DARK
THE SMALL SUCCESS SECRETS OF OUR CUSTOMERS
DIGITS

USU SOFTWARE AG ANNUAL REPORT – 2018 EDITION

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“One is sufficient to produce everything from nothing.”

Gottfried Wilhelm Leibniz (1646-1716),
inventor of the binary system, the basis of all digitization

Brian Jackson/AdobeStock

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KEY FIGURES

The 2018 fiscal year for USU: IFRS figures in EUR thousand	2018	2017
Sales	90,487	84,361
Adjusted EBIT	4,125	6,125
Adjusted consolidated earnings	1,923	6,089
Adjusted earnings per share	0,18	0,58
EBITDA	5,506	6,837
EBIT	2,707	3,222
Net profit	961	3,367
Earnings per share	0,09	0,32
Shareholders' equity	59,665	63,006
Total assets	95,144	99,386
Equity ratio	62.7%	63.4%
Cash and cash equivalents	9,450	15,729
Net cash from operating activities	1,996	5,171
Number of employees at year-end	694	668

DARK ZETTA

160 ZETTABYTES

(160 billion terabytes) Global data volume in 2025 –
ten times more than in 2016

GOOD TO KNOW

They generate one-third of their sales using gigantic volumes of data. They know what we want before we have even fully thought of it ourselves. On their watch, countless of billions of anonymous bits become perfectly tailored advertisements. Everything is turned into money. Their business is big data, the most important driver and potential resource of the digital transformation. Companies that have it at their disposal are among the most valuable in the world – by some distance. But if you look for the value of big data on the books of these giants, you will come away empty-handed. [1]

The value of software, infrastructure, patents, research expenditure: all kinds of intellectual property can be quantified. There are even formulas for determining the value of each customer and turning it into market value. But the vast majority of the 160 zettabytes that will make up the global data volume in 2025 – ten times more than in 2016 – remain a dark digit. The only time they show up is when losses are involved: in the case of crime or a market crash. Then the stock exchanges and the authorities are merciless in their pursuit. And afterwards? Things soon return to normal. We are astonished. Digitization, in which absolutely everything is reduced to the binary digits of 0 and 1, is based on something that simply cannot be accounted for. Not in dollars, not in euros, not even in Bitcoin. Big data – big nada. A great big nothing. The same is true for many intangible assets, like knowledge. Twenty years ago, Gary S. Becker, Nobel laureate in economics, estimated that the value of global knowledge was four times greater than that of global financial assets. – But he couldn't prove it.

In 1996, the then head of the Federal Reserve Bank, the legendary Alan Greenspan, said that the output of the US economy in tonnes was almost no heavier than 100 years ago. During the same period, the volume of the economy had increased twenty times over. All thanks to knowledge and creativity. – But that can't be measured.

Svyatoslav Lypynskyy/AdobeStock

[1] *The Wall Street Journal, March 11, 2013, Kenneth Cukier and Viktor Mayer-Schönberger: "The Financial Bonanza of Big Data"*

Ever since its formation in 1977, USU Software AG has upheld and continuously re-centered itself around the idea that the culture of a company, the way it deals with itself and its customers, shapes everything it does. When we went public in 2000, we knew deep down inside that this was our actual stock market story. – But we weren't allowed to write it.

It didn't fit the prevailing stock exchange mentality. It was far too approximate, too intangible, too far removed from the crazy momentum of the new economy.

The markets wanted to hear a different song. The magic word was "fantasy", and plenty of it. We refused to fall under this spell. We had a different answer. "Knowledge is the market" was our solution. And knowledge is what we continue to rely on today. With some justification. Meanwhile, the new economy bubble soon burst.

We are sticking with knowledge. The knowledge we invest in our software, our tools. Knowledge that would be completely invisible if we couldn't see it lit up on our screens. All around the world. At more than ___ customers. Made and looked after by around 700 employees. Generating us ___ million euros in sales. And profit before taxes of ___ million. All perfectly solid – even on intangible foundations. – Verifiable for over 40 years. We thought it would be a wise idea to use this annual report to look at those who faithfully pay for it all: our customers. So we sent out our annual report team to visit a good dozen of our "investors in knowledge". They traveled from north to south, from east to west, Switzerland and Austria included. They visited customers from all our divisions. We gave them free rein and were curious to see what surprises they would come back with.

Firstly, though, it was the three team members who were in for surprise. Broadly speaking, they discovered that our customers have a very similar corporate culture to us. You tend to recognize your own. The difference between us and our customers' employees might be that our technical jargon is more "advanced" than theirs.

Like us, almost all of the companies and institutions we visited have an anchor shareholder. They are owned either by themselves (cooperatives) or the public sector, or they have a majority shareholder like us. All of them praised the cooperation with our employees. Kindred spirits.

But before things get too cozy: Both parties are adept at presenting their positions in negotiations, too. Clear relationships with a focus on the long term. This is how these stories originated – sprinkled with all kinds of "dark digits", most of which came from the extremely open and often humorous discussions we enjoyed. Stories that illustrate what our customers do, and what we do for them. The journey takes us to a shipping company in Hamburg, to Swiss Post in Bern, to Deutsche Telekom in Bonn – each story testifying to a piece of business and a piece of progress. With us. At one point, I got the feeling the three team members were withholding a dark digit from us. I dug a little deeper and got my answer. "The IT industry," of which we are also a part, "is describing itself as a job killer again." Indeed, many industry studies point to digitization as a threat. "What we noticed is that all the companies we visited are keen to avoid giving this impression in their projects." And then: "We didn't ask for this statement, incidentally; it was given spontaneously." What statement? "We want to do something for our employees, support them. That was something really, really important for the companies we spoke to." And a very different tone to the one emanating from the industry associations. In any case, one thing I took away from the stories is that our customers do not see our products and services as job killers – or as "dark digits". With all the zettabytes of growth over the coming years, that's good to know.

Andrey Armyagov + rdnzl/AdobeStock

EVERYTHING FLOWS

"Number is the within of all things."
Pythagoras (570 – 510 BC), Greek philosopher and mathematician

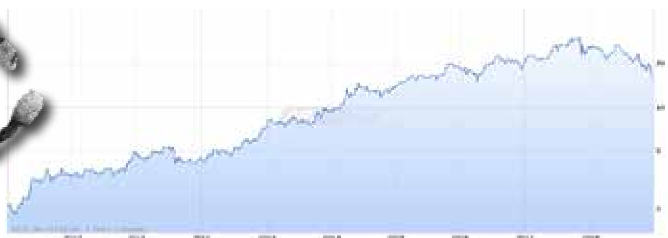
The pleasure steamer bravely chugs away against the flow. Toward the mouth of the river. Here, the Weser is as wide as the Rhine at high water, you remind yourself. But this summer, the colossus between Koblenz and Cologne lay relatively low as it wound its way through the steep surrounding hills of the Rhineland. Not that the upstream conditions on the Weser were any better, but by the end of its 425-kilometer journey, it still manages to puff out its chest a bit. Why? It's a good question. It's not like there are many people around to be impressed. The landscape between Bremen and Bremerhaven is flat and dull. A few cranes, a few industrial plants – all very useful, but nothing of relevance to you or your life. Just a slice of the gray everyday.

The break is over. You turn away from the railing and descend into the large cabin. "The Weser, just a small fry," you think out loud while taking your seat. There are 75 guests on board. We are gathered here to submit ourselves to an almighty flood of PowerPoint presentations. We are an illustrious gathering of investors, journalists and analysts, invited by a financial agency to listen to the cash-hungry business ideas and successful business models presented in brief by a dozen company representatives from a wide range of industries. It's not the big players that are represented here. Not that they aren't all established names, but they're more like the Weser – second-level characters fighting against the flood. Then it's USU's turn to show what it can do. Now you're wide awake. Everything else is forgotten. Thomas and Falk, who worked with you and graphic designer Stephan on the image section of the annual report after USU went public in 2000, do a good job of navigating through the depths of the first half of the year. It is such a humorous presentation that the pair are spared any critical questions. Let's be honest: Even if you swim with the current, you can sometimes find yourself in troubled waters. Like in 2018, ten years after the global financial crisis, an event that still weighs on the world economy like an enormous dark digit. Although it has overcome all the adversities in its path to date, even export champion Germany cannot escape the impact. Let's not kid ourselves here. Vast quantities of money were pumped into the economy in 2008, all of the available political and financial stops were pulled out, and the prevailing world order showed that it, too, was "too big to fail".

"The crisis – an opposing view" was the title of USU's annual report at the time. USU – the small cap among the small caps, albeit not so small any more – had acquitted itself extremely well. Like always. For more than 40 years.

But what is the secret of this company? Nothing was given away on this Saturday on the Weser. The secret remained in the dark. We had an inkling, but the answer was so simple that we didn't want to believe it ourselves. And so we started our journey back to the source of all success: customers.

This is how this report began.



Share price performance of USU Software AG since 2009

dwphoto/iStock

ON THE SUNNY SIDE

We kept warning each other. Keep your guard up! Next time we're bound to be in for it. Soon we'll find ourselves facing a torrent of terms like "agile", "enable", "managed services", "business" or "mindset". The kind of buzzwords that can conceal a lack of expertise or in-depth knowledge in equal measure. They are the big and small signals by which IT professionals recognize each other. At providers like USU and the customers we visited. But there was none of that. Or close to none, anyway. All of the discussions we had used mundane, everyday language.

Indeed, the customers we visited had wondered if we would be the ones firing none-more-authentic IT jargon at them and had even prepared themselves accordingly, no doubt while allowing themselves a little smile. At least, those were the words of Jennifer Löffler from W&W when she told us that she and her colleague had played exactly the same expectations game with us as we had with them.

They both work for the financial service provider W&W, the Württembergische & Wüstenrot Group in Ludwigsburg. Their job is to ensure that the group's 16,000 employees can handle the idiosyncrasies of their computers, both big and small – not least using professional software tools from USU.

To exaggerate things a bit: We were expected to be experts, but we turned out to be people. The same was true for TUI in Hanover – the company whose employees are on vacation all day long, in a manner of speaking, as Uwe Lehmann tells us with a smile. For the last 33 years, the business IT specialist has been helping a company that generates 18.5 billion euros in global sales from the vacation business, supports 1,600 travel agencies, employs six airlines with a total of 150 aircraft, owns 325 hotels of its own in 30 countries with 239,000 beds, and steers 16 cruise ships across the seas and oceans of the Earth. And so on, and so on. 20 million people go on vacation every year thanks to the TUI Group and its 67,000 employees.

One factor plays a key role in all of this: the sun. This central system allows TUI to do business around the clock and around the world. Sunshine is something people can't get enough of – unless they lived in Germany in 2018. There was so much sunshine that the desire to spontaneously book trips to the warm climates of the Mediterranean and beyond was adversely affected. Not great for business. It would be lovely to have a finely tuned license agreement with the central star in our solar system. But our access to the sun is on a flat-rate basis and free of charge.

Uwe Lehmann, Licence Manager at TUI InfoTec GmbH

Things are very different when it comes to software. Software may not be able to control the sunshine, but it has long been in charge of all of this travel operator's activities. And software does not come for free. That's why there are people like "license manager" Uwe Lehmann at TUI Infotech in Hanover. With 500 employees, it is the biggest IT service center within the extensive group. He and his colleagues in Hanover and the other companies ensure that the countless thousands of IT machines, servers, desktops and laptops all work as they should. Not technically, but legally. After all, behind every piece of software is a contract – a royalty-bearing license. A large company can have too many licenses, but also too few, poorly distributed, inadequately managed.

In any case, money is at stake. A lot of money. As it happens, money is something that can be saved using the Aspera software from USU. And saving is something that is worth doing right. It pays off.

Things began in the fairly traditional manner, when computer giant IBM announced an audit in 2013. It wanted to know how much of his software was being used in the company's IT systems. As it was entitled to do. The resulting paper trail kept the then 400 employees of TUI Infotech in Hanover on the edge of their seats. Although the results showed that the IT service provider had been extremely compliant with the contract with the manufacturer, the cost and effort involved had been so high that the management decided to make sure it was better prepared for the next audit.

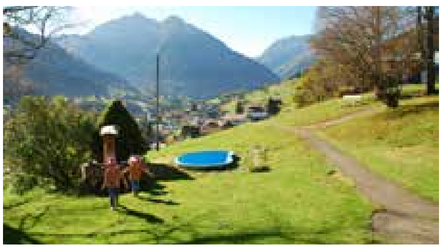
A solution was needed. Lehmann and a colleague were tasked with finding a corresponding application – ideally from a partner with a strong German presence. Uwe Lehmann and his colleague quickly had three companies on their shortlist. The USU company Aspera ultimately got the nod in 2014.

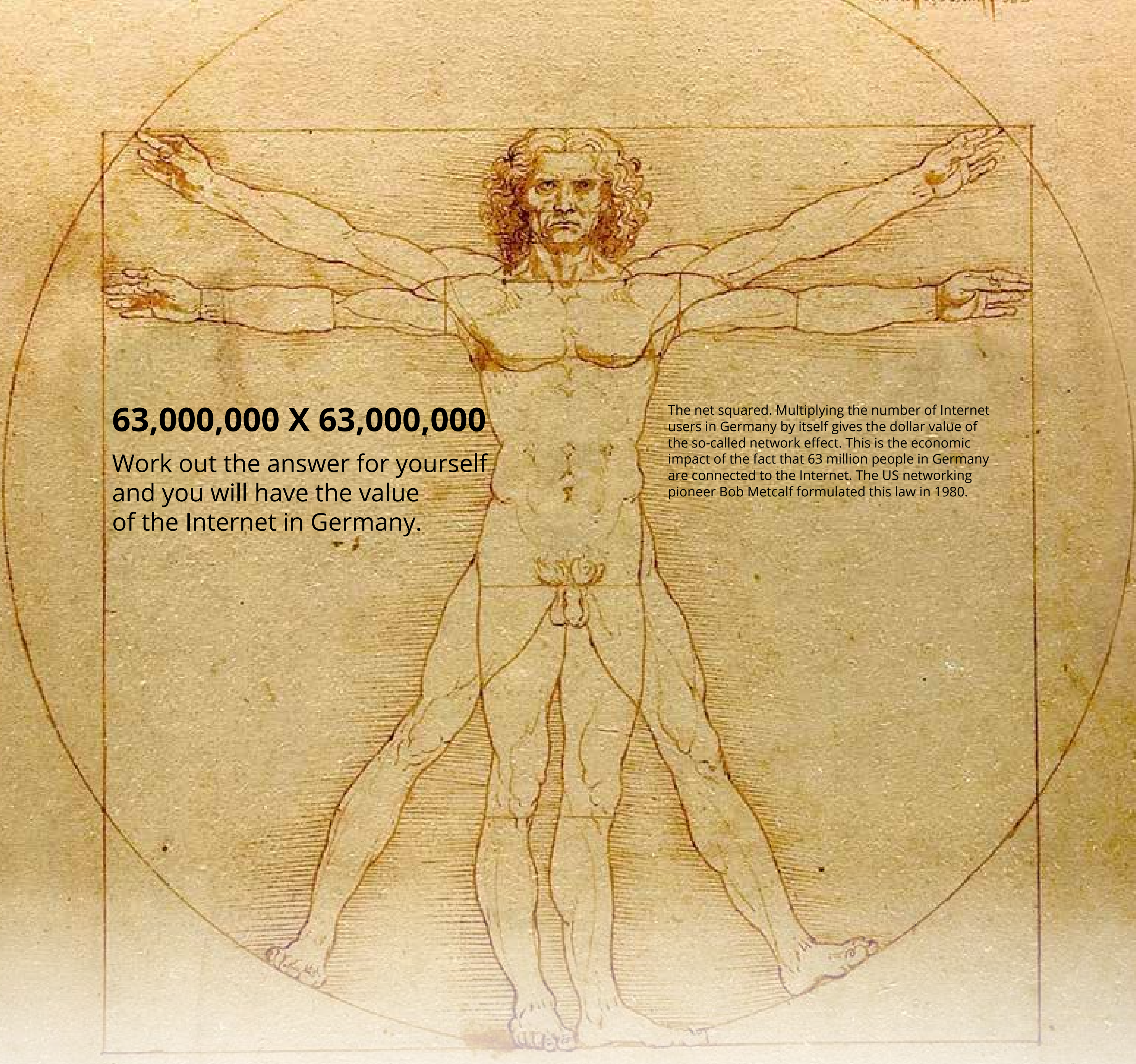
The "license managers" wanted to have everything in place by December of the same year so that the software would contain all of its licenses not only with IBM, but also with Microsoft and Oracle. Aspera kept to the deadline. The next step was to coordinate the defined requirements and solutions with the other companies in the group, as the project was intended to go beyond TUI Infotech in Hanover.

One year later, everything appeared to be ready and the management decided to "roll out" (Lehmann's words) the project at nine companies throughout the group, including TUI France, TUI Spain, the Scandinavian region, Austria and Switzerland. The only question was: Who's paying? Only those who have faced an audit can really appreciate the pressure involved. A pressure that can threaten the very existence of smaller companies, incidentally. An audit can feel like opening a can of worms. Ensuring clarity in advance can save a great deal of stress and expense. To take this weight off the shoulders of their colleagues at the other IT companies, the management of TUI Infotech in Hanover decided to absorb the expense, in the knowledge that this would represent an investment in a long future.

The license managers duly flew from Lower Saxony to the various European countries in order to ensure that their colleagues' IT installations from IBM, Microsoft and Oracle were audit-proof. The first country was Austria, "where we speak more or less the same language," Lehmann says with a smile. The project went extremely well. It was also decided that they should be prepared for SAP audits.

Lehmann is delighted by how smoothly everything went – and by the enthusiasm with which the project was greeted at the other companies. The project is still in progress, but the first effects are already being seen. For example, vacant licenses are now being shuffled between the group subsidiaries. A company with too many licenses can make them available to a company with too few. Lehmann and his team have even created dedicated applications around "SmartTrack" to expand its range. Maybe they will even end up in business with USU. In any case, the sun certainly seems to be shining on this project.





63,000,000 X 63,000,000

Work out the answer for yourself and you will have the value of the Internet in Germany.

The net squared. Multiplying the number of Internet users in Germany by itself gives the dollar value of the so-called network effect. This is the economic impact of the fact that 63 million people in Germany are connected to the Internet. The US networking pioneer Bob Metcalf formulated this law in 1980.

"DO I LOOK LIKE A BANK TO YOU?" [1]

More than 900 financial institutions come together here. 82 million customer accounts are stored here. 34,000 ATMs are looked after here. 169,000 banking jobs are connected here. This is somewhere bankers feel at home. But it is not a bank. It is home to 200,000 mainframe MIPS across four data centers. It has 400,000 network connections. It is active 24 hours a day, seven days a week. It is where 220 million bank letters are sent out every year. It...

[1] *Line from a comedy song by the Swiss band Rumpelstilz, 1977*

WHERE ARE WE ANYWAY?

We are at Fiducia & GAD IT AG. And Fiducia & GAD is wherever the Volksbank and Raiffeisen cooperative banks are. Until 2015, there were still two IT service providers working on behalf of the 900 cooperative institutions: one in Karlsruhe and the other in Münster. Since 2015, they have been a single company with over 4,000 employees and sales of around 1.5 billion euros. The customer base also includes around 100 private banks with different ownership structures.

Fiducia control room at the Münster site

Fiducia & GAD, Karlsruhe office

Even the German automobile club ADAC is a customer. It may be no more a bank than Fiducia & GAD is, but it offers financial products like insurance and credit cards.

The merger generated "demonstrable" savings of 125 million euros, explains Carsten Pfläging, member of the Management Board of Fiducia & GAD since 2011. When they agreed the merger, the two partners also settled on a common banking system. Fiducia's was called "agree", while GAD's was called "Bank21". This became "agree21". The migration to agree21 meant significant efficiency improvements in software development in particular, but also when it comes to increasingly more stringent regulatory requirements. "Regulation dictates around 60 percent of our expenses," explains Pfläging.

Fiducia was formed in Karlsruhe in 1924 as a trustee. In 1958, it became a joint data processing center. This was the era in which electronic data processing, as it was called then, was starting to rear its head in every area of the economy. Five years later, in 1963, when more and more banks were facing the growing technical and financial challenges of automatic posting in the financial industry, GAD was formed in Münster. The first big wave on the way to digitization and virtualization rolled over the financial industry. Since then, one wave has been followed by the next – driven by the highs of innovation like ATMs and online banking, and lows like consolidating processes or establishing infrastructure. A business that involves both inspiration and perspiration. "Although the Volksbanks and the Raiffeisen banks may appear the same from the outside, their business models are very different," explains Pfläging. Despite this, the benefits of a single core banking system are plain to see. A conversion that directly affects 350 banks. "The migration has been in progress since 2016. Five or six banks are migrated every fortnight." This process will be as good as complete by the end of 2019. This represents the end of the first phase of a timetable whose importance is akin to "squaring the circle". Pfläging knows this is a geometric impossibility, but he uses it to illustrate the dimensions of the conversion at Fiducia & GAD. Maybe he just wants to add a touch of inspiration to the otherwise painstaking work involved.

The second "corner of the circle" (Pfläging loves the paradox) is consolidating the infrastructure – for example, a complete switchover to Windows 10. With 169,000 banking jobs, this is no less difficult than consolidating the 220 server types spread across 40 different manufacturers with thousands of systems.

All of this would be a Herculean task in itself, but it takes on a whole new dimension thanks to the third corner: the complete overhaul of the business model. What would Fiducia & GAD be without the banks, and what would the banks be without trust? "The cooperative banking group came through the financial crisis extremely well. If anything, its reputation was enhanced." This trust is also thanks to the local proximity of the banks to their customers. But branch-based business is expensive – especially in an era of low interest rates and online banking, which is attracting more and more customers. Pfläging: "How can we achieve traditional, physical trust within a virtual system?" It is the question to end all questions. The answer can be found in the broad field of inspiration and innovation. Discussions, experiments and partnerships within the company and the banking group are the order of the day. And like everything Fiducia & GAD does for its customers and owners, it knows "there is no established example to follow. We have to develop what we need ourselves as a group." In summer 2018, the Genossenschaftliche FinanzGruppe sent out a strong signal when it comes to digitization by launching an investment package worth 500 million euros. But the digitization of banks, including the cooperative

Carsten Pfläging, member of the Fiducia Management Board since 2011

banks, is just one small element of the technical challenge. 20 percent, Pfläging estimates. The vast majority involves developing products that offer real value added for bank customers – Pfläging talks about generating a "wow effect with customers in terms of performance and comfort" – and launching these products as quickly as possible. Achieving this also requires different, more agile and more efficient forms of cooperation, as well as the right mentality.

The change is perhaps best illustrated by the fourth cornerstone, soberly designated "tools and processes". "You can't build a solution for tomorrow using yesterday's means." An illuminating statement. So new processes and tools are needed for the future. This just happens to include USU and its Valuemation product family. But the main task lies with Fiducia & GAD – and comes with its own paradoxes. "Over the years, our processes and tools have had so many little embellishments and alterations added to them that the manufacturer no longer recognized them." That is now coming to an end. The tools no longer follow the processes, but vice versa. Standards like those set by Valuemation are required. And with good reason: "A fairly large number of people are affected," Pfläging says, pulling out an estimate of "around half of the workforce" – some 2,000 people at Fiducia & GAD.

A highly stable core is all the more important precisely because the banking industry is set to undergo remarkable change and expansion over the coming years, the likes of which might only be seen once a century. Pfläging almost views this as a return to the mindset of Friedrich Wilhelm Raiffeisen (1818 – 1888), as self-help cannot develop without an intensive network. "Sharing is the new owning," Pfläging says. And that is exactly where he sees new opportunities for the association of cooperative banks. "We have a regional presence, we are integrated into the regional economic cycles, and we enjoy the trust of those concerned. What could be more obvious than placing a stronger focus on the roots of our cooperative institutions? Digitization is the enabler, because this allows the network to be provided quickly and efficiently." This would let the bank concentrate on what it does best – bringing people together. "We are firm believers in connectivity," Pfläging summarizes.

The person is the network, not the computer. Some squares can be very simple to calculate.

30
percent
fewer tickets (extra requests) submitted to the service desks thanks to the use of self-help documents.

goldpix/AdobeStock

IN ORDER

Some time ago, when the world still lived according to a different order, a single computer needed an average of 300 employees to operate it. Later, as the order progressed into the eighties and the nineties, a single IT expert was needed to look after 300 computers. Now there are so many computers in so many different forms that one might well ask whether there is any kind of order behind it all.

But don't worry! The less you see the order, the better it is. At Wüstenrot & Württembergische in Ludwigsburg, people are the most important factor of order – 16,000 of them, to be precise. Most of them are so used to the ins and outs of computers that they are no longer aware of the sheer extent of the order underpinning them. Information technology is there for them in its entirety. Just as it should be.

That is the order of the world.

We might be exaggerating things a little there, but the principle of order has undoubtedly shaped the world of Jennifer Löffler and Thomas Strobl for many years now. Both of them hold leading positions at the W&W service desk. Jennifer's team (they're the kind of people who work on first-name terms) consists of eleven employees. They ensure harmony between the computer programs and the processes within the company. Their starting point is the business processes, to use the rather more formal term. Meanwhile, Thomas and his team of three look more closely at the inner workings of the systems. In other words: Jennifer's team looks at what people want and need, Thomas's team explores the technical possibilities. But without the 25 employees who manage the 180,000 user requests every year, it wouldn't take long for them to be unable to see the

Jennifer Löffler, Head of Service Desk, Wüstenrot & Württembergische Informatik GmbH

Thomas Strobel, IE Systemtechnik 6 Procedures and processes, Wüstenrot & Württembergische Informatik GmbH

wood for the trees. In this way, order keeps returning to the world of cooperation between systems and users, which remains spontaneous despite every preparation to the contrary.

Being sustainably prepared is one of the most important goals of the W&W service desk. This was also the reasoning behind the cooperation with USU Software AG, which began in 2004 and continues today – with an intensity that is driving progress. USU's technology, known as Knowledge Center, works away in the background to help find a quick and professional response to every problem raised by users – or customers, as they are called at W&W. A smartlink has also been installed on every device since 2015. This allows "customers" – internal employees only – to enter a technical problem and automatically receive answers from the knowledge documents prepared in advance by the user helpdesk. Self-help, in other words. This works well, pretty perfectly in fact, and is getting better all the time.

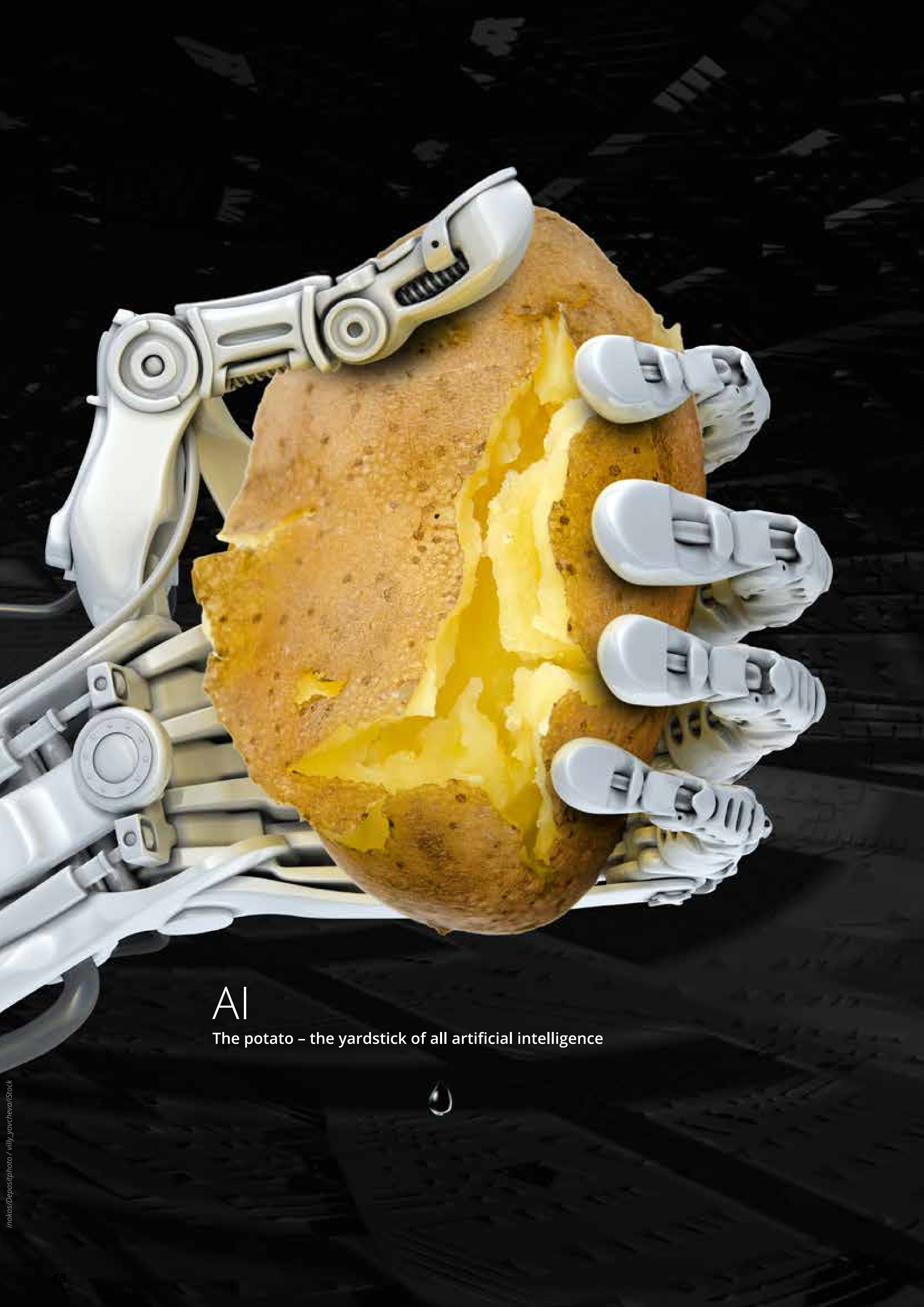
Jennifer Löffler puts "three exclamation marks" before her answer to the question to end all questions: Has there been an increase in the number of calls answered automatically by the service desk, and are the questions addressed by the service desk in person and individually becoming more difficult? "The answer in both cases is yes." Thomas Strobl concurs: "The simple questions are taken care of, now it is about dealing with the big tickets." That said, once upon a time the simple questions were the difficult ones.

These difficult questions mostly gave rise to "ingenious ideas" (Strobl), born of the situation and the partnership with USU. One might even say that

"My laptop sounds like a bear with a chest infection. Sometimes the noise is low-pitched, sometimes high. Do I need to see a doctor?"

Ticket submitted to the W&W service desk

the order of the world consists of a dash of ingenuity that eventually becomes part of everyday life. For the everyday life element to be a reality, "we try to measure whether the things we suggest actually make a difference" – not only in terms of the expectation of innovation, but when it comes to the end result. "That's how our world works," Jennifer says. She is proud that the service desk repeatedly confirms its outstanding reputation in company surveys. Everything in order, as it should be.



AI

The potato – the yardstick of all artificial intelligence

inokos/Depositphoto / villy_yovcheva/iStock

A BRIGHT SPARK

Back to earth. To the farmland of 1987. A year in which German newspaper 'Die Welt' quoted an expert who claimed that the average intelligence quotient of a computer was "scarcely higher than that of a potato". [1]

IQ remains imperceptible to us.

A good 30 years later, we are with Oliver Nissen in Bonn. He and his employees invented a chatbot in 2017 (with a little help from USU). Its name is Horst, and he is the digital concierge at Deutsche Telekom. Horst is a fictional character, a virtual gizmo, a slice of artificial intelligence (AI), a chatbot. Everyone says this is the kind of thing on which our future will be built.

And yet Horst is "as dumb as a potato" – at least according to Oliver, his spiritual father. Still, he does a fantastic job (with a bit of help from USU). Horst is a little star in the Telekom network. Almost everyone likes him, even though he is one of those annoying types who asks for a favor after responding to a request. Would you mind answering a few short questions? To help us ensure customer satisfaction. We all know the routine. We all know it's an irritation. But Horst is pleasant to deal with. It's fun to answer his questions. And Horst gets good results: for himself, for Telekom, and for the social media team (with a bit of reflected glory for USU, too). This artificial intelligence that everyone is talking about, then. Can it be measured at all? "By 2019, a computer costing around 2,000 Deutschmarks will have the same processing capacity as the human brain. By 2029, the performance of the average home computer will be equivalent to around 1,000 human brains," wrote Ray Kurzweil in 1999. Kurzweil is considered to be a legend, an outstanding visionary. Twenty years on, we don't have to take any measurements to know that we are still many potato fields away from this goal.

"If you measure too much, you might as well not measure at all."
Oliver Nissen, Deutsche Telekom, quoting the motto of one of his employees.

Instead, success is to be found somewhere else entirely – in our highly developed capacity to get the most out of something like that humble nightshade, the potato. We are investing more and more intelligence and creativity in potatoes – or in virtual characters like Horst (with a bit of help from USU). We are the real heroes. After all, it is our very human sense of fun that shines from Horst's virtual eyes. Everything we like about him comes from us, or more accurately from Oliver's team. If Horst seems to get a bit more intelligent over time, that's fine too. Ten years from now, it might well be that Horst's brain is a thousand times cleverer than it is today. But only when measured in terms of PI: potato intelligence. And that is and will remain a dark digit.

What we can see all too clearly is that the responsibility lies with us, humble nightshades that we are, and no one else. A responsibility for and to ourselves. That was the next big surprise on our journey around USU's customers. Everything is shaped by this sense of responsibility.

Oliver Nissen, Head of Social Media and Services at Deutsche Telekom Service GmbH

[1] Die Welt, April 11, 1987, Dieter Thierbach: "Auch Computer lernen denken"

8,000,000,000

SILICON VALLEY CUSTOMERS

jozefmicic/AdobeStock

ALL FOR YOU

It sounds like a paradox: 3.8 billion people are now using the Internet. And yet the high-tech giants in Silicon Valley have twice as many customers. But it's not witchcraft or trickery; the reason is simply that customers are counted and, indeed, courted several times over. In any case, we know that one in every two people on the planet has been connected to the Internet since December 2018 – a calculation, not an actual headcount. [1]

After all, counting would take too long. And so we calculate and quantify the world around us. Let's start with some clear figures:

- By 2022, 60 percent of global GDP will be routed via the digital value chain. According to the World Economic Forum in Davos.

- In 2018, the world economy invested 1.2 trillion dollars in "digital transformation". A huge amount of money. Nevertheless, by 2020, four out of ten companies will have failed to survive the digital revolution. This was the prediction made by a 2015 study by the Global Center for Digital Business Transformation. [2]

- Because we are ordering more and more online, the change process will primarily affect retail. At Amazon, for example, we take it for granted that we can choose from 353 million products that are available online. The range is 3,500 times what might be found in a typical supermarket.

- We use free search engines that save us 17,500 dollars' worth of work every year, according to British magazine The Economist. [3]

Behind all these figures lies a big business, secluded in the clouds of the Internet.

AND NOW IT'S YOUR TURN.

Because it's always about you. As a person. As a customer. As an employee. As a citizen. At home. On the move. At work. All the time. Everywhere. These challenges affect every company in the world in some form or another. Not just social media, online retailers, search engines, start-ups, stock exchanges, banks – but every single business.

In searching for and finding everything we want online, we spend the equivalent of a billion years on the Internet every year. Doing all kinds of things. But the starting point for everything we want, everything we search for, everything we do, is each and every one of us. We are a force to be reckoned with.

Even a manufacturer of forklift trucks has to deal with us. Jungheinrich in Hamburg, for example, provides 'intralogistic solutions' ensuring that "people and companies around the world get exactly what they ordered," as its website puts it. One of its forklifts is bound to have moved some of the goods we have ordered online. After all, 330 million packages were sent during the 2018 Christmas period in Germany alone. [4]

But even the things we buy from a conventional store will have been lifted by a forklift truck at some point along the way: "Without Jungheinrich, your shopping trolley would probably be empty," explains the globally active, family-owned company from Hamburg. To make this claim, you do not have to count or even calculate.

[1] *Frankfurter Allgemeine Zeitung, December 11, 2018: "Die digitale Welt steht vor einer Krise"*
[2] *Frankfurter Allgemeine Zeitung, July 1, 2015, Georg Giersberg: "Die Digitalisierung reißt Branchengrenzen nieder"*
[3] *The Economist, November 17, 2018, Patrick Foulis: "Trustbusting in the 21st century"*
[4] *Frankfurter Allgemeine Zeitung, December 10, 2018: "Paketlieferungen bis zur Haustür kosten extra"*

“The way we experience IT online in our private lives is how we want to be pampered at work.”

Matthias Nischwitz, Jungheinrich

SOME THINGS GO WITHOUT SAYING.

This global company, formed in 1953, intends to generate four billion euros in sales in 2020. The figure for 2017 was 3.4 billion. Ten years ago, the financial crisis put the brakes on the company’s sales. Investments in IT stagnated and projects that Jungheinrich had initiated with providers like USU were halted. It was a tough time. For everyone. But then this proud company recovered and found its way back to its growth path – in previously unheard-of dimensions. Maybe because this company is somewhere where everyone thinks of each other. Like IT expert Matthias Nischwitz, who tells us the following anecdote. He was in the closing phase of a project with USU on the use of intelligent tools to deal with internal users’ everyday IT problems. It was a good project, just as the head of ‘internal tools’ likes it. After a visit to the company’s Munich branch, he happened to find himself in a taxi to the airport with some of his after-sales colleagues. Nischwitz was half-listening to their conversation about how they could get on top of fault reports and requests for spare parts for their customers’ forklift trucks in their IT systems. After a while, Nischwitz joined the conversation: “Your problem seems remarkably familiar,” he said. “What you’re looking for is what we are already doing to meet the needs of our IT users. Take a look some time!” And so it came to pass. Suddenly, USU’s product – Valuemation – had gone from serving the one IT customer it was developed for to an additional customer in an area that is directly connected to Jungheinrich’s core business, but that has some very individual and specific tasks of its own. It does indeed come down to the individual. At every company – and good companies know this, too.

Incidentally, Matthias Nischwitz is a business IT specialist, but he is also a qualified historian with a particular interest in the ancient world. Maybe this knowledge of bygone days is why he “loves change”. After all, change is when history is made. He hopes to one day be able to visit Pompeii in virtual reality – in a way that lets him experience the ancient city up close and in person. The digital revolution will bring Pompeii back to life.

Matthias Nischwitz, Group leader Internal Tools at Jungheinrich AG

2210

THE MAGIC NUMBER

Dimitri Drofitsch

A CALL OUT OF THE BLUE

The phone rings. Just briefly, then one of the 135 “agents” picks up: “Can you tell me how late the cathedral is open today?” The answer is delivered promptly: “Until 9pm.” And already the next caller is on the line. This time, it’s more complicated: “We want to get married. What do we need to do?” Even that question is typically answered in just a few minutes. But just one of the happy couple is a foreign national, maybe even from outside the EU, the question is passed straight on to the civil registry office.

Someone here is always responsible, even if Cologne Cathedral doesn’t fall within their remit and the question should really be forwarded to the archbishop’s office. Or the tourist office. But the cathedral is the landmark of the city, after all.

We are visiting the “Bürgertelefon” service hotline of the City of Cologne. “There’s no such thing as ‘not my responsibility’ here,” explains Axel Hansen, deputy manager of the Bürgertelefon. From Monday to

Friday, between 7am and 6pm, their task is to find an answer to everything. And the employees “at the telephone front line” (Hansen’s words) are good at their job, as evidenced by the school grade of 1.4 that the citizens of Cologne give them year after year.

The Bürgertelefon has existed since 2003. Everyone know its number: 2210, the city’s secret landmark. Derived from the area code for Cologne, 0221 – only with the zero at the end, ready and waiting to be filled

The City of Cologne's "Bürgertelefon"

with official expertise about the city. The people who use the Bürgertelefon are not just residents of Cologne, but the surrounding area too: Bonn, Leverkusen, Siegburg and the Rhein-Erft district. All in all, there are 2.5 million "customers", as Hansen calls the people who live in the catchment area. The Bürgertelefon, which can also be reached via the national number 115, takes over a million calls every year. With each of the 135 "agents" (as call center employees are known in the industry) drawing on the expertise of 19,000 city employees and 60 departments covering every area of responsibility, you might think it would be a fairly comfortable job.

Not a bit of it! Every call brings a new surprise. No one knows what question is about to be sprung on them. "It's pretty stressful," Hansen says, full of respect for the professionalism of his employees. Within a minute at most, the agent knows what the customer's issue is. Within another two minutes, a solution is found. And when the conversation is over, the agent has a further minute to do the necessary follow-up work. These are the historical figures from more than 15 years of the Bürgertelefon, which has had USU as its technology partner more or less since the beginning. It was selected in a Europe-wide tender.

It all began in 2003 as a small pilot project that was wound up after six months – because it was too successful. The "Rathauszentrale" switchboard that had previously been responsible for forwarding calls to the individual departments was replaced by the new "Bürgertelefon". Ever since then, a knowledge database providing direct access to everything the employees need to do their job has been growing and evolving in the background, all based on USU's KnowledgeCenter technology.

The days in which fewer than 50 percent of the city's services were available for information requests are over. The level has now reached a remarkable 85 percent. The employees also receive external coaching at least twice a year. The team leaders, who take their place at the heart of their team, are always on hand to help in difficult cases – for example, when a lot of serious complaints come in at the same time.

No one is left alone here, least of all the customer. Agents are sometimes left speechless, though – like when a rail customer calls 2210 to complain about delays. "But the central station belongs to Cologne!" is the near-unbeatable argument that comes back when the agent tries to route the complaint in another direction. This is where a typical Rhineland sense of humor comes in handy...

Otherwise, though, the knowledge database provides the full range of expertise at all times. With all its routines. It also tells the employees what questions they shouldn't be trying to answer, because they require specialist expertise – like the example of marriage involving a foreign national. It isn't the software that decides what knowledge the agents can pass on, however: the Bürgertelefon has five employees who permanently monitor the respective tasks and predefine the relevant responses. And they

get permanent feedback from the agents, who tick which of the solutions from the KnowledgeCenter was of use to them.

Axel Hansen, deputy manager of the Bürgertelefon The City of Cologne's "Bürgertelefon"

The employees of the Bürgertelefon don't have it easy in their work. Theirs are "transparent jobs" where everything that can be measured, is measured. Of course, they explicitly agree to this in advance. That's an obstacle in itself.

And yet the jobs are highly sought after. The city's human resources department recently had to sift through more than 400 applications in order to select a quarter of the applicants for a multi-day job interview. In the end, a dozen candidates were successful. Employees used to need a qualification in an administrative or commercial profession, but today the team even includes former master butchers with excellent customer service skills. The induction period has been shortened and new colleagues take their first customer calls after just four weeks. In other words, this is a place where knowledge and ability come together very quickly. Thanks to the right technology – and a dedication to interpersonal relationships.

Like all call centers, the Bürgertelefon has an above-average fluctuation rate. But with a slightly different accent. After all, when you have worked here for three years, you tend to be so well connected with all of the authorities and their requirements that you might consider moving to one of the city's 60 departments. The temptation is there, at least.

But the Bürgertelefon can cope with this kind of healthy competition. It is the only civil service job in Cologne to offer reduced waiting times for salary increments. You do what you can, after all. In this vein, the City of Cologne combined departments from various areas on May 1, 2018 to create a new overarching department including nine "customer centers" throughout the city, where residents can apply for identity cards or register changes of address, for example. This also includes the civil registry – all departments with which the average citizen comes into direct contact. The Bürgertelefon is another aspect of these front-line services. Maybe even the very heart and soul – and all the more so now that it has to deal with complaint management. So they have a tricky job. But it's a job they trust themselves to do. After all, they are the hub of the whole thing. Not least with the support of USU technologies. Everything comes across as highly professional here.

At the end of our visit, we can't shake the impression that this place has a cheerful and relaxed atmosphere – quite in contrast to the stereotypical local government office. 2210, as we now know, is more than just a hotline to all of the city's knowledge. It's the magic number.

21.306

is believed to be the number of protein-coding human genes

ESB Professional/Shutterstock

THE SERVICE GENE

We are stunned. They're really spoiling us. A big tin of cookies, a tray of drinks, coffee, sparkling water, the lot. Brilliant! Talk about perfect service.

