ANNUAL REPORT 2008

USU SOFTWARE AG

TABLE OF CONTENTS

FISCAL YEAR 2008

CORPORATE GOVERNANCE REPORT 2008

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 2008.

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 9, 2008:

“The Management Board and Supervisory Board of USU Software AG declare that since the latest submission of the declaration of conformity on December 19, 2007, the recommendations of the "Government Commission for the German Corporate Governance Code" in the version dated June 14, 2007 and in effect in the version dated June 6, 2008 have been and will be complied with, although the following recommendations have not been / will not be applied:

According to clause 2.3.2 of the Code, the company shall send notification of the convening of the Annual General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders, and shareholders' associations by electronic means if the approval requirements are fulfilled.
USU Software AG sends the notification of convening the Annual General Meeting to the domestic and foreign financial service providers, shareholders and shareholders' associations together with the convening documents by request in the printed form. In addition, the notification together with the documents mentioned above will be published on the website of the company. If a domestic or foreign financial service provider, shareholder or shareholders' association also requests the electronic transfer of the notification of convening the Annual General Meeting and the convening documents, the company will also send the documents as far as possible, as long as the approval requirements are fulfilled.

In accordance with 3.8 of the Code, a suitable deductible shall be agreed upon if the company takes out a D&O policy for the Management Board and Supervisory Board. *USU Software AG had already taken out D&O insurance prior to the Code coming into force; this did not provide for any deductible. There was and is no intention to subsequently introduce a deductible.*

Clause 4.2.1 of the Code provides that the Board of Management 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, an age limit for members of the Management Board shall be specified.
USU Software AG has not implemented a specified age limit for Management Board members in the past and does not intend to do so.

In accordance with clause 5.3.1, 5.3.2 as well as 5.3.3 of the Code, the Supervisory Board shall form committees e.g. an Audit Committee or a Nomination Committee.
As the Supervisory Board of USU Software AG comprises of three members, there was and is no intention to set up committees. Independently of this the Supervisory Board of the company jointly assumes the tasks of these committees.

According to clause 5.4.1 of the Code, an age limit for Supervisory Board members shall be specified for proposed appointments to the Supervisory Board.
USU Software AG has not implemented a specified age limit for Supervisory Board members in the past and does not intend to do so.

In accordance with item 5.4.6 (version dated June 6, 2008) and 5.4.7 (version dated June 14, 2007) of the Code respectively, members of the Supervisory Board shall receive separate compensation for assumption of the office of Chairman or Deputy Chairman of the Supervisory Board or for membership of a Supervisory Board committee. Furthermore, the compensation paid or benefits extended to the members of the Supervisory Board should be disclosed separately on an individualized basis in the Corporate Governance Report.

The compensation for assumption of the office of Deputy Chairman of the Supervisory Board, for membership or chairmanship of a committee of the Supervisory Board is not provided.

In year 2007, Compensation to the Supervisory Board, including any benefits extended, was disclosed in both the notes to the consolidated financial statements and in the Corporate Governance Report as total remuneration for all Supervisory Board members, broken down by fixed and variable share. As of 2008, provision is made for an individual declaration.

According to clause 7.1.2 of the Code, the interim reports shall be publicly accessible within 45 days after 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.

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.

The compensation shown in the following table totaling EUR 213.7 thousand (2007: EUR 242.4 thousand) includes all remuneration 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 (Switzerland) AG and Managing Director of the Group subsidiary Openshop Internet Software GmbH.

Personalized compensation of the sole member of the Management Board Bernhard Oberschmidt in EUR thousand				
	Fixed compensation	Payment for social security and pension	Non-cash benefit from private use of company vehicle	Variable compensation
2008	132.0	19.4	16.8	45.5 [1)]
2007	132.0	22.4	17.5	70.5 [2)]

[1)] of which for the previous year: EUR 12.0 thousand

[2)] of which for the previous year: EUR 12.5 thousand

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, 2007 approved a new regulation with effect as 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. In accordance with the new regulation, 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 an amount of EUR 60.0. The members of the Supervisory Board also receive additional annual variable compensation based on the Company's income statement in its consolidated financial statements of the past fiscal year which depends on the reported result of ordinary operations pursuant to IFRS (EBIT) in relation to reported sales. Starting with an EBIT share of 5% of sales, the members receive additional annual variable compensation of a 10% premium of the fixed component per full percentage point of EBIT as part of sales not to exceed a cap of 200%. In fiscal year 2008, EBIT was 4.0% of sales, thus USU Software AG's Supervisory Board received no variable compensation.

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 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 107.5 thousand in the 2008 fiscal year.

Individual compensation of the Supervisory Board for fiscal year 2008 in EUR thousand			
	Fixed compensation USU Software AG	Variable compensation USU Software AG	Fixed compensation USU AG
Udo Strehl	60.0	0.0	10.0
Günter Daiss	12.5	0.0	7.5
Erwin Staudt	12.5	0.0	5.0

Individualized Supervisory Board compensation of USU Software AG and the Group

Further details under the Corporate Governance Report

Directors´ Dealings and securities held in executive bodies

As of December 31, 2008, shares held by members of the Company's boards in USU Software AG, Möglingen, were as follows.

Shareholdings subject to mandatory disclosure	2008 Shares	2007 Shares
Management Board		
Bernhard Oberschmidt	**18,696**	18,696
Supervisory Board		
Udo Strehl *)	1,989,319	1,989,319
Erwin Staudt	100,000	50,000
Günter Daiss	85,500	35,500

*) *A further 3,773,868 voting shares (2007: 3,689,848) 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 "Knowledge is the Future" foundation, Udo Strehl, as Managing Director of this foundation is allocated 32,000 (2007: 32,000) voting rights in USU Software AG pursuant to Section 22 (1) Sentence 1 No. 1 WpHG.

On August 18, 2008, members of the Supervisory Board, Erwin Staudt and Günter Daiss, as well as Udo Strehl Private Equity GmbH (USPEG), the majority shareholder of which is Udo Strehl, Chairman of the Supervisory Board of USU Software AG, each acquired 18,000 shares in USU Software AG off-the-board.

On October 28, 2008, USPEG acquired another 100,000 shares in USU Software AG off-the-board. Of this amount, USPEG sold half of a total of 64,000 USU Software AG shares to each Supervisory Board member of the Company Günter Daiss und Erwin Staudt on November 14, 2008. Accordingly, Günter Daiss and Erwin Staudt received 32,000 shares of USU Software AG each from USPEG on November 14, 2008.

On December 18, 2008, USPEG purchased a total of 15,859 shares in USU Software AG via the Stuttgart Stock Exchange and the electronic trading system Xetra. On December 19, 2008, USPEG purchased an additional 4,000 shares in the Company via the Stuttgart Stock Exchange and the electronic trading system Xetra. On December 22, 2008, USPEG acquired another 10,161 shares in USU Software AG via the Stuttgart Stock Exchange.

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 http://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

As of December 31, 2008, USU Software AG does not operate any other securities-oriented incentive system.

Treasury shares

On November 3, 2008 the Company published an announcement in accordance with Section 26 (1) Sentence 2 of the WpHG stating that its treasury shares in USU Software AG as of October 29, 2008 exceeded the threshold of 3% due to the share buy-back program and in view of the treasury shares previously held. Thus the overall number of the Company’s treasury shares as at December 31, 2008 was 313,950 with an imputed share of subscribed capital of EUR 313,950, which corresponded to 3.04% of subscribed capital at the end of the reporting period.

REPORT OF THE SUPERVISORY BOARD OF USU SOFTWARE AG

Dear shareholders,

USU Software AG increased its Group sales faster than the market average in a difficult market environment. Group EBITDA was also characterized by a high level of investments in the future in the USU Group's software products, which encouragingly was already reflected in a significant increase in license revenues in the final quarter of 2008. Even in times of an economic slowdown, the Supervisory Board supports the strategy of the Management Board to make targeted investments in the new and ongoing development of products as well as driving forward the expansion of international activities to gain additional market share and generate above-average growth in sales and earnings in the coming years. As part of a shareholder-friendly dividend policy, the Supervisory Board has approved the Management Board's proposal 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 as in the previous year.

Performance of Supervisory Board duties

During fiscal year 2008, 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. 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 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 addition, the Chairman of the Supervisory Board and the Chairman for the Management Board regularly exchanged information and views. The Supervisory Board was directly involved in all decisions of major importance to the Company. Furthermore, 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. 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 2008 fiscal year, as was the case in the previous year.

Meetings of the Supervisory Board and focal points of discussion

The Supervisory Board of USU Software AG had a total of seven Supervisory Board meetings in the year under review. 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 Chairman of the Management Board and which were also attended by area management of the subsidiaries where necessary, a main focus of the reports and conferring was on discussion business development, the asset, financial and earnings situation and the strategic planning of USU Software AG and the Group. In this context, 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 and discussed the worsening economic slowdown with the Management Board. 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. Additional important topics of the Supervisory Board meetings were the expansion of partner management and the Company's global presence in connection with the expansion of the Management Board of Group subsidiary USU AG by Sven Wilms as of January 1, 2009, presenting potential companies for acquisition and participations, the risk management system of USU Software AG and of the Group as a whole as well as the analysis and controlling of especially important or risky projects in this context, the development of the Company's share price, share buy-backs, agenda items for the 2008 Annual General Meeting, the complete legal dismissal in court of the complaint by Pomoschnik Rabotajet GmbH against resolutions at the Company's 2007 Annual General Meeting, compensation of the Supervisory Board and the Management Board, and implementing the requirements 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 2008 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 are the focus of the activities of the Management Board and the Supervisory Board of the Company. The Supervisory Board is committed to these principles of Corporate Governance and acts accordingly. On December 9, 2008, 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 2008".

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 and at the same time coordinated the focus of the audit for the 2008 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 2008 annual financial statements in accordance with the rules of the German Commercial Code (HGB), the 2008 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, 2008 to December 31, 2008 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 9, 2009, 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, 2008, amounting to EUR 3,612 thousand as determined in accordance with the German Commercial Code as follows:

- To pay a dividend of EUR 0.15 per share for 10,021,054 shares: EUR 1,503 thousand
- To carry forward the remaining profit: EUR 2,109 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, 2008 to December 31, 2008 (hereinafter referred to as "Dependency Report") in line with Section 312 AktG (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 us 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

On behalf of the entire Supervisory Board, I would like to extend my thanks to all employees of the USU Software AG and its subsidiaries for their tireless commitment, their loyalty and their excellent performance for the well-being of the Company. I would also like to thank the management of the subsidiaries for their committed and professional support of the Management Board. In this context, I would like to pay a great compliment to Peter Scheufler, who founded and managed LeuTek GmbH and is departing on January 31, 2009. He built and grew LeuTek into a successful software company that has been integrated very well into the USU Group and has provided the Company with excellent performance until the end. My special thanks go to the Chairman of the Management Board of USU Software AG, Mr. Bernhard Oberschmidt, for his tireless commitment and hard work as well as the reliable cooperation.

Möglingen, March 9, 2009

For the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board of USU Software AG

Company and Group management report
(combined management report)

2008

TABLE OF CONTENTS

COMPANY AND GROUP MANAGEMENT REPORT FOR 2008

(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 (Switzerland) AG, Zug, Switzerland. There are also participations in Openshop Internet Software GmbH, Ludwigsburg, Germany, and Gentner GmbH ProCOMMUNICATION i.L., Möglingen, Germany, which no longer operate.

In fiscal year 2008, the USU Group achieved sales revenues of EUR 33,977 thousand (2007: EUR 31,047 thousand). This represents a year-on-year sales increase of 9.4%. There was a strong increase in the licenses business. USU AG played a role in this, as did Group subsidiaries LeuTek GmbH (hereinafter: “LeuTek”) and Omega Software GmbH (hereinafter: “OMEGA”). Therefore the target of generating above-average sales growth in the relevant market segments was achieved in that they recorded growth of up to 5.7%.

The USU Group’s EBITDA in the reporting period remained below the previous year’s level at EUR 2,288 thousand (2007: EUR 3,482 thousand). The planned increase in earnings was not achieved. The main reasons for this were strategic investments in new USU Group products, additional investments and expenses for a major fixed-price project which could not be invoiced, and backpayment of taxes from a tax audit completed in 2008 which the Company disputes.

In fiscal year 2008, EBIT was EUR 967 thousand (2007: EUR 1,892 thousand), while EBT was EUR 1,475 thousand (2007: EUR 2,357 thousand). In 2008, income taxes amounted to EUR -181 thousand, whereas in the previous year there was tax income of EUR 2,179 thousand primarily due to the special one-time tax effect of capitalized deferred tax assets. This had a decisive impact on the earnings after tax figure. After taxes, USU generated a net profit for the year of EUR 1,294 (2007: EUR 4,536 thousand) in the reporting period, this corresponds to earnings per share of EUR 0.13 (2007: EUR 0.44).

As part of a shareholder-friendly dividend policy, the Management Board and Supervisory Board of USU Software AG will propose paying a dividend of EUR 0.15 for each entitled share (2007: EUR 0.15) at the Company’s Annual General Meeting on June 25, 2009 and thus have the shareholders of USU Software AG participate in the Company’s success as announced.

With net liquidity of EUR 9,541 thousand (2007: EUR 9,921 thousand) at the end of fiscal year 2008, USU Software AG has solid financing to make targeted investments even in difficult economic times and to purchase companies or participations in companies if potential acquisition possibilities present themselves.

Overall economic development

The German economy recorded a significant economic downturn over the course of 2008 against the background of the worldwide economic and financial market crisis, which led to a deep recession by the end of the fourth quarter. While German GDP (adjusted for non-recurring effects) grew significantly in the first quarter of 2008 compared with the prior-year quarter, economic performance fell noticeably in the quarters that followed and hit bottom in the last quarter. According to the German Federal Office of Statistics (Destatis), this resulted in GDP growth of 1.3% (2007: 2.5%).from a one-year perspective compared with the previous year. Negative drivers were primarily capital expenditure and the significant decline in exports according to Destatis. The situation was similar in Europe. After a positive start, growth rates were consistently negative from the second quarter of 2008 compares to the prior-year quarter. There were significant tendencies toward recession in Europe on a year-on-year basis as well. According to information from the Statistical Office of the European Commission (Eurostat), economic growth in the euro zone moved up by 2.1% the first quarter of 2008 compared with the prior year, this figure fell to -1.2% in the last quarter of the year. Over the year as a whole, gross domestic product (GDP) in the euro zone increased by only 0.7% year-on-year, after an increase of 2.7% in 2007.

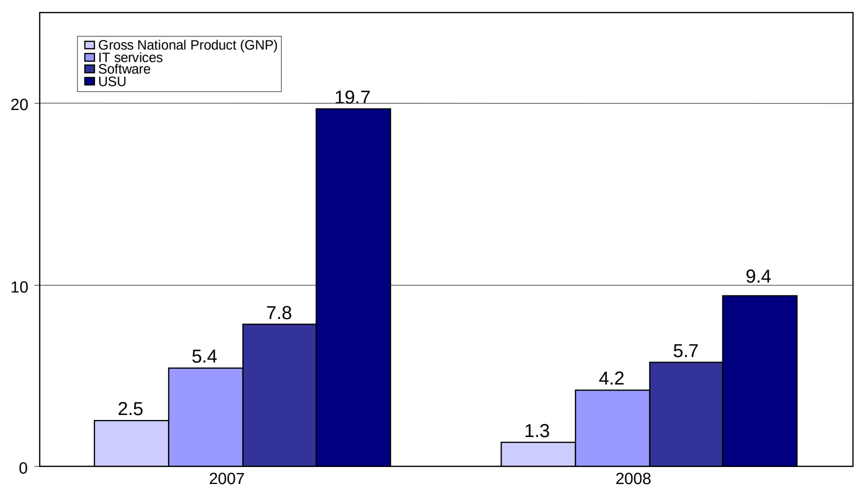
Sector performance

According to studies carried out by the Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (German Association for Information Technology, Telecommunications and New Media - BITKOM) in 2008, the German IT sector was not yet affected to a great degree by the economic and financial crisis or the general economic downturn. Even if growth did not reach the previous year's level, the German IT market rose 3.7% in 2008 (2007: 5.0%), clearly above economic growth as a whole. According to BITKOM, providers of software and IT services in Germany achieved above-average growth rates of 4.2% (2007: 5.4%) and 5.7% (2007: 7.8%). According to forecasts by the European Information Technology Observatory (EITO), the European IT generated comparable growth in the reporting period. It also stated that the IT market volume in Western Europe alone rose by 3.7% in 2008, after a jump of 4.2% in 2007.

Business development

USU Software AG and its subsidiaries generated the highest sales in the Company's history in a difficult economic environment. In line with this, USU acquired a large number of new customer projects especially in its core market Germany. For example, companies such as the Müller Ltd. & Co. KG drugstore chain, Deutsche Leasing AG, or Rewe Touristik decided to use products and services provided by the USU Group. In addition, numerous orders from existing customers such as Deutsche Telekom AG, Fiducia IT AG, Volkswagen AG, BHF-Bank AG, and Allianz AG were generated. The Company significantly expanded its domestic licenses business, particularly in the traditionally strong final quarter. By contrast, USU Group sales generated outside Germany remained below the previous year's figure in fiscal year 2008. USU reacted to this development and established an experienced sales team around Sven Wilms, the new member of the Management Board at subsidiary USU AG. He is responsible for the international partner business starting in fiscal year 2009 and is driving forward expansion of the Company's global presence. Overall, the USU Group's sales growth was 9.4% in the reporting period, which was above the market average as planned due to positive business development in the German core market.

