

USU

6-MONTH REPORT 2018

USU Software AG

6-Month Report 2018	2018	2017
<i>in EUR thousand, except for earnings per share and number of employees</i>	Jan. 1 - June 30, 2018	Jan. 1 - June 30, 2017
REVENUE	41,774	38,871
ADJUSTED EBIT	255	1,565
ADJUSTED CONSOLIDATED NET PROFIT	-360	1,010
ADJUSTED EARNINGS PER SHARE (EUR)	-0.03	0.10
EBITDA	947	1,777
EBIT	-472	425
CONSOLIDATED NET PROFIT	-678	-53
EARNINGS PER SHARE (EUR)	-0.06	-0.01
NET CASH FLOWS FROM OPERATING ACTIVITIES	277	3,310
NUMBER OF EMPLOYEES AS OF JUNE 30	697	639
	June 30, 2018	Dec. 31, 2017
CASH AND CASH EQUIVALENTS	15,615	15,729
EQUITY	62,262	63,006
TOTAL ASSETS	95,294	99,386
EQUITY RATIO	65.3%	63.4%

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Dear Shareholders and Readers,

After the positive opening quarter, the second quarter of 2018 was, as expected, rather modest for USU Software AG. As reported, the first half of 2018 as a whole was markedly influenced by investments for the future of the product business, especially in internationalization, which at the same time resulted in an expected consolidated net loss in the period under review. However, it can already be foreseen that this will give rise to positive effects from Q3 2018 onward and therefore result in the targeted year-on-year sales and earnings increase for 2018 as a whole. Several project completions were ordered from major customers as SaaS projects again in the quarter under review, which reduced the margin in the short term but will contribute to an increased margin in the medium term. At the same time, several project postponements to the third quarter – especially abroad – contributed to the weaker second quarter. However, the reorganization of unymira, which assists companies with digitalization, has already had a positive effect. USU received numerous project orders to assist companies with the introduction and implementation of a digitalization strategy with its product and service portfolio.

Despite the shortage of qualified staff in the IT sector, USU also expanded the workforce by another nearly 10% as of the end of the second quarter of 2018 and now has around 700 employees in the Group as a whole, which is a key strategic step toward the successful implementation of the medium-term planning for 2021. Therefore, the Management Board is satisfied overall with the first half of 2018 and believes the USU Group is on track to achieve the 2018 plan and the 2021 guidance.

Continuity was also on display at this year's USU Annual General Meeting at the end of June, at which the distribution of a dividend at the previous year's level of EUR 0.40 per share was resolved. As a result, USU has for the twelfth time in a row distributed a dividend that, in line with the company's dividend strategy, was not lower than in the previous year while equating to around half of the profit generated. In addition, the Chairman of the Supervisory Board reported at the Annual General Meeting on the extension of my mandate as Chairman of the Management Board for another five years as of January 1, 2019, and on the intended extension of the Management Board mandate of Dr. Benjamin Strehl as of September 30, 2019, likewise by five years. In contrast, my Management Board colleague Bernhard Böhler is planning to move abroad in the medium term, and therefore asked the Supervisory Board to terminate his Management Board contract as of spring 2020, after which he will continue to support USU in an advisory capacity. The long-standing USU Supervisory Board member Günter Daiss will also resign from his post at the end of the year on grounds of age.

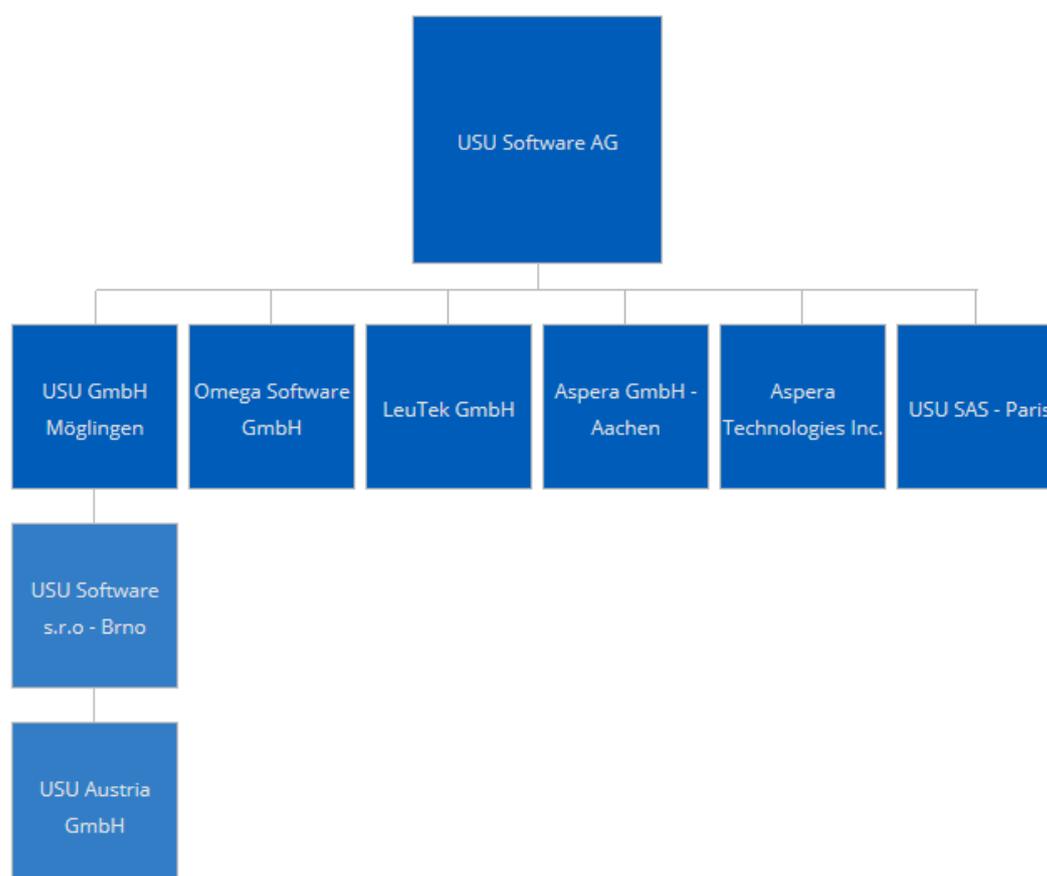
At this point, I would like to highlight the fact that USU has won an award for its 2017 Annual Report. USU's financial report for 2017 received the highest honor in this year's competition for the world's best annual reports. The League of American Communications Professionals (LACP) decorated the USU Annual Report with the Platinum award in the "Software" category. Around 1,000 reports from 25 countries were submitted to LACP and judged according to various criteria. USU's publication made it to fifth place among the top 100 reports in the world and third place among the top 80 reports from EMEA, which we see as both an honor and an incentive with regard to the quality of financial reporting.

