# Fiscal Year 2002/2003

Financial Statement of Utimaco Safeware AG

**Profit and loss statement on 30th June 2003**

| | **ASSETS** | June 30, 2003 € | € | € | Previous year € |
|---|---|---|---|---|---|
| **A.** | **Fixed assets** | | | | |
| **I.** | **Intangible assets** | | | | |
| 1 | data-processing software | 198.568,00 | | | 253.321,83 |
| 2 | Goodwill | ######### | | | ######### |
| | | | ######### | | ######### |
| **II.** | **Property, plant and equipment** | | | | |
| 1 | Tenant's fixtures and fittings | 160.602,00 | | | 123.934,17 |
| 2 | Operational and business equipment | 131.934,00 | | | 313.300,79 |
| 3 | Payments made on account | 0,00 | | | 13.672,63 |
| | | | 292.536,00 | | 450.907,59 |
| **III.** | **Financial assets** | | | | |
| 1 | Shares in associated companies | ######### | | | ######### |
| 2 | Shareholdings | 50.001,00 | | | ######### |
| 3 | Loans to companies in which there is a shareholding | 417.503,00 | | | 901.200,00 |
| 4 | Fixed asset investments | 40.766,04 | | | 39.301,92 |
| | | | ######### | | ######### |
| | | | | ######### | ######### |
| **B.** | **Liquid assets** | | | | |
| **I.** | **Inventories** | | | | |
| 1 | Incomplete services | 29.493,86 | | | 51.116,46 |
| 2 | Finished products and goods | 341.813,63 | | | 288.314,39 |
| 3 | Payments made on account | 28.380,80 | | | 0,00 |
| | | | 399.688,29 | | 339.430,85 |
| **II.** | **Receivables and other assets** | | | | |
| 1 | Accounts receivable | | | | |
| | of which have a remaining period to run of more than one year: €0*(previous yea* | ######### | | | ######### |
| 2 | Receivables against associated companies | | | | |
| | of which have a remaining period to run of more than one year: €0*(previous yea* | ######### | | | ######### |
| 3 | Receivables against companies in which there is a shareholding | | | | |
| | of which have a remaining period to run of more than one year: €0*(previous yea* | 0,00 | | | 185.881,68 |
| 4 | Other assets | | | | |
| | of which have a remaining period to run of more than one year: €678,181.05 *(previous year € 935,856.64)* | 720.026,13 | | | ######### |
| | | | ######### | | ######### |
| **III.** | **Securities** | | | | |
| | Shareholdings | | ######### | | 0,00 |
| **V.3** | **Cash and cash equivalents consist of cash in hand and credit at financial institutions** | | ######### | | 384.368,72 |
| | | | | ######### | ######### |
| **C.** | **invoice adjustment items** | | | 112.877,80 | 126.645,37 |
| | | | | ######### | ######### |

| | **LIABILITIES** | June 30, 2003 € | € | Previous year € |
|---|---|---|---|---|
| **A.** | **Equity capital** | | | |
| **I.** | **Subscribed capital** | | | |
| | for information: | 6.227.243,00 | | 6.227.243,00 |
| | - limited capital: €571,428.00 *(previous year: € 0.00)* | | | |
| | - approved capital: €3,113,621.00 *(previous year: € 3,113,621.00)* | | | |
| **II.** | **Capital reserves** | 29.485.675,68 | | ########## |
| **III.** | **Net loss** | ########### | | ########## |
| | | | 3.816.701,48 | 6.938.321,59 |
| **B.** | **Provisions** | | | |
| #### | Provisions for pensions and similar obligations | 767.802,02 | | 778.768,01 |
| #### | Other provisions | 1.916.044,05 | | 3.157.514,02 |
| | | | 2.683.846,07 | 3.936.282,03 |
| **C.** | **Liabilities** | | | |
| #### | Liabilities towards financial institutions | | | |
| | - of which have a remaining period to run of up to one year: €1,072,958.16*(previou* | 1.072.958,16 | | 1.081.587,60 |
| 2 | Trade payables | | | |
| | - of which have a remaining period to run of up to one year: €381,919.09*(previous y* | 381.919,09 | | 1.350.105,85 |
| 3 | Liabilities towards associated companies | | | |
| | - of which have a remaining period to run of up to one year: €1,550,133.99*(previou* | 1.550.133,99 | | 1.271.775,51 |
| 4 | Liabilities towards companies with which there is a shareholding | | | |
| | - of which have a remaining period to run of up to one year: €64,043.97*(previous ye* | 64.043,97 | | 539.670,33 |
| | Other liabilities | | | |
| 5 | - of which have a remaining period to run of up to one year: €1,207,527.12*(previous year: €1,425,021.19)* | | | |
| | -of which out of taxes: €513,011.73*(previous year: €373,359.17)* | | | |
| | - of which is needed for social security payments: € 216,289.37*(previous year: € 2:* | 2.557.527,12 | | 1.425.021,19 |
| | | | 5.626.582,33 | 5.668.160,48 |
| | | | 1.799.775,14 | 1.801.188,31 |
| **D.** | **invoice adjustment items** | | | |
| | | | 13.926.905,02 | ########## |

**Utimaco Safeware AG** Appendix II
OBERURSEL

**Profit and loss statement**
**for the period from 1st July 2002 to 30th June 2003**

| | | 2002/03 | 2001/02 |
|---|---|---|---|
| | | € | € |
| 1. | Sales revenues | 20.783.375,32 | 22.811.557,54 |
| 2. | Manufacturing costs of the services supplied to achieve sales revenues | -5.253.076,84 | -7.103.178,39 |
| 3. | Gross profit on sales from revenue | 15.530.298,48 | 15.708.379,15 |
| 4. | Research and development costs | -4.881.154,87 | -8.604.113,25 |
| 5. | Sales and marketing costs | -7.471.972,17 | -8.789.831,55 |
| 6. | General administration expenses | -3.663.075,44 | -5.231.256,25 |
| 7. | Other operating income | 1.648.314,96 | 7.642.020,63 |
| 8. | Other operating expenditure | -599.141,40 | -4.995.848,05 |
| 9. | Other interest and similar returns<br>- of which from associated companies: €106,237.93 *(previous year: €187,946.42)* | 226.959,94 | 279.090,16 |
| 10. | Depreciation on financial assets and on securities in the current assets<br>- of which to associated companies: €719,712.86 *(previous year: €267,633.41)*<br>- of which for participations scheduled for sale: € 2,362,000 (previous year: € 0.00) | -3.604.537,32 | -743.901,84 |
| 11. | Interest and similar expenses<br>- of which to associated companies: €79,297.34 *(previous year: €46,447.57)* | -291.217,88 | -124.794,64 |
| 12. | **Result of usual business activity** | -3.105.525,70 | -4.860.255,64 |
| 13. | Extraordinary returns | 0,00 | 2.189.693,78 |
| 14. | Extraordinary expenses | 0,00 | -4.823.387,85 |
| 15. | **Extraordinary result** | 0,00 | -2.633.694,07 |
| 16. | Taxes on income and the return | 0,00 | 4.278,70 |
| 17. | Other taxes | -16.094,38 | 0,00 |
| 18. | **Net loss for the year** | -3.121.620,08 | -7.489.671,01 |
| 19. | Loss brought forward | -28.774.597,09 | -21.284.926,08 |
| 20. | **Net loss** | -31.896.217,17 | -28.774.597,09 |

# A P P E N D I X FOR THE FINANCIAL YEAR 2002/2003

## GENERAL INFORMATION FOR THE FINANCIAL STATEMENT AND THE REPORTING AND EVALUATION METHODS

The financial statement for Utimaco Safeware AG, Oberursel, Germany, has been created in compliance with the regulations specified in the Germany HGB and AktG regulations. Utimaco Safeware AG is a large publicly listed company (PLC) as defined in § 267 Para. 3 HGB.

### Structure and disclosure

The structure of the profit and loss statement complies with the German regulation § 266 HGB.

The profit and loss statement has been created using the cost-of-sales accounting format as defined in §275 Para. 3.

In the profit and loss statement, research and development costs are reported as special items before the sales and marketing costs, making use of HGB § 264 Para. 2 Item 1 and § 265 Para. 5 Item 2.

The communications and insurance costs, and the costs for the internal IT infrastructure, have been reported in the "General administration expenses" section, as they were in the previous year, to emphasise their importance.

### Evaluation methods

The intangible assets and property, plant and equipment assets have been reported at their acquisition or manufacturing costs, reduced by planned depreciations based on use. Planned depreciation is applied linearly. For mobile property, plant and equipment assets the simplification rule defined in R 44 Para. 2 of the income tax guidelines has been applied. This rule, which also complies with the regulations for properly-carried out accounting in commercial law, allows the full depreciation rate to be applied to new acquisitions in the first half year of the business year, and for 50% of this rate to be applied to them in the second half of the year.

The goodwill for the company Kryptokom, acquired in the financial year 1999/2000, will be depreciated over 10 years, since it involves the purchase of a complete trading company that had its own products, protected brand names and 10 years of experience in its own products.

Other goodwills already present will be depreciated over 5 years since these assets consist only of a customer base, unlike in KryptoKom's case. For software and similar rights, the useful life equals 1.5 to 3 years, and for operational and business equipment it is usually 3 to 10 years . Low-value capital assets are depreciated immediately. Their disposal is assumed in the same financial year.

Financial assets have been reported at their acquisition or manufacturing costs, or the lower current value.

