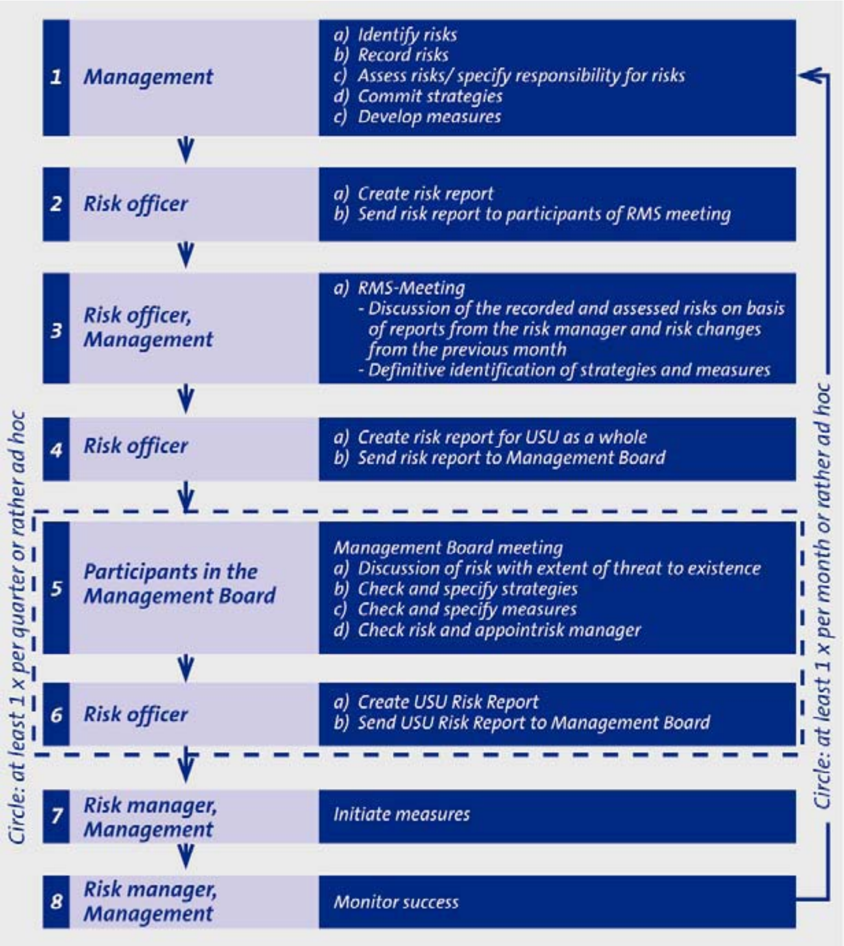


Diagram: Risk management process of the USU Group

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 is subject to ongoing changes. In addition, major software companies, in particular, are trying to expand their own product range and open up new markets through diversification and acquisitions. As a result, several of the Company's competitors, particularly those outside Europe, were acquired by globally operating groups. In this connection, the possibility of economic slowdown leading to noticeable price erosion also cannot be ruled out.

USU Software AG has reacted to these changes and expanded its portfolio and the target market of the Group as a whole through its takeovers of OMEGA Software GmbH and 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 make a slight increase over the previous year to the price structure for product and solution-related consulting services. At the same time, in fiscal 2007 – as in previous years – 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

Intense competition and specific customer attitudes lead to extremely short development cycles for new product versions and releases. At the same time, demands are increasing because of rapid technological change.

To take account of this development, the USU Group continues its constantly high level of research and development activities through its own development company in the Czech Republic. Over 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 already introduced extensive quality management as part of its development activities and also established its own Project Office segment, so that erroneous trends can be identified and avoided in the long term by monitoring projects effectively. 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. Consequently, USU has taken numerous additional measures such as expansion of training opportunities, extension of university contacts and the launch of an advertising campaign to recruit highly qualified staff. The promotion of employees as required is of just as much importance to the USU Group. Specific educational and training measures, a new 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 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 in fiscal 2007 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 as in the previous year. 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 around EUR 10 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.

Key opportunities

From the considerable opportunities available to USU Software AG and the Group, the Management Board considers the following options, along with the aforementioned points, to be of particular importance:
In addition to the continued expansion of domestic business from new customers, it is international partner business which offers above-average growth potential. Extending the partner network provides the opportunity to open up new markets. Through its own innovations and acquisitions, it also enables business from existing customers to expand and new customers to be obtained. USU is therefore adopting a strategy in which the existing portfolio is continually developed, expanded with customer-specific features or rounded off by strategic acquisitions. Staff expansion, particularly in the consulting area, is another key opportunity to utilize the full potential of existing growth options in both product and service business.

Forecast report

General economy

In their *"Fall 2007 Joint Economic Forecast"*, the participating economic research institutes predicted that the global economy in 2008 will lose momentum somewhat, which will also impact on the European economy. While private and public consumption in Europe is still likely to grow compared to 2007, company investments will decline sharply according to predictions made by the economic research institutes. The institutes predict a total rise in GDP adjusted for special effects of 2.1% in the Eurozone in 2008, after this grew by 2.6% in 2007 according to information from Eurostat.

The German economy, which has previously benefited from the global economy due to sharp rises in exports, will also report a decline in GDP growth in 2008. While foreign commerce is only expected to make a small growth contribution, domestic demand is predicted to become the linchpin of the global economy in 2008. Private consumer spending in particular should therefore expand noticeably, as company investments lose momentum. In their *"Fall 2007 Joint Economic Forecast"*, the economic research institutes predict calendar-adjusted German economic growth to total 1.9%, after 2.6% in 2007 according to the German Federal Office of Statistics.

Industry

According to studies by the European Information Technology Observatory (EITO), the European IT market will continue to develop strongly in 2008. For the IT market, EITO predicts a rise of 4.7% (2007e: 4.4%) in market volume for 2008. The software and IT service market segments in which USU operates are again likely to enjoy above-average growth in 2008 of 6.5% (2007e: 6.5%) and 5.4% (2007e: 5.5%) respectively in the Eurozone.

For the German IT industry, BITKOM anticipates growth in 2008 to equal that of the previous year, 3.5%. According to BITKOM, growth rates in the software and IT services market segments are expected to reach the same high level as in the previous year: 5.8% (2007e: 6.0%) and 4.9% (2007e: 4.9%) respectively.

Outlook

After the positive development of business in 2007, the Management Board also expects sustained high growth in sales and earnings for the USU Group in the future. Focusing on the Business Service Management and Knowledge Management growth markets is expected to lead to an expansion of business operations, in spite of the anticipated deceleration of the global economy and initial signs of declining company investments. In the historically stronger second half of the year, strong domestic business in particular is expected to contribute to continued expansion of the Product Business division – chiefly in the high-margin licensing and maintenance income. International partner business is also expected to be an important success factor in 2008. With the USU product line Valuemation awarded an international certificate and its top global rankings by market analysts, Forrester and ECP, USU has successfully established itself as a globally recognized provider for holistic business service management and thus laid the foundation for future expansion of domestic, as well as international, business. In the Service Business division, expanding the consultancy team is expected to contribute to the planned sales increase. The Management Board expects the high utilization levels for the employed consultants to continue, as well as a slight increase in consultancy fees.

In 2008 as in previous years, the Group subsidiary USU AG will be the mainstay of sales in the Group as a whole. The Management Board also expects positive effects on sales and earnings from the Group subsidiaries LeuTek and OMEGA. In fiscal 2008, USU Software AG as an individual Group company will continue to concentrate primarily on acquiring and holding participations in other companies. 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 of USU Software AG expects to achieve above-average sales growth for the relevant market segments over the next two years, as well as an above-average rise in EBITDA.

Should the aforementioned expectations and forecasts actually occur, the Management Board plans to have shareholders of USU Software AG participate in the Company's operating success in the form of a dividend.

Möglingen (Germany), February 22, 2008

Bernhard Oberschmidt
Chairman of the Management Board

Consolidated Financial Statements

2007

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CONSOLIDATED FINANCIAL STATEMENTS

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED BALANCE SHEET

A S S E T S

	Notes	Dec. 31, 2007 EUR thou	Dec. 31, 2006 EUR thou	
Assets				
Non-current assets				
Intangible assets	(9)	6,083	7,052	*)
Goodwill	(10)	26,355	26,590	*)
Property, plant and equipment	(11)	576	611	
Other financial assets	(27)	360	366	
Deferred tax assets	(29)	1,041	808	
Other assets	(12)	613	523	
		35,028	**35,950**	
Current assets				
Inventories	(13)	574	309	
Work in process	(14)	588	659	
Trade receivables	(15)	5,204	5,575	
Income tax receivables	(16)	1,234	923	
Other financial assets	(17)	410	454	
Other assets		77	162	
Prepaid expenses	(18)	233	388	
Securities	(19)	4,857	2,834	
Cash on hand and bank balances	(20)	5,064	5,566	
		18,241	**16,870**	
		53,269	**52,820**	

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

	Notes	Dec. 31, 2007 EUR thou	Dec. 31, 2006 EUR thou	
Equity and liabilities				
Shareholders' equity	(21)			
Subscribed capital		10,335	10,335	
Capital reserve		52,320	52,320	
Legal reserve		154	81	
Treasury shares		-714	-714	
Other comprehensive income		7	9	
Accumulated losses		-15,623	-19,396	*)
		46,479	**42,635**	
Non-current liabilities				
Deferred tax liabilities	(29)	0	2,157	*)
Pension provisions	(22)	298	596	
		298	**2,753**	
Current liabilities				
Provisions for income tax		354	707	
Personnel-related liabilities	(23)	2,697	2,755	
Other provisions and liabilities	(24)	1,362	1,438	
Liabilities from received payments	(25)	247	300	
Trade payables	(26)	1,047	1,076	
Other financial liabilities	(27)	0	426	
Deferred income	(28)	785	730	
		6,492	**7,432**	
		53,269	**52,820**	

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

USU SOFTWARE AG, MÖGLINGEN

CONSOLIDATED INCOME STATEMENT

	Notes	2007 EUR thou	2006 EUR thou	
Sales revenue	(30)	31,047	25,930	
Cost of sales	(31)	-15,158	-14,908	
Gross profit		**15.889**	**11,022**	
Sales and marketing expenses	(32)	-5,396	-3,525	
General administrative expenses	(33)	-2,727	-2,703	
Research and development expenses	(34)	-4,866	-2,872	
Other operating income	(35)	330	176	
Other operating expenses		-132	-130	
Amortization of intangible assets recognized in the course of company acquisitions		-971	-325	*)
Goodwill amortization	(36)	-235	-655	
Financial income	(37)	578	698	
Financial expenditure	(38)	-113	-207	
Profit before tax		**2.357**	**1,479**	*)
Income taxes	(39)	2,179	607	*)
Net profit for the year		**4.536**	**2,086**	*)
Earnings per share (in EUR): (basic and diluted)		0,44	0,23	
Weighted average number of shares outstanding (basic and diluted)		10,281,054	9,127,081	

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

USU SOFTWARE AG, MÖGLINGEN

BREAKDOWN OF REVENUES AND EXPENSES REPORTED

	Notes	2007 EUR thou	2006 EUR thou	
Actuarial losses from pension provisions	(22)	347	25	
Currency translation difference		2	22	
Available-for-sale financial instruments (securities)	(19)			
Fair value changes taken directly to equity		1	-92	
Transferred to profit or loss		2	21	
Deferred taxes on value changes directly recognized in equity	(29)	-136	153	
Equity change not impacting income		**216**	**129**	
Net profit for the year		**4,536**	**2,086**	*)
Overall result		**4,752**	**2,215**	

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	2007 EUR thou	2006 EUR thou	
Cash flow from ordinary operations:				
Profit before tax		2,357	1,479	*)
Adjustments for:				
Financial income / financial expenditure		-465	-491	
Depreciation and amortization		1,590	1.325	*)
Income taxes paid		-947	-16	
Income taxes refunded		84	0	
Interest paid		-2	-2	
Interest received		314	508	
Other non-cash income and expenses		573	-103	
Change in working capital:				
Inventories		-265	141	
Work in process		70	42	
Trade receivables		371	-225	
Prepaid expenses and other assets		-350	1.002	
Trade payables		-29	-8	
Personnel-related liabilities and pension provisions		-357	-60	
Other provisions and liabilities		-66	-1.204	
Net cash flow from ordinary activities	(41)	**2,878**	**2,388**	
Cash flow from investing activities:				
Acquisition of subsidiaries less cash and cash equivalents acquired		-421	-9.172	
Capital expenditure in property, plant and equipment		-292	-281	
Capital expenditure in other intangible assets		-89	-101	
Repayment of short-term loans		227	120	
Granting of a long-term loan		0	-135	
Sales of non-current assets		145	31	
Sale of available-for-sale securities		39	10.479	
Investments in available-for-sale securities		-2,074	-7.570	
Net expenditure for investing activities	(42)	**-2,465**	**-6,629**	

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	2007 EUR thou	2006 EUR thou
Cash flow from investing activities:			
Dividend payment		-908	0
Net cash flow from financing activities	(43)	**-908**	**0**
Difference from currency translation of cash and cash equivalents		**-7**	**-6**
Net decrease/increase of cash and cash equivalents		**-502**	**-4.247**
Cash and cash equivalents at January 1		**5,566**	**9,813**
Cash and cash equivalents at December 31	(20)	**5,064**	**5,566**

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED NOTES FOR THE 2007 FISCAL YEAR

A. THE COMPANY

The parent of the Group, USU Software AG, has its registered offices in Spitalhof, 71696 Möglingen, Germany and is registered in the commercial register of the district court of Stuttgart, Dept. B, no. 206442. USU Software AG and its subsidiaries (also referred to hereinafter as the "Group") develop and market holistic software solutions. Services include solutions in the "Business Service Management" segment for efficient application of the IT infrastructure within companies and in the "Knowledge Business“ segment for optimizing knowledge-intensive business processes. The Group also provides consulting services in the "Business Solutions“ division for the purposes of IT projects as well as individual application development.