Yours,

Bernhard Oberschmidt,
CEO of USU Software AG

Basic information on USU Software AG and the Group

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



The USU Software AG and its subsidiaries

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

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

Business model, objectives, strategies and controlling system

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

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

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

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

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

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

As the USU Group's IFRS consolidated earnings have been and continue to be influenced by various extraordinary items which make it difficult to compare USU's earnings power from fiscal year to fiscal year, the Company has also calculated its adjusted consolidated earnings for information purposes. This shows consolidated earnings adjusted for the amortization of intangible assets capitalized as a result of business combinations and additional non-recurring effects due to acquisitions plus the corresponding tax effects. Furthermore, on the basis of these adjusted consolidated earnings, USU Software AG reports consolidated earnings per

share using the average number of shares outstanding. Adjusted EBIT is also reported and serves as an important planning and control parameter. Adjusted consolidated earnings, adjusted EBIT and adjusted earnings per share are not key indicators under IFRS.

Research and development

In light of the challenges of digitalization, innovation is a crucial component for USU's long-term and sustainable success. Therefore, the company has been investing heavily in research and development (R&D) for years. In total, it invested EUR 7,307 thousand (Q1-Q2 2017: EUR 6,387 thousand) or 17.5% (Q1-Q2 2017: 16.4%) of consolidated sales in R&D in the first six months of 2018. The number of employees in this segment was 196 as of June 30, 2018 (June 30, 2017: 180). The USU Group does not capitalize its R&D expenses.

The development of version 5.1 of the IT service management product line Valuation dominated the R&D activities of the USU segment of the same name in the reporting period. The new release, which is scheduled for delivery on October 30, includes numerous functional improvements and a Kanban board, which allows ticket processing tasks to be allocated and scheduled flexibly. In addition, the requirements of the European General Data Protection Regulation (GDPR), which came into force at the end of May 2018, have been implemented by the Data Protection Manager. The development team also continued work on version 3.2 of the Valuation Mobile Manager.

In the Business Service Monitoring and Alarm Management segment, the new version of ZIS was released in the second quarter of 2018. The top priority was to expand the Microsoft SCOM interface for large system environments. Ahead of the USU World customer event, significant innovations under development such as the enhancement of the alarm functions with an alarm app and Skype for Business and the redesign of the dashboard interface in the self-service cockpit were advanced so that they could be presented to customers.

In Aspera's software license management, the new SmartTrack release was rolled out. Particularly notable 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. Aspera's R&D team also developed and delivered LicenseControl for Office 365, the only cloud-based software asset management solution for the optimization of Microsoft Office 365 subscriptions. The system automatically recommends how growing IT costs can be reduced and which SaaS subscriptions are optimal for the respective user.

In the restructured unymira division, development work continued on version 6.9 of the knowledge database Knowledge Center. Delivery is scheduled for the third quarter. It centers on a new service platform, KnowledgeCloud, which uses the motto “customers help customers” to consolidate industry-related knowledge and make it available to customers. The development work for version 4 of the self-service application Smart Link continues in parallel. Here, for example, the new Native Client allows more comprehensive management and analysis of the users’ computers. The enhancement of CONNECT in the area of social media management focused on improvements to skill-based routing, which controls communication automatically on the basis of employee skills.

The Katana division, which focuses on the growth area of industrial big data, began developing the new product Katana Go in the second quarter. Katana Go offers mechanical and plant engineering a cloud-based environment for smart services and big data analyses. Customers can thus live-launch their data analyses or algorithms developed with Katana Flow, for example, for machine data analysis and machine monitoring. The product arose as a result of practical requirements of the customer projects with Heidelberger Druckmaschinen and Trumpf.

