

USU

6-MONTH REPORT 2016

USU Software AG

6-Month Report 2016	2016	2015
<i>in EUR thousand, except for earnings per share and number of employees</i>	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015
REVENUE	34,031	29,925
ADJUSTED EBIT	3,328	2,894
ADJUSTED CONSOLIDATED NET PROFIT	2,970	2,771
ADJUSTED EARNINGS PER SHARE (EUR)	0.28	0.26
EBITDA	3,895	3,541
EBIT	2,594	2,458
CONSOLIDATED NET PROFIT	2,258	2,373
EARNINGS PER SHARE (EUR)	0.21	0.23
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,445	6,274
NUMBER OF EMPLOYEES AS OF JUNE 30	531	468
	June 30, 2016	Dec. 31, 2015
CASH AND CASH EQUIVALENTS	21,840	23,109
EQUITY	59,383	60,791
TOTAL ASSETS	87,082	89,186
EQUITY RATIO	68.2%	68.2%

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Dear shareholders, dear readers,

USU Software AG continued its positive business performance in the second quarter. All of USU AG's business segments and the subsidiaries of the Group contributed to this result in equal measure. Aside from the organic growth, significant investments in sales, marketing, the expansion of the portfolio of products and services and further internationalization dominated the quarter under review.

Knowledge Solutions, for example, will roll out a new intelligent web self-service product called Knowledge First in fall 2016 that supports customers' requirements around the clock. This segment is currently charting the course for marketing its very well established portfolio also in the United States from 2017. Following the merger with SAP specialist SecurIntegration in early July 2016, Aspera rounded off its portfolio and is closing an important gap in the market with its full-service SAP license optimization. This is benefiting new customers, including in the USA. The fact that the service business likewise developed encouragingly is demonstrated not only by the conferring of the Liferay Award for digitalization of business processes, but also, for example, by the implementation of an extensive portal project for the Konrad Adenauer Foundation.

USU presented its entire portfolio of services in mid-April of this year at the USU World held in the facilities of the former German Parliament (Bundestag) in Bonn. The over 400 German and foreign experts attending this symposium and client conference were given information on the latest developments and trends in the USU Group and the entire IT market.

The company's Annual General Meeting, held in Ludwigsburg in June, resolved to raise the dividend to EUR 0.35, an increase of over 16% as against the previous year. The actions of the Management Board and Supervisory Board members for the 2015 fiscal year were approved at the same time. By a large majority, the shareholders in attendance re-elected the existing members of the Supervisory Board for a further term of office. In addition, Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft from Stuttgart was elected as the auditor for the 2016 fiscal year.

The Management Board is also confirming its current guidance for the USU Group of an increase in consolidated revenue to between EUR 71 and EUR 75 million in the 2016 fiscal year 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

FUNDAMENTAL INFORMATION ABOUT USU SOFTWARE AG AND THE GROUP**Business model, objectives, strategies and internal management 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. USU is Europe’s largest provider of IT and knowledge management software.

The IT Management division supports companies with extensive ITIL[®]-compatible solutions for strategic and operational IT and enterprise service management. With USU solutions, customers gain an overall view of their IT processes and IT infrastructure and are able to transparently plan, allocate, monitor and actively manage IT services. USU is one of the world’s leading providers in the software license management sector.

With intelligent solutions and expertise in digital interaction, USU is a prime mover in the digitization of business processes. Standard software and consulting services help to automate service processes and actively provide knowledge for all communication channels and customer contact points in sales, marketing and customer service. USU’s range in this field is rounded off by software for industrial big data as well as the service segment with system integration and individual applications.

Over 700 USU customers from all sectors of the global economy use USU solutions to create transparency, be more agile and reduce both their costs and risks, including Allianz, Baloise Group, BOSCH, BMW, Daimler, 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. By the end of 2017, revenue is expected to rise to over EUR 100 million, including around EUR 15 million in growth through acquisitions, with further expansion in the operating margin on the basis of adjusted earnings before interest and taxes (adjusted EBIT).

As the USU Group’s consolidated net profit (IFRS) has been and continues to be influenced by various extraordinary items that make it difficult to compare USU’s profitability from one fiscal year to the next, the company has also calculated its adjusted consolidated net profit for information purposes. This shows consolidated net profit adjusted for the amortization of intangible assets capitalized as a result of business combinations and additional non-recurring effects relating to acquisitions plus the associated tax effects. Furthermore, based on this adjusted consolidated net profit, 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 indicator. Adjusted consolidated net profit, adjusted EBIT and adjusted earnings per share are not key indicators under IFRS.

RESEARCH AND DEVELOPMENT

In the first half of 2016, the USU Group invested a total of EUR 5,703 thousand (Q1-Q2 2015: EUR 4,837 thousand) or 16.8% (Q1-Q2 2015: 16.2%) of consolidated revenue in research and development to provide its customers with state-of-the-art, practical products and solutions. With 156 employees working in research and development throughout the Group as of June 30, 2016 (June 30, 2015: 139), 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.