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.

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. The consolidated financial statements also include the additional requirements as per sec. 315a (1) of the German Commercial Code.

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 February 22, 2008, 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, 2007 in accordance with the regulations of the German Commercial Code and these consolidated financial statements are submitted to the electronic Federal Gazette and printed.

2. Accounting regulations applied for the first time and recently announced accounting regulations

Apart from the standards and interpretations to be applied for the first time in the reporting year as well as the following exceptions, the accounting and valuation methods applied correspond to the methods applied in the previous year.

Since this time, “Other comprehensive income” has contained the actuarial gains and losses from the evaluation of pension obligations which are now reported directly in accumulated loss. The previous year’s figures were adjusted accordingly.

Cost of sales now include amortization of the intangible assets recognized in the course of mergers. This amortization is now reported separately in the consolidated income statement as “Amortization on intangible assets recognized in the course of company acquisitions“ and therefore no longer as cost of sales. The previous year’s figures were adjusted accordingly.

Please refer to the notes on segment reporting in Note G with respect to the segmentation change which took during the reporting year.

The binding application IFRS 7 “Financial Instruments: Disclosures" for fiscal years beginning on or after January 1, 2007 leads exclusively to additional disclosures regarding financial instruments: The same is true of the application of the revised version of IAS 1 “Presentation of Financial Statements”, which requires additional disclosures on capital for fiscal years beginning on or after January 1, 2007.

The interpretations to be applied for the first time in the reporting year were:

- IFRIC 7 (“Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”),
- IFRIC 8 (“Scope of IFRS 2”),
- IFRIC 9 (“Reassessment of Embedded Derivates”) and
- IFRIC 10 (“Interim Financial Reporting and Impairment”).

The first application of these interpretations had no impact on the consolidated financial statements.

On November 30, 2006, the IASB published **IFRS 8 (“Operating Segments”)**. IFRS 8 replaces IAS 14 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 whose operating earnings are forwarded to chief operating decision makers for the purposes of measuring success and resource allocation (management approach) and for which separate financial information is available. IFRS 8 is binding for fiscal years beginning on or after January 1, 2009. The first application of this amendment is not expected to have any impact on the segment composition although it may become necessary to make further disclosures in the Notes.

On November 2, 2006, the IFRIC published **IFRIC 11 (“IFRS 2 – Group and Treasury Share Transactions”)**. IFRIC 11 clarifies the question of how the regulations of IFRS 2 are to be applied to share-based payment agreements which contain the Company’s own equity financial instruments or equity financial instruments of a different company within the same group. The interpretation is binding for fiscal years beginning on or after March 1, 2007. IFRIC 11 will have no significant impact on the consolidated financial statements.

On November 30, 2006, the IFRIC published the interpretation **IFRIC 12 (“Service Concession Arrangements”)** . In accordance with IFRIC 12, service concession arrangements are arrangements whereby a government or other body awards contracts to private operators for the supply of public services, such as roads, airports, hospitals, prisons etc. The government or other body retains control over the assets. On the other hand, the private company is responsible for the construction, operation and maintenance activities. As such, IFRIC 12 answers the question of how private companies have to report rights and obligations arising from such arrangements. The interpretation is binding for fiscal years beginning on or after January 1, 2008. IFRIC 12 currently has no impact on the Group’s consolidated financial statements.

On June 28, 2006, the IFRIC published **IFRIC 13 (“Customer Loyalty Programmes”)**. IFRIC 13 sets out binding rules for the posting of award credits to customers such as “loyalty points” and “air miles”. Specifically, it explains how such companies should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. According to the interpretation, the revenue from the award is to be allocated as a liability (deferred revenue), until the customer redeems his award entitlement or the entitlement expires. The customer bonus is recognized at fair value. IFRIC 13 is to be applied for fiscal years beginning on or after July 1, 2008. IFRIC 13 currently has no impact on the Group’s consolidated financial statements.

On March 29, 2007, the IASB published a revised version of **IAS 23 (“Borrowing Costs”)**. The main change from the previous version is the removal of the option of recognizing as an expense borrowing costs in connection with the acquisition, manufacture and production of measured qualifying assets. The revision of the standard applies for fiscal years beginning on or after January 1, 2009. The changes to IAS 23 currently have no impact on the Group’s consolidated financial statements.

On July 5, 2007, the IFRIC published **IFRIC 14 (“IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”)**. IFRIC 14 mainly addresses the interaction between a minimum funding requirement which exists on the balance sheet date and the regulations of IAS 19 on limiting a positive balance between plan assets and the defined benefit obligation (asset ceiling). IFRIC 14 applies to all fiscal years beginning on or after January 1, 2008. IFRIC 14 currently has no impact on the Group’s consolidated financial statements.

On September 6, 2007, the IASB published a revised version of **IAS 1 (“Presentation of Financial Statements”)**. Changes arise mainly from the separate presentation of changes in equity resulting from transactions with the shareholders in their status as shareholders, such as distributions and share buybacks as well as changes which are not related to shareholders. Companies have the choice of presenting income and expenses in a breakdown containing both the consolidated income statement and the changes in shareholders’ equity or in two separate breakdowns (consolidated income statement and a breakdown of the changes in shareholders’ equity). The amendments to the standard apply for fiscal years beginning on or after January 1, 2009. They are not expected to have any significant impact on the consolidated financial statements.

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

As in the previous year, the Group comprises USU Software AG and seven German and foreign 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	Dec. 31, 2007 EUR thou	Net income-2007 EUR thou
USU AG, Möglingen	100.00	5,738	7,410	1,459
LeuTek GmbH, Leinfelden-Echterdingen [1)]	100.00	26	2,412	1,809
Omega Software GmbH, Obersulm [1)]	100.00	77	970	224
USU Software s.r.o., Brno, Czech Republic	100.00	58	184	29
USU (Schweiz) AG, Zug, Switzerland	100.00	68	-333	1
Openshop Internet Software GmbH, Ludwigsburg	100.00	40	-777	2
Gentner PROCommunication GmbH i.L., Möglingen	100.00	51	-1,580	0

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

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. Nonmonetary 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.

In accordance with IAS 21, the financial statements of the consolidated subsidiaries included in the consolidated financial statements 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 entities because they are financially, economically and organizationally autonomous. Corresponding to the functional currency concept, measurement is in local currency. Income and expenses are translated at the average rate during the reporting year, assets and liabilities at the closing rate and the equity of each subsidiary at historical rates. The difference arising from the equity-related currency translation is offset against equity without impact on earnings and presented in a separate column in the Equity Statement.

Currency differences related to elimination of intragroup balances are recognized in 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, 2007	Dec. 31, 2006	2007	2006
Swiss francs (CHF)	1.6547	1.6069	1.6459	1.5768
Czech krone (CZK)	26.628	27.485	27.683	28.304

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 (see Note 14), determining the probable economic useful life of intangible assets (Notes 7.1 and 8), deciding in favor of not capitalizing software development costs (Note 7,18), allowances for doubtful debts (Note 15), contingent liabilities, pension provisions (Note 22) and other provisions (Note 24) as well as the estimation of the feasibility of tax benefits in the form of capitalization of deferred taxes on tax loss carry forwards (Note 29).

In this fiscal year, both at USU AG and as a result of the profit transfer agreement held by LeutTek with USU Software AG which was approved by the Annual General Meeting on July 12, 2007 and LeuTek GmbH (hereinafter "LeuTek") joining the executive bodies of USU Software AG, deferred tax assets were created for the first time on tax loss carry forwards. Only planned earnings of USU AG or USU Software AG approved by the Supervisory Board were capitalized, i.e. for the 2008 planning year only and not beyond. This was because of the good earnings development between 2005 and 2007 and the positive earnings forecasts for the 2008 planning year in the executive bodies. In addition, deferred tax assets from the tax loss carry forwards were recognized in the amount of the deferred tax liabilities resulting from the acquisition of LeuTek and netted against the deferred tax liabilities (see Note 29).

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 16 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 of non-financial assets

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 with finite useful lives 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. This was not the case in 2006 and 2007.

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. According to IAS 36.6, a CGU is the smallest identifiable group of assets that are largely independent of the cash flows from other assets or groups of assets. 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.

Impairment testing of intangible assets with unlimited useful lives is covered by the annual impairment test for goodwill as these are included in the carrying amounts of the CGUs in question. Please refer to Notes 9 and 10.

For purposes of impairment tests with respect to goodwill acquired in the course of company acquisitions, these are to be assigned to their corresponding CGU.

As cash flows in the USU Group are planned and deferred at the level of the subsidiaries USU AG, Omega GmbH_(hereinafter: “Omega”) and LeuTek GmbH, USU AG, where a distinction is also made between product and service business, is regarded as a CGU as are the subsidiaries LeuTek and Omega, which are fully assigned to the product business. For the differentiation between the two Product and Service Business divisions, which also represent the new segments, see the notes on segment reporting under G.

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.

A reversal of impairment losses recognized in prior years for property plant and equipment or an intangible asset 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 the goodwill are not reversed.

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.

Categorization depends in each case on the purpose for which the financial assets were acquired.

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. As in the previous year, the Company only held financial assets of the "loans and receivables" and "available-for-sale" categories.

Purchases or sales of financial assets are recognized using the trade date.

The initial recognition of a financial asset is at cost, which always corresponds to the fair value of the consideration given or received. Transaction costs are included unless financial assets are concerned that are to be reported at fair value impacting income. The Company had no financial assets of this category over the past two fiscal years.

The fair value of financial instruments traded on organized markets is determined on the basis of the market price posted on the balance sheet date. The fair value of financial instruments for which there is no active market is determined on the basis of valuation methods. The valuation methods include (i) the use of current business transactions between knowledgeable, willing parties to an agreement, (ii) the comparison with the current fair value of another, essentially identical, financial instrument, (iii) the analysis of discounted cash flows.

Loans and receivables originated by the entity 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.

Cash and cash equivalents contain cash and on-call deposits as well as current fixed term and overnight deposits.

Non-current financial instruments are carried at amortized cost after allowing for any specific risks of non-collection. The reported carrying amounts also correspond approximately to the respective fair values.

As at the balance sheet date, the carrying amounts of the financial assets which are not to be reported at fair value impacting income – and therefore all financial assets of the Company – are examined with regard to whether there are substantial indications of impairment (such as considerable financial difficulties on the part of the debtor, high probability of insolvency proceedings against the debtor, the loss of an active market for the financial asset, a significant change to the technological, economic, legal environment and or the market environment of the issuer, a sustained decline in the fair value of the financial asset). Any impairment loss which is caused by a fair value lower than the carrying amount is reported as impacting income. If impairment of the fair value of available-for-sale financial assets is reported in equity with no effect on income, it is to be eliminated from equity to the amount of the determined impairment and transferred to the consolidated income statement impacting income. If the fair value later increases objectively as a result of events that occur after the impairment was reported, the impairment is withdrawn to the corresponding amount impacting income. Impairment which concerns non-listed available-for-sale equity financial instruments recognized at acquisition costs cannot be reversed. There were no such equity financial instruments as at the balance sheet date.