In the reporting period, the research division was awarded the contract for two major projects: In the AIAX project, which started on August 1, 2018, USU will be involved with Daimler AG, among others, in the analysis of production data in order to predict the quality of products as early as possible. As part of the second project, ARBAY, USU’s unymira division will research intelligent, dialog-based assistants (chatbots). Together with Uni Mannheim, adaptable dialog strategies, for example, are to be developed in order to give bots more intelligence while ensuring the quality of the dialog with customers.

Economic Report

Overall economic development

According to information from the German Federal Statistical Office (Destatis)¹ from August 14, 2018, the German economy remains on its positive growth trajectory. Adjusted for inflation, seasonal and calendar effects, gross domestic product (GDP) for the second quarter of 2018 was 0.5% higher than in the previous quarter. In comparison with the previous quarter, Destatis reported that positive impetus came from within Germany – both private households and the public sector increased their consumer spending. Investments also continued to rise. However, growth was curbed by external developments – according to preliminary calculations, external

¹ cf. destatis press release 299 dated August 14, 2018, published at <https://www.destatis.de>

economic development was characterized by increasing exports and an even greater increase in imports. Economic growth in Germany also increased year-on-year, according to Destatis. Adjusted for inflation, GDP rose by 2.0% year-on-year in the second quarter of 2018.

According to a flash estimate by the Statistical Office of the European Union (Eurostat)², the euro area also enjoyed positive quarter-on-quarter GDP growth of 0.4% in the second quarter of 2018. Seasonally adjusted euro area GDP increased by 2.2% as against Q2 2017 in the second quarter of 2018.

Sector development

According to surveys conducted by the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM)³, the midmarket in particular enjoyed extremely positive development within the German high-tech industry. 85% of the small and medium-sized IT companies surveyed expected to record higher sales in the first half of 2018 than in the same period of the previous year, while only 3% expected sales to decline. As a result, the BITKOM SME index climbed to 82 points, 3 points higher than in the second half of 2017 and up 14 points on the figure of 68 points recorded one year previously. “The IT midmarket is the growth driver of the digital economy. Small and medium-sized enterprises in particular are driving the economy with considerable agility and dynamism, creating new jobs and strengthening Germany’s position as an economic location,” commented Bitkom Executive Board member Dirk Röhrborn.

Business development in the second quarter of 2018

In Q2 2018, the USU Group increased its consolidated sales (IFRS) by 3.9% to EUR 20,769 thousand (Q2 2017: EUR 19,984 thousand). The comparatively moderate increase resulted from domestic business, while international sales fell by 12.4% year-on-year to EUR 5,290 thousand in the second quarter of 2018 (Q2 2017: EUR 6,037 thousand). This temporary decline in international sales is due primarily to the stronger trend for software-as-a-service (SaaS) projects and several project postponements with a comparatively high project volume. While the first quarter went very well, especially in the USA and Western Europe, final order releases in these countries were increasingly delayed as of the end of the second quarter. Accordingly, the Management Board of USU Software AG expects a considerable increase in

² cf. Eurostat press release 131/2018 dated August 14, 2018, published at <http://ec.europa.eu/eurostat>

³ cf. BITKOM press release dated March 26, 2018, published at <http://www.bitkom.de>

international sales in the second half of 2018 and has therefore continued investing in the future of the international business in a targeted manner.

As a result of the weaker international business, the license business also fell well short of the previous year in the quarter under review. License income amounted to EUR 2,157 thousand in the second quarter of 2018 (Q2 2017: EUR 3,158 thousand), which is attributable to customers' increasing prioritization of SaaS contracts. In contrast, USU increased its income from maintenance, including SaaS sales, by 4.2% to EUR 5,825 thousand (Q2 2017: EUR 5,588 thousand). Consulting business also performed particularly positively in the quarter under review, growing by 15.0% year-on-year to EUR 12,485 thousand (Q2 2017: EUR 10,858 thousand).

Due to the modest international business, sales in the Product Business segment also fell by 2.6% year-on-year to EUR 15,072 thousand in the second quarter of 2018 (Q2 2017: EUR 15,477 thousand). In contrast, the Service Business segment significantly boosted its sales in the second quarter of 2018 by 25.1% year-on-year to EUR 5,610 thousand (Q2 2017: EUR 4,485 thousand). This segment benefited above all from the restructuring of the unymira division and the associated focus on the growth area of digitalization.

The USU Group's cost base rose as a result of the targeted investment in international business and internal future projects, such as the restructuring of the unymira division and the standardization of Group IT, to EUR 21,502 thousand (Q2 2017: EUR 19,291 thousand). As expected, the development of earnings remained below the level of the figures for the previous year in the second quarter of 2018 on account of the strategic investments recognized directly as expenses. For example, earnings before interest, taxes, depreciation and amortization (EBITDA) fell by a considerable EUR 981 thousand in the second quarter of 2017 to EUR -144 thousand in Q2 2018. At the same time, earnings before interest and taxes (EBIT) dropped to EUR -855 thousand (Q2 2017: EUR 286 thousand). The USU Group's consolidated net profit (IFRS) fell from EUR 62 thousand in the same quarter of the previous year to EUR -1,151 thousand in the quarter under review. This corresponds to earnings per share of EUR -0.11 (Q2 2017: EUR 0.01). Adjusted for the extraordinary effects of acquisitions, adjusted EBIT was negative in the second quarter of 2018 at EUR -497 thousand (Q2 2017: EUR 876 thousand), while adjusted consolidated net profit declined to EUR -822 thousand (Q2 2017: EUR 607 thousand). This corresponds to a decline in adjusted earnings per share from EUR 0.06 in the second quarter of 2017 to currently EUR -0.08.

