



3 – MONTH REPORT 2005

USU Software AG

3-MONTH REPORT 2005	2005	2004
<i>in Thsd. EUR, except the earnings per share and number of employees</i>	01.01.-31.03.2005	01.01.-31.03.2004
REVENUES	4,804	4,566
EBITDA	-15	-64
EBIT	-169	-228
NET LOSS / NET PROFIT	-115	119
EARNINGS PER SHARE (EUR)	-0.01	0.01
NUMBER OF EMPLOYEES		
AT THE END OF THE PERIOD	197	195
	31.03.2005	31.12.2004
SHAREHOLDERS' EQUITY	35,273	33,145
TOTAL ASSETS	41,521	73,455
EQUITY RATIO	85,0%	45,1%

USU Software AG
Spitalhof
D-71696 Möglingen
Tel. +49.7141.4867-0
Fax +49.7141.4867-20
www.usu-software.de

Investor Relations
Falk Sorge
Tel. +49.7141.4867-351
Fax +49.7141.4867-108
investor@usu-software.de

Dear shareholders,
dear readers,

With sales levels increasing, USU Software AG further improved its operating result in the first quarter of 2005. Here, consultancy services proved to be a mainstay of the Group. The license business was generally muted immediately prior to the market introduction of our new product releases, Valuation 3.0 and USU KnowledgeMiner 4.1. However, many new customer contacts and the increased interest we detected at events such as the specialist IT trade fair CeBIT in March 2005 put us in a positive mood for the coming quarters.

On 18 February 2005, USU Software AG made a special distribution to the Company's shareholders of EUR 4.00 per share. A total of EUR 34,206 thousand was thus distributed to our shareholders. As a result of this outflow of funds, interest income in the reporting period was significantly lower than in the previous quarters. The modest license sales meant the USU Group recorded an overall loss for the quarter.

We expect the new product lines to allow us to generate increasing product license sales whilst still maintaining high levels of consultancy activity. OMEGA Software GmbH, which was acquired in February 2005, is expected to make an additional contribution to sales and results. OMEGA is a profitable SME, whose product and customer portfolio provides an ideal complement to USU Software AG's IT Management Solutions division.

Against a background of modest sales increases, we are optimistic that we will be able to gradually improve the operating result and generate an overall net profit for the year in the 2005 financial year.

Yours
Bernhard Oberschmidt
Chairman of the Management Board of USU Software AG

Economic development. According to calculations made by the German Federal Statistical Office, on an adjusted basis, the German economy stagnated compared to the comparable prior-year period in the first three months of 2005. Adjusted for the seasonal effect of two extra working days in the first quarter of 2004 compared to the same period in 2005, economic growth was approximately 1%. However, this growth was primarily export-driven, while domestic consumer expenditure and investment generally fell. According to initial estimates from the statistical office of the European Communities, Eurostat, the gross domestic product increased by 1.4% compared to the previous year in the eurozone.

Sector performance. According to investigations made by the Bundesverband Informationswirtschaft, Telekommunikation und Neue Medien e.V. (BITKOM – German Association for Information Technology, Telecommunications and New Media), the IT market is once again on a solid growth path. Consequently, the information technology market is expected to be an important economic impulse provider in the current year. BITKOM is expecting growth of 3.7% for the German IT market alone in 2005. In Europe, growth in IT market volumes is expected to be around 4.5% according to investigations made by the European Information Technology Observatory (EITO).

Development of sales and earnings. Under IFRS accounting, USU Software recorded consolidated sales of EUR 4,804 thousand in the first quarter of 2005, an increase of 5.4% compared to the previous year's figure of EUR 4,556 thousand. Of this figure, 79.1% (PY: 72.0%) related to income from the consultancy business, 18.0% (PY: 27.1%) to license and maintenance income and 2.9% (PY: 0.8%) to other income, which primarily consists of merchandise. While Business Solutions contributed EUR 2,713 thousand (PY: EUR 2,361 thousand) to sales, income from IT Management Solutions amounted to EUR 2,046 thousand (PY: EUR 2,205 thousand).

Consultancy sales increased to EUR 3,020 thousand as a result of the employment of additional freelance staff (PY: EUR 2,714 thousand). In contrast, at EUR 1,986 thousand, combined marketing and sales, general and administrative and research and development expenditure remained below the previous year's level of EUR 2,122 thousand.

