

USU

3-MONTH REPORT 2016

USU Software AG

3-Month Report 2016	2016	2015
<i>in EUR thousand, except for earnings per share and number of employees</i>	Jan. 1 - Mar. 31 2016	Jan. 1 - Mar. 31 2015
REVENUE	16,957	14,069
ADJUSTED EBIT	1,368	1,077
ADJUSTED CONSOLIDATED EARNINGS	1,230	1,225
ADJUSTED EARNINGS PER SHARE (EUR)	0.12	0.12
EBITDA	1,654	1,289
EBIT	1,009	743
CONSOLIDATED EARNINGS	882	929
EARNINGS PER SHARE (EUR)	0.08	0.09
CASH FLOW FROM ORDINARY ACTIVITIES	3,929	6,388
NUMBER OF EMPLOYEES AS OF MAR. 31	512	449
	Mar. 31, 2016	Dec. 31, 2015
CASH AND CASH EQUIVALENTS	23,439	23.109
EQUITY	61,744	60.791
TOTAL ASSETS	91,448	89.186
EQUITY RATIO	67.5%	68,2%

USU Software AG
Spitalhof
71696 Möglingen, Germany
Tel. +49 7141 4867-0
Fax +49 7141 4867-200
www.usu-software.de

Investor Relations
Falk Sorge & Dr. Thomas Gerick
Tel. +49 7141 4867-440
Fax +49 7141 4867-108
investor@usu-software.de

Dear shareholders, dear readers,

“Software companies are benefiting from the fact that the entire economy is currently switching to digital business models” – says Thorsten Dirks, President of the industry association BITKOM in its latest recent economic report. And indeed, we are experiencing strong demand for solutions in the field of the digital transformation of service processes. For efficient, knowledge-driven service processes for external and internal customers, IT that is always available and the integration of data from development, production and use are the drivers for value added. Let me give you one example from the area of industrial big data. As part of a research project with our partner TomTom, we are identifying how new services can be created by the processing of very large amounts of geospatial data and with artificial intelligence methods. GPS data, for example, are analyzed for movement patterns. Among other things, the results can be used for smart car park searching.

Overall, after a successful 2015, USU Software AG continued its highly positive business performance in Q1 2016 as well. This is also reflected by the fact that, for the first time, more than 500 employees work for the USU Group. In the key field of competence of business service management, the US market research firm Forrester Research listed USU as one of two German software producers in an international survey of recommended providers of solutions for software as a service. In the area of software license management, Aspera technology was certified by the market leader for ITSM solutions, ServiceNow – an important basis for further growth in the United States. In the first quarter, the major industry fair CallCenterWorld went very successfully for the KnowledgeCenter business area, as there was strong demand for USU solutions for the active provision of knowledge for all communication channels.

As in the past fiscal year, business with software licenses from all segments of the company again proved to be the growth driver in the first quarter of 2016 – both internationally and on the core German market. The Management Board is also confirming its planning for the USU Group as regards the existing forecast. It is therefore anticipating an increase in consolidated revenue to between EUR 71 and EUR 75 million in fiscal 2016, together with a strong rise in adjusted EBIT to between EUR 9.0 and EUR 10.5 million.

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 sharp improvement in service, USU customers also achieve significant savings potential, which means that an investment in USU software solutions pays off in a very short time. Accordingly, the USU Group’s customer base now comprises more than 700 companies from all sectors of the economy, especially from IT-intensive sectors such as insurance and banking, including Allianz, Baloise Group, BOSCH, BMW, Deutsche Telekom, DEVK, EDEKA, Heidelberger Druckmaschinen, Jacobs Engineering, Jungheinrich, Poste Italiane, Texas Instruments, VW, W&W and ZDF.

USU Software AG has made it its goal to achieve growth in consolidated revenue above the average level for the IT market as a whole in the years ahead while also further increasing its profitability. It will focus on organic growth through innovation and by expanding the Group’s international market presence, though growth through acquisitions and equity investments is also a part of the corporate strategy. Medium-term planning is projecting revenue growth to more than EUR 100 million and a further increase in the operating earnings margin on the basis of adjusted EBIT by 2017, including approximately EUR 15 million in growth through acquisitions.

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

RESEARCH AND DEVELOPMENT

In the first three months of 2016, in order to offer its customers state-of-the-art, practical products and solutions, the USU Group invested a total of EUR 2,857 thousand (Q1 2015: EUR 2,376 thousand) or 16.8% (Q1 2015: 16.9%) of consolidated revenue in research and development. With 156 employees working in research and development throughout the Group as of March 31, 2016 (March 31, 2015: 129), 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.

