USU

9-MONTH REPORT 2018

USU Software AG

9-Month Report 2018 *in EUR thousand, except for earnings per share and number of employees*	2018 Jan. 1 – Sept. 30, 2018	2017 Jan. 1 – Sept. 30, 2017
REVENUE	64,278	58,908
ADJUSTED EBIT	1,821	2,350
ADJUSTED CONSOLIDATED NET PROFIT	908	1,489
ADJUSTED EARNINGS PER SHARE (EUR)	0.09	0.14
EBITDA	2,867	2,749
EBIT	748	699
CONSOLIDATED NET PROFIT	268	-33
EARNINGS PER SHARE (EUR)	0.03	0.00
NET CASH FLOWS FROM OPERATING ACTIVITIES	-1,570	2,120
NUMBER OF EMPLOYEES AS OF September 30	703	661
	Sept. 30, 2018	Dec. 31, 2017
CASH AND CASH EQUIVALENTS	9,245	15,729
EQUITY	58,977	63,006
TOTAL ASSETS	89,580	99,386
EQUITY RATIO	65.8%	63.4%

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Dear Shareholders and Readers,

Thanks to strong Software as a Service ("SaaS") and consulting business, USU successfully achieved its central objective of a significant improvement in earnings in the third quarter of 2018 by doubling its adjusted EBIT. Irrespective of the comprehensive forward-looking investments in the internationalization of the USU Group and the parallel shift in customer preferences from on-premises to SaaS business, USU also laid the foundations for future growth. We have not yet converted all of the project postponements from the second quarter into finalized orders and we see this area as still offering significant potential for the next quarter, meaning we expect to close fiscal 2018 with strong performance. The reorganization of unymira, which assists companies with digitalization, had a particularly positive effect in the first nine months of the year. USU received numerous project orders to assist companies with the introduction and implementation of a digitalization strategy with its product and service portfolio. SaaS business, which offers higher margins in the medium and long term and better continuity than our non-recurring license business, also enjoyed extremely positive development in the first nine months of the current fiscal year.

All in all, 2018 – like 2017 before it – can be described as a year of transition from on-premises to SaaS business that is being additionally influenced by strategic investments in international business. However, we expect this to allow us to generate significantly higher growth rates and considerably more consistent development from quarter to quarter over the coming years, which will help to make our business performance more stable and predictable.

Accordingly, we are confirming our forecast for the current fiscal year of consolidated sales of between EUR 93 million and EUR 98 million accompanied by adjusted EBIT of EUR 7.5 million to EUR 10 million, although the exact figures will ultimately depend on the proportion of SaaS contracts concluded in the fourth quarter of 2018. We are also confirming our medium-term forecast to 2021, with consolidated sales of EUR 140 million – including around EUR 15 million from acquisitions – and adjusted EBIT of EUR 20 million.

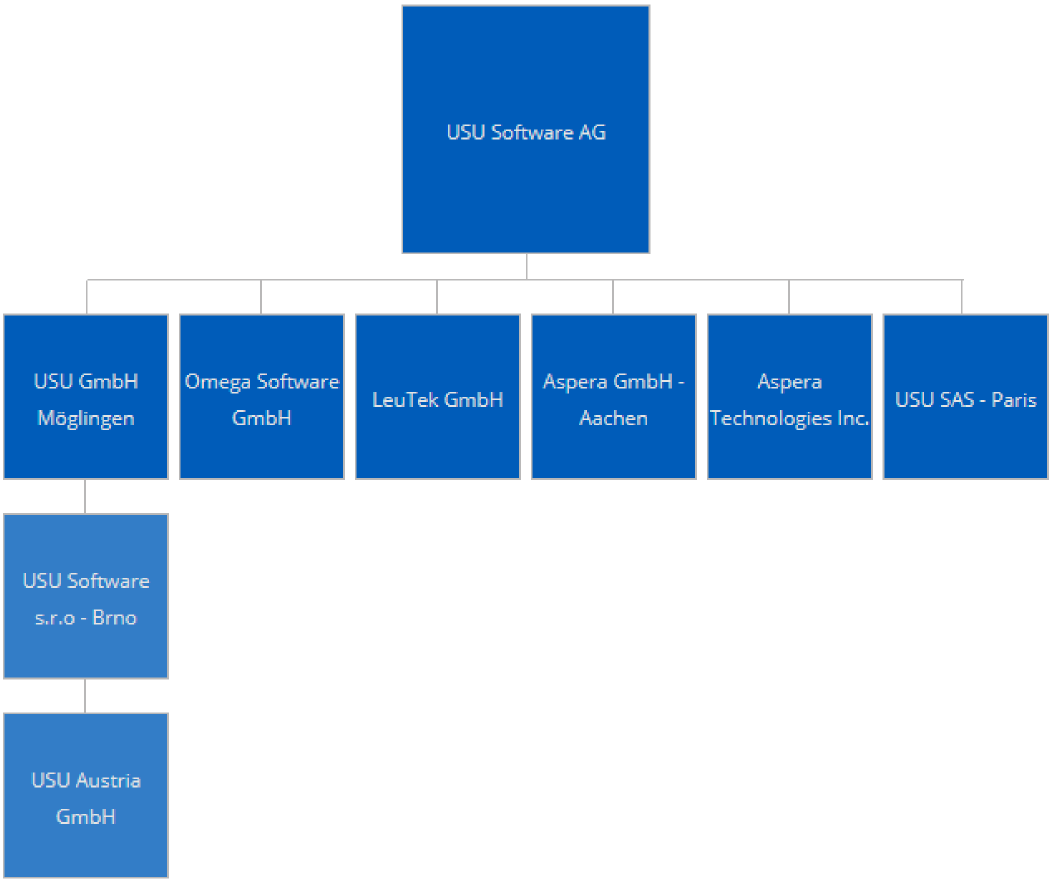
Yours,

Bernhard Oberschmidt,

CEO of USU Software AG

Basic information on USU Software AG and the Group

As the parent company of the Group, USU Software AG, Möglingen, Germany, directly or indirectly participates in the following operational companies: Aspera GmbH, Aachen, Germany; Aspera Technologies Inc., Boston, USA; LeuTek GmbH, Leinfelden-Echterdingen, Germany; Omega Software GmbH, Obersulm, Germany; USU GmbH, Möglingen, Germany; USU Austria GmbH, Vienna, Austria; USU Software s.r.o., Brno, Czech Republic. USU Software AG also has a shareholding in Openshop Internet Software GmbH, Möglingen, Germany, which is no longer operational.



