



9 – MONTH REPORT 2014

USU Software AG

9 - MONTH REPORT 2014	2014	2013
<i>in Thsd. EUR, except the earnings per share and number of employees</i>	01.01.-30.09.2014	01.01.-30.09.2013
REVENUES	41,496	38,446
ADJUSTED EBIT	3,591	1,305
ADJUSTED NET RESULT	3,532	740
ADJUSTED EARNINGS PER SHARE (EUR)	0.34	0.07
EBITDA	4,138	1,583
EBIT	2,482	501
NET RESULT	2,309	-29
EARNINGS PER SHARE (EUR)	0.22	0.00
CASH-FLOW FROM ORDINARY OPERATIONS	5,004	10,603
NUMBER OF EMPLOYEES AT THE END OF THE PERIOD	450	447
	30.09.2014	31.12.2013
CASH AND CASH EQUIVALENTS	16,276	14,231
SHAREHOLDERS EQUITY	52,955	53,232
BALANCE SHEET	79,190	81,414
EQUITY RATIO	66.9%	65.4%

USU Software AG
 Spitalhof
 D-71696 Möglingen
 Tel. +49.7141.4867-0
 Fax +49.7141.4867-200
www.usu-software.de

Investor Relations
 Falk Sorge
 Tel. +49.7141.4867-351
 Fax +49.7141.4867-108
investor@usu-software.de

Dear Shareholders,

Dear Readers,

After a successful first half of the year with double-digit organic sales growth, the business performance of the USU Group was modest in the third quarter of 2014. While USU continued to see high growth rates in sales and income abroad, its domestic business activities were marked by significant investment restraint among companies in the financial sector and the associated postponement of several major anticipated projects. USU has already received several product orders here in the current fourth quarter, but some of these will not affect sales until 2015 on account of contract-specific conditions in accordance with IFRS. The Management Board has therefore adjusted its guidance in line with its current forecast and is now projecting consolidated sales of approximately EUR 60 million (2013: EUR 55.7 million) with adjusted EBIT of between EUR 7.0 million and EUR 7.5 million (2013: EUR 5.1 million) for 2014 as a whole. In the opinion of the Management Board, the forecast earnings increase offers sufficient potential for a dividend increase to allow USU shareholders to participate in the positive overall business performance of the current fiscal year in accordance with the company's dividend strategy. The Management Board will release a specific dividend proposal when it announces the figures for 2014 at the start of 2015.

After the first nine months of 2014, particular highlights include the strong performance in the US, where the subsidiary Aspera Technologies Inc. gained another Fortune 100 company as a customer in the current quarter, and the Group-wide improvements in profitability and earnings margins. The central growth drivers of the USU Group are mainly software license management and big data. In this field USU offers both conventional on-site installation for customers and cloud services, which are increasingly in demand. With the additions of Social Media and Service Intelligence to the Group's portfolio, USU is well established in strong growth markets moving ahead, and will again generate sustainable double-digit organic growth. Moreover, the Management Board is in constant contact with potential acquisition candidates in order to strategically expand the USU portfolio and selectively leverage the acquisition opportunities that arise. The Management Board of the USU Group therefore feels that it is still moving in the direction of consolidated sales of EUR 100 million by 2017, and expects to increase the adjusted EBIT margin significantly to more than 15%.

Yours,

Bernhard Oberschmidt,

CEO of USU Software AG

BASIC INFORMATION ON USU SOFTWARE AG AND THE GROUP

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 end-to-end software solutions for knowledge-based service management. The range in the product segment 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 its service segment.

In addition to a marked improvement in service, USU customers also gain significant potential for savings, meaning that investments in the USU Group’s software solutions pay off in a very short space of time and therefore result in a win-win situation for both USU and its customers. Accordingly, the USU Group’s customer base now comprises more than 500 companies from all sectors of the economy, especially from IT-intensive sectors such as insurance and banking, including Allianz, BASF, BOSCH, BMW, DEVK, EDEKA, Generali, Hannover Rück, HDI Gerling, Jacobs Engineering, LVM, Texas Instruments, VW, W&W and ZDF.

USU Software AG has set itself the goal of achieving above-average growth in its consolidated sales in comparison to the IT market as a whole in the coming years while also further increasing profitability. The focus here will be on organic growth through innovations and by expanding the Group’s international market presence, although inorganic growth in the form of acquisitions and equity investments also forms part of the corporate strategy. The medium-term plan forecasts sales growth to over EUR 100 million and a further increase in the operating earnings margin on the basis of adjusted earnings before interest and taxes (adjusted EBIT) by 2017.

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

Research and Development

In the first nine months of fiscal 2014, the USU Group invested a total of EUR 7,230 thousand (Q1-Q3 2013: EUR 7,012 thousand) or 17.4% (Q1-Q3 2013: 18.9%) of consolidated sales in research and development in order to offer its customers state-of-the-art, practical products and solutions. With 139 employees working in research and development throughout the Group as of September 30, 2014 (Q1-Q3 2013: 146), the USU Group systematically researches the use of new technologies, implements the latest customer-related developments and designs its own innovations in its ongoing drive to improve and expand the Group-wide product portfolio.

A central focus of the USU Group's research and development activities in the reporting period, in addition to targeted ongoing development, was on further connecting and merging Group products. One example of this is the integration of USU Service Intelligence into the IT management product suite Valuation. Thus, USU offers comprehensive reporting for the performance of thorough IT analyses and downstream investigation of causes for possible deviations as a basis for the intelligent IT management of a company. At the same time, USU Service Manager, the holistically designed solution for the specification, administration and steering of the IT service portfolio, was integrated into Valuation. Progress was also made in the development-side integration of the knowledge management products USU KnowledgeCenter, USU KnowledgeScout and USU Lifebelt, completion of which is imminent. A key highlight in this context is the new, state-of-the-art USU Lifebelt web variant. The next stage in the planned development of USU Lifebelt is to also offer this self-service software as an app on mobile devices in the future, and to connect it up with the Valuation Mobile Manager. When fully developed USU will therefore offer an end-to-end service management solution that further enhances customer satisfaction while at the same time reducing service costs.