By contrast, business performance in terms of earnings failed to meet expectations due to a number of influencing factors. In addition to one-off tax effects, the main reasons for this were targeted investments as part of a product campaign for the development of new products and the further development of existing products at USU as well as unanticipated additional costs for a fixed-price project. There was also a systematic expansion of further training for the employees of the Group's subsidiaries. The costs incurred from this are considered by the Management Board to be an investment in the future to emerge strengthened from the current economic crisis.

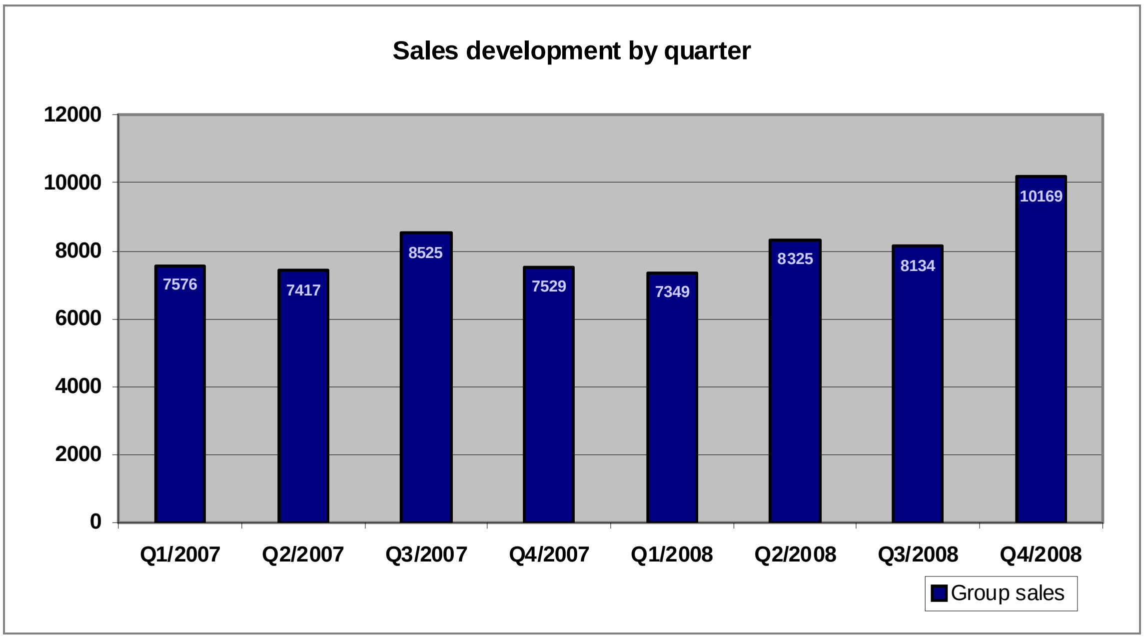


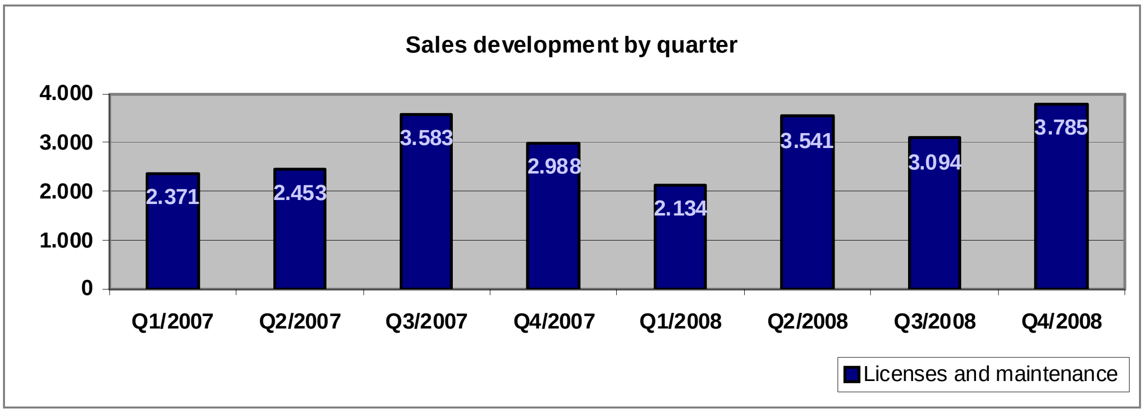
Comparison of German economic and market growth verses sales growth of the USU Group in percent

Development of sales and costs

Group sales

In fiscal year 2008, the USU Group achieved sales revenues of EUR 33,977 thousand (2007: EUR 31,047 thousand). This represents a year-on-year sales increase of 9.4%. The licenses business also generated a strong increase, rising by 19.4% to EUR 5,968 thousand (2007: EUR 4,997 thousand). Accordingly, the share of income from software licenses in total sales increased from 16.1% in the previous year to 17.6% in the reporting year. USU increased its maintenance revenues by 2.9% to EUR 6,586 thousand (2007: EUR 6,398 thousand). This corresponds to a Group-wide sales contribution of 19.4% (2007: 20.6%). USU raised product-based consultancy income and consultancy income from the non product-based service business by 5.3% to EUR 19,751 thousand (2007: EUR 18,765 thousand). Accordingly, the share of consultancy revenues in Group sales was 58.1% (2007: 60.4%). Other income totaled EUR 1,672 thousand (2007: EUR 887 thousand) or 4.9% (2007: 2.9%) of Group sales in fiscal year 2008. This primarily includes merchandise sales of externally produced hardware and software.





Sales development by quarter for fiscal years 2008 and 2007 in accordance with IRFS in EUR thousand

Sales by segment

The product portfolio of the Product Business division covers all activities centered on the USU product range in the business service management solutions market as well as the knowledge management market. The Service Business division contains consulting services for the purpose of IT projects as well as individual application development.

The Product Business segment contributed a total of EUR 22,320 thousand (2007: EUR 21,542 thousand) to Group sales in fiscal year 2008. Sales growth in this area was below average overall at 3.6%, primarily due to additional costs that could not be invoiced for a fixed-price project over the course of the second and third quarter of 2008 and the corresponding drop in consultancy income. Thanks to increased license and maintenance income, USU somewhat compensated for the gap in sales in the consultancy business of this segment. The Service Business segment increased sales by 22.7% to EUR 11,621 thousand (2007: EUR 9,469 thousand) as a result of several orders from new customers, some of which had a term of several years. The sales not assigned to the segments amounted to EUR 36 thousand (2007: EUR 36 thousand) in the reporting period.

The consolidated sales of the USU Group generated outside Germany totaled EUR 2,287 thousand (2007: EUR 2,379 thousand) in fiscal year 2008, which was below the prior-year figure and corresponds to a 6.7% share of Group sales (2007: 7.7%).

Operating costs

The ***cost of sales*** rose year-on-year by 14.8% to EUR 17,398 thousand (2007: EUR 15,158 thousand). This is the result of several factors, including the targeted expansion of the internal consulting team to 102 employees (December 31, 2007: 96) and the additional use of freelancers in the Service Business and Product Business operating segments. USU's cost of sales ratio in relation to Group sales amounted to 51.2% (2007: 48.8%) of Group sales in the period under review. Gross income totaled EUR 16,579 thousand (2007: EUR 15,889 thousand), which corresponds to a gross margin of 48.8% (2007: 51.2%).

Marketing and selling expenses jumped by 12.6% to EUR 6,077 thousand (2007: EUR 5,396 thousand) which is consistent with our increased activities regarding the market launch of new and redeveloped Group products and the related expansion of the licenses business. The expenses ratio for marketing and sales thus increased slightly to 17.9% of Group sales (2007: 17.4%).

General administrative expenses were 9.7% above the comparable prior-year figure at EUR 2,991 thousand (2007: EUR 2,727 thousand). This increase is a result of HR costs and material costs, which include legal and consulting costs, fees for services rendered, and stock exchange costs. As a result of the USU Group's sales increase, the ratio of administrative expenses was at the previous year's level at 8.8% of Group sales (2007:8.8%).

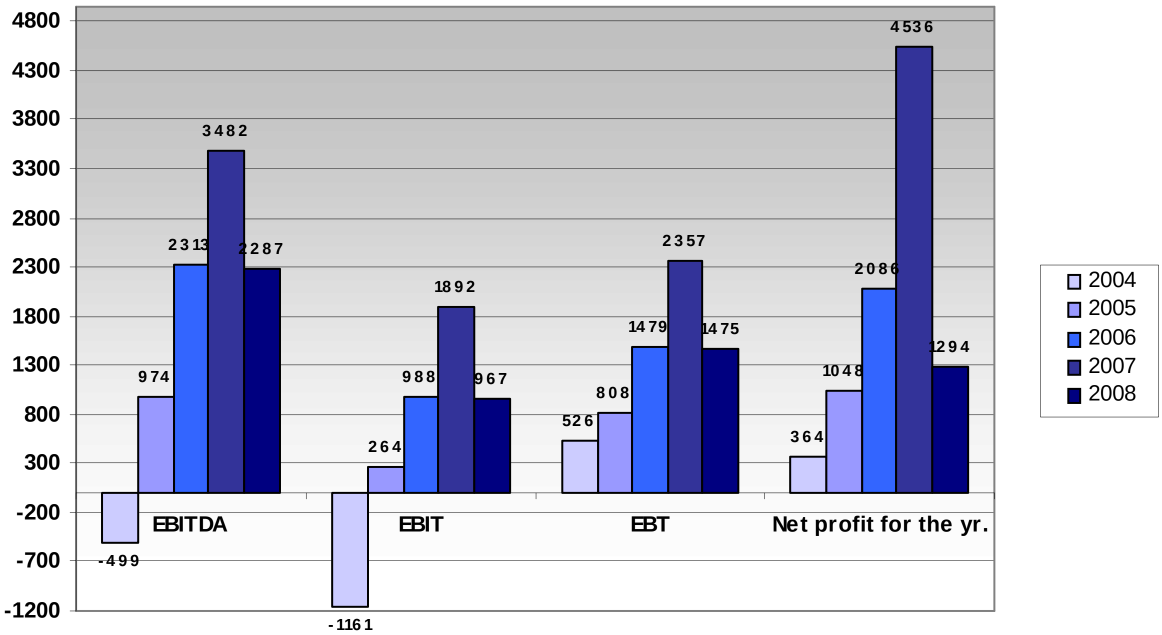
Research and development expenses increased in fiscal year 2008 to EUR 5,327 thousand (2007: EUR 4,866 thousand) compared with the prior year, representing a rise of 9.5%. Alongside additional investments in a product campaign to develop new products or further develop existing products, reasons for the increased expense include services performed by third parties for the redesign of the Group's own software products as well as increased personnel costs for employees of the Czech development company, USU Software s.r.o., as a result of the strong increase in value of the Czech koruna in comparison to the euro. At15.7% (2007: 15.7%), the expenses ratio for research and development in terms of Group revenues were exactly the same as the previous year.

Other operating income of EUR 372 thousand (2007: EUR 330 thousand) included income from value added tax reimbursements, from reversals of provisions, from insurance payments, and from the sale of assets.

Other operating expenses were EUR 640 thousand (2007: EUR 132 thousand) and primarily included expenses resulting from the tax audit for the years 2000 to 2004. As the result of this tax audit, there were tax refunds and reimbursements which are measured differently pursuant to IFRS. While the reimbursements are offset against equity without impact on earnings, the reimbursements recognized as an expense have a negative impact on earnings. In net terms, EUR 495 thousand was recognized as an expense in other operating expenses. The Company has appealed against this decision and expects a reimbursement.

Earnings situation

The USU Group's ***EBITDA*** in the reporting period remained below the previous year's level at EUR 2,287 thousand (2007: EUR 3,482 thousand). The main reasons for this were strategic investments in new USU Group products, additional investments and expenses for a major fixed-price project which could not be invoiced, and reimbursement of taxes which the Company disputes. Amortization at the USU Group totaled EUR 1,321 thousand (2007: EUR 1,590 thousand).Amortization of intangible assets recognized in the course of Company acquisitions accounted for EUR 825 thousand (2007: EUR 971 thousand) of this.
Despite these amortizations, USU generated ***earnings before interest and taxes (EBIT)*** of EUR 967 thousand (2007: EUR 1,892 thousand).
Including the ***net financial income*** of net EUR 508 thousand (2007: EUR 465 thousand), the USU Group generated ***earnings before taxes (EBT)*** of EUR 1,475 thousand (2007: EUR 2,357 thousand). In fiscal year2008, income taxes amounted to EUR -181 thousand, whereas in the previous year there was a tax income of EUR 2,179 thousand primarily due to the special one-time tax effect of capitalized deferred tax assets. This had a decisive impact on the earnings after tax figure. After taxes, USU generated a net profit for the year of EUR 1,294 thousand (2007: EUR 4,536 thousand) in the reporting period. With an average of 10,185,235 shares (2007: 10,281,054), earnings per share amounted to EUR 0.13 (2007: EUR 0.44).



Earnings development of the USU Group in EUR thousand

Assets and financial situation

On the assets side of the balance sheet, ***non-current assets*** at the end of fiscal year 2008 amounted to EUR 34,859 thousand (2007: EUR 35,028 thousand). The decline in this balance sheet item results primarily from the scheduled amortization of intangible assets. As of December 31, 2008, current assets increased to EUR 19,294 thousand (2007: EUR 18,241 thousand) which is partly due to an increase in work in progress as of the reporting date. Cash and cash equivalents were EUR 9,541 thousand (2007: EUR 9,921 thousand) as of the end of fiscal year 2008. This figure was slightly below the previous year's level, which is partially due to the dividend distribution to the shareholders of USU Software AG on June 20, 2008 of EUR 1,540 thousand.

On the equity and liabilities side of the balance sheet, ***current and non-current liabilities*** as of December 31, 2008 increased to EUR 8,232 thousand (2007: EUR 6,790 thousand). This increase in borrowed capital was mainly a result of personnel-related provisions for compensated absences and variable wages and salaries as well as due to other liabilities which mainly include the final earn out obligation to the former shareholders of subsidiary LeuTek. Within equity, the accounting entry for the reimbursement of the input tax from the Company's IPO costs from 2000 into capital reserves did not impact income and caused this line item to increase. Due to the buy-back of approximately 260,000 USU Software AG shares implemented in fiscal year 2008 (the purchase price of which is incorporated in the balance sheet item Treasury shares), USU Software AG's equity fell to EUR 45,921 thousand (2007: EUR 46,479 thousand) as of December 31, 2008. With ***total assets*** of EUR 54,153 thousand (2007: EUR 53,269), the equity ratio totaled 84.8% on December 31, 2008 (December 31, 2007: 87.3%).

Cash flow and investments

Primarily due to the dividend payment made to the Company's shareholders, the buyback of treasury shares carried out in 2008 as well as the investment of cash in securities, USU Group recorded a decline in short-term liquid cash and cash equivalents without securities and without longer term fixed deposits to EUR 3,836 thousand (2007: EUR 5,064 thousand) in the reporting period.

At EUR 1,814 thousand, ***cash flow from operating activities*** was positive for the period from January 1 to December 31, 2008. It was however down on the previous year's figure of EUR 2,878 thousand. This is the result of changes to the working capital as well as the year-on-year decline in earnings.

Cash flow from investing activities totaling EUR -1,069 thousand (2007: EUR -2,465 thousand) is primarily due to cash outflow from the reinvestment of cash and cash equivalents in securities with a short term as well as in fixed deposits. This item also contains investments in property, plant and equipment and intangible assets totaling EUR -343 thousand (2007: EUR -381 thousand) for hardware and software.

Cash flow from financing activities totaled EUR -1,970 thousand in the period under review (2007: EUR -908 thousand). This includes expenditure in relation to the dividend distribution to USU Software AG shareholders and the purchase of treasury shares as well as income from a refund of paid input taxes as a result of the findings of a tax audit.

Current situation of the Group

With fiscal year 2008 also having ended successfully, the current economic situation of the USU Group can still be considered positive. Due to targeted further development of the product portfolio, the strategic expansion of the Company’s global presence, existing orders on hand, expanding Group staff as well as the Company’s good liquidity situation, USU now considers itself to be in a good position to achieve targets set in fiscal year 2009.

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, it did not generate any external sales in the reporting period, as in the previous year. Thus USU Software AG’s earnings main earnings originate from its operating subsidiaries USU AG, LeuTek GmbH, and Omega Software GmbH.

As sole shareholder, USU Software AG resolved a dividend distribution of Group subsidiary USU AG for fiscal year 2007 at its Annual General Meeting on August 14, 2008. From this USU Software AG generated income from participations of EUR 1,200 thousand (2007: EUR 0 thousand) in the reporting period.

As a result of the profit and loss transfer agreement with subsidiaries LeuTek and OMEGA, the Company generated income of EUR 2,515 thousand (2006: EUR 2,029 thousand) in 2008. 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.

