



6 – MONTH REPORT 2005

USU Software AG

6-MONTH REPORT 2005	2005	2004
<i>in Thsd. EUR, except the earnings per share and number of employees</i>	01.01.-30.06.2005	01.01.-30.06.2004
REVENUES	9,635	8.693
EBITDA	-15	-212
EBIT	-322	-536
NET RESULT	-77	208
EARNINGS PER SHARE (EUR)	-0.01	0.02
NUMBER OF EMPLOYEES AT THE END OF THE PERIOD	197	188
	30.06.2005	31.12.2004
SHAREHOLDERS EQUITY	35,272	33,145
BALANCE SHEET	41,042	73,455
EQUITY RATIO	85.9%	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,

Due to strong and continuing positive trend in the consultancy business, USU Software AG returned to profitability in Q2 2005. In addition, the operative break-even point was reached at EBITDA level for the first time. In addition to the organic business development, positive effects also came from the newly acquired Omega Software GmbH, the financial data of which have been consolidated in this quarterly report with effect from 23 February 2005.

Together, maintenance and licence income increased slightly year on year in Q2 2005, although the product business in itself did not quite satisfy expectations. In order to reach potentially interested parties in a more targeted fashion and support them on a more individual basis additional marketing activities are to be launched for this sector from Q3 onwards. Furthermore, various additional services are being launched with a strategic product initiative, for example "WebEvents", in which USU's own products are presented on the internet at regular intervals. What is more, the marketing and information media are to be supplemented with product demonstration materials and demo versions in the course of Q3. The marketing activities are rounded out by additional USU-specific events and an increased presence at relevant IT trade fairs and events. Moreover, the partner business is being supported by events both nationally and internationally.

These activities are intended to lay the foundations for further development of the company's market presence and degree of awareness. At the same time, the service orientation is being implemented strictly and extended to the benefit of the customer. That the company is already on the right track in this department was shown by the two-day user meeting at the end of June this year at which we presented the latest developments and trends along with several example projects to the 124 participating customers. The enormously positive feedback is reflected in the results of the survey carried out at this event: 96% of the participants consider the competence of USU to be good or excellent. 100% would recommend USU at any time or often and, again, 100% consider the solutions of USU as appropriate or highly appropriate regarding savings potential. We intend to use this positive customer feedback and the numerous references actively to convince potential customers of the strengths and advantages of USU's solutions.

Thus, overall, we are maintaining our forecast for the current 2005 financial year – on increasing sales, our guidance is to improve the operating result on a sustained basis and achieve a net profit for the year as a whole.

Yours

Bernhard Oberschmidt

Chairman of the Management Board of USU Software AG

Economic development. In Q2 2005, German gross domestic product (GDP) was up 1.5% on the previous year on an unadjusted basis, according to provisional calculations by the Federal Statistical Office. Excluding the calendar effect of two additional working days in Q2 2005 in comparison to the previous year, economic growth was 0.6%. This growth is due partly to increased investments in machinery and equipment and higher private consumer spending.

According to initial estimates from the Statistical Office of the European Communities, Eurostat, in the period under consideration, gross domestic product in the eurozone increased by 1.2% from the previous year.

Sector performance. The development of the IT sector continues onwards and upwards. According to the latest studies carried out by the Bundesverband Informationswirtschaft, Tele-kommunikation und neue Medien e.V. (BITKOM – German Association for Information Technology, Telecommunications and New Media), 86% of software companies and 79% of IT service providers anticipate an increase in sales this year. Based on these investigations, BITKOM bolstered its growth forecast. In the German IT market alone, BITKOM anticipates growth of 3.7% in 2005. IT market volumes in Europe are to grow by approximately 4.5% according to research carried out by the European Information Technology Observatory (EITO).

Sales and earnings development. In Q2 2005, the USU Group increased Group-wide sales according to IFRS to TEUR 4,831 (PY: TEUR 4,127). Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the same period were just the right side of zero at TEUR 0.4 (PY: TEUR -138). Earnings before interest and taxes (EBIT) also improved year-on-year and totalled TEUR -154 in Q2 2005 (PY: TEUR -308). Due to the lower interest income year-on-year following the cash distribution in February this year, earnings before taxes (EBT) were down slightly on the previous year, totalling TEUR 63 (PY: TEUR 79). The net result for Q2 2005 totalled TEUR 38 (PY: TEUR 89).