The strategic linking of the USU Group's knowledge management solutions with its proprietary Social Media products enables USU to offer all service-oriented areas of a company a unique portfolio covering customer and user interaction on all relevant service channels. In the Social Media area, R&D activities also focused on continuing the innovative social CRM project. Unlike conventional CRM systems that only aim to manage the relationship between companies and customers, social CRM is used for analyzing customers' relationships with other target groups, and their attitude towards the company, so as to be able to respond to this quickly and gear the company's communications processes towards their requirements.

The R&D department continued the development of the new version of the monitoring software ZIS system, which includes the “self-service cockpit” – a new user interface in the style of a dashboard with a simple configuration and quickly created ad hoc views. Further development threads in the monitoring field concerned the areas of reporting and alarms.

Within the area of license management, advances were made in customer-related function extensions of standard software SmartTrack and the development of the optimization and simulation module for license optimization in the reporting period. This expands the static compliance view into an efficient, dynamic analysis. In addition to the optimization and simulation module, USU also offers a cost- and resource-efficient Audit Defense module, the Flow Control module for simple and transparent system integration and the Finance module for extensive cost transparency and optimal cost and budget planning.

In addition to this development work, USU is also pursuing selective research to move forward, develop and ultimately successfully launch future product innovations. A main area of focus here is in the field of big data, the knowledge-driven management of – mostly industrial – mass data. In the context of this research work USU was awarded two out of 13 projects funded under the technology contest tendered by the German Federal Ministry for Economic Affairs and Energy (BMWi), “SmartData – Innovations from Data”. The platform to be developed by USU for industrial big data will establish a foundation for innovative concepts for service automation in the industry sector. At the end of September 2014, USU received multiple awards for this from the BMWi at the annual Gesellschaft für Informatik conference. The USU Group’s research team also successfully concluded a pilot phase with a major mechanical engineering company for the introduction of an industrial big data platform. The results of this will now be analyzed in the main development phase for the processing of mass data to allow triple-digit terabyte data volumes to be quickly reviewed for complex error patterns. Progress was made in the development of a semantic search process in two further research projects. The solution is being developed with Forschungszentrum Informatik in Karlsruhe and is intended to achieve better results when searching for relevant documents by using a user’s voice and terms.

ECONOMIC REPORT

Overall Economic Development

According to information¹ from the German Federal Office of Statistics, Destatis, the German economy grew slightly in the third quarter of 2014 and therefore just escaped another recession. As per an initial report from Destatis, gross domestic product (GDP) in Germany was 0.1% higher than in the previous quarter after adjustment for inflation, seasonal and

¹ Press release no. 401 of the German Federal Office of Statistics dated November 14, 2014, published at www.destatis.de

calendar effects. German GDP shrank by 0.1% in the second quarter of 2014 after achieving growth of 0.8% in the opening quarter of the year, according to the most recent Destatis calculations. Destatis reports that the positive stimulus in the reporting quarter mainly came from private households, which increased their consumer spending substantially. The German economy was also propped up by exports. By contrast, investment was down overall. Adjusted for inflation, GDP rose by 1.2% year-on-year in the third quarter of 2014 (Q3 2013: 0.5%).

Sector Development

According to the latest economic survey², “45th Industry Barometer (H2 2014)” by BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien), the majority of German companies in the high-tech sector are assuming rising sales in the third and final quarters of 2014. In line with this, 81% of IT, telecommunications and entertainment technology (ICT) companies surveyed by BITKOM anticipate an increase in sales in the second half of 2014, whereby software and IT service companies were particularly optimistic at 87% each.

Business Performance in Q3 2014

In the third quarter USU Software AG generated slight Group-wide sales growth as against the previous year of 0.6% to EUR 13,889 thousand (Q3 2013: EUR 13,802 thousand). This increase resulted from a continuing expansion of the international business of the USU Group, particularly in the United States, while domestic business was marked by the postponement of investments by companies, particularly those in the home loan bank and insurance sector. Thus, USU's income generated outside Germany grew by 62.8% in the reporting quarter to EUR 3,587 thousand (Q3 2013: EUR 2,203 thousand), corresponding to an international share of consolidated sales of 25.8% (Q3 2013: 16.0%).

Maintenance business grew strongly in the third quarter of 2014 by 20.5% to EUR 3,685 thousand (Q3 2013: EUR 3,057 thousand) thanks to positive license agreements in previous quarters. Software license business itself was down by a third year-on-year at EUR 1,545 thousand (Q3 2013: EUR 2,426 thousand) in the reporting quarter owing to the postponement of projects in Germany. Consulting business climbed by 5.2% to EUR 8,245 thousand (Q3 2013: EUR 7,839 thousand). Sales in this area were reduced by the targeted reduction of consulting activities in Switzerland, which was implemented in the reporting quarter on account of the consistently unprofitable Swiss consulting unit.

² BITKOM press release dated July 1, 2014, published at www.bitkom.org

Both the Product and Service Business segments were up slightly on the previous year. Product Business expanded by 0.5% to EUR 10,427 thousand in Q3 2014 (Q3 2013: EUR 10,376 thousand), while non-product-related Service Business climbed by 0.2% to EUR 3,404 thousand (Q3 2013: EUR 3,396 thousand).