In fiscal year 2008, other operating income and expenses were significantly impacted by the results of the tax audit for the years 2000 – 2004. Other operating income of EUR 1,029 thousand (2007: EUR 828 thousand) included the reimbursement of input taxes of EUR 444 thousand arising from USU Software AG’s IPO costs from the year 2000 in accordance with the German Civil Code. In particular, this item also included income from off-setting intra-Group services. Other operating expenses increased year-on-year from EUR 791 thousand to EUR 1,299 thousand. The Company is disputing reimbursing input taxes to the tax authorities, of which EUR 495 thousand was recognized as an expense in other operating expenses, mainly due to the results of the tax audit for the years 2002 to 2004. The Company has appealed against this decision and expects a reimbursement. In addition to this reimbursement obligation, other operating expenses chiefly include costs for services rendered to the Group subsidiaries, legal and consulting costs, and stock exchange costs as well as associated investor relations costs.

Personnel expenses decreased over the previous year to EUR 379 thousand (2007: EUR 392 thousand). As in the previous year, the workforce at USU Software AG comprised three fulltime employees, including the Management Board.

Net interest income amounted to EUR 74 thousand (2007: EUR 21 thousand) and mainly includes interest income and expenses in connection with tax effects from the tax audit completed in 2008. Write-downs on financial assets and on securities of EUR 115 thousand (2007: EUR 0 thousand) are entirely due to write-downs on treasury shares purchased before 2007.

Due to the positive business development of its subsidiaries, USU Software AG generated a result of ordinary operations in fiscal year 2008 totaling EUR 3,026 thousand (2007: EUR 1,710 thousand), a significant year-on-year improvement. In addition to the increased income from the profit transfer agreements with subsidiaries LeuTek and OMEGA, this is mainly due to the dividend distribution implemented by Group subsidiary USU AG in 2008 for fiscal year 2007. Taking account of income taxes of EUR 99 thousand (2007: EUR 126 thousand), the Company's net profit for the year of EUR 2,927 thousand was almost double that of the previous year (EUR 1,584 thousand). Net profit totaled EUR 3,612 thousand (2007: EUR 2,225 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 year 2008.

As of December 31, 2008, the Company's balance sheet total increased from EUR 27,526 thousand in 2007 to EUR 28,864 thousand in 2008. As a result of earnings, equity increased to EUR 27,124 thousand (2007: EUR 26,611 thousand) by the end of the reporting period. Offsetting effects came from the distribution made in 2008 and the offsets for calling in own shares acquired in 2008 decided by Management Board. At the same time, provisions and liabilities increased to EUR 1,740 thousand (2007: EUR 915 thousand), due to the earn out obligation to the former shareholders of subsidiary LeuTek. Accordingly, the equity ratio was 94.0% (2007: 96.7%).

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 and opportunities associated therewith.

Orders on hand

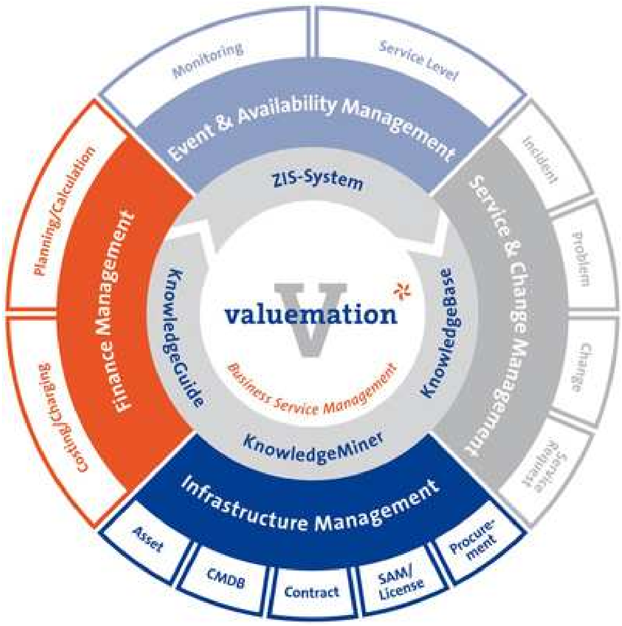
Compared to the balance sheet date at the end of fiscal year 2007, Group-wide orders on hand in the USU Group increased as at December 31, 2008, by 9.3% to EUR 14,177 thousand (2007: EUR 12,966 thousand).

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, considerable funds were again invested in the ongoing development of the Group's products in fiscal year 2008.

In the Business Service Management suite *Valuemation*, version 3.5 of this modular software program by Group subsidiary USU AG for the central presentation, monitoring, administration and management of the entire IT assets of a company or a group as well as allocation of costs involved, was launched in fiscal year 2008. New features of this version include a completely reworked license management system for optimum administration of the licenses that a company holds, the effective recognition of whether there are too many or too few licenses and the resulting minimization of software licensing costs as well as creation of sufficient legal security by means of precise software licensing. Furthermore, the latest version of Valuemation was given a dashboard function, where decisive data can be visualized in various pie charts, bar graphs or dial displays in real time and therefore contribute significantly to fast and accurate decision making in IT operations. What is more, a partnership agreement signed with Tideway Systems enables USU AG to offer Tideway's Automatic Dependency Mapping as an integrated OEM version. This allows companies to identify and display dependencies automatically between their IT components and IT services.



The USU Group's Valuemation product suite

In the knowledge management software suite *USU KnowledgeCenter*, Group subsidiary USU AG focused in the reporting period on reworking the graphic user interface of the *USU KnowledgeMiner* module, a powerful search machine for the company-wide search in all potential sources of information. This module was also given added functions such as a preview of documents found within the results list and new sorting options. The *USU KnowledgeBase* module, a simple and efficient document management system, is available in a new release that makes it easier to configure, install, and use. The *USU KnowledgeGuide* module for intelligent trouble shooting and problem resolution with the assistance of dynamic decision trees also received a number of new functionalities in its new release. The functionalities improve configurability and enrich automatic learning with intelligent evaluation mechanisms, which systematically identify the source of error and therefore give the company a basis for recognizing the symptoms and introducing countermeasures.

As part of the USU Group's product campaign, the newly-developed express versions of *Valuemation* and *USU KnowledgeCenter* were completed in fiscal year 2008 and have since been launched. USU customers now have two product suites available to them in *Valuemation Express* and *USU KnowledgeCenter Express* that are especially focused on medium-sized companies. The software can be used immediately thanks to pre-configurations so that a positive return on investment (ROI) can be made in the shortest possible period of time.

At USU subsidiary LeuTek, development activities covered two main areas: Firstly, the expansion and extension of the ZIS interfaces for improved connection to and from external systems. Secondly, the introduction of ZISAgent, an internally developed software agent. ZISAgent can be used on common operating systems to monitor the availability of systems, applications and log files. It will therefore operate in future as a central data procurer in the server environment.

The subsidiary OMEGA developed a completely new myCMDB product suite that is based optically and technically on a totally innovative concept. myCMDB contains various innovations such as interactive visualization and guarantees full ITIL compatibility.

Total research and development expenses amounted to EUR 5,327 thousand (2007: EUR 4,866 thousand) in the year under review.

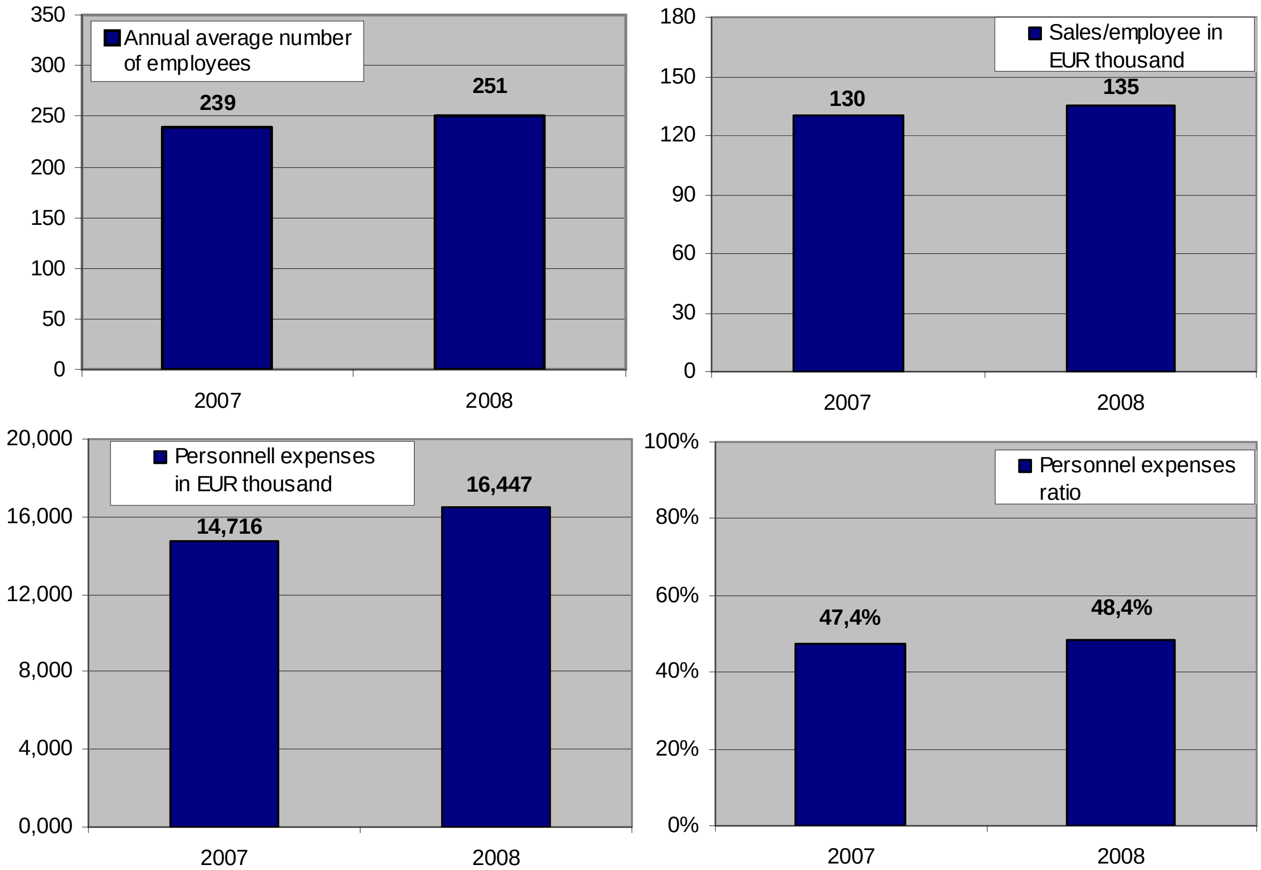
Employees

As of December 31, 2008, the USU Group had a total of 252 employees (2007: 245). This means that staff in the Group increased by 2.9% over the previous year. This figure does not include the three Management Board members of US subsidiary USU AG, approximately 70 freelance staff who are used for project work when required, 15 temporary workers, and 5 apprentices.

Broken down by segment, the USU Group employed 181 (2007: 181) staff members in the Product business, 53 (2007: 46) in the Service business and 18 (2007: 18) in central administration.

Broken down by functional unit at the end of the reporting period, 102 (2007: 96) employees were employed in consulting and services, 89 (2007: 87) in research and development, 34 (2007: 34) in sales and marketing, and 27 (2007: 28) in central administration.

The average total headcount of the USU Group in the reporting period was 251 employees (2007: 239). Accordingly, the generated average sales contribution per employee rose to EUR 135 thousand (2007: EUR 130 thousand) in fiscal year 2008. Personnel expenses in the same period amounted to EUR 16,447 thousand (2007: EUR 14,716 thousand). The personnel costs ratio was 48.4% (2007: 47.4%) of Group sales.



Personnel-related key figures of the USU Group

For fiscal year 2009, the USU Group plans to further expand the number of USU Group staff in order to achieve planned growth. In addition to acquiring additional highly qualified employees, personnel activities also 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 department, the Company, and the Group as a whole.

The USU Group is therefore constantly investing in the research and training of its employees. In line with this, a number of training measures were carried out in fiscal year 2008 as part of the "USU – U Step Up" career model. These measures offer USU employees and management ongoing refresher courses and opportunities to hone personal development in addition to specialist training and developing soft skills. 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.

The compensation shown in the following table totaling EUR 213.7 thousand (2007: EUR 242.4 thousand) includes all remuneration 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 (Switzerland) AG and Managing Director of the Group subsidiary Openshop Internet Software GmbH.

Personalized compensation of the sole member of the Management Board Bernhard Oberschmidt in EUR thousand				
	Fixed compensation	Payment for social security and pension	Non-cash benefit from private use of company vehicle	Variable compensation
2008	132.0	19.4	16.8	45.5 [1)]
2007	132.0	22.4	17.5	70.5 [2)]

[1)] of which for the previous year: EUR 12.0 thousand

[2)] of which for the previous year: EUR 12.5 thousand

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, 2007 approved a new regulation with effect as 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. In accordance with the new regulation, 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 an amount of EUR 60.0. The members of the Supervisory Board also receive additional annual variable compensation based on the Company's income statement in its consolidated financial statements of the past fiscal year which depends on the reported result of ordinary operations pursuant to IFRS (EBIT) in relation to reported sales. Starting with an EBIT share of 5% of sales, the members receive additional annual variable compensation of a 10% premium of the fixed component per full percentage point of EBIT as part of sales not to exceed a cap of 200%. In fiscal year 2008, EBIT was 4.0% of sales, thus USU Software AG's Supervisory Board received no variable compensation.

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 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 107.5 thousand in the 2008 fiscal year.

Individual compensation of the Supervisory Board for fiscal year 2008 in EUR thousand			
	Fixed compensation USU Software AG	Variable compensation USU Software AG	Fixed compensation USU AG
Udo Strehl	60.0	0.0	10.0
Günter Daiss	12.5	0.0	7.5
Erwin Staudt	12.5	0.0	5.0

Individualized Supervisory Board compensation of USU Software AG and the Group

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, 2008, 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, 3.0% (2007: 0.5%) or 313,950 (2007: 53,950) were attributable to the Company as treasury shares. Moreover, 56.1% (2007: 55.3%) or 5,795,187 (2007: 5,711,167) shares can be attributed to the major shareholder and Chairman of the Supervisory Board, Udo Strehl. The Chairman of the Supervisory Board holds 1,989,319 (2007: 1,989,319) of these shares directly. Through Udo Strehl Private Equity GmbH (USPEG), a further 3,773,868 (2007: 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 (2007: 32.000) 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 Managing Director of LeuTek until January 31, 2009 is attributed a total of 11.6% or 1,200,000 shares in USU Software AG as in the previous year. Of these, 400,000 shares 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 Section 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 Section 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 Section 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 2008 and was last updated in 2007.

Pursuant to Section 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 9, 2008. As in the previous years, 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.

As a result of the international economic and financial market crisis and the increasing fears of recession, the stock markets also posted a significant decline in share prices during fiscal year 2008. As of the reporting date of December 31, 2008, the German Share Index (DAX) fell by 40.4% in total while the Technology All Share lost 49.7%. After an initial sideways performance in the third quarter of 2008, the USU share also saw a sharp decline and lost 48.8% at the end of the reporting year compared with the balance sheet date of the previous year. On December 31, 2008, the USU share closed at EUR 2.15 on the electronic trading system at the Frankfurt Stock Exchange, Xetra (December 31, 2007: EUR 4.20.)

Share buy-back

The Management Board of USU Software AG, with the approval of the Supervisory Board resolved on May 29, 2008 to acquire up to 2.52% of subscribed capital, that is up to 260,000 shares in the company in the period from May 29, 2008 to January 11, 2009 via the electronic trading system at the Frankfurt Stock Exchange, Xetra. The basis of this share buy-back was the authorization granted at the Annual General Meeting of USU Software AG on July 12, 2007 to acquire treasury shares in accordance with Section 71 Clause 1 Number 8 of the German Stock Corporation Act (AktG), which was replaced by a new authorization which was resolved at the Annual General Meeting of June 19, 2008. The shares reacquired in this manner are to be recovered in order to reduce subscribed capital.

As part of the share buy-back program, a total of 260,000 shares at total price of EUR 874,374.47 (excluding incidental costs of acquisition) were acquired in the period from May 29, 2008 to November 14, 2009. This represents an average purchase price of EUR 3.3630 per share.

Treasury shares

On November 3, 2008 the Company published an announcement in accordance with Section 26 (1) Sentence 2 of the WpHG stating that its treasury shares in USU Software AG as of October 29, 2008 exceeded the threshold of 3% due to the share buy-back program and in view of the treasury shares previously held. Thus the overall number of the Company's treasury shares as at December 31, 2008 was 313,950 with an imputed share of subscribed capital of EUR 313,950, which corresponded to 3.04% of subscribed capital at the end of the reporting period.

Share price of USU Software AG shares in 2008

Report on links with associated companies

In line with Section 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

With effect of January 1, 2009, Sven Wilms was appointed as new member of the Management Board responsible for global sales at USU AG. Subsidiary USU Austria GmbH, Vienna, was also founded at the beginning of 2009. Otherwise, there were no transactions of key importance after balance sheet date of December 31, 2008, 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

Risk management system

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.

Risk management process

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.