Activities in USU's Business Service Management segment concentrated on the design and development of the new major release – Valuation 5.0 – that is scheduled for 2017. Various architectural improvements were implemented for this, for example, and interface changes and technical functionalities were developed. The concept for an intelligent global search was also devised. Furthermore, the functionality of the Valuation Mobile Manager was enhanced. In addition, version 3.1 of the IT analytics tool USU Service Intelligence was released. This includes functional improvements in the authorization structure, the web interface and performance.

In the Business Service Monitoring and Alarm Management subsegment, version 5.8.11 of the monitoring software ZIS was released by USU's subsidiary LeuTek. Major improvements were made with the introduction of clear categories and new developments in the self-service cockpit.

In the License Management segment, version 4.1.2. of Aspera's SmartTrack software is now available. Enhancements comprise in particular the addition of further license metrics as well as the password reset functionality requested by many customers. The focus of the recently developed release 4.1.3, which is scheduled for the end of September, is the overhaul and automation of the central compliance report. Version 2.3.2 of SAM Intelligence has also been available since the end of June. The module delivers easy-to-understand diagrams and meaningful reports on all relevant questions in relation to software asset management.

In the reporting period, USU's Knowledge Solutions segment started developing the new Knowledge First application, which is expected to be completed in fall 2016. Knowledge First is an intelligent web self-service tool that supports customers' requirements in mobile format around the clock. Work continued on Knowledge Center 6.7, which is expected to be

completed at the end of the year. The key aspects here are the availability of graphically modeled decision trees, which provide clear advantages in technical environments in particular. Work also began on the concept development for the requirements and adjustments of Smart Link 3.3.

Development activities at BIG Social Media centered on improving the usability, accessibility and adjustments of BIG CONNECT based on customer feedback. At the end of June 2016, work began on a new reporting dashboard, which provides a detailed overview of the current contribution volume, process utilization and service level. Work continued in parallel on the social media publishing module to completely map even complex collaboration structures in BIG CONNECT and thus to be able to offer a scalable, centrally controlled social media content marketing solution.

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 the industrial big data installation at the customer HEIDELBERG. Since April, the new web-based remote monitoring system has been continuously analyzing around 1,000 printing presses to identify upcoming maintenance issues such as wear and tear, impending failures or servicing. Furthermore, two large-scale projects co-funded by the Federal Ministry of Economics and Technology (BMWi) were launched. The STEP project involves developing technologies and methods that define service processes in the age of Industry 4.0 and facilitate the most economically viable deployments of service technicians. The initial prototype of the automatic root cause analysis was completed along with a visualization concept. The interactive procedure enables service technicians and machine operators to identify the causes of a problem faster. Trumpf and Heidelberger Druckmaschinen AG are two of the companies involved in STEP. The GEISER project entails defining new applications and services based on the evaluation of geospatial data. For example, a method for a smart parking space search is being developed in Berlin with navigation system manufacturer TomTom based on the analysis of navigation data and the recognition of movement patterns. One of the advantages of this approach is that it does not require the installation of sensors or hardware in the metropolitan area.

REPORT ON ECONOMIC POSITION

Macroeconomic environment

According to information from the German Federal Statistical Office (Destatis)¹, after a strong start to the year German economic output again rose in the second quarter of 2016. After adjusting for inflation, seasonal and calendar effects, gross domestic product (GDP) for the

¹ Press release no. 279/16 of the German Federal Statistical Office dated August 12, 2016, published at www.destatis.de

second quarter of 2016 was 0.4% higher than in Q1 2016. The quarter-on-quarter comparison by Destatis (after adjusting for inflation, seasonal and calendar effects) shows that positive contributions came especially from the balance of exports and imports. According to provisional calculations, exports were up, while imports were down slightly compared with Q1 2016. Household final consumption expenditure and government final consumption expenditure also fueled growth. However, growth was slowed by weak gross capital formation. In the reporting period, economic growth also accelerated year-on-year: Figures from Destatis show that price-adjusted GDP rose 3.1% in the second quarter of 2016 compared with Q2 2015, the largest increase in five years.

Sector-specific environment

“For years, the United Kingdom has been one of the most important destination countries for Germany’s exports of IT and telecommunications products and a major trading partner. One thing is for sure: Brexit will create additional bureaucracy for wholesale and retail companies,” said Dr. Bernhard Rohleder, CEO of the Federal Association for Information Technology, Telecommunications and New Media (BITKOM), commenting on the possible repercussions for the German digital industry.² “At the same time, the continuing digitalization of the entire economy accounts for a large increase in revenue for software and IT services, which could increase by 5% and 3% respectively,” said BITKOM’s chief economist Dr. Axel Pols, explaining the current situation in the industry, which is positive on the whole.³ According to a BITKOM study from March 2016, the software sector is expected to expand by 6.2% this year to EUR 21.5 billion and the IT services business will grow by 2.7% to EUR 38.2 billion.⁴

