3 – MONTH REPORT 2019

USU Software AG

3-Month Report 2019	2019	2018
in Thsd. EUR, except the earnings per share and number of employees	Jan.1 –March 31	Jan.1 –March 31
REVENUES	21,975	21,005
ADJUSTED EBIT	162	752
ADJUSTED NET RESULT	-315	462
ADJUSTED EARNINGS PER SHARE (EUR)	-0.03	0.04
EBITDA	1,022	1,091
EBIT	-183	383
NET RESULT	-636	473
EARNINGS PER SHARE (EUR)	-0.06	0.04
CASH-FLOW FROM ORDINARY OPERATIONS	7.630	6,747
NUMBER OF EMPLOYEES	699	683
	March 31, 2019	Dec. 31, 2018
CASH AND CASH EQUIVALENTS	16,257	9,450
SHAREHOLDERS EQUITY	58,963	59,665
BALANCE SHEET	100,736	95,144
EQUITY RATIO	58.5%	62.7%

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Dear Shareholders and Readers,

USU Software AG is in the middle of a transformation process from the one-time license business to the cloud and SaaS business, which has been visibly affecting consolidated earnings since 2017, but in the medium term will lead to a significant improvement in earnings and greater consistency of business performance over the quarters. As SaaS orders usually have terms of three years, USU will in the future no longer be so dependent on the final quarter of a year, which will considerably improve the plannability of our revenue and earnings performance and thus result in greater stability and forecastability of business performance.

Looking to the years ahead, therefore, the Management Board has targetedly continued the investments in the future, which primarily went on increasing headcount, and thus further promoted the expansion of the Group's workforce. In the IT industry, USU finds itself in a hard-fought labor market, but with regard to medium-term planning requires additional skilled employees and managers in Germany and abroad to continue driving the business forward.

Although the associated costs will initially have a negative impact on earnings performance, the Management Board is convinced that this is reasonable and necessary from a business perspective. After the comparatively positive opening quarter in the previous year, earnings in the quarter under review accordingly fell short of the comparative figure for the previous year. However, the Management Board expects a trend reversal and an increase in profitability again in the second quarter already. Accordingly, we are confirming our forecast for the current fiscal year of consolidated revenue of between EUR 98 million and EUR 101 million accompanied by adjusted EBIT of EUR 7.5 million to EUR 10 million. We are also confirming our medium-term forecast to 2021, with consolidated revenue of EUR 140 million – including around EUR 15 million from acquisitions – and adjusted EBIT of EUR 20 million.

This 3-Month Report 2019 contains details of USU's business performance in the first quarter of 2019 and further planning. The Management Board will also present and discuss the Group's business performance at the Annual General Meeting in Ludwigsburg on July 2, 2019. Among other things, one of the Annual General Meeting's agenda items is the payment of a dividend of EUR 0.40 per share for 2018. Other agenda items at this year's Annual General Meeting, to which you are cordially invited, are the approval of the actions of the Management Board and the Supervisory Board for the 2018 fiscal year, the election of Gabriele Walker-Rudolf to the Supervisory Board of USU Software AG, the resolution on the approval of a profit and loss transfer agreement with Group subsidiary USU GmbH, and the election of the auditor for the current 2019 fiscal year.

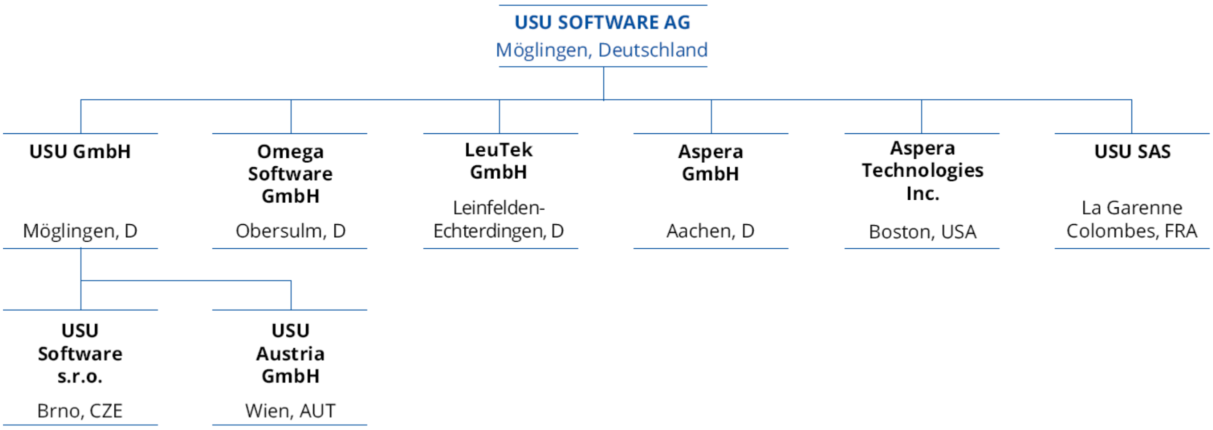
Yours,

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 shareholdings in Openshop Internet Software GmbH, Möglingen, Germany, USU (Schweiz) AG i.L., Zug, Switzerland, and USU Consulting GmbH i.L., Sursee, Switzerland, which are no longer operational.