Inventories have been reported at their acquisition or manufacturing costs with the application of reliable evaluation simplification procedures. All risks arising from stock on hand, resulting from reduced usability, have been accounted for using the appropriate depreciation method. The principle of the lower of cost or market was applied.

The value of receivables and other assets has been evaluated using the nominal value or the current value on the reporting date. Detectable individual risks have been accounted for by reporting their individual values. General risk exposure has been accounted for by making an across-the-board provision of 1% for all receivables for which no individual provision has been made.

Liquid assets have been reported at their nominal value.

Other securities in the current assets have been reported at their acquisition costs or their lower current market value, if relevant.

Pensions liabilities have been calculated using the partial value procedure, which also complies with the regulations for properly-carried out accounting in commercial law, in accordance with § 6 a of the German income tax law, with the application of actuarial mathematical methods based on an interest rate of 6%. The biometric basis for calculation is provided by the actuarial tables for 1998 produced by the company Heubeck-Richttafeln-GmbH, Cologne, Germany.

Remaining provisions take into account all recognisable risks and uncertain obligations.

Remaining provisions and liabilities have been reported at their probable cost of repayment.

The realisation of sales of standard products occurs upon delivery of the product or, in the area of individual software, upon completion of the projects. Revenues are shown free of turnover tax, and reductions in revenues.

Research and development costs are essentially dealt with as expenditure.

Currency conversion

Receivables and liabilities in non-Euros-equivalent currencies are evaluated at the exchange rate that applied on the day of the business transaction. Losses due to exchange rate changes on the balance sheet date are included.

## DETAILS AND EXPLANATIONS FOR THE PROFIT AND LOSS STATEMENT

The structure of the asset items and their development during the financial year is shown in the Assets overview in Appendix 3 (the supplement to the appendix).

### Intangible assets

The acquisition of the commercial value or goodwill arising from the purchase of the operational business of Kryptokom were reduced by 630,000 Euros in this financial year. This was due to the out-of-court settlement reached with the seller on 30th September 2002. As in the previous year, in order to accurately represent the assets and future profit situation of the actual conditions, the reduction in acquisition costs was referred back to the time of purchase and the book value of the goodwill was re-calculated on the basis of a planned depreciation over 10 years, starting from the actual time of acquisition (retrospective adjustment of acquisition costs). On the balance sheet date this action resulted in goodwill due to the acquisition of the operational business of Kryptokom valued at 1.536 million Euros (previous year: 2.233 million Euros). This will be depreciated over the next six years at an annual rate of 256,000 Euros.

### Shares in associated companies

Companies associated with Utimaco Safeware AG, Oberursel, on the 30th June 2003, are:

| Company, headquarters | Capital share in % |
|---|---|
| Utimaco Beteiligungsgesellschaft mbH, Oberursel | 100 |
| utimaco safeguard systems international GmbH, Oberursel | 100 |
| Utimaco Safeware AB, Kista, Sweden | 100 |
| Utimaco Safeware BV, Arnhem, The Netherlands | 100 |
| Utimaco Safeware Inc., Worcester, USA | 100 |
| Utimaco Safeware Ltd., Staines, Middlesex, Great Britain | 100 |
| Utimaco Safeware Oy, Vantaa, Finland | 100 |
| Utimaco Safeware (Schweiz) AG, Urdorf, Switzerland 1) | 100 |
| Utimaco Verwaltungsgesellschaft mbH, Oberursel | 100 |

1) indirectly via utimaco safeguard systems international GmbH, Oberursel

In this financial year, Utimaco Safeware AG raised capital of 360,000 Euros against a loan write-off with the other shareholders relinquishing their subscription right, involving Utimaco Safeware France SA, Paris, France, which was an associated company in the previous year. As a result of this a capital reduction to the value of 486,000 Euros was carried out, and the entire book value was depreciated because of the negative profit situation. After these measures had been implemented, capital stock now totals 150,000 Euros and is divided into 1,000 shares with a nominal value of 150 Euros per share. Following these financial measures, the capital share of Utimaco Safeware AG increased from 69.30% to 72.60%, and the capital share of utimaco safeguard systems international GmbH, Oberursel, Germany, fell from 30.20% to 26.80%. Subsequently, all the shares in the company held by utimaco safeguard systems international GmbH and Utimaco Safeware AG were sold in a contract dated 29th April 2003, with commercial effect from the 1st April 2003. Since then Utimaco Safeware France S.A. has operated as an independent distributor for Utimaco Safeware AG.

Utimaco Safeware Belgium NV, Heverlee, Belgium, which was indirectly linked in the previous year, is now reported in the "Shares in associated companies" section because the capital share in the company was reduced from 82.14% to 41.07% in this financial year.

Due to the negative profit situation at Utimaco Safeware Ltd., Staines, Middlesex, Great Britain, the acquisition costs for the shares at Utimaco Safeware AG were depreciated from 720,000 Euros to zero.

The two Utimaco joint-venture companies, Utimaco Beteiligungsgesellschaft mbH and Utimaco Verwaltungsgesellschaft mbH, acquired in the previous year, did not carry out any operational activities in this trading year.

## Loans to associated companies

These only involved one loan of 1.587 million Euros (previous year: 1.490 million Euros) to Utimaco Safeware Oy, Vantaa, Finland, which, as in the previous year, has been completely provided for.

## Shareholdings

Shareholdings held by Utimaco Safeware AG, Oberursel, on the 30th June 2003, are:

| Company, headquarters | Capital share in % |
|---|---|
| Gesellschaft für IT-Sicherheit AG -GITS AG, Bochum, Germany | 19.23 |
| Utimaco Safeware Asia Ltd., Hong Kong, People's Republic of China | 49.90 |
| Utimaco Safeware Belgium NV, Heverlee, Belgium, in receivership 1) | 41.07 |

1) indirectly via utimaco safeguard systems international GmbH, Oberursel

The inclusion of more associates in the company Gesellschaft für IT Sicherheit AG (GITS AG) Bochum, in the form of a range of cash capital increases, resulted in Utimaco Safeware AG's share in this company being reduced from 25.00% to 19.23%.

As a result of the current strategy of selling off the company's shares in Omnikey AG, these shares, which last year were reported in the "Shares in associated companies" section, have been reallocated to the "Securities" section and will totalled and evaluated as available assets.

The company Utimaco Safeware Belgium NV, which was reported last year in the "Shares in associated companies" section, became insolvent in this trading year. As a result of a contract dated August 9th 2002 (which came into commercial effect on July 1st 2002) 2,875 shares in this company were sold by utimaco safeguard systems international GmbH. This effectively reduced the indirect capital share of Utimaco Safeware AG from 82.14% to 41.07%. On 16th September 2002 this company declared itself insolvent and is still involved in the insolvency process. The software rights to individual Utimaco software technologies that belonged to the Belgian company were acquired from the bankruptcy assets and 13 members of staff from the Belgian company were transferred abroad to another branch subsidiary of Utimaco Safeware AG.

## Loans to companies in which there is a shareholding

The loan to associated companies, reported on the reporting date, worth 418,000 Euros (previous year: 901,000 Euros) concerns one loan, to Omnikey AG, which is due to run until the 31st December 2003.

In addition, a loan of 855,000 Euros (previous year: 804,000 Euros) was made to Utimaco Asia Ltd., Hong Kong, which, as in the previous year, has been completely provided for.

## Finished products and goods

In the year under review no inventory valuation adjustments to the stock on hand were necessary (previous year: 845,000 Euros).

## Receivables against associated companies

Receivables worth 1.159 million Euros (previous year: 140,000 Euros) were provided for from associated companies.

## Receivables against companies in which there is a shareholding

On the balance sheet date, there were receivables against companies in which there is a shareholding to the value of 5.225 million Euros (previous year: 4.766 million Euros) for which no provisions have been made (previous year: 186,000 Euros).

## Other assets

On the balance sheet date, short-term assets were valued at 720,000 Euros (previous year: 1.053 million Euros). They include the residual purchase price claim from the sale of the Network Security division. The purchaser has linked the amortisation of the as yet unpaid purchase price with the sale of the products from the sold-off division, with a due date for the as yet unpaid purchase price of 31st December 2004. To date the purchaser's revenues from products from the division they purchased have been lower than expected. This reduction in value has been accounted for by adjusting the value of the claim by 287,000 Euros (previous year: zero) to 514,000 Euros (previous year: 927,000 Euros).

The main other asset is a rent deposit 155,000 Euros (previous year: zero) for the Aachen office.

## Equity capital

The subscribed capital, valued at 6,227,243 Euros, is divided into 6,227,243 shares with no nominal value.

The Management Board was authorised, with the approval of the Supervisory Board, to increase the capital stock once or repeatedly, by 31st October 2006, by issuing new bearer stocks against capital contribution, provided they do not exceed 3,113,621.00 Euros. The Management Board decides with the approval of the Supervisory Board on the exclusion of the subscription right. However, an exclusion of the subscription right is only permissible:

- to implement one or more capital increases in return for contributions in kind, particularly in connection with the acquisition of companies or participations in companies in the information technology sector that have a purpose essentially similar to that of the company or
- up to an increase in the capital stock of a total of 622,724 Euros if, in a particular case, a capital increase is effected in return for cash contributions that do not exceed ten percent of the capital stock, and the issue amount is not significantly lower than the stock market price (in accordance with German financial regulation § 186 Para. 3 Irem 4 AktG) or
- up to an increase of the capital stock of 391,501 Euros insofar as the purpose of capital increase is to satisfy claims of board members or employees of the company or of affiliated companies for the subscription of shares for the exercise of stock options.