Business development in the second quarter of 2016

In Q2 2016, the USU Group increased its consolidated revenue (IFRS) by 7.7% to EUR 17,074 thousand (Q2 2015: EUR 15,856 thousand). The main growth driver in the period under review was the strong consulting business, which continues to benefit from high orders on hand and improved capacity utilization. In the second quarter of 2016, the consulting business contributed EUR 9,660 thousand (Q2 2015: EUR 8,131 thousand) to consolidated revenue, an increase of as much as 18.8% over the same quarter in the previous year. License revenue, on the other hand, fell 29.5% short of the prior-year figure at EUR 2,353 thousand (Q2 2015: EUR 3,336 thousand). Particularly outside Germany, several major opportunities were postponed until the third quarter. This reduced the share of the total revenue of the USU Group generated outside Germany by the same extent to 27.7% in Q2 2016 (Q2 2015: 36.0%). At the same time, however, the Group expanded its

² BITKOM press release dated June 24, 2016, Bitkom on BREXIT, published at www.bitkom.org

³ EITO press release dated July 18, 2016, Slowing Growth of the European ITC market, published at www.eito.com

⁴ BITKOM press release dated March 10, 2016, German ICT market cracks 160-billion mark, published at www.bitkom.org

maintenance business – which in addition to the revenue from software maintenance contracts generates revenue from software as a service (SaaS) projects – by 12.4% to EUR 4,709 thousand (Q2 2015: EUR 4,191 thousand).

On the back of the much-improved capacity utilization, the Service Business segment lifted its revenue by 25.8% year-on-year in the second quarter of 2016 to EUR 3,859 thousand (Q2 2015: EUR 3,067 thousand). The Product Business segment, on the other hand, achieved only moderate growth of 3.8% to EUR 13,128 thousand (Q2 2015: EUR 12,652 thousand). This slightly reduced the share of the USU Group's consolidated revenue contributed by the higher-margin product business from 79.8% in the second quarter of 2015 to 76.9% in the reporting period.

The USU Group's cost base increased by 8.9% year-on-year to EUR 15,297 thousand (Q2 2015: EUR 14,041 thousand). Amid slightly lower revenue growth, profits remained at almost the same level. As a consequence, earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 0.5% to EUR 2,242 thousand (Q2 2015: EUR 2,253 thousand). On account of a positive extraordinary effect in the previous year, earnings before interest and taxes (EBIT) declined from EUR 1,715 thousand in the second quarter of 2015 to EUR 1,585 thousand, a decrease of 7.6%. At EUR 1,376 thousand, the USU Group's consolidated net profit (IFRS) was down 4.7% on the prior-year figure (Q2 2015: EUR 1,444 thousand), giving earnings per share of EUR 0.13 (Q2 2015: EUR 0.14).

Earnings before interest and taxes adjusted for extraordinary effects relating to acquisitions (adjusted EBIT) developed encouragingly and came to EUR 1,960 thousand in the second quarter of 2016 (Q2 2015: EUR 1,817 thousand), an increase of 7.9% compared with the same quarter of the previous year. USU lifted its adjusted consolidated net profit from EUR 1,546 thousand in Q2 2015 to EUR 1,740 thousand in the reporting period, an increase of 12.5%. Adjusted earnings per share remained flat at EUR 0.14.

Business development in the first six months of the 2016 fiscal year

Development of revenue and costs

Consolidated revenue

In the first six months of 2016, USU Software AG boosted its consolidated revenue (IFRS) by 13.7% year-on-year to EUR 34,031 thousand (Q1-Q2 2015: EUR 29,925 thousand). All of USU's business segments contributed to this result in almost equal proportions. For example, the Product Business and Service Business segments each increased their revenue by 14%. License revenue rose by 3.4% year-on-year in the first six months of 2016 to EUR 5,428 thousand (Q1-Q2 2015: EUR 5,251 thousand). Maintenance business including SaaS revenue contributed a total of EUR 9,376 thousand (Q1-Q2 2015: EUR 7,657 thousand) to consolidated revenue, up 22.4% on the previous year. Revenue from the consulting business increased by 12.9% in the first half of 2016 to EUR 18,763 thousand

(Q1-Q2 2015: EUR 16,623 thousand). Other income, predominantly consisting of sales of third-party hardware and software, amounted to EUR 465 thousand in total (Q1-Q2 2015: EUR 394 thousand). The USU Group's revenue generated outside Germany fell by 4.7% year-on-year in the reporting period to EUR 9,447 thousand (Q1-Q2 2015: EUR 9,909 thousand). The share of consolidated revenue generated outside Germany therefore slipped to 27.8% from 33.1% in the first two quarters of the previous year.

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 26,576 thousand to consolidated revenue in the first half of 2016 (Q1-Q2 2015: EUR 23,318 thousand), up 14.0% compared with the previous year. Here, USU benefited in particular from the substantial expansion of its consulting and maintenance business, which includes the SaaS revenue. The Service Business segment also recorded strong growth, boosting its revenue to EUR 7,334 thousand (Q1-Q2 2015: EUR 6,416 thousand), an increase of 14.3% on the previous year. The share of consolidated revenue attributable to the product segment therefore remained virtually constant at 78.1% in the first six months (Q1-Q2 2015: 77.9%). Revenue that is not allocated to the segments amounted to EUR 121 thousand in total in the months January to June 2016 (Q1-Q2 2014: EUR 191 thousand).