The USU Software AG and its subsidiaries

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 digitization 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 revenue 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 key performance indicators for USU Software AG and the Group are revenue and adjusted EBIT.

As the USU Group's IFRS consolidated earnings have been and continue to be influenced by various extraordinary items that 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.

Taking the latest operational developments into account, the Management Board is forecasting an increase in consolidated revenue to between EUR 98 million and EUR 101 million in the current 2019 fiscal year, accompanied by an increase in adjusted EBIT to between EUR 7.5 million and EUR 10 million. The current medium-term forecast to 2021 projects growth in consolidated revenue to EUR 140 million (including around EUR 15 million from acquisitions) accompanied by an increase in adjusted EBIT to EUR 20 million.

Research and development

In the first three months of 2019, USU Software AG invested a total of EUR 3,800 thousand (Q1 2018: EUR 3,512 thousand) or 17.3% (Q1 2018: 16.7%) of consolidated revenue in research and development (R&D). R&D expenses, which for years have been above average and deployed in a targeted manner, are the basis for product innovation, which is one of the USU Group's growth pillars as the driver of future economic success. The number of employees in this area was 196 as of March 31, 2019 (March 31, 2018: 191). 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 5.2 of the IT service management suite of the same name was developed further. Priority functions are performance optimization, a new chargeback manager and the expansion of the shop function. In addition, work was done on the new architecture for Valuemation, prototypes created for the integration of the Keycloak user management solution and Docker containers realized. At the same time, the mobile version of Valuemation was developed further.

The R&D team from LeuTek released a new version of its monitoring software in the period under review. Further new developments include, for example, the integration of Docker container technology, which allows makes processes and applications to proceed independently, the automatic synchronization between various ZIS systems, new models for the monitoring of Office365 and user-defined calculation periods for service levels. Further development work will focus on integrating OpenStreetMaps, for example, for the dynamic display of state-related objects (e.g. branches, field offices, Group IT).

At the USU company Aspera, the software master catalog was expanded in particular, with the addition of new product properties such as edition, environment and platform. Forming the basis for license management, it contains the complex and varied licensing terms of the software manufacturers. In addition, the function for license versioning in the event of expired maintenance was redesigned. The options for importing and calculating requirements for SAP applications and systems were also improved.

In the unymira division, development work continued on version 7 of the knowledge database Knowledge Center. It focused on the innovative ergonomic user interface with new opportunities for modern knowledge work. The self-service application Smart Link 4 with integrated chatbot was completed. The new social media application version of CONNECT, which uses intelligent skills-based routing to automate communication on the basis of employee skills, is also productive. The enhancement of KnowledgeBot particularly provides for the integration of the voice service with Alexa.

The new product KatanaGo was developed on the basis of customer requirements and since March 2019 has ensured the automated processing for industry data and the provision of workflows for productive use. The segment, which specializes in big data, also enhanced the Katana platform, a new version of which is likewise available. The key changes are the improvement and standardization of the graphical user interface and the role and authorization concept.

In the first quarter of 2019, USU was awarded the contracts for two further research projects: Led by USU Software AG, a consortium developed the “Service Master” concept, which has now been selected for the AI innovation competition of the German Federal Ministry for Economic Affairs and Energy (BMWi). The aim is to develop an AI-based service platform for German SMEs. Another project is MesaTech, which strives to digitize additive manufacturing processes. USU also uses pattern recognition to derive predictions of product quality from the process data. These are then used to adjust the manufacturing processes.

Economic report

Overall economic development

Adjusted for inflation, seasonal and calendar effects, gross domestic product (GDP) for the first quarter of 2019 was 0.4% higher than in the previous quarter according to an initial report from the German Federal Statistical Office ("destatis")[1] on May 15, 2019. According to preliminary calculations, it was primarily domestic demand that provided positive momentum compared with the previous quarter (after adjustment for inflation, seasonal and calendar effects): Investment in construction and equipment was significantly higher in the first quarter of 2019 than in the fourth quarter of 2018. Private consumer spending also increased sharply as against the previous quarter. In contrast, government spending decreased. External economic development sent mixed signals, as both exports and imports grew compared with the previous quarter. GDP adjusted for inflation was 0.6% higher (adjusted for calendar effects: 0.7%) in the first quarter of 2019 than in the first quarter of the previous year.

The euro area likewise saw quarter-on-quarter GDP growth of 0.4% in the first quarter of 2019 according to a flash estimate by the Statistical Office of the European Union (Eurostat)[2]. Seasonally adjusted euro area GDP increased by 1.2% as against Q1 2018 in the first quarter of 2019.

Sector development

According to studies by the consultancy Capgemini,[3] the IT industry in the DACH region (Germany, Austria and Switzerland) continues to develop positively in 2019. 44% of the DACH region companies surveyed as part of Capgemini's IT trends study expect IT budgets to increase over 2019 as a whole, while 39.2% expect budgets to at least remain stable. Only 2.5% of the companies surveyed anticipate a year-on-year decline in IT budgets. According to Capgemini, digitization is one of the most important IT targets of the current year for more than 70% of the companies.

