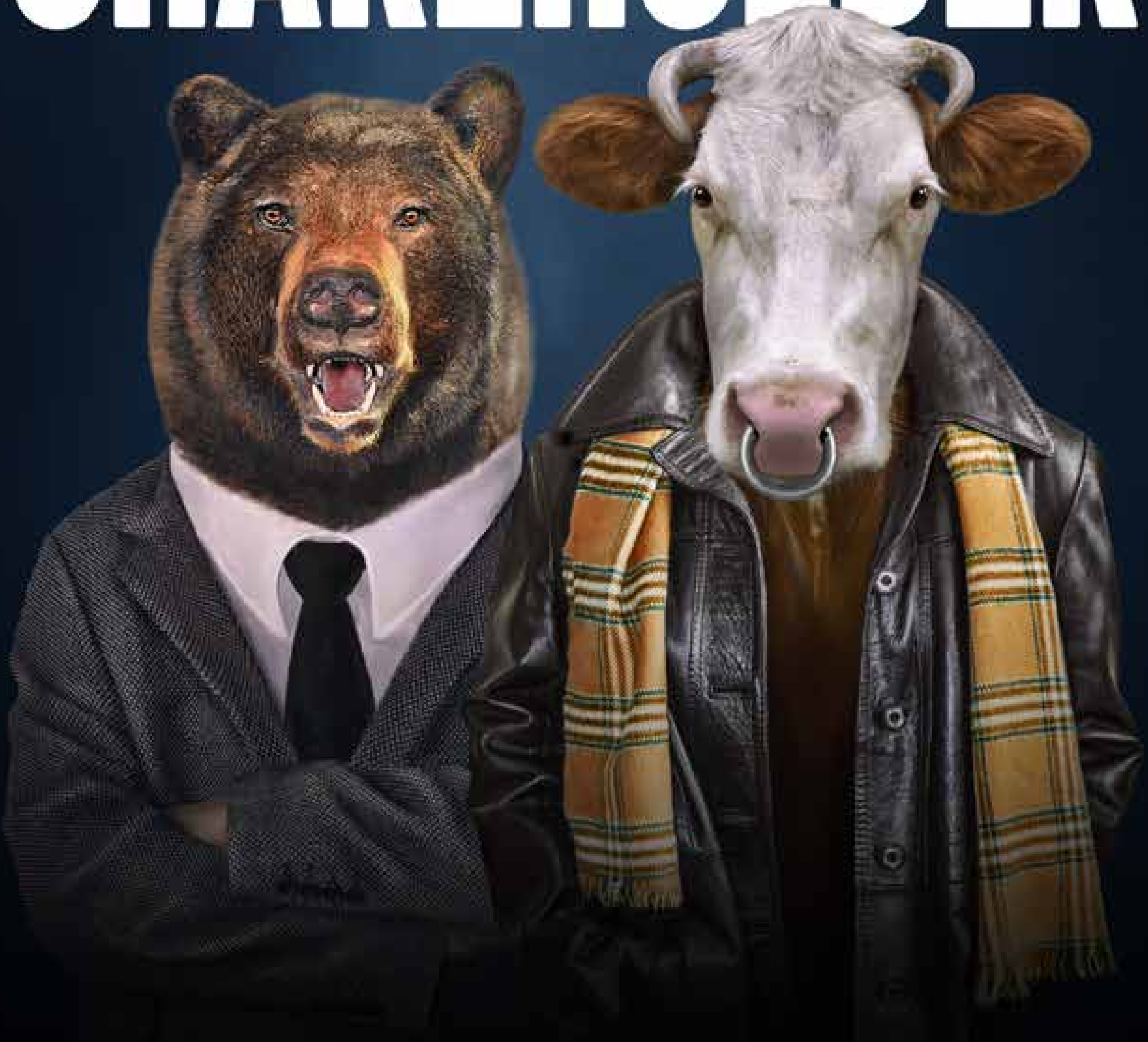
THE SHAREHOLDER



A spectacle for millions

USU Software AG Annual Report – 2019 Edition

"One may view the brain as a model of the world."

You.

"A small theater, at which the same characters who also exist outside appear and play with one another."

The stock exchange.

“I can make the inner theater
run a little faster than the outer one.”

The price.

“And then already know
what will happen in advance.”

The objective.

Valentin Braitenberg *(1926 – 2011),*
Brain researcher, author, cyberneticist

THE SHAREHOLDER

A spectacle for millions

The 2019 fiscal year for USU: IFRS figures in EUR thousand	2019	2018
Sales	95,630	90,487
Adjusted EBIT	6,226	4,125
Adjusted consolidated earnings	7,349	1,923
Adjusted earnings per share	0.70	0.18
EBITDA	9,920	5,506
EBIT	4,054	2,707
Net profit	5,273	961
Earnings per share	0.50	0.09
Shareholders' equity	60,198	59,665
Total assets	104,460	95,144
Equity ratio	57.6%	62.7%
Cash and cash equivalents	10,413	9,450
Net cash from operating activities	9,518	1,996
Number of employees at year-end	711	694

Act 1

Act 2

Act 3

Act 4

__Peter Handke__ (1942),
author, Nobel laureate for literature

"They are the subject They are the playmakers They are our opponents."

It is the world of quants and Trumps that today's fund managers and investors must master. Some want to "understand the whole thing without having understood each of its parts," as French mathematician Cédric Villani once put it. Others pick out a part of it and take it for the whole thing. This is based on pure rationality and abstraction on the one hand, therefore, and pure emotionality and imagination on the other. Somehow neither sits very well with us. We stand somewhere between the two.

Every day, quants and Trumps appear as antagonists in a play that is performed on the grandest of all stages, the stock exchanges. Moving millions, billions even.

At first glance, we, as a software house, are closest to the mathematicians, the quants. After all, we also think in formulas and algorithms, in the dimensions of artificial and therefore digital intelligence, in our projects and programs. That's our business: not always simple, as 2019 taught us, but always exciting, stimulating,

inspiring. The fact that we perceive it that way shows that we ourselves are not machines, but people. We therefore feel no less drawn to emotional intelligence – and are currently experiencing both as extremes: the rational and the emotional, which could sometimes also be described as the irrational.

And if something like a pandemic emerges, so completely unexpectedly, neither calculable by quants nor controllable by Trumps, then we show how right-minded we can be, how solidly united. Crashes – and this is something we know about from experience – have never taken us off track on a long-term basis.

Only wisdom beyond all mathematics and – let's call it what it is – demagogy can help here. Wisdom is this weighing up of many factors without having a formula for this. Wisdom is an exclusively human trait. At the same time, being surrounded by wise people is also pure good fortune, which has accompanied us here at USU since 1977 and also helped us survive 20 years on the stock exchange. We quite simply have a great deal of emotional intelligence on board.

Before the curtain goes up and you dive into this annual report, the Management Board of USU Software AG would like to thank the main protagonists, the fund managers and shareholders, who have allowed us to share in their deep and above all very human insights into the events on the stock exchange. The photos frame the places we met them. The fact that Frankfurt appears not once, not twice, but three times is certainly not just chance.

We all want to master chance. Algorithms search for the moment, but want to make it predictable at the same time. It goes back and forth for all eternity. People look to the long term in their deliberations, but also tend to react in the moment. An enormous area of tension.

If fund managers then tell us in conversations how they attempt to reconcile the two positions in order to be able to make their investments, then they are describing nothing other than good, honest enterprise. And so that is precisely the way we mean to be understood as a software house, too. By our loyal audience, the shareholders, to whom we dedicate this annual report – and value highly.

Bernhard Oberschmidt
Chairman of the Management Board

EACH OTHER

The curtain goes up. Nothing. The audience stares at the empty stage. Murmurs. Grumbles. Whistles. Shouts. “Dramatic” was what the Frankfurter Allgemeine Zeitung called “such results” on February 25, 2020, running the loaded headline “Kapitalismus am Pranger” (“Capitalism in the stocks”) about the performance. It then writes: “In the land of poets and thinkers, a surprising number of people are depressed.” [1]

Let’s flash back 20 years – to a time when the companies that formed USU Software AG entered the stock exchange stage, unaware that they would soon become one: Openshop and USU became USU Software AG, which survived everything fate threw at it, primarily through world events.

Yet everyone still had to overcome the greatest shock on their own. It came, of all times, in the year of its IPO, its initial public offering – in 2000. The bubble of the “new market” and “new economy,” which, in the hype of the 1990s, finally seemed to be turning the Germans into a nation of shareholders, burst in cloud-cuckooland, thus also destroying the large amounts of good money that the stock exchange audience had invested in this performance. However, it was not only the Germans, but also – mainly – the Americans who went through this.

All shareholders are equal in a crash.

American stocks alone lost USD 4 trillion at that time. That was equivalent to 40% of GDP. Even the Black Monday of 1987, the greatest global stock exchange debacle up until that point, only cost half that much. And yet a sensational rise had preceded this crash. But still - on this Black Monday the Dow Jones lost 22.6 percent in one fell swoop. That was brutal. Even on „Corona Thursday“, on March 12, 2020, it was only 9.99 percent. It must be said that the crash of 1987 (similar to that of today) was preceded by a sensational upturn.“ Within ten years, the global stock market value of all companies had increased from 40% of global GDP to 110%. The market capitalization of all listed companies amounted to USD 35 trillion – a rapid rise.

All shareholders are equal in a boom.

This time the Germans were also involved as never before. The proportion of shareholders was approaching the 20% threshold at that time. It is only 12% nowadays. The faith in “capitalism” has gone. Only 16%, the FAZ reports, still rate this term as “positive.”

The baseline figures tell a different story, however. Within the last two decades, global market capitalization has risen by around 250% to almost USD 90 trillion. It is primarily the Americans, who still have a shareholder rate of 50%, who have benefited from this.

> “The problem with Germans is …”

The overwhelming majority of us leave empty-handed. As shareholders and as companies. They are almost antagonists to one another – in a strangely twisted way.

[1] *Frankfurter Allgemeine Zeitung, February 25, 2020, Christoph Schäfer: “Kapitalismus am Pranger”*

The shareholders are the bears, because they are lacking in quantity. The companies are the bulls, who nevertheless leave the wide audience behind during an all-time high on the DAX. Even if the Corona virus is weakening the bull at present.

> “... that they look in the clouds for what lies at their feet.”
>
> *Arthur Schopenhauer (1788 – 1860), German philosopher*

According to German-based fund manager Christoph Frank, around 500 companies have sufficient relevance on the stock exchange to be considered for investment at all. They make up his “Frankfurt 500.” However, there are a thousand times more stock exchange listings globally whose values American analyst firm Morningstar updates on the Internet each working day. In terms of numbers, we are hovering around one per thousand. And in terms of value?

The next shock awaits us there.

In 2019, the value of a handful of US companies increased by as much as Germany’s entire stock market capitalization: around USD 2 trillion, as British business magazine The Economist reported on February 22[2]. And these five companies, whose combined worth is USD 5.6 trillion, all come from the industry in which USU Software AG also operates. Their names are legendary: Microsoft, Apple, Amazon, Alphabet (Google) and Facebook.

Are they already forming the Big Five of the 21st century?

“The bigger [they become], the more reason there is to doubt this can continue,” says The Economist. Between the spheres in which these Big Five move and the Earth’s gravity, by which USU Software AG’s share price remained bound in 2019, lie a broad range of hitherto undiscovered opportunities. It is true – every crash brings out new heroes in the IT industry. After 1929 it was IBM & Co. After 1987 Microsoft and Intel. After 2009 came Amazon, Apple, Facebook, Google.

The stock exchange raises its curtain every day.

What you see is what you get – “WYSIWYG” – was once a slogan from the New Economy era. It is time for the “Frankfurt 500” to restage its play, to position itself in the right light – across all industries.

In this annual report you can read individual portraits about fund managers and shareholders – people who attend the stock exchange performances on a daily basis and search for values that point the way to the future. What apparently concerns these professionals the most are “Japanese conditions”: low interest rate policies and sideways movement of the economy. We have overcome the ups and downs of the last 30 years, they say, but have no experience of a stagnating economy like the one that has plagued Japan for decades.

It is time that we, the shareholders, wake up and make sure the stage is filled with new life. USU Software AG will do everything it can to fascinate the audience, in any case. The play doesn’t necessarily have to be called “Capitalism,” after all. That sounds like a monopoly. Let’s call it “Market Economy.” That sounds like competition.

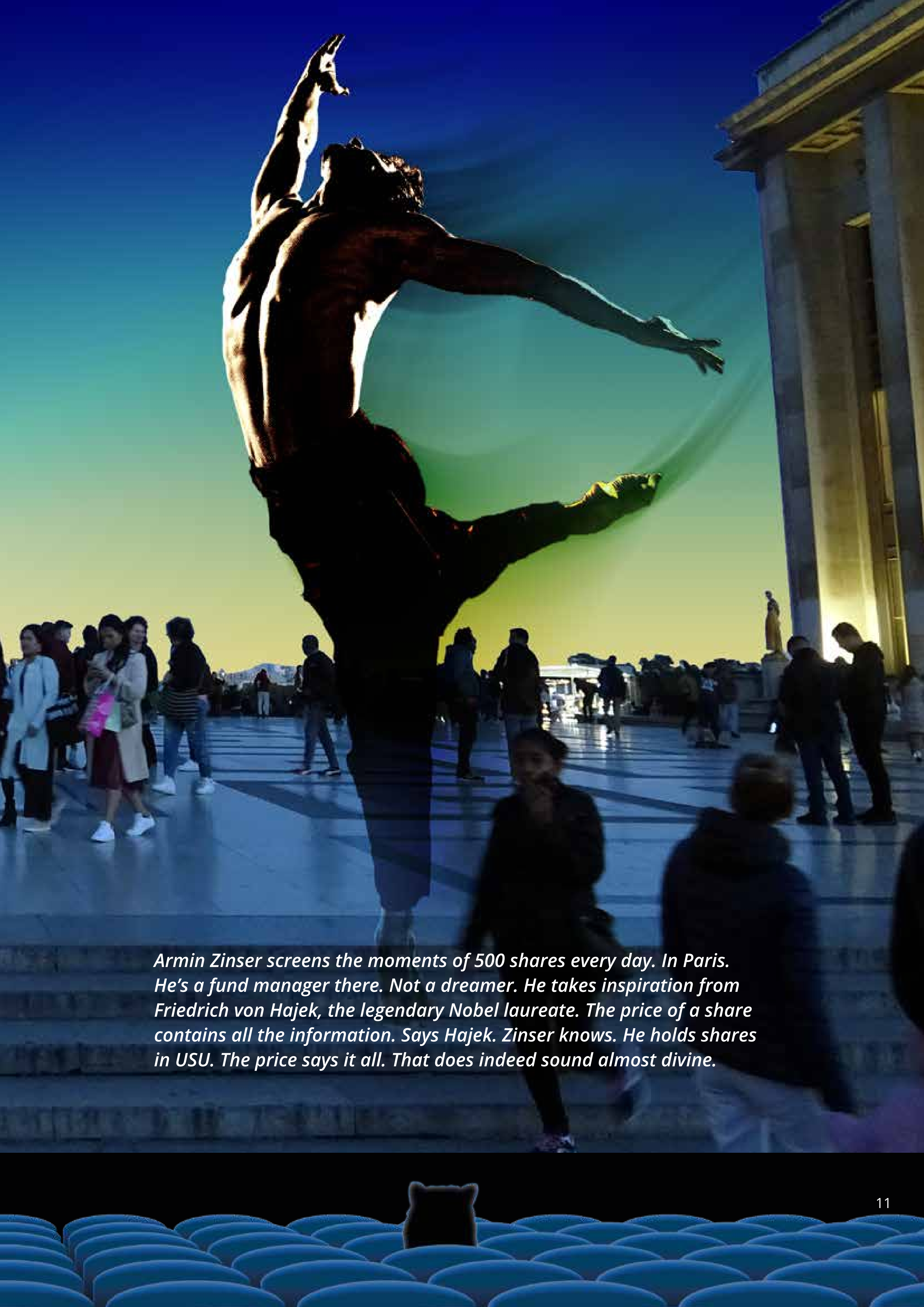
But this recognizes one thing above all else: the stage and the audience need one another.

[2] *The Economist, February 22, 2020: “Big tech’s $2trn bull run”*

***Samuel Beckett** (1909 – 1989),*
Irish playwright

“I alone am man and all the rest divine.”

Are shares divine?
They are never wrong.
Like human beings.
So can one read
the future in them?
For the moment,
certainly.



Armin Zinser screens the moments of 500 shares every day. In Paris. He's a fund manager there. Not a dreamer. He takes inspiration from Friedrich von Hajek, the legendary Nobel laureate. The price of a share contains all the information. Says Hajek. Zinser knows. He holds shares in USU. The price says it all. That does indeed sound almost divine.

AMONG OUR OWN

Armin Zinser, fund manager in Paris: "I look for entrepreneurs"

No cell phone rings, no screen lights up; there's hardly any technology in the room. A piece of paper will do just as well. And that only in the form of business cards. They dart and slide across the table, disappearing into jacket pockets and briefcases. "May I record you?" asks Thomas. The consent comes before he even has the chance to explain why. And then off we go. Or so we think.

We're in Paris, in the 9th arrondissement. The two Euroland equity funds, Prévoir Gestion Actions and Prévoir Perspectives, are based here. Their volume: EUR 1.2 billion.

We're a little late, because a small car is blocking the route of a large truck. Our taxi is stuck in traffic. We walk the rest of the way.

On a visit to the 9th arrondissement

Past old buildings, no doubt from the era of the legendary city planner Georges-Eugène Baron Haussmann; we go through a rear courtyard, squeeze into an ultra-narrow elevator or scale the spiral staircase. It looks for all the world as if Commissioner Maigret is about to come the other way. An elegant figure opens the door for us, leading us into an impressive meeting room.

We wait a while. And then in through the door sweeps none other than a Swabian: Armin Zinser (born 1956). A real-life Swabian right in the middle of this French global metropolis. But what a guy! He has the air of a grand seigneur. We're thinking: he holds shares in USU Software AG! The exclamation points in our eyes are enormous.

How did little old USU ever make it onto this fund manager's radar? "I look for entrepreneurs," he'll later say to us. And he's fairly rigorous in his selection. "Long entrepreneur, short governor," he says. He doesn't like companies that are too dependent on subsidies or report excessive government investments. This is just to begin with.

Because his first move is to disarm. It's too formal for him (and for us) in this room. He senses immediately: no fuss, no talk, no posturing. Although: "I've had the entire German middle market in my time," he smiles, knowing full well that he's exaggerating a little here. The SMEs, on which his two funds focus, may set foot in the "room." But not us. But if anything that's a compliment. He leads us into a significantly smaller lounge with a large table. All very simple. Like at home. Like in Ländle.

"It's comfortable here," he says, thinking we were Swabians perhaps, so among our own. We're not, but we understand each other nevertheless.

And then we finally get going. There's a pause – but it's incidental if anything, mundane. Like in any good play. Because this man masters this perfectly: he views investment as an art form – on a giant stage: the world's stock exchanges.

He's a Sparkassen guy, he says, identifying with the emblematic red branding of the savings banks. From Haigerloch, in what is now the Zollernalbkreis district. That's where he learned. That was 1973. We smile, sensing the understatement. He who watches over hundreds of millions in the French capital hasn't unlearned the Swabian art of understatement. Or stepping on the gas.

In 1978, he moved up to the regional state bank in Stuttgart, the Landesbank. But the industrial loans that he had to process were "never drawn down." Because the customers, who didn't become his customers, were all SMEs and entrepreneurs, who aren't so fond of loans. He then studied at the Sparkassenakademie in Neuhausen auf den Fildern, near Stuttgart. Nothing out of the ordinary. Only the mystery deepens. How on earth does someone like him get here?

When will we finally get going?

Zinser delivers. And not by halves. The man is pure gold. That's what his bosses said, in any case. They sent him to London and Luxembourg at a time when high finance had to contend with the ending of the gold standard to which Bretton Woods had committed the Americans in 1944. President Richard Nixon put an end to the gold dollar in 1971. So far, so good somehow.

Zinser became a bullion dealer. But then the Landesbank found itself embroiled in the fraudulent bankruptcy of Banco Ambrosiano di Milano, which left its creditors sitting on liabilities of USD 1.2 billion in 1982.

"People make the numbers and the algorithms, too."

Armin Zinser (born 1956), fund manager in Paris

Landesbank Baden-Württemberg was also involved through a few embarrassing millions via its Luxembourg branch. Unpleasant, highly unpleasant. Especially for the noble Swabian institution.

To top it all, the head of Ambrosio, Roberto Calvi, had been found hanged under London's Blackfriars Bridge in mysterious circumstances in June of the same year. A huge scandal with the Vatican Bank right at the center of it, the Landesbank at the edge of it and a young banker with a difficult task.

Because, against this backdrop, the bosses in Stuttgart had decided to close the Luxembourg branch there and then. Armin Zinser, aged just 26, was given the task of implementing this decision. A bitter pill, because there were good people there.

Zinser then did something one would probably only do at the age of 26. He called the executive boards of the largest banks in France and asked if they'd ever thought of getting involved over in Luxembourg. He had an excellent team of 25 bankers. His idea: President François Mitterrand wanted to nationalize the banks – with the result that the existing shareholders had to seek out a new field of activity. Why shouldn't the "dispossessed" seek new fortunes in Luxembourg? "I gathered all my courage – and called the bank bosses." He was unshaken by the "no thank yous" – and then suddenly had success.

He ran into Jean-Maxime Lévêque, the head of Crédit Commercial de France (CCF). And what he had hardly thought possible suddenly became a reality. The great man, who had what it took to be finance minister, came to Luxembourg himself. He studied the options for three days. The deal was sealed.

The employees of the small branch thus became part of the new International Bankers Incorporated (IBI).

> 1688: "Mistrustful people say that Lucifer invented the stock exchange..."

Only Zinser was still tied – as the Landesbank had financed his degree studies: his education had cost DM 50,000. He had to work that off. "Do you mind if I take on this cost and pay you out?" Lévêque wanted Zinser – and at three times his income at that! The exclamation points in the young banker's eyes kept growing. Everything was divine – and he, a human being, a Swabian, was at the center of it.

Montmartre: USU's slogan "Knowledge is market" applies here, too

He tells us with refreshing frankness how he subsequently came to Paris, met his French wife, delved deeper and deeper into the finer points of high finance, was able to accompany the really great money magicians, who even paid for his studies at the elite Insead Business School, but also witnessed the scandals and bad speculations – and was suddenly unemployed. What he reports to us here in brief, dropping names such as Crédit Lyonais and the OECD, for whom he built up a pension fund, is so gripping that he should actually put it all down on paper.

He is certainly a liberal in every respect. Gerade Lévêque, his master, was almost considered a radical in that regard. That's how Zinser discovered his love for the "Austrian School," with teachers such as Ludwig von Mises and – of course – Friedrich von Hayek.

> "...because he tricked the speculators with his promise that, like God, they can create something out of nothing."
>
> *José de la Vega (1650–1692), author of Spanish origin*

The 1974 Nobel laureate opposed any presumption of knowledge. His verdict: market events were never

based on complete information. So true! Zinser has had the opportunity to observe that more than ever in his career.

So he would certainly have liked the slogan USU used to introduce its IPO 20 years ago: “Knowledge is market.” Knowledge is competition or, in Hayek’s language, a “discovery procedure.”

Did Zinser, the former savings bank business administration graduate, not also have this method to thank for his career? Hadn’t he been discovered and awoken by his mentor Lévêque after having developed his ability to take the initiative? Wasn’t his life journey based on those rules that, although effective in any competitive environment, can never be understood in their entirety?

The divine is all around you, but you yourself remain human. “I’m a Swabian through and through,” says Zinser, the versatile artist of the capital.

Of course, his fund arduously scours the quotes and notes of 500 stock corporations every day on the hunt for nuggets of gold. That’s how he came across USU. “My screening process is relatively simple. I try to find companies that are reporting growth of 5%, whose profit performance is similar, and that have extremely sound financing.” And then comes the crucial postscript: “Firms that are actually family-owned companies.”

As Swabian as can be. The quiet cleverness shines through with him, too. You just really need to watch your step. He says: “They can focus so intensively on the markets that they don’t know what the market will do tomorrow.” Very sensible, but then surely the best course of action is to do nothing at all. No, no, “I’m always 100% invested.” Meaning always 100% at risk? No way!

Lunch with celebrities on the world stage. Armin Zinser invited us to the “Bistro des Deux Théâtres” after the interview.

“I’d never claim to play God,” he maintains. He’s referring to the major topic of market timing here, which works on the basis of extensive assumptions – preferably with the addition of big data and algorithms. No, rather he’s looking for the devil, which, as we all know, is in the detail. He calls his devil “timing in the market,” grinning.

Naturally we want to know what he means by that. “I look at the individual stocks and estimate the momentum, whether upward or downward. I really do bottom-up stock-picking,” he says, unable to resist the jargon. “Sometimes I’m more tolerant with one stock than with another.” It seems USU is among the favored ones. “The benefit with USU is that, there, the only way is up in the long term.”

We don’t contradict him.

“I would never claim to play God.”

Armin Zinser (born 1956),
fund manager in Paris, following entirely in the tradition of the Austrian school of economics

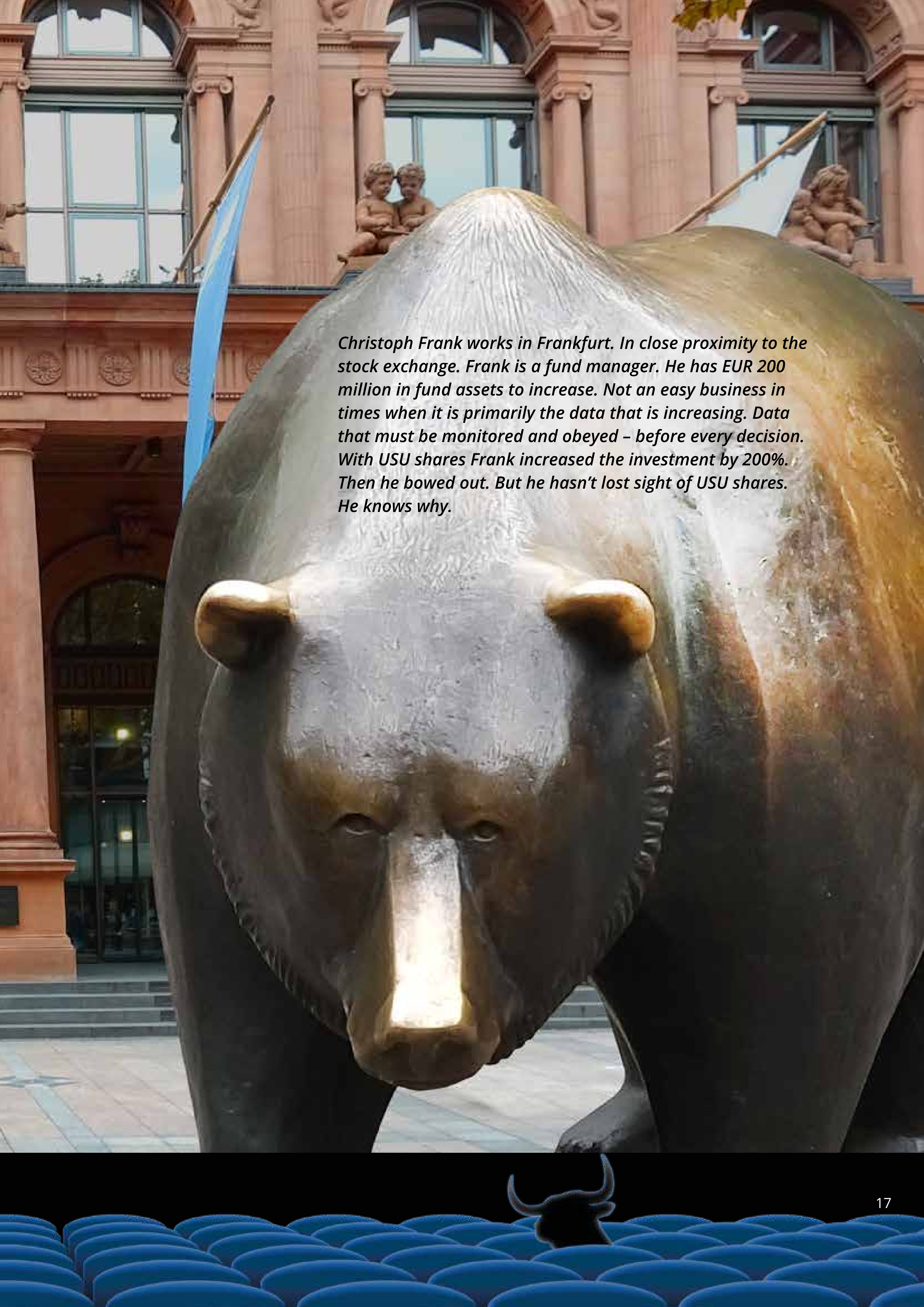
In the short term, though, we all have an irrational hunger by now. Armin Zinser whisks us away to a very relaxed, very atmospheric restaurant frequented by artists and celebrities. The kind that Swabians only go to when they’re among their own. After all, nobody has to know that you can afford it…

The staging is perfect.

Johann Wolfgang von Goethe *(1749 – 1882),*
poet and Frankfurt's most famous son

"He who understands money, understands time."

Are shares worth more than gold?
The bull and the bear are in agreement here.
Money isn't even worth the money anymore.
Now you understand the world! Goethe would buy shares today. That goes without saying.



Christoph Frank works in Frankfurt. In close proximity to the stock exchange. Frank is a fund manager. He has EUR 200 million in fund assets to increase. Not an easy business in times when it is primarily the data that is increasing. Data that must be monitored and obeyed – before every decision. With USU shares Frank increased the investment by 200%. Then he bowed out. But he hasn't lost sight of USU shares. He knows why.

Together with Roger Peeters, Christoph Frank manages the DWS Concept Platow fund, an equity fund with a focus on Germany.

FROM ONE ANO-THER

Key indicators write the script for what is known as the "Platow fund." Only 30 to 60 out of 500 candidates are left at the end of a rigorous casting process. The small ones often beat the large ones in this context.

The fund manager was quite simply lost for words when asked, "Are you a capitalist?" The suddenly attack came out of nowhere, making him wince for a moment. Sharp intake of breath. Confusion. Astonishment. Bewilderment. No actor in the world would have been able to stage this facial expression right out of the gate the way it flashed over the fund manager's face the moment this question was asked. Movie material. Oscar-worthy. Great cinema. Great theater.

Wonderful.

Pity it was over so quickly. Just like the whole interview we did with Christoph Frank on an office floor of an inconspicuous postwar high-rise just a few steps away from the Frankfurt Stock Exchange. The economics graduate had certainly never seen himself as a "capitalist" before. A cool-headed investor, sure, he was certainly that. A man of integrity. Decent. Proper. Rational. And anyone who still doubted that was the case would have been convinced following this horrified look of dismay at the latest: you can trust this man with your money.

Capitalist – that sounded like Goliath. No, Frank prefers to be David. He wants to be better than the stock exchange, cleverer than the powerful indexes. But he doesn't want to overdo it either. Because Goliath gets up again every morning, growls and groans like a bear, stamps and blows like a bull, fights and pushes his way through the day – from 8:00 a.m. to 10:00 p.m. Frankfurt Stock Exchange time, through bear and bull phases. Everything is settled at the end of the day – and then the victor casts a glance upward like David, to

They belong together like the bull and the bear: David and Goliath, a biblical drama. Richard Hess creat-ed this sculpture in 1982. It stands in the pedestrian zone, on the Zeil shopping mile.

whom artist Richard Hess erected a monument on Frankfurt’s Zeil promenade in 1982.

What will come next? Even more DAX, M-Dax, Tec-Dax?

With Christoph Frank, even a small investment enables one to feel like a capitalist; like someone who invests their money “according to a plan” in order to “get back a sum that is greater than before the investment,” as our shared Wikipedia defines this species, the capitalist. That doesn’t sound at all bad.

Even Nobel laureate Eugene Fama, whose share selection models Frank addressed in his dissertation, would probably have had nothing against this definition. Fama is an American of the Chicago breed who continues to believe undaunted, even after the financial crisis, that markets are rational – in sharp contrast to Christoph Frank, who is more likely to believe in the rationality of his investment strategy than the rationality of the markets. This must have been why he was totally stunned when confronted with a term that, in a flash, associated him with something approaching a “speculator” in his eyes. Well, he really isn’t that; he approaches things in far too considered a manner for that.

In Germany, with its humble shareholder culture, the term “capitalist” still sounds disreputable. That’s very deep-seated. And if there’s one thing that Frank, just like our other interviewees, doesn’t want to be, it’s to be considered untrustworthy. Thoroughly decently, intelligently, reliably, professionally – that’s how we’d like to behave toward one another, and toward colleagues and customers. Experience also teaches us that there’s no alternative to that.

Frank is one of the two executive partners of pfp Advisory GmbH, which manages a fund for German shares. For many years, he and his business partner also managed the model portfolio of the well-known Platow Verlag publishing house. This portfolio was introduced a quarter century ago – like the New Market that once cast a spell over him as a young man.

But let’s start at the beginning so that it could become part of a script.

“This model portfolio has been around since 1996 and was largely shaped by us,” he says, referring to when first his partner Roger Peeters, from 1999 to 2006, followed by the two of them, from 2006 to 2008, and then Frank, from 2008 to 2016, managed this model portfolio as the heads of editorial at the Platow Brief, which remains legendary to this day.

In 2006, a cooperation with the Deutsche Bank Group led to an investment fund that developed the German shares expertise already demonstrated via the Platow model portfolio into a tradeable product. Frank has managed the vehicle known in the scene to this day as

The Struwwelpeter Museum is one of the attractions in Frankfurt's new old town.

1991: "Each person consists of an infinite number of details that only occur in the world once."

Gert Voss (1941 – 2014), German actor

the "Platow Fund" since the beginning of 2006, from 2006 to 2008 and together with Roger Peeters once again since 2016. It has been called the DWS Concept Platow fund since 2018. It was a success story of – shall we say – capitalism in Germany and has been so for almost a decade and a half now.

In any case, the American rating agency Morningstar has been awarding this Germany-focused fund its best rating of five stars for many years. And Frank and Peeters' commitment has scooped them a large number of prizes in general. The rating is accurate.

"We aren't employees of DWS, or of Platow," says Frank. "DWS is the capital management company, while the name of the fund comes from Platow. Apart from that, we operate completely independently." Although DWS, Platow and pfp benefit from one another, one thing is clear: whatever results are achieved are to the credit of these two executive partners in every respect.

Each of them can look back on over 20 years' experience. "On a personal level, the New Market shaped me far more than the financial crisis," says Frank. He was really gripped by the "Russia crisis," when that great country threatened to drift into bankruptcy under President Boris Yeltsin. He subsequently experienced how newcomers to the stock exchange achieved first-day trading profits of 200% on the New Market – something that's unimaginable now: "Younger colleagues look at me in disbelief when I talk about that. There were companies who had increased their value sixfold within a year and then plummeted to 5% or less." A wild time: "There's no doubt it was really crazy. Because we didn't know how it would turn out." At the peak of the hype, a report "that a company now had its own website was enough to increase the market capitalization by several hundred million euro," Frank scoffs. When it subsequently went downhill, with companies on the New Market threatening to break up, "They continuously invented new key indicators to conceal how badly they were really doing," says the fund manager, still amazed at the financial directors' creativity even now. "Back then, digitalization, which is very often seen as a threat nowadays, had an inspiring effect on everyone," including on him, "as I was in the midst of this hype myself. I was fascinated." And so the young Frank paid his dues and learned his lesson, which was to steer him through all the perils in the years that followed.

"It's not enough to rely on rumors or stories; you need a very stringent investment process," he says, explaining how he and Peeters manage the fund's business. First of all, their preferences lie with SMEs. "We go through the figures. The story of the New Market has shown that that's right. We're not taken in by hot air." Mere marketing drivel won't wash with him. So much more is required for that – hard work, clever ratios and ultimately good intuition. "You can filter out the sound companies with a very strict selection process."

Directly opposite the Frankfurt Stock Exchange: anyone who looks out of its window can see that hard work is the mainstay of our economy.

By their count there are around 850 stock exchange-relevant companies

in Germany, including many zombies such as "New Market corpses" (Frank), resulting in 500 shares left on their watch list at the end. When the quarterly reports come rolling in, they then comb through these companies' figures using a diverse range of criteria, in a very resolute, disciplined way, without allowing themselves to be influenced by big names or indexes. When doing so they concentrate almost exclusively on German shares. "Initially, it's purely based on the stock exchange figures that everyone uses. But then we go over to key indicators we have created ourselves," their secret recipe, so to speak; the kind you can only acquire if you have a lot of experience. "We don't have one, all-encompassing golden key indicator, but we try to bring multiple things into balance in a systematic way." One thing comes to another like the rock to David's sling, but the deciding factors are ultimately accuracy and strength. "We look for the right momentum," says Frank. "This produces a data list comprising 50 to 100 shares."

Then it gets exciting. "We analyze it very closely, awarding each share a score which determines its ideal proportion within the fund." It goes back and forth like that, all based on a bottom-up approach. "We primarily attach importance to continuity. We expect consistency, not particularly strong growth spurts." This is also the reason for the many measurement points, no doubt. But this is precisely why something unique comes out at the end – their own piece of share history. "We have a great deal of fun," says Frank, despite the 60-hour week. Many a meeting then takes him past the stock exchange, which is based only a stone's throw away. He always needs to allow time for a short conversation with brokers or bankers. It's good for soaking up the atmosphere.

That all sounds almost too good to be true. But then comes the most convincing argument of all: "We have invested a large share of our own assets in the fund ourselves," Frank explains. Indeed, they only invest the money that they themselves want to put into German shares via the fund. No exceptions. "In this way, we also rejoice in each success of the companies in our fund in an indirect sense."

Close together:
pfp Advisory's recommendations and the Frankfurt Stock Exchange

Incidentally, they only have 2% of the fund assets invested in the automotive sector at present. "Suppliers are at 0%," Frank reports. "And we haven't done that because of some market report or other, but because our figures told us that."

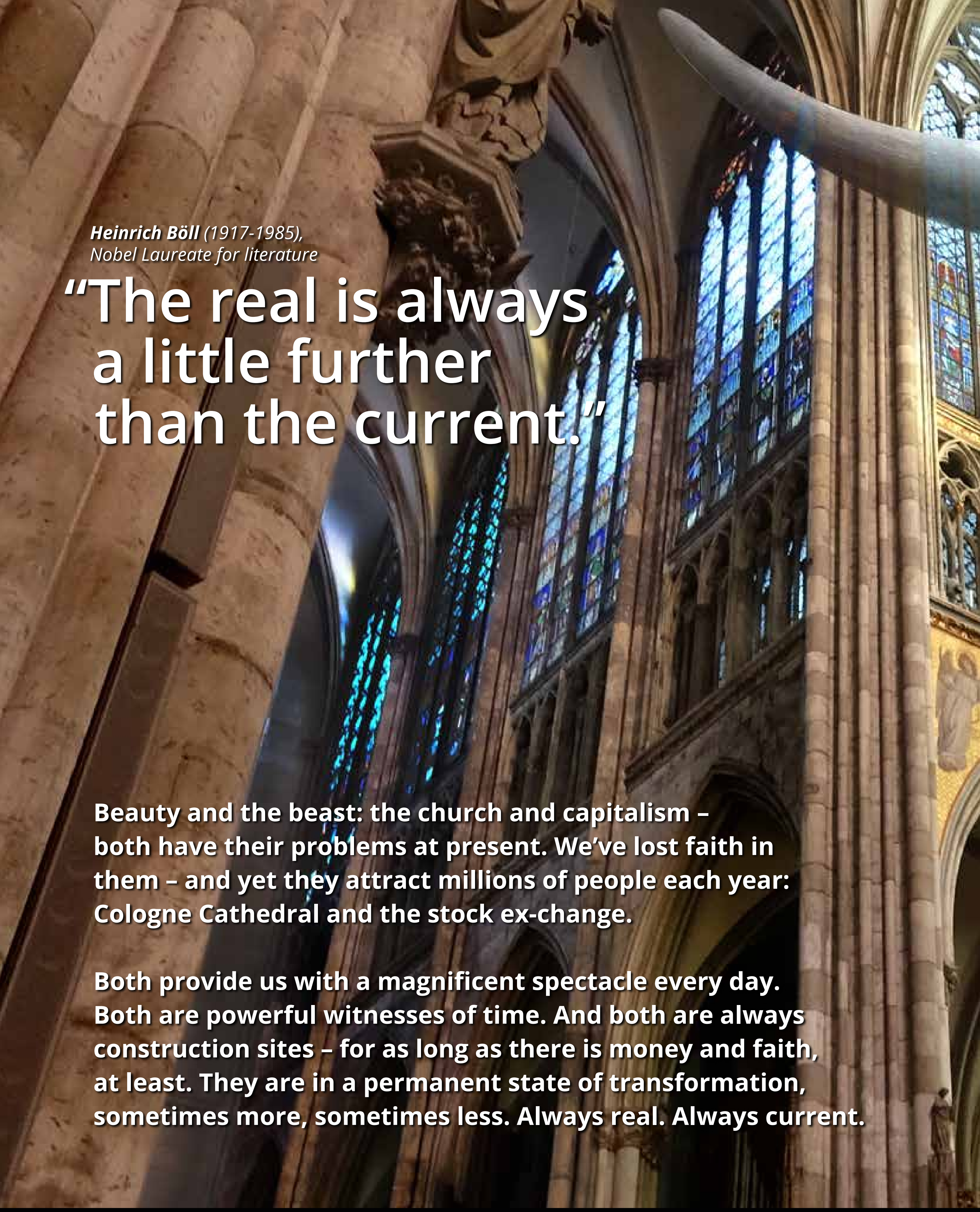
The largest commitment relates to the IT industry, of which the USU investment was also part, of course, which has brought a substantial profit for the fund. Their key indicators bring together shares that one might not credit with such high potential at all at first glance. Insurance companies are particularly well represented at the moment. "We didn't actively select that," says Frank. "That resulted from our approach."