The Business Service Management segment completed the new version 4.6 of its IT management Valuation product suite for Oracle and the MS SQL Server as well. The development team also started with the preparations for the new major release 5.0, which is scheduled for the first half of 2017. The concept was devised and various interface changes and technical functionalities were developed.

Furthermore, work was done on version 3.0 of the IT analytics tool USU Service Intelligence. Using metrics and ad hoc analyses, this solution quickly identifies trends and weaknesses to achieve targeted optimization in IT service management processes. The focus was on the new web-based toolkit that simplifies the administration and usage of the system.

In the subsegment of business service monitoring and alarm management, version 5.8.10 of the monitoring software ZIS was released. Among other things, the synchronization of ZIS systems was revised. Moreover, an input filter was implemented for events such as disruptions. The next version, 5.8.11, is currently being tested. In addition to other interfaces to third party systems, this will include new developments in the self-service cockpit, for example.

Version 4.0.3. of the USU software SmartTrack is now available in license management. This features the new SmartTrack Integration app that, for example, automates data imports from ServiceNow® to SmartTrack, including CMDB, software usage, users, cost centers and location information. Another new feature is the possibility of using a simulation component to create and adapt different IT infrastructure scenarios to find out the best combination of hardware and license conditions. Ongoing advancements for version 4.1.0 mainly relate to better product recognition in the field of software suites, demand calculation for packages that combine hardware and software, and the extension of the simulation component.

In Knowledge Management, USU KnowledgeCenter 6.6 was released as planned at the end of the first quarter. In addition to the integration of a chat function, the highlight of this release is the “active search”. This significantly increases the information content of the results of a search. An initial prototype of Smartlink version 3.2 was also completed and presented at the

customer event USU World. The focus here is on full coverage of multi-language capability and the integration of service request management.

Within the social media application BIG CONNECT, far-reaching ergonomic improvements were made to the user interface and navigation in the reporting quarter to enable more efficient working. Further communities and forums were integrated as well alongside a series of functional improvements.

Development activities at BIG Social Media centered on the new version of the social media publishing module. As part of the BIG CONNECT extensions, the publishing function for social media posts was also expanded. This now allows scalable, but still centrally controlled, social media content marketing – whether on five channels or 500. The new user interface with live preview allows even infrequent users to easily create posts and campaigns.

Furthermore, the changeover to the new user interface for the BIG CONNECT inbox was completed. Significant usability and user experience improvements were achieved based on current web technologies. Not least, this represents a milestone for the future improved extensibility of the application.

In addition to this development work, USU is also conducting targeted research to advance, develop and successfully launch future product innovations. In the reporting period, the research department optimized the operational performance of industrial big data installation at the customer HEIDELBERG. Average availability of 99.96% was thus achieved and the data throughput was raised significantly by optimizing job management. Furthermore, a database specifically optimized for saving and processing time series was incorporated. Time series are common machine data in the application field of the Internet of Things and Industry 4.0.

Two flagship projects were also started as well. With the application partners HEIDELBERG and TRUMPF, STEP (Smart TEchnician Planning) analyzes how cutting edge approaches to information processing can make service processes more efficient and effective in mechanical engineering. With its application partners, USU is developing a machine portal for service technicians that follows the principle of social networks.

With the application partner TomTom, the GEISER project is investigating how new services can be created by processing very large amounts of geospatial data and with artificial intelligence methods. With TomTom, USU Software AG is developing a method for smart parking space searches, which analyzes huge amounts of GPS data for movement patterns to predict available parking spaces.

ECONOMIC REPORT

Overall economic development

According to information from the German Federal Statistical Office (Destatis)¹, the German economy had an impressive start to the year. Adjusted for inflation, seasonal and calendar effects, gross domestic product (GDP) for the first quarter of 2016 was 0.7% higher than in the fourth quarter of 2015. The moderate growth rate of last year (+0.3% in the final quarter of 2015) therefore gained momentum, the Federal Statistical Office (Destatis) also reported. According to provisional calculations, the positive stimulus mainly came from the domestic market. The growth factors were the increase in consumer spending and higher investment in buildings and equipment. By contrast, growth was slowed slightly by developments in exports. Economic growth also accelerated year-on-year: Adjusted for inflation, GDP grew by 1.3% in the first quarter of 2016, or 1.6% after adjustment for calendar effects as there was one working day less than in the previous year.

Sector development

Cloud computing, big data and mobility are driving the use of new technologies. As part of the digital transformation, this will lead to rising investment in IT products and services in all areas, according to a recent study by the European IT Observatory (EITO).² According to forecasts by BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien), IT will grow by 3.0% in the current year to a total volume of EUR 83.5 billion.³ Software will benefit most from this, rising by 6.2% to EUR 21.5 billion. IT service business, which includes IT consulting and project business among others, will expand by 2.7% to EUR 38.2 billion.