The fair value of loans and receivables valued at amortized cost to be determined during the impairment test regularly corresponds to the present value of the estimated future cash flow discounted with the original effective interest rate.

The impairment on trade receivables which is carried out in the form of specific bad debt allowances adequately provide for the expected bad debt risks; concrete bad debt risks lead to derecognition of the receivables concerned. With regard to bad debt allowances, financial assets which may have to be written down, are grouped on the basis of similar bad debt risk properties (generally the length of time for which debtors are in default) and examined jointly for impairment and adjusted, if appropriate. Depending on the length of time the debtors are in default, bad debt allowances may range between 25% and 100%, based on past experience. The decision as to whether a bad debt risk is reported using a bad debt allowance account or a direct reduction of the receivable depends on how reliable the assessment of the risk situation is.

7.5 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 mainly composed of licenses from third-party providers and IT hardware.

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.

7.6 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. The Company reports a receivable for all ongoing service agreements as an asset in respect of customers for which the incurred costs plus the recorded gains exceed the sum of the progress billings.

For services as a liability in respect to customers for which the sum of the progress billings exceeds the costs incurred plus the recorded gains, the Company reports a liability (see Note 7.13).

7.7 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 recognized taking into account the respective national income tax rates which apply in the individual countries at the time of realization or which are expected. The tax reform which took effect on January 1, 2008, was used as the basis to measure the deferred taxes for companies based in Germany.

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).

7.8 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.

7.9 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, unrealized gains and losses from the market evaluation of securities held for sale as well as corresponding deferred taxes.

The item now also includes the actuarial gains and losses from the evaluation of pension obligations (see Note 22) which, in the 2007 fiscal year were reported directly in accumulated loss to the amount of EUR 19 thousand while adjusting the previous year's value (EUR -199 thousand).

7.10 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 are reported as expense in the result of ordinary operations. Interest costs and the expected income from plan assets are reported in net financial income in the consolidated income statement.

7.11 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.

7.12 Financial liabilities

For their initial recognition, financial liabilities are measured at fair value. The transaction costs to be directly assigned to the acquisition are also recognized for all financial liabilities which are not measured at fair value impacting income.

Trade receivables and other original financial liabilities are measured at amortized cost using the effective interest rate method.

7.13 Liabilities from received payments

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.

7.14 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.

7.15 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.

7.16 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 in the sense of IAS 11 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.

7.17 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.

The item now also includes amortization on intangible assets acquired in the course of company acquisitions. For reasons of transparency and due to the considerable significance of this amortization since the acquisition of LeuTek, a new item "Amortization of intangible assets recognized in the course of company acquisitions" was added to the income statement. As a result, this amortization is no longer reported in costs of sales. The previous year's figures were adjusted accordingly.

7.18 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.

7.19 Finance cost

Finance cost is expensed as incurred.

7.20 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 (Note 21.8).

C. CHANGES IN THE GROUP'S ORGANIZATION

8. Additional information on the acquisition of LeuTek GmbH in fiscal 2006

USU acquired all of the equity and voting rights in LeuTek, based in Leinfelden-Echterdingen, on November 6, 2006. The transaction was accounted for using the purchase method. The first-time consolidation of LeuTek took place on November 6, 2006.

Since the purchase price allocation from this acquisition was not finalized in fiscal 2006 due to time constraints, only provisional figures were included in the consolidated financial statements for 2006. The figures were finally determined in the past reporting year. The intangible assets identified in the course of this final purchase price allocation that are not deductible for tax purposes rose in comparison with the provisional purchase price allocation by EUR 2,264 thousand to EUR 5,764 thousand. At the same time, the estimated economic useful lives in the capitalized maintenance contracts (advantageous contracts) rose from the original four years to six. The final purchase price was now allocated to intangible assets as follows on the acquisition date:

	Provisional EUR thou	**Final** EUR thou	**Estimated economic useful life** Years
Purchased software	700	1,185	6
Customer base	1,300	2,040	10
Advantageous contracts	1,100	1,577	6
Order situation	100	133	1
Trademarks	300	829	-
	3,500	**5,764**	

Due to the rise in intangible assets in the course of the final purchase price allocation, deferred tax liabilities increased by EUR 860 thousand from EUR 1,330 thousand to EUR 2,190 thousand. The effects of the final purchase price allocation on the consolidated net accumulated losses reported in the previous year at EUR -15 thousand are insignificant.

In the 2007 fiscal year, deferred tax assets from the tax loss carry forwards of USU Software AG were recognized to the amount of the deferred tax liabilities resulting from the purchase price allocation on the basis of the profit transfer agreement concluded between USU Software AG and LeuTek and netted against the deferred tax liabilities. The resulting positive tax effect amounted to EUR 2,144 thousand. Please see Note 29.

Moreover, as part of the acquisition of LeuTek, cash payments were agreed with the former majority shareholder of LeuTek which are dependent on the future performance of the business (earn out remuneration) in 2006, 2007 and 2008. The earn-out payment for 2006 amounted to EUR 421 thousand. This did not lead to any obligation for the 2007 fiscal year, as LeuTek did not generate the minimum gross earnings required in accordance with the earn-out regulation. As a result, the total acquisition price for LeuTek did not change in the 2007 fiscal year.

As it was not possible to come to a reliable evaluation of the remaining variable acquisition price component at the time of preparing the financial statements, the earn-out for 2008 has not been taken into consideration. As soon as the earn-out for 2008 can be reliably valued, the acquisition costs will be adjusted accordingly. After deduction of the earn-out paid for the 2006 fiscal year, the maximum payment still to be made is EUR 2,429 thousand. However, a significantly lower amount of EUR 1,006 thousand is produced on the basis of the planned sales for 2008, used for the purposes of determining the earn-out payment.

According to this, the difference between the purchase price and the preliminary total acquisition price and the fair values from the final acquisition price allocation of the assets and liabilities identified amounts to EUR 9,570 thousand and is reported as goodwill. The change compared with the previous year (EUR 10,974 thousand) is the result of the final completion of the purchase price allocation.

The following is an overview of how goodwill is determined taking into consideration the final purchase price allocation and the earn-out for 2007 amounting to EUR 0 thousand:

	Carrying amounts in accordance with IFRS at the time of acquisition	Fair values after final purchase price-allocation
	EUR thou	EUR thou
Intangible assets	46	5,810
Property, plant and equipment	185	185
Inventories	399	399
Work in progress	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 reserves	-157	-157
Reserves 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	-2,203
	739	4,313
Goodwill attributable		9,570
		13,883

The goodwill comprises only the anticipated synergy potential and the expertise of the employees.

Due to the final purchase price allocation which was finally completed in 2007, there were changes to the pro-forma financial key ratios stated in the 2006 annual report for the 2006 fiscal year. These are now as follows:

	2006	2006
	Before final purchase price allocation	After final purchase price allocation
	EUR thou	EUR thou
Pro-forma sales revenue	31,935	31,935
Pro-forma profit	2,493	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 1,359 thousand which break down over the CGUs as follows:

ZGE	2007	2006	
	EUR thou	EUR thou	
USU AG (Product Business)	376	376	
USU AG (Service Business)	85	85	
LeuTek	829	829	*)
OMEGA	69	69	
	1,359	**1,359**	

*) Changed due to the now final completion of the purchase price allocation of LeuTek GmbH

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.

As the trademarks and brands are included in the carrying amounts of the CGUs of the Group, the annual impairment test is covered by the impairment tests for goodwill. Please see Note 10.

The trademarks and brands concern both the Product Business and the Service Business segments (see section G of the Notes for the new segment allocation).

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

10. Goodwill

Goodwill contains amounts from the transfer of business operations (asset deals) as well as from capital consolidation. The goodwill is tested for impairment by comparing the carrying amounts of one CGU, including the relevant goodwill, with the values in use of the CGU in question.

The Group's goodwill results from the acquisitions of USU AG, OMEGA and LeuTek. These are also the CGUs although a distinction is also made between Product Business and Service Business in the case of USU AG. The details of establishing the CGUs are explained in Note 7.3.

A CGU's value in use of is determined on the basis of the present value of the future cash flow. This is calculated using the discounted cash flow method in which the expected payments from the CGU are discounted. These are based on the financial planning for the following fiscal year approved by the Supervisory Board, which 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 the EBITDA margin calculated on this basis. The EBITDA margin is mainly determined by projected revenues from licensing the Company's own software products. Moreover, EBITDA projections consider future wage and salary increases and rising costs for freelance workers.

The planning was based on a total growth rate of 15% for 2008 and 5% for each of the two following years. Based on the mid-term planning, management has forecast a terminal value which assumes annual growth of 1.0%.

In the determination of the present value, an after-tax capitalization rate of 11.20% (2006: 10.55%) was used for the Product Business division of the CGU USU AG as well as for LeuTek and OMEGA, corresponding to a pre-tax capitalization rate of 14.2%. For the Service Business division of the CGU USU AG, an after-tax capitalization rate of 9.45% (2006: 8.8%), corresponding to a pre-tax capitalization rate of 12.04%, was used. 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 235 thousand (2006: EUR 655 thousand) were created on tax loss carry forwards recognized in income at the subsidiary USU AG in the 2007 fiscal year as in 2006. 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 2007 and 2006 are shown in the following table.

	Product Business	Service Business	Group
January 1, 2006	**14,894**	**2,781**	**17,675**
Acquisition of LeuTek	9,570 *)	0	9,570
Amortization of deferred taxes from loss carry forwards recognized in income (USU AG)	-534	-121	-655
December 31, 2006	**23,930 *)**	**2,660**	**26,590**
Amortization of deferred taxes from loss carry forwards recognized in income (USU AG)	-191	-44	-235
December 31, 2007	**23,739**	**2,616**	**26,355**

*) Changed due to the now final completion of the purchase price allocation of LeuTek GmbH

11. Property, plant and equipment

Scheduled depreciation of property, plant and equipment in fiscal year 2007 amounted to EUR 297 thousand (2006: EUR 254 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. Other non-current assets

The other non-current assets primarily include asset values of insurance policies amounting to EUR 461 thousand (2006: EUR 405 thousand), whereby the persons entitled to maintenance have no access to the insurance.

13. Inventories

The inventories are mainly composed of software licenses from third-party providers and IT hardware. As there were no inventory risks at the balance sheet date, no mark-downs were necessary.

The cost of materials from inventories amounted to EUR 1,004 thousand in 2007 (2006: EUR 489 thousand).

14. Work in process

The following table gives an overview of the work in process as of December 31, 2007 and 2006 and the associated billings:

	2007 EUR thou	2006 EUR thou
Contract costs plus unbilled contract earnings	1,377	766
of which agreements for services pursuant to IAS 18	376	413
of which construction contracts pursuant to IAS 11	1,001	353
less amounts from progress billings	-1,036	-407
Balance	**341**	**359**
of which: work in progress	588	659
of which: liabilities from payments received	-247	-300

Sales revenues of EUR 2,974 thousand (2006: EUR 1,697 thousand) were realized in fiscal 2007 as a result of construction contracts pursuant to IAS 11.

15. Trade receivables

Trade receivables are generally not interest-bearing and are due in the short term. This item breaks down as follows:

	2007 EUR thou	2006 EUR thou
Trade receivables	5,613	5,963
Value allowance as of January 1	-388	-243
Utilizations in the fiscal year	28	0
Addition recognized as expense	-49	-145
Release	0	0
Valuation allowance as of December 31	-409	-388
	5,204	**5,575**

As of December 31, 2007, valuation allowances were undertaken for trade receivables with a nominal value of EUR 848 thousand (2006: EUR 957 thousand).

The analysis of the overdue, unimpaired trade receivables is as follows:

		Neither overdue	Overdue but not impaired				
	Total	nor impaired	<=30 days	31-90 days	91-180 days	181-360 days	>360 days
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
2007	4,765	3,395	1,370	0	0	0	0
2006	5,006	3,544	1,462	0	0	0	0

16. Income tax receivables

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

17. Other current financial assets

Other current assets are composed of the following items:

	2007 EUR thou	2006 EUR thou
Short-term loans	125	327
Impairments	-75	-287
Receivables from employees	85	102
Interest accrued on securities	81	72
Other receivables	194	240
	410	**454**

The short-term loans relate to an original loan of EUR 510 thousand which was not repaid by the due date of December 31, 2004 due to a lack of liquidity on the part of the debtor. For this reason, the remaining nominal receivable amounting to EUR 125 thousand as at December 31, 2007 is due immediately and a valuation allowance of EUR 50 thousand was undertaken with respect to the debtor's credit rating.