After the expansion of investment in development in the previous year and the sale of new product innovations in the reporting quarter, USU's cost base was reduced in line with planning, especially in the areas of sales and development, by 3.7% year-on-year to EUR 12,324 thousand (Q3 2013: EUR 12,802 thousand), which had a correspondingly positive effect on consolidated earnings.

Accordingly, USU's operating EBITDA climbed by 51.2% as against the previous year in the third quarter of 2014 to EUR 1,789 thousand (Q3 2013: EUR 1,183 thousand). Including depreciation and amortization of EUR 555 thousand (Q3 2013: EUR 365 thousand), USU generated EBIT of EUR 1,234 thousand (Q3 2013: EUR 818 thousand). This corresponds to a year-on-year EBIT increase of 50.9%.

USU's EBIT after adjustment for the extraordinary effects of acquisitions (adjusted EBIT) climbed by 50.6% in the third quarter of 2014 to EUR 1,607 thousand (Q3 2013: EUR 1,067 thousand). Adjusted consolidated earnings amounted to EUR 1,799 thousand (Q3 2013: EUR 782 thousand), an increase of 130.1% as against Q3 2013. Adjusted earnings per share were EUR 0.18 (Q3 2013: EUR 0.07). In the third quarter of 2014, USU's unadjusted consolidated earnings (IFRS) rose by 149.7% to EUR 1,351 thousand (Q3 2013: EUR 541 thousand), corresponding to earnings per share of EUR 0.13 (Q3 2013: EUR 0.05).

Business Performance in the First Nine Months of the 2014 Fiscal Year

Development of Sales and Costs

Consolidated Sales

Over the first nine months, USU generated a sales increase of 7.9% to EUR 41,496 thousand (Q1-Q3 2013: EUR 38,446 thousand). While maintenance business continued to expand in line with planning in the first three quarters of the current fiscal year with an increase of 9.4% to EUR 10,055 thousand (Q1-Q3 2013: EUR 9,188 thousand), license business grew only slightly by 1.5% to EUR 5,687 thousand (Q1-Q3 2013: EUR 5,601 thousand). USU's consulting business was up by 11.0% as against the previous year at EUR 24,817 thousand in the period under review (Q1-Q3 2013: EUR 22,365 thousand). Other income amounted to EUR 937 thousand (Q1-Q3 2013: EUR 1,292 thousand) and essentially included merchandise sales of third-party hardware and software.

Regionally, the USU Group's international business was extremely successful in the US in the first nine months of the current fiscal year. In the reporting year USU benefited from several major orders placed with its US subsidiary Aspera Technologies by leading Fortune 100 companies from the oil, telecommunications and insurance industries. Accordingly, the USU Group increased its international sales by 92.2% year-on-year in the reporting period to EUR 10,365 thousand (Q1-Q3 2013: EUR 5,394 thousand), thereby expanding the share of sales generated outside Germany in consolidated sales to 25.0% (Q1-Q3 2013: 14.0%).

Sales by Segment

The product range of the Product Business segment includes all activities relating to USU's product portfolio in the market for knowledge-based service management and in the knowledge management market. The Service Business segment comprises consulting services for IT projects and individual application development.

The Product Business segment contributed a total of EUR 31,191 thousand (Q1-Q3 2013: EUR 28,461 thousand) to consolidated sales in the first three quarters of 2014, representing a year-on-year increase of 9.6%. Consulting sales in the Service Business segment were also up slightly by 2.4% at EUR 10,159 thousand in the period under review (Q1-Q3 2013: EUR 9,921 thousand). The sales not assigned to the segments amounted to EUR 146 thousand in the first nine months of the current fiscal year (Q1-Q3 2013: EUR 64 thousand).

Operating Costs

The increase in the operating cost base of the USU Group in the first nine months of the current fiscal year of 2.1% as against the previous year to EUR 38,212 thousand (Q1-Q3 2013: EUR 37,415 thousand) mainly reflects the higher staff costs in consulting as a result of the larger consultant team. Accordingly, the cost of sales increased by 4.0% as against the first three quarters of 2013 to EUR 20,407 thousand (Q1-Q3 2013: EUR 19,623 thousand) in line with the growth in consulting business in the reporting period. The relatively moderate rise resulted in part from the partial use of developer resources in consulting projects and the associated reduction of freelance staff in addition to the targeted reduction of non-staff operating costs. In line with this, the ratio of cost of sales to consolidated sales declined from 52.4% in the previous year to currently 49.2%. Gross income rose to EUR 21,089 thousand (Q1-Q3 2013: EUR 18,823 thousand), corresponding to a gross margin of 50.8% (Q1-Q3 2013: 47.6%).

The USU Group's marketing and sales expenses were 10.0% below the figure for the same period of the previous year at EUR 5.993 thousand in the reporting period (Q1-Q3 2013: EUR 6,662 thousand). While staff costs were up slightly, USU reduced its non-staff operating costs in this area significantly. As a result, the cost ratio as a percentage of costs for marketing and sales declined to 14.4% (Q1-Q3 2013: 17.5%) for the Group as a whole.

General and administrative expenses increased to EUR 4,582 thousand (Q1-Q3 2013: EUR 4,118 thousand) in the first nine months of 2014 as a result of the rise in staff and non-staff operating costs, corresponding to growth of 11.3% as against the previous year. Relative to consolidated sales, the administrative cost ratio was slightly lower than in the previous year at 11.0% (Q1-Q3 2013: 11.1%).