¹ Press release no. 162/16 of the German Federal Office of Statistics dated May 13, 2016, published at www.destatis.de

² EITO report dated October 29, 2015 – Key Technology Trends in Europe 2015/16, published www.eito.com

³ BITKOM press release dated March 10, 2016, German ICT market cracks 160-billion mark, published at www.bitkom.org

Business performance in the first three months of fiscal 2016**Development of revenue and costs*****Consolidated revenue***

In the first quarter of 2016 USU Software AG increased its consolidated revenue (IFRS) by 20.5% year-on-year to EUR 16,957 thousand (Q1 2015: EUR 14,069 thousand). The main growth driver in the period under review was high-margin software license business. USU's license revenue increased by 60.5% year-on-year in the first three months of 2016 to EUR 3,074 thousand (Q1 2015: EUR 1,915 thousand). Maintenance business including SaaS revenue contributed EUR 4,666 thousand (Q1 2015: EUR 3,466 thousand) to consolidated revenue in total, up 34.6% compared to the previous year. Consulting business increased 7.2% on the figure for the same period of the previous year at EUR 9,103 thousand (Q1 2015: EUR 8,492 thousand). Other income, predominantly consisting of sales of third-party hardware and software, amounted to EUR 114 thousand in total (Q1 2015: EUR 196 thousand).

In addition to strong domestic business, international business also expanded visibly with growth of 12.3% in the first three months. With an increase in international revenue to EUR 4,713 thousand (Q1 2015: EUR 4,196 thousand), international business accounts for 27.8% of consolidated revenue (Q1 2015: 29.8%).

Revenue 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 solutions and the social media and knowledge management market. The Service Business segment comprises consulting services for IT projects and individual application development.

The Product Business segment contributed revenue of EUR 13,448 thousand in the first three months of 2016 (Q1 2015: EUR 10,666 thousand), up 26.1% compared to the previous year. USU benefited here from the significant expansion of license and maintenance business in particular. Consulting revenue in the Service Business segment again grew by 3.7% to EUR 3,474 thousand (Q1 2015: EUR 3,349 thousand). Accordingly, USU increased the share of consolidated revenue attributable to the product segment from 75.8% in the previous year to 79.3% in the period under review. Revenue not assigned to the segments amounted to EUR 35 thousand in total in the months January to March 2016 (Q1 2015: EUR 54 thousand).

Operating costs

The increase in the operating cost base of the USU Group in the first three months of the current fiscal year of 16.9% as against the previous year to EUR 15,577 thousand (Q1 2015 2014: EUR 13,320 thousand) mainly reflects the higher staff costs due to the recruitment of new employees on account of the strong growth.

The cost of sales was up by 5.0% as against the previous year at EUR 7,651 thousand in the period under review (Q1 2015: EUR 7,286 thousand). This low increase resulted in part from the small rise in both freelancers and acquisitions of external software components. As a percentage of consolidated revenue, the cost of sales was therefore down year-on-year in the first three months of 2016 at 45.1% (Q1 2015: 51.8%). Gross income rose accordingly to EUR 9,306 thousand (Q1 2015: EUR 6,783 thousand), corresponding to a gross margin of 54.9% (Q1 2015: 48.2%).

Marketing and sales expenses rose significantly by 61.1% compared to the previous year to EUR 3,122 thousand in the first three months (Q1 2015: EUR 1,938 thousand), mainly as a result of the rise in partner commission due to internationalization. Staff and non-staff operating costs were also up as a result of the targeted expansion of sales and marketing activities. The cost ratio as a percentage of revenue for marketing and sales therefore rose to 18.4% (Q1 2015: 13.8%) in the first three months of 2016.

As a result of the higher staff and non-staff operating costs, general and administrative expenses increased by 13.2% in the first quarter of 2016 to EUR 1,947 thousand (Q1 2015: EUR 1,720 thousand). Relative to consolidated revenue, the administrative cost ratio was slightly lower than in the previous year at 11.5% (Q1 2015: 12.2%).

Research and development expenses have continued to rise following the expansion of the development team and the acquisition of SecurIntegration in the second half of 2015. Research and development expenses thus increased by 20.3% year-on-year in the first three months of 2016 to EUR 2,857 thousand (Q1 2015: EUR 2,376 thousand). The ratio of research and development expenses to consolidated revenue therefore declined slightly from 16.9% in the first three months of 2015 to currently 16.8%. 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 -37 thousand from January to March 2016 (Q1 2015: EUR 303 thousand). The decline is essentially due to exchange rate effects.