Business development in the first six months of fiscal 2018

Development of revenue and costs

Consolidated revenue

Over the first six months of fiscal 2018, USU Software AG increased its consolidated sales (IFRS) by 7.5% year-on-year to EUR 41,774 thousand (Q1-Q2 2017: EUR 38,871 thousand). USU benefited from strong international business in the opening quarter and the positive service business in Q2 2018, which was mostly generated in Germany. In the first half of the year, international sales generated outside Germany amounted to EUR 12,204 thousand (Q1-Q2 2017: EUR 11,063 thousand), corresponding to a year-on-year increase of 10.3%. Accordingly, USU increased the share of consolidated sales generated abroad from 28.5% in the previous year to 29.2% in the first half of 2018.

Due to project postponements and the increasing trend toward SaaS business, the software license business fell by 14.3% year-on-year to EUR 4,961 thousand (Q1-Q2 2017: EUR 5,792 thousand). At the same time, maintenance and SaaS business increased to EUR 11,698 thousand (Q1-Q2 2017: EUR 10,708 thousand) as a result of higher SaaS revenue. This represents growth of 9.2% compared to the first half of 2017.

Consulting business was particularly good, growing by double digits in both Q1 2018 and Q2 2018 compared to the previous year and by a total of 13.4% in the first half of the year as against the first six months of fiscal 2017 to currently EUR 24,652 thousand (Q1-Q2 2017: EUR 21,735 thousand). Other income, which essentially comprises sales of third-party hardware and software, amounted to EUR 463 thousand (Q1-Q2 2017: EUR 636 thousand).

Revenue by segment

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

The Product Business segment contributed sales of EUR 30,871 thousand in the first half of 2018 (Q1 2017: EUR 29,356 thousand), up 5.0% on the previous year. In the same period, the USU Group increased its consulting sales in the Service Business segment by 14.5% to EUR 10,837 thousand (Q1-Q2 2017: EUR 9,468 thousand).

Sales not allocated to the segments amounted to EUR 117 thousand in the first six months of fiscal 2018 (Q1-Q2 2017: EUR 47 thousand).

Operating costs

The operating cost base of the USU Group increased by 10.4% year-on-year to EUR 41,751 thousand in the first half of 2018 (Q1-Q2 2017: EUR 37,826 thousand). This increase primarily reflects the increased investment outside Germany in order to successfully implement the medium-term targets, the associated increase in employees and higher costs for internal future projects.

The cost of sales was up by 13.0% as against the previous year at currently EUR 20,670 thousand in the period under review (Q1-Q2 2017: EUR 18,286 thousand). Among other things, this reflects the expansion of the consultant team and the greater use of freelancers in order to meet demand. The cost of sales as a percentage of consolidated sales accordingly increased from 47.0% in the first half of 2017 to currently 49.5%. Gross income also increased from EUR 20,585 thousand in the first half of 2017 to EUR 21,104 thousand in the first half of 2018. By contrast, the gross margin fell short of the previous year's figure at 50.5% in the first half of 2018 (Q1-Q2 2017: 53.0%).

In the quarter under review, USU increased its marketing and sales expenses slightly by 1.2% year-on-year to EUR 4,178 thousand in connection with the intensification of its activities outside Germany (Q1 2017: EUR 3,746 thousand). The comparatively small increase reflects the decreased license business and the associated decline in variable compensation and commissions paid to the sales team. Marketing and sales expenses as a share of consolidated sales accordingly fell to 21.2% in the first half of 2018 (Q1-Q2 2017: 22.5%). The Management Board expects the expansion of the license business in subsequent quarters to result in development in the opposite direction.

General administrative expenses climbed from EUR 4,401 thousand in the first two quarters of fiscal 2017 to currently EUR 4,918 thousand. This 11.8% increase resulted primarily from internal future projects at USU, such as the standardization of Group IT and the streamlining of the Group structure by merging business units in the unymira division and the associated conversion of the Group subsidiary USU AG into USU GmbH. The ratio of administrative expenses to consolidated sales increased only slightly year-on-year in the reporting period to 11.8% (Q1-Q2 2017: 11.3%).

Research and development expenses increased by 14.4% year-on-year to EUR 7,307 thousand (Q1-Q2 2017: EUR 6,387 thousand). This was primarily attributable to the acquisition of the new Group subsidiary USU SAS ("EASYTRUST") in 2017 and the accompanying

expansion in the R&D workforce. The ratio of research and development expenses to consolidated sales increased as a result from 16.4% in the first half of 2017 to 17.5% in the first six months of 2018. 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.

Net other operating income and expenses totaled EUR 221 thousand in the first six months of 2018 (Q1-Q2 2017: EUR 42 thousand).