We are visiting the shipping company Hamburg-Süd. With annual sales of 5.6 billion euros, it has belonged to the Danish company Maersk, the world's largest container shipping company, since late 2017. Hamburg-Süd has more than 6,000 employees. Around a quarter of them work at sea, while the rest ensure that everything runs smoothly, the fleet is optimally utilized and its tonnage reaches the destination ports around the world safe and sound. All of this would be unimaginable without IT. Everything depends on it. In front of the computer and out on the high seas, we are in God's hands. Nothing can go wrong – and if it does, every eventuality must have been catered for. Everything needs to be in its place. Making sure this is the case are people like José Silva. A likable young man, we think.

Until we find out he is 50. He doesn't look it. He's Spanish. He doesn't sound it. He only completed his secondary education. You wouldn't think so. Yes, he grew up here. His parents migrated here in the sixties and wouldn't have known where to start with the German education system. And why should they? But he found his path through education – to a vocational baccalaureate diploma and training as a wholesale and export merchant. Today, he is responsible for IT service management at the shipping company.

He has been something of a forward thinker for more than two decades. It moves him. He lives for it. Always has done. As we start talking, we meekly brace ourselves for an onslaught of jargon. But how wrong we are. "I'm a bit like a Babel fish," he explains, referring to the brilliant science fiction parody "The Hitchhiker's Guide to the Galaxy" by the British author Douglas Adams. Published forty years ago, the novel describes this little fish that sits inside your ear and translates between every language. Simultaneously, of course. Silva and his team are also translators of a sort – from techno-speak to human. What's more, they ensure that the users of the IT systems, the specialist departments, always get the right answer when disruptions occur. Come what may. Quickly and without delay. Simultaneously with the situation, you might even say. When he was at school, Silva had a part-time job as a technician at a local software firm. He assembled the systems used by orthodontists to digitize X-ray images. He is familiar with small parts and the challenge of turning them into something new and whole. And he put those skills to use with his other employees in the mobile communication sector. As we all know, that line of business continuously reinvents and combines its own technology to new ends – from small devices to the big picture, from the smartphone to the cloud. And when he chose to train as an export merchant, he also had the whole world in mind – from the perspective of a product, an individual component. Things are no different at a shipping company. Every single part needs to be in the right place in order to safely dock at the destination port.

Elbphilharmonie and Mary Poppins: Service is all.

Hamburg Süd building

While goods move around the real world, their digital counterpart, the world of IT, is also in a continuous state of flux. Not least the services that help employees to do their job as productively as possible, like loading and manning ships and interacting with the customs authorities. Everything has to run smoothly – on site, for the user and in the specialist departments. Disruptions must be intercepted immediately. Software needs must be addressed promptly. Ideally with predefined responses and processes and highly mobile services. At Hamburg-Süd, these have

henryfo/AdobeStock

been "tailored" into the smallest possible units and compiled in a catalog. This involved inspecting and evaluating 1,200 products. The end result was 300 products that can be ordered at any time. Instead of having to wait for four days, they are mostly available

Two in a row: The "Santa Rita" and the "Santa Barbara" at the Port of Santos

in the space of hours or even seconds where there are no further approval requirements. All good and highly efficient.

But who should be given responsibility for the products, which also need to be combined individually as required? That takes employees with the "service gene", as Silva calls it. And where are they? Not hiding away at companies where the silo mentality has never been questioned. Changing this mentality takes more than just a Babel fish skilled in diplomacy and translation. After joining Hamburg-Süd in 2013, Silva embarked on a two-year mission to communicate the new service concept to the 16 group managers. It was a "painstaking process", he recalls. But then came the breakthrough. Responsibility has long been the most important virtue here, and now everyone ensures that it is observed and respected. People are developing a new sense of togetherness – including for their own work. A new dynamic is emerging.

Silva notices us stuffing the cookies into our mouths as we listen, entranced by the pictures he paints with his words. He's the perfect host, we think to ourselves – until he asks: "Is it IT's responsibility to provide those cookies?" We give him a blank look, hum and haw a little. "Of course it isn't. IT isn't responsible for preparing conference rooms. Our facility management team is," he explains. "They were here a quarter of an hour ago, setting everything up. And they'll come in after we leave and clear everything away again. That's the defined process." For every room booking. Now we get it. Responsibility is allocated to wherever it is most appropriate. But who takes care of the big picture? Of course, we think to ourselves naively: digitization brings everything together again. With as much automation as possible. But Silva has been in his line of business for too long to still believe in Santa Claus. He asks us to follow him.

We leave the room with the tasty cookies. He shows us the area where he and his four employees control their screens. We are astonished to see yellow slips of paper all over the walls. And nothing digital at all. "Sometimes technology can be distracting," Silva says. "Above all, it can stop you from gaining and keeping an overview."

This man and his team think of everything – even thinking itself, we think to ourselves.

Jose Silva Yañez, Team Leader Service Portfolio & Catalog Management at Hamburg Süd

aristotoo/iStock

9,000
kilometer has a joghurt behind,
until all parts are put together.

A QUESTION OF TRUST

We are with the best in the world. In any case, Schweizerische Post AG was named the world's best postal organization for the second year in a row in 2018. But is it also the most secure?

In a way, that is one of the key questions concerning Markus Bacher, who monitors Swiss Post's IT operations from Bern. After all, the state-owned company is a stock corporation with sales of around eight billion Swiss francs, but it belongs to the Swiss Confederation – which is planning to work with Swiss Post to introduce an e-voting system that satisfies the most exacting security standards.

Headquarter of Schweizerische Post AG in Bern


F8studio/AdobeStock

Hackers test the system for security weaknesses

We're talking about a country that has had direct democracy for over two centuries. Swiss Post also has to put itself to the public vote when it comes to what it is allowed to do. And if Tim Berners-Lee – the brilliant inventor of the World Wide Web, which celebrates its 30th birthday in 2019 – is to get his wish of people on the Internet being seen as independent citizens and not mere "users", democracy will also need to have a far stronger online presence. [1]

This has been the dream for three decades – for citizens, at least. Politicians, who see it as diminishing their role in a representative democracy, are perhaps less keen. But not in Switzerland, with its extensive experience of direct democracy. E-voting is hugely important there. And the prevailing opinion is unanimous: The system needs to be as secure as possible. On behalf of the Swiss Federal Chancellery, in February 2019 Swiss Post invited the global hacker scene to put the system through its paces. "Take it apart and help us improve it," Markus Bacher asked the hackers. "Tell us what's wrong with it now, not later, as once we have lost people's trust it will be too late."

The Swiss want to know exactly what's what. All of them. Swiss Post. The government. The hackers. Without exception. (And USU wants to know, too. Its Valuemation software is supporting the project in the background – for example, when it comes to billing the individual e-voting services.)

It needs to be a secure system because anything else would be fatal to democracy, at least in its electronic form as a third way of voting. That's what the hackers say, anyway. And they're probably right. Fingers crossed that the e-voting systems come through the bounty hacking with flying colors! 400 hackers had already signed up to attack the source code by the end of 2018. In a way, the outcome of the project doesn't really matter, because it already serves as a clear sign of the massive change initiated by Schweizerische Post AG. You could almost call it a paradigm shift. And this process is one in which it is making more than

[1] Frankfurter Allgemeine Zeitung, April 25, 2018: "'Die direkte Demokratie ist kein Exportprodukt'"

[2] Fortune, February 1, 2018: "The world's most admired companies"

just friends. In the good old days, companies focused on the efficiency of their own business processes. Nowadays, customer expectations are king. Amazon has been blazing the trail in this respect since 1996, and some of the other companies we met on our tour are also following suit. They want to structure their business processes solely from a customer perspective. And when the customer itself is Amazon – as is the case for Swiss Post – then the world's best

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"Direct democracy is not an export product that can be installed just anywhere."

Alain Berset, President of the Swiss Confederation [3]

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postal organization has to measure itself against one of the world's most admired companies. [2]

(Amazon placed second after Apple in the 2018 ranking by the business magazine "Fortune".) For goods imports, for example, it performs all of the customs clearance formalities for Amazon.

It is understandable that stores and competing online retailers are less than thrilled by this partnership. But conflicts like these are inevitable when a logistics company focuses entirely on its customers, whether privately or professionally. Those customers are writing fewer "physical letters" (Bacher's words); the number falls by four percent every year. Meanwhile, parcel delivery is approaching capacity with a volume of more than 138 million in 2018: the fifth consecutive new record. Swiss Post delivers 100,000 small goods consignments from Asia across the country every day, 23 million in all. This figure is set to increase to 38 million by 2020. "Sometimes it is hard to imagine small items with a value of one euro being sent around the whole world," Bacher says about a global logistics industry that is almost crazily efficient. Above all, though, this requires an immense amount of permanent reorganization. It is a huge challenge. At least for Swiss Post's workforce of around 60,000. This brings us to another aspect where Bacher cannot imagine the Swiss taking the Americans as their example: the employee model. Bacher has seen this in action at Amazon in Seattle and repeatedly asked himself: "Would it work in our cultural area?" No, he says; they need to keep finding their own ways of doing things.

And you have the feeling they will succeed. Maybe not right away. And certainly not without grueling discussions about investment behavior. How many experiments are possible, how many are necessary? Always a critical question for Europeans. Besides, Swiss Post's sovereign functions mean it isn't free to play around with risk capital to its heart's content. Everything needs to be carefully weighed up. And it may well be that this feedback loop with the citizen, this direct democracy, is the real secret to success. In any case, Schweizerische Post AG has always had to put itself to the public vote. Like in 2016, when there was a referendum on whether Swiss Post should be able to do business in services like e-voting. At 67.6 percent, the answer was a clear yes. Maybe that's why it's the world's best postal organization.

Markus Bacher, Head of Transition & Operations at Schweizerische Post AG

[3] *Frankfurter Allgemeine Zeitung, November 8, 2018, Michael Hanfeld: "Das Manifest"*

Zbyszek Nowak/AdobeStock

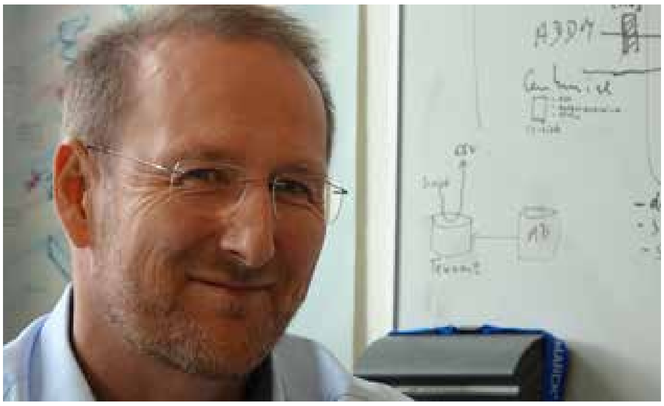
THE TECHNOLOGICAL PARADOX

Anything that generates a profit is productive. At least according to an old and rather precocious 1967 economics textbook. [1]

Work, capital, land, machines – anything can generate a profit and thus be productive. Fine, but what about software? In 1987, Robert M. Solow, Nobel laureate in economics, quipped: "You can see the computer age everywhere but in the productivity statistics." [2]

And the soul of the computer is its software. Does it really not generate a profit – other than for the developer? Sometimes a developer even goes without and makes their software available as open source. A tempting offer – for other developers. "Every piece of software I don't have to develop myself increases my productivity," the business IT specialist Thomas Stange says in passing. A member of the procurement/tenders team at BITMARCK Technik GmbH in Hamburg, he compares it with the automotive industry: "No manufacturer reinvents the car. And yet all modern processes are protected by rights. The same is true for software. OK, entire operating systems are available free of charge, but software sales are healthy too. In Germany alone, the purchase and use of software was worth 24.4 billion euros in 2018. And providers are very keen to know what happens to their software – whether it is paid or free of charge."

One could be a little cheeky and say that, today, software is anything that generates a profit. Because software – especially in the form of artificial intelligence – is pushing costs down. Especially staff costs. According to the investment bank Merrill Lynch, the use of intelligent software could save 9 trillion dollars in wages and salaries between now and 2025, with the total cost effect amounting to between 14 and 33 trillion dollars. We're talking about gigantic proportions. The consultants at McKinsey Global Institute believe a productivity gain of this magnitude would have an impact 3,000 times greater than that of the Industrial Revolution two centuries ago. [3]



Thomas Stange, Professional manager of license management at BITMARCK Technik GmbH

But who will be left to pay for our social security, that wonderful and beneficial counterpoint to the Industrial Revolution? Will it end up devouring its own children? We visited one of those children. In Hamburg. It's a lively beast. BISMARCK. BITMARCK. Just one letter different. Just one bit further along the alphabet, if you like. - The German chancellor called Bismarck was the man whose social legislation in the 1870s and 1880s laid the foundations for today's welfare state. - Since 2008, the company called BITMARCK has been responsible for ensuring that this great legacy has information technology that is worthy of the 21st century. On behalf of millions of people and their health insurance funds.

Over the past half-century, software has become increasingly embedded in our human actions. Employment in Germany reached its highest ever

[1] *Funk-Kolleg 2, Frankfurt 1967, Karl Häuser, Volkswirtschaftslehre, page 45 et seq.*
[2] *Quoted in Newsweek, January 29, 2001, Tony Emerson: "Mystery solved"*
[3] *The Economist, June 25, 2016, Tom Standage: „The return of the machinery question"*

level in 2018. But productivity only increased by one percent – less than ever before, or so it seems. What is wrong? Is it all in vain? In 1993, the US magazine "Business Week" used the phrase "the technological paradox" to describe this environment full of contradictions in which we have now been living for half a century and in which USU has been a notable player for over 40 years, creating 700 jobs in the process. From out of nowhere. 34 new employees were added in 2018 alone. [4]

Everything has become a lot more complex, a lot more connected, and hence less easy to explain. All in an age when transparency is the buzzword. You find yourself thinking strange things: One person's productivity is another person's profit. Everyone lives from someone else's success. The true network effect. Otto von Bismarck wanted to create the perfect welfare state, for example. We still haven't achieved it even now. But we are getting better and better. Day by day. This is underpinned by our health care system, financed by health insurance funds like DAK-Gesundheit with its head office in Hamburg. It dates back to 1774, an era in which the modern age was emerging – with the declaration of human rights, the steam engine and the invention of the market economy. The age of productivity began and established new values – not just in industry, but everywhere. We are sitting opposite Thomas Stange. The quiet pride in his company and its long history is palpable. BITMARCK may have only just celebrated its tenth birthday, but the company, with around 300 million euros in sales and 1,400 employees, is part of something far, far older and bigger. 30,000 GKV employees use BITMARCK's services to address the needs of more than 20 million policyholders: "Our customers include 85 percent of all health insurance funds. They are also the founders and shareholders of BITMARCK," says Thomas Stange. BITMARCK itself consists of a holding company based in Essen that supervises five companies. With almost 500 employees, BITMARCK Technik GmbH is primarily responsible for IT operations. DAK-Gesundheit is its most important customer. Then there is BITMARCK Beratung GmbH in Munich and BITMARCK Software GmbH and BITMARCK Service GmbH in Essen, as well as BITMARCK Vertriebsund Projekte GmbH. Behind this organization are topics no one had even thought about half a century ago – but that have long been of existential importance. Both individually and in terms of their impact on the others. A good team is needed. And that takes investment.

BITMARCK, Hamburg office

Before qualifying as a business IT specialist, Thomas Stange did an apprenticeship in social security administration at DAK in Hesse. His employer gave him a grant. In 1993, he moved to Hamburg, which

[4] *Business Week, March 6, 1995: "The technological paradox"*

he describes as "the most beautiful city in the world". More importantly, it is also the headquarters of DAK-Gesundheit, which played a central role in the formation of BITMARCK. In many ways, Stange has a very straightforward job. He is a license manager – and yet that is also exactly what he isn't. Essentially, he and his team are productivity managers. Their main task is to establish how many software products are being used across all BITMARCK customers and users. The underlying question: Is everything as it should be in terms of the billing situation with the manufacturers? After all, manufacturers want to make money from their user licenses. As they are entitled to. (The fact that license billing also requires productive software is something that generates a profit for another software provider: the USU subsidiary Aspera.) Without software support and the accompanying organizing principles, things can get extremely expensive and nerve-racking. A sure-fire recipe for gaining even less than one percent in productivity. BITMARCK was once audited by a major provider for 15 months, with auditors visiting the company's premises for ten months of that period. With a happy ending, as it turned out. But it felt like the entire company, every license module, had been turned upside down. When you read in the trade press that manufacturers have up to 270 metrics for measuring software installation and usage, you can imagine the enormous value that is placed on this fuel of the future. For both parties. Providers and users alike.

At BITMARCK, software usage has become a topic for senior management. "We still have a lot of buried treasure when it comes to how we use software," Stange believes. New opportunities like the cloud and the open source movement must be evaluated. Free of charge is not the same as rights-free. "If a provider does not want its product to be used commercially, we have to take that into account," Stange explains. "Otherwise it can end up being costly." The broad strokes are not the problem; the devil is in the detail. If one software product contains another provider's licenses, for example, this can have dramatic consequences. This requires code crawlers that can search the programs for corresponding references to third-party rights. The company had just encountered one such case when we visited. Although the technicians had done everything in their power to prevent a piece of software from continuously accessing an unnecessary third-party product, this unauthorized mechanism kept activating. That morning, however, Thomas Stange didn't get the usual alarm on his smartphone that he had become used to having waiting for him at breakfast time. He was confused at first, before he realized the absence of a notification must mean everything had finally been resolved.

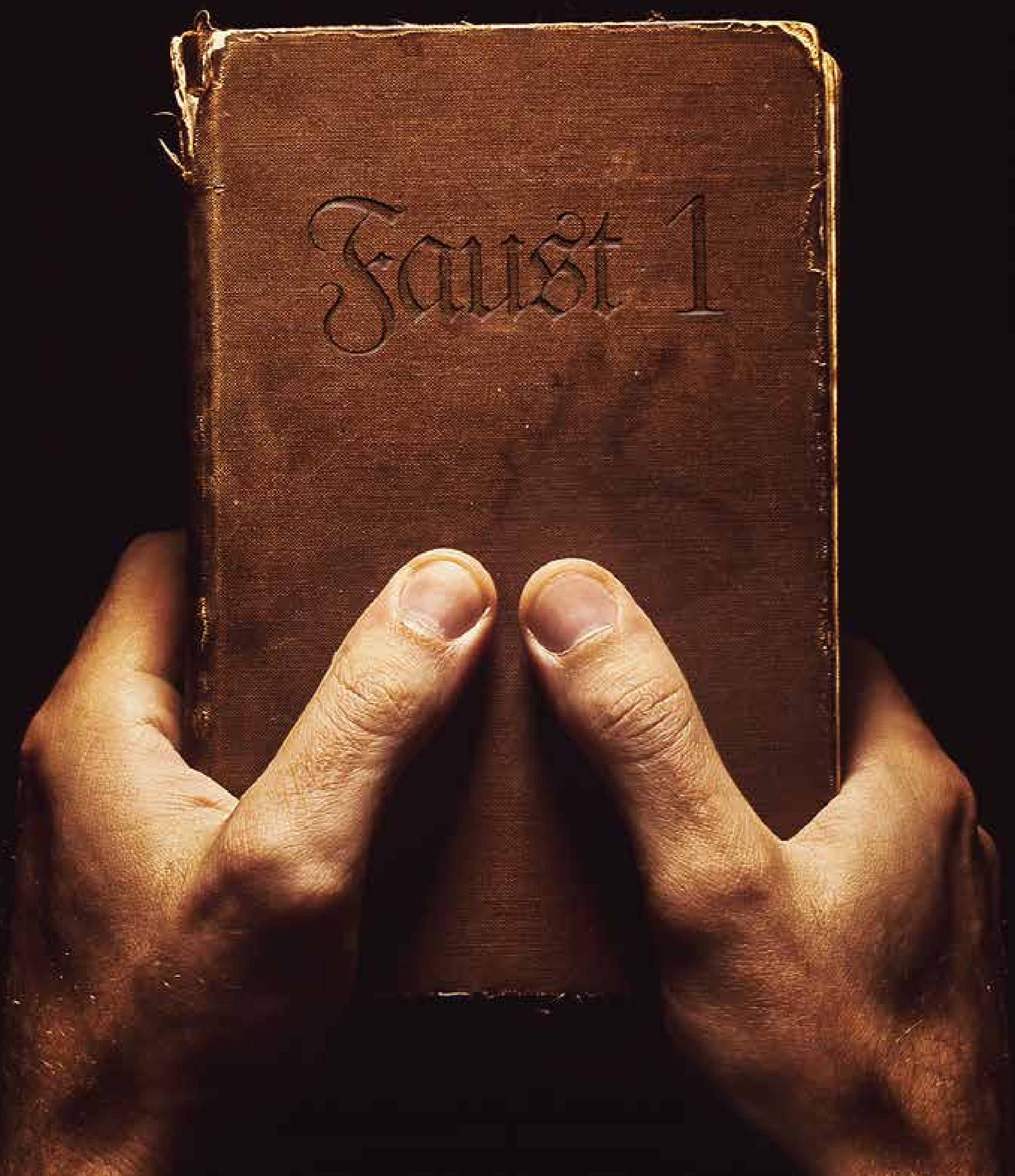
With that, he pointed out another dimension of the technological paradox – the form of productivity that simply cannot be measured. "How can you put a value on security?" It's a good point: Do we really want to know what it would cost us not to have the right security in place? After all, the only time we get to find out is when we actually incur that cost. And at that point in time, we tend to have other concerns.

Incidentally, in 2001 Nobel laureate Robert Solow said: "Now I can see the effect of the computer age on productivity statistics." But if we're being perfectly honest, it remains a dark digit.

3415

“Now tell me how you feel about service?”

Adapted from “Faust 1”, verse 3415: the famous “Gretchen question”.
In German, this has become a term for a crunch question



krsmanovic/AdobeStock

THE CRUNCH QUESTION

In 1994, the specialist publication "Computerworld" joked that the famous quote by Alexander Graham Bell, inventor of the telephone, is an abridged one. On March 10, 1876, he is supposed to have said "Mr. Watson, come here, I want to see you." Whereas the full quote should actually read "Mr. Watson, come here, I want to see you. The system is down again." This shows that Bell simultaneously invented both the telephone and the computer. [1]

But Bell clearly also came up with a third invention: a service level agreement, or SLA for short. And that is the key to the crunch question of the 21st century.

We are at SUVA, a Swiss insurance company that celebrated its 100th birthday in 2018. It is an important institution in Switzerland in particular. It insures half of the country – against occupational accidents and their consequences. It ensures pension payments in the case of occupational illness. It even owns two rehabilitation clinics in the country. Around 4,200 people work on behalf of two million employees at around 130,000 companies. It is a true social partnership between an insurance company and the world of work – with a first-class service level agreement for policyholders. For the affiliated companies in Switzerland, this is worth four billion Swiss francs a year in premiums. Over the years, this has added up to 51 million francs in capital assets. A big sum. A lot of security. A lot of service. Around 1,300 accidents are reported to SUVA every day. This requires service – not only from the employees who assist the insured parties, but also from the technology they use to do so. System availability is essential. This is why the service level agreements provide for maximum availability – almost 100 percent on average. No strings attached.

Excellent monitoring technology is one of the keys. In its central dimension, this is provided by the USU company Leutek. ZIS, as the system is called, compiles the results from 13 very different monitors. Quickly. Reliably. Responsively, one might add. Quite rightly. But also, because it is important to remember that real people are involved: responsibly.

Lucerne Town Hall and banks of the Reuss

We are with Gabor and Ritchie.

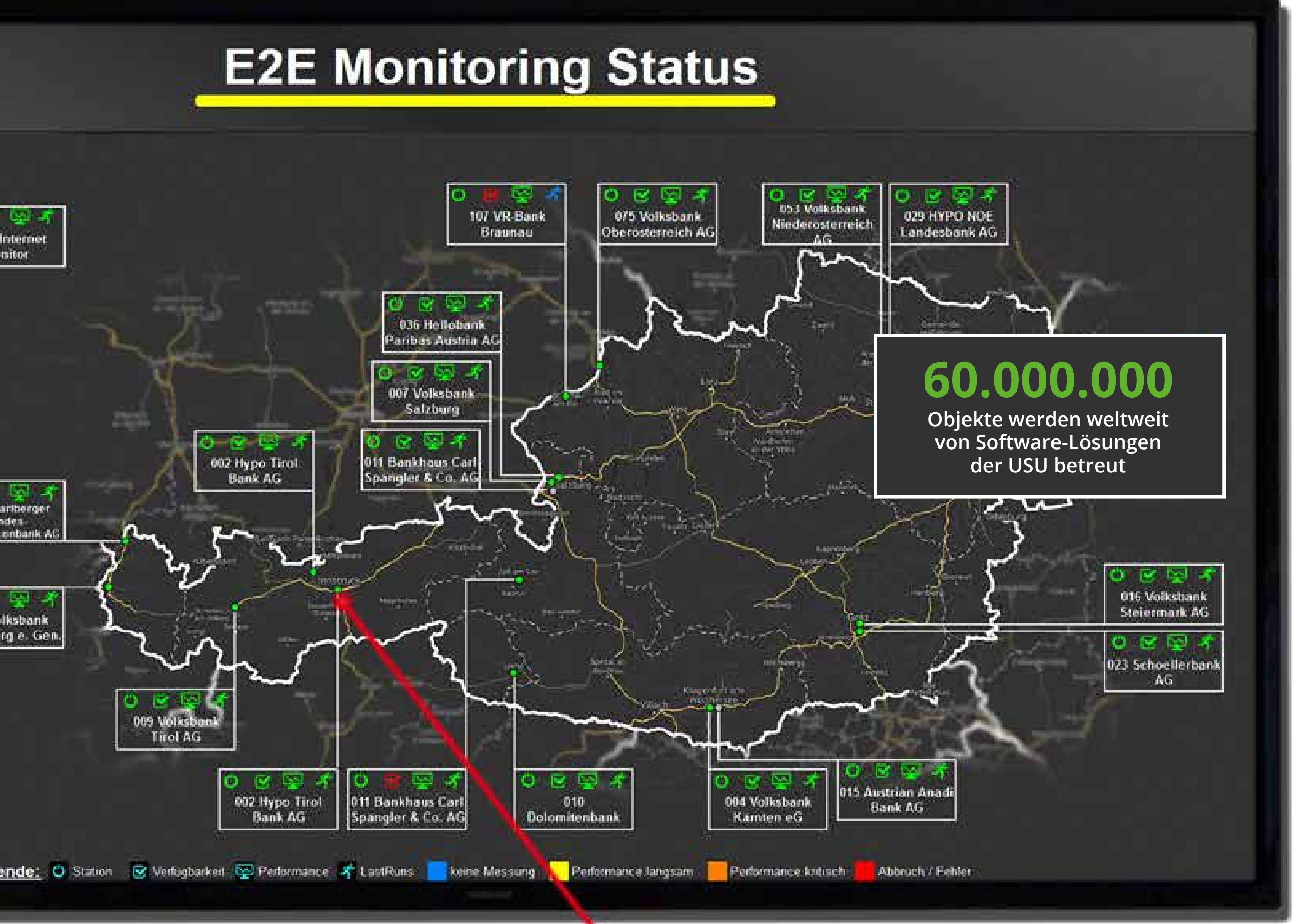
One of them is from Sweden, the other from Lower Bavaria. Gabor's surname is Borbely, Ritchie's is Obendörfer. But they go by first names here. Switzerland prefers familiarity, which is one of the reasons why qualified computer scientist Ritchie prefers working for companies here than in Germany. Ritchie is a consultant. For all he is a fan of technology, he loves human interaction. He played a big role in establishing SUVA's highly reliable monitoring system. "Monitoring technology is an element of an availability evaluation. Effective monitoring should be as much a part of a release as the application itself," he says. True. The observer and the observed are a single entity and form part of the same overall calculation. And bad data leads to bad deeds.

[1] *Computerworld, June 13, 1994: "A warped and wacky view of computer history"*

SUVA head office in Lucerne (top) and SUVA rehabilitation clinics in Bellikon (middle) an Sion (bottom)

You could almost say the effect becomes the cause. This is why every new application or update at SUVA is examined not just in its own right, but also in terms of how it interacts with the monitoring system. Gabor, who is responsible for the overall project and service at SUVA, says with the pride of a qualified system analyst: “There’s an impressive engine behind it all.” That was what won over him and his team in 2014. No smoke and mirrors, just pure efficiency and effectiveness. But enough praise for ZIS. After all, there is something the two men find far more important: “the people who supervise the monitoring system”. Observing the observers. 30 absolute professionals who are so on top of things that they often use a mobile device to check their monitors even when they are not at work. “We were absolutely clear that we didn’t want to take anyone’s job away,” says Gabor – and Ritchie nods firmly in agreement. A social partner to the economy is all but obliged to act in a spirit of social partnership. And Gabor has internalized this approach. Ritchie agrees entirely. It is the principle of responsibility, pure and simple. As Gabor explains, all of the results compiled in ZIS are “fully transparent for everyone responsible”.

Without a monitoring tool like this, the experts would have to respond to any failures by meeting in person and taking the time to work out where the fault is. Eventually, the Sherlocks would identify the problem and pass it on to the right Watsons for resolution. With a monitoring tool, the Watsons can see for themselves where the problem is and who needs to deal with it. A good monitoring tool not only renders such meetings unnecessary, but it names the source of a fault even before any losses are incurred. As every insurance company knows, prevention is the best medicine. And so the crunch question has its answer.

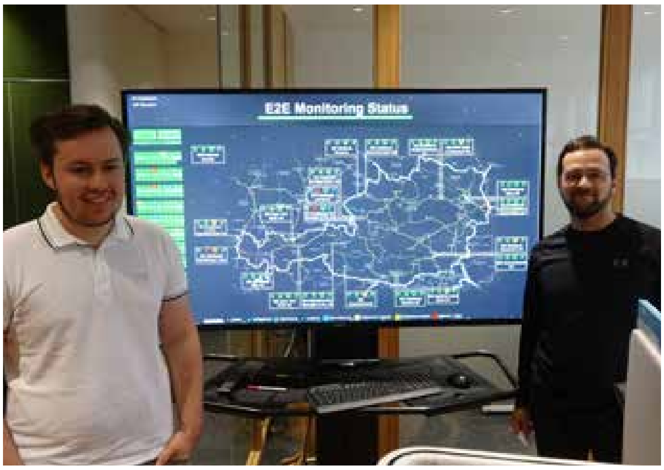


A CENTRAL MATTER

Centralized or decentralized? It has been a question ever since the birth of modern computers, and not always an uncontroversial one. It can be the central question. But in truth, it is a question of faith.

ARZ Allgemeines Rechenzentrum GmbH in Innsbruck answers the question centrally. Millions of times a day. For 70 banks in Austria and their 5.3 million accounts. For the Tyrolean state government and Tirol Kliniken. 16,000 devices trigger 7.8 million transactions on 1,400 virtual machines every single day. A huge volume of data, and one that cannot be allowed to be disrupted by downtime. During the day or overnight, on any day of the week.

jpgfactory/iStock



Alexander Sagmeister (left) and Harald Kapferer from department Service Transition & Control at ARZ Allgemeines Rechenzentrum GmbH

Can all of that really be managed and monitored centrally?

The answer: It can. We are at ARZ Allgemeines Rechenzentrum GmbH in Innsbruck. With 600 employees, it is a medium-sized company for medium-sized banks and customers. We are talking to IT specialists Alexander Sagmeister and Harald Kapferer.

Like Fiducia in Germany, for example, their employer is wholly owned by its customers. They may be spread throughout Austria, but they want their core business to be managed, structured and monitored centrally. The latter is achieved with a little help from USU subsidiary Leutek and its ZIS monitoring system.

At ARZ, core bank applications are run centrally using a system developed by the US software house Ciltrix, formed in 1989. Just like before, in other words, only more modern.

In the seventies, which is also when the predecessors to ARZ originated, “dumb” terminals were bundled in with mainframe computers. The term “online” was born. “Online” users only got to see on their screens what was running on the mainframe. The advantage: It was not necessary to send every single software alternation to every single one of the thousands of computers. Changing it on the mainframe was enough.

This was a highly successful concept that really ought to be becoming more popular again today. Not least in the financial world, where regulation is permanently intervening in applications. It was also a very good concept because it was easy to monitor and the costs were honest. So honest that they could always be undercut. With alternative systems, which were considered to be far more flexible in particular. In every respect. Including cost. And so began the conflict between the centralizers and the decentralizers that continues today.

But Alexander Sagmeister, who has worked for ARZ in Innsbruck since 2014, is a dispassionate observer of the debate. The IT specialist knows his company has found a highly elegant middle ground. He tells it how it is: “All of the applications run on the server and are only presented virtually on the client. There are no real programming objects to access, just a terminal session.” And ZIS is always there to make sure everything runs as it should.

Like response time behavior, i.e. the speed with which the central systems respond to decentralized input. “Anything under one second is good,” says Harald Kapferer, whether for online banking at home or at the bank. It can sometimes take a bit longer for properly large securities accounts containing lots of individual items. But a decentralized system wouldn’t be any quicker in that respect.

Kapferer has been with the company since 2007, meaning he saw the impact of the financial crisis at first hand. “If anything, ARZ benefited from it,” he says. With regulation on the rise, customers began to appreciate the immense cost of implementing the new provisions, which are not always comprehensible, in their software. So they said to themselves: Why not centralize things?

It might seem a little counterintuitive. The more change there is, the stronger the desire to centralize? But it doesn’t really matter. The main thing is we can get to our money. And that’s a central matter for all of us.

Datagroup SE / Mark Herreid/Shutterstock

14 –16° in geothermal heat

is extracted from the dark soil by Datagroup – day and night. It uses it to regulate the air conditioning at its futuristic company headquarters in Pliezhausen. For a quarter of a century now, the underground ducts have lowered the outdoor air temperature in the summer and raised it in the winter before the air is fed into the offices. A ten-meter waterfall ensures optimal humidity. 1,500 liters of water are evaporated on a hot summer day.

NO TWO DAYS THE SAME

A big advertising sign at the side of the B27, just a few hundred meters before the exit for Pliezhausen, proudly announces: "The future starts here". You drive on and brake. The bridge that crosses the four-lane highway is home to the German record-holder in the "speed camera" category. On both carriageways. It has caught 200,000 people speeding in just a few months. A real nuisance. The roadworks have long disappeared, but the speed camera is still there, making its money. Fortunately, we're taking the exit to visit our next destination. Danger avoided.

You leave the highway. Is this really the future?

A futuristic building emerges on your right-hand side. It immediately reminds you of a parked flying saucer, only somehow more imposing, more elegant. Everyone is impressed when they see it for the first time, or even the times after that. You go through the entrance. A cathedral of thought. A place you want to work. A place you want to stay. A place that feels human. An absolutely fascinating mixture of corporate culture, a down-to-earth attitude and a forward-looking approach.

We are welcomed by Sarah Berger-Niemann and Johannes Wiedmann. She is responsible for corporate communications, he is the man for IT service management. They both work for DATAGROUP SE, an IT service provider with almost 2,000 employees. As well as here in the Neckar-Alb region, a quarter of an hour from Tübingen and Reutlingen, they are represented in 24 cities in Germany.

What, no Vienna? No Bern? No foreign presence, not even in the German-speaking nations? No, replies Sarah Berger-Niemann. Wow! This must be a quite remarkable IT company. "We did a survey. There are around 11,000 small and medium-sized enterprises in Germany alone." They make up the market for a service that has been known as outsourcing for 30 years now and that represents the core business of DATAGROUP, formed in 1983. According to the same survey, around 5,000 of these SMEs, those with sales of between 100 and five billion euros and between 2500 and 5,000 jobs, are ready for outsourcing. Some 170 of them have already been persuaded to entrust their IT services to DATAGROUP. This means there is still considerable potential to be tapped by the absolute professionalism with which DATAGROUP looks after its customers. You can tell they take their customers very seriously. This should come as no surprise: "80 percent of our sales come from services."

"We are an SME. So are our customers. This means we meet them on an equal footing," explains Berger-Niemann. Above all, DATAGROUP's numerous locations ensure it is always close to its customers from a wide range of industries. "Proximity is something that is extremely important to us." And it was also one of the reasons why USU got the nod when it came to service management using its Valuemation software product. Johannes Wiedmann: "We didn't want to be still sitting there at 8pm, still talking to an American partner on the west coast of the USA to get our requirements across." Not least since Wiedmann frequently found himself coming out of such conversations with the realization that "we needn't have called in the first place." Far from ideal when it comes to such an important topic – for DATAGROUP and its customers alike.

Sarah Berger-Niemann, Head of Corporate communications at Datagroup SE

Johannes Wiedmann, Head of IT Service management at Datagroup SE

Outsourcing gets to the heart of a company. When the modular toolkit CORBOX is used to create a new IT structure for the customer, physically outsourced but still virtually close to their business, it is precisely this core competency that is expressed. All of the parts have to fit. With each other and with the customer's business processes.

What DATAGROUP wants and needs from its technology partners is a permanent exchange of ideas and quick understanding, ideally in its native language. Not just on the telephone, but face to face. Clarity in what is said and in the partnership with its own customers, both internally and externally, is extremely important to the company. Transparency – a virtue that is embodied by the generous architecture of its head office building in Pliezhausen.

Wiedmann says that customers often only realize what their IT actually costs once they get involved. CORBOX then allows the customer's IT to be gradually organized and standardized. That might begin with the service desk, where USU's Valuemation tool is an integral component.

Standards are particularly important. DATAGROUP calculates its services on the basis of the proportion of pre-packaged solutions to the total volume. A figure of between 70 and 80 percent is on the safe side. Sarah Berger-Niemann sums it up with a lively metaphor. "We shine the customer's shoes and press their suit. That's the great thing about CORBOX: I can simply take out a module and get started. We take over the bread-and-butter business, the basic operations." Sounds simple. But Wiedmann knows exactly how much expertise needs to be invested in a solution to turn it into a standard. He certainly never gets bored. "No two days are the same," he says. "It's incredibly exciting. Not just operatively, but creatively too." That's one of the reasons he likes working for DATAGROUP: "It's not a mom-and-pop store, but it's not a big corporation either."

What it is is a company that has grown over the past 20 years by acquiring some of those mom-and-pop stores. The IT industry needs to consolidate, says Berger-Niemann. There are around 6,000 companies with sales in excess of half a million, but "only 30 make more than 100 million and only five have sales of more than a billion". Some of these smaller companies have found a new home as part of DATAGROUP. "We want the employees to feel like they are in good hands here." Corporate culture plays an important role. Sometimes a big fish comes on board – like the 300 employees of the large US-based IT group that DATAGROUP acquired in 2015. Almost all of the employees are still with the company today, and none of those who have left did so out of dissatisfaction. One of those who stayed said: "This last year, I haven't been worried about my job any more." Berger-Niemann is understandably proud of statements like that, because she was responsible for the deal.

DATAGROUP, Pliezhausen

Similarly, employees of DATAGROUP's customers need have no fear of losing their jobs to outsourcing. "That particular issue is pretty much settled now," says the head of corporate communications. Wiedmann adds: "If anything, outsourcing allows them to concentrate fully on things that are specific to the company." The other 20 to 30 percent, in other words.

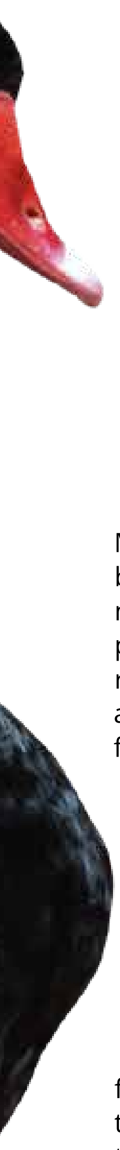
This helps them to get closer – to their specialties, to the market, to success.

The spaceship can stay on the ground. Because the future starts here.

-0.38 %
Euribor interest rate in 2018

4.8 %
Euribor interest rate in 2008

LittlePerfectStock/Shutterstock



IN THE RED

Maybe that's why it's one of the best of its kind in Germany. A medium-sized insurance company, mentioned by renowned rating agencies in the same breath as the biggest names in the field. It specializes in private life and pension insurance and accident insurance. A demanding area. The company and its workforce of around 700 are based in Stuttgart, a city that is said to be home to more insurance companies than Frankfurt or Düsseldorf. Indeed, Stuttgart is ranked fourth in Germany in terms of the number of employees in the insurance industry, behind Munich, Cologne and Hamburg. But the best is yet

Head office in the listed formed building of knitwear company Bleyle

to come: Stuttgarter Lebensversicherung a.G., the company in question, belongs only to itself. Or, more precisely, to its customers. It is a mutual insurance company. "Die Stuttgarter", as it is also known, operates independently of shareholder interests and solely on behalf of its members, its policyholders. This means a great deal of security. At the same time, it is subject to the same market rules as anyone else. It uses independent agents. In working with its business partners, it relies on a strong service focus and simple sales processes. This is what makes it strong and keeps it fit. It's one of the best.

Three times one is the magic formula in 2019. As its homepage says, the company is now 111 years old. Formed in 1908, its head office today is a listed building in which the sound of heavy-duty knitting machines once filled the air for the customers of Bleyle. The knitwear company filed for bankruptcy in 1988 and now lives on solely as a brand name. A location with plenty of history, in other words – and now home to business with the future. A future that extends into the next century.

"We need to get used to the idea of concluding policies with a potential term of 100 years," says Dr. Michael Konrad. Having worked for major insurance companies, the physicist joined Stuttgarter Lebensversicherung a.G. in 2012. He is the head of IT, an area that penetrates every division of an insurance company more than ever before. But IT also relies on permanent impetus from the divisions, the market, and social trends.

The result: "Die Stuttgarter" provides its customers with innovative products for individual solutions that it believes satisfy the demands of today's markets.

The portfolio ranges from traditional, hybrid, index-linked and fund-linked life and pension insurance and government-subsidized pension products to employee insurance and accident insurance. "Die Stuttgarter" also has an in-house competence center for occupational pensions. Independent rating agencies regularly examine the quality of its products – and give them the best grades, time and again.

All of this needs to be seen in the context of customer relationships that are very, very long. And getting longer. Children born today have every chance of reaching the age of 111 themselves – and anyone concluding annuity-based life insurance for their newborn wants a policy for a future that no one can realistically predict. A fascinating task full of dark digits.

All the same, insurance companies want to have an answer for everything, at all times. To use jargon for once, they want to be responsive. But also responsible. One part of that equation is taken care of thanks to the Internet portal for insurance that it has built up since 2012 in partnership with USU. This is important for customers, who are also the owners of "their" Stuttgarter. And it is important for agents, as they need to be able to get their hands on the right quote at all times. 30,000 or 40,000 queries per day is not a rarity. Digitization means they can all be responded to. And the portal is being continuously refined. Yes, this small, elegant insurance company is always happy to be compared with its competitors. For example, it is a member of BiPRO, an organization tasked with developing digital process norms for the insurance industry so that agents can quickly select the best available quote for its clients, for example. Based on common standards. In short: In the beginning lies the answer.

Dr. Michael Konrad, Head of IT, Stuttgarter Lebensversicherung a.G.

However, making sure it pays off for everyone in the end means knowing and mastering the conditions of the market. This is the noble art of the insurance business. Particularly when it comes to pension provision, the domain of "Die Stuttgarter". "Our range of premiums is highly complex," says Konrad. The regulations alone, including international provisions, call for absolute experts in the field. So it helps to be able to concentrate on yourself, rather than having your strategy determined by a third party like the shareholders of a listed company. Konrad: "We can think many years ahead without being distracted. We don't have to deliver an investor story every year." This is undoubtedly one of the reasons Stuttgarter Lebensversicherung a.G. is among the best in its field even as a medium-sized company. Otherwise, though, it is subject to the same market conditions as everyone else. "It's not as if we're living on our own little island," Konrad says, adding: "We are facing massive changes in our market."

And he's right. The biggest factor of all is the low interest rate environment, which has had the propensity for negative interest rates for some time now. With rates in the red, generating guaranteed interest of four percent for customers is a serious challenge. "We keep our promises," assures Konrad. And then he lists a plethora of factors, mostly statutory in nature – and some of them quite peculiar – that also need to be taken into consideration. Regulations like this also have an impact on the IT budget. Konrad: "Half of our resources in IT are invested in regulation alone." But at least these are costs that all insurance companies have to swallow in equal measure. And similarly, everyone is affected by "black swans", or the force of unexpected events.