[1] cf. destatis press release 184 dated May 15, 2019, published at https://www.destatis.de

[2] cf. Eurostat press release 76/2019 dated April 30, 2019, published at http://ec.europa.eu/eurostat

[3] cf. Capgemini IT trends study dated December 13, 2018, published at https://www.capgemini.com/de-de/2018/12/it-budgets-2019/

Business performance in the first three months of fiscal 2019

Development of revenue and costs

Consolidated revenue

In the first quarter of 2019, USU Software AG increased its consolidated revenue (IFRS) by 4.6% year-on-year to EUR 21,975 thousand (Q1 2018: EUR 21,005 thousand). USU benefited in particular from a growing cloud and maintenance business. For example, maintenance revenue including revenue from the software-as-a-service (SaaS) business increased by a disproportionately high 14.7% year-on-year to EUR 6,736 thousand (Q1 2018: EUR 5,873 thousand). However, USU also increased its license business in Q1 2019 by 7.1% on the same quarter of the previous year to EUR 3,002 thousand (Q1 2018: EUR 2,804 thousand). In contrast, consulting income fell just short of the previous year at EUR 12,125 thousand ----(Q1 2018: EUR 12,167 thousand). Other income, which essentially comprises merchandise revenue from third-party hardware and software, totaled EUR 112 thousand (Q1 2018: EUR 161 thousand).

In terms of region, USU benefited from a strong domestic market, which increased the revenue generated in Germany to EUR 16,574 thousand (Q1 2018: EUR 14,091 thousand), while the revenue generated outside Germany fell compared to the very strong first quarter of the previous year to EUR 5,401 thousand in the first three months of 2019 (Q1 2018: EUR 6,914 thousand) despite successful project completions in the USA and global project completions via international sales partners. Accordingly, the share of consolidated revenue generated abroad fell from 32.9% in the previous year to 24.6% in the first three months of 2019.

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 revenue of EUR 16,698 thousand in the first three months of 2019 (Q1 2018: EUR 15,748 thousand), up 6.0% on the previous year. This was primarily due to the expansion of the maintenance and SaaS business and license revenue. In the same period, consulting-related revenue in the Service Business segment remained practically constant with growth of 0.1% to EUR 5,230 thousand (Q1 2018: EUR 5,227 thousand).

Revenue not allocated to the segments totaled EUR 47 thousand in the first three months of fiscal 2019 (Q1 2018: EUR 30 thousand).

Operating costs

In connection with the investments in workforce expansion for the successful realization of the medium-term planning, the USU Group's operating cost base increased by 10.2% year-on-year to EUR 22,320 thousand (Q1 2018: EUR 20,249 thousand). At the same time, costs were increased by the fact that the amortization of intangible assets recognized in connection with company acquisitions of EUR 345 thousand was allocated in accordance with International Financial Reporting Standards (IFRS) to the associated functional costs (of which cost of sales: EUR 18 thousand, marketing and sales costs: EUR 228 thousand, research and development costs: EUR 97 thousand, general administrative costs: EUR 2 thousand) and resulted in a corresponding increase in these costs compared to the previous year.

The cost of sales rose by 8.7% as against the previous year to EUR 10,981 thousand in the period under review (Q1 2018: EUR 10,099 thousand). In addition to the included amortization, this was due in particular to the demand-driven increase in the use of freelance employees and partners in customer projects and the associated increase in fees. Accordingly, the cost of sales as a percentage of consolidated revenue increased from 48.1% in the first three months of 2018 to 50.0% at the reporting date. Gross income also increased from EUR 10,906 thousand in the first three months of 2018 to EUR 10,994 thousand in the first quarter of 2019. By contrast, the gross margin fell short of the prior-year figure at 50.0% in the first three months of 2019 (Q1 2018: 51.9%).

In the period under review, marketing and sales expenses increased by 11.9% year-on-year to EUR 4,674 thousand (Q1 2018: EUR 4,178 thousand) as a result of the intensification of USU's activities outside Germany starting in the previous year and the newly included amortization. Accordingly, marketing and sales expenses as a share of consolidated revenue climbed from 19.9% in the first nine months of 2018 to 21.3% in Q1 2019.

General administrative expenses increased by a total of 16.5% compared to the first quarter of 2018 to EUR 2,865 thousand in the quarter under review (Q1 2018: EUR 2,460 thousand) as a result of the workforce expansion. The ratio of administrative expenses to consolidated revenue rose to 13.0% in the first three months of 2019 (Q1 2018: 11.7%).

Research and development expenses also increased in the reporting period by 8.2% year-on-year to EUR 3,800 thousand (Q1 2018: EUR 3,512 thousand) in connection with the inclusion of amortization of intangible assets recognized in connection with company acquisitions in this item and the workforce expansion in R&D. The ratio of research and development expenses to consolidated revenue increased as a result, from 16.7% in the first quarter of 2018 to 17.3% in Q1 2019. 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 as well, USU is planning to increase its R&D expenditure in absolute terms while slightly reducing the ratio of research and development expenses to consolidated revenue on account of its planned revenue growth.