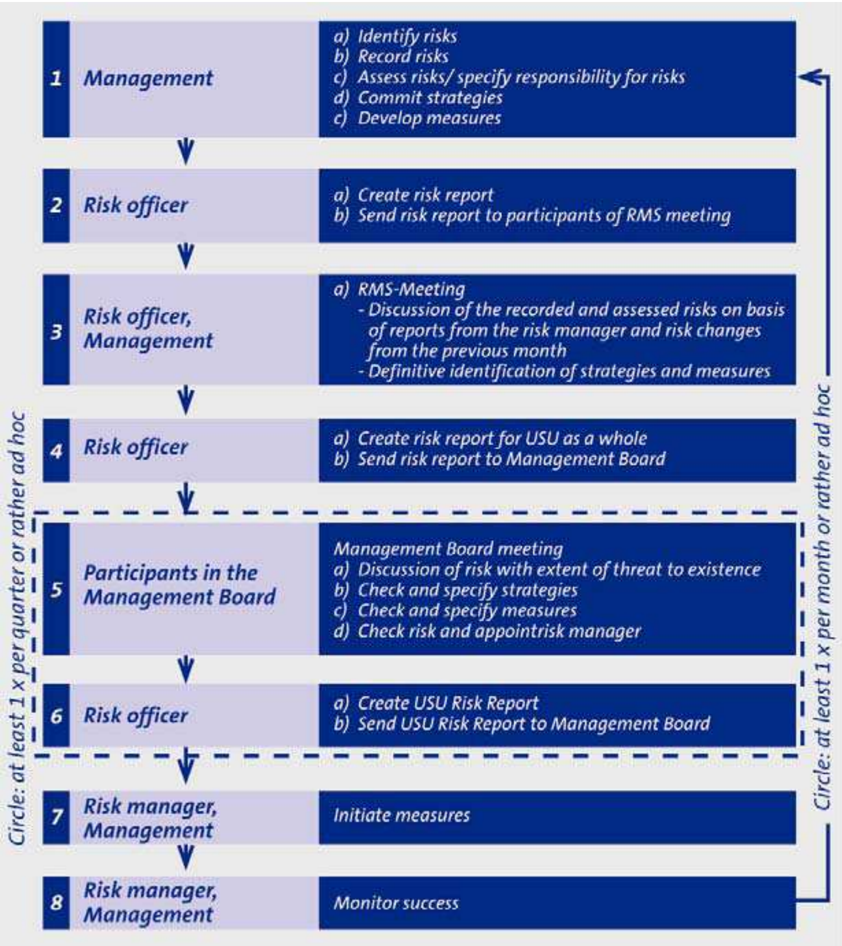


Diagram of the USU Group's risk management process

Overview of risks and opportunities

It is clear from the Company's current 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

Analyzing the market and competitive situation has become much more important as part of the USU Group's risk management due to the international economic and financial market crisis. Thus the strong volatility on the world's financial markets and the global economic slowdown are having an increasingly negative effect on the USU Group's core European market. According to forecasts of leading market research companies, a significant decline in the overall economy is expected in 2009. EITO predicts growth of 2.7% in the global software and IT market, while growth in Western Europe is set also set to be above-average, at 2%. According to a BITKOM study, technologies that quickly lead to cost reductions and increased performance for users are likely to be the focus of the IT market in 2009. The Management Board sees a significant opportunity for the Company's business performance in this area. However, it cannot be ruled out that ongoing recessive economic developments will have a negative impact on the IT industry and thus also lead to moderate business development at the Company.

At the same time, USU Software AG operates as a software and IT company in a highly competitive market which is subject to ongoing changes. In the past, major software companies in particular expanded their own product ranges through diversification and acquisitions, thus accessing new markets. As a result, several of the Company's competitors, particularly those outside Europe, were acquired by globally operating groups. In this context, it cannot be ruled out that the current phase of economic weakness will lead to noticeable price erosion and cut throat competition.

USU Software AG has expanded its portfolio and the target market of the Group as a whole, both through its takeovers of OMEGA Software GmbH and LeuTek GmbH and by driving forward internationalization activities. With the expanded portfolio, USU is strategically positioned in the growth market for business service management solutions and is concentrating on promising future issues within information technology. Its long-standing relationships with and proximity to its customers also allow the USU Group to look at their respective problems more flexibly and provide more individual solutions. Thanks to the specialist consulting knowledge of USU staff and the implementation of the Group's own products in customers' existing IT systems, it was possible to maintain the price structure for product and solution-related consulting services at the previous year's level. At the same time, in fiscal year 2008 – 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. With 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 measures to recruit and retain 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 comprehensive 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 centre, 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 individual financial statements of USU Software AG regarding 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 write-down 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 year 2008 did not indicate any impairment loss to the assets assigned to this balance sheet item. USU Software AG does not expect any subsequent write-down as a result of business performance 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 previous years. 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 still limited to date. There are possible negative effects of the economic and financial market crisis on companies which have previously been considered solvent. With the customer structure of USU AG being characterized by strong market companies, it cannot be ruled that defaults could increase as a result of insolvency-driven risks.

Financial and liquidity risks

With funds of approximately 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 investments in speculative securities or shares. Accordingly, price increases were recorded for the USU Group’s securities portfolio in 2008 in contrast to the negative trend on the capital markets.

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 that we recently drove forwards 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

The Ifo Institute for Economic Research forecasts a global recession in 2009 in its *Ifo Economic Forecast 2009*. The main reasons for this are the difficult crisis on the international financial markets and the related stricter requirements for lending on the part of banks, unfavorable income outlook for companies and loss of assets due to further decreases in real estate prices. According to the ifo economic weakness will hit Germany particularly hard because companies are highly dependent on exports and the related economic dependence on the developments of the world economy will have a negative impact. In this respect, the ifo predicts GDP will fall by 2.2% for 2009 as a whole (2008e: +1.3%). Stabilization will not occur until 2010 when the financial crisis is expected to ebb and the international economic environment improves, but GDP growth will be negative again at -0.2%. Negative external influences will be increasingly tangible in the euro zone as well, leading to a decline in GDP of 1.3% in 2009 (2008e: 0.7%). In contrast, the ifo predicts the economy will improve gradually starting in 2010, pushing up euro zone GDP growth to 0.3%.

Industry

The IT sector will not remain completely unaffected in 2009 by the global negative trend. However, the German IT market will grow 1.5% in 2009 (2008e: 3.7%) according to recent BITKOM forecasts. BITKOM also states that the software and IT service market segments are again likely to grow above more quickly than the market average in 2009 - by 2.0% (2008e: 4.2%) and 3.7% (2008e: 5.7%) and that technologies that quickly lead to cost reductions and increased performance for users will likely be the focus of the IT market. EITO predicts similar results for the USU Group’s target European market. According to EITO projections, Western Europe will be the only area to record an increase in the IT market volume of 2.0% in 2009 after 3.7% in 2008.

Outlook

The USU Group’s product campaign connected with the market launch of the two SME versions of Valuemation Express and KnowledgeCenter Express as well as the new version of Valuemation 3.5 from the subsidiary USU AG, the new myCMDB product suite from OMEGA Software GmbH and the numerous functional add-ons for the ZIS system marketed by LeuTek GmbH is expected to lead to strong domestic license business in 2009. USU also expects positive effects from the newly-established partner business, which is expected to generate over 15% of sales outside of the German domestic market by 2010 due in particular to its expansion into the regions of the UK, Scandinavia, the Benelux countries, and Eastern Europe. In addition to increased partner activities in these markets, numerous positive statements by analysts from international market research institutes such as Gartner, Forrester and ECP are expected to lead to a high level of market awareness and rapid market penetration on these markets. This is due in part to the fact that the analysts have given the Valuemation product suite a top ranking in its individual Business Service Management areas. As a result of the clear increase in orders on hand throughout the USU Group, USU also expects sales to increase in the maintenance and consulting business. The Management Board expects the high utilization levels for the employed consultants to continue both in the product-related and service-related consulting business, as well as price stability in consultancy fees.

The mainstay of the Group as a whole will be Group subsidiary USU AG as in previous years. The Management Board also expects positive effects on sales and earnings from the Group subsidiaries LeuTek and OMEGA. In fiscal year 2009, USU Software AG will concentrate 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.

Under the premises of economic development that will stabilize in time, the Management Board of USU Software AG expects sales growth to be above average in the relevant market segments for the next two years, as they were in the year under review. In line with this, earnings before interest, taxes, depreciation and amortization (EBITDA) will also be expanded significantly. Should the aforementioned expectations and forecasts actually occur, the Management Board plans to give shareholders of USU Software AG a large portion of the Company’s operating success by continuing its shareholder-friendly dividend policy of the previous years.

Möglingen (Germany), February 25, 2009

Bernhard Oberschmidt
Chairman of the Management Board

Consolidated Financial Statements

2008

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

USU Software AG, Möglingen
Consolidated Balance Sheet

A S S E T S

	Note	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2007 Thsd. EUR
Assets			
Non-current assets			
Intangible assets	(8)	5,233	6,083
Goodwill	(9)	27,108	26,355
Property, plant and equipment	(10)	571	576
Other financial assets	(26)	367	360
Deferred tax assets	(28)	978	1,041
Other assets	(11)	602	613
		34,859	**35,028**
Current assets			
Inventories	(12)	556	574
Work in process	(13)	1,827	588
Trade receivables	(14)	5,383	5,204
Income tax receivables	(15)	1,392	1,234
Other financial assets	(16)	244	410
Other assets		54	77
Prepaid expenses	(17)	297	233
Securities	(18)	3,405	4,857
Cash on hand and bank balances	(19)	6,136	5,064
		19,294	**18,241**
		54,153	**53,269**

USU Software AG, Möglingen
Consolidated Balance Sheet

LIABILITIES

	Note	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2007 Thsd. EUR
Equity and liabilities			
Shareholders' equity	(20)		
Subscribed capital		10,335	10,335
Capital reserve		52,764	52,320
Legal reserve		176	154
Treasury shares		-1,588	-714
Other comprehensive income		-11	7
Accumulated losses		-15,755	-15,623
		45,921	**46,479**
Non-current liabilities			
Pension provisions	(21)	154	298
		154	**298**
Current liabilities			
Provisions for income tax		49	354
Personnel-related liabilities	(22)	3,208	2,697
Other provisions and liabilities	(23)	2,284	1,362
Liabilities from received payments	(24)	461	247
Trade payables	(25)	1,122	1,047
Deferred income	(27)	954	785
		8,078	**6,492**
		54,153	**53,269**

USU Software AG, Möglingen
Consolidated Income Statement

	Note	2008 Thsd. EUR	2007 Thsd. EUR
Sales revenue	(29)	33,977	31,047
Cost of sales	(30)	-17,398	-15,158
Gross profit		**16,579**	**15,889**
Sales and marketing expenses	(31)	-6,077	-5,396
General administrative expenses	(32)	-2,991	-2,727
Research and development expenses	(33)	-5,327	-4,866
Other operating income	(34)	372	330
Other operating expenses	(35)	-640	-132
Amortization of intangible assets recognized in the course of company acquisitions		-825	-971
Goodwill amortization	(36)	-124	-235
Financial income	(37)	750	578
Financial expenditure	(38)	-242	-113
Profit before tax		**1,475**	**2,357**
Income taxes	(39)	-181	2,179
Net profit for the year		**1,294**	**4,536**
Earnings per share (in EUR): (basic and diluted)		0.13	0.44
Weighted average shares (basic and diluted)		10,185,235	10,281,054

USU Software AG, Möglingen

Breakdown of Revenues and Expenses reported

	Note	2008 Thsd. EUR	2007 Thsd. EUR
Actuarial losses from pension provisions	(21)	189	347
Currency translation difference		-36	2
Available-for-sale financial instruments (securities)	(18)		
Fair value changes taken directly to equity		39	1
Transferred to profit or loss		-13	2
Deferred taxes on value changes directly recognized in equity	(28)	-61	-136
Equity change not impacting income		**118**	**216**
Net profit for the year		**1,294**	**4,536**
Overall result		**1,412**	**4,752**

USU Software AG, Möglingen

Consolidated Statement of Cash Flow

	Note	2008 Thsd. EUR	2007 Thsd. EUR
Cash flow from ordinary operations			
Profit before tax		1,475	2,357
Adjustments for:			
Financial income/financial expenditure		-509	-465
Depreciation and amortization		1,321	1,590
Income taxes paid		-771	-947
Income taxes refunded		-42	84
Interest paid		-149	-2
Interest received		828	314
Other non-cash income and expenses		-74	573
Change in working capital:			
Inventories		18	-265
Work in process		-1,239	70
Trade receivables		-177	371
Prepaid expenses and other assets		250	-350
Trade payables		75	-29
Personnel-related liabilities and pension provisions		366	-357
Other provisions and liabilities		442	-66
Net cash flow from ordinary activities	(41)	**1,814**	**2,878**
Cash flow from investing activities:			
Acquisition of subsidiaries less cash and cash equivalents acquired		0	-421
Capital expenditure in property, plant and equipment		-275	-292
Capital expenditure in other intangible assets		-68	-89
Repayment of short-term loans		53	227
Sales of non-current assets		4	145
Sale of available-for-sale securities		2,197	39
Investments in available-for-sale securities		-680	-2,074
Capital expenditure in fixed deposits		-2,300	0
Net expenditure for investing activities	(42)	**-1,069**	**-2,465**

USU Software AG, Möglingen

Consolidated Statement of Cash Flow

	Note	2008 Thsd. EUR	2007 Thsd. EUR
Cash flow from investing activities:			
Dividend payment		-1,540	-908
Own shares acquired intended for withdrawal		-874	0
Subsequent allowable input taxes from the IPO costs		444	0
Net cash flow from financing activities	(43)	**-1,970**	**-908**
Difference from currency translation of cash and cash equivalents			
		-3	**-7**
Net decrease/increase of cash and cash equivalents		**-1,228**	**-502**
Cash and cash equivalents at January 1		**5,064**	**5,566**
Cash and cash equivalents at December 31	(44)	**3,836**	**5,064**

USU Software AG, Möglingen

Consolidated Notes for the 2008 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 Section 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 Section 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 which are reported at fair value.

On February 25, 2009, the Management Board released the consolidated financial statements to the Supervisory Board.

The annual financial statements of USU Software AG prepared as of December 31, 2008 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

The accounting and valuation methods applied correspond to the methods applied in the previous year with the following exceptions.

The following amendments to IFRS regulations were applied for the first time in fiscal year 2008:

• Amendment to **IAS 39 and IFRS 7 "Reclassification of Financial Assets".** The change to IAS 39 now also allows certain financial assets in the held for trading category to be reclassified in exceptional cases and additional reclassification opportunities for financial assets in the available for sale category. The amendment to IFRS 7 defines additional notes to the financial statements if such reclassifications take place.

• **IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"**. The interpretation resolves individual questions regarding the application of IFRS 2 "Share-based Payments" for making agreements which contain the Company's own equity financial instruments or equity financial instruments of a different company within the same group (such as equity financial instruments of the parent company) as compensation.

• **IFRIC 14 "IAS 19 Employee Benefits".** This interpretation of the limit on a defined benefit asset, minimum funding requirements and their interaction gives guidance on determining the upper limit on a surplus of a pension fund that can be recognized as an asset under IAS 19. IFRIC 14 also clarifies how legal or contractual minimum funding requirements can affect the accounting of assets and liabilities in a defined benefit plan.

The first application of these new/amended interpretations had no impact on the consolidated financial statements of USU Software AG due to a lack of relevance.

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 Group applied it early on January 1, 2008. Previous year figures did not require adjustment because the segments were already defined in accordance with IAS 14. Net profit and earnings per share have not changed due to the transition to IFRS 8. Please refer to the additional explanations in Section F under segment reporting.

The following new or amended standards and new interpretations were not yet required to be applied for the fiscal year beginning January 1, 2008 and were not applied at an early stage.

- Amendment to **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.

- Amendment to **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 changes to the standard apply for fiscal years beginning on or after January 1, 2009. IAS 1 (revised) will affect the presentation of the consolidated financial statements, but not the net assets, financial position and results of operations in the consolidated financial statements.

- Amendment to **IFRS 2 "Vesting Conditions and Cancellations"** (to be applied to fiscal years beginning on or after January 1, 2009): (a) Vesting conditions are service conditions and performance conditions only. Other features of share-based payments are not vesting conditions. Under IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. (b) All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Cancellation of equity instruments is accounted for as an acceleration of the vesting period, meaning that any amount unrecognized that would otherwise have been charged is recognized immediately. Any payments made with the cancellation (up to the fair value of the equity instruments) are accounted for as the repurchase of capital stock. Any payment in excess of the fair value of the equity instruments granted is recognized as an expense. The changes to IFRS 2 currently have no impact on the Group's consolidated financial statements.

- Revision of **IFRS 3 and IAS 27 "Business Combinations Phase II"** (if accepted in its current form by the EU, it is to be applied in fiscal years beginning on or after July 1, 2009). The changes in the standards refer to capital consolidation and the accounting treatment of goodwill. These changes include: (a) Costs incurred during business combinations are to be recognized as an expense. (b) The accounting treatment of contingent considerations whose amounts depend on events after acquisition (e.g. earn-out clauses, payments upon achieving earnings targets) depend on if the additional payment is to be made in the form of equity interests or in the form of cash and cash equivalents, for example. (c) Goodwill may be capitalized according to the full goodwill method, i.e. also on minority interests (now "non-controlling interests"). (d) Disposals of equity interests without loss of control are recognized as pure transactions among shareholders, e.g. they do not impact income. (e) The same applies to acquiring additional equity interests in subsidiaries after control is obtained. The revised version of IFRS 3 is to be applied mainly prospectively. Regardless of the type or scope of future transactions, the changes will impact the Group's net assets, financial position and results of operations.