The USU Software AG and its subsidiaries

With effect from January 1, 2018, USU bundled its established strategy and technology portfolio for customer and IT service in the new unymira segment. Combining the four previously independent USU divisions, BIG Social Media, Business Solutions, KCenter and unitB technology, this segment will focus on the intelligent digitization of service-related business processes. As part of this reorganization, B.I.G. Social Media GmbH and unitB technology GmbH were merged into USU AG. USU AG was also renamed USU GmbH.

In addition, USU (Schweiz) AG, Zug, Switzerland and USU Consulting GmbH, Sursee, Switzerland were dissolved and are now in liquidation as they are no longer operationally active.

Business model, objectives, strategies and controlling system

USU Software AG and its subsidiaries (hereinafter also referred to as the “USU Group or “USU”) develop and market software solutions for knowledge-based service management. USU is the largest European provider of IT and knowledge management software.

In the area of IT management, USU supports companies with comprehensive ITIL®-compliant solutions for strategic and operational IT and enterprise service management. USU solutions give customers an overall view of their IT processes and IT infrastructure and enable them to transparently plan, allocate, monitor and actively manage services. USU is one of the world's leading manufacturers in the area of software license management.

USU is driving the digitalization of business processes with its intelligent solutions and expertise in the area of digital interaction. Standard software and consulting services are used to automate service workflows and actively provide knowledge for all communications channels and points of customer contact in sales, marketing and customer service. The portfolio in this area is rounded off by software for industrial big data and the service segment with system integration and individual applications.

More than 1,000 USU customers from all sectors of the global economy use USU solutions to create transparency, cut costs and reduce their risk. They include Allianz, Baloise Group, BOSCH, BMW, Daimler, Deutsche Telekom, Evonik, Heidelberger Druckmaschinen, Jacobs Engineering, Jungheinrich, Poste Italiane, Texas Instruments, VW, W&W and ZDF.

USU Software AG has made it its goal to achieve growth in consolidated sales above the average level for the IT market as a whole in the years ahead while also further increasing its profitability. It will focus on organic growth through innovation and by expanding the Group’s international market presence, though growth through acquisitions and equity investments is also a part of the corporate strategy.

The Management Board is forecasting an increase in consolidated sales to between EUR 93 million and EUR 98 million in the current fiscal year, accompanied by an increase in adjusted earnings before interest and taxes (Ajusted EBIT) to EUR 7.5-10 million. The current medium-term forecast to 2021 involves sales growth to EUR 140 million accompanied by an increase in Adjusted EBIT to EUR 20 million.

As the USU Group’s IFRS consolidated earnings have been and continue to be influenced by various extraordinary items which make it difficult to compare USU’s earnings power from fiscal year to fiscal year, the Company has also calculated its adjusted consolidated earnings for information purposes. This shows consolidated earnings adjusted for the amortization of intangible assets capitalized as a result of business combinations and additional non-recurring effects due to acquisitions plus the corresponding tax effects. Furthermore, on the basis of these adjusted consolidated earnings, USU Software AG reports consolidated earnings per share using the average number of shares outstanding. Adjusted EBIT is also reported and serves as an important planning and control parameter. Adjusted consolidated earnings, adjusted EBIT and adjusted earnings per share are not key indicators under IFRS.

Research and development

In the first nine months of 2018, the USU Group invested a total of EUR 10,853 thousand (Q1-Q3 2017: EUR 9,956 thousand) or 16.9% (Q1-Q3 2017: 16.9%) of consolidated sales in research and development (R&D). This above-average level of expenditure that has been in place for many years reflects the Company’s strategy of securing its future growth through innovative technologies and products. The total number of employees in this segment was 194 as of September 30, 2018 (September 30, 2017: 189). The USU Group’s R&D expenses do not typically meet the criteria for recognition and hence are not capitalized.

In the Valuemation segment, version 5.1 of the IT service management suite of the same name was completed as planned. Highlights include the integrated Kanban board for simple ticket processing using drag-and-drop, the service map for service visualization and structuring, and a smartphone-based asset inventory function for field support. The development team also continued work on version 3.3 of the Valuemation Mobile Manager.

Some major innovations were released in the Business Service Monitoring and Alarm Management segment in the period under review, including the new LeuTek Alarm app, an alarm function via Skype for Business, and fault notification using an event correlation engine. Cloud monitoring was also significantly expanded, e.g. to include innovative discovery functions. In addition, the WebApps were given an entirely new interface design.

In software license management at the USU company Aspera, the new SmartTrack release was rolled out. In particular, this includes new functions for the optimal licensing of cloud services such as Amazon AWS and Microsoft Azure, meaning that Aspera ensures license conformity even in complex hybrid IT infrastructures. The master catalog is also being continuously expanded. Forming the basis for license management, it contains the complex and varied licensing terms of the software manufacturers.

In the unymira division, development work on version 6.9 of the knowledge database Knowledge Center was successfully completed. KnowledgeCloud now gives customers a new service platform allowing industry-related knowledge to be consolidated and made available. The self-service application Smart Link is also currently being enhanced. For example, the new Native Client allows more comprehensive management and analysis of the users’ computers. With regard to the social media application CONNECT, development work is continuing on the implementation of skill-based routing, which uses neural networks to control communication automatically on the basis of employee skills.

R&D activities in the Katana division continue to focus on the new product Katana Go, which offers a cloud-based environment for smart services and big data analyses in mechanical and plant engineering. Customers can thus live-launch their data analyses or algorithms developed with Katana Flow, for example, for machine data analysis and machine monitoring. The product arose as a result of practical requirements of the customer projects with Heidelberger Druckmaschinen and Trumpf.

In the third quarter of 2018, USU was awarded the contract for a further three research projects involving the USU divisions KATANA and unymira. The AIAX project will research solutions for the use of artificial intelligence (AI) to improve and support construction processes in engineering (CAX). Meanwhile, one of the aims of ArBay is to use intelligent chatbots to provide online consulting for complex products. Both of these projects are already in progress. The third project, ReAddi, will begin in early 2019 and seeks to use AI to predict the quality of additive manufacturing at an early stage in order to allow adjustments to be made.