It once all began with EUR 16 million; around EUR 200 million is invested today. "We are always 90% invested and have increased the fund assets by 75% in the last three years alone. "You can safely say the fund currently has significant assets. But one can also claim the opposite. That's not much in view of the many years of success."

Passes the Stock Exchange several times a day: Christoph Frank

So there's still room for growth. According to Frank, the investment approach can be implemented unchanged for up to EUR 500 million. Above this level, the "Platow Fund" would have reached a new plateau.

Then USU Software AG is also sure to be part of that again.

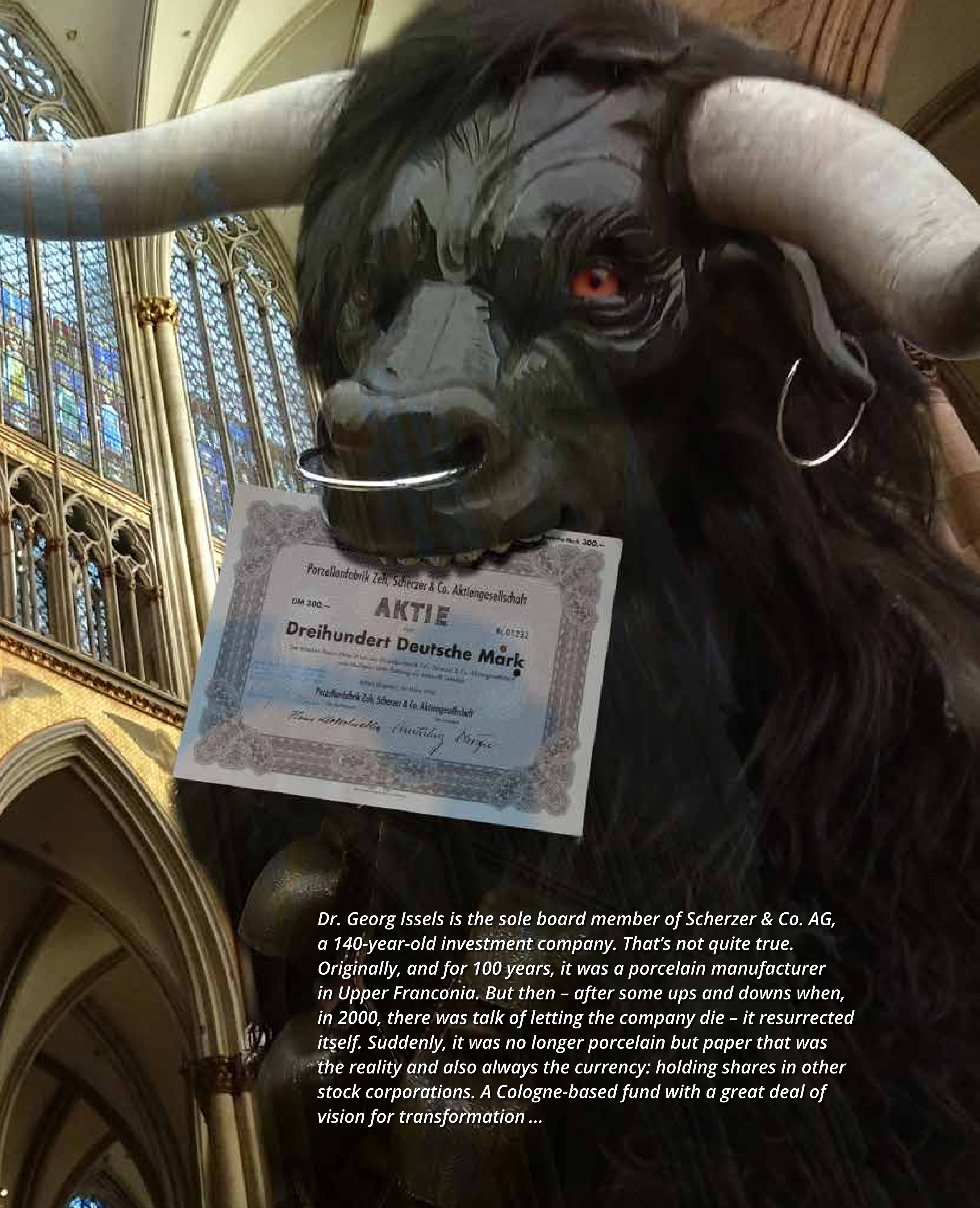


__Heinrich Böll__ (1917-1985),
Nobel Laureate for literature

“The real is always a little further than the current.”

Beauty and the beast: the church and capitalism – both have their problems at present. We’ve lost faith in them – and yet they attract millions of people each year: Cologne Cathedral and the stock ex-change.

Both provide us with a magnificent spectacle every day. Both are powerful witnesses of time. And both are always construction sites – for as long as there is money and faith, at least. They are in a permanent state of transformation, sometimes more, sometimes less. Always real. Always current.



Dr. Georg Issels is the sole board member of Scherzer & Co. AG, a 140-year-old investment company. That's not quite true. Originally, and for 100 years, it was a porcelain manufacturer in Upper Franconia. But then – after some ups and downs when, in 2000, there was talk of letting the company die – it resurrected itself. Suddenly, it was no longer porcelain but paper that was the reality and also always the currency: holding shares in other stock corporations. A Cologne-based fund with a great deal of vision for transformation ...

SIDE

It's enough to frighten anyone. "Negative interest on current accounts of EUR 5,000 or more" was the headline in the finance section of the FAZ on January 21, 2020. And that same day the business page responded in letters that were no less bold: "Germans have their doubts about capitalism."

Is this the end of a world we have known for, let's say, 140 years?

Back in 1880, the "perfect cathedral" was finally completed in Cologne. By experts. Its construction had cost EUR 1 billion in today's money. And because the budget was no longer sufficient, a lottery was set up. It's still around today. Like the cathedral the whole world knows as the Cologne Cathedral and that attracts millions of people every year. Despite – according to market research agency forsa – growing distrust in the churches.

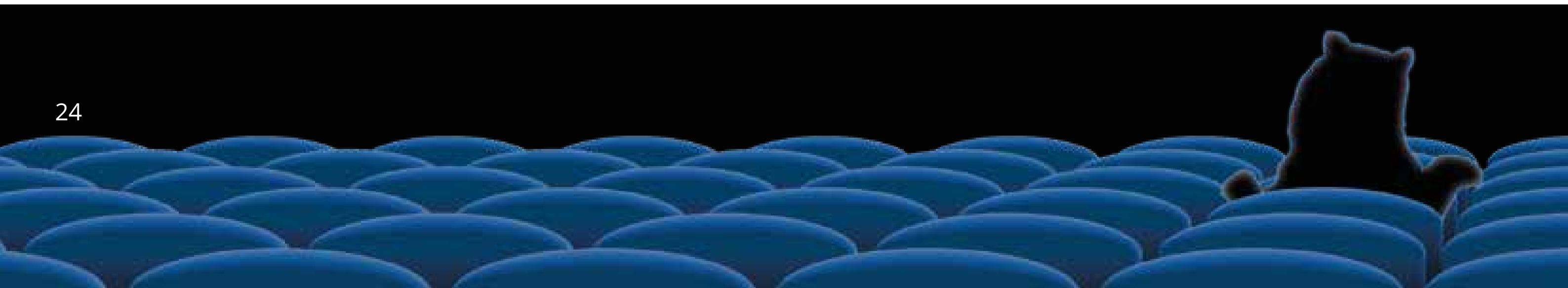
For example, only 14% still support the Catholic church, the mother of Cologne Cathedral.

Back in 1880, six wealthy citizens of the Upper Franconian town of Rehau got together to establish a modern porcelain factory. They aren't experts, but real entrepreneurs. The company grows so well that it needs more and more money. In 1910 it becomes a stock corporation. It's still around today. However, it no longer has anything to do with porcelain and productivity, but rather with shares – and trading in them – instead. This business also attracts millions each year. Including because of the negative interest rates. And despite – according to communications agency Edelmann – deep distrust in "capitalism."

Permanent transformation: Cologne Cathedral

Only 12% of people in Germany still believe in capitalism as the mother of their prosperity.

Here, two things are running side by side – away from one another. These are all-time low levels of faith – despite a boom in visitors to the cathedral, which 20,000 to 30,000 people from all over the world admire each day, and despite the all-



BY SIDE

time highs on the stock exchange indexes.

In any event, one world being torn apart is “capitalism,” a word that has always resonated with disdain since the days of Karl Marx. It is a world in the midst of a permanent transformation. However, it is typically also the world of software houses such as USU, for whom transformation – we currently call it digitalization – forms the basis and potential of their business. What we discover today is that this is also the field of activity of very special fund managers. They form a parallel world to that of the software, so to speak.

> “Faith makes markets.”
>
> *Georg Issels, fund manager in Cologne*

One such fund manager is Dr. Georg Issels. He is the sole board member of Scherzer & Co. AG, whose origins lie in the porcelain business described above. He knows that our world is “permanently undergoing fundamental change.” That is why he and his people essentially focus on transformation.

– What was once hard, tangible work is no less strenuous today, but is intangible.

– What was once called productivity, and something that Issels had the opportunity to analyze closely during his business administration degree studies in Cologne, is now permanent interactivity. On the screen. On the smartphone. In communications – including and very especially with former fellow students. That’s how the software people do things, too. Always an ear to the market, to the processes inside and outside companies. They can help with that. With knowledge. With software. With advice and assistance.

Even as a student, when online trading was still the stuff of dreams, Issels often frequented the Hahnentor branch of the Sparkasse Köln-Bonn savings bank (where else?). There was a Reuters financial news service terminal there. Here, you could get up-to-the-second updates on the goings-on on the stock exchanges. A fascinating world he discussed in depth every week at a stock exchange club at the Business Administration Institute of the University of Cologne with fellow students who were no less committed than he was. Pure interaction. Indeed, the students were even allowed to trade with real money – DM 50,000 provided by a once visionary WestLB – that they sought to increase. The Institute was allowed to keep the annual profit, while

In Cologne, a lottery ensures that the cathedral overcomes any change, even climate change.
(© Hohe Domkirche Köln, Dombauhütte (Cologne Cathedral Building Office))

Permanent information: fund manager Dr. Georg Issels

The flying car: a monument in Cologne hurries toward realization. The first registered flying car is to come onto the market in 2020.

Perhaps a less welcome example of transformation in the picture on the right?

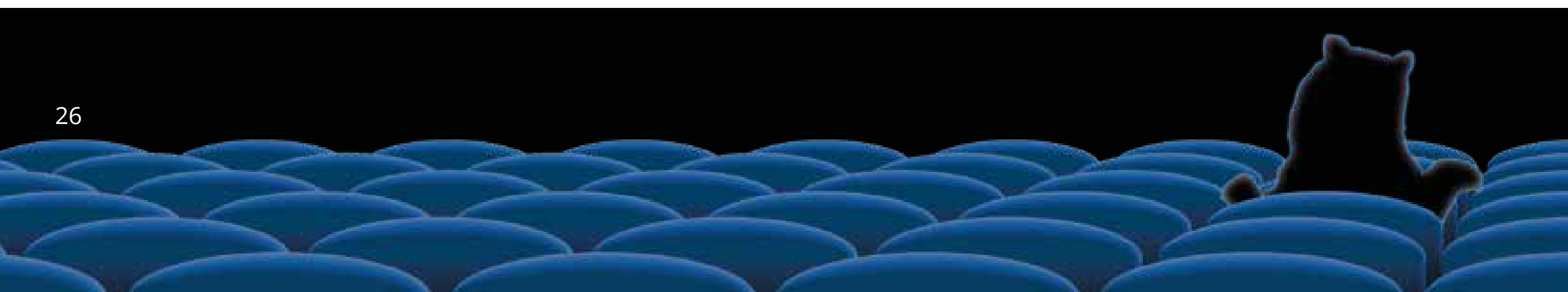
the Landesbank made up for any losses. Primarily, though, they familiarized themselves with a changing world – along with the crash of October 19, 1987 and the Gulf War of 1990. They knew from their own experience what short selling was. They saw the coat of the bear and the beast in the bull. They saw how world events were mirrored in the prices. They saw how the prices moved in zigzags and yet formed steep curves. Upward. Downward. Crazy in the short term. Rational in the long term. They learned that. And Issels became a broker. At the Sparkasse. Pushed start-ups toward IPO. On the New Market, the most important arena for transformation at that time, which then suddenly cracked – incidentally in the middle of the stock market year for what is now USU Software AG, in 2000. That was very certainly a formative experience. To be among the survivors 20 years later is a great achievement.

Because the revolution devoured its own children. Issels survived in just as crazy, almost irrational a way as USU Software AG. Both triumphed over the current. As Cologne Cathedral has done for over 800 years.

Both drew a lucky ticket. A fairy tale from 2001.

The "old" USU, in the software business since 1977 and established on the New Market since July 2000, merged with a start-up by the name of Openshop, which went public in March 2000, lost its founder through a plane crash and suddenly found itself without a business purpose. A company with a solid past and a company without its own present came together – on the

Side by side: filing cabinet and screens – in the office of Dr. Georg Issels



initiative of Landesbank Baden-Württemberg, LBBW. The future had won. An extremely healthy company. Ideas for the future. Money for the future. Pure power.

That same year, 400 kilometers north, financial investor Veit Paas was talking to Georg Issels about a job. Issels was to become a board member at Allerthal-Werke on Cologne's Friesenstrasse. But the company is not what you think when you hear its name. That was in the past – "Beer and rubber," explains Issels, who saw part of himself in his interlocutor: "We were both brokers." And so Issels moved from the Lower Rhineland to Friesenstrasse, 15 minutes' walk away from the cathedral and in an area of Cologne that combines the industrial charm of the Gründerzeit with the harshness of the modern age. The area was like the business that he was to run.

Allerthal-Werke had just separated itself from everything that still looked like industrial production. It became a modern managed fund, a company that focused on undervalued SMEs and invested in them. Issels became a board member. His first task: he was to look after a company in which Allerthal held some shares and which had decided to dissolve itself.

The company was what is now Scherzer & Co. AG. Long without a business purpose of its own, that is porcelain production, the then 120-year-old company actually only had one asset left – it was a stock corporation whose shares were traded on the prehistoric telephone trading system. That was all. For ten years.

Instead of dissolving the company, Allerthal-Werke acquired the overwhelming majority of the former porcelain manufacturer, and Issels became its only board member. He has been that for almost 20 years now. Under his aegis, the company changed into a fund that, just like Allerthal-Werke, focuses on undervalued, possibly also troubled companies and helps them through the crisis. With profits that are reflected in Scherzer & Co. AG's figures.

While the agonies of transformation are described at digital conferences and politicians speak of things they knew nothing about until recent-

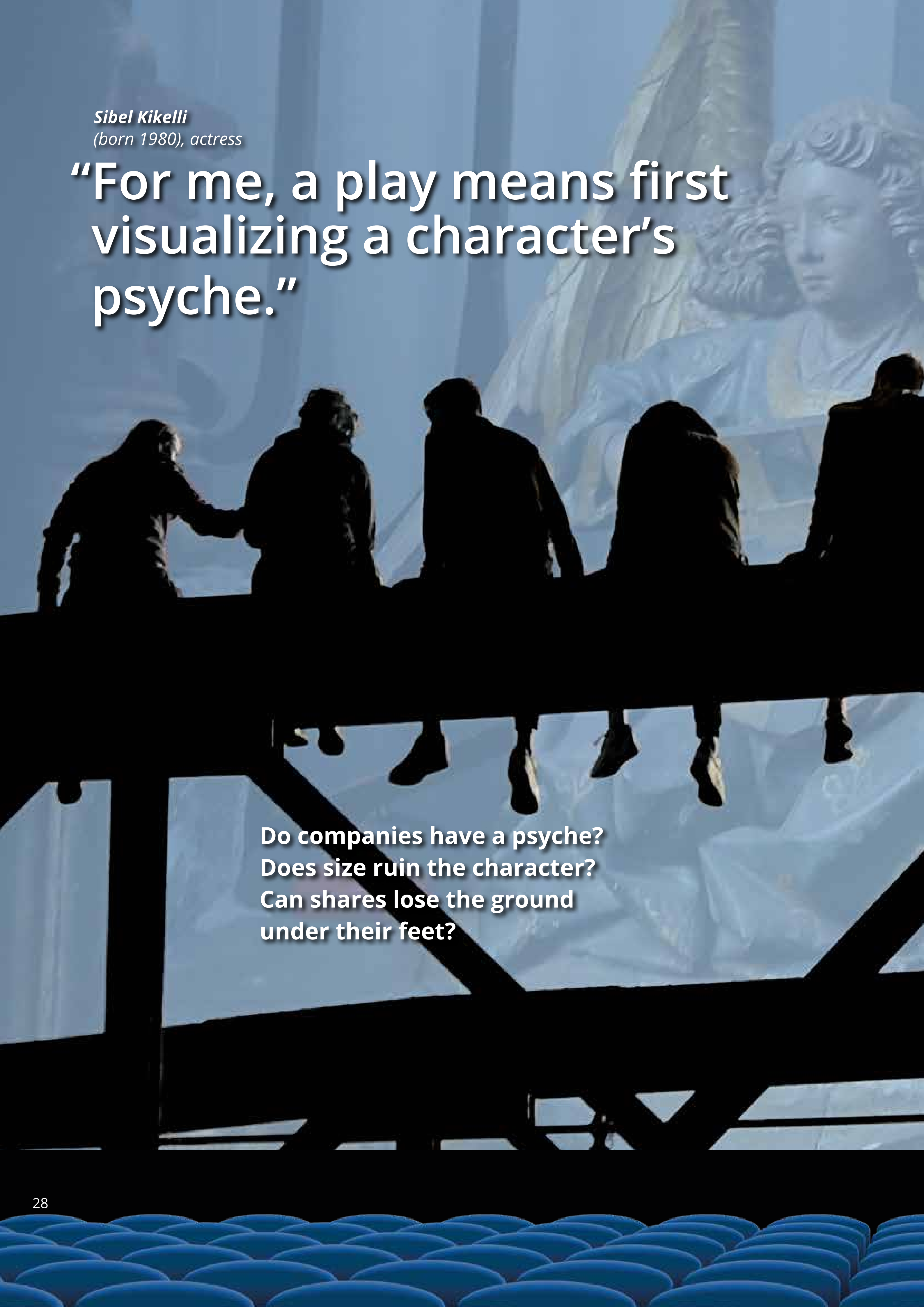
ly and are only managing to set in motion in their own parties with a great deal of effort, companies such as USU Software AG and funds such as Scherzer & Co. AG can only wonder. Having emerged from a transformation themselves, masters of change, they know that only good, hard work leads you out of crises – with a pinch of esprit and in the good old tradition that is as old as Cologne or the Christian faith.

What Issels and his people achieve, for example, is what his teacher, the great Cologne business economist Hans E. Büschgen, once preached to the banks. It is their mission to perform transformations – so ultimately to effect change. And this – in a different way – is actually also the role of the churches. Yet now both banks and churches are primarily occupied with their own spiritual transformation. And according to the people they are not especially good at that. But this does not undermine the cathedral. It still stands for strong faith, immense endurance – and for permanent transformation.

It is said that the people of Cologne are only frightened of one thing: that scaffolding will no longer cling to the church. Because that would mean the money has run out. However, then, globally speaking, there would be no more capitalism either – and no transformation. Instead, the newspapers report one record after another on the indexes.

The faith will return – the faith in transformation. The old saying holds true: only change endures, as we know.

Age is no protection against modernity and creativity. An example: Cologne architect Gottfried Böhm created the landmark WDR Arcades in 1994. He was 74 years old at the time. On January 20, 2020, the legendary architect celebrated his 100th birthday.



Sibel Kikelli
(born 1980), actress

"For me, a play means first visualizing a character's psyche."

**Do companies have a psyche?
Does size ruin the character?
Can shares lose the ground
under their feet?**

Figures are characters. On the stock exchange, certainly. For Dr. Elisabeth Hehn, it is a gigantic stage on which mathematics plays the lead role. The pure, angelic concept.

It primarily takes shape in SMEs, showing itself in the ups and downs of the prices – and suddenly becomes very, very human.

IN ONE ANOTHER

No longer bull against bear, but man against machine – is that the future on the stock exchanges?

It began with the securities exchanges in the USA no longer calculating in fractions, but rather in cents. That was 2001. High-frequency trading started. It began with the rocket scientists losing their jobs when the Berlin Wall came down and being hired in the world of finance. That was 1989. Trading in highly complex derivatives started. It began with computers suddenly shaking up the stock exchanges. That was 1987. Machines finally took over the business. In short: digitalization is an age-old story.

The journey into past beginnings could continue indefinitely. What's the point of that? It always ended with the world of finance...

"... [hailing] the invention of the wheel over and over again, often in a slightly more unstable version," as world-renowned economist and presidential adviser John Kenneth Galbraith (1908–2006) once said, bemoaning the lack of imagination in the industry, which lives off its "very short memory" and celebrates even the smallest of innovations as breakthroughs. [1]

How pleasant it is when there is someone who thinks in "long time series," sees strength in calmness and observes the whole course of events extremely attentively. On all channels. Despite all the turbulence. We are talking to Elisabeth Hehn, a member of the Administrative Board at VIP Value Investment Professionals AG from Freienbach in Switzerland. Her customers are renowned "institutional investors," such as life insurers and pension funds with a preference for the well-known and yet so anonymous heavyweights on the stock exchange indexes. However, with her customers' permission Hehn and her two partners have also been dealing with SMEs since 2011 – with listed companies such as USU Software AG. "Admixtures," as the Administrative Board member calls them.

Everything is very serious. But also very dull? No way!

Because in the interview she immediately hits the ground running. The pointed answers come quick as

[1] Financial Times, January 5, 2009, John Plender: "Originative sin"

KNOWLEDGE MACHINE: fractured perception in the mirrored facade of the University Library Freiburg. History is reflected in modernity

lightning. She participates in, counters, draws conclusions from and brings order to every mental leap. All with intellectual vitality – she is at peace with herself. “Yes, the world of finance certainly provides a spectacle,” she says.

She doesn’t always like the superheroes of the piece, preferring to ignore them. The stage scenery is more important to her. “Mr. Trump’s tweets do become annoying over time,” she sighs, having been in the asset management business for three decades. “I was always on the quantitative side,” she tells us. “That means: calculating, calculating, calculating” – working behind the scenes, that is.

Everything is very serious. But also very dull? No way!

The figures are her world. Her opponent is the DAX. She wants her fund to be better than that. “If you work quantitatively, you can move a great deal of money with an extremely small number of people,” she explains to us. “In the past it was simple. You could guarantee the investor that you’d be above it by a factor of 1.2 or even sometimes 1.7.” In the past means when overnight money brought interest of 8% to 10%. To put it in the financial jargon: “Government bond positions with matching maturities plus call options on the DAX allowed for a participation of over 1 on the positive index performance on maturity of the guarantee fund.” In the past means when the Deutsche Terminbörse – the German futures exchange – was being established. That was 1990. “The products we developed at the Dresdner Bank Investment Group back then were literally snatched out of our hands.” A real spirit of optimism prevailed. We could do what we wanted in product development. There was little or no controlling.”

So not serious after all? No way!

No, no, she says, with complete freedom: “We behaved well and had extensive room for maneuver.” And, the way she says it, you believe her straight away. She and her colleagues did not need anything other than that. But if bureaucrats ever have the opportunity to regulate something, they invent more and more of the same thing: paragraphs. “It became less and less fun,” explains Elisabeth Hehn, who grew up in the Eifel region and lives at the upper end of Lake Zurich in Switzerland.

In 1990, she became self-employed, establishing herself “as a one-woman show,” after previously having worked at Dresdner Bank and what is now UBS. As a side note, she studied at a derivative of our higher education system: at FernUniversität Hagen, a distance learning university. Business administration was her subject – and within that everything relating to figures, primarily “banking and the stock exchange.” She was, incidentally, one of the first students here.

When something is forbidden, particularly by the state, things in every industry get all the more confused and vague. In the past, when the world of derivatives was still small,

Dr. Elisabeth Hehn, member of the Administrative Board at VIP Value Investment Professionals AG

A billboard in Freiburg – extended to include the bull and bear

fine and pure, there were "perhaps ten instruments; now so many instruments are listed that even someone who has been involved from the start loses the overview." And Dr. Hehn was involved from the start – depending, of course, on how you define start. For her, it was the stock market crash of October 19, 1987, of which a specialist American IT journal wrote at the time: "The computer did it."

Machines entered the stock exchange stage as the main protagonists. As was the case for USU Software AG, which bought its first mainframe computer at that time in order to conquer new markets such as the product business. A decision that is still in effect three decades later. USU also thinks in "long time series." And in a sense it also entered the "asset management" business back then, with applications for managing its customers' computer inventories and other IT investments. And it is still in this business today – with a far larger commitment and very many more key indicators.

1872: "We learn to divide the entire stock exchange community into the knowing and the uninitiated; into priests and laymen."

Leipzig magazine "Daheim" in a report entitled "Aus der Welt der Börse" ("From the World of the Stock Exchange")

Hehn likes to smile. She likes humor. What she doesn't like is the excessive controlling from which the world of finance suffers. "Providing silly explanations to people who don't understand what you do at all – that isn't so terribly fun." Understandable, very understandable. Nobody likes that. But what is one to do in a world in which machines are increasingly taking command and figuring out, based on thousands and thousands of criteria, that one should invest in USU shares?

"When searching for key indicators one can use to select companies, I might be able, with some effort, to think of maybe 20 to 30 categories," she says, but not the thousand the notification filters of Bloomberg and Co. work with nowadays. But they are sufficient to portray large corporations in such a way that investors can base their investment strategies on them. USU's software tools do something similar, too. They also sift through companies' IT investment assets based on all possible criteria, such as software licenses, service contracts, equipment or financing. And what the USU tools determine automatically is then compared, for example, with what is in their software suppliers' electronic directories. This is about the number of licenses that are offset against one another.

Machines don't necessarily fight one another in this context. A balance is sought here. A statement that is certainly not true in the securities business, however. Here, the machines even play their own, completely independent game. "Nowadays, if you think you're buying USU shares, for example, then it's machines that are carrying it out. There are no people there anymore. And if there are no real orders, then the machines fight against each other, and everyone wants to take small arbitrage profits home with them," is how Hehn describes the process.

While USU's software machines do everything they can to find out the truth about IT investments and obligations, in the securities business there is "a certain kind of front-running that can ultimately only be proved with great difficulty, if at all." So no transparency, then. Very frustrating for investors: "Anyone who has a major order processed and would subsequently like to know via which stock exchanges the transactions took place very quickly receives a list of a dozen places that executed partial orders. And then it can even be the case that the orders were so poorly executed by the machines that one no longer wants the position at all." Frustrating. Only the machines win there.

In short: machines and markets are something other than machines and companies.

– In USU's company software world, the structures are firmly joined. Real values stand behind them. As a rule, one is in harmony with the other. At most, results must be reconciled with one another.

– In the world of capital, a brutal competition prevails in which machines and algorithms fight over tiny advantages, nonstop, around the clock.

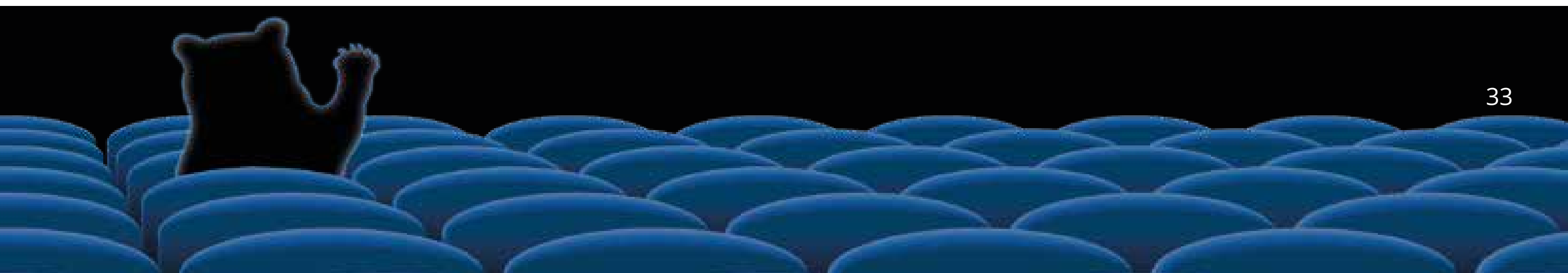
"There are no longer any notification-free phases. Anyone who collects all the data must adjust their portfolio at least once per day," says Hehn. Assessing the notifications then shows up the shortcomings of the stock market machines, which go through each piece of news again and again. When, for example, preliminary figures are published, the price goes up or down accordingly; when they are subsequently confirmed, the prices then change once again. One can then see the "constraints and stupidity of machines." Nothing about the factual situation had changed.

But what does experience teach us? "First of all, that you can't do without people. Somebody has to assume responsibility." Fine. And then she says something really astonishing. She names the figure of figures: "For us, figures are 99.9% significant." That means management plays no role in her decisions, neither does the business model; only the figures count. "But that only applies to the major shares such as the heavyweights in the DAX." She knows with them that all the available information is factored into the price. In the case of smaller companies such as USU, however, she is very interested in the management, the employees, the projects. In this context everything becomes more human, not more automated.

Figures from the "Last Supper" by Franz Xaver Hauser in Freiburg Minster

Having said that, Hehn's VIP fund searches for precisely these tightly knit structures in the prices, focusing on permanence. She focuses on between 25 and 40 shares. No more. They are studied in depth. With figures. With insights that no computer has in its head: experience. "No machine can do that. If one looks over Trump's little games," and how the stock exchanges react to them, then that is all designed only to cause confusion. "What he does is ultimately meaningless," she says. "Because in the long term the prices hop back to where they belong."

She also doesn't miss the opportunity to go to USU World, USU's annual specialist conference. And years later she still remembers exactly what was discussed there. With one another, naturally.



__William Shakespeare__ (1564 – 1616),
English playwright

“All the world’s a stage, and all the men and women merely players; they have their exits and their entrances.”

Twitter, counters, temperaments. Maths, machines and coins. The world between figures and lines, between artificial and human intelligence, who can still capture it, circle it, understand it?

Elmar Baur is a partner at FUNDament Capital in Königsbrunn, near Augsburg. This is home to the world's largest globe based on historical cartography: the Mercateum. Where once it was sailing ships chasing one another around the globe, now it is computers and notifications. Reason and emotion. Back and forth. Now you understand the world!

AROUND ONE ANOTHER

Since the crash of 2000 and the financial crisis of 2009, the stock exchange and the Germans have been drifting apart again. Why aren't we utilizing our experience – like Elmar Baur does, for instance? There's no need to have done quite as much as him; a professional with a heart.

We are in Café Müller. In Königsbrunn. Near Augsburg. We are astonished. We are in chocolate paradise. All around us upbeat conversations about family, friends, celebration cakes.

An ideal atmosphere for taking a break.

The cheerful building is reminiscent of the artist Friedensreich Hundertwasser, who lived out his own vibrant gingerbread style, extending it into architecture. He died in 2000. We suspect that the turn of the millennium will also define our conversation today. It had been a nonstop year which crossed the four-digit date line like clockwork and then really let rip on the stock exchanges.

It was the crazy year of USU's IPO and that of 141 other companies. Many went with the trend, only a few continued to buck the trend. Like USU. No matter. We are certainly the only ones here – in this café on this wet and cold October day – who will talk about shares, the stock exchange and crashes. That would have been different 20 years ago. The stock exchange was the big story everywhere back then. Since then, the only thing that moves the Germans is viscous cocoa mass. Chocolate, rather than Dax and Dow.

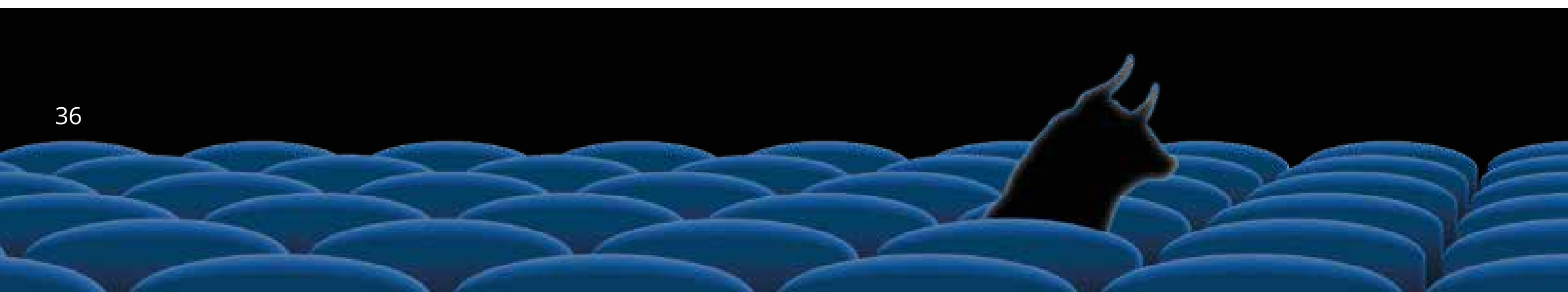
The stock exchange stage and private audience are drifting apart.

Radio silence.

Our guest is here. Elmar Baur, born in 1967. Together with Ralph Blum, he is a partner at FUNDament Capital. Behind it is FUNDament Total Return, a fund that primarily focuses on SMEs, we're told. Great. What fundamental new things will he be able to report to us?

But then any thoughts of a manager who moves millions, targets indexes, stares at stock exchange data, pushes shares, loves his fees and otherwise acts the bon viveur, disappears. But none of our interviewees was like that. Why should Baur be? All real people – more real than all the quants and Trumps. Practically philosophers.

Baur is someone with a lot of heart. He talks about his hometown of Königsbrunn, which has long been within the catchment area of Munich, has 30,000 inhabitants, has everything one needs for family life, and "also attracts investors." He is married to the daughter of a local company founder and mechanical engineer who continues to tinker with innovations even at an advanced age. A Sudeten German who



First controversial, now well liked:
Café Müller in Königsbrunn

came to the Königsbrunn area as a young boy, married in Frankfurt, lived in Brazil and the USA, and finally made his way back to Germany.

One senses that fate is no stranger to Elmar Baur, who came from a more lower-middle-class background himself. He has great respect for life achievements. When he asks after USU, in which the fund holds shares, he is above all interested in the corporate culture. He knows from his own experience that culture is by far the greatest and most lasting motivational force in a company. He knows, because time and again throughout his professional life he has seen it as something that is endangered rather than encouraged.

Now we are all ears. The chocolate paradise has disappeared.

He trained at Siemens in Augsburg in the 1980s. He was an apprentice electrical engineer. After that he studied for a degree. He became an industrial engineer. During his degree studies he worked, for example, in production at NCR, Fujitsu-Siemens and Matsushita.

His dissertation then somehow led him to the east – to a ceramics company in Saxony which supplied the Eastern bloc with cabbage vats during the German Democratic Republic period. That was in the small North Saxony community of Dommitzsch on the river Elbe. The political changes in the GDR brought an end to the cabbage vats from Saxony. Baur saw how the employees had to adapt from one day to the next, so to speak. From then on they produced special tiles which were to be used to restore historic buildings. And there were more than enough of them in the new German states, even though the quantities were small and the production very specialized. He was deeply impressed by the people’s high level of motivation. One might almost think he would consider the digital transformation trivial compared to that.

Then in 1995 he was discovered by Deutsche Bank, whose culture back then was more that of a financier than a banker. There was a “workout” unit in Leipzig that – like a dozen or so others in Germany – was involved in restructuring ailing

Elmar Baur, FUNDament Capital GmbH

In chocolate paradise

companies. “Deutsche Bank was really creative in that sense.” He learned about a whole host of tools and methods with which to attempt to revive struggling firms. It didn’t always work.

Before he worked there himself, he had learned the business from scratch as a trainee at the bank. He stood at the counter, sold building loan agreements under a “large amount of pressure to sell,” and helped people invest money or obtain credit. It had little to do with electrical or industrial engineering. But then he became a restructurer. “That was like private equity for a limited period.” Here, he was exposed to widely contrasting corporate cultures for three years. Exciting. But what he also saw was that West German entrepreneurs misused the East German companies they took over from the Treuhand (the trust agency established by the government of the GDR) as a vehicle for subsidizing their West German companies. One senses how this still rankles with him, himself a West German, to this day. “We tried to thwart these machinations,” he explains.

There are certainly also good bankers, we think with all of our preconceptions, until we realize that he isn’t a banker at all of course. He’s an engineer who was clawed in by business administration and even accepted into its innermost circle: “Then I went to a public auditor in Berlin. I was actually supposed to deal with restructuring issues there.” But then the New Market thundered into the world and turned everything on its head. “All we ever did was support IPOs.” But the glamor surrounding the New Economy didn’t last long. Baur immersed himself in a scene in which the future mostly consisted of empty office floors that these start-ups had rented – in the expectation of soon hiring hundreds, or thousands, of employees.

Not a bit of it.

The bubble burst. “For us, it was first and foremost just business,” Baur says. “But we also believed in the business plans in the beginning. Nobody thought the bubble would burst; after all, we had no experience of this.” Now he had gained this experience.

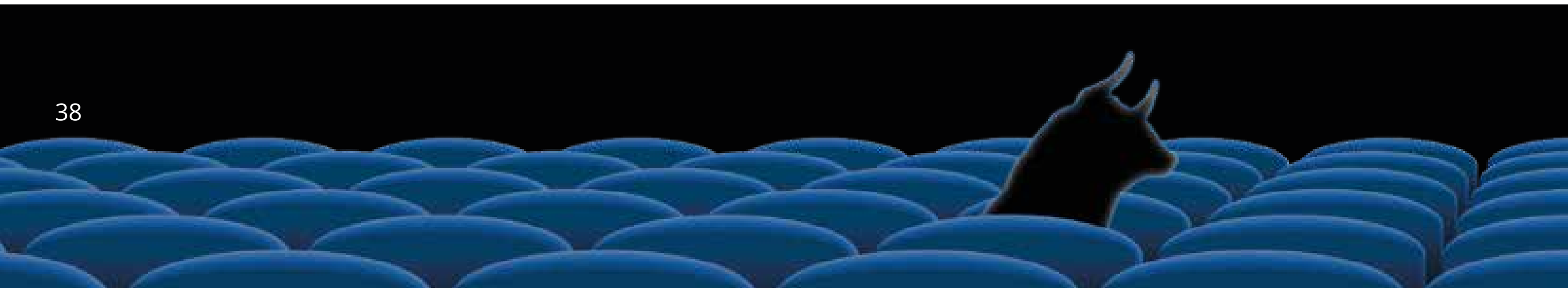
Meanwhile, Baur had received an offer from Munich. From a large German television broadcaster. He was to take care of investment management there. At the time of the New Economy, the broadcaster had invested in a number of start-ups, some of which turned out to be start-flops instead. “We had to wind most of them down,” explains Baur. “I remember one day. It was December 23, 2000…”

There was, for example, a very prominent start-up based in Amsterdam – the trademark was crawling ants – that was requesting growth financing. Baur was to examine this. As time was pressing and it was just before Christmas, he


WIRTSCHAFT

Jeden Tag ein Crash

DIE ZEIT, October 19, 2000



and a colleague flew to the city of canals in a private jet: “An impressive building in the best location.” The management had rented six or seven stories. The business model was called “power shopping”; a comprehensive consumer purchasing lobby was to be created. Hurrying ahead of demand, the company had already made generous purchases – without any specific customers. “Every cent has been wasted,” was the devastating conclusion after one glance at the books. And in 2002 the company vanished into thin air – but not without leaving behind the stench of a scandal. But that’s a different tragedy.

Because there was enough to do within the broadcaster itself and its investor environment due to the “Kirch bankruptcy.” Baur was now wholly in the restructuring business; one wave of economies followed another. It really got him down when he eventually had to let employees go. Yet he was astounded at the professionalism with which those affected accepted their fate. “I was deeply impressed by that,” he says. And so he fought his way through until he could no longer bear the hypocrisy of the senior management. He went on parental leave.

Time-out.

Baur had had to watch time and again how the employees on the bel étage were taken to the airport by helicopter, while he had to prepare for the next round of savings. That was too much; quite simply “morally questionable.” They publicly preached water and secretly drank wine.

Now we’re in 2004 and it wasn’t long before he had his next job – in the cable business. A complicated story involving destruction, privatization and monopolization, but highly exciting – with extremely professional financial backers in the background. His task here was to develop investor relations. However, this was not about shares, but fixed income. There were new instruments such as PIK (payment in kind) bonds. “Here, the interest is simply added on to the bond.” An instrument that is not without risk and one that is actually only used right before the IPO. Even more crafty are PIK toggle notes, where one can decide whether to pay interest or add it to the debt.

Everything appeared to be going well until 2007/2008,

when the financial crisis rolled around the globe. Now he and his colleagues could show off their skills – especially after they saw that one of the financial backers was Lehman Brothers. That looked like the endgame. Yet they got off lightly.

Turbulence in the press

When Baur left this company after ten years, everything was decided. His IR job was done: the IPO and sale of the company. He bowed out. Baur: “I wound myself up.”

Endgame.

Soon after, Baur became a partner at FUNDament Capital. In Königsbrunn. Near Augsburg. A solid business – as the name says.