Following a decision at the Annual General Meeting on the 28th November 2002, the Management Board was authorised to increase the company's capital stock by 571,428 Euros. The limited capital is to be used to guarantee the rights of the owner of a dormant equity holding to convert their holding into shares. The same general meeting had previously also agreed to this action. Only a sufficient amount will be raised to meet the need that arises when this share exchange right is exercised. The limited capital increase was recorded in the Commercial Register on 17th December 2002.

The company's equity capital changed as follows, in the financial year 2002/2003:

| | Subscribed capital Euros | Capital reserves Euros | Balance sheet profit Euros | Total Euros |
|---|---|---|---|---|
| **Balance 1st July 2002** | 6,227,243.00 | 29,485,675.68 | -28,774,597.09 | 6,938,321.59 |
| Net loss for the year | - | - | -3,121,620.08 | -3,121,620.08 |
| **Balance 30th June, 2001** | 6,227,243.00 | 29,485,675.68 | -31,896,217.17 | 3,816,701.51 |

The capital reserves of 29.014 million Euros arise primarily from the increase in cash capital resulting from the company's stock market launch in the financial year 1998/1999.

Own shares

The reduction in the company's share-holding in Utimaco Safeware Belgium NV, Heverlee, Belgium ( in receivership), in the year under review from 82.14 % to 41.07 % also meant the loss of the 12,900 individual share certificates in Utimaco Safeware AG held by Utimaco Safeware Belgium NV, Heverlee, Belgium (in receivership), (own shares, as defined by § 160 AktG ) since Utimaco Safeware AG no longer has any effective influence on the Belgian company.

Other provisions

The composition of provisions is shown below:

| | Balance 1st July 2002 000 Euros | Consump-tion 000 Euros | Dissolution 000 Euros | Reas-signment 000 Euros | Balance 30th June 2003 000 Euros |
|---|---|---|---|---|---|
| Residual purchase price for Kryptokom | 930 | 300 | 630 | 0 | 0 |
| Variable and Other sala-ries | 359 | 359 | 0 | 597 | 597 |
| Remaining untaken days of holiday | 450 | 450 | 0 | 406 | 406 |
| Other HR provisions | 82 | 52 | 0 | 76 | 106 |
| Settlement claims in Aus-tria | 113 | 5 | 0 | 0 | 109 |
| Guarantees | 34 | 0 | 0 | 0 | 34 |
| Legal, accounting and auditing fees | 141 | 75 | 13 | 259 | 311 |
| Restructuring | 763 | 763 | 0 | 0 | 0 |
| Others | 286 | 143 | 72 | 282 | 352 |
| | 3,158 | 2,147 | 715 | 1,621 | 1,916 |

Due to the out-of-court settlement over the remaining purchase price obligation, worth 300,000 Euros on the 30th September 2002, the provision was dissolved into a partial sum of 630,000 Euros, with no effect on performance, and the acquisition costs for the affected goodwill were retrospectively lowered. (Please refer also to the information on intangible assets).

The settlement claims in Austria concern legal claims arising from redundancy payments for the staff in the Austrian branch. The value is based on calculations according to actuarial theory.

The provision for restructuring reported in the previous year was used up in this financial year, in accordance with the resolution.

The main items in the other provisions are outstanding invoices and costs arising for the division and the general meeting.

## Liabilities

| | 2002/2003 000 Euros | Secu-rities | 2001/2002 000 Euros | Secu-rities |
|---|---|---|---|---|
| Liabilities towards financial institutions | 1,073 | | 1,082 | |
| of which have up to 1 year to run | 1,073 | 1) | 1,082 | 1) |
| ... 1 year to 5 years | 0 | | 0 | |
| ... more than 5 years | 0 | | 0 | |
| Trade payables | 382 | none | 1,350 | none |
| of which have up to 1 year to run | 382 | | 1,350 | |
| ... 1 year to 5 years | 0 | | 0 | |
| ... more than 5 years | 0 | | 0 | |
| Liabilities towards associated companies | 1,550 | none | 1,272 | none |
| of which have up to 1 year to run | 1,550 | | 1,272 | |
| ... 1 year to 5 years | 0 | | 0 | |
| ... more than 5 years | 0 | | 0 | |
| Liabilities towards companies in which there is a shareholding | 64 | none | 540 | none |
| of which have up to 1 year to run | 64 | | 540 | |
| ... 1 year to 5 years | 0 | | 0 | |
| ... more than 5 years | 0 | | 0 | |
| Other liabilities | 2,558 | | 1,425 | none |
| of which have up to 1 year to run | 1,208 | none | 1,425 | |
| ... 1 year to 5 years | 1,350 | 2) | 0 | |
| ... more than 5 years | 0 | | 0 | |

1) Global assignment of the receivables from deliveries and services and assignment of 35,500 shares in Omnikey AG.
2) Includes a loan from the Horst-Görtz foundation of 550,000 Euros secured by renouncing the product rights for SafeGuard Easy.

The other liabilities include a loan from the Horst-Görtz foundation, Neu Anspach, Germany. Its value is 550,000 Euros (unchanged from previous year), on which interest is charged in accordance with standard commercial conditions. This loan is secured by renouncing all rights to the SafeGuard Easy product. New agreements were reached in this financial year, as a result of which the loan will run until 9th December 2005 at the latest. It can be cancelled before that date, by either party, with a notice period of 3 months, at a month's end. However, the party cancelling the loan agreement also requires the agreement of the Taunus-Sparkasse bank, Bad Homburg, Germany.

Another liability in this financial year is the newly-agreed dormant equity holding, entered into with MBG H Mittelständische Beteiligungsgesellschaft Hessen mbH, Frankfurt am Main, Germany, with a participation of 800,000 Euros. To reimburse the loan, the company has paid a one-time handling fee worth 1.25% of the loan amount and pays fixed interest of 8% p.a., a guarantee fee of 0.7% p.a. and a share in profits whose value depends on the Utimaco Safeware AG group's year-end surplus. The share in profits is limited to a maximum of 50% of the year-end surplus and to an annual maximum of 2.5% of the participation, i.e. 20,000 Euros. During the loan period, the associate has the right to convert the dormant equity holding into Utimaco shares at any time, until the 31st December 2007. If they do convert it to shares, the conversion price will be 1.40 Euros per share, until the 31st December 2003. In 2004, it will be 2.30 Euros per share, in 2005, it will be 3.20 Euros per share, and in 2006 and 2007 it will be 4.00 Euros per share.

Only the securities named above were furnished.

## Invoice adjustment items

The invoice adjustment items involve revenues from maintenance contracts, which totalled 1.679 million Euros (previous year: 1.448 million Euros) within one year.

## DETAILS AND EXPLANATIONS FOR THE PROFIT AND LOSS STATEMENT

### Sales revenues

The sales revenues were achieved in the following regions:

| | 2002/2003<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Fed. Republic of Germany | 12,235 | 12,977 |
| Europe apart from Fed. Republic of Germany | 7,705 | 8,117 |
| America | 481 | 937 |
| Asia/Pacific/Africa | 362 | 781 |
| Total | 20,783 | 22,812 |

The revenues are categorised as follows:

| | 2002/2003<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Software | 11,555 | 12,091 |
| Hardware | 4,251 | 5,795 |
| Maintenance | 3,701 | 3,132 |
| Service | 903 | 1,701 |
| Miscellaneous | 373 | 93 |
| Total | 20,783 | 22,812 |

Due to the use of the cost-of-sales accounting format, the following expenditure types have been described separately in accordance with § 285 No. 8a and 8a HGB:

## Material costs

The material costs for the business year consist of the following:

| | 2002/2003<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Expenses for procured goods | 2,625 | 3,401 |
| Expenses for procured services | 396 | 883 |
| Total | 3,022 | 4,293 |

The expenses for procured services primarily include revenue-dependent license fees for software.

## Personnel costs

The personnel costs for the business year consist of the following:

| | 2002/2003<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Wages and salaries | 9,322 | 11,163 |
| Social costs and expenses for retirement pensions and for support<br>-of which for retirement pension: 23,000 Euros (previous year: 31,000 Euros) | 1,727 | 2,020 |
| Total | 11,049 | 13,183 |

## Other commercial returns

The other commercial returns, worth 1.648 million Euros (previous year: 7.642 million Euros), include the out-of-period return from the resolution of the excessive depreciation on the goodwill of the operational business of the company Kryptokom. This was due to the retrospective reduction in acquisition costs worth 189,000 Euros. (For other details, please refer to the information on Intangible assets).

With regard to the liquidation of Utimaco Safeware Belgium NV, Heverlee, Belgium, which is now insolvent, written confirmation was received from the receiver that Utimaco Safeware AG had met all its liabilities towards the former Belgian subsidiary, or offset them in due form. It was then possible to balance the liabilities worth 515,000 Euros, which the company had retained out of commercial caution, with effect on returns, and producing an out-of-period return.

As a result of a capital increase involving Utimaco Safeware France SA, Paris, France, a receivable for which provision had been made to date was dissolved. For more details, please refer to Shares in associated companies. This resulted in an out-of-period return of 360,000 Euros.

Payments received from associated companies for loan provisions led to an out-of-period return of 117,000 Euros.

The other operational returns also include out-of-period resolutions from other provisions worth 85,000 Euros.

The remaining other operational returns, worth 382,000 Euros, involved a multitude of smaller items.

In total the other operational returns included out-of-period items worth 1.278 million Euros.

Other operating expenditure

The largest single item in the other operational expenses (which totalled 599,000 Euros, previous year: 4.996 million Euros) is the out-of-period valuation adjustment to the purchase price claim arising from the sale of the Network Security division, worth 287,000 Euros. (For other details, please refer to the information on Other assets).