- Amendment to **IAS 32 and IAS 1 "Puttable Financial Instruments"** (if accepted in its current form by the EU, it is to be applied in fiscal years beginning on or after January 1, 2009). Under the current version of IAS 32, instruments are to be classified as financial liabilities if the issuer can be obligated to surrender cash or other financial assets to redeem or buy back a financial instrument. As a result of the changes, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the lowest ranking interest in the net assets of the entity. The changes to IAS 32 and IAS 1 do not affect the Group's consolidated financial statements.

- Amendment to **IFRS 1 and IAS 27 "Cost of a Subsidiary in the Separate Financial Statements of a Parent"** (if accepted in its current form by the EU, it is to be applied in fiscal years beginning on or after January 1, 2009). The new regulation grants relief to the calculation of investment costs in subsidiaries, joint ventures, and associated companies in separate financial statements on first-time adoption of IFRS. In addition, it provides regulations on calculating investment costs in separate financial statements of a new parent company created during reorganization. The changes to IFRS 1 and IAS 27 do not affect the Group's consolidated financial statements.

- Amendment to **IAS 39 "Exposures Qualifying for Hedge Accounting"** (if accepted in its current form by the EU, it is to be applied in fiscal years beginning on or after July 1, 2009). As part of the revision of IAS 39, the risks that qualify for designation as hedged risks are specified and there is clarification regarding when an entity may designate a portion of the cash flows of a financial instrument as a hedged item. The changes to IAS 39 currently have no impact on the Group's consolidated financial statements.

- Revision of **IAS 39 "Reclassification of Financial Assets".** On October 27, 2008, the IASB published a revised version of changes to IAS 39 of October 13, 2008. The IASB clarified that every reclassification taking place on or after November 1, 2008 will become effective at the time of reclassification. However, reclassifications taking place before November 1, 2008 can become effective as of July 1, 2008 or later. Reclassifications cannot take place retroactively on a date before July 1, 2008. The revision has not been adopted yet by the EU. The changes to IAS 39 currently have no impact on the Group's consolidated financial statements.

- Revision of **IFRS 1 "First-Time Adoption of International Financial Reporting Standards".** IFRS 1 was changed as part of an annual improvement project to make it clearer and to formulate it in such a way that future changes can be better incorporated. The revised version of IFRS 1 comes into force (if accepted in its current form by the EU) at companies adopting IFRS for the first time for fiscal years beginning on or after January 1, 2009. Earlier adoption is permitted. The changes to IFRS 1 currently have no impact on the Group's consolidated financial statements.

- In May 2008, the Board published **Improvements to IFRS** for the first time with the main goal of removing inconsistencies and clarifying the wording of the standards. There is a transitional regulation for every standard. The amendments are to be applied for fiscal years beginning on or after January 1, 2009 if accepted in its current form by the EU. The amendments currently have no impact on the Group's consolidated financial statements.

- **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 to be applied for fiscal years beginning on or after January 1, 2008 if accepted in its current form by the EU. IFRIC 12 currently has no impact on the Group's consolidated financial statements.

- **IFRIC 13 "Customer Loyalty Programs"** IFRIC 13 sets out binding rules for posting 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.

- **IFRIC 15 "Agreements for the Construction of Real Estate".** IFRIC 15 gives guidance on how to determine whether an agreement for the construction of real estate falls under IAS 11 "Construction Contracts" or IAS 18 "Revenue". This determines when income from the construction of real estate should be recognized in annual financial statements. IFRIC 15 is to be applied for fiscal years beginning on or after January 1, 2009 if accepted in its current form by the EU. IFRIC 15 currently has no impact on the Group's consolidated financial statements.

- **IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"** (to be applied in its entirety across the EU in fiscal years beginning on or after October 1, 2008). IFRIC 16 primarily addresses the following issues: (a) A parent company can only designate foreign exchange differences as a hedged risk if its functional currency differs from the functional currency of the foreign operation. (b) Hedging instruments can be held by any company within the Group, e.g. not necessarily from the parent company holding the net investment. (c) IAS 39 must be applied when the net investment is sold to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument. IAS 21 must be applied to the hedged item. IFRIC 16 currently has no impact on the Group's consolidated financial statements.

- **IFRIC 17 "Distributions of Non-Cash Assets to Owners"** is to be applied prospectively for fiscal years beginning on or after July 1, 2009 if accepted in its current form by the EU. Under IFRIC 17, dividends must be capitalized when they are approved and no longer at the discretion of the distributing entity. Non-cash dividends must be assessed at the fair value of the assets in question. If there is a difference between the fair value and the carrying amount of the assets, they will be reported at fair value impacting income. IFRIC 17 currently has no impact on the Group's consolidated financial statements.

The Group will apply the new and amended IFRS at the latest when required to do so by EU law.

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 Thsd. EUR	Equity Dec. 31, 2008 Thsd. EUR	Net income 2008 Thsd. EUR
USU AG, Möglingen	100.00	5,738	6,592	382
LeuTek GmbH, Leinfelden-Echterdingen [1)]	100.00	26	2,412	2,405
Omega Software GmbH, Obersulm [1)]	100.00	77	970	109
USU Software s.r.o., Brno, Czech Republic	100.00	58	183	-2
USU (Switzerland) AG, Zug, Switzerland	100.00	68	-405	-5
Openshop Internet Software GmbH, Ludwigsburg	100.00	40	-777	1
Gentner PROCommunication GmbH i.L., Möglingen [2)]	100.00	51	-932	648

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

5. Currency and currency translation

Business transactions are translated at the exchange rate prevailing on the date of the transaction. Monetary items in foreign currencies are translated on every balance sheet date at their closing rates. Non-monetary items that are reported at their historical cost are translated at the rate as of the date on which the business transaction took place. Non-monetary items that are reported at their fair value are translated at the rate which was current at the time the fair value was derived. Differences arising from currency translations at closing rates have an impact on income.

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 intra-group 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, 2008	Dec. 31, 2007	2008	2007
Swiss francs (CHF)	1.4850	1.6547	1.5786	1.6459
Czech koruna (CZK)	26.394	26.628	24.999	27.683

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 Consolidated Notes 7.6 and 13), determining the probable economic useful life of intangible assets (Consolidated Notes 7.1 and 8), deciding in favor of not capitalizing software development costs (Consolidated Note 7.18), allowances for doubtful debts (Consolidated Note 14). contingent liabilities, pension provisions (Consolidated Note 21), and other provisions (Consolidated Note 23) as well as the estimation of the feasibility of tax benefits in the form of capitalization of deferred taxes on tax loss carry forwards (Consolidated Note 28).

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 (see Consolidated Note 9), 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. 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. "Amortization on intangible assets recognized in the course of company acquisitions" is reported separately in the income statement.

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 2007 and 2008.

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 see Consolidated Notes 8 and 9.

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 Software GmbH, 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, see the Consolidated Notes to segment reporting under F.

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 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 goodwill are not permitted.

7.4. Financial instruments

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

(a) financial assets which are reported at fair value impacting income,
(b) held-to-maturity investments,
(c) loans and receivables, and
(d) available-for-sale financial assets.

Financial assets with fixed or determinable payments and fixed maturity that the Company intends and has the ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity financial assets. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets reported at fair value impacting income. All other financial assets apart from loans and receivables originated by the Company are classified as available-for-sale financial assets. 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.

With the exception of the asset values of non-qualifying insurance policies, 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 changes in the fair value of available-for-sale financial assets are 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 Consolidated 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 (tax liabilities) 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 withdrawal. It is planned to withdraw shares in 2009.

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.

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. In cases where there is a major impact on the time value of money, long-term provisions are discounted.

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.

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.

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

8. Intangible assets

Reference is made to the disclosures in the Consolidated Statement of Changes in Non-Current Assets (Attachments A and B of the Consolidated Notes) 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:

CGUs	2008 Thsd. EUR	2007 Thsd. EUR
USU AG (Product Business)	376	376
USU AG (Service Business)	85	85
LeuTek	829	829
Omega	69	69
	1,359	**1,359**

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 Consolidated Note 9.

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

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

9. 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 Consolidated 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 and the mid-term planning based on it. 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.

Planning is based on the following growth rates:

	2009	2010	2011
USU AG	15.4%	8.5%	4.5%
LeuTek	7.8%	4.0%	4.0%
Omega	23.0%	4.0%	4.0%

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 9.52% (2007: 11.20%) 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 12.21% (2007: 14.2%). For the Service Business division of the CGU USU AG, an after-tax capitalization rate of 7.77% (2007: 9.45%), corresponding to a pre-tax capitalization rate of 10.01% (2007: 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 124 thousand (2007: EUR 235 thousand) were created on tax loss carry forwards recognized in income at the subsidiary USU AG in the 2008 fiscal year as in 2007. 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 following table shows how goodwill breaks down over the CGUs:

CGUs	2008 Thsd. EUR	2007 Thsd. EUR
USU AG (Product Business)	11,440	11,542
USU AG (Service Business)	2,593	2,616
LeuTek	10,448	9,570
Omega	2,627	2,627
	27,108	**26,355**

The changes in goodwill for each entity in fiscal years 2008 and 2007 are shown in the following table.

	Product Business	Service Business	Group
As of January 1, 2007	**23,930**	**2,660**	**26,590**
Amortization of deferred taxes from loss carry forwards recognized in income (USU AG)	-191	-44	-235
As of December 31, 2007	**23,739**	**2,616**	**26,355**
Amortization of deferred taxes from loss carry forwards recognized in income (USU AG)	-101	-23	-124
Earn out obligation (LeuTek)	877	0	877
As of December 31, 2008	**24,515**	**2,593**	**27,108**

Moreover, as part of the acquisition of LeuTek, cash payments were agreed with the former majority shareholder of LeuTek in fiscal year 2006 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 at the end of fiscal year 2008, the entire amount of earn out remuneration for the three-year period could be determined. Overall, this resulted in an additional earn out obligation of EUR 877 thousand subject to a review by the majority shareholder of LeuTek.

The following table explains the sensitivity to an unscheduled impairment of goodwill according to certain key assumptions:

Additional unscheduled impairment of goodwill at	Increase in the capitalization rate by one percentage point	Increase in the capitalization rate by two percentage points
USU AG (Product Business)	0	630
USU AG (Service Business)	0	0
LeuTek	0	0
Omega	0	118

10. Property, plant and equipment

Scheduled depreciation of property, plant and equipment in fiscal year 2008 amounted to EUR 279 thousand (2007: EUR 297 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 of the Consolidated Notes) with regard to the classification of property, plant and equipment.

11. Other non-current assets

The other non-current assets primarily include asset values of insurance policies amounting to EUR 500 thousand (2007: EUR 461 thousand), whereby the persons entitled to maintenance have no access to the insurance.

12. 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 1,540 thousand in 2008 (2007: EUR 1,004 thousand).

13. Work in process

The following table gives an overview of the work in process as of December 31, 2008 and 2007 and the associated billings:

	2008 Thsd.	2007 Thsd.
Contract costs plus unbilled contract earnings	2,786	1,377
of which agreements for services pursuant to IAS 18	1,033	376
of which construction contracts pursuant to IAS 11	1,753	1,001
less amounts from progress billings	-1,402	-1,036
Balance	**1,384**	**341**
of which: work in process	1,827	588
of which: liabilities from received payments	-443	-247

Sales revenue of EUR 3,414 thousand (2007: EUR 2,974 thousand) was realized in fiscal year 2008 as a result of construction contracts pursuant to IAS 11.

14. Trade receivables

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

	2008 Thsd. EUR	2007 Thsd. EUR
Trade receivables	5,621	5,613
Value allowance as of January 1	-409	-388
Utilizations in the fiscal year	240	28
Addition recognized as expense	-69	-49
Release	0	0
Valuation allowance as of December 31	-238	-409
	5,383	**5,204**

As of December 31, 2008, valuation allowances were undertaken for trade receivables with a nominal value of EUR 358 thousand (2007: EUR 848 thousand).

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

			Overdue but not impaired				
	Total	Neither overdue nor impaired	<=30 days	31-90 days	91-180 days	181-360 days	>360 days
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
2008	5,263	3,897	1,366	0	0	0	0
2007	4,765	3,395	1,370	0	0	0	0

There were no receivables for which the payment date was renegotiated and which would have been adjusted otherwise either as of the balance sheet date or in the previous year.

15. Income tax receivables

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

16. Other current financial assets

Other current assets are composed of the following items:

	2008 Thsd. EUR	2007 Thsd. EUR
Receivables from employees	67	85
Interest accrued on securities	34	81
Short-term loans	0	125
Impairments	0	-75
Other receivables	143	194
	244	**410**

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

			Overdue but not impaired				
	Total	Neither overdue nor impaired	<=30 days	31-90 days	91-180 days	181-360 days	>360 days
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
2008	244	244	0	0	0	0	0
2007	360	360	0	0	0	0	0

17. Prepaid expenses

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

18. Securities

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

Year	Cost Thsd. EUR	Unrealized gains Thsd. EUR	Unrealized losses Thsd. EUR	Market value Thsd. EUR
2008	3,463	63	-121	3,405
2007	4,929	67	-139	4,857

As of December 31, 2008, EUR 1,367 thousand (2007: EUR 3,537 thousand) of the available-for-sale securities were due within one year, EUR 2,038 thousand (2007: EUR 1,320 thousand) due within one and five years, and EUR 0 thousand (2007: EUR 0 thousand) after more than ten years. The proceeds from the sale of available-for-sale securities in the 2008 fiscal year include gross gains totaling EUR 39 thousand (2007: EUR 0 thousand) and gross losses of EUR 0 thousand (2007: EUR 2 thousand).

19. Cash on hand and bank balances

This item breaks down as follows:

	2008 Thsd. EUR	2007 Thsd. EUR
Fixed-term and overnight deposits	2,465	2,216
On-call deposits	3,667	2,844
Cash	4	4
	6,136	**5,064**

20. Shareholders' equity

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

20.1. Subscribed capital and shares

As of December 31, 2008, 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, 2007.

20.2. Authorized capital

By resolution of the Annual General Meeting of July 12, 2007, the existing authorized capital was lifted 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.

20.3. 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.

20.4. Capital reserve

The capital reserve primarily contains the cash premium from the issue of shares by USU Software AG amounted to EUR 52,764 thousand as of the balance sheet date.

20.5. Legal reserve

The legal reserve was created pursuant to Section 150(1) AktG and relates to USU AG only.

20.6. Treasury shares

By resolution of the Annual General Meeting on July 12, 2007, the Management Board of the Company was authorized pursuant to 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. By resolution of the Annual General Meeting on July 19, 2008, the resolution of July 12, 2007 was lifted and replaced with a new resolution, under which the Management Board of the Company was authorized pursuant to 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 December 18, 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 part of the share buy-back program, a total of 260,000 shares at total price of EUR 874,374.47 (excluding incidental costs of acquisition) were acquired in the period from May 29, 2008 to November 14, 2008. This represents an average purchase price of EUR 3.3630 per share.

The buy back was carried out in accordance with the above-mentioned authorization. In the period from May 29, 2008 up to and including June 18, 2008, USU Software AG acquired 16,451 shares at total price of EUR 62,273.51 (excluding incidental costs of acquisition) on the basis on the authorization granted by the Annual General Meeting on July 12, 2007. This represents 0.16% of USU Software AG's capital stock as of the date of Annual General Meeting on July 12, 2007. The average purchase price per share was EUR 3.7854. The share buy-back program was continued on June 19, 2008 on the basis of the authorization by the Annual General Meeting to purchase treasury shares granted on the same day. The total number of treasury shares acquired as of November 14, 2008 based on this authorization was 243,549. This corresponds to 2.36% of the capital stock as of the date of Annual General Meeting on July 19, 2008. The total price was EUR 812,100.96 (excluding incidental costs of acquisition). The average purchase price per share was EUR 3.3344.

As of December 31, 2008, the Company thus holds 313,950 treasury shares with an imputed share in the capital stock of EUR 314 thousand. At December 31, 2008, this corresponds to 3.0% (December 31, 2007: 0.5%) of the capital stock. All treasury shares held as of the balance sheet date are to be withdrawn in order to reduce subscribed capital.

20.7. 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.

		2008	2007
Net profit:	Thsd. EUR	1,294	4,536
Annual average number of shares:	shares	10,185,235	10,281,054
Basic earnings per share:	Thsd. EUR	0.13	0.44

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

	2008 Shares	2007 Shares
Number of shares as of January 1	10,335,004	10,335,004
Treasury shares as of January 1	-53,950	-53,950
Buy back of treasury shares in 2008	-260,000	0
	10,021,054	**10,281,054**

20.8. Appropriation of net profit

The Management Board proposes to distribute a dividend of EUR 0.15 per share for 10,021,054 shares (EUR 1,503 thousand) from the unappropriated surplus of USU Software AG as of December 31, 2008. Treasury shares do not participate in profit.

21. 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 on the other. 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 6.32% (2007: 5.5%) and employee turnover of 0% (2007: 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, a pension trend of 0% is reported. The average annual return on plan assets is projected to be 3.8% (2007: 4.1%). 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, 2008.