The analysis of the overdue, unimpaired current financial assets is as follows:

		Neither overdue	Overdue but not impaired				
	Total EUR thou	nor impaired EUR thou	<=30 days EUR thou	31-90 days EUR thou	91-180 days EUR thou	181-360 days EUR thou	>360 days EUR thou
2007	410	410	0	0	0	0	0
2006	454	454	0	0	0	0	0

18. Prepaid expenses

Prepaid expenses primarily contain deferred trade fair expenses, deferred costs for market research companies and expenses associated with service contracts.

19. Securities

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	Market value EUR thou
2007	4,929	67	-139	4,857
2006	2,907	23	-96	2,834

As of December 31, 2007, EUR 3,537 thousand (2006: EUR 876 thousand) of the available-for-sale securities were due within one year, EUR 1,320 thousand (2006: EUR 1,958 thousand) due within one and five years and EUR 0 thousand (2006: EUR 0 thousand) after more than ten years. The proceeds from the sale of available-for-sale securities in the 2007 fiscal year include gross gains totaling EUR 0 thousand (2006: EUR 0 thousand) and gross losses of EUR 2 thousand (2006: EUR 21 thousand).

20. Cash on hand and bank balances

This item breaks down as follows:

	2007 EUR thou	2006 EUR thou
Fixed-term and overnight deposits	2,216	4.604
On-call deposits	2,844	958
Cash	4	4
	5,064	**5,566**

21. Equity

The development of equity is shown in the Equity Statement (Attachment C to the Notes).

21.1 Subscribed capital and shares

As of December 31, 2007, 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. Therefore, the subscribed capital remains unchanged in comparison with December 31, 2006.

21.2 Capital reserve

The capital reserve primarily contains the cash premium from the issue of shares by USU Software AG and, at EUR 52,320 thousand, remained unchanged over the previous year.

21.3 Authorized capital

By resolution of the Annual General Meeting of July 12, 2007, the existing authorized capital was abolished and new authorized capital was created. The Management Board was authorized to increase capital by up to EUR 5,168 thousand by issuing new shares in return for a cash contribution or a contribution in kind any time up to and including July 11, 2012 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.

21.4 Contingent capital

The subscribed capital of the Company was conditionally increased to EUR 378 thousand by resolutions of the Annual General Meetings in 2000 and 2004 by issuing no-par bearer shares. The contingent increase of capital serves only 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. This equity compensation program was completed as at December 31, 2007. No option rights were exercised.

21.5 Treasury shares

By resolution of the Annual General Meeting on July 12, 2007, the Management Board of the Company was once again authorized pursuant to Sec. 71 (8) AktG, to acquire treasury shares in one or more installments, subject to the approval of the Supervisory Board, at any time up to and including January 11, 2009. 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.

As of December 31, 2007, the Company continued to hold 53,950 treasury shares with an imputed share in the capital stock of EUR 54 thousand. At December 31, 2007, this corresponds to 0.5% (2006: 0.5%) of the capital stock.

21.6 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.

		2007	2006
Net profit:	in EUR thou	4,536	2,086 *)
Annual average number of shares:		10,281,054	9,127,081
Basic earnings per share:	in EUR	0.44	0.23

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

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

	2007	2006
Number of shares as of January 1	10,335,004	9,135,004
Treasury shares as of January 1	-53,950	-53,950
Issue of new shares (contribution in kind LeuTek)	0	1,200,000
	10,281,054	**10,281,054**

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 outstanding stock options granted to employees. As the last stock options from the issued tranches expired in fiscal 2007, these do not have a dilutive effect and were consequently not considered in the calculation of diluted earnings per share. Thus, diluted earnings per share correspond to basic earnings per share.

21.7 Appropriation of net profit

The Management Board proposes to distribute a dividend of EUR 0.15 per share for 10,281,054 shares (EUR 1,542 thousand) from the unappropriated surplus of USU Software AG as of December 31, 2007. Treasury shares do not participate in profit.

21.8 Employee stock options

The Company issued stock options to staff in several tranches in 2000 and 2001. Each tranche expires six years after the grant date. As all options that were outstanding as of December 31, 2006 expired in the fiscal 2007, they will have no impact on equity in the future.

As a result, the status of the Company's employee stock option plans as of December 31, 2007 can be summarized as follows:

	Tranche 4	Tranche 5
Date of issue	May 01, 2001	June 01, 2001
Strike price in EUR	14.92	15.54
Outstanding as of January 1, 2006	2,500	16,560
Granted	0	0
Exercised	0	0
Lapsed	0	0
Outstanding as of December 31, 2006	2,500	16,560
Granted	0	0
Exercised	0	0
Lapsed	2,500	16,560
Outstanding as of December 31, 2007	0	0
Exercisable as of December 31, 2007	0	0

22. Pension provisions

On the one hand, the Group has pension commitments to LeuTek employees, which provide for a one-off payment for the recipients at the age of 65. USU AG also maintains a pension plan for a former Management Board member and a current member of the Supervisory Board. This defined benefit plan guarantees the beneficiaries a vested right to pay-out of a life-long monthly pension.

The pension provision was calculated using the projected unit credit method pursuant to IAS 19. The future benefit obligation has been valued using actuarial calculations. The calculations were based on the 2005 G mortality tables assuming an interest base of 5.5% (2006: 4.5%) and employee turnover of 0% (2006: (2006: 0% p.a.). In the case of the pension plan, it is assumed that subsequent contributions will rise by 1% during the service period as in the previous year and 2% when pension payments begin. As the pension obligations to employees are one-off payments, pension trend of 0% is reported. The annual return on plan assets is projected to be 4.1% (2006: 3.5% or 4%). Here, the management uses historical income developments and market forecasts by analysts.

Actuarial gains and losses are offset against accumulated loss without impact on earnings pursuant to the regulations of IAS 19. The pension obligation has been measured as of December 31, 2007.

As of December 31, 2007, the Company charged directly EUR 26 thousand (pre-tax) in gains offset against actuarial losses in accumulated loss.

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.

The development of the pension obligation and plan assets is shown in the following overviews.

Development of the pension obligation:

	2007 EUR thou	2006 EUR thou	2005 EUR thou	2004 EUR thou
Present value of benefit obligation as of January 1	1,664	1,351	1,061	909
Additions from company acquisition (LeuTek)	0	250	0	0
Past service costs	20	4	0	0
Interest cost	75	63	53	50
Actuarial gains/losses recorded without impact on income	-357	-4	237	102
Present value of benefit obligation as of December 31	**1,402**	**1,664**	**1,351**	**1,061**

Development of plan assets:

	2007 EUR thou	2006 EUR thou	2005 EUR thou	2004 EUR thou
Fair value of plan assets as of January 1	1,068	790	639	494
Additions from company acquisition (LeuTek)	0	93	0	0
Income from plan assets (interest income)	38	30	24	18
Payments into plan assets	33	134	134	127
Amortization of plan assets	-25	0	0	0
Actuarial gains/losses recorded without impact on income	-10	21	-7	0
Fair value of plan assets as of December 31	**1,104**	**1,068**	**790**	**639**

Development of the obligation posted in the balance sheet:

	2007 EUR thou	2006 EUR thou	2005 EUR thou	2004 EUR thou
Present value of pension obligation	1,402	1,664	1,351	1,061
Fair value of plan assets	1,104	1,068	790	639
Obligations reported	**298**	**596**	**561**	**422**

There were no notable experience-related adjustments to the pension obligation or the plan assets. Employer contributions to the plan assets for the 2008 fiscal year were estimated at EUR 44 thousand.

The following amounts were reported in the Income Statement:

	2007 EUR thou	2006 EUR thou	2005 EUR thou	2004 EUR thou
Past service costs	-20	-4	0	0
Interest cost	-75	-63	-53	-50
Income from the plan assets (interest income)	38	30	24	18
Amortization of plan assets	-25	0	0	0
	-82	**-37**	**-29**	**-32**

Both the interest arising from the accrued interest of the pension reserve and the earnings from the plan assets were recognized as interest income. The past service costs are reported in operating expenses. The actual interest income from plan assets totaled EUR 28 thousand in the 2007 fiscal year.

A pension commitment was made to the Management Board members 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 2007 (2006: EUR 22 thousand).

23. Personnel-related liabilities

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

	2007 EUR thou	2006 EUR thou
Vacation and variable remuneration	2,285	2,470
Other personnel-related liabilities	412	285
	2,697	**2,755**

24. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2007 EUR thou	2006 EUR thou
Outstanding invoices	205	294
Other liabilities	593	518
Other provisions	564	626
	1,362	**1,438**

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 2007 fiscal year:

In EUR thousand	Balance Jan 1 2007	Additions	Utilizations	Releases	Balance Dec 31, 2007
Operating obligations	339	248	222	46	319
Other obligations	287	1	24	19	245
	626	**249**	**246**	**65**	**564**

25. Liabilities from received payments

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

26. Trade payables

All trade payables are due within 12 months.

27. Additional information on financial instruments

On the basis of the relevant balance sheet items, the following table show the connections between the categorization of financial instruments pursuant to IAS 32/39, the classification of financial instruments pursuant to IFRS 7 and the measurement of financial instruments. In the Company, the formation of classes pursuant to IFRS 7 corresponds to the categories of financial instruments according to IAS 32/39. Moreover, the fair values are also presented which are in agreement with the corresponding carrying amounts in fiscal 2007 as in the previous year.

in EUR thou as at Dec 31, 2007	IAS 39-category or IFRS 7-class	Carrying Amount	Balance sheet measurement pursuant to IAS 39			Fair Value
			Amortized Cost	Fair Value not impacting income	Fair Value Impacting Income	
Other non-current assets						
Management Board loan/rent deposit	L+R [1)]	360	360	0	0	360
Trade receivables	L+R	5,204	5,204	0	0	5,204
Other current financial assets	L+R	410	410	0	0	410
Securities	AFS [2)]	4,857	0	4,857	0	4,857
Cash on hand and bank balances	L+R	5,064	5,064	0	0	5,064
Aggregated by class/category						
Loans and receivables	L+R	11,038	11,038	0	0	11,038
Available-for-sale	AFS	4,857	0	4,857	0	4,857

[1)] L+R: loans and receivables
[2)] AFS: available-for-sale

In EUR thou as at Dec 31, 2007	IAS 39-category or IFRS 7-class	Carrying amount	Balance sheet measurement pursuant to IAS 39			Fair value
			Amortized Cost	Fair value not impacting income	Fair value impacting-income	
Current financial liabilities						
Trade payables	Amortized cost	1,047	1,047	0	0	1,047
Aggregated by class/category						
Evaluated at amortized cost	Amortized cost	1,047	1,047	0	0	1,047

In EUR thou as at Dec 31, 2006	IAS 39-category or IFRS 7-class	Carrying-amount	Balance sheet measurement pursuant to IAS 39			Fair value
			Amortized Cost	Fair value not impacting income	Fair value impacting income	
Other non-current financial assets						
Management Board loan/ Subsidized construction loan	L+R	366	366	0	0	366
Trade receivables	L+R	5,575	5,575	0	0	5,575
Other current financial assets	L+R	454	454	0	0	454
Securities	AFS	2,834	0	2,834	0	2,834
Cash on hand and bank balances	L+R	5,566	5,566	0	0	5,566
Aggregated by class/category						
Loans and receivables	L+R	11,961	11,961	0	0	11,961
Available-for-sale	AVS	2,834	0	2,834	0	2,834

in EUR thou as at Dec 31, 2006	IAS 39-category or IFRS 7-class	Carrying-amount	Balance sheet measurement pursuant to IAS 39			Fair value
			Amortized Cost	Fair Value not impacting income	Fair value impacting-income	
Current financial liabilities						
Trade payables	Amortized cost	1,076	1,076	0	0	1,076
Other financial liabilities	Amortized cost	426	426	0	0	426
Aggregated by class/ category at amortized cost	Amortized cost	1,502	1,502	0	0	1,502

Cash on hand and bank balances, trade receivables, other receivables and short-term loans generally have short terms to maturity. For this reason, their carrying amounts correspond approximately to their fair values on the balance sheet date. The same applies for trade payables and other liabilities. Securities which are recognized at fair value without impacting income are fixed-income, low-risk securities generally with a short term to maturity.