The other commercial expenses also include an out-of-period compensation payment of 100,000 Euros to an associated company arising from maintenance contracts sold off along with the Network Security division (when it was sold), which belonged to the associated company.

For this reason the value of the out-of-period expenses is 387,000 Euros.

In addition, the provisions for a currently-running legal case were increased by 100,000 Euros.

Depreciations on financial assets and on securities in the current assets

In the year under review, depreciations on financial assets worth 3.605 million Euros (previous year: 744,000 Euros) were carried out.

Due to the negative profit situation at Utimaco Safeware France SA, the increase in the shareholding valuation resulting from the capital increase was depreciated 100% (360,000 Euros, previous year: 382,000 Euros).

Due to the negative profit situation at Utimaco Safeware Ltd., Staines, Middlesex, Great Britain, the shares were depreciated from 720,000 Euros to zero.

Due to the intended sale of the shares in Omnikey AG, that shareholding, reported under "Investments", was re-evaluated based on the current normal market evaluations and taking into account the hesitant capital market. This led to a depreciation in its value of 2.362 million Euros.

Extraordinary returns and expenses

In the year under review there were no extraordinary returns (previous year: 2.190 million Euros) and no extraordinary expenses (previous year 4.823 million Euros).

Other out-of-period items

Besides the items mentioned above, the company results also contain additional out-of-period expenses of 317,000 Euros in the sales and marketing costs. These chiefly arose from 317,000 Euros allocated to individual provisions for receivables from previous years, and 16,000 Euros of other tax expenditures arising from the company audit for turnover tax from previous years.

SUPPLEMENTARY DETAILS

## Financial obligations

In the Netherlands, the company, and its Dutch subsidiary Utimaco Safeware B.V., are involved in several different legal disputes arising from the 100% acquisition of the current subsidiary, Utimaco Safeware B.V., by the company in 1997. Utimaco Safeware B.V. is claiming around 780,000 Euros against the person who sold the original Utimaco Safeware B.V. company shares at that time. On the other hand, the seller of those company shares is claiming around 380,000 Euros against Utimaco Safeware AG, and also against Utimaco Safeware B.V. Both cases have been disallowed on appeal, basically because both claims have already been covered by the terms of a comprehensive compensation agreement regarding reciprocal claims in the share transfer agreement relating to the shares in what is now Utimaco Safeware B.V., in 1997. Utimaco Safeware B.V.'s suit now depends on the appeals procedure before the Hooge Raad, the highest Dutch civil court, while the seller of the shares can now appeal in her claim against the company and Utimaco Safeware B.V. In the context of the suits mentioned above, the two parties have made surety payments, to provide temporary legal protection, and the result of other legal proceedings in the Netherlands will decide whether they are to continue or be cancelled. The seller of the shares is claiming damages worth around 1.2 million Euros from Utimaco Safeware AG, on the basis that she was forced to make an unfair security payment, to her commercial disadvantage. The company considers that the amount due for damages, if arising at all, based on the reason given, will be much lower, if assessed realistically, and has made provisions to cover the estimated associated risk, which is considerably lower.

If the current rejection of Utimaco Safeware B.V.'s claim, in its own suit, is confirmed on appeal, this will lead to a reduction in the number of shares held in Utimaco Safeware B.V. It would be necessary to examine this increased shareholding, taking into consideration the then current revenue picture at the subsidiary, and decide whether or not to depreciate the shares.

In addition, there are liabilities to the value of 450,000 Euros arising from the ordering of securities for third party liabilities, which were arranged entirely for the benefit of associated companies. There are also letters of comfort in favour of the associated company Utimaco Safeware Oy, Finland.

On the balance sheet date there were outstanding obligations from longer-term rental and leasing agreements worth 9.636 million Euros (previous year: 10.308 million Euros), with the following due dates:

| Due | 000 Euros | of which towards associated companies 000 Euros |
|---|---|---|
| ... within one year | 1,665 | 0 |
| ... within two to five years | 5,871 | 0 |
| ... after five years | 2,100 | 0 |
| Total | 9,636 | 0 |

## Employees

Over 2002/2003 the average number of employees was 169 (previous year: 219).

## Equity compensation benefits for employees

Following the approval of the stock option plan at the extraordinary general meeting on 2nd February 1999, no share options were assigned to employees in the reporting period, or immediately after it.

With the options assigned in the previous years, minus the options that have expired as staff have left the company, a total of 15,800 options had been taken up on 30th June 2003.

Of the options issued to staff, 15,800 shares can be exercised in or after the financial year 2003/2004. All options assigned to board members expired in the year under review.

The price at which the granted options can be exercised is the same for staff and management. It equals 10% of the revenue-weighted average share price on the Frankfurt securities exchange and in Xetra trading calculated during a period of 10 working days at the stock exchange after the publication of a quarterly financial statement, but will also be at least 1.00 Euro.

| | Remaining options held by members of the Board of Management | Remaining options held by staff | Remaining options in total |
|---|---|---|---|
| **Balance 1st July 2002** | 69,000 | 38,700 | 107,700 |
| Expired options | 69,000 | 22,900 | 91,900 |
| Exercised options | 0 | 0 | 0 |
| Issued options | 0 | 0 | 0 |
| **Balance 30th June, 2001** | 0 | 15,800 | 15,800 |

The approved capital of 475,000 Euros, needed for servicing the option rights, was already approved in the extraordinary general meeting on the 2nd February 1999. On the balance sheet date 392,000 Euros (previous year: 392,000 Euros) of this was still available.

Remunerations for the members of the company's bodies

| | 2002/2003<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Board of Management: | 485 | 802 |

No severance payments were made in the remunerations (previous year: severance payments equalled 133,000 Euros). As of June 30th 2003 the actuarial value of pension grants to former members of the Management Board equalled 506,000 Euros (previous year: 516,000 Euros). Former members of the Board of Management were paid a pension worth 38,000 Euros (previous year: 12,000 Euros).

| | 2003/2002<br>000 Euros | 2001/2002<br>000 Euros |
|---|---|---|
| Supervisory board: | 77 | 104 |

Board of Management

In the past year the Board of Directors (all based in Germany) included:

Christian Bohne, Bad Homburg, Germany.

Dr. Norbert Pohlmann, Aachen — until 31st March 2003

Martin Wülfert, Oberursel — since 15th October 2002

Each member of the Board of Management represents the company together with another member of the Board of Management or a person holding power of attorney.

The following member of the Supervisory Board has further memberships in accordance with para. 285 no. 10 HGB:

Christian Bohne
- Gesellschaft für IT Sicherheit AG (GITS AG), Bochum — Supervisory Board member
- Omnikey AG, Wiesbaden — Supervisory Board member

Supervisory board

In this financial year the supervisory board included:

Horst Görtz, Neu Anspach, — Director
Entrepeneur/Managing director of the Horst Görtz foundation

Helmuth Coqui, Neubiberg, — Deputy Director
Management consultant

Geralt Goder, Kelkheim, — since 28th November 2001
Salesman

Franz. E. Lemmerhofer, Linz, Austria,
Financial director of Linz Textil Holding AG, Linz Austria

Dr. Manfred Schlottke, Munich,
Business consultant for information and communications technology

Bernd Schroeder, Munich,
Lawyer

Prof. Dr. Heinz Thielmann, Heroldsberg, up to 28th November 2001
Director of the Fraunhofer Institut
"Sichere Telekooperation", Darmstadt, Germany

The following members of the Supervisory Board have further memberships in accordance with German regulation § 285 Nr. 10. HGB.

| | |
|---|---|
| Horst Görtz | |
| - GITS AG, Bochum | Director of the SupervisoryBoard |
| - Suess Micro Tech AG, Garching | Supervisory Board member |
| Franz E. Lemmerhofer | |
| - Austrian textile industry trade association | Vice-president of the employers committee |
| - Interunfall Versicherung AG, Vienna, Austria | Member of the Advisory Committee |
| - Höhere technische Bundeslehr- und Versuchsanstalt für Textilindustrie und Datenverarbeitung, Austria | Member of board of trustees |
| Dr. Manfred Schlottke | |
| - Victorvox AG, Krefeld | Director of the Supervisory Board |
| - Norcom Information Technology AG, Munich | Supervisory Board member |
| - MSI Telesolutions AG, Munich | Supervisory Board member |
| - Brainloop AG, Munich | Supervisory Board member |
| Bernd Schroeder | |
| - WPG Immobilien AG, Munich | Director of the Supervisory Board |
| Prof. Dr. Heinz Thielmann | |
| - MVC AG, Frankfurt | Director of the Supervisory Board |

## Contracts with Supervisory Board members

Mr. Bernd Schroeder is a member of the Supervisory Board, and also partner in the legal practice KraskeHärtel Rechtsanwälte in Munich, Germany. The KraskeHärtel legal practice in Munich was given the task of representing Utimaco Safeware AG legally with regard to the action for rescission against several resolutions made by the General Meeting on 21st November 2001, and also with regard to a complaint about a fee claim. In addition the legal practice KraskeHärtel Rechtsanwälte, Munich, has provided Utimaco Safeware AG with legal advice in the matter of the proceedings over the disputed residual purchase price payment from the purchase of the operational business of Kryptokom GmbH, which are not sub judice, and on the organisation of the general meeting held in the financial year 2001/2002 to decide on the dormant equity holding and the creation of the finance package which consists of a cash capital increase and a warranty bond.

For these services the legal practice KraskeHärtel Rechtsanwälte, Munich, was paid 60,000 Euros (previous year: 7,000 Euros) in the year under review.