On a half year basis, the USU Group brought up its sales by TEUR 942 to TEUR 9,635 in comparison with the previous year (PY: TEUR 8,693). 77.7% (PY: 71.4%) of this was accounted for by the consultancy business, 20.3% (PY: 26.7%) by license and maintenance revenues and 2.0% (PY: 1.9%) to other revenues. In the Business Solutions division, sales increased 15.8% year-on-year to TEUR 5,329 (PY: TEUR 4,603). The IT Management Solutions division generated a 4.5% increase in sales to TEUR 4,251 (PY: TEUR 4,066). Earnings not assigned to divisions increased from TEUR 24 the previous year to the current figure of 55 TEUR.

Due to the continued positive progress made in the consultancy business and the accompanying use of additional external consultancy resources, sales production costs increased to TEUR 6,077 (PY: TEUR 5,357). The operating costs for marketing and sales, administration and research and development totalled TEUR 3,954 (PY: TEUR 3,961) in the reporting period – positive taxation effects had led to a lower cost base which is reflected in the previous year's figure.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) improved year-on-year to TEUR -15 (PY: TEUR -212). Taking into account write-downs totalling TEUR 307 (PY: TEUR 324), earnings before interest and taxes (EBIT) were TEUR -322 (PY: TEUR -536). Following the special distribution, interest income, at TEUR 309 (PY: TEUR 743), was down considerably on the previous year. As a consequence, earnings before taxes (EBT), at TEUR -13 (PY: TEUR 207), were lower than the previous year's figure. Incorporating taxes on income of TEUR -64 (PY: TEUR 1), the net result of the USU Group in the first six months of the 2005 financial year totalled TEUR -77 (PY: TEUR 208). With an average number of shares of 8,628,992 (PY: 8,605,593), earnings per share in the period under consideration were EUR -0.01 (PY: EUR 0.02), although the previous year's figure was adjusted accordingly due to the consolidation of the shares in the ratio 2:1 that took place in Q3 2004.

Balance sheet structure. Following the company's special distribution in February this year of TEUR 34,206, cash and cash equivalents and investments as at 30 June 2005 totalled TEUR 12,951 (31 December 2004: TEUR 47,859). The liabilities of the USU Group sank correspondingly to TEUR 5,770 (31 December 2004: 40,310 TEUR).

Due to the acquisition of Omega Software GmbH, which was partly financed by a capital increase against contribution in kind from the authorised share capital, the share capital increased to TEUR 9,135 (31 December 2004: TEUR 8,606), as did the capital reserve, from TEUR 49,216 (31 December 2004: TEUR 47,601). At the same time, the goodwill reported increased to TEUR 18,065 (31 December 2004: TEUR 14,938).

Shareholders' equity at the end of the first half of 2005 totalled TEUR 35,272 (31 December 2004: TEUR 33,145). With a balance sheet total of TEUR 41,042 (31 December 2004: TEUR 73,455), the equity ratio was 85.9% (31 December 2004: 45.1%).

Investments. Net spending incurred on the acquisition of Omega Software GmbH in the reporting period was TEUR 685, whereas the previous year the acquisition of ValueSolution Software GmbH & Co. KG resulted in a cash inflow of TEUR 66.

Investments in tangible and intangible assets totalled TEUR 84 (PY: TEUR 160) in the first 6 months of 2005 and largely related to the procurement of new hardware and software.

Income from the sale or maturity of securities totalling TEUR 42,547 (PY: TEUR 3,232) was counterbalanced by new investments in low-risk securities with short times to maturity for TEUR 10,247 (PY: TEUR 3,308) in the first 6 months of the 2005 financial year. The funds freed were used mainly for the cash distribution of TEUR 34,206 to the shareholders in February 2005.

Research and development. Cumulative research and development expenditure totalled TEUR 1,156 (PY: TEUR 1,355) in the first half of the 2005 financial year. The R&D activities centred on the further development of the Group's products USU KnowledgeMiner, Valuation and INSEL. USU KnowledgeMiner ensures rapid context-related access to knowledge stored in all common file formats. In addition to a simple full-text search function, the USU application also supports searches by categories or fields and even natural language searches. Valuation offers all the core products and modules required to represent, administrate and manage the entire IT activities of a company or group of companies on a single platform in addition to handling their accounting in accordance with the principle of causation. With INSEL, the Group subsidiary Omega Software GmbH offers standard software solutions in the areas of IT inventory management and user help desks for small and medium sized enterprises and public administration bodies.