EBITDA improved due to increased sales accompanied by moderate price increases to EUR -15 thousand (PY: EUR -64 thousand). Including amortisation of EUR 154 thousand (PY: EUR 164 thousand), EBIT amounted to EUR -169 thousand (PY: EUR -228 thousand).

After the special distribution of EUR 4.00 per USU share totalling EUR 34,206 thousand in February 2005 and the resulting reduction in investments, interest income totalled EUR 93 thousand (PY: EUR 355 thousand) in the first quarter of 2005. After taking account of taxes of EUR -39 thousand (PY: EUR -9 thousand), the result for the quarter was EUR -115 thousand (PY: EUR 119 thousand). With an average number of 8,605,593 shares (PY: 8,605,593 shares), earnings per share in the first three months of 2005 were EUR -0.01 (PY: EUR 0.01 per share), where the previous year's value was adjusted to take account of the amalgamation of the shares at a ratio of 2:1.

Balance sheet structure. The USU Group's cash and cash equivalents and investments decreased to EUR 13,939 thousand as of 31 March 2005 (31 Dec. 2004: EUR 47,859 thousand) as a result of the cash distribution of EUR 34,206 thousand. At the same time, liabilities fell to EUR 6,248 thousand (31 Dec. 2004: EUR 40,310 thousand).

Following the first-time consolidation of OMEGA Software GmbH as of 23 February 2005, USU Software Group's goodwill increased to EUR 18,023 thousand at the end of the first quarter of 2005 (31 Dec. 2004: EUR 14,938 thousand), while equity increased to EUR 35,273 thousand (31 Dec. 2004: EUR 33,145 thousand). With a balance sheet total of EUR 41,521 thousand (31 Dec. 2004: EUR 73,455 thousand), the equity ratio was thus 85.0% (31 Dec. 2004: 45.1%).

Investments. In the months January to March 2005, net income from investments totalled EUR 28,550 thousand (PY: EUR -52 thousand). This figure mainly consisted of income from the sale of securities amounting to EUR 34,261 thousand (PY: EUR 3,000 thousand) for the cash distribution to shareholders in February 2005. In the same period, EUR 5,036 thousand (PY: EUR 3,068 thousand) was invested in securities. Net expenditure incurred on the acquisition of OMEGA Software GmbH in the reporting period amounted to EUR 634 thousand, whereas the previous year the acquisition of ValueSolution Software GmbH & Co. KG resulted in a cash inflow of EUR 66 thousand. Investments in fixed assets and intangible assets totalled EUR 42 thousand (PY: EUR 50 thousand) in the three-month reporting period. This particularly related to investment in new hardware and software.

Research and development. In the first quarter of 2005, R&D activities focused on the completion of version 3.0 of Valuemation. The USU Group presented Valuemation to the public for the first time at CeBIT in March 2005. Version 4.1 of USU's KnowledgeMiner was also developed and will be introduced to the market in the second quarter of 2005. In the first three months of the 2005 financial year, cumulative research and development expenditure amounted to EUR 654 thousand (PY: EUR 706 thousand).

Acquisition. In February 2005, USU Software AG acquired all the shares in OMEGA Software GmbH, Obersulm. The acquisition of the complementary product portfolio and the expansion of the target market that will result from the takeover of OMEGA will strengthen USU's market position, particularly in the public sector and for SMEs. OMEGA is one of the leading German suppliers in the IT portfolio management and user help desk areas. More than 120 companies and organisations use OMEGA's software, including the Federal Labour Office, the German Bundesbank, the German Aerospace Center and Weleda.

The purchase price for OMEGA was in the low seven-digit area (in euro) and contains a considerable success-related portion. In general, we refer to the item *Changes in the Group organisation* in the consolidated notes to this quarterly report.

Order development. USU Group order levels increased in the first quarter of 2005. As a result of, in particular, many new and follow-up orders in consultancy, orders in hand as of 31 March 2005 increased by EUR 2002 thousand compared to the previous year to EUR 6,670 thousand (PY: EUR 4,668 thousand). This figure contains an order amount of just under EUR 900 thousand relating to the newly acquired OMEGA Software GmbH.

Employees. As of 31 March 2005, the USU Group employed 197 (PY: 195) staff. A total of 12 staff employed by OMEGA Software GmbH, which was acquired in February 2005, are included in the headcount for the first time.