## Credit advances to Supervisory Board members

In the year under review no advances were made to Supervisory Board members.

## Associated companies and shareholdings

The equity capital and annual performance of the associated companies and shareholdings are shown below:

| Company, headquarters | Reporting date * | Currency * | Equity capital ** | Annual result ** | Notes |
|---|---|---|---|---|---|
| **Associated companies** | | | | | |
| Utimaco Beteiligungs-gesellschaft mbH, Oberursel | 30th June 2003 | Euros | 24 | -1 | |
| utimaco safeguard systems international GmbH, Oberursel, | 30th June 2003 | Euros | 323 | 206 | |
| Utimaco Safeware AB, Kista, Sweden | 30th June 2003 | SEK | 6,232 | 1,443 | |
| Utimaco Safeware BV, Arnhem, The Netherlands | 30th June 2003 | Euros | 818 | -40 | |
| Utimaco Safeware Inc., Worcester, USA | 30th June 2003 | USD | -418 | -210 | |
| Utimaco Safeware Ltd., Staines, Middlesex, Great Britain | 30th June 2003 | GBP | -326 | -289 | |
| Utimaco Safeware Oy, Vantaa, Finland | 30th June 2003 | Euros | 72 | 52 | 1) |
| Utimaco Safeware (Schweiz) AG, Urdorf, Switzerland) | 30th June 2003 | CHF | 184 | -165 | |
| Utimaco Verwaltungs-gesellschaft mbH, Oberursel | 30th June 2003 | Euros | 25 | 0 | |
| **Shareholdings** | | | | | |
| Gesellschaft für IT-Sicherheit AG - GITS AG, Bochum, Germany | 31st December 2002 | Euros | 70 | -87 | |
| OMNIKEY AG Wiesbaden | 31st December 2002 | Euros | 9,340 | -534 | |
| Utimaco Safeware Belgium NV, Heverlee, Belgium, in receivership | 30th June 2002 | Euros | -917 | -1,562 | 2) 3) |
| Utimaco Safeware Asia Ltd., Hong Kong, People's Republic of China | 30th June 2002 | HKD | -4,081 | -4,281 | 3) |

* as shown in local GAAP accounts
** according to local GAAP accounts in thousands and local currency

1) The equity capital is shown as equity capital-replacing for the processing of loans received worth 1.387 million Euros (previous year: 1.387 million Euros).

2) On 16th September 2002 this company declared itself insolvent and is still involved in the insolvency process.
3) No figures are available on 30th June 2003.

Utimaco Safeware AG is a large publicly listed company (PLC) as defined in § 267 Para. 3 HGB. It is the parent company of the associated companies named above, and is therefore required to create a group financial statement in accordance with § 290 HGB. In accordance with § 292 A HGB the company has created a group financial statement in accordance with IAS as an exempting group financial statement that covers both the largest and the smallest consolidated group. The group financial statement can be inspected in the company's premises.

Declaration of conformity

The company Board of Management and Supervisory Board have made a declaration to the German Corporate Governance Codex and made it permanently accessible to the share-holders on the company's website.

Notification duties

In the financial year 2002/2003 no notifications were necessary in accordance with § 20 Para. 6 AktG and § 25 Para. 1 WpHG i.V.m. § 21 Para.1 WpHG.

Oberursel, September 2003

Martin Wülfert
(Chairman of the Board of Management)

Christian Bohne
(Member of the Management Board as Chief Financial Officer)

# FINANCIAL REPORT FOR THE FINANCIAL YEAR 2002/2003

## Business Development

In the last financial year, the company continued the successful restructuring and reorganisation measures initiated in the previous year.

The high levels of expenditure seen in the last two years have been permanently brought to an end. A positive cash flow worth 0.2 million Euros was achieved the company's business activity in contrast to a loss of -3.8 million Euros in the previous year. The fall in the company's revenues of 9% was among other things due to the closure of divisions during restructuring.

Although the company once again suffered a significant net loss for the year of -3.122 million Euros (previous year: -7.490 million Euros), in the financial year 2002/2003, this includes a negative financial result of -3.605 million Euros (previous year: -590,000 Euros) which was basically due to depreciations on shares in associated companies of 1.242 million Euros (previous year 744,000 Euros) and by the shareholding in Omnikey AG, worth 2.362 million Euros, which it is intended to sell off, and a positive out-of-period result of 558,000 Euros (previous year: 2.221million Euros). When the financial result and out-of-period result are ignored, the operating results are almost balanced, at -11,000 Euros, compared to -6.745 million Euros in the previous year.

Despite the current difficult economic environment, we have performed well.

In addition, by reaching a settlement, we have finally been able to resolve the dispute with Comparex concerning the value of the residual purchase price obligation arising from the purchase of the operational business of Kryptokom.

Utimaco Belgium, in which we had reduced our shareholding to 41% at the start of the business year, was forced into liquidation in September 2002. We subsequently purchased the software rights necessary for our core business, during the liquidation of the company assets, and took on 13 of its staff.

At the end of the business year we concluded an extensive finance package with the investment group Investcorp, to improve our equity capital and cash resources. This package, to which our shareholders agreed with a large majority at an extraordinary general meeting after the end of the financial year 2002/2003, in August 2003, consists of a capital increase with subscription right, and an option bond to Investcorp.

The financing packages were successfully concluded at the start of September 2003, and have resulted in an inflow of funds totalling 12.1 million Euros. With the additional funds available it has been possible to guarantee sustainable financing of the company's current and future business activity. We can now undertake the planned developments of new products in the Personal Device Security division, and also the activities necessary for the further development of our foreign markets, and finance them cost-effectively.

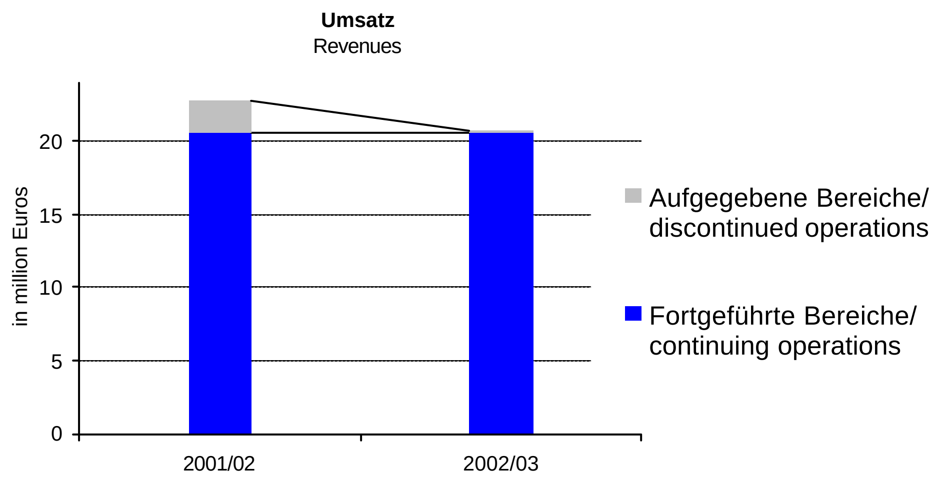
Revenue development

Once again the IT and software industry found itself in a difficult position in the last financial year, 2002/2003. After years of high investment the business sector and public authorities had to drastically reduce their IT budget due to the insecure economic environment, and delay planned projects. Major infrastructure projects arising from e-business and e-government in the Top 500 European business and public authorities, which Utimaco Safeware addresses with its professional security infrastructure solutions and products for workplace security, were particularly badly affected. In these sectors, it was often only the most vital security measures that were ordered, leading to increased competition in the highly-fragmented IT security market.

Utimaco Safeware AG can look back on a financial year that was marked by the most difficult economic conditions. However, despite this, it was still able to hold its own.

In the year under review, 2002/2003, the company achieved revenues of 20.783 million Euros (previous year: 22.812 million Euros). The fall in revenues of just under 9% was essentially caused by the closure of divisions which contributed 1.978 million Euros to sales revenues in the previous year. In the year under review their revenues equalled 214,000 Euros (previous year: 2.192 million Euros), making only a small contribution to total revenues.

On the other hand, the products from the divisions that were not closed down achieved revenues of 20.569 million Euros, almost equalling the revenues of 20.620 million Euros of the previous year.