Economic Report

Overall economic development

Adjusted for inflation, seasonal and calendar effects, gross domestic product (GDP) for the third quarter of 2018 was 0.2% lower than in the previous quarter according to information published by the German Federal Statistical Office ("destatis")[1] on November 14, 2018. In terms of quarter-by-quarter development, this represents the first decrease since the first quarter of 2015. According to destatis, the slight downturn in GDP was due primarily to external economic development, with preliminary calculations for the third quarter of 2018 showing fewer exports but more imports than in the second quarter of the year. Germany provided mixed signals, with investments in equipment and construction increasing as against the previous quarter but private consumer spending falling. Public consumer spending was up slightly on the previous quarter. GDP adjusted for inflation was 1.1% higher in the third quarter of 2018 than in the same period of the previous year (adjusted for calendar effects: 1.1%) after 2.3% in the second quarter (adjusted for calendar effects: 2.0%) and 1.4% in the first quarter (adjusted for calendar effects: 2.1%).

By contrast, the euro area saw further quarter-on-quarter GDP growth of 0.2% in the third quarter of 2018 according to a flash estimate by the Statistical Office of the European Union (Eurostat)[2]. Seasonally adjusted euro area GDP increased by 1.7% as against Q3 2017 in the third quarter of 2018.

[1] cf. destatis press release 440 dated November 14, 2018, published at https://www.destatis.de

[2] cf. Eurostat press release 174/2018 dated November 14, 2018, published at http://ec.europa.eu/eurostat

Sector development

According to surveys conducted by the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM)[3] , the German high-tech industry continued to enjoy positive development. According to BITKOM, 86 percent of IT and telecommunications companies expect to see rising sales in fiscal year 2018, with just four percent anticipating falling sales compared with the previous year. The Bitkom index reached a new record high of 78 points in the first half of 2018 having stood at just 71 points one year previously. "Sentiment in the Bitkom industry is better than it has been for a long time. Companies are broadly confident when it comes to their future development," commented Bitkom President Achim Berg.

Business development in the third quarter of 2018

The USU Group returned to profitability in the third quarter of 2018 thanks to strong software-as-a-service ("SaaS") business and rising consulting income in particular. Irrespective of the sustained trend toward SaaS projects and the failure to realize all of the projects postponed in the second quarter of 2018, particularly outside Germany, the USU Group increased its IFRS consolidated sales by 12.3% to EUR 22,504 thousand in the third quarter of 2018 (Q3 2017: EUR 20,037 thousand). USU expanded its maintenance business including SaaS revenue by 30.4% year-on-year to EUR 7,301 thousand (Q3 2017: EUR 5,599 thousand), while license business declined by 13.6% to EUR 2,868 thousand (Q3 2017: EUR 3,320 thousand). At the same time, USU increased its consulting income by 11.9% to EUR 12,280 thousand (Q3 2017: EUR 10,970 thousand), thereby recording substantial growth in consulting business for the third quarter in succession.

Thanks to the higher level of SaaS revenue and increased product consulting income, sales in the Product Business segment rose by 10.2% year-on-year to EUR 16,742 thousand (Q3 2017: EUR 15,199 thousand). At the same time, the Service Business segment significantly boosted its sales in the third quarter of 2018 by 22.7% year-on-year to EUR 5,719 thousand (Q3 2017: EUR 4,663 thousand). In the third quarter of 2018, this segment again benefited from the restructuring of the unymira division at the start of the year and the associated focus on the growth area of digitalization.

In terms of regional development, USU increased its international sales by 9.2% to EUR 5,629 thousand (Q3 2017: EUR 5,157 thousand), while sales in Germany rose by 13.4% to EUR 16,875 thousand (Q3 2017: EUR 14,880 thousand). The Management Board expects the

[3] cf. BITKOM press release dated May 15, 2018, published at http://www.bitkom.org

investments made outside Germany to lead to significant growth in international business starting from the final quarter of 2018.

Despite the targeted workforce expansion, the USU Group's cost base saw below-average growth compared with sales, rising by 8.1% to EUR 20,984 thousand (Q3 2017: EUR 19,410 thousand). This was attributable primarily to the higher cost of sales as a result of the expansion of the consultant team and increased sales and marketing costs due to the additional investments in internationalization, whereas research and development expenses and administrative expenses actually declined slightly in the third quarter of 2018 compared with the same period of the previous year. As a result, the USU Group improved its profitability significantly compared with the previous year, almost doubling its EBITDA from EUR 972 thousand in the third quarter of 2017 to EUR 1,922 thousand in Q3 2018. At the same time, earnings before interest and taxes (EBIT) rose by 345.6% to EUR 1,221 thousand (Q3 2017: EUR 274 thousand). The USU Group's consolidated net profit (IFRS) increased from EUR 20 thousand in the same quarter of the previous year to EUR 946 thousand in the quarter under review. This corresponds to earnings per share of EUR 0.09 (Q3 2017: EUR 0.00). EBIT adjusted for the extraordinary effects of acquisitions (adjusted EBIT) also nearly doubled to EUR 1,566 thousand in the third quarter of 2018 (Q3 2017: EUR 785 thousand), while adjusted consolidated net profit rose by 164.7% to EUR 1,268 thousand (Q3 2017: EUR 479 thousand). Compared with the third quarter of 2017, adjusted earnings per share increased around threefold to EUR 0.12 (Q3 2017: EUR 0.04).

Business development in the first nine months of fiscal 2018

Development of revenue and costs

Consolidated revenue

Over the first nine months of fiscal 2018, USU Software AG increased its consolidated sales (IFRS) by 9.1% year-on-year to EUR 64,278 thousand (Q1-Q3 2017: EUR 59,908 thousand). USU benefited from the international markets and domestic business alike, with sales generated outside Germany totaling EUR 17,833 thousand in the first nine months of 2018 (Q1-Q3 2017: EUR 16,220 thousand). This represents an increase of 9.9% on the previous year. Accordingly, USU increased the share of consolidated sales generated abroad from 27.5% in the previous year to 27.7% in the first nine months of 2018.