Operating costs

The USU Group's operating cost base again rose at a slower rate than consolidated revenue, increasing by 12.8% to EUR 30,873 thousand (Q1-Q2 2015: EUR 27,361 thousand) in the first half of 2016. At EUR 15,327 thousand in the period under review, the cost of sales was up 3.0% as against the previous year (Q1-Q2 2015: EUR 14,882 thousand). As a percentage of consolidated revenue, the cost of sales thus fell year-on-year in the first six months of 2016 to 45.0% (Q1-Q2 2015: 49.7%). Gross profit rose accordingly to EUR 18,704 thousand (Q1-Q2 2015: EUR 15,043 thousand), giving a gross margin of 55.0% (Q1-Q2 2015: 50.3%).

Marketing and selling expenses increased by as much as 50.9% year-on-year in the first two quarters of 2016 to EUR 6,472 thousand (Q1-Q2 2015: EUR 4,288 thousand), mainly as a result of the rise in partner commission due to internationalization. The cost ratio as a percentage of revenue for marketing and sales therefore expanded from 14.3% in the first half of 2015 to 19.0% in the first six months of the 2016 fiscal year.

As a result of the higher personnel and material expenses, general and administrative expenses increased by just 0.5% in the first six months of 2016 to EUR 3,372 thousand (Q1-Q2 2015: EUR 3,354 thousand). Relative to consolidated revenue, the administrative cost ratio was lower than in the previous year at 9.9% (Q1-Q2 2015: 11.2%). Research and development expenses rose by 17.9% year-on-year to EUR 5,703 thousand due to continued high investment in the existing products and innovations such as in the segment relating to Industry 4.0 (Q1-Q2 2015: EUR 4,837 thousand). The ratio of research and development expenses to consolidated revenue therefore edged up from 16.2% in the first half of 2015 to currently 16.8%. USU is constantly investing in the development of its product portfolio and continuously 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 104 thousand from January to June 2016 (Q1-Q2 2015: EUR 503 thousand).

Results of operations

As a result of the significant revenue growth combined with an only moderate rise in costs, the USU Group increased its earnings before taxes, depreciation and amortization (EBITDA) by 10.0% year-on-year in the first six months of fiscal 2016 to EUR 3,895 thousand (Q1-Q2 2015: EUR 3,541 thousand). After deducting depreciation and amortization of EUR 1,301 thousand (Q1-Q2 2015: EUR 1,083 thousand), USU reported a 5.6% increase in earnings before interest and taxes (EBIT) in the same period to EUR 2,594 thousand (Q1-Q2 2015: EUR 2,458 thousand).

Net finance income fell from EUR 215 thousand in the previous year to EUR -44 thousand in the first half of 2016, primarily as a consequence of negative exchange rate effects. USU therefore generated earnings before taxes (EBT) of EUR 2,550 thousand (Q1-Q2 2015: EUR 2,673 thousand), a drop of 4.8% as against the previous year.

After tax expense of EUR 292 thousand (Q1-Q2 2015: EUR 300 thousand) is deducted, consolidated net profit (IFRS) in the first half of 2016 amounted to EUR 2,258 thousand (Q1-Q2 2015: EUR 2,373 thousand). This represents a slight decrease of 5.1% on the profit for the prior-year period. Earnings per share thus declined from EUR 0.23 in the previous year to EUR 0.21 in the reporting period.

Adjusted consolidated net profit

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

Adjusted consolidated net profit	Jan. 1, 2016 - June 30, 2016	Jan. 1, 2015 - June 30, 2015
<i>EUR thousand</i>		
Profit from ordinary activities (EBIT)	2,594	2,458
Amortization of intangible assets recognized in connection with company acquisitions	668	609
Amortization of goodwill	0	0
Non-recurring effects relating to acquisitions	66	-173
- BIG GmbH stay bonus	50	50
- Other taxes M&A external audit (input tax)	0	0
- purchase price adjustments	0	-223
- incidental acquisition costs	16	0
Adjusted EBIT	3,328	2,894
Finance income (as per consolidated income statement)	103	343
Finance costs (as per consolidated income statement)	-147	-128
Income taxes (as per consolidated income statement)	-292	-300
Tax effects relating to adjustments	-22	-38
- depreciation and amortization	-22	-38
- deferred taxes on tax loss carryforwards	0	0
Non-controlling interests (as per consolidated income statement)	0	0
Adjusted consolidated net profit	2,970	2,771
Adjusted earnings per share (in EUR):	0.28	0.26
Weighted average shares outstanding:		
Basic and diluted	10,523,770	10,523,770

USU's adjusted EBIT climbed by 15.0% year-on-year in the first six months of 2016 to EUR 3,328 thousand (Q1-Q2 2015: EUR 2,894 thousand). At the same time, USU expanded its adjusted consolidated net profit by 7.2% compared with the first half of 2015 to EUR 2,970 thousand (Q1-Q2 2015: EUR 2,771 thousand). USU's adjusted earnings per share accordingly increased from EUR 0.26 in the previous year to EUR 0.28 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 48,782 thousand as of June 30, 2016 (December 31, 2015: EUR 49,321 thousand) and thus remained almost unchanged. Current assets decreased from EUR 39,865 thousand as of December 31, 2015 to EUR 38,300 thousand as of the end of the reporting period, mainly as a result of a customer's settlement of outstanding trade

receivables. As a consequence of the dividend payment to shareholders totaling EUR 3,683 thousand, cash and cash equivalents declined to EUR 21,840 thousand as of June 30, 2016 (December 31, 2015: EUR 23,109 thousand).