Result of operations

As a result of the significant expansion of high-margin product business combined with a lower rise in costs, the USU Group increased its EBITDA by 28.3% year-on-year to EUR 1,654 thousand in the first three months of fiscal 2016 (Q1 2015: EUR 1,288 thousand). Including depreciation and amortization of EUR 644 thousand (Q1 2015: EUR 545 thousand), USU generated significant growth in EBIT of 35.8% to EUR 1,010 thousand over the same period (Q1 2015: EUR 743 thousand).

Net financial income fell from EUR 292 thousand in the previous year to EUR -67 thousand in the first three months of 2016, primarily as a result of negative exchange rate effects. The USU Group therefore generated EBT of EUR 943 thousand (Q1 2015: EUR 1,035 thousand), corresponding to a drop of 9.0% as against the previous year.

Taking into account the tax expense of EUR 60 thousand (Q1 2015: EUR 106 thousand), consolidated earnings (IFRS) amounted to EUR 882 thousand in the first quarter of 2016 (Q1 2015: EUR 929 thousand). This represents a decrease of 5.1% in net income for the period as against the same period of the previous year. USU's earnings per share dipped only slightly from EUR 0.09 in the previous year to EUR 0.08 in the period under review.

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	Jan. 1, 2016 - Mar. 31, 2016	Jan. 1, 2015 - Mar. 31, 2015
<i>EUR thou.</i>		
Result of ordinary operations (EBIT)	1,009	743
Amortization of intangible assets recognized in the course of company acquisitions	334	309
Amortization of goodwill	0	0
Non-recurring effects relating to acquisitions	25	25
- BIG GmbH stay bonus	25	25
- Other taxes M&A external audit (input tax)	0	0
- purchase price adjustments	0	0
- incidental acquisition costs	0	0
Adjusted EBIT	1,368	1,077
Financial income (as per consolidated income statement)	45	310
Finance expenses (as per consolidated income statement)	-112	-18
Income taxes (as per consolidated income statement)	-60	-106
Tax effects relating to adjustments	-11	-38
- depreciation and amortization	-11	-38
- deferred taxes on tax loss carryforwards	0	0
Non-controlling interests (as per consolidated income statement)	0	0
Adjusted consolidated earnings	1,230	1,225
Adjusted earnings per share (in EUR):	0.12	0.12
Weighted average shares:		
Basic and diluted	10,523,770	10,523,770

USU's adjusted EBIT climbed by 27.0% year-on-year in the first three months of 2016 to EUR 1,368 thousand (Q1 2015: EUR 1,077 thousand). At the same time, USU increased its adjusted consolidated earnings by 0.4% compared to the first three months of 2015 to EUR 1,230 thousand (Q1 2015: EUR 1,225 thousand). Adjusted earnings per share remained constant at EUR 0.12 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 49,161 thousand as of March 31, 2016 (December 31, 2015: EUR 49,321 thousand) and thus remained virtually constant. Current assets climbed from EUR 39,865 thousand as of December 31, 2015 to EUR 42,287 thousand as of the end of the reporting period, mainly as a result of higher cash and cash equivalents. USU therefore increased its cash and cash equivalents as of March 31, 2016 to EUR 26,453 thousand (December 31, 2015: EUR 23,109 thousand).

On the equity and liabilities side, equity was up as a result of the consolidated net profit at EUR 61,744 thousand as of the end of the period under review (December 31, 2015: EUR 60,791 thousand). At the same time, USU reduced its current and non-current liabilities to EUR 29,704 thousand as of March 31, 2016 (December 31, 2015: EUR 28,395 thousand), mainly as a result of deferred income for maintenance agreements invoiced at the start of the year for which the service will be rendered and the revenue recognized later in the year. With total assets of EUR 91,448 thousand (December 31, 2015: EUR 89,186 thousand), the equity ratio was 67.5% as of March 31, 2016 (December 31, 2015: 68.2%).

Cash flow and capital expenditure

The USU Group had total cash and cash equivalents and securities of EUR 26,453 thousand as of March 31, 2016 (Q1 2015: EUR 23,109 thousand). This represents a year-on-year increase in Group liquidity of EUR 3,344 thousand.

At EUR 3,929 thousand (Q1 2015: EUR 6,388 thousand), the USU Group's cash flow from operating activities was down year-on-year in the first three months of 2016, mainly as a result of an increased level of work in progress not yet invoiced.

The cash flow from investing activities of EUR -467 thousand (Q1 2015: EUR -217 thousand) included investments in property, plant and equipment and intangible assets totaling EUR -491 thousand (Q1 2015: EUR -227 thousand), offset by income from the disposal of non-current assets of EUR 24 thousand (Q1 2015: EUR 10 thousand).