Due to project postponements in the second quarter and the growing trend toward SaaS business, software license business declined by 14.1% year-on-year to EUR 7,829 thousand (Q1-Q3 2017: EUR 9,112 thousand). At the same time, maintenance and SaaS business

increased to EUR 18,999 thousand (Q1-Q3 2017: EUR 16,307 thousand) on the back of higher SaaS revenue. This represents an increase of 16.5% on the previous year.
Consulting business was particularly strong, growing by double digits compared with the previous year in all three quarters and by a total of 12.9% in the first nine months of the year as against the first nine months of fiscal 2017 to amount to EUR 36,932 thousand at the reporting date (Q1-Q3 2017: EUR 32,705 thousand).
Other income, which primarily comprises sales of third-party hardware and software, amounted to EUR 518 thousand (Q1-Q3 2017: EUR 784 thousand).

Revenue by segment

The product range of the Product Business segment includes all activities relating to USU's product portfolio in the market for IT management solutions, the knowledge management market and "Katana", the division for big data analytics that emerged from the research department. The Service Business segment comprises consulting services for IT projects, individual application development and, following the acquisition of unitB technology, digital strategy consulting, service and UX design and web portals, apps and intranets.

The Product Business segment contributed sales of EUR 47,562 thousand in the first nine months of 2018 (Q1-Q3 2017: EUR 44,555 thousand), up 6.7% on the previous year.
In the same period, the USU Group increased its consulting sales in the Service Business segment by 17.2% to EUR 16.556 thousand (Q1-Q3 2017: EUR 14,131 thousand).
Sales not allocated to the segments totaled EUR 160 thousand in the first nine months of fiscal 2018 (Q1-Q3 2017: EUR 222 thousand).

Operating costs

The operating cost base of the USU Group increased by 9.6% year-on-year to EUR 62,734 thousand in the first nine months of 2018 (Q1-Q3 2017: EUR 57,236 thousand). This reflects primarily the increased investment outside Germany in order to successfully implement the medium-term targets and the associated growth in the number of employees, the expansion of the consultant team, and increased administrative expenses for internal future projects in the first half of 2018.

The cost of sales rose by 13.7% as against the previous year to EUR 31,287 thousand in the period under review (Q1-Q3 2017: EUR 27,513 thousand). Among other things, this reflects the expansion of the consultant team and the greater use of freelancers and partners in order to meet demand. Accordingly, the cost of sales as a percentage of consolidated sales increased from 46.7% in the first nine months of 2017 to 48.7% at the reporting date. Gross income also increased from EUR 31,395 thousand in the first nine months of 2017 to EUR

32,991 thousand in the first nine months of 2018. By contrast, the gross margin fell short of the prior-year figure at 51.3% in the first nine months of 2018 (Q1-Q3 2017: 53.3%).

In the period under review, marketing and sales expenses increased slightly by 2.5% year-on-year to EUR 13,224 thousand in connection with the intensification of USU's activities outside Germany (Q1-Q3 2017: EUR 12,902 thousand). The comparatively small increase reflects the decreased license business and the associated decline in variable compensation and commissions paid to the sales team. Accordingly, marketing and sales expenses as a share of consolidated sales fell to 20.6% in the first nine months of 2018 (Q1-Q3 2017: 21.9%). The Management Board expects the expansion of license business in the final quarter to result in development in the opposite direction.

General administrative expenses climbed from EUR 6,865 thousand in the first three quarters of fiscal 2017 to EUR 7,370 thousand at the reporting date. This 7.4% increase resulted primarily from internal future projects at USU, such as the standardization of Group IT and the streamlining of the Group structure by merging business units in the unymira division and the associated conversion of the Group subsidiary USU AG into USU GmbH in the first half of 2018, whereas administrative expenses in the third quarter of 2018 were actually down slightly on the same period of the previous year. The ratio of administrative expenses to consolidated sales declined slightly year-on-year to 11.5% in the first nine months of 2018 (Q1-Q3 2017: 11.7%).

Research and development expenses increased by 9.0% year-on-year to EUR 10,853 thousand (Q1-Q3 2017: EUR 9,956 thousand). This was attributable primarily to the acquisition of the new Group subsidiary USU SAS ("EASYTRUST") in 2017 and the accompanying expansion in the R&D workforce, whereas R&D expenses in the third quarter of 2018 alone decreased slightly compared with the same period of the previous year. Accordingly, the ratio of research and development expenses to consolidated sales was unchanged year-on-year at 16.9% (Q1-Q3 2017: 16.9%). USU is constantly investing in the development of its product portfolio and always working on innovative, market-driven software solutions. For further information, please see the separate research and development report in this Group management report. In the medium term, too, USU plans to increase its R&D expenditure in absolute terms while slightly reducing the ratio of research and development expenses to consolidated sales thanks to its planned sales growth.

Net other operating income and expenses totaled EUR 268 thousand in the first nine months of 2018 (Q1-Q3 2017: EUR 58 thousand).

Results of operations

Despite the modest first half of the year, positive business development in the third quarter of 2018 meant that the USU Group recorded year-on-year growth in EBITDA of 4.3% to EUR 2,868 thousand in the first nine months of 2018 (Q1-Q3 2017: EUR 2,749 thousand). Adjusted for depreciation and amortization of EUR 2,119 thousand (Q1-Q3 2017: EUR 2,050 thousand), USU generated EBIT of EUR 749 thousand in the same period (Q1-Q3 2017: EUR 699 thousand). This represents an increase of 7.2% on the previous year. Net financial result amounted to EUR 72 thousand in the period under review (Q1-Q3 2017: EUR -118 thousand). Taking into account the income tax expense of EUR -553 thousand (Q1-Q3 2017: EUR -614 thousand), USU improved its consolidated net profit from EUR -33 thousand in the first nine months of 2017 to EUR 268 thousand in the first nine months of 2018, thereby returning to profitability as announced. In line with this, earnings per share amounted to EUR 0.03 (Q1-Q3 2017: EUR 0.00).

Adjusted consolidated net profit

Starting with EBIT, the table below shows the reconciliation to the non-IFRS key earnings ratios of adjusted EBIT, adjusted consolidated net profit and adjusted earnings per share. These are provided for information purposes and represent the USU Group's key figures adjusted for extraordinary effects relating to acquisitions. Adjusted EBIT is also the principal key performance indicator for the USU Group.