Research and development expenses increased by 3.1% year-on-year in absolute terms in the first nine months of 2014 to EUR 7,230 thousand (Q1-Q3 2013: EUR 7,012 thousand). The ratio of research and development expenses to consolidated sales declined from 18.9% in the same period of the previous year to currently 17.4%). USU is constantly investing in the development of its product portfolio and always working on innovative, market-driven software solutions. For further information, please refer to the separate research and development report in this Group management report.

Net other operating income and expenses totaled EUR 140 thousand from January to September 2014 (Q1-Q3 2013: EUR 32 thousand).

Earnings Situation

In conjunction with an only minor rise in costs, the sales growth achieved resulted in a significant increase in earnings in the first nine months of 2014. Thus, USU's EBITDA was up by 161.4% as against the previous year to EUR 4,138 thousand (Q1-Q3 2013: EUR 1,583 thousand). Taking into account depreciation and amortization of EUR 1,656 thousand (Q1-Q3 2013: EUR 1,082 thousand), USU increased its EBIT almost five times over to EUR 2,482 thousand (Q1-Q3 2013: EUR 501 thousand). Including the cumulative net finance costs of EUR 74 thousand (Q1-Q3 2013: EUR -208 thousand), EBT climbed from EUR 293 thousand in the previous year to EUR 2,556 thousand. Consolidated earnings (IFRS) including income taxes of EUR 247 thousand (Q1-Q3 2013: EUR 322 thousand) amounted to a total of EUR 2,309 thousand for the period from January to September 2014 after a loss of EUR 29 thousand in the same period of the previous year. USU's earnings per share improved from EUR 0.00 in the previous year to currently EUR 0.22.

Adjusted Consolidated Earnings

Based on EBIT, the table below shows the reconciliation to the non-IFRS key earnings figures of adjusted EBIT, adjusted consolidated earnings 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 central key earnings figure for the USU Group.

Adjusted consolidated earnings	01.01.2014 - 30.09.2014	01.01.2013 - 30.09.2013
<i>in EUR thousand</i>		
Result of ordinary operations (EBIT)	2,482	501
Amortization of intangible assets recognized in the course of company acquisitions	942	562
Amortization of goodwill	0	0
Nonrecurring effects relating to acquisitions	167	242
- stay bonus Aspera / BIG / USU Consulting GmbH	161	240
- purchase price adjustments	0	2
- incidental acquisition costs	6	0
Adjusted EBIT	3,591	1.305
Financial income (as per consolidated income statement)	384	33
Financial costs (as per consolidated income statement)	-310	-241
Income taxes (as per consolidated income statement)	-247	-322
Tax effects relating to adjustments	114	0
- amortization	114	0
- deferred taxation from tax loss carryforwards	0	0
Minority interests (as per consolidated income statement)	0	-35
Adjusted consolidated earnings	3,532	740
Adjusted earnings per share (in EUR):	0.34	0.07
Weighted average number of outstanding shares:		
Basic and diluted	10,523,770	10,523,770

USU's adjusted EBITDA climbed by 175.2% year-on-year in the first three quarters of 2014 to EUR 3,591 thousand (Q1-Q3 2013: EUR 1,305 thousand). It also significantly increased its adjusted consolidated earnings to EUR 3,532 thousand (Q1-Q3 2013: EUR 740 thousand), a rise of 377.3%. Adjusted earnings per share therefore increased from EUR 0.07 in the previous year to EUR 0.34 in the reporting period.

Net Assets and Financial Position

On the assets side of the statement of financial position, the USU Group's non-current assets amounted to EUR 48,544 thousand as of September 30, 2014 (December 31, 2013: EUR 49,579 thousand). The reported decline in this item results from the amortization of intangible assets. At EUR 30,646 thousand, current assets as of the end of the third

quarter of 2014 were also down (December 31, 2013: EUR 31,835 thousand) due to the reduction in trade receivables to EUR 7,505 thousand (December 31, 2013: EUR 11,590 thousand). At the same time, cash and cash equivalents – not including this year's dividend distribution – increased by EUR 2,631 thousand a total of EUR 16,276 thousand (December 31, 2013: EUR 14,231 thousand).

On the equity and liabilities side, the dividend payment to shareholders led to a reduction in equity as of the end of the period under review to EUR 52,955 thousand (December 31, 2013: EUR 53,232 thousand). Also, USU reduced its current and non-current liabilities to EUR 26,235 thousand as of September 30, 2014 (December 31, 2013: EUR 28,182 thousand). With total assets of EUR 79,190 thousand (December 31, 2013: EUR 81,414 thousand), the equity ratio was 66.9% as of September 30, 2014 (December 31, 2013: 65.4%).

Cash Flow and Capital Expenditure

As of the end of the third quarter of 2014, the USU Group had cash and cash equivalents of EUR 16,276 thousand (Q1-Q3 2013: EUR 15,123 thousand), corresponding to a rise in Group liquidity of EUR 1,153 thousand or 7.6% year-on-year.

The cash flow from the operating activities of the USU Group was clearly positive in the first nine months of 2014 at EUR 5,004 thousand, but at the same time was lower than the high figure for the previous year of EUR 10,603 thousand, which included income from advance payments by the partner CA Technologies.

The cash flow from investing activities of EUR -817 thousand (Q1-Q3 2013: EUR -4,241 thousand) included investments in property, plant and equipment and intangible assets totaling EUR -828 thousand (Q1-Q3 2013: EUR -1,468 thousand), offset by income from the disposal of non-current assets of EUR 11 thousand (Q1-Q3 2013: EUR 2 thousand). The figure for the previous year was also characterized by the majority acquisition of BIG and the associated outflow of liquidity totaling EUR 2,786 thousand.