Net other operating income and expenses totaled EUR 162 thousand in the first three months of 2019 (Q1 2018: EUR -14 thousand).

Results of operations

On account of the increased cost basis year-on-year in connection with the workforce expansion, EBITDA fell 6.3% from the comparative figure for the previous year to EUR 1,022 thousand (Q1 2018: EUR 1,091 thousand). Adjusted for depreciation and amortization of EUR 1,205 thousand (Q1 2018: EUR 708 thousand), USU generated EBIT of EUR -183 thousand in the same period (Q1 2018: EUR 383 thousand).

Net financial result amounted to EUR 0 thousand in the period under review (Q1 2018: EUR -56 thousand). Income taxes amounted to EUR -453 thousand in the reporting period, while tax income of EUR 146 thousand was posted in the previous year. The increase in tax expenses as against the previous year essentially relates to higher income taxes coupled with a sharp decline in deferred tax income. Accordingly, consolidated earnings totaled EUR -636 thousand (Q1 2018: EUR 473 thousand), equivalent to earnings per share of EUR -0.06 (Q1 2018: EUR 0.04).

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, 2019 - March. 31, 2019**	**Jan. 1, 2018 - March. 31, 2018**
Profit from ordinary activities (EBIT)	**-183**	**383**
Amortization of intangible assets recognized in with company acquisitions	345	359
Amortization of goodwill	0	0
Non-recurring effects relating to acquisitions	0	10
- from stay bonus for BIG GmbH / unitB technology GmbH	0	0
- from Consulting fees for acquisition of unitB technology	0	10
- from purchase price adjustments	0	0
- from incidental acquisition costs	0	0
Adjusted EBIT	**162**	**752**
Finance income (as per consolidated income statement)	19	4
Finance costs (as per consolidated income statement)	-19	-60
Income taxes (as per consolidated income statement)	-453	146
Tax effects relating to adjustments	-24	-380
- from amortization	-24	-28
- from deferred taxes on tax loss carryforwards	0	-352
Adjusted consolidated net profit	**-315**	**462**
Adjusted earnings per share (in EUR):	**-0.03**	**0.04**
Weighted average shares outstanding:		
Basic and diluted	10,523,770	10,523,770

As a result of the expansion of the Group's workforce, the increased depreciation and amortization due to IFRS and the associated increase in the cost base, adjusted EBIT fell by around three-quarters year-on-year to EUR 162 thousand in the first three months of 2019 (Q1 2018: EUR 752 thousand). Adjusted consolidated earnings declined to EUR -315 thousand in the same period (Q1 2018: EUR 462 thousand). Adjusted earnings per share thus declined from EUR 0.04 in the previous year to EUR -0.03. However, the Management Board expects positive effects from the workforce expansion and, as a result, a considerable improvement in earnings and thus a return to profitability from as early as the second quarter.

Net assets and financial position

On the assets side of the statement of financial position, the USU Group's non-current assets rose to EUR 61,172 thousand as of March 31, 2019 (December 31, 2018: EUR 57,246 thousand), as a result of the initial application of IFRS 16 and the associated recognition of right-of-use assets.
Over the same period, current assets increased from EUR 37,898 thousand as of December 31, 2018, to currently EUR 39,563 thousand, primarily as a result of the rise in Group liquidity (cash on hand and bank balances including securities) to EUR 16,257 thousand as of March 31, 2019 (December 31, 2018: EUR 9,450 thousand). This is due in particular to the customer invoice payment, which entailed a decline in receivables, and the customer payment of maintenance invoices at the start of the year.

On the equity and liabilities side of the statement of financial position, the equity of the USU Group fell from EUR 59,665 thousand as of December 31, 2018, to EUR 58,963 thousand as of March 31, 2019, as a result of the negative consolidated earnings. At the same time, debt in the form of the USU Group's current and non-current liabilities rose to EUR 41,773 thousand as of March 31, 2019 (December 31, 2018: EUR 35,479 thousand). This increase resulted from higher deferred income from maintenance agreements invoiced at the start of the year for which the service will be rendered and the revenue recognized later in the year and from the initial application of IFRS 16 and the associated initial recognition of lease liabilities.

With total assets of EUR 100,736 thousand (December 31, 2018: EUR 95,144 thousand), the equity ratio was 58.5% as at March 31, 2019 (December 31, 2018: 62.7%).

Cash flows and capital expenditure

The USU Group had cash and cash equivalents (excluding securities) of EUR 16,257 thousand as of March 31, 2019 (Q1 2018: EUR 19,207 thousand). This corresponds to a year-on-year decline of EUR 2,950 thousand or 15.4%, partly as a result of the dividend distribution to USU's shareholders in the amount of EUR 4,209 thousand in the meantime. Accordingly, USU increased its Group liquidity compared to December 31, 2018, when USU had liquidity of EUR 9,450 thousand, by 72.0%.