Konrad is a very honest man: "Of course, these regulations are also a barrier to market access." It costs a lot to overcome them. But the competition is already intense enough. Particularly now that rating portals are muddying the waters of the customer-insurance company relationship. This new kind of pressure is particularly prevalent in property insurance. Stuttgarter also offers property insurance, albeit as a relatively minor part of its overall business.

Nevertheless, Konrad is fascinated by the market in which he has worked since completing his studies. New ideas and new markets are emerging all over the place. Digitization has transformed the insurance business right to its core, and now it is also changing the markets it serves. "Situational insurance" is how Konrad describes policy annexes such as flight insurance concluded on a smartphone just before checking in, for instance. And that is just one of countless examples. Unexpected opportunities are everywhere. So are unexpected events that will need to be insured against.

Being responsive even amidst all this change – there could be worse challenges, we think to ourselves as we thank him and take our leave.

10 YEARS *This is how long it could take for contract law to catch up with the new opportunities opened up by technological progress.*

JOURNEY TO THE CENTER

We visited Hamburg-Süd in the north. Right at the start of our journey. We watched the huge container ships as they made their way out into the wide world. We saw a lot of water, the material that made up the cyberspace of the good old real world. Now we are at Novartis in the south, our last calling point before we start writing everything up. But are we really there?

No. A window for a meeting became available at short notice. So we're in a conference call with Jochen Hagenlocher. An audiovisual connection. He tells us about his world. It is the fascinating world of software, which penetrates everything that is, can do everyt-hing that is still to come, and stores everything that once was. He almost sounds a little nervous, as if he thinks we must already know everything he's saying and he doesn't want to bore us. But he isn't boring us. Now we understand the quiet, genuine admiration in which he was spoken about by the others we've visited. There's something about Jochen Hagenlocher – and he's happy to share it. Gently, not nervously at all. We're happy to correct ourselves.

In the meantime, our thoughts are taking off – accompanied by his words, yet also all by themselves. As he talks, we suddenly see spaceships in front of our eyes, floating through real-life cyberspace, packed full of software containers with everything you need to feel at home anywhere in the world. We shake ourselves and return to reality. What was that all about?

Come on now. It was just our imagination running away with us. Hagenlocher had merely offered an example of what he and his colleagues are currently working hard on. A very real, very concrete, very massive problem. Containers are applications that bring everything with them so that they can be used with the greatest possible resource efficiency. Practical, but legally complex. Whose licenses are hidden inside the container? How are they remunerated? How should they be managed? Who regulates the whole thing, e.g. between the cloud and the outside world? This was the topic of an international conference that Hagenlocher recently attended. There were a lot of questions, but the software providers mostly delivered meek answers. He believes the technological possibilities are some five to ten years ahead of the law.

Hagenlocher is a SAM, a "software asset manager", as he calls himself. At Novartis, the pharmaceutical group created by the merger of Ciba-Geigy and Sandoz in 1996. With sales of around 52 billion dollars, it is one of the 100 largest companies in the world. It spends around a quarter of a billion dollars on software every year. A huge amount of money, a huge amount of responsibility, and a huge amount of law to deal with. All of that software is underpinned by a wide range of contractual agreements with the respective software partners. "We do business with around 17,000 software providers in one way or another," says Hagenlocher. An almost impossible task to master. Unless you have the right software for software. That's where Novartis called on the USU subsidiary Aspera. Of course, this also involved negotiating a contract, albeit on the friendliest possible terms. They get each other. They benefit from each other. No doubt about it.

Because Novartis's requirements put it at the forefront of development. Hagenlocher is someone who can show you practical applications while others are still dealing with theory. And he know how many business react the first time they are confronted with a tough audit. You can feel the empathy, even between a big company like this and its smaller counterparts. And our journey has made it clear that the feeling is mutual. The colleagues we spoke to had nothing but ungrudging respect for him. They even measure themselves against what Novartis has achieved with a little help from Aspera, right down to percentages.

Jutta Hangarter, Global Head of Procurement IT Software, and Jochen Hagenlocher, Head of Software Asset Management, accept the SAMS Award 2018 for Novartis

Hagenlocher has dual citizenship. German and Swiss. Born in Mannheim, he lived in an area where everything he needed was within a radius of five kilometers: his primary school, his secondary school, the university where he graduated in business studies.

Gorodenkoff/AdobeStock

And once he was done, he conquered the world. He discovered the SAP cosmos and became a consultant, experiencing every migration and every update since the first version, R/1. Not just in Germany and Europe, but Australia and the USA too.

Today, his world has shrunk back to a radius of five kilometers, at least physically: in the Basel area, 300 kilometers south of Mannheim. But when it comes to license management, he and his deputy are still changing the entire Novartis world. He is everywhere.

Hagenlocher is tightly connected with the entire scene. When you are responsible for such a large amount of software, you probably have to be. It is a responsibility that the SAM has become rather skeptical about. 60 percent of software expenditure is still “on prem”, by which he means purchased licenses for products that are used “on premises”. The remaining 40 percent is spent on leased software in the cloud. All in line with the general trend. Not a week goes by without him receiving a “love letter” (Hagenlocher’s words) asking him to switch one software contract or another from purchased to leased.

But it isn’t as simple as the letters make it sound. “For cloud contracts, you need at least half a year for your own conditions to be included as they need to be.” For a world-class pharmaceutical group, the cloud also brings with it concerns about confidentiality when it comes to patient data, research results, financial data – everything, really. “It all comes down to money in the end,” he says, almost sadly.

Is he allowing sentiment to rear its head? Of course. Like everyone we talked to for this annual report, Hagenlocher thinks beyond his own company. That’s what they all have in common. They love progress, they like what they do, and they do it with a passion – but also with a deep-rooted sense of responsibility. “Software is shaping our existence to an ever greater extent,” says Hagenlocher. With all the consequences that entails. Whether in a radius of five kilometers or at the center of the Earth. software has long been everywhere.

The only dark digits are us.

ADVISORY BOARD

New products, services, channels, business models – digitization has radically changed many areas of the business world. This change can only be managed through a systematic focus on the customer. Accordingly, continuous interaction with customers, stakeholders and their challenges has always been the strategic backbone of USU Software AG and its subsidiaries.

Customer success forms the basis of the USU Group's business. Every customer project is different. But in all cases, the main thing is to mobilize all available resources in the interests of a successful, trust-based partnership. This means offering customers a high level of service and demonstrable added value.

USU communicates with customers continuously and at all levels. This communication is personal – in consulting, in jointly developing individual solutions, in realizing objectives, in making optimizations in practice, in post-project assistance, in expanding existing applications, and so on. And the dialog extends to user groups, reference visits and a wide range of customer events – not least between the user companies directly. Over a thousand customers have been acquired over time from every area of the international economy, and most of them are still active reference customers.

As a central element of lively, trust-based customer communication, the Advisory Board of USU Software AG has been supporting the Company for many years with its pronounced specialist expertise and long-standing management experience. The members are associated figures from the business world with in-depth experience and expertise in the area of information technology, and are mostly direct customers of USU Software AG and its subsidiaries.

The regular meetings between the members of the Advisory Board and the Management Board and senior executives of the USU Group address current practical topics, strategic market developments and future trends – always discussed from a customer perspective. The Advisory Board also suggests specific product and service improvements and supports change processes within the Group. To ensure continuity, the members of the Advisory Board of USU Software AG are appointed for a period of two years and may be reappointed on expiry of a period in office.

The list of members of the USU Group Advisory Board when the 2018 Management Report went to press was as follows:

Andreas Dümmler
IS Manager, Arburg GmbH & Co. KG

Frank Karsten
Chairman of the Management Board, Stuttgarter Versicherungsgruppe

Joachim Langmack
Management consultant

Stefan Leser
CEO, Langham Hospitality Group

Uwe Neumeier
Chief Digital Officer,
Hellmann Worldwide Logistics GmbH & Co. KG

Heike Niederau-Buck
Chief Information Officer, Voith Digital Solutions GmbH

Dr. Hans-Joachim Popp
Principal, BwConsulting

Dr. Dieter Pütz
Senior Vice President IT Shared Services,
Deutsche Post IT Services GmbH

Werner Schmidt
Member of the Management Board, LVM-Versicherung

Ralf Stankat
Member of the Management Board IT/Operations,
Basler Versicherungen

Daniel Thomas
Member of the Management Board, HUK-Coburg

The Management Board would like to thank all of the members of the USU Advisory Board for their dedicated support, their advice and their detailed suggestions for the further successful development of the USU Group and looks forward to continuing this trust-based partnership in the current 2019 fiscal year.

REPORT OF THE SUPERVISORY BOARD OF USU SOFTWARE AG

Dear shareholders,

USU Software AG is in a phase of investment that the Management Board has initiated in a highly focused manner with a few to successfully implementing its medium-term planning. Although this has had a negative impact on the Company's short-term earnings development, the Supervisory Board approved these investments from a business perspective and also considers them to be necessary. At the same time, the Supervisory Board supports the Management Board's shareholder-friendly dividend policy, which involves a dividend at the prior-year level for the 2018 fiscal year in order to ensure a sustainable profit distribution and dividend continuity. The Management Board and Supervisory Board of USU Software AG will therefore propose an unchanged dividend distribution of EUR 0.40 per share to the Annual General Meeting of the Company on July 2, 2019.

Performance of Supervisory Board duties

In the 2018 fiscal year, the Supervisory Board performed all the tasks and duties prescribed by the law, the Articles of Association, the rules of procedure and the German Corporate Governance Code, including regularly monitoring and advising the Management Board in its activities. The Management Board regularly, promptly and comprehensively informed the Supervisory Board of the development and position of USU Software AG and the USU Group, corporate planning, any deviations of business performance from the original planning, risk management and compliance as well as key business transactions. The Supervisory Board itself continuously monitored the business development of USU Software AG and the Group. The Supervisory Board maintained close contact with the Management Board in the 2018 fiscal year and was directly involved in decisions of major importance to the Company at an early stage. The Supervisory Board was comprehensively informed in advance of, and carefully examined and unanimously approved, all legal transactions requiring approval as well as transactions of significant importance to the profitability and liquidity of the Company.

Composition of the Management Board and Supervisory Board

There were no changes to the composition of the Management Board in the 2018 fiscal year. However, there was one change to the composition of the Supervisory Board of USU Software AG at the end of the 2018 fiscal year: Günter Daiss stepped down from the Supervisory Board at his own request effective December 31, 2018. In accordance with the provisions of the German Corporate Governance Code, the Management Board and the Supervisory Board arranged for the court appointment of a new Supervisory Board member, with the result that Ms. Gabriele Walker-Rudolf became a new member of the Supervisory Board of USU Software AG by court order at the start of 2019. Ms. Walker-Rudolf will be proposed to the shareholders for election at the Annual General Meeting on July 2, 2019.

Since the Supervisory Board comprises three members, no committees were set up in the 2018 fiscal year, as in the previous year. Independently of this, the Supervisory Board of the Company jointly assumes the tasks of these committees.

Meetings of the Supervisory Board and main points of discussion

Six ordinary Supervisory Board meetings were held in the 2018 fiscal year. With the exception of one meeting where a member of the Supervisory Board was excused from attending, all of the members of the Supervisory Board attended these meetings in person or, in one case (on October 1, 2018), by conference call. This meant the average meeting attendance rate of the Supervisory Board members was 94.4%.

The reports and discussions at the meetings of the Supervisory Board, which were regularly attended by the Management Board and the divisional managers of the subsidiaries as necessary, focused on the business development, the net assets, financial position, results of operations and the strategic planning of USU Software AG and the Group. The Supervisory Board received information on the course of business at USU Software AG and its subsidiaries, the Group's foreign investments and activities, and potential acquisition targets. The Management Board of the Company reported to the Supervisory Board meetings on sales, earnings, investment and profitability, including deviations from planning, and the liquidity development of the Company and the Group. The Supervisory Board, together with the Management Board, also discussed risk management for USU Software AG and the Group as a whole, and defined in detail the existing risks and planned strategies and measures to control and manage risk. The Management Board also addressed the medium-term corporate planning for USU Software AG and the Group and presented the key elements of its financial, investment and human resources planning. Another central topic of discussion in the year under review was the development of the Company's share price, including the Management Board's investor relations activities, and the retirement of Günter Daiss from the Supervisory Board on grounds of age and the accompanying succession planning.

At the accounts meeting of the Supervisory Board on March 19, 2018, the auditors reported on the key findings of their audit of the financial statements, the single-entity and consolidated financial statements and the management report and Group management report were approved following in-depth discussion with the Management Board and the auditors, and the single-entity financial statements were adopted. The Supervisory Board approved the recommendation of the Management Board to propose to the Company’s Annual General Meeting a dividend of EUR 0.40 per share. This Supervisory Board meeting also addressed the status reports of the Management Board on individual areas and the Group as a whole, including the projections for the first quarter and the full 2018 fiscal year.

The Supervisory Board meeting on May 17, 2018, to which several external audit firms were invited, addressed the current business development of USU Software AG and its subsidiaries and, in particular, the bid presentations by the auditors in response to the preceding tender as well as the agenda for the Annual General Meeting on June 28, 2018, which was unanimously adopted by the meeting.

The Supervisory Board meeting on June 27, 2018, the day before the Annual General Meeting, addressed the Management Board’s report on the current course of business of USU Software AG and the Group as a whole and its planning for the subsequent quarters and the full fiscal year, as well as preparations for the Annual General Meeting. In addition, the contractual extensions with the members of the Management Board were discussed, and it was ultimately agreed that the Management Board mandate of Bernhard Oberschmidt would be extended by an additional five years effective January 1, 2019 and the Management Board mandate of Dr. Benjamin Strehl would be extended by an additional five years effective September 30, 2019. Bernhard Böhler informed the Supervisory Board that he plans to move abroad in the medium term and therefore asked the Supervisory Board to terminate his Management Board contract as of spring 2020. In addition, the Supervisory Board member Günter Daiss announced that he would retire from the Supervisory Board at the end of the year on grounds of age.

The Supervisory Board meeting on September 19, 2018 addressed the Management Board’s report on the current course of business of USU Software AG and the Group as a whole and its planning for the subsequent quarters and the full 2018 fiscal year, as well as the presentation of Gabrielle Walker-Rudolf as a potential future Supervisory Board member. The strained workplace situation at the Möglingen site in terms of the available rental and work space was also discussed with the Management Board and the potential construction of a new USU company building was discussed.

At the meeting on October 1, 2018, which was held as a conference call and in which only the Supervisory Board members participated, the sole item on the agenda was the extension of the Management Board mandate of Dr. Benjamin Strehl by an additional five years until September 30, 2024, which was resolved unanimously.

The Supervisory Board meeting on December 11, 2018 mainly addressed the report on current business development and the projections for the full 2018 fiscal year. This Supervisory Board meeting also dealt with the implementation of the provisions of the German Corporate Governance Code, including the adoption of the corresponding declaration of conformity. In this context, the Supervisory Board established a target figure of zero for the proportion of women on the Management Board and Supervisory Board by June 30, 2021 and confirmed the profile of skills for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. Furthermore, the Supervisory Board believes that at least two of its three members should be independent shareholder representatives. This target was achieved with the independent members Günter Daiss and Erwin Staudt and is still achieved now that Gabriele Walker-Rudolf has been appointed to the Supervisory Board to succeed Günter Daiss. The Supervisory Board also conducted an efficiency audit at its meeting on December 11, 2018, which was concluded with a positive outcome. The Supervisory Board meeting on December 11, 2018 also discussed planning for the 2019 fiscal year. The Supervisory Board discussed these plans in detail with the Management Board and unanimously approved the planning for the 2019 fiscal year.

Finally, the last Supervisory Board meeting of 2018 also discussed the construction of an additional USU company building at the Möglingen site by the Strehl family on the current parking lot of the Group headquarters, which was unanimously resolved by the Supervisory Board following the clarification of the rental price and other details.

Corporate governance and declaration of conformity

Responsible management and control of USU Software AG and the Group with the aim of sustained value creation are, and will remain in the future, the focus of the activities of the Management Board and Supervisory Board of the Company. The Supervisory Board is committed to these principles of corporate governance and acts accordingly. On December 11, 2018, the Supervisory Board discussed in detail with the Management Board the points contained in the German Corporate Governance Code. The Management Board and Supervisory Board of USU Software AG issued the relevant declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) and made it permanently available on the Company's website. This declaration of conformity is included in the combined management report in this annual report as part of the statement on corporate management of USU Software AG in accordance with section 289a of the German Commercial Code (HGB) under VIII. 1 Declaration of conformity with the German Corporate Governance Code. The Supervisory Board also refers to the compensation report included in the combined management report in this annual report, which sets out the individual compensation of the members of the Management Board and the Supervisory Board for the 2018 fiscal year.

Audit of the single-entity and consolidated financial statements

Based on a resolution by the Annual General Meeting on June 28, 2018, the Supervisory Board commissioned Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as the auditor of the financial statements and agreed the focal points of the audit for the 2018 fiscal year.

The subject of the audit was the accounting, the 2018 financial statements prepared in accordance with HGB, the 2018 consolidated financial statements prepared under section 315a HGB in accordance with the provisions of the International Financial Reporting Standards (IFRS), as applicable within the European Union, and the additional requirements of German law under section 315a (1) HGB as well as the accompanying combined management report for the 2018 fiscal year. The Supervisory Board also examined the non-financial Group declaration by USU Software AG, which was published on the Company's website on March 19, 2019.

The financial statements of USU Software AG, the consolidated financial statements and the combined management report for the 2018 fiscal year were each issued with an unqualified audit opinion. The Supervisory Board was presented with the aforementioned year-end closing documents, including the Management Board's proposal on the appropriation of net profit and the non-financial declaration and the auditor's reports, for examination in a timely manner. The auditors reported on the key findings of their audit at the accounts meeting on March 19, 2019. Following its own examination and an extensive discussion with the Management Board and the auditors, the Supervisory Board concurred with the findings of the audit and raised no objections. The Supervisory Board approved the financial statements and consolidated financial statements presented to it by the Management Board as well as the combined management report for the 2018 fiscal year. The annual financial statements have therefore been adopted. At the same time, the Supervisory Board approved the Management Board's proposal for the appropriation of net profit, under which the HGB unappropriated surplus of USU Software AG as of December 31, 2018 in the amount of EUR 6,284 thousand will be appropriated as follows:

- to pay a dividend of EUR 0.40 per share for 10,523,770 shares, amounting to a total of EUR 4,209 thousand; and

- to carry forward the remaining unappropriated surplus of EUR 2,075 thousand to new account.

The Supervisory Board also addressed the mandatory disclosures in accordance with sections 289 (3) and (4) and 315 (4) HGB and the corresponding reports. Further information can be found in the disclosures and explanations in the combined management report for the 2018 fiscal year under V. Accounting-related internal control and risk management system, under VIII. (Group) Corporate Governance Declaration in accordance with section 289 and section 315d HGB (unaudited) and under IX. Non-financial Group declaration (unaudited)." The Supervisory Board has examined the reports and the disclosures and explanations contained therein and is satisfied that these are complete and correct in terms of their content. Accordingly, the Supervisory Board has adopted the reports. The Supervisory Board therefore agrees with and raises no objections to the non-financial declaration and the disclosures on the accounting-related internal control and risk management system.

In addition, the Management Board of USU Software AG, as the parent company of the USU Group, compiled its report on related parties in accordance with section 312 AktG for the fiscal year from January 1, 2018 to December 31, 2018 (hereinafter referred to as the report on related parties), in which it made the following closing statement:

"We hereby declare that USU Software AG received appropriate compensation for all transactions in accordance with the circumstances known to us when the transactions were conducted. No measures detrimental to the Company were undertaken."

Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft examined the report on related parties and issued the following audit opinion:

“On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct, and

2. the Company’s compensation with respect to the transactions listed in the report was not inappropriately high.”

The Management Board’s report on related parties and the audit report prepared by the auditors were both made available to the Supervisory Board. The examination by the Supervisory Board in accordance with section 314 AktG did not give rise to any objections to the closing statement by the Management Board.

Concluding remarks and thanks

On behalf of the entire Supervisory Board, I would like express my particular gratitude to the Management Board and the employees of USU Software AG and its subsidiaries for their hard work and their commitment and loyalty to the USU Group. In this phase of substantial investment in the future, your vigorous support in particular has helped to lay the path to profitable growth and sustainable success for our Company. I would like to express particular thanks to Günter Daiss, who stepped down from the Supervisory Board at the end of the 2018 fiscal year. His entrepreneurial expertise made a significant contribution to the successful development of USU Software AG and the entire USU Group.

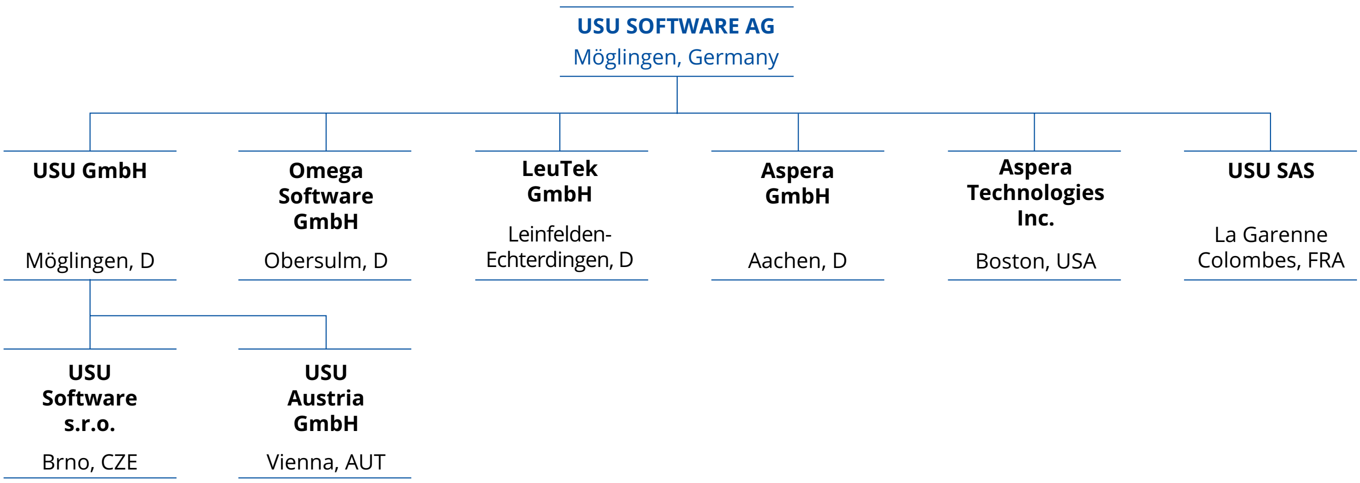
Möglingen, March 19, 2019

For the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board of USU Software AG

COMBINED MANAGEMENT REPORT FOR THE 2018 FISCAL YEAR

USU Software AG and its operating subsidiaries



I. BASIC INFORMATION ON USU SOFTWARE AG AND THE GROUP

As the parent company of the Group, USU Software AG, Möglingen, Germany, holds direct or indirect equity investments 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, Czechia, USU SAS, Les Garenne Colombes, France. 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.

Effective January 1, 2018, USU Software AG 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 focuses 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 transformed into USU GmbH.

I. 1 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 system integration, individual applications and software for industrial big data.

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.

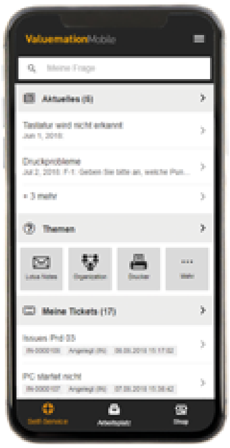
Taking the latest operational developments into account, the Management Board is forecasting an increase in consolidated revenue to between EUR 98 million and EUR 101 million in fiscal 2019, accompanied by an increase in adjusted EBIT to between EUR 7.5 million and EUR 10 million. The current medium-term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

I. 2 Research and development

The USU Group's various research and development activities have for years been the central driving force behind its innovation. This is based on several pillars: an independent, constantly growing research division and intensive cooperation with customers and partners such as universities and institutes in various projects. USU Software AG was also awarded the "Innovation through Research" seal for its R&D activities by the Donors' Association for the Promotion of Sciences and Humanities in Germany.

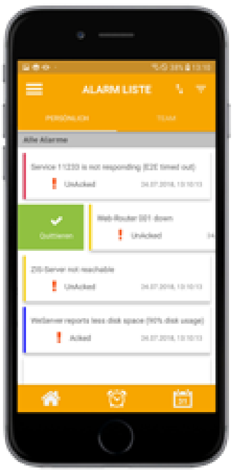
The company has been investing heavily in research and development (R&D) for years. In fiscal 2018, it invested a total of EUR 15,334 thousand in R&D (2017: EUR 13,817 thousand), corresponding to 16.9% of consolidated revenue (2017: 16.4%). The number of employees in this area was 194 as of December 31, 2018 (December 31, 2017: 194). The USU Group does not capitalize its R&D expenses.

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 with which ticket processing tasks can be flexibly distributed and planned, the service map for visualizing and structuring service and a smartphone-based asset inventory function for field support. An alert function delivers push notifications of key events directly to the user's screen, e.g. when a service is down. In addition, the requirements of the European General Data Protection Regulation (GDPR), which became effective at the end of May 2018, have been implemented by the Data Protection Manager. The development team also continued work on version 3.3 of the Valuemation Mobile Manager which was released in November 2018.



IIntuitive user interface in self-service

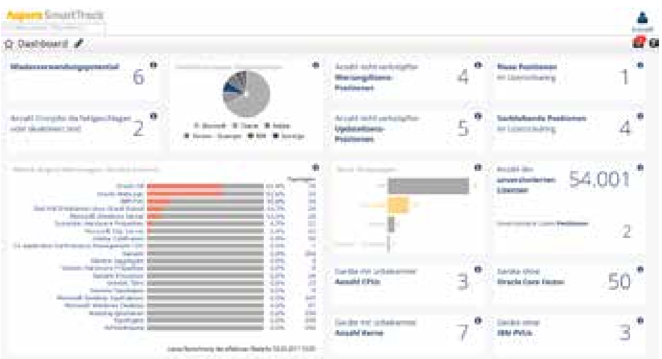
New versions of ZIS were released in the Business Service Monitoring and Alarm Management segment. Key functional improvements include service level monitoring, an improved search function for event messages and the extension of the Microsoft SCOM interface for large system environments. The significant expansion for cloud monitoring, including innovative discovery functions, was also an important step. Another key area of development was the extension of the alert functions (alarm app, Skype for Business, fault notification via an event correlation engine) and the reworking of the dashboard interface (self-service cockpit). In addition, the WebApps were given an entirely new interface design.



New alarm app from LeuTek

New SmartTrack versions were released in license management. A standout feature of this is the new dashboard-sharing function, which allows multiple users to share the graphical user interface. Detailed authorizations allow various usage scenarios to be configured. The latest release also offers new connectors for smooth data transfer, including for Oracle Review Lite and ServiceNow, with a focus on functions for the optimal licensing of cloud services such as Amazon AWS or Microsoft Azure. Aspera therefore guarantees license compliance even in complex hybrid IT infrastructures. In LicenseControl for Office

365, Aspera offers the only cloud-based software asset management solution for optimizing Microsoft Office 365 subscriptions. New versions of License Control for SAP® and for Salesforce, not to mention for SAM Intelligence, were also released.



Dashboard overview for software license management in SmartTrack

In USU's unymira division, which was formed in January 2018 from the previously independent divisions BIG Social Media, Business Solutions, KCenter and unitB technology, development work continued on version 6.9 of Knowledge Center was successfully completed. This intelligent knowledge database features, for example, a new service platform, KnowledgeCloud, that uses the motto "customers help customers" to consolidate industry-related knowledge and make it available to customers. In social media management, the Connect application was developed further, for example by implementing skills-based routing, which uses neural networks to control communication automatically on the basis of employee skills. The development work for version 4 of the self-service application Smart Link is continuing parallel to this. For example, the new Native Client allows more comprehensive management and analysis of the users' computers. The latest version of the Knowledge Bot was also completed. One highlight of this is the significantly improved dialog behavior of the automatically generated dialogs.

New Knowledge Center user interface

Katana launched its new product Katana Flow. This comprehensive tool for data scientists is characterized by its graphical programming options, among other things. It enables data analysis on the basis of known algorithms. Another product, Katana Go, was developed on the basis of practical requirements from customer projects. The application 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.

Detection of a production error by Katana Flow

In the reporting period, the research division was awarded the contract for a number of major projects: In the AIAX project, USU and others will work with Daimler AG on the analysis of production data in order to predict product quality as early as possible. As part of the second project, ARBAY, USU's unymira division is researching intelligent, dialog-based assistants (chatbots). Together with Uni Mannheim, the goal is to develop adaptable dialog strategies to give bots more intelligence while ensuring the quality of the dialog with customers. The third project, ReAddi, began in early 2019 and seeks to use AI to predict the quality of additive manufacturing at an early stage in order to allow adjustments. Furthermore, a patent application was filed for an invention for the recognizing and detecting event chains. The property right was granted. This algorithm allows relationships to be learned automatically from collections of log data and subsequently used to determine the causes of problems or losses.

II. ECONOMIC REPORT

II. 1 Summary

In fiscal 2018, USU Software AG increased its consolidated revenue (IFRS) by 7.3% year-on-year to EUR 90,487 thousand (2017: EUR 84,361 thousand). This was essentially thanks to strong domestic business, which grew by 9.4% to EUR 66,242 thousand (2017: EUR 60,573 thousand). In addition to the acquisition of new customers, established business with existing customers also contributed to this. Despite delays in orders in the US, USU's international business grew by 1.9% year-on-year to EUR 24,245 thousand (2017: EUR 23,788 thousand).

Owing to declining license revenue on account of delayed orders and increased capital expenditure outside Germany, the USU Group's earnings performance fell short of the previous year in fiscal 2018. Accordingly, EBITDA declined by 19.5% year-on-year to EUR 5,506 thousand (2017: EUR 6,837 thousand). Adjusted for depreciation and amortization of EUR 2,799 thousand (2017: EUR 3,615 thousand), USU generated EBIT of EUR 2,707 thousand in the same period (2017: EUR 3,222 thousand). After interest and taxes, net income for the year amounted to EUR 961 thousand (2017: EUR 3,367 thousand). Earnings per share were therefore EUR 0.09 (2017: EUR 0.32).

Adjusting for the effects of acquisitions, the USU Group generated adjusted EBIT of EUR 4,125 thousand (2017: EUR 6,125 thousand), down 32.7% on the figure for the previous year. At the same time, adjusted consolidated net profit fell by approximately two thirds as against fiscal 2017 to EUR 1,923 thousand (2017: EUR 6,089 thousand). Adjusted earnings per share thus declined from EUR 0.58 in the previous year to EUR 0.18.

Net income (calculated in accordance with the German Commercial Code) of USU Software AG as a standalone company rose by 54.8% as against the previous year to EUR 4,318 thousand in fiscal 2018 (2017: EUR 2,790 thousand). Including the profit carried forward from the previous year of EUR 1,965 thousand (2017: EUR 3,385 thousand), the company generated an unappropriated surplus of EUR 6,284 thousand (2017: EUR 6,175 thousand). As in previous years, this is to be used in particular to pay a dividend to all shareholders of USU Software AG. In accordance with the company's communicated dividend policy, whereby the dividend should never be less than in the previous year and should amount to roughly half the profit generated, the Management Board is proposing, subject to the approval of the Supervisory Board, a dividend distribution equal to the previous year's level of EUR 0.40 (2017: EUR 0.40) per share for fiscal 2018.

For fiscal 2019, the Management Board is again forecasting stronger growth in USU Software AG's revenue and, in particular, its operating earnings than in the two previous years, 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 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, the 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 as a whole in terms of growth once again in fiscal 2019. One key indicator supporting this forecast is Group-wide orders on hand, which increased by 11.6% year-on-year to EUR 49,178 as of December 31, 2018 (2017: EUR 44,055 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 revenue 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.

II. 2 Overall economic development

The German economy expanded for the ninth year in a row in 2018, but its growth has lost momentum. According to initial calculations by the German Federal Statistical Office (Destatis)[1] gross domestic product (GDP) adjusted for inflation was 1.4% higher than in the previous year in 2018, after rising by 2.2% in each of the preceding years.

According to Destatis, positive growth stimulus in 2018 was primarily domestic: both private consumer spending (up 1.0%) and government spending (up 1.1%) were higher than the previous year's level. However, growth was significantly lower than in the last three years. Adjusted for inflation, gross investment rose by 4.8% year-on-year, with 4.5% more invested in equipment than in the previous year. Construction investment rose by 3.0%. Other investments, which include research and development expenditure, increased by 0.4% year-on-year. Inventory levels also increased in 2018, further stimulating growth. German exports continued to rise on average in 2018, but not by as much as in previous years: adjusted for inflation, exports of goods and services were 2.4% higher than in 2017. Imports experienced stronger growth over the same period at 3.4%. In terms of figures, net exports therefore slowed German GDP growth slightly (down 0.2 percentage points). Adjusted for calendar effects, GDP growth amounted to 1.5% on account of a weak calendar effect in the previous year.

According to a flash estimate by the Statistical Office of the European Union (Eurostat)[2] , the euro area put up year-on-year GDP growth of 1.8% in 2018 (2017: 2.5%).

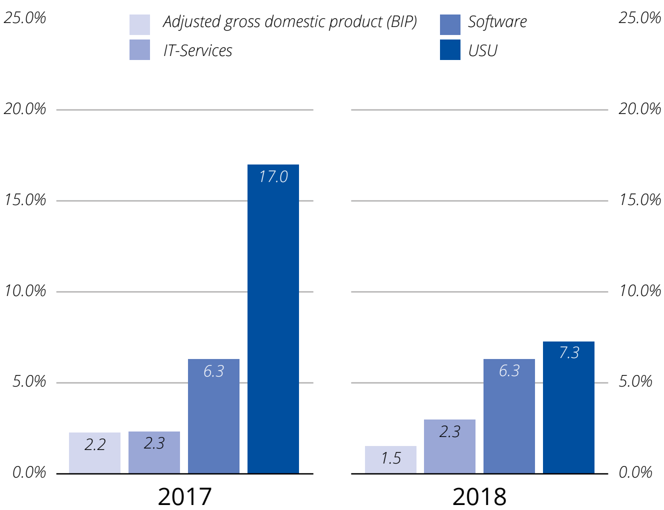
II. 3 Sector development

According to forecasts by the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM)[3], the German high-tech market again outperformed the economy as a whole, with the ITC market volume growing by 2.0% (2017: 3.0%) to EUR 166 billion (2017: EUR 162.7 billion), thanks in part to capital expenditure in products and services in the growth field of digitization. The IT market expanded by 3.1% (2017: 5.3%) to EUR 89.9 billion (2017: EUR 87.2 billion), once again taking the title of main growth driver. The software and IT services segments were again the standouts, with strong growth rates of 6.3% (2017: 6.3%) and 2.3% (2017: 2.3%). A forecast by the US market research company Gartner[4] also indicates that the volume of the overall global IT market increased significantly by 4.5% to USD 3,699 billion in 2018, with the global enterprise software and IT services markets enjoying very strong growth rates of 9.9% and 5.9% respectively.

II. 4 Business performance

Despite several major US corporations delaying their orders and the growing trend towards customers preferring one-time licenses over SaaS business, USU Software AG and its subsidiaries once again achieved record consolidated revenue of EUR 90,487 thousand (2017: EUR 84,361 thousand) in fiscal 2018. Meanwhile, adjusted EBIT fell short of the previous year's figure at EUR 4,125 thousand (2017: EUR 6,125 thousand) as a result of increased capital expenditure in international business and the USU Group's workforce. As a result, the Group did not achieve its original forecast of consolidated revenue of between EUR 93 million and EUR 98 million and adjusted EBIT of between EUR 7.5 million and EUR 10 million in the year under review. However, USU Software AG achieved the revised guidance published at the end of the year, which projected consolidated revenue of between EUR 89 million and EUR 91 million and adjusted EBIT of between EUR 4 million and EUR 5 million.

Comparison of German economic and market growth against sales growth of the USU Group in %



[1] cf. Destatis press release 018 dated January 15, 2019, and Destatis press release 050 dated February 14, 2019, published at http://www.destatis.de
[2] cf. Eurostat press release dated February 14, 2019 – 29/2019, published at http://ec.europa.eu/eurostat
[3] BITKOM press release dated January 10, 2019, published at www.bitkom.org

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

The drop in earnings was mainly as a result of contract delays with major corporations in the US and the weaker licensing business this entailed, while maintenance business, which also includes SaaS revenue, and consulting business grew significantly. Regionally, international business fell short of expectations on account of the delayed orders in the US. By contrast, domestic business developed very positively in 2018 and made a correspondingly significant contribution to the Group's growth. At the same time, the USU Group's operating earnings declined as a result of the significant increase in the cost base following active investment in international business and the expansion of the Group's workforce.

II. 5 Development of revenue and costs

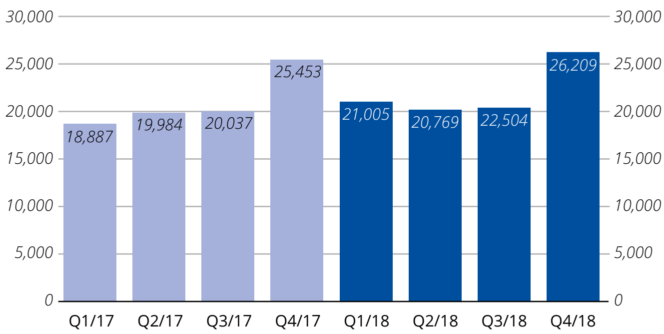
Consolidated revenue

In fiscal 2018, USU Software AG increased its consolidated revenue (IFRS) by 7.3% year-on-year to EUR 90,487 thousand (2017: EUR 84,361 thousand). This was essentially thanks to strong domestic business, which grew by 9.4% to EUR 66,242 thousand (2017: EUR 60,573 thousand). In addition to the acquisition of new customers, established business with existing customers also contributed to this. Despite delays in orders in the US, USU's international business grew by 1.9% year-on-year to EUR 24,245 thousand (2017: EUR 23,788 thousand). However, the strong growth in domestic business meant that the share of consolidated revenue attributable to international business was down from 28.2% in the previous year at 26.8%. As a result of the Group's active capital expenditure outside Germany and with a view to the expansion of SaaS business, the Management Board expects the share of consolidated revenue attributable to international business to return to well above 30% in the medium term.

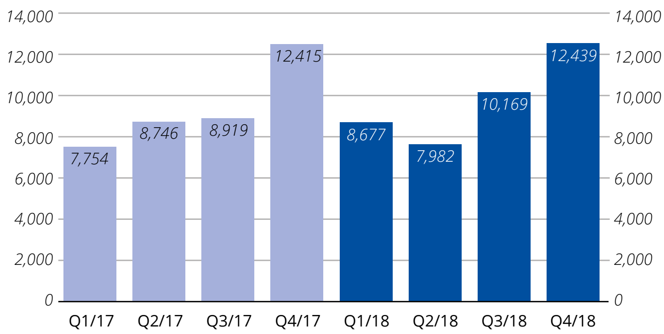
Software license business was down 14.5% on the figure for the previous year on account of the delays in orders in the 2018 reporting year, and amounted to EUR 13,300 thousand in total (2017: EUR 15,559 thousand). At the same time, maintenance business grew by 16.6% to EUR 25,967 thousand (2017: EUR 22,275 thousand), in particular as a result of the SaaS income assigned here. In its first year of being reported separately, SaaS revenue amounted to EUR 4,971 thousand in fiscal 2018.

Consulting business rose by 13.2% year-on-year to EUR 50,420 thousand in fiscal 2018 (2017: EUR 44,526 thousand). This increase results from both the larger consultant team and the greater use of freelancers and partners. Other income, which essentially comprises project merchandise revenue from third-party hardware and software, totaled EUR 800 thousand in the period under review, down 60.0% as against the previous year (2017: EUR 2,001 thousand).

Sales development of the USU Group by quarter in EUR thousand



Consolidated sales

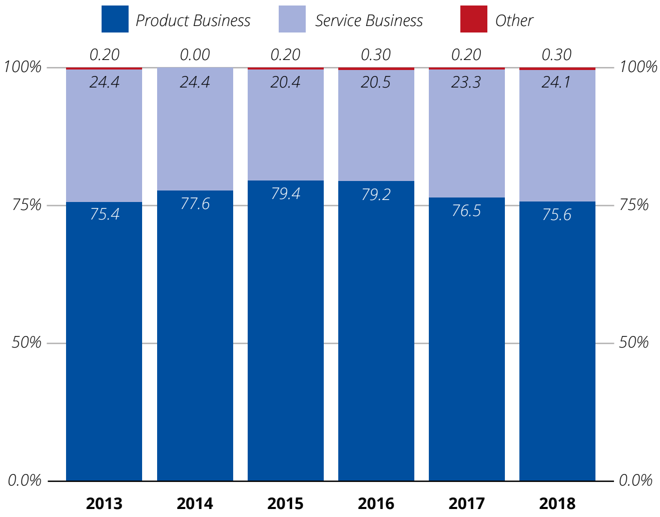


License and maintenance (including SaaS) revenue

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 68,425 thousand in 2018 (2017: EUR 64,532 thousand), up 6.0% on the previous year. In the same period, the USU Group increased consulting revenue in the Service Business segment by 10.6% to EUR 21,789 thousand (2017: EUR 19,696 thousand). Revenue not allocated to the segments totaled EUR 273 thousand in fiscal 2018 (2017: EUR 133 thousand).

Sales development of the USU Group
by segment in %



Operating costs
As of the end of the reporting year, in accordance with International Financial Reporting Standards (IFRS), the amortization of intangible assets capitalized in connection with acquisitions of EUR 1,408 thousand was allocated to the associated functional costs, leading to a corresponding increase in these costs. The operating cost base of the USU Group therefore increased by 11.4% year-on-year to EUR 88,280 thousand in fiscal 2018 (2017: EUR 79,226 thousand). Other than the allocated amortization, this above all reflects the increased capital expenditure outside Germany to successfully implement the medium-term targets and the associated recruitment, the expansion of the consultant team and increased administrative expenses for internal future projects such as the centralization of Group IT or the creation of the new unymira division.

The cost of sales rose by 12.1% as against the previous year to EUR 43,553 thousand in the period under review (2017: EUR 38,843 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 revenue increased from 46.0% in 2017 to currently 48.1%. Gross income also rose from EUR 45,518 thousand in the previous year to EUR 46,933 thousand in 2018. The gross margin therefore fell short of the prior-year figure at 51.9% in fiscal 2018 (2017: 54.0%).

In the period under review, marketing and selling expenses grew by 9.1% year-on-year to EUR 18,795 thousand in connection with the intensification of USU's activities outside Germany (2017: EUR 17,228 thousand). In addition to increasing the size of the sales team in the US and France, in the context of which new sales managers were hired as well, this also included additional marketing activities, such as the more pronounced presence at trade fairs and events. As a percentage of consolidated revenue, marketing and selling expenses thus climbed to 20.8% in fiscal 2018 (2017: 20.4%).

General and administrative expenses climbed from EUR 9,338 thousand in fiscal 2017 to currently EUR 10,598 thousand. This 13.5% increase essentially resulted 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 transformation of the Group subsidiary USU AG into USU GmbH. At the same time, the higher administrative expenses also reflect the growth of the Human Resources team to recruit new employees. As a result of tougher competition for highly qualified personnel, the USU Group has actively stepped up its HR operations. The ratio of administrative expenses to consolidated revenue therefore rose slightly year-on-year to 11.7% (2017: 11.1%).

Research and development expenses increased by 11.0% year-on-year to EUR 15,334 thousand (2017: EUR 13,817 thousand), primarily as a result of the acquisition of the new Group subsidiary USU SAS ("EASYTRUST") in 2017 and the accompanying expansion of R&D activities. Accordingly, the ratio of research and development expenses to consolidated revenue was slightly higher than in the previous year at 16.9% (2017: 16.4%). 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.