Cash flow from financing activities amounted to EUR -2,631 thousand in total in the reporting period on account of this year's dividend distribution to the shareholders of USU Software AG of EUR 0.25 per share (Q1-Q3 2013: EUR -2,631 thousand).

Orders on Hand

As of September 30, 2014 the USU Group's orders on hand increased by 15.3% as against the previous year to EUR 27,226 thousand (September 30, 2013: EUR 23,620 thousand). As against the end of the previous year (December 31, 2013: EUR 23,276 thousand), USU achieved an increase of 17.0% in orders on hand.

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 consist primarily of project-related orders and maintenance agreements.

Employees

After the significant workforce expansion in the previous year, the USU Group focused on efficiency and increasing employee capacity utilization in the current reporting year. Accordingly, USU increased its headcount selectively and only slightly by 0.7% year-on-year to 450 as of the end of the reporting period (Q1-Q3 2013: 447).

Broken down by functional unit, USU employed a total of 204 people in consulting and services as of the end of the third quarter of 2014 (Q1-Q3 2013: 193), 139 in research and development (Q1-Q3 2013: 146), 58 in sales and marketing (Q1-Q3 2013: 57) and 49 in administration (Q1-Q3 2013: 51). Broken down by segment, there were 339 employees in the Product Business segment (Q1-Q3 2013: 329), 66 in the Service Business segment (Q1-Q3 2013: 71) and 45 in central administration at the USU Group (Q1-Q3 2013: 47).

Expansion of the Management Board

Bernhard Böhler and Dr. Benjamin Strehl were appointed to the Management Board of USU Software AG effective October 1, 2014. Bernhard Böhler is a founding member of the USU subsidiary Aspera and has largely been responsible for the sales, marketing and internationalization of this company since 2000. At USU Software AG he has been in charge of sales and internationalization for the entire Group since October 1, 2014. After working for the management consultancy Roland Berger, Dr. Benjamin Strehl took on the areas of product management and M&A at USU Software AG in 2010. As a member of the Management Board his duties will focus on growth through acquisitions and the areas of research & development and consulting. As the CEO of the company, the previous sole member of the Management Board Bernhard Oberschmidt is still in charge of corporate strategy and the areas of finance, investor relations and central administration.

SUPPLEMENTARY REPORT

There were no transactions of particular significance with a material effect on the development of business of the USU Group after September 30, 2014. Thus, there were no other significant changes to the net assets, financial position or results of operations of the Group.

FORECAST, OPPORTUNITY AND RISK REPORT

Forecast Report

General Economy

The leading German economic research institutes have lowered their growth forecast for Germany. According to their “Joint Economic Forecast Fall 2014”³, economic development will be slowed above all by the weaker global economy and restrained investment activity in Germany. International crises and the smoldering Russian-Ukraine conflict have also dulled the economic outlook. Accordingly, leading indicators suggest that expansion will remain weak until the end of the year. Institutions are now forecasting growth in German GDP of 1.3% for the current year (2013: 0.1%) after a projection of 1.9% in the spring of this year. Economic momentum will also remain weak in the euro zone, according to the *Joint Economic Forecast Fall 2014*, with the result that institutions are now anticipating GDP growth for the countries of the euro zone of only 0.8% in total (2013: -0.4%). The rate of economic expansion around the world will also remain moderate, with GDP growth rates in the emerging nations outperforming those of the developed economies and leading to a rise in global production of 2.6% (2013: 2.4%).

Sector

According to information from the industry association BITKOM⁴, the German ICT market is expected to expand by 1.6% in the current year (2013: -0.4%), though the growth rates for the individual segments will vary considerably. The most important pillar of growth will again be information technology which, according to the latest BITKOM forecast, will achieve an increase in income of 4.3% year-on-year in the current year (2013: 2.3%). While software sales could grow strongly by 5.6% (2013: 5.0%), sales growth for IT services is set to be slightly lower at 2.7% (2013: 1.7%). According to BITKOM, the general economic downturn is increasingly impacting project business.

The US market research company Gartner⁵ is forecasting growth for the global IT market in the reporting year of only 2.1% (2013: 0.0%), though the software and IT service areas should outpace the market average globally with growth rates of 6.9% (2013: 5.1%) and 3.8% (2013: 0.0%) respectively.

³ Joint Economic Forecast Fall 2014 of the Joint Economic Forecast Project Group, dated October 7, 2014

⁴ BITKOM press release dated October 28, 2014, published at www.bitkom.org

⁵ Gartner press release dated June 30, 2014, published at www.gartner.com

Outlook

The Management Board is forecasting a consistently strong business performance abroad for the final quarter of the year. However, this is not currently expected to fully offset the negative effects identified. Thus, while USU has already received larger product orders in the current fourth quarter, some of these will not affect sales until 2015 on account of contract-specific conditions in accordance with IFRS. The Management Board of USU Software AG is therefore now forecasting consolidated sales and adjusted EBIT on par with the previous year's level for Q4 2014. In line with this, the Management Board is adjusting its sales guidance for 2014 as a whole from between EUR 63 and EUR 65 million to approximately EUR 60.0 million (2013: EUR 55.7 million) and, at the same time, anticipates a rise in adjusted EBIT to between EUR 7.0 million and EUR 7.5 million (2013: EUR 5.1 million). The previous guidance for adjusted EBIT was in a range of EUR 8.0 to EUR 8.5 million. In the opinion of the Management Board, the forecast earnings increase offers sufficient potential for a dividend increase to allow USU shareholders to participate in the positive overall business performance of the current fiscal year in accordance with the company's dividend strategy, thereby continuing the shareholder-friendly dividend policy of recent years. With international business flourishing, potential on the core German market remaining high and the growth-oriented acquisition policy of the USU Group, the Management Board is also still assuming the successful implementation of its medium-term planning of sales of more than EUR 100 million with an adjusted EBIT margin in excess of 15% by 2017.