On the equity and liabilities side, the dividend payment to USU's shareholders reduced equity to EUR 59,383 thousand as of the end of the reporting period (December 31, 2015: EUR 60,791 thousand). At the same time, USU reduced its current and non-current liabilities as of June 30, 2016 to EUR 27,699 thousand (December 31, 2015: EUR 28,395 thousand), mainly as a result of the reduction in personnel-related provisions and liabilities. Based on total assets of EUR 87,082 thousand (December 31, 2015: EUR 89,186 thousand), the equity ratio was 68.2% as of June 30, 2016 (December 31, 2015: 68.2%).

Cash flows and capital expenditure

The USU Group had total cash and cash equivalents of EUR 21,840 thousand as of June 30, 2016 (Q1-Q2 2015: EUR 19,250 thousand). This represents a year-on-year increase in Group liquidity of EUR 2,590 thousand or 13.5%.

The USU Group's net cash flows from operating activities fell by 45.1% in the first six months of 2016 to EUR 3,445 thousand from EUR 6,274 thousand in the prior-year period. In addition to higher income taxes, this is attributable to isolated cash flow effects to be reported under IFRSs, especially unbilled work in progress and extraordinary personnel-related payments.

The net cash flows used in investing activities of EUR -742 thousand (Q1-Q2 2015: EUR -439 thousand) include purchases of property, plant and equipment, and intangible assets totaling EUR -768 thousand (Q1-Q2 2015: EUR -449 thousand) that are offset by proceeds from sales of non-current assets amounting to EUR 26 thousand (Q1-Q2 2015: EUR 10 thousand).

Net cash flows used in financing activities in the reporting period totaled EUR -3,883 thousand (Q1-Q2 2015: EUR -5,748 thousand). This includes the dividend payment to shareholders of USU Software AG on June 20, 2016 in the amount of EUR 3,683 thousand (Q1-Q2 2015: EUR 3,157 thousand) or EUR 0.35 (Q1-Q2 2015: EUR 0.30) per share as well as the repayment of purchase price liabilities of EUR 200 thousand in connection with the acquisition of SecurIntegration (Q1-Q2 2015: EUR 2,591 thousand).

Orders on hand

As of June 30, 2016, the USU Group's orders on hand increased by 23.3% as against the previous year to EUR 40,512 thousand (June 30, 2015: EUR 32,866 thousand). USU lifted its orders on hand by a total of 11.6% compared with 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 for the next twelve months based on binding contracts. These primarily consist of project-related orders and maintenance and SaaS agreements.

Employees

The USU Group augmented its workforce by 13.5% year-on-year to 531 employees as of the end of the quarter under review (Q1-Q2 2015: 468 employees). The reported rise in the headcount mainly resulted from the expansion of the consultant team, particularly in the US. Broken down by functional unit, USU employed a total of 237 people in consulting and services as of the end of the second quarter of 2016 (Q1-Q2 2015: 214), 162 in research and development (Q1-Q2 2014: 139), 74 in sales and marketing (Q1-Q2 2015: 64) and 58 in administration (Q1-Q2 2015: 51). Broken down by segment, there were 409 employees in the Product Business segment (Q1-Q2 2015: 357), 64 in the Service Business segment (Q1-Q2 2015: 64) and 58 in central administration at the USU Group (Q1-Q2 2015: 47).

The Group intends to continue to gradually expand its workforce in the course of the current fiscal year.

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events occurred after June 30, 2016 that had a material effect on the business performance of the USU Group. Thus, there were no significant changes to the Group's net assets, financial position or results of operations.

REPORT ON EXPECTED DEVELOPMENTS AND ON RISKS AND OPPORTUNITIES

Report on expected developments

Macroeconomic trends

Sentiment in the German economy weakened slightly in the wake of the Brexit referendum. The Ifo Business Climate Index fell from 108.7 points in June to 108.3 points in July. This was due to far less optimistic business expectations on the part of companies. Assessments of the current business situation, by contrast, improved slightly. The German economy proves resilient.⁵ The three economics research institutes Ifo, INSEE and ISTAT expect economic output to increase by 0.4% in the third quarter and by just 0.3% in the fourth quarter. The short-term negative impact, however, should remain limited, while the medium-term effect will depend heavily on the new agreements reached between Britain and the EU. Overall, the annual growth rate for 2016 is expected to be around 1.6%. Consumption by private households remains the main driver of growth thanks to subdued inflation rates and gradually improving labor market conditions. Corporate investments will be stimulated by low

⁵ cf. CESifo Group, Ifo Business Climate Germany, dated July 25, 2016

interest rates.⁶ In its revised forecast in April 2016, the International Monetary Fund (IMF) had already trimmed its expectations for global economic growth. The global economy is projected to grow by 3.2% in 2016 and by 3.5% in 2017. 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.⁷