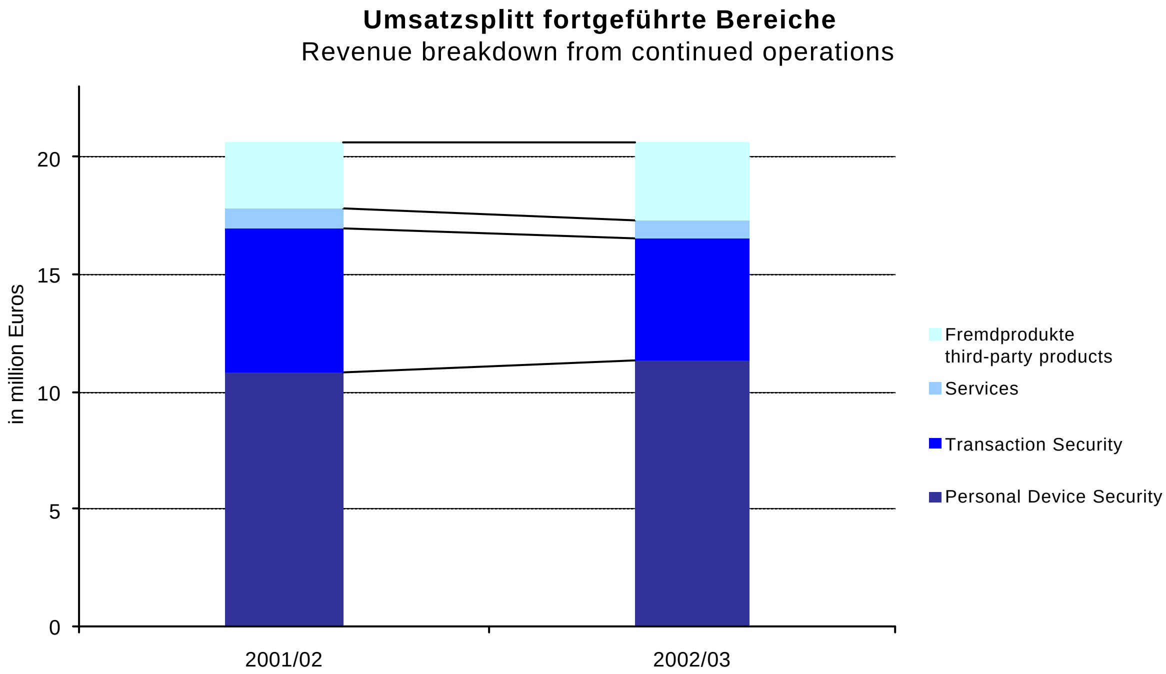



The revenues from the Personal Device Security division's products increased by 4% in the year under review. This division achieved revenues of 11.322 million Euros (previous year: 10.845 million Euros).

On the other hand, the projects and solutions offered by the Transaction Security division saw a fall in revenues of 14% to 5.203 million Euros (previous year: 6.082 million Euros).

The revenues achieved with third-party products equalled 3.294 million Euros (previous year: 2.873 million Euros). Of this, the smartcard and smartcard reader business achieved 2.718 million Euros (previous year: 2.470 million Euros).

Services such as training courses and consultation services contributed 750,000 Euros (previous year: 820,000 Euros) to total revenues.




The revenues from the divisions closed down in the previous year areas were primarily achieved in Germany and other European countries. In both regions it was partially possible to compensate for the loss of revenues due to their closure, which equalled 1.978 million Euros.

For example, revenues in the domestic market (Germany) equalled 12.235 million Euros (previous year: 12.977 million Euros) and revenues in other European countries equalled 7.705 million Euros (previous year: 8.117 million Euros).

In contrast, revenues from America, which made a considerable contribution to the total, in the previous year, at 937,000 Euros, were disappointing this year, at 481,000 Euros. The large orders won in the previous year were not repeated in the year under review.

In accordance with expectations, business in Asia shrank still further with revenues worth 362,000 Euros compared to the previous year's 781,000 Euros.

Revenues from domestic sales in the financial year 2002/2003 equalled 59% of the total compared to 57% in the previous year.

## Profit situation

In the reporting period, the cost reduction measures introduced and carried out in the second half of the financial year, with the aim of reorganising the company, had the desired effect.

For example, the gross margin rose noticeably from 69% in the previous year to just under 75% in the financial year 2002/2003. A gross profit on sales of 15.530 million Euros (previous year: 15.708 million Euros) was achieved.

In the year under review the tough cost-cutting measures introduced in the previous year were used as the basis for a consistent cost management policy. As a result, operating costs (sales and marketing costs, research and development costs and general administration expenses) were reduced by 29% from 22.625 million Euros in the previous year to 16.016 million Euros.

With the closure of the Network Security and Security Modules divisions, research and development expenditure was reduced from 8.604 million Euros to 4.881million Euros. This was a disproportionately high reduction in relation to the drop in revenues. Costs were reduced by 43%. Research and development costs equalled 23% of revenue (previous year: 38%).

Sales and marketing costs equalled 7.472 million Euros in this financial year (previous year: 8.790 million Euros). Proportionately, they did not simply drop in line with the drop in revenues, but dropped slightly more, by 15%. The sales and marketing costs include expenses for provisions for receivables from associated companies worth 1.159 million Euros (previous year: 140,000 Euros). These expenses have no effect on liquidity. In the year under review, 36% of sales revenues was used for sales and marketing costs (previous year: 39%).

At the same time, general administration costs equalled 3.663 million Euros in the reporting period (previous year: 5.231 million Euros), and were reduced by 30% as a result of a multitude of measures. General administration costs equalled 18% of revenue (previous year: 23%).

The largest single item in the other operational returns, totalling 1.648 million Euros (previous year: 7.642 million Euros), includes an out-of-period return valued at 515,000 Euros, arising from the processing of Utimaco Safeware Belgium NV, Heverlee, Belgium, which has gone into liquidation. As a result of a capital increase involving Utimaco Safeware France SA, Paris, France, a provision of 360,000 Euros was dissolved, with effect on the return, by contributing receivables for which provision had been made. The resulting increase in the book value of the participation was then depreciated again due to the negative profit situation of Utimaco Safeware France SA. The amount allowed for the depreciation of the goodwill for the operational business of Kryptokom was too high, so it was reduced as part of a retroactive reduction in acquisition costs, producing a return of 189,000 Euros. Payments received from associated companies for loan provisions led to a return of 117,000 Euros. For details of other returns, please refer to the list in the appendix that contains the other commercial returns.

The largest single item in the other commercial expenses, which totalled 599,000 Euros (previous year: 4.996, million Euros), was the valuation adjustment for the claimed purchase price of the Network Security division, which was sold off in the previous year. This item was worth 287,000 Euros. For details of other expenses, please refer to the list in the appendix that contains the other commercial expenses.

In the Depreciations on financial assets and on securities in the current assets, which totalled 3.605 million Euros (previous year: 744,000 Euros), the largest single item was the depreciation of the shares in Omnikey AG, worth 2.362 million Euros. The depreciation was needed because of the intended sale of the shares in Omnikey AG, which made it necessary to re-evaluate the shareholding with regard to a foreseeably-achievable sales return based on the current normal market evaluations and the hesitant capital market. Due to the consistently negative profit situation at Utimaco Safeware Ltd., Staines, Middlesex, Great Britain, the shares were depreciated from 720,000 Euros to zero. For details of other expenses, please refer to the list in the appendix that contains the depreciation on financial assets.

The result for our normal business activities equalled -3.106 million Euros for the financial year 2002/2003 (previous year: -4.860 million Euros).

To determine the operating result, the depreciation on the shareholding in Omnikey AG, worth 2.362 million Euros, which it is intended to sell, should be deducted from the result for normal business activity. The resulting lower loss of -744,000 Euros (previous year: -4.116 million Euros) illustrates the complete turnaround in the company's operational business in the last financial year.

The Utimaco Safeware result for the financial year 2002/2003 is a loss of -3.122 million Euros (previous year: -7.490 million Euros).

## Investments

In the financial year 2002/2003, replacement investments worth 50,000 Euros (previous year: 223,000 Euros) were made, as were expansion investments worth 95,000 Euros (previous year: zero).

## Net worth and financial situation

The restructuring of the company in the previous year caused major structural changes in the profit and loss statement. The balance sheet total was reduced by 4.417 million Euros to 13.927 million Euros.

Low levels of investment, the reclassification of the shares in Omnikey AG as liquid assets (worth 5.339 million), and the adjustment of the Kryptokom goodwill (630,000 Euros) following the reaching of a settlement with the seller, led to a considerable drop in fixed assets of 66%, to 3.781 million Euros. Fixed assets equalled only 27% of total assets, from 61% in the previous year.

The increase in current assets by 44% (3.049 million Euros) to 10.033 million Euros was essentially due to the reclassification of the shares in Omnikey AG (worth 2.977 million Euros), for which provisions were subsequently made, and to the increase in liquid assets (worth 874,000 Euros).

With regard to liabilities, the fall in the balance sheet total was primarily caused by the net loss for the year (3.122 million Euros) and the reduction in provisions of 1.252 million Euros). There were considerable re-allocations of liabilities. For example, the short-term trade payables were reduced by 1.443 million Euros in total, in the financial year. At the same time, long-term liabilities increased by a total of 1.350 million Euros after reclassification following the reaching of an agreement with the lender in the year under review worth 550,000 Euros, and by new income worth 800,000 Euros.

On the balance sheet date, the equity capital equalled 3,817 million Euros (previous year: 6.938 million Euros). As in the previous year, the subscribed capital equalled 6.227 million Euros. The equity capital quota equalled 27% (previous year: 38%).

| | 30th June 2003 | | 30th June 2002 | |
|---|---|---|---|---|
| | 000 Euros | % | 000 Euros | % |
| Coverage of the fixed assets | 3,781 | 100 | 11,233 | 100 |
| by | | | | |
| ... equity capital | 3,817 | 101 | 6,938 | 62 |
| ... medium/long-term ... outside capital | 2,118 | 56 | 779 | 7 |
| Excess/inadequate coverage | 2,154 | 57 | -3,516 | -31 |

Despite the year-end loss, the coverage ratio of the fixed assets has clearly improved in comparison to the previous year.

| | 30th June 2003 000 Euros | 30th June 2002 000 Euros | Change |
|---|---|---|---|
| Short-term bank debts | 1,073 | 1,082 | -9 |
| Short-term debts to suppliers | 382 | 1,350 | -968 |
| Provisions and liabilities, insofar as short-term | 5,902 | 8,196 | -2,294 |
| **Short-term liabilities** | **7,357** | **10,628** | **-3,271** |
| Liquid cash | 1,259 | 384 | + 875 |
| Customer receivables | 3,424 | 2,826 | + 598 |
| Other receivables, insofar as due in the short term | 1,474 | 2,507 | - 1,033 |
| Inventories | 400 | 339 | + 61 |
| **Short-term assets** | **6,557** | **6,056** | **+ 501** |
| Excess/inadequate coverage | -800 | -4,572 | + 3,772 |

In this financial year the flow of liquid funds out of the company was halted by an increase in cash and cash equivalents worth 875,000 Euros. Despite the year-end loss, liquidity has clearly improved in comparison to the previous year. Nevertheless, the liquid assets present at the end of the business year, worth 1.259 million Euros (previous year: 384,000 Euros), only left a small amount of room to manoeuvre, if it becomes necessary to deal with unforeseen burdens on cash resources. For this reason the company required additional financial resources. In fact, it acquired 12.1 million Euros as a result of the extensive finance package it agreed with the investment group Investcorp immediately after the financial year ended. (For more details, please refer to "Important transactions that occurred after the end of the business year", at the end of this appendix).