Broken down by functional unit, 83 staff worked in consulting and services, 62 in research and development, 26 in sales and marketing and 26 in central administration and finance.

Split by segment, the USU Group employed 127 staff in IT Management Solutions, 50 employees in Business Solutions and 20 staff in the headquarters.

USU share (WKN A0BVU2 // ISIN DE000A0BVU28). USU share price movement was extremely volatile in the first quarter of 2005. Following the increase in share price in the fourth quarter of 2004, the USU share initially rose further from the value of EUR 7.44 at the end of the previous quarter to EUR 9.72 as of 31 January 2005. On 18 February 2005, the special distribution of EUR 4.00 per share was made to USU Software AG shareholders, with the result that the USU share was subsequently traded "ex-capital repayment". The USU share displayed a general downwards trend until the end of the first quarter of 2005, closing at EUR 3.15 as of 31 March 2005. This represented a fall of 3.49% compared to the value as at the end of the fourth quarter of 2004. In the same period, the Technology All Share Index increased by 2.97% to 682.96 points (31 Dec. 2004: 663.24 points), while the German stock market index (DAX) rose by 2.18% to 4,348.77 points (31 Dec. 2004: 4,256.08 points).

Outlook and forecast report. In its assessment for the first part of 2005, the Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute e.V. (Working Group of German Economic Research Institutes) forecasts economic growth for the 25 EU member states of 1.7% for 2005 and 2.2% for 2006. Falling oil prices, improved price competitiveness of European companies due to exchange rate developments, and increasing domestic demand are expected to result in an improvement in the economic situation in the eurozone, particularly from the second half of the year. German gross domestic product is expected to grow more modestly and is forecast to increase by 0.7% in the current year and by 1.5% in 2006.

The IT market will be a growth driver for the overall economy. EITO thus expects growth in European market volumes of 4.5% in both 2005 and 2006. The German IT market is also expected to grow more strongly than the overall economy in the current and coming year (3.7% compared to 3.4%).

The Management Board is expecting to see a slight increase in the USU Group's sales, which in turn will lead to a sustained improvement in the operating result and produce a net profit for the year. In addition to positive developments in the consultancy business, the license business in particular is expected to expand as a result of the new product lines Valuation 3.0 and USU KnowledgeMiner 4.1. The Management Board expects to see further positive effects on sales and results as a result of the takeover of OMEGA.

USU Software AG
The Management Board

ASSETS <i>(Thsd. EUR)</i>	3-month report	Annual report
	31.03.2005	31.12.2004
Current assets		
Cash and cash equivalents	2,613	7,771
Short-term investments / marketable securities	11,326	40,088
Trade accounts receivable	3,369	4,613
Accounts receivable due from related parties	0	0
Work in process	1,569	501
Inventories	42	45
Deferred tax asset	0	0
Prepaid expenses and other current assets	2,402	3,338
Total current assets	21,321	56,356
Non current assets		
Property, plant and equipment	507	410
Intangible assets	1,105	1,187
Goodwill	18,023	14,938
Investments	0	0
Deferred taxes	0	0
Other assets	565	564
Total non current assets	20,200	17,099
Total assets	41,521	73,455

LIABILITIES AND SHAREHOLDERS' EQUITY (Thsd. EUR)	3-month report	Annual Report
	31.03.2005	31.12.2004
Current liabilities		
Trade accounts payable	704	1,056
Accounts payable due to related parties	0	0
Advance payments received	0	281
Payroll-related accruals and liabilities	1,081	1,751
Tax-related accruals and liabilities	151	122
Deferred revenues	1,141	768
Other current liabilities	2,749	35,910
Total current liabilities	5,826	39,888
Non-current liabilities		
Pension accruals	422	422
Total non-current liabilities	422	422
Minority interest	0	0
Shareholders' equity		
Share capital	8,606	8,606
Additional paid-in capital	47,601	47,601
Treasury stock	-714	-714
Accumulated deficit	-22,467	-22,352
Accumulated other comprehensive income/loss	103	4
For the implementation of the investments resulting from the capital increase resolved on 23 February, 2005	2,144	0
Total shareholders' equity	35,273	33,145
Total liabilities and shareholders' equity	41,521	73,455