Opportunity and Risk Report

There were no other changes to the further opportunities and risks of USU Software AG or of the Group as a whole as against December 31, 2013. For more information, please see the opportunity and risk report in the 2013 annual report.

USU Shares (ISIN DE000A0BVU28)

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

The performance of the stock markets has been extremely volatile over the year to date. After a positive overall start to the year with price increases in the first half of 2014, some German indexes fell significantly again as the year progressed. As of September 30, 2014, the Technology All Share was down by 4.6% to 1,494.69 points as against the end of the previous quarter (June 30, 2014: 1,566.70 points), while the DAX dropped 3.7% to 9,474.30 points (June 30, 2014: 9,833.70 points). After a clear rise in the first half of the year, the price of USU Software AG's shares also performed slightly negatively in the quarter under review, closing on the electronic trading platform XETRA at EUR 13.30 as of September 30, 2014 (June 30, 2014: EUR 13.57), down 2.0% since June 30, 2014. As against December 31, 2013, the value of USU's shares increased by 44.6% as of the end of the reporting period (December 31, 2013: EUR 9.20), while the Technology All Share climbed by 5.8% (December 31, 2013: 1,412.31 points). By contrast, the DAX performed negatively overall from the start of the year with a decline of 0.8% (December 31, 2013: 9,552.16 points).

Möglingen, November 21, 2014

USU Software AG

Bernhard Oberschmidt
Chairman of the Management Board

Bernhard Böhler
Management Board

Dr. Benjamin Strehl
Management Board

ASSETS (Thsd. EUR)	9-month report 30.09.2014	Annual report 31.12.2013
Non current assets		
Intangible assets	7,213	8,176
Goodwill	34,559	34,559
Property, plant and equipment	2,027	2,099
Other financial assets	0	0
Deferred tax assets	4,099	4,099
Other assets	646	646
Total non current assets	48,544	49,579
Current assets		
Inventories	812	730
Work in process	3,946	3,173
Trade receivables	7,505	11,590
Income tax receivables	624	601
Other financial assets	199	393
Other assets	164	54
Prepaid expenses	1,120	1,063
Cash on hand and bank balances	16,276	14,231
Total non current assets	30,646	31,835
Total assets	79,190	81,414

LIABILITIES AND SHAREHOLDERS' EQUITY (Thsd. EUR)	9-month report 30.09.2014	Annual Report 31.12.2013
Shareholders' equity		
Subscribed capital	10,524	10,524
Capital reserve	52,792	52,792
Legal reserve	470	470
Other comprehensive income	1	-44
Accumulated losses	-10,832	-10,467
Shareholders' equity not including minority interests	52,955	53,275
Minority interests	0	-43
Total shareholders' equity	52,955	53,232
Non-current liabilities		
Deferred tax liabilities	804	918
Pension provisions	1,152	1,092
Total non-current liabilities	1,956	2,010
Current liabilities		
Provisions for income taxes	34	285
Purchase price liabilities	3,211	2,905
Personnel-related provisions and liabilities	4,076	4,489
Other provisions and liabilities	1,421	2,322
Liabilities from received payments	9,181	11,213
Trade payables	1,299	1,741
Deferred income	5,057	3,217
Total current liabilities	24,279	26,172
Total liabilities and shareholders' equity	79,190	81,414

CONSOLIDATED INCOME STATEMENT <i>(Thsd. EUR)</i>	Quarterly Report	Quarterly Report	9-Month Report	9-Month Report
	III / 2014	III / 2013		
	01.07.2014 - 30.09.2014	01.07.2013 - 30.09.2013	01.01.2014 - 30.09.2014	01.01.2013 - 30.09.2013
Sales revenue	13,889	13,802	41,496	38,446
Cost of sales	-6,744	-6,703	-20,407	-19,623
Gross profit	7,145	7,099	21,089	18,823
Sales and marketing expenses	-1,813	-2,349	-5,993	-6,662
General administrative expenses	-1,447	-1,385	-4,582	-4,118
Research and development expenses	-2,320	-2,365	-7,230	-7,012
Other operating income	67	45	282	248
Other operating expenses	-84	-40	-142	-216
Amortization of intangible assets recognized in the course of company acquisitions	-314	-187	-942	-562
Result of ordinary operations (EBIT)	1,234	818	2,482	501
Interest income	308	9	384	33
Interest expenses	-108	-118	-310	-241
Result before tax (EBT)	1,434	709	2,556	293
Income taxes	-83	-168	-247	-322
Net profit / loss	1,351	541	2,309	-29
of which:				
- shareholders of USU Software AG	1,351	549	2,346	6
- minority interests	0	-8	-37	-35
Earnings per share (EUR) on the basis of the share of earnings of shareholders of USU Software AG				
(basic and diluted)	0.13	0.05	0.22	0.00
Weighted average shares				
(basic and diluted)	10,523,770	10,523,770	10,523,770	10,523,770

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME <i>(Thsd. EUR)</i>	Quarterly Report	Quarterly Report	9-Month Report	9-Month Report
	II / 2014	II / 2013		
	01.07.2014 - 30.09.2014	01.07.2013 - 30.09.2013	01.01.2014 - 30.09.2014	01.01.2013 - 30.09.2013
Group result	1,351	541	2,309	-29
Items never to be reclassified to profit or loss				
Actuarial gains/losses from pension provisions	0	0	0	0
Deferred taxes from actuarial gains/losses	0	0	0	0
Items that have been or can be reclassified to profit or loss				
Available-for-sale financial instruments (securities)	0	0	0	0
Currency translation difference	2	8	45	-8
Other comprehensive income	2	8	45	-8
Overall result	1,353	549	2,354	-37
of which:				
- shareholders of USU Software AG	1,353	557	2,391	-2
- minority interests	0	-8	-37	-35