The following table shows the net income from financial instruments corresponding to the IAS 39 categories:

In EUR thou	From interest	From subsequent measurement			Outflow	Net profit	
		At fair value	Impair ment	Reversal-		2007	2006
Net gains/losses from financial instruments in the category							
Loans and receivables	204	0	-33	212	0	383	127
Available-for-sale	114	1	0	0	2	117	215
Financial liabilities measured at amortized cost.	0	0	0	0	0	0	0
Total	**318**	**1**	**-33**	**212**	**2**	**500**	**342**

The interest from financial instruments of the loans and receivables category and the other components of the net profit are recorded in Financial income (see Notes 37 and 38). This does not include the trade valuation allowances which are reported in Distribution costs.

In the course of recognizing value changes of available-for-sale financial assets without impact on income, in fiscal 2007 net remeasurement gains and losses of EUR 1 thousand (2006: EUR -92 thousand) were recorded. Of the amounts recognized in equity in the 2007 fiscal year, total losses of EUR 2 thousand (2006: EUR 21 thousand) were transferred to the Income Statement.

As in fiscal 2006, income and expenditure from fees and commissions were only incurred to a low degree in 2007.

28. Deferred income

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

29. Deferred taxes

As a result of the profit and loss transfer agreement held by LeuTek with USU Software AG which was approved by the Annual General Meeting on July 12, 2007 and LeuTek joining the executive bodies of USU Software AG as a result, the tax loss carry forwards of USU Software AG not recognized to date due to a lack of recoverability can at least be recovered in the amount of the deferred tax liabilities recognized at LeuTek. As a result, deferred tax assets from the tax loss carry forwards of USU Software AG were recognized to the amount of the deferred tax liabilities resulting from the purchase price allocation (EUR 2,144 thousand) and the first-time consolidation (EUR 13 thousand) of LeuTek and netted against the deferred tax liabilities. This results in tax income of EUR 2,157 thousand for the fiscal 2007.

Moreover at both USU AG and USU Software AG deferred tax assets on tax loss carry forwards for future earnings totaling EUR 1,041 thousand were created as a result of the positive earnings development in the past years and the positive earnings planning for 2008. As a precaution, the level of capitalization was determined only for the 2008 planning year and not beyond on the basis of the planned earnings of USU AG or USU Software AG approved by the Supervisory Board.

Deferred taxes break down as follows:

	2007 EUR thou	2006 EUR thou	Change impacting income 2007 EUR thou	Change not impacting income 2007 EUR thou
Deferred tax assets:				
Provisions	85	209	-6	-118
Prepaid expenses	2	10	-8	0
Securities	0	31	-29	-2
Long-term financial instruments	0	25	-25	0
Receivables	15	0	15	0
From tax loss carry forwards	3,154	1,499	1,655	0
Deferred tax assets, gross	**3,256**	**1,774**	**1,602**	**-120**
Deferred tax liabilities:				
Provisions	13	13	11	-11
Intangible assets	1,716	2,607 *)	891	0
Treasury shares	138	186	48	0
Work in process	213	137	-76	0
Securities	41	36	0	-5
Receivables	94	144	50	0
Deferred tax liabilities, gross	**2,215**	**3,123** *)	**924**	**-16**
Balance	**1,041**	**-1,349** *)	**2,526**	**-136**

	2007 EUR thou	2006 EUR thou
Net deferred taxes reported in the balance sheet:		
Deferred tax assets:	1,041	808
Deferred tax liabilities:	0	2,157 *)

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

As of December 31, 2007 deferred tax assets of approx. EUR 50,491 thousand (2006: EUR 60,104 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 451 thousand (2006: EUR 439 thousand).

Tax loss carry forwards of EUR 20,252 thousand (2006: 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

30. Sales revenue

A breakdown of sales revenue by segment can be found in the section on segment reporting (section G of the Consolidated Notes).

Revenues from the sales of goods and services break down as follows:

	2007 EUR thou	2006 EUR thou
Consulting	18,765	18,457
Licenses	4,997	4,063
Maintenance	6,398	2,910
Other	887	500
	31,047	**25,930**

31. Cost of sales

The cost of sales includes the following expenses:

	2007 EUR thou	2006 EUR thou
Personnel expenses	6,650	6,502
Fees for freelancers and hired workers	5,562	5,815
Scheduled amortization	155	176
Other expenses	2,791	2,415
	15,158	**14,908**

32. Sales and marketing expenses

Sales and marketing expenses include the following expenses:

	2007 EUR thou	2006 EUR thou
Personnel expenses	2,718	1,869
Scheduled amortization	62	33
Other expenses	2,616	1,623
	5,396	**3,525**

33. General administrative expenses

General administrative expenses include the following expenses:

	2007 EUR thou	2006 EUR thou
Personnel expenses	1,435	1,377
Scheduled amortization	68	82
Other expenses	1,224	1,244
	2,727	**2,703**

34. Research and development expenses

Research and development expenses include the following expenses:

	2007 EUR thou	2006 EUR thou
Personnel expenses	3,915	2,302
Scheduled amortization	100	57
Other expenses	851	513
	4,866	**2,872**

35. Other operating income

Other operating income includes income from the sale of assets (EUR 145 thousand) and income from the reversing other provisions totaling EUR 65 thousand.

36. Goodwill amortization

As a result of the positive earnings development in recent years as well as positive earnings planning for fiscal 2008, new deferred tax assets of EUR 235 thousand (2006: EUR 655 thousand) were created on tax loss carry forwards recognized in income at the subsidiary USU AG in the 2007 fiscal year 2007 (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 is not recognized in income.

As neither LeuTek nor Omega had any tax loss carry forwards at the time of their acquisition, no further amortization of the goodwill was necessary despite the first-time creation of deferred tax assets on tax loss carry forwards at USU Software AG fiscal entity.

37. Financial income

Financial income includes the following items:

	2007 EUR thou	2006 EUR thou
Interest	318	516
Reversal of bad debt allowances	212	132
Income from security sales	1	0
Other	47	50
Financial income	**578**	**698**

38. Financial expenditure

Financial expenditure includes the following expenses:

	2007 EUR thou	2006 EUR thou
Interest cost from pension obligation	87	89
Loss from security sales	0	71
Other	26	47
Financial expenditure	**113**	**207**

39. Income taxes

Income taxes break down as follows:

	2007 EUR thou	2006 EUR thou
Income taxes for the fiscal year	-360	-78
Income taxes for previous years	13	-16
Deferred taxes	2,526	701
Tax income	**2,179**	**607**

In fiscal 2007, the income generated by the Company is subject to a corporate income tax rate of 25% (2006: 25%) plus the solidarity surcharge of 5.5% (2006: 5.5%) of corporate income tax and an effective municipal trade tax rate of 10.9% (2006: 10.9%).The compounded tax rate including the solidarity surcharge and the effective trade tax rate amounts to 37.2% (2006: 37.2%).

Deferred taxes on intercompany profits are calculated on the basis of the current or future applicable interest rate. The deferral calculation of the tax loss carry forwards and the temporal differences as of December 31, 2007, was based on the corporation tax reform which took effect on January 1, 2008 and which reduces the tax burden on German corporations. Consequently, the deferred taxes were calculated on the basis of a corporate income tax rate of 15% plus a solidarity surcharge of 5.5 % and an effective municipal trade tax rate of 12.9%. As a result, USU Software AG can expect a total tax burden of 28.7% in future.

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

	2007 EUR thou	2006 EUR thou
Profit before income tax	2,357	1,479
Theoretical tax expense 37.2% (2006: 37.2 %)	-877	-550
Changes in the theoretical tax expense owing to:		
Release of allowance for deferred taxes on loss carry forwards	2,401	655
Effect of changes in tax rates	480	0
Unrecognized deferred taxes on tax loss carry forwards	431	822
Goodwill amortization	-87	-244
Tax refunds/back payments for other periods	13	-16
Non-deductible expenses	-10	-10
Deviation from foreign tax rates	-18	-9
Other	-154	-41
Tax income	**2,179**	**607**

40. Other notes to the income statement

The average headcount in the fiscal year was:

	2007	2006
Consulting and services	92	96
Research and Development	87	67
Administration and finance	33	27
Sales and marketing	27	24
	239	**214**

The increase in the number of employees, particularly in research and development, is mainly the result of the acquisition of LeuTek in November 2006 and ongoing staff recruitment at the Group subsidiary USU AG.

The absolute decline in the number of employees in consulting and services is due to the release of the IT staff built up for Red Hat Inc. from the Czech Group subsidiary USU Software s.r.o. as planned.

Personnel expenses break down as follows:

	2007 EUR thou	2006 EUR thou
Wages and salaries	12,483	10,243
Social security, pensions and other benefit costs	2,233	1,807
	14,716	**12,050**

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 Note 20). Investments in securities are made with a view to profit with less focus on liquidity. For this reason, securities are not included in cash and cash equivalents.

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

41. Net cash flow from operating activities

In the 2007 fiscal year, the USU Group generated positive cash flow of EUR 2,878 thousand from operating activities after cash flow of EUR 2,388 thousand in 2006. As in the previous year, it was the increased operating result that primarily led to net revenues from ordinary activities.

42. Net cash flow from investing activities

Cash flow from investing activities in fiscal 2007 mainly reflects investments in securities, while the figure for 2006 was still largely dominated by the acquisitions effected in the past two fiscal years by USU Software AG. During the reporting period, this resulted in net expenditure for investing activities totaling EUR 2,465 thousand, compared with the corresponding figure of EUR 6,629 thousand in fiscal 2006.
Released cash and cash equivalents totaling EUR 2,074 thousand were invested in low-risk securities with a short term and money market funds There were disposals of securities amounting to EUR 39 thousand. The earn-out obligation for fiscal 2006 was paid out in 2007, which amounted to EUR 421 thousand. In fiscal 2007, investments in fixed assets and other intangible assets totaled EUR 381 thousand (2006: EUR 382 thousand) and mostly include cash flows for reinvestments and replacements in hardware and software.

43. Net cash flow from financing activities

Cash flow from financing activities in the reporting period only comprises the distribution of dividends to the shareholders of USU Software AG carried out on July 18, 2007, totaling EUR 908 thousand (EUR 0.10 per share for 9,081,054 shares). Just as in the previous year, there were no changes which would have led to corresponding net revenue or expenditure.

G. SEGMENT REPORTING

In keeping with its focus on Business Service Management and the associated merging of cross-divisional product business as well as the corporate reorganization implemented on January 1, 2007, the USU Group segments have also been redefined. The former segment allocation in IT Management Solutions and Business Services was discontinued and replaced with the new Product Business and Service Business segments. The new segments are described below.

For the purpose of segment reporting in accordance with IAS 14, USU operates in “Product Business“ and “Service Business“, both of which have a major influence on the risks and equity return. These two segments have different areas of activity; the breakdown of these activities is based on internal reporting (management approach). The purpose of segmentation into “Product Business“ and “Service Business” is to make the earning capacity and prospects of success as well as the opportunities and risks facing the two segments in the Group transparent.

The product portfolio of the “Product Business” segment includes all those activities centered around the USU product range in the market for Business Service Management. This includes the products and services for Infrastructure Management (efficient administration of IT assets, contracts and software licenses), Service/Change Management (compliance with, and formalization of the IT service processes including procurement, support and maintenance), Finance Management (transparency, planning and budgeting as well as charging of IT costs and services to the person(s) who incurred them), Process Management (monitoring, visualization and controlling of all systems and processes required for IT operation) as well as the Knowledge Center for optimization of knowledge-intensive business processes.

The Knowledge Center suite, a modular, web-based product line, supports customers in structuring topics and unifying their information access. This software suite consists of three main modules: KnowledgeMiner (self-learning search and research system), KnowledgeBase (knowledge database that enables process-oriented management and provision of solution documents), and KnowledgeGuide (a system that supports diagnosis and decision-making with the assistance of dynamic decision trees).

The Service Business division contains consulting services for the purpose of IT projects as well as individual application development. The portfolio addresses a wide range of technical topics which are implemented by means of dedicated methods and tested process models. These include selected special divisions, the carrying out of IT projects on one's own responsibility or providing project support with qualified IT staff.