Sector

BITKOM is forecasting growth of 1.7% to EUR 160.2 billion in 2016 for the German ITC market as a whole. The information technology (IT) segment is set to remain the most significant growth engine. The software business is driving this growth. Software companies are benefiting from the fact that the entire industry is switching over to digital business models.⁸ According to an updated forecast by the IT research and consulting company Gartner⁹, the global ITC market will have a volume of USD 3.49 trillion in 2016, down just 0.5% on the previous year. In 2016 as well, the growth drivers will be the software business (+4.2%) and revenue from IT services (+3.1%). The Brexit vote will also not put a drag on global industry growth; analysts only anticipate a substantial slowdown in the UK market.¹⁰

Outlook

The Management Board expects the company's growth trend of the previous years to continue successfully in 2016. Further stimulus is anticipated from the core German market in the second half of the year and from the product business internationally. 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 also have a positive influence on the operating margin and net profit. The 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. Based on the consistently strong product business and the current forecast, the Management Board is confirming the guidance for the USU Group of an increase in consolidated revenue to between EUR 71 and EUR 75 million for the 2016 fiscal year 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

6 cf. CESifo Group, Euro Area: Institutes Say Brexit Has Minor Negative Impact on Growth, dated July 12, 2016

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

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

9 Gartner Worldwide IT Spending Forecast, 2Q16 Update, cf. <http://www.gartner.com/technology/research/it-spending-forecast/>

10 Gartner: The IT spending implications of Brexit, Computerworld, June 24, 2016, cf.

<http://www.computerworld.com/article/3088549/it-industry/gartner-the-it-spending-implications-of-brexit.html>

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.

In the second quarter of 2016, the stock markets were relatively volatile with some stock quotations falling sharply at the beginning of the quarter under review. Stocks then rallied briefly before tapering off again at the end of June. Prices on the Technology All Share declined by 1.9% quarter-on-quarter to 1,857.08 points as of June 30, 2016 (March 31, 2016: 1,892.76 points), while the German benchmark index (DAX) slipped 2.9% in the second quarter of 2016 to 9,680.09 points (March 31, 2016: 9,965.51 points). By contrast, USU Software AG's shares posted gains in the quarter under review on the strength of positive announcements from the company and finished trading on the XETRA electronic trading system at EUR 20.10 (March 31, 2016: EUR 16.85), an increase of 19.3% quarter-on-quarter.

In the first half of the year, the Technology All Share recorded losses of 12.9% (December 31, 2015: 2,133.18 points) as against December 31, 2015, while the DAX was down 9.9% as of June 30, 2016 (December 31, 2015: 10,743.01 points). USU's shares, on the other hand, were up 6.3% in the first six months of 2016 (December 31, 2015: EUR 18.90).

Further on, the stock markets trended upwards again, raising the DAX to above the 10,000-point mark. As a result, USU's shares continued to climb, reaching a new ten-year high of EUR 23.05 on Xetra trading and continuing to trade well above the EUR 22 mark at the date of publication of the six-month 2016 report.

Möglingen, August 30, 2016

USU Software AG

Bernhard Oberschmidt

CEO

Bernhard Böhler

Member of the
Management Board

Dr. Benjamin Strehl

Member of the
Management Board

ASSETS	6-month report	Annual report
<i>EUR thousand</i>	June 30, 2016	Dec. 31, 2015
Non-current assets		
Intangible assets	6,015	6,702
Goodwill	35,575	35,575
Property, plant and equipment	2,289	2,141
Other financial assets	0	0
Deferred tax assets	4,234	4,234
Other assets	669	669
Non-current assets	48,782	49,321
Current assets		
Inventories	680	646
Unbilled work in progress	4,618	2,456
Trade receivables	8,966	11,498
Income tax receivables	340	367
Other financial assets	337	316
Other assets	255	343
Prepaid expenses	1,264	1,130
Securities	3,014	3,014
Cash on hand and bank balances	18,826	20,095
Current assets	38,300	39,865
Total assets	87,082	89,186

EQUITY AND LIABILITIES	6-month report	Annual report
<i>EUR thousand</i>	June 30, 2016	Dec. 31, 2015
Equity		
Issued capital	10,524	10,524
Capital reserves	52,792	52,792
Legal reserve	574	574
Other comprehensive income	-57	-74
Net accumulated losses	-4,450	-3,025
Equity not including non-controlling interests	59,383	60,791
Non-controlling interests	0	0
Equity	59,383	60,791
Non-current liabilities		
Deferred tax liabilities	86	108
Pension provisions	1,948	1,908
Non-current liabilities	2,034	2,016
Current liabilities		
Income tax liabilities	69	613
Purchase price liabilities	138	335
Personnel-related provisions and liabilities	3,703	6,362
Other provisions and liabilities	1,282	2,314
Liabilities from advance payments	8,788	9,868
Trade payables	1,520	1,590
Deferred income	10,165	5,297
Current liabilities	25,665	26,379
Total equity and liabilities	87,082	89,186