Adjusted consolidated net profit *EUR thousand*	Jan. 1, 2018 – Sept. 30, 2018	Jan. 1, 2017 – Sept. 30, 2017
Profit from ordinary activities (EBIT)	**749**	**699**
Amortization of intangible assets recognized in connection with company acquisitions	1,062	1,031
Amortization of goodwill	0	0
Non-recurring effects relating to acquisitions	10	620
- from stay bonus for BIG GmbH / unitB technology GmbH	0	225
- from Consulting fees for acquisition of unitB technology	10	140
- from purchase price adjustments	0	0
- from incidental acquisition costs	0	255
Adjusted EBIT	**1,821**	**2,350**
Finance income (as per consolidated income statement)	146	33
Finance costs (as per consolidated income statement)	-74	-151
Income taxes (as per consolidated income statement)	-553	-614
Tax effects relating to adjustments	-432	-129
- from amortization	-80	-129
- from deferred taxes on tax loss carryforwards	-352	0
Adjusted consolidated net profit	**908**	**1,489**
Adjusted earnings per share (in EUR):	**0.09**	**0.14**
Weighted average shares outstanding:		
Basic and diluted	10,523,770	10,523,770

Business development in the third quarter meant that adjusted EBIT for the first nine months of 2018 was positive at EUR 1,821 thousand (Q1-Q3 2017: EUR 2,350 thousand), although the targeted investments in the future meant that it fell short of the prior-year figure. Adjusted consolidated net profit declined to EUR 908 thousand in the same period (Q1-Q3 2017: EUR 1,489 thousand). Adjusted earnings per share therefore fell from EUR 0.14 in the previous year to EUR 0.09 in the period under review, although this also represented a return to profitability.

Net assets and financial position

On the asset side of the statement of financial position, the USU Group's non-current assets fell slightly to EUR 57,513 thousand as of September 30, 2018, due to the amortization of intangible assets and depreciation of property, plant and equipment (December 31, 2017: EUR 58,828 thousand).

In the same period, current assets decreased from EUR 40,558 thousand as of December 31, 2017, to EUR 32,067 thousand. This was largely due to the targeted reduction in trade receivables. Cash and cash equivalents (cash on hand and bank balances plus securities) declined to EUR 9,245 thousand as of September 30, 2018 (December 31, 2017: EUR 15,729 thousand) due to the settlement of liabilities as well as the distribution to the shareholders of USU Software AG in the amount of EUR 4,209 thousand in the third quarter of 2018.

On the equity and liabilities side of the statement of financial position, the equity of the USU Group fell from EUR 63,006 thousand as of December 31, 2017, to EUR 58,977 thousand as of September 30, 2018, as a result of the dividend distribution. At the same time, USU reduced debt in a targeted manner in the form of the USU Group's current and non-current liabilities, which declined to EUR 30,603 thousand as of September 30, 2018 (December 31, 2017: EUR 36,380 thousand), With total assets of EUR 89,580 thousand (December 31, 2017: EUR 99,386 thousand), the equity ratio consequently improved to 65.8% as of September 30, 2018 (December 31, 2017: 63.4%).

Cash flows and capital expenditure

The USU Group had cash and cash equivalents (excluding securities) of EUR 6,231 thousand as of September 30, 2018 (Q1-Q3 2017: EUR 10,677 thousand). This corresponds to a year-on-year decline of EUR 4,446 thousand or 41.6%, largely as a result of the dividend distribution to USU's shareholders in the amount of EUR 4,209 thousand as well as isolated changes in working capital.

USU's cash flow from operating activities fell from EUR 2,120 thousand in the first nine months of 2017 to EUR -1,570 thousand in the period under review. This was due in particular to tax payments and isolated changes in working capital, such as the settlement of liabilities.

Net cash used in investing activities of EUR -769 thousand (Q1-Q3 2017: EUR -7,224 thousand) primarily includes investments in property, plant and equipment and intangible assets, while the prior-year figure mainly reflects spending for the acquisition of the subsidiaries unitB technology and EASYTRUST.

As in the previous year, net cash used in financing activities of EUR -4,209 thousand (Q1-Q3 2017: EUR -4,209 thousand) related solely to the dividend payment to the shareholders of USU Software AG, which amounted to EUR 0.40 per share (Q1-Q3 2017: EUR 0.40).

Orders on hand

The USU Group's orders on hand totaled EUR 45,433 thousand at the end of the third quarter of 2018, down 1.9% on the prior-year reporting date (September 30, 2017: EUR 46,328 thousand). Among other things, this was due to the completion of consulting orders. By contrast, orders on hand increased by 3.1% as against the end of the previous year (December 31, 2017: EUR 44,055 thousand).

Orders on hand as of the end of the quarter show the USU Group's fixed future sales based on binding contracts for the next 12 months. These primarily consist of project-related orders and maintenance and SaaS agreements.

Employees

The USU Group achieved a targeted expansion in its workforce of 9.1% year-on-year to 703 employees as of September 30, 2018 (September 30, 2017: 661). Broken down by functional unit, USU employed a total of 322 people in consulting and services as of the end of the third quarter of 2018 (September 30, 2017: 298), 194 in research and development (September 30, 2017: 189), 95 in sales and marketing (September 30, 2017: 91) and 92 in administration (September 30, 2017: 83). Broken down by segment, USU employed 498 (September 30, 2017: 478) people in the Product Business segment, 113 (September 30, 2017: 100) in the Service Business segment and 92 (September 30, 2017: 83) in USU Group central functions. USU therefore expanded its Group workforce in accordance with the medium-term planning despite the current shortage of qualified staff in the IT sector.

Supplementary report

The supplementary report can be found in the notes to the consolidated financial statements in this 9-Month Report 2018.

Forecast, opportunity and risk report

Forecast

General economy

According to a survey by the Joint Economic Forecast Project Group[4] dated September 25, 2018 and conducted with the participation of the leading German economic research institutes, the economic upturn in Germany is now in its sixth year. However, it has lost momentum, which the joint economic forecast attributes to both supply-side and demand-side factors. Exports have weakened in line with the economic slowdown in Germany's most important

[4] cf. Joint Economic Forecast #2-2018 Fall 2018, September 25, 2018, published at www.gemeinschaftsdiagnose.de

sales markets, while companies are increasingly faced with production bottlenecks with regard to employee capacity in particular. The fiscal policy measures that will come into force at the start of 2019 are also playing a role. Irrespective of the growing tension concerning international trade policy, the institutes are forecasting growth in economic output of 1.7% in 2018 (2017: 2.2%). According to the joint economic forecast, gross domestic product (GDP) is expected to increase by 1.9% in the coming year.