Order book. After a positive Q1, the company again posted pleasing order development in Q2 2005. Thus, the Group-wide order book as at 30 June 2005 increased by TEUR 1,635 year-on-year to TEUR 7,769 (PY: TEUR 6,134). This includes fixed orders with a total volume of TEUR 925 from Omega Software GmbH, which was acquired in February 2005 .

Employees. Group-wide, the staff of USU Software AG totalled 197 (PY: 188) employees as at 30 June 2005. Broken down by functional unit, 84 employees worked in consulting and services, 62 in research and development, 25 employees in sales and marketing and 26 employees in central administration and finance. Split by segment, the USU Group employed 128 staff in IT Management Solutions, 49 employees in Business Solutions and 20 staff in central administration and finance.

Resolutions of the Annual General Meeting. The shareholders present at the Annual General Meeting of USU Software AG on 7 July 2005 in Ludwigsburg approved all items brought by the Management Board and Supervisory Board with a large majority. In addition to the formal approval of the actions of the Management Board and Supervisory Board, the ordinary election of Messrs Günter Daiss and Erwin Staudt to the Supervisory Board, the authorisation to buy back own shares and the election of Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, as the auditors for the 2005 financial year, this also included the profit and loss transfer agreement between the company and Omega Software GmbH, Obersulm.

USU share (WKN A0BVU2 // ISIN DE000A0BVU28). As in the previous quarter, the price of the USU share was volatile in Q2 2005. Whereas the closing price of the USU share at the end of Q2 2005 was EUR 3.32, this fell to reach EUR 3.07 on 11 April 2005. After this point, the USU Software AG share then climbed to EUR 4.02. At the end of Q2 2005, the USU share closed at EUR 3.35, up around 1% on the closing price the previous quarter. In the same period, the Technology All Share-Index was up 4.3% to 712.15 points (31 March 2005: 682.96 points), and the Deutsche Aktienindex (DAX) rose 5.5% to 4,586.28 points (31 March 2005: 4,348.77 points).

Outlook and forecast report. Whilst the overall economy in Germany and Europe will grow by only 0.8% and 1.0% respectively this year according to forecasts made by the Ifo institute, the IT market will remain on its current growth track according to BITKOM research. BITKOM thus anticipates growth of 4.4% in IT services and 5.5% on the software market in Germany alone in 2005. For the German IT market as a whole, growth of 3.7% is predicted for the same period. According to studies undertaken by the European Information Technology Observatory (EITO), the European IT market will post strong growth of 4.5% in the current year.

Where the USU Group is concerned, the Management Board remains optimistic of continuing the course set in the second half of 2005 and achieving a sustained improvement in the operating result. For the year as a whole, the Management Board reaffirms its forecast of generating an increase in sales in comparison to the previous year and a net profit for the year overall.

USU Software AG
The Management Board

ASSETS <i>(Thsd. EUR)</i>	6-month report 30.06.2005	Annual report 31.12.2004
Current assets		
Cash and cash equivalents	4,816	7,771
Short-term investments / marketable securities	8,135	40,088
Trade accounts receivable	4,230	4,613
Work in process	1,363	501
Inventories	0	45
Prepaid expenses and other current assets	2,067	3,338
Total current assets	20,611	56,356
Non current assets		
Property, plant and equipment	468	410
Intangible assets	1,029	1,187
Goodwill	18,065	14,938
Other assets	869	564
Total non current assets	20,431	17,099
Total assets	41,042	73,455

LIABILITIES AND SHAREHOLDERS' EQUITY <i>(Thsd. EUR)</i>	6-month report 30.06.2005	Annual Report 31.12.2004
Current liabilities		
Trade accounts payable	583	1,056
Advance payments received	0	281
Payroll-related accruals and liabilities	1,187	1,751
Tax-related accruals and liabilities	38	122
Deferred revenues	821	768
Other current liabilities	2,719	35,910
Total current liabilities	5,348	39,888
Non-current liabilities		
Pension accruals	422	422
Total non-current liabilities	422	422
Shareholders' equity		
Share capital	9,135	8,606
Additional paid-in capital	49,216	47,601
Treasury stock	-714	-714
Accumulated deficit	-22,429	-22,352
Accumulated other comprehensive income/loss	64	4
Total shareholders' equity	35,272	33,145
Total liabilities and shareholders' equity	41,042	73,455