USU's cash flow from operating activities climbed from EUR 6,747 thousand in the first three months of 2018 to currently EUR 7,630 thousand. This is due primarily to isolated changes in working capital, such as the targeted reduction of trade receivables through active receivables management.

Net cash used in investing activities of EUR -319 thousand (Q1 2018: EUR -209 thousand) primarily includes investments in property, plant and equipment and intangible assets.

Net cash used in financing activities of EUR -526 thousand (Q1 2018: EUR 0 thousand) resulted from the initial application of IFRS 16 and includes repayments of lease liabilities.

Orders on hand

The USU Group's orders on hand totaled EUR 51,739 thousand at the end of the first quarter of 2019, up EUR 5,636 thousand or 12.2% on the previous year (March 31, 2018: EUR 46,103 thousand) and above EUR 50 million for the first time. This increase resulted partly from the USU Group's higher SaaS orders. USU also increased its orders on hand by 5.2% as against the end of the previous year (December 31, 2018: EUR 49,178 thousand).

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

Employees

The USU Group expanded its workforce by 2.3% year-on-year to 699 employees as of March 31, 2019 (March 31, 2018: 683). Broken down by functional unit, USU employed a total of 314 people in consulting and services as of the end of the first quarter of 2019 (March 31, 2018: 314), 196 in research and development (March 31, 2018: 191), 93 in sales and marketing (March 31, 2018: 96) and 96 in administration (March 31, 2018: 82). Broken down by segment, USU had 493 (March 31, 2018: 491) employees in the Product Business segment, 110 (March 31, 2018: 110) in the Service Business segment, and 96 (March 31, 2018: 82) in USU Group central functions. USU therefore achieved its targeted expansion of the Group workforce in accordance with medium-term planning again in the first quarter of 2019 despite the ongoing 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 3-Month Report 2019.

Forecast, opportunity and risk report

Forecast

General economy

According to a survey by the Joint Economic Forecast Project Group[4] dated April 4, 2019, and conducted with the participation of the leading German economic research institutes, the German economy has cooled markedly since mid-2018. The long-standing upturn has therefore apparently come to an end. According to the Joint Economic Forecast, the weaker momentum was triggered by both the international environment and industry-specific events. Global economic conditions have reportedly deteriorated – partly as a result of political risks – and the manufacturing industry is struggling with production constraints. The Germany economy is now experiencing a cooldown, in which the macroeconomic overutilization of capacity is declining.

The institutes are now anticipating economic growth of only 0.8% in 2019, more than one percentage point less than in fall 2018. However, the institutes currently consider the risk of a pronounced recession with negative rates of change in gross domestic product over several quarters to be low, at least as long as political risks do not escalate further. The institutes are confirming last fall's forecast for 2020: Gross domestic product is likely to grow by 1.8% in 2020.

According to the Joint Economic Forecast, the world economy will remain on an upward path, but the forecast is likewise lower than in fall 2018. According to the latest forecast, the institutes expect growth in macroeconomic production of just 2.7% this year instead of the 3.0% expected previously. According to the Joint Economic Forecast, the economy is being negatively affected in particular by the smoldering trade conflicts between the USA on one side and China and the European Union on the other and by the high degree of uncertainty with regard to economic policy that these conflicts entail. The United Kingdom's withdrawal from the European Union is also causing uncertainty. For 2020, the institutes expect global growth in GDP of likewise 2.7%.

[4] cf. Joint Economic Forecast #1-2019 Spring 2019, April 4, 2019, published at www.gemeinschaftsdiagnose.de

Sector

According to BITKOM[5], all signs for digitization are set to growth in Germany. The German ITC sector, comprising information technology, telecommunications and consumer electronics, is also set to experience a surge in growth in 2019 as a result of digitization, according to BITKOM forecasts. The German IT market alone is set to grow by 2.5% to EUR 92.2 billion in 2019 (2018: EUR 89.9 billion). The software segment is expected to enjoy the strongest development by some distance, with BITKOM forecasting growth of 6.3% to EUR 26.0 billion in this segment (2018: EUR 24.4 billion). However, IT service providers should also experience strong growth of 2.3% to EUR 40.8 billion (2018: EUR 39.9 billion). "In all industries, digitization is not a nice-to-have – it is an absolute must-do. This is appropriately reflected by the high demand for IT consultants and software applications to keep on developing products, value-added networks and corporate culture and get them ready for the digital age," says BITKOM President Achim Berg. In terms of the global IT market, the outlook published by the market research company Gartner[6] on April 17, 2019,

forecasts a year-on-year increase in IT expenditure of 1.1% to USD 3,790 billion in 2019 (2018: USD 3,747 billion). Gartner thus lowered its forecast compared to the previous quarter, which is primarily due to anticipated exchange rate effects from a strengthening US dollar. For 2019, Gartner expects the US dollar to perform more strongly while exposed to severe fluctuations on account of uncertain economic and political conditions and trade conflicts.