According to the joint economic forecast, the world economy is also expected to remain on an upward path. The institutes expect growth in macroeconomic production to remain unchanged year-on-year at 3.3% in 2018 followed by 3.0% in 2019. The domestic economy will be the driving force behind this development, while uncertainty concerning the future world trade order will continue to have an adverse effect.

Sector

According to information published by the industry association BITKOM[5], growth in the German high-tech sector is expected to be boosted by digitalization on the whole in the 2018 fiscal year. The German IT market alone is expected to grow by 3.1% to EUR 88.8 billion in 2018 (2017: EUR 86.2 billion). The software segment is expected to enjoy the strongest development by some distance, with BITKOM forecasting above-average growth of 6.3% to EUR 24.4 billion in this segment (2017: EUR 23.0 billion). However, IT service providers are also set to experience above-average growth of 2.6% to EUR 40.0 billion (2017: EUR 39.0 billion). According to BITKOM, the most important topics in the BITKOM industry will be blockchain and artificial intelligence or cognitive computing. However, topics such as cloud computing, the Internet of Things and services, Industry 4.0 and big data as well as digital platforms will be among the key technological and market trends. “Companies have recognized the vast potential offered by innovative digital technologies. The next step is the development of market-relevant applications,” commented BITKOM President Achim Berg. In terms of the global IT market, the outlook for the global IT market[6] published by the market research company Gartner on October 17, 2018, forecasts a year-on-year increase in IT expenditure of 4.5% to USD 3,699 billion in 2018 (2017: USD 3,539 billion). According to Gartner, the key global growth areas are also expected to be corporate software and IT services, with forecast growth of 9.9% to EUR 405 billion (2017: EUR 369 billion) and 5.9% to EUR 987 billion (2017: EUR 931 billion) respectively as a result of digitalization. Gartner is forecasting further growth in the global IT market in 2019, albeit slightly less pronounced than in 2018, with the market volume set to rise by 3.2 % to EUR 3,816 billion.

[5] cf. BITKOM press release dated May 15, 2018, published at www.bitkom.de

[6] cf. Gartner press release dated October 17, 2018, published at www.gartner.com

Outlook

With a view to the full 2018 fiscal year, the Management Board expects USU Software AG to continue on the positive overall growth path recorded in recent years following a positive third quarter and the forecast extremely strong fourth quarter, although this development will be curbed slightly by the trend towards SaaS business. In particular, the investments outside Germany will have a positive effect and contribute to positive international business in the final quarter of the current fiscal year. Furthermore, the portfolio expansion in the area of knowledge management is expected be reflected positively in the markets outside Germany, particularly in the USA. At the same time, however, domestic business is also expected to continue to develop successfully, leading to a further expansion in the product business. In addition, the service business is set to enjoy further growth as a result of the focus on digitalization. As announced, the Management Board accordingly expects to significantly outperform the IT market in terms of growth once again in the full 2018 fiscal year, and thus more than make up for the weaker development in the first half of the year. Accordingly, the forecast for 2018 continues to involve an increase in consolidated sales to between EUR 93 million and EUR 98 million accompanied by an above-average rise in adjusted EBIT to EUR 7.5 to EUR 10 million. However, the latter target will depend on the level of license income in the final quarter, and hence also on the relative proportions of on-premises and SaaS contracts concluded. The Management Board is also confirming its medium-term forecast to 2021, with consolidated sales of EUR 140 million (including around EUR 15 million from acquisitions) and adjusted EBIT of EUR 20 million. Strategic planning focuses on the three established growth pillars of the USU Group: increased internationalization, the development and launch of new product innovations, and inorganic growth through acquisitions.

Based on the above assumptions, the Management Board is planning to enable the shareholders of USU Software AG to participate significantly in the Company's operating success in the current 2018 fiscal year as in the previous years, and to continue the shareholder-friendly dividend policy with the distribution of a dividend that is never lower than the previous year and that corresponds to around half of the profit generated.

Report on risks and opportunities

There were no changes to the opportunities and risks of USU Software AG or of the Group as a whole as against the balance sheet date December 31, 2017. For more information please see the report on risks and opportunities in the 2017 annual report.

USU shares (ISIN DE000A0BVU28).

The shares of USU Software AG are listed in the Prime Standard of the Frankfurt stock exchange under the German Securities Code (WKN) A0BVU2 and International Securities Identification Number (ISIN) DE000A0BVU28, and are admitted to trading on the regulated market of this stock exchange.

Following a relatively weak first half of the year, the stock markets continued to see mixed development in the third quarter of 2018 as a result of the escalating trade conflict between the USA and Europe and China, as well as uncertainty concerning Brexit and Italian debt. The DAX declined slightly compared with the previous quarter (-0.5%), closing at 12,246.73 points on the XETRA electronic trading platform on September 30, 2018 (June 30, 2018: 12,306 points). By contrast, the Technology All Share index rose by 5.3% on XETRA compared with the end of the previous quarter to close at 3,267.05 points (June 30, 2018: 3,101.27 points). With quarterly performance of -8.5% to EUR 22.70 (June 30, 2018: EUR 24.80), USU's shares underperformed relative to the benchmark indices. USU's share price also dropped by 13.3% as against December 31, 2017 (EUR 26.20), whereas the DAX fell by 5.2% (December 31, 2017: 12,917.64 points) and the Technology All Share gained 13.4% (December 31, 2017: 2,880.31 points).

Möglingen, November 22, 2018

USU Software AG

Bernhard Oberschmidt	Bernhard Böhler	Dr. Benjamin Strehl
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

ASSETS *in EUR thousand*	**9-month report Sept. 30, 2018**	**Annual report Dec. 31, 2017**
Non-current assets		
Intangible assets	7,259	8,487
Goodwill	41,183	41,183
Property, plant and equipment	2,106	2,230
Financial assets	725	687
Prepaid expenses	341	342
Deferred taxes	5,899	5,899
Non-current assets	57,513	58,828
Current assets		
Inventories	615	511
Unbilled work in progress	4,745	3,468
Trade receivables	14,148	17,443
Income tax receivables	714	1,012
Financial assets	997	1,279
Other assets	478	205
Prepaid expenses	1,125	911
Securities	3,014	3,014
Cash on hand and bank balances	6,231	12,715
Current assets	32,067	40,558
Total assets	**89,580**	**99,386**