Segment information in line with IAS 14 pursuant to the new segment definition is represented in the following overview. The previous year's figures were adjusted accordingly.

(EUR thou)	Product Business		Service Business		Not allocated		Group	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Sales revenue	**21,542**	**17,707**	**9,469**	**8,149**	**36**	**74**	**31,047**	**25,930**
Earnings before net financial income and income taxes	3,102	2,626*)	879	510	-2,089	-2,148	1,892	988*)
Net financial income	0	0	0	0	465	491	465	491
Income tax	0	0	0	0	2,179	607*)	2,179	607*)
Net profit/loss for the Group	**3,102**	**2,626*)**	**879**	**510**	**555**	**-1,050*)**	**4,536**	**2,086*)**
Segment assets/Group assets	37,131	36,416*)	4,955	5,189	11,183	11,215	53,269	52,820*)
of which goodwill	23,739	23,930*)	2,616	2,660	0	0	26,355	26,590*)
Segment liabilities/ Group liabilities	3,935	4,198	868	1,009	1,987	4,978*)	6,790	10,185*)
Investments	218	275	130	95	33	13	381	383
Amortization	1,428	1,046*)	133	212	29	67	1,590	1,325*)
Of which goodwill	192	534	43	121	0	0	235	655
Employees (to date December 31)	181	164	46	52	18	17	245	233

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

There were no intercompany sales in fiscal 2007 and 2006.

In fiscal 2007, EUR 2,379 thousand (2006: EUR 3,057 thousand) or 7.7% (2006: 11.8%) of consolidated sales revenue was generated outside Germany. Assets held, as well as investments made, outside Germany total less than 10% of the corresponding total value. Further details of the geographical data in line with IAS 14.69 (secondary information) have thus not been provided.

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

	2007 EUR thou	2006 EUR thou
Segment assets	42,086	41,604*)
Unallocated assets		
Securities	2,830	2,834
Cash on hand and bank balances	4,864	5,366
Deferred tax assets	1,041	808
Income tax receivables	1,234	923
Other assets	1,214	1,285
	11,183	**11,216**
Group assets	**53,269**	**52,820*)**

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

	2007 EUR thou	2006 EUR thou
Segment liabilities	4,803	5,207
Unallocated liabilities		
Deferred tax liabilities	0	2,157*)
Pension provisions	298	433
Other income tax liabilities	0	707
Other liabilities	1,689	1,681
	1,987	**4,978*)**
Group liabilities	**6,790**	**10,185*)**

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

H. Other notes

44. Related party disclosures

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.

According to IAS 24.3, the senior management and the members of the Supervisory Board are seen as related parties. In fiscal 2007, 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.

44.1 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 fiscal 2006, net cost reimbursements of EUR 23 thousand (2006: EUR 34 thousand) were made in favor of Udo Strehl Private Equity GmbH. The costs of car leasing, travel expenses and telecommunications for EUR 17 thousand were also paid (2006: EUR 22 thousand).

44.2 Karin Weiler-Strehl

Karin Weiler-Strehl is the wife of Udo Strehl. The Company engages the consulting services of Ms. Weiler-Strehl on the basis of an annual contract. The expenses for these consulting contracts with Ms. Weiler-Strehl amounted to EUR 36 thousand in the 2007 fiscal year (2006: EUR 29 thousand).

USU AG also leased a business building from Ms. Karin Weiler-Strehl. In the past fiscal year, USU AG was invoiced EUR 246 thousand (2006: EUR 242 thousand) for this. The previous rental agreement dated April 1996 expired as of December 31, 2007. The subsidized construction loan of EUR 183 thousand granted to Ms. Weiler-Strehl in a supplement to this rental agreement, which earned interest of 2.5% p.a., has been repaid in line with the agreement. Due to the low interest rate, the discounted subsidized construction loan generated interest income of EUR 11 thousand over the past fiscal year. On July 20, 2007, a new rental agreement running until December 31, 2017 was concluded between the two parties effective January 1, 2008 as a continuation of the previous arrangement. In line with this agreement, total monthly rent until December 31, 2010 is EUR 19.5 thousand. The rent will rise by EUR 0.5 thousand on both January 1, 2011 and January 1, 2014. The deposit of EUR 240 thousand will bear interest of 4% p.a. from January 1, 2008.

Furthermore, USU Software AG rented an office in Münchinger Strasse in Möglingen from Ms. Weiler-Strehl. In the past fiscal year, rent of EUR 10 thousand (2006: EUR 10 thousand) was paid.

44.3 Earn-out obligation toward shareholders

No obligation arose from the earn-out regulation of the acquisition of LeuTek for fiscal 2007 as LeuTek did not achieve the minimum gross earnings required.

The earn-out obligation for fiscal 2006 of EUR 421 thousand was paid out in full in fiscal 2007.

44.4 Loans to shareholders

As of December 31, 2007, there is a short-term loan of EUR 44 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. There is no fixed repayment plan. In 2007, a total of EUR 21 thousand was repaid.

44.5 Remuneration of senior 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 fiscal 2007, remuneration of the members of the Management Board totaled EUR 460 thousand (2006: EUR 434 thousand).
Fixed remuneration: EUR 273 thousand (2006: EUR 271 thousand)
Variable remuneration: EUR 136 thousand (2006: EUR 109 thousand)
Monetary value of benefits from private use of company vehicle: EUR 29 thousand (2006: EUR 32 thousand)
Defined contribution pension expenses: EUR 22 thousand (2006: EUR 22 thousand)

In the previous year, a member of the Management Board of USU AG was granted a loan of EUR 140 thousand. The loan has a term until March 31, 2016 and bears interest of 3.5% p.a. until December 31, 2010 and subsequently in the amount of the 12-month EURIBOR.

Repayments are to be made on the basis of a certain percentage of the variable remuneration. In 2007, a total of EUR 15 thousand was repaid. As of December 31, 2007 the loan was valued at EUR 120 thousand.

The total remuneration of the Supervisory Board in the year ending December 31, 2007 amounted to EUR 73 thousand (2006: EUR 73 thousand).

Please refer to note 22 with regard to the pension provision set up for a member of the Supervisory Board and former member of the Management Board.

45. Auditor's fees

a) Financial statements (individual and consolidated financial statements)	EUR 97 thousand (2006: EUR 83 thousand)
b) Other assurance or valuation services	EUR 0 thousand (2006: EUR 0 thousand)
c) Other services	EUR 6 thousand (2006: EUR 63 thousand)

46. Other notes

46.1 Contingent liabilities

As of December 31, 2007 and December 31, 2006, there were no contingent liabilities to report.

46.2 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 advantageous purchase or extension options at the end of the leases for either the office buildings or the operating and other equipment and 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:

	2007 EUR thou	2006 EUR thou
Obligations from operating leases		
In one year	460	352
In more than one to five years	596	211
In more than five years	0	0
	1,056	**563**
Other financial obligations from office rental		
In one year	669	808
In more than one to five years	1,147	60
In more than five years	1,224	0
	3,040	**868**
	4,096	**1,431**

The strong rise as against the previous year mainly resulted from the conclusion of a new rental agreement in the past fiscal year with a fixed term until December 31, 2017. If the agreement is not terminated at least two years before the end of its term by either party to the agreement, it is extended by a further four years. As with the main contract, the extension periods also have a notice period of 24 months. Please see also the comments under note 44.2.

Expenses for operating leases and rent agreements amounted to EUR 1,070 thousand in fiscal 2007 (2006: EUR 936 thousand).

There are also other financial obligations from the possible increase in the purchase price paid to date for the shares in LeuTek GmbH (earn-out clause). As of the balance sheet date, the maximum payable amount which is now only relevant for fiscal 2008 is EUR 2,429 thousand. (Based on the planned sales for 2008 used to measure the earn-out payment, the amount is significantly lower at EUR 1,006 thousand.)

47. 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, 2007 and 2006, 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 arbitration 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, 2007. 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 risk provision of EUR 61 thousand has been recognized 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 the approval of the consolidated financial statements by the Management Board to be reported.

48. Executive bodies

48.1 Management Board

The member of the Management Board of the parent company in fiscal 2007 was:

Bernhard Oberschmidt, economics graduate, Chairman of the Management Board

The total remuneration of the active member of the Management Board in fiscal 2007 was EUR 242 thousand. Details can be found in the "Essential features of the compensation system" section of the Management Report and Group Management Report.

48.2 Supervisory Board

Members of the Supervisory Board in fiscal 2007 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

Member 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 Supervisory Board of Hahn Verwaltungs-GmbH, Fellbach

Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt

Member of the Supervisory Board of USU AG, Möglingen

49. 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.

49.1 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.

As in the previous year, there are no indications that the obligors of financial assets that are neither overdue nor impaired will not meet their payment obligations.

49.2 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.

The Company's financial liabilities are all current, i.e. due within one year.

49.3 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.

The securities reported in the Company's balance sheet are predominantly fixed-interest securities and units in money market funds. These contain a price risk in the event of changes in interest rates as the fair value of the financial instrument fluctuates according to interest rate developments. If the market interest rate as of December 31, 2007 had been one percentage point higher (lower), the fair value of the fixed-rate financial instruments would have been EUR 73 thousand less (EUR 75 thousand higher; previous year: EUR 53 thousand lower or EUR 55 thousand higher). Accordingly, the Company's equity would have been EUR 73 thousand less or EUR 75 thousand higher (previous year: EUR 53 thousand lower (EUR 55 thousand higher)). On account of the recognition of fair value changes in equity this would have no effect on net income.

49.4 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. The Company's financing is mostly equity-based. Thus, changes in market interest rates can only have a significant effect on interest income from securities.

However, the Company's securities bear interest at fixed rates. There is therefore no interest-related cash flow risk for these securities. Hence, changes in market interest rates only affect units in money market funds at USU Software AG. If the market interest rate as of December 31 had been 1% higher (lower), earnings would have been EUR 53 thousand lower (December 31, 2006: EUR 74 thousand higher), Given the same changes in market interest rates, equity would be EUR 45 thousand higher (December 31, 2006: EUR 63 thousand lower).

49.5 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.

50. Additional information on capital

USU Software AG is not subject to any minimum capital requirements, either internally or on account of its articles of association. The Company pursues the goal of high equity financing to achieve its growth targets with this financial flexibility. In addition, customers demand a high equity ratio and liquidity to guarantee investments.

The Company monitors its capital with the help of its equity ratio, which shows the ratio of equity and total assets.

As of December 31, 2007 and 2006, equity and total assets amounted to:

	2007	2006	Change
	EUR thou	EUR thou	%
Non-current liabilities	298	2,753	-89.2%
Current liabilities	6,492	7,432	-12.6%
Borrowed capital	**6,790**	**10,185**	**-33.3%**
Shareholders' equity	**46,479**	**42,635**	**9.0%**
Total assets	**53,269**	**52,820**	**0.9%**
Equity ratio	87,3%	80.7%	

The 33.3% drop in borrowed capital is primarily due to the full netting of deferred tax liabilities as of December 31, 2006 – adjusted in the course of the final purchase price allocation – of EUR 2,157 thousand against the deferred tax assets recognized for the first time from the tax loss carryforwards of USU Software AG. The resultant tax income, together with the positive operating earnings of the USU Group, led to strong net income of EUR 4,536 thousand that – adjusted for the dividend payment totaling EUR 908 thousand to the company's shareholders on July 18, 2007 – led to a 9.0% increase in equity to EUR 46,479 thousand (December 31, 2006: EUR 42,635 thousand). With total assets of EUR 53,269 thousand (2006: EUR 52,820 thousand), the equity ratio rose to 87.3% on December 31, 2007 (December 31, 2006: 80.7%).

As in the previous year, the Company has no net financial liabilities as the cash and cash equivalents and current securities available for sale exceeded interest-bearing liabilities. The current capital structure can, for example, be maintained by retaining net profits or issuing new shares.

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, 2007, 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	2007 shares	2006 shares
Management Board		
Bernhard Oberschmidt	18,696	18,696
Supervisory Board		
Udo Strehl *)	1,989,319	1,989,319
Erwin Staudt	50,000	17,100
Günter Daiss	35,500	5,500

*) *A further 3,689,848 voting shares (2006: 4,172,348) in USU Software AG can also be allocated to Udo Strehl through Udo Strehl Private Equity GmbH as majority shareholder in this company pursuant to section 22 (1) sentence 1 no. 1 WpHG.*
Furthermore, through the “Knowledge is the Future” foundation, Udo Strehl, as the Managing Director of this foundation, is allocated 32,000 (2006: 32,000) voting rights in USU Software AG pursuant to section 22 (1) sentence 1 no. 1 WpHG.