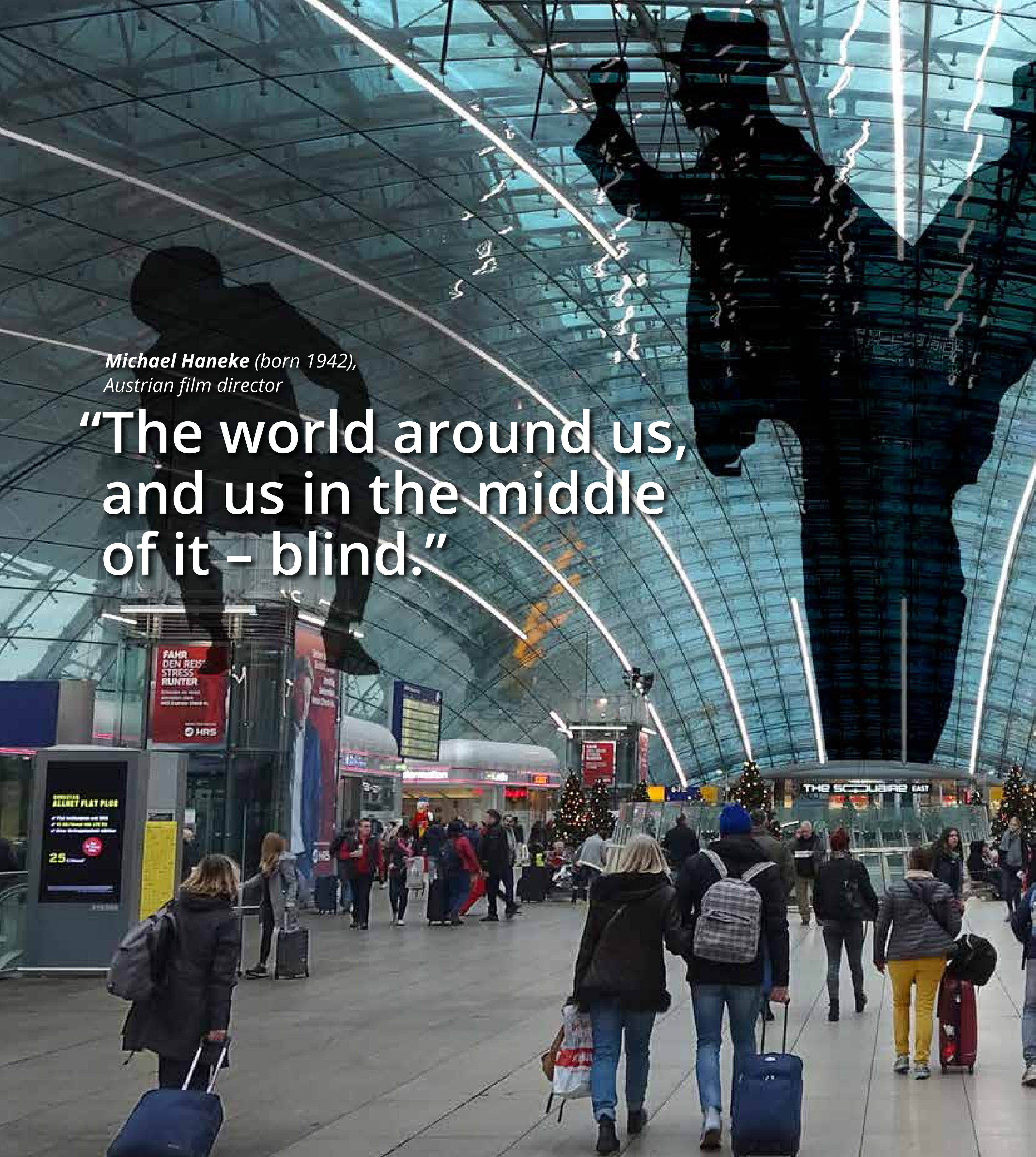
With this name you can only invest in companies such as USU Software AG. Anyone who – like him – has seen everything and experienced so much knows that neither the grand mathematics of the quants nor the theatrics of the Trumps define stock exchange events in the long term. Neither is it the case, of course, that one should simply just succumb to the indexes, as the ETFs, the exchange traded funds, do. “We consider it bold to invest there,” he says. “You let yourself in for a seesawing market. When it does down, the entire market is sold out, regardless of whether there are also good shares buried underneath. And the spreads between buy and sell get wider.”

If they’re going to operate in the world of equities, then he and his partner Ralph Blum would like to have solid ground under their feet. For the chocolate show there is Café Müller. After two hours’ intense and exciting conversation it has our attention again.

Time to buy chocolate for our loved ones back home.

__Michael Haneke__ (born 1942),
Austrian film director

“The world around us, and us in the middle of it – blind.”



Can one blindly trust in shares? We believe in technical advances. We believe in the great achievements that we, mankind, have accomplished time and again up to now. But shares? That involves money. That makes us uncertain.

Peter Scheufler is an individual shareholder – the second largest at USU Software AG. He is an entrepreneur who – trusting in the opportunities offered by technology and in his skills – has built up his own company. Today he is part of USU. That made him a wealthy man. But he was already investing in shares as a student. As a physicist. He trusts the laws of nature, but also those of the market.

They always come “as a double act.” And they can reach 130 years of age – depending on the current price of USU shares. They live almost 10,000 kilometers away from Germany. But they don’t have to adjust their clocks. A science fiction film?

FOR ONE ANOTHER

Let’s begin with a really long sentence. A sentence, as if from the voice-over of an exciting thriller.

The script requires takes with scenes sweeping through and over the facilities of Frankfurt Airport, while we hear the sonorous voice of a narrator: “When couple Susanne and Peter Scheufler exited the plane on this Saturday in December 2019 to continue their flight toward South Africa and then on to the island of Mauritius following a short stopover in Frankfurt, little did they know that the world’s first jet aircraft had lifted off the ground here 80 years earlier. Shortly before the beginning of the Second World War, in which the “Heinkels” no longer played a major role, however.

Nevertheless: this first flight was a groundbreaking German achievement. Less for the military than for civil aviation, which can now pack up to 800 passengers into its superjets.

However, climate change is now calling everything into question. Including flying. Will Susanne and Peter ever be allowed to return from their long-distance journey? Because their personal environmental footprint…” And now a storyline could develop in which the two of them have to answer to an environmental court.

The sentence: eternal exile on the island of Mauritius. Both are fighting to be able to return to their home country of Germany.

Don’t worry: whatever this never-to-be-made film would still have to offer in terms of suspense and surprises, even Greta would respect Peter and Susanne. Because their environmental footprint doesn’t look bad.

Not because Peter is USU Software AG’s second largest “small shareholder” and therefore so wealthy that he can financially offset all the emissions, but because he invests his wealth on an environmentally sound basis. More about that later.

We pick the two of them up at the exit gate in Terminal 1 and glide through halls and tunnels via escalators and moving walkways toward the railway station concourse. The two have heavy hand luggage with

Display board in Frankfurt Airport: a digital table for the whole world

them; everything else has already been checked through to the long-haul destination. They are traveling from one home to the next. All in the same time zone, but on different continents. They want to be able to communicate with their friends regardless of the time of day. They have come from Lake Constance and want to travel on to South Africa in order to jet off to the island of Mauritius from there.

Not exactly very environmentally friendly, we think, Thunberg-like. But then we discover that they have built a very energy-efficient hi-tech house. Respect!

Any spontaneous fleeting thoughts of one's own old, environmentally unfriendly oil-fired heating at home are quickly suppressed. We had already forgotten that the ICE train we had taken from Stuttgart sported a green stripe to demonstrate its climate friendliness. This trademark had only just been introduced. In 2019.

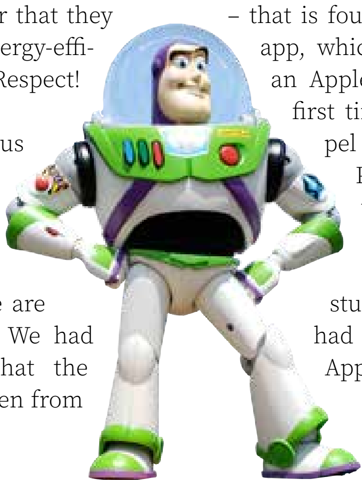
We also hadn't realized that the 660-meter-long railway station concourse at the airport with its mighty glass dome had celebrated its 20th birthday in 2019. Technical advances everywhere – and as for us, we didn't see them. It's all such a matter of course. After all, who even remembers that the mother of all spreadsheets was invented in 1979 – that is four decades ago. This app, which was installed on an Apple computer for the first time and helped propel this primate among PCs to world fame, was called Visicalc. And the beginnings of the hi-tech film studio Pixar, which had been nurtured by Apple founder Steve Jobs and has since won 12 Oscars, also go back to 1979. Toy Story (the name of its first film) made him a billionaire.

The Scheuflers haven't made it quite that far. But the inseparable couple somehow also have a Toy Story to tell. Because Peter is an enthusiastic tinkerer and inventor. As

Shareholders Peter and Susanne Scheufler

long ago as his dissertation he was able to automate the nuclear spin spectrometer and thus present astonishing results with his Apple IIe, for which he developed and built an "analog-digital converter with a direct memory access interface." "I am a developer, body and soul. I've made my hobby into a career," he says as we take a seat at a restaurant in the giant, completely unreal looking railway station concourse. An enormous film set, we think, especially now in the pre-Christmas season. A virtual world that became reality.

The camera rolls: Peter is a physicist, he says. He grew up in Mettingen, near Esslingen. He was born at home, which was an anachronism even back then. The circumstances at home were very modest. He



Buzz Lightyear from Toy Story

mostly paid for his studies himself. And he was already buying shares back then. Indeed, he even became German champion, says Susanne. We are astonished. He played underwater rugby. We are very impressed, especially as we had been completely unfamiliar with this sport up to now.

The things you can do!

You suddenly feel as though this hall has changed into a gigantic aquarium – and as for us, we are swimming and bubbling here on the bottom, playing rugby.

1978: advertisement for the Apple II

But Susanne quickly destroys this illusion.

"There's nothing that Peter doesn't try to squeeze into Excel tables," she says. Excel is the current world champion among spreadsheets. Peter uses it to calculate the age to which he and his Susanne can live from their share assets. And that does actually change on a daily basis. "I already reached 130 years once." Thanks to USU. He quite naturally assumes here that this software house will still be around in 70 years' time. "Well of course. It's


Wanderers between the worlds: tunnel vision into Frankfurt Airport

a good company after all," he says. Terra firma, firm ground, robust reality, so to speak. Stable.

Indeed, that's the reason he, Peter, sold his company to USU in 2006. And not to anybody else. LeuTek, as his company was called, had – like USU and many other successful companies – been inspired by a customer's idea. From an application.

Typical. That's how the company Intel came up with the idea of a microprocessor in 1969 (yet another 9 at the end). In the case of USU, which had already been around since 1977, a customer wanted to record its IT assets using software. That led to this Swabian software house entering the standard soft-ware business in the late 1980s.

LeuTek had been founded at that same time, in 1989. Peter had previously developed a process for a customer which automated a cumbersome procedure for starting a mainframe computer. Others had failed at this. He called the product ZIS, which was once originally called the Zentrale Intelligente Schaltstation (Central Intelligent Switching Station) in wonderfully technical sounding German, but is now no longer broken down at all. Not even on the website, every company's theater. Something for insiders and pros.

Before LeuTek and USU subsequently merged, making Peter into the second largest individual shareholder, the founder had already created a very considerable soft-

ware house. It had 50 employees. And they kept him so busy that he never got around to doing what he loved most anymore: tinkering and inventing.

His Toy Story came to an end.

He had started the business in his own apartment, in Arndtstrasse on the west side of Stuttgart. Now it had become a proper company. He thus mentioned to an insurance broker his wish to hand over the reins of the company. And the broker subsequently established contact with USU. What then began was something like a figures thriller. Because the CEO of USU was at least as good with Excel as our Peter. One audit followed another. One table chased another. Wanting to know more and more from less and less can certainly become addictive – just as a director is in search of the best scene setup. A nervous time for everyone.

At some point Peter woke up at 3:30 a.m. in the morning. He had had enough. Half an hour later he wrote a fax. Its content: now or never. The tenor: he could no longer keep this going vis-à-vis his employees. A decision was needed. But that then came promptly. Because SMEs understand one another. Indeed, that had also been the reason he hadn't sold his company to a large corporation. "Naturally I was considered a traitor at first," Peter remembers. But then the LeuTek people saw that the USU people can party and work just as well as they can. The culture shock never came. And Peter got his freedom back – first within the company, then from the company. Now he's just a tinkerer and inventor. The Toy Story could continue.

He has not only mobilized all the environmental technology for their new home on the island of Mauritius, but also automated everything it is possible to automate. "I'm lazy by nature," he says. "I invest an awful lot of work to save a little bit of work."

He therefore even developed the switch systems for the new home himself. After the local workmen had failed at that, he built the systems here in Germany, at Lake Constance. And because these devices had to be exported to Mauritius, he had to deal with customs. Customs wanted him to fill out a separate form for each individual part of this customized equipment. The Excel artist had found his master – German bureaucracy. The red tape took 36 hours for him and Susanne to work through. They made it. "We only come as a double act," he says. The two of them are one heart and one soul. Always there for one another. Almost too good to be true.

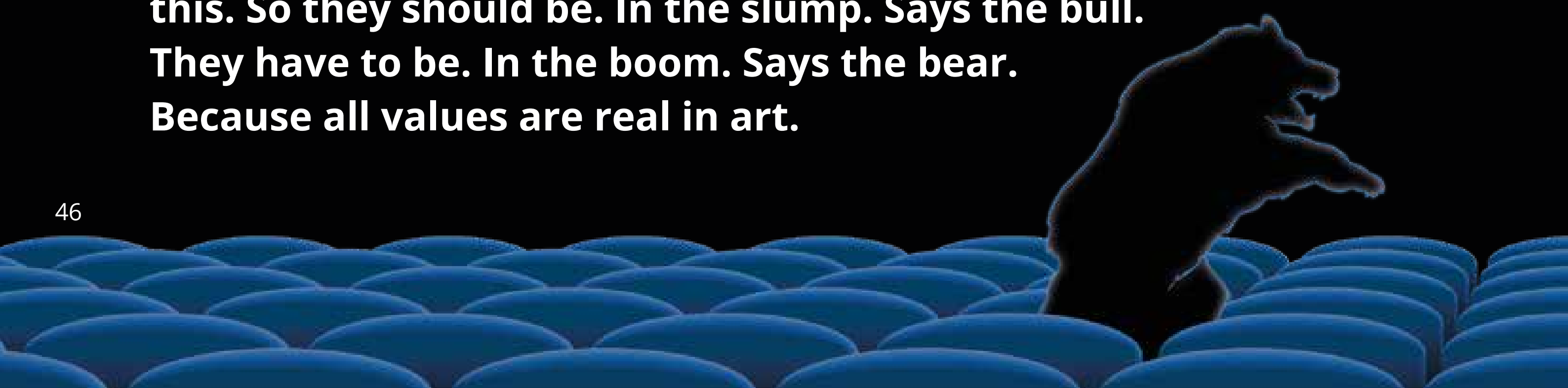
Yet all that's not a film.

Unfortunately we have to bid the two of them farewell. Our train is waiting. And it wants to depart on time. This time at least. So we'll keep it short and sweet: a happy ending.

Franz Radziwill (1895 – 1983),
German painter

“The greatest miracle is reality.”

**Are fund managers artists? The bull and the bear are at odds over this. So they should be. In the slump. Says the bull.
They have to be. In the boom. Says the bear.
Because all values are real in art.**



Dr. Hans-Dieter Klein collects modern art and vintage cars. But above all he's a fund manager. The former senior analyst is an artist himself in that respect. Here in Frankfurt. Once the most unreal city in Germany. With its high-rises. However, Frankfurt has had a new old town since October 2018. Three million people from all over the world have already come here to see the new 7,000 square meter area. Recognizing the old in the new and the new in the old – that's the true art.

CHAOS

Incredible performance, rapturous applause. Pitiful finale, empty seats. That's the tragedy of the New Market. Anyone who – like USU – also survived the financial crisis, says Frankfurt fund manager Hans-Dieter Klein, has written a success story.

The world in 300 microseconds or in 300 years. Behind one of them is data that no one sees anymore, behind the other is knowledge that no one knows anymore. Today's stock exchange is all of that – a place between high frequency and deep dementia.

If you come to Frankfurt, into this "silver and gold hole," as Martin Luther once called it, then you are lost in a universe of nothingness. "Neither the German Stock Exchange Act nor other laws define the term stock exchange," wrote Professor Dr. Wilhelm Seuss, the man who still knew "everything about money" ("Alles über Geld" – the title of his book), on the occasion of the 400th birthday of the Frankfurt Stock Exchange in 1985. Today we can only guess all the places our money is.

We've established when it came to the stock exchange in Frankfurt: 1585. No one really knows how the stock exchange came about. It wasn't planned, in any case. A spontaneous start-up intended to help merchants to settle purchases and sales with one another at the end of a fair in the many different types of coin. Without algorithms. Without high frequency. Without proper measuring technology. Somehow. Indeed, somehow it's still the same today. Despite algorithms. Despite high frequency. Despite all the charts that flicker around us on the screens. The stock exchange – that's Frankfurt. It will also get over

St. Paul's Church: symbol of the democratic movement in Germany. The Frankfurt National Assembly convened here in 1848/1849. It was the first representative body of the people in Germany.

"Scenery" is what the brokers call the professional visitors who trade on the stock exchange for their own account. This city panorama forms the scenery in Frankfurt Airport.

the loss of the International Motor Show Germany (IAA). The main thing is that the Book Fair will remain where it's been for 500 years.

We are visiting Dr. Hans-Dieter Klein. He's a fund manager who has seen so much that he no longer needs to fight for sovereignty in all the chaos. His company, Street Alpha GmbH, is one of the monads on the capital market that, although seeking their opportunities at every moment, are otherwise confidently gaining ground. And if a company such as USU Software AG then crosses their path, they seize the opportunity, buy – and wait and see. This company, which, after all, has been on the market since 1977, sells, for example, knowledge about knowledge. It's known in the jargon as knowledge management.

It's the software of knowledge.

It's not only the knowledge of the moment that fascinates Klein. For him, knowledge is more than the expertise and conventional knowledge that must be managed on the help desks and in the call centers (with USU's knowledge software). For him, knowledge always also has a history that can reach into a time in which neither he nor the founder of USU have ever lived. Yet only this foray into history gives shares their culture.

It isn't necessary to go back as far as the Frankfurt Stock Exchange for that. The year 1948 is sufficient; the year of the currency reform. But we tumble even deeper into history – into the year of hyperinflation, 1923. It's a period of great chaos, which some say is returning now. Despite software and its inherent sense of order. Perhaps also because the dimension that's opening up before us no longer appears manageable at all.

Trumpisms prevail.

As a public auditor, an analyst and a fund manager, Hans-Dieter Klein is someone who knows the businesses of the moment extremely well. He's someone who helped take a football club known by the abbreviation BVB public. But also someone who loves vintage cars and art, someone with an educational horizon one doesn't expect in the finance sector at first – and is then surprised at how often one encounters it in this scene. High finance, high technology and

Dr. Hans-Dieter Klein heads up Street Alpha GmbH.

high culture – suddenly they fit together, although not in perfect harmony, there's too much movement for that, but no longer in a chaotic muddle either.

We very soon notice: often world history also lies behind the figures – with fractured remote effects on the here and now in many cases – and hence the question: why are the Germans so timid when it comes to shares? This is a subject that also interests USU. After all, it's been on the stock exchange for two decades now. With an eventful history that is in turn part of an even greater history...

The short version: almost 100 years ago, the government saved itself from its overindebtedness through total devaluation of the currency and a brutal currency reform. The same happened again 25 years la-

Who wouldn't like that?
The all-time high as a one-way street.

ter. Millions of people lost millions and millions irretrievably due to war and unrest. Only those who had invested their money in real estate and shares came through relatively unscathed throughout all the decades and despite the crash. As of 1954, they did at least experience the sensational recovery of their investments during the years of the Economic Miracle – "An era that strangely many have forgotten," says the man who very much regrets this disregard, "as this knowledge could clear up so many misunderstandings." The entire stock exchange would benefit from such a mental refresher course.

What is obviously missing is an outsider who disrupts established structures in such a way that it actually brings about something new. Someone who achieved this like no one else in postwar Germany and whose name hardly anyone still remembers was Hermann D. Krages. He stumbled into the equities business overnight and became the richest person in the Federal Republic for a time. Coincidentally, he was also the boss of Klein's grandfather, who managed a chip fiber factory in Westerwald. Krages had invested the money earned there in completely undervalued shares – against his friends' advice. Because the economy in Germany, which was far from being sovereign at that time, was defined by the antitrust policies of the Allies. Never again were there to be gigantic corporations like the ones that existed during the National Socialism period. But Krages had not allowed this to deter him and had bought his way into companies in the coal and steel industry and won everything – except the majority in one of the corporations in the Ruhr. That blocked the selfmade industry mogul. Meanwhile, it was thanks to Krages that such a thing as a share culture came about in the Germany of the Economic Miracle era. It didn't last long, unfortunately.

Krages failed. "Because of the establishment," says Klein. The old financial and industrial nobility, who had survived the Allies' policies, stuck together like pitch and brimstone. They opposed the antitrust law proposed by Economics Minister

The food bank in Frankfurt Cathedral: even its prayers didn't help the New Market.

Ludwig Erhard and ultimately gave newcomers, like Krages, no chance. "There was no information. Annual reports were so hermetically sealed for third parties that one couldn't glean anything from them," reports Klein. "There was no such thing as investor relations. They weren't invented until 30 years later."

When the American President John F. Kennedy was then confronted with the Cuban missile crisis in 1962, the stock markets were turned upside down. The German banks promptly kept upstart Krages at arm's length, terminating his loans, while the shares tumbled.

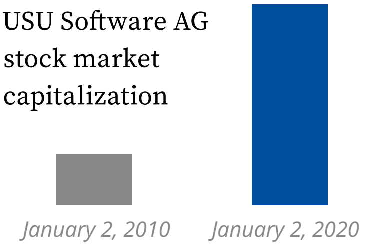
One somehow has the feeling that Klein found that out of order. Because Krages had fought for more transparency in annual reports. In any case, the Germans lost confidence in the stock exchange, which now fell into a long deep slumber. Inflation took over the business along with its high-yield bonds and only when inflation had been defeated in the early 1980s did the stock exchange come back to life – and was ultimately also to take USU with it in all its euphoria.

The New Market came and suddenly all sorts of outsiders entered the stock exchange stage. They came

not so much from the investor side as from the business community. One IPO chased another in the late 1990s. And USU was also preparing for an initial public offering in 1999. It went public on July 4, 2000 – in the midst of a phase when the boom was almost over. By then, the New Economy looked very old. Greed had shattered it every bit as much as absolute recklessness and credulity.

Klein, then a senior analyst, recalls: "At the time the institutional investors were talking about which of

USU Software AG stock market capitalization



them had the highest share quota. That was a complete reversal. Before, it was about who had the lowest. They got carried away in their greed for higher and higher prices, putting all reason aside. The private investors weren't much better, either. "A bad cocktail," says Klein. "The government then forced the insurers to cut back their share quota, and very heavily at that." The whole spectacle collapsed. Klein: "This involved ridiculous numbers, such as fraud including falsified revenues."

The Germans turned away from the stock exchange – disappointed by many a great name still fighting to restore their reputation to this day. USU Software AG also got caught up in this maelstrom through absolutely no fault of its own and fought its way through, slogging and slaving away, continuing along its path. Steadfastly. Thanks to its merger with Openshop AG it had a financial background, a high equity ratio, which also enabled it to survive the financial crisis of the late noughties.

Indeed, says Klein, "As that's the actual success story." Because anyone who survived the crashes saw their stock market value increase tenfold, twentyfold, thirtyfold." USU Software AG is also among these winners. It isn't the biggest highflier, but it is among those who overcame the chaos "with a very solid business model and the money left over from the IPO" (Klein).

Frankfurt: new old town rather than New Market

Then Klein becomes pensive, very pensive, hesitates about whether he should say it: "If it hadn't been for the IPOs on the New Market, then Germany would have been even further behind technologically speaking, including in terms of the breadth of the impact on the public."

Huh, you think, he's not one to delude himself. This very clearly shows the (mental) weaknesses of a location. "We need a second wind" – for those who are driving the next change. Somehow it's clear to us that he isn't thinking of subsidies here, which in the main are only ever cashed in by the establishment anyway.

We go our separate ways. Our interviewee first shows us the way to the new Frankfurt old town. We know when it was built: between 2012 and 2018. We also know how it was built. Although planned, it sprang from a great chaos of ideas. We also know what it cost. But only the future will show what exactly it is. At the moment it's a tourist attraction. Just as the New Market was for small investors. A show business, some say, an illusion. It has disrupted the established thinking about architecture, in any case. And after 300 microseconds you know: it will still be standing in 300 years – when the International Motor Show Germany is long forgotten.

Constantin Costa-Gavras *(born 1933),*
film director and Oscar winner

“Be as honest as possible with the characters and personalities!”

Shares are players in the stock exchange game. An honest business in which the price tells us everything at all times about what current information is available. In order for that to be so, so that we can trust the price, we have the supervisory board.

*Udo Strehl is the founder of USU Software AG.
He is its largest shareholder. He is the head of the Supervisory Board. Above all, though, he is a person who tries to keep everything else he is in addition to this in harmony with himself and his environment. Sometimes he is a calming force, sometimes he roars through the company at 200 kilometers per hour. Sometimes he is surprised himself – by the employees, who make something out of nothing that everyone uses and no one sees: software. The thinking power that casts a spell over our innermost world.*

All very well if it has shares itself. All very well if honesty is the overriding principle. Then the supervisory board and the management board can overcome any crisis. Honesty provides strength.

TOGETHER

USU celebrating its IPO in 2000: stage free for all

A few weeks before USU went public in July 2000, the British government published a study under the name of "Tomorrow" regarding social, political and business life in 2020. "The quality of the workplace and relationships with customers and other companies will be far more heavily reflected in share prices than is the case today," it said.[1]

WOW. If that were to come true, then the new USU shares would surely go up like a rocket! Because these are exactly the virtues that have always been cultivated within the software house. Since 1977, when Udo Strehl founded this software house in Möglingen, near Stuttgart.

December 11, 2019: Udo Strehl, Chairman of the Supervisory Board, at the topping-out ceremony for the new USU campus in Möglingen

In any case, the government in London declared the new togetherness to be a "national priority." Meanwhile, for the cool, calculating professionals on the stock exchanges this was more a case of emotional naivety. Shareholder values came above everything else. In the United Kingdom just as in Germany or anywhere else.

Money was everything, togetherness nothing.

Actually not a good environment for a highly emotional company like USU, where togetherness had highest priority. Because suddenly the bubble, the New Economy, which took many IT companies with it on its merciless ascent and pitiless demise, burst.

Then two years later, in 2002, it happened: USU was "swallowed." By a number zombie, a company that had nothing apart from a lot of money. In reality, it was the buyer, whose name only crops up in a formal sense these days, who subsequently disappeared.

Over time, the chaos gave way to a new togetherness: USU Software AG.

An extremely healthy company with over 700 employees and sales of EUR 95 million that has come through all its crises and (something that can be even harder) all its successes.

What can we learn from that? "One has to hold one's line," says Udo Strehl, founder and Chairman of the Supervisory Board, today. And that is almost all. But this line is determined more by character and culture than by trends and fashions. "Sometimes you even have to push against it. Hold on and…," he smiles, "budget." Swabians are especially good at the latter.

There is probably no alternative. A real-life Nobel laureate in economics also pointed this out in 2002. "In my view, market trends are like speculative bubbles: they don't exist," said Eugene Francis Fama (born 1939) in 2002. And those who believe in "speculative bubbles,"

[1] Financial Times, May 26, 2000: "A sight of the future in 2020 vision"; subsequently quoted

says the wise man, "only ever recognize them in retrospect."

Indeed, he isn't exactly squeamish when it comes to the world of finance: "Analysts don't contribute much to knowledge anyhow," he thinks. Quite harsh.

The IPO team 20 years ago

The fact is, no company can get by without market trends, without analyses. What is happening with customers, employees and partners is certainly interesting, particularly to a Supervisory Board member like Udo Strehl. But they are internal perspectives that he and the Management Board need in order to make the right decisions. For the sake of the company. For the sake of togetherness.

Yet for a company that has been maintaining its strategies and product lines for five decades now in a market that – as paradoxical as it sounds – changes faster than the trends and analyses, it is primarily about continuity and stability. That's what USU stands for.

That's what the Management Board stands for. That's what the employees stand for. But that's also what the shareholders, who see themselves as part of this togetherness, stand for. As do the customers, by the way.

Safeguarding and precisely observing this interaction is the noble duty of the Supervisory Board. This involves playing many roles; that of the shareholder, the entrepreneur, the employer and the contractor, the taxpayer and – now and then – also the fatherly friend. Not easy,

The New Market disappeared, USU shares remained

this togetherness. It requires concentration.

Sometimes we also have to be all alone in this. Without one another. So that we can recognize and determine the individual characters and positions again. In that sense, one is less a director than a producer; that is, someone who invests their own money in a project.

Only if it subsequently bears fruit, has become a blockbuster even, or a street cleaner, does one know what the market trend was. Then suddenly everything comes together. Then togetherness prevails. Everything in line. This doesn't create a house of harmony, however.

July 4, 2000: the great stage is prepared. It is the day USU went public

The shareholders make sure of that. For they are never satisfied. With the price, regardless of what the market trends say.

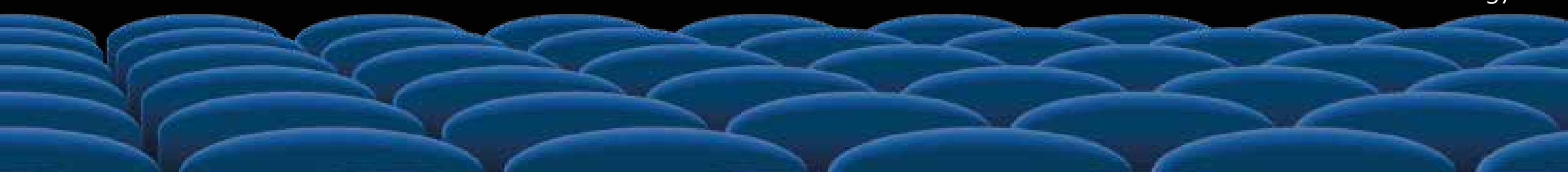
That's the way it should be if one believes in the theory of efficient markets that won Eugene Francis Fama the Nobel prize: it states that all the available information is reflected in securities prices.

It is like a drama that rewrites itself every day. Without an author. Together. And yet everyone is alone.

Marcel Reich-Ranicki *(1920 – 2003),*
FAZ's literary "pope" regarding his counterpart,
Fritz J. Raddatz, the antipope from DIE ZEIT

2000: "And we were both always for Remmidemmi, a little pizzazz, livening things up."

One of them was President of VfB Stuttgart football club: Erwin Staudt. The other was Vice President of the Stuttgarter Kickers: Günter Daiss. Udo Strehl brought them around a table as the Supervisory Board members of USU Software AG. They have stood by this company, fearless and true. Erwin is still there. Günter retired from the Supervisory Board in 2019. The two of them didn't always agree; sometimes one of them was bearish and the other bullish. However, no one knew in advance when they were what. Before the Supervisory Board meeting. Afterwards, though, they had advanced the company a little further.



One of them became German soccer champion with his club, the other even handball world champion with his brand. They became members of the Supervisory Board of USU Software AG because they brought along something else beyond their leadership qualities: they are Swabian. What more could a shareholder want?

TOWARD ONE ANOTHER

They are like the people one never sees in film projects who are, at most, named in the opening and closing credits: they are the producers, the investors. At USU Software AG, the producers are the Supervisory Board members, the representatives of the shareholders.

Producers look for the right director. Someone who fits the project and knows where they need to show all their skills and where to be economical; someone who knows, therefore, how to deal with people and money. Above all, though, these producers know that everything depends on the right team.

But how does a director find the right producer? Answer: the ideal scenario is where one is both the director and the producer. As USU founder Udo Strehl, who until 2002 was CEO of the company he had taken public two years earlier and led into a merger with Openshop one year later, once was. Afterwards he was finally able to do what he does best again: to gather good people around him. He had a successor for CEO immediately: Bernhard Oberschmidt. He will soon have been in this role 20 years.

But the Supervisory Board that Udo Strehl presided over from then on also needed new members. He had two Swabians in his sights for this. Two people who complemented each other wonderfully and whose very presence would provide part of the motivation needed by any company whose true capital is its employees. And he could hardly have made a better choice than this: two people who had seen the world from the most different of perspectives but who were nevertheless closely linked.

One of them was an employee – all his life, in the highest position. As a manager. The other was self-employed – all his life, in a majority position. As an entrepreneur.

One comes from a provincial town. From Leonberg, where he still lives. The other was born in the regional capital. In Stuttgart, where he has lived for decades, in Freiberg am Neckar.

Both have also been members of local councils and politically active in their lives. One of them in the German Social-Democratic Party (SDP), the other in the Christian-Democratic Union of Germany (CDU).

The SPD man is Erwin Staudt, known nationally as the former President of VfB Stuttgart. Prior to that, he had been head of IBM Germany, part of what was once the largest IT

Fearless …
Günter Daiss, an entrepreneuer from Freiberg and USU shareholder

… and true:
Erwin Staudt, a manager from Leonberg and USU shareholder

group in the world. He is considered an incredible motivator; a person with vast experience. During his time as President, VfB became German soccer champions – and almost had a home in the Champions League. He knows how good people tick.

The CDU man is Günter Daiss, not so well known, but one of the greatest one-man networks in Germany. There is no subject for which he doesn't know an expert. He acquired companies out of bankruptcy, shaping them into hidden champions in a global league. He brought them back to life again – and sustainably at that. They either still belong to the Daiss Group or he did everything he could – he is now 81 years old – to put them in good hands. Best known throughout Germany is Uhlsport, a sports equipment manufacturer in Balingen. And the jewel in the Daiss crown even experienced becoming world champion via its handball brand, Kempa, with the goalkeepers of both teams wearing Uhlsport gloves in the world championship final.

They are both high-caliber individuals – and that is really good for a mid-sized software house like USU Software AG. However, anyone who thinks that the plaque of honor we're putting up for the two of them here even slightly comes through in meetings and conversations with them doesn't know the Swabians. Their penchant for enhanced understatement keeps them as they are: always approachable, always interested in the matter at hand. They are very serious about that, but they can also laugh heartily.

They are two people with a good nose for talent – otherwise they wouldn't have gone after the offer in the first place. Through thick and thin.

Günter Daiss retired from his Supervisory Board mandate in 2019. "A wise counselor, a critical mind," was how Udo Strehl thanked the grand seigneur of Swabian entrepreneurship. Udo is now the same age as Günter was when he became a Supervisory Board member at USU. He will now take Günter's role, characterized by spirited wisdom.

That makes room for an entirely new position. For a woman who brings new qualities to a company that knows very well how much it depends on human potential – on the very team spirit that also shapes this Supervisory Board. Gabriele Walker-Rudolf has been a member of the USU Supervisory Board since USU's 2019 Annual General Meeting. Her main occupation is the Executive Board member responsible for finance at Drees & Sommer, a consultancy firm in the real estate industry.

Protective shield for IT

At the Swiss company Allianz Technology AG, more than 40 different monitoring systems used to be in place to monitor the IT infrastructure in different departments. This range of varying isolated solutions that had developed over the years could no longer meet the requirements for effective monitoring of the increasingly complex IT infrastructure. Instead of a "silo-based" approach, the responsible managers at Allianz decided on a holistic approach and evaluated the market to find a cross-system monitoring system that aggregated all relevant information as a "data collector" and provided a central overview. In an extensive selection process, LeuTek came out on top thanks to its system's wide range of functions and integration capacity as well as its technical expertise. The project milestones were then implemented as planned through intensive collaboration.

Allianz Technology has now successfully progressed a long way toward comprehensive business service monitoring. With ZIS as an "umbrella solution," the IT topology is mapped centrally, consistently and transparently. Technical problems are detected and resolved before they even become noticeable to the customers, as monitoring is automated and takes place in real time. Expenses for maintenance and monitoring have also been reduced significantly as a result of harmonizing the IT monitoring landscape. Through connections to alarm management and the existing IT service management environment, end-to-end processes are ensured. In addition to extensive reporting with role-based dashboards and self-service analysis and evaluation options, service level management and capacity management are also being integrated at present. By covering the entire monitoring lifecycle, Allianz Suisse keeps a balance between service availability, performance, and economic efficiency.

"With LeuTek, we have chosen an expert partner that has not only a broadly established practical solution but also the necessary technical expertise. ZIS provides us with the basis for effective, company-wide and proactive monitoring of our complex IT infrastructure from the single source."

Oliver Windler,
Head of Second-Level Servers & Data Centers
Allianz Technology AG

Chatbots in the DATEV service world

DATEV's services are used millions of times each year – by tax advisors, auditors, lawyers and their clients. To this end, DATEV has made increasing use of traditional customer service channels such as telephone and FAQs on the website in recent years. An analysis of the DATEV service world showed that adding to the service landscape could relieve the hotline of more time-intensive standard inquiries. Digital assistants known as "chatbots" were to be used to provide support. Those responsible decided on the expertise and technology of USU's unymira division.

The first chatbot was developed in 2019 to answer questions about the new Payment Service Directive (PSD2). Thanks to the modular principle of chatbot technology, it was implemented rapidly and used more than 8,000 times within a short space of time.

The bot provides context-sensitive assistance for channeling inquiries and as guidance. What is special about it is that customers can choose between different options and click through to the solution without having to enter a search request themselves. Chatbot technology enables a solution to be found very quickly, as reading and clicking is twice as fast and speaking and listening.

"Guided dialogs take customers by the hand. In the jungle of potentially relevant information, customers are guided along the right path to their solution. With the Knowledge Bot, we manage to implement these dialogs in a fast and straightforward way, thereby enhancing our service."

Alexander Heisserer,
Knowledge Bot Product Owner,
DATEV eG

Since then, DATEV has mapped many other use cases with bots, including for topics such as accident insurance and wage applications. The feedback has been very good, as in most cases customers get a definitive answer. Very low costs for the implementation of additional bots mean that they are cost-effective to use even for small, individual topics. The goal is for around 100 topic-specific bots to be providing support as digital service helpers within a year.

AI-supported service management

Open Grid Europe GmbH OGE operates the biggest natural gas pipeline network in Germany at a length of approximately 12,000 km. The connection and integration of numerous transportation customers, downstream grid operators and power recipients gives rise to hundreds of service requirements each day, which all need to be structured and processed. In addition to standard service calls, those relating to core business – i.e. process areas such as correct energy calculation, gas production, transportation, integration, accounting, etc. – are particularly relevant. The use of ticket solutions is essential here. Previously, inquiries were managed manually via a human dispatcher who assigned them to the relevant problem/solution categories and processors.

As part of a project, USU's Katana division demonstrated that the high number of assignment categories for historical reasons represented a considerable problem for the planned automated assignment of service requirement cases. Katana therefore significantly reduced the number of these categories and developed an AI-based algorithm tailored to the specific requirements of OGE. Combined with the ticket process system USU Valuemation, this now enables tickets to be evaluated and assigned automatically. Using this AI-based technology, it should also be possible to process more complex service cases automatically in future.

Data science specialists from Katana will also analyze OGE's complex IT service landscape with its extensive catalog of hardware and software products in order to optimize this area with AI technology, too.

"Through our close collaboration with USU Katana, we gain completely new perspectives on our business processes. Interpreting the results developed using the AI tools helps us a lot when it comes to redesigning our value chains in a future-oriented and sustainable way on the basis of knowledge."

Mathias Einck,Head of Analytics and Reporting, Open Grid Europe GmbH

The service driver

Swiss Post's vision is: "Simple yet systematic." The service provider wants to offer customers products and services that work simply and consistently. This requires a customer-focused way of thinking and extremely efficient, high-availability IT as the "backbone." One major project at the postal services company therefore had the aim of completely restructuring and centralizing the previously dispersed IT organizations. USU once again won out as the solution provider for IT service management (ITSM). Following a successful project as well as tests, training and accompanying organizational change management, Valuemation was available to use productively on schedule from mid-2019 onward.

The USU system is now at the heart of IT service management at Swiss Post. For example, the Service Desk now resolves more than 1,000 tickets a day using USU's integrated Knowledge Center knowledge database. Despite the plethora of around 5,000 services and a complex service structure, the mapping and fulfillment of the roughly 400 service level agreements (SLAs) runs smoothly. Reports with predefined customer-specific key figures help with the continuous analysis and optimization of service and support processes.

If an error occurs, the configuration management database (CMDB) containing all relevant technical and organizational information on the approximately 450,000 IT systems can be accessed directly in Valuemation. In addition, Valuemation makes it possible to plan, evaluate and manage Group-wide IT financial data and cost flows and to deliver consolidated billing data to SAP.

"USU is getting Swiss Post moving! After all, service management is not just an IT issue but a core element that affects all of the organization's processes. In the context of Swiss Post's alignment as an ICT service provider, Valuemation meets all requirements for a state-of-the-art ITSM tool. The project is a huge success."

Markus Bacher,
Head of IT Operations, Post CH AG

Artificial intelligence in service

The laser systems produced by TRUMPF Werkzeugmaschinen GmbH + Co. KG are used to cut metal sheets precisely and weld them flexibly. Maintenance and repair of this high-tech machinery requires specialist expertise – all around the world. Expertise that often is not available in the service teams in the same quality everywhere. This is where AI-based applications, data analyses and smart algorithms of the kind that will be developed by the “Service Master” project over the next three years can help.

The “Service Master” research project won the German Federal Ministry of Economics and Energy’s AI Innovation Competition and is being subsidized on a large scale as one of the German government’s flagship research projects. Alongside USU, the network partners also include the eco Association of the Internet Industry, the Karlsruhe Institute of Technology, and the Beuth University of Applied Sciences, Berlin. Besides TRUMPF, the industry partners involved also include KEB Automation KG, Adolf Würth GmbH & Co. KG and Atlas Copco IAS GmbH.