As in the previous year, there were no changes in cash flow from financing activities in the first quarter of 2016.

Order backlog

As of March 31, 2016 the USU Group's orders on hand increased by 30.0% as against the previous year to EUR 42,973 thousand (March 31, 2016: EUR 33,049 thousand). USU increased its orders on hand by 18.4% as against the end of the previous year (December 31, 2015: EUR 36,297 thousand).

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

Employees

The USU Group increased its workforce by 14.0% year-on-year to 512 employees as of the end of the quarter under review (Q1 2015: 449 employees). The reported rise in the headcount mainly resulted from the expansion of the consultant team, particularly in the US, and the acquisition of SecurIntegration GmbH.

Broken down by functional unit, USU employed a total of 233 people in consulting and services as of the end of the first quarter of 2016 (Q1 2015: 207), 156 in research and development (Q1 2015: 129), 65 in sales and marketing (Q1 2015: 62) and 58 in administration (Q1 2015: 51). Broken down by segment, there were 393 employees in the Product Business segment (Q1 2015: 339), 61 in the Service Business segment (Q1 2015: 63) and 58 in central administration at the USU Group (Q1 2015: 47).

A continued gradual expansion of the Group's workforce is intended as the current fiscal year progresses.

SUPPLEMENTARY REPORT

There were no transactions of particular significance with a material effect on the development of business of the USU Group after March 31, 2016. Thus, there were no major changes to the net assets, financial position or results of operations of the Group.

FORECAST, REPORT ON RISKS AND OPPORTUNITIES

Forecast

General economy

In line with the economic forecast published by the CESifo Group⁴, the generally favorable framework conditions for the German economy will again lead to a rise in overall economic production over the course of 2016. According to researchers, private consumption will remain the main pillar of the upswing, especially as the income prospects for private households are good thanks to the further improvement in the labor market situation. Furthermore, a temporary surge in demand will be triggered as a result of higher credit-funded government spending for refugees according to Hans Werner Sinn, Director of the Ifo Institute. A rise in German GDP of 1.9% is anticipated for 2016. This means that the moderate recovery of the German economy will continue. However, sentiment – as measured by the Ifo Business Climate Index – deteriorated slightly in the first few months of 2016. In April 2016 it fell to 106.6 points after 107.3 points in January 2016.⁵

The International Monetary Fund (IMF) has lowered its forecasts for global economic growth. The global economy is expected to grow by 3.2% in 2016 and by 3.5% in 2017, according to a revised IMF forecast from April 2016. In particular, the IMF sees risks to growth in the slowdown in China, the monetary tightening in the US and a possible escalation of the existing geopolitical tensions.⁶

Sector

Growth of 1.7% to EUR 160.2 billion is forecast for the market as a whole. The information technology (IT) segment is set to remain the most significant growth driver on the German ICT market. “The driver of the encouraging growth is software business, which can expand by more than six percent. Software companies are benefiting from the fact that the entire economy is currently switching to digital business models,” said BITKOM President Thorsten Dirks. According to a current forecast by the IT research and consulting company Gartner⁷, the global ITC market will have a volume of USD 3.54 trillion in 2016. This corresponds to slight growth of 0.6% as against the previous year – following a significant decline in 2015 compared to 2014 (-5.8%). In 2016 as well, the growth drivers will be the software business (+5.3%) and revenue from IT services (+3.1%).

4 cf. CESifo Group, Ifo Business Climate Germany, dated January 25, 2016

5 cf. CESifo Group, Ifo Business Climate Germany – Results of ifo economic test in April 2016, dated April 25, 2016

6 cf. World Economic Outlook (WEO), Too Slow for Too Long, April 2016, <http://www.imf.org/external/pubs/ft/weo/2016/01/>

7 Gartner press release, Worldwide IT Spending dated January 18, 2016

Outlook

The Management Board expects the company's growth trend of the previous years to continue successfully in 2016. Further stimulus is expected from product business both internationally and on the core German market. On the international markets, growth will be defined by the ongoing penetration of the US market and the expansion of activities in Central Europe, especially France and the UK. The expansion in high-margin product business, from which the USU Group generates license, maintenance and product-related consulting income, will have a positive influence on margins and results. But service business, in which USU generates consulting revenue from individual projects that are not dependent on specific products, will be able to grow slightly again as well. The Management Board is confirming its planning for the USU Group based on the consistently strong product business and the current forecast. It is therefore anticipating an increase in consolidated revenue to between EUR 71 and EUR 75 million in fiscal 2016, together with a strong rise in adjusted EBIT to between EUR 9 and EUR 10.5 million.