Results of operations

The USU Group's broader international investment in order to successfully implement the medium-term growth targets meant that earnings development was down on the previous year in the first two quarters of fiscal 2018. EBITDA therefore nearly halved year-on-year to EUR 947 thousand (Q1-Q2 2017: EUR 1,777 thousand). Adjusted for depreciation and amortization of EUR 1,419 thousand (Q1-Q2 2017: EUR 1,352 thousand), USU generated EBIT of EUR -472 thousand in the same period (Q1-Q2 2017: EUR 425 thousand). Net finance costs amounted to EUR 114 thousand in the first half of 2018 (Q1-Q2 2017: EUR -24 thousand). Taking into account the income tax expense of EUR -410 thousand (Q1-Q2 2017: EUR -200 thousand), consolidated net profit declined from EUR -53 thousand in the first half of 2017 to EUR -678 thousand in the first six months of 2018. Earnings per share therefore amounted to EUR -0.06 (Q1-Q2 2017: EUR -0.01).

Adjusted consolidated net profit

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

Adjusted consolidated net profit	Jan. 1, 2018 - June 30, 2018	Jan. 1, 2017 - June 30, 2017
<i>EUR thousand</i>		
Profit from ordinary activities (EBIT)	-472	425
Amortization of intangible assets recognized in connection with company acquisitions	717	662
Amortization of goodwill	0	0
Non-recurring effects relating to acquisitions	10	478
- from stay bonus for BIG GmbH / unitB technology GmbH	0	150
- from Consulting fees for acquisition of unitB technology	10	140
- from purchase price adjustments	0	0
- from incidental acquisition costs	0	188
Adjusted EBIT	255	1,565
Finance income (as per consolidated income statement)	121	27
Finance costs (as per consolidated income statement)	-63	-89
Income taxes (as per consolidated income statement)	-264	-416
Tax effects relating to adjustments	-409	-77
- from amortization	-57	-77
- from deferred taxes on tax loss carryforwards	-352	0
Adjusted consolidated net profit	-360	1,010
Adjusted earnings per share (in EUR):	-0.03	0.10
Weighted average shares outstanding:		
Basic and diluted	10,523,770	10,523,770

The investments in the future meant that adjusted EBIT fell significantly short of the previous year's figure at EUR 255 thousand in the first half of 2018 (Q1-Q2 2017: EUR 1,565 thousand). Adjusted consolidated net profit fell to EUR -360 thousand in the same period (Q1-Q2 2017: EUR 1,010 thousand). Adjusted earnings per share declined accordingly from EUR 0.10 in the previous year to EUR -0.03 in the period under review.

Net assets and financial position

On the asset side of the statement of financial position, the USU Group's non-current assets fell slightly to EUR 57,894 thousand as of June 30, 2017, due to the amortization of intangible assets and depreciation of property, plant and equipment (December 31, 2017: EUR 58,828 thousand).

In the same period, current assets decreased from EUR 40,558 thousand as of December 31, 2017, to EUR 37,400 thousand. This was largely due to the targeted reduction in trade receivables.

Cash and cash equivalents (cash on hand and bank balances plus securities) declined minimally to EUR 15,615 as of June 30, 2018 (December 31, 2017: EUR 15,729 thousand), due to the payment of liabilities.

On the equity and liabilities side of the statement of financial position, the equity of the USU Group fell slightly from EUR 63,006 thousand as of December 31, 2017, to EUR 62,262 thousand as of June 30, 2018, as a result of the consolidated net loss. At the same time, USU targetedly reduced debt in the form of the USU Group's current and non-current liabilities to EUR 33,032 thousand as of June 30, 2018 (December 31, 2017: EUR 36,380 thousand). With total assets of EUR 95,294 thousand (December 31, 2017: EUR 99,386 thousand), the equity ratio consequently improved to 65.3% as of June 30, 2018 (December 31, 2017: 63.4%).

Cash flows and capital expenditure

The USU Group had cash and cash equivalents of EUR 12,601 thousand as of June 30, 2018 (Q1-Q2 2017: EUR 16,482 thousand). This corresponds to a year-on-year decline of EUR 3,881 thousand or 23.5%, essentially as a result of the decline in earnings and isolated changes in working capital.

USU's cash flow from operating activities fell from EUR 3,310 thousand in the first half of 2017 to currently EUR 277 thousand. In addition to tax payments, this is also due to the drop in earnings and isolated changes in working capital, such as the settlement of liabilities.

Net cash used in investing activities of EUR -436 thousand (Q1-Q2 2017: EUR -6,871 thousand) primarily includes investments 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.

As in the previous year, there were no changes in cash flow from financing activities in the first half of 2018.

Orders on hand

As of the end of the second quarter of 2018, the USU Group's orders on hand amounted to EUR 45,845 thousand and were therefore up 6.6% year-on-year (June 30, 2017: EUR 43,023 thousand).

Orders on hand also increased by 4.1% as against the end of the previous year (December 31, 2017: EUR 44,055 thousand).

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

Employees

The USU Group met its target by expanding its workforce by 9.1% year-on-year to 697 employees as of June 30, 2018 (June 30, 2017: 639). Broken down by functional unit, USU employed a total of 314 people in consulting and services as of the end of the second quarter of 2018 (June 30, 2017: 284), 196 in research and development (June 30, 2017: 180), 98 in sales and marketing (June 30, 2017: 100) and 89 in administration (June 30, 2017: 75). Broken down by segment, USU employed 497 (June 30, 2017: 470) people in the Product Business segment, 111 (June 30, 2017: 94) in the Service Business segment and 89 (June 30, 2017: 75) in USU Group central functions. USU therefore expanded its Group workforce in accordance with the medium-term planning despite the current shortage of qualified staff in the IT sector.