EQUITY AND LIABILITIES *EUR thousand*	**9-month report Sept. 30, 2018**	**Annual report Dec. 31, 2017**
Equity		
Issued capital	10,524	10,524
Capital reserves	52,792	52,792
Legal reserve	0	574
Other comprehensive income	-193	-105
Net accumulated losses	-4,146	-779
Equity	58,977	63,003
Non-current liabilities		
Financial liabilities	250	250
Pension provisions	2,266	2,203
Deferred income	641	2,443
Deferred taxes	2,025	2,457
Non-current liabilities	5,182	7,353
Current liabilities		
Income tax liabilities	159	1,266
Financial liabilities	855	918
Personnel-related liabilities	5,696	7,421
Other provisions and liabilities	1,541	3,363
Liabilities from advance payments	5,059	7,457
Trade payables	3,172	3,567
Deferred income	8,939	5,035
Current liabilities	25,421	29,027
Total equity and liabilities	**89,580**	**99,386**

CONSOLIDATED INCOME *EUR thousand*	Quarterly Report III / 2018 July 1, 2018 - Sept. 30, 2018	Quarterly Report III / 2017 July 1, 2017 - Sept. 30, 2017	9-month report 2018 Jan 1, 2018 - Sept. 30, 2018	9-month report 2017 Jan 1, 2017 - Sept. 30, 2017
Revenue	22,504	20,037	64,278	58,908
Cost of sales	-10,618	-9,227	-31,288	-27,513
Gross profit	11,886	10,810	32,990	31,395
Selling and marketing expenses	-4,368	-4,150	-13,224	-12,902
General and administrative expenses	-2,453	-2,464	-7,370	-6,865
Research and development expenses	-3,546	-3,569	-10,853	-9,956
Other operating income	191	254	816	705
Other operating expenses	-144	-238	-548	-647
Amortization of intangible assets recognized in connection with company acquisitions	-345	-369	-1,062	-1,031
Profit from ordinary activities (EBIT)	1,221	274	749	699
Finance income	25	6	146	33
Finance costs	-11	-62	-74	-151
Earnings before taxes (EBT)	1,235	218	821	581
Income taxes	-289	-198	-553	-614
Net profit	946	20	268	-33
Earnings per share (EUR) on the basis of the share of earnings of shareholders of USU Software AG:				
Basic and diluted	0.09	0.00	0.03	0.00
Weighted average shares outstanding: Basic and diluted	10,523,770	10,523,770	10,523,770	10,523,770

STATEMENT OF COMPREHENSIVE INCOME *EUR thousand*	Quarterly report III / 2018 July 1, 2018 – Sept. 30, 2018	Quarterly report III / 2017 July 1, 2017 – Sept. 30, 2017	9-month report 2018 Jan. 1, 2018 Sept. 30, 2018	9-month report 2017 Jan. 1, 2017 Sept. 30, 2017
Consolidated net profit	**946**	**-33**	**268**	**-33**
Available-for-sale financial assets (securities)				
- Changes in fair value recognized in equity	0	0	0	0
- Reclassified to profit or loss	0	0	0	0
Deferred taxes on available-for-sale financial assets (securities)	0	0	0	0
Currency translation difference	-21	78	-88	270
Other comprehensive income after taxes	**-21**	**78**	**-88**	**270**
Total comprehensive income	**925**	**45**	**180**	**237**

Consolidated Statement of Cash Flows	9-month report 2018	9-month report 2017
EUR thousand	Jan. 1, - Sept. 30, 2018	Jan. 1, - Sept. 30, 2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Consolidated net profit	268	-33
+/- Depreciation, amortization and write-downs of non-current assets and reversals of write-downs of non-current assets	2,119	2,048
+/- Other non-cash expenses/income	-81	417
+/- Increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities	1,918	2,428
+/- Increase/decrease in trade payables and other liabilities not related to investing or financing activities	-4,238	-3,205
+/- Interest expenses/income	-72	118
+/- Income taxes paid/received	-2,052	-277
+/- interest paid/received	15	10
+/- Income taxexpenses/income	553	614
Net cash from operating activities	**-1,570**	**2,120**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
- Acquisition of subsidiaries less cash and cash equivalents acquired	0	-6,280
- Purchase of intangible assets	-45	-130
+ Proceeds from disposals of property, plant and equipment	2	13
- Purchase of property, plant and equipment	-726	-827
+Payments received from items not related to operating or financing activities	0	0
Net cash used in investing activities	**-769**	**-7,224**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
- Dividends paid to shareholders	-4,209	-4,209
- Repayment of purchase price liabilities in connection with the acquisition of subsidiaries	0	0
Net cash used in financing activities	**-4,209**	**-4,209**
Change in cash and cash equivalents	**-6,548**	**-9,313**
+/- Effect on cash and cash equivalents of exchange rate movements and remeasurement	64	-176
Change in cash and cash equivalents, total	**-6,484**	**-9,489**
Cash and cash equivalents at the start of the period	**12.715**	**20,166**
Cash and cash equivalents at the end of the period	**6,231**	**10,677**

Changes in consolidated equity	Issued capital		Capital re-serves	Legal reserve	Unappro-priated Surplus / accumulated losses	Other comprehensive income		**Equity**
						Pension plans	Currency translation	
	Number	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Consolidated equity as of January 1, 2017	10,523,770	10,524	52,792	574	63	-186	-144	63,623
Consolidated net profit					-33			-33
Transfer to the legal reserve				0				0
Other comprehensive income after taxes							270	270
Total comprehensive income	**0**	**0**	**0**	**0**	**-33**	**0**	**270**	**237**
Dividend payment					-4,209			-4,209
Consolidated equity as of September 30, 2017	10,523,770	10,524	52,792	574	-4,179	-186	126	59,651
Consolidated equity as of January 1, 2018	10,523,770	10,524	52,792	574	-779	-228	123	63,006
Consolidated net profit					268			268
Transfer to the legal reserve				-574	574			0
Other comprehensive income after taxes							-88	-88
Total comprehensive income	**0**	**0**	**0**	**-574**	**-104**	**0**	**-88**	**180**
Dividend payment					-4,209			-4,209
Consolidated equity as of September 30, 2018	10,523,770	10,524	52,792	0	-4,146	-228	35	58,977

Accounting principles

USU Software AG is a stock corporation under the law of the Federal Republic of Germany. The company is domiciled at Spitalhof, 71696 Möglingen, Germany, and is entered in the commercial register of the Stuttgart Local Court, Dept. B., under No. 206442.