CONSOLIDATED STATEMENT OF CASH FLOW <i>(Thsd. EUR)</i>	9-month report 01.01.2014 - 30.09.2014	9-month report 01.01.2013 - 30.09.2013
CASH FLOW FROM ORDINARY ACTIVITIES:		
Result bevor taxes (EBT)	2,556	293
Adjustments for:		
Financial income / financial expenditure	-74	208
Depreciation and amortization	1,656	1,082
Income taxes paid	-361	-326
Income taxes refunded	0	4
Interest paid	-8	-9
Interest received	12	12
Other non-cash income and expenses	-75	52
Change in working capital:		
Inventories	-82	-93
Work in process	-773	-1,258
Trade receivables	4,085	1,655
Prepaid expenses and other assets	4	339
Trade payables	-238	-183
Personnel-related provisions and liabilities and pension provisions	-353	-702
Other provisions and liabilities	-1,345	9,529
Net cash flow form ordinary activities	5,004	10,603
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries less cash and cash equivalents acquired	0	-2,786
Capital expenditure in property, plant and equipment	-714	-1,402
Capital expenditure in other intangible assets	-114	-66
Repayment of short-term loans	0	11
Sales of non-current assets	11	2
Net cash flow from investing activities	-817	-4,241
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividend payment	-2,631	-2,631
Net cash flow from financing activities	-2,631	-2,631
Net effect of currency translation in cash and cash equivalents	489	-16
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS	2,045	3,715
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,231	11,408
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,276	15,123

**CONSOLIDATED STATEMENT OF
SHAREHOLDERS EQUITY (unaudited)**



CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY	Subscribed capital		Capital reserve	Legal reserve	Accumu- lated losses	Other comprehensive income		Share- holder's equity not including minority interests	Minority interest	Total
	Shares	Thsd. EUR				Currency Trans- lation	Securities measured at fair value			
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR				
Consolidated equity as of January 1, 2013	10,523,770	10,524	52,792	470	-11,480	0	0	52,306	-11	52,295
Group result	0	0	0	0	6	0	0	6	-35	-29
Other comprehensive income	0	0	0	0	0	-8	0	-8	0	-8
Overall result	0	0	0	0	6	-8	0	-2	-35	-37
Dividend payment	0	0	0	0	-2,631	0	0	-2,631	0	-2,631
Consolidated equity as of September 30, 2013	10,523,770	10,524	52,792	470	-14,105	-8	0	49,673	-46	49,627
Consolidated equity as of January 1, 2014	10,523,770	10,524	52,792	470	-10,467	-44	0	53,275	-43	53,232
Group result	0	0	0	0	2,346	0	0	2,346	-37	2,309
Purchase of Minority interests	0	0	0	0	-80	0	0	-80	80	0
Other comprehensive income	0	0	0	0	0	45	0	45	0	45
Overall result	0	0	0	0	2,266	45	0	2,311	43	2,354
Dividend payment	0	0	0	0	-2,631	0	0	-2,631	0	-2,631
Consolidated equity as of September 30, 2014	10,523,770	10,524	52,792	470	-10,832	1	0	52,955	0	52,955

Principles of Accounting

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.

This nine-month report for 2014 on USU Software AG was prepared in line with IAS 34. The same accounting policies were used as in the preparation of the consolidated financial statements for the preceding fiscal year ended December 31, 2013. This unaudited nine-month report for 2014 should therefore be read in conjunction with the audited consolidated financial statements for 2013. The provisions of section 37x (3) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) were complied with. Furthermore, the company used the German Accounting Standard 16 (Interim Financial Reporting) as a guideline in preparing this report.

This interim report contains all the necessary deferrals and, in the opinion of the management, provides a true and fair view of assets, liabilities, financial position, and profit or loss. All deferrals performed are in line with the customary accruals 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 conclude the annual net profit from the profit of the interim periods.

Accounting Standards Applied for the First Time and Recently Announced Accounting Standards

The accounting standards to be applied for the first time in the first six months of fiscal 2014 had no material effects on the consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. This standard must be applied from the 2017 fiscal year at the latest. We have not yet completed the analysis of the effects on our consolidated financial statements. For further information on new standards that have not yet come into force, please refer to the details in the notes to the consolidated financial statements of USU Software AG for the fiscal year ending December 31, 2013.

Financial instruments

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

in Thsd. EUR	30.09.2014		31.12.2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Non-current financial instruments				
Loans to members of the Management Board	0	0	0	0
Work in progress	3,946	3,946	3,173	3,173
Trade receivables	7,505	7,505	11,590	11,590
Other current financial assets	199	199	393	393
Cash on hand and bank balances	16,276	16,276	14,231	14,231
	27,926	27,926	29,387	29,387

in Thsd. EUR	30.09.2014		31.12.2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial liabilities				
Trade payables	1,299	1,299	1,741	1,741
Liabilities from advance payments	9,181	9,181	11,213	11,213
Purchase price obligation for BIG	3,211	3,211	2,905	2,905
	13,691	13,691	15,859	15,859

In accordance with IFRS 13, fair value is defined as the price a market participant would receive when selling an asset or would pay to transfer a liability in an orderly transaction on 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 such financial instruments apart from the purchase price obligation for B.I.G. Social Media GmbH, which is allocated to level 3.