On the basis of this forecast, the Management Board is planning to enable the shareholders of USU Software AG to participate in the company's operating success again in 2016, as in previous years, and thus to continue the shareholder-friendly dividend policy in the interests of sustained continuity. By the end of 2017, revenue is expected to rise to over EUR 100 million, including around EUR 15 million in growth through acquisitions. Here, the operating margin on the basis of adjusted EBIT is expected to rise to 15%.

Report on risks and opportunities

There have been no changes in the risks and opportunities affecting USU Software AG or the Group as a whole since December 31, 2015. For more information please see the report on risks and opportunities in the 2015 annual report.

USU shares (ISIN DE000A0BVU28).

The shares of USU Software AG are listed in the Prime Standard of the Frankfurt stock exchange under 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 stock markets experienced a weak performance with high price losses in part at the start of 2016. As of March 31, 2016, the Technology All Share was down by 11.3% to 1,892.76 points as against the end of the previous quarter (December 31, 2015: 2,133.18 points), while the DAX dropped 7.2% to 9,965.51 points (December 31, 2015: 10,743.01 points). The performance of USU Software AG shares was similar to their benchmark index, falling 11.3% to EUR 16.85 (December 31, 2015: EUR 18.90).

The stock markets proved highly volatile as the quarter progressed. However, USU's shares held their ground and were back above the EUR 18 line at the time of this report on the first three months of 2016 going to press.

Möglingen, May 24, 2016

USU Software AG

Bernhard Oberschmidt

CEO

Bernhard Böhler

Member of the Management
Board

Dr. Benjamin Strehl

Member of the Management
Board

ASSETS <i>EUR thou.</i>	Annual report Mar. 31, 2016	Annual report Dec. 31, 2015
Non-current assets		
Intangible assets	6,368	6,702
Goodwill	35,575	35,575
Property, plant and equipment	2,315	2,141
Other financial assets	0	0
Deferred tax assets	4,234	4,234
Other assets	669	669
Non-current assets	49,161	49,321
Current assets		
Inventories	710	646
Work in progress	3,409	2,456
Trade receivables	10,270	11,498
Income tax receivables	310	367
Other financial assets	386	316
Other assets	438	343
Prepaid expenses	311	1,130
Securities	3,014	3,014
Cash on hand and bank balances	23,439	20,095
Current assets	42,287	39,865
Total assets	91,448	89,186

EQUITY AND LIABILITIES <i>EUR thou.</i>	Annual report Mar. 31, 2016	Annual report Dec. 31, 2015
Equity		
Issued capital	10,524	10,524
Capital reserves	52,792	52,792
Legal reserve	574	574
Other comprehensive income	-2	-74
Accumulated losses	-2,144	-3,025
Equity not including non-controlling interests	61,744	60,791
Non-controlling interests	0	0
Equity	61,744	60,791
Non-current liabilities		
Deferred tax liabilities	97	108
Pension provisions	1,928	1,908
Non-current liabilities	2,025	2,016
Current liabilities		
Provisions for income taxes	523	613
Purchase price liabilities	337	335
Staff and social liabilities	3,823	6,362
Other provisions and liabilities	1,558	2,314
Liabilities from advance payments	9,131	9,868
Trade payables	1,453	1,590
Deferred income	10,854	5,297
Current liabilities	27,679	26,379
Total equity and liabilities	91,448	89,186

CONSOLIDATED INCOME STATEMENT <i>EUR thou.</i>	Quarterly report	Quarterly report	3-month report	3-month report
	I / 2016	I / 2015		
	Jan. 1, 2016 Mar. 31, 2016	Jan. 1, 2015 Mar. 31, 2015	Jan. 1, 2016 Mar. 31, 2016	Jan. 1, 2015 Mar. 31, 2015
Revenue	16,957	14,069	16,957	14,069
Cost of sales	-7,651	-7,286	-7,651	-7,286
Gross profit	9,306	6,783	9,306	6,783
Sales and marketing expenses	-3,122	-1,938	-3,122	-1,938
General and administrative expenses	-1,946	-1,720	-1,946	-1,720
Research and development expenses	-2,857	-2,376	-2,857	-2,376
Other operating income	139	374	139	374
Other operating expenses	-177	-71	-177	-71
Amortization of intangible assets recognized in company acquisitions	-334	-309	-334	-309
Result from ordinary operations (EBIT)	1,009	743	1,009	743
Financial income	45	310	45	310
Finance expenses	-112	-18	-112	-18
Earnings before taxes (EBT)	942	1,035	942	1,035
Income taxes	-60	-106	-60	-106
Net profit/loss	882	929	882	929
of which:				
- shareholders of USU Software AG	882	929	882	929
- non-controlling interests	0	0	0	0
Earnings per share (EUR) on the basis of the share of earnings of shareholders of USU Software AG:				
Basic and diluted	0.08	0.09	0.08	0.09
Weighted average shares:				
Basic and diluted	10,523,770	10,523,770	10,523,770	10,523,770