Consolidated income statement (Thsd. EUR)	Quarterly Report	Quarterly Report	6-Month Report	6-Month Report
	II / 2005	II / 2004	2005	2004
	01.04.2005 - 30.06.2005	01.04.2004 - 30.06.2004	01.01.2005 - 30.06.2005	01.01.2004 - 30.06.2004
Revenues	4,831	4,127	9,635	8,693
Cost of revenues	-3,057	-2,643	-6,077	-5,357
Gross profit	1,774	1,484	3,558	3,336
Selling and Marketing expenses	-717	-821	-1,488	-1,657
General and administrative expenses	-749	-369	-1,310	-949
Research and development expenses	-502	-649	-1,156	-1,355
Operating loss	-194	-355	-396	-625
Interest income and expenses	216	388	309	743
Foreign currency exchange gains / losses	0	9	0	-7
Other income / expense	41	37	74	96
Result before income tax	63	79	-13	207
Income tax	-25	10	-64	1
Net income / loss	38	89	-77	208
Net income per share (basic)	0.00	0.01	-0.01	0.02
Net income per share (diluted)	0.00	0.01	-0.01	0.02
Weighted average shares outstanding (basic)	8,652,135	8,605,593	8,628,992	8,605,593
Weighted average shares outstanding (diluted)	8,652,135	8,605,593	8,628,992	8,605,593

CONSOLIDATED STATEMENT OF CASH FLOW <i>(Thsd. EUR)</i>	6-month report 01.01.2005 - 30.06.2005	6-month report 01.01.2004 - 30.06.2004
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income / loss	-77	208
Adjustments for:		
Depreciation and amortization	308	324
Other non-cash expenses/income	-306	168
Change in working capital:		
Trade accounts receivable	748	1,258
Accounts receivable due from related parties	0	0
Work in process	-747	-139
Inventories	45	0
Prepayments	-3	34
Prepaid expenses and other current assets	1,509	1,098
Trade accounts payable	-472	-12
Payroll-related accruals and liabilities	-608	-356
Tax-related accruals and liabilities	-58	-9
Other accruals and liabilities	-558	-2,406
Deferred revenues	-61	-38
Net cash used in operating activities	-280	130
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired	-685	66
Purchase of property and equipment	-62	-148
Purchase of investments	-22	-12
Proceeds from the sale of fixed assets	2	19
Sale of securities	42,547	3,232
Purchase of marketable securities	-10,247	-3,308
Net cash provided by/used in investing activities	31,533	-151
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments to shareholders via cash distribution	-34,206	0
Net cash provided by financing activities	-34,206	0
Net effect of currency translation in cash and cash equivalents	-2	0
NET INCREASE IN CASH AND CASH EQUIVALENTS	-2,955	-21
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,771	7,656
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,816	7,635

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY	Subscribed capital		Capital reserve	Treasury shares	Accum- lated losses	Other comprehensive income		Total
	Shares	Thsd. EUR				Thsd. EUR	Currency Trans- lation	
			Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
Balance at December 31, 2003	17,211,186	17,211	137,730	-714	-87,077	0	-25	67,125
Capital increase	0	35,300	-35,300	0	0	0	0	0
Capital reduction	0	-43,905	9,699	0	0	0	0	-34,206
Share reduction at a ratio of 2 : 1	-8,605,593	0	0	0	0	0	0	0
Imputed costs from the capital reduction	0	0	-65	0	0	0	0	-65
Loss carryforward of USU Software AG offset against capital reserve	0	0	-64,463	0	64,463	0	0	0
Net income	0	0	0	0	262	0	0	262
Unrealized gains/losses on mar- ketable debt instruments, net	0	0	0	0	0	0	16	16
Currency translation differences	0	0	0	0	0	13	0	13
Balance at December 31, 2004	8,605,593	8,606	47,601	-714	-22,352	13	-9	33,145
Capital increase through contributions in kind	529,411	529	1,615	0	0	0	0	2,144
Net loss	0	0	0	0	-77	0	0	-77
Unrealized gains/losses on mar- ketable debt instruments, net	0	0	0	0	0	0	42	42
Currency translation differences	0	0	0	0	0	18	0	18
Balance at June 30, 2005	9,135,004	9,135	49,216	-714	-22,429	31	33	35,272

Principles of Accounting. This 6-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 6-month report for 2005 should therefore be read in connection with the audited financial statements for 2004. It complies with the regulations of German Accounting Standard (DRS) No. 6 and IAS 34 for interim reporting.