Supplementary report

The supplementary report can be found in the notes to the consolidated financial statements in this 6-Month Report 2018.

Forecast, opportunity and risk report

Forecast

General economy

According to a survey by the Joint Economic Forecast Project Group⁴ of April 19, 2018, conducted with the participation of the leading German economic research institutes, the German economy is in a boom phase. The pace of growth is set to pick up again following the dip at the start of the year, meaning that the boom will continue in the current year as a whole

⁴ cf. Joint Economic Forecast "Gemeinschaftsdiagnose" Spring 2018, dated April 19, 2018

providing there is no escalation in the international trade conflict. According to the joint economic forecast, gross domestic product (GDP) is expected to increase by 2.2% in the current year (2017: 2.2%).

According to the joint economic forecast, the global economy will achieve growth in overall economic output of 3.4% this year after 3.3% in the previous year. However, global economic momentum will slow gradually as the year progresses. This is due in part to the more turbulent trade policy environment, which is having an adverse effect on the global investment climate.

Sector

According to information published by the industry association BITKOM⁵, growth in the German high-tech sector is expected to be boosted by digitalization in the 2018 fiscal year. The German IT market alone is expected to grow by 3.1% to EUR 88.8 billion in 2018 (2017: EUR 86.2 billion). The software segment is expected to enjoy the strongest development by some distance, with BITKOM forecasting above-average growth of 6.3% to EUR 24.4 billion in this segment (2017: EUR 23.0 billion). However, IT service providers are also set to experience above-average growth of 2.6% to EUR 40.0 billion (2017: EUR 39.0 billion). According to BITKOM, the sustained high level of demand for software and IT services shows that digitalization has reached all areas of the economy. While cloud computing has established itself as the basis for the next phase of digitalization at the majority of companies, BITKOM still sees considerable growth potential on the market for big data and the Internet of Things (IoT). In terms of the global IT market, the Worldwide IT Spending Forecast⁶ published by the market research company Gartner on April 9, 2018, forecasts a year-on-year increase in global IT expenditure of 6.2% to USD 3.7 trillion in 2018 (2017: USD 3.5 trillion). According to Gartner, the key global growth areas are also expected to be corporate software and IT services, with forecast growth of 11.1% to EUR 391 billion (2017: EUR 352 billion) and 4.4% to EUR 1,003 billion (2017: EUR 933 billion) respectively as a result of digitalization.

Outlook

With a view to the full 2018 fiscal year, the Management Board expects USU Software AG to continue on the positive growth path recorded in recent years, although this

⁵ cf. BITKOM press release dated February 14, 2018, published at www.bitkom.de

⁶ cf. Gartner press release dated April 9, 2018, published at www.gartner.com

growth will be curbed slightly by the trend towards SaaS business. From the third quarter, the investments outside Germany will have an increasingly positive effect, and the project postponements from the second quarter will also contribute to positive international business especially in the third and final quarters of the current fiscal year. Furthermore, the portfolio expansion in the area of knowledge management will be reflected positively in the markets outside Germany, particularly in the USA. At the same time, however, domestic business is also expected to continue to develop successfully, leading to a further expansion in the product business. In addition, the service business is set to enjoy further growth as a result of the focus on digitalization. As announced, the Management Board accordingly expects to significantly outperform the IT market in terms of growth once again in the full 2018 fiscal year, and thus more than make up for the weaker development in the first half of the year. Key indicators supporting this guidance figure include the current forecast and the Group-wide orders on hand, which increased by 6.6% year-on-year to EUR 45,845 thousand as of June 30, 2018 (June 30, 2017: EUR 43,023 thousand). Accordingly, the forecast for 2018 continues to involve an increase in consolidated sales to between EUR 93 million and EUR 98 million accompanied by an above-average rise in adjusted EBIT to EUR 7.5-10 million. The Management Board is also confirming its medium-term forecast to 2021, with consolidated sales set to rise to EUR 140 million and adjusted EBIT increasing to EUR 20 million. Strategic planning focuses on the three established growth pillars of the USU Group: increased internationalization, the development and launch of new product innovations, and inorganic growth through acquisitions.

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

Report on risks and opportunities

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

USU shares (ISIN DE000A0BVU28).

After the relatively weak opening quarter, the stock markets exhibited an upward trend again in Q2 2018, but this took a negative turn again at the end of the reporting period due to the USA's intensifying trade conflict with Europe and China. On a quarterly basis, the Technology All Share closed at 3,101.27 points on the XETRA electronic trading platform on June 30, 2018, up 8.2% on the end of the previous quarter (March 31, 2018: 2,866.09 points). The DAX rose only slightly by 1.7% to 12,306 in XETRA trading in the same period (March 31, 2018: 12,096.73 points).

The price of USU Software AG shares rose very significantly relative to the indices in the second quarter of 2018, up by 12.7% to EUR 24.80 on XETRA (March 31, 2018: EUR 22.0). In contrast, USU's share price dropped by 5.3% as against December 31, 2017 (EUR 26.20), while the DAX fell by 4.7% (December 31, 2017: 12,917.64 points) and the Technology All Share gained 7.7% (December 31, 2017: 2,880.31 points).