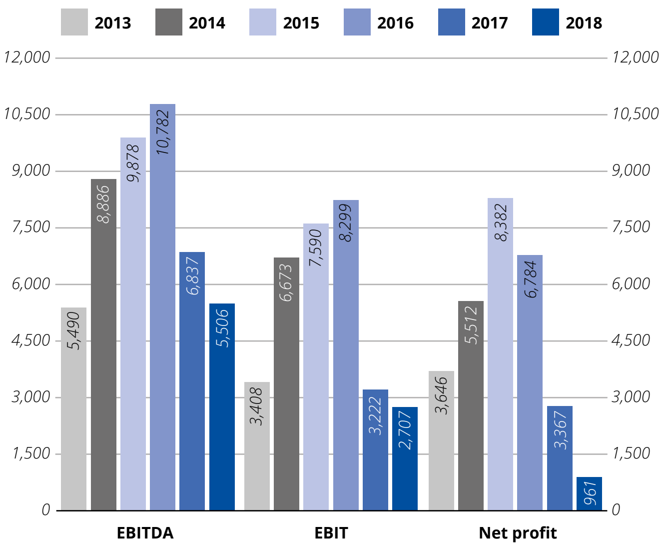
Net other operating income and expenses totaled EUR 500 thousand in 2018 (2017: EUR 285 thousand).

II. 6 Results of operations

Owing to declining license revenue on account of delayed orders and increased capital expenditure outside Germany, the USU Group's earnings performance fell short of the previous year in fiscal 2018. Accordingly, EBITDA declined by 19.5% year-on-year to EUR 5,506 thousand (2017: EUR 6,837 thousand). Adjusted for depreciation and amortization of EUR 2,799 thousand (2017: EUR 3,615 thousand), USU generated EBIT of EUR 2,707 thousand in the same period (2017: EUR 3,222 thousand). Net finance income amounted to EUR 104 thousand in 2018 (2017: EUR -109 thousand) and, as in the previous year, primarily includes income and expenses resulting from currency translation differences between the US dollar and the euro.

Income taxes amounted to EUR -1,850 thousand in the reporting period (2017: EUR 254 thousand). The increase in tax expenses as against the previous year essentially relates to higher income taxes coupled with a decline in deferred tax income. Adjusting for taxes, consolidated net profit fell by approximately two thirds to EUR 961 thousand (2017: EUR 3,367 thousand). In line with this, earnings per share amounted to EUR 0.09 (2017: EUR 0.32).

Earnings development of the USU Group



II. 7 Adjusted consolidated net profit

Starting with EBIT, the table below shows the reconciliation to the non-IFRS key earnings figures 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 to Dec. 31, 2018	Jan. 1, 2017 to Dec. 31, 2017
Profit from ordinary activities (EBIT)	**2,707**	**3,222**
Amortization of intangible assets recognized in connection with company acquisitions and goodwill amortization	1,408	2,198
Non-recurring effects relating to acquisitions	10	705
- from stay bonus	0	300
- from consulting fees for unitB technology	10	149
- from purchase price adjustments	0	-25
- from incidental acquisition costs	0	281
Adjusted EBIT	**4,125**	**6,125**
Finance income (as per consolidated statement of profit or loss)	184	90
Finance costs (as per consolidated statement of profit or loss)	-80	-199
Income taxes (as per consolidated statement of profit or loss)	-1,850	254
Tax effects relating to adjustments	-456	-181
- from amortization	-104	-181
- from deferred taxes on tax loss carryforwards	-352	0
Adjusted consolidated net profit	**1,923**	**6,089**
Adjusted earnings per share (in EUR):	**0.18**	**0.58**
Weighted average shares outstanding:		
Basic and diluted	10,523,770	10,523,770

As a result of increased investment in international business and the USU Group's workforce, adjusted EBIT was down 32.7% on the figure for the previous year at EUR 4,125 thousand in fiscal 2018 (2017: EUR 6,125 thousand). At the same time, adjusted consolidated net profit fell by approximately two thirds as against fiscal 2017 to EUR 1,923 thousand (2017: EUR 6,089 thousand). Adjusted earnings per share thus declined from EUR 0.58 in the previous year to EUR 0.18.

II. 8 Net assets and financial position

On the assets side of the statement of financial position, the USU Group's non-current assets fell slightly to EUR 57,246 thousand as of December 31, 2018 as a result of the amortization of intangible assets and depreciation of property, plant and equipment (December 31, 2017: EUR 58,828 thousand).

Over the same period, current assets declined from EUR 40,558 thousand as of December 31, 2017 to currently EUR 37,898 thousand, mainly as a result of the reduction in Group liquidity (cash on hand and bank balances including securities) to EUR 9,450 thousand (December 31, 2017: EUR 15,729 thousand) following the profit distribution to the shareholders of USU Software AG of EUR 4,209 thousand and the drop in liabilities.

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 59,665 thousand as of December 31, 2018 as a result of the dividend distribution. At the same time, USU actively reduced debt in the form of the USU Group's current and non-current liabilities to EUR 35,479 thousand as of the end of 2018 (December 31, 2017: EUR 36,380 thousand). With total assets of EUR 95,144 thousand (December 31, 2017: EUR 99,386 thousand), the equity ratio was therefore 62.7% as of December 31, 2018 (December 31, 2017: 63.4%). This means that the USU Software Group continues to enjoy extremely solid financing with no liabilities to banks.

II. 9 Cash flows and capital expenditure

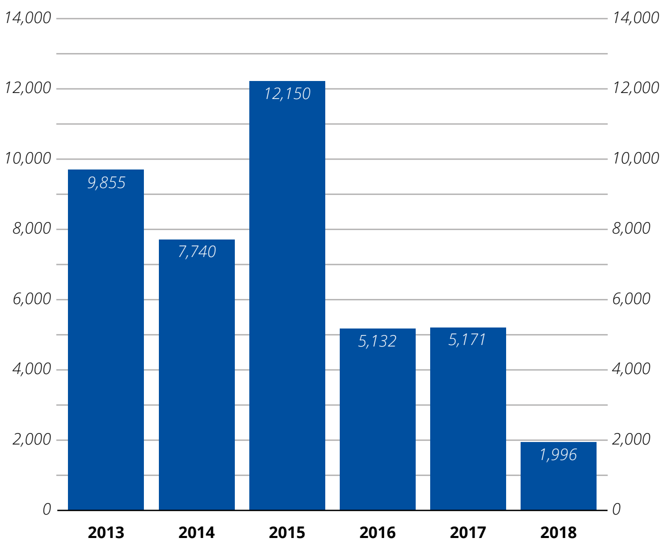
The USU Group had cash funds (not including securities) of EUR 9,450 thousand as of December 31, 2018 (2017: EUR 12,715 thousand). This corresponds to a year-on-year decline of EUR 3,265 thousand or 25.7%, essentially as a result of the dividend distribution to USU's shareholders of EUR 4,209 thousand and isolated changes in working capital.

USU's cash flow from operating activities fell from EUR 5,171 thousand in 2017 to currently EUR 1,996 thousand. In addition to the drop in earnings, 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 -1,138 thousand (2017: EUR -8,225 thousand) essentially includes investment in property, plant and equipment and intangible assets, while the previous year's figure primarily reflects spending for the acquisition of the subsidiaries unitB technology and EASYTRUST (now USU SAS).

As in the previous year, net cash used in financing activities of EUR -4,209 thousand (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 (2017: EUR 0.40).

Development of the USU Group's net cash from operating activities in EUR thousand



II. 10 Current situation of the Group

The phase of increased capital expenditure outside Germany ended with 2018, which should now allow positive results from investments and thus a return to the dynamic growth trajectory. In view of the delayed projects in the US from 2018, there is enormous potential in the current year to accelerate the company's growth while at the same time increasing net income and the margin. Thus, the USU Group is still in an excellent economic situation and anticipates fantastic potential for its short- and medium-term future. In particular, the growth pillars of internationalization and innovation should lead to the successful implementation of the medium-term planning for 2021. Furthermore, USU has a high level of readily available Group liquidity, allowing it to invest in further acquisition-based growth in line with its growth strategy.

II. 11 Development and situation of USU Software AG

All the following figures relate to the single-entity financial statements of USU Software AG in accordance with the German Commercial Code (HGB).

USU Software AG essentially focuses on acquiring and holding equity investments in other companies and on research, which is situated at the company's Karlsruhe site and employed a total of 15 people as of December 31, 2018. USU Software AG's main earnings derive from its operating subsidiaries. These include the Group subsidiaries Aspera GmbH ("Aspera"), LeuTek GmbH ("LeuTek") and Omega Software GmbH ("Omega"), with which the company has profit transfer agreements, USU GmbH, the French subsidiary USU SAS and the US subsidiary Aspera Technologies Inc.

USU Software AG generated revenue of EUR 3,803 thousand in fiscal 2018 (2017: EUR 1,823 thousand), primarily from intragroup services and the Katana division, which emerged from our research division and develops and markets solutions for big data and artificial intelligence. USU also generated income – netted against corresponding expenses in the previous year – of EUR 4,149 thousand (2017: EUR 3,873 thousand) from profit transfer agreements with its Group subsidiaries and EUR 5,000 thousand (2017: EUR 3,000 thousand) from a distribution by the Group subsidiary USU GmbH. The company's other operating income of EUR 1,901 thousand (2017: EUR 2,165 thousand) mainly derives from the settlement of intragroup services and grants received in connection with research projects. Other operating expenses totaling EUR 5,903 thousand (2017: EUR 3,955 thousand) essentially include costs for services provided by Group subsidiaries, fees for external services, event and marketing costs and legal and consulting costs.

The cost of materials was EUR 198 thousand in fiscal 2018 (2017: EUR 233 thousand) and therefore slightly lower than in the previous year. By contrast, staff costs were higher than in the previous year at EUR 3,850 thousand (2017: EUR 3,454 thousand) as a result of the increase in headcount to an average of 37 (2017: 33).

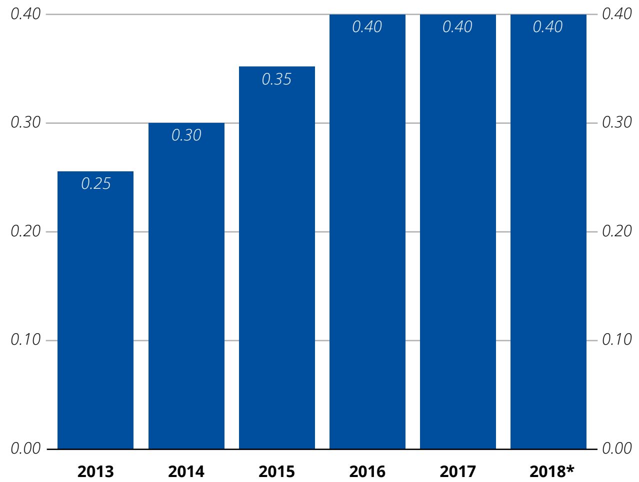
Amortization of intangible assets and depreciation of tangible assets totaled EUR 63 thousand in 2018 (2017: EUR 70 thousand). At the same time, write-downs of financial assets amounted to EUR 0 thousand as in the previous year.

Net interest amounted to EUR -416 thousand (2017: EUR -372 thousand) and essentially consisted of interest payments to subsidiaries.

Taking into account income taxes of EUR -69 thousand (2017: EUR 14 thousand) and other taxes of EUR -26 thousand (2017: EUR -11 thousand) , USU Software AG – as a standalone company– reported a year-on-year increase in net profit of 54.8% to EUR 4,318 thousand (2017: EUR 2,790 thousand) in fiscal 2018. Including the profit carried forward from the previous year of EUR 1,965 thousand (2017: EUR 3,385 thousand), the company generated an unappropriated surplus of EUR 6,284 thousand (2017: EUR 6,175 thousand). As in previous years, this is to be used in particular to pay a dividend to all shareholders of USU Software AG. In accordance with the company's communicated dividend policy, whereby the dividend should never be less than in the previous year and should amount to roughly half the profit generated, the Management Board is proposing, subject to the approval of the Supervisory Board, a dividend distribution equal to the previous year's level of EUR 0.40 (2017: EUR 0.40) per share for fiscal 2018.

Thus, as a standalone company, USU Software AG achieved its planned revenue and earnings growth for 2018.

Development of the dividend distribution
per share of USU Software AG in EUR



* Proposal by the management to the Annual General Meeting of USU Software

In terms of assets, USU Software AG's fixed assets were down slightly on the previous year at EUR 49,430 thousand as of the end of fiscal 2018 (2017: EUR 49,478 thousand), primarily as a result of amortization of intangible assets. Current assets fell to EUR 11,665 thousand as of December 31, 2017 (EUR 15,831 thousand), due in part to lower receivables from affiliated companies as a result of profit transfer payments by the subsidiaries. At the same time, the company's liquidity decreased to EUR 1,692 thousand (2017: EUR 3,364 thousand) as a result of the reduction in liabilities and the dividend payment to USU shareholders. Under equity and liabilities, USU Software AG reduced its total liabilities from EUR 35,043 thousand as of December 31, 2017 to currently EUR 30,753 thousand, essentially as a result of the settlement of liabilities to the company's subsidiaries. In addition, despite the dividend distribution in the reporting year, equity increased to EUR 30,452 thousand (2017: EUR 30,343 thousand) as a result of the increase in profit. With total assets of EUR 61,253 thousand (2017: EUR 65,401 thousand), the equity ratio of USU Software AG therefore rose to 49.7% as of the end of fiscal 2018 (2017: 46.4%).

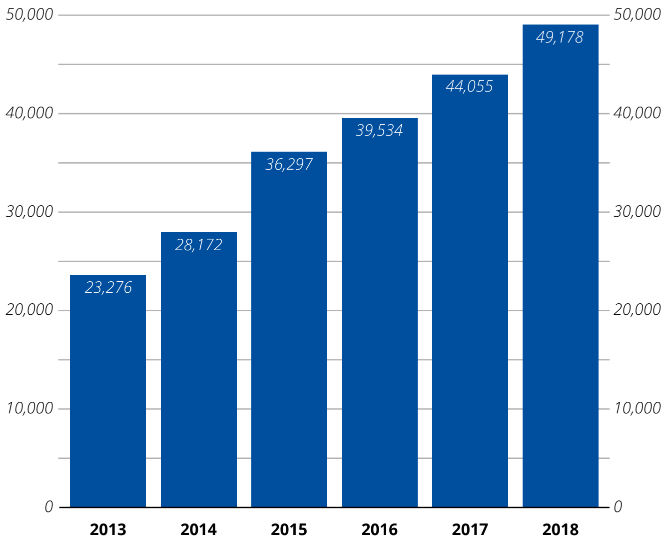
USU Software AG's focus on investment business means that the company will remain highly dependent on the performance of its subsidiaries, particularly Aspera, LeuTek and USU GmbH, in future years. Information on the resulting risks and opportunities can be found in the Group risk report.

II. 12 Orders on hand

The USU Group's orders on hand amounted to EUR 49,178 thousand as of the end of fiscal 2018, up 11.6% on the figure for the previous year (December 31, 2017: EUR 44,055 thousand). In addition to higher incoming orders for consulting and maintenance area, this increase reflects the rise in SaaS contracts in particular.

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.

Development of the USU Group's orders on hand
in EUR thousand



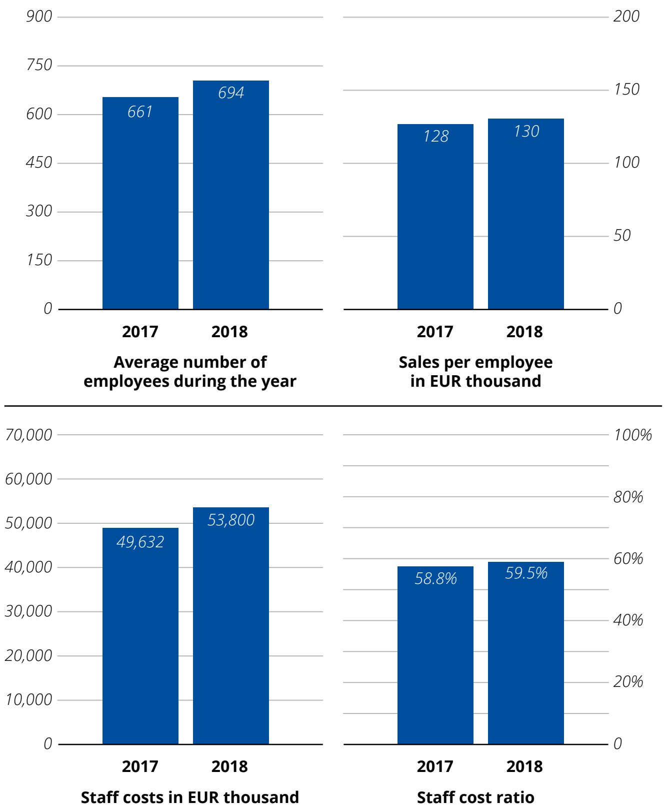
II. 13 Employees

The USU Group actively expanded its workforce by 3.9% year-on-year to 694 employees as of December 31, 2018 (2017: 668). USU therefore expanded its Group workforce in accordance with medium-term planning despite the current shortage of qualified staff in the IT sector. Broken down by function, USU employed a total of 318 (2017: 301) people in consulting and services as of December 31, 2018, 194 (2017: 194) in research and development, 93 (2017: 91) in sales and marketing and 89 (2017: 82) in administration. Broken down by segment, USU had 496 (2017: 482) employees in the Product Business segment, 109 (2017: 104) in the Service Business segment and 89 (2017: 82) in central USU Group functions.

Group employee figures do not include the three members of the Management Board of USU Software AG, 118 freelance staff who can be employed for project work as required, 17 temporary workers, 10 trainees or 20 interns and student workers.

The average total workforce of the USU Group increased to 694 employees in fiscal 2018 (2017: 660). With consolidated revenue of EUR 90,487 thousand (2017: EUR 84,361 thousand), the average revenue contribution per employee rose from EUR 128 thousand in 2017 to currently EUR 130 thousand. Staff costs grew by 8.4% year-on-year to EUR 53,800 thousand (2017: EUR 49,632 thousand) as a result of recruitment in fiscal 2018. Accordingly, staff costs as a percentage of consolidated revenue amounted to 59.5% (2017: 58.8%).

Key personnel figures of the USU Group



The Management Board intends to further increase the Group's workforce again in fiscal 2019 and beyond in order to achieve its medium-term growth targets. In addition to the acquisition of highly qualified technical and management employees, personnel measures will also focus on the motivation and retention of existing staff. A variable component in the salaries of a substantial number of USU employees should also be seen in this context. Variable components act as an additional performance incentive that separately rewards both the attainment of individual targets and the success of the respective unit, the company and the Group as a whole. In addition, the Group also offers an extensive and flexible employee company car scheme. The USU Group also consistently invests in the development and further training of its workforce as part of the "USU – U Step Up" career model. Through this program, USU offers its employees and managers personal development opportunities in the form of ongoing refresher and consolidation courses in addition to specialist training courses and the further development of soft skills. A common system of values, rapid information exchange, a family-like working environment and numerous staff events round off the diverse range of measures aimed at developing and motivating the USU Group's workforce over the long term.

The successful integration of new employees – particularly those from the new USU subsidiaries acquired – also reflects the sustainability of USU's corporate culture. Further proof of this can be found in the results of the employer assessment platform, which has awarded USU GmbH quality seals such as "Top Company" and "Open Company". From a positive working atmosphere with a feel-good factor to the variety of duties and management conduct – USU's employees are satisfied to very satisfied with their company in practically all assessment criteria. This is confirmed not least by the 79% recommendation rate. USU is therefore part of an exclusive group of top employers, as not even one percent of the more than 775,000 companies rated by kununu qualify for both seals of quality.

The leading German job exchange Yourfirm for SME jobs has chosen USU GmbH among more than 8,000 employers as one of the top employers of 2018. Yourfirm.de has awarded the company its "Top SME employer" seal since 2015. A "popularity index" is created for each employer on the basis of users' access and reading patterns for 60,000 job ads per year. And USU is one of the top SME employers!

USU is also one of "Germany's Best Employers 2018". The award from the Great Place to Work® Institut Deutschland stands for a special commitment to creating a trusting and beneficial culture of cooperation within the company. This award marks USU as one of the top 100 or top 15% best employers in Germany that took part in the competition.

The share of women in the USU Group's workforce increased slightly year-on-year to 27.3% as of the end of fiscal 2018 (2017: 27.0%).

III. SUPPLEMENTARY REPORT

The supplementary report can be found in the notes to the consolidated financial statements.

IV. FORECAST AND REPORT ON RISKS AND OPPORTUNITIES

IV. 1 Forecast

General economy
According to a survey by the Joint Economic Forecast Project Group[5] dated September 25, 2018 and conducted with the participation of the leading German economic research institutes, the economic upswing 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 sales markets, while companies are increasingly facing bottlenecks in production, especially for employees. The fiscal policy measures that come into effect at the start of 2019 also play a role. Despite the growing tension concerning international trade policy, institutes are forecasting growth in economic output of 1.9% in 2019 (2018: 1.7%).

According to the joint economic forecast, the world economy is also expected to remain on an upward path. Research institutes are predicting global GDP growth of 3.0% in 2019 after 3.3% in 2018. 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 BITKOM[6], 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[7] on October 17, 2018 forecasts a year-on-year increase in IT expenditure of 3.2% to USD 3,816 billion in 2019 (2018: USD 3,699 billion). According to Gartner, the key global growth areas are also expected to be corporate software and IT services, with forecast growth of 8.3% to EUR 439 billion (2018: EUR 405 billion) and 4.7% to EUR 1,034 billion (2018: EUR 987 billion) respectively, essentially as a result of digitization.

Outlook
Für die USU Software AG erwartet der Vorstand im GeFor fiscal 2019, the Management Board is again forecasting stronger growth in USU Software AG's revenue and, in particular, its operating earnings than in the two previous years, 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 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 11.6% year-on-year to EUR 49,178 as of December 31, 2018 (2017: EUR 44,055 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.

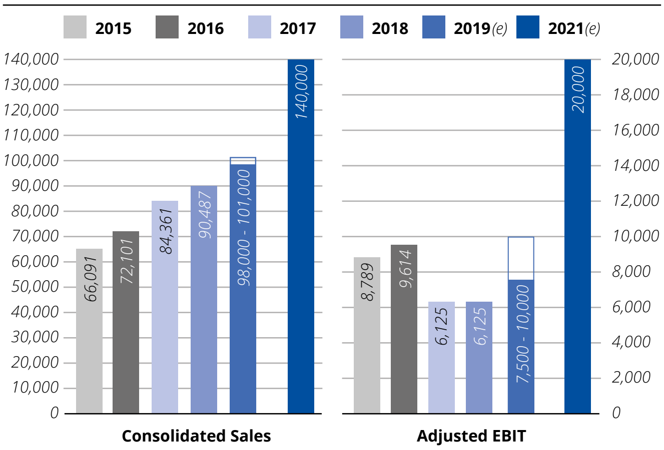
5 cf. Joint Economic Forecast #2-2018 Fall 2018, September 25, 2018, published at www.gemeinschaftsdiagnose.de
6 cf. BITKOM press release dated January 10, 2019, published at www.bitkom.de
7 cf. Gartner press release dated October 17, 2018, published at www.gartner.com

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.

The Group subsidiaries USU GmbH, Aspera GmbH and LeuTek GmbH will be the main revenue drivers in fiscal 2019. At the same time, the subsidiaries acquired or established in the past will contribute positive revenue and earnings effects to the Group as a whole. As a separate company, the Group's parent company, USU Software AG, will again focus on research projects, the development and marketing of industrial big data products in the environment of Industry 4.0 in KATANA and the performance of services for the Group companies as well as the acquisition and holding of equity investments in IT companies, and thus continue to participate in the business performance of the company's subsidiaries.

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.

Development of the USU Group's consolidated sales and adjusted EBIT in EUR thousand



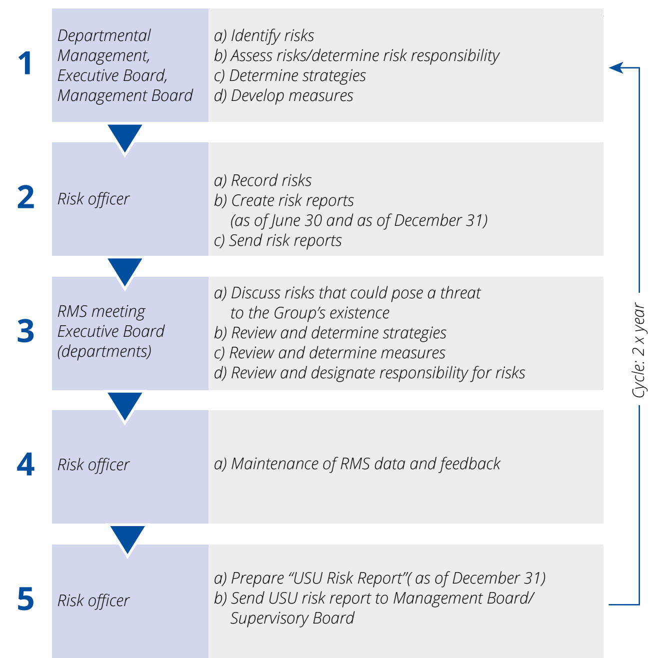
IV. 2 Risk report

In their operations, USU Software AG and its subsidiaries are exposed to a range of opportunities and risks that are intrinsically linked to their business activities. These business activities include accessing and leveraging opportunities that serve to safeguard and expand the USU Group's competitive ability. Business opportunities are considered as part of both the annual planning process and corporate strategy, which is subject to ongoing development. The opportunities are explained in more detail in the section of this risk report entitled Overview of Risks and Opportunities as well as in the forecast report under Outlook.

Risk management system
Dealing with risks in a responsible manner forms the basis of sustainable business success. The management of USU Software AG and its subsidiaries therefore operates a central risk management system for the early identification, analysis, assessment, control and management of risks to the USU Group. The aim of this system is to ensure a Group-wide awareness of risk within USU's organizational structure and workflows. The Group uses the internally developed Valuemation Risk Manager software to map its risks on an individual basis.

Risk management process
The established risk management process of the USU Group, which has been tried and tested over many years, is based on the concept of a control loop. The individual steps take into account the key elements of risk identification, assessment and control through appropriate measures. The following diagram depicts the risk management process of the USU Group:

Risk management process of the USU Group



The process of risk management begins with the identification and recording of relevant risks by the Management Board, the top management and the relevant departmental managers of the respective Group subsidiaries. Risks are analyzed, documented and assessed in terms of the potential loss they may cause and the likelihood of their occurrence. A risk matrix is used to visualize and classify the results. Depending on the resulting risk classification, specific strategies and measures are then implemented in order to control and manage the risk.

All activities are summarized in a risk report by the Risk Management Officer of the company and the Group. On the basis of this report, the Management Board of USU Software AG and the management of the subsidiaries monitor risks on an ongoing basis and regularly advise the Supervisory Board on major risks and changes in the risk situation.

Overview of risks
It is clear from the current risk report of USU Software AG and its subsidiaries that no risks have been identified that could pose a threat to the company as a going concern, either currently or in the foreseeable future, and whose occurrence has been rated very likely. Nevertheless, the Management Board of USU Software AG cannot rule out the possibility that multiple risks whose cumulative impact could pose a threat to the company's existence might have an adverse effect on the net assets, financial position and results of operations of the company. Taking into account the measures implemented, the risks classified as serious or that could have a material effect on the company's net assets, financial position and results of operations are listed below:

Qualitative assessment

Term	Potential loss (in EUR)
Insignificant	5,000
Low	50,000
Medium	150,000
Serious	500,000
Posing a threat to the company as a going concern	5,000,000

Probability of occurrence

Term	Probability of occurrence (in %)
Extremely unlikely	5 %
Unlikely	10 %
Possible	35 %
Likely	60 %
Extremely likely	90 %

Market, competitive and service risk
In view of the unstable global economic development in past years and the signs currently emerging of an economic downturn, analysis of the market and competitive situation remains an essential component of risk management at USU Software AG and its subsidiaries, particularly with regard to the forecast and planning security of the company and its subsidiaries. One key focus here is market diversification in order to make the Group's business performance less dependent on the core German market while also tapping new growth markets. The business growth at the Group subsidiary Aspera Technologies and the deeper penetration of the US and Canadian markets, in addition to the ongoing expansion of European business, particularly in France and the UK, have allowed the international share of consolidated revenue to stabilize at approximately 30% despite the strength of domestic business and the growing customer preference for SaaS. At the same time, the Management Board sees a major opportunity in the further expansion of international business with regard to the future operating performance of the company and of the Group as a whole. However, it cannot rule out the possibility that diminishing economic momentum in the regions where USU operates could have a negative impact on the IT sector and thus restrict the development of USU Software AG and its subsidiaries.

As a software and IT company, USU Software AG operates in a very competitive high-tech market that is subject to continuous changes. Both large and medium-sized software companies expand their own product ranges through diversification and acquisition, thereby opening up new sales potential. In this context, the possibility that in the future there may be considerable price erosion and cutthroat competition in individual market segments in which USU operates cannot be ruled out.

In fiscal 2017, USU Software AG expanded its product portfolio with the acquisition of unitB Technology GmbH and EASYTRUST SAS (now USU SAS). In addition, the product range has been enhanced with several innovative new developments. With its expanded product range, USU has strategically positioned itself in the growth market for knowledge-based service management solutions and is also focusing on promising future areas in the field of information technology, for instance, on industrial big data. USU also selectively involves employees of the Czech subsidiary USU Software s.r.o. in consultancy projects and can deploy more than 100 external consultants if required to ensure positive yields from projects.

A total of 12 individual risks are allocated to market and service risk. After risk abatement measures, one service risk and three market risks are regarded as "posing a threat to the company as a going concern". The probability of occurrence is deemed “likely” for the service risk and “possible” for two market risks, in addition to one market risk classified as “unlikely”. Of the eight other market and service risks, four market risks are classified as “serious”, one of which is considered “likely”, two “possible” and one “unlikely”. Of the remaining four market and service risks, one service risk and two market risks are classified as “medium” after risk abatement measures, with a “possible” probability of occurrence for the service risk and “possible” and “unlikely” for the two market risks. Finally, one market risk is assigned a “low” potential loss and a “possible” probability of occurrence.

Product, project and legal risk
As with virtually any software, the software developed and marketed by USU Software AG and its subsidiaries may contain programming errors, which can occur despite thorough checks and careful testing. The resulting operational defects could lead to liability and warranty claims to the detriment of the USU Group. The company’s internally developed software is predominantly used in the context of larger projects, where the company makes fixed, contractual commitments with regard to functionalities, completion schedules and project costs. Accordingly, there is a risk that the planned schedules and cost estimates may not be met due to project defects or faults in performance, which may in turn lead to claims for damages by the client or losses on the project in question. To minimize such product and project risks, the USU Group applies extensive quality management in its development activities. In addition, USU has an effective project monitoring system for identifying errors at an early stage and taking suitable countermeasures. The Group is also covered by a third-party liability insurance policy aimed at minimizing risk, which provides cover in particular against damage to data, data media and implementation losses and losses arising from material defects caused by the lack of agreed functionalities from EUR 40 thousand up to a maximum of EUR 5 million per claim.

A total of 14 individual risks are allocated to product, project and legal risk. After risk abatement measures, the product risk, three project risks and three legal risks are ranked as “serious”, and one project risk and two legal risks are regarded as “posing a threat to the company as a going concern”, while one project risk and two legal risks are rated “medium”. One other project risk is ranked “low”. In terms of probability of occurrence, the product risk is classified as “possible”, four of the project risks are classified as “possible” and two of the project risks are classified as “unlikely”. One legal risk is classified as “likely”, four legal risks are classified as “possible” and two legal risks are classified as “unlikely”.

Investment risk
USU Software AG is indirectly exposed to the risk environment of its various subsidiaries. The company’s relationships with its subsidiaries mean that risks may arise from its legal and contractual liabilities. Another potential risk in this respect relates to the write-down of the carrying amount of the equity investments in USU GmbH, Omega, LeuTek, Aspera and USU SAS in the single-entity financial statements of USU SAS.

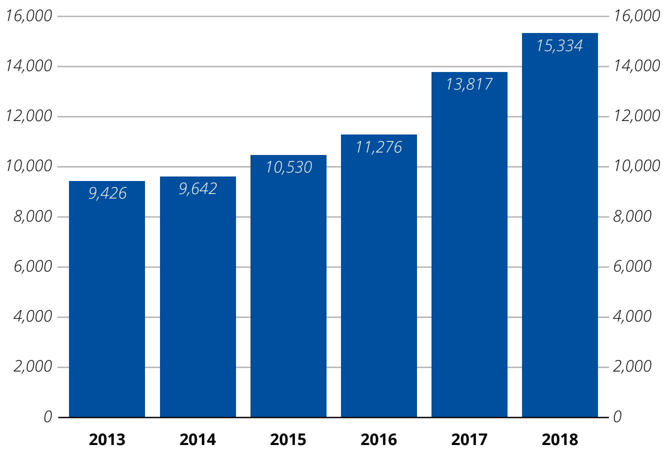
However, the risk relating to these subsidiaries only exists in the event of a permanent deterioration in their net assets, financial position and results of operations. The company operates an effective reporting and controlling system throughout the entire Group in order to minimize risks of this type.

Investment risk is part of legal risk. It is regarded as “posing a threat to the company as a going concern” in terms of the potential loss and “possible” in terms of its probability of occurrence.

Research and development risk
Intense competition and specific customer attitudes require extremely short development cycles for new product versions and releases. At the same time, demands are constantly increasing as a result of rapid technological change. In order to take this development into account, the USU Group maintains its research and development activities at a consistently high level, using the resources of its own development company USU Software s.r.o. in Czechia in particular in addition to local resources. Almost 200 employees work on continuously refining the Group’s internally developed software products to reflect market developments and the demands of product management. The development process is rounded off with tests and quality management measures. Close contact with leading market analysts ensures that any technical changes can be addressed rapidly. As a technology pioneer, the USU Group also devises its own innovations with the aim of permanently improving and extending its product portfolio.

A total of two individual risks are allocated to research and development risk. After taking the measures implemented into account, research and development risk is considered to be “serious”. In terms of probability of occurrence, both of the research and development risks are classified as “possible”.

Development of research and development expenses of the USU Group in EUR thousand

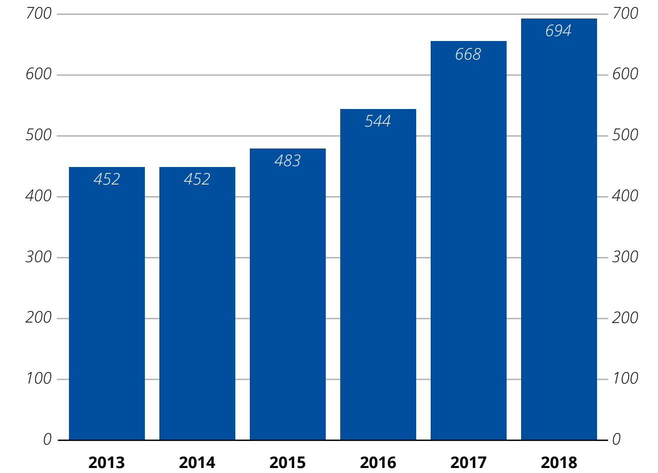


Personnel and management risk

The successful implementation of the corporate strategy and the economic success of USU Software AG and its subsidiaries depend to a significant extent on the performance of its professional staff and managers. The company is therefore particularly reliant on highly qualified personnel in order to satisfy future market demands and customer requirements. The loss of management staff or employees in key positions can be just as detrimental to the company as the failure to attract new knowledge carriers. Consequently, USU has implemented a wide range of measures in order to recruit additional highly qualified employees despite strong competition on the employment market and retain existing staff at the USU Group.

The professional development of employees in accordance with their various needs is equally important within the Group as a whole. Specific training and development opportunities, an extensive talent development, career and progression model and numerous employee events help to improve the retention of professional staff and managers. A positive corporate culture also helps us to improve our success rate in attracting and retaining qualified employees. For further information on human resources, please refer to the sustainability report for fiscal 2018, which is available to view and download on the company’s website at www.usu.de/en/sustainability.

Development of the USU Group's workforce



A total of 11 individual risks are allocated to personnel and management risk. After risk abatement measures, seven personnel risks and the management risk are rated “serious”, two personnel risks are regarded as “posing a threat to the company as a going concern” and one risk is considered “medium”. In terms of probability of occurrence, the management risk is classified as “extremely unlikely”. Seven of the personnel risks are classified as “possible”, two as “unlikely” and one as “likely”.

IT risk

As software and IT companies, USU Software AG and its subsidiaries are dependent on the long-term functionality and security of their Group-wide data centers, networks and IT systems. Dependency on IT infrastructure is also increasing on account of the growing share of in-house SaaS products. A complete or partial failure of the IT systems, or unauthorized access to the source code of internally developed software products, customer and project documentation or other critical data, could therefore have an adverse effect on the Group’s business development.

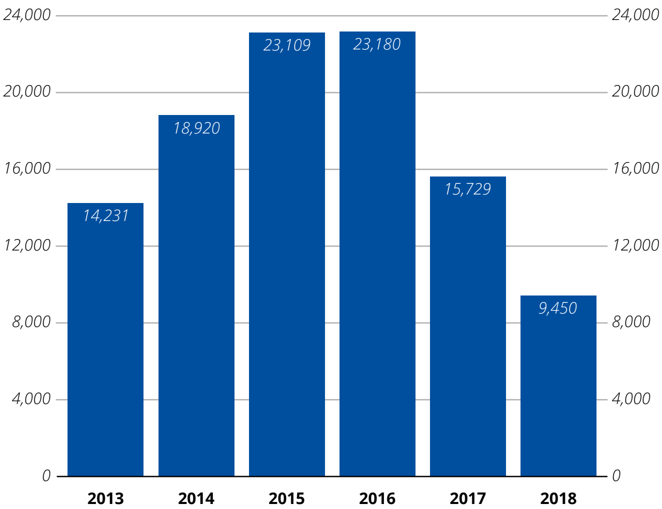
To avoid risks of this kind, a specific risk prevention concept for the area of IT has been in place for a number of years and is integrated into the Group’s risk management system.

IT risks comprise nine individual risks. After risk abatement measures, six of these are considered “medium”, two “serious” and one “low”. In terms of probability of occurrence, four risks are classified as “possible”, three as “likely” and two as “unlikely”.

Financial and liquidity risk
With funds of approximately EUR 10 million as of December 31, 2018, USU Software AG has extensive Group-wide financial resources for future investment, for potential acquisitions and to secure its operating business. These funds are predominantly deposited in short-term investments to generate interest income. The Group is therefore exposed to the risk of a partial or complete loss of one or more such investments.

To limit the risk of financial loss, the company therefore only invests in low-risk investments with short terms to maturity. It does not invest in speculative securities or shares.

Development of the USU Group's liquidity
in EUR thousand



Financial risks consist of eleven individual risks. After risk abatement measures, three risks are regarded as “posing a threat to the company as a going concern”, two of which are assigned a “possible” probability of occurrence and one of which is considered “unlikely”. Of the other financial risks, four are rated “serious”, two of which are considered “possible” and two “extremely unlikely”. Of the four remaining risks, three are rated “medium” and one “low”. Two of the “medium” risks are considered “possible” and the other two have an “unlikely” probability of occurrence.

Goodwill risk
Instead of being amortized, the goodwill reported in the consolidated statement of financial position is now subject to impairment testing at least once a year in accordance with IFRS 3. Impairment testing can result in either the confirmation of the reported goodwill or in a write-down that serves to reduce net profit for the period, which could have a negative impact on the net assets, financial position and results of operations of USU Software AG.

The impairment test performed in fiscal 2018 did not identify any facts that would require impairment of the relevant assets. In light of the expected positive operating business development of USU Software AG and the Group as a whole, the Management Board does not expect any impairment losses with an adverse effect on net profit in the following year.

Goodwill risk is part of financial risk. It is regarded as “posing a threat to the company as a going concern” in terms of the potential loss and “unlikely” in terms of its probability of occurrence.

Default risk
Potential default risks relating to trade receivables are minimized by means of active receivables management. The company also recognizes sufficient loss allowances. Overall, therefore, default risk remains limited. In the light of recent history, with regard to the potential negative effects of the economic and financial market crisis on companies considered fundamentally solvent to date, it cannot be ruled out that the level of insolvency-driven default risk could increase in the future, even allowing for the fact that the typical customer structure of USU Software AG is characterized by companies with strong market positions.

Default risk is part of financial risk. It is considered to be “medium” in terms of the potential loss and “possible” in terms of its probability of occurrence.

Exchange rate risk
The company performs a certain volume of foreign currency transactions, and is therefore exposed to exchange rate fluctuations that have a corresponding impact on the assets and income reported in euro. In particular, US dollar volumes are increasing as the Group expands its business in the US. Transaction risks also exist for financial assets denominated in foreign currencies, although these can also have a positive impact on the development of income.

Exchange rate risk is part of financial risk. It is considered to be “serious” in terms of the potential loss and “possible” in terms of its probability of occurrence.

IV. 3 Report on opportunities

Among the extensive opportunities available to USU Software AG and the Group, and in addition to the above, the Management Board regards the following potential as particularly important:

With its innovative product portfolio geared towards high-growth segments of the IT market, the USU Group has ideal conditions for continuing to significantly expanding its business with both new and existing customers in the coming years. In addition to the core domestic market, excellent growth potential is offered in particular by further expansion of the USU Group's international presence. This is based firstly on targeted growth in the Group's own activities in Europe and the US, and secondly on the global partnership agreement with the US software group CA Technologies and the further expansion of the Group's global presence and the worldwide USU partner network. This area also includes the planned project contracts in the US postponed in 2018. Another core element of the USU Group's growth strategy is rounding off its product portfolio with new product innovations. USU has a dedicated research unit that has already contributed a new division to the USU Group portfolio in the form of Katana. This division, which develops and markets solutions for the future markets of big data and artificial intelligence (AI), offers huge growth opportunities in the medium term. The acquisition of additional technical and management employees and the associated expansion of the Group's workforce also represents a major opportunity to fully exploit the existing growth options. Finally, the USU Group's growth strategy also includes external growth in the form of acquisitions or equity investments in companies, such as the acquisitions of UnitB technology (since merged with USU GmbH) and EASYTRUST SAS (now operating as USU SAS) in 2017. Accordingly, USU ensures that it has extensive Group liquidity for future acquisitions so that it can take advantage of acquisition opportunities that arise in a flexible manner.

V. ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

At USU Software AG, the accounting-related internal control system and the accounting-related internal risk management system have been implemented throughout the Group as a comprehensive system aimed at ensuring that the single-entity and consolidated financial statements comply with the relevant provisions.

The accounting-related internal control system comprises the principles, procedures and measures for ensuring the effectiveness, cost-effectiveness and regularity of the accounting system and compliance with the relevant provisions of law and the Articles of Association, while the accounting-related internal risk management system contains all the organizational provisions and measures aimed at identifying and managing risk in relation to the accounting process. USU's accounting-related internal control and risk management is set up in such a way as to ensure the level of security required for reliable financial reporting and the external publishing of single-entity and consolidated financial statements. This therefore requires a clearly defined management and corporate structure with clearly allocated roles. Key accounting functions are therefore managed centrally by USU Software AG and USU GmbH with clearly allocated areas of responsibility.

A comprehensive, regularly updated set of guidelines, comprising rules of competence, reporting procedures, travel cost and time recording procedures and investment approvals, has been established. This also governs the dual control principle for accounting-related processes. Furthermore, the harmonization of accounting procedures within the USU Group is ensured by means of Group-wide accounting standards.

The USU Group has a largely uniform, standardized financial system, which, by means of clearly defined access rights, is only accessible to those employees who are involved in the accounting process in keeping with their area of responsibility.

The Finance department of USU GmbH, in cooperation with the Project and Financial Controlling unit of this subsidiary of USU Software AG, is centrally responsible for the timely preparation of the monthly, quarterly, annual and consolidated financial statements on the basis of the reporting schedule prescribed by the Management Board. The Chairman of the Management Board of USU Software AG, who bears the overall responsibility for the accounting-related internal control and accounting system of the company and the Group as a whole, controls and monitors the preparation of the financial statements and compares them with the projections that are continuously updated. From a risk management perspective, revenue recognition, the impairment of goodwill and the carrying amounts of equity investments and the measurement of receivables, work in progress and provisions are typically of central importance to USU as a software and IT consulting company.