The business development of the Utimaco Safeware AG group will play a decisive role in the commercial situation of Utimaco Safeware AG.

Research and development

In the year under review, research and development activities concentrated primarily on

- actively participating in creating the "trusted computing" architecture, in co-operation with leading international IT companies.

- extending the SafeGuard® product family, for securing terminal server environments, among other things.

- completing and launching SecurE-Mail Gateway, the central e-mail security component.

In the last few years, users have increasingly requested IT suppliers to make work on computers reliable and secure ("trusted computing"). For this reason, several hardware and software suppliers, including Microsoft, Intel, IBM, HP and AMD, have formed a group whose aim is to provide secure system environments for computer users. Since April 2003 this group has been operating under the name TCG (Trusted Computing Group) and includes 30 members besides Utimaco Safeware, which is an active contributor. The basis of "trusted computing" is a new security chip (the "trusted platform module"), which acts as a secure basis for add-on security software functions.

SafeGuard® Easy - version 3.20

Utimaco's first product to support the "trusted platform module", in accordance with the TCG specification, is SafeGuard® Easy. Utimaco Software worked with IBM to arrange the integration of SafeGuard® Easy in the "IBM Embedded Security Subsystem" at the end of the business year. Today you can already use IBM's new security hardware platform for protecting data on laptops and desktops, by encrypting the entire hard disk with SafeGuard® Easy.
In addition, in the period under review, two technical publications, "Network Computing" ("Real World Labs") and "Secure Computing", named SafeGuard® Easy as the best hard disk encryption product.

Besides involvement in TCG, development activities were centred on providing solutions for securing "Microsoft Terminal Server" and "Citrix MetaFrame" environments. These environments are becoming ever more popular with large companies, primarily because of their low cost. The functionality of two products, SafeGuard® LAN Crypt(from version 2.50) and SafeGuard® Advanced Security (from version 4.10), which have already proved themselves in the standard PC environment, has been extended to provide security in these terminal environments.

SafeGuard® LAN Crypt - current version 3.00

The new version of SafeGuard® LAN Crypt provides transparent file encryption on different server and client platforms, with optional smartcard support. It now also covers Microsoft Terminal Server and Citrix MetaFrame environments. In addition, it now supports new certificates from public key infrastructure (PKI) environments, such as, for example, the Utimaco PKI or PKIs from third-party suppliers.

SafeGuard® Advanced Security - current version 4.10

In the year under review SafeGuard® Advanced Security's extensive functionality was split up into individual modules. Customers can now select, and install them individually. The six SafeGuard® Advanced Security modules include:

- Base Module
  for secure Windows authentication with extended password rules and optional chip-cards.

- Removable Media Management
  used by administrators to specify which media (CD-ROM, DVD) can be used, dependent on their contents.

- Application-Specific Access Rights
  used by administrators to assign 3-dimensional access rights over users, data and applications.

- IP Filter
  used to control all incoming and outgoing data traffic, ports and protocols.

- Authentication Extensions
  provides powerful reciprocal authentication between workstations and servers.

- Single Sign On (SSO)
  automatic password administration using SSO scripts and user-friendly, one-time logon to all target systems and applications.

Consequently SafeGuard® Advanced Security's modular concept provides extended security functionality and improved rights management in professional security environments.

In the year under review the Personal Device Security division's other solutions were also further optimised for use in our target market, companies and government bodies.

SafeGuard® PrivateDisk - current version 1.00

SafeGuard® PrivateDisk was launched last September and completes our range of encryption solutions. In addition to encrypting individual files and entire hard disks, SafeGuard® PrivateDisk can also be used to generate individual encrypted folders.
The contents of these "virtual" disk drives are encrypted automatically. The functionality also includes central administration and distribution functions to support large corporate environments, recovery mechanisms, and central implementation of security guidelines.
SafeGuard® PrivateDisk offers multi-platform compatibility for datacontainers, for PCs and PDAs. This means that encrypted removable media from a PDA can also be used in a laptop, and vice versa. Integration in Microsoft's ActiveDirectory and Management Console was implemented in a similar way to other SafeGuard® products.

SafeGuard® PDA - current version 2.01

Companies need a way to administer all IT components centrally. To meet that need, central administration functionality has been implemented for PDAs, and integrated in Microsoft ActiveDirectory, in a similar way to SafeGuard® Advanced Security. Support has also been added for distribution and administration systems provided by third-party suppliers.

Furthermore, upgrades have been implemented for the Phone Edition of the PocketPC operating system and the company has worked with $O_2$ Deutschland to modify it to suit their xda smartphone.

The universal security gateway platform underwent further development based on Utimaco Safeware's firewall technology. This consists of a hardened Linux system with a web-based user interface and a module for IT security applications.

Utimaco SecurE-Mail Gateway
SecurE-Mail Gateway, the new Utimaco product, is based on the security gateway platform. It provides a central point for securing e-mail communications within a company or organisation. It is easy to snoop on non-secure e-mail traffic, and the recipient of a normal e-mail cannot be 100% certain of the identity of the sender. Using the SecurE-Mail Gateway, e-mails can be encrypted and signed. Incoming e-mails are decrypted and checked to see if they have a valid signature. This makes really secure e-mail communication between business partners or government bodies possible.

Since the Utimaco Safeware solution is installed at a central location, there is practically no need for the end-user to be concerned about the security of their e-mails. For this reason, our solution is much more suitable than client-based products, if there is a need to provide across-the board e-mail security in medium-sized and large companies or government bodies.
In the last financial year several steps were taken to implement the basic functionality for this product. This contains support for the e-mail security standards S/MIME and OpenPGP, and for Utimaco's SafeGuard® PrivateCrypto technology, which is used for encryption.

## Staff

At the end of the 2002/2003 business year 169 members of staff were employed by Utimaco Safeware (previous year: 159). During the financial year, the average workforce was 169 members of staff (previous year: 219).

## Risks involved in future development

In the past financial year, 2002/2003, Utimaco Safeware has continued to make efforts to expand its risk management strategy. As a result of regular management meetings, linked to a clear and uniform company-wide reporting procedure, the company's management is able to identify the asset risks, and also changes in the economic development of the divisions and group companies and other risks to the company, before it is actually affected.

Utimaco Safeware AG has identified the following fundamental risks for itself:

- The commercial success of Utimaco Safeware depends entirely on its customers' investment patterns. Reluctance to invest following uncertainties about economic development and the difficulty in assessing the effects of the current economic situation, especially in Europe and USA, have had a negative effect on the demand for Utimaco Safeware's products and solutions.

- The market for IT security products and solutions is undergoing continuous technological change and is subject to shifting market conditions. The pressure of competition from both new and existing suppliers can also increase. These factors, either singly or cumulatively, may also affect the future demand for, and acceptance of, the services provided by Utimaco Safeware.

- A vital prerequisite for the acceptance of Utimaco Safeware products and solutions is their security and technical performance. Any restrictions on the functionality and performance of current and future products may significantly reduce product acceptance. This also affects the dependency on technical solutions provided by third parties that are integrated in Utimaco's own products.

- The market for IT security products and solutions is also characterised by high levels of technical development and short innovation cycles of increasing technical complexity. The economic development of Utimaco Safeware is closely connected to the market success of its new products and the life cycle of its existing products. It is possible that the new products and solutions necessary for achieving the company's goals cannot be developed, or are not developed at the right time, or do not meet customer requirements.

- In future, IT sales and service providers such as distributors, system integrators and consultancy firms will take increased responsibility for selling and implementing products and solutions. If Utimaco Safeware is unable to involve and train sufficient numbers of these companies, the result will be to reduce revenues.

- The success of Utimaco Safeware's business activity depends on the performance of managers and staff in key positions. If Utimaco Safeware does not succeed in retaining its existing members of staff and management, or in recruiting enough new employees, its ability to meet future challenges will suffer.

- The length of product and solution purchase and implementation cycles involves a degree of uncertainty. This is strongly influenced by Utimaco Safeware's customers and can lead to significant variations in revenues, especially on a quarterly basis.

- The majority of business transactions are handled in Euros. At present, no steps have been taken to safeguard the relatively small part of the volume of business that is subject to a currency risk. As a result the profit situation may be affected by fluctuations in exchange rates. If large transactions are carried out in non-Euro currencies, the transactions will be secured on a case-by-case basis.

- The crucial factor for Utimaco Safeware's future commercial success is to guarantee the cash resources required to finance operational business, to service existing liabilities and for any necessary investments. This depends on the monies received from receivables, the future progress of commercial operations, staying within or expansion of existing credit lines and the feasibility of capital measures that maybe necessary.