Möglingen, August 30, 2018

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

ASSETS <i>in EUR thousand</i>	6-month report June 30, 2018	Annual report Dec. 31, 2017
Non-current assets		
Intangible assets	7,658	8,487
Goodwill	41,183	41,183
Property, plant and equipment	2,075	2,230
Financial assets	725	687
Prepaid expenses	354	342
Deferred taxes	5,899	5,899
Non-current assets	57,894	58,828
Current assets		
Inventories	567	511
Unbilled work in progress	5,186	3,468
Trade receivables	12,399	17,443
Income tax receivables	960	1,012
Financial assets	961	1,279
Other assets	538	205
Prepaid expenses	1,174	911
Securities	3,014	3,014
Cash on hand and bank balances	12,601	12,715
Current assets	37,400	40,558
Total assets	95,294	99,386

EQUITY AND LIABILITIES <i>EUR thousand</i>	6-month report June 30, 2018	Annual report Dec. 31, 2017
Equity		
Issued capital	10,524	10,524
Capital reserves	52,792	52,792
Legal reserve	0	574
Other comprehensive income	-172	-105
Net accumulated losses	-882	-779
Equity	62,262	63,003
Non-current liabilities		
Financial liabilities	250	250
Pension provisions	2,245	2,203
Deferred income	875	2,443
Deferred taxes	2,049	2,457
Non-current liabilities	5,419	7,353
Current liabilities		
Income tax liabilities	379	1,266
Financial liabilities	927	918
Personnel-related liabilities	5,019	7,421
Other provisions and liabilities	1,245	3,363
Liabilities from advance payments	5,371	7,457
Trade payables	2,766	3,567
Deferred income	11,906	5,035
Current liabilities	27,613	29,027
Total equity and liabilities	95,294	99,386

CONSOLIDATED INCOME <i>EUR thousand</i>	Quarterly Report II / 2018 April 1, 2018 - June 30, 2018	Quarterly Report II / 2017 April 1, 2017 - June 30, 2017	6-month report 2018 Jan 1, 2018 - June 30, 2018	6-month report 2017 Jan 1, 2017 - June 30, 2017
Revenue	20,769	19,984	41,774	38,871
Cost of sales	-10,571	-9,025	-20,670	-18,286
Gross profit	10,198	10,959	21,104	20,585
Selling and marketing expenses	-4,678	-5,006	-8,856	-8,752
General and administrative expenses	-2,457	-1,904	-4,917	-4,401
Research and development expenses	-3,795	-3,356	-7,307	-6,387
Other operating income	378	222	625	451
Other operating expenses	-143	-279	-404	-409
Amortization of intangible assets recognized in connection with company acquisitions	-358	-350	-717	-662
Profit from ordinary activities (EBIT)	-855	268	-472	425
Finance income	117	20	121	27
Finance costs	-3	-44	-63	-89
Earnings before taxes (EBT)	-741	262	-414	363
Income taxes	-410	-200	-264	-416
Net profit	-1,151	-62	-678	-53
Earnings per share (EUR) on the basis of the share of earnings of shareholders of USU Software AG:				
Basic and diluted	-0.11	0.01	-0.06	-0.01
Weighted average shares outstanding: Basic and diluted	10,523,770	10,523,770	10,523,770	10,523,770

STATEMENT OF COMPREHENSIVE INCOME	Quarterly report II / 2018	Quarterly report II / 2017	6-month report 2018	6-month report 2017
<i>EUR thousand</i>	April 1, 2018 - June 30, 2018	April 1, 2017 - June 30, 2017	Jan. 1, 2018 June 30, 2018	Jan. 1, 2017 June 30, 2017
Consolidated net profit	-1,151	62	-678	-53
Available-for-sale financial assets (securities)				
- Changes in fair value recognized in equity	0	0	0	0
- Reclassified to profit or loss	0	0	0	0
Deferred taxes on available-for- sale financial assets (securities)	0	0	0	0
Currency translation difference	-104	28	-66	17
Other comprehensive income after taxes	-104	28	-66	192
Total comprehensive income	-1,255	90	-744	139

Consolidated Statement of Cash Flows	6-month report 2018	6-month report 2017
	Jan. 1, - June 30, 2018	Jan. 1, - June 30, 2017
<i>EUR thousand</i>		
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Consolidated net profit	-678	-53
+/- Depreciation, amortization and write-downs of non-current assets and reversals of write-downs of non-current assets	1,418	1,352
+/- Other non-cash expenses/income	73	223
+/- Increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities	3,188	2,825
+/- Increase/decrease in trade payables and other liabilities not related to investing or financing activities	-2,053	-1,450
+/- Interest expenses/income	-58	62
+/- Income taxes paid/received	-1,882	-74
+/- interest paid/received	5	9
+/- Income tax expenses/income	264	416
Net cash from operating activities	277	3,310
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
- Acquisition of subsidiaries less cash and cash equivalents acquired	0	-6,280
- Purchase of intangible assets	-16	-107
+ Proceeds from disposals of property, plant and equipment	2	13
- Purchase of property, plant and equipment	-422	-497
+ Payments received from items not related to operating or financing activities	0	0
Net cash used in investing activities	-436	-6,871
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
- Dividends paid to shareholders	0	0
- Repayment of purchase price liabilities in connection with the acquisition of subsidiaries	0	0
Net cash used in financing activities	0	0
Change in cash and cash equivalents	-159	-3,561
+/- Effect on cash and cash equivalents of exchange rate movements and remeasurement	45	-123
Change in cash and cash equivalents, total	-114	-3,684
Cash and cash equivalents at the start of the period	12,715	20,166
Cash and cash equivalents at the end of the period	12,601	16,482

