



3 – MONTH REPORT 2004

USU Software AG

3-MONTH REPORT 2004	2004	2003
<i>in Thsd. EUR, except the earnings per share and number of employees</i>	01.01.-31.03.2004	01.01.-31.03.2003
		<small>Balance figures as of DEC. 31, 2003</small>
REVENUES	4,566	5,607
EBITDA	-64	-517
EBIT	-228	-790
NET LOSS	119	-182
EARNINGS PER SHARE (EUR)	0.01	-0.01
SHAREHOLDERS' EQUITY	66,819	66,657
TOTAL ASSETS	73,147	75,311
EQUITY RATIO	91,3%	88,5%
NUMBER OF EMPLOYEES		
AT THE END OF THE PERIOD	195	245

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Dear shareholders,
dear readers,

In the first quarter of 2004, USU Software AG achieved its announced profitability target. The structural measures implemented in the previous year resulted in a positive quarterly result of TEUR 119. EBITDA at TEUR -64 was also almost balanced. In terms of orders, USU Software AG again recorded a slight upturn in demand for company products and solutions in comparison to the last quarter of 2003. This positive trend was generated in both the Business Solutions division and the IT-Controlling division. Thus first quarter sales in 2004, at TEUR 4,566 were in the upper range of expectations.

The sustained nature of this development depends largely on continuing consultancy utilisation and the development of the license business. Despite the investment backlog in the IT market easing off, companies are still investing in new information technologies in a restrained fashion. BITKOM (The Federal Association of Information Business, Telecommunications and New Media) anticipates that the software market will again experience growth for the year as a whole, of 2.5%. For 2005, even stronger growth of 5% is forecast. According to the European Information Technology Observatory (EITO), growth will be even stronger in West Europe. EITO estimates software growth in 2004 at 4.6% and 6.5% in 2005.

After the positive start into the 2004 financial year, the USU Software AG Management Board expects business to be stable and reiterates his planning for the year as a whole. As the full impact of the cost savings measures of the previous year will only impact from the second half of the year, this should result in a further improvement of the consolidated result. Sales should reach a sustained level of utilisation, primarily in the consultancy business. This was very successful in the first quarter due to the high number of working days and pleasing utilisation levels. The Management Board also expects positive effects from the license business.

Yours

Bernhard Oberschmidt

Chairman of the Management Board of USU Software AG

Economic development. In Germany, according to the Federal Office for Statistics, gross domestic product increased in the first quarter by 1.5% in comparison to the previous year. In comparison to the previous quarter, there was growth of 0.4%. Economic stagnation in Germany was thus overcome, but weak private consumption is still impacting the general economy negatively.

According to a survey from the Working Group of German Economic Institutes, growth for the German economy will be 1.5% for the whole of 2004. The European Union member states are set to have GDP growth of 2.0% in 2004 with a worldwide growth of 3.7% expected.

Sector performance. After two years of declining IT market volumes, the trend in the first quarter of 2004 again indicated growth in the IT market. Parallel to the necessary corporate IT investments due to rationalisation and renewal requirements, product innovations are pushing increasing demand in the IT sector. For the whole of 2004, the European Information Technology Observatory (EITO) expects 4.6% growth for the software area in Western Europe. In Germany, according to BITKOM survey, the software sector is set to increase by 2.5% in 2004, after a decline of 1.5% in the previous year.

Business development. In the first quarter of 2004, USU Software AG confirmed the positive trend of the last three months of the previous financial year. With the additional structural adjustments completed in the previous year, the company achieved a lower cost basis. The company thus moved back into profitability. At the same time, USU Software AG posted a slight increase in demand against the previous quarter for software products of the company and its subsidiaries. In comparison to the previous year, there was a decline in revenues. This was due to the structural adjustments, especially the disposal of non-core participations and the concentration of Group branches, with the related reduction of the workforce.

Development of sales and earnings. In the first quarter of 2004, USU Software AG generated consolidated sales of TEUR 4,566 (PY: TEUR 5,607). Broken down by division, TEUR 2,361 (PY: TEUR 3,190) was posted by the Business Solutions division and TEUR 2,205 (PY: TEUR 2,417) by IT-Controlling.

The reduced cost basis is reflected in the lower cost of revenues of TEUR 2,714 (PY: TEUR 3,509). At the same time, sales and marketing expenses as well as research and development expenses combined with general and administrative expenses were down in the reporting period to TEUR 2,122 (PY: TEUR 2,883). While research and development expenses remained virtually stable at TEUR 706 (PY: TEUR 766), the result of the cost saving measures made in the previous year particularly impacted the reduction of sales and marketing expenses to TEUR 836 (PY: TEUR 1,419). Contributions made to savings here were primarily the concentration of marketing activities on direct marketing, combined with targeted customer address through individual events. General and administrative expenses declined to TEUR 580 (PY: TEUR 698).