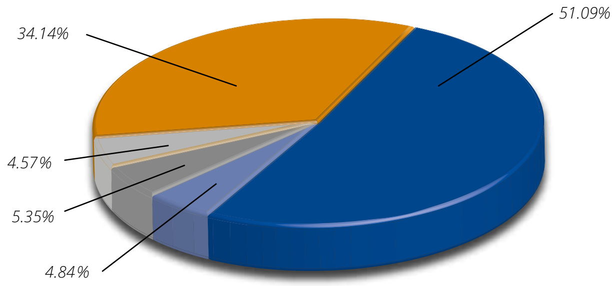
The regular upskilling of the employees involved in the accounting process and the timely investigation of new or amended accounting-related provisions serve to ensure that the preparation of the (consolidated) financial statements is up-to-date at all times.

VI. TAKEOVER DISCLOSURES

VI. 1 Issued capital, shares and shareholder structure

As of December 31, 2018, a total of 10,523,770 (2017: 10,523,770) no-par value bearer shares in USU Software AG had been issued, with the same number of voting rights and a notional interest in the share capital of EUR 1.00 per share. 5,377,014 (2017: 5,375,044) of these are held by the main shareholder and Chairman of the Supervisory Board of the company, Udo Strehl, corresponding to 51.09% (2017: 51.08%) of the share capital. 5,000 (2017: 5,000) of these shares are held by him directly and a further 5,340,014 (2017: 5,338,044) shares are held by AUSUM GmbH, in which Udo Strehl is the majority shareholder. A further 32,000 (2017: 32,000) shares in USU Software AG are allocable to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the sole director. A total of 5.35% of the share capital of USU Software AG, or 563,021 shares, was attributable to Peter Scheufler, a former shareholder in LeuTek, as of December 31, 2018, according to his notification to the company. Another shareholder in excess of the notification threshold of 3% is MainFirst SICAV, which informed the company that it held a total of 481,221 shares in the company as of December 31, 2018, corresponding to 4.57% of the voting rights.

Shareholder structure of USU Software AG
as of December 31, 2018



Udo Strehl/Ausum GmbH/WIZ-foundation	51.09%
Executive bodies of USU (excl. Udo Strehl)	4.84%
Peter Scheufler	5.35%
MainFirst SICAV	4.57%
Free float	34.14%

VI. 2 Management Board authorizations to issue and repurchase shares

The Annual General Meeting of July 4, 2017 authorized the Management Board, subject to the approval of the Supervisory Board, to increase the company's share capital by a nominal amount of up to EUR 2,630,942.00 on one or more occasions by issuing new no-par value bearer shares with a pro rata share in the company's share capital of EUR 1.00 per share in exchange for cash or non-cash contributions until July 3, 2022 ("Authorized Capital 2017").

By way of resolution of the Annual General Meeting on March 2, 2000, the share capital of USU Software AG was further contingently increased by EUR 757 thousand through the issue of 756,911 no-par value bearer shares for the purpose of granting options to members of the Management Board and employees of the company and affiliated companies ("Contingent Capital"). By way of resolution of the Annual General Meeting on July 15, 2004, Contingent Capital was reduced to EUR 378 thousand. The Contingent Capital increase can only be exercised to the extent that the bearers of the options issued exercise their rights. There were no outstanding options as of December 31, 2018.

By way of resolution of the Annual General Meeting on June 18, 2015, the company's Management Board was also authorized to acquire treasury shares in one or more installments, subject to approval of the Supervisory Board, until June 17, 2020. The acquired shares, together with any other shares that the company may hold as a result of an earlier authorization to acquire treasury shares, must not exceed 10% of the company's share capital at the time of this authorization.

Statutory provisions and Articles of Association of USU Software AG

In accordance with section 84 of the Aktiengesetz (AktG – German Stock Corporation Act) and Article 8(2) of the Articles of Association of USU Software AG, the Management Board is appointed or dismissed by the Supervisory Board. In urgent cases, a member may be appointed to the Management Board by court order in accordance with section 85 AktG. However, the corresponding mandate expires as soon as the vacancy has been filled. In accordance with Article 18 of the Articles of Association, the Supervisory Board is also authorized to approve amendments to the Articles of Association that concern their wording alone. All other amendments to the Articles of Association require a resolution by the Annual General Meeting in accordance with section 179(1) AktG. This resolution requires a majority of at least three quarters of the share capital represented in the vote in accordance with section 179(2) AktG. Resolutions by the Annual General Meeting that do not relate to the Articles of Association require a simple majority of the votes cast in accordance with section 133 AktG.

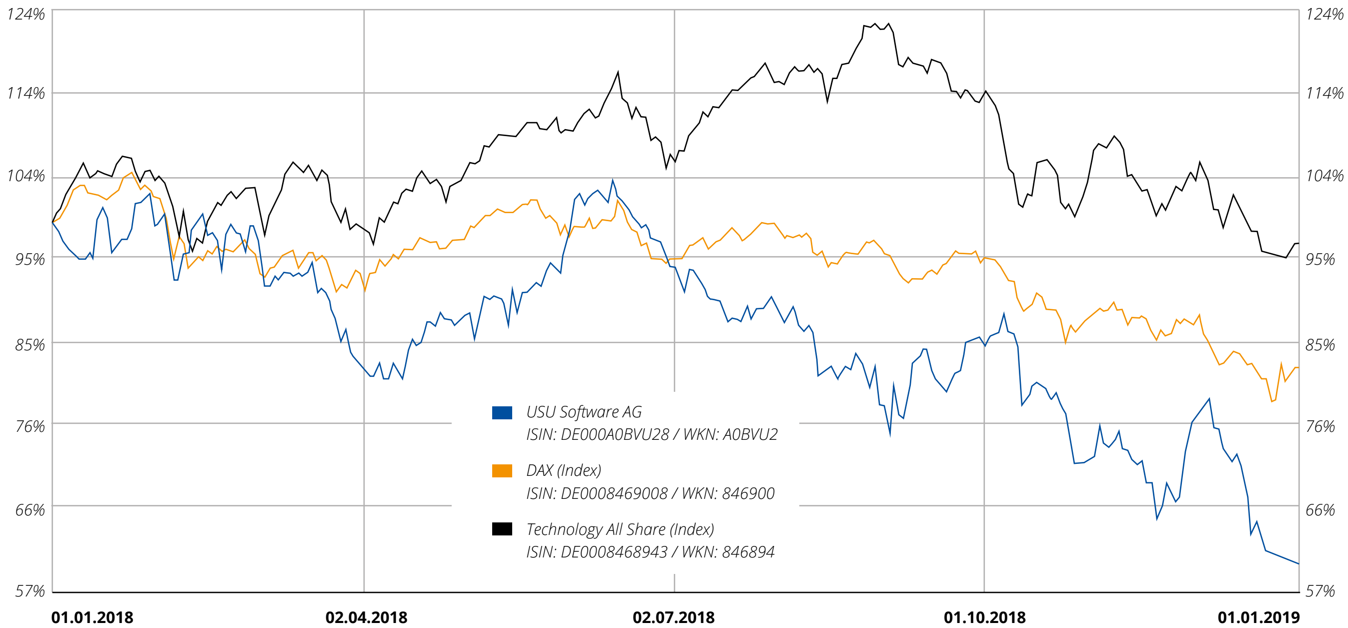
VI. 3 USU Shares (ISIN DE000A0BVU28) (unaudited)

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.

VI. 4 Share price performance

Following the positive previous years, the stock markets performed significantly weaker in the 2018 reporting year in the wake of the escalating US trade conflicts with Europe and China, as well as uncertainty regarding Brexit and Italy's sovereign debt. Over the year as a whole, the DAX fell significantly by 18.3% as against the previous year to 10,559.00 points on the XETRA electronic trading platform as of December 31, 2018 (December 31, 2017: 12,917.64 points). At the same time, the Technology All Share index fell by 2.7% year-on-year on XETRA to close at 2,802.48 points (December 31, 2017: 2,880.31 points). Tumbling by 39.9% to EUR 15.75 (December 31, 2017: EUR 26.20), USU's shares also fell well short of the previous year's performance, and was therefore unable to continue the positive trend of previous years.

Share price performance of USU Software AG in 2018



Compensation of the Management Board
The compensation of the Management Board is specified at an appropriate level by the Supervisory Board, taking into account all compensation paid within the Group on the basis of a performance assessment for each member of the Management Board. In accordance with the regulations of the German Corporate Governance Code (Code), this includes monetary compensation components, pension commitments and other commitments. The monetary components of compensation for the Management Board are divided into fixed and variable components. The variable remuneration, which consists entirely of a one-year component, is based on the achievement of targets set annually by the Supervisory Board. These are determined after the annual planning for the respective fiscal year is completed. The amount of the variable compensation actually paid depends on the extent to which the agreed quantitative and qualitative targets are met.

In fiscal 2018, the compensation for the Management Board of USU Software AG amounted to EUR 888.0 thousand (2017: EUR 870.7 thousand), including all compensation paid to the Management Board within the Group. Bernhard Oberschmidt, the Chairman of the Management Board of USU Software AG, is also President of the subsidiary USU (Schweiz) AG i.L. and the Managing Director of the subsidiaries Openshop Internet Software GmbH, USU Consulting GmbH i.L. and USU Austria GmbH.

Individual compensation of the Management Board for fiscal 2018 — in EUR thousand

	Bernhard Oberschmidt Chairman of the Management Board		Bernhard Böhler Management Board		Dr. Benjamin Strehl Management Board	
	2018	2017	2018	2017	2018	2017
Fixed compensation	184.0	184.0	160.0	106.7	132.0	132.0
Fringe benefits	25.5	22.4	11.4	11.4	13.0	12.0
Total	**209.5**	**206.4**	**171.4**	**118.1**	**145.4**	**144.0**
One-year variable compensation	120.0	138.2	75.0	81.9	100.0	115.2
Long-term variable compensation	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**329.5**	**344.6**	**246.4**	**200.0**	**245.4**	**259.2**
Pension expenses	22.4	22.3	22.4	22.3	22.4	22.3
Total compensation	**351.9**	**366.9**	**268.8**	**222.3**	**267.4**	**281.5**

Compensation of the Supervisory Board
Compensation for the Supervisory Board of USU Software AG is governed by Article 17 of the Articles of Association of the company and was last amended retroactively to March 28, 2018 at the company's Annual General Meeting on June 28, 2018. In accordance with the provisions of the Code, total compensation for the Supervisory Board comprises a fixed and a performance-related component. Under these provisions, in addition to the reimbursement of expenses, each member of the Supervisory Board of USU Software AG receives fixed compensation of EUR 17.5 thousand for each full fiscal year of membership of the Supervisory Board. The Deputy Chairman of the Supervisory Board receives an amount of EUR 20.0 thousand while the Chairman of the Supervisory Board receives EUR 70.0 thousand. Members of the Supervisory Board also receive variable

remuneration each year that is dependent on EBITDA, as reported in either the combined management report or the Group management report, in relation to the reported consolidated revenue. A premium of 10% of the fixed annual compensation is paid per year as variable remuneration for each full percentage point by which EBITDA exceeds 8% of consolidated revenue. This is subject to a cap on total compensation of 200% of the fixed annual remuneration. EBITDA amounted to 6.1% of consolidated revenue in fiscal 2018. The variable compensation of the USU Software AG Supervisory Board thus amounted to 0% of the basic fixed remuneration of the individual members of the Supervisory Board, hence no variable remuneration was paid to the Supervisory Board.

The remuneration of the Supervisory Board of USU Software AG amounted to EUR 101.9 thousand in total in fiscal 2018 (2017: EUR 107.5 thousand).

Individual compensation of the Supervisory Board for fiscal 2018 in EUR thousand

	Fixed compensation USU Software AG	Variable compensation USU Software AG
Udo Strehl	67.5	0
Günter Daiss	18.125	0
Erwin Staudt	16.25	0

VIII. (GROUP) CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289 AND SECTION 315D HGB (UNAUDITED)

VIII. 1 Declaration of conformity with the German Corporate Governance Code

Corporate governance comprises the core standards for the transparent and value-oriented management and control of listed companies. These standards were developed by the Government Commission for the German Corporate Governance Code and compiled in the Corporate Governance Code (Code) in the form of recommendations for implementation. The core objective of the Code is to promote the trust of investors, customers, employees and the general public in the management and supervision of listed German companies. The Code came into force in 2002 and was last updated in 2017.

In accordance with section 161 AktG, the Management Board and Supervisory Board of a listed company must make an annual declaration on the extent to which these recommendations have been, and will be, complied with, providing reasons for any cases of non-compliance. The Management Board and Supervisory Board of USU Software AG have made an express commitment to implementing the major recommendations of the Code and submitted the following declaration of conformity for 2018 on December 11, 2018, making it available on the company's website:

"The Management Board and Supervisory Board of USU Software AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as amended February 7, 2017, have been complied with since the last declaration of conformity dated November 30, 2017 and will continue to be complied with in the future, whereby the following recommendations have not been and will not be implemented:

Item 2.1.3 of the Code recommends that the Management Board institutes appropriate measures reflecting the company's risk situation (compliance management system) and discloses the main features of those measures.

The Management Board has implemented various measures to ensure compliance with statutory provisions and internal regulations. The main features of these measures involve training and raising employee awareness of the statutory provisions and internal regulations and risks, communicating and monitoring compliance with the internal authority guidelines and the principle of dual control and analyzing the specific risk situation of the company with reference to the subject of its business and performance and its contractual partners.

Item 4.2.3 of the Code recommends that variable compensation components for the Management Board members should have a long-year assessment basis with essentially forward-looking characteristics and that early disbursement should not be permitted. Both positive and negative developments should be taken into account when determining the variable compensation components. When entering into Management Board agreements, it must be ensured that payments to a Management Board member in the event of premature termination of their Management Board role, including fringe benefits, do not exceed the value of their annual compensation for two years (severance cap) and do not compensate more than the remaining term of the employment agreement. If the employment agreement is terminated for cause for which the Management Board member is responsible, no payments are made to the Management Board member in accordance with the provisions of the Code.

The Supervisory Board has not made any such contractual agreements in the context of appointing and expanding the Management Board, and does not plan to do so in the future either. The Supervisory Board feels that current Management Board compensation thoroughly takes into account the interests of the company's stakeholders, motivates the Management Board to a high degree and thus contributes to a sustainable positive business development.

In accordance with item 5.1.2 of the Code, diversity should be observed in the composition of the Management Board and an age limit specified for its members. In addition, the Supervisory Board is required to establish target figures for the share of women on the Management Board in addition to deadlines by which these figures must be achieved.

In determining the composition of the Management Board, the Supervisory Board of USU Software AG has based and will continue to base its decisions on the professional and personal suitability of the persons in question, irrespective of their gender or age, as the company does not wish to deprive itself indiscriminately of the potential offered by older, experienced and renowned figures in the composition of the Management Board. A general age limit for Management Board members of USU Software AG therefore has not been and is not intended, as is also the case for a specific gender requirement.

The Management Board grew from one to three members as of October 1, 2014 and has been made up of three male members ever since. Based on the current Management Board contracts, no changes are envisaged at least until June 30, 2021. At its meeting on December 11, 2018, the Supervisory Board therefore set a target for the share of women of zero by June 30, 2021.

In accordance with items 5.3.1, 5.3.2 and 5.3.3 of the Code, the Supervisory Board should form committees such as an audit committee and a nomination committee.

As the Supervisory Board of USU Software AG comprises three members, there has been and remains no intention to set up committees. Independently of this, the Supervisory Board of the company jointly assumes the tasks of these committees.

In accordance with item 5.4.1 of the Code, the Supervisory Board must be composed in such a way that its members collectively have the knowledge, skills and professional experience required to properly fulfill their duties. The Supervisory Board must determine specific objectives regarding its composition and prepare a profile of skills and expertise for the body as a whole. In line with the company's specific situation, the Supervisory Board must appropriately reflect the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of section 5.4.2, an age limit and a regular limit on Supervisory Board members' terms of office, both to be specified, in addition to diversity. The Supervisory Board sets targets for the share of women and corresponding deadlines to achieve these targets. Proposals by the Supervisory Board must take these targets into account while simultaneously aiming to satisfy the overall profile of skills and expertise for the body as a whole. The implementation status must be published in the corporate governance report. This report must also provide information on what the Supervisory Board regards an appropriate number of independent Supervisory Board members representing shareholders and the names of these members.

With regard to its composition, the Supervisory Board of USU Software AG bases its decisions on the professional and personal suitability of the persons in question, taking into account their knowledge, skills and professional experience required to properly fulfill their duties. A general age limit and a restriction on the length of membership for the Supervisory Board members of USU Software AG has not been and is not intended, as is also the case for a general gender requirement, as the company does not wish to deprive itself indiscriminately of the potential offered by older, experienced and renowned figures in the composition of the Supervisory Board. In addition, a specification of this type would, in the company's opinion, inappropriately limit the shareholders' right to vote at the Annual General Meeting. The Supervisory Board consists of three male members who were re-elected for another term of office in line with the Articles of Association at the Annual General Meeting on June 17, 2016. At its meeting on December 11, 2018, the Supervisory Board therefore set a target of zero for the share of women on the Supervisory Board by June 30, 2021 and confirmed the profile of skills and expertise for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. The Supervisory Board believes that at least two of its three members should be independent shareholder representatives. This target is achieved with the independent members Günter Daiss and Erwin Staudt. As Günter Daiss will leave the Supervisory Board at his own request at the end of fiscal 2018, the Management Board and Supervisory Board intend to have a new member appointed to the Supervisory Board by court order in accordance with the requirements of the Corporate Governance Code, and to subsequently nominate this member to the Annual General Meeting for election.

In accordance with item 5.4.6 of the Code, members of the Supervisory Board should receive separate compensation for assuming the office of Chairman or Deputy Chairman of the Supervisory Board or for membership of a Supervisory Board committee.

Compensation was and is not envisaged for assuming the office of Deputy Chairman of the Supervisory Board or for membership or chairmanship of a committee of the Supervisory Board. The company considers there to be no increased incentive as a result of assuming the position of Deputy Chairman of the Supervisory Board as members of the Supervisory Board of USU Software AG are highly committed to the good of the company irrespective of this. Based on the composition of the Supervisory Board with three experienced members who jointly assume the intended functions, the formation of Supervisory Board committees and accordingly the associated compensation has been and will continue to be dispensed with in the future.

In accordance with item 7.1.2 of the Code, the interim reports should be made publicly accessible within 45 days of the end of the reporting period.

In the past, USU Software AG has published interim reports in accordance with the relevant stock exchange rules and regulations immediately after they have been completed and, at the very latest, within two months of the end of the reporting period. This policy will continue to apply. In observing statutory deadlines, the interests of the company's shareholders in being informed are, in the opinion of USU Software AG, accommodated to an adequate extent, especially as the statutory disclosure requirements are fully observed and complied with.

Möglingen, December 11, 2018

Signed

The Management Board and Supervisory Board of USU Software AG."

The current declaration of conformity and the declarations for previous years are permanently available at www.usu.de/investoren/corporate-governance.html.

VIII. 2 Diversity concept

Stipulations in accordance with the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector:

As early as 2015, the Management Board of USU Software AG resolved that diversity must be taken into account when filling management positions at all levels below the Management Board of USU Software AG and its affiliated companies, and that appropriate consideration should be given to women in this regard. In the USU Group, the share of women at the first management level below the Management Board is zero. At the second level below the Management Board, this figure is 10%, which is higher than the target defined by the Management Board. The Management Board had set a target of zero for the share of women at the first management level and 10% at the second management level, with June 30, 2020 as a deadline to achieve these targets. As such, these targets were already met or exceeded in the 2018 reporting year.

The Supervisory Board and Management Board of USU Software AG both currently consist of three male members. The Management Board was expanded from one to three members as of October 1, 2014. Based on the current Management Board contracts, no changes are envisaged at least until June 30, 2021. At its meeting on December 11, 2018, the Supervisory Board therefore set a target for the share of women of zero by June 30, 2021. The Supervisory Board consists of three male members who were re-elected for another term of office in line with the Articles of Association at the Annual General Meeting on June 17, 2016. At its meeting on December 11, 2018, the Supervisory Board therefore set a target for the share of women on the Supervisory Board of zero by June 30, 2021 and confirmed the profile of skills and expertise for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. The Supervisory Board believes that at least two of its three members should be independent shareholder representatives. This target is achieved with the independent members Günter Daiss and Erwin Staudt. As Günter Daiss left the Supervisory Board at his own request at the end of fiscal 2018, the Management Board and Supervisory Board first had Ms. Gabriele Walker-Rudolf appointed as a new member of Supervisory Board by court order in accordance with the requirements of the Corporate Governance Code, and will nominate Ms. Gabriele Walker-Rudolf for election at the Annual General Meeting on July 2, 2019. Ms. Walker-Rudolf is a partner at Drees & Sommer SE and has been responsible for that company's Corporate Finance, Controlling and M&A activities for almost 30 years. Prior to that, Ms. Walker-Rudolf held various management positions at Hewlett Packard Germany. Ms. Walker-Rudolf has been monitoring USU Software AG for more than 20 years and, in addition to her qualities as a businesswoman, will also contribute her financial expertise to the Supervisory Board.

VIII. 3 Working practices of the Management Board and the Supervisory Board

Der Vorstand der USU Software AG führt die Geschäfte The Management Board of USU Software AG is responsible for managing the company's business activities in accordance with the provisions of law, the German Corporate Governance Code, the Articles of Association and the Rules of Procedure for the Management Board. Irrespective of their individual responsibility as members of the Management Board, the members of the Management Board have joint responsibility for overall management. The Management Board passes resolutions at meetings that are convened by the Chairman of the Management Board on a regular basis and at least once a month. The Management Board has a quorum if the majority of the members, including the Chairman, are present. Resolutions are passed by a simple majority. In the event of a tie, the Chairman has the casting vote. The Chairman is also entitled to veto resolutions that have been passed by a majority. At the Chairman's proposal, resolutions can also be passed outside the meetings.

The Chairman of the Management Board of the company reports to the Supervisory Board in a regular, timely and comprehensive manner on the development and position of USU Software AG and the Group, including their profitability, in addition to corporate planning, risk management and significant business transactions and projects.

The Supervisory Board of the company consists of three members and elects a Chairman and a Deputy Chairman from its members. In view of its size, the Supervisory Board has opted not to form committees. Instead, the duties of the Supervisory Board are performed jointly by its members. The activities of the Supervisory Board are determined by the provisions of law, the German Corporate Governance Code, the Articles of Association and the Rules of Procedure for the Supervisory Board of USU Software AG. Among other things, these provide for the Supervisory Board to appoint the members of the Management Board, determine the number of Management Board members and issue Rules of Procedure for both the Management Board and itself. In addition, the Supervisory Board continuously monitors and advises the Management Board in its activities.

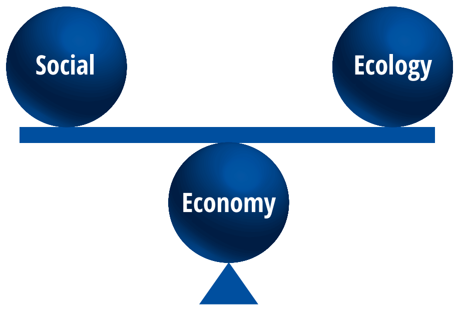
The Supervisory Board also adopts the single-entity financial statements and approves the consolidated financial statements. Detailed information on the activities of the Supervisory Board is provided annually in the report by the Chairman of the Supervisory Board to the shareholders present at the Annual General Meeting.

The Supervisory Board is convened by the Chairman as required, or at least four times a year in accordance with the Articles of Association. The Chairman of the Management Board of the company regularly attends these meetings. The Supervisory Board has a quorum when all the members of the Supervisory Board participate in the respective resolution. Resolutions are passed by a simple majority of the votes cast unless otherwise prescribed by law or the Articles of Association.

A D&O insurance policy providing for a deductible has been agreed for the Management Board and the Supervisory Board.

IX. NON-FINANCIAL GROUP DECLARATION (UNAUDITED)

The principles of sustainable action are a core element of USU's business activities. The USU Group defines sustainable action as striking the right balance between the three dimensions of sustainability – economic, ecological and social – and incorporating the interests of stakeholders



into its decision-making processes. USU is aware that this is a complex process and that interdependencies cannot always be fully assessed in advance. However, USU endeavors to continuously challenge itself and develop in order to ensure that its actions make a positive contribution to its stakeholders and society as a whole. USU designs value-adding and exchange processes based on the market, the environment and society. The Management Board and the company's managers and employees accept their responsibility. Sustainability and socially and ethically aware actions have been implicitly practiced at the USU Group since its formation and are a fixed element of its corporate culture. For USU, this is a continuous improvement process that we can only achieve by maintaining a constant dialog with our stakeholders.

Social responsibility at USU Software AG has many facets and is strongly anchored in our business management and business strategy. USU does not currently have a dedicated sustainability strategy, but rather an overarching general business strategy from which all the other subareas derive. One of these sub-areas is sustainability. The overall strategy comprises the three business principles of "Company, Customers & Products", which form the basis for the company's corporate values, its commitment to sustainable action and its operational planning. The "Company" principle means that USU strives to be an attractive company for employees, investors and all those in its environment. This means dealing fairly and respectfully with stakeholders and focusing on ensuring awareness and perception of its ecological and social responsibility. This is the only way for the company to ensure its long-term success and to become more attractive to investors.

The “Customers” and “Principles” principles also contribute to ensuring the USU Group’s sustainable success. USU’s actions are geared towards its customers, to whom it offers individual software solutions. This individuality and proximity to the customer helps the company to establish long-term customer relationships and partnerships. USU’s products also stand for excellent software-based solutions with a high degree of innovation. The quality of its products and the development of new innovations play an important role in the company’s long-term success.

The USU Group is a software house whose core business involves internally developing and marketing software solutions and assisting its customers in an advisory capacity. Accordingly, its economic success depends to a large extent on the performance and knowledge of its technical and management employees. The company is reliant on highly qualified personnel in order to continue to satisfy market demands and individual customer requirements in the future. The shortage of technical and management employees within the industry makes it important to remain an attractive employer. The loss of management staff or employees in key positions can be just as detrimental to the company as the failure to attract new knowledge carriers. In order to counteract this risk, human resources activities focus on the recruitment of technical and management employees as well as the motivation and retention of existing staff. A variable component in the salaries of a substantial number of employees, which acts as an additional performance incentive to reward target attainment, should also be seen in this context. In addition, the Group offers an extensive and flexible company car scheme. The USU Group also consistently invests in the development and further training of its workforce as part of its career model. In addition to specialist training courses and the further development of soft skills, USU offers refresher and consolidation courses. A common system of values, rapid information exchange, a family-like working environment and numerous staff events round off the diverse range of measures in this area. Although the USU Group considers the shortage of technical and management employees to be a significant human resources risk, the acquisition of additional qualified employees and the associated expansion of the Group’s workforce in order to fully exploit the existing growth options in product and service business also represents a major opportunity.

The USU Group is also involved in numerous activities that can be subsumed under its commitment to sustainable action.

This includes:

- expanding dual training and promoting new talents in order to secure technical and management employees for the long term;
- pronounced social and cultural commitment, with a particular focus on regionality and relevance to the company’s environment;
- ergonomic office furniture for all employees;
- the services of a company doctor;
- freshly cooked meals every day and free fruit depending on the respective location and free water dispensers for employees in order to reduce resource consumption by encouraging the use of reusable water bottles;
- giving employees the opportunity to use bicycles and Pedelecs leased through the company;
- special support for company cars with a good CO2 efficiency class;
- reducing electricity consumption e.g. by systematically switching to LED technology or virtualizing servers.

The Management Board and the company’s managers intend this to create a transparent view of the company for employees, customers, partners and shareholders of USU Software AG.

The action areas identified in preparing the sustainability report are intended to help to increase awareness for key issues, record their status and document improvements. In the medium term, this will provide greater guidance for employees and customers and help to secure the company’s economic success.

Without orienting its efforts in the field of sustainability towards a single international standard for sustainable business activity, the USU Group acts in accordance with statutory provisions and the ten principles of the United Nations Global Compact and the core labor standards of the International Labor Organization (ILO).

For further information on sustainability at USU Software AG and its subsidiaries, please refer to the sustainability report for fiscal 2018, which is available to view and download on the company’s website at www.usu.de/nachhaltigkeit.

X. REPORT ON RELATED PARTIES

The Management Board of USU Software AG has compiled a report on related parties in accordance with section 312 AktG, in which it made the following closing statement: “We hereby declare that USU Software AG received appropriate compensation for all transactions in accordance with the circumstances known to us when the transactions were conducted. No measures detrimental to the company were undertaken.”

XI. RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the single-entity and the consolidated financial statements give a true and fair view of the assets, financial position and results of operations of USU Software AG and the Group, and the combined management report includes a fair review of the development and performance of the business and the position of USU Software AG and the Group, together with a description of the principal risks and opportunities associated with the expected development of USU Software AG and the Group.

Möglingen, March 11, 2019

Bernhard Oberschmidt
Chairman of the Management Board

Bernhard Böhler
Member of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

ANNEX 1

USU Software AG, Möglingen

	Note	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Assets			
Non-current assets			
Intangible assets	(9)	6,903	8,487
Goodwill	(10)	41,183	41,183
		48,086	49,670
Property, plant and equipment	(11)	2,157	2,230
Financial assets	(12)	773	687
Prepaid expenses	(18)	290	342
Deferred taxes	(32)	5,940	5,899
		57,246	**58,828**
Current assets			
Inventories	(13)	466	511
Unbilled services	(14)	4,526	3,468
Trade receivables	(15)	19,443	17,443
Income tax receivables	(16)	943	1,012
Financial assets	(17)	1,033	1,279
Other assets		881	205
Prepaid expenses	(18)	1,156	911
Securities	(19)	0	3,014
Cash on hand and bank balances	(20)	9,450	12,715
		37,898	**40,558**
		95,144	**99,386**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

USU Software AG, Möglingen

	Note	31.12.2018 EUR thousand	31.12.2017 EUR thousand
Equity and liabilities			
Equity	(21)		
Issued capital (Contingent capital EUR 378 thousand; previous year: EUR 378 thousand)		10,524	10,524
Capital reserves		52,792	52,792
Retained earnings		-3,453	-205
Other comprehensive income		-198	-105
		59,665	**63,006**
Non-current liabilities			
Financial liabilities	(22)	250	250
Pension provisions	(23)	2,311	2,203
Deferred income	(31)	1,015	2,443
Deferred taxes	(32)	2,174	2,457
		5,750	**7,353**
Current liabilities			
Income tax liabilities	(24)	616	1,266
Financial liabilities	(25)	855	918
Personnel-related liabilities	(26)	7,589	7,421
Other provisions and liabilities	(27)	3,389	3,363
Liabilities from advance payments	(28)	6,563	7,457
Trade payables	(29)	3,689	3,567
Deferred income	(31)	7,028	5,035
		29,729	**29,027**
		95,144	**99,386**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2018

USU Software AG, Möglingen

	Note	2018 EUR thousand	2017 EUR thousand
Revenue	(33)	90,487	84,361
Cost of sales	(34)	-43,553	-38,843
Gross profit		**46,934**	**45,518**
Selling and marketing expenses	(35)	-18,795	-17,228
General and administrative expenses	(36)	-10,598	-9,338
Research and development expenses	(37)	-15,334	-13,817
Other operating income	(38)	1,160	1,017
Other operating expenses	(39)	-660	-732
Amortization of intangible assets recognized in connection with company acquisitions and goodwill	(7)	0	-2,198
Finance income	(40)	184	90
Finance costs	(41)	-80	-199
Profit before taxes		**2,811**	**3,113**
Income taxes	(42)	-1,850	254
Consolidated net profit		**961**	**3,367**
Items that cannot be reclassified to profit or loss:			
Actuarial gains/losses from pension provisions		18	230
Deferred taxes on actuarial gains/losses		2	-271
Items that can be reclassified to profit or loss in future periods:			
Currency translation difference		-113	267
Other comprehensive income		**-93**	**226**
Total comprehensive income		**868**	**3,593**
Earnings per share in EUR (diluted and basic)	(21)	0,09	0,32
Number of underlying shares		10,523,770	10,523,770

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 2018 FISCAL YEAR

ANNEX 4

USU Software AG, Möglingen

	Note	2018 EUR thousand	2017 EUR thousand
Consolidated net profit		961	3,367
+/– Depreciation, amortization and write-downs of non-current assets and reversals of write-downs of non-current assets		2,799	3,615
+/– Other non-cash expenses/income		-102	-87
–/+ Increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities		-708	-1,166
+/– Increase/decrease in trade payables and other liabilities not related to investing or financing activities		32	78
+/– Interest expenses/income		-104	109
–/+ Income taxes paid		-2,749	-488
–/+ Interest paid/received		17	-3
+/– Income tax expenses/income		1,850	-254
Net cash from operating activities	(44)	**1,996**	**5,171**
– Acquisition of subsidiaries less cash acquired		0	-7,129
– Purchase of intangible assets		-58	-165
+ Proceeds from disposals of property, plant and equipment		7	29
– Purchase of property, plant and equipment		-1,087	-1,210
+ Payments received from items not related to operating or financing activities		0	250
Net cash used in investing activities	(45)	**-1,138**	**-8,225**
– Dividends paid to shareholders		-4,209	-4,209
Net cash used in financing activities	(46)	**-4,209**	**-4,209**
Change in cash and cash equivalents		-3,351	-7,263
+/– Effect on cash and cash equivalents of exchange rate movements and remeasurement		86	-188
+ Cash and cash equivalents at the start of the period		12,715	20,166
Cash and cash equivalents at the end of the period	(47)	**9,450**	**12,715**
Cash and cash equivalents			
Cash		9,450	12,715
		9,450	**12,715**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2018 FISCAL

USU Software AG, Möglingen

	Issued capital Number	Issued capital EUR thousand	Capital reserves EUR thousand
Consolidated equity as of December 31, 2016*	**10,523,770**	**10,524**	**52,792**
Consolidated net profit	0	0	0
Other comprehensive income after taxes	0	0	0
Total comprehensive income	**0**	**0**	**0**
Dividend payment	0	0	0
Consolidated equity as of December 31, 2017	**10,523,770**	**10,524**	**52,792**
Consolidated net profit	0	0	0
Other comprehensive income after taxes	0	0	0
Total comprehensive income	**0**	**0**	**0**
Dividend payment	0	0	0
Consolidated equity as of December 31, 2018	**10,523,770**	**10,524**	**52,792**

** restated to reflect the separate reporting of pensions in other comprehensive income*

	Retained earnings EUR thousand	Other comprehensive income Pension plans	Currency translation EUR thousand	Equity EUR thousand
	637	**-186**	**-144**	**63,623**
	3,367	0	0	3,367
	0	-42	267	225
	3,367	**-42**	**267**	**3,592**
	-4,209	0	0	-4,209
	-205	**-228**	**123**	**63,006**
	961	0	0	961
	0	20	-113	-93
	961	**20**	**-113**	**868**
	-4,209		00	-4,209
	-3,453	**-208**	**10**	**59,665**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2018

USU Software AG, Möglingen

A. THE COMPANY

The Group parent company, USU Software AG, is domiciled at Spitalhof, 71696 Möglingen, Germany, and is entered in the commercial register of the Stuttgart District Court under HRB 206442. USU Software AG and its subsidiaries (hereinafter also referred to as the Group) develop and market end-to-end software solutions. The range includes solutions in the Business Service Management segment for efficient and cost-effective application of the IT infrastructure within companies and in the Knowledge Solutions segment for the optimization of knowledge-intensive business processes. The Group also provides consulting services for IT projects and individual application development in the Business Solutions segment.

The Group includes subsidiaries in Germany, Switzerland, Czechia, France, Austria and the US. The Group's customers are predominantly based in Germany and mainly operate in the fields of financial services, telecommunications, the automotive industry, consumer goods, services and retail and the public sector.

The company is listed in the Prime Standard of the Frankfurt Stock Exchange.

B. SIGNIFICANT ACCOUNTING POLICIES

1. Significant financial reporting policies

In accordance with section 315e of the Handelsgesetzbuch (HGB – German Commercial Code), the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, as applicable within the European Union. The consolidated financial statements also take into account the additional information required by section 315e(1) HGB.

The separate financial statements of the consolidated subsidiaries have all been uniformly prepared in accordance with IFRS.

The consolidated financial statements have been prepared in the functional currency of the parent company (euro). All figures in the consolidated financial statements are rounded to thousands of euro (EUR thousand) except for figures pertaining to shares. The reporting date is December 31, 2018.

The consolidated financial statements have been prepared on the basis of the historical cost convention with the exception of certain financial assets and liabilities, which are carried at fair value.

The presentation in the consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year. Deferred tax assets and liabilities and provisions for pensions are reported as non-current items, while advances received are reported as current items.

The consolidated statement of profit or loss is prepared using the function of expense method.

The Management Board intends to approve the consolidated financial statements for submission to the Supervisory Board on March 12, 2019. It is anticipated that the Supervisory Board will adopt the consolidated financial statements prepared by the Management Board at its meeting on March 19, 2019 and approve their publication.

The annual financial statements of USU Software AG in accordance with HGB for the year ended December 31, 2018 and these consolidated financial statements have been submitted to the electronic Bundesanzeiger (electronic German Federal Gazette).

2. Accounting standards applied for the first time and recently issued accounting standards

The accounting standards applied are the same as those applied in the previous year.

The following new and amended Standards were effective for the Group for the first time in the current fiscal year.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers and the associated clarifications
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Annual Improvements 2014-2016 Cycle
- Amendments to IAS 40

IFRIC 22 Foreign Currency Transactions and Advance Consideration.

IFRS 9 "Financial Instruments" supersedes accounting for financial instruments in accordance with IAS 39. IFRS 9 introduces a uniform approach to the classification and measurement of financial assets and a new impairment model based on expected credit losses. IFRS 9 also contains new provisions on the use of hedge accounting. USU Software AG does not use derivative financial instruments and now only holds financial assets in the form of trade receivables and bank balances. Accordingly, USU does not expect the application of the classification and measurement provisions of IFRS 9 to have a relevant impact on its consolidated statement of financial position or its equity other than the additional disclosures required in the notes to the consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" regulates the recognition of revenue and supersedes IAS 11 "Construction Contracts" and IAS 18 "Revenue". Under IFRS 15, revenue is recognized in the amount of the consideration that the company is expected to receive for the goods delivered or the services performed. In accordance with IFRS 15, revenue is typically recognized when the customer achieves control of the goods or services. IFRS 15 includes guidance on the reporting of assets and liabilities from contracts with customers, i.e. those arising from the entity's performance and the customer's payment. IFRS 15 also requires additional disclosures in the notes on the nature, amount, timing and uncertainty of revenue and cash flows. The adoption of IFRS 15 "Revenue from Contracts with Customer" had no impact on the consolidated financial statements of the Group.

The other Standards effective in the EU for the first time as of January 1, 2018 also had no material impact on the consolidated financial statements.

The following Standards issued by the IASB are not yet effective and will also not be adopted early:

- **IFRS 16 "Leases"** regulates accounting for leases and will supersede IAS 17 and the associated Interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 provides a single accounting method for lessees. As a result, lessees are required to recognize all assets for any rights of use obtained and liabilities arising from leases in their statement of financial position. There are exceptions for short-term leases with a term of not more than 12 months and low-value assets. By contrast, lessors still distinguish between finance and operating leases. Furthermore, IFRS 16 contains new provisions on reporting, disclosures in the notes and sale and leaseback transactions. The effective date for IFRS 16 is January 1, 2019. The expected effects of the adoption of IFRS 16 are an increase in total assets of around EUR 4,583 thousand as rights of use and lease liabilities that were not previously reported in the statement of financial position will have to be recognized, and an increase in EBIT of around EUR 14 thousand as costs previously reported as rental expenses now have to be broken down into interest and principal components.

The other amended and published Standards that have not been endorsed by the EU are not expected to have any significant impact on the financial performance or financial position of the Group. Early adoption is not intended when these Standards not yet effective are endorsed by the EU.

3. Consolidation principles

The consolidated financial statements incorporate the financial statements of USU Software AG and all the entities it controls including structured entities (subsidiaries). USU Software AG obtains control when it:

- has power over the investee;
- is exposed to variable returns from its involvement; and
- can use its power to affect the amount of returns.

USU Software AG reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above criteria for control.

Consolidation of a subsidiary begins from the date the parent company achieves control of the subsidiary and ceases when the parent company loses control of the subsidiary. The results of the subsidiaries acquired or sold during the year are recognized in profit or loss and other comprehensive income from the actual acquisition date to the actual disposal date.

Equity interests are consolidated using the purchase method, whereby the cost is offset against the Group's interest in the remeasured equity of the subsidiary as of the acquisition date. Any remaining goodwill from initial consolidation is recognized separately. In accordance with IFRS 3, goodwill is not amortized over its useful life, but instead is subject to impairment testing at least once a year that may result in the recognition of an impairment loss (impairment-only approach).

All intragroup revenue, intercompany profits, income and expenses, receivables and liabilities, provisions and contingent liabilities are eliminated.

4. Consolidated group

The Group comprises USU Software AG and eleven German and international subsidiaries that are all wholly owned.

In addition to the parent, the following companies were included in consolidation. The information on equity and net profit represents the amounts determined in accordance with the respective national accounting standards. There are no Group companies that are not included in the consolidated financial statements.

Consolidated group **Name and domicile of the company**	Equity as of Dec. 31, 2018 in EUR thousand	Net profit/loss for 2018 in EUR thousand
USU GmbH, Möglingen [1)]	30,368	5,479
LeuTek GmbH, Leinfelden-Echterdingen [2)]	1,380	2,768
Omega Software GmbH, Obersulm [2)]	970	181
USU Software s. r. o., Brno, Czechia [3)]	690	173
USU (Schweiz) AG i. L., Zug, Switzerland [3)]	-48	-4
USU Austria GmbH, Wien, Austria [3)]	-609	-51
Openshop Internet Software GmbH, Möglingen [2)]	-667	107
Aspera GmbH, Aachen [2)]	300	1,199
USU Consulting GmbH i. L., Sursee, Switzerland	25	-7
Aspera Technologies Inc., Boston, USA	-3,057	-1,673
USU SAS, Paris	-930	-2,114

1) The company was transformed into a GmbH in 2018. Furthermore, two subsidiaries were merged with this company. Please also refer to "C. Changes in Group organization".
2) Net profit before/equity after profit transfer to USU Software AG due to existing profit transfer agreements
3) Companies wholly owned by USU GmbH.

5. Currency and currency translation

All transactions are translated at the prevailing exchange rate on the transaction date. Monetary items in foreign currency are translated at their closing rates as of the end of the reporting period; non-monetary items reported at historical cost are translated at the rate on the transaction date, while non-monetary items reported at fair value are translated at the exchange rate on the date when their fair value was measured. Differences arising from currency translation at closing rates are recognized in profit or loss under other operating income and expenses.

In accordance with IAS 21, the financial statements of the subsidiaries included in the consolidated financial statements that are prepared in foreign currency are translated on the basis of the functional currency concept using the modified closing rate method. Consolidated foreign subsidiaries are considered economically independent entities as they are financially, economically and organizationally autonomous. In accordance with the functional currency concept, measurement is performed in local currency. Income and expenses are translated at the average exchange rate for the reporting year, assets and liabilities at the closing rate and the equity of the respective subsidiaries at historical rates. The difference arising from equity-related currency translation is taken directly to equity and presented in a separate column in the statement of changes in equity.

Currency translation differences arising from the elimination of intragroup balances are recognized in profit or loss under other operating income or expenses.

The financial statements of foreign subsidiaries not domiciled in the euro area were translated to EUR using the following exchange rates:

Currency (1 EUR)	Closing rate Dec. 31, 2018	Closing rate Dec. 31, 2017	Average rate 2018	Average rate 2017
Swiss franc (CHF)	1.1269	1.1702	1.1550	1.1117
Czech koruna (CZK)	25.724	25.535	25.647	26.326
US dollar (USD)	1.1450	1.1993	1.1810	1.1297

Currency translation differences recognized in profit or loss in the past fiscal year amounted to EUR -190 thousand (2017: EUR -128 thousand).

6. Use of significant estimates and assumptions

The preparation of the single-entity financial statements in accordance with IFRS requires the Management Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period, the reported amounts of income and expenses during the period under review and the related disclosures in the notes to the financial statements. The actual amounts may differ from these estimates.

In particular, areas requiring significant estimates include the recognition of revenue over time (see notes 7.6 and 7.17), determining the probable economic life of intangible assets (notes 7.1 and 9), the decision not to capitalize software development costs (note 7.19), bad debt allowances (note 15), contingent liabilities, pension provisions (notes 7.10, 7.15 and 23), other provisions (notes 7.11 and 27) and estimates of the recoverability of future tax benefits in the form of the recognition of deferred taxes on tax loss carryforwards (note 32).