“With the establishment of a platform for AI processes in technical service, we are providing an important starting point for SMEs to introduce new digital processes. Even with a large research subsidy from the government, this is certainly not something that can be taken for granted and is one of the major projects at the Federal Ministry of Economics and Energy in terms of its scope. We are therefore delighted to have the USU Group with us as the implementation partner.”

Andreas Weiss,
Head of Digital Business Models, eco Association of the Internet Industry

Service Master digitalizes service expertise on a cross-company platform. AI technologies play a key role here, supporting the service employees’ knowledge-intensive tasks along the technical service value chain. Specifically, this involves tasks such as planning field work by service technicians on an automated basis, procuring replacement parts, forecasting service and maintenance requirements, detecting anomalies, and predicting disruptions.

VERSICHERUNGSKAMMER BAYERN

Voice service with Alexa

The service team at the insurance group Versicherungskammer Bayern processes more than nine million customer requests a year and has an excellent reputation throughout the sector. In an effort to further improve the service experience for its customers, the Versicherungskammer team applied agile methods to advance a special research project: using the digital voice assistant Alexa as an innovative voice service.

unymira, which had already successfully supported the knowledge management project, was on board as the technical project partner. Based on existing infrastructure and editorial processes, an intelligent chatbot was to take over the connection between Alexa and the knowledge database. The chatbot forwards the inquiries in text form, accesses the relevant content of the knowledge database, and sends back these answers – converted into voice form – to the end customer.

After a short test phase, the voice service system consisting of the knowledge database and the chatbot reached a very good quality level and could thus begin productive use in spring 2019.

Voice service with Alexa is now part of the service process at Versicherungskammer Bayern, but it does not operate independently. Suitable escalation points for handover to a service agent are integrated. Through the Versicherungskammer bot, Alexa currently answers general questions, for example about the level of cover provided by contents and private liability insurance policies. Alexa can also provide detailed information on tariffs or calculate pension entitlements without a wait. The possibilities of the voice service are always being developed further so as to offer customers an even simpler personalized and innovative service experience.

“With the voice service, we wanted to add a new, future-oriented component to our established knowledge management system. In developing and designing this, it was important to us to generate higher added value for our customers by providing information accessibly, around the clock, and tailored to the target groups.. ”

Isabella Martorell Nassl,
Head of Operations,
Versicherungskammer Group

US health authority NIH uses license management service

The U.S. National Institutes of Health (NIH) is the leading U.S. government agency for biomedical and health policy research, and was ranked # 2 worldwide in 2019 for biomedical sciences by the Nature Index.

At the end of 2019, NIH signed a three-year contract for Aspera's services to optimize its enterprise software inventory. The institute chose the cost-saving services with integrated technology to ensure compliance with software licenses and prepare the company for vendor audits.

The provision of a valid compliance report is crucial for this goal. The license management project also aimed to reduce software spending.

NIH saw the importance of working with a service provider that could implement its own tools and ensure the structured processing of the diverse license data from existing sources. The Aspera team was a committed partner during the comprehensive evaluation phase. In a strictly controlled 24-hour feasibility process, they were convinced by the successful automated processing of the license data. It was particularly important that the data did not have to be processed manually.

Aspera operates an enterprise-level Software Asset Management (SAM) platform that can be integrated into the existing NIH software environment such as IBM BigFix, SCCM and ServiceNow. Their experts provide analysis and recommendations for NIH software requirements, particularly for widely used products such as Adobe, IBM, Oracle, and Symantec.

"We were able to answer and meet all of NIH's questions and technical requirements to their complete satisfaction. The customer recognized how valuable it is to have experienced experts behind our tools and data processes."

Mel Passarelli,
President and CEO of Aspera Technologies

ADVISORY BOARD

USU lives from its ability to recognize market trends, technological developments and client requirements at an early stage and on a broad basis, to derive innovations in line with the market and to market these successfully.

The sustained business success of USU Software AG and its subsidiaries is based chiefly on the positive and trusting cooperation with its customers and interested parties. Within the context of a long-term business relationship based on cooperation, this means offering customers a high level of service and demonstrable added value.

Consequently with its service-oriented product and service portfolio, across the Group USU Software AG pursues the objective of ensuring not only a high degree of improvement in service but also enormous savings potential so that the investments in software solutions provided by the USU Group pay off within a very short period, thus creating a win-win situation for USU and its customers. Appropriately then more than 1,000 companies from all areas of business make up the international customer group of the USU Group.

The basis of all endeavors is rigorous customer orientation, something which the USU Group has been pursuing as the overarching principle of business strategy for over 42 years. In this respect USU Software AG is provided comprehensive support from its Advisory Board, whose members support the entire USU Group with their pronounced specialist expertise and long-standing management experience. The Advisory Board is constituted from business figures with in-depth experience and expertise in the area of information technology. A large number of the Advisory Board members are direct customers of USU Software AG and its Group subsidiaries.

At the regular meetings of the Advisory Board with the USU Management Board and management, current topics and strategic developments on the market and in the USU Group are discussed, along with future trends. The most important objective was and is to satisfy the customer requirements on a sustained basis and to strengthen and further develop customer relationships on the basis of a trusting partnership. To ensure continuity, the members of the Advisory Board of the USU Group are appointed for a period of two years and may be reappointed on expiry of a period in office.

The list of members of the USU Group Advisory Board when the 2019 Annual Report went to press was as follows:

Andreas Dümmler
IS Manager, Arburg GmbH & Co. KG

Frank Karsten
Chairman of the Management Board,
Stuttgarter Versicherungsgruppe

Joachim Langmack
Management consultant

Stefan Leser
CEO Langham Hospitality Group

Uwe Neumeier
Chief Digital Officer, TP Group Service GmbH

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

Dr. Hans-Joachim Popp
Principal, BwConsulting

Dr. Dieter Pütz
Head of Division, Connected Services, Fiducia & GAD IT AG

Werner Schmidt
Management consultant

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

Daniel Thomas
Member of the Management Board, HUK-Coburg

Marcus Loskant
Member of the Management Board IT, LVM-Versicherung

The Management Board would like to thank all of the members of the USU Advisory Board for their dedicated support, their advice and their detailed suggestions for the further successful development of the USU Group and looks forward to continuing this trust-based partnership in the current 2020 fiscal year.

REPORT OF THE SUPERVISORY BOARD OF USU SOFTWARE AG

Dear shareholders,

With a revenue upturn of close to 6% year on year, and an increase in adjusted EBIT by over 50%, USU Software AG was successful as a whole in fiscal year 2019, even though the originally planned figures were not quite reached. As a standalone company, USU Software AG improved profits by 40.5%. In line with the USU Software AG dividend policy, Company shareholders should again participate substantially. The Supervisory Board thus concurs with the Management Board's proposal on the appropriation of net profit for the 2019 fiscal year which involves a dividend at the prior-year level for the 2019 fiscal year in order to ensure dividend continuity. The Management Board and Supervisory Board of USU Software AG will therefore propose an unchanged dividend distribution of EUR 0.40 per share to the Annual General Meeting of the Company on June 26, 2020. At last year's Annual General Meeting, of which you can see a picture here and also at the end of the annual report, the Management Board elucidated in detail the Company's dividend policy to the attending shareholders.

Performance of Supervisory Board duties

In the 2019 fiscal year, the Supervisory Board performed all the tasks and duties prescribed by the law, the Articles of Association, the rules of procedure and the German Corporate Governance Code with great care and including comprehensively monitoring and advising the Management Board in its activities. The Management Board regularly, promptly and comprehensively informed the Supervisory Board of the development and position of USU Software AG and the USU Group, corporate planning, any deviations of business performance from the original planning, risk management and compliance as well as key business transactions.The Supervisory Board itself monitored the business development of USU Software AG and the Group on an ongoing basis. The Supervisory Board maintained close contact with the Management Board in the 2019 fiscal year and was directly involved in decisions of major importance to the Company at an early stage. Also outside the Supervisory Board meetings the Chairman of the Supervisory Board maintained regular contact with the Chairman of the Management Board. The Supervisory Board was comprehensively informed in advance of, and carefully examined and unanimously approved, all legal transactions requiring approval as well as transactions of significant importance to the profitability and liquidity of the Company.

Composition of the Management Board and Supervisory Board

To the end of the 2019 fiscal year, as announced at last year's Annual General Meeting, Bernhard Böhler left the USU Software AG Management Board at his own request. Gabriele Walker-Rudolf, who since January 2019 had officially functioned as a court-appointed Supervisory Board member, was elected as a member of the Supervisory Board at the Annual General Meeting on July 2, 2019.

Since the Supervisory Board comprises three members, no committees were set up in the 2019 fiscal year, as in the previous year. Independently of this, the Supervisory Board of the company jointly assumes the tasks of these committees.

Meetings of the Supervisory Board and main points of discussion

Six ordinary Supervisory Board meetings were held in the 2018 fiscal year. All members of the Supervisory Boards attended all the meetings in person.This meant the average meeting attendance rate of the Supervisory Board members was 100%.

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

In the Supervisory Board meeting on February 26, 2019, which was an internal Supervisory Board meeting without the participation of the Management Board, the Supervisory Board discussed Management Board remuneration for 2019 and the suggestion of the Supervisory Board to hold an internal Management Strategy Seminar in 2019. In addition, the Supervisory Board discussed the construction of the USU Campus.

At the accounts meeting of the Supervisory Board on March 19, 2019, the auditors reported on the key findings of their audit of the financial statements, the single-entity and consolidated financial statements and the management report and Group management report were approved following in-depth discussion with the Management Board and the auditors, and the single-entity financial statements were adopted. The Supervisory Board approved the recommendation of the Management Board to propose to the Company's Annual General Meeting a dividend of EUR 0.40 per share. This Supervisory Board meeting also addressed the status reports of the Management Board on individual areas, subsidiaries and the Group as a whole, including the projections for the first quarter and the full 2019 fiscal year.

The two-day Supervisory Board meeting on May 8 and 9, 2019, in which the USU AG Management Board and the Managing Directors of the subsidiaries participated, dealt with the status reports on the current business development at USU Software AG and its subsidiaries, in particular the realignment of the French subsidiary USU SAS and the future Group strategy with the "MORE U" motto. In addition, the preparation for and the discussion of the agenda for the Annual General Meeting on July 2, 2019 was discussed and then adopted unanimously in the meeting.

The Supervisory Board meeting on July 1, 2019, the day before the Annual General Meeting, addressed the Management Board's report on the current course of business of USU Software AG and the Group as a whole and its planning for the subsequent quarters and the full fiscal year, as well as preparations for the Annual General Meeting. Furthermore, the intended transfer of the pension claims of Mr. Strehl from USU GmbH to AUSUM GmbH and its impact were discussed. The Supervisory Board welcomed the assumption of the pension obligation by AUSUM GmbH and adopted the proposal unanimously.

In the context of the Management Board's report on the current course of business of USU Software AG and the Group as a whole and its planning for the subsequent quarters and the full 2019 fiscal year, other topics of the Supervisory Board meeting on September 20, 2019 were the progress of major customer projects and the restructuring of the French subsidiary USU SAS and the "MORE U" strategic project.

The Supervisory Board meeting on December 12, 2019 mainly addressed the report on current business development and the projections for the full 2019 fiscal year. In this connection, the necessary adjustments to the forecast were discussed in detail. This Supervisory Board meeting also dealt with the implementation of the provisions of the German Corporate Governance Code, including the adoption of the corresponding declaration of conformity.

In this context, the Supervisory Board established a target figure of zero for the proportion of women on the Management Board and 33% for the proportion of women on the Supervisory Board by June 30, 2021 and confirmed the profile of skills for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. The Supervisory Board also believes that at least two of its three members should be independent shareholder representatives.This target is achieved with the independent members Erwin Staudt and Gabriele Walker-Rudolf. The Supervisory Board also conducted an efficiency audit on the basis of an extensive questionnaire at its meeting on December 12, 2019, which was concluded with a positive outcome. The Supervisory Board meeting on December 12, 2019 also discussed planning for the 2020 fiscal year. The Supervisory Board discussed these plans in detail with the Management Board and unanimously approved the planning for the 2020 fiscal year.

Corporate governance and declaration of conformity

Responsible management and control of USU Software AG and the Group with the aim of sustained value creation are, and will remain in the future, the focus of the activities of the Management Board and Supervisory Board of the Company. The Supervisory Board is committed to these principles of corporate governance and acts accordingly. On December 12, 2019, the Supervisory Board discussed in detail with the Management Board the points contained in the German Corporate Governance Code. The Management Board and Supervisory Board of USU Software AG issued the relevant declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) and made it permanently available on the Company's website. This declaration of conformity is included in the combined management report in this annual report as part of the statement on corporate management of USU Software AG in accordance with section 289a of the German Commercial Code (HGB) under VIII. 1 Declaration of conformity with the German Corporate Governance Code. The Supervisory Board also refers to the Compensation report in this annual report, which sets out the individual compensation of the members of the Management Board and the Supervisory Board for the 2019 fiscal year.

Audit of the single-entity and consolidated financial statements

Based on a resolution by the Annual General Meeting on July 2, 2019, the Supervisory Board commissioned Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as the auditor of the financial statements and agreed the focal points of the audit for the 2019 fiscal year.

The subject of the audit was the accounting, the 2019 financial statements prepared in accordance with HGB, the 2019 consolidated financial statements prepared under section 315 e HGB in accordance with the provisions of the International Financial Reporting Standards (IFRS), as applicable within the European Union, and the additional requirements of German law under section 315 e (1) HGB as well as the accompanying combined management report for the 2019 fiscal year. The Supervisory Board also examined the non-financial Group declaration by USU Software AG, which was published on the Company's website on March 19, 2020

The financial statements of USU Software AG, the consolidated financial statements and the combined management report for the 2019 fiscal year were each issued with an unqualified audit opinion. The Supervisory Board was presented with the aforementioned year-end closing documents, including the Management Board's proposal on the appropriation of net profit and the non-financial Group declaration and the auditor's reports, for examination in a timely manner. The auditors reported on the key findings of their audit at the accounts meeting on March 19, 2020. Following its own examination and an extensive discussion with the Management Board and the auditors, the Supervisory Board concurred unanimously with the findings of the audit and raised no objections. The Supervisory Board approved the financial statements and consolidated financial statements presented to it by the Management Board as well as the combined management report for the 2019 fiscal year. The annual financial statements have therefore been adopted.

At the same time, the Supervisory Board approved the Management Board's proposal for the appropriation of net profit, under which the HGB unappropriated surplus of USU Software AG as of December 31, 2019 in the amount of EUR 8,140 thousand will be appropriated as follows:

- to pay a dividend of EUR 0.40 per share for 10,523,770 shares, amounting to a total of EUR 4,209 thousand; and
- to carry forward the remaining unappropriated surplus of EUR 3,930 thousand to new account.

The Supervisory Board also addressed the mandatory disclosures in accordance with sections 289 (3) and (4) and 315 (4) HGB and the corresponding reports. Further information can be found in the disclosures and explanations in the combined management report for the 2019 fiscal year under V. Accounting-related internal control and risk management system and under IX. Non-financial Group declaration (unaudited). The Supervisory Board has examined the reports and the disclosures and explanations contained therein and is satisfied that these are complete and correct in terms of their content. Accordingly, the Supervisory Board has adopted the reports. The Supervisory Board therefore agrees with and raises no objections to the non-financial declaration and the disclosures on the accounting-related internal control.

In addition, the Management Board of USU Software AG, as the parent company of the USU Group, compiled its report on related parties in accordance with section 312 AktG for the fiscal year from January 1, 2019 to December 31, 2019 (hereinafter referred to as the report on related parties), in which it made the following closing statement:

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

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

"On completion of our audit in accordance with professional standards, we confirm that
1. the factual statements made in the report are correct, and
2. The Company's compensation with respect to the transactions listed in the report was not inappropriately high."

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

Concluding remarks and thanks

The positive revenue and earnings trend of the USU Group was in no small way thanks to the entire staff at USU Software AG and its Group subsidiaries. For this reason, on behalf of the entire Supervisory Board, I would like to explicitly thank all employees of the USU Group for their high level of commitment and their loyalty. At the same time, I would like to thank the entire management of the subsidiaries for their hard work and their exceptional performance. My particular thanks also goes to the Management Board team for the positive further development of USU Software AG and the entire USU Group which has been pushed forward with passion and entrepreneurial spirit. I would like to express particular thanks to the former Management Board member Bernhard Böhler, who stepped down to the end of the 2019 fiscal year. He made a key contribution to the successful internationalization of USU Software AG and the entire USU Group. The Supervisory Board is optimistic that the Management Board members Bernhard Oberschmidt and Dr. Benjamin Strehl will continue the successful growth trend of the company on a sustained basis and looks forward to a continuing professional cooperation on the basis of mutual trust.

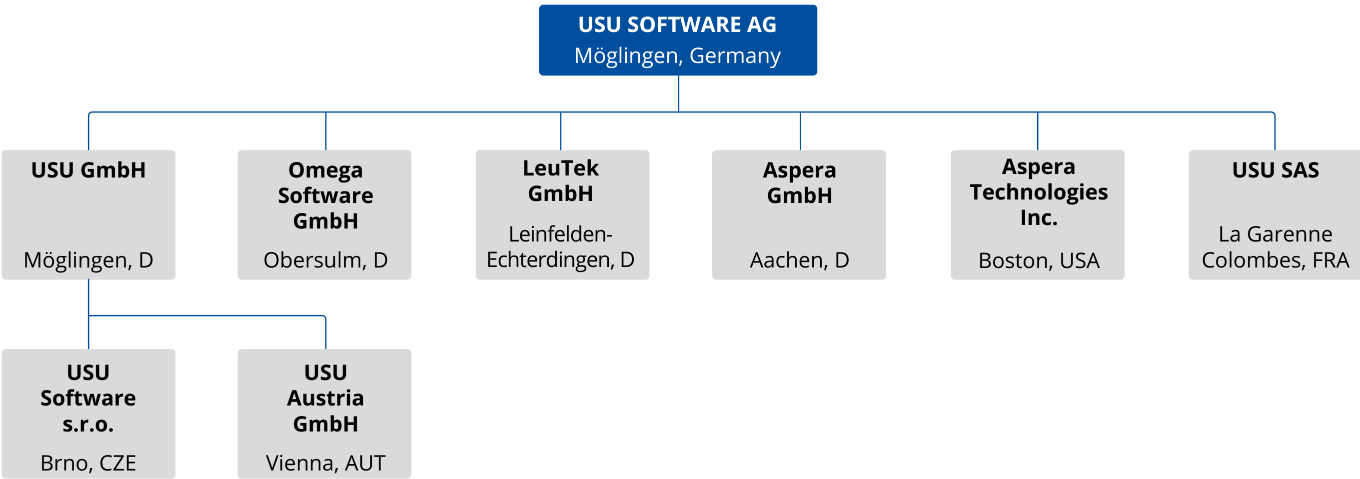
Möglingen, March 19, 2020

For the Supervisory Board

Udo Strehl
Chairman of the Supervisory Board of USU Software AG

MANAGEMENT REPORT ON THE COMPANY AND THE GROUP

The USU Software AG and its subsidiaries



I. BASIC INFORMATION ON USU SOFTWARE AG AND THE GROUP

As the parent company of the Group, USU Software AG, Möglingen, Germany, directly or indirectly participates in the following operational companies: Aspera GmbH, Aachen, Germany; Aspera Technologies Inc., Boston, USA; LeuTek GmbH, Leinfelden-Echterdingen, Germany; Omega Software GmbH, Obersulm, Germany; USU GmbH, Möglingen, Germany; USU Austria GmbH, Vienna, Austria; USU SAS, La Garenne Colombes, France; USU Software s.r.o., Brno, Czech Republic. In addition, USU Software AG has a shareholding in Openshop Internet Software GmbH, Möglingen, Germany, which is no longer operational. USU Consulting GmbH i.L. and USU Schweiz AG i.L. were liquidated in 2019 as planned.

I. 1 Business model, objectives, strategies and controlling system

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

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

USU is one of the world's leading manufacturers in the area of software license management.

USU is driving the digitization of business processes with its intelligent solutions and expertise in the area of digital interaction. As a one-stop shop, USU advises on, designs, develops, and delivers solutions along the entire customer journey („customer-first solutions"), serving all of the communications channels and points of customer contact in sales, marketing and customer service. The portfolio in this area is rounded off by system integration, individual applications and software for industrial big data. The portfolio in this area is rounded off by system integration, individual applications and software for industrial big data.

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

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

The key performance indicators for USU Software AG and the Group are revenue and adjusted EBIT.

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

The Management Board expects a further significant expansion in consolidated revenue and consolidated earnings in the current year before taking into account the potential impact of the Covid-19 crisis. Accordingly, the Management Board is forecasting an increase in consolidated revenue to between EUR 102 million and EUR 105 million in 2020, accompanied by a rise in adjusted EBIT to between EUR 7.5 million and EUR 10 million. The Management Board is also confirming the USU Group's medium-term planning, which includes average organic revenue growth of 10% in the next few years and an increase in the operating margin on adjusted EBIT to 13% – 15% by 2024.

These forecasts do not include any consequences of the global Covid-19 crisis, as the scenarios and their impact on license and consulting revenues are unclear. However, the Management Board anticipates positive adjusted EBIT in fiscal 2020 even in the event of a significant deterioration in the current situation.

I.2 Research and development

New software products and improved functions, processes and services are the main driving factors behind the USU Group's success. They are based on extensive Group-wide research and development (R&D) activities. USU Software AG's innovation capacity is based on several pillars: product-specific software developers, an independent research division and intensive cooperation with customers and partners such as universities and institutes in various projects.

For years, the company's R&D expenditure has been characterized by targeted investments well above the industry average. In fiscal 2019, this expenditure totaled EUR 15,801 thousand (2018: EUR 15,334 thousand) or 16.5% (2018: 16.9%) of consolidated revenue. The number of employees in this area was 200 as of December 31, 2019 (December 31, 2018: 194). The USU Group does not capitalize its R&D expenses.

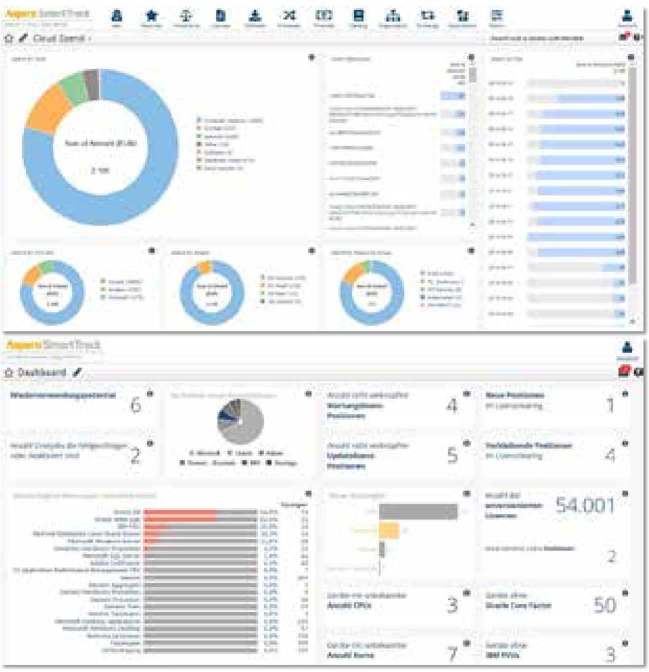
R&D activities in the Valuemation division focused on advanced development work on version 5.2 of the software of the same name. The new release of the software suite for IT service management is to be delivered to customers during spring 2020. In addition to significant performance improvements, it offers enhanced shop options, new functions for the chargeback manager module and the integration of the Keycloak user management solution. As part of an extensive international market analysis, the US market research company Forrester declared USU a "global leader" with Valuemation in the growth segment of enterprise service management.

Valuemation Service Designer: Interactive design of services and dependencies using drag & drop

The experts at LeuTek released new ZIS versions in the areas of business service monitoring and alarm management in 2019. In addition to the integration of Docker container technology, which enables processes and applications to run independently, and the new reporting module, the revised ZIS cloud connector also allows for effective monitoring of private, public and hybrid clouds from the respective providers. For the new map display module, Open-StreetMaps was integrated, for example, for the dynamic display of condition-related proper-ties such as branches. The changeover to HTML5 also took place.

Overview of the capacity of IT services and IT infrastructure with ZIS system

At the USU company Aspera, the broadly established key application for software license management, SmartTrack, was continuously enhanced in 2019. The R&D team also released new versions of the manufacturer-specific license management applications LicenseControl for SAP and LicenseControl for Oracle. With LicenseControl for Cloud, a new platform was also created to manage all data and costs of the SaaS solutions used by a company. At the same time, the software master catalog was continuously expanded, with the addition of new product properties such as edition, environment and platform. Forming the basis for license management, it contains the complex and varied licensing terms of the software manufacturers. A number of customer awards for outstanding projects in the area of software asset management also reflect the high quality and practical benefits of the Aspera software.

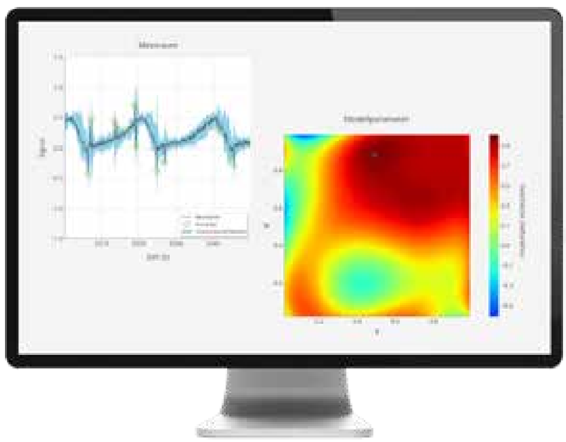


Overview of expenditure on cloud software and services with SmartTrack

Development work in the unymira division focused on the new major version 7 of the Knowledge Center knowledge database. In particular, there were improvements in the innovative ergonomic user interface with new opportunities for modern knowledge work. The company is currently working on the next release, which will include a new search function based on artificial intelligence (AI), among other features. The self-service application Smart Link 4 with integrated chatbot was also completed. The enhancement of KnowledgeBot particularly provides for the integration of the voice service with Alexa. unymira won the Salesforce Innovation Award for the integration of Knowledge Center in the Salesforce environment.

Voice service with Alexa in use at the customer Bayerische Versicherungskammer with KnowledgeBot

The R&D team in the Katana division had developed a new module for the Katana big data analytics platform in the form of Katana Go. This application ensures the automated processing for industry data and the provision of workflows for productive use. The graphical development environment already available for data science, KatanaFlow, was also enhanced. With the new version's comprehensive role and authorization concept, it is possible to manage private



Anomaly detection with Katana Flow

workflows and improve collaboration between users. The interface ergonomics have also been revised.

In the reporting period, the research division was awarded the contract for a number of projects. One particularly important contract was for the implementation of the biggest service project in the history of the Federal Republic of Germany. USU and other network partners won the Federal Ministry of Economics and Energy's AI Innovation Competition with its "Service Master" concept. An AI-based ecosystem for the technical service is to be created within 36 months. This service platform, which will serve multiple systems, departments and companies, is above all intended to assist German SMEs in performing high-quality and complex services cost-efficiently, quickly and precisely. Another project is MesaTech, which strives to digitize additive manufacturing processes. USU also uses pattern recognition to derive predictions of product quality from the process data. These are then used to adjust the manufacturing processes. The third project, ReAddi, began in early 2019 and seeks to use AI to predict the quality of additive manufacturing at an early stage in order to allow adjustments.

II. ECONOMIC REPORT

II. 1 Summary

In fiscal 2019, USU Software AG increased its consolidated revenue (IFRS) by 5.7% year-on-year to EUR 95,630 thousand (2018: EUR 90,487 thousand). USU benefited in particular from growth in international business again, which rose strongly by 9.1% to EUR 26,462 thousand (2018: EUR 24,245 thousand). Accordingly, the share of consolidated revenue accounted for by international business rose slightly to 27.7% in 2019 (2018: 26.8%). In particular, the main driver of revenue growth was software license and SaaS business thanks to contracts for projects postponed from the previous year to the current fiscal year and additional customer orders in Germany and abroad.

As a result of the increase in high-margin license and SaaS revenue while costs only rose at a slower rate, USU's profits grew faster than its revenue in the year under review. Accordingly, EBITDA climbed by 80.2% year-on-year to EUR 9,920 thousand (2018: EUR 5,506 thousand). EUR 2,360 thousand of this increase is due to amortization from the initial application of IFRS 16 in connection with accounting for leases and rental agreements. Adjusted for total depreciation and amortization of EUR 5,866 thousand (2018: EUR 2,799 thousand), USU generated EBIT of EUR 4,054 thousand in the same period (2018: EUR 2,707 thousand). After interest and taxes, consolidated net income amounted to EUR 5,273 thousand (2018: EUR 961 thousand). In line with this, USU increased its earnings per share to EUR 0.50 (2018: EUR 0.09) for the Group as a whole.

Adjusting for the effects of acquisitions, the USU Group generated adjusted EBIT of EUR 6,226 thousand (2018: EUR 4,125 thousand), representing a 50.9% increase in earnings. At the same time, adjusted consolidated net profit jumped 284.2% as against fiscal 2018 to EUR 7,349 thousand (2018: EUR 1,923 thousand). Adjusted earnings per share thus climbed from EUR 0.18 in the previous year to EUR 0.70.

Net income (calculated in accordance with the German Commercial Code) of USU Software AG as a standalone company rose by 40.5% as against the previous year to EUR 6,066 thousand in fiscal 2019 (2018: EUR 4,318 thousand). Including the profit carried forward from the previous year of EUR 2,074 thousand (2018: EUR 1,965 thousand), the company generated an unappropriated surplus of EUR 8,140 thousand (2018: EUR 6,284 thousand). As in previous years, this is to be used in particular to pay a dividend to all shareholders of USU Software AG. In accordance with the company's communicated dividend policy, whereby the dividend should never be less than in the previous year and should amount to roughly half the profit generated, the Management Board is proposing, subject to the approval of the Supervisory Board, a dividend distribution equal to the previous year's level of EUR 0.40 (2018: EUR 0.40) per share for fiscal 2019.

The Management Board expects the USU Group to return to its long-term growth trend in 2020. Contributing factors here include the strong software-as-a-service (SaaS) business, which led to SaaS revenue of EUR 6,917 thousand in 2019 with corresponding SaaS orders on hand, as well as the anticipated new SaaS orders this year, with the Management Board expecting SaaS to account for a good third of new product orders. The Management Board therefore also anticipates strong software license business despite the trend towards SaaS. This is expected to result both from Germany and from international business, which will particularly originate from the growing US market. The USU Group's partner business is also expected to contribute to an increase in the international share of consolidated revenue again. Following the reorganization of the French subsidiary USU SAS and the associated realignment of this company's sales management, the Management Board also considers corresponding growth and an improvement in earnings at this company in 2020 to be realistic. Finally, the service orders gained in the fourth quarter of 2019 combined with new orders in 2020 will lead to high utilization of the consultant team and accordingly positive service business.

II. 2 Overall economic development

According to initial calculations by the German Federal Statistical Office (Destatis)[1], Germany's gross domestic product (GDP) adjusted for inflation was 0.6% higher in 2019 than in the previous year. The German economy thus grew for the tenth year in a row, representing the longest growth phase since German reunification. However, this growth lost momentum in 2019. In the two preceding years, GDP adjusted for inflation had risen considerably more steeply according to figures from Destatis, by 2.5% in 2017 and by 1.5% in 2018.

Growth in 2019 was primarily driven by consumption, with private consumer spending up 1.6% year-on-year after adjustment for inflation, while government spending increased by 2.5%. Gross capital investment also recorded substantial growth: adjusted for inflation, 3.8% more was invested in buildings than in the year before. Other investments, which include investments in research and development, were also up significantly year-on-year by +2.7%. By contrast, equipment investments – which mainly comprise investments in machinery and equipment and in vehicles – developed less dynamically, rising by only 0.4%. Adjusted for inflation, total gross investment – comprising gross capital investment as well as changes in inventories (including the net addition of valuable items) – declined by 1.7% year-on-year in 2019. The significant decrease in inventories is partly due to weak industrial production and increased exports. According to Destatis, German exports continued to rise on average in 2019, but not by as much as in previous years: adjusted for inflation, the German economy exported 0.9% more goods and services than in 2018. Imports, adjusted for inflation, recorded stronger growth of +1.9%.

According to the flash estimate by the Statistical Office of the European Union (Eurostat)[2], the euro area saw year-on-year GDP growth of 1.2% in 2019 (2018: 1.8%).

II. 3 Sector development

The German high-tech market once again proved to be a growth driver for the German economy in 2019. According to forecasts by the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM)[3], the IT market alone outperformed the economy as a whole again in the reporting period, with the market volume growing by 2.9% (2018: 3.5%) to EUR 92.9 billion (2018: EUR 90.3 billion). Investments in digitalization were once again a key growth driver in 2019. The software and IT services market segments therefore posted above-average growth again, as in the previous year, at rates of 6.3% (2018: 6.3%) to EUR 26.0 billion (2018: EUR 24.4 billion) and 2.4% (2018: 2.4%) to EUR 40.9 billion (2018: EUR 39.9 billion). According to calculations by the US market research company Gartner[4], the global IT market grew only marginally by 0.4% to USD 3,722 billion in 2019, with the enterprise software and IT services markets recording considerably above-average growth rates globally, too, at 8.8% and 3.7% respectively.

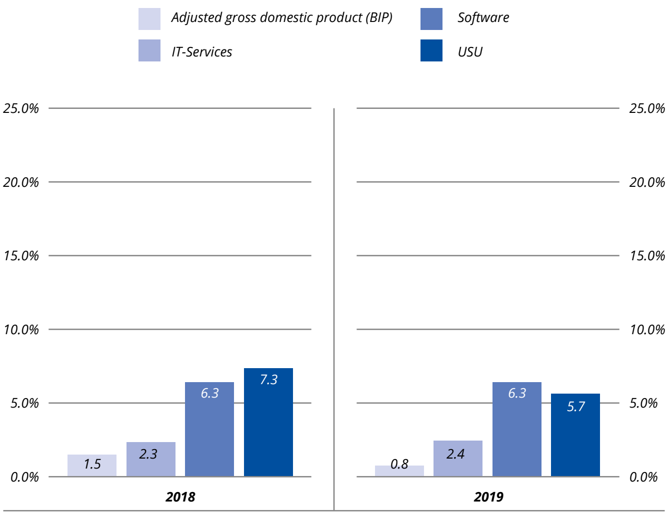
II. 4 Business performance

Despite the shift from one-time license business toward software-as-a-service (SaaS) business and a weaker than expected business development in France, USU Software AG and its subsidiaries once again achieved record consolidated revenue of EUR 95,630 thousand (2018: EUR 90,487 thousand) and a strong increase in adjusted EBIT to EUR 6,226 thousand (2018: EUR 4,125 thousand) in fiscal 2019. As a result of the considerably higher share of SaaS contracts with new customers as compared to the planning, combined with the modest overall performance of the French subsidiary USU SAS and underutilization of capacity in the service segment, USU did not achieve the original planning of consolidated revenue of EUR 98 million to EUR 101 million and adjusted EBIT of EUR 7.5 million to EUR 10 million in the year under review. However, USU Software AG achieved the revised guidance published at the end of

[1] cf. Destatis press release 018 dated January 15, 2020, published at www.destatis.de
[2] cf. Eurostat press release dated January 31, 2020 – 24/2020, published at http://ec.europa.eu/eurostat
[3] BITKOM press release dated January 14, 2020, published at www.bitkom.org
[4] cf. Gartner press release dated October 23, 2019, published at www.gartner.com

the year, which projected consolidated revenue of between EUR 93 million and EUR 95 million and adjusted EBIT of between EUR 5 million and EUR 8 million.

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



The year-on-year increase in revenue and profits was partly due to the successful conclusion of contracts with major corporations in the US, which had been postponed until the following year in 2018, as well as many new SaaS orders. At the same time, USU's cost base only increased at a slower rate despite further expansion of the workforce, resulting in corresponding growth in earnings.

II. 5 Development of revenue and costs

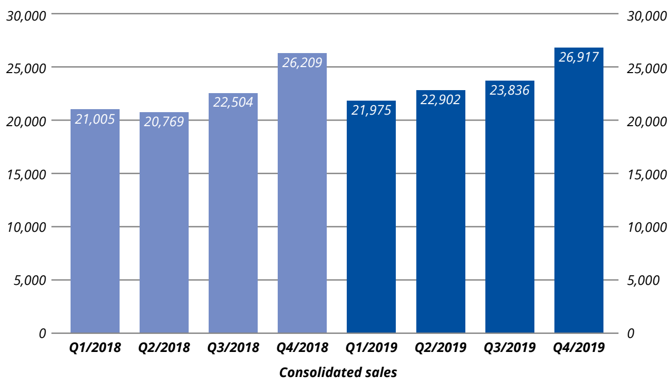
Consolidated revenue

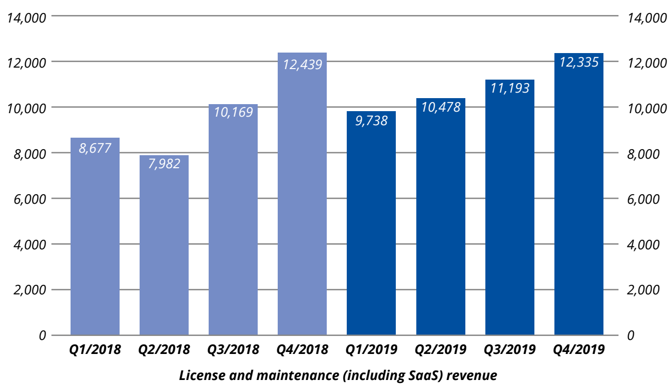
In fiscal 2019, USU Software AG increased its consolidated revenue by 5.7% year-on-year to EUR 95,630 thousand (2018: EUR 90,487 thousand). In addition to increased domestic business, USU benefited in particular from growth in international business again, which rose strongly by 9.1% to EUR 26,462 thousand (2018: EUR 24,245 thousand). EUR 12,021 thousand or 45.5% of this was attributable to the US, EUR 5,371 thousand or 20.3% to Switzerland, EUR 3,285 thousand or 12.4% to France, EUR 1,788 thousand or 6.8% to Austria, and EUR 1,337 thousand or 5.1% to Italy. The share of international revenue attributable to Europe totaled 53.7% at EUR 14,214 thousand. As a result of the increase in revenue generated outside Germany, the share of consolidated revenue accounted for by international business also rose slightly to 27.7% in 2019 (2018: 26.8%).

In particular, the main driver of this revenue growth was software license business thanks to contracts for projects postponed from the previous year to the current fiscal year and additional customer orders in Germany and abroad. USU thus increased its income from software licenses by 12.8% as against the previous year to EUR 15,005 thousand in fiscal 2019 (2018: EUR 13,300 thousand). At the same time, maintenance and SaaS business increased to EUR 28,739 thousand (2018: EUR 25,967 thousand) on the back of strong SaaS business. This represents an increase of 10.7% compared to the previous year. By contrast, consulting business was 1.0% lower year-on-year at EUR 49,905 thousand in the year under review (2018: EUR 50,420 thousand) owing to slightly weaker service business.

Other income, which essentially comprises increased merchandise revenue from third-party hardware and software, totaled EUR 1,981 thousand (2018: EUR 800 thousand).

Sales development of the USU Group by quarter in EUR thousand





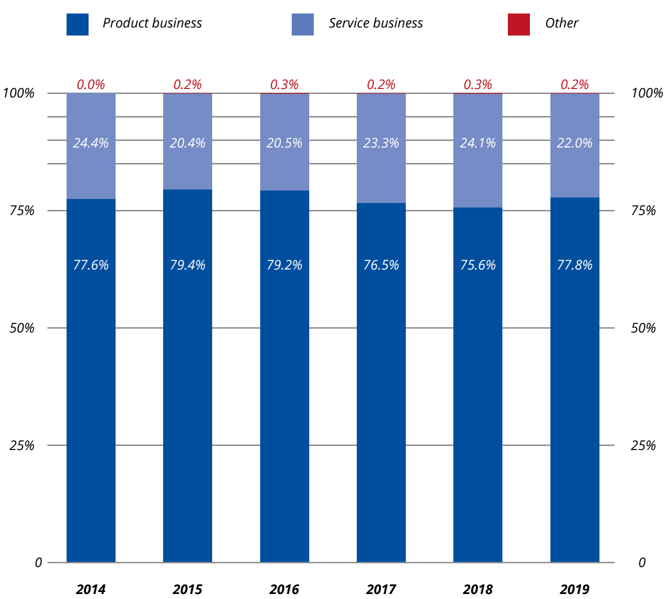
Revenue by segment

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

The Product Business segment contributed revenue of EUR 74,349 thousand in fiscal 2019 (2018: EUR 68,425 thousand), up 8.7% on the previous year. This was essentially as a result of the growth in license and SaaS business. However, consulting revenue in the Service Business segment decreased by 3.3% to EUR 21,075 thousand in the same period (2018: EUR 21,789 thousand), partly on account of modest capacity utilization in some areas of consulting business in this segment, although this had approved again by the end of 2019.

Revenue not allocated to the segments totaled EUR 206 thousand in fiscal 2019 (2018: EUR 273 thousand). Owing to the strong performance of product business in 2019, this segment's share of consolidated revenue climbed from 75.6% in 2018 to 77.8%.

Sales development of the USU Group by segment in %



Operating costs

The operating cost base of the USU Group increased by 4.5% year-on-year to EUR 92,226 thousand in 2019 (2018: EUR 88,280 thousand). In addition to higher staff costs, expenses also rose due to increased non-staff operating costs and amortization and depreciation.

The cost of sales rose by 6.0% as against the previous year to EUR 46,171 thousand in the period under review (2018: EUR 43,553 thousand). This was essentially due to the demand-driven increase in the use of freelance employees and partners in customer projects for product business and the associated increase in fees. Accordingly, the cost of sales as a percentage of consolidated revenue increased slightly from 48.1% in 2018 to currently 48.3%. At the same time, gross income rose from EUR 46,934 thousand in fiscal 2018 to EUR 49,459 thousand in the year under review. The gross margin fell slightly as against the previous year to 51.7% (2018: 51.9%).