CONSOLIDATED INCOME STATEMENT <i>EUR thousand</i>	Quarterly report II / 2016	Quarterly report II / 2015	6-month report	6-month report
	April 1, 2016 June 30, 2016	April 1, 2015 June 30, 2015	Jan. 1, 2016 June 30, 2016	Jan. 1, 2015 June 30, 2015
Revenue	17,074	15,856	34,031	29,925
Cost of sales	-7,676	-7,596	-15,327	-14,882
Gross profit	9,398	8,260	18,704	15,043
Selling and marketing expenses	-3,349	-2,350	-6,471	-4,288
General and administrative expenses	-1,426	-1,634	-3,372	-3,354
Research and development expenses	-2,846	-2,461	-5,703	-4,837
Other operating income	142	236	281	610
Other operating expenses	0	-36	-177	-107
Amortization of intangible assets recognized in connection with company acquisitions	-334	-300	-668	-609
Profit from ordinary activities (EBIT)	1,585	1,715	2,594	2,458
Finance income	58	33	103	343
Finance costs	-35	-110	-147	-128
Earnings before taxes (EBT)	1,608	1,638	2,550	2,673
Income taxes	-232	-194	-292	-300
Net profit	1,376	1,444	2,258	2,373
of which:				
- shareholders of USU Software AG	1,376	1,444	2,258	2,373
- 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	0.13	0.14	0.21	0.23
Weighted average shares outstanding: Basic and diluted	10,523,770	10,523,770	10,523,770	10,523,770

STATEMENT OF COMPREHENSIVE INCOME	Quarterly report II / 2016	Quarterly report II / 2015	6-month report	6-month report
<i>EUR thousand</i>	April 1, 2016 - June 30, 2016	April 1, 2016 - June 30, 2015	Jan. 1, 2016 June 30, 2016	Jan. 1, 2015 June 30, 2015
Consolidated net profit	1,376	1,444	2,258	2,373
Available-for-sale financial assets (securities)				
- Changes in fair value recognized in equity				
- Reclassified to profit or loss	0	0	0	0
Deferred taxes on available-for-sale financial assets (securities)	0	0	0	0
Currency translation difference	0	0	0	0
Other comprehensive income after taxes	-55	45	17	-26
Total comprehensive income	-55	45	17	-26
of which:				
- shareholders of USU Software AG	1,321	1,489	2,275	2,347
- non-controlling interests				

Consolidated Statement of Cash Flows	6-month report Jan. 1, 2016 - June 30, 2016	6-month report Jan. 1, 2015 - June 30, 2015
<i>EUR thousand</i>		
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Earnings before taxes (EBT)	2,550	2,673
Adjustments for:		
Finance income/finance costs	44	-215
Depreciation and amortization	1,301	1,083
Income taxes paid	-904	-309
Income taxes refunded	105	419
Interest paid	-2	-4
Interest received	55	27
Other non-cash income and expenses	-40	-446
Change in working capital:		
Inventories	-34	-136
Unbilled work in progress	-2,162	467
Trade receivables	2,532	2,134
Prepaid expenses and other assets	-67	-1,313
Trade payables	-70	154
Personnel-related provisions and liabilities and pension provisions	-2,619	-904
Other provisions and liabilities	2,756	2,644
Net cash flows from operating activities	3,445	6,274
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of subsidiaries less cash and cash equivalents acquired	0	0
Purchase of property, plant and equipment	-673	-388
Purchase of other intangible assets	-95	-61
Repayment of short-term loans	0	0
Proceeds from sales of non-current assets	26	10
Purchase of available-for-sale securities	0	0
Net cash flows used in investing activities	-742	-439
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Dividend payment	-3,683	-3,157
Repayment of purchase price liabilities in connection with the acquisition of subsidiaries	-200	-2,591
Net cash flows used in financing activities	-3,883	-5,748
Net effect of currency translation on cash and cash equivalents	-89	243
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-1,269	330
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,095	18,920
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18,826	19,250

Changes in consolidated equity	Subscribed capital		Capital re-serves	Legal reserve	Net accumulated losses	Other comprehensive income		Equity not including non-controlling interests	Non-controlling interests	Total
	Shares					Currency translation	Fair value of securities			
	Number	EUR thou.				EUR thou.	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					2,373			2,373	0	2,373
Other comprehensive income after taxes						-26		-26		-26
Total comprehensive income	0	0	0	0	2,373	-26	0	2,347	0	2,347
Dividend payment					-3,157			-3,157		-3,157
Consolidated equity as of June 30, 2015	10,523,770	10,524	52,792	502	-8,975	-45	0	54,798	0	54,798
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					2,258			2,258	0	2,258
Other comprehensive income after taxes						17		17		17
Total comprehensive income	0	0	0	0	2,258	17	0	2,275	0	2,275
Dividend payment					-3,683			-3,683		-3,683
Consolidated equity as of June 30, 2016	10,523,770	10,524	52,792	574	-4,450	-57	0	59,383	0	59,383

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 (IFRSs) 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 to the IFRS consolidated financial statements prepared for the fiscal year ended December 31, 2015. This unaudited six-month report 2016 should therefore be read in conjunction with the audited consolidated financial statements for 2015.