The Supervisory Board members Erwin Staudt and Günter Daiss each purchased 30,000 shares in USU Software AG on May 23, 2007 over the counter from Udo Strehl Private Equity GmbH (USPEG), whose majority shareholder is Udo Strehl, Chairman of the Supervisory Board of USU Software AG. On this date, USPEG sold a total of 240,000 shares in USU Software AG to the two members of the Supervisory Board of USU Software AG and to institutional investors over the counter.

Another over-the-counter sale of 250,000 shares in USU Software AG was made to institutional investors by USPEG on July 13, 2007.

On August 24, 2007, Supervisory Board member Erwin Staudt purchased 2,900 shares in USU Software AG via the Stuttgart Stock Exchange, and USPEG bought 7,500 shares via the electronic trading system XETRA.

The Supervisory Board members Udo Strehl, Erwin Staudt and Günter Daiss promptly informed USU Software AG of the securities transactions conducted. The Company promptly published the notification of these securities transactions on its homepage at www.usu-software.de.

J. DIVIDEND PAYMENT

The Management Board and the Supervisory Board propose a dividend payment of EUR 1,542 thousand (EUR 0.15 per share).

K. 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 section 161 AktG on December 19, 2007 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 can be found in the combined management report attached to these consolidated financial statements.

Möglingen (Germany), February 22, 2008

Bernhard Oberschmidt
Chairman of the Management Board

USU SOFTWARE AG, MÖGLINGEN
STATEMENT OF CHANGES IN CONSOLIDATED ASSETS 2007

Annex A to the notes on the consolidated financial statements

	Cost					Cumulative depreciation and amortization						Carrying amounts	
	1.1.2007 EUR thou	Company acquisition EUR thou	Additions EUR thou	Disposals EUR thou	31.12.2007 EUR thous	1.1.2007 EUR thou	Impairment EUR thou	Additions EUR thou	Disposals EUR thou	Currency EUR thou	31.12.2007 EUR thou	31.12.2007 EUR thou	1.1.2007 EUR thou
Intangible assets													
Purchased software	3,816 *)	0	89	0	3,905	2,198 *)	0	483	0	0	2,681	1,224	1,618 *)
Trademarks and brands	1,880 *)	0	0	0	1,880	521	0	0	0	0	521	1,359	1,359 *)
Maintenance agreements	1,933 *)	0	0	0	1,933	323 *)	0	315	0	0	638	1,295	1,610 *)
Client base	2,595 *)	0	0	0	2,595	130 *)	0	260	0	0	390	2,205	2,465 *)
	10,224 *)	**0**	**89**	**0**	**10,313**	**3,172 *)**	**0**	**1,058**	**0**	**0**	**4,230**	**6,083**	**7,052** *)
Goodwill	46,879 *)	0	0	0	46,879	20,289 *)	0	235	0	0	20,524	26,355	26,590 *)
	46,879 *)	**0**	**0**	**0**	**46,879**	**20,289 *)**	**0**	**235**	**0**	**0**	**20,524**	**26,355**	**26,590** *)
Property, plant and equipment													
Land and buildings	93	0	48	0	141	65	0	6	0	0	71	70	28
Other equipment, operating and office equipment	1,180	0	244	86	1,338	597	0	291	56	0	832	506	583
	1,273	**0**	**292**	**86**	**1,479**	**662**	**0**	**297**	**56**	**0**	**903**	**576**	**611**
Deferred tax assets	808	0	233	0	1,041	0	0	0	0	0	0	1,041	808
	808	**0**	**233**	**0**	**1,041**	**0**	**0**	**0**	**0**	**0**	**0**	**1,041**	**808**
Other non-current assets													
Rental deposit/subsidized construction loan	231	0	240	231	240	0	0	0	0	0	0	240	231
Premium account/reinsurance	523	0	103	13	613	0	0	0	0	0	0	613	523
Loans to members of the Management Board	135	0	0	15	120	0	0	0	0	0	0	120	135
	889	**0**	**343**	**259**	**973**	**0**	**0**	**0**	**0**	**0**	**0**	**973**	**889**
	60,073 *)	**0**	**957**	**345**	**60,685**	**24,123 *)**	**0**	**1,590**	**56**	**0**	**25,657**	**35,028**	**35,950 *)**

**) Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

USU SOFTWARE AG, MÖGLINGEN

Annex B to the notes on the consolidated financial statements

STATEMENT OF CHANGES IN CONSOLIDATED ASSETS 2006

	Cost					Cumulative depreciation and amortization						Carrying amounts	
	1.1.2006	Company acquisition	Additions	Disposals	31.12.2006	1.1.2006	Impairment	Additions	Disposals	Currency	31.12.2006	31.12.2006	1.1.2006
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Intangible assets													
Purchased software	2,352	1,363	101	0	3,816 *)	1,951	0	245	0	2	2,198 *)	1,618 *)	401
Trademarks and brands	1,051	829	0	0	1,880 *)	521	0	0	0	0	521	1,359 *)	530
Maintenance agreements	356	1,577	0	0	1,933 *)	238	0	85	0	0	323 *)	1,610 *)	118
Client base	555	2,040	0	0	2,595 *)	44	0	86	0	0	130 *)	2,465 *)	511
	4,314	**5,809**	**101**	**0**	**10,224 *)**	**2,754**	**0**	**416**	**0**	**2**	**3,172 *)**	**7,052 *)**	**1,560**
Goodwill	37.308	9,571	0	0	46,879 *)	19,634	0	655	0	0	20,289	26,590 *)	17,674
	37,308	**9,571**	**0**	**0**	**46,879 *)**	**19,634**	**0**	**655**	**0**	**0**	**20,289**	**26,590 *)**	**17,674**
Property, plant and equipment													
Land and buildings	87	0	6	0	93	58	0	7	0	0	65	28	29
Other equipment, operating and office equipment	1,094	185	275	374	1,180	710	0	247	358	-2	597	583	384
	1,181	**185**	**281**	**374**	**1,273**	**768**	**0**	**254**	**358**	**-2**	**662**	**611**	**413**
Deferred tax assets	0	0	808	0	808	0	0	0	0	0	0	808	0
	0	**0**	**808**	**0**	**808**	**0**	**0**	**0**	**0**	**0**	**0**	**808**	**0**
Other non-current assets													
Subsidized construction loan	221	0	10	0	231	0	0	0	0	0	0	231	221
Premium account/reinsurance	238	402	17	134	523	0	0	0	0	0	0	523	238
Loans to members of the Management Board	0	0	140	5	135	0	0	0	0	0	0	135	0
	459	**402**	**167**	**139**	**889**	**0**	**0**	**0**	**0**	**0**	**0**	**889**	**459**
	43,262	**15,967**	**1,357**	**513**	**60,073 *)**	**23,156**	**0**	**1,325**	**358**	**0**	**24,123 *)**	**35,950 *)**	**20,106**

*) *Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

USU SOFTWARE AG, MÖGLINGEN
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Annex C to the notes on the consolidated financial statements

	Subscribed capital							Other comprehensive income		
	Number of shares	EUR thou	Capital reserve EUR thou	Legal reserve EUR thou	Treasury shares EUR thou	Accumulated losses EUR thou		Currency translation EUR thou	Securities measured at fair value EUR thou	Total EUR thou
Consolidated equity as of December 31, 2005	**9,135,004**	**9,135**	**49,192**	**4**	**-714**	**-21,552**		**38**	**-11**	**36,092**
Net income for the year	0	0	0	0	0	2,086	*)	0	0	2.086
Gains/losses on marketable securities	0	0	0	0	0	0		0	-71	-71
Actuarial gains taken to equity	0	0	0	0	0	25		0	0	25
Currency translation differences	0	0	0	0	0	0		22	0	22
Deferred taxes	0	0	0	0	0	122		0	31	153
Total income for the period	**0**	**0**	**0**	**0**	**0**	**2,233**		**22**	**-40**	**2.215**
Capital increase	1,200,000	1,200	3,128	0	0	0		0	0	4.328
Transfer to legal reserve	0	0	0	77	0	-77		0	0	0
Consolidated equity as of December 31, 2006	**10,335,004**	**10,335**	**52,320**	**81**	**-714**	**-19,396**	*)	**60**	**-51**	**42,635**
Net income for the year	0	0	0	0	0	4,536		0	0	4.536
Gains/losses on marketable securities	0	0	0	0	0	0		0	3	3
Actuarial gains taken to equity	0	0	0	0	0	347		0	0	347
Currency translation differences	0	0	0	0	0	0		2	0	2
Deferred taxes	0	0	0	0	0	-129		0	-7	-136
Total income for the period	**0**	**0**	**0**	**0**	**0**	**4,754**		**2**	**-4**	**4.752**
Transfer to legal reserve	0	0	0	73	0	-73		0	0	0
Dividend payment	0	0	0	0	0	-908		0	0	-908
Consolidated equity as of December 31, 2007	**10,335,004**	**10,335**	**52,320**	**154**	**-714**	**-15,623**		**62**	**-55**	**46,479**

**) Changed due to the now final completion of the purchase price allocation of LeuTek GmbH*

AUDITOR'S REPORT

We audited the consolidated financial statements prepared by USU Software AG, Möglingen, comprising the balance sheet, the income statement, the breakdown of revenues and expenses reported, 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, 2007. 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 an accurate view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 22, 2008

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

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

Annual Financial Statements 2007

CONTENTS:
ANNUAL FINANCIAL STATEMENTS

USU SOFTWARE AG, MÖGLINGEN
Balance sheet as of December 31, 2007

ASSETS

			Note	31.12.2007 EUR thou	31.12.2006 EUR thou
A.	**FIXED ASSETS**				
	Financial assets		(1)		
	1.	Shares in affiliated companies		23,325	23,325
	2.	Other loans		50	40
				23,375	**23,365**
B.	**CURRENT ASSETS**				
I.	**Receivables and other assets**		(2)		
	1.	Receivables from affiliated companies		2,739	2,712
	2.	Other assets		829	593
				3,568	**3,305**
II.	**Securities**				
	1.	Treasury shares	(3)	**221**	**213**
III.	**Cash on hand and bank balances**			**351**	**358**
				4,140	**3,876**
C.	**PREPAID EXPENSES**			**11**	**23**
				27,526	**27,264**

USU SOFTWARE AG, MÖGLINGEN
Balance sheet as of December 31, 2007

LIABILITIES AND SHAREHOLDERS' EQUITY

		Note	31.12.2007 EUR thou	31.12.2006 EUR thou
A.	**SHAREHOLDERS EQUITY**			
I.	**Subscribed capital**	(4)	10,335	10,335
II.	**Capital reserve**	(7)	13,830	13,838
III.	**Revenue reserve**			
	Reserve for treasury shares	(8)	221	213
IV.	**Net retained profits**		2,225	1,549
			26,611	**25,935**
B.	**PROVISIONS**			
	Tax provisions		20	0
	Other provisions	(9)	371	431
			391	**431**
C.	**LIABILITIES**	(10)		
	1. Trade payables		10	55
	2. Other liabilities		514	843
			524	**898**
			27,526	**27,264**

USU SOFTWARE AG, MÖGLINGEN
Income statement
for the fiscal year from January 1 to December 31, 2007

		Note	2007 EUR thou	2007 EUR thou	2006 EUR thou	2006 EUR thou
1.	Other operating income	(13)		**828**		**651**
2.	Personnel expenses					
	a) Wages and salaries		-347		-293	
	b) Social security, post-employment and other employee benefit costs (of which for post-employment: EUR 12 thousand (2006: EUR 12 thousand)		-45	**-392**	-46	**-339**
3.	Other operating expenses	(14)		**-791**		**-974**
4.	Income from investments (of which from affiliated companies: EUR 0 thousand (2006: EUR 1,400 thousand)		0		1,400	
5.	Income from profit transfer agreements	(15)	2,029		648	
6.	Income from other securities and long-term loans		15		22	
7.	Other interest and similar income		21	**2,065**	294	**2,364**
8.	Result from ordinary operations			**1,710**		**1,702**
9.	Income taxes			**-126**		**0**
10.	Net income for the year			**1,584**		**1,702**
11.	Profit/loss carryforward from previous year			**641**		**-153**
12.	Withdrawal from capital reserve			**8**		**28**
13.	Appropriation to reserve for treasury shares			**-8**		**-28**
14.	Net retained profits			**2,225**		**1,549**

USU SOFTWARE AG, MÖGLINGEN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

A. General information

These financial statements have been prepared in accordance with sections 242 ff. and sections 264 ff. of the *Handelsgesetzbuch* (HGB – German Commercial Code) and in accordance with the relevant provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act). As a publicly listed company, USU Software AG is regarded as a large corporation in accordance with section 267 (3) sentence 2 HGB. The classification of the notes to the financial statements is therefore in line with the requirements for large corporations.