In the period under review, marketing and sales expenses increased slightly by 0.4% to EUR 18,864 thousand (2018: EUR 18,795 thousand) as a result of the intensification of USU's activities outside Germany starting in the previous year. By contrast, marketing and selling expenses as a share of revenue declined from 20.8% in 2018 to 19.7% in fiscal 2019.

General and administrative expenses climbed by 14.9% year-on-year to EUR 12,181 thousand in the period under review (2018: EUR 10,598 thousand), mainly as a result of the necessary workforce expansion and higher depreciation and amortization. The ratio of administrative expenses to consolidated revenue rose to 12.7% in the reporting period (2018: 11.7%).

As a result of the workforce expansion in R&D, research and development expenses rose by 3.0% year-on-year to EUR 15,801 thousand in the reporting period (2018: EUR 15,334 thousand), chiefly due to increased staff costs and higher depreciation and amortization. As planned, the ratio of research and development expenses to consolidated revenue was also lower than in the previous year at 16.5% (2018: 16.9%). USU is constantly investing in the development of its product portfolio and always working on innovative, market-driven software solutions. For further information, please see the separate research and development report in this Group management report. In the medium term as well, USU is planning to increase its R&D expenditure in absolute terms while further reducing the ratio of research and development expenses to consolidated revenue on account of strong revenue growth.

Net other operating income and expenses came to a positive total of EUR 1,441 thousand in 2019 (2018: EUR 500 thousand) and mainly included income from research funds in the form of government grants, income from the reversal of provisions, and income and expenses from currency translation differences.

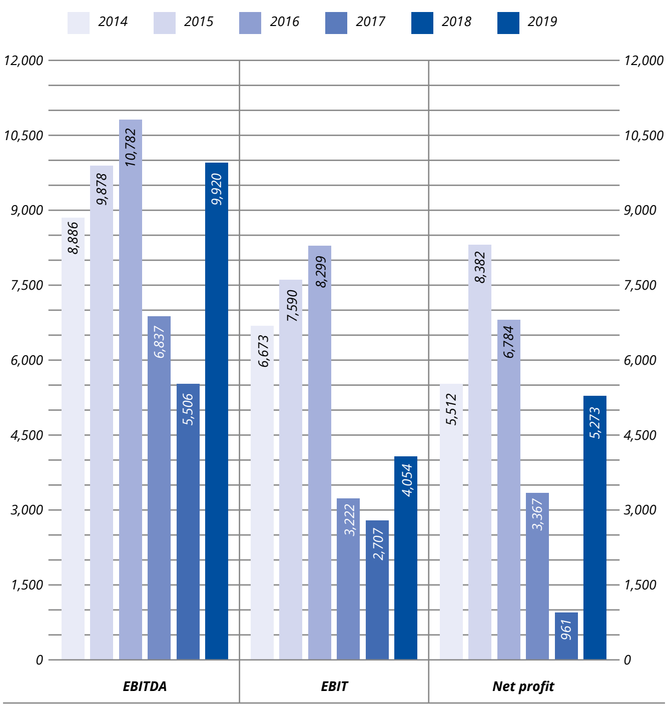
II. 6 Results of operations

As part of the growth in high-margin software license and SaaS business, the USU Group's profitability increased significantly in fiscal 2019 as compared to the previous year. Thus, USU's EBITDA rose by 80.2% as against the previous year to EUR 9,920 thousand (2018: EUR 5,506 thousand). EUR 2,360 thousand of this increase is due to amortization from the initial recognition of leases and rental agreements in accordance with the new IFRS 16. In addition to this amortization, there was also amortization of intangible assets of EUR 1,525 thousand (2018: EUR 1,643 thousand), depreciation of property, plant and equipment of EUR 1,190 thousand (2018: EUR 1,156 thousand) and goodwill impairment of EUR 791 thousand (2018: EUR 0 thousand). The latter resulted from the impairment test of the French subsidiary USU SAS, whose business performance fell short of expectations in the year under review. Adjusted for total depreciation, amortization and impairment of EUR 5,866 thousand (2018: EUR 2,799 thousand), USU generated EBIT of EUR 4,054 thousand in fiscal 2019 (2018: EUR 2,707 thousand). This represents an increase in operating earnings of 49.8% as against the previous year.

Net finance costs amounted to EUR -4 thousand in fiscal 2019 (2018: EUR 104 thousand). This mainly included income and expenses from currency differences in bank balances. In addition, USU generated tax income in the year under review. Income taxes thus amounted to EUR 1,223 thousand (2018: EUR -1,850 thousand). The tax income largely resulted from the capitalization of deferred taxes on tax loss carryfowards in connection with the company's profit transfer agreement with its subsidiary USU GmbH, which was resolved at the Annual General Meeting on July 2, 2019. In accordance with IFRS, USU's tax expense is affected not only by current income taxes but also in particular by deferred taxes on existing tax loss carryforwards.

Overall, consolidated net profit increased five-fold compared to the previous year to EUR 5,273 thousand in 2019 (2018: EUR 961 thousand), translating to earnings per share of EUR 0.50 (2018: EUR 0.09).

Earnings development of the USU Group
in EUR thousand



II. 7 Adjusted consolidated net profit

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

Adjusted consolidated net profit EUR thousand	**Jan. 1, 2019- Dec. 31, 2019**	Jan. 1, 2018- Dec. 31, 2018
Profit from ordinary activities (EBIT)	**4,054**	**2,707**
Amortization of intangible assets recognized in connection with company acquisitions and goodwill amortization	2,172	1,408
Non-recurring effects relating to acquisitions	0	10
- from stay bonus	0	0
- from consulting fees for unitB technology	0	10
- from purchase price adjustments	0	0
- from incidental acquisition costs	0	0
Adjusted EBIT	**6,226**	**4,125**
Finance income (as per consolidated income statement)	104	184
Finance costs (as per consolidated income statement)	-108	-80
Income taxes (as per consolidated income statement)	1,223	-1,850
Tax effects relating to adjustments	-96	-456
- from amortization	-96	-104
- from deferred taxes on tax loss carryforwards	0	-352
Adjusted consolidated net profit	**7,349**	**1,923**
Adjusted earnings per share (in EUR):	**0.70**	**0.18**
Number of underlying shares		
Basic and diluted	10,523,770	10,523,770

Adjusted EBIT increased by 50.9% year-on-year to EUR 6,226 thousand in fiscal 2019 as a result of the growth in high-margin software business (2018: EUR 4,125 thousand). At the same time, USU's consolidated net profit almost quadrupled year-on-year to EUR 7,349 thousand (2018: EUR 1,923 thousand). Accordingly, USU's adjusted earnings per share improved to EUR 0.70 (2018: EUR 0.18).

II. 8 Net assets and financial position

On the asset side of the statement of financial position, the USU Group's non-current assets rose to EUR 67,028 thousand as of December 31, 2019 (December 31, 2018: EUR 57,246 thousand), as a result of the initial application of IFRS 16 and the associated recognition of right-of-use assets. In the same period, current assets declined from EUR 37,898 thousand as of December 31, 2018 to EUR 37,432 thousand, largely as a result of the reduction in unbilled work in progress to EUR 3,482 thousand as of December 31, 2019 (December 31, 2018: EUR 4,526 thousand), while Group liquidity (cash on hand and bank balances including securities) rose to EUR 10,413 thousand (December 31, 2018: EUR 9,450 thousand) in total despite the dividend distribution of EUR 4,209 thousand to USU's shareholders.

On the equity and liabilities side of the statement of financial position, the USU Group's equity increased from EUR 59,665 thousand as of December 31, 2018, to EUR 60,198 thousand as of December 31, 2019 as a result of the increase in profit and despite the dividend distribution in 2019. Debt in the form of the USU Group's current and non-current liabilities rose to EUR 44,262 thousand as of December 31, 2019 (December 31, 2018: EUR 35,479 thousand). This increase is essentially as a result of the adoption of IFRS 16 and the associated first-time recognition of lease liabilities.

With total assets of EUR 104,460 thousand (December 31, 2018: EUR 95,144 thousand), the equity ratio was 57.6% as of the reporting date in 2019 (December 31, 2018: 62.7%). This means that the USU Group still has extensive free liquidity and retains its extremely solid financial position with no liabilities to banks.

II. 9 Cash flows and capital expenditure

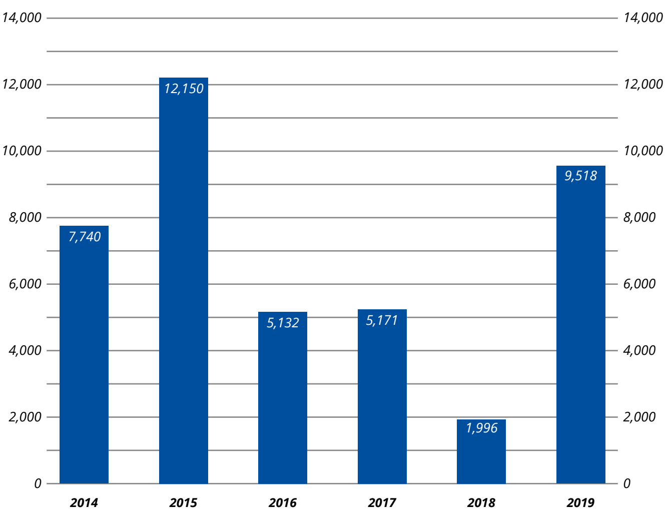
The USU Group had cash funds (not including securities) of EUR 10,413 thousand as of December 31, 2019 (2018: EUR 9,450 thousand). This corresponds to a year-on-year increase of EUR 963 thousand or 10.2%, essentially stemming from the operating cash flow from the profit generated by USU in the year under review.

USU's cash flow from operating activities accordingly climbed significantly from EUR 1,996 thousand in 2018 to EUR 9,518 thousand now. This included a payment of EUR 2,500 thousand for the settlement of pension obligations.

Net cash used in investing activities of EUR -1,816 thousand (2018: EUR -1,138 thousand) primarily includes investments in property, plant and equipment and intangible assets.

The cash flow from financing activities of EUR -6,771 thousand (2018: EUR -4,209 thousand) mainly results from the dividend payment to USU's shareholders of EUR -4,209 thousand (2018: EUR -4,209 thousand), the adoption of IFRS 16 and the associated payments for lease liabilities of EUR -2,318 thousand (2018: EUR 0 thousand) and the repayment of purchase price liabilities in connection with the acquisition of subsidiaries in a total amount of EUR -244 thousand (2018: EUR 0 thousand).

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



II. 10 Current situation of the Group

Thanks to a large number of contracts concluded in Germany and abroad in the final quarter of 2019, as well as a positive start to fiscal 2020 and the associated further expansion of SaaS business, USU is currently well positioned to implement its growth targets successfully in 2020. In the USA, for example, USU already successfully returned to its dynamic growth path in the previous year thanks to the sales and marketing investments outside Germany. Although the expectations for the French subsidiary in 2019 proved to be overly ambitious, the Management Board considers corresponding growth and an improvement in earnings at this company to be realistic for 2020 thanks to the reorganization of the company and the associated implementation of a new sales management system. The underutilization of the consultant team in service business as of the end of 2019 was also successfully countered by acquiring several new and follow-up contracts. Thus, the USU Group is still in an excellent economic situation and anticipates continued high potential for its short- and medium-term future. In particular, the growth pillars of internationalization and innovation are expected to result in average organic revenue growth of 10% over the coming years and at the same time – thanks to the anticipated strong growth in SaaS orders – an increase in the adjusted EBIT margin to between 13% and 15%. Furthermore, USU has a high level of readily available Group liquidity, allowing it to invest in further acquisition-based growth in line with its growth strategy.

II. 11 Development and situation of USU Software AG

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

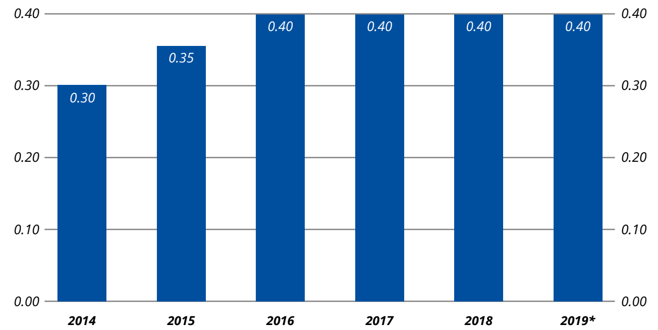
USU Software AG essentially focuses on acquiring and holding equity investments in other companies and on research, which is situated at the company's Karlsruhe site and accounted for a total of 17 of the 49 employees as of December 31, 2019. USU Software AG's main earnings derive from its operating subsidiaries. These include the Group subsidiaries Aspera GmbH ("Aspera"), LeuTek GmbH ("LeuTek") and Omega Software GmbH ("Omega") and USU GmbH, with which the company has profit transfer agreements, as well as the French subsidiary USU SAS and the US subsidiary Aspera Technologies Inc.

USU Software AG generated revenue of EUR 4,891 thousand in fiscal 2019 (2018: EUR 3,803 thousand), primarily from intragroup services and the Katana division, which emerged from our research division and develops and markets solutions for big data and artificial intelligence. In addition, USU generated investment income of EUR 12,646 thousand (2018: EUR 4,149 thousand) from profit transfer agreements with its Group subsidiaries, which was consolidated with the corresponding expenses. The significant increase in this item was chiefly due to the profit transfer from the subsidiary USU GmbH, with which USU Software AG had concluded a profit transfer agreement in the year under review. In the previous year, income from USU GmbH was still reported under “Income from long-term equity investments”. The company’s other operating income of EUR 2,736 thousand (2018: EUR 1,901 thousand) mainly derives from the settlement of intragroup services and grants received in connection with research projects in the Katana division. Other operating expenses totaling EUR 6,583 thousand (2018: EUR 5,903 thousand) essentially include costs for services provided by Group subsidiaries, fees for external services, event and marketing costs, legal and consulting costs, and stock exchange costs. The cost of materials rose to EUR 398 thousand in fiscal 2019 (2018: EUR 198 thousand) due to increased expenses in the Katana division. In this context, staff costs also increased to EUR 4,166 thousand (2018: EUR 3,850 thousand) as a result of the expansion of the workforce to 43 employees (2018: 37 employees). Amortization of intangible assets and depreciation of tangible assets totaled EUR 17 thousand in 2019 (2018: EUR 63 thousand). At the same time, write-downs of financial assets amounted to EUR 750 thousand (2018: EUR 0 thousand). This related solely to the French subsidiary USU SAS. In the fiscal year, write-downs of current assets exceeding the usual write-downs in the corporation amounted to EUR 1,000 thousand (2018: EUR 0 thousand). This relates entirely to a short-time loan granted to a subsidiary. Net interest amounted to EUR -380 thousand (2018: EUR -416 thousand) and essentially consisted of interest payments to subsidiaries.

As a result of the significant increase in income, income taxes rose to EUR -941 thousand (2018: EUR -69 thousand). Including other taxes of EUR 1 thousand (2018: EUR -26 thousand), USU Software AG as a standalone company reported net profit of EUR 6,066 thousand for fiscal 2019 (2018: EUR 4,318 thousand). This corresponds to a 40.5% increase in profit as against the previous year. Including the profit carried forward from the previous year of EUR 2,074 thousand (2018: EUR 1,965 thousand), the company generated an unappropriated surplus of EUR 8,140 thousand (2018: EUR 6,284 thousand). As in previous years, this is to be used in particular to pay a dividend to all shareholders of USU Software AG. In accordance with the company’s communicated dividend policy, whereby the dividend should never be less than in the previous year and should amount to roughly half the profit generated, the Management Board is proposing, subject to the approval of the Supervisory Board, a dividend distribution equal to the previous year’s level of EUR 0.40 (2018: EUR 0.40) per share for fiscal 2019.

Thus, as a standalone company, USU Software AG achieved its planned revenue and earnings growth for 2019.

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



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

In terms of assets, USU Software AG’s fixed assets were down slightly on the previous year at EUR 48,771 thousand as of the end of fiscal 2019 (2018: EUR 49,430 thousand), particularly as a result of amortization of intangible assets. Current assets rose significantly to EUR 18,366 thousand as of December 31, 2019 (2018: EUR 11,665 thousand), primarily due to increased receivables from affiliated companies as a result of outstanding profit transfer payments by the subsidiaries. Accordingly, the company’s liquidity also decreased to EUR 452 thousand as of the reporting date December 31, 2019 (2018: EUR 1,692 thousand). However, this item will increase significantly again as a result of profit transfer payments from subsidiaries. Under equity and liabilities, USU Software AG significantly increased its equity to EUR 32,308 thousand (2018: EUR 30,452 thousand) as a result of the increase in profit and despite the dividend distribution in the reporting year. At the same time, total liabilities rose from EUR 30,753 thousand as of December 31, 2018 to currently EUR 34,959 thousand, essentially as a result of increased liabilities to the company’s subsidiaries. With increased total assets of EUR 67,321 thousand (2018: EUR 61,253 thousand), the equity ratio of USU Software AG fell slightly to 48.0% as of the end of fiscal 2019 (2018: 49.7%).

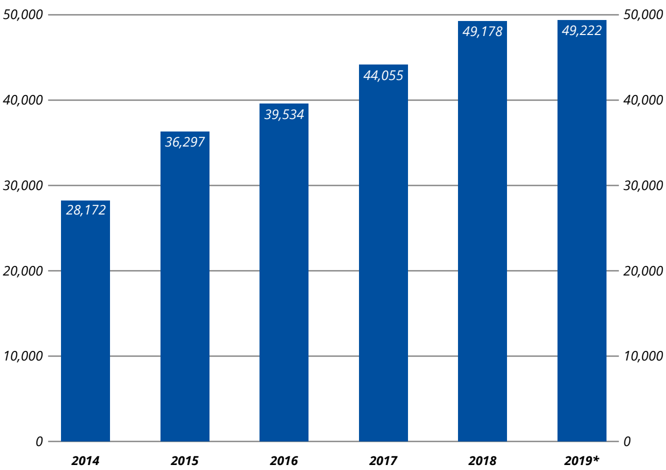
USU Software AG’s focus on investment business means that the company will remain highly dependent on the performance of its subsidiaries, particularly Aspera, LeuTek and USU GmbH, in future years. Information on the resulting risks and opportunities can be found in the Group risk report. For 2020, the Management Board expects USU Software AG as a single company to see a slight increase in sales and earnings compared to the previous year in the low single-digit percentage range and, in this respect, the continuation of the positive business development.

II. 12 Orders on hand

The USU Group's orders on hand increased slightly to EUR 49,222 thousand as of the end of fiscal 2019, up 0.1% on the figure for the previous year (December 31, 2018: EUR 49,178 thousand). This also represented a new record for orders on hand as of the end of a fiscal year.

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

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

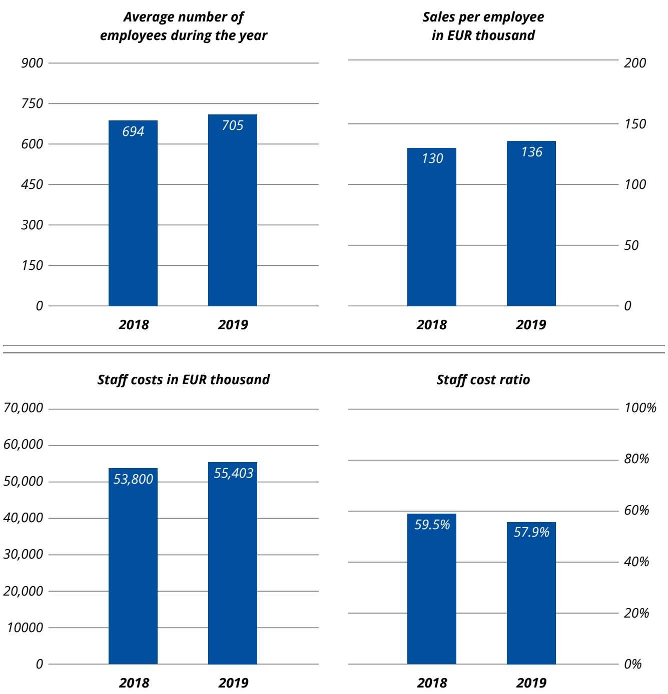


II. 13 Employees

The USU Group expanded its workforce by 2.4% year-on-year to 711 employees as of December 31, 2019 (2018: 694). USU thus expanded the Group workforce again in 2019 as planned, despite the shortage of qualified staff in the IT sector. Broken down by function, USU employed a total of 312 (2018: 318) people in consulting and services, 200 (2018: 194) in research and development, 100 (2018: 93) in sales and marketing and 99 (2018: 89) in administration as of December 31, 2019. Broken down by segment, USU had 507 (2018: 496) employees in the Product Business segment, 105 (2018: 109) in the Service Business segment and 99 (2018: 89) in central USU Group functions. Group employee figures do not include the three members of the Management Board of USU Software AG, 147 freelance staff who can be employed for project work as required, 14 temporary workers, 15 trainees/dual study students or 17 interns/student workers.

The average total workforce of the USU Group increased to 705 employees in fiscal 2019 (2018: 694). With consolidated revenue of EUR 95,630 thousand (2018: EUR 90,487 thousand), the average revenue contribution per employee rose from EUR 130 thousand in 2018 to currently EUR 136 thousand. Staff costs grew by 3.0% year-on-year to EUR 55,403 thousand (2018: EUR 53,800 thousand) as a result of recruitment and salary increases in fiscal 2019. As a result of the much greater increase in revenue, the cost of sales as a percentage of consolidated revenue fell to 57.9% (2018: 59.5%).

Key personnel figures
of the USU Group



Following the targeted increase in the Group's workforce in 2019, the Management Board is also planning further expansion of the workforce in fiscal 2020 and beyond in order to achieve the medium and long-term growth targets. The number of employees is therefore expected to increase to around 800 by December 31, 2021. In addition to the acquisition of highly qualified technical and management employees, personnel measures will also focus on the motivation and retention of existing staff. A variable component in the salaries of a substantial number of USU employees should also be seen in this context. Variable components act as an additional performance incentive that separately rewards both the attainment of individual targets and the success of the respective unit, the company and the Group as a whole. In addition, the Group also offers an extensive and flexible employee company car scheme. The USU Group also consistently invests in the development and further training of its workforce as part of the "USU – U Step Up" career model. Through this program, USU offers its employees and managers personal development opportunities in the form of ongoing refresher and consolidation courses in addition to specialist training courses and the further development of soft skills. A common system of values, rapid information exchange, a family-like working environment and numerous staff events round off the diverse range of measures aimed at developing and motivating the USU Group's workforce over the long term.

Proof of the positive corporate culture can be found in the 2018 results of the employer assessment platform kununu, which awarded USU GmbH quality seals such as "Top Company" and "Open Company". From a positive working atmosphere with a feel-good factor to the variety of duties and management conduct – USU's employees are satisfied to very satisfied with their company in practically all assessment criteria. This is confirmed not least by the current recommendation rate of 83%. USU is thus part of an exclusive group of top employers.

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

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

As planned, the share of women in the USU Group's workforce increased year-on-year to 28.9% in Germany as of the end of fiscal 2019 (2018: 27.3%).

III. EVENTS AFTER THE REPORTING DATE

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

IV. FORECAST, REPORT ON RISKS AND OPPORTUNITIES

IV. 1 Forecast

General economy

Currently the OECD regards the spread of the coronavirus (Covid-19) as the biggest danger for the global economy since the 2008/09 financial crisis. It is to be expected that the spread of Covid-19, which has been classified as a pandemic by the WHO as of march 11, 2020, will result in a material worsening of the general economic development. And the full extent of the impact on the economic development of Germany cannot yet be foreseen. The Kiel Institute for the World Economy (IfW) [5] now anticipates an economic slump as a result of the coronavirus. GDP in Germany is thus like to contract by 0.1 percent in 2020, and then gain by 2.3 percent in 2021. Such an economic V effect is also anticipated for the eurozone and the world economy.

Sector

According to the digital industry association Bitkom [6], the digital sector is still experiencing an upturn and will further increase its revenue in 2020. According to Bitkom's calculations, the German IT market alone is set to grow by 2.7% (2019: 2.9%) to EUR 95.4 billion in 2020 (2019: EUR 92.9 billion). "The stable growth of the Bitkom industry reflects the advancing digitalization of the economy, government and society," says Bitkom President Achim Berg, adding: "Companies are changing their organizational structure and developing digital strategies, which is stimulating demand for IT consultancy and software applications." Accordingly, Bitkom anticipates the highest growth rates for the software and IT services market segments in 2020. The software market is thus expected to increase by 6.4% (2019: 6.3%) to EUR 27.6 billion (2019: EUR 26.0 billion), while the market for IT services is expected to grow by 2.4% (2019: 2.4%) to EUR 41.9 billion (2019: EUR 40.9 billion).

In terms of the global IT market, the "IT Spending Forecast" published by the market research company Gartner [7] on

[5] *Kiel Institute Economic Outlook: GDP expected to shrink in 2020, March 12, 2020*

[6] *cf. BITKOM press release dated January 14, 2020, published at www.bitkom.org*

October 23, 2019, forecasts a year-on-year increase in IT expenditure of 3.7% (2019: 0.4%) to USD 3,872 billion in 2020 (2019: USD 3,732 billion). Gartner thereby confirms that the dip in growth in 2019 was only a temporary effect and that growth momentum will pick up again in the current year.

Neither BITKOM nor Gartner currently has any current forecasts about the effects of the Covid 19 crisis on the IT industry.

Outlook

The Management Board expects the USU Group to return to its long-term growth trend in 2020 before taking into account the potential impact of the Covid-19 crisis. Contributing factors here include the strong software-as-a-service (SaaS) business, which led to SaaS revenue of EUR 6,917 thousand in 2019 with corresponding SaaS orders on hand, as well as the anticipated new SaaS orders this year, with the Management Board expecting SaaS to account for a good third of new product orders. The Management Board therefore also anticipates strong software license business despite the trend towards SaaS. This is expected to result both from Germany and from international business, which will particularly originate from the growing US market. The USU Group's partner business is also expected to contribute to an increase in the international share of consolidated revenue again. Following the reorganization of the French subsidiary USU SAS and the associated realignment of this company's sales management, the Management Board also considers corresponding growth and an improvement in earnings at this company in 2020 to be realistic. Finally, the service orders gained in the fourth quarter of 2019 combined with new orders in 2020 will lead to high utilization of the consultant team and accordingly positive service business.

The Management Board expects a further significant expansion in consolidated revenue and consolidated earnings in the current year. Accordingly, the Management Board is forecasting an increase in consolidated revenue to between EUR 102 million and EUR 105 million in 2020, accompanied by a rise in adjusted EBIT to between EUR 7.5 million and EUR 10 million. The Management Board is also confirming the USU Group's medium-term planning, which includes average organic revenue growth of 10% in the next few years and an increase in the operating margin on adjusted EBIT to 13% – 15% by 2024.

These forecasts do not include any consequences of the global Covid-19 crisis, as the scenarios and their impact on license and consulting revenues are unclear. However, the Management Board anticipates positive adjusted EBIT in fiscal 2020 even in the event of a significant deterioration in the current situation.

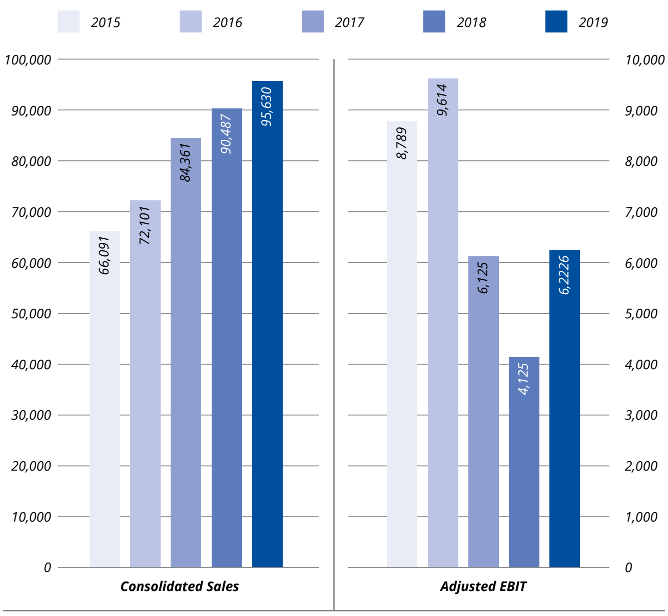
Strategic planning focuses on the three established growth pillars of the USU Group: increased internationalization, the development and launch of new product innovations and growth through acquisitions.

The Group subsidiaries USU GmbH, Aspera GmbH and LeuTek GmbH will be the main revenue drivers in fiscal 2020. As a separate company, the Group's parent company, USU Software AG, will again focus on research projects, the development and marketing of industrial big data products in the environment of Industry 4.0 in KATANA and the performance of services for the Group companies as well as the acquisition and holding of equity investments in IT companies, and thus continue to participate in the business performance of the company's subsidiaries.

Based on the above assumptions, the Management Board is in turn planning to enable the shareholders of USU Software AG to participate significantly in the company's operating success in fiscal 2020, as in previous years, and to continue the shareholder-friendly dividend policy with the distribution of a dividend that is never lower than in the previous year and that amounts to around half of the profit generated.

[7] *cf. Gartner press release dated October 23, 2019, published at www.gartner.com*

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



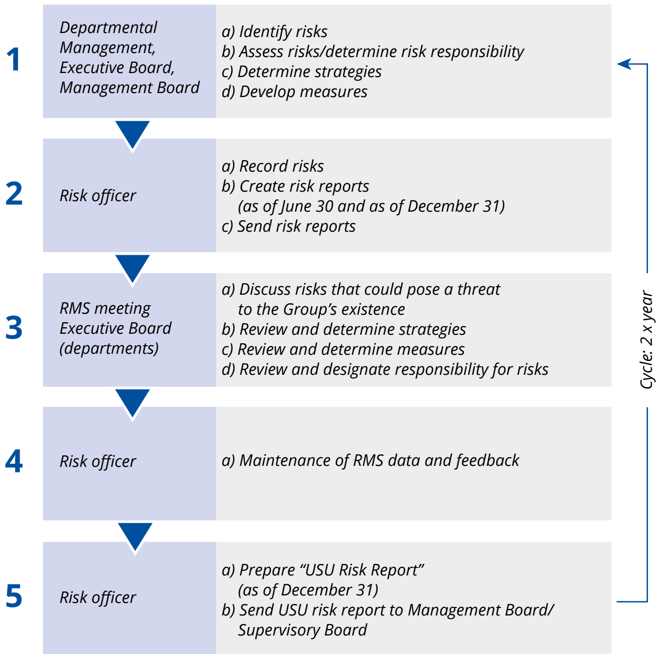
IV. 2 Risk report

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

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

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

Risk management process of the USU Group



The process of risk management begins with the identification and recording of relevant risks by the Management Board, the top management and the relevant departmental managers of the respective Group subsidiaries. Risks are analyzed, documented and assessed in terms of the potential loss they may cause and the likelihood of their occurrence.

A risk matrix is used to visualize and classify the results. Depending on the resulting risk classification, specific strategies and measures are then defined and implemented in order to control and manage the risk.

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

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

Qualitative assessment

Term	Potential loss (in EUR)
Insignificant	5,000
Low	50,000
Medium	150,000
Serious	500,000
Posing a threat to the company as a going concern	3,000,000

Probability of occurrence

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

Market risk
In view of the unstable global economic development, analysis of the market and competitive situation remains an essential component of risk management at USU Software AG and its subsidiaries, particularly with regard to the forecast and planning security of the company and its subsidiaries, ensuring capacity utilization, and competitive pressure. The spread of COVID 19, which was classified as a pandemic by the WHO on March 11, 2020, will result in a material worsening of the general economic development. One key focus here is market diversification in order to make the Group's business performance less dependent on the core German market or individual business areas, while also tapping new growth markets. The business growth at the Group subsidiary Aspera Technologies and the deeper penetration of the US and Canadian markets, in addition to the ongoing expansion of European business, have allowed the international share of consolidated revenue to stabilize at approximately 30% despite the strength of domestic business and the growing customer preference for SaaS. At the same time, the Management Board sees a major opportunity in the further expansion of international business with regard to the future operating performance of the company and of the Group as a whole. However, it cannot rule out the possibility that diminishing economic momentum in the regions where USU operates could have a negative impact on the IT sector and thus restrict the development of USU Software AG and its subsidiaries. For this reason, one key focus here in 2020 will be to improve the earnings of the French USU subsidiary USU SAS, which is to be achieved partly as a result of the restructuring implemented in 2019 and the associated reorganization of the sales team. Another key focus will be to ensure capacity utilization in the consultant team, particularly in the service segment.

A total of eight individual risks are allocated to market risk. After risk abatement measures, one market risk is regarded as "posing a threat to the company as a going concern," although its probability of occurrence is classified as "unlikely." In addition, six market risks are classified as "serious", three of which are considered "likely", two "possible" and one "unlikely." The remaining market risk is classified as "medium" after risk abatement measures, with its probability of occurrence classified as "unlikely."

Product risk
The internally developed software sold by USU Software AG and its subsidiaries is also offered as a software-as-a-service solution. Continuous availability of the SaaS platform plays a particularly important role here.

A potential attack on the SaaS platform could lead to disruptions in performance, which might result in claims for damages by the client or negative contribution margins for the project in question. In order to minimize such product risks, the USU Group applies extensive quality management and continuously checks the availability and security of its own SaaS products.

One individual risk is allocated to product risk. After risk abatement measures, this product risk is classified as "serious" and its probability of occurrence is rated "possible."

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

A total of five individual risks are allocated to project risk. After risk abatement measures, four project risks are classified as "serious," three of which are considered "possible" and the other "unlikely." One project risk was also classified as "medium" with regard to the potential loss and "unlikely" with regard to the probability of occurrence.

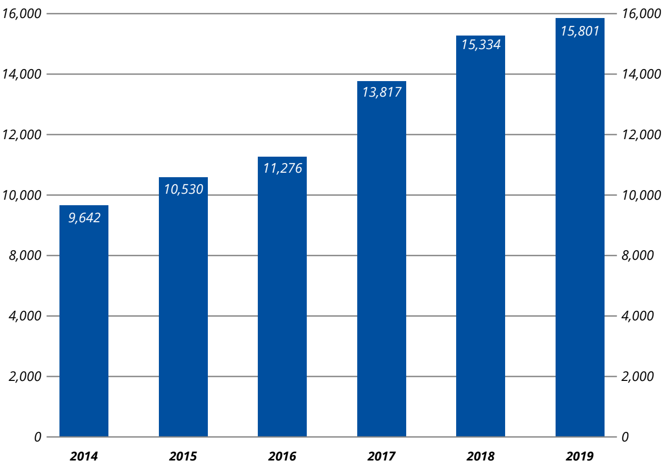
Legal risk
In their operations, USU Software AG and its subsidiaries are exposed to a large number of potential legal risks ranging from warranty and liability risks from existing contracts, to product liability and data protection risks, to legal risks in connection with the stock exchange listing. In order to minimize such risks, the USU Group has appointed an in-house legal advisor and regularly trains its employees on relevant legal issues, such as legally compliant processing of personal data in accordance with the GDPR.

A total of six individual risks are allocated to legal risk. After risk abatement measures, three legal risks are classified as "serious," two of which are considered "possible" and the other "likely." The other three legal risks are classified as "medium" in terms of their potential loss. With regard to their probability of occurrence, one of these is classified as "possible" and the other two as "unlikely."

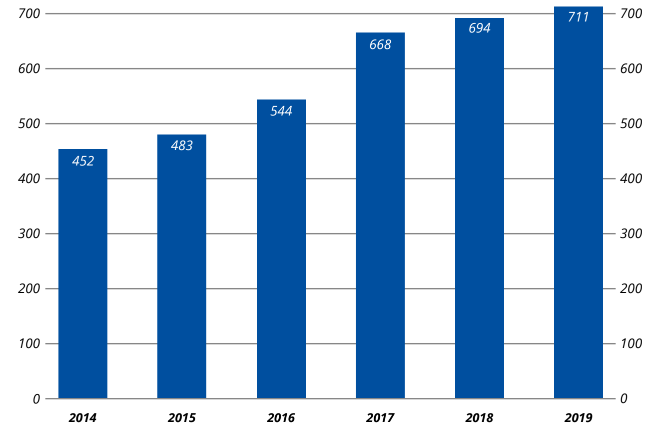
Service risk
Service risk chiefly relates to the company's forecast and projection reliability and the risk of damage to its image if it repeatedly fails to achieve it projections. To counteract this, the Management Board has implemented measures to improve forecasting methods, expanded sales management, and revised the CRM system. A total of two individual risks are allocated to service risk. After risk abatement measures, one service risk is regarded as "posing a threat to the company as a going concern" and its probability of occurrence is classified as "likely." The second service risk is considered to be "medium" with a probability of occurrence of "possible."

Research and development risk
Intense competition and specific customer attitudes require extremely short development cycles for new product versions and releases, as well as the integration of third-party products. At the same time, demands are constantly increasing as a result of rapid technological change and potential hacker attacks. In order to take this development into account, the USU Group maintains its research and development activities at a consistently high level, using the resources of its own development company USU Software s.r.o. in Czechia in particular in addition to local resources. A total of 200 employees work on continuously refining the Group's internally developed software products to reflect market developments and the demands of product management. The development process is rounded off with tests and quality management measures. Close contact with leading market analysts ensures that any technical changes can be addressed rapidly. As a technology pioneer, the USU Group also devises its own innovations with the aim of permanently improving and extending its product portfolio and connects leading third-party products to its own product portfolio. Protecting the Group's own software products from potential hacker attacks is also very important. A total of two individual risks are allocated to research and development risk. After taking the measures implemented into account, one research and development risk is considered to be "serious" and the other R&D risk is considered to be "medium". In terms of probability of occurrence, both of the research and development risks are declared "possible".

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



Development of the USU Group's workforce



Personnel risk

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

The professional development of employees in accordance with their various needs is equally important within the Group as a whole. Specific training and development opportunities, an extensive talent development, career and progression model and numerous employee events help to improve the retention of professional staff and managers. A positive corporate culture also helps us to improve our success rate in attracting and retaining qualified employees on a long-term basis.

A total of nine individual risks are allocated to personnel risk. After risk abatement measures, eight personnel risks are classified as “serious” and one as “medium.” Among the personnel risks with a potential “serious” loss, seven are considered “possible” and one “unlikely,” while the personnel risk with a potential “medium” loss is considered “unlikely.”

Management risk

The successful management and further development of USU Software AG and its subsidiaries is the responsibility of the Management Board and the entire management team of the USU Group. The loss of managers, for example in accidents on shared journeys, could cause significant damage to the company. For this reason, shared journeys by the USU management with one means of transport are avoided wherever possible.

One individual risk is allocated to management risk. After risk abatement measures, this management risk is classified as “serious” and its probability of occurrence is rated “almost impossible.”

IT risk

As software and IT companies, USU Software AG and its subsidiaries are dependent on the long-term functionality and security of their Group-wide data centers, networks and IT systems. Dependency on IT infrastructure is also increasing on account of the dynamically growing share of in-house SaaS products. A complete or partial failure of IT systems, including due to sabotage, theft, fire or water damage, could therefore have an adverse effect on the Group’s business development.

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

IT risk consists of nine individual risks. After risk abatement measures, two of these are classified as "serious" with a probability of occurrence of "possible," while six risks are considered to have a "medium" potential loss, three of which have been declared "likely," two "possible," and one "unlikely" in terms of their probability of occurrence. Finally, the potential loss for one IT risk is classified as "low" and its probability of occurrence as "unlikely."

Financial risk

With funds of more than EUR 10 million as of December 31, 2019, USU Software AG has extensive Group-wide financial resources for future investment, for potential acquisitions and to secure its operating business. These funds are predominantly deposited in short-term investments to generate interest income. The Group is therefore exposed to the risk of a partial or complete loss of one or more such investments. To limit the risk of financial loss, the company therefore only invests in low-risk investments with short terms to maturity. It does not invest in speculative securities or shares. Financial risks also includes goodwill risk, default risk and exchange rate risk

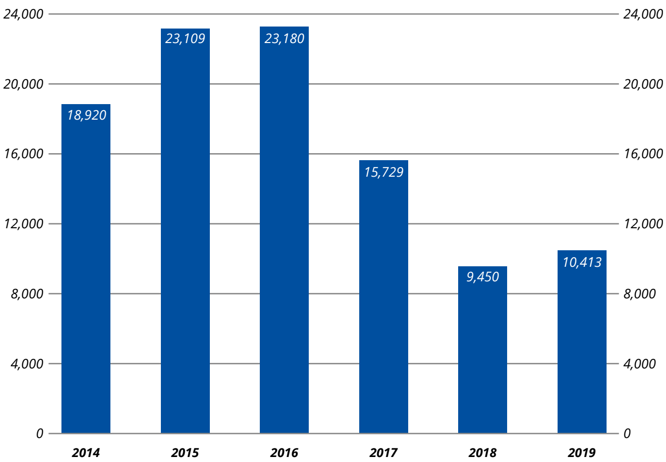
Instead of being amortized, the goodwill reported in the consolidated statement of financial position is now subject to impairment testing at least once a year in accordance with IFRS 3. Impairment testing can result in either the confirmation of the reported goodwill or in a write-down that serves to reduce net profit for the period, which could have a negative impact on the net assets, financial position and results of operations of USU Software AG.The impairment test performed in fiscal 2019 revealed a need to adjust the goodwill of the French subsidiary USU SAS, although this company is expected to achieve a turnaround in 2020. In light of the expected positive operating business development of USU Software AG and the Group as a whole, the Management Board does not expect any impairment losses on goodwill with an adverse effect on net profit in the following year.