CONSOLIDATED INCOME STATEMENT (Thsd. EUR)	Quarterly report I / 2005	Quarterly report I / 2004
	01.01.2005 - 31.03.2005	01.01.2004 - 31.03.2004
Revenues	4,804	4,566
Cost of revenues	-3,020	-2,714
Gross profit	1,784	1,852
Selling and Marketing expenses	-771	-836
General and administrative expenses	-561	-580
Research and development expenses	-654	-706
Amortization (and impairment) of goodwill	0	0
Operating income/loss	-202	-270
Interest income and expenses	93	355
Foreign currency exchange gains/losses	0	-16
Other income/expense	33	59
Result before income tax (and minority interest)	-76	128
Income tax	-39	-9
Result before minority interest	-115	119
Minority interest	0	0
Net income / loss	-115	119
Earnings per share (basic)	-0.01	0.01
Earnings per share (diluted)	-0.01	0.01
Weighted average shares outstanding (basic)	8,605,593	8,605,593
Weighted average shares outstanding (diluted)	8,605,593	8,605,593

CONSOLIDATED STATEMENT OF CASH FLOW (Thsd. EUR)	3-month report 01.01.2005 - 31.03.2005	3-month report 01.01.2004 - 31.03.2004
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income / loss	-115	119
Adjustments for:		
Minority interest	0	0
Depreciation and amortization	154	164
Other non-cash expenses/income	-1	93
Change in working capital:		
Trade accounts receivable	1,523	1,422
Accounts receivable due from related parties	0	0
Work in process	-953	-121
Inventories	3	0
Prepayments	-2	31
Prepaid expenses and other current assets	1,307	199
Trade accounts payable	-352	-93
Accounts payable due to related parties	0	0
Payroll-related accruals and liabilities	-714	-216
Tax-related accruals and liabilities	-98	-9
Pension accruals	0	0
Other accruals and liabilities	-34,718	-1,947
Deferred revenues	259	172
Net cash used in operating activities	-33,707	-186
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired	-634	66
Purchase of property and equipment	-36	-48
Purchase of intangible assets	-6	-2
Sale of securities	34,261	3,000
Purchase of securities	-5,036	-3,068
Net cash provided by/used in investing activities	28,549	-52
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	0	3
NET INCREASE IN CASH AND CASH EQUIVALENTS	-5,158	-235
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,771	7,656
CASH AND CASH EQUIVALENTS AT END OF PERIOD	-2,613	7,421

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY	Subscribed capital		Capital reserve	Capital increase	Treasury shares	Accumu- lated losses	Other comprehensive income		Total
	Shares	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Currency Trans- lation	Securities measured at fair value	
							Thsd. EUR	Thsd. EUR	
Balance at December 31, 2003	17,211,186	17,211	137,730	0	-714	-87,077	0	-25	67,125
Capital increase	0	35,300	-35,300	0	0	0	0	0	0
Capital reduction	0	-43,905	9,699	0	0	0	0	0	-34,206
Share reduction at a ratio of 2 : 1	-8,605,593	0	0	0	0	0	0	0	0
Imputed costs from the capital reduction	0	0	-65	0	0	0	0	0	-65
Loss carryforward of USU Software AG offset against capital reserve	0	0	-64,463	0	0	64,463	0	0	0
Net income	0	0	0	0	0	262	0	0	262
Unrealized gains/losses on mar- ketable debt instruments, net	0	0	0	0	0	0	0	16	16
Currency translation differences	0	0	0	0	0	0	13	0	13
Balance at December 31, 2004	8,605,593	8,606	47,601	0	-714	-22,352	13	-9	33,145
For the implementation of the investments resulting from the capital increase resolved on 23 February. 2005	0	0	0	2,144	0	0	0	0	2,144
Net loss	0	0	0	0	0	-115	0	0	-115
Unrealized gains/losses on mar- ketable debt instruments, net	0	0	0	0	0	0	0	92	92
Currency translation differences	0	0	0	0	0	0	7	0	7
Balance at March 31, 2005	8,605,593	8,606	47,601	2,144	-714	-22,467	20	83	35,273

Accounting principles

This 3-month report for 2005 was prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London. The same accounting and valuation principles were used as were used for the preparation of the consolidated financial statements for the preceding financial year ending 31 December 2004, which were prepared in accordance with IFRSs for the first time. This unaudited 3-monthly report for 2005 should therefore be read in connection with the audited financial statements for 2004.