As of December 31, 2008, the Company charged directly EUR 202 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:

	2008 Thsd. EUR	2007 Thsd. EUR	2006 Thsd. EUR	2005 Thsd. EUR	2004 Thsd. EUR
Present value of benefit obligation as of January 1	1,402	1,664	1,351	1,061	909
Additions from company acquisition (LeuTek)	0	0	250	0	0
Past service costs	19	20	4	0	0
Interest cost	77	75	63	53	50
Actuarial gains/losses recorded without impact on income	-191	-357	-4	237	102
Present value of benefit obligation as of December 31	**1,307**	**1,402**	**1,664**	**1,351**	**1,061**

Development of plan assets:

	2008 Thsd. EUR	2007 Thsd. EUR	2006 Thsd. EUR	2005 Thsd. EUR	2004 Thsd. EUR
Fair value of plan assets as of January 1	1,104	1,068	790	639	494
Additions from company acquisition (LeuTek)	0	0	93	0	0
Income from plan assets (interest income)	35	38	30	24	18
Payments into plan assets	64	33	134	134	127
Amortization of plan assets	-44	-25	0	0	0
Actuarial gains/losses recorded without impact on income	-6	-10	21	-7	0
Fair value of plan assets as of December 31	**1,153**	**1,104**	**1,068**	**790**	**639**

Development of the obligation posted in the balance sheet:

	2008 Thsd. EUR	2007 Thsd. EUR	2006 Thsd. EUR	2005 Thsd. EUR	2004 Thsd. EUR
Present value of pension obligation	1,307	1,402	1,664	1,351	1,061
Fair value of plan assets	1,153	1,104	1,068	790	639
Obligations reported	**154**	**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 2009 fiscal year were estimated at EUR 44 thousand.

The following amounts were reported in the Income Statement:

	2008 Thsd. EUR	2007 Thsd. EUR	2006 Thsd. EUR	2005 Thsd. EUR	2004 Thsd. EUR
Past service costs	-19	-20	-4	0	0
Interest cost	-77	-75	-63	-53	-50
Income from plan assets (interest income)	35	38	30	24	18
Amortization of plan assets	-44	-25	0	0	0
	-105	**-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 38 thousand in the 2008 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 32 thousand in 2008 (2007: EUR 22 thousand).

In addition, the German statutory pension fund is considered a defined contribution plan. Expenses recognized for the statutory pension fund total EUR 740 thousand (2007: EUR 676 thousand). Of this amount, EUR 15 thousand (2007: EUR 6 thousand) is attributable to Management Board members.

22. Personnel-related liabilities

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

	2008 Thsd. EUR	2007 Thsd. EUR
Vacation and variable remuneration	2,754	2,285
Other personnel-related liabilities	454	412
	3,208	**2,697**

23. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2008 TEUR	2007 TEUR
Outstanding invoices	231	205
Other liabilities	1,507	593
Other provisions	546	564
	2,284	**1,362**

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 2008 fiscal year:

In Thsd. EUR	As of Jan. 1, 2008	Additions	Utilizations	Release	As of Dec. 31, 2008
Operating obligations	319	246	237	21	307
Other obligations	245	1	0	7	239
	564	**247**	**237**	**28**	**546**

24. Liabilities from received payments

This item is a result of the payments received on account which exceed the services rendered on a particular contract on one hand. Reference is made here to our comments on work in process (Consolidated Note 13). On the other hand, this position also includes payments received for licenses ordered.
The liabilities from payments on account qualify as current liabilities.

25. Trade payables

All trade payables are due within 12 months.

26. Additional information on financial instruments

On the basis of the relevant balance sheet items, the following tables 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 year 2008 as in the previous year.

in Thsd. EUR as of Dec 31, 2008	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	
Long-term financial instruments						
Loans to members of the Management Board, rental deposit	L+R [1)]	367	367	0	0	367
Work in progress	IAS 11	1,827	1,827	0	0	1,827
Trade receivables	L+R	5,383	5,383	0	0	5,383
Other current financial assets	L+R	244	244	0	0	244
Securities	AFS [2)]	3,405	0	3,405	0	3,405
Cash on hand and bank balances	L+R	6,136	6,136	0	0	6,136
Aggregated by class / category						
Loans and receivables	L+R	12,130	12,130	0	0	12,130
Available-for-sale	AFS	3,405	0	3,405	0	0
Work in progress	IAS 11	1,827	1,827	0	0	1,827

in Thsd. EUR as of Dec 31, 2008	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	AC [3]	1,122	1,122	0	0	1,122
Liabilities from payments received	AC	461	461	0	0	461
Aggregated by class/ category						
Evaluated at amortized cost	AC	1,583	1,583	0	0	1,583

[1] L+R: Loans and receivables [2] AFS: Available-for-sale [3] AC: Amortized cost

in Thsd. EUR as of 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	
Long-term financial instruments						
Loans to members of the Management Board, rental deposit	L+R	360	360	0	0	360
Work in progress	IAS 11	588	588	0	0	588
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	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
Work in progress	IAS 11	588	588	0	0	588

in Thsd. EUR as of Dec 31, 2007	IAS 39 category or IFRS 7 class	Carrying amount	Balance sheet measurement pursuant to IAS 39: Amortized cost	Balance sheet measurement pursuant to IAS 39: Fair value not impacting income	Balance sheet measurement pursuant to IAS 39: Fair value impacting income	Fair value
Current financial liabilities						
Trade payables	amortized cost	1,047	1,047	0	0	1,047
Liabilities from received payment	amortized cost	247	247	0	0	247
Aggregated by class/ category						
Evaluated at amortized cost	amortized cost	1,294	1,294	0	0	1,294

Cash on hand and bank balances, work in progress, 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:

Thsd. EUR	From interest	From subsequent measurement: at fair value	From subsequent measurement: Valuation allowance	From subsequent measurement: Additions	From disposals	Net profit 2008	Net profit 2007
Net gains/losses from financial instruments in the category							
Loans and receivables	234	0	-69	0	-71	94	367
Available-for-sale	121	39	0	0	39	199	117
Financial liabilities							
Evaluated at amortized cost	0	0	0	0	0	0	0
Total	**355**	**39**	**-69**	**0**	**-32**	**293**	**484**

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 Consolidated 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 year 2008 net remeasurement gains and losses of EUR -39 thousand (2007: EUR 1 thousand) were recorded. Of the amounts recognized in equity in the 2008 fiscal year, total profits of EUR 13 thousand (2007: losses of EUR 2 thousand) were transferred to the Income Statement.

As in fiscal year 2007, income and expenditure from fees and commissions were only incurred to a low degree in 2008.

The following table shows a summary the impairment losses for every class of financial asset:

	2008 Thsd. EUR	2007 Thsd. EUR
Impairment losses recognized in the category of:		
Loans and receivables	-69	-49
Available-for-sale	**0**	**0**
	-69	**-49**

27. 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.

28. Deferred taxes

Moreover at both USU AG and USU Software AG deferred tax assets on tax loss carry forwards for future earnings totaling EUR 978 thousand (2007: 1,041 thousand) were created as a result of the positive earnings development in the past years and the positive earnings planning for 2009. As in the previous year, the level of capitalization was determined for the planning year only 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:

	2008 Thsd. EUR	2007 Thsd. EUR	Change impacting income 2008 Thsd. EUR	Change not impacting income 2008 Thsd. EUR
Deferred tax assets:				
Provisions	95	85	14	-4
Prepaid expenses	0	2	-2	0
Receivables	127	15	112	0
Other	14	0	14	0
From tax loss carry forwards	2,856	3,154	-298	0
Deferred tax assets, gross	**3,092**	**3,256**	**-160**	**-4**
Deferred tax liabilities:				
Provisions	49	13	13	-49
Intangible assets	1,514	1,716	202	0
Treasury shares	138	138	0	0
Work in process	379	213	-166	0
Securities	34	41	15	-8
Receivables	0	94	94	0
Deferred tax liabilities, gross	**2,114**	**2,215**	**158**	**-57**
Balance	**978**	**1,041**	**-2**	**-61**
Net deferred taxes reported in the balance sheet:				
Deferred tax assets:	978	1,041		
Deferred tax liabilities:	0	0		

As of December 31, 2008, deferred tax assets of approximately EUR 42,362 thousand (2007: EUR 50,491 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 approximately EUR 417 thousand (2007: EUR 451 thousand).

Tax loss carry forwards of EUR 20,252 thousand (2007: EUR 20,525 thousand) have not been recognized by the tax authorities and are not included in the above-mentioned 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.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

29. Sales revenue

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

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

	2008 Thsd. EUR	2007 Thsd. EUR
Consulting	19,751	18,765
Licenses	5,968	4,997
Maintenance	6,586	6,398
Other	1,672	887
	33,977	**31,047**

30. Cost of sales

The cost of sales includes the following expenses:

	2008 Thsd. EUR	2007 Thsd. EUR
Personnel expenses	7,380	6,650
Fees for freelancers and hired workers	6,750	5,562
Scheduled amortization	169	155
Other expenses	3,099	2,791
	17,398	**15,158**

31. Sales and marketing expenses

Sales and marketing expenses include the following expenses:

	2008 Thsd. EUR	2007 Thsd. EUR
Personnel expenses	3,192	2,718
Scheduled amortization	50	62
Other expenses	2,835	2,616
	6,077	**5,396**

32. General administrative expenses

General administrative expenses include the following expenses:

	2008 Thsd. EUR	2007 Thsd. EUR
Personnel expenses	1,607	1,435
Scheduled amortization	63	68
Other expenses	1,321	1,224
	2,991	**2,727**

33. Research and development expenses

Research and development expenses include the following expenses:

	2008 Thsd. EUR	2007 Thsd. EUR
Personnel expenses	4,267	3,915
Scheduled amortization	91	100
Other expenses	969	851
	5,327	**4,866**

34. Other operating income

Other operating income includes mainly back payments of EUR 168 thousand for value added tax from other periods due to the outside audit completed in fiscal year 2008. This item also contains income from the reversal of provisions of EUR 28 thousand (2007: EUR 65 thousand) and from the sale of assets totaling EUR 4 thousand (2007: EUR 145 thousand).

35. Other operating expenses

Other operating expenses include mainly back payments of EUR 495 thousand for value added tax from other periods due to the outside audit completed in fiscal year 2008.

36. Goodwill amortization

As a result of the positive earnings development in recent years as well as positive earnings planning for fiscal year 2009, new deferred tax assets of EUR 124 thousand (2007: EUR 235 thousand) were created on tax loss carry forwards recognized in income at the subsidiary USU AG in the fiscal year 2008 (see Consolidated Note 9). 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, goodwill was not further amortized despite the creation of deferred tax assets on tax loss carry forwards at USU Software AG as the current fiscal entity.

37. Financial income

Financial income includes the following items:

	2008 Thsd. EUR	2007 Thsd. EUR
Interest income	355	316
Interest pursuant to Section 233a of the German Tax Code	301	2
Reversal of bad debt allowances	0	212
Income from security sales	36	1
Other	58	47
Financial income	**750**	**578**

38. Financial expenditure

Financial expenditure includes the following expenses:

	2008 Thsd. EUR	2007 Thsd. EUR
Interest cost from pension obligation	93	75
Interest pursuant to Section 233a of the German Tax Code	140	0
Other	9	38
Financial expenditure	**242**	**113**

39. Income taxes

Income taxes break down as follows:

	2008 Thsd. EUR	2007 Thsd. EUR
Income taxes for the fiscal year	-128	-360
Income taxes for previous years	-51	13
Deferred taxes	-2	2,526
Tax expense/income	**-181**	**2,179**

In fiscal year 2008, the income generated by USU Software AG is subject to a corporate income tax rate of 15% (2007: 25%) based on the corporation tax reform which took effect on January 1, 2008 plus the solidarity surcharge of 5.5% (2007: 5.5%) of corporate income tax and an effective municipal trade tax rate of 12.1% (2007: 10.9%). The compounded tax rate including the solidarity surcharge and the effective trade tax rate amounts to 27.9% (2007: 37.2%).

Deferred taxes on intercompany profits are calculated on the basis of the current or future applicable interest rate.

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

	2008 Thsd. EUR	2007 Thsd. EUR
Profit before income tax	1,475	2,357
Theoretical tax expense 27.9% (2007:37.2%)	-412	-877
Changes in the theoretical tax expense owing to:		
Release of allowance for deferred taxes on loss carry forwards	344	2,401
Effect of changes in tax rates	0	480
Unrecognized deferred taxes on tax loss carry forwards	61	431
Goodwill amortization	-35	-87
Tax refunds/back payments for other periods	-51	13
Non-deductible expenses	-42	-10
Deviation from foreign tax rates	3	-18
Other	-49	-154
Tax expense/income	**-181**	**2,179**

40. Other notes to the income statement

The average headcount in the fiscal year was:

	2008	2007
Consulting and services	101	92
Research and development	89	87
Administration and finance	27	33
Sales and marketing	34	27
	251	**239**

Personnel expenses break down as follows:

	2008 Thsd. EUR	2007 Thsd. EUR
Wages and salaries	13,972	12,483
Social security, pensions and other benefit costs	2,475	2,233
	16,447	**14,716**

Amortization breaks down as follows:

	2008 Thsd. EUR	2007 Thsd. EUR
Scheduled amortization of intangible assets	918	1,058
Scheduled amortization of intangible assets	279	297
Unscheduled goodwill amortization	124	235
	1,321	**1,590**

E. 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 with the exception of fixed deposits with a term of less than three months (see Note 44). 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 2008 fiscal year, the USU Group generated positive cash flow of EUR 1,814 thousand from operating activities after cash flow of EUR 2,878 thousand in 2007.

42. Net cash flow from investing activities

Cash flow from investing activities mainly reflects the sale of securities and the purchase of fixed deposits in the past fiscal year. During the reporting period, this resulted in net expenditure for investing activities totaling EUR 1,069 thousand, compared with the corresponding figure of EUR 2,465 thousand in fiscal year 2007.

Released cash and cash equivalents totaling EUR 2,300 thousand (2007: EUR 0 thousand) were invested in fixed deposits with a term of one year. EUR 680 thousand (2007: EUR 2,074 thousand) was invested in low-risk securities with a short term and money market funds, which were offset by disposals of securities amounting to EUR 2,197 thousand (2007: EUR 39 thousand). In fiscal year 2008, investments in fixed assets and other intangible assets totaled EUR 343 thousand (2007: EUR 381 thousand) and mostly include cash flows for reinvestments and replacements in hardware and software.

43. Net cash flow from financing activities

Negative cash flow from financing activities in the reporting period mainly comprises the distribution of dividends to the shareholders of USU Software AG carried out in June 2008 totaling EUR 1,540 thousand (EUR 0.15 per share for 10,264,263 shares) and the withdrawal of acquired treasury shares of EUR 874.

44. Cash and cash equivalents

The following table shows the components of cash and cash equivalents. Fixed deposits with a term of over three months are not included in cash and cash equivalents.

	2008 Thsd. EUR	2007 Thsd. EUR
Fixed-term and overnight deposits with a term of less than 3 months	165	2,216
On-call deposits	3,667	2,844
Cash	4	4
	3,836	5,064

F. SEGMENT REPORTING

The Group applied IFRS 8 “Operating Segments” early on January 1, 2008. IFRS 8 requires the disclosure of information on the Group’s business segments. The standard replaces IAS 14 “Segment Reporting” and assumes the management approach for segment reporting in accordance with IFRS as also required under US GAAP in accordance with SFAS 131. It also states that the reporting segments must be divided up according to internal reporting.
USU operates in two business segments –“Product Business” and “Service Business”.
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 Knowledge Center for optimization of knowledge-intensive business processes.

The Knowledge Center is a modular, web-based product line, supports customers in structuring topics and unifying their information access and 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, carrying out IT projects on one's own responsibility or providing project support with qualified IT staff.

Unallocated activities mainly include administrative expenses for the parent company (Management Board, Finance, Legal, etc.) as well as sales from the sale of goods to employees, the cost transfer of liability insurance premiums to freelance workers, and securities and bank balances.

Internal management and reporting are based on the principles of the principles of IFRS accounting regulations described in Note 7. The Group measures the success of its segments on the reporting result described in internal management and reporting as EBIT.

The segment EBIT is made up of gross income from sales, sales and marketing expenses, general administrative expenses, research and development expenses, amortization on intangible assets recognized in the course of company acquisitions, goodwill amortization, and other operating expenses.

Segment results, segment assets, and segment liabilities are all derived according to the accounting policies applied by the Group for its consolidated financial statements. Segment assets include all assets but exclude assets from income taxes and certain financial instruments (including liquidity).

Segment liabilities include all liabilities but exclude income tax liabilities and liabilities from pensions and similar obligations as well as certain financial instruments (including financial obligations).

Information in the following table on segment investments and scheduled amortizations include intangible assets (including goodwill) and property, plant and equipment.

The following table reconciles segment sales revenue and results with Group sales revenue and results.