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME <i>EUR thou.</i>	Quarterly report	Quarterly report
	I / 2016	I / 2015
	Jan. 1, 2016 Mar. 31, 2016	Jan. 1, 2015 Mar. 31, 2015
Consolidated net profit	882	929
Available-for-sale financial instruments (securities)		
- Changes in fair value recognized in equity	0	0
- Reclassified to the income statement	0	0
Deferred taxes on available-for-sale financial instruments (securities)	0	0
Currency translation difference	71	-71
Other comprehensive income after taxes	71	-71
Total comprehensive income	953	858
of which:		
- shareholders of USU Software AG	953	858
- non-controlling interests	0	0

Consolidated Statement of Cash Flows <i>EUR thou.</i>	3-month report Jan. 1, 2016 - Mar. 31, 2016	3-month report Jan. 1, 2015 - Mar. 31, 2015
CASH FLOW FROM ORDINARY ACTIVITIES:		
Earnings before taxes (EBT)	942	1,035
Adjustments for:		
Financial income/finance expenses	67	-292
Depreciation and amortization	644	545
Income taxes paid	-249	-122
Income taxes refunded	98	4
Interest paid	-1	-2
Interest received	44	3
Other non-cash income and expenses	111	-217
Change in working capital:		
Inventories	-64	-68
Work in progress	-953	1,844
Trade receivables	1,228	588
Prepaid expenses and other assets	654	-737
Trade payables	-137	742
Staff provisions and liabilities and pension provisions	-2,519	-1,291
Other provisions and liabilities	4,064	4,356
Net cash flow form ordinary activities	3,929	6,388
NET CASH FLOW FROM ORDINARY ACTIVITIES:		
Acquisition of subsidiaries less cash and cash equivalents acquired	0	0
Capital expenditure in property, plant and equipment	-434	-188
Capital expenditure in other intangible assets	-57	-39
Repayment of short-term loans	0	0
Sales of non-current assets	24	10
Investments in available-for-sale securities	0	0
Net cash flow from investing activities	-467	-217
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividend payment	0	0
Repayment of purchase price liabilities in connection with the acquisition of subsidiaries	0	0
Net cash flow from financing activities	0	0
Net effect of currency translation on cash and cash equivalents	-118	330
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS	3,344	6,501
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,095	18,920
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23,439	25,421

Changes in consolidated equity	Subscribed capital		Capital re-serves EUR thou.	Legal reserve EUR thou.	Accumulated losses EUR thou.	Other comprehensive income		Equity not including non-controlling interests EUR thou.	Non-controlling interests EUR thou.	Total EUR thou.
	Shares Number	EUR thou.				Currency translation EUR thou.	Fair value of securities EUR thou.			
Consolidated equity as of January 1, 2015	10,523,770	10,524	52,792	502	-8,191	-19	0	55,608	0	55,608
Consolidated net profit					929			929	0	929
Transfer to										
legal reserve								0		0
Acquisition of non-controlling interests										0
Other comprehensive income										
after taxes						-71		-71		-71
Total comprehensive income	0	0	0	0	929	-71	0	858	0	858
Dividend payment					0			0		0
Consolidated equity as of March 31, 2015	10,523,770	10,524	52,792	502	-7,262	-90	0	56,466	0	56,466
Consolidated equity as of January 1, 2016	10,523,770	10,524	52,792	574	-3,025	-74	0	60,791	0	60,791
Consolidated net profit					882			882	0	882
Transfer to										
legal reserve								0		0
Acquisition of non-controlling interests										0
Other comprehensive income										
after taxes						71		71		71
Total comprehensive income	0	0	0	0	882	71	0	953	0	953
Dividend payment					0			0		0
Consolidated equity as of March 31, 2016	10,523,770	10,524	52,792	574	-2,143	-3	0	61,744	0	61,744

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, 2015. This unaudited three-month report for 2016 should therefore be read in conjunction with the audited consolidated financial statements for 2015.

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.

Accounting standards adopted for the first time and recently announced accounting standards

The accounting standards effective for the first time in the first nine months of fiscal 2015 had no material effect on the consolidated financial statements.

For more detailed information on new standards not yet effective, please see the consolidated financial statements of USU Software AG for the fiscal year ended December 31, 2015.