These interim financial statements of USU Software AG are consistent with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The interim financial statements were prepared in accordance with IAS 34 (Interim Financial Reporting).

The same accounting policies were applied as in the preparation of the consolidated financial statements for the fiscal year ended December 31, 2017. This unaudited nine-month report for 2018 should therefore be read in conjunction with the audited consolidated financial statements for 2017.

This consolidated interim report contains all the necessary deferrals and, in the opinion of the management, provides a true and fair view of the financial position and financial performance. All deferrals performed are in line with the standard accrual concept.

In preparing interim financial statements in line with IFRS, estimates and opinions relating to the assets and liabilities recognized at the reporting date and the income and expenses for the reporting period are required to a certain extent. Actual results may differ from those estimates.

Income taxes are recognized in the interim period based on the best estimate of the weighted average annual income tax rate expected for the year as a whole. This tax rate is applied to the pre-tax profit of the consolidated companies.

It is not necessarily possible to deduce the annual net profit from the profit of the interim periods.

Financial instruments

The following table shows the carrying amounts and fair values of the Group's financial instruments:

EUR thousand	September 30, 2018		Dec. 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Unbilled work in progress	4,745	4,745	3,468	3,468
Trade receivables	14,148	14,148	17,443	17,443
Other current financial assets	997	997	1,279	1,279
Securities held as current assets	3,014	3,014	3,014	3,014
Cash on hand and bank balances	6,231	6,231	12,715	12,715
	29,135	**29,135**	**37,919**	**37,919**

EUR thousand	September 30, 2018		Dec. 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	1,105	1,105	1,168	1,168
Trade payables	3,172	3,172	3,567	3,567
Liabilities from advance payments	5,059	5,059	7,457	7,457
	9,336	**9,336**	**12,192**	**12,192**

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a fair value hierarchy with three measurement levels depending on whether the fair value of financial instruments was determined on the basis of published market prices (level 1), on the basis of data derived from published market prices (level 2) or using non-observable parameters (level 3).

USU Software AG currently has no level 2 or 3 financial instruments

Revenue

Revenue from the sale of goods and services breaks down as follows:

	Jan. 1 - September 30, 2018 EUR thousand	Jan. 1 - September 30, 2017 EUR thousand
Consulting	**36,932**	**32,705**
Licenses/products	**7,829**	**9,112**
Maintenance/SaaS	**18,999**	**16,307**
Other	**518**	**784**
	64,278	**58,908**

Segment reporting

For the purpose of segment reporting in accordance with IFRS 8, USU operates in the "Product Business" and "Service Business" segments, both of which significantly influence the Group's risks and return on equity. The breakdown of various key performance indicators by segment in line with IFRS 8 is shown in the table below:

	Product Business		Service Business		Total Segments		Unallocated		Group	
	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand	Jan. 1 – Sept. 30, 2017 EUR thousand
Revenue	**47,562**	**44,555**	**16,556**	**14,131**	**64,118**	**58,686**	**160**	**222**	**64,278**	**58,908**
EBITDA	**4,967**	**5,221**	**2,473**	**1,827**	**7,440**	**7,048**	**-4,572**	**-4,299**	**2,868**	**2,749**
EBIT	**3,436**	**3,920**	**1,996**	**1,382**	**5,432**	**5,302**	**-4,683**	**-4,603**	**749**	**699**
Net finance income	**-**	**-**	**-**	**-**	**-**	**-**	**72**	**-118**	**72**	**-118**
Taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-553**	**-614**	**-553**	**-614**
Consolidated net profit	**3,436**	**3,920**	**1,996**	**1,382**	**5,432**	**5,302**	**-5,164**	**-5,335**	**268**	**-33**
No. of employees at end of period	**498**	**478**	**113**	**100**	**611**	**578**	**92**	**83**	**703**	**661**

The USU Group generated a total of 27.7% (Q1-Q3 2017: 27.5%) or EUR 17,833 thousand (Q1-Q3 2017: EUR 16,220 thousand) of its consolidated revenue outside Germany in the first nine months of the 2018 fiscal year. This data is based on customers' registered offices. By contrast, less than 10% of consolidated assets were held outside Germany. At the same time, investments outside Germany amounted to less than 10% of the Group's total investments. For reasons of materiality, further details of the geographical data have therefore not been provided.

Events after the reporting date

No significant events occurred after September 30, 2018 that had a material effect on the business performance of the USU Group. Thus, there were no significant changes to the Group's net assets, financial position or results of operations.

Shares held by members of executive bodies at USU Software AG

The following shares in USU Software AG were held by members of the company's executive bodies as of September 30, 2018:

Stock declarations by members of executive bodies	Shares September 30, 2018	Shares September 30, 2017
Management Board		
Bernhard Oberschmidt	156,518	156,518
Bernhard Böhler	167,572	167,572
Dr. Benjamin Strehl	0	0
Supervisory Board		
Udo Strehl*	5,000	0
Erwin Staudt	100,000	100,000
Günter Daiss	85,500	85,500

** An additional 5,338,044 (2017: 5,338,044) voting rights in USU Software AG are allocated to Udo Strehl, the majority shareholder of this company, through AUSUM GmbH in accordance with section 22(1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).*
A further 32,000 (2017: 32,000) voting rights in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the director, in accordance with section 22(1) sentence 1 no. 1 WpHG.

The members of the executive bodies do not hold any stock options or convertible bonds issued by USU Software AG.

Related party disclosures

In accordance with IAS 24, all related parties are persons or companies with the ability to control the Group or exercise significant influence over it, or on whom/which the Group can exert significant influence, including the management and the Supervisory Board. Companies that are already included in consolidation in the interim consolidated financial statements are not considered related parties.

There were no significant changes to business relations between USU Software AG and the Chairman of the Supervisory Board and majority shareholder Udo Strehl and his wife as compared to the information in the notes to the consolidated financial statements for fiscal 2017. For more information, please see the consolidated financial statements of USU Software AG for the fiscal year ended December 31, 2017.

Möglingen, 22 November 2018

USU Software AG

Bernhard Oberschmidt	Bernhard Böhler	Dr. Benjamin Strehl
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

November 26 to 28, 2018	**Investor and analyst conference at *German Equity Forum 2018, Frankfurt/Main***

December 12, 2018	**Investor and analyst conference at 26th MKK (Munich Capital Market Conference), Munich**