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

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

Financial risk consists of 11 individual risks and is regarded overall as "posing a threat to the company as a going concern" after risk abatement measures. One individual risk is classified as "posing a threat to the company as a going concern," five as "serious," four as "medium," and one as "low." In terms of probability of occurrence, six risks are classified as "possible", three as "unlikely" and two as "almost impossible."

Development of the USU Group's liquidity
in EUR thousand



IV. 3 Report on opportunities

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

With its innovative product portfolio geared towards high-growth segments of the IT market, the USU Group has ideal conditions for continuing to significantly expand its business with both new and existing customers in the coming years.

In addition to the core domestic market, excellent growth potential is offered in particular by further expansion of the USU Group's international presence.

This is based firstly on targeted growth in the Group's own activities in Europe and the US, and secondly on the global partnership agreement with the US software group CA Technologies and the further expansion of the Group's global presence and the worldwide USU partner network. This area also includes the targeted growth and the improvement in earnings at the French subsidiary USU SAS as a result of the restructuring and reorganization of sales implemented at this company.

Another core element of the USU Group's growth strategy is rounding off its product portfolio with new product innovations. USU has a dedicated research unit that has already contributed a new division to the USU Group portfolio in the form of Katana. This division, which develops and markets solutions for the future markets of big data and artificial intelligence (AI), offers huge growth opportunities in the medium term. The acquisition of additional technical and management employees and the associated expansion of the Group's workforce also represents a major opportunity to fully exploit the existing growth options. Finally, the USU Group's growth strategy also includes external growth in the form of acquisitions or equity investments in companies. Accordingly, USU ensures that it has extensive Group liquidity for future acquisitions so that it can take advantage of acquisition opportunities that arise in a timely and flexible manner.

V. ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

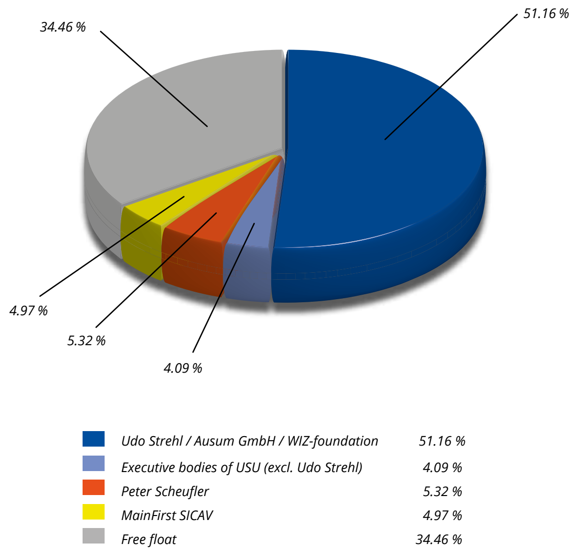
The regular upskilling of the employees involved in the accounting process and the timely investigation of new or amended accounting-related provisions serve to ensure that the preparation of the (consolidated) financial statements is up-to-date at all times.

VI. TAKEOVER DISCLOSURES

VI. 1 Issued capital, shares and shareholder structure

As of December 31, 2019, a total of 10,523,770 (2018: 10,523,770) no-par value bearer shares in USU Software AG had been issued, with the same number of voting rights and a notional interest in the share capital of EUR 1.00 per share. A total of 5,384,013 (2018: 5,377,014) of these are held by the main shareholder and Chairman of the Supervisory Board of the company, Udo Strehl, corresponding to 51.16% (2018: 51.09%) of the share capital. 5,000 (2018: 5,000) of these shares are held by him directly and a further 5,347,013 (2018: 5,340,014) shares are held by AUSUM GmbH, in which Udo Strehl is the majority shareholder. A further 32,000 (2018: 32,000) shares in USU Software AG are allocable to Udo Strehl through the “Knowledge is the Future” Foundation, of which he is the sole director. A total of 5.32% of the share capital of USU Software AG, or 560,192 shares, was attributable to Peter Scheufler, a former shareholder in LeuTek, as of December 31, 2019, according to his notification to the company. Another shareholder in excess of the notification threshold of 3% is MainFirst SICAV, which informed the company that it held a total of 522,864 shares in the company as of December 31, 2019, corresponding to 4.97% of the voting rights.

Shareholder structure of USU Software AG
as of December 31, 2019



VI. 2 Management Board authorizations to issue and repurchase shares

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

By way of resolution of the Annual General Meeting on March 2, 2000, the share capital of USU Software AG was further contingently increased by EUR 757 thousand through the issue of 756,911 no-par value bearer shares for the purpose of granting options to members of the Management Board and employees of the company and affiliated companies (“Contingent Capital”). By way of resolution of the Annual General Meeting on July 15, 2004, Contingent Capital was reduced to EUR 378 thousand. The Contingent Capital increase can only be exercised to the extent that the bearers of the options issued exercise their rights. There were no outstanding options as of December 31, 2019.

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

Statutory provisions and Articles of Association of USU Software AG

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

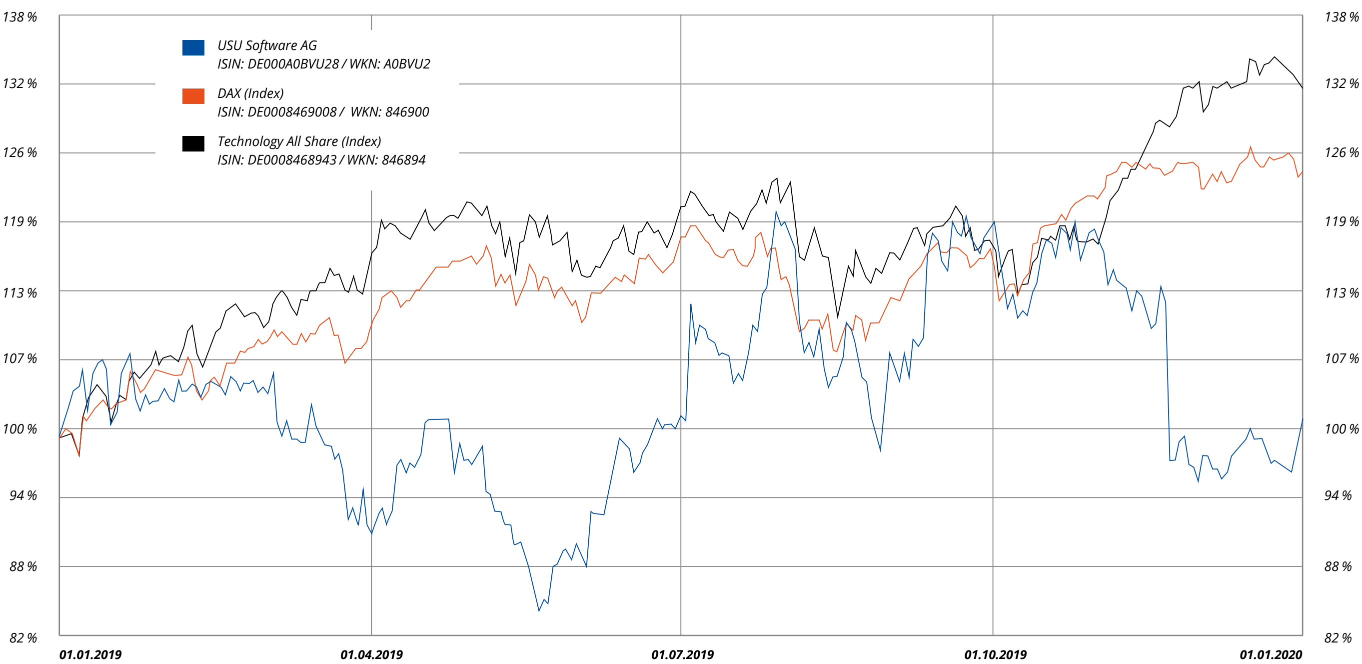
VI. 3 USU SHARES (ISIN DE000A0BVU28) (UNAUDITED)

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

VI. 4 Share price performance

After a positive start, the stock markets continued to rise over the course of 2019 despite the increasingly noticeable economic slowdown. The DAX posted a significant gain of 25.5% compared to the previous year, closing at 13,249 points on the XETRA electronic trading platform as of December 31, 2019 (December 31, 2018: 10,559 points), while the Technology All Share-Index rose by 32.3% to 3,709 points in the same period (December 31, 2018: 2,802 points). By contrast, USU's shares underperformed relative to the benchmark indices with a gain of 0.3% to EUR 15.80 (December 31, 2018: EUR 15.75) on XETRA as a result of the necessary forecast adjustment at the end of 2019.

Share price performance of USU Software AG in 2019



VII. COMPENSATION REPORT

Compensation of the Management Board

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

In fiscal 2019, the compensation for the Management Board of USU Software AG amounted to EUR 820.5 thousand (2018: EUR 888.0 thousand), including all compensation paid to the Management Board within the Group. Bernhard Oberschmidt, the Chairman of the Management Board of USU Software AG, is also President of the subsidiary USU (Schweiz) AG i.L. and the Managing Director of the subsidiaries Openshop Internet Software GmbH, USU Consulting GmbH i.L. and USU Austria GmbH.

Individual compensation of the Management Board for fiscal 2019 — *in EUR thousand*

	Bernhard Oberschmidt Chairman of the Management Board		Bernhard Böhler Management Board		Dr. Benjamin Strehl Management Board	
	2019	2018	**2019**	2018	**2019**	2018
Fixed compensation	184.0	184.0	160.0	160.0	132.0	132.0
Fringe benefits	25.5	25.5	11.0	11.4	13.0	13.0
Total	**209.5**	**209.5**	**171.0**	**171.4**	**145.0**	**145.0**
One-year variable compensation	75.0	120.0	87.5	75.0	65.0	100.0
Long-term variable compensation	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**284.5**	**329.5**	**258.5**	**246.4**	**210.0**	**245.4**
Pension expenses	22.5	22.4	22.5	22.4	22.5	22.4
Total compensation	**307.0**	**351.9**	**281.0**	**268.8**	**232.5**	**267.4**

Compensation of the Supervisory Board

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

The Deputy Chairman of the Supervisory Board receives an amount of EUR 20.0 thousand, while the Chairman of the Supervisory Board receives EUR 70.0 thousand. Members of the Supervisory Board also receive variable compensation each year that is dependent on EBITDA, as reported in either the combined management report or the Group management report, in relation to the reported consolidated revenue. A premium of 10% of the fixed annual compensation is paid per year as variable compensation for each full percentage point by which EBITDA exceeds 8% of consolidated revenue. This is subject to a cap on total compensation of 200% of the fixed annual compensation. EBITDA amounted to 10.4% of consolidated revenue in fiscal 2019. The variable compensation of the USU Software AG Supervisory Board thus amounted to 20% of the basic fixed compensation of the individual members of the Supervisory Board.

The compensation of the Supervisory Board of USU Software AG amounted to EUR 129 thousand in total in fiscal 2019 (2018: EUR 101.9 thousand). In addition, USU Software AG generated income of EUR 18 thousand in the year under review from the reversal of the remaining provision for Supervisory Board compensation from 2018. This breaks down as follows between the individual Supervisory Board members in 2018: Udo Strehl: EUR 12 thousand, Erwin Staudt: EUR 3 thousand, and Günter Daiss: EUR 3 thousand.

Individual compensation of the Supervisory Board for fiscal 2019 *in EUR thousand*

	Fixed compensation USU Software AG	Variable compensation USU Software AG
Udo Strehl	70	14
Erwin Staudt	20	4
Gabriele Walker-Rudolf	17.5	3.5

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

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

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

In accordance with section 161 AktG, the Management Board and Supervisory Board of a listed company must make an annual declaration on the extent to which these recommendations have been, and will be, complied with, providing reasons for any cases of non-compliance. The Management Board and Supervisory Board of USU Software AG have made an express commitment to implementing the major recommendations of the Code and submitted the following declaration of conformity for 2017 on December 11, 2018, making it available on the company's website:

"The Management Board and Supervisory Board of USU Software AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as amended February 7, 2017, have been complied with since the last declaration of conformity dated December 11, 2018, and will continue to be complied with in the future, whereby the following recommendations have not been and will not be implemented:

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

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

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

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

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

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

The Management Board grew from one to three members as of October 1, 2014 and has been made up of three male members ever since. Bernhard Böhler stepped down as a member of the Management Board as of December 31, 2019. There are currently no plans to replace him. Based on the other current Management Board contracts, no changes are envisaged at least until June 30, 2021. At its meeting on December 12, 2019, the Supervisory Board therefore set a target for the share of women of zero by June 30, 2021.

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

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

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

With regard to its composition, the Supervisory Board of USU Software AG bases its decisions on the professional and personal suitability of the persons in question, taking into account their knowledge, skills and professional experience required to properly fulfill their duties. A general age limit and a restriction on the length of membership for the Supervisory Board members of USU Software AG has not been and is not intended, as is also the case for a general gender requirement, as the company does not wish to deprive itself indiscriminately of the potential offered by older, experienced and renowned figures in the composition of the Supervisory Board. In addition, a specification of this type would, in the company's opinion, inappropriately limit the shareholders' right to vote at the Annual General Meeting. The Supervisory Board consists of two male members who were re-elected for another term of office in line with the Articles of Association at the Annual General Meeting on June 17, 2016, and one female member who was also elected until the end of the term of office in line with the Articles of Association at the Annual General Meeting on July 2, 2019. At its meeting on December 12, 2019, the Supervisory Board set a target of 33% for the share of women on the Supervisory Board by June 30, 2021, and confirmed the profile of skills and expertise for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. The Supervisory Board believes that at least two of its three members should be independent shareholder representatives.This target is achieved with the independent members Gabriele Walker-Rudolf and Erwin Staudt.

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

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

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

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

Möglingen, December 12, 2019

Signed

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

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

VIII. 2 Diversity concept

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

As early as 2015, the Management Board of USU Software AG resolved that diversity must be taken into account when filling management positions at all levels below the Management Board of USU Software AG and its affiliated companies, and that appropriate consideration should be given to women in this regard. In the USU Group, the share of women at the first management level below the Management Board is zero. At the second level below the Management Board, this figure is 11.7%, which is higher than the target defined by the Management Board. The Management Board had set a target of zero for the share of women at the first management level and 10% at the second management level, with June 30, 2021 as a deadline to achieve these targets. As such, these targets were already met or exceeded in the 2019 reporting year.

The Management Board grew from one to three members as of October 1, 2014 and has been made up of three male members ever since. Bernhard Böhler stepped down as a member of the Management Board as of December 31, 2019. There are currently no plans to replace him. Based on the other current Management Board contracts, no changes are envisaged at least until June 30, 2021. At its meeting on December 12, 2019, the Supervisory Board therefore set a target for the share of women of zero by June 30, 2021.

The Supervisory Board consists of two male members who were re-elected for another term of office in line with the Articles of Association at the Annual General Meeting on June 17, 2016, and one female member who was also elected until the end of the term of office in line with the Articles of Association at the Annual General Meeting on July 2, 2019. At its meeting on December 12, 2019, the Supervisory Board set a target of 33% for the share of women on the Supervisory Board by June 30, 2021, and confirmed the profile of skills and expertise for the Supervisory Board. This profile requires the members of the Supervisory Board to have the following skills in particular: (1) Several years of experience as an entrepreneur or a member of management at a medium-sized or large company and (2) several years of professional experience in national and international sales within the IT industry. These skills are fully covered by the existing Supervisory Board. The Supervisory Board believes that at least two of its three members should be independent shareholder representatives.This target is achieved with the independent members Gabriele Walker-Rudolf and Erwin Staudt.

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

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

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

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

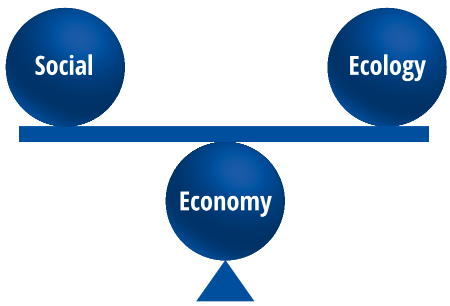
The Supervisory Board also adopts the single-entity financial statements and approves the consolidated financial statements. Detailed information on the activities of the Supervisory Board is provided annually in the report by the Chairman of the Supervisory Board to the shareholders present at the Annual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

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

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

IX. NON-FINANCIAL GROUP DECLARATION (UNAUDITED)

The principles of sustainable action are a core element of USU's business activities. The USU Group defines sustainable action as striking the right balance between the three dimensions of sustainability – economic, ecological and social – and incorporating the interests of stakeholders into its decision-making processes. USU is aware that this is a complex process and that interdependencies cannot always



be fully assessed in advance. However, USU endeavors to continuously challenge itself and develop in order to ensure that its actions make a positive contribution to its stakeholders and society. USU designs value-adding and exchange processes based on the market, the environment and society. The Management Board and the company's managers and employees accept their responsibility. Sustainability and socially and ethically aware actions have been implicitly practiced at the USU Group since its formation and are a fixed element of its corporate culture. For USU, this is a continuous improvement process that we can only achieve by maintaining a constant dialog with our stakeholders.

Social responsibility at USU Software AG has many facets and is strongly anchored in our business management and business strategy. USU does not currently have a dedicated sustainability strategy, but rather an overarching general business strategy from which all the other subareas derive. One of these sub-areas is sustainability. The overall strategy comprises the three business principles of “Company, Customers & Products”, which form the basis for the company’s corporate values, its commitment to sustainable action and its operational planning. The “Company” principle means that USU strives to be an attractive company for employees, investors and all those in its environment. This means dealing fairly and respectfully with stakeholders and focusing on ensuring awareness and perception of its ecological and social responsibility. This is the only way for the company to ensure its long-term success and to become more attractive to employees and investors. The “Customers” and “Principles” principles also contribute to ensuring the USU Group’s sustainable success. USU’s actions are geared towards its customers, to whom it offers individual software solutions. This individuality and proximity to the customer helps the company to establish long-term customer relationships and partnerships. USU’s products also stand for excellent software-based solutions with a high degree of innovation. The quality of its products and the development of new innovations play an important role in the company’s long-term success.

Due not least to the dynamic growth of the past few years, it had become necessary to develop an identity-forming corporate philosophy for the USU Group. This was developed by USU employees in 2019 on the basis of many individual discussions, surveys and workshops with all stakeholders as part of the internal project “More-U.” In an intensive communication process, the Group’s values as well as its mission and vision were devised, defined, validated and adopted together.

The mission statement defines what USU stands for and what its driving factors are: “We master digital challenges in IT and customer service with efficiency, passion, innovation and knowledge.”

The USU vision emphasizes the direction and goal that USU is moving toward and highlights the goal for consumers, end users and citizens all around the world to come into contact with USU services: “The whole world is touched by USU (em)powered services.”

Mission and vision of the USU Group

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

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

This includes:

- expanding dual training and promoting new talents in order to secure technical and management employees for the long term;
- pronounced social and cultural commitment, with a particular focus on regionality and relevance to the company's environment;
- ergonomic office furniture for all employees;
- the services of a company doctor;
- freshly cooked meals every day and free fruit depending on the respective location and free water dispensers for employees in order to reduce resource consumption by using fewer disposable bottles;
- giving employees the opportunity to use bicycles and Pedelecs leased through the company;
- special support for company cars with a good CO_2 efficiency class;
- reducing electricity consumption, e.g. by systematically switching to LED technology or virtualizing servers.

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

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

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

X. REPORT ON RELATED PARTIES

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

XI. RESPONSIBILITY STATEMENT

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

Möglingen, March 13, 2020

Bernhard Oberschmidt
Chairman of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

USU SOFTWARE AG, MÖGLINGEN

	Notes to the annual financial statements	Dec. 31, 2019 EUR thousand	Dec. 31, 2018 EUR thousand
Non-current assets			
Intangible assets	(9)	5,951	6,903
Goodwill	(10)	40,392	41,183
		46,343	**48,086**
Property, plant and equipment	(11)	2,222	2,157
Right-of-use assets	(50)	8,533	0
Financial assets	(12)	835	773
Prepaid expenses	(18)	309	290
Deferred taxes	(32)	8,786	5,940
		67,028	**57,246**
Current assets			
Inventories	(13)	381	466
Work in progress	(14)	3,482	4,526
Trade receivables	(15)	20,001	19,443
Income tax receivables	(16)	928	943
Financial assets	(17)	430	1,033
Other assets		435	881
Prepaid expenses	(18)	1,362	1,156
Cash on hand and bank	(19)	10,413	9,450
		37,432	**37,898**
		104,460	**95,144**

Equity and liabilities	Notes to the annual financial statements	Dec. 31, 2019 EUR thousand	Dec. 31, 2018 EUR thousand
Equity	(20)		
Issued capital (Contingent capital EUR 378 thousand; previous year: EUR 378 thousand		10,524	10,524
Capital reserves		52,792	52,792
Retained earnings		-3,003	-3,453
Other comprehensive income		-115	-198
		60,198	**59,665**
Non-current liabilities			
Financial liabilities	(21)	0	250
Pension provisions	(22)	1,210	2,311
Lease liabilitie	(23)	5,510	0
Deferred income	(31)	846	1,015
Deferred taxes	(32)	2,873	2,174
		10,439	**5,750**
Current liabilities			
Income tax liabilities	(24)	287	616
Financial liabilities	(25)	105	855
Lease liabilities	(23)	3,083	0
Personnel-related liabilities	(26)	7,408	7,589
Other provisions and liabilities	(27)	3,526	3,389
Liabilities from advance	(28)	4,967	6,563
Trade payables	(29)	4,782	3,689
Deferred income	(31)	9,665	7,028
		33,823	**29,729**
		104,460	**95,144**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2019

ANNEX 2

USU SOFTWARE AG, MÖGLINGEN

	Notes to the annual financial statements	2019 EUR thousands	2018 EUR thousands
Revenue	(33)	95,630	90,487
Cost of sales	(34)	-46,171	-43,553
Gross profit		**49,459**	**46,934**
Selling and marketing expenses	(35)	-18,864	-18,795
General and administrative exp,	(36)	-12,181	-10,598
Research and development exp,	(37)	-15,801	-15,334
Other operating income	(38)	1,943	1,160
Other operating expenses	(39)	-502	-660
Finance income	(40)	104	184
Finance expenses	(41)	-108	-80
Profit before taxes		**4,050**	**2,811**
Income taxes	(42)	1,223	-1,850
Consolidated net		**5,273**	**961**
Items that cannot be reclassified to profit or loss:			
Actuarial gains/losses from pension provisions		-439	18
Deferred taxes on actuarial gains/losses		-83	2
Items that can be reclassified to profit or loss in future periods:			
Currency translation difference		-9	-113
Other comprehensive income after taxes		**-531**	**-93**
Total comprehensive income		**4,742**	**868**
Earnings per share in EUR (diluted and basic)	(20)	**0.50**	**0.09**
Number of underlying shares		10,523,770	10,523,770

CONSOLIDATED STATEMENT OF CASH FLOW FOR FISCAL 2019

USU SOFTWARE AG, MÖGLINGEN

	Notes to the annual financial statements	2019 EUR thousand	2018 EUR thousand
Consolidated net profit		5,273	961
+/- Depreciation, amortization and write-downs of non-current assets and reversals of write-downs of non-current assets		3,506	2,799
+ Depreciation/amortization of right-of-use assets IFRS 16 leases		2,360	0
+/- Other non-cash expenses/income		-19	-102
-/+ Increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities		598	-708
+/- Increase/decrease in trade payables and other liabilities not related to investing or financing activities		1,147	32
- Payment for the transfer of a pension provision		-2,500	0
+ Payments from insurance covering a pension provision		1,729	0
+/- Interest expenses/income		4	-104
-/+ Income taxes paid		-1,328	-2,749
-/+ Interest paid/received		-29	17
+/- Income tax expenses/income		-1,223	1,850
Net cash from operating activities	(44)	**9,518**	**1,996**
- Purchase of intangible assets		-573	-58
+ Proceeds from disposals of property, plant and equipment		37	7
- Purchase of property, plant and equipment		-1,280	-1,087
Net cash used in investing activities	(45)	**-1,816**	**-1,138**
- Dividends paid to shareholders		-4,209	-4,209
- Repayment of purchase price liabilities in connection with the acquisition of subsidiaries		-244	0
- Reductions of lease liabilities in line with IFRS 16		-2,318	0
Net cash used in financing activities	(46)	**-6,771**	**-4,209**
Change in cash and cash equivalents		931	-3,351
+/- Effect on cash and cash equivalents of exchange rate movements and remeasurement		32	86
+ Cash and cash equivalents at the start of the period		9,450	12,715
Cash and cash equivalents at the end of the period	(47)	**10,413**	**9,450**
Cash and cash equivalents			
Cash and cash equivalents		10,413	9,450
		10,413	**9,450**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR FISCAL 2019

USU SOFTWARE AG, MÖGLINGEN

	Issued capital	
	Number	EUR thousand
Consolidated equity as of December 31, 2017	**10,523,770**	**10,524**
Consolidated net	0	0
Other comprehensive income after taxes	0	0
Total comprehensive income	**0**	**0**
Dividend payment	0	0
Consolidated equity as of December 31, 2018	**10,523,770**	**10,524**
Consolidated net	0	0
Reclassification to other retained earnings	0	0
Other comprehensive income after taxes	0	0
Total comprehensive income	**0**	**0**
Dividend payment	0	0
Consolidated equity as of December 31, 2019	**10,523,770**	**10,524**

			Other comprehensive income		
	Capital reserves EUR thousand	Other comprehensive income EUR thousand	Pension plans EUR thousand	Currency translation EUR thousand	Equity EUR thousand
	52,792	**-205**	**-228**	**123**	**63,006**
	0	961	0	0	961
	0	0	20	-113	-93
	0	**961**	**20**	**-113**	**868**
	0	-4,209	0	0	-4,209
	52,792	**-3,453**	**-208**	**10**	**59,665**
	0	5,273	0	0	5,273
	0	-531	531	0	0
	0	-83	-439	-9	-531
	0	**4,659**	**92**	**-9**	**4,742**
	0	-4,209	0	0	-4,209
	52,792	**-3,003**	**-116**	**1**	**60,198**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2019

USU SOFTWARE AG, MÖGLINGEN

A. THE COMPANY

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

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

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

B. SIGNIFICANT ACCOUNTING PRINCIPLES

1. Significant financial reporting policies

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

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

The consolidated financial statements have been prepared in the functional currency of the parent company (euro). All figures in the consolidated financial statements are rounded to thousands of euro (EUR thousand) except for figures pertaining to shares. The reporting date is December 31, 2019.

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

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

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

The Management Board intends to approve the consolidated financial statements for submission to the Supervisory Board on March 13, 2020. It is anticipated that the Supervisory Board will adopt the consolidated financial statements prepared by the Management Board at its meeting on March 19, 2020 and approve their publication.

The annual financial statements of USU Software AG in accordance with HGB for the year ended December 31, 2019 and these consolidated financial statements have been submitted to the electronic Bundesanzeiger (electronic German Federal Gazette) and published on the company's website.

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

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

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

- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- IFRS 16 Leases
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements 2015-2017 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments

IFRS 16

For lessees IFRS 16 introduces a standard accounting treatment for leases according to which all leases are to be recognized as assets for rights of use and liabilities for payment obligations. IFRS 16 replaces Standard IAS 17 and the related interpretations.

The present value of future lease payments is carried as a liability and a use is understood as liability less prepaid or accrued lease payments.

A right of use is understood as the right of a legal entity from a contact to use third-party objects or rights. The owner does not want to use these objects or rights himself, but transfers this use by granting a contractual right of use in exchange for a usage fee. In the process the user is granted only the possession, while the owner retains his legal status.

It is presented in the consolidated statement of profit and loss as a financing transaction, so that the right of use is amortized and the lease liabilities are measured using the effective interest method. The regulations of IAS 36 for calculating and recognizing impairment losses apply to capitalized right-of-use assets.

For the purpose of simplification, it is assumed that all leases in line with IAS 17 are also leases under IFRS 16.

The USU Group also uses the practical expedient for leases with a total term of twelve months or less (short-term leases) and for so-called low-value leases with an acquisition cost of less than EUR 5,000 and continues to recognize them as was the case with the operating leasing model. This also applies for leases which have a remaining term of twelve months or less to the date of initial application. Lease payments in connection with these leases are recognized as operating expenses on a straight-line basis over the term of the lease.

In addition, the option of separating leasing and non-leasing (service) components is used. Non-leasing components are not taken into account in the right-of-use asset to be recognized.

With the initial application of IFRS 16, the Group recognized leasing liabilities for leases that were previously classified as operating leases under IAS 17. The liability includes all fixed payments. Any lease incentives to be received, advance payments made and variable lease payments, if present, flow into the measurement of the lease liability. Currently there are only contracts with fixed lease payments. The liability determined is discounted at the present value of the remaining lease installments. The average interest rate used to measure the rights of use and the lease liabilities in the opening statement of financial position as of January 1, 2019 is 0.4%. The underlying interest rate corresponds to the incremental borrowing rate. At initial recognition,the asset to be recognized is the carrying amount of the lease liability.

The transition to IFRS 16 was made using the modified retrospective approach. As of the date of initial recognition on January 1, 2019, the cumulative effects were recognized without restating the comparative periods. The probability of exercising renewal and termination options was assessed at the date of initial recognition and not retrospectively to the inception of the contract. The practical expedient is used that direct costs in connection with the leasing asset are not recognized at initial application.

The following table shows the adjustments recognized in the relevant statement of financial position items.

Impact on the consolidated statement of financial position			
All figures in k€	**Dec. 31, 2018**	**Effects of IFRS 16**	**Jan. 1, 2019**
Assets			
Non-current rights of use IFRS 16	0	2,505	2,505
Current rights of use IFRS 16	0	2,120	2,120
Right-of-use assets IFRS 16	**0**	**4,625**	**4,625**
Equity and liabilities			
Non-current lease liability IFRS 16	0	2,505	2,505
Current lease liability IFRS 16	0	2,120	2,120
Lease liabilities IFRS 16	**0**	**4,625**	**4,625**

As a result total assets increase.

Due to the recognition of rights of use at the level of the corresponding lease liabilities at the date of initial application there is no impact on retained earnings in equity.

Of the rights of use recognized as a separate item as of January 1, 2019, EUR 3,540 thousand relate to leased buildings, EUR 823 thousand to vehicle leases and EUR 262 thousand to software leases.

Transition of lease liabilities as of January 1, 2019:

	Jan. 1, 2019 EUR thousand
Obligations under operating leases as of Dec. 31, 2018	6,670
Less short-term leases recognized as expenses on a straight-line basis	-1,173
Less low-value leases	-100
Plus/less adjustments from different assessments of Renewal and termination options	- 736
Gross lease liabilities as of Jan. 1, 2019	**4,661**
Discounting	-36
Lease liabilities from initial application of IFRS 16 as of Jan. 1, 2019	**4,625**
of which:	
Current lease liabilities	2,120
Non-current lease liabilities	2,505

With the first-time application of IFRS 16, payments for the principal portion of lease liabilities are now part of cash flow from financing activities.

The other new or amended standards and interpretations do not have any material effect on the Group's consolidated financial statements.

The IASB and IFRS IC have issued new and amended standards and interpretations which are effective for reporting periods starting on or after January 1, 2020.

The application of these standards and interpretations is in some cases contingent upon their endorsement by the E.U. This relates specifically to the following accounting standards and interpretations:

Standard	**Title**	**IASB effective date**
IFRS 17	Insurance Contracts	Jan. 1, 2021
Amend. IFRS 9, IAS 39 and IFRS 7	IBOR Reform	Jan. 1, 2020
Amend. IFRS 3	Definition of a Business	Jan. 1, 2020
Amend. IFRS Conceptual Framework	Amendments to References to the Conceptual Framework	Jan. 1, 2020
Amend. IAS 1 and IAS 8	Definition of Material	Jan. 1, 2020

It was chosen not to exercise the option of early application of standards which have already been issued.

According to the current assessment, the application of the new IFRS standards does not result in any material impact on net assets, financial position and results of operations. Unless otherwise described in this chapter, the same accounting policies were applied in the consolidated financial statements as in the previous year.

3. Consolidation principles

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

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

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

Consolidation of a subsidiary begins from the date the parent company achieves control of the subsidiary and ceases when the parent company loses control of the subsidiary.

The results of the subsidiaries acquired or sold during the year are recognized in profit or loss and other comprehensive income from the actual acquisition date to the actual disposal date.

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

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

4. Consolidated group

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

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

Consolidated group **Name and domicile of the company**	Equity as of Dec. 31, 2019 EUR thousand	Net profit/loss for 2019 EUR thousand
USU GmbH, Möglingen [1)2)]	30,368	5,716
LeuTek GmbH, Leinfelden-Echterdingen [2)]	1,380	2,595
Omega Software GmbH, Obersulm [2)]	970	83
USU Software s, r, o,, Brno, Czech Republic [3)]	931	225
USU Austria GmbH, Vienna, Austria [3)]	-727	-118
Openshop Internet Software GmbH, Möglingen [2)]	-667	-1
Aspera GmbH, Aachen [2)]	300	4,252
Aspera Technologies Inc., Boston, USA	-4,021	-909
USU SAS, Paris	-2,047	-1,134

1) The company was transformed into a GmbH in the previous year.
2) Net profit before/equity after profit transfer to USU Software AG due to existing profit transfer agreements
3) Companies wholly owned by USU GmbH.

5. Currency and currency translation

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

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

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

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

	Closing rate		Average rate	
Currency (1 EUR)	Dec. 31, 2019	Dec. 31, 2018	2019	2018
Swiss franc (CHF)	1.0854	1.1269	1.1124	1.1550
Czech koruna (CZK)	25.408	25.724	25.641	25.647
US dollar (USD)	1.1234	1.1450	1.1195	1.1810

Currency translation differences recognized in profit or loss in the past fiscal year amounted to EUR 192 thousand (2018: EUR -190 thousand).

6. Use of significant estimates and assumptions

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

In particular, areas requiring significant estimates include the recognition of revenue over time (see notes 7.6 and 7.17), determining the probable economic life of intangible assets (notes 7.1 and 9), and with rights of use in lease contracts, particularly in the case of extension options, the decision not to capitalize software development costs (note 7.19), bad debt allowances (note 15), contingent liabilities, pension provisions (notes 7.10, 7.15 and 22), other provisions (notes 7.11 and 27) and estimates of the recoverability of future tax benefits in the form of the recognition of deferred taxes on tax loss carryforwards (note 32).

In addition, significant estimates and assumptions are required to determine the fair values of property, plant and equipment and intangible assets and of purchase price liabilities (earn-out), particularly as part of purchase price allocation in the event of business acquisitions and for goodwill impairment testing (note on liquidation of USU Consulting GmbH, USU Schweiz AG, 8 and financial liabilities).

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

7. General accounting policies

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

7.1 Intangible assets and goodwill

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

Sales and marketing expenses amounted to EUR 981 thousand (2018: EUR 910 thousand), research and development expenses to EUR 1,109 thousand (2018: EUR 389 thousand), the cost of sales to EUR 73 thousand (2018: EUR 99 thousand) and general and administrative expenses to EUR 9 thousand (2018: EUR 9 thousand).

7.2 Property, plant and equipment

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

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

7.3 Impairment of non-financial assets

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

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

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

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

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

As cash flows in the USU Group are planned and distinguished between at the level of the subsidiaries USU GmbH, LeuTek GmbH, Aspera GmbH and USU SAS (with the exception of Omega Software GmbH and Aspera Technologies Inc.), the CGUs are defined as USU GmbH together with Omega Software GmbH for the Product Business segment and USU AG for the Service Business segment, and the subsidiaries LeuTek GmbH and Aspera GmbH together with Aspera Technologies Inc. and USU SAS, all of which are fully allocated to Product Business. Information on the differences between Product Business and Service Business can be found in the notes on segment reporting in section G.

In accordance with IAS 36.A17 (a), the cost of capital of the cash-generating units is calculated as the weighted average cost of capital (WACC). The calculation of the weighted cost of capital includes the cost of equity, composed of a risk-free basic interest rate and a risk premium (market risk premium multiplied by a beta factor based on a peer group analysis), and the cost of debt, which is equal to the average cost of debt for peer group companies. The cost of equity and debt is weighted using the average capital structure of peer group companies. The pre-tax cost of debt ranges from 1.68% to 2.24%. A market risk premium of 7% is applied. The unindebted beta factor ranges from 0.89% to 0.99%.

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

CGU	WACC	
	2019	2018
USU Product Business	6.21%	8.74%
USU Service Business	6.21%	8.74%
Aspera	6.21%	8.73%
Leutek	6.21%	8.74%
USU SAS	7.45%	8.11%

Annual impairment testing identified an impairment requirement for USU SAS of EUR 791 thousand (2018: EUR 0 thousand).

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

Impairment losses on goodwill cannot be reversed.

The significant assumptions applied in calculating the recoverable amounts of the cash-generating units are as follows. The calculation begins with the forecast EBIT for the respective CGU (forecast period 2020 to 2023). Working capital is forecast depending on the development of revenue.Capital expenditure is assumed to correspond to depreciation and amortization, meaning that measurement is based directly on EBIT. A growth factor of 1% is assumed for the terminal value.

7.4 Financial instruments

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

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

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

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

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

Financial assets whose cash flows consist solely of payments of principal and interest are measured at fair value through profit or loss. The Group does not have any such assets.

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

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

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

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

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

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

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

7.5 Inventories

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

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

7.6 Contract balances

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

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

7.7 Deferred taxes

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

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

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

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

7.8 Treasury shares

Treasury shares are carried at their fair value on the acquisition date plus any incidental costs of acquisition and are deducted from equity. In accordance with the authorization of the Annual General Meeting, treasury shares can be used as acquisition currency and withdrawn. USU Software AG did not hold any treasury shares as of December 31, 2018 or December 31, 2019.

7.9 Other comprehensive income

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

7.10 Pension provisions

The actuarial valuation of the pension provisions recognized for a former member of the Management Board of USU GmbH (until September 30, 2019) and some of the employees of LeuTek GmbH is based on the projected unit credit method for pension commitments as prescribed by IAS 19. This procedure takes into account the pension commitment at the end of the reporting period and expected future increases in pension commitments that do not take the form of one-time payments. The calculation is based on actuarial reports including biometric calculations. Actuarial gains and losses, for example from the adjustment of the discount rate, are offset against other comprehensive income in accordance with IFRS 19.37d. Current service cost is reported as an expense within EBIT. Current interest cost and the expected return on plan assets are recognized in net financial income in the consolidated statement of profit or loss.

7.11 Other provisions

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

7.12 Financial liabilities

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

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

7.13 Liabilities from advance

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

7.14 Government grants

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

7.15 Contingent liabilities and events after the reporting period

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

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

7.16 Leases

The company has leased some of its office and operating equipment in addition to vehicles and office buildings. The interest rates stipulated in the lease agreements are standard market rates. There are no beneficial purchase or extension options at the end of the leases for the office buildings, the operating and other equipment or the vehicles. There were no sale and leaseback transactions in either of the fiscal years.

A lease exists when the lessee is granted the contractual right from the lessor to control an identified asset for a specified period and the lessor receives a consideration from the lessee.

In 2018, the Group had only operating leases. According to IAS 17, a lease was classified as an operating lease if the lease agreement did not transfer substantially all the risks and rewards incidental to ownership to the entity as the lessee. Lease payments under leases were expensed on a straight-line basis over the term of the lease. From January 1, 2019, for all leases assets are to be recognized for rights of use and liabilities for payment obligations.

The practical expedient for short-term leases, of less than twelve months, is used. It is thus assumed that all leases in line with IAS 17 are also leases under IFRS 16. Leases with a total value below EUR 5,000, so-called small tickets, are not recognized in the statement of financial position. The lease payments resulting from these contracts are recognized on a straight-line basis over the term of the lease as other operating expenses.

In the context of the initial application of IFRS 16, the practical expedient for short-term leases and leases with a remaining term of less than twelve months from the date of initial application described in section 2 and the option of separating leasing and non-leasing components, also described in section 2, is not applied. Leases and components for which this simplification applies are not recognized on the statement of financial position.

The relevant assets and liabilities are recognized when it is highly probable that extension and termination options will be exercised.

The remaining lease payments are discounted in the context of the initial measurement. Thus lease liabilities and rights of use initially correspond to the present value of the remaining leasing lease payments. For measuring rights of use and lease liabilities, incremental borrowing rates are applied on the basis of the contract term. In 2019, interest rates in a range of 0.11% to 1.68% p.a. were used. In the context of the measurement, lease liabilities are divided into current and non-current and recognized accordingly.

The asset is measured at amortized cost using the cost model and reduced on the basis of amortization. The lease liability is subsequently valued by increasing the carrying amount by the interest expense and decreasing it by the lease payments made. In cases when the lease payments are changed, for example as a result of changes in the lease term, the carrying amount is remeasured.

It is presented in the consolidated statement of profit and loss as a financing transaction, the right of use is amortized and the lease liabilities are measured using the effective interest method. The lease repayments in line with IFRS 16 are shown in cash flow from financing activities. Payments for interest on the lease liability are classified as interest paid in IAS 7. Payments in the context of short-term leases, payments for low-value leases and variable lease payments, not included in the measurement of the lease liability, are shown in cash flow from operating activities.

7.17 Revenue

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

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

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

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

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

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

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

7.18 Cost of sales

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

7.19 Research and development

Research and development expenses are incurred by the Group in connection with the (ongoing) development of its software. In accordance with IAS 38, research expenses are not capitalized while development costs must be recognized if all the specific criteria for recognition are met. The recognition of software development costs begins when the software becomes technically feasible and ends when the software version is launched on the market. The Group defines technical feasibility as the production of a corresponding working model. In view of the short time span between technical feasibility and the date on which the software is launched on the market, development costs are not capitalized as any such costs are immaterial. Accordingly, the Group recognized all its research and development expenditure for the period under review (2019: EUR 15,801 thousand, 2018: EUR 15,334 thousand).