According to Gartner, the key global growth areas are also expected to be corporate software and IT services, with forecast growth of 7.1% to USD 427 billion (2018: USD 399 billion) and 3.5% to USD 1,016 billion (2018: USD 982 billion) respectively, essentially as a result of digitization and the shift in companies' IT spending towards cloud business. Artificial intelligence (AI) will be a key issue here. For example, Gartner says that AI will be integrated into many existing products and services.

Outlook

For 2019 as a whole, the Management Board is again forecasting stronger growth in USU Software AG's revenue and, in particular, its operating earnings, thereby continuing the long-term growth trend in adjusted EBIT and consolidated revenue, with the trend towards SaaS business slowing growth somewhat in the current fiscal year. While the Management Board anticipates that a majority of the US projects delayed from the previous year will lead to orders

[5] cf. BITKOM press release dated January 10, 2019, published at www.bitkom.de

[6] cf. Gartner press release dated May 15, 2018, published at www.gartner.com

this year and thus contribute to a positive business performance, it is not yet known whether the companies will choose a one-time license or an SaaS project. Regardless of this, the Management Board is expecting positive effects from the capital expenditure outside Germany in previous years, which were mainly geared towards stepping up sales and marketing activities. In addition, the deeper market penetration of the Knowledge Management portfolio, which was launched on international markets in 2018, is set to have a positive effect on international business. Domestic business is also expected to continue to develop successfully, leading to a further expansion in the product business from which the USU Group generates license, maintenance and product consulting income. However, Service Business, which was incorporated into the newly formed unymira division in the previous year and already has a high level of consultant capacity utilization, is also expected to continue to see slight growth for both full-time employees and freelancers/partners. Overall, the Management Board expects to significantly outperform the market in terms of growth once again in fiscal 2019. One key indicator supporting this forecast is Group-wide orders on hand, which increased by 12.2% year-on-year to EUR 51,739 thousand as of March 31, 2019 (2018: EUR 46,103 thousand). Accordingly, the forecast for 2019 anticipates an increase in consolidated revenue to between EUR 98 million and EUR 101 million accompanied by strong growth in adjusted EBIT to between EUR 7.5 million and EUR 10 million. At the same time, the Management Board is reiterating its medium-term planning for 2021 of consolidated revenue of EUR 140 million and adjusted EBIT of EUR 20 million. These figures include growth due to acquisitions of approximately EUR 15 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 growth through acquisitions.

Based on the above assumptions, the Management Board is in turn planning to enable the shareholders of USU Software AG to participate significantly in the company's operating success in fiscal 2019, as in previous years, and to continue the shareholder-friendly dividend policy with the distribution of a dividend that is never lower than in the previous year and that amounts 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, 2018. For more information please see the report on risks and opportunities in the 2018 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.

After a weaker end to 2018 with predominantly declining prices, the stock markets were clearly on the up again in the quarter under review, mostly putting in a positive performance. The DAX gained 9.2% compared with the previous quarter, closing at 11,526.04 points on the XETRA electronic trading platform on March 31, 2019 (December 31, 2018: 10,558.96 points). The Technology All Share index also gained 14.7% on XETRA compared with the end of the previous quarter to close at 3,213.11 points (December 31, 2018: 2,802.48 points).

In contrast, USU's shares clearly underperformed relative to the benchmark indices with quarterly performance of -7.3% to EUR 14.60 (December 31, 2018: EUR 15.75) as a result of the forecast adjustment at the end of 2018.

Möglingen, May 23, 2019

USU Software AG

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

ASSETS in TEUR	3-month report March 31, 2019	Annual report Dec. 31, 2018
Non-current assets		
Intangible assets	6,522	6,903
Goodwill	41,183	41,183
Property, plant and equipment	2,178	2,157
Right-of-use assets IFRS 16	4,273	0
Financial assets	793	773
Prepaid expenses	283	290
Deferred taxes	5,940	5,940
Non-current assets	61,172	57,246
Current assets		
Inventories	587	466
Unbilled work in progress	4,044	4,526
Trade receivables	15,337	19,443
Income tax receivables	1,029	943
Financial assets	362	1,033
Other assets	512	881
Prepaid expenses	1,436	1,156
Cash on hand and bank balances	16,257	9,450
Current assets	39,564	37.898
Total assets	**100,736**	**95,144**

EQUITY AND LIABILITIES *EUR thousand*	**3-month report March 31, 2019**	**Annual report Dec. 31, 2018**
Equity		
Issued capital	10,524	10,524
Capital reserves	52,792	52,792
Other comprehensive income	-264	-198
Other Equity	-4,089	3,453
Equity	58,963	59,665
Non-current liabilities		
Financial liabilities	250	250
Pension provisions	2,338	2,311
Lease liabilities IFRS 16	2,111	0
Deferred income	1,345	1,015
Deferred taxes	2,150	2,174
Non-current liabilities	8,194	5,750
Current liabilities		
Income tax liabilities	662	616
Financial liabilities	105	855
Lease liabilities IFRS 16	2,164	0
Personnel-related liabilities	5,921	7,589
Other provisions and liabilities	1,516	3,389
Liabilities from advance payments	4,692	6,563
Trade payables	3,204	3,689
Deferred income	15,315	7,028
Current liabilities	33,579	29,729
Total equity and liabilities	**100,736**	**95,144**