As a result of the measures taken, EBITDA was almost balanced in the reporting period. At TEUR -64 (PY: TEUR -517), there was a considerable improvement against the previous year. Including depreciation on tangible and intangible assets of TEUR 164 (PY: 272 TEUR), EBIT totalled TEUR -228 (PY: TEUR -790). Taking into account interest and taxes of TEUR 346 (PY: TEUR 589), USU Software AG generated a positive result of TEUR 119 (PY: TEUR -182) in the first quarter of 2004.

With an average number of 17,211,186 shares, the earnings per share figure in the reporting period was EUR 0.01 (PY: EUR -0.01 per share).

Assets and financial situation. As of March 31, 2004, the company reduced Group the company reduced Group trade accounts receivables by TEUR 1,464 to TEUR 2,827 (December 31, 2003: TEUR 4,291). In the same period accruals and liabilities were again reduced considerably, from TEUR 2,326 to the current figure of TEUR 6,328 (December 31, 2003: TEUR 8,654). As a result of the reinvestment of marketable securities which matured, other investments in current assets increased to TEUR 5,786 (December 31, 2003: TEUR 5,622), while debt securities in non-current assets moved down slightly to TEUR 34,426 (December 31, 2003: TEUR 34,563).

To the end of the first quarter of 2004, shareholders' equity increased slightly, primarily as a result of the net income for the period, to TEUR 66,819 from the TEUR 66,657 posted on December 31, 2003.

With the reductions of debts and liabilities, the balance sheet was reduced to TEUR 73,147 (December 31, 2003: TEUR 75,311). The equity ratio moved up to 91.3% (December 31, 2003: 88.5%). As of March 31, 2004, cash, cash equivalents and investments totalled TEUR 47,633 (December 31, 2003: TEUR 47,841).

Order book. As of March 31, 2004, the Group order book at USU Software AG totalled TEUR 4,668 (PY: TEUR 5.650). While incoming orders were down year-on-year, a comparison with the previous quarter (order book as of December 31, 2003: TEUR 4.474) again shows an upward trend.

Changes to the scope of consolidation. In the context of the further concentration of the Group, the Group subsidiary USU AG assumed a further 50.1% stake in Möglingen-based ValueSolution Software GmbH & Co. KG (VS KG) in February 2004. Thus via USU AG, USU Software AG now indirectly holds 100% in VS KG. It is planned to dissolve VS KG or merge VS KG and USU AG. Overall, the sales and earnings contributions of VS KG for the USU Software Group are insignificant.

Investments. The acquisition of ValueSolution Software GmbH & Co. KG resulted in inflows of TEUR 66. With securities maturing, USU Software AG generated inflows of TEUR 3,000 TEUR. The company then invested TEUR 3,068 in securities, which as with the investments already made are classified as primarily low-risk. In the previous year, there were investments in securities of TEUR 155 and disposals of securities totalling TEUR 10,160. In the first quarter of 2004, investments in tangible and intangible assets totalled TEUR 50 (PY: 54 TEUR).

Research and development. In the first quarter of 2004, the research and development performance was continued in a targeted fashion at both division of USU Software AG. The focus in the Business Solutions division was the further development of USU KnowledgeMiner 4 which is to be completed at the end of the second quarter of 2004. In the IT Controlling division, the focus of research and development activities was developing Release 2.2 and preparing Release 2.3 of the Valuemation product suite. In addition to implementing ITIL standards and the requests from the Best Practice Groups, stability and performance improvements were achieved.

In the first three months of the 2004 financial year, cumulated research and development expenditure was TEUR 706 (PY: TEUR 766).

Employees. As at the end of Q1 2004, the USU Software Group employed 195 staff (PY: 245). The reduction in staff numbers resulted predominantly from structural changes made in the previous year.

Broken down into functional areas, the USU Software Group employed 69 staff in the area of consultancy and services, 63 staff in the area of research and development, 42 staff in administration and 21 staff in the area of sales and marketing. By segment, the USU Software Group employed 99 staff in the IT Controlling division, 59 staff in the Business Solutions division and 37 staff in the headquarters.