In accordance with section 275 (2) HGB, the income statement has been prepared in line with the total cost method.

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

B. Accounting policies

The following accounting policies, which have remained unchanged since the previous year, have been used to prepare the financial statements.

With regard to financial losses, equity investments are reported at the lower of cost or fair value. These items are written down to reflect any impairment losses.

Receivables and other assets are stated at their nominal amount. Appropriate specific valuation allowances are recognized to cover existing bad debt risks.

Securities classed as current assets are stated at the lower of cost or fair value as of the balance sheet date.

Other provisions include all uncertain liabilities and expected losses from executory contracts. They are reported at the amounts required in line with prudent business judgment.

Liabilities are reported at the repayment amount.

C. Notes on 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 statement of changes in fixed assets (annex to the notes).

List of shareholdings

USU Software AG holds shares in the companies listed below:

	Share 31.12.2007 in %	Shareholders' equity 31.12.2007 (EUR thou)	Net income 2007 (EUR thou)
USU AG, Möglingen	100.0	7,410	1,459
LeuTek GmbH, Leinfelden-Echterdingen [1)]	100.0	2,412	1,809
Omega Software GmbH, Obersulm [1)]	100.0	970	224
Openshop Internet Software GmbH, Ludwigsburg	100.0	-777	2

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

The following equity investments are held indirectly via USU AG, Möglingen. The information on equity and net income represent the values in accordance with the respective country-specific accounting regulations.

	Share 31.12.2007 in %	Shareholders' equity 31.12.2007 (EUR thou)	Net income 2007 (EUR thou)
USU Software s.r.o., Brno, Czech Republic	100.0	184	29
USU (Switzerland) AG, Zug, Switzerland	100.0	-333	1
Gentner GmbH ProCOMMUNICATION i.L., Möglingen	100.0	-1,580	0

2. Receivables and other assets

Other assets include tax refund claims of EUR 813 thousand.

3. Treasury shares

By way of the resolution by the Annual General Meeting on July 12, 2007, the Management Board of the Company was again authorized in line with section 71 (1) no. 8 AktG to acquire treasury shares in one or more installments, subject to the approval of the Supervisory Board, at any time up to and including January 11, 2009. 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% of the Company's capital at the time of this authorization.

As of December 31, 2007, the Company held 53,950 treasury shares with an notional share in the capital stock of EUR 54 thousand. As of December 31, 2007, this corresponds to 0.5% (December 31, 2006: 0.5%) of share capital.

The treasury shares acquired by the Company are recognized at cost in line with the lower of cost or market principle and reported under treasury shares in the amount of worth EUR 221 thousand as of December 31, 2007 (December 31, 2006: EUR 213 thousand). To adjust for the increase in the price at the balance sheet date in comparison to the previous year, a write-down reversal of EUR 8 thousand was recognized.

4. Subscribed capital

As of December 31, 2007, the subscribed capital of the Company was unchanged at EUR 10,335 thousand and is divided into 10,335,004 no-par bearer shares with a notional share of subscribed capital of EUR 1.00 each.

5. Authorized capital

By way of resolution of the Annual General Meeting of July 12, 2007, authorized capital that previously existed was abolished and new authorized capital was created. The Management Board was authorized to increase capital by up to EUR 5,168 thousand by issuing new shares against cash or non-cash contributions at any time up to and including July 11, 2012, subject to the approval of the Supervisory Board (authorized capital). Shareholders must be granted subscription rights to any such increase. The Management Board is authorized, subject to approval of the Supervisory Board, to disapply the 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 disapply 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 is not significantly less than 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.

6. Contingent capital

The share capital of the Company was contingently increased to EUR 378 thousand by way of resolutions by the Annual General Meetings in 2000 and 2004 by issuing bearer shares. The contingent capital increase serves to grant option rights to members of the Management Board and employees of the Company as well as members of management and employees of affiliated companies.

This employee participation program expired as of December 31, 2007. No option rights were exercised.

An option agreement was concluded with several persons in connection with the contingent capital. The status of the Company's employee stock option plans as of the balance sheet date was as follows:

	Tranche 4	Tranche 5
Date of issue	01.05.2001	01.06.2001
Strike price in EUR	14.92	15.54
Outstanding as of January 1, 2007	2,500	16,560
Granted	0	0
Exercised	0	0
Lapsed	2,500	16,560
Outstanding as of December 31, 2007	0	0
Exercisable as of December 31, 2007	0	0

7. Capital reserve

Following a corresponding appropriation to the reserve for treasury shares, the capital reserve decreased by EUR 8 thousand to EUR 13,830 thousand as of December 31, 2006.

8. Reserve for treasury shares

Corresponding to the treasury shares reported under treasury shares, a reserve for treasury shares exists in the amount of EUR 221 thousand. In fiscal 2007, an amount of EUR 8 thousand was appropriated to this due to a value adjustment in line with section 280 (1) HGB and withdrawn from the capital reserve accordingly.

9. Other provisions

Other provisions mainly comprise costs for fulfilling obligations in accordance with company law (EUR 209 thousand), personnel-related obligations (EUR 102 thousand) and costs for the arbitration proceedings in connection with the still-pending squeeze-out procedure of USU AG (EUR 61 thousand).

10. Liabilities

The liabilities reported in the balance sheet have a remaining term of less than one year. Other liabilities include tax liabilities of EUR 514 thousand (December 31, 2006: EUR 417 thousand).

11. Contingent liabilities

USU Software AG is jointly and severally liable for obligations arising from USU AG's rental agreement for the business building in Spitalhof.

In addition, USU Software AG issued letters of comfort for Openshop Internet Software GmbH, Ludwigsburg (affiliated company). In line with this, USU Software AG, Möglingen, is obliged to manage the subsidiary in fiscals 2007 and 2008 and provide it with sufficient financial resources to meet its liabilities. In addition, USU Software AG issued a letter of subordination for all its receivables totaling EUR 790 thousand in favor of Openshop Internet Software GmbH.

12. Other financial obligations

In addition to the contingent liabilities, there were other financial obligations totaling EUR 2,439 thousand as of the balance sheet date. These relate to the maximum possible increase in the purchase price paid to date for the shares in LeuTek GmbH (earn-out clause) in the amount of EUR 2,429 thousand (based on the planned sales for 2008 used to measure the earn-out payment, the amount is significantly lower at EUR 1,006 thousand). A further EUR 10 thousand resulted from a rental agreement.

D. Notes on the income statement

13. Other operating income

Other operating income also includes income from the reversal of impairment losses on long-term loans (EUR 212 thousand) and income from the reversal of provisions (EUR 51 thousand). Also, the item contains proceeds from the offsetting intragroup services (EUR 527 thousand).

14. Other operating expenses

Other operating expenses mainly include costs for investor relations and costs in connection with the Annual General Meeting (EUR 313 thousand) and costs for services provided by USU AG (EUR 259 thousand).

15. 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 and LeuTek GmbH on December 29, 2006. In these agreements, the companies concerned undertake to transfer their entire profits to USU Software AG for the duration of the agreements. An appropriation 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 provisions formed during the contract period.

No income from profit transfers was recognized for Openshop Internet Software GmbH in 2004 as Openshop Internet Software GmbH's net income for the year was used to offset pre-contractual loss carryforwards in line with section 301 AktG.

The profits generated in fiscal 2007 by Omega Software GmbH and LeuTek GmbH were collected by USU Software AG accordingly in line with the profit transfer agreements.

E. Other information

16. Supervisory Board

The members of the Supervisory Board in fiscal 2007 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
Member 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 Supervisory Board of Hahn Verwaltungs-GmbH, Fellbach
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU AG, Möglingen

17. Management Board

Bernhard Oberschmidt, Pfedelbach
Chairman of the Management Board

18. Total remuneration of the Management Board

The total remuneration of the Management Board in fiscal 2007 was EUR 242 thousand (2006: EUR 221 thousand). Details can be found in the "Essential features of the compensation system" section of the 2007 Management Report and Group Management Report.

19. Total remuneration of the Supervisory Board

The remuneration of the Supervisory Board in fiscal 2007 amounted to EUR 50 thousand and consisted solely of fixed amounts.

20. Auditor's fees

Audit (individual and consolidated financial statements):	EUR 53 thousand (2006: EUR 42 thousand)
Other assurance and valuation services:	EUR 0 thousand (2006: EUR 0 thousand)
Other services:	EUR 6 thousand (2006: EUR 61 thousand)

21. Reporting disclosure in accordance with section 160 AktG

In fiscal 2007, there were no reportable changes in investment holdings in line with section 160 (1) no. 8 AktG.

22. Employees

The average number of employees during the fiscal 2007 was two (2006: two) (not including the Management Board).

23. Group affiliations

USU Software AG is the parent company of the companies included in the list of equity investments. These companies are affiliated with USU Software AG. in line with section 315a (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. These consolidated financial statements are to published in the electronic *Bundesanzeiger* (Federal Gazette). The consolidated statements are also available on request from USU Software AG in Möglingen. In addition, they are available on the Internet site of USU Software AG at http://www.usu-software.de.

24. Declaration in accordance with section 161 AktG on the German Corporate Governance Code

The Management Board and the Supervisory Board of USU Software AG issued the declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG on December 19, 2007 and have made it permanently available to the shareholders on the Internet site of USU Software AG at http://www.usu-software.de. More detailed information on the declaration of compliance can be found in the combined management report on the Company and the Group in these annual financial statements.

25. Appropriation of net profit

The Management Board proposes to use the net retained profits of EUR 2,225 thousand as of December 31, 2007 as follows:

- Payment of a dividend of EUR 0.15 per share for 10,281,054 shares or EUR 1,542 thousand (treasury shares are not entitled to share in profits)

- To carry forward the remaining profit of EUR 683 thousand to new account.

Möglingen, February 22, 2008

Bernhard Oberschmidt
Chairman of the Management Board

Annex to the notes

USU SOFTWARE AG,
MÖGLINGEN

Statement of changes in fixed assets 2007

	Cost				Cumulative depreciation and amortization				Carrying amounts	
	1.1.2007	Additions	Disposals	31.12.2007	1.1.2007	Additions	Disposals	31.12.2007	31.12.2007	31.12.2006
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Financial assets										
Shares in affiliated companies	23,585	0	0	23,585	260	0	0	260	23,325	23,325
Equity investments	200	0	0	200	200	0	0	200	0	0
Other loans	327	0	202	125	287	0	212	75	50	40
	24,112	0	202	23,910	747	0	212	535	23,375	23,365

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 USU Software AG, Möglingen, for the business year from January 1 to December 31, 2007. 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 provide a suitable view of the Group's position and accurately present the opportunities and risks of future development.

Stuttgart, February 22, 2008

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

Schupeck
Wirtschaftsprüfer [German Public Auditor]

Barth
Wirtschaftsprüfer [German Public Auditor]

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of my knowledge, and in accordance with the applicable reporting principles, the annual and consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of USU Software AG, and the management report of the Group includes a fair review of the development and performance of the business and the position of USU Software AG, together with a description of the principal opportunities and risks associated with the expected development of USU Software AG.

USU Software AG

Möglingen (Germany), February 22, 2008

Bernhard Oberschmidt
Chairman of the Management Board

FINANCIAL CALENDAR FOR 2008*

March 27, 2008	Publication of Annual Report 2007
May 29, 2008	Publication of 3-Month Report for 2008
June 19, 2008	Annual General Meeting
August 28, 2008	Publication of 6-Month Report for 2008
November 10, 2008	Publication of 9-Month Report for 2008

**These are preliminary dates for the 2008 fiscal year.*
Any changes that are made will be posted on the Company's website at www.usu-software.de

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