Important transactions that occurred after the end of the business year

On the 1st of August 2003 there was an extraordinary general meeting of the company, which made the following resolutions:

- To increase the capital stock by up to 6,227,243.00 Euros, from 6,227,243.00 Euros to 12,454,486,00 Euros, by issuing up to 6,227,243 common shares at an issue price of €1.40 per share, involving an indirect subscription right at a ratio of 1:1.

- To arrange a limited increase of the capital stock by up to 2,434,317.00 Euros. The limited capital increase is to be used to grant option rights to Investcorp Technology L.P., Grand Cayman, Cayman Islands. The extraordinary general meeting also resolved to issue these option rights.

- To grant one statutory "posting right" to the Horst-Görtz-Stiftung, Neu-Anspach and one to Investcorp Technology L.P., Grand Cayman, Cayman Islands, to send one member to the Supervisory Board in each case. The posting right finally expires as soon as the particular organisation that has that right holds less than 5% of the company's capital stock. The posting rights previously held by Mr. Horst Görtz and Linz Textil Holding Aktiengesellschaft had already expired before the extraordinary general meeting.

- Mr. Hacem Ben Gacem, London, Great Britain, Investcorp partner, was elected to the Supervisory Board after the resignation of Franz E. Lemmerhofer, Linz, Austria, Financial director of Linz Textil Holding AG.

The restricted increase of the capital stock up to 2,434,317.00 Euros was recorded in the Commercial Register on 13th August 2003. The capital stock was increased from 6,227,243.00 Euros to 12,454,486.00 Euros and recorded in the Commercial Register on 5th September 2003. The option bond, worth 3,439,069.00, was issued to Investcorp Technology L.P. on the 8th September 2003.

This transaction increased the company's capital stock from 6,227,243.00 Euros to 12,454,486.00 Euros. In total 12,157,209.00 Euros in funds flowed into the company. Of this amount, the cash capital increase including the premium equalled 8,718,140.20 Euros and the option bond amount equalled 3,439,069.00 Euros.

## Outlook

For the financial year 2003/2004 the expectations of the Management Board are modest, to take into account the economic situation, which remains uncertain, the economic conditions in which the company operates, which remain difficult to gauge, and the associated continued reluctance of investors to invest. For this reason it remains one of the company's most urgent tasks to modify its cost structure to suit the current orders position by tightening up its organisation, and by other measures. At the same time the company is working towards raising its standards of quality and improving its position in the market. A major contribution will be made by the development and selling of the products of the Personal Device Security division.

With regard to the achieving of revenues, winning of contracts, and therefore the full use of employee capacity, we fully expect fluctuations in 2003/2004. We are just as likely to see delays in starting projects as to get jobs that today are as yet unforeseen. For this reason, future developments, both commercially, and in terms of returns, will be entirely dependent on economic development and willingness to invest, both of which are currently impossible to predict.

Overall, Utimaco Safeware's successful reorganisation and positioning as a specialist supplier of software-based solutions for personal device and transaction security in the areas of business activity in which it operates, and the products and services that it offers, should form a good basis for a satisfactory financial year.

Existing branch subsidiaries

There are two branch subsidiaries in Germany, one in Unterföhring near Munich and one in Aachen. In addition there are foreign branch subsidiaries in Linz, Austria and in Heverlee, Belgium. The latter was registered for entry in the Commercial Register in Leuven on the 25th September 2002, and was entered in the register on the 28th May 2003.

Oberursel, September 2003

| | |
|---|---|
| Martin Wülfert<br>(Chairman of the Board of Management) | Christian Bohne<br>(Member of the Management Board as Chief Financial Officer) |

**Utimaco Safeware AG**

**Development of the fixed assets on 30th June 2003**

| Balancesheet items | Acquisition and manufacturing costs | | | | | | | Depreciations | | | | | | | Book values | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | July 1, 2002 acc. to accounts 01/02 Euros | Corrections ›m previous yea Euros | July 1, 2002 after corrections Euro | Additions Euros | Disposals Euros | Revaluations Repostings Euros | June 30, 2003 Euros | July 1, 2002 acc. to accounts 01/02 Euros | Corrections om previous yea Euros | July 1, 2002 after corrections Euro | Additions Euros | Disposals Euros | Revaluations Repostings Euros | June 30, 2003 Euros | June 30, 2003 Euros | June 30, 2002 acc. to accounts 01/02 Euros |
| **I. INTANGIBLE ASSETS** | | | | | | | | | | | | | | | | |
| 1. Data-processing software | 1.967.110,72 | 0,00 | 1.967.110,72 | 74.057,08 | 0,00 | -9.286,28 | 2.031.881,52 | 1.713.788,89 | 0,00 | 1.713.788,89 | 128.810,91 | 9.286,28 | 0,00 | 1.833.313,52 | 198.568,00 | 253.321,83 |
| 2. Goodwill | 8.952.458,17 | 3.983.333,00 | 4.969.125,17 | 0,00 | 630.000,00 | 0,00 | 4.339.125,17 | 6.718.524,34 | 3.983.333,00 | 2.735.191,34 | 257.302,55 | 189.000,00 | 0,00 | 2.803.493,89 | 1.535.631,28 | 2.233.933,83 |
| **Total intangible Assets** | **10.919.568,89** | **3.983.333,00** | **6.936.235,89** | **74.057,08** | **630.000,00** | **-9.286,28** | **6.371.006,69** | **8.432.313,23** | **3.983.333,00** | **4.448.980,23** | **386.113,46** | **198.286,28** | **0,00** | **4.636.807,41** | **1.734.199,28** | **2.487.255,66** |
| **II. Property, plant and equipment** | | | | | | | | | | | | | | | | |
| 1. Tenant's fixtures and fittings | 248.734,00 | 0,00 | 248.734,00 | 0,00 | 0,00 | 64.533,85 | 313.267,85 | 124.799,83 | 0,00 | 124.799,83 | 28.088,58 | 222,56 | 0,00 | 152.665,85 | 160.602,00 | 123.934,17 |
| 2. Other installations, operational and business equipment | 1.906.191,16 | 0,00 | 1.906.191,16 | 54.686,69 | 90.337,95 | 1.407,07 | 1.871.946,97 | 1.592.890,37 | 0,00 | 1.592.890,37 | 244.147,50 | 97.024,90 | 0,00 | 1.740.012,97 | 131.934,00 | 313.300,79 |
| 3. Payments made on account for tenant's fixtures and fittings | 13.672,63 | 0,00 | 13.672,63 | 15.801,84 | 0,00 | -29.474,47 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 13.672,63 |
| **Total property, plant and equipment** | **2.168.597,79** | **0,00** | **2.168.597,79** | **70.488,53** | **90.337,95** | **36.466,45** | **2.185.214,82** | **1.717.690,20** | **0,00** | **1.717.690,20** | **272.236,08** | **97.247,46** | **0,00** | **1.892.678,82** | **292.536,00** | **450.907,59** |
| **III. Financial assets** | | | | | | | | | | | | | | | | |
| 1. Shares in associated companies | 2.327.092,76 | 0,00 | 2.327.092,76 | 359.850,00 | 721.111,00 | 0,00 | 1.965.831,76 | 361.260,00 | 0,00 | 361.260,00 | 1.079.563,86 | 721.111,00 | 0,00 | 719.712,86 | 1.246.118,90 | 1.965.832,76 |
| 2. Loans to associated companies | 1.490.179,89 | 0,00 | 1.490.179,89 | 218.704,75 | 121.843,05 | 0,00 | 1.587.041,59 | 1.490.179,89 | 0,00 | 1.490.179,89 | 218.704,75 | 121.843,05 | 0,00 | 1.587.041,59 | 0,00 | 0,00 |
| 3. Shareholdings | 10.556.892,12 | 0,00 | 10.556.892,12 | 0,00 | 4.661.344,00 | -5.338.871,00 | 556.677,12 | 5.168.020,12 | 0,00 | 5.168.020,12 | 0,00 | 4.661.344,00 | 0,00 | 506.676,12 | 50.001,00 | 5.388.872,00 |
| 4. Lendings to companies in which there is a shareholding | 1.705.346,39 | 0,00 | 1.705.346,39 | 1.088.828,15 | 1.521.840,63 | 0,00 | 1.272.333,91 | 804.146,39 | 0,00 | 804.146,39 | 66.040,77 | 15.356,25 | 0,00 | 854.830,91 | 417.503,00 | 901.200,00 |
| 5. Fixed asset investments | 40.295,64 | 0,00 | 40.295,64 | 1.464,12 | 0,00 | 0,00 | 41.759,76 | 993,72 | 0,00 | 993,72 | 0,00 | 0,00 | 0,00 | 993,72 | 40.766,04 | 39.301,92 |
| **Total financial assets** | **16.119.806,80** | **0,00** | **16.119.806,80** | **1.668.847,02** | **7.026.138,68** | **-5.338.871,00** | **5.423.644,14** | **7.824.600,12** | **0,00** | **7.824.600,12** | **1.364.309,38** | **5.519.654,30** | **0,00** | **3.669.255,20** | **1.754.388,94** | **8.295.206,68** |
| **TOTAL FIXED ASSETS** | **29.207.973,48** | **3.983.333,00** | **25.224.640,48** | **1.813.392,63** | **7.746.476,63** | **-5.311.690,83** | **13.979.865,65** | **17.974.603,55** | **3.983.333,00** | **13.991.270,55** | **2.022.658,92** | **5.815.188,04** | **0,00** | **10.198.741,43** | **3.781.124,22** | **11.233.369,93** |