C. CHANGE IN GROUP ORGANIZATION

8. Liquidation of USU Consulting GmbH and USU Schweiz AG

USU Consulting GmbH and USU Schweiz AG were completely liquidated in 2019. USU Schweiz AG was deleted in the commercial register on January 1, 2019. Deletion from the commercial register for USU Consulting GmbH is pending.

The liquidation of USU Consulting GmbH resulted in a loss of EUR 1 thousand and that of USU Schweiz AG of EUR 25 thousand in the USU Software AG consolidated financial statements.

D. A. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. Intangible assets

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

Intangible assets include customer lists of EUR 1,269 thousand (2018: EUR 2,170 thousand), trademarks and brands of EUR 2,011 thousand (2018: EUR 2,011 thousand) and software of EUR 2,580 thousand (2018: EUR 2,540 thousand).

The carrying amount of the customer list includes contractual customer relationships identified on the acquisition of various subsidiaries. The remaining useful lives are between zero and seven years.

Software of EUR 2,580 thousand includes inventories of EUR 1,922 thousand (2018: EUR 2,184 thousand) attributable to the USU SAS cash-generating unit. The estimated remaining useful life is seven years.

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

CGU	2019 EUR thousand	2018 EUR thousand
USU GmbH/Omega (Product Business)	445	445
USU GmbH (Service Business)	85	85
LeuTek (Product Business)	829	829
Aspera (Product Business)	652	652
	2,011	**2,011**

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

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

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

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

10. Goodwill

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

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

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

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

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

Planning is based on the following growth rates for revenue:

	2020	2021	2022	2023
USU GmbH/Omega Omega (Product Business)	18.6%	15.4%	11.5%	12.5%
USU GmbH (Service Business)	4.5%	7.2%	8.4%	8.6%
LeuTek Omega (Product Business)	5.1%	6.5%	6.0%	8.8%
Aspera Omega (Product Business)	11.1%	13.1%	10.6%	11.4%
USU SAS Omega (Product Business)	18.9%	21.4%	21.2%	19.1%

Based on its medium-term planning, the Group's management has forecast a terminal value based on assumed annual growth of 0.1% (2018: 1.0%).

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

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

CGU	2019 EUR thousand	2018 EUR thousand
USU GmbH/Omega (Product Business)	14,233	14,233
USU GmbH (Service Business)	4,019	4,019
LeuTek (Product Business)	10,448	10,448
Aspera (Product Business)	7,773	7,773
USU SAS (Product Business)	3,919	4,710
	40,392	**41,183**

In the context of the annual impairment test, impairment of EUR 791 thousand on the recoverable amount for the USU SAS CGU was determined. The carrying amounts of the other CGU were lower than the recoverable amounts, so that no impairment was to be recognized on goodwill.

The changes in goodwill for each reporting unit in fiscal 2018 and fiscal 2019 are shown in the following table.

EUR thousand	Product Business	Service Business	Group
As of January 1, 2018	37,163	4,019	41,183
Change in 2018	0	0	0
As of December 31, 2018	37,163	4,019	41,183
Impairment on USU SAS in line with impairment test	-791	0	-791
As of December 31, 2019	**36,372**	**4,019**	**40,392**

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

Additional goodwill in impairment at	Increase in capitalization rate of 1 percentage point	Increase in capitalization rate of 1.5 percentage point
USU GmbH/Omega (Product Business)	0	0
USU GmbH (Service Business)	0	0
LeuTek (Product Business)	0	0
Aspera (Product Business)	0	0
USU SAS (Product Business)	562	796

With regard to the calculation of the recoverable amounts for the CGUs, an increase in the capitalization rate of 1 or 1.5 percentage points would result in the carrying amounts exceeding the recoverable amounts only at the USU SAS CGU.

A reduction in forecast revenue of 10% p.a. with unchanged EBIT would result in impairment of EUR 134 thousand at CGU USA SAS. There would be no impairment requirement at all other CGUs.

11. Property, plant and equipment

Depreciation of property, plant and equipment amounted to EUR 1,190 thousand in fiscal 2019 (2018: EUR 1,156 thousand). There are no restrictions on the Group's rights of disposal over its property, plant and equipment, nor have any such items been assigned as collateral.

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

12. Financial assets

The capitalized values of insurance policies under which the beneficiaries have no access to the insurance are reported in other financial assets; they totaled EUR 756 thousand (2018: EUR 773 thousand).

13. Inventories

Inventories in the amount of EUR 381 thousand (2018: EUR 466 thousand) essentially relate to software licenses from third-party providers and IT hardware. As there were no inventory risks at the end of the reporting period, no write-downs were necessary.

14. Unbilled work in progress (contract assets)

The following table provides an overview of total unbilled services and the associated billings as of December 31, 2019 and December 31, 2018:

	2019 EUR thousand	2018 EUR thousand
Contract costs plus unbilled contract earnings	5,960	8,066
of which from service contracts	4,617	4,727
of which from construction contracts	1,343	3,339
less amounts received from progress billings	-3,438	-5,114
Deferred tax assets (net)	**2,522**	**2,952**
of which: unbilled work in progress	3,482	4,526
of which: liabilities from advance payments	-960	-1,574

No impairment was required on contract assets in the past fiscal year or the previous year. Revenue of EUR 4,597 thousand was recognized from contract liabilities carried as liabilities in the previous year (2018: EUR 2,187 thousand).

15. Trade receivables

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

	2019 EUR thousand	2018 EUR thousand
Trade receivables	20,337	19,693
Impairment as of January 1	-250	-168
Amounts utilized in the fiscal year	55	73
Charge for the year	-140	-155
Reversals	0	0
Impairment as of December 31	-335	-250
	20,002	**19,443**

As of December 31, 2019, trade receivables with a nominal value of EUR 938 thousand were impaired (2018: EUR 787 thousand). Of this figure, EUR 439 thousand was up to 90 days past due, EUR 436 thousand was more than 90 days past due and EUR 63 thousand was more than 360 days past due.

Receivables are classified in past due categories with each receivable being assessed individually. Write-downs on receivables take place in line with the classification:

Maturity	Valuation allowance:
not due	0%
past due up to 30 days	0%
past due more than 30 days	25%
past due more than 90 days	50%
past due more than 180 days	75%
past due more than 360 days	100%

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

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

16. Income tax receivables

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

17. Financial assets

Financial assets include receivables in connection with research funds of EUR 188 thousand and rent deposits of EUR 100 thousand.

18. Prepaid expenses

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

19. Cash on hand and bank

This item is broken down as follows:

	2019 EUR thousand	2018 EUR thousand
Fixed-term and overnight money	5,852	5,341
Demand deposits	4,543	4,100
Cash on hand	18	9
	10,413	**9,450**

20. Equity

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

20.1 Share capital and shares

As in the previous year, the fully paid up issued capital of the company totaled EUR 10,524 thousand as of December 31, 2019.This amount is divided into 10,523,770 no-par value bearer shares each with a notional interest in the share capital of EUR 1.00.

20.2 Authorized capital

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

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

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

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

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

20.3 Contingent capital

By way of resolution of the Annual General Meetings in 2000 and 2004, the company's share capital was contingently increased to EUR 378 thousand through the issue of no-par value bearer shares. The sole purpose of the contingent capital increase is to grant options to members of the Management Board and employees of the company, and to members of the management and employees of affiliated companies. There were no outstanding options as of December 31, 2019.

20.4 Capital reserves

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

20.5 Other retained earnings

Details of the composition of other retained earnings can be found in the consolidated statement of changes in equity in Annex 5 and the consolidated statement of comprehensive income in Annex 2.

20.6 Earnings per Share

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

	2019	2018
Consolidated earnings attributable to the shareholders of USU Software AG: in EUR thousand	5,273	961
Average number of shares during the year: Number	10,523,770	10,523,770
Basic and diluted earnings per share: in EUR	0.50	0.09

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

	2019 Shares	2018 Shares
Number of shares as of January 1	10,523,770	10,523,770
Number of shares as of December 31	**10,523,770**	**10,523,770**

20.7 Appropriation of net profit

The resolution on the utilization of USU Software AG's unappropriated surplus in fiscal 2018 was adopted at the Annual General Meeting on July 2, 2019. The Annual General Meeting approved the proposal of the Management Board and Supervisory Board to distribute a dividend of EUR 0.40 for the 10,523,770 participating shares (EUR 4,209 thousand).

For fiscal 2019, the Management Board is proposing to distribute a dividend of EUR 0.40 per share for a total of 10,523,770 no-par value shares (EUR 4,209 thousand) from the unappropriated surplus of USU Software AG as of December 31, 2019.

21. Financial liabilities

In the previous year, non-current financial liabilities included a put option for the pur-chase of 2.63% of shares in USU SAS in the amount of EUR 250 thousand. The put option was exercised in the fiscal year. EUR 244 thousand was paid for the additionally ac-quired 2.63% stake in USU SAS. The difference of EUR 6 thousand was recognized in profit and loss.

22. Pension provisions

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

Effective October 1, 2019, the USU GmbH pension obligations for a former Management Board member and now member of the Supervisory Board was contractually transferred to AUSUM GmbH. Thus on September 1, 2019, USU GmbH made a pension payment for the last time. As of October 1, 2019, AUSUM GmbH assumed the pension obligations with all legal and constructive obligations. For this USU GmbH paid EUR 2,500 thousand to AUSUM GmbH. The amount corresponded to the present value of the pension obliga-tion under German law as of the transfer date. As the pension provision according to IFRS amounted to EUR 3,325 thousand as of the transfer date due to the lower interest rate to be applied according to IFRS, the derecognition of the pension provision related with this transaction resulted in income of EUR 825 thousand as of the transfer date. This was recognized under other operating income.

The pension provisions of LeuTek (2018: USU GmbH and LeuTek) have been calculated using the projected unit credit method in accordance with IAS 19. The future obligations were measured using actuarial calculations. The calculations were based on the 2018 G Heubeck mortality tables, assuming a discount rate of 1.05% (2018: 1.90%). In the case of the pension plan, it is assumed, as in the previous year, that subsequent contributions will rise by 2% after pension payments begin. As pension obligations to employees are one-time payments, a pension trend of 0% is applied. In the case of pension commit-ments to employees, the same fluctuation probabilities as in the previous year were used for each individual based on their age. In the case of the pension plan, a fluctuation rate of 0% was used (2018: 0%). The average annual return on plan assets is expected to be 1.05% (2018: 1.90%). Management bases its calculations on historical income trends and market forecasts by analysts.

The pension provisions of USU SAS were calculated using the INSEE 2012-2014 mortality tables and an interest rate of 0.79% (2018: 1.5%). A fluctuation rate of 8% (2018: 8%) was assumed.

Actuarial gains and losses are recognized in equity. The measurement date for the pension obligation was December 31, 2019.

As of December 31, 2019, the company offset (cumulative) total actuarial losses netted against actuarial gains of EUR 626 thousand in equity.

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

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

Development of the pension obligation:

	2019 EUR thousand	2018 EUR thousand
Present value of benefit obligation at the start of the fiscal year	4,136	4,044
Current service cost	49	60
Interest cost	63	80
Actuarial gains/losses in other comprehensive income from		
- demographic assumptions	0	24
- financial assumptions	635	75
- experience adjustments	-7	-147
Transfer of pension obligations	-3,352	0
Present value of benefit obligation at the end of the fiscal year	**1,521**	**4,136**

Development of the pension obligation:

	2019 EUR thousand	2018 EUR thousand
Fair value of plan assets at the start of the year under review	1,825	1,841
Income from plan assets (interest income)	30	38
Payments to/from plan assets	-1,729	-24
Amortization of plan assets	0	0
Actuarial gains/losses in other comprehensive income	185	-30
Fair value of plan assets at the end of the fiscal year	**312**	**1,825**

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

	2019 EUR thousand	2018 EUR thousand
Present value of pension obligation	1,521	4,136
Fair value of plan assets	312	1,825
Obligation reported in the statement of financial position	**1,210**	**2,311**

There were no significant adjustments to the pension obligation or the plan assets to reflect past experience. Employer contributions to plan assets for fiscal 2020 are estimated at EUR 8 thousand.

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

	2019 EUR thousand	2018 EUR thousand
Current service cost	-49	-60
Interest cost	-63	-80
Income from plan assets (interest income)	30	38
Amortization of plan assets	0	0
	-82	**-102**

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

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

December 31, 2019 Effect in EUR thousand	Increase in defined benefit obligation EUR thousand	Reduction in defined benefit obligation EUR thousand
Discount rate (1% change)	126	-111

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

The weighted average duration of the pension obligation was around 9 years as of December 31, 2019.

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

Fiscal year as of December 31	Expected payments EUR thousand
2020 – 2024	212
2025 – 2029	499

A pension commitment has been entered into for the Management Board members of the Group subsidiary USU GmbH. This pension commitment is covered by an insurance policy. This defined contribution plan does not result in any liability for the Group beyond the premiums payable to the insurer. Pension expenses under defined contribution plans totaled EUR 42 thousand in the year under review (2018: EUR 42 thousand).

In addition, the German statutory pension scheme is considered to represent a defined contribution plan. The expenses recognized for the statutory pension scheme amounted to EUR 3,023 thousand (2018: EUR 2,900 thousand), EUR 25 thousand of which relates to Management Board members (2018: EUR 25 thousand).

23. Lease liabilities

In the fiscal year, the Group applied IFRS 16 Leases for the first time. The application resulted in lease liabilities of EUR 5,510 thousand (non-current) and EUR 3,083 thousand (current). Further information can be found in notes 2 and 50.

24. Income tax liabilities

Income tax liabilities of EUR 287 thousand (2018: EUR 616 thousand) result primarily from corporation tax and the solidarity surcharge of EUR 172 thousand (2018: EUR 300 thousand) and from trade tax for USU Software AG of EUR 107 thousand (EUR 296 thousand).

25. Financial liabilities

The current financial liabilities recognized as of December 31 come from USU SAS and amount to EUR 105 thousand.

26. Personnel-related liabilities

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

	2019 EUR thousand	2018 EUR thousand
Vacation and variable compensation	6,046	6,238
Other personnel-related liabilities	1,362	1,351
	7,408	**7,589**

	As of 01.01.2019 EUR thousand	Utilization EUR thousand	Reversals EUR thousand	Additions EUR thousand	As of 31.12.2019 EUR thousand
Vacation and variable compensation	6,238	4,577	71	4,456	6,046
	6,238	**4,577**	**71**	**4,456**	**6,046**

27. Other provisions and liabilities

Other provisions and liabilities include the following items:

	2019 EUR thousand	2018 EUR thousand
Other liabilities	2,699	2,385
Other provisions	827	1,004
	3,526	**3,389**

	As of 01.01.2019 EUR thousand	Utilization EUR thousand	Reversals EUR thousand	Additions EUR thousand	As of 31.12.2019 EUR thousand
Other provisions	1,004	731	33	587	827
	1,004	**731**	**33**	**587**	**827**

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

28. Liabilities from advances received (contract liabilities)

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

29. Trade payables

All trade payables are due within one year.The figure for the year under review includes liabilities for outstanding invoices received in the amount of EUR 890 thousand (2018: EUR 780 thousand).

30. Additional disclosures on financial instruments

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

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A far value hierarchy must be established with three levels of measurement based on whether the fair value of financial instruments was determined by reference to quoted prices in active markets (level 1), derived from quoted prices in active markets (level 2) or derived from unobservable inputs (level 3).

in EUR thousand as of December 31, 2019	IFRS 9 category/ IFRS 7-class	Measurement in accordance with IFRS 9				
		Carrying amount	Amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	Fair value
Work in progress	IFRS 15	3,482	3,482	0	0	3,482
Trade receivables	Amort. cost	20,001	20,001	0	0	20,001
Financial assets (current)	Amort. cost	430	430	0	0	430
Cash on hand and bank	Amort. cost	10,413	10,413	0	0	10,413
Aggregated by class/category						
Loans and receivables	Amort. cost	30,844	30,844	0	0	30,844
Work in progress	IFRS 15	3,482	3,482	0	0	3,482

in EUR thousand as of December 31, 2019	IFRS 9 category/ IFRS 7-class	Measurement in accordance with IFRS 9				
		Carrying amount	Amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	Fair value
Financial liabilities						
Trade payables	Amort. cost [1]	4,782	4,782	0	0	4,782
Liabilities from advance payments	Amort. cost/ IFRS 15	4,967	4,967	0	0	4,967
Liabilities from leases	Amort. cost/ IFRS 16	8,593	8,593	0	0	8,593
Aggregated by class/category						
Measured at amortized cost	Amort. cost/ IFRS 15+16	18,342	18,342	0	0	18,342

[1] *Amort. cost: Amortized cost*

in EUR thousand as of December 31, 2018	IFRS 9 category/ IFRS 7-class	Measurement in accordance with IFRS 9				Fair value
		Carrying amount	Amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	
Work in progress	IFRS 15	4,526	4,526	0	0	4,526
Trade receivables	Amort. cost	19,443	19,443	0	0	19,443
Financial assets	Amort. cost	1,033	1,033	0	0	1,033
Cash on hand and bank	Amort. cost	9,450	9,450	0	0	9,450
Aggregated by class/category						
Loans and receivables	Amort. cost	29,926	29,926	0	0	29,926
Work in progress	IFRS 15	4,526	4,526	0	0	4,526

in EUR thousand as of December 31, 2018	IFRS 9 category/ IFRS 7-class	Measurement in accordance with IFRS 9				Fair value
		Carrying amount	Amortized cost	Fair value through other comprehensive income	Fair value recognized in profit or loss	
Financial liabilities						
Trade payables	Amort. cost	3,689	3,689	0	0	3,689
Liabilities from advance	Amort. cost/ IFRS 15	6,563	6,563	0	0	6,563
Aggregated by class/category						
Measured at amortized cost	Amort. cost/ IFRS 15	10,252	10,252	0	0	10,252
at fair value through profit or loss						

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

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

EUR thousand	from interest	from subsequent valuation: at fair value	Impairment	Reversal of impairment	Accumulation	from currancy translation	From disposals	Net profit/ loss 2019	2018
Net gains or losses from financial instruments categorized as									
Amortized cost	9	0	0	23	0	37	59	128	191
Financial liabilities at amortized cost	20	0	0	0	0	0	0	20	0
Total	**29**	**0**	**0**	**23**	**0**	**37**	**59**	**148**	**191**

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

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

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

	2019 EUR thousand	2018 EUR thousand
Impairment recognized in the category		
Amortized cost	85	104

31. Deferred income

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

32. Deferred taxes

Given the positive business development in previous years and the growth in earnings forecast for the period from 2020 to 2024, deferred tax assets are recognized at USU Software AG for tax loss carryforwards of the consolidated tax group in the amount of the deferred tax liabilities of the tax consolidated group and for the forecast future results. The amount recognized was determined on the basis of the forecast results of USU Software AG approved by the Supervisory Board for a five-year planning period. Deferred tax liabilities are offset against deferred tax assets at the level of the consolidated tax group.

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

	2019 EUR thousand	2018 EUR thousand	Change recognized in profit or loss 2019 EUR thousand	Change taken directly to equity 2019 EUR thousand
<u>Deferred tax assets:</u>				
Liabilities IFRS 16	2,450	0	219	2,231
Provisions	173	455	-199	-83
Prepaid expenses	0	0	0	
Intangible assets	386	460	-74	
Property, plant and equipment	8	8	0	
Other assets	76	80	-4	
From loss carryforwards	8,786	5,940	2,846	
Deferred tax assets (gross)	**11,879**	**6,943**	**2,788**	**2,148**
Less netting	-3,093	-1,003		
Deferred tax assets (net)	**8,786**	**5,940**		
<u>Deferred tax liabilities:</u>				
Undistributed profits	337	337	0	
Provisions	0	0	0	
Intangible assets	2,720	2,094	-626	
Right-of-use assets IFRS 16	2,433	0	-202	2,231
Work in progress	401	676	275	
Other	75	70	-5	
Deferred tax liabilities (gross)	**5,966**	**3,177**	**-558**	**2,231**
Less netting	-3,093	-1,003		
Deferred tax liabilities (net)	**2,873**	**2,174**	**2,230**	
Deferred tax assets (net)	**5,913**	**3,766**	**2,230**	**-83**
After netting:				
Deferred taxes	8,786	5,940		
Deferred taxes	2,873	2,174		

As of December 31, 2019, deferred tax assets on tax loss carryforwards in Germany of approximately EUR 1,433 thousand (2018: EUR 16,687 thousand) were not recognized as corresponding taxable income is not expected to be generated in the near future. For the same reason, deferred tax assets were not recognized on foreign tax loss carryforwards totaling approximately EUR 8,945 thousand (2018: approximately EUR 7,135 thousand). Tax loss carryforwards for German income tax can be carried forward indefinitely, although there are restrictions on the amount which can be used to offset taxable income in a given year.

E. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

33. Revenue

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

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

	2019 EUR thousand	2018 EUR thousand
Consulting	49,905	50,420
Licenses	15,005	13,300
Service and maintenance	28,739	25,967
Other	1,981	800
	95,630	**90,487**

34. Cost of sales

The cost of sales includes the following expenses:

	2019 EUR thousand	2018 EUR thousand
Personnel expenses	23,603	23,491
Fees for freelance staff and temporary workers	13,617	11,223
Depreciation and amortization	1,800	754
Other expenses	7,151	8,085
	46,171	**43,553**

35. Selling and marketing expenses

Selling and marketing expenses include the following expenses:

	2019 EUR thousand	2018 EUR thousand
Personnel expenses	12,249	11,979
Depreciation and amortization	1,467	1,081
Other expenses	5,148	5,735
	18,864	**18,795**

36. General and administrative exp.

General and administrative expenses include the following expenses:

	2019 EUR thousand	2018 EUR thousand
Personnel expenses	7,542	6,715
Depreciation and amortization	838	285
Other expenses	3,801	3,598
	12,181	**10,598**

37. Research and development exp.

Research and development expenses include the following expenses:

	2019 EUR thousand	2018 EUR thousand
Personnel expenses	12,008	11,615
Depreciation and amortization	1,761	679
Other expenses	2,032	3,040
	15,801	**15,334**

38. Other operating income

This item essentially includes research funds in the form of government grants in the amount of EUR 659 thousand (2018: EUR 553 thousand), income from the reversal of provisions in the amount of EUR 136 thousand (2018: EUR 127 thousand) and income from currency translation differences of EUR 222 thousand (2018: EUR 55 thousand).

Other operating income includes EUR 825 thousand income in connection with the transfer of the USU GmbH pension obligations to AUSUM GmbH as of October 1, 2019 (see note 22).

Government grants were grants for income received in line with subsidized expenses. The grants have been recognized under other operating income. Receivables from grants for income are reported under current financial assets. According to the Management Board, there are no unfulfilled conditions or other contingencies.

39. Other operating expenses

This item includes the VAT from non-cash benefits amounting to EUR 158 thousand (2018: EUR 149 thousand). It also includes expenses resulting from exchange rate differences of EUR 67 thousand (2018: EUR 346 thousand).

40. Finance income

Financial income includes the following items:

	2019 EUR thousand	2018 EUR thousand
Interest income	0	27
Income from currency differences in bank balances	80	133
Other	24	24
Finance income	**104**	**184**

41. Finance expenses

Financial costs include the following expenses:

	2019 EUR thousand	2018 EUR thousand
Cost of currency differences in bank balances	42	32
Other	66	48
Finance expenses	**108**	**80**

42. Income taxes

Income taxes are composed as follows:

	2019 EUR thousand	2018 EUR thousand
Income taxes for the fiscal year	-1,017	-2,197
Income taxes for previous years	10	25
Deferred taxes	2,230	322
Tax expenditure (-)/ tax income (+)	**1,223**	**-1,850**

In fiscal 2019, the company's income was again subject to a corporate income tax rate of 15%, plus a solidarity surcharge of 5.5% on corporate income tax, and an effective trade tax rate of 12.8%. The total tax rate including solidarity surcharge and effective trade tax was 28.6%. The tax rate for the consolidated tax group was 30.0%.

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

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

	2019 EUR thousand	2018 EUR thousand
Profit before income taxes	4,050	2,811
Theoretical tax expense (28.6%) (2018: 28.6%)	-1,158	-804
Changes in the theoretical tax expense due to:		
Use of loss carryforwards/ use of loss carryforwards not previously capitalized	2,738	-134
Allowance/non-recognition of deferred tax assets	-579	-1,189
Tax back payments/refunds for prior periods	10	25
Tax-exempt income/ non-deductible expenses	197	109
Deviation of tax rates from the Group's tax rate	15	143
Tax expenditure (-)/ tax income (+)	**1,223**	**-1,850**

43. Other disclosures on the statement of profit or loss

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

	2019	2018
Consulting and services	313	318
Research and development	201	194
Administration and finance	97	89
Sales and marketing	94	93
	705	**694**

Staff costs break down as follows:

	2019 EUR thousand	2018 EUR thousand
Salaries	46,557	43,439
Social security, pensions and other benefit costs	8,846	10,361
	55,403	**53,800**

Depreciation and amortization expense can be broken down as follows:

	2019 EUR thousand	2018 EUR thousand
Amortization of intangible assets	1,525	1,643
Depreciation of property, plant and equipment	1,190	1,156
Amortization on rights of use IFRS 16	2,360	0
Goodwill impairment	791	0
	5,866	**2,799**

Amortization of intangible assets includes the amortization of intangible assets recognized in connection with company acquisitions in the amount of EUR 1,381 thousand (2018: EUR 1,408 thousand).

F. Notes to the statement of cash flows

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

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

44. Net cash from operating activities

The USU Group generated net cash from operating activities of EUR 9,518 thousand in fiscal 2019 (2018: EUR 1,996 thousand). To settle the USU GmbH pension obligation, EUR 2,500 thousand was paid (2018: EUR 0 thousand). In this connection, incoming payments from insurance policies covering the pension obligation amounted to EUR 1,729 thousand (2018: EUR 0 thousand).

45. Net cash used in investing activities

Net cash used in investing activities totaled EUR -1,816 thousand in the 2019 reporting year after EUR -1,138 thousand in fiscal 2018.

Investments in property, plant and equipment and intangible assets totaled EUR 1,853 thousand (2018: EUR 1,145 thousand) and essentially relate to cash outflows for new and replacement investments in hardware and software.

46. Net cash used in financing activities

Negative Net cash used in financing activities of EUR 6,771 thousand in the period under review related to the dividend distribution to USU Software AG shareholders in fiscal 2019 of EUR 4,209 thousand (EUR 0.40 per share for a total of 10,523,770 no-par value shares). EUR 244 thousand was paid for exercising the purchase option in USU SAS. Lease liabilities in line with IFRS 16 of EUR 2,318 thousand were paid.

47. Cash and cash equivalents

The following table shows the components of cash and cash equivalents.

	2019 in EUR thousand	2018 in EUR thousand
Fixed-term deposits and overnight money with a term of less than 3 months	5,852	5,341
Demand deposits	4,543	4,100
Cash on hand	18	9
	10,413	**9,450**

G. SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

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

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

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

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

EUR thousand	Product Business		Service Business		Total Segments		Unallocated		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	74,349	68,425	21,075	21,789	95,424	90,214	206	273	95,630	90,486
Earnings before net financial income and income tax (EBIT)	8,149	6,871	1,083	1,858	9,232	8,729	-5,179	-6,022	4,054	2,708
Finance income	23	32	0	1	23	33	80	151	104	184
Finance expenses	-20	-20	0	0	-20	-20	-87	-60	-108	-80
Income taxes	-300	12	-47	348	-347	360	1,570	-2,210	1,223	-1,850
Consolidated net earnings	**7,852**	**6,895**	**1,036**	**2,207**	**8,888**	**9,102**	**-3,616**	**-8,141**	**5,273**	**961**
Segment assets/ Group assets	73,110	67,629	13,769	12,897	86,879	80,526	17,581	14,618	104,460	95,144
of which goodwill	36,373	37,164	4,019	4,019	40,392	41,183	0	0	40,392	41,183
Segment liabilities/ Group liabilities	33,195	24,910	4,798	3,523	37,993	28,433	6,268	7,046	44,261	35,479
Segment investments	1,329	718	439	382	1,768	1,100	85	44	1,853	1,144
Depreciation and amortization	4,061	2,020	1,296	634	5,357	2,654	509	145	5,075	2,799
Goodwill impairment	0	0	0	0	0	0	0	0	791	0
Employees at the reporting date (Dec, 31)	507	496	105	109	612	605	99	89	711	694

There was no intersegment revenue in fiscal 2019 or the previous year.

In fiscal 2019, EUR 69,168 thousand (2018: EUR 66,242 thousand) or 72.33% (2018: 73.21%) of consolidated revenue was generated in Germany. Revenue generated outside Germany amounted to EUR 26,462 thousand (2018: EUR 24,245 thousand) or 27.67% of total revenue (2018: 26.79%). International revenue was generated primarily in the USA with EUR 12,021 thousand (2018: EUR 7,973 thousand), Switzerland EUR 5,371 thousand (2018: EUR 5,670 thousand), France EUR 3,285 thousand (2018: EUR 3,299 thousand) and Austria EUR 1,788 thousand (2018: EUR 1,459 thousand). The geographic allocation of revenue is based on the country in which the respective customer is domiciled.

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

Investments outside Germany account for 19% of the consolidated total amount. Investments outside Germany essentially comprise the Group companies in the US, Czechia and France.

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

	2019 EUR thousand	2018 EUR thousand
Segment assets	**86,879**	**80,526**
Unallocated assets		
Cash on hand and bank	5,737	5,393
Right-of-use assets IFRS 16	439	0
Financial assets	455	0
Deferred taxes	8,786	5,940
Income tax receivables	878	943
Other assets	1,286	2,342
	17,581	**14,618**
Group assets	**104,460**	**95,144**

	2019 EUR thousand	2018 EUR thousand
Segment liabilities	**37,993**	**28,433**
Unallocated liabilities		
Financial liabilities	264	1,000
Lease liability IFRS 16 Non-current	214	0
Deferred taxes	2,873	1,378
Pension provisions	0	1,265
Other income tax liabilities	219	613
Other liabilities	2,698	2,790
	6,268	**7,046**
Group liabilities	**44,261**	**35,479**

H. OTHER DISCLOSURES

48. Related party disclosures

In accordance with IAS 24, the related parties of USU Software AG are defined as persons or entities with the ability to control the Group or exercise significant influence over it, including members of management and the Supervisory Boards, and any persons or entities over which the Group has significant influence. Companies that are already included in consolidation are not considered related parties.

The senior management and the members of the Supervisory Board are considered as related parties within the meaning of IAS 24.9. In fiscal 2019, the business relationships described below existed between members of the Management Board and the Supervisory Board and the persons and entities not included in the consolidated financial statements.

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

48.1 Udo Strehl/AUSUM GmbH (AUSUM)

USU GmbH reimbursed AUSUM for costs of EUR 16 thousand (2018: EUR 2 thousand) in fiscal 2019. As of December 31, 2019 there were open items of EUR 9 thousand. In return, in 2019 USU GmbH invoiced AUSUM for pro rata vehicle costs in the amount of EUR 7 thousand (2018: EUR 7 thousand).

Effective October 1, 2019, the USU GmbH pension obligations for a former Management Board member and now member of the Supervisory Board were contractually transferred to AUSUM GmbH. As of October 1, 2019, AUSUM GmbH assumed the pension obligations with all legal and constructive obligations. Details on this are found in note 22 - Pension provisions.

USU GmbH leased the Spitalhof administrative building in Möglingen from AUSUM GmbH (2018: from Karin Weiler-Strehl). The lease is extended by an additional four years if it is not terminated at least 24 months before the end of its term. As notice has not been given on the lease, its term is to December 31, 2021. Currently the total monthly rent amounts to EUR 21 thousand (2018: EUR 21 thousand) plus ancillary costs. In the past fiscal year, USU GmbH was invoiced EUR 255 thousand (2018: EUR 263 thousand) for the rental of the administrative building and parking spaces.

As of December 31, 2019, there were no open items.

48.2 Karin Weiler-Strehl

USU GmbH engages the consulting services of Ms. Karin Weiler-Strehl, the wife of Mr. Udo Strehl, via AUSUM on a contract-by-contract basis. The expenses for these consulting contracts with Ms. Weiler-Strehl amounted to EUR 35 thousand in fiscal 2019 (2018: EUR 36 thousand).

USU Software AG also leased an office in Münchinger Strasse, Möglingen, from Ms. Karin Weiler-Strehl. In the past fiscal year, rent of EUR 10 thousand (2018: EUR 10 thousand) was paid for this office.

As of December 31, 2019, there were no open items.

48.3 Stefan Merkel/Lysant GmbH (Lysant)

Through Stefan Merkel, USU commissioned Lysant to provide technical consulting and support in the areas of test management and design. Contracts in the amount of EUR 0 thousand (2018: EUR 134 thousand) were awarded to Lysant in the year under review. Incoming orders from Lysant amounted to EUR 43 thousand (2018: EUR 22 thousand). As of December 31, 2019, there were no open items.

48.4 Loans to shareholders

There were no claims under loan agreements as of December 31, 2019.

48.5 Compensation of senior management and the Supervisory Board

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

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

The compensation paid to the members of the Management Board totaled EUR 820 thousand in fiscal 2019 (2018: EUR 888 thousand).

Fixed remuneration:
EUR 501 thousand (2018: EUR 501 thousand)

Variable remuneration:
EUR 228 thousand (2018: EUR 295 thousand)

Non-cash benefit from the private use of company cars: EUR 49 thousand (2018: EUR 50 thousand)

Defined contribution pension costs:
EUR 42 thousand (2018: EUR 42 thousand)

The total compensation paid to the Supervisory Board in fiscal 2019 was EUR 129 thousand (2018: EUR 120 thousand). Details of the compensation paid to the Supervisory Board are described in the management report of the company and the Group in the “Compensation report”.

49. Auditor’s fees

a) Audits of financial statements (separate and consolidated financial statements)
EUR 145 thousand (2018: EUR 194 thousand)

b) Other services
EUR 7 thousand (2018: EUR 6 thousand)

In addition to audits of financial statements, other services were performed for the parent company and its controlled subsidiaries. These comprise audit assessments in connection with the preparation of the quarterly financial statements of USU Software AG in fiscal 2019.

50. Other disclosures

50.1 Contingent liabilities

There were no contingent liabilities as of December 31, 2018 or December 31, 2019.

50.2 Leases

From 2019, lease assets are shown as a separate item on the statement of financial position in line with the regulations of IFRS 16. EUR 518 thousand resulted from payments in the current fiscal year for short-term and low-value leases which are recognized as expenses on a straight-line basis.

It is assumed that the recognized rights of use and lease liabilities will remain and financial funds will be paid in the form of lease payments. Account has not currently been taken of any termination options. If a contract is terminated early, this impacts the measurement at the date of the termination or when this is highly probable. Subsequently the right of use, the lease liability and the cash outflow decline.

Concluded leases whose inception is after December 31, 2019 and any contract extensions are recognized only to the date of contract inception or when the option is exercised. In future a cash outflow of EUR 350 thousand p. a. is anticipated. From short-term and low-value leases, a cash outflow of EUR 18 thousand is anticipated for the 2020 fiscal year.

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

EUR thousand	< 1 year	1 year to 5 years	> 5 years	Total
Future contractual lease payments	**2,706**	**3,443**	**2,630**	**8,779**
- of which buildings and structures	1,802	2,879	2,630	7,311
- of which cars	607	564	0	1.171
- of which software	297	0	0	297

As seen from today, leases for buildings and motor vehicles will be entered into in the future. However, the form and scope of the leases will remain largely constant.

As of December 31, 2019, the rights of use and lease liabilities break down as follows:

	2019 EUR thousand
Rights of use	
Buildings	7,070
Software	297
Office equipment	0
Motor vehicles	1,166
	8,533

	2019 EUR thousand
Lease liabilities	
Current	3,083
Non-current	5,510
	8,593

In the fiscal year, there were additions of rights of use amounting to EUR 6,268 thousand.

Breakdown by class:	2019 EUR thousand
Addition of rights of use	
Buildings	5,097
Software	313
Office equipment	0
Motor vehicles	858
	6,268

The following amounts were recognized for leases in the statement of profit and loss:

	2019 EUR thousand
Depreciation on rights of use	
Buildings	1,567
Software	278
Office equipment	0
Motor vehicles	515
	2,360
Interest expenses (included in financing expenses)	20
Expenses for short-term leases (recognized in other operating expenses)	500
Expenses for low-value leases not included in the above short-term leases (recognized in other operating expenses)	18
Expenses for variable lease payments, not included in the lease liabilities (recognized in other operating expenses)	0

Die gesamten Auszahlungen für Leasing beliefen sich in 2019 auf TEUR 2.318.

From January 1, 2019, rights of use were recognized for the lease payments for 2018 shown in the following table.

	2018 EUR thousand
Operating lease obligations	
In the next 12 months	936
In the next 13 to 60 months	499
In more than 60 months	0
	1,435
Other financial commitments from building leases	
In the next 12 months	2,078
In the next 13 to 60 months	3,113
In more than 60 months	44
	5,235
	6,670

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

In the course of its normal business operations, the company can be subject to litigation, claims for damages or court proceedings including product liability issues and commercial disputes. The outcome of currently pending or future litigation cannot be predicted with reasonable assurance, hence future court decisions may result in expenses that are not fully covered by the insurance in place and that could have a material impact on the company's business, financial position and operating results. In the opinion of the company and its legal counsel as of December 31, 2019 and December 31, 2018, no decisions that could have a material impact effect on the net assets and results of operations of the Group are expected from the litigation that is currently pending.

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

Due to development in the Covid-19 crisis, the Forecast report supplemented accordingly. Further explanation can be found in the management report on the company and the group.

52. Executive bodies

52.1 Management Board

In fiscal 2019, the Management Board of the parent company consisted of:

Bernhard Oberschmidt
Chairman of the Management Board, economics graduate
Chairman of the Supervisory Board of Dürr Dental SE, Bietigheim-Bissingen

Bernhard Böhler,
Deputy Chairman of the Management Board
(until December 31, 2019)

Dr. Benjamin Strehl,
business graduate
Member of the Supervisory Board of Marc O'Polo AG, Stephanskirchen

The total compensation paid to the active members of the Management Board in the past fiscal year was EUR 820 thousand. Details can be found in the "Compensation report" in the management report of the company and the Group.

52.2 Supervisory Board

In the 2019 fiscal year, the Supervisory Board consisted of:

Udo Strehl, Chairman
Managing Director of AUSUM GmbH, Möglingen

Erwin Staudt,
Management consultant, Leonberg
Member of the Supervisory Board of Grenke AG, Baden-Baden (until May 14, 2019)
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of USU GmbH, Möglingen
Member of the Advisory Council of Interstuhl Büromöbel GmbH & Co. KG, Meßstetten

Gabriele Walker-Rudolf (since January 17, 2019)
Partner at Drees & Sommer SE, Stuttgart

The total compensation paid to the active members of the Supervisory Board in the past fiscal year was EUR 129 thousand. In addition, in the year under review USU Software AG generated income of EUR 18 thousand in the year under review from the reversal of the remaining provision for Supervisory Board compensation from 2018. Details can be found in the "Compensation report" in the management report of the company and the Group.

53. Financial risk management

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

53.1 Credit risks

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

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

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

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

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

53.2 Liquidity risks

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

53.3 Interest-related cash flow risk

At USU Software AG, changes in market interest rates essentially affect cash flow from financial investments. If the market interest rate as of December 31, 2019 had been 1% higher (lower), net profit and equity would each have been EUR 108 thousand (December 31, 2018: EUR 105 thousand) higher (lower).

53.4 Exchange rate risk

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

54. Additional disclosures on capital

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

Equity and total assets were as follows as of December 31, 2019 and December 31, 2018:

	2019 EUR thousand	2018 EUR thousand	Change
Non-current liabilities	10,439	5,750	81.5 %
Current liabilities	33,823	29,729	13.8 %
Total liabilities	**44,262**	**35,479**	**24.8 %**
Equity	**60,198**	**59,665**	**0.9 %**
Total liabilities and equity	**104,460**	**95.144**	**9.8 %**
Equity ratio	57.6 %	62.7 %	

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

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

The following domestic subsidiaries included in the consolidated financial statements of USU Software AG exercised the exemption provisions of section 264(3) HGB for fiscal 2019:

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

I. HOLDINGS OF MEMBERS OF CORPORATE BODIES

The following table should be read in conjunction with the disclosures published in the interim financial statements of USU Software AG on the securities held by members of the company's executive bodies. As of December 31, 2019, members of the company's executive bodies held shares in USU Software AG, Möglingen, as follows:

Shareholdings subject to mandatory disclosure	2019 Shares	2018 Shares
Management Board		
Bernhard Oberschmidt	162,518	156,518
Bernhard Böhler	167,572	167,572
Dr. Benjamin Strehl	0	0
Supervisory Board		
Udo Strehl *)	5,000	5,000
Erwin Staudt	100,000	100,000
Gabriele Walker-Rudolf	0	0

**) An additional 5,347,013 voting rights in USU Software AG (2018: 5,340,014) are allocated to Mr. Udo Strehl through AUSUM GmbH as the majority shareholder of that company in accordance with section 34(1) sentence 1 no. 1 of the new version of Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).*

A further 32,000 (2018: 32,000) voting rights in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the director, in accordance with section 34(1) sentence 1 no. 1 WpHG (new version).

On January 3, 2019, March 29, 2019, April 1, 2019 and May 23, 2019 AUSUM GmbH, whose majority shareholder is the Chairman of the Supervisory Board of USU Software AG, Udo Strehl, purchased 6,999 shares in USU Software AG on the Stuttgart Stock Exchange. On May 23, 2019, Bernhard Oberschmidt acquired 6,000 USU shares. USU Software AG was subsequently notified of both securities transactions. The company in turn published this notification of securities transactions as required.

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

J. DIVIDEND PAYMENT

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

K. DECLARATION OF CONFORMITY

On December 12, 2019, the Management Board and the Supervisory Board of USU Software AG issued the declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made it permanently available to shareholders on USU Software AG's website at http://www.usu-software.de. Further information on the declaration of conformity can be found in the report on the situation of the company and the Group in these consolidated financial statements.