In the purchase and transfer agreement concluded on December 20, 2012 for the acquisition of 51% of the shares in BIG by the Company, reciprocal options (call and put options) were agreed for the remaining 49% of the BIG shares, which were exercisable until December 31, 2015. Due to a change agreement between the Company and BIG, the options have since been rescinded. At the same time, USU Software AG acquired the remaining 49% of the BIG shares subject to a condition precedent regarding the full payment of the purchase price. The associated purchase price depends in particular on the earnings generated by BIG in the 2013, 2014 and 2015 fiscal years. This has not altered the estimate of the purchase price obligation.

Changes in Minority interests

USU Software AG acquired the remaining 30% of shares in USU Consulting GmbH on July 21, 2014. The company therefore now wholly owns all subsidiaries of the Group.

Sales revenues

Revenues from the sales of goods and services break down as follows:

	1.1.-30.09.2014 Thsd. EUR	1.1.-30.09.2013 Thsd. EUR
Consulting	24,817	22,365
Licences / products	5,687	5,601
Service and maintenance	10,055	9,188
Other	937	1,292
	41,496	38,446

Segment reporting

For the purpose of segment reporting in accordance with IFRS 8, USU is active in “Product Business” and “Service Business”, both of which have a major influence on the risks and equity return. The breakdown of various key ratios by segment in line with IFRS 8 is represented in the following overview:

	Product Business		Service Business		Total Segments		Unallocated		Group	
	1.1.-30.9.2014	1.1.-30.9.2013	1.1.-30.9.2014	1.1.-30.9.2013	1.1.-30.9.2014	1.1.-30.9.2013	1.1.-30.9.2014	1.1.-30.9.2013	1.1.-30.9.2014	1.1.-30.9.2013
	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR	Thsd. EUR
Revenues	31,191	28,461	10,159	9,921	41,350	38,382	146	64	41,496	38,446
EBITDA	5,332	3,179	1,252	695	6,584	3,874	-2,446	-2,292	4,138	1,582
EBIT	3,920	2,922	1,152	611	5,072	3,533	-2,590	-3,033	2,482	500
Net financial income	-	-	-	-	-	-	74	-207	74	-207
Taxes	-	-	-	-	-	-	-247	-322	-247	-322
Net profit / loss	3,920	2,922	1,152	611	5,072	3,533	-2,763	-3,562	2,309	-29
Employees (as of Sept. 30, 2014/13)	339	329	66	71	405	400	45	47	450	447

The USU Software Group generated a total of 25.0% (Q1-Q3 2013: 14.0%) or EUR 10,365 thousand (Q1-Q3 2013: EUR 5,394 thousand) of its consolidated sales outside Germany in the first nine months of the 2014 financial year. In contrast, less than 10% of the consolidated assets held are outside Germany. At the same time, the investments made outside Germany came to less than 10% of the consolidated total investments. Further details of the geographical data have thus not been provided.

Shares held by members of corporate bodies at USU Software AG

The following shares in USU Software AG were held by members of corporate bodies of the company as at September 30, 2014:

Holdings of members of corporate bodies	shares 30.09.2014	shares 30.09.2013
Management Board		
Bernhard Oberschmidt	181,518	18,696
Supervisory Board		
Udo Strehl*	1,989,319	1,989,319
Erwin Staudt	100,000	100,000
Günter Daiss	85,500	85,500
<p><i>* An additional 3,337,868 (2013: 3,487,868) shares of USU Software AG can be allocated to Udo Strehl via AUSUM GmbH as the majority shareholder of the company pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG. A further 32,000 (2013: 32,000) shares in USU Software AG are allocated to Udo Strehl through the "Knowledge is the future" foundation of which he is the Managing director pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG.</i></p>		

On May 23, 2014, the Chairman of the Management Board of USU Software AG, Bernhard Oberschmidt, acquired 162,822 shares of the Company on the over-the-counter market and subsequently notified USU Software AG of this securities transaction. The Company in turn published the notification regarding securities transactions as required.

On July 4, 2014 AUSUM GmbH (AUSUM) – whose majority shareholder is the Chairman of the Supervisory Board of USU Software AG, Udo Strehl – sold 150,000 shares in USU Software AG to an institutional investor off-market and then notified USU Software AG of this transaction.

In turn, the company promptly published notification of these transactions on its homepage.

No stock options or convertible bonds issued by USU Software AG are held by any members of its executive bodies.

No stock options or convertible bonds issued by USU Software AG were held by any member of the Company’s executive bodies.

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 as part of full 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 Supervisory Board Chairman and majority shareholder Udo Strehl and his wife compared with the information in the notes to the consolidated financial statements of fiscal 2013. For more information, please refer to the details in the consolidated financial statements of USU Software AG for the fiscal year ending December 31, 2013.

Möglingen, November 21, 2014

USU Software AG

Bernhard Oberschmidt
Chairman of the Management Board

Bernhard Böhler
Management Board

Dr. Benjamin Strehl
Management Board

NOVEMBER 25 - 26, 2014	ANALYST CONFERENCE OF USU SOFTWARE AG - <i>GERMAN EQUITY FORUM 2014</i> - Frankfurt am Main, Germany
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DECEMBER 9, 2014	ANALYST CONFERENCE OF USU SOFTWARE AG - <i>18. MKK – Munich Capital Market Conference</i> - Munich, Germany
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MARCH 26, 2015	ANNUAL REPORT 2014
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MAY 21, 2015	3-MONTH REPORT 2015
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JUNE 18, 2015	ANNUAL GENERAL MEETING (AGM)
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AUGUST 20, 2015	6-MONTH REPORT 2015
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NOVEMBER 19, 2015	9-MONTH REPORT 2015
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