This interim report contains all the necessary deferrals and, in the opinion of the management, provides an appropriate picture of the actual situation with respect to assets, finances and earnings. All deferrals performed are in line with the customary accruals concept.

It is not necessarily possible to conclude the annual result from the results of the interim periods.

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 second quarter of 2004 and the 6-month figures for 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. USU products and services combine the entire business administration, strategic and technical knowledge in IT in a single platform. The ideally complementary product families of the two companies have now been brought together under one roof as "IT Management Solutions". This underlines the company's strategy of offering customers solutions with which they can employ the knowledge within their companies to generate value.

With its extended portfolio, the USU Group is now in an even better position to improve the strategic deployment of IT, with the result that the participation in OMEGA will make a long-term contribution to increasing the value of the company. OMEGA will continue to exist as an independent unit under the management of the previous partners.

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 TEUR 650. There are also variable success-related purchase price components up to a maximum of TEUR 1,200. A further portion of the purchase price is to be paid by the issue of 529,411 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 totalling TEUR 2,144 based on the closing price of the USU share on the Frankfurt stock exchange of EUR 4.05. The resolved capital increase was entered in the Commercial Register at Ludwigsburg District Court on 23 June 2005.

Taking into account the performance-related components of the purchase price and the fair value of the shares surrendered, the direct acquisition costs – excluding incidental acquisition costs – totalled TEUR 3,994. As at 30 June 2005, the incidental acquisition costs were TEUR 35.

The purchase price allocation has not yet been decided. Based on the provisional purchase price allocation, an amount of TEUR 3,127 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.

Share capital, shares and authorised capital

In the course of the takeover of Omega Software GmbH a capital increase against contribution in kind from the authorised share capital was effected. In this connection, the share capital increased by EUR 529,411, whilst the authorised capital was reduced by the corresponding amount.

The share capital of the company totalled EUR 9,135,004 as at 30 June 2005 and is divided into 9,135,004 bearer shares with no par value (unit shares), each of which has a notional share of the share capital of EUR 1.00. The authorised capital totalled EUR 3,770,589 at the end of Q2 2005.

Cash distribution

In line with the Annual General Meeting resolution made on 15 July 2004, a special distribution of EUR 4.00 for each share entitled to subscribe took place on 18 February 2005. The total sum distributed was TEUR 34,206.

Sales revenues

Sales revenues after trade receivables are composed as follows:

	1.1.-30.6.2005 Thsd. EUR	1.1.-30.6.2004 Thsd. EUR
Consulting	7,482	6,210
Licences	820	1,364
Service and maintenance	1,139	954
Other	194	165
	9,635	8,693

Segment reporting

The presentation of various key ratios by segment in line with IAS 14 is represented in the following overview. Segment reporting is divided primarily by business areas:

	Business Solutions		IT Management Solutions		Not allocated		Group	
	1.1.-30.6.2005	1.1.-30.6.2004	1.1.-30.6.2005	1.1.-30.6.2004	1.1.-30.6.2005	1.1.-30.6.2004	1.1.-30.6.2005	1.1.-30.6.2004
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
Revenues	5,329	4,603	4,251	4,066	55	24	9,635	8,693
EBIT	744	413	68	-54	-1,134	-895	-322	-536
Net financial income	-	-	-	-	309	743	309	743
Taxes	-	-	-	-	-64	1	-64	1
Net profit / loss	744	413	68	-54	-889	-151	-77	208
Employees (as of June 30, 2005/2004)	49	59	128	98	20	31	197	188

The USU Software Group generated less than 10% of its consolidated sales outside Germany in the first 6 months of the 2005 financial year. Equally, less than 10% of the consolidated assets held are outside Germany. Further details of the geographical data in line with IAS 14 (secondary information) have thus not been provided.

Own shares

As of 30 June 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 30 June 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 30 June 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.

August 18, 2005

6-month report 2005

November 22, 2005

9-month report 2005