In addition, significant estimates and assumptions are required to determine the fair values of property, plant and equipment and intangible assets and of purchase price liabilities (earn-out), particularly as part of purchase price allocation in the event of business acquisitions and for goodwill impairment testing (notes 8, 10 and 25).

The cash flows underlying the discounted cash flow calculation as part of goodwill impairment testing are based on current business plans, assuming a planning period of three years. Assumptions are made about the future development of revenue and costs. In the event that the actual amounts differ from the significant assumptions made, this may lead to the recognition of goodwill impairment in profit or loss in the future.

7. General accounting policies

The financial statements of USU Software AG and its German and foreign subsidiaries are prepared in accordance with uniform accounting policies as required by IFRS 10.19.

7.1 Intangible assets and goodwill

Acquired intangible assets and goodwill are recognized at cost when acquired in accordance with IAS 38. Intangible assets are mainly software, maintenance agreements and customer bases, which are amortized on a straight-line basis over their expected economic life of between three and thirteen years. Intangible assets with an indefinite useful life – including goodwill, trademarks and brands – are not amortized but instead are tested for impairment at least once a year in accordance with IAS 36. “Amortization of intangible assets capitalized as a result of business combinations and goodwill” was reported separately in the statement of profit or loss in the previous year. This is reported under the cost components of the function of expense method in 2018.

Amortization of intangible assets and goodwill capitalized in connection with acquisitions was allocated to functions for the first time in fiscal 2018.

EUR 910 thousand related to selling and marketing expenses, EUR 389 thousand to research and development expenses, EUR 99 thousand to the cost of sales and EUR 9 thousand to general and administrative expenses.

The total amortization of intangible assets and goodwill capitalized in connection with acquisitions of EUR 2,198 thousand was reported separately in the previous year.

Its allocation to functions in fiscal 2017 would have been as follows:

EUR 902 thousand to selling and marketing expenses, EUR 1,102 thousand to research and development expenses, EUR 185 thousand to the cost of sales and EUR 9 thousand to general and administrative expenses.

7.2 Property, plant and equipment

Property, plant and equipment is carried at cost less cumulative depreciation in accordance with IAS 16. Repair costs are expensed as incurred. Depreciation is recognized on a straight-line basis over the expected useful life of the respective assets. The following useful lives are applied:

IT hardware	3 to 10 years
Leasehold improvements	3 to 23 years
Other equipment, operating and office equipment	3 to 15 years

7.3 Impairment of non-financial assets

All intangible assets with indefinite useful lives and goodwill are tested for impairment at least once every fiscal year. Impairment testing is performed annually as of September 30. For these and all other intangible assets with finite useful lives and property, plant and equipment, impairment testing is also performed when there is evidence that the carrying amount of the respective asset is no longer recoverable.

An impairment loss is recognized if the recoverable amount of an asset is lower than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

The recoverable amount is determined for each asset individually or, if this is not possible, for the cash-generating unit (CGU) to which the asset belongs. In accordance with IAS 36.6, a CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Basic assumptions on financial planning and the discount rates applied must be made in order to determine the projected cash flows for each CGU.

Impairment testing of intangible assets with indefinite useful lives is covered by the annual impairment test for goodwill, as these assets are included in the carrying amounts of the respective CGUs. Further information can be found in notes 9 and 10.

In the case of impairment testing for goodwill acquired in the course of company acquisitions, the goodwill is allocated to the corresponding CGU.

As cash flows in the USU Group are planned and distinguished between at the level of the subsidiaries USU GmbH, LeuTek GmbH, Aspera GmbH and USU SAS (with the exception of Omega Software GmbH and Aspera Technologies Inc.), the CGUs are defined as USU GmbH together with Omega Software GmbH for the Product Business segment and USU AG for the Service Business segment, and the subsidiaries LeuTek GmbH and Aspera GmbH together with Aspera Technologies Inc. and USU SAS, all of which are fully allocated to Product Business. Information on the differences between Product Business and Service Business can be found in the notes on segment reporting in section G. By way of contract dated February 6, 2018, the companies/CGUs unitB and BIG that were still considered separately in last year's impairment test were merged with USU GmbH (see note C. 8. to the consolidated financial statements). The goodwill allocated to unitB and BIG has been transferred to USU GmbH and thereby to the Product and Service areas.

In accordance with IAS 36.A17 (a), the cost of capital of the cash-generating units is calculated as the weighted average cost of capital (WACC). The calculation of the weighted cost of capital includes the cost of equity, composed of a risk-free basic interest rate and a risk premium (market risk premium multiplied by a beta factor based on a peer group analysis), and the cost of debt, which is equal to the average cost of debt for peer group companies. The cost of equity and debt is weighted using the average capital structure of peer group companies. The pre-tax cost of debt ranges from 2.70% to 3.09%. A market risk premium of 7% is applied. The unindebted beta factor ranges from 0.89 to 1.09.

The specific cost of capital per CGU was calculated. Two different peer groups were used. The same peer group was used for the Aspera, USU Service Business, USU Product Business and LeuTek cash-generating units. A separate peer group was used for USU SAS.

CGU	WACC	
	2018	2017
USU Product Business	8.74%	7.99%
USU Service Business	8.74%	7.99%
Aspera	8.73%	7.98%
Leutek	8.74%	7.99%
USU SAS	8.11%	7.39%

Annual impairment testing did not identify any impairment requirements (previous year: EUR 800 thousand).

An impairment loss recognized in a prior period for an item of property, plant and equipment or an intangible asset is reversed when there is evidence that the impairment loss recognized for the asset no longer applies or has decreased. Any reversal is recognized in profit or loss. However, any reversal or reduction of an impairment loss may not exceed the carrying amount of the asset at amortized cost that would have resulted if no impairment losses had been recognized in prior periods.

Impairment losses on goodwill cannot be reversed.

The significant assumptions applied in calculating the recoverable amounts of the cash-generating units are as follows. The calculation begins with the forecast EBIT for the respective CGU (forecast period 2019 to 2022). Working capital is forecast depending on the development of revenue. Capital expenditure is assumed to correspond to depreciation and amortization, meaning that measurement is based directly on EBIT. A growth factor of 1% is assumed for the terminal value.

7.4 Financial instruments

Under IFRS 9, financial assets are assigned to one of three categories using a uniform model:

(1) financial assets measured at amortized cost (AC);

(2) financial assets measured at fair value through other comprehensive income (FVOCI); and

(3) financial assets measured at fair value through profit or loss (FVPL).

Financial assets whose cash flows consist solely of payments of principal and interest are classified according to the underlying business model. All the Group's financial assets are assigned to the "hold to collect" business model. As there are no financial assets assigned to the "hold to collect and sell" or "other" models, there are no assets measured at fair value through other comprehensive income (2) or at fair value through profit or loss (3).

Financial assets whose cash flows consist solely of payments of principal and interest are measured at fair value through profit or loss. The Group no longer has any such assets.

The IFRS 9 impairment model takes into account future expectations and is based on expected credit losses, whereas only incurred losses were recognized as impairment losses on financial assets under IAS 39. The IFRS 9 impairment model provides for three stages and applies to all financial assets (debt instruments) that are measured either at amortized cost or at fair value through other comprehensive income:

Stage 1: includes all contracts with no significant increase in credit risk since initial recognition. Impairment is measured based on the expected credit loss within the next twelve months.

Stage 2: includes financial assets that have experienced a significant increase in credit risk but that are not yet credit-impaired. Impairment is measured based on the expected credit loss for the full remaining term.

Stage 3: includes financial assets with objective evidence of impairment or in default. The expected lifetime credit losses of the financial asset are recognized as an impairment loss.

In addition to bank balances, the Group has only recognized trade receivables as financial assets and uses the simplified (loss rate) approach for other receivables and other assets. Accordingly, these receivables are assigned to stage 2 on initial recognition and there is no assessment of a significant increase in credit risk. If there is objective evidence that the assets are impaired, they are transferred to stage 3.

A financial instrument is derecognized when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, e.g. after the end of insolvency proceedings or court decisions.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Gains or losses are recognized in profit or loss on derecognition and as a result of amortization. The Group has no financial liabilities measured at fair value through profit or loss.

7.5 Inventories

Inventories are individually carried at the lower of cost or net realizable value determined by reference to prices on the respective sales market. Inventories mainly relate to software licenses from third-party providers and IT hardware.

Inventory risks arising from reduced usability are taken into account by appropriate write-downs. No inventories were written down due to a reduction in their net realizable value at the end of the reporting period.

7.6 Contract balances

We recognize receivables for performance obligations satisfied over time as the obligation is satisfied and the full amount when the invoice is due. Judgment is required to determine whether a right to consideration is unconditional and must therefore be recognized as a receivable. Contract liabilities primarily consist of invoices due or payments received before revenue recognition. They are recognized as revenue when control of the promised products or services is transferred to the customer.

If, in any one period, it is determined that the fulfillment of a service agreement will result in a loss, the expected total loss must be expensed immediately and in full.

7.7 Deferred taxes

Deferred taxes are calculated using the asset and liability method set out in IAS 12. This involves recognizing deferred tax items for all temporary differences between the tax base of an asset or liability and its carrying amount in the IFRS statement of financial position. Deferred tax assets are also recognized on tax loss carryforwards if it is sufficiently likely that they will be utilized. Deferred taxes are calculated taking into account the respective national income tax rates that applied or are expected to apply in the individual countries at the realization date.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Write-downs are recognized on deferred tax assets when the tax benefit is more likely to be lost that used.

Deferred tax assets (liabilities) are not discounted and are reported in the consolidated statement of financial position as non-current assets (liabilities).

7.8 Treasury shares

Treasury shares are carried at their fair value on the acquisition date plus any incidental costs of acquisition and are deducted from equity. In accordance with the authorization of the Annual General Meeting, treasury shares can be used as acquisition currency and withdrawn. USU Software AG did not hold any treasury shares as of December 31, 2017 or December 31, 2018.

7.9 Other comprehensive income

This item is used to report changes in equity in other comprehensive income, to the extent that such changes do not relate to transactions with shareholders (e.g. capital increases or distributions). This includes currency translation differences, changes in pension provisions in other comprehensive income and the corresponding deferred taxes.

7.10 Pension provisions

The actuarial valuation of the pension provisions recognized for a former member of the Management Board of USU GmbH and some of the employees of LeuTek GmbH is based on the projected unit credit method for pension commitments as prescribed by IAS 19. This procedure takes into account the pension commitment at the end of the reporting period and expected future increases in pension commitments that do not take the form of one-time payments. The calculation is based on actuarial reports including biometric calculations. Actuarial gains and losses, for example from the adjustment of the discount rate, are offset against other comprehensive income in accordance with IFRS 19.37d. Current service cost is reported as an expense within EBIT. Current interest cost and the expected return on plan assets are recognized in net financial income in the consolidated statement of profit or loss.

7.11 Other provisions

Other provisions are recognized when the entity has a present (legal or constructive) obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are reviewed as of the end of each reporting period and adjusted to reflect the current best estimate. In cases where the time value of money is material, long-term provisions are discounted accordingly.

7.12 Financial liabilities

Financial liabilities are measured at fair value on initial recognition. The transaction costs directly attributable to the acquisition are also recognized for all financial liabilities not subsequently measured at fair value through profit or loss.

Trade payables and other primary financial liabilities are measured at amortized cost using the effective interest rate method.

7.13 Liabilities from advance payments

Advances received from customers not relating to services already rendered are recognized as liabilities. Where such advances relate to services already rendered, they are deducted from the costs incurred plus the unbilled contract earnings on the face of the statement of financial position.

7.14 Government grants

An unconditional government grant is recognized as other income in the consolidated statement of profit or loss as soon as a claim to the grant arises. Other government grants are initially recognized as deferred income at fair value if there is reasonable assurance that they will be granted and that the Group will comply with the conditions attaching to it. Subsequently, these other government grants are recognized as other income in the statement of profit or loss as scheduled over the asset's useful life. Grants that compensate the Group for expenses incurred are recognized in the consolidated statement of profit or loss as scheduled in the periods in which the expenses are recognized.

7.15 Contingent liabilities and events after the reporting period

Contingent liabilities are potential or existing obligations which relate to past events and which are not expected to result in an outflow of resources. They are not recognized in the statement of financial position. The obligations disclosed in these notes reflect the potential liability as of the end of the reporting period.

Events after the end of the reporting period that provide evidence that certain conditions existed at the end of the reporting period are known as adjusting events and are taken into account in the consolidated financial statements. Events after the reporting period that provide evidence that certain conditions arose after the reporting period are known as non-adjusting events and are not taken into account in the consolidated statement of financial position, but are disclosed in the notes to the consolidated financial statements if material.

7.16 Leases

Lease payments under operating leases are expensed on a straight-line basis over the term of the lease. A lease is classified as an operating lease if the lease agreement does not transfer substantially all the risks and rewards incidental to ownership to the entity as the lessee.

The Group has only entered into operating leases.

7.17 Revenue

The Group generates royalty income from licenses to software products issued to consumers, consulting services and software maintenance.

Revenue from software licenses is recognized when the software has been delivered, the purchase price has been set or is determinable, collection is reasonably assured and an agreement can be demonstrated. The revenue from consulting services is recognized when the service is rendered. The revenue attributable to maintenance services is distributed over the term of the contract on a straight-line basis.

The Group offers its customers combinations of its services, either within the framework of a single contract (combination contract, license and maintenance) or in a number of separate contracts (a bundle of license, maintenance and consulting). Contracts are combined when they are entered into at or near the same time and are interrelated (e.g. negotiated with an overall commercial objective, the consideration to be paid in one contract depends on the performance of the other contract, products in different contracts are a single performance obligation).

If the bundle of contracts or the combination contract does not constitute a combined contract as defined by IFRS 15, the Group recognizes the revenue resulting from these contract at the selling prices of the individual services. The individual prices are determined on the basis of the price that would be demanded if the good or service were sold separately.

Maintenance revenue is typically recognized over the period in which maintenance is performed. For maintenance work, the customary price is determined from the rates charged to prolong maintenance contracts by the same term and, if these are not available, on the price list approved by the Management Board of the Group. In those cases where the price of the consulting services or maintenance work to be performed in the bundle of contracts is less than the customary price, the difference from the customary prices for the consulting services or maintenance work is separated from the recognized royalty income and recognized over the period in which the consulting services or maintenance are rendered.

In cases where license fee payments are contingent on the performance of consulting services that constitute a major modification or extension of the functionality of the software, the revenue for the software license and the consulting is recognized over the period in which the necessary functionality of the software is created. The amount of revenue or income to be recognized is measured on the volume of consulting performed to date in comparison to the estimated total volume of services to be rendered until completion of the contract. Expenses for subsequent modifications by the customer are shown under unbilled work in progress provided their realization is likely and their amount can be reliably estimated.

The recognition of revenue over time is based on estimates. Given the associated uncertainty, it is possible that estimates of the costs to complete the contract may have to be subsequently adjusted. Such adjustments of income and expenses are reported in the period in which the adjustment requirement is identified.

7.18 Cost of sales

The cost of sales includes all costs that can be directly or indirectly allocated to revenue. In particular, this includes wages and salaries and any fees and royalties paid for third-party licenses.

7.19 Research and development expenses

Research and development expenses are incurred by the Group in connection with the (ongoing) development of its software. In accordance with IAS 38, research expenses are not capitalized while development costs must be recognized if all the specific criteria for recognition are met. The recognition of software development costs begins when the software becomes technically feasible and ends when the software version is launched on the market. The Group defines technical feasibility as the production of a corresponding working model. In view of the short time span between technical feasibility and the date on which the software is launched on the market, development costs are not capitalized as any such costs are immaterial. Accordingly, the Group expensed all its research and development expenditure for the period under review (2018: EUR 15,334 thousand, 2017: EUR 13,817 thousand).

8. Merger of USU AG, BIG GmbH and unitB technology and change of legal form to USU GmbH

USU AG became USU GmbH by way of company agreement dated February 6, 2018 as a result of a change of legal form in accordance with the Umwandlungsgesetz (UmwG – German Transformation Act), effective retroactively from January 1, 2018. This was entered in the commercial register of the Stuttgart Local Court under HRB 764549 on March 28, 2018. Its registered office is still Spitalhof, 71696 Möglingen, Germany.

Prior to this, the two affiliates unitB technology GmbH and B.I.G. Social Media GmbH, both based in Berlin, were merged with USU AG effective January 2, 2018. The mergers became effective on entry in the commercial register of USU AG as of March 12, 2018 and March 15, 2018 respectively.

The merger had no impact on the consolidated financial statements of the Group.

USU GmbH has 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 focuses on the intelligent digitization of service-related business processes.

Work on version 6.9 of KnowledgeCenter continued in the USU business unit unymira. This intelligent knowledge database features, for example, a new service platform, KnowledgeCloud, that uses the motto “customers help customers” to consolidate industry-related knowledge and make it available to customers. The enhancement of CONNECT in the area of social media management focused on improvements to skills-based routing, which controls communication automatically on the basis of employee skills.

9. Intangible assets

Information on the development of intangible assets can be found in the consolidated statement of changes in non-current assets (see Annexes 3A and 3B). Annexes 3A and 3B are integral parts of the notes to the consolidated financial statements.

Intangible assets include customer lists in the amount of EUR 2,170 thousand (2017: EUR 3,070 thousand), trademarks and brands (EUR 2,011 thousand) and software in the amount of EUR 2,540 thousand (2017: EUR 3,107 thousand).

The carrying amount of the customer list includes contractual customer relationships identified on the acquisition of various subsidiaries, EUR 714 thousand of which relating to unitB, EUR 516 thousand to SecurIntegration and EUR 461 thousand to BIG. The remaining useful lives are between one and ten years.

Software of EUR 2,540 thousand includes inventories of EUR 2,184 thousand (2017: 2,447 thousand) attributable to the USU SAS cash-generating unit. The estimated remaining useful life is eight years.

Intangible assets include trademarks and brands in the amount of EUR 2,011 thousand that can be allocated to the CGUs as follows:

CGU	2018 in EUR thousand	2017 in EUR thousand
USU GmbH/Omega (Product Business)	445	445
USU GmbH (Service Business)	85	85
LeuTek (Product Business)	829	829
Aspera (Product Business)	652	652
	2,011	**2,011**

From a commercial perspective, the end of the useful life of these brands cannot be determined at present.

As the trademarks and brands are included in the carrying amounts of the Group’s CGUs, the required annual impairment test is covered as part of goodwill impairment testing. Further information can be found in note 10.

The trademarks and brands relate to both the Product Business and the Service Business segments (information on segment reporting can be found in section G of these notes to the consolidated financial statements).

Any impairment losses recognized as a result of impairment testing are reported separately in the consolidated statement of profit or loss.

10. Goodwill

Goodwill exclusively contains amounts from acquisition accounting. Goodwill is tested for impairment by comparing the carrying amounts of a given CGU, including the relevant goodwill, with the higher of its value in use and its fair value less costs to sell.

The Group's goodwill results from the acquisitions of USU GmbH, Omega, LeuTek, Aspera and USU SAS.

As the operating business of USU GmbH and Omega largely overlap, Omega has been integrated into the USU GmbH (Product Business) CGU. The Group thus comprises the cash-generating units Aspera, LeuTek, USU GmbH – Product Business, USU GmbH – Service Business and USU SAS.

The fair value less costs to sell of a CGU is determined on the basis of the present value of the future cash flows. That value is calculated using a level 3 discounted cash flow method in accordance with IAS 36.134e in conjunction with IFRS 13, in which the expected payments from the CGU are discounted. These are based on the financial planning for the next fiscal year as approved by the Supervisory Board and the medium-term planning derived from it. The financial planning and medium-term planning cover a total period of four years.

Detailed financial planning is derived from the revenue forecast by the Group's management and the resulting cash inflows. Forecast revenue defines the necessary consultant capacity and the associated cash outflows. These figures are based on past experience and external market data. Payments associated with fixed costs are extrapolated on the basis of past experience. The most significant value drivers in planning are projected revenue and the EBIT margin calculated on this basis. The EBIT margin is determined in particular by projected licensing revenue for internally generated software products. The EBIT margin also takes future wage and salary increases and rising costs for freelance workers into account.

Planning is based on the following growth rates for revenue:

	2019	2020	2021	2022
USU GmbH/Omega (Product Business)	15.0%	11.4%	15.1%	12.5%
USU GmbH (Service Business)	4.1%	3.7%	3.9%	2.7%
LeuTek (Product Business)	-3.0%	5.0%	5.5%	6.8%
Aspera (Product Business)	17.7%	15.9%	10.8%	9.1%
USU SAS (Product Business)	43.1%	28.7%	23.2%	19.2%

Based on its medium-term planning, the Group's management has forecast a terminal value based on assumed annual growth of 1.0% (2017: 1.0%).

The respective discount rates are composed of a risk-free basic rate and a market risk premium weighted to reflect the risk structure of the Group and the respective CGU.

The following table provides a breakdown of goodwill across the individual CGUs:

CGU	2018 EUR thousand	2017 EUR thousand
USU GmbH/Omega (Product Business)	14,233	12,869
USU GmbH (Service Business)	4,019	2,322
LeuTek (Product Business)	10,448	10,448
Aspera (Product Business)	7,773	7,773
USU SAS (Product Business)	4,710	4,710
unitB Technology (Service Business)	0	1,697
BiG (Product Business)	0	1,364
	41,183	**41,183**

The changes in goodwill for each reporting unit in fiscal 2017 and fiscal 2018 are shown in the following table.

EUR thousand	Product Business	Service Business	Group
As of January 1, 2017	33,253	2,322	35,575
Change in 2017	3,910	1,698	5,608
As of December 31, 2017	37,163	4,019	41,183
Change in 2018	0	0	0
As of December 31, 2018	**37,163**	**4,019**	**41,183**

The changes in 2017 are attributable to the acquisition of the subsidiaries unitB Technology GmbH (EUR 1,697 thousand) and USU SAS (EUR 4,710 thousand) and to the goodwill impairment at BIG (EUR -800 thousand).

The following table shows the sensitivity of goodwill impairment to certain underlying assumptions:

Additional goodwill inimpairment at	Increase in capitalization rate of 1 percentage point	Increase capitalization rate of 1.5 percentage point
USU GmbH/Omega (Product Business)	0	0
USU GmbH (Service Business)	0	0
LeuTek (Product Business)	0	0
Aspera (Product Business)	0	0
USU SAS (Product Business)	0	0

With regard to the calculation of the recoverable amounts for the CGUs, an increase in the capitalization rate of 1 or 1.5 percentage points would not result in an impairment loss.

A reduction in forecast revenue of 10% p.a. with unchanged EBIT would not result in impairment at any CGU.

11. Property, plant and equipment

Depreciation of property, plant and equipment amounted to EUR 1,156 thousand in fiscal 2018 (2017: EUR 1,169 thousand). There are no restrictions on the Group's rights of disposal over its property, plant and equipment, nor have any such items been assigned as collateral.

Information on the composition of property, plant and equipment can be found in the consolidated statement of changes in non-current assets (see Annexes 3A and 3B).

12. Financial assets

The capitalized values of insurance policies under which the beneficiaries have no access to the insurance are reported in other financial assets; they totaled EUR 773 thousand (2017: EUR 687 thousand).

13. Inventories

Inventories in the amount of EUR 466 thousand (2017: EUR 511 thousand) essentially relate to software licenses from third-party providers and IT hardware. As there were no inventory risks at the end of the reporting period, no write-downs were necessary.

14. Unbilled work in progress (contract assets)

The following table provides an overview of total unbilled services and the associated billings as of December 31, 2018 and December 31, 2017:

	2018 in EUR thousand	2017 in EUR thousand
Contract costs plus unbilled contract earnings	8,066	7,586
of which from service contracts	4,727	5,148
of which from construction contracts	3,339	2,438
less amounts received from progress billings	-5,114	-6,298
Deferred tax assets (net)	**2,952**	**1,288**
of which: unbilled work in progress	4,526	3,468
of which: liabilities from advance payments	-1,574	-2,180

No impairment was required on contract assets in the past fiscal year or the previous year. Revenue of EUR 2,187 thousand was recognized from contract liabilities carried as liabilities in the previous year (2017: EUR 8,081 thousand).

15. Trade receivables

Trade receivables are typically non-interest-bearing and short-term in nature. This item is broken down as follows:

	2018 in EUR thousand	2017 in EUR thousand
Trade receivables	19,693	17,611
Impairment as of January 1	-168	-329
Amounts utilized in the fiscal year	73	119
Charge for the year	-155	-13
Unused amounts reversed	0	55
Impairment as of December 31	-250	-168
	19,443	**17,443**

As of December 31, 2018, trade receivables with a nominal value of EUR 787 thousand were impaired (2017: EUR 707 thousand). Of this figure, EUR 378 thousand was up to 90 days past due, EUR 349 thousand was more than 90 days past due and EUR 59 thousand was more than 360 days past due.

For receivables past due for which no impairment has been recognized, there are no indications that the respective debtors will default on their payment obligations.

There were no receivables whose due date was renegotiated and for which impairment would otherwise have been recognized either at the end of the reporting period or in the previous year.

16. Income tax receivables

Income tax receivables relate to excess payments of corporate income tax, the solidarity surcharge and trade tax.

17. Financial assets

Financial assets include receivables of EUR 750 thousand from payments deposited in a trust account in connection with the acquisition of unitB and receivables of EUR 141 thousand in connection with research funds.

18. Prepaid expenses

Prepaid expenses essentially contain prepaid trade fair costs and expenses relating to maintenance agreements.

19. Securities

Securities were all sold in 2018 at a selling price of EUR 3,014 thousand.

Year	Cost in EUR thousand	Unrealized gains in EUR thousand	Unrealized losses in EUR thousand	Market value in EUR thousand
2017	3,014	18	0	3,032
2018	0	0	0	0

20. Cash on hand and bank balances

This item is broken down as follows:

	2018 in EUR thousand	2017 in EUR thousand
Fixed-term and overnight money	5,341	deposits 5,483
Demand deposits	4,100	7,229
Cash on hand	9	3
	9,450	**12,715**

21. Equity

The development of equity is shown in the consolidated statement of changes in equity in Annex 5.

21.1 Share capital and shares

As in the previous year, the fully paid up issued capital of the company totaled EUR 10,524 thousand as of December 31, 2018. This amount is divided into 10,523,770 no-par value bearer shares each with a notional interest in the share capital of EUR 1.00.

21.2 Authorized capital

By way of resolution of the Annual General Meeting of July 4, 2017, the Management Board was authorized, subject to the approval of the Supervisory Board, to increase the company's share capital by up to EUR 2,630,942.00 on one or more occasions by issuing new no-par value bearer shares with a pro rata share in the company's share capital of EUR 1.00 per share in exchange for cash or non-cash contributions until July 3, 2022 ("Authorized Capital 2017"). Shareholders must be granted pre-emption rights. The Management Board is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' statutory pre-emption rights for fractional amounts and, if and to the extent it is required, to grant bearers of convertible bonds with conversion obligations issued by the company the right to subscribe for the new shares to which they are entitled after exercising their conversion or option rights or fulfilling the conversion obligation.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to disapply shareholders' pre-emption rights if the capital increase is made against cash contributions and the total amount of the share capital attributable to the new shares does not exceed 10% – either on the date on which this authorization is entered in the commercial register or the date on which the new shares are issued – and the issue price of the new shares is not substantially lower than the quoted price for shares of the same category already traded on the stock exchange at the time of the final determination of the issue price within the meaning of section 203(1) and (2) and section 186(3) sentence 4 of the Aktiengesetz (AktG – German Stock Corporation Act). The upper limit of 10% of the share capital is reduced by the pro rata amount of the share capital attributable to new or repurchased shares issued or sold during the term of the Authorized Capital 2017 with shareholders' pre-emption rights disapplied pursuant to or in line with section 186(3) sentence 4 AktG and the pro rata amount of the share capital that relates to option or conversion rights/obligations from bonds that were issued during the term of the Authorized Capital 2017 in accordance with section 186(3) sentence 4 AktG with the corresponding changes.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to disapply shareholders' pre-emption rights in the case of non-cash capital increases, particularly in connection with the acquisition of equity investments, companies, parts of companies, or assets – including for exchanging shares – and in the case of mergers.

The shares may also be acquired by one or more banks or a company operating in accordance with section 53(1) sentence 1 or section 53b(1) sentence 1 or (7) of the Kreditwesengesetz (KWG – German Banking Act) with the obligation to offer them to shareholders for subscription.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to stipulate further details of the implementation of capital increases from Authorized Capital 2017, including the further content of the share rights and the conditions for issuing shares.

21.3 Contingent capital

By way of resolution of the Annual General Meetings in 2000 and 2004, the company's share capital was contingently increased to EUR 378 thousand through the issue of no-par value bearer shares. The sole purpose of the contingent capital increase is to grant options to members of the Management Board and employees of the company, and to members of the management and employees of affiliated companies. There were no outstanding options as of December 31, 2018.

21.4 Capital reserves

Capital reserves essentially contain the cash premium from the issue of shares by USU Software AG and were unchanged at EUR 52,792 thousand as of the end of the reporting period.

21.5 Retained earnings

The legal reserve reported in the previous year was recognized in accordance with section 150(1) AktG and related solely to USU AG as it was at the time. In connection with the change in legal form of USU AG to USU GmbH, the legal reserve was reclassified to and reported under other retained earnings. The components of other comprehensive income are also reported under other retained earnings in 2018. These were reported separately under other comprehensive income in the previous year. Details of the composition of other retained earnings can be found in the statement of changes in equity in Annex 5 and the consolidated statement of comprehensive income in Annex 2.

21.6 Earnings per share

In accordance with IAS 33, basic and diluted (due to the lack of dilutive effect) earnings per share for the individual periods are calculated by dividing the Group's net profit for the period by the annual average number of shares outstanding.

	2018	2017
Consolidated earnings attributable to the shareholders of USU Software AG: EUR thousand	961	3,367
Average number of shares during the year (number)	10,523,770	10,523,770
Basic and diluted earnings per share: EUR	0.09	0.32

The number of shares outstanding at the end of the reporting period is calculated as follows:

	2018	2017
Number of shares as of January 1	10,523,770	10,523,770
Number of shares as of December 31	**10,523,770**	**10,523,770**

21.7 Appropriation of net profit

The resolution on the utilization of USU Software AG's unappropriated surplus in fiscal 2017 was adopted at the Annual General Meeting on July 28, 2018. The Annual General Meeting approved the proposal of the Management Board and Supervisory Board to distribute a dividend of EUR 0.40 for the 10,523,770 participating shares (EUR 4,209 thousand).

For fiscal 2018, the Management Board is proposing to distribute a dividend of EUR 0.40 per share for a total of 10,523,770 no-par value shares (EUR 4,209 thousand) from the unappropriated surplus of USU Software AG as of December 31, 2018

22. Financial liabilities

Non-current financial liabilities include a put option for the purchase of 2.63% of shares in USU SAS in the amount of EUR 250 thousand.

23. Pension provisions

The Group has pension commitments to LeuTek employees that provide for a one-time payment for the beneficiaries at the age of 65. USU GmbH also has a pension plan for a former Management Board member and a current member of the Supervisory Board. This defined benefit plan guarantees the beneficiary a life-long monthly pension. There are also pension commitments to all senior employees of USU SAS who will receive a one-time payment on reaching the age of 62.

The pension provisions of LeuTek and USU GmbH have been calculated using the projected unit credit method in accordance with IAS 19. The future obligations were measured using actuarial calculations. The calculations were based on the 2018 G Heubeck mortality tables, assuming a discount rate of 1.90% (2017: 2.05%). In the case of the pension plan, it is assumed, as in the previous year, that subsequent contributions will rise by 1% during the vesting period and 2% after pension payments begin. As pension obligations to employees are one-time payments, a pension trend of 0% is applied. In the case of pension commitments to employees, the same fluctuation probabilities as in the previous year were used for each individual based on their age. In the case of the pension plan, a fluctuation rate of 0% was used (2017: 0%). The average annual return on plan assets is expected to be 1.90% (2017: 2.05%). Management bases its calculations on historical income trends and market forecasts by analysts.

The pension provisions of USU SAS were calculated using the INSEE 2012-2014 mortality tables and an interest rate of 1.5% (2017: 1.45%). A fluctuation rate of 8% (2017: 8%) was assumed for pension commitments for employees.

Actuarial gains and losses are offset against accumulated losses in other comprehensive income. The measurement date for the pension obligation was December 31, 2018.

As of December 31, 2018, the company offset (cumulative) total actuarial losses netted against actuarial gains of EUR -1,838 thousand against accumulated losses.

The company's policy is to invest amounts with insurance companies to cover the actuarial present value of its pension obligation. Insofar as they were pledged to the beneficiaries, insurance policies were classified as qualifying plan assets.

The following tables show the development of the pension obligation and plan assets.

Development of the pension obligation:

	2018 in EUR thousand	2017 in EUR thousand
Present value of benefit obligation at the start of the fiscal year	4,044	4,057
Current service cost	60	138
Interest cost	80	76
Actuarial gains/losses in other comprehensive income from		
- demographic assumptions	24	0
- financial assumptions	75	-227
- experience adjustments	-147	0
Present value of benefit obligation at the end of the fiscal year	**4,136**	**4,044**

Development of the pension obligation:

	2018 in EUR thousand	2017 in EUR thousand
Fair value of plan assets at the start of the year under review	1,841	1,791
Income from plan assets (interest income)	38	28
Payments into plan assets (employer)	-24	19
Amortization of plan assets	0	0
Actuarial gains/losses in other comprehensive income	-30	3
Fair value of plan assets at the end of the fiscal year	**1,825**	**1,841**

Development of the obligation reported in the statement of financial position:

	2018 in EUR thousand	2017 in EUR thousand
Present value of pension obligation	4,136	4,044
Fair value of plan assets	1,825	1,841
Obligation reported in the statement of financial position	**2,311**	**2,203**

There were no significant adjustments to the pension obligation or the plan assets to reflect past experience. Employer contributions to plan assets for fiscal 2019 are estimated at EUR 49 thousand.

The following amounts were recognized in the statement of profit or loss:

	2018 in EUR thousand	2017 in EUR thousand
Current service cost	-60	-138
Interest cost	-80	-76
Income from plan assets (interest income)	38	28
Amortization of plan assets	0	0
	-102	**-187**

The interest cost arising from the discounting of the pension provision and the income from plan assets are recognized in net financial income. Current service cost is reported in operating expenses.

Sensitivity analysis:
With other assumptions remaining constant, changes in one of the major actuarial assumptions that were considered reasonably possible at the end of the reporting period would have influenced the defined benefit obligation by the following amounts.

December 31, 2018 Effect in EUR thousand	Increase in defined benefit obligation EUR thousand	Reduction in defined benefit obligation EUR thousand
Discount rate (1% change)	558	-460
Future pension trend (1% change)	419	-347

Although the analysis does not consider the full distribution of the planned cash flows, it provides an approximation of the sensitivity of the assumptions presented.

The weighted average duration of the pension obligation was around 17 years as of December 31, 2018.

On the basis of coverage from insurance policies, the following net pension payments are forecast for the next ten years for the defined pension commitments existing as of the end of the reporting period:

Fiscal year as of December 31	Expected payments EUR thousand
2019 – 2023	0
2024 – 2028	109

A pension commitment has been entered into for the Management Board members of the Group subsidiary USU GmbH. This pension commitment is covered by an insurance policy. This defined contribution plan does not result in any liability for the Group beyond the premiums payable to the insurer. Pension expenses under defined contribution plans totaled EUR 42 thousand in the year under review (2017: EUR 52 thousand).

In addition, the German statutory pension scheme is considered to represent a defined contribution plan. The expenses recognized for the statutory pension scheme amounted to EUR 2,900 thousand (2017: EUR 2,628 thousand), EUR 25 thousand of which relates to Management Board members (2017: EUR 33 thousand).

24. Income tax liabilities

Income tax liabilities of EUR 616 thousand (2017: EUR 1,266 thousand) essentially result from corporation tax (EUR 300 thousand) and the solidarity surcharge and from trade tax for USU GmbH (EUR 296 thousand), for which there are no longer any tax loss carryforwards.

25. Financial liabilities

The current financial liabilities reported as of December 31, 2018 essentially comprise purchase price liabilities of EUR 750 thousand resulting from the acquisition of unitB as of January 1, 2017.

26. Personnel-related liabilities

Personnel-related liabilities all have a term of less than one year and are composed of the following items:

	2018 in EUR thousand	2017 in EUR thousand
Vacation and variable compensation	6,238	6,117
Other personnel-related liabilities	1,351	1,304
	7,589	**7,421**

	As of 01.01.2018 EUR thousand	Utilization EUR thousand	Reversals EUR thousand	Additions EUR thousand	As of 31.12.2018 EUR thousand
Vacation and variable compensation	6,117	4,615	0	4,736	6,238
	6,117	**4,615**	**0**	**4,736**	**6,238**

27. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2018 in EUR thousand	2017 in EUR thousand
Other liabilities	2,385	2,278
Other provisions	1,004	1,084
	3,389	**3,362**

	As of 01.01.2018 EUR thousand	Utilization EUR thousand	Reversals EUR thousand	Additions EUR thousand	As of 31.12.2018 EUR thousand
Other provisions	1,084	944	127	991	1,004
	1,084	**944**	**127**	**991**	**1,004**

Other provisions essentially comprise provisions for obligations under company law and other identifiable individual risks with a term of no longer than one year. Other liabilities essentially comprise VAT liabilities.

28. Liabilities from advances received (contract liabilities)

The item firstly relates to advances that exceed the services rendered for the individual contracts in question. Further information in this regard can be found in the disclosures on unbilled work in progress (note 14). Secondly, advances received for licenses ordered are also included in this item.

29. Trade payables

All trade payables are due within one year. The figure for the year under review includes liabilities for outstanding invoices received in the amount of EUR 780 thousand (2017: EUR 736 thousand).

30. Additional disclosures on financial instruments

The following tables show the relationships between the categories of financial instruments prescribed by IFRS 9 (previous year: IAS 32/39), the classification of financial instruments in accordance with IFRS 7 and the carrying amounts of financial instruments. At the company, classification in accordance with IFRS 7 corresponds to the categories of financial instruments prescribed by IFRS 9 (previous year: IAS 32/39). The fair values are also shown; at the company, these were the same as the corresponding carrying amounts in both the year under review and the previous year.

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. A far value hierarchy must be established with three levels of measurement based on whether the fair value of financial instruments was determined by reference to quoted prices in active markets (level 1), derived from quoted prices in active markets (level 2) or derived from unobservable inputs (level 3).

in EUR thousand as of December 31, 2018	IFRS 9 category/ IFRS 7 class	Carrying amount	Measurement in accordance with IFRS 9			Fair value
			Amortized cost	Fair value taken directly to equity	Fair value recognized in profit or loss	
Work in progress	IFRS 15	4,526	4,526	0	0	4,526
Trade receivables	Amortized Cost	19,443	19,443	0	0	19,443
Financial assets (current)	Amortized Cost	1,033	1,033	0	0	1,033
Cash on hand and bank balances	Amortized Cost	9,450	9,450	0	0	9,450
Aggregated by class/category						
Loans and receivables	Amortized Cost	29,926	29,926	0	0	29,926
Work in progress	IFRS 15	4,526	4,526	0	0	4,526

in EUR thousand as of December 31, 2018	IFRS 9 category/ IFRS 7 class	Carrying amount	Measurement in accordance with IFRS 9			Fair value
			Amortized cost	Fair value taken directly to equity	Fair value recognized in profit or loss	
Financial liabilities						
Trade payables	Amort. cost [1)]	3,689	3,689	0	0	3,689
Liabilities from advance payments	Amort. cost/ IFRS 15	6,563	6,563	0	0	6,563
Aggregated by class/category						
Measured at amortized cost	Amort. cost/ IFRS 15	10,252	10,252	0	0	10,252

1) Amort. cost: Amortized cost

in EUR thousand as of December 31, 2017	IAS 39 category/ IFRS 7 class	Carrying amount	Measurement in accordance with IAS 39 Amortized cost	Fair value taken directly to equity	Fair value recognized in profit or loss	Fair value
Work in progress	IAS 11	3,468	3,468	0	0	3,468
Trade receivables	L+R [1]	17,443	17,443	0	0	17,443
Other current financial assets	L+R	1,279	1,279	0	0	1,279
Securities	Afs [4]	3,014	0	3,014	0	3,014
Cash on hand and bank balances	L+R	12,715	12,715	0	0	12,715
Aggregated by class/category						
Loans and receivables	L+R	31,437	31,437	0	0	31,437
Work in progress	IAS 11	3,468	3,468	0	0	3,468
Available for sales	Afs	3,014	0	3,014	0	3,014

in EUR thousand as of December 31, 2017	IAS 39 category/ IFRS 7 class	Carrying amount	Measurement in accordance with IAS 39 Amortized cost	Fair value taken directly to equity	Fair value recognized in profit or loss	Fair value
Financial liabilities						
Trade payables	amort. cost [2]	**3,567**	**3,567**	**0**	**0**	**3,567**
Liabilities from advance payments	amort. cost/ IAS 11	**7,457**	**7,457**	**0**	**0**	**7,457**
Aggregated by class/category						
Measured at amortized cost	amort. cost/ IAS 11	11,024	11,024	0	0	11,024
fair value through profit or loss						

[1] L+R: Loans and receivables
[2] Amort. cost: Amortized cost
[3] FVTPOL: Measured at fair value through profit or loss (level 3)
[4] Afs: Available for sale (level 1)

Cash on hand and bank balances, unbilled work in progress, trade receivables and other receivables typically have short remaining terms. Their carrying amounts as of the end of the reporting period therefore approximately match their fair value. The same applies to trade payables and other liabilities.

The following table shows the net income from financial instruments broken down by IFRS 9 category:

EUR thousand	**from interest**	**from subsequent valuation** at Fair value	Valuation allow-ances	Appreci-ation	Accumu-lation	from currency translation	**From disposals**	**Net profit/loss** 2018	2017
Net gains/losses from financial instruments classified as									
Loans and receivables	27	0	0	23	0	101	40	191	-44
Financial liabilities at amortized cost	0	0	0	0	0	0	0	0	0
Financial assets at fair value through profit or loss	0	0	0	0	0	0	0	0	211
Total	**27**	**0**	**0**	**23**	**0**	**101**	**40**	**191**	**167**

The interest from financial instruments and the other components of the net profit are recognized in net financial income (see notes 40 and 41). This does not include impairment on trade receivables, which are reported under selling expenses.

As in the previous fiscal year, income and expenditure from fees and commission were not material in the year under review.

The following table provides an overview of the impairment for each class of financial asset:

	2018 in EUR thousand	2017 in EUR thousand
Impairment recognized in the category Amortized cost (previous year: loans and receivables)	104	0

31. Deferred income

Deferred income relates to income from maintenance and service agreements for software invoiced in the period under review.

32. Deferred taxes

Given the positive business development in previous years and the growth in earnings forecast for the period from 2019 to 2023, deferred tax assets are recognized at USU Software AG for tax loss carryforwards of the consolidated tax group in the amount of the deferred tax liabilities of the tax consolidated group and for the forecast future results. The amount recognized was determined on the basis of the forecast results of USU Software AG approved by the Supervisory Board for a five-year planning period. Deferred tax liabilities are offset against deferred tax assets at the level of the consolidated tax group.

Deferred tax assets and liabilities result from the following items of the statement of financial position:

	2018 EUR thousand	2017 EUR thousand	Change recognized in profit or loss 2018 EUR thousand	Change taken directly to equity 2018 EUR thousand
Deferred tax assets:				
Provisions	455	456	-3	2
Prepaid expenses	0	0	0	
Intangible assets	460	533	-74	
Property, plant and equipment	8	8	0	
Other assets	80	171	-91	
From loss carryforwards	5,940	5,894	46	
Deferred tax assets (gross)	**6,943**	**7,062**	**-122**	**2**
Less netting	-1,003	-1,163		
Deferred tax assets (net)	**5,940**	**5,899**		
Deferred tax liabilities:				
Undistributed profits	337	338	1	
Provisions	0	1	1	
Intangible assets	2,094	2,529	435	
Work in progress	676	663	-13	
Other assets	70	91	21	
Deferred tax liabilities (gross)	**3,177**	**3,620**	**443**	**0**
Less netting	-1,003	-1,163		
Deferred tax liabilities (net)	**2,174**	**2,457**	**322**	**2**
Deferred tax assets (net)	**3,766**	**3,442**	**322**	**2**
After netting:				
Deferred tax assets	5,940	5,899		
Deferred tax liabilities	2,174	2,457		

As of December 31, 2018, deferred tax assets on tax loss carryforwards in Germany of approximately EUR 16,687 thousand (2017: EUR 16,775 thousand) were not recognized as corresponding taxable income is not expected to be generated in the near future. For the same reason, deferred tax assets were not recognized on foreign tax loss carryforwards totaling approximately EUR 7,135 thousand (2017: approximately EUR 3,804 thousand). Tax loss carryforwards for German income tax can be carried forward indefinitely, although there are restrictions on the amount which can be used to offset taxable income in a given year.

E. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

33. Revenue

A breakdown of revenue by segment can be found in the segment reporting (section G of the notes to the consolidated financial statements).

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

	2018 in EUR thousand	2017 in EUR thousand
Consulting	50,420	44,526
Licenses	13,300	15,559
Service and maintenance	25,967	22,275
Other	800	2,001
	90,487	**84,361**

34. Cost of sales

The cost of sales includes the following expenses:

	2018 in EUR thousand	2017 in EUR thousand
Personnel expenses	23,491	21,762
Fees for freelance staff and temporary workers	11,223	8,790
Depreciation and amortization	754	586
Other expenses	8,085	7,705
43,553	**38,843**	

35. Selling and marketing expenses

Selling and marketing expenses include the following expenses:

	2018 in EUR thousand	2017 in EUR thousand
Personnel expenses	11,979	11,547
Depreciation and amortization	1,081	188
Other expenses	5,735	5,493
	18,795	**17,228**

36. General and administrative expenses

General and administrative expenses include the following expenses:

	2018 in EUR thousand	2017 in EUR thousand
Personnel expenses	6,715	5,770
Depreciation and amortization	285	301
Other expenses	3,598	3,267
	10,598	**9,338**

37. Research and development expenses

Research and development expenses include the following expenses:

	2018 in EUR thousand	2017 in EUR thousand
Personnel expenses	11,615	10,552
Depreciation amortization	679	and 344
Other expenses	3,040	2,921
	15,334	**13,817**

38. Other operating income

This item essentially includes research funds in the form of government grants in the amount of EUR 553 thousand (2017: EUR 691 thousand), income from the reversal of provisions in the amount of EUR 127 thousand (2017: EUR 22 thousand) and income from currency translation differences of EUR 55 thousand (2017: EUR 68 thousand). Government grants were grants for income received in line with subsidized expenses. The grants have been recognized under other operating income. Receivables from grants for income are reported under current financial assets. According to the Management Board, there are no unfulfilled conditions or other contingencies.

39. Other operating expenses

This item includes the VAT from non-cash benefits amounting to EUR 149 thousand (2017: EUR 142 thousand). It also includes expenses resulting from exchange rate differences in the amount of EUR 346 thousand (2017: EUR 128 thousand).

40. Finance income

Financial income includes the following items:

	2018 in EUR thousand	2017 in EUR thousand
Interest income	27	30
Income from currency differences in bank balances	133	36
Other	24	24
Finance income	**184**	**90**

41. Finance costs

Financial costs include the following expenses:

	2018 in EUR thousand	2017 in EUR thousand
Cost of currency differences in bank balances	32	128
Other	48	71
Finance costs	**80**	**199**

42. Income taxes

Income taxes are composed as follows:

	2018 in EUR thousand	2017 in EUR thousand
Income taxes for the fiscal year	-2,197	-1,115
Income taxes for previous years	25	13
Deferred taxes	322	1.356
Tax expenditure (-)/ tax income (+)	**-1,850**	**254**

In fiscal 2018, the company's income was again subject to a corporate income tax rate of 15%, plus a solidarity surcharge of 5.5% on corporate income tax, and an effective trade tax rate of 12.8%. The total tax rate including solidarity surcharge and effective trade tax was 28.6%. The tax rate for the consolidated tax group was 30.0%.

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

The following table shows a reconciliation of tax income/expense based on the theoretical tax rate of the parent company:

	2018 in EUR thousand	2017 in EUR thousand
Profit before income taxes	2,811	3,113
Theoretical tax expense (28.6%) (2017: 28.6%)	-804	-890
Changes in the theoretical tax expense due to:		
Offsetting of the valuation allowances on deferred taxes on loss carryforwards/use of loss carryforwards that were not previously capitalized	-134	1,356
Loss carryforwards that were not recognized	-1,189	0
Tax back payments/ refunds for prior periods	25	-13
Tax-exempt income/ non-deductible expenses	109	-137
Deviation of tax rates from the Group's tax rate	143	-62
Tax expenditure (-)/ tax income (+)	**-1,850**	**254**

43. Other disclosures on the statement of profit or loss

The average number of employees (quarterly average) in the fiscal year was:

	2018	2017
Consulting and services	318	295
Research and development	194	194
Administration and finance	89	81
Sales and marketing	93	90
	694	**660**

Staff costs break down as follows:

	2018 in EUR thousand	2017 in EUR thousand
Salaries	43,439	43,670
Social security, pensions and other benefit costs	10,361	5,962
	53,800	**49,632**

Depreciation and amortization expense can be broken down as follows:

	2018 in EUR thousand	2017 in EUR thousand
Amortization of intangible assets	1,643	1,646
Depreciation of property, plant and equipment	1,156	1,169
Goodwill impairment	0	800
	2,799	**3,615**

Amortization of intangible assets includes the amortization of intangible assets recognized in connection with company acquisitions in the amount of EUR 1,408 thousand (2017: EUR 1,397 thousand).

F. NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows shows the changes in the Group's cash in the year under review as a result of cash inflows and outflows. The effects of acquisitions and other changes in the consolidated group are eliminated. When purchased subsidiaries are consolidated for the first time, only the actual cash flows are shown in the statement of cash flows. In accordance with IAS 7, a distinction is made between cash flows from operating, investing and financing activities. The cash and cash equivalents shown in the statement of cash flows correspond to the item "Cash on hand and bank balances" in the statement of financial position (see note 47). Investments in securities are made more with a view to generating a profit than for liquidity purposes, and are therefore not included in cash and cash equivalents.

Cash flows from investing and financing activities are calculated on the basis of the actual cash payments, whereas cash flows from operating activities are derived indirectly from the net profit for the period. This indirect calculation eliminates the effects contained in items of the statement of financial position due to currency translation and changes in the consolidated group. As a result, changes in the items concerned of the statement of financial position cannot always be derived from the consolidated statement of financial position.

44. Net cash from operating activities

The USU Group generated net cash from operating activities of EUR 1,996 thousand in fiscal 2018 (2017: EUR 5,171 thousand).

45. Net cash used in investing activities

Net cash used in investing activities totaled EUR -1,138 thousand in the 2018 reporting year after EUR -8,225 thousand in fiscal 2017.

Investments in property, plant and equipment and intangible assets totaled EUR 1,145 thousand (2017: EUR 1,375 thousand) and essentially relate to cash outflows for new and replacement investments in hardware and software.

46. Net cash used in financing activities

Net cash used in financing activities in the period under review related to the dividend distribution to USU Software AG shareholders in fiscal 2018 in the amount of EUR 4,209 thousand (EUR 0.40 per share for a total of 10,523,770 no-par value shares).

47. Cash and cash equivalents

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

	2018 in EUR thousand	2017 in EUR thousand
Fixed-term deposits and overnight money with a term of less than 3 months	5.341	5.483
Demand deposits	4.100	7.229
Cash on hand	9	3
	9.450	**12.715**

G. SEGMENT REPORTING

IFRS 8 verlangt die Angabe von Informationen über die GeIFRS 8 requires the disclosure of information on the Group's business segments in accordance with the management approach. It also states that the reporting segments must be the same as those used for internal reporting.

USU operates in two business segments: Product Business and Service Business.

The product range of the **"Product Business"** segment includes those activities relating to USU's product portfolio in the markets for business service management and knowledge solutions. This includes products and services for areas such as:

- infrastructure management (efficient administration of IT assets, contracts and software licenses);
- service/change management (compliance with and formalization of IT service processes including procurement, support and maintenance);
- finance management (transparency, planning and budgeting in addition to charging of IT costs and services based on their origin);
- process management (monitoring, visualization and controlling of all systems and processes required for IT operation); and
- knowledge management for the optimization of knowledge-intensive business processes.

The **"Service Business"** segment comprises consulting services for IT projects and individual application development. The service portfolio covers a wide range of technical topics that are implemented using dedicated methods and proven process models. These include selected specialist areas, the in-house implementation of IT projects and providing project support with qualified IT staff.

Unallocated activities essentially comprise the administrative expenses incurred by the parent company (Management Board, Finance, Legal etc.), sales of goods to employees, the on-charging of liability insurance premiums to freelance staff, current financial instruments and bank balances.

Internal management and reporting are based on the IFRS accounting standards described in note 7. The Group measures the success of its segments based on the key performance indicator described in our internal management and reporting as "EBIT".

Segment EBIT is composed of the gross income from revenue, selling and marketing expenses, general and administrative expenses, research and development expenses, amortization of intangible assets capitalized as a result of business combinations, goodwill impairment and other operating income and expenses.

As with the segment profit/loss, segment assets and segment liabilities are determined in accordance with the accounting standards used by the Group in the consolidated financial statements.

Segment assets comprise all assets except those from income taxes or certain financial instruments (including liquidity).

Segment liabilities comprise all liabilities except those from income taxes, pension liabilities and similar obligations or certain financial instruments (including financial liabilities).

The information on segment investments, depreciation and amortization in the following table includes intangible assets (including goodwill) and property, plant and equipment.

The following table provides a reconciliation of segment revenue and earnings to consolidated revenue and earnings.

EUR thousand	Product business		Service business		Segments (total)		Unallocated		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales	68,425	64,532	21,789	19,696	90,214	84,228	273	133	90,486	84,361
Earnings before net financial income and income tax (EBIT)	6,871	7,413	1,858	1,694	8,729	9,107	-6,022	-5,886	2,707	3,222
Finance income	32	24	1	1	33	25	151	65	184	90
Finance expenses	-20	-37	0	-6	-20	-43	-60	-156	-80	-199
Income taxes	12	34	348	99	360	132	-2,210	121	-1,850	253
Consolidated net profit	**6,895**	**7,434**	**2,207**	**1,788**	**9,102**	**9,222**	**-8,141**	**-5,857**	**961**	**3,367**
Segment assets/ Group assets	67,629	70,408	12,897	13,140	80,526	83,548	14,618	15,837	95,144	99,385
of which goodwill	37,164	37,164	4,019	4,019	41,183	41,183	0	0	41,183	41,183
Segment liabilities/ Group liabilities	24,910	25,270	3,523	4,520	28,433	29,790	7,046	6,590	35,479	36,380
Segment investments	718	962	382	293	1,100	1,255	44	120	1,144	1,375
Depreciation and amortization	2,020	2,075	634	589	2,654	2,664	145	151	2,799	2,815
Amortization of goodwill	0	800	0	0	0	800	0	0	0	800
Employees at the reporting date (Dec. 31)	496	482	109	104	605	586	89	82	694	668

There was no intersegment revenue in fiscal 2018 or the previous year.

In fiscal 2018, EUR 66,242 thousand (2017: EUR 60,573 thousand) or 73.21% (2017: 71.80%) of consolidated revenue was generated in Germany. Revenue generated outside Germany amounted to EUR 24,245 thousand (2017: EUR 23,788) or 26.79% of total revenue (2017: 28.20%). In particular, international revenue of EUR 7,973 thousand was generated in the US (2017: EUR 10,896 thousand), EUR 5,670 thousand in Switzerland (2017: EUR 2,101 thousand) and EUR 1,459 thousand in Austria (2017: EUR 2,158 thousand). The geographic allocation of revenue is based on the country in which the respective customer is domiciled.

The Group has no transactions with external individual customers accounting for more than 10% of its revenue.

Investments outside Germany account for 15% of the consolidated total amount. Investments outside Germany essentially comprise the Group companies in the US, Czechia and France.

The following table shows the reconciliation of segment assets and liabilities to Group assets and liabilities:

	2018 in EUR thousand	2017 in EUR thousand
Segment assets	**80,526**	**83,548**
Unallocated assets		
Cash on hand and bank balances	5,393	4,501
Securities	0	3,014
Deferred tax assets	5,940	5,899
Income tax receivables	943	636
Other assets	2,342	1,787
	14,618	**15,837**
Group assets	**95,144**	**99,385**

	2018 in EUR thousand	2017 in EUR thousand
Segment liabilities	**28,433**	**29,790**
Unallocated liabilities		
Financial liabilities	1,000	0
Deferred tax liabilities	1,378	1,205
Pension provisions	1,265	1,279
Other income tax liabilities	613	1,206
Other liabilities	2,790	2,900
	7,046	**6,590**
Group liabilities	**35,479**	**36,380**

H. OTHER DISCLOSURES

48. Related party disclosures

Als nahestehende Personen („Related Parties“) der USU SoftIn accordance with IAS 24, the related parties of USU Software AG are defined as persons or entities with the ability to control the Group or exercise significant influence over it, including members of management and the Supervisory Boards, and any persons or entities over which the Group has significant influence. Companies that are already included in consolidation are not considered related parties.

The senior management and the members of the Supervisory Board are considered as related parties within the meaning of IAS 24.9. In fiscal 2018, the business relationships described below existed between members of the Management Board and the Supervisory Board and the persons and entities not included in the consolidated financial statements.

The Management Board confirms that all the related party transactions described below were conducted under arm's-length conditions.

48.1 Udo Strehl/AUSUM GmbH (AUSUM)

USU GmbH reimbursed AUSUM for costs of EUR 2 thousand (2017: EUR 0 thousand) in fiscal 2018. In return, in 2018 USU GmbH invoiced AUSUM for pro rata vehicle costs in the amount of EUR 7 thousand (2017: EUR 10 thousand).

48.2 Karin Weiler-Strehl

USU GmbH engages the consulting services of Ms. Karin Weiler-Strehl, the wife of Mr. Udo Strehl, via AUSUM on a contract-by-contract basis. The expenses for these consulting contracts with Ms. Weiler-Strehl amounted to EUR 36 thousand in fiscal 2018 (2017: EUR 36 thousand).

USU GmbH leased the Spitalhof administrative building in Möglingen from Ms. Karin Weiler-Strehl. On July 20, 2007, these two parties entered into a new lease running until December 31, 2017. The lease is extended by an additional four years if it is not terminated at least 24 months before the end of its term. As notice has not been given on the lease, its term has been extended to December 31, 2021. In line with this agreement, the total monthly rent amounts to EUR 21 thousand (2017: EUR 24 thousand) plus ancillary costs. In the past fiscal year, USU GmbH was invoiced EUR 263 thousand (2017: EUR 299 thousand) for the rental of the administrative building and parking spaces.

USU Software AG also leased an office in Münchinger Strasse, Möglingen, from Ms. Karin Weiler-Strehl. In the past fiscal year, rent of EUR 10 thousand (2017: EUR 10 thousand) was paid for this office.

48.3 Stefan Merkel/Lysant GmbH (Lysant)

Through Stefan Merkel, USU commissioned Lysant to provide technical consulting and support in the areas of test management and design. Contracts in the amount of EUR 134 thousand (2017: EUR 0 thousand) were awarded to Lysant in the year under review. Incoming orders from Lysant amounted to EUR 22 thousand (2017: EUR 0 thousand).

48.4 Loans to shareholders

There were no claims under loan agreements as of December 31, 2018.

48.5 Compensation of senior management and the Supervisory Board

The management of the Group's business is the responsibility of the members of the Management Board of USU Software AG and USU GmbH:

Bernhard Oberschmidt	(Chief Executive Officer)
Dr. Benjamin Strehl	(Executive Vice President)
Bernhard Böhler	(Executive Vice President)

The compensation paid to the members of the Management Board totaled EUR 888 thousand in fiscal 2018 (2017: EUR 1,186 thousand).

Fixed remuneration:
EUR 501 thousand (2017: EUR 593 thousand)

Variable remuneration:
EUR 295 thousand (2017: EUR 477 thousand)

Non-cash benefit from the private use of company cars:
EUR 50 thousand (2017: EUR 64 thousand)

Defined contribution pension costs:
EUR 42 thousand (2017: EUR 52 thousand)

The total compensation paid to the Supervisory Board in fiscal 2018 was EUR 120 thousand (2017: EUR 107 thousand). Details of the compensation paid to the Supervisory Board are described in the management report of the company and the Group in the "Compensation report".

Information on the pension provision recognized for a member of the Supervisory Board and a former member of the Management Board in the amount of EUR 2,787 thousand before offsetting against plan assets in the amount of EUR 1,522 thousand can be found in note 23.

49. Auditor's fees

a) Audits of financial statements (separate and consolidated financial statements)
   EUR 194 thousand (2017: EUR 128 thousand)
b) Other services
   EUR 6 thousand (2017: EUR 7 thousand)

In addition to audits of financial statements, other services were performed for the parent company and its controlled subsidiaries. These comprise audit assessments in connection with the preparation of the quarterly financial statements of USU Software AG in fiscal 2018.

50. Other disclosures

50.1 Contingent liabilities

There were no reportable contingent liabilities as of December 31, 2017 or December 31, 2018.

50.2 Other financial commitments

The company has leased some of its office and operating equipment in addition to vehicles (operating leases) and office buildings. The interest rates stipulated in the lease agreements are standard market rates. There are no beneficial purchase or extension options at the end of the leases for the office buildings, the operating and other equipment or the vehicles. There were no sale and leaseback transactions in either of the fiscal years. The annual expected minimum payments under leases and rental agreements and other financial obligations can be broken down as follows:

	2018 in EUR thousand	2017 in EUR thousand
Operating lease obligations		
In the next 12 months	936	679
In the next 13 to 60 months	499	530
In more than 60 months	0	0
	1,435	**1,209**
Other financial commitments from building rental		
In the next 12 months	2,078	1,538
In the next 13 to 60 months	3,113	2,960
In more than 60 months	44	0
	5,235	**4,498**
	6,670	**5,707**

Expenses for operating leases and rental agreements totaled EUR 3,000 thousand in fiscal 2018 (2017: EUR 2,624 thousand). EUR 1,131 thousand of this relates to operating leases and EUR 1,869 thousand to rental agreements.

51. Litigation, other contingent liabilities and events after the reporting period

In the course of its normal business operations, the company can be subject to litigation, claims for damages or court proceedings including product liability issues and commercial disputes. The outcome of currently pending or future litigation cannot be predicted with reasonable assurance, hence future court decisions may result in expenses that are not fully covered by the insurance in place and that could have a material impact on the company's business, financial position and operating results. In the opinion of the company and its legal counsel as of December 31, 2018 and December 31, 2017, no decisions that could have a material impact effect on the net assets and results of operations of the Group are expected from the litigation that is currently pending.

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

52. Executive bodies

52.1 The Management Board

In fiscal 2018, the Management Board of the parent company consisted of:

Bernhard Oberschmidt,
Chairman of the Management Board, economics graduate

Bernhard Böhler,
Deputy Chairman of the Management Board

Dr. Benjamin Strehl,
business graduate

The total compensation paid to the active members of the Management Board in the past fiscal year was EUR 888 thousand. Details can be found in the "Compensation report" in the management report of the company and the Group.

52.2 The Supervisory Board

In fiscal 2018, the Supervisory Board consisted of:

Udo Strehl, Chairman
Managing Director of AUSUM GmbH, Möglingen
Chairman of the Supervisory Board of USU GmbH, Möglingen

Günter Daiss, Deputy Chairman
(until December 31, 2018)
Managing Director of Daiss Agrar, Hungary
Managing Director of Green Kft., Hungary
Deputy Chairman of the Supervisory Board of USU GmbH, Möglingen

Erwin Staudt,
management consultant, Leonberg
Member of the Supervisory Board of Grenke AG, Baden-Baden
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU GmbH, Möglingen
Member of the Advisory Board of Interstuhl Büromöbel GmbH & Co. KG, Meßstetten

Gabriele Walker-Rudolf
(from January 17, 2019)

The total compensation paid to the active members of the Supervisory Board in the past fiscal year was EUR 101.9 thousand. Details can be found in the "Compensation report" in the management report of the company and the Group.

52. Financial risk management

In its financial activities, the Group is subject to various risks that are assessed, managed and monitored by way of systematic risk management. The following section discusses the management of credit risk, liquidity risk and market risk (exchange rate, interest rate and securities price risk).

53.1 Credit risk

The Group is exposed to credit risk in conjunction with its cash funds and trade receivables.

Cash funds are deposited with banks of good standing and companies with good credit ratings. The Group constantly monitors the creditworthiness of these companies and does not expect any defaults. As no collateral has been pledged, the risk of default is limited to the amount recognized in the statement of financial position.

The default risk for trade receivables is minimized by constantly monitoring the creditworthiness of the respective counterparties. As there are no general netting agreements with customers, the total of the amounts reported as assets also represents the maximum default risk.

In the event that the Group becomes aware of any evidence that the ability of a particular customer to meet its financial obligations is impaired, it recognizes a specific impairment loss on the amounts due in order to reduce the net receivable to the most likely recoverable amount. The Group also performs portfolio-based measurement to reflect the risk of uncollectability.

As in the previous year, there are no indications that the Group's debtors whose financial assets are neither past due nor impaired will default on their payment obligations.

53.2 Liquidity risk

The cash funds required by the Group in order to meet its financial obligations are largely covered by its ongoing operations. The Group also has credit facilities to cover any liquidity bottlenecks.

With the exception of the liability described in note 22, the company's financial liabilities are all current, i.e. due within one year.

53.3 Interest-related cash flow risk

At USU Software AG, changes in market interest rates essentially affect cash flows from financial investments. If the market interest rate as of December 31, 2018 had been 1% higher (lower), net profit and equity would each have been EUR 105 thousand (December 31, 2017: EUR 142 thousand) higher (lower).

53.4 Exchange rate risk

The company performs a certain volume of foreign currency transactions, and is therefore exposed to exchange rate fluctuations that have a corresponding impact on the assets and income reported in euro. Transaction risks also exist for financial assets denominated in foreign currencies. Sensitivity disclosures are not provided for reasons of materiality.

54. Additional disclosures on capital

USU Software AG is not subject to any minimum capital requirements, either externally or in accordance with its Articles of Association. The company pursues the goal of ensuring a high level of equity financing, using this financial flexibility to achieve its growth targets. Customers also demand a high equity ratio and extensive liquidity in order to guarantee their investments.

Equity and total assets were as follows as of December 31, 2018 and December 31, 2017:

	2018 EUR thousand	2017 EUR thousand	Change
Non-current liabilities	5,750	7,353	-21.8%
Current liabilities	29,729	29,027	2.4%
Total liabilities	**35,479**	**36,380**	**-2.5%**
Equity	**59,665**	**63,006**	**-5.3%**
Total liabilities and equity	**95,144**	**99,386**	**-4.3%**
Equity ratio	62.7 %	63.4 %	

As in the previous year, the company has no net financial liabilities as its cash funds exceed its interest-bearing liabilities. The current capital structure can be maintained by expanding the unappropriated surplus by generating future net profit or issuing new shares, for example.

55. Exemption in accordance with section 264(3) HGB

The following domestic subsidiaries included in the consolidated financial statements of USU Software AG exercised the exemption provisions of section 264(3) HGB for fiscal 2018:

- Aspera GmbH, Aachen
- LeuTek GmbH, Leinfelden-Echterdingen
- Omega Software GmbH, Obersulm
- Openshop Internet Software GmbH, Möglingen

I. HOLDINGS OF MEMBERS OF CORPORATE BODIES

The following table should be read in conjunction with the disclosures published in the interim financial statements of USU Software AG on the securities held by members of the company's executive bodies. As of December 31, 2018, members of the company's executive bodies held shares in USU Software AG, Möglingen, as follows:

Shareholdings subject to mandatory disclosure	2018 shares	2017 shares
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
Günter Daiss	85,500	85,500

*) *An additional 5,340,014 voting rights in USU Software AG (2017: 5,338,044) are allocated to Mr. Udo Strehl through AUSUM GmbH as the majority shareholder of that company in accordance with section 34(1) sentence 1 no. 1 of the new version of Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).*

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 34(1) sentence 1 no. 1 WpHG (new version).

On November 22 and 23, 2018, AUSUM GmbH, whose majority shareholder is the Chairman of the Supervisory Board of USU Software AG, Udo Strehl, purchased 1,970 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.

J. DIVIDEND PAYMENT

The Management Board and the Supervisory Board are proposing the payment of a dividend of EUR 4,209 thousand (EUR 0.40 per share).

K. DECLARATION OF CONFORMITY

On December 11, 2018, the Management Board and the Supervisory Board of USU Software AG issued the declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made it permanently available to shareholders on USU Software AG's website at http://www.usu-software.de. Further information on the declaration of conformity can be found in the report on the situation of the company and the Group in these consolidated financial statements.

Möglingen, March 11, 2019
USU Software AG

Bernhard Oberschmidt
Chairman of the Management Board

Bernhard Böhler
Member of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR THE 2018

USU Software AG, Möglingen

	Cost				
	As of 1.1.2018 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of 31.12.2018 EUR thousand
Intangible Assets					
Purchased software/ orders on hand	10,145	0	58	560	9,643
Trademarks and brands	2,532	0	0	0	2,532
Maintenance agreements/ beneficial contracts	3,621	0	0	0	3,621
Customer base	9,669	0	0	0	9,669
	25,967	**0**	**58**	**560**	**25,465**
Goodwill	**64,101**	**0**	**0**	**0**	**64,101**
Property, plant and equipment					
Land and buildings	234	0	0	48	186
Other equipment, operating and office equipment	5,223	7	1,086	550	5,766
	5,457	**7**	**1,086**	**598**	**5,952**
	95,525	**7**	**1,144**	**1,158**	**95,518**

Cumulative depreciation and amortization					Carrying amounts	
As of 1.1.2018 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of 31.12.2018 EUR thousand	As of 31.12.2018 EUR thousand	As of 31.12.2017 EUR thousand
7,038	0	625	560	7,103	2,540	3,107
521	0	0	0	521	2,011	2,011
3,322	0	117	0	3,439	182	299
6,599	-1	901	0	7,499	2,170	3,070
17,480	**-1**	**1,643**	**560**	**18,562**	**6,903**	**8,487**
22,918	**0**	**0**	**0**	**22,918**	**41,183**	**41,183**
95	0	19	47	67	119	139
3,132	4	1,137	545	3,728	2,038	2,091
3,227	**4**	**1,156**	**592**	**3,795**	**2,157**	**2,230**
43,625	**3**	**2,799**	**1,152**	**45,275**	**50,243**	**51,900**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR THE 2017

USU Software AG, Möglingen

	Cost					
	As of 1.1.2017 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Additions Acquisitions EUR thousand	Disposals EUR thousand	Asof 31.12.2017 EUR thousand
Intangible Assets						
Purchased software/ orders on hand	7,250	3	165	2,727	0	10,145
Trademarks and brands	2,532	0	0	0	0	2,532
Maintenance agreements/ beneficial contracts	3,126	0	0	495	0	3,621
Customer base	8,352	0	0	1,317	0	9,669
	21,260	**3**	**165**	**4,539**	**0**	**25,967**
Goodwill	**57,693**	**0**	**0**	**6,408**	**0**	**64,101**
Property, plant and equipment						
Land and buildings	268	0	55	1	90	234
Other equipment, operating and office equipment	4,508	6	1,155	61	507	5,223
	4,776	**6**	**1,210**	**62**	**597**	**5,457**
	83,729	**9**	**1,375**	**11,009**	**597**	**95,525**

	Cumulative depreciation and amortization					Carrying amounts	
	As of 1.1.2017 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of 31.12.2017 EUR thousand	As of 31.12.2017 EUR thousand	As of 31.12.2016 EUR thousand
	6,479	2	557	0	7,038	3,107	771
	521	0	0	0	521	2,011	2,011
	3,126	0	196	0	3,322	299	0
	5,706	0	893	0	6,599	3,070	2,646
	15,832	**2**	**1,646**	**0**	**17,480**	**8,487**	**5,428**
	22,118	**0**	**800**	**0**	**22,918**	**41,183**	**35,575**
	164	0	21	90	95	139	104
	2,478	10	1,148	504	3,132	2,091	2,030
	2,642	**10**	**1,169**	**594**	**3,227**	**2,230**	**2,134**
	40,592	**12**	**3,615**	**594**	**43,625**	**51,900**	**43,137**

INDEPENDENT AUDITORS' REPORT

"Independent Auditors' Report

To USU Software AG, Möglingen

Report on the Audit of the Consolidated Financial Statements and the Combined Management Report

Audit opinions

We have audited the consolidated financial statements of **USU Software AG, Möglingen,** and its subsidiaries (the Group) – comprising the consolidated statement of financial position as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2018 and the notes to the consolidated financial statements, including a summary of the key accounting policies. In addition, we have audited the combined management report of the company and the Group (hereinafter: "combined management report") of USU Software AG, Möglingen, for the fiscal year from January 1 to December 31, 2018. In accordance with German law, we did not audit the content of the non-financial declaration of the Group in section IX. of the combined management report, the (Group) corporate governance declaration in section VIII. of the combined management report, the statement in accordance with section 297(2) sentence 4 HGB of the Handelsgesetzbuch (HGB – German Commercial Code) on the consolidated financial statements in section XI of the combined management report or the statement in accordance with section 315(1) sentence 5 HGB in conjunction with section 289(1) sentence 5 HGB on the combined management report.

In our opinion, based on the findings of our audit:

- the attached consolidated financial statements, in all material respects, comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and give a true and fair view of the net assets and financial position of the Group in accordance with these requirements as of December 31, 2018 and its results of operations for the fiscal year from January 1 to December 31, 2018; and

- as a whole, the attached combined management report provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Our audit opinion on the combined management report does not extend to the unaudited parts of the combined management report set out above.

In accordance with section 322(3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements or the combined management report.

Basis for audit opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with section 317 HGB, the EU Audit Regulation (No. 537/2014) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – German Institute of Public Auditors). Our responsibility under these provisions and policies is described further in the section of our audit report entitled "Auditor's responsibility for the audit of the consolidated financial statements and the combined management report". We are independent from the Group companies in accordance with the commercial and professional regulations of European and German law and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not performed any prohibited non-audit services as defined by Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters were taken into account in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit opinion; we have not issued a separate opinion on these matters.

The audit matters that we consider to be key are described below:

1) Recoverability of goodwill
2) Recognition of revenue from software licenses, consulting services and maintenance services

1: Recoverability of goodwill

a) Risk to financial reporting

Goodwill of EUR 41.2 million is reported under "Goodwill" in the consolidated financial statements of USU Software AG (USU). This accounts for approximately 43.3% of the consolidated total assets. Goodwill is tested for impairment by the company as of September 30 of the respective fiscal year.

Measurement was performed using the discounted cash flow method. The findings of the impairment test are highly dependent on the estimates made by the company's officers of future cash flows, the operating margins and the discount rate applied. They are therefore subject to material uncertainty. A valuation report was commissioned from an independent expert for this purpose. Measurement is therefore subject to material uncertainty. Given this and the complexity of measurement, this was a key audit matter.

The company's disclosures on goodwill can be found in notes 7.1, 7.3 and 10 of the notes to the consolidated financial statements.

b) Audit approach and conclusions

We verified that the future cash flows used in measurement are appropriate by comparing them to the latest budgets derived from the three-year planning prepared by the company's officers and reconciling them with general market expectations.

The reliability of the business planning was tested using a retrospective comparison of the deviations between the forecast figures underlying the measurement performed in the previous year and the actual figures in fiscal 2018. Where any significant deviations were identified, we discussed these with the company's officers in terms of their relevance to these financial statements.

Knowing that even relatively small changes in the discount rate used can have a significant impact on the enterprise value calculated in this way, we mainly examined the parameters used to determine the discount rate used, including the weighted average cost of capital, and replicated the calculation scheme.

Given the material significance of goodwill and the fact that the measurement of goodwill is also dependent on general economic conditions beyond the company's control, we also performed sensitivity analyses of the cash-generating units with little or no overlap (carrying amount compared to present value) and found that the respective goodwill is sufficiently covered by the discounted future cash inflows or has been appropriately written down.

Overall, the measurement parameters and assumptions applied by the company's officers are consistent with our expectations.

2) Recognition of revenue from software licenses, consulting services and maintenance services

a) Risk to financial reporting

The Group generates royalty income from licenses to software products issued to consumers, consulting services and software maintenance.

Revenue from software licenses is recognized when the software has been delivered, the purchase price has been set or is determinable, collection is reasonably assured and an agreement can be demonstrated. The revenue from consulting services is recognized when the service is rendered. The revenue attributable to maintenance services is distributed over the term of the contract on a straight-line basis.

The Group offers combinations of its services to its customers, either within the framework of a single contract (combination contract, license and maintenance) or in a number of separate contracts (a bundle of license, maintenance and consulting).

If the bundle of contracts or the combination contract does not constitute a combined contract as defined by IFRS 15, the Group recognizes the revenue resulting from these contract at the selling prices of the individual services. The individual prices are determined on the basis of the price that would be demanded if the good or service were sold separately.

Maintenance revenue is typically recognized over the period in which maintenance is performed. For maintenance work, the customary price is determined from the rates charged to prolong maintenance contracts by the same term and, if these are not available, on the price list approved by the Management Board of the Group. In those cases where the price of the consulting services or maintenance work to be performed in the bundle of contracts is less than the customary price, the difference from the customary prices for the consulting services or maintenance work is separated from the recognized royalty income and recognized over the period in which the consulting services or maintenance are rendered.

In cases where license fee payments are contingent on the performance of consulting services that constitute a major modification or extension of the functionality of the software, the revenue for the software license and the consulting are deferred and recognized in line with the percentage of completion. The amount of revenue or income to be recognized is measured on the volume of consulting performed to date in comparison to the estimated total volume of services to be rendered until completion of the contract. Expenses for subsequent modifications by the customer are shown under unbilled services provided their realization is likely and their amount can be reliably estimated.

The recognition of revenue over time is based on estimates. Given the associated uncertainty, it is possible that estimates of the costs to complete the contract may have to be subsequently adjusted. Such adjustments of income and expenses are reported in the period in which the adjustment requirement is identified.

The company's disclosures on revenue recognition can be found in notes 7.17 and 33 of the notes to the consolidated financial statements.

Given the various types of revenue recognition for software licenses, consulting services and maintenance services, special focus was placed on revenue recognition within the framework of our audit.

b) Audit approach and conclusions

We assessed the accounting policies applied by USU to the recognition of revenue against the requirements of the IFRS Framework and the relevant IFRSs. To test the revenue generated in the fiscal year, we obtained an understanding of the transactions from the underlying contractual agreements and other associated documents and from explanations provided by the employees in the accounting or sales departments of USU. In addition, we obtained confirmations of the balances from the respective customers to verify the receivables recognized by USU as of the end of the reporting period and assessed whether USU had properly identified all the separate units of account and measured the transaction price for such units of account on the basis of their relative fair values. Likewise, we assessed whether the accounting policies applicable to each separate unit of account for the recognition of revenue were properly applied to ensure the proper matching of revenue to the correct period. Moreover, we assessed the appropriateness of the associated disclosures in the notes to the consolidated financial statements.

We are of the opinion that the accounting policies applied by USU to recognize revenue from sales of software licenses, services and maintenance were suitable in fiscal 2018 to allow proper presentation in the financial statements. It was possible to unambiguously determine which accounting policies should be applied to the recognition of revenue arising from the software agreements entered into in fiscal 2018 that we reviewed

Other information

The company's officers are responsible for the other information. The other information comprises:

- the non-financial declaration of the Group in section IX. of the combined management report;
- the (Group) corporate governance declaration in section VIII. of the combined management report;
- the other parts of the annual report, with the exception of the audited consolidated financial statements, the combined management report and our audit report;
- the corporate governance report in accordance with item 3.10 of the German Corporate Governance Code; and
- the statement in accordance with section 297(2) sentence 4 HGB on the consolidated financial statements in section XI. of the combined management report and the statement in accordance with section 315(1) sentence 5 HGB in conjunction with section 289(1) sentence 5 HGB on the combined management report.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we do not offer any audit opinion or any other form of audit conclusion on it.
In connection with our audit of the consolidated financial statements, we have the responsibility to read the other information and to assess whether the other information:

- contains material inconsistencies with the consolidated financial statements, the audited parts of the combined management report or our findings from the audit; or
- is otherwise materially misrepresented.

Responsibility of the company's officers and the Supervisory Board for the consolidated financial statements and the combined management report

The company's officers are responsible for the preparation of the consolidated financial statements that, in all material respects, comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group. Furthermore, the company's officers are responsible for the internal controls that they have deemed necessary to enable the preparation of consolidated financial statements that are free from – intentional or unintentional – material misstatement.

In preparing the consolidated financial statements, the company's officers are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing going concern matters, if relevant. Furthermore, they are responsible for the accounting on the basis of the going concern principle, unless there is the intention to liquidate or discontinue the Group, or there is no realistic alternative.

Moreover, the company's officers are responsible for the preparation of the combined management report that, on the whole, provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Also, the company's officers are responsible for the precautions and measures (systems) that they deem necessary to enable the preparation of a combined management report in accordance with German legal requirements to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's responsibility for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material – intentional or unintentional – misstatement and whether the combined management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements, audit findings and German legal requirements, and accurately presents the risks and opportunities of future development, and to issue an audit report containing our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high degree of assurance, but not a guarantee that an audit performed in accordance with section 317 HGB, the EU Audit Regulation and the German generally accepted standards for the audit of financial statements promulgated by the IDW will always reveal a material misstatement. Misstatements can result from violations or inaccuracies, and are considered material if they could reasonably be expected, individually or collectively, to influence the economic decisions that users make on the basis of these consolidated financial statements and the combined management report.

We exercise due discretion and maintain a critical approach. Furthermore:

- We identify and assess the risks of – intentional or unintentional – material misstatements in the consolidated financial statements and the combined management report, we plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis of our audit opinions. The risk that material misstatements are not detected is greater for violations than for inaccuracies, as violations can include fraud, falsification, intentional omissions, misrepresentation or the invalidation of internal controls;
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the systems relevant to the audit of the combined management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the objective of expressing an opinion on the effectiveness of these systems;
- We assess the appropriateness of the accounting policies applied by the company's officers and the reasonableness of the estimates and related disclosures by the company's officers;
- We draw conclusions about the appropriateness of the going concern principle applied by the company's officers and, on the basis of the audit evidence obtained, whether there is material uncertainty about events or circumstances that can give rise to significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that material uncertainty exists, we are required to refer to the relevant disclosures in the consolidated financial statements and the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit report. However, future events or circumstances can lead to the Group being unable to continue as a going concern.

- We assess the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements, in accordance with the IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, give a true and fair view of the net assets, financial position and results of operations of the Group;
- We obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group in order to issue audit opinions on the consolidated financial statements and the combined management report. We are responsible

for designing, monitoring and performing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions;
- We assess whether the combined management report is consistent with the consolidated financial statements and the law, and the view of the position of the company that it provides;
- We perform audit procedures on the forward-looking statements made in the combined management report by the company's officers. In particular, on the basis of sufficient and suitable audit evidence, we analyze the significant assumptions on which the forward-looking statements are based, and assess whether the forward-looking statements have been properly derived from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a considerable yet unavoidable risk that future events will deviate materially from the forward-looking statements.

Among other things, we discuss with those responsible for overseeing the audit the planned scope and scheduling of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We declare to those responsible for overseeing the audit that we complied with the relevant independence requirements and discuss with them all relationships and other issues that can reasonably be assumed to affect our independence, and the precautions taken against this.

Of the issues we discussed with those responsible for overseeing the audit, we determine which issues were most significant in the audit of the consolidated financial statements for the current reporting period and that are therefore the key audit issues. We describe these matters in our audit report, unless the public disclosure of such issues is prevented by law or other legal provisions.

Other legal and regulatory requirements

Other disclosures in accordance with Article 10 of the EU Audit Regulation

We were elected as the auditor of the annual financial statements by the Annual General Meeting on June 28, 2018. In accordance with section 318(2) HGB, we are deemed the auditor of the consolidated financial statements as no other auditor was appointed. We were engaged by the Supervisory Board on November 12, 2018. We have served as the auditor of the consolidated financial statements of USU Software AG, Möglingen, without interruption since fiscal 2017.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU Audit Regulation (audit report).

Responsible auditor

The German Public Auditor responsible for the audit is Ms. Linda Ruoß."

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

USU Software AG, Möglingen

ASSETS		As of 31.12.2018 EUR	As of 31.12.2017 EUR
A.	**Non-current assets**		
I.	Intangible assets Internally generated industrial and similar rights	4,091,69	51,414,45
II.	Property, plant and equipment Other equipment, operating and office equipment	26,101,27	26,870,38
III.	Financial assets Shares in affiliated companies	49,399,995,58	49,399,995,58
B.	**Current assets**		
I.	Inventories Work in progress	0.00	10,209,32
II.	Receivables and other assets		
1.	Trade receivables	207,591,21	143,126,53
2.	Receivables from affiliated companies	7,709,025,26	10,765,494,38
3.	Other assets	2,056,328,06	1,548,027,54
		9,972,944,53	**12,456,648,45**
III.	Securities	0.00	3,014,230,00
IV.	Cash and cash equivalents	1,692,126,15	350,012,78
C.	**Deferred income**	**158,059,90**	**91,491,73**
		61,253,319,12	**65,400,872,69**

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

USU Software AG, Möglingen

EQUITY AND LIABILITIES		As of 31.12.2018 EUR	As of 31.12.2017 EUR
A.	**Equity**		
I.	Issued capital (Contingent capital EUR 378 thousand; previous year: EUR 378 thousand)	10,523,770,00	10,523,770,00
II.	Capital reserves	13,644,662,64	13,644,662,64
III.	Unappropriated surplus	6,283,753,39	6,174,925,84
		30,452,186,03	**30,343,358,48**
B.	**Provisions**		
	Other provisions	1,574,798,33	1,570,496,34
C.	**Liabilities**		
1.	Prepayments received on orders	7,122,50	0,00
2.	Trade payables	213,976,41	224,261,01
3.	Liabilities to affiliated companies	28,648,082,51	32,725,807,62
4.	Other liabilities	308,745,35	522,529,79
		29,177,926,77	**33,472,598,42**
D.	**Prepaid expenses**	**48,407,99**	**14,419,45**
		61,253,319,12	**65,400,872,69**

STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2018

USU Software AG, Möglingen

		2018 EUR	2017 EUR
1.	**Sales**	3,803,253,16	1,822,556,00
2.	Decrease (previous year: Increase) in finished goods and work in progress	-10,209,32	10,209,32
3.	Other operating income	1,900,852,78	2,164,710,62
		5,693,896,62	**3,997,475,94**
4.	Cost of materials		
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	114,550,99	184,969,25
	b) Cost of purchased services	83,788,28	48,219,28
		198,339,27	**233,188,53**
5.	Personnel expenses		
	a) Wages and salaries	3,394,443,87	3,049,966,47
	b) Social security, post-employment and other employee benefit costs (of which in respect of old age pensions: EUR 2 thousand; previous year: EUR 1 thousand)	455,468,79	404,202,44
		3,849,912,66	**3,454,168,91**
6.	Amortization of intangible assets and depreciation of property, plant and equipment	62,783,40	70,354,89
7.	Other operating expenses	5,902,855,04	3,954,199,58
		-4,319,993,75	**-3,714,435,97**
8.	Income from long-term equity investments	5,000,000,00	3,000,000,00
9.	Cost of loss absorption	0,00	1,055,952,10
10.	Income from profit transfer agreements	4,149,170,72	4,928,510,77
11.	Other interest and similar income	59,333,91	22,186,35
12.	Interest and similar expenses	475,588,61	394,325,74
13.	Income taxes	68,916,62	-14,569,84
14.	**Earnings after taxes**	**4,344,005,65**	**2,800,553,15**
15.	Other taxes	25,670,10	10,916,69
16.	**Net profit**	**4,318,335,55**	**2,789,636,46**
17.	Profit carried forward from the previous year	1,965,417,84	3,385,289,38
18.	**Unappropriated surplus**	**6,283,753,39**	**6,174,925,84**

A. General notes

USU Software AG is entered in the commercial register of the Stuttgart District Court under HRB 206442 and is domiciled at Spitalhof, 71696 Möglingen, Germany.