Reconciliation of the consolidated balance sheet as of 31 December 2004 and the income and loss statement for the first quarter of 2004 from US GAAP to IFRSs

As of 31 December 2004, the USU Group's consolidated financial statements were prepared for the first time in accordance with IFRSs and observing IFRS1 retrospectively from 1 January 2003. For detailed information on the above, we refer to the consolidated financial statements as of 31 December 2004.

No adjustments were required to reconcile the consolidated income and loss statement for the first quarter of 2004 from US GAAP to IFRSs.

Changes in the Group organisation

The Group acquired 100% of the equity and the voting rights of OMEGA Software GmbH (in the following abbreviated to: "OMEGA") as of 16 February 2005 and with effect from 23 February 2005. OMEGA's main business area is the provision of services and the sale of products in the IT Service Management area. OMEGA's operations thus complement those of the USU Group, particularly in the IT Management Solutions segment.

The acquisition costs are composed of two main purchase price components. One portion of the purchase price is to be paid in cash. The amount of the purchase price is at least EUR 650 thousand. There are also variable success-related purchase price components up to a maximum of EUR 1,200 thousand. A further portion of the purchase price is to be paid by the issue of 529,410 shares from USU Software AG's authorised share capital. The amount of this portion of the purchase price will be determined by reference to the fair value of the deposited shares on 23 February 2005. The resolved capital increase is provisionally set to be implemented in the second quarter of 2005.

The purchase price allocation has not yet been decided. Based on the provisional purchase price allocation, an amount of EUR 3,085 thousand has been allocated to goodwill relating to the acquisition of OMEGA. A final purchase price allocation will be made during the course of the reporting year.

Sales revenues

Sales revenues after trade receivables are composed as follows:

	1.1.-31.3.2005 Thsd. EUR	1.1.-31.3.2004 Thsd. EUR
Consulting	3,799	3,286
Licences	367	751
Service and maintenance	499	490
Other	139	39
	4,804	4,566

Segment reporting

The breakdown of different parameters by business area in accordance with IAS 14 is shown in the following overview. The primary allocation of the segment reporting is by business area:

	Business Solutions		IT Management Solutions		Not allocated		Group	
	1.1.-31.3.2005	1.1.-31.3.2004	1.1.-31.3.2005	1.1.-31.3.2004	1.1.-31.3.2005	1.1.-31.3.2004	1.1.-31.3.2005	1.1.-31.3.2004
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
Revenues	2,713	2,353	2,046	2,196	45	17	4,804	4,566
EBIT	359	254	17	36	-545	-518	-169	-228
Net financial income	-	-	-	-	93	355	93	355
Texes	-	-	-	-	-39	-9	-39	-9
Profit/loss from associated companies	-	-	-	-	0	0	0	0
Minority interests	-	-	-	-	0	0	0	0
Net profit / loss	359	254	17	36	-491	-409	-115	119
Employees (as of March 31, 2005/2004)	50	59	127	99	20	37	197	195

In the first three months of the 2005 financial year, the USU Software Group generated less than 10% of consolidated sales abroad. Similarly, less than 10% of consolidated assets were held abroad. No information was provided by geographical region in accordance with IAS 14 (secondary format).

Own shares

As of 31 March 2005, the Company still holds 53,950 own shares with a notional share of the share capital of EUR 53,950.00, which corresponds to 0.6% of the share capital as of 31 March 2005.

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 2005:

Holdings of members of corporate bodies	shares	stock options
Management Board		
Bernhard Oberschmidt	18,696	0
Supervisory Board		
Udo Strehl*	1,989,319	0
Günter Daiss	0	0
Erwin Staudt	0	0

*As of 4 February 2005, Mr Udo Strehl transferred 32,000 USU Software AG shares from his private assets to the "Wissen ist Zukunft Stiftung". Mr Strehl is also the Managing Director of this fund. As the majority shareholder in USPEG through UDO Strehl Private Equity GmbH (USPEG) and in accordance with Article 22 (1) Para (1) (1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), Udo Strehl is also allocated an additional 4,172,348 voting rights in USU Software AG.

May 19, 2005	3-month report 2005
July 7, 2005	Annual General Meeting 2005
August 18, 2005	6-month report 2005
November 22, 2005	9-month report 2005