These interim financial statements contain all necessary accruals and deferrals and, in the management's opinion, provide a true and fair view of the net assets, financial position and results of operations. All of the accruals and deferrals are performed in accordance with standard accrual-based accounting.

When preparing IFRS-compliant interim financial statements, estimates and assessments relating to the assets and liabilities recognized at the reporting date and the income and expenses for the reporting period must be made to a certain extent. The actual amounts may differ from these 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 net profit for the year from the profit of the interim periods.

Financial instruments

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

<i>EUR thousand</i>	June 30, 2016		Dec. 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Unbilled work in progress	4,618	4,618	2,456	2,456
Trade receivables	8,966	8,966	11,498	11,498
Other current financial assets	337	337	316	316
Securities held as current assets	3,014	3,014	3,014	3,014
Cash on hand and bank balances	18,826	18,826	20,095	20,095
	35,761	35,761	37,379	37,379

<i>EUR thousand</i>	June 30, 2016		Dec. 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	0	0	0	0
Trade payables	1,520	1,520	1,590	1,590
Liabilities from advance payments	8,788	8,788	9,868	9,868
Purchase price liabilities	138	138	335	335
	10,446	10,446	11,793	11,793

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value hierarchy with three input levels is applied depending on whether the fair value of financial instruments was determined on the basis of quoted prices in active markets (level 1), on the basis of inputs other than quoted prices in active markets (level 2) or using unobservable inputs (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 - June 30, 2016 EUR thousand	Jan. 1 - June 30, 2015 EUR thousand
Consulting	18,763	16,623
Licenses/products	5,428	5,251
Maintenance/SaaS	9,376	7,657
Other	464	394
	34,031	29,925

Segment reporting

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

	Product Business		Service Business		Total Segments		Unallocated		Group	
	Jan. 1 - June 30, 2016 EUR thou.	Jan. 1 - June 30, 2015 EUR thou.	Jan. 1 - June 30, 2016 EUR thou.	Jan. 1 - June 30, 2015 EUR thou.	Jan. 1 - June 30, 2016 EUR thou.	Jan. 1 - June 30, 2015 EUR thou.	Jan. 1 - June 30, 2016 EUR thou.	Jan. 1 - June 30, 2015 EUR thou.	Jan. 1 - June 30, 2016 EUR thou.	Jan. 1 - June 30, 2015 EUR thou.
Revenue	26,576	23,318	7,334	6,416	33,910	29,734	121	191	34,031	29,925
EBITDA	4,770	4,218	1,082	1,036	5,852	5,254	-1,957	-1,713	3,895	3,541
EBIT	3,650	3,274	981	965	4,631	4,239	-2,037	-1,781	2,594	2,458
Net finance income	-	-	-	-	-	-	-44	215	-44	215
Taxes	-	-	-	-	-	-	-292	-300	-292	-300
Consolidated net profit	3,650	3,274	981	965	4,631	4,239	-2,373	-1,866	2,258	2,373
No. of employees at end of period	409	357	64	64	473	421	58	47	531	468

The USU Group generated a total of 27.8% (Q1-Q2 2015: 33.1%) or EUR 9,447 thousand (Q1-Q2 2015: EUR 9,909 thousand) of its consolidated revenue outside Germany in the first six months of the 2016 fiscal year. This data is based on customers’ registered offices. By contrast, less than 10% of consolidated assets were held outside Germany. At the same time, investments outside Germany amounted to less than 10% of the Group’s total investments. For reasons of materiality, further details of the geographical data have therefore not been provided.

Shares held by members of executive bodies at USU Software AG

The following shares in USU Software AG were held by members of the company's executive bodies as of June 30, 2016:

Stock declarations by members of executive bodies	Shares	
	June 30, 2016	June 30, 2015
Management Board		
Bernhard Oberschmidt	156,518	156,518
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) voting rights in USU Software AG are allocated to Udo Strehl, the majority shareholder of this company, through AUSUM GmbH in accordance with section 22(1) sentence 1 no. 1 of the German Securities Trading Act (WpHG). A further 32,000 (2015: 32,000) voting rights in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the director, in accordance with section 22(1) sentence 1 no. 1 WpHG.</i></p>		

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

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

Related party disclosures

IAS 24 sets out that related parties are persons or entities that have 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 the interim consolidated financial statements are not considered related parties.

There were no significant changes in the 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 disclosures in the notes to the consolidated financial statements for the 2015 fiscal year. For more information, please refer to the disclosures in the notes to the consolidated financial statements of USU Software AG for the fiscal year ended December 31, 2015.

Möglingen, August 30, 2016

USU Software AG

Bernhard Oberschmidt

CEO

Bernhard Böhler

Member of the
Management Board

Dr. Benjamin Strehl

Member of the
Management Board

September 9 to 11, 2016**Investor and analyst conference at *IR Event 2016 (Rüttbauer Research), Heidelberg*****November 17, 2016****Publication of the 9-Month Report 2016****November 21 to 23, 2016****Investor and analyst conference at *German Equity Forum 2016, Frankfurt/Main*****December 7 to 8, 2016****Munich Capital Markets Conference**