The single-entity financial statements of USU Software AG were prepared in accordance with sections 242 ff. and 264 ff. of the German Commercial Code (HGB) in the version amended by the German Accounting Directive Implementation Act (BilRUG) and the relevant provisions of the German Stock Corporation Act (AktG). As a listed company, USU Software AG is classified as a large stock corporation in accordance with section 267 (3) sentence 2 HGB.

The presentation, classification, recognition and measurement of the items in the single-entity financial statements are based on the same principles as in the previous year.

The income statement has been prepared using the nature of expense method set out in section 275 (2) HGB.

All figures are shown in thousands of euro (EUR thousand) unless otherwise stated.

B. Accounting policies

As in the previous year, the single-entity financial statements were prepared in accordance with the following accounting policies.

Property, plant and equipment as well as intangible assets are recognized at historical cost (plus transaction costs) less systematic depreciation and impairments.

Assets that can be used independently and that have an acquisition cost of less than EUR 800.00 are written off in full in their year of acquisition.

For intangible assets and property, plant and equipment with limited useful lives, amortization and depreciation is generally determined using the rates permitted for tax purposes and is recognized on a straight-line basis over a standard useful life of between three and thirteen years.

With regard to financial assets, shares in affiliated companies are carried at the lower of cost or market. Write-downs are recognized for permanent impairment.

If the value of items of non-current assets calculated in accordance with the above principles exceeds the fair value of these assets at the reporting date, corresponding write-downs are recognized. If the reasons for a write-down no longer apply in a subsequent fiscal year, the write-down is reversed in the amount of the increase in value, taking into account the amortization and depreciation that would have been recognized in the meantime.

Work in progress is recognized at production cost taking into account the principle of loss-free valuation. Production cost comprises the working hours accrued and individually documented, which are measured as direct costs plus proportionate overheads. The option of including administration overheads was not exercised. Interest for borrowings is not taken into account when calculating production cost. Purchased services are measured at acquisition cost.

Receivables and other assets are carried at their nominal value.

Identifiable individual risks are taken into account by recognizing appropriate valuation allowances.

Securities were recognized at acquisition cost in accordance with section 253 (4) HGB, using the principle of the lower of cost or market.

Other provisions take into account all uncertain liabilities and expected losses from onerous contracts. They are recognized in the amount dictated by prudent business judgment. Provisions with remaining terms of more than a year are measured at present value and discounted at an interest rate in line with the terms of the provisions. Cost increases which are expected to have a future impact until the obligation has been fulfilled are taken into account if there is sufficient objective evidence of their occurrence.

Provisions for variable components of remuneration for employees, including the USU Software AG Management Board, are based on the Management Board's individual opinion regarding the respective level of target achievement, taking into account the contractually agreed targets.

Liabilities are carried at their settlement amount.

Advance payments are reported net of value added tax.

Receivables and liabilities in foreign currencies with a remaining term of up to one year are translated at the middle spot exchange rate at the reporting date. Accordingly, these annual financial statements include unrealized gains and losses from currency translation. Items with a remaining term of over one year are translated at the exchange rate at the date on which they originated. In the event of exchange rate changes up until the reporting date, items are measured at the exchange rate at the reporting date, applying the lower of cost or market principle on the asset side and the higher of cost or market principle on the liability side.

Deferred taxes are calculated using the balance sheet temporary concept in accordance with section 274 HGB. Deferred taxes are recognized for USU Software AG and its tax group companies for temporary differences between the accounting and tax carrying amounts of goodwill, pension provisions and other provisions in particular. Tax loss carryforwards at USU Software AG are taken into account in addition to the temporary accounting differences. Temporary differences and tax loss carryforwards that are expected to be offset within the next five years are measured using the Company's own tax rate (as of 12/31/2018: approximately 30.9 %).

Deferred tax assets are offset against deferred tax liabilities. USU Software AG has a remaining surplus of deferred tax assets after offsetting. The Company has not exercised the option of utilizing deferred tax assets (Section 274 (1) sentence 2 HGB).

C. Notes on the balance sheet

1. Non-current assets

The separate statement of changes in non-current assets is an integral element of the notes to the financial statements.

2. Receivables and other assets

Receivables from affiliated companies are attributable to profit transfers from subsidiaries in the amount of EUR 4,150 thousand (2017: EUR 7,929 thousand) and a short-term loan of EUR 3,512 thousand; the remaining amount relates to services.

As in the previous year, all receivables and other assets have a remaining term of less than one year.

Other assets include input tax receivables in the amount of EUR 10 thousand (2017: EUR 9 thousand) that are deductible in the following year.

3. Issued capital

The share capital of the Company reported as issued capital is divided into 10,523,770 no-par value bearer shares each with a notional interest in the share capital of EUR 1.00.

Authorized capital
By resolution of the Annual General Meeting of July 4, 2017, the Management Board was authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 2,630,942.00 on one or more occasions by issuing new no-par value bearer shares with a pro rata share in the Company's share capital of EUR 1.00 per share in exchange for cash or non-cash contributions until July 3, 2022 (Authorized Capital 2017). Shareholders must be granted subscription rights. The Management Board is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' statutory subscription rights for fractional amounts and/ or, if and to the extent it is required, to grant bearers of convertible bonds with conversion obligations issued by the Company the right to sub-scribe for the new shares to which they are entitled after exercising their conversion or option rights or fulfilling the conversion obligation.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights if the capital increase is made against cash contributions and the total amount of the share capital attributable to the new shares with shareholders' subscription rights disapplied does not exceed 10% – either on the date on which this authorization is entered in the commercial register or the date on which the new shares are issued – and the issue price of the new shares is not substantially lower than the quoted price for shares of the same category and with the same rights already traded on the stock exchange at the time of the final determination of the issue price within the meaning of section 203 (1) and (2) and section 186 (3) sentence 4 of the German Stock Corporation Act (AktG). The upper limit of 10% of the share capital is reduced by the pro rata amount of the share capital attributable to new or repurchased shares issued or sold during the term of the Authorized Capital 2017 with shareholders' subscription rights disapplied pursuant to or in line with section 186 (3) sentence 4 AktG and the pro rata amount of the share capital that relates to option and/or conversion rights/obligations from bonds that were issued during the term of the Authorized Capital 2017 in analogous application of section 186 (3) sentence 4 AktG.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the case of non-cash capital increases, particularly in connection with the acquisition of participations, companies, parts of companies, or assets – including for exchanging shares – and in the case of mergers.

The shares may also be acquired by one or more banks or a company operating in accordance with section 53 sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to the shareholders for subscription.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to stipulate further details of the implementation of capital increases from authorized capital 2017, including the content of share rights and the conditions for the issuing of shares.

Contingent capital
By resolution of the Annual General Meetings in 2000 and 2004, the Company's share capital was contingently increased to EUR 378 thousand through the issue of no-par value bearer shares. The contingent capital increase may be used only for granting options to members of the Management Board and employees of the Company as well as members of the management and employees of affiliated companies. There were no outstanding options as of Monday, December 31, 2018.

4. Other provisions

Other provisions primarily comprise provisions in connection with the acquisition of unitB Technology GmbH, Berlin (EUR 750 thousand) and provisions for bonus payments (EUR 457 thousand), the annual report (EUR 83 thousand) and vacation (EUR 126 thousand).

5. Liabilities

	Total		Due within 1 year		Due within 1 – 5 years	
Type of liabilities	31.12.2018 EUR thou.	31.12.2017 EUR thou.	31.12.2018 EUR thou.	31.12.2017 EUR thou.	31.12.2018 EUR thou.	31.12.2017 EUR thou.
Liabilities from advance payments received	7	0	7	0	0	0
Trade payables	214	224	214	222	0	2
Liabilities to affiliated companies	28,648	32,726	5,123	5,305	23,525	27,421
Other liabilities	309	523	59	273	250	250
(of which from taxes)	(58)	(212)	(58)	(212)	(0)	(0)
(of which in respect of social security)	(0)	(0)	(0)	(0)	(0)	(0)
	29,178	**33,473**	**5,403**	**5,800**	**23,775**	**27,673**

Liabilities to affiliated companies primarily relate to loan liabilities (EUR 28,365 thousand, 2017: EUR 31,650 thousand) and are secured in the amount of EUR 28,365 thousand (2017: EUR 31,650 thousand) by a global assignment of receivables. An amount of EUR 283 thousand (2017: EUR 22 thousand) relates to trade payables.

D. Notes on the income statement

6. Revenues

	2018 in EUR thousand	2017 in EUR thousand
Consultancy	256	357
Licenses	0	124
Maintenance	443	10
Miscellaneous	3,104	1,332
	3,803	**1,823**

In the year under review, sales of EUR 3,763 thousand (2017: EUR 1,816 thousand) were generated in Germany and sales of EUR 40 thousand (2017: EUR 7 thousand) were generated abroad.

7. Other operating income

Other operating income of EUR 1,901 thousand (2017: EUR 2,164 thousand) primarily relates to services for Group companies (EUR 1,165 thousand, 2017: EUR 1,285 thousand) and research funds in the amount of EUR 514 thousand (2017: EUR 691 thousand).

Other operating income contains income from currency translation in the amount of EUR 77 thousand (2017: EUR 0 thousand) and prior-period income of EUR 18 thousand (2017: EUR 81 thousand).

8. Other operating expenses

This item includes expenses from currency translation in the amount of EUR 1 thousand (2017: EUR 1 thousand).

Other operating expenses contain prior-period expenses of EUR 0 thousand (2017: EUR 196 thousand) for additional costs arising in the previous year.

9. Income from profit transfer agreements/ expenses from loss absorption

The Company entered into a profit transfer agreement with Openshop Internet Software GmbH on March 2, 2000. Profit transfer agreements were entered into with Omega Software GmbH on May 19, 2005, with LeuTek GmbH on December 29, 2006 and with Aspera GmbH on May 31, 2012. They were adjusted slightly in 2014 in view of tax-related requirements. Under these agreements, the participating companies are required to transfer all of their profits to USU Software AG during the contractual term. Transfers to distributable reserves are permitted only with the approval of USU Software AG. In exchange, USU Software AG undertakes to offset every net loss incurred during the contractual term that cannot be offset by way of withdrawals from distributable reserves recognized during the same period.

Accordingly, the profit generated by LeuTek GmbH, Aspera GmbH, and Omega Soft-ware GmbH in the 2018 fiscal year was transferred to USU Software AG in line with the profit and loss transfer agreement concluded. The profit of EUR 107 thousand reported by Openshop Internet Software GmbH in 2018 was netted against the loss carried forward by this company.

EUR 4,149 thousand (2017: EUR 4,929 thousand) of income from profit transfer agreements relates to affiliated companies.

EUR 0 thousand (2017: EUR 1,056 thousand) of expenses from loss absorption relates to affiliated companies.

10. Net financial income

EUR 35 thousand (2017: EUR 8 thousand) of other interest and similar income relates to affiliated companies.

EUR 472 thousand (2017: EUR 389 thousand) of interest and similar expenses relates to affiliated companies.

11. Income taxes

Income taxes included prior-period expenses of EUR 35 thousand (2017: EUR 2 thousand) and prior-period income of EUR 0 thousand (2017: EUR 16 thousand).

12. Other taxes

Other taxes include off-period expenses of EUR 26 thousand (2017: EUR 11 thousand).

E. OTHER DISCLOSURES

Disclosures on participations
USU Software AG holds 100 % of the shares in each of the following companies: The information on equity and net profit represents the amounts recognized in accordance with the respective national accounting standards:

	Equity 31.12.2018 EUR thou.	Net profit 2018 EUR thou.
USU GmbH, Möglingen	30,368	5,479
LeuTek GmbH, Leinfelden-Echterdingen [1)]	1,380	2,768
Omega Software GmbH, Obersulm [1)]	970	181
Openshop Internet Software GmbH, Möglingen [1)]	-667	107
Aspera GmbH, Aachen [1)]	300	1,199
USU Consulting GmbH i. L., Sursee, Switzerland	25	-7
Aspera Technologies Inc., Boston, USA	-3,057	-1,673
USU SAS, Paris, France	-930	-2,114

[1)] Net profit before/equity after profit transfer to USU Software AG.

The following wholly-owned participations are held indirectly via USU GmbH, Möglingen.

	Equity 31.12.2018 EUR thou.	Net profit 2018 EUR thou.
USU Software s. r. o., Brno, Czech Republic	690	173
USU (Schweiz) AG i. L., Zug, Switzerland	-48	-3
USU Austria GmbH, Vienna, Austria	-609	-51

13. Employees

An average of 37 people were employed by the Company during the 2018 fiscal year (2017: 33). Of these, 6 were assigned to sales functions, 16 to development functions and 15 to administration functions.

14. Contingent liabilities

USU Software AG is jointly and severally liable for fulfilling the obligations arising from USU GmbH's rental agreement for the Spitalhof business premises.

Based on USU GmbH's current liquidity situation and sustained earnings power, the Management Board has reason to believe that there is no risk of the above contingent liabilities being utilized.

Moreover, USU Consulting GmbH has issued a letter of comfort in favor of Openshop Internet Software GmbH, Möglingen, and USU Consulting GmbH i.L., Sursee, Switzerland (affiliated companies). Under these letters of comfort, USU Software AG, Möglingen, undertakes to manage these companies and to supply them with financial resources such that they are able to settle their liabilities in 2018 and in 2019. In addition, USU Software AG has issued a declaration of subordination with respect to all receivables of EUR 795 thousand (2017: EUR 779 thousand) from Openshop Internet Software GmbH.

The Management Board assumes that there is no concrete risk of the contingent liabilities being utilized. The Company does not have any active business operations. It has sufficient cash and cash equivalents to fulfill its existing payment commitments to third parties. As of the reporting date, receivables of EUR 779 thousand held by USU Software AG against Openshop Internet Software GmbH, Möglingen, were impaired.

Profit transfer/profit and loss transfer agreements have been concluded with four affiliated companies.

15. Other financial commitments

As end of the reporting period, other financial commitments amounted to EUR 559 thousand. They were broken down as follows:

	Due 2019 EUR thou.	Due 2020 EUR thou.	Due ab 2021 EUR thou.	12/31/2018 Total EUR thou.	12/31/2017 Total EUR thou.
Operating leases					
Building	81	82	255	418	318
Office equipment	3	3	8	14	5
Cars	78	38	11	127	150
Total (nominal amount)	162	123	274	559	473

Transactions not recognized in the balance sheet in the field of operating leases primarily relate to building rentals, vehicle leases and rental agreements for office equipment including IT hardware. These contracts constitute a financing alternative with which a liquidity and equity commitment and the transfer of significant economic risks can be avoided. Furthermore, planning and calculation security exists with regard to lease conditions that have been agreed for the term. One risk lies in the possibility that the items assumed may not be freely available in the case of a lack of utilization.

16. Supervisory Board

In the 2018 fiscal year, the Supervisory Board consisted of:

Udo Strehl, Chairman
Managing director of AUSUM GmbH, Möglingen
Chairman of the Supervisory Board of USU GmbH (formerly USU AG), Möglingen (until March 28, 2018)

Günter Daiss, deputy chairman (until December 31, 2018)
Managing director of Daiss Agrar, Hungary
Managing director of Green Kft., Hungary
Deputy chairman of the Supervisory Board of USU GmbH (formerly USU AG), Möglingen (until March 28, 2018)

Erwin Staudt,
Management consultant, Leonberg
Member of the Advisory Council of Interstuhl Büromöbel GmbH & Co. KG, Meßstetten
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU GmbH (formerly USU AG), Möglingen (until March 28, 2018)

Gabriele Walker-Rudolf
(from January 17, 2019)

Total compensation of the Supervisory Board
The compensation paid to the Supervisory Board contains a fixed and a variable component. The fixed component for the 2018 fiscal year amounted to EUR 102 thousand.

17. Management Board

Bernhard Oberschmidt
(Chairman of the Management Board)
Chairman of the Supervisory Board of Dürr Dental SE, Bietigheim-Bissingen

Bernhard Böhler

Dr. Benjamin Strehl
Member of the Supervisory Board of Marc O'Polo AG, Stephanskirchen

Total compensation of the Management Board
The total compensation paid to the Management Board in the 2018 fiscal year was EUR 888 thousand. Details can be found in the compensation report contained in the Management Report on the Company and the Group for the 2018 fiscal year.

18. Auditor's fees

The auditor's fees came to EUR 147 thousand in 2018. Of these, auditing services accounted for EUR 141 thousand, other services for EUR 6 thousand and tax consulting for EUR 0 thousand.

In addition to auditing activities, miscellaneous services were provided for the parent company and the subsidiaries that it controls. These entailed attestation services in connection with the preparation of USU Software AG's quarterly financial statements in 2018.

19. Supplementary report

No significant reportable events have occurred since the end of the year under review on December 31, 2018.

20. Group affiliations

USU Software AG is the parent of the companies contained in the list of participations. These are companies affiliated with US Software AG. In accordance with section 315a (1) HGB, USU Software AG prepares the consolidated financial statements in accordance with IFRS for the smallest and the largest consolidated group. The consolidated financial statements and the combined Group management report were published in the electronic version of Bundesanzeiger. In addition, the consolidated financial statements and the combined Group management report are available on request from USU Software AG in Möglingen. They are also available on USU Software AG's website at http://www.usu-software.de.

21. Declaration on the German Corporate Governance Code in accordance with section 161 AktG

On December 11, 2018, the Management Board and Supervisory Board of USU Software AG issued the declaration of conformity with the German Corporate Governance Code in accordance with section 161 AktG and made it permanently available to shareholders on USU Software AG's website at http://www.usu-software.de. Further information on the declaration of conformity can be found in the Management Report on the Company and the Group in these single-entity financial statements.

22. Disclosures by USU Software AG in accordance with section 160 (1) no. 8 AktG

USU Software AG has received the following voting right notifications from shareholders holding at least 3% of the voting rights:

Notifier	Date on which threshold reached	Share in voting rights	
		In %	Absolute
Peter Scheufler	7/30/2012	5.35	563,021
Main First SICAV	11/25/2015	4.57	481,221
AUSUM GmbH	9/21/2017	50.74	5.340,014

23. Utilization of net profit

The Management Board proposes using the unappropriated surplus as of December 31, 2018 in the amount of EUR 6,284 thousand as follows:

- to pay a dividend of EUR 0.40 per share for 10,523,770 shares, amounting to a total of EUR 4,209 thousand; and
- to carry forward the remaining unappropriated surplus of EUR 108 thousand to new account.

Möglingen, February 27, 2019

Bernhard Oberschmidt
Chief Executive Officer

Bernhard Böhler
Member of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

STATEMENT OF CHANGES IN FIXED ASSETS IN THE 2018 FISCAL YEAR

USU Software AG, Möglingen

	Acquisition/production cost			
	As of 1.1.2018 EUR	Additions EUR	Disposals EUR	As of 31.12.2018 EUR
I. Intangible assets				
Internally generated industrial and similar rights	244,534,31	0,00	0,00	244,534,31
II. Property, plant and equipment				
Other equipment, operating and office equipment	325,255,40	14,691,53	12,220,92	327,726,01
III. Financial assets				
Shares in affiliated companies	51,511,434,59	0,00	0,00	51,511,434,59
	52,081,224,30	**14,691,53**	**12,220,92**	**52,083,694,91**

	Cumulative depreciation and amortization				Carrying amounts	
	As of 1.1.2018 EUR	Additions EUR	Disposals EUR	As of 31.12.2018 EUR	As of 31.12.2018 EUR	As of 31.12.2017 EUR
	193,119,86	47,322,76	0,00	240,442,62	4,091,69	51,414,45
	298,385,02	15,460,64	12,220,92	301,624,74	26,101,27	26,870,38
	2,111,439,01	0,00	0,00	2,111,439,01	49,399,995,58	49,399,995,58
	2,602,943,89	**62,783,40**	**12,220,92**	**2,653,506,37**	**49,430,188,54**	**49,478,280,41**

INDEPENDENT AUDITORS' REPORT

An die USU Software AG, Möglingen

Report on the Audit of the Annual Financial Statements and the Combined Management Report

Audit opinions

We have audited the annual financial statements of **USU Software AG, Möglingen** – comprising the statement of financial position as of December 31, 2018, the income statement for the fiscal year from January 1 to December 31, 2018 and the notes to the annual financial statements, including a summary of the key accounting policies. In addition, we have audited the combined management report of the company and the Group (hereinafter: "combined management report") of USU Software AG, Möglingen, for the fiscal year from January 1 to December 31, 2018. In accordance with German law, we did not audit the content of the non-financial declaration of the Group in section IX. of the combined management report, the (Group) Corporate Governance declaration in section VIII. of the combined management report and the Responsibility Statement in accordance with section 264 (2) sentence 3 of the Handelsgesetzbuch(HGB – German Commercial Code) in section XI. and the declaration in Accordance with Section 289 (1) sentense 5 HGB in connection with Section 315 (1) sentense 5 HGB.

In our opinion, based on the findings of our audit:

- the attached annual financial statements, in all material respects, comply with the requirements of German commercial law for stock corporations and, in accordance with the German principles of proper accounting, give a true and fair view of the net assets and financial position of the company as of December 31, 2018 and its results of operations for the fiscal year from January 1 to December 31, 2018; and
- as a whole, the attached combined management report provides a suitable view of the company's position. In all material respects, this combined management report is consistent with the annual financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Our audit opinion on the combined management report does not extend to the unaudited parts of the combined management report set out above.

In accordance with section 322(3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the annual financial statements or the combined management report.

Basis for audit opinions

We conducted our audit of the annual financial statements and the combined management report in accordance with section 317 HGB, the EU Audit Regulation (No. 537/2014) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – German Institute of Public Auditors). Our responsibility under these provisions and policies is described further in the section of our audit report entitled "Auditor's responsibility for the audit of the annual financial statements and the combined management report". We are independent from the company in accordance with the commercial and professional regulations of European and German law and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not performed any prohibited non-audit services as defined by Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the annual financial statements and the combined management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2018. These matters were taken into account in the context of our audit of the annual financial statements as a whole and in the formation of our audit opinion; we have not issued a separate opinion on these matters.

The audit matter that we consider to be key is described below:

- measurement of shares in affiliated companies

a) Risk to financial reporting

Shares in affiliated companies are reported under "Financial assets" in the amount of EUR 49,400 thousand (81% of total assets) in the annual financial statements of USU Software AG, Möglingen. The shares in affiliated companies are measured at the lower of cost or fair value. Further information on accounting for financial assets can be found in section B of the notes.

In calculating fair value, the perspective of the entity holding the shares in the affiliated company should be taken. Measurements are based on the present values of future cash flows, which are derived from the planning prepared by the company's officers. The expectations of future market developments are also taken into account. Present values are calculated using the discounted cash flow method. The weighted average cost of capital is used for discounting. A valuation report was commissioned from an independent expert for this purpose. The results of measurement are highly dependent on the estimates of future cash flows made by the company's officers and the discount rates used. Measurement is therefore subject to material uncertainty. Given this and the complexity of measurement, this was a key audit matter.

b) Audit approach and conclusions

In auditing the fair value of shares in affiliated companies, we replicated the measurement method used and assessed the calculation of the weighted cost of capital. In addition, we satisfied ourselves that future cash flows on which measurements were based and the weighted cost of capital together form an appropriate basis for testing impairment on the respective shares in affiliated companies. In assessing the results of measurement as of December 31, 2018, among other things we used a comparison of general market expectations and expectations specific to the industry in addition to explanations provided by the company's officers on the key value drivers on which the forecast cash flows are based. We also assessed the valuation report by the independent experts engaged by the company. Knowing that even relatively small changes in the discount rate used can have a significant impact on the enterprise value calculated in this way, we intensively addressed the parameters used to determine the discount rate used including the weighted average cost of capital and replicated the calculation scheme.

Based on the information available, the measurement parameters and assumptions applied by the company's officers appear suitable to us to properly measure the shares in affiliated companies. Overall, the measurement parameters and assumptions applied by the company's officers are consistent with our expectations.

Other information

The company's officers are responsible for the other information. The other information comprises:

- the non-financial declaration of the Group in section section IX. of the combined management report;
- the (Group) corporate governance declaration in section VIII. of the combined management report;
- the other parts of the annual report, with the exception of the audited annual financial statements, the combined management report and our audit report;
- the corporate governance report in accordance with item 3.10 of the German Corporate Governance Code; and
- the statement in accordance with section 264(2) sentence 3 HGB on the annual financial statements in section XI. of the combined management report and the statement in accordance with section 289(1) sentence 5 in connection with Section 315 (1) sentense 5 of the Handelsgesetzbuch(HGB – German Commercial Code) on the combined management report.

Our audit opinions on the annual financial statements and the combined management report do not extend to the other information, and accordingly we do not offer any audit opinion or any other form of audit conclusion on it.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information:

- contains material inconsistencies with the annual financial statements, the combined management report or our findings from the audit; or
- is otherwise materially misrepresented.

If, on the basis of our work, we come to the conclusion that this other information contains a material misstatement, we are required to report this fact. We have nothing to report in this context.

Responsibility of the company's officers and the Supervisory Board for the annual financial statements and the combined management report

The company's officers are responsible for the preparation of annual financial statements that, in all material respects, comply with the requirements of German commercial law for stock corporations and that the annual financial statements, in accordance with the German principles of proper accounting, give a true and fair view of the net assets, financial position and results of operations of the company. Furthermore, the company's officers are responsible for the internal controls that they have deemed necessary in accordance with the German principles of proper accounting to enable the preparation of annual financial statements that are free from – intentional or unintentional – material misstatement.

In preparing the annual financial statements, the company's officers are responsible for assessing the company's ability to continue as a going concern. They are also responsible for disclosing going concern matters, if relevant. Furthermore, they are responsible for the accounting on the basis of the going concern principle, unless there are actual or legal circumstances for not doing so.

Moreover, the company's officers are responsible for the preparation of the combined management report that, on the whole, provides a suitable view of the company's position and, in all material respects, is consistent with the annual financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Also, the company's officers are responsible for the precautions and measures (systems) that they deem necessary to enable the preparation of a combined management report in accordance with German legal requirements to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for overseeing the company's financial reporting process for the preparation of the annual financial statements and the combined management report.

Auditor's responsibility for the audit of the annual financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material – intentional or unintentional – misstatement and whether the combined management report as a whole provides a suitable view of the company's position and, in all material respects, is consistent with the annual financial statements, audit findings and German legal requirements, and accurately presents the risks and opportunities of future development, and to issue an audit report containing our audit opinions on the annual financial statements and the combined management report.

Reasonable assurance is a high degree of assurance, but not a guarantee that an audit performed in accordance with section 317 HGB, the EU Audit Regulation and the German generally accepted standards for the audit of financial statements promulgated by the IDW will always reveal a material misstatement. Misstatements can result from violations or inaccuracies, and are considered material if they could reasonably be expected, individually or collectively, to influence the economic decisions that users make on the basis of these annual financial statements and the combined management report.

We exercise due discretion and maintain a critical approach. Furthermore:

- We identify and assess the risks of – intentional or unintentional – material misstatements in the annual financial statements and the combined management report, we plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis of our audit opinions. The risk that material misstatements are not detected is greater for violations than for inaccuracies, as violations can include fraud, falsification, intentional omissions, misrepresentation or the invalidation of internal controls;
- We gain an understanding of the internal control system relevant to the audit of the annual financial statements and of the systems relevant to the audit of the combined management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the objective of expressing an opinion on the effectiveness of these systems of the company;
- We assess the appropriateness of the accounting policies applied by the company's officers and the reasonableness of the estimates and related disclosures by the company's officers;
- We draw conclusions about the appropriateness of the going concern principle applied by the company's officers and, on the basis of the audit evidence obtained, whether there is material uncertainty about events or circumstances that can give rise to significant doubts about the company's ability to continue as a going concern. If we come to the conclusion that material uncertainty exists, we are required to refer to the relevant disclosures in the annual financial statements and the combined management report in the audit report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit report. However, future events or circumstances can lead to the company being unable to continue its business activities;
- We assess the overall presentation, structure and content of the annual financial statements, including the notes, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements, in accordance with the German principles of proper accounting, give a true and fair view of the net assets, financial position and results of operations of the company;
- We assess whether the combined management report is consistent with the annual financial statements and the law, and the view of the position of the company that it provides;
- We perform audit procedures on the forward-looking statements made in the combined management report by the company's officers. In particular, on the basis of sufficient and suitable audit evidence, we analyze the significant assumptions on which the forward-looking statements are based, and assess whether the forward-looking statements have been properly derived from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a considerable yet unavoidable risk that future events will deviate materially from the forward-looking statements.

Among other things, we discuss with those responsible for overseeing the audit the planned scope and scheduling of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We declare to those responsible for overseeing the audit that we complied with the relevant independence requirements and discuss with them all relationships and other issues that can reasonably be assumed to affect our independence, and the precautions taken against this.

Of the matters we discussed with those responsible for overseeing the audit, we determine which matters were most significant in the audit of the annual financial statements for the current reporting period and that are therefore the key audit matters. We describe these matters in our audit report, unless the public disclosure of such issues is prevented by law or other legal provisions.

Other legal and regulatory requirements

Other disclosures in accordance with Article 10 of the EU Audit Regulation

We were elected as the auditor of the annual financial statements by the Annual General Meeting on June 28, 2018. We were engaged by the Supervisory Board on November 12, 2018. We have served as the auditor of the annual financial statements of USU Software AG, Möglingen, without interruption since fiscal 2017.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU Audit Regulation (audit report).

In addition to the audit of the annual financial statements for the audited company and the companies it controls, we have performed the following services not disclosed in the annual financial statements or the management report of the audited company:

audit assessments in connection with the preparation of the quarterly financial statements of USU Software AG in fiscal 2018.

Responsible auditor

The German Public Auditor responsible for the audit is
Ms. Linda Ruoß.

Stuttgart, February 27, 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Christian Fuchs	Linda Ruoß
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

MANAGEMENT BOARD AND SUPERVISORY BOARD

left to right

Bernhard Oberschmidt
Chairman of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

Bernhard Böhler
Vice Chairman of the Management Board

left to right

Erwin Staudt
Member of the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board

Günter Daiss
Vice Chairman of the Supervisory Board
(until December 31, 2018)

FINANCIAL CALENDAR OF 2019*

March 28, 2019

Publication Financial Figures 2018

May 23, 2019

Publication three months' statement 2019

July 2, 2019

Annual General Meeting,
Ludwigsburg

August 29, 2019

Publication six months' statement 2019

September 13 – 15, 2019

15th IR-Tour Rüttnauer Research,
Vienna (Austria)

November 21, 2019

Publication nine months' statement 2019

November 25 – 27, 2019

German Equity Forum,
Frankfurt/Main

* *These are preliminary dates for the 2019 fiscal year.*
Any changes will be published on the Company's website at www.usu.de

GLOSSARY

AI
Artificial intelligence. AI is a branch of computer science that addresses the automation of intelligent behavior and machine learning.

AktG
Abbreviation for Aktiengesetz (German Stock Corporation Act).

Deferred tax assets/liabilities
Income tax to be received/paid in the future resulting from differences between the financial statements and the tax base.

App
Abbreviation for application. This term refers to any type of application software. However, it usually describes applications for smartphones and tablet computers.

Aspera
Abbreviation for Aspera GmbH. Aspera is a subsidiary of USU Software AG. As a highly specialized solutions provider for software license management, Aspera operates in a rapidly growing market segment. Aspera's product portfolio includes the › *SmartTrack* product, which is oriented towards the premium market.

Aspera Technologies
Abbreviation for Aspera Technologies Inc. Aspera Technologies is a subsidiary USU Software AG and was formed in Boston, USA, in 2012. The aim of the company is the sale, maintenance and implementation of USU solutions such as › *SmartTrack* in the USA.

Asset monitoring
See: Monitoring

Audit
In the area of software license management, an audit refers to the inspection of the use of software on the customer's premises. Usage and purchased software licenses are examined in particular.

Adjusted EBIT
Adjusted EBIT describes the earnings before interest and taxes of USU Software AG not relating to › *IFRS* and adjusted for non-recurring acquisition-related effects.

BIG Social Media
Abbreviation for B.I.G. Social Media GmbH. BIG Social Media, an international provider of › *SaaS* solutions in the area of › *social media* management, BIG Social Media was a subsidiary of USU Software AG, which was merged into the USU GmbH in 2018 and in this became a part of the newly formed division › *unymira.* With its innovative product › *BIG CONNECT,* unymira helps customers to identify, manage and successfully utilize developments in social media.

Big data
Big data describes the use of large volumes of data from various sources with high processing speed in order to generate economic benefit. Big data is defined on the basis of four characteristics: data volume, the variety of data sources, the speed of data production and the rising number of users that wish to exploit the potential of big data using analysis.

BIG CONNECT
Software product of the › *USU* division › *unymira* for › *social media* management.

GDP
Abbreviation for gross domestic product. GDP is used to measure the economic performance of an economy within a specific period. It measures the monetary value of all goods and services produced domestically. Real GDP refers to GDP adjusted for price developments. The rate of change in real GDP serves to measure the economic growth of an economy.

Bot
See: Chatbot

buzzword
Words or phrases that describe a certain trend or a new development and that are used to communicate certain concepts concisely and convincingly. As their use is based on an (unconscious) intention to convince, these words/phrases often questionably reduce or simplify the concept in order to sound good at the expense of the information conveyed.

Gross income
Sales less cost of sales.

Chatbot
A chatbot or Bot is a software system that responds automatically to text prompts by human users. It acts as a virtual assistant, responding to user search requests for flights, prices, hotels and rental cars.

Cloud
See: Cloud computing.

Cloud computing
Refers to › *IT* services that can be obtained in the Internet "cloud". Users no longer need to buy the required hardware or software or install and maintain them on-site, but instead can flexibly obtain the desired services via the Internet and use them as a service when needed.

CMDB
Abbreviation for configuration management database. Information about all › *IT* equipment and resources is managed in this database, such as PCs and their software and hardware components, contracts, etc. Unlike conventional › *IT asset management* databases, the mutual dependencies of the managed objects are also shown.

Compliance
Commitment by a company and its managers to observe the rules prescribed by the law, shareholders or the Supervisory Board, including various ethical aspects of the corporate philosophy. The aim is to avoid a negative image and prevent cases of liability or actions for damages.

Configuration management
Configuration management provides the necessary information about the IT infrastructure and services for › *IT service management.* Constantly updated and historical information about configuration items (CIs) is available in the configuration management database (› *CMDB*).

Corporate Governance
Describes the responsible management and controlling of a company with a view to long-term value creation. Key standards are compiled by the Government Commission for the German Corporate Governance Code and consolidated in the German Corporate Governance Code.

DAX
Abbreviation for the Deutscher Aktienindex (German Stock Index). As the most important stock index in Germany, the DAX reflects the development of the 30 largest companies with the strongest growth that are listed on the Frankfurt Stock Exchange.

Destatis
Abbreviation for the German Federal Statistical Office.

Directors' dealings
Reportable securities transactions conducted by the managers of a listed company in accordance with Article 19 of the Market Abuse Regulation (EU) No. 596/2014.

EASYTRUST
Abbreviation for EASYTRUST SAS, which has since been renamed USU SAS. EASYTRUST respectively USU SAS is a subsidiary of › *USU Software AG.*

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortization.

EBT
Abbreviation for earnings before taxes.

Equity ratio
The ratio of shareholders' equity in the statement of financial position to total assets. The higher a company's equity ratio, the lower its debt-to-equity ratio.

Gartner
Abbreviation for Gartner Inc., a US market research company.

GDPR
General Data Protection Regulation.

Goodwill
Goodwill is an intangible asset resulting from the acquisition of business operations and capital consolidation.

HGB
Abbreviation for Handelsgesetzbuch (German Commercial Code).

IFRS
International Financial Reporting Standards are designed in particular to ensure that accounting methods and disclosures in financial statements are internationally comparable and to improve confidence in the financial markets and investor protection.

Impairment test
An impairment test is used to examine non-current assets in order to identify whether the recognition of an impairment loss is necessary. Instead of amortization, impairment testing is performed at least once a year for the › *goodwill* reported in the consolidated statement of financial position in accordance with › *IFRS* 3, among other things. Impairment testing can result in either the confirmation of the reported goodwill or in an impairment loss that serves to reduce net profit for the period.

Industrial big data
Industrial big data describes an extremely large volume of unstructured and semi-structured machine data generated in the manufacturing industry as a result of intelligent networking along the entire production chain.

IQ
Intelligence quotient. IQ is a figure determined by an intelligence test to assess intellectual performance in general or within a certain range compared to a reference group.

ISIN
Abbreviation for International Securities Identification Number. The ISIN is a twelve-digit international identification number for securities that allows a security traded on the stock market to be clearly identified.

IT
Abbreviation for information technology

IT analytics
This term describes the overarching analysis, monitoring and controlling of information from all relevant › *IT service management* systems and › *ITIL®* processes

IT asset management
Comprises the automated management of all IT components and their relationships over the entire lifecycle, including all financial, procurement-related and contractual information.

ITIL®
IT infrastructure library – a collection of expert methodical principles to optimize › *IT service processes.* ITIL was developed by the CCTA (Central Computer and Telecommunications Agency) in the late 1980s based on practical experience. It constitutes a manufacturer-independent set of rules that describe a systematic procedure for the introduction, operation and management of › *IT* and its services. ITIL defines processes, functions, roles, responsibilities and design elements that form the basis and requirements for efficient and effective IT operations.

IT service
Provision of one or more technical or non-technical systems (hardware, software, employees) required to conduct business processes.

ITSM
Abbreviation for › *IT service management.*

IT service management
The sum of all tried and tested measures and methods that are required to achieve the best possible support for business processes by means of the IT organization. IT service management describes the transition of › *IT* towards customer and service orientation while taking into account economic objectives. By integrating organization-wide knowledge into the company's core processes with a view to creating value, USU also offers its customers the potential to further optimize and operate their business processes in a cost-efficient manner using a consistent basis of information.

Katana
Katana is a new › *USU* division that emerged from USU's research department and that focuses on big data analytics applications and data-driven services.

KatanaFlow
KatanaFlow is a new graphical development environment for data science in mechanical and plant engineering. The powerful, user-friendly web application supports engineers in analyzing and processing industrial data.

Knowledge Bot
A › *bot* solution developed by the › *USU* division › *unymira* to provide service support for standard questions.

KnowledgeCenter
The modular web-based product suite of the › *USU* division › *unymira* for the provision of information in knowledge-intensive business processes. KnowledgeCenter's patented technology has received numerous awards.

KnowledgeFirst
An intelligent solution for web self-service developed by the › *USU* division › *unymira.* The application provides support for questions and problems and delivers the right answer on the basis of the integrated › *knowledge database.*

Knowledge management
A summary term for all strategic and operational activities and management tasks aimed at handling knowledge as effectively as possible

Deferred taxes
See: Deferred tax assets/liabilities.

LeuTek
Abbreviation for LeuTek GmbH. LeuTek is a subsidiary of › *USU* Software AG. LeuTek is a software company that develops and distributes standard software in the field of › *systems management,* such as the internally developed › *ZIS system* software.

License metrics
License metrics describe how license requirements for software usage are measured. Typical metrics include the number of installations, the number of users, the duration of usage etc.

MIPS
Million instructions per second is a unit of measurement for the computing power of large computers/servers.

Monitoring
Describes the monitoring of operations on individual computers, servers or entire data centers.

myCMDB
The current product suite of the subsidiary › *OMEGA*. With myCMDB, the › *USU* Group offers a standard software solution in the field of › *IT service management* for SMEs and public administrations.

OMEGA
Abbreviation for Omega Software GmbH. OMEGA is a subsidiary of USU Software AG. It primarily performs services and distributes products such as the › *myCMDB* product suite.

On-premises
In contrast to a leased solution like › *SaaS,* on-premises describes a software solution that is installed locally. The user purchases, installs and administers the software on their own hardware.

Predictive maintenance
Predictive maintenance is defined as evaluating maintenance information on the basis of live machine and production data in order to perform proactive maintenance on machinery and equipment before any downtime or quality losses occur.

Prime Standard
Admission and market segment of the Frankfurt Stock Exchange for companies wishing to position themselves internationally. Prime Standard companies are required to meet strict international transparency requirements that go far beyond the minimum statutory requirements for the regulated market.

Private cloud
A private cloud provides its services exclusively for organizations. Unlike the public › *cloud,* it is not publicly available via the Internet. A private cloud can be hosted on a company's own computers or by a third party and offers a high degree of control and security.

Release
Describes the finished and released version of a piece of software. This involves a change in the version name, typically an increment in the version number.

SaaS
Abbreviation for › *software as a service.*

SAM
Abbreviation for › *software asset management.*

Self-service
Provides users with easy, intuitive access to the solution to their inquiry or problem. This simplifies and accelerates processes and increases user satisfaction.

Service desk
The service desk is the central point of contact for all service requests within an organizational structure. The main task of an › *ITIL®* service desk is to handle incoming and outgoing communication with users of › *IT* services.

Smart data
Describes data sets containing valuable information that are extracted from larger volumes of data (see › *big data*) using algorithms. This allows workflows and decision-making processes to be optimized or automated.

SmartTrack
Software license management solution of the Group subsidiary › *Aspera* ensuring audit-proof adherence to › *compliance* guidelines concerning the use of software licenses and the realization of extensive cost savings through license optimization. Customers who use SmartTrack save a large proportion of their expenditure on software licenses and can demonstrate compliance at all times.

Social media
This term encompasses a wide range of media, including Facebook, Twitter and various specialized forums. Social media allows users to exchange views and create media content individually or as a community. In this respect, it is an everyday communication and information medium that is becoming increasingly important for companies, from marketing and sales to the acquisition of new employees.

Software as a service
Describes the flexible, scalable provision of software as a service on the Internet. Customers can use the required software via the Internet as required and no longer have to install it locally. In this respect, SaaS constitutes a sub-area of › *cloud computing*.

Systems management
The centralized administration, monitoring, visualization, automation and management of all systems and processes of a company or group that are required for IT operations.

unitB technology GmbH
was a subsidiary of › *USU* since January 2017, was merged into the USU GmbH in 2018 and in this became a part of the newly formed division › *unymira.*

unymira
unymira is a new › *USU* division that bundles the products and expertise of the four previously separate USU divisions BIG Social Media, Business Solutions, KCenter and unitB technology. unymira focuses on the intelligent digitization of service-related business processes for customer and IT service.

USU
Abbreviation for the entire USU Group, i.e. the parent company USU Software AG and its subsidiaries, including USU AG, › *Aspera,* › *Aspera Technologies,* › *BIG,* › *LeuTek,* › *OMEGA,* › *unitb technology GmbH* and › *USU SAS.* The USU Group has strategically positioned itself on the market for › *IT* and › *knowledge management* software.

USU SAS (formerly "EASYTRUST SAS")
USU SAS is a highly specialized French software provider for the automatic detection and analysis of hardware and software in complex infrastructures and the software license management of Oracle products.

USU – U Step Up
USU's career model aimed at the continuous development and training of its workforce.

UX design
An abbreviation for user experience design, which describes offering the user the best possible experience when using products or services. UX is responsible for user interface design, e.g. for a website or an › *app.*

Valuemation
USU's Valuemation product suite supports organizations by providing comprehensive modular solutions for operational › *IT service management* and enterprise service management.

Loss carryforward
The transfer of tax losses to future fiscal years in order to offset them against future profits.

Knowledge database
Knowledge databases are special databases for knowledge management. They provide the basis for gathering information. Organizations use them to make their ideas, solutions, articles, processes, user guides and other content available to all authorized parties. Knowledge databases require carefully structured classifications, formatted content and user-friendly search functions.

WKN
Abbreviation for Wertpapier-Kenn-Nummer (German Securities Code Number). The WKN serves to clearly identify securities in Germany. As part of the global standardization of securities identification, the WKN has been superseded by the International Securities Identification Number or › *ISIN.*

WpHG
Abbreviation for Wertpapierhandelsgesetz (German Securities Trading Act).

XETRA
Abbreviation for the exchange electronic trading system of the Frankfurt Stock Exchange.

Zettabyte
The zettabyte is a unit of storage capacity corresponding to 1021 bytes. A zettabyte is equal to one sextillion bytes or, in numbers, 1,000,000,000,000,000,000,000 bytes.

ZIS / ZIS system
Software product of the Group subsidiary › *LeuTek* for the monitoring, visualization, automation and controlling of all systems and processes required for IT operations.

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