CONSOLIDATED INCOME *EUR thousand*	**Quarterly Report I / 2019 Jan 1, 2019 - March 31, 2019**	**Quaterly Report I / 2018 Jan 1, 2018 - March 31,2018**	**3-month report Jan 1, 2019 - March 31, 2019**	**3-month report Jan 1, 2018 - March 31,2018**
Sales	21,975	21,005	21,975	21,005
Cost of sales	-10,981	-10,099	-10,981	-10,099
Gross profit	10,994	10,906	10,994	10,906
Selling and marketing expenses	-4,674	-4,178	-4,674	-4,178
General and administrative exp.	-2,865	-2,460	-2,865	-2,460
Research and development exp.	-3,800	-3,512	-3,800	-3,512
Other operating income	255	247	255	247
Other operating expenses	-93	-261	-93	-261
Amortization of intangible assets recognized in connection with company acquisitions	0	-359	0	-359
Profit from ordinary activities (EBIT)	-183	383	-183	383
Finance income	19	4	19	4
Finance expenses	-19	-60	-19	-60
Earnings before taxes (EBT)	-183	327	-183	327
Income taxes	-453	146	-453	146
Net profit	-636	473	-636	473
Earnings per share (EUR):				
Basic and diluted	-0.06	0.04	-0.06	0.04
Number of underlying shares	10,523,770	10,523,770	10,523,770	10,523,770

STATEMENT OF COMPREHENSIVE INCOME	Quarterly report I / 2019 Jan 1, 2019 - March 31, 2019	Quarterly report I / 2018 Jan 1, 2018 - March 31,2018	3-month report Jan 1, 2019 - March 31, 2019	3-month report Jan 1, 2018 - March 31,2018
Consolidated net profit	**-636**	**473**	**-636**	**473**
Items that cannot be reclassified to profit or loss:				
Actuarial gains/losses from pension provisions	0	0	0	0
Deferred taxes on actuarial gains/losses	0	0	0	0
Items that can be reclassified to profit or loss in future periods:				
Currency translation difference	-66	37	-66	37
Other comprehensive income after taxes	**-66**	**37**	**-66**	**37**
Total comprehensive income	**-702**	**510**	**-702**	**510**

CONSOLIDATED STATEMENT OF CASH FLOW *(UNAUDITED)*

USU

Consolidated Statement of Cash Flows *EUR thousand*	**3-month report 2019** **Jan. 1, - March 31, 2019**	**3-month report 2018** **Jan. 1, - March 31, 2018**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Consolidated net profit	-636	473
+/- Depreciation, amortization and write-downs of non-current assets and reversals of write-downs of non-current assets	1,205	708
+/- Other non-cash expenses/income	-39	12
+/- Increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities	5,128	5,258
+/- Increase/decrease in trade payables and other liabilities not related to investing or financing activities	1,197	1,100
+/- Interest expenses/income	0	56
+/- Income taxes paid/received	-477	-717
+/- interest paid/received	-1	3
+/- Income taxexpenses/income	453	-146
Net cash from operating activities	**7,630**	**6,747**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
- Acquisition of subsidiaries less cash and cash equivalents acquired	0	0
- Purchase of intangible assets	-2	-11
+ Proceeds from disposals of property, plant and equipment	1	0
- Purchase of property, plant and equipment	-318	-198
+Payments received from items not related to operating or financing activities	0	0
Net cash used in investing activities	**-319**	**-209**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
- Dividends paid to shareholders	0	0
- Repayment of purchase price liabilities in connection with the acquisition of subsidiaries	0	0
- Repayments of lease liabilities	**-526**	**0**
Net cash used in financing activities	**-526**	**0**
Change in cash and cash equivalents	**6,785**	**6,538**
+/- Effect on cash and cash equivalents of exchange rate movements and remeasurement	22	-46
Cash and cash equivalents at the start of the period	**9,450**	**12.715**
Cash and cash equivalents at the end of the period	**16,257**	**19,207**
Cash and cash equivalents		
Cash and cash equivalents	16,257	19,207
	16,275	**19,207**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

USU

Changes in consolidated equity	Issued capital		Capital reserves	Retained earnings	Other comprehensive income: Pension plans	Other comprehensive income: Currency translation	**Equity**
	Number	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Consolidated equity as of January 1, 2018	10,523,770	10,524	52,792	-205	--228	123	63,006
Consolidated net profit				473			473
Other comprehensive income after taxes						38	38
Total compre-hensive income	**0**	**0**	**0**	**473**	**0**	**38**	**511**
Dividend payment							0
Consolidated equity as of March 31, 2018	10,523,770	10,524	52,792	268	-228	161	63,517
Consolidated equity as of January 1, 2019	10,523,770	10,524	52,792	-3,453	-208	10	59,665
Consolidated net profit				-636			-636
Other comprehensive income after taxes						-66	-66
Total comprehensive	**0**	**0**	**0**	**--636**	**0**	**-66**	**-702**
Dividend payment							0
Consolidated equity as of March 31, 2019	10,523,770	10,524	52,792	-4,089	-208	-56	58,963

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, 2018. This unaudited three-month report for 2019 should therefore be read in conjunction with the audited consolidated financial statements for 2018.