USU Software share. Parallel to the Technology All Share-Index, the USU Software share (ISIN DE0007804700 // WKN 780470) recorded a very volatile performance in the course of the first quarter. At the end of the 2003 financial year, the closing price of the USU Software share was EUR 3.19. In the course of the first quarter, the price of the USU Software rose to EUR 3.52 to March 1, 2004. To the end of the first quarter of 2004, the share moved down, closing at EUR 3.20 on March 31, 2004, thus posting an increase of 0.3%. While the Technology All Share increased 10.1% to 727.55 points in the same period (December 30, 2003: 660.78 points), the DAX posted a negative performance of 2.7% to 3,856.70 points (December 30, 2003: 3,965.16 points).

Outlook and forecast report. For 2004 and 2005, the Working Group of German Economic Institutes forecasts growth for the German economy of 1.5%. The European Union member states are set to have GDP growth of 2.0% in 2004 and 2.3% in 2005.

After three difficult years, the IT market will again post higher growth rates than the economy as a whole. According to a survey from BITKOM, the German software market is set to increase by 2.5% in the current year and 5.0% is the next. Market volumes of IT services are expected to increase by 1.7% in 2004 and 3.9% in 2005. For Europe, EITO also expects strong growth impulses from the IT sector. Thus an increase of software sales in West Europe of 4.6% is forecast for 2004 and 6.5% for 2005.

Due to the overall improvement in general conditions and the pleasing development in the first quarter of 2004, the Management Board reiterated its forecast for sales over the whole year stabilising at between EUR 16.0 million and EUR 18.0 million and net income of between EUR 1.0 million and EUR 1.5 million.

USU Software AG
The Management Board

ASSETS <i>(Thsd. EUR)</i>	3-month report	Annual report
	31.03.2004	31.12.2003
Current assets		
Cash and cash equivalents	7,421	7,656
Short-term investments / marketable securities	5,786	5,622
Trade accounts receivable	2,827	4,291
Accounts receivable due from related parties	0	0
Work in process	619	498
Inventories	0	0
Deferred tax asset	0	0
Prepaid expenses and other current assets	4,637	4,814
Total current assets	21,290	22,881
Non current assets		
Property, plant and equipment	370	373
Intangible assets	1,452	1,566
Goodwill	14,385	14,385
Investments	0	270
Deferred taxes	0	0
Debt securities	34,426	35
Other assets	1,224	1,273
Total non current assets	51,857	52,430
Total assets	73,147	75,311

LIABILITIES AND SHAREHOLDERS' EQUITY (Thsd. EUR)	3-month report 31.03.2004	Annual Report 31.12.2003
Current liabilities		
Trade accounts payable	828	921
Accounts payable due to related parties	0	267
Advance payments received	0	593
Payroll-related accruals and liabilities	1,306	1,523
Tax-related accruals and liabilities	63	73
Deferred revenues	1,023	850
Other current liabilities	2,198	3,517
Total current liabilities	5,418	7,744
Non-current liabilities		
Long-term debt / convertible bonds	0	0
Pension accruals	910	910
Total non-current liabilities	910	910
Minority interest	0	0
Shareholders' equity		
Share capital	17,211	17,211
Additional paid-in capital	137,730	137,730
Treasury stock	-714	-714
Accumulated deficit	-87,426	-87,545
Accumulated other comprehensive income/loss	18	-25
Deferred compensation	0	0
Total shareholders' equity	66,619	66,657
Total liabilities and shareholders' equity	73,147	75,311

CONSOLIDATED INCOME STATEMENT <i>(Thsd. EUR)</i>	Quarterly report I / 2004	Quarterly report I / 2003
	01.01.2004 - 31.03.2004	01.01.2003 - 31.03.2003
Revenues	4,566	5,607
Cost of revenues	-2,714	-3,509
Gross profit	1,852	2,098
Selling and Marketing expenses	-836	-1,419
General and administrative expenses	-580	-698
Research and development expenses	-706	-766
Amortization (and impairment) of goodwill	0	0
Stock compensation expense	0	-14
Operating income/loss	-270	-799
Interest income and expenses	355	684
Income from investments and participations	0	0
Income/expense from investments accounted for by the equity method	0	0
Foreign currency exchange gains/losses	-16	1
Other income/expense	59	9
Result before income tax (and minority interest)	128	-105
Income tax	-9	-95
Extraordinary income/expenses	0	0
Result before minority interest	119	-200
Minority interest	0	18
Net income / loss	119	-182
Earnings per share (basic)	0,01	-0,01
Earnings per share (diluted)	0,01	-0,01
Weighted average shares outstanding (basic)	17.211.186	17,211,186
Weighted average shares outstanding (diluted)	17.211.186	17,211,186