In Thsd. EUR	Product Business		Service Business		Total Segments		Unallocated		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Sales revenue	**22,320**	**21,542**	**11,621**	**9,469**	**33,941**	**31,011**	**36**	**36**	**33,977**	**31,047**
Earnings before net financial income and income taxes	2,003	3,102	1,396	879	3,399	3,981	-2,432	-2,089	967	1,892
Financial income					0	0	750	578	750	578
Financial expenditure					0	0	-242	-113	-242	-113
Income tax					0	0	-181	2,179	-181	2,179
Net profit/loss for the Group	**2,003**	**3,102**	**1,396**	**879**	**3,399**	**3,981**	**-2,105**	**555**	**1,294**	**4,536**
Segment assets/ Group assets	35,855	37,131	5,972	4,955	41,827	42,086	12,326	11,183	54,153	53,269
of which goodwill	24,515	23,739	2,593	2,616	27,108	26,355	0	0	27,108	26,355
Segment liabilities/ Group liabilities	4,813	3,935	1,119	868	5,932	4,803	2,300	1,987	8,232	6,790
Segment investments	265	218	57	130	322	348	21	33	343	381
Scheduled amortization	1,071	1,236	102	90	1,173	1,326	24	29	1,197	1,355
Goodwill amortization	101	192	23	43	124	235	0	0	124	235
Employees – balance sheet date (December 31)	181	181	53	46	234	227	18	18	252	245

There was no inter-segment sales revenue in fiscal year 2008 or 2007.

In fiscal year 2008, EUR 2,287 thousand (2007: EUR 2,379 thousand) or 6.7% (2007: 7.7%) of consolidated sales revenue was generated outside Germany, while EUR 31,689 thousand (2007: EUR 28,668 thousand) or 93.3% (2007: 92.3%) was generated in Germany. The geographic assignment of sales revenue is based on the country in which the customer is domiciled.

The Group has no transactions with external individual customers that make up more than 10% of Group sales revenue.

Assets held as well as investments made outside Germany total less than 10% of the corresponding total value. Further details of the geographical data not been provided for reasons of materiality.

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

	2008 Thsd. EUR	2007 Thsd. EUR
Segment assets	**41,827**	**42,086**
Unallocated assets		
Securities	2,960	2,830
Cash on hand and bank balances	5,936	4,864
Deferred tax assets	978	1,041
Income tax receivables	1,392	1,234
Other assets	1,060	1,214
	12,326	**11,183**
Group assets	**54,153**	**53,269**

	2008 Thsd. EUR	2007 Thsd. EUR
Segment liabilities	**5,932**	**4,803**
Unallocated liabilities		
Pension provisions	154	298
Other liabilities	2,146	1,689
	2,300	**1,987**
Group liabilities	**8,232**	**6,790**

G. OTHER NOTES

45. 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. Companies that are already fully consolidated in the consolidated financial statements are not related parties. According to IAS 24.3, the senior management and the members of the Supervisory Board are seen as related parties. In fiscal year 2008, 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.

45.1. Udo Strehl / Udo Strehl Private Equity GmbH (USPEG)

USU AG incurred EUR 29 thousand (2007: EUR 23 thousand) in expense for cost reimbursements to USPEG for marketing activities performed in fiscal year 2008. The costs of car leasing, travel expenses, and telecommunications for EUR 17 thousand were also paid (2007: EUR 17 thousand) to Mr. Udo Strehl for sales and marketing activities.

45.2. Karin Weiler-Strehl

USU AG engages the consulting services of Ms. Karin Weiler-Strehl, the wife of Mr. Strehl, via USPEG on a contract-by-contract basis. The expenses for these consulting contracts with Ms. Weiler-Strehl amounted to EUR 36 thousand in the 2008 fiscal year (2007: EUR 36 thousand).

USU AG rented the administrative building in Spitalhof, Möglingen from Ms. Karin Weiler-Strehl, Mr. Udo Strehl's wife. 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 is EUR 19.5 thousand (2007: EUR 19.5 thousand) plus ancillary costs. The deposit of EUR 240 thousand will bear interest of 4% p.a. from January 1, 2008. In the past fiscal year, USU AG was invoiced EUR 245 thousand (2007: EUR 246 thousand) for the rental of the administrative building and the parking spaces.

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 (2007: EUR 10 thousand) was paid.

45.3. Earn-out obligation toward shareholders

The obligation from the earn-out regulation to the former majority shareholder of LeuTek amounted to EUR 877 thousand in fiscal year 2008 and is reported under other provisions and liabilities.

There was no obligation from fiscal year 2007.

45.4. Loans to shareholders

As of December 31, 2008, there is a short-term loan of EUR 38 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 2008, a total of EUR 8 thousand was repaid.

45.5. 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)
Gerald Lamatsch (Executive Vice President, member of the Management Board since January 1, 2008)

Remuneration of the members of the Management Board totaled EUR 556 thousand (2007: EUR 460 thousand) in fiscal year 2008.

Fixed remuneration: EUR 388 thousand (2007: EUR 273 thousand)
Variable remuneration: EUR 94 thousand (2007: EUR 136 thousand)
Monetary value of benefits from private use of company vehicle: EUR 42 thousand (2007: EUR 29 thousand)
Defined contribution pension expenses: EUR 32 thousand (2007: EUR 22 thousand)

In 2006, 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 2008. a total of EUR 3 thousand was repaid. As of December 31, 2008 the loan was valued at EUR 117 thousand.

The total remuneration of the Supervisory Board in the fiscal year amounted to EUR 108 thousand (2007: EUR 73 thousand). Regulations on the compensation of the Supervisory Board can be found in the Management Report in the chapter entitled “Essential features of the compensation system”.

Please refer to Consolidated Note 21 with regard to the pension provision set up for a member of the Supervisory Board and former member of the Management Board.

46. Auditor's fees

a) Financial statements (single-entity and consolidated financial statements):

EUR 98 thousand (2007: EUR 97 thousand)

b) Other services

EUR 4 thousand (2007: EUR 6 thousand)

47. Other notes

47.1. Contingent liabilities

As of December 31, 2008 and December 31, 2007, there were no contingent liabilities to report.

47.2. 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:

	2008 Thsd. EUR	2007 Thsd. EUR
Obligations from operating leases		
In one year	**587**	460
In more than one to five years	592	596
In more than five years	0	0
	1,179	**1,056**
Other financial obligations from office rental		
In one year	**728**	669
In more than one to five years	1,834	1,147
In more than five years	984	1,224
	3,546	**3,040**
	4,725	**4,096**

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 Consolidated Note 45.2.

Expenses for operating leases and rent agreements amounted to EUR 1,187 thousand in fiscal year 2008 (2007: EUR 1,070 thousand).

47.3. Contingent assets

A tax audit for the 2001 – 2004 tax years, which was completed in 2008, resulted in back payments due to deducted input taxes not recognized in previous years. USU Software AG has appealed the underlying tax assessments at the relevant tax authority. The Company expects reimbursements not including interest income of EUR 545 thousand that were not included on the balance sheet as of December 31, 2008.

48. 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, 2008 and 2007, 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, 2008. 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. There were no changes as against the previous year.

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

49. Executive bodies

49.1. Management Board

The Management Board of the parent company in fiscal year 2008 consisted of:
Bernhard Oberschmidt Chairman of the Management Board
Economics graduate

The total remuneration of the active Management Board in fiscal year 2008 was EUR 214 thousand. Details can be found in the "Essential features of the compensation system" section of the Management Report and Group Management Report.

49.2. Supervisory Board

Members of the Supervisory Board in fiscal year 2008 were:

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

Günter Daiss, Vice Chairman
Insurance Officer
Member of the Supervisory Board of G. W. Barth AG, Freiberg a. N.
Vice 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

50. 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.

50.1. 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.

50.2. 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.

50.3. Stock market fluctuations/interest rate-related fair value risk

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 initially fixed-interest securities. 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, 2008 had been one basis point higher (lower), the fair value of the fixed-rate financial instruments would have been EUR 80 thousand less (EUR 78 thousand higher; previous year: EUR 73 thousand lower or EUR 75 thousand higher). Accordingly, the Company's equity would have been EUR 80 thousand less or EUR 78 thousand higher (previous year: EUR -73 thousand lower (EUR +75 thousand higher)). On account of the recognition of fair value changes in equity this would have no effect on net income.

50.4. Interest rate related cash flow risks

Changes in market interest rates mainly affect cash flows from money market funds at USU Software AG. If the market interest rate as of December 31 had been 1% higher (lower), earnings and equity would have been EUR 56 thousand higher (lower) (December 31, 2007: EUR 53 thousand) in each case.

50.5. 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.

51. 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.

As of December 31, 2008 and 2007, equity and total assets amounted to:

	2008 Thsd. EUR	2007 Thsd. EUR	Change %
Non-current liabilities	154	298	-48.3%
Current liabilities	8,078	6,492	24.4%
Borrowed capital	**8,232**	**6,790**	**21.2%**
Shareholders' equity	**45,921**	**46,479**	**-1.2%**
Total assets	**54,153**	**53,269**	**1.7%**
Equity ratio	84.8%	87.3%	

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 expanding net profits as part of positive future net profits for the year or by issuing new shares.

H. 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, 2008, 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	2008 Shares	2007 Shares
Management Board		
Bernhard Oberschmidt	**18,696**	18,696
Supervisory Board		
Udo Strehl *)	1,989,319	1,989,319
Erwin Staudt	100,000	50,000
Günter Daiss	85,500	35,500

*) *A further 3,773,868 voting shares (2007: 3,689,848) 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 “Knowledge is the Future” foundation, Udo Strehl, as Managing Director of this foundation is allocated 32,000 (2007: 32,000) voting rights in USU Software AG pursuant to Section 22 (1) Sentence 1 No. 1 WpHG.

On August 18, 2008, members of the Supervisory Board, Erwin Staudt and Günter Daiss, as well as Udo Strehl Private Equity GmbH (USPEG), the majority shareholder of which is Udo Strehl, Chairman of the Supervisory Board of USU Software AG, each acquired 18,000 shares in USU Software AG off-the-board.

On October 28, 2008, USPEG acquired another 100,000 shares in USU Software AG off-the-board. Of this amount, USPEG sold half of a total of 64,000 USU Software AG shares to each Supervisory Board member of the Company Günter Daiss und Erwin Staudt on November 14, 2008. Accordingly, Günter Daiss and Erwin Staudt received 32,000 shares of USU Software AG each from USPEG on November 14, 2008.

On December 18, 2008, USPEG purchased a total of 15,859 shares in USU Software AG via the Stuttgart Stock Exchange and the electronic trading system Xetra. On December 19, 2008, USPEG purchased an additional 4,000 shares in the Company via the Stuttgart Stock Exchange and the electronic trading system Xetra. On December 22, 2008, USPEG acquired another 10,161 shares in USU Software AG via the Stuttgart Stock Exchange.

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 http://www.usu-software.de.

I. DIVIDEND PAYMENT

The Management Board and the Supervisory Board propose a dividend payment of EUR 1,503 thousand (EUR 0.15 per share).

J. DECLARATION OF COMPLIANCE

The Management Board and Supervisory Board of USU Software AG issued the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 AktG on December 9, 2008 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 25, 2009

Bernhard Oberschmidt

Chairman of the Management Board

USU Software AG, Möglingen

Statement of Changes in Consolidated Assets 2008

Annex A to the Notes to the Consolidated Financial Statements

	Cost				Cumulative depreciation and amortization					Carrying amounts	
	Jan. 1, 2008 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Dec. 31, 2008 Thsd. EUR	Jan. 1, 2008 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Currency Thsd. EUR	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2008	Jan. 1, 2008
Intangible assets											
Purchased software/orders on hand	3,905	68	79	3,894	2,681	377	79	0	2,979	915	1,224
Trademarks and brands	1,880	0	0	1,880	521	0	0	0	521	1,359	1,359
Maintenance agreements	1,933	0	0	1,933	638	282	0	0	920	1,013	1,295
Customer base	2,595	0	0	2,595	390	259	0	0	649	1,946	2,205
	10,313	**68**	**79**	**10,302**	**4,230**	**918**	**79**	**0**	**5,069**	**5,233**	**6,083**
Goodwill	46,879	877	0	47,756	20,524	124	0	0	20,648	27,108	26,355
	46,879	**877**	**0**	**47,756**	**20,524**	**124**	**0**	**0**	**20,648**	**27,108**	**26,355**
Property, plant and equipment											
Land and buildings	141	30	0	171	71	11	0	0	82	89	70
Other equipment, furniture and fixtures	1,338	245	34	1,549	832	268	32	1	1,067	482	506
	1,479	**275**	**34**	**1,720**	**903**	**279**	**32**	**1**	**1,149**	**571**	**576**
Deferred tax assets	1,041	124	187	978	0	0	0	0	0	978	1,041
	1,041	**124**	**187**	**978**	**0**	**0**	**0**	**0**	**0**	**978**	**1,041**
Other non-current assets											
Rental deposit	240	10	0	250	0	0	0	0	0	250	240
Premium account	613	27	38	602	0	0	0	0	0	602	613
Loans	120	0	3	117	0	0	0	0	0	117	120
	973	**37**	**41**	**969**	**0**	**0**	**0**	**0**	**0**	**969**	**973**
	60,685	**1,381**	**341**	**61,725**	**25,657**	**1,321**	**111**	**1**	**26,866**	**34,859**	**35,028**

USU SOFTWARE AG

USU Software AG. Möglingen

Statement of Changes in Consolidated Assets 2007

Annex B to the Notes to the Consolidated Financial Statements

	Cost				Cumulative depreciation and amortization					Carrying amounts	
	Jan. 1,2007 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Dec. 31, 2007 Thsd. EUR	Jan. 1,2007 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Currency Thsd. EUR	Dec. 31, 2007 Thsd. EUR	Dec. 31, 2007 Thsd. EUR	Jan. 1, 2007 Thsd. EUR
Intangible assets											
Purchased software	3,816	89	0	3,905	2,198	483	0	0	2,681	1,224	1,618
Trademarks and brands	1,880	0	0	1,880	521	0	0	0	521	1,359	1,359
Maintenance agreements	1,933	0	0	1,933	323	315	0	0	638	1,295	1,610
Customer base	2,595	0	0	2,595	130	260	0	0	390	2,205	2,465
	10,224	**89**	**0**	**10,313**	**3,172**	**1,058**	**0**	**0**	**4,230**	**6,083**	**7,052**
Goodwill	46,879	0	0	46,879	20,289	235	0	0	20,524	26,355	26,590
	46,879	**0**	**0**	**46,879**	**20,289**	**235**	**0**	**0**	**20,524**	**26,355**	**26,590**
Property, plant and equipment											
Land and buildings	93	48	0	141	65	6	0	0	71	70	28
Other equipment, furniture and fixtures	1,180	244	86	1,338	597	291	56	0	832	506	583
	1,273	**292**	**86**	**1,479**	**662**	**297**	**56**	**0**	**903**	**576**	**611**
Deferred tax assets	808	233	0	1,041	0	0	0	0	0	1,041	808
	808	**233**	**0**	**1,041**	**0**	**0**	**0**	**0**	**0**	**1,041**	**808**
Other non-current assets											
Rental deposit/subsidized construction loan	231	240	231	240	0	0	0	0	0	240	231
Premium account/reinsurance	523	103	13	613	0	0	0	0	0	613	523
Loans to members of the Management Board	135	0	15	120	0	0	0	0	0	120	135
	889	**343**	**259**	**973**	**0**	**0**	**0**	**0**	**0**	**973**	**889**
	60,073	**957**	**345**	**60,685**	**24,123**	**1,590**	**56**	**0**	**25,657**	**35,028**	**35,950**

USU Software AG, Möglingen

Consolidated statement of shareholders' equity

Annex C to the Notes to the Consolidated Financial Statements

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	Subscribed capital		Capital reserve	Legal reserve	Treas. shares	Acc. losses	Other comprehensive income		Total
							Currency conversion	Securities measured at fair value	
	Number	Thsd.	Thsd.	Thsd. EUR	Thsd.	Thsd.	Thsd. EUR	Thsd. EUR	Thsd. EUR
Consolidated equity as of December 31, 2006	**10,335,004**	**10,335**	**52,320**	**81**	**-714**	**-19,396**	**60**	**-51**	**42,635**
Net profit 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/losses recorded without impact on income	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**
Net profit for the year	0	0	0	0	0	1,294	0	0	1,294
Gains/losses on marketable securities	0	0	0	0	0	0	0	26	26
Actuarial gains/losses recorded without impact on income	0	0	0	0	0	189	0	0	189
Currency translation differences	0	0	0	0	0	0	-36	0	-36
Deferred taxes	0	0	0	0	0	-53	0	-8	-61
Total income for the period	**0**	**0**	**0**	**0**	**0**	**1,430**	**-36**	**18**	**1,412**
Transfer to legal reserve	0	0	0	22	0	-22	0	0	0
Treasury shares acquired for withdrawal	0	0	0	0	-874	0	0	0	-874
Subsequent allowable input taxes from the IPO costs	0	0	444	0	0	0	0	0	444
Dividend payment	0	0	0	0	0	-1,540	0	0	-1,540
Consolidated equity as of December 31, 2008	**10,335,004**	**10,335**	**52,764**	**176**	**-1,588**	**-15,755**	**26**	**-37**	**45,921**

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, 2008. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 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 Section 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 assets, 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 IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Section 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 25, 2009