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 reporting standards applied for the first time

As of January 1, 2019, USU Software AG modified its accounting policies as a result of the new requirements of **IFRS 16 "Leases"**. According to the transition method chosen by USU, previous periods are not adjusted in accordance with IFRS 16. Accordingly, the changes in EBIT, assets and liabilities year-on-year are influenced by the new accounting policies in 2019.

In the first quarter of 2019, the initial application of IFRS 16 results in the following transitional effects from the change in accounting policies:

As a result of the recognition of right-of-use assets, non-current assets increased by EUR 4,273 thousand. At the same time, liabilities increased by EUR 4,275 thousand (of which non-current: EUR 2,111 thousand; of which current: EUR 2,164 thousand) on account of the recognition of lease liabilities.

Trade payables and other liabilities are EUR 0 thousand lower due to the derecognition of accrued rents.

Depreciation expenses for right-of-use assets of EUR 528 thousand and interest expenses for lease liabilities of EUR 3 thousand were recognized in USU's consolidated statement of profit or loss.

In USU's consolidated statement of cash flows, operating cash flow increased by EUR 526 thousand, while cash flow from financing activities declined by EUR 526 thousand.

Financial instruments

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

EUR thousand	March 31, 2019		Dec. 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Work in progress	4,044	4,044	4,526	4,526
Trade receivables	15,337	15,337	19,443	19,443
financial assets	362	362	1,033	1,033
Cash on hand and bank balances	16,257	16,257	9,450	9,450
	36,000	**36,000**	**34,452**	**34,452**

EUR thousand	March 31, 2019		Dec. 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	355	355	1,105	1,105
Lease liabilities IFRS 16	4,275	4,275	0	0
Trade payables	3,204	3,204	3,689	3,689
Liabilities from advance payments	4,692	4,692	6,563	6,563
	12,526	**12,526**	**11,357**	**11,357**

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 – March 31, 2019 EUR thousand	**Jan. 1 – March 31, 2018** EUR thousand
Consulting	12,125	12,167
Licenses/products	3,002	2,804
Maintenance/SaaS	6,736	5,873
Other	112	161
	21,975	21,005

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 – March 31, 2019	Jan. 1 – March 31, 2018	Jan. 1 – March 31, 2019	Jan. 1 – March 31, 2018	Jan. 1 – March 31, 2019	Jan. 1 – March 31, 2018	Jan. 1 – March 31, 2019	Jan. 1 – March 31, 2018	Jan. 1 – March 31, 2019	Jan. 1 – March 31, 2018
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Revenue	**16,698**	**15,748**	**5,230**	**5,227**	**21,928**	**20,975**	**47**	**30**	**21,975**	**21,005**
EBITDA	**1,932**	**1,904**	**583**	**733**	**2,515**	**2,637**	**-1,493**	**-1,546**	**1,022**	**1,091**
EBIT	**1,159**	**1,388**	**277**	**581**	**1,436**	**1,969**	**-1,619**	**-1,586**	**-183**	**383**
Net finance	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**-56**	**0**	**-56**
Taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-453**	**146**	**-453**	**146**
Consolidated net	**1,159**	**1,388**	**277**	**581**	**1,436**	**1,969**	**-2,072**	**-1,496**	**-636**	**473**
No. of employees	**493**	**491**	**110**	**110**	**603**	**601**	**96**	**82**	**699**	**683**

The USU Group generated a total of 24.6% (Q1/2018: 32.9%) or EUR 5,401 thousand (Q1/2018: EUR 6,914 thousand) of its consolidated revenue outside Germany in the first three months of the 2019 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 March 31, 2019 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 March 31, 2019:

Stock declarations by members of executive bodies	Shares March 31, 2019	Shares March 31, 2018
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	5,000
Erwin Staudt	100,000	100,000
Gabriele Walker-Rudolf	0	-

** An additional 5,342,013 (2018: 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 (2018: 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.

On January 3, 2019, AUSUM GmbH, whose majority shareholder is the Chairman of the Supervisory Board of USU Software AG, Udo Strehl, purchased 1,999 shares in USU Software AG in total on the Stuttgart Stock Exchange and subsequently notified USU Software AG of these securities transactions. The company in turn published this notification of securities transactions as required.

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 2018. For more information, please see the consolidated financial statements of USU Software AG for the fiscal year ended December 31, 2018.

Möglingen, May 23, 2019

USU Software AG

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

USU

Jule 2, 2019	Annual General Meeting, Ludwigsburg

August 29, 2019	Publication of six months' statement 2019

September 13 - 15, 2019	15. IR-Fahrt 2019, Rüttnauer Research

November 21, 2019	Publication of nine months' statement 2019

November 25 - 27, 2019	Analyst and investor conference at *German Equity Forum 2019, Frankfurt / Main*