CONSOLIDATED STATEMENT OF CASH FLOW <i>(Thsd. EUR)</i>	3-month report 01.01.2004 - 31.03.2004	3-month report 01.01.2003 - 31.03.2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income / loss	119	-182
Adjustments for:		
Minority interest	0	-18
Depreciation and amortization	164	272
Other non-cash expenses/income	93	15
Change in working capital:		
Trade accounts receivable	1,422	1,706
Accounts receivable due from related parties	0	-63
Work in process	-121	-1,457
Inventories	0	0
Prepayments	31	-16
Prepaid expenses and other current assets	199	-535
Trade accounts payable	-93	-920
Accounts payable due to related parties	0	40
Payroll-related accruals and liabilities	-216	-1,380
Tax-related accruals and liabilities	-9	1
Pension accruals	0	11
Other accruals and liabilities	-1,947	-670
Deferred revenues	172	-13
Net cash used in operating activities	-186	-3,209
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired	66	0
Purchase of property and equipment	-48	-54
Purchase of intangible assets	-2	0
Sale of securities	3,000	10,160
Purchase of securities	-3,068	-155
Net cash provided by/used in investing activities	-52	9,951
CASH FLOW FROM FINANCING ACTIVITIES:		
Net change in short-term debt to banks	0	0
Capital increase	0	0
Purchase of treasury stock	0	0
Net cash provided by financing activities	0	0
Net effect of currency translation in cash and cash equivalents	3	0
NET INCREASE IN CASH AND CASH EQUIVALENTS	-235	6,742
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,656	12,001
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,421	18,743

**CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY**

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY	Common stock		Addition-al paid-in capital	Treasury stock	Accumu- lated deficit	Deferred compen- sation	Accumul. other compreh. income/loss	Total	Compre- hensive income/ loss
	Shares	Thsd. EUR							
Balance at December 31, 2002	17,211,186	17,211	137,848	-1,859	-80,304	-22	54	72,928	
Change in treasury stock	0	0	0	1,145	0	0	0	1,145	
Adjustment of deferred compensation	0	0	-118	0	0	118	0	0	
Result of deferred compensation	0	0	0	0	0	-96	0	-96	
Net loss	0	0	0	0	-7,241	0	0	-7,241	-7,241
Unrealized income/expenses on debt securities	0	0	0	0	0	0	-85	-85	-85
Foreign currency translation adjustment	0	0	0	0	0	0	6	6	6
Comprehensive loss									-7,320
Balance at December 31, 2003	17,211,186	17,211	137,730	-714	-87,545	0	-25	66,657	
Change in treasury stock	0	0	0	0	0	0	0	0	
Adjustment of deferred compensation	0	0	0	0	0	0	0	0	
Result of deferred compensation	0	0	0	0	0	0	0	0	
Net income	0	0	0	0	119	0	0	119	119
Unrealized income/expenses on debt securities	0	0	0	0	0	0	43	43	43
Foreign currency translation adjustment	0	0	0	0	0	0	0	0	0
Comprehensive income									162
Balance at March 31, 2004	17,211,186	17,211	137,730	-714	-87,426	0	18	66,819	

Principles of Accounting. This 3-month report was prepared according to the regulations of the US-American Generally Accepted Accounting Principles (“US-GAAP”). The same accounting and valuation principles were used here as in the consolidated annual financial statements for the financial year ended 31 December 2003. This unaudited 3-month report 2004 is thus to be read in conjunction with the audited consolidated annual financial statements of 2003.

Segment reporting. SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information“ requires the reporting of specific information concerning the operating segments of the company, the geographic distribution of revenues and assets and concerning the most important customers.

For the segment IT-Controlling und Business Solutions, the following segment related revenues apply:

Segment related revenues	01.01.2004 - 31.03.2004	01.01.2003 - 31.03.2003
Revenues	4,566	5,607
IT-Controlling	2,205	2,417
Business Solutions	2,361	3,190

Outside Germany the USU Software Group achieved less than 10% of consolidated revenues during the first three months of the 2004 financial year.

In the same period, 7% of consolidated revenues were achieved by a single customer. Some 32% of revenues were generated by the 5 largest customers.

Shares and stock options held by members of corporate bodies at USU Software AG.

The following shares and options in USU Software AG were held by members of corporate bodies of the company as at 31 March 2004:

Holdings of members of corporate bodies	shares	stock options
Management Board		
Bernhard Oberschmidt	37,393	0
Supervisory Board		
Markus Kress	283,772	0
Udo Strehl	4,042,638	0
Werner Preuschhof	0	0

As of 31 March 2004, USU Software AG held 107,901 own shares with an notional share in the capital of EUR 107,901, equivalent to 0.6% of the share capital.