Changes in consolidated equity	Issued capital		Capital reserves	Legal reserve	Unappropriated Surplus / accumulated losses	Other comprehensive income		Equity
	Number	EUR thousand				EUR thousand	EUR thousand	
Consolidated equity as of January 1, 2017	10,523,770	10,524	52,792	574	63	-186	-144	63,623
Consolidated net profit					-53			-53
Transfer to the legal reserve				0				0
Other comprehensive income after taxes							192	192
Total comprehensive income	0	0	0	0	-53	0	192	139
Dividend payment					0			0
Consolidated equity as of June 30, 2017	10,523,770	10,524	52,792	574	10	-186	48	63,762
Consolidated equity as of January 1, 2018	10,523,770	10,524	52,792	574	-779	-228	123	63,006
Consolidated net profit					-678			-678
Transfer to the legal reserve				-574	574			0
Other comprehensive income after taxes							-66	-66
Total comprehensive income	0	0	0	-574	-104	0	-66	-744
Dividend payment					0			0
Consolidated equity as of June 30, 2018	10,523,770	10,524	52,792	0	-883	-228	57	62,262

Accounting principles

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

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

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

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

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

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

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

Financial instruments

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

<i>EUR thousand</i>	June 30, 2018		Dec. 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Unbilled work in progress	5,186	5,186	3,468	3,468
Trade receivables	12,399	12,399	17,443	17,443
Other current financial assets	961	961	1,279	1,279
Securities held as current assets	3,014	3,014	3,014	3,014
Cash on hand and bank balances	12,601	12,601	12,715	12,715
	34,161	34,161	37,919	37,919

<i>EUR thousand</i>	June 30, 2018		Dec. 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	1,177	1,177	1,168	1,168
Trade payables	2,766	2,766	3,567	3,567
Liabilities from advance payments	5,371	5,371	7,457	7,457
	9,314	9,314	12,192	12,192

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

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

Revenue

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

	Jan. 1 - June 30, 2018 EUR thousand	Jan. 1 - June 30, 2017 EUR thousand
Consulting	24,652	21,735
Licenses/products	4,961	5,792
Maintenance/SaaS	11,698	10,708
Other	463	636
	41,774	38,871

Segment reporting

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

	Product Business		Service Business		Total Segments		Unallocated		Group	
	Jan. 1 - June 30, 2017 EUR thou.									
Revenue	30,820	29,356	10,837	9,468	41,657	38,824	117	47	41,774	38,871
EBITDA	2,672	3,720	1,566	1,270	4,238	4,990	-3,291	-3,213	947	1,777
EBIT	1,649	2,808	1,248	960	2,897	3,768	-3,369	-3,343	-472	425
Net finance income	-	-	-	-	-	-	58	-62	58	-62
Taxes	-	-	-	-	-	-	-264	-416	-264	-416
Consolidated net profit	1,649	2,808	1,248	960	2,897	3,768	-3,575	-3,821	-678	-53
No. of employees at end of period	497	470	111	94	608	564	89	75	697	639

The USU Group generated a total of 29.2% (Q1-Q2 2017: 28.5%) or EUR 12,204 thousand (Q1-Q2 2017: EUR 11,063 thousand) of its consolidated revenue outside Germany in the first six months of the 2018 fiscal year. This data is based on customers’ registered offices. By contrast, less than 10% of consolidated assets were held outside Germany. At the same time, investments outside Germany amounted to less than 10% of the Group’s total investments. For reasons of materiality, further details of the geographical data have therefore not been provided.

Events after the reporting date

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

Shares held by members of executive bodies at USU Software AG

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

Stock declarations by members of executive bodies	Shares	
	June 30, 2018	June 30, 2017
Management Board		
Bernhard Oberschmidt	156,518	156,518
Bernhard Böhler	167,572	167,572
Dr. Benjamin Strehl	0	0
Supervisory Board		
Udo Strehl*	5,000	2,000,176
Erwin Staudt	100,000	100,000
Günter Daiss	85,500	85,500
<p><i>* An additional 5,338,044 (2017: 3,337,868) voting rights in USU Software AG are allocated to Udo Strehl, the majority shareholder of this company, through AUSUM GmbH in accordance with section 22(1) sentence 1 no. 1 of the German Securities Trading Act (WpHG). A further 32,000 (2017: 32,000) voting rights in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the director, in accordance with section 22(1) sentence 1 no. 1 WpHG.</i></p>		

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

Related party disclosures

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

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

Responsibility Statement

To the best of our knowledge and in accordance with the applicable accounting principles for interim reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Möglingen, 30 August 2018

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

September 7 to 9, 2018**14th IR-Fahrt 2018, Rüttnauer Research****November 22, 2018****Publication of the 9-Month Report 2018****November 26 to 28, 2018****Investor and analyst conference at
*German Equity Forum 2018,
Frankfurt/Main*****December 12, 2018****Investor and analyst conference at 26th
MKK (Munich Capital Market
Conference), Munich**