Financial instruments

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

<i>EUR thou.</i>	Mar. 31, 2016		Dec. 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Work in progress	3,409	3,409	2,456	2,456
Trade receivables	10,270	10,270	11,498	11,498
Other current financial assets	386	386	316	316
Investments classified as current assets	3,014	3,014	3,014	3,014
Cash on hand and bank balances	23,439	23,439	20,095	20,095
	40,518	40,518	37,379	37,379

<i>EUR thou.</i>	Mar. 31, 2016		Dec. 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Finance liabilities	0	0	0	0
Trade payables	1,453	1,453	1,590	1,590
Liabilities from advance payments	9,131	9,131	9,868	9,868
Purchase price liabilities	337	337	335	335
	10,921	10,921	11,793	11,793

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). Other than the purchase price liability, USU Software AG currently has no other such financial instruments.

Revenue

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

	Jan. 1 - Mar. 31 2016 EUR thou.	Jan. 1 - Mar. 31 2015 EUR thou.
Consulting	9,103	8,492
Licenses/products	3,074	1,915
Maintenance/SaaS	4,666	3,466
Other	114	196
	16,957	14,069

Segment reporting

For the purpose of segment reporting in accordance with IFRS 8, USU operates in “Product Business” and “Service Business”, both of which significantly influence risks and the 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 - Mar. 31, 2016 EUR thou.	Jan. 1 - Mar. 31, 2015 EUR thou.	Jan. 1 - Mar. 31, 2016 EUR thou.	Jan. 1 - Mar. 31, 2015 EUR thou.	Jan. 1 - Mar. 31, 2016 EUR thou.	Jan. 1 - Mar. 31, 2015 EUR thou.	Jan. 1 - Mar. 31, 2016 EUR thou.	Jan. 1 - Mar. 31, 2015 EUR thou.	Jan. 1 - Mar. 31, 2016 EUR thou.	Jan. 1 - Mar. 31, 2015 EUR thou.
Revenue	13,448	10,666	3,474	3,349	16,922	14,015	35	54	16,957	14,069
EBITDA	2,116	1,613	414	697	2,530	2,310	-876	-1,022	1,654	1,288
EBIT	1,566	1,144	364	663	1,930	1,807	-921	-1,064	1,009	743
Net financial income	-	-	-	-	-	-	-67	292	-67	292
Taxes	-	-	-	-	-	-	-60	-106	-60	-106
Consolidated net profit	1,566	1,144	364	663	1,930	1,807	-1,048	-878	882	929
Employees as of end of period		339		63		402		47		449

The USU Software Group generated a total of 27.8% (Q1 2015: 29.8%) or EUR 4,713 thousand (Q1 2015: EUR 4,196 thousand) of its consolidated revenue outside Germany in the first three months of fiscal 2016. These data are 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 consolidated total investments. Further details of the geographical data have therefore not been provided for reasons of materiality.

Shares held by members of executive bodies at USU Software AG

The following shares in USU Software AG were held by members of the executive corporate bodies of the company as of March 31, 2016:

Holdings of members of executive bodies	Shares	
	Mar. 31, 2016	Mar. 31, 2015
Management Board		
Bernhard Oberschmidt	156,518	181,518
Bernhard Böhler	167,572	167,572
Dr. Benjamin Strehl	0	0
Supervisory Board		
Udo Strehl*	2,000,176	1,989,319
Erwin Staudt	100,000	100,000
Günter Daiss	85,500	85,500
<p><i>* An additional 3,337,868 (2015: 3,337,868) shares of USU Software AG are allocated to Udo Strehl through AUSUM GmbH, as the majority shareholder of this company, in accordance with section 22(1) sentence 1 no. 1 WpHG. A further 32,000 (2015: 32,000) shares 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>		

On February 9 and 11, 2016 the Chairman of the Supervisory Board of USU Software AG, Udo Strehl, sold 10,857 shares of the company in total on the over-the-counter market and subsequently notified USU Software AG of this securities transaction. The company in turn published the notifications of these securities transactions as required.

No stock options or convertible bonds issued by USU Software AG are held by any members of its 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 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 2015. For more information, please see the consolidated financial statements of USU Software AG for the fiscal year ended December 31, 2015.

Möglingen, May 24, 2016

USU Software AG

Bernhard Oberschmidt

CEO

Bernhard Böhler

Member of the Management
Board

Dr. Benjamin Strehl

Member of the Management
Board

June 17, 2016**Annual General Meeting****August 30, 2016****Publication of the six-month report 2016****September 9 to 11, 2016****Investor and analyst
conference at
*IR Event 2016 (Rüttbauer Research),
Heidelberg*****November 17, 2016****Publication of the nine-month report 2016****November 21 to 23, 2016****Investor and analyst
conference at
*Equity Forum 2016,
German Equity Forum 2016,
Frankfurt/Main***