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

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

Annual Financial Statements 2008

TABLE OF CONTENTS

ANNUAL FINANCIAL STATEMENTS

USU Software AG, Möglingen
Balance sheet as of December 31, 2008

ASSETS

		Note	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2007 Thsd. EUR
A.	**NON-CURRENT ASSETS**			
	Financial assets	(1)		
	1. Shares in associated companies		24,252	23,325
	2. Other loans		0	50
			24,252	**23,375**
B.	**CURRENT ASSETS**			
I.	**Receivables and other assets**			
		(2)		
	1. Receivables to associated companies		3,248	2,739
	2. Other assets		1,185	829
			4,433	**3,568**
II.	**Securities**			
	Treasury shares	(3)	**106**	**221**
III.	**Cash on hand and bank balances**			
			61	351
			4,600	**4,140**
C.	**PREPAID EXPENSES**		**12**	**11**
			28,864	**27,526**

USU Software AG, Möglingen

Balance sheet as of December 31, 2008

LIABILITIES

		Note	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2007 Thsd. EUR
A.	**SHAREHOLDERS' EQUITY**			
I.	**Subscribed capital**	(4)	10,335	10,335
	Nominal amount of shares acquired for withdrawal		-260	0
	Issued capital		10,075	10,335
II.	**Capital reserve**	(7)	13,331	13,830
III.	**Retained earnings**			
	Reserve for treasury shares	(8)	106	221
IV.	**Net profit**		3,612	2,225
			27,124	**26,611**
B.	**PROVISIONS**			
	1. Provisions for taxes		39	20
	2. Other provisions	(9)	329	371
			368	**391**
C.	**LIABILITIES**	(10)		
	1. Trade payables		5	10
	2. Other liabilities		1,367	514
			1,372	**524**
			28,864	**27,526**

USU Software AG, Möglingen

Income Statement

for the fiscal year from January 1 to December 31, 2008

		Note	2008 Thsd. EUR	2008 Thsd. EUR	2007 Thsd. EUR	2007 Thsd. EUR
1.	Other operating income	(13)		1,029		828
2.	Personnel expenses					
	a) Wages and salaries		-333		-347	
	b) Social security, pensions and other benefit costs		-46	-379	-45	-392
	(of which for pensions: EUR 12 thousand; PY: EUR 12 thousand)					
3.	Other operating expenses	(14)		-1,299		-791
4.	Income from participations (of which in associated companies: EUR 1,200 thousand; PY: EUR 0 thousand)		1,200		0	
5.	Income from profit transfer agreements	(15)	2,515		2,029	
6.	Income from other securities and loans of financial assets		1		15	
7.	Other interest and similar income		214		21	
8.	Write-downs on financial assets and on securities	(3)	-115		0	
9.	Other interest and similar expenses (of which in associated companies: EUR 0 thousand; PY: EUR 0 thousand)		-140	3,675	0	2,065
10.	**Result of ordinary operations**			**3,026**		**1,710**
11.	Income taxes			-99		-126
12.	**Net profit for the year**			**2,927**		**1,584**
13.	Profit carried forward from the previous year			685		641
14.	Withdrawals from the capital reserve			614		8
15.	Offset by the shares acquired for withdrawal			-614		0
16.	Withdrawals from the reserve for treasury shares			115		0
17.	Transfers to capital reserve			-115		0
18.	Transfers to the reserve for treasury shares			0		-8
19.	**Net profit**			**3,612**		**2,225**

USU SOFTWARE AG, MÖGLINGEN
NOTES FOR 2008

A. General information

The annual financial statements of USU Software AG were prepared in accordance with Sections 242 ff and 264 ff of the German Commercial Code as well as the relevant regulations of the German Stock Corporation Act. As a listed company, USU Software AG is considered a large corporation under Section 267(3) Sentence 2 of the German Commercial Code.

The income statement was prepared in accordance with the nature of expense method under Section 275(2) of the German Commercial Code.

All figures are given in thousand euros (Thsd. EUR) if not otherwise stated.

B. Accounting policies

The preparation of the annual financial statements remained in accordance with the following accounting policies.

In terms of financial assets, the shares in associated companies, participations, and other loans were measured at the lower of cost or net realizable value. Impairments were made in cases of permanent loss of value.

Receivables and other assets were measured at their nominal value. Existing default risk was accounted for by creating suitable valuation allowances. Securities were measured at the lower of cost or net realizable value.

Other provisions and liabilities take into account all unknown liabilities and potential losses on open contracts. They are recognized in the amounts dictated by prudent business judgment.

Liabilities are recognized at their fulfillment amounts.

C. Notes to the Balance Sheet

1. Non-current assets

The development of the individual line items under non-current assets is presented under information on amortization in the fiscal year in the Notes column (Appendices to the Notes).

Notes to share ownership

USU Software AG owns shares in the following companies:

	Percentage Dec. 31, 2008 in %	Shareholders' equity Dec. 31, 2008 (Thsd. EUR)	Net income 2008 (Thsd. EUR)
USU AG, Möglingen	100.0	6,592	382
LeuTek GmbH, Leinfelden-Echterdingen [1)]	100.0	2,412	2,405
Omega Software GmbH. Obersulm [1)]	100.0	970	109
Openshop Internet Software GmbH, Ludwigsburg	100.0	-777	1

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

	Percentage Dec. 31, 2008 in %	Shareholders' equity Dec. 31, 2008 (Thsd. EUR)	Net income 2008 (Thsd. EUR)
USU Software s.r.o., Brno, Czech Republic	100.0	183	-2
USU (Switzerland) AG, Zug. Switzerland	100.0	-405	-5
Gentner GmbH ProCOMMUNICATION i.L., Möglingen [1)]	100.0	-932	648

[1)] Net income before consolidation

2. Receivables and other assets

The other assets item contains almost exclusively tax assets.

3. Treasury shares

By resolution of the Annual General Meeting on June 19, 2008, the Management Board of the Company was once again authorized pursuant to 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 December 18, 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, 2008, the Company continued to hold 53,950 treasury shares acquired in 2001 with an imputed share in the capital stock of EUR 54 thousand. At December 31, 2008, this corresponds to 0.5% (December 31, 2007: 0.5%) of the capital stock.

Treasury shares held by the Company from earlier acquisitions were accounted for at cost using the principle of the lower of cost or market and reported in the treasury shares item in the amount of EUR 106 thousand (December 31, 2007: EUR 221 thousand). An impairment of EUR 115 thousand was made to adjust for the drop in the market value from the balance sheet date as compared with the previous year.

As part of the authorizations granted at the 2007 and 2008 Annual General Meetings, the Company purchased an additional 260,000 treasury shares in fiscal year 2008 representing 2.5% of the capital stock. The Company incurred costs of EUR 833 thousand to carry out the purchase in several tranches. Due to a Management Board resolution drafted December 18, 2008 and approved by the Supervisory Board, these shares are intended to be withdrawn in order to reduce subscribed capital. In applying Section 272(1) Sentence 4 of the German Commercial Code, the nominal amount of the acquired shares of EUR 260 thousand was therefore offset against the Subscribed capital item as “Nominal amount of shares acquired for withdrawal”. The difference between the nominal amount offset against the subscribed capital and the purchase price of the treasury shares acquired in 2008 was EUR 614 thousand, which was offset in accordance with Section 272(1) Sentence 6 of the German Commercial Code against the capital reserve in accordance with Section 272(2) Number 4 of the German Commercial Code. Costs of EUR 9 thousand were recognized as past expense of the fiscal year.

Overall, the Company holds 313,950 treasury shares with an imputed share of EUR 314 thousand, or 3.4% of the capital stock, as of December 31, 2008.

Development in fiscal year 2008

	Number of shares	Amount in EUR	Share of capital stock in %
As of December 31, 2007	53,950	221,195	0.52
Impairment		-115,453	
Carrying amount as of December 31, 2008	**53,950**	**105,742**	**0.52**
Acquisition on June 11, 2008	9,770	38,188	0.09
Acquisition on June 18, 2008	6,681	24,711	0.06
Acquisition on June 25, 2008	6,519	24,250	0.06
Acquisition on July 2, 2008	7,663	28,712	0.07
Acquisition on July 9, 2008	9,283	33,513	0.09
Acquisition on July 16, 2008	13,068	45,970	0.13
Acquisition on July 23, 2008	13,878	49,453	0.13
Acquisition on July 30, 2008	16,559	60,310	0.16
Acquisition on August 6, 2008	18,602	65,045	0.18
Acquisition on August 13, 2008	16,477	57,064	0.16
Acquisition on August 20, 2008	17,965	61,049	0.17
Acquisition on August 27, 2008	18,742	66,079	0.18
Acquisition on September 3, 2008	16,624	58,722	0.16
Acquisition on September 11, 2008	14,205	49,801	0.14
Acquisition on September 18, 2008	12,849	43,880	0.12
Acquisition on September 24, 2008	10,835	36,454	0.10
Acquisition on October 1, 2008	10,109	33,588	0.10
Acquisition on October 8, 2008	9,787	31,484	0.09
Acquisition on October 15, 2008	4,288	12,396	0.04
Acquisition on October 22, 2008	9,770	24,337	0.09
Acquisition on October 29, 2008	12,576	29,179	0.12
Acquisition on November 5, 2008	3,071	7,445	0.03
Acquisition on November 14, 2008	679	1,614	0.01
Shares acquired for withdrawal	**260,000**	**883,244**	**2.52**
Offsetting in accordance with Section 272(1) Sentences 4-6 of the German Commercial Code		-883,244	
As of December 31, 2008	**313,950**		**3.04**

4. Subscribed capital

As of December 31, 2008, the subscribed capital of the Company remained 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.

The nominal amount of the treasury shares acquired for withdrawal in 2008 was EUR 260 thousand, which was offset against subscribed capital. Please refer to the information regarding the line item “Treasury Shares” under Section C. 3.

5. Authorized capital

By resolution of the Annual General Meeting of July 12, 2007, the existing authorized capital was lifted 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.

6. 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.

7. Capital reserve

Capital reserves were increased by EUR 115 thousand in response to a withdrawal from the reserve for treasury shares due to a value adjustment. In connection with the circumstances described under Section C.3, EUR 614 thousand was withdrawn, so the balance sheet item reports EUR 13,331 thousand as of December 31, 2008.

8. Reserve for treasury shares

Treasury shares accounted for in the treasury shares item have a corresponding reserve for treasury shares of EUR 106 thousand. EUR 115 thousand was withdrawn from it in fiscal year 2008 due to a market price-related value adjustment and added to the capital reserves.

9. Other provisions

Other provisions include costs for fulfilling obligations in accordance with company law of EUR 192 thousand, HR obligations of EUR 76 thousand and costs for the outstanding arbitration proceedings regarding the squeeze-out process of USU AG in the amount of EUR 61 thousand.

10. Liabilities

All liabilities reported in the balance sheet are due in less than one year. Other liabilities contain tax liabilities of EUR 489 thousand (2007: EUR 514 thousand).

11. Contingent liabilities

USU Software AG is jointly and severably liable for fulfilling its obligations arising from USU AG's rental contract for the business building in Spitalhof.

Furthermore, USU Software AG has submitted letters of comfort for Openshop Internet Software GmbH, Ludwigsburg (associated company). In these letters, USU Software AG, Möglingen, undertook to manage this subsidiary in fiscal years 2008 and 2009 and provide for it financially so that it may fulfill its obligations. Furthermore, USU Software AG subordinated all receivables to Openshop Internet Software GmbH in the amount of EUR 787 thousand.

12. Other financial obligations

In addition to contingent liabilities, other financial liabilities arising from a rental agreement totaling EUR 10 thousand exist as of the balance sheet date.

D. Notes to the Income statement

13. Other operating income

Other operating income mainly includes income from offsetting intra-Group services of EUR 533 thousand and income from other periods of EUR 455 thousand (almost exclusively tax refunds from previous years).

14. Other operating expenses

Other operating expenses include costs arising under company law. USU AG's expenses for services received amounting to EUR 258 thousand, and expenses of EUR 495 thousand from other periods arising from the back payment of taxes for previous years due to the findings of a tax audit.

15. Income from profit transfer agreements

The Company signed profit sharing agreements with Openshop Internet Software GmbH on March 2, 2000, Omega Software GmbH on May 19, 2005, and LeuTek GmbH on December 29, 2006. Under the agreements, the participating companies are required to transfer all their profits to USU Software AG for the duration of the contract. Transfers to capital reserves are only possible with the consent of USU Software AG. In contrast, USU Software AG undertakes to offset every net loss for the duration of the contract, if it cannot be offset by the release of capital reserves created during the contract.

Profits generated by Omega Software GmbH and LeuTek GmbH in fiscal year 2008 were received accordingly by USU Software AG under the signed profit transfer agreements.

Income from profit transfers by Openshop Internet Software GmbH have not been recognized since 2004, since Openshop Internet Software GmbH's net profit has been used to offset tax loss carryforwards originating before the contract by also applying Section 301 of the German Stock Corporation Act.

E. Other notes

16. Supervisory Board

Members of the Supervisory Board in fiscal year 2008 were:

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

Günter Daiss, Vice Chairman
Insurance Officer,
Member of the Supervisory Board of G. W. Barth AG, Freiberg a. N.
Vice 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

Total compensation of the Management Board

The total remuneration of the Management Board in the fiscal year amounted to EUR 214 thousand (2007: EUR 242 thousand). Details can be found in the compensation report section of the Management Report and Group Management Report for Fiscal Year 2008.

18. Compensation of the Supervisory Board

The remuneration of the Supervisory Board has included a fixed and a variable component since January 1, 2008. The fixed portion of the compensation amounted to EUR 85 thousand, while the variable component totaled EUR 0 thousand in fiscal year 2008. In the previous year, the Supervisory Board received a total fixed amount of EUR 50 thousand.

19. Auditor's fees

Financial statements (single-entity and consolidated financial statements): EUR 50 thousand (2007: EUR 53 thousand)
Other services: EUR 4 thousand (2007: EUR 6 thousand)

20. Disclosure requirement pursuant to Section 160 of the German Stock Corporation Act

On November 3, 2008, USU Software AG announced in accordance with Section 26(1) Sentence 2 of the WpHG (German Securities Trading Act) that its share of treasury shares of USU Software AG exceeded the 3% threshold of the voting rights on October 29, 2008 and amounted to 3.0001% (corresponding to 310,000 voting rights) as of that date.

21. Employees

There was average of 2 staff employed by the Company in fiscal year 2008 (2007: 2).

22. Group affiliations

USU Software AG is the parent company of the companies for which the shares were purchased. These are the companies affiliated with USU Software AG. In accordance with Section 315a Paragraph 1 of the German Commercial Code, USU Software AG prepared the consolidated financial statements pursuant to IFRS for the smallest and largest consolidation basis. The consolidated financial statements will then be published in the electronic Federal Gazette. In addition, the consolidated financial statements are available by request from USU Software AG in Möglingen. They are also accessible via USU Software AG's Internet site at http://www.usu-software.de.

23. Declaration in accordance with Section 161 of the German Stock Corporation Act regarding the Corporate Governance Code

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 9, 2008 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.

24. Appropriation of net profit

The Management Board proposes using the net profit as of December 31, 2008 amounting to EUR 3,612 thousand as follows:

- To pay a dividend of EUR 0.15 per share for 10,021,054 shares, or EUR 1,503 thousand (treasury shares do not participate in profit)
- To carry forward the remaining profit: EUR 2,109 thousand.

Möglingen, February 25, 2009

Bernhard Oberschmidt
Chairman of the Management Board

USU Software AG, Möglingen

Development of non-current assets 2008

	Cost				Cumulative depreciation and amortization				Carrying amounts	
	Jan. 1, 2008 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Dec. 31, 2008 Thsd. EUR	Jan. 1, 2008 Thsd. EUR	Additions Thsd. EUR	Disposals Thsd. EUR	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2008 Thsd. EUR	Dec. 31, 2007 Thsd. EUR
Financial assets										
Shares in associated companies	23,585	927	0	24,512	260	0	0	260	24,252	23,325
Equity investments	200	0	0	200	200	0	0	200	0	0
Other loans	125	0	125	0	75	0	75	0	0	50
	23,910	**927**	**125**	**24,712**	**535**	**0**	**75**	**460**	**24,252**	**23,375**

AUDITOR'S REPORT

We audited the financial statements comprising the balance sheet, the income statement, and the notes and including accounting and the combined management report of USU Software AG, Möglingen, for the financial year from January 1 to December 31, 2008. The accounting and the preparation of the annual financial statements and combined management report in accordance with German commercial law requirements and the supplementary provisions in the Articles of Associations are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the annual financial statements and the combined management report in terms of accounting based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the 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 annual financial statements in accordance with the proper accounting principles 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 the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, annual financial statements, and the combined 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 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 annual financial statements comply with legal regulations and the supplemental provisions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with proper accounting principles. The combined management report is consistent with the annual financial statements and as a whole provides an accurate view of the company's and Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 25, 2009

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

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

Responsibility Statement

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 25, 2009

Bernhard Oberschmidt
Chairman of the Management Board

FINANCIAL CALENDAR FOR 2009*

March 24, 2009	Publication of Annual Report 2008
May 19, 2009	Publication of 3-Month Report for 2009
June 25, 2009	Annual General Meeting
August 20, 2009	Publication of 6-Month Report for 2009
November 9, 2009	Publication of 9-Month Report for 2009

*These are preliminary dates for the 2009 fiscal year.
Any changes that are made will be posted on the Company's website at www.usu-software.de.*

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