Möglingen, March 13, 2020

USU Software AG

Bernhard Oberschmidt
Chairman of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR FISCAL 2019

USU SOFTWARE AG, MÖGLINGEN

	Acquisition/production cost				
	As of Jan. 1, 2019 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of Dec. 31, 2019 EUR thousand
Intangible assets					
Purchased software/ orders on hand	9,643	0	573	0	10,216
Trademarks and brands	2,532	0	0	0	2,532
Maintenance agreements/ beneficial contracts	3,621	0	0	0	3,621
Customer base	9,669	0	0	0	9,669
	25,465	**0**	**573**	**0**	**26,038**
Goodwill	**64,101**	**0**	**0**	**0**	**64,101**
Property, plant and equipment					
Land and buildings	186	-1	315	70	430
Other equipment, operating and office equipment	5,766	13	965	508	6,236
	5,952	**12**	**1,280**	**578**	**6,666**
Right-of-use assets					
Software	262	0	313	0	575
Land and buildings	3,540	0	5,097	0	8,637
Other equipment, operating and office equipment	823	0	858	0	1,681
	4,625	**0**	**6,268**	**0**	**10,893**
	100,143	**12**	**8,121**	**578**	**107,698**

	Cumulative depreciation and amortization					Carrying amounts	
	As of Jan. 1, 2019 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of Dec. 31, 2019 EUR thousand	As of Dec. 31, 2019 EUR thousand	As of Dec. 31, 2018 EUR thousand
	7,103	0	533	0	7,636	2,580	2,540
	521	0	0	0	521	2,011	2,011
	3,439	0	91	0	3,530	91	182
	7,499	0	901	0	8,400	1,269	2,170
	18,562	**0**	**1,525**	**0**	**20,087**	**5,951**	**6,903**
	22,918	**0**	**791**	**0**	**23,709**	**40,392**	**41,183**
	67	0	121	70	118	312	119
	3,728	9	1,069	480	4,326	1,910	2,038
	3,795	**9**	**1,190**	**550**	**4,444**	**2,222**	**2,157**
	0	0	278	0	278	297	262
	0	0	1,567	0	1,567	7,070	3,540
	0	0	515	0	515	1,166	823
	0	**0**	**2,360**	**0**	**2,360**	**8,533**	**4,625**
	45,275	**9**	**5,866**	**550**	**50,600**	**57,098**	**54,868**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR FISCAL 2018

USU SOFTWARE AG, MÖGLINGEN

	Acquisition/production cost				
	As of Jan. 1, 2018 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of Dec. 31, 2018 EUR thousand
Intangible assets					
Purchased software/ orders on hand	10,145	0	58	560	9,643
Trademarks and brands	2,532	0	0	0	2,532
Maintenance agreements/ beneficial contracts	3,621	0	0	0	3,621
Customer base	9,669	0	0	0	9,669
	25,967	**0**	**58**	**560**	**25,465**
Goodwill	**64,101**	**0**	**0**	**0**	**64,101**
Property, plant and equipment					
Land and buildings	234	0	0	48	186
Other equipment, operating and office equipment	5,223	7	1,086	550	5,766
	5,457	**7**	**1,086**	**598**	**5,952**
	95,525	**7**	**1,144**	**1,158**	**95,518**

	Cumulative depreciation and amortization					Carrying amounts	
	As of Jan. 1, 2018 EUR thousand	Currency adjustment EUR thousand	Additions EUR thousand	Disposals EUR thousand	As of Dec. 31, 2018 EUR thousand	As of Dec. 31, 2018 EUR thousand	As of Dec. 31, 2017 EUR thousand
	7,038	0	625	560	7,103	2,540	3,107
	521	0	0	0	521	2,011	2,011
	3,322	0	117	0	3,439	182	299
	6,599	-1	901	0	7,499	2,170	3,070
	17,480	**-1**	**1,643**	**560**	**18,562**	**6,903**	**8,487**
	22,918	**0**	**0**	**0**	**22,918**	**41,183**	**41,183**
	95	0	19	47	67	119	139
	3,132	4	1,137	545	3,728	2,038	2,091
	3,227	**4**	**1,156**	**592**	**3,795**	**2,157**	**2,230**
	43,625	**3**	**2,799**	**1,152**	**45,275**	**50,243**	**51,900**

INDEPENDENT AUDITOR'S REPORT

To USU Software AG, Möglingen

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

Audit Opinions

We have audited the consolidated financial statements of **USU Software AG, Möglingen,** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the Company and the Group (hereinafter: "combined management report") of USU Software AG, Möglingen, for the financial year from 1 January to 31 December 2019. In accordance with the requirements of German law, we have not audited the contents of the consolidated non-financial statement contained in Section IX. of the combined management report, the declaration on corporate governance contained in Section VIII. of the combined management report and the confirmation from executive directors pursuant to Sec. 315 (1) sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sec. 289 (1) sentence 5 HGB that the consolidated financial statements present a true and fair view, contained in Section XI. of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the components of the combined management report whose content we, as described above, have not audited.

Pursuant to Sec. 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We summarize what in our view are the key audit matters below:

1) Impairment testing of goodwill

2) Revenue recognition from software licenses, consulting services and maintenance services

Re 1) Impairment testing of goodwill

a) The risk for the financial reporting

Goodwill of EUR 40.4 million is carried in the consolidated financial statements of USU Software AG (here-inafter referred to as USU) under the line item "Goodwill". This corresponds to 38.7% of the balance sheet total. Goodwill is subject to an impairment test as at 30 September of each respective financial year.

An impairment loss of EUR 791 k was recorded on the goodwill of USU SAS in the fiscal year.

The valuation was performed using the discounted cash flow method. The findings of the impairment test are highly dependent on the estimates made by the executive directors of future cash flows, the operating margins and the discount rate applied and are therefore subject to substantial uncertainty. A valuation report was commissioned from an independent expert for this purpose. The valuation is therefore subject to substantial uncertainty. In light of this circumstance and the complexity of the valuation, this issue was of special significance during our audit.

The disclosures of the Company regarding goodwill are contained in Sections 7.1, 7.3 and 10 of the notes to the consolidated financial statements.

b) Auditor's response and conclusions

We verified that the future cash flows used in the valuations are appropriate by comparing them to the latest budgets derived from the three-year planning drawn up by the executive directors and reconciling them with general market expectations.

The reliability of the business planning was assessed using a retrospective comparison of the deviations between the budget figures underlying the valuation performed in the prior year and the actual figures posted in financial year 2019. Where any significant deviations were identified we discussed these with the executive directors in terms of their relevance for the financial statements of the reporting year.

Based on the knowledge that relatively small changes in the discount rate used can have a significant impact on the enterprise value determined in this way, we also placed a focus of our audit on the parameters used to determine the discount rate and the weighted average cost of capital and verified the formula used in the calculation.

Due to the material significance of goodwill and the fact that the valuation of goodwill also depends on the macroeconomic environment, which lies out the sphere of influence of the Company, we also performed sensitivity analyses of the cash generating units with low or no coverage (carrying amount compared to net present value) and found that the goodwill carried in the books is suitably covered by discounted future cash surpluses and has been suitably discounted.

Overall, the valuation parameters and assumptions applied by the executive directors agree with our expectations.

Re 2) Revenue recognition from software licenses, consulting services and maintenance services

a) The risk for the financial reporting

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

Revenue from software licenses is realized when the software has been supplied, the sales price has been fixed or is determinable, collection is reasonably assured and an agreement can be demonstrated. Revenues allocated to professional services are recognized upon performance of the service. The revenue attributable to maintenance services is spread over the term of the service contract on a straight-line basis.

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

To the extent that the bundle of contracts or the combination contract does not constitute a combination of contracts for the purpose of IFRS 15, the Group recognizes the revenue arising from the bundle or the combination contracts at the fair value of the individual components of the contract. The individual prices are determined on the basis of the price that would be asked for if the good or service was sold separately.

Revenue from maintenance services is generally recognized over time, i.e. during the period of the maintenance. For maintenance work, the customary price is determined from the rates charged to prolong maintenance contracts by the same term and, if these are not available, on the price list approved by the Management Board of the Group. In those cases where the price of the consulting services or maintenance work to be performed in the bundle of contracts lies below the customary price, the difference to the customary prices for the consulting services or maintenance work is separated from the recognized royalty income and realized over the period in which the consulting services or maintenance work is rendered.

In those cases where the payment of royalties depends on providing consulting services which materially modify or expand the functionality of the software, the revenue from the software license and consulting services is deferred and recognized based on the percentage of completion of the underlying consulting service contract. The amount of revenue or income to be recognized is measured on the volume of consulting performed to date in comparison to the estimated total volume of services to be rendered until completion of the contract. Expenses for subsequent modifications by the customer are considered in cost in excess of billings provided their realization is more likely than not and their amount can be reliably estimated.

Revenue recognition over time is based on estimates. Due to the associated uncertainties it is possible that estimates of the costs to complete the contract need to be subsequently adjusted. Such adjustments to costs and income are recognized in the period in which the adjustments are determined.

The disclosures of the Company regarding revenue recognition are contained in Sections 7.17 and 33 of the notes to the consolidated financial statements.

Due to the various types of revenue recognition for software licenses, consulting services and maintenance services, special focus was placed on revenue recognition within the framework of our audit.

b) Auditor’s response and conclusions

We assessed the accounting policies applied by USU for the recognition of revenue against the requirements of the IFRS Framework and the relevant IFRSs. To test the revenue generated in the financial year, we obtained an understanding of the transactions from the underlying contractual agreements and other associated documents and from explanations provided by the employees in the accounting department and/or sales department of USU. In addition, we obtained confirmations of the balances from the respective customers to verify the receivables carried by USU on the reporting date and assessed whether USU had properly identified all the separate units of account and measured the transaction price for such units of account on the basis of their relative fair values. Likewise, we assessed whether the accounting principles applying to each separate unit of account for the recognition of revenue were properly applied to ensure the proper matching of revenue to the correct period. Moreover, we assessed the appropriateness of the associated disclosures in the notes to the consolidated financial statements.

We are of the opinion that the accounting policies applied by USU to recognize revenue from sales of software licenses, services and maintenance were suitable in financial year 2019 to allow proper presentation in the consolidated financial statements. It was possible to unambiguously determine which accounting policies should be applied to the recognition of revenue arising from the software agreements entered into in financial year 2019 that we reviewed.

Other Information

The executive directors and the Supervisory Board are responsible for the other information. The other information comprises:

- The non-financial statement included in Section IXI. of the combined management report

- The declaration on corporate governance included in Section VIII. of the combined management report

- The report of the Supervisory Board

- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

- The other elements of the annual report excluding the consolidated financial statements, the disclosures in the management report whose content we audited and our associated auditor's report.

- The confirmation pursuant to Sec. 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Sec. 315 (1) sentence 5 HGB in conjunction with Sec. 289 (1) sentence 5 HGB regarding the combined management report contained in Section XI. of the combined management report

The Supervisory Board is responsible for the report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the Declaration of Compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] contained in Section VIII. of the combined management report. In all other respects, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon

In connection with our audit of the consolidated financial statements, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the elements of the combined management report whose content was audited, or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated, financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the independent auditor by the annual general meeting on 2 July 2019. We were engaged by the Supervisory Board on 27 July 2019. We have been the group auditor of USU Software AG, Möglingen, without interruption since financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Ms. Linda Ruoß.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

USU SOFTWARE AG, MÖGLINGEN

ASSETS	As of Dec. 31, 2019 EUR	As of Dec. 31, 2018 EUR
A. Non current assets		
I. Intangible assets Internally generated industrial and similar rights	95,694.95	4,091.69
II. Property, plant and equipment Other equipment, operating and office equipment	25,010.94	26,101.27
III. Financial assets Shares in affiliated companies	48,649,994.58	49,399,995.58
B. Current assets		
I. Inventories Work in progress	1,107.48	0.00
II. Receivables and other assets		
1. Trade receivables	211,820.68	207,591.21
2. Receivables from affiliated companies	16,736,666.46	7,709,025.26
3. Other assets	964,677.94	2,056,328.06
	17,913,165.08	**9,972,944.53**
III. Cash and cash equivalents	452,096.96	1,692,126.15
C. Prepaid expenses	**183,487.09**	**158,059.90**
	67,320,557.08	**61,253,319.12**

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

USU SOFTWARE AG, MÖGLINGEN

EQUITY AND LIABILITIES	As of Dec. 31, 2019 EUR	As of Dec. 31, 2018 EUR
A. Equity		
I. Issued capital (Contingent capital EUR 378 thousand; previous year: EUR 378 thousand)	10,523,770.00	10,523,770.00
II. Capital reserves	13,644,662.64	13,644,662.64
III. Unappropriated surplus	8,139,749.51	6,283,753.39
	32,308,182.15	**30,452,186.03**
B. Provisions		
1. Tax provisions	218,000.00	0.00
2. Other provisions	978,326.73	1,574,798.33
	1,196,326.73	**1,574,798.33**
C. Liabilities		
1. Prepayments received on orders	0.00	7,122.50
2. Trade payables	223,752.97	213,976.41
3. Liabilities to affiliated companies	33,470,353.42	28,648,082.51
4. Other liabilities	68,726.86	308,745.35
	33,762,833.25	**29,177,926.77**
D. Deferred income	**53,214.95**	**48,407.99**
	67,320,557.08	**61,253,319.12**

STATEMENT OF PROFIT AND LOSS
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2019

USU SOFTWARE AG, MÖGLINGEN

	2019 EUR	2018 EUR
1. Sales	4,890,702.95	3,803,253.16
2. Increase (previous year: Decrease) in finished goods and work in progress	1,107.48	-10,209.32
3. Other operating income	2,736,361.88	1,900,852.78
	7,628,172.31	**5,693,896.62**
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	250,906.58	114,550.99
b) Cost of purchased services	146,886.58	83,788.28
	397,793.16	**198,339.27**
5. Personnel expenses		
a) Wages and salaries	3,675,883.61	3,394,443.87
b) Social security, post-employment and other employee benefit costs (of which in respect of old age pensions: EUR 2 thousand; previous year: EUR 2 thousand)	489,698.27	455,468.79
	4,165,581.88	**3,849,912.66**
6. Amortization/Depreciation		
a) of intangible assets	16,931.34	62,783.40
b) of property, plant and equipment	1,000,000.00	0.00
7. Other operating expenses	6,582,910.75	5,902,855.04
	-4,535,044.82	**-4,319,993.75**
8. Income from long-term equity investments	0.00	5,000,000.00
9. Income from profit transfer agreements	12,645,946.72	4,149,170.72
10. Income from loans from financial assets	25,567.44	0.00
11. Other interest and similar income	63,398.45	59,333.91
12. Depreciation on financial assets	750,000.00	0.00
13. Expenses from loss assumption	503.78	0.00
14. Interest and similar expenses	443,876.19	475,588.61
15. Income taxes	941,348.55	68,916.62
16. Earnings after taxes	**6,064,139.27**	**4,344,005.65**
17. Refunded taxes (previous year: Other taxes)	-1,364.85	25,670.10
18. Net profit	**6,065,504.12**	**4,318,335.55**
19. Profit carried forward from the previous year	2,074,245.39	1,965,417.84
20. Unappropriated surplus	**8,139,749.51**	**6,283,753.39**

A. General notes

USU Software AG is entered in the commercial register of the Stuttgart District Court under HRB 206442 and is domiciled at Spitalhof, 71696 Möglingen, Germany.

The single-entity financial statements of USU Software AG were prepared in accordance with sections 242 ff. and 264 ff. of the German Commercial Code (HGB) and the relevant provisions of the German Stock Corporation Act (AktG). As a listed company, USU Software AG is classified as a large stock corporation in accordance with section 267 (3) sentence 2 HGB.

The presentation, classification, recognition and measurement of the items in the single-entity financial statements are based on the same principles as in the previous year.

The income statement has been prepared using the nature of expense method set out in section 275 (2) HGB.

All figures are shown in thousands of euro (EUR thousand) unless otherwise stated.

B. Accounting policies

As in the previous year, the single-entity financial statements were prepared in accordance with the following accounting policies.

Tangible and intangible assets are recognized at acquisition cost (plus transaction costs) less systematic depreciation and impairments.

Assets that can be used independently and that have an acquisition cost of less than EUR 800.00 are written off in full in their year of acquisition.

For intangible and tangible assets with limited useful lives, amortization and depreciation is generally determined using the rates permitted for tax purposes and is recognized on a straight-line basis over a standard useful life of between three and thirteen years.

With regard to financial assets, shares in affiliated companies are carried at the lower of cost or market. Write-downs are recognized for permanent impairment.

If the value of items of fixed assets calculated in accordance with the above principles exceeds the fair value of these assets at the reporting date, corresponding write-downs are recognized. If the reasons for a write-down no longer apply in a subsequent fiscal year, the write-down is reversed in the amount of the increase in value, taking into account the amortization and depreciation that would have been recognized in the meantime.

Work in progress is recognized at production cost taking into account the principle of loss-free valuation. Production cost comprises the working hours accrued and individually documented, which are measured as direct costs plus proportionate overheads. The option of including administration overheads was not exercised. Interest for borrowings is not taken into account when calculating production cost. Purchased services are measured at acquisition cost.

Receivables and other assets are carried at their nominal value. Identifiable individual risks are taken into account by recognizing appropriate valuation allowances.

Other provisions take into account all uncertain liabilities and expected losses from onerous contracts. They are recognized in the amount dictated by prudent business judgment. Provisions with remaining terms of more than a year are measured at present value and discounted at an interest rate in line with the terms of the provisions. Cost increases which are expected to have a future impact until the obligation has been fulfilled are taken into account if there is sufficient objective evidence of their occurrence.

Provisions for variable components of remuneration for employees, including the USU Software AG Management Board, are based on the Management Board's individual opinion regarding the respective level of target achievement, taking into account the contractually agreed targets.

Liabilities are carried at their settlement amount.

Advance payments are reported net of value added tax.

Receivables and liabilities in foreign currencies with a remaining term of up to one year are translated at the middle spot exchange rate at the reporting date. Accordingly, these annual financial statements include unrealized gains and losses from currency translation. Items with a remaining term of over one year are translated at the exchange rate at the date on which they originated. In the event of exchange rate changes up until the reporting date, items are measured at the exchange rate at the reporting date, applying the lower of cost or market principle on the asset side and the higher of cost or market principle on the liability side.

Deferred taxes are calculated using the balance sheet temporary concept in accordance with section 274 HGB. Deferred taxes are recognized for USU Software AG and its tax group companies for temporary differences between the accounting and tax carrying amounts of goodwill, pension provisions and other provisions in particular. Tax loss carryforwards at USU Software AG are taken into account in addition to the temporary accounting differences. Temporary differences and tax loss carryforwards that are expected to be offset within the next five years are measured using the Company's own tax rate (as of 12/31/2019: approximately 30.2 %).

Deferred tax assets are offset against deferred tax liabilities. USU Software AG has a remaining surplus of deferred tax assets after offsetting. The Company has not exercised the option of utilizing deferred tax assets (Section 274 (1) sentence 2 HGB).

C. Notes on the balance sheet

1. Fixed assets

The separate statement of changes in fixed assets is an integral element of the notes to the financial statements.

Impairment losses of EUR 750 thousand were recognized for the interest in USU SAS, France, reported under financial assets.

2. Receivables and other assets

Receivables from affiliated companies are attributable to profit transfers from subsidiaries in the amount of EUR 12,646 thousand (2018: EUR 4,150 thousand) and a short-term loan of EUR 4,005 thousand; the remaining amount relates to services.

As in the previous year, all receivables and other assets have a remaining term of less than one year.

Other assets include input tax receivables in the amount of EUR 9 thousand (2018: EUR 10 thousand) that are deductible in the following year.

3. Issued capital

The share capital of the Company reported as issued capital is divided into 10,523,770 no-par value bearer shares each with a notional interest in the share capital of EUR 1.00.

Authorized capital

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

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

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

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

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

Contingent capital

By way of resolution of the Annual General Meetings in 2000 and 2004, the company's share capital was contingently increased to EUR 378 thousand through the issue of no-par value bearer shares. The contingent capital increase may be used only for granting options to members of the Management Board and employees of the Company as well as members of the management and employees of affiliated companies. There were no outstanding options as of December 31, 2019.

4. Other provisions

Other provisions primarily comprise provisions for bonus payments (EUR 530 thousand), the annual report (EUR 94 thousand) and vacation (EUR 143 thousand).

5. Liabilities

	Total		Due within 1 year		Due within 1 – 5 years	
Type of liabilities	Dec. 31, 2019 EUR thousand	Dec. 31, 2018 EUR thousand	Dec. 31, 2019 EUR thousand	Dec. 31, 2018 EUR thousand	Dec. 31, 2019 EUR thousand	Dec. 31, 2018 EUR thousand
Liabilities from advance payments	0	7	0	7	0	0
Trade payables	224	214	224	214	0	0
Liabilities to affiliated companies	33,470	28,648	7,278	5,123	26,192	23,525
Other liabilities	69	309	69	59	0	250
(of which from taxes)	(69)	(58)	(69)	(58)	(0)	(0)
(of which in respect of social security)	(0)	(0)	(0)	(0)	(0)	(0)
	33,763	**29,178**	**7,571**	**5,403**	**26,192**	**23,775**

Liabilities to affiliated companies primarily relate to loan liabilities (EUR 32,234 thousand, 2018: EUR 28,365 thousand) and are secured in the amount of EUR 32,234 thousand (2018: EUR 28,365 thousand) by a global assignment of receivables. An amount of EUR 1,235 thousand (2018: EUR 283 thousand) relates to trade payables. As of the reporting date there were no liabilities with a remaining term exceeding five years.

D. Notes on the income statement

6. Revenue

	2019 EUR thousand	2018 EUR thousand
Consulting	219	256
Licenses	441	0
Maintenance	31	443
Other	4,200	3,104
	4,891	**3,803**

In the year under review, sales of EUR 4,781 thousand (2018: EUR 3,763 thousand) were generated in Germany and sales of EUR 110 thousand (2018: EUR 40 thousand) were generated abroad.

7. Other operating income

Other operating income of EUR 2,736 thousand (2018: EUR 1,901 thousand) primarily relates to services for Group companies (EUR 2,039 thousand, 2018: EUR 1,165 thousand) and research funds in the amount of EUR 457 thousand (2018: EUR 514 thousand).

Other operating income contains income from currency translation in the amount of EUR 0 thousand (2018: EUR 77 thousand) and prior-period income of EUR 126 thousand (2018: EUR 18 thousand).

8. Depreciation and amortization

The short-term loan granted to a subsidiary was written down in the amount of EUR 1,000 thousand.

9. Other operating expenses

This item includes expenses from currency translation in the amount of EUR 1 thousand (2018: EUR 1 thousand).

10. Income from profit transfer agreements/ expenses from loss absorption

The Company entered into a profit transfer agreement with Openshop Internet Software GmbH on March 2, 2000. Profit transfer agreements were entered into with Omega Software GmbH on May 19, 2005, with LeuTek GmbH on December 29, 2006 and with Aspera GmbH on May 31, 2012. They were adjusted slightly in 2014 in view of tax-related requirements. Under these agreements, the participating companies are required to transfer all of their profits to USU Software AG during the contractual term. Transfers to distributable reserves are permitted only with the approval of USU Software AG. In exchange, USU Software AG undertakes to offset every net loss incurred during the contractual term that cannot be offset by way of withdrawals from distributable reserves recognized during the same period.

There is a profit and loss transfer agreement dated May 6, 2019 with USU GmbH which took effect retroactively from the beginning of the fiscal year.

Accordingly, the profit generated by USU GmbH, LeuTek GmbH, Aspera GmbH, and Omega Software GmbH in the 2019 fiscal year was transferred to USU Software AG in line with the profit and loss transfer agreement concluded. The loss of EUR 1 thousand reported by Openshop Internet Software GmbH in 2019 was offset by USU Software AG.

EUR 12,646 thousand (2018: EUR 4,149 thousand) of income from profit transfer agreements relates to affiliated companies.

11. Net finance

EUR 62 thousand (2018: EUR 35 thousand) of other interest and similar income relates to affiliated companies.

EUR 442 thousand (2018: EUR 472 thousand) of interest and similar expenses relates to affiliated companies.

12. Income taxes

Income taxes included prior-period expenses of EUR 35 thousand (2018: EUR 35 thousand) and prior-period income of EUR 44 thousand (2018: EUR 0 thousand).

13. Other taxes

Other taxes included prior-period expenses of EUR 0 thousand (2018: EUR 26 thousand) and prior-period income of EUR 2 thousand (2018: EUR 0 thousand).

E. Other disclosures

Disclosures on participations

USU Software AG holds 100% of shares in each of the following companies. The information on equity and net income represents the amounts recognized in accordance with the respective national accounting standards.

	Equity Dec. 31, 2019 EUR thousand	Net profit 2019 EUR thousand
USU GmbH, Möglingen [1]	30,368	5,716
LeuTek GmbH, Leinfelden-Echterdingen [1]	1,380	2,595
Omega Software GmbH, Obersulm [1]	970	83
Openshop Internet Software GmbH, Möglingen [1]	-667	-1
Aspera GmbH, Aachen [1]	300	4,252
Aspera Technologies Inc., Boston, USA	-4,021	-909
USU SAS, Paris, France	-2,047	-1,134

[1] Net profit before/equity after profit transfer to USU Software AG.

USU Consulting GmbH i.L., Sursee, Switzerland, was liquidated in full. The company has not yet been removed from the commercial register for the canton of Lucerne.

The following wholly-owned participations are held indirectly via USU GmbH, Möglingen.

	Equity 31.12.2019 EUR thousand	Net profit 2019 EUR thousand
USU Software s. r. o., Brno, Czech Republic	931	225
USU Austria GmbH, Vienna, Austria	-727	-118

USU (Schweiz) AG i.L., Zug, Switzerland, was removed from the commercial register for the canton of Zug as of January 30, 2019.

14. Employees

An average of 43 people were employed by the Company during the 2019 fiscal year (2018: 37). Of these, 8 were assigned to sales functions, 16 to development functions and 18 to administration functions.

15. Contingent liabilities

USU Software AG is jointly and severally liable for fulfilling the obligations arising from USU GmbH's rental agreement for the Spitalhof business premises.

Based on USU GmbH's current liquidity situation and sustained earnings power, the Management Board has reason to believe that there is no risk of the above contingent liabilities being utilized.

Moreover, USU Consulting GmbH has issued a letter of comfort in favor of Openshop Internet Software GmbH, Möglingen, and USU Consulting GmbH i.L., Sursee, Switzerland (affiliated companies). Under these letters of comfort, USU Software AG, Möglingen, undertakes to manage these companies and to supply them with financial resources such that they are able to settle their liabilities in 2019 and in 2020. In addition, USU Software AG has issued a declaration of subordination with respect to all receivables of EUR 674 thousand (2018: EUR 795 thousand) from Openshop Internet Software GmbH.

The Management Board assumes that there is no concrete risk of the contingent liabilities being utilized. The Company does not have any active business operations. It has sufficient cash and cash equivalents to fulfill its existing payment commitments to third parties. As of the reporting date, receivables of EUR 675 thousand held by USU Software AG against Openshop Internet Software GmbH, Möglingen, were impaired.

The company issued a letter of comfort in favor of USU SAS, Paris, France, on March 2, 2020. Under this, USU Software AG undertakes to supply its subsidiary with financial resources such that it is able to settle its liabilities and fulfill active business operations for the duration of one year from the date of the letter of comfort.

The Management Board assumes that the company will remain a going concern and does not currently expect any specific risk from utilization.

Profit transfer/profit and loss transfer agreements have been concluded with five affiliated companies.

16. Other financial commitments

As of the reporting date, other financial commitments amounted to EUR 9,667 thousand. They were broken down as follows:

	Due 2020 EUR thousand	Due 2021 EUR thousand	Due ab 2022 EUR thousand	Dec. 31, 2019 Total EUR thousand	Dec. 31, 2018 Total EUR thousand
Operate leases					
Buildings	286	693	8,497	9,476	418
Office equipment	18	18	53	89	14
Cars	59	32	11	102	127
Total (nominal amount)	363	743	8,561	9,667	559

Transactions not recognized in the balance sheet in the field of operating leases primarily relate to building rentals, vehicle leases and rental agreements for office equipment including IT hardware. These contracts constitute a financing alternative with which a liquidity and equity commitment and the transfer of significant economic risks can be avoided. Furthermore, planning and calculation security exists with regard to lease conditions that have been agreed for the term. One risk lies in the possibility that the items assumed may not be freely available in the case of a lack of utilization.

17. Supervisory Board

In the 2019 fiscal year, the Supervisory Board consisted of:

Udo Strehl, Chairman
Managing director of AUSUM GmbH, Möglingen

Erwin Staudt, Deputy Chairman
Management consultant, Leonberg
Member of the Supervisory Board of PROFI Engineering Systems AG, Darmstadt
Member of the Supervisory Board of Grenke AG, Baden-Baden (until May 14, 2019)
Member of the Advisory Council of Interstuhl Büromöbel GmbH & Co. KG, Meßstetten

Gabriele Walker-Rudolf (from January 17, 2019)
Partner of Drees & Sommer SE, Stuttgart

Total compensation of the Supervisory Board
The total compensation paid to the Supervisory Board in the 2019 fiscal year was EUR 129 thousand. In addition, USU Software AG generated income of EUR 18 thousand in the year under review from the reversal of the remaining provision for Supervisory Board compensation from 2018.

18. Management Board

Bernhard Oberschmidt,
(Chairman of the Management Board)
Chairman of the Supervisory Board of Dürr Dental SE, Bietigheim-Bissingen

Bernhard Böhler (until December 31, 2019)

Dr. Benjamin Strehl
Member of the Supervisory Board of Marc O'Polo AG, Stephanskirchen

Total compensation of the Management Board
The total compensation paid to the Management Board in the 2019 fiscal year was EUR 820 thousand. Details can be found in the compensation report contained in the Management Report on the Company and the Group for the 2019 fiscal year.

19. Auditor's fees

The auditor's fees came to EUR 152 thousand in 2019. Of these, auditing services accounted for EUR 145 thousand, other services for EUR 7 thousand and tax consulting for EUR 0 thousand.

In addition to auditing activities, miscellaneous services were provided for the parent company and the subsidiaries that it controls. These entailed attestation services in connection with the preparation of USU Software AG's quarterly financial statements in 2019.

20. Events after the reporting date

The company issued a letter of comfort in favor of USU SAS, Paris, France, on March 2, 2020. Under this, USU Software AG undertakes to supply its subsidiary with financial resources such that it is able to settle its liabilities and fulfill active business operations for the duration of one year from the date of the letter of comfort.

The Management Board assumes that the company will remain a going concern and does not currently expect any specific risk from utilization.

Due to the developments in the Covid-19 crisis, the Forecast report supplemented accordingly. Further explanation can be found in the management report on the company and the group.

21. Group affiliations

USU Software AG is the parent of the companies contained in the list of participations. These are companies affiliated with US Software AG. In accordance with section 315a (1) HGB, USU Software AG prepares the consolidated financial statements in accordance with IFRS for the smallest and the largest consolidated group. The consolidated financial statements and the and the Management Report on the Company and the Group are published in the electronic Bundesanzeiger (German Federal Gazette). In addition, the consolidated financial statements and the Management Report on the Company and the Group are available on request from USU Software AG in Möglingen. They are also available on USU Software AG's website at http://www.ususoftware.de.

22. Declaration on the German Corporate Governance Code in accordance with section 161 AktG

On December 12, 2019, the Management Board and Supervisory Board of USU Software AG issued the declaration of conformity with the German Corporate Governance Code in accordance with section 161 AktG and made it permanently available to shareholders on USU Software AG's website at http://www.usu-software.de. Further information on the declaration of conformity can be found in the Management Report on the Company and the Group in these single-entity financial statements.

23. Disclosures by USU Software AG in accordance with section 160 (1) no. 8 AktG

USU Software AG has received the following voting right notifications from shareholders holding at least 3% of the voting rights:

Notifier	Date on which threshold reached	Share in voting rights	
		In %	Absolute
Peter Scheufler	July 30, 2012	9.96	1,047,929
Main First SICAV	Nov. 24, 2015	3.05	321,254
AUSUM GmbH	Sep. 21, 2017	50.72	5,338,044

24. Appropriation of net profit

The Management Board proposes using net retained profits as of December 31, 2019 in the amount of EUR 8,140 thousand as follows:

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

- to carry forward the remaining unappropriated surplus of EUR 3,930 thousand to new account.

Möglingen, March 13, 2020

Bernhard Oberschmidt
Chairman of the Management Board

Dr. Benjamin Strehl
Member of the Management Board

STATEMENT OF CHANGES IN FIXED ASSETS IN THE 2019 FISCAL YEAR

USU SOFTWARE AG, MÖGLINGEN

	Acquisition/production cost			
	As of 1.1.2019 EUR	Additions EUR	Disposals EUR	As of 31.12.2019 EUR
I. Intangible assets				
Internally generated industrial and similar rights	244,534.31	95,774.68	0.00	340,308.99
II. Property, plant and equipment				
Other equipment, operating and office equipment	327,726.01	11,669.59	7,904.82	331,490.78
III. Financial assets				
Shares in affiliated companies	51,511,434.59	0.00	551,609.87	50,959,824.72
	52,083,694.91	**107,444.27**	**559,514.69**	**51,631,624.49**

Cumulative depreciation and amortization				Carrying amounts	
As of 1.1.2019 EUR	Additions EUR	Disposals EUR	As of 31.12.2019 EUR	As of 31.12.2019 EUR	As of 31.12.2018 EUR
240,442.62	4,171.42	0.00	244,614.04	95,694.95	4,091.69
301,624.74	12,759.92	7,904.82	306,479.84	25,010.94	26,101.27
2,111,439.01	750,000.00	551,608.87	2,309,830.14	48,649,994.58	49,399,995.58
2,653,506.37	**766,931.34**	**559,513.69**	**2,860,924.02**	**48,770,700.47**	**49,430,188.54**

INDEPENDENT AUDITOR'S REPORT

To USU Software AG, Möglingen

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

Audit Opinions

We have audited the financial statements of **USU Software AG, Möglingen,** which comprise the balance sheet as at 31 December 2019 and the statement of profit or loss for the financial year from 1 January to 31 December 2019 as well as the notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the Company and the Group (hereinafter: "combined management report") of USU Software AG, Möglingen, for the financial year from 1 January to 31 December 2019. In accordance with the requirements of German law, we have not audited the contents of the (consolidated) non-financial statement contained in Section IX. of the combined management report, the declaration on corporate governance contained in Section VIII. of the combined management report and the confirmation from management pursuant to Sec. 264 (2) sentence 3 HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sec. 315 (1) sentence 5 HGB that the annual financial statements present a true and fair view, contained in Section XI. of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and

- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the components of the combined management report whose content we, as described above, have not audited.

Pursuant to Sec. 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the financial statements and on the combined management report

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We summarize what in our view are the key audit matters below:

- Valuation of shares in affiliated companies

a) The risk for the financial reporting

Shares in affiliated companies are carried under "financial assets" at a value of EUR 48,650 k (71% of total assets) in the financial statements of USU

Software AG, Möglingen. In the financial year, an impairment of EUR 750 k was recorded on the shares in USU SAS. The shares in affiliated companies are measured at the lower of cost or net realizable value. Sections B. and C.1. of the notes to the financial statements contain explanations of the accounting of financial assets.

When measuring fair value, the perspective of the entity holding the shares in the affiliated company should be taken. The valuations are based on the net present value of the future cash flows, which are derived from the planning calculations prepared by the executive directors. These also consider expectations of future market developments. The net present values are determined using the discounted cash flow method. As a discount rate the weighted average cost of capital is used. A valuation report was commissioned from an independent expert for this purpose. The conclusion of these valuations are highly dependent on the estimates of future cash flows made by the executive directors and the discount rates used. The valuation is therefore subject to substantial uncertainty. In light of this circumstance and the complexity of the valuation, this issue was of special significance during our audit.

b) Auditor's response and conclusions

During our audit of the fair value of the shares in affiliated companies, we assessed the valuation method used and the calculation of the weighted costs of capital. In addition, we are satisfied that future cash flows underlying the valuations and the weighted costs of capital together constitute a proper basis for the impairment test of the respective shares in affiliated companies. During our assessment of the conclusions of the valuations as at 31 December 2019 we relied, among other things, on a comparison of the general market expectations and the expectations for the industry as well as the explanations of the executive directors on the key value drivers underlying the expected cash flows. Moreover, we assessed the expert reports from independent valuers commissioned by the Company. Based on the knowledge that relatively small changes in the discount rate used can have a significant impact on the enterprise value determined in this way, we intensively addressed the parameters used to determine the discount rate including the weighted average cost of capital and verified the formula used in the calculation.

Based on the information available, the valuation parameters and assumptions applied by the executive directors appear suitable to us to properly value the shares in affiliated companies. Overall, the valuation parameters and assumptions applied by the executive directors agree with our expectations.

Other Information

The executive directors and the Supervisory Board are responsible for the other information. The other information comprises:

- The non-financial statement included in Section IX. of the combined management report
- The declaration on corporate governance included in Section VIII. of the combined management report
- The report of the Supervisory Board
- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- The other elements of the annual report excluding the annual financial statements, the disclosures in the management report whose content we audited and our associated auditor's report.
- The confirmation from management pursuant to Sec. 264 (2) sentence 3 HGB in conjunction with Sec. 315 (1) sentence 5 HGB (that the financial statements present a true and fair view) contained in Section XI. of the combined management report.

The Supervisory Board is responsible for the report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the Declaration of Compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] contained in Section VIII. of the combined management report. In all other respects, the executive directors are responsible for the other information.

Our audit opinions on the financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon

In connection with our audit, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the financial statements, the elements of the combined management report whose content was audited, or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the combined management report with the financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the independent auditor by the annual general meeting on 2 July 2019. We were engaged by the Supervisory Board on 27 July 2019. We have been the group auditor of USU Software AG, Möglingen, without interruption since financial year 2017.
We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Ms. Linda Ruoß."

MANAGEMENT BOARD AND SUPERVISORY BOARD

Bernhard Oberschmidt *(l.)*
Chairman of the Management Board

Dr. Benjamin Strehl *(r.)*
Member of the Management Board

Udo Strehl *(l.)*
Chairman of the Supervisory Board

Gabriele Walker-Rudolf *(m.)*
Member of the Supervisory Board

Erwin Staudt *(r.)*
Member of the Supervisory Board

FINANCIAL CALENDAR OF 2020*

May 19, 2020
Equity Forum – German Spring Conference,
Le Méridien Hotel, Frankfurt am Main/Germany

May 26, 2020
Publication three months' statement 2020

June 26, 2020
Annual General Meeting,
Ludwigsburg

August 31, 2020
Publication six months' statement 2020

September 11 – 13, 2020
16th IR-Tour Rüttnauer Research,
Potsdam

November 16, 2020
Publication nine months' statement 2020

November 16 – 18, 2020
German Equity Forum,
Frankfurt/Main

** These are preliminary dates for the 2020 fiscal year.*
Any changes will be published on the Company's website at ***www.usu.com***

Heinrich Heine *(1797 – 1856),*
German writer

1824: „Once the world had been whole, in ancient times and in the Middle Ages; despite the external troubles, there was always a unified world.“

An annual general meeting without people is headless. Meaningless. In 2019, these USU Software AG shareholders came together for a group photo to document that they are part of the picture, not only with their voting slips but also with heart and soul. On this day, no-one had anything like corona in mind. Then the world was still whole. And it will be again.

AktG
Abbreviation for Aktiengesetz (German Stock Corporation Act).

Deferred tax assets/liabilities
Income tax to be received/paid in the future resulting from differences between the financial statements and the tax base.

Alexa
is a » *voice service* provided by Amazon for » *AI*-supported service management.

Algorithm
describes a sequence of instructions to solve a problem or manage a task. The process is frequently part of » *AI* systems.

App
Abbreviation for application. This term refers to any type of application software. However, it usually describes applications for smartphones and tablet computers.

Aspera
Abbreviation for Aspera GmbH. Aspera is a subsidiary of USU Software AG. As a highly specialized solutions provider for software license management, Aspera operates in a rapidly growing market segment. Aspera's product portfolio includes the » *SmartTrack* product which is oriented towards the premium market.

Aspera Technologies
Abbreviation for Aspera Technologies Inc. Aspera Technologies is a subsidiary USU Software AG and was formed in Boston, USA, in 2012. The aim of the company is the sale, maintenance and implementation of USU solutions such as » *SmartTrack* in the USA.

Baisse (French for fall)
stands for declining prices on a (stock) market, and thus for a bear market.

Adjusted EBIT
Adjusted EBIT describes the earnings before interest and taxes of USU Software AG not relating to » *IFRS* and adjusted for non-recurring acquisition-related effects.

Big data
Big data describes the use of large volumes of data from various sources with high processing speed in order to generate economic benefit. Big data is defined on the basis of four characteristics: data volume, the variety of data sources, the speed of data production and the rising number of users that wish to exploit the potential of big data using analysis.

GDP
Abbreviation for gross domestic product. GDP is used to measure the economic performance of an economy within a specific period. It measures the monetary value of all goods and services produced domestically. Real GDP refers to GDP adjusted for price developments. The rate of change in real GDP serves to measure the economic growth of an economy.

Black Monday
Black Monday on October 19, 1987 was the first crash on the stock exchange after the Second World War.

Bot
from the word "robot". Bot is a computer program which works off repetitive tasks on a largely automated basis.

Capacity Management
Ensures that the capacity of » *IT services* and » *IT infrastructure* is sufficient to economically provide the agreed capacity and performance targets.

Chatbot
A chatbot is a software system that responds automatically to text prompts by human users. It acts as a virtual assistant, responding to user search requests for flights, prices, hotels and rental cars.

Cloud
See: Cloud computing.

Cloud computing
Refers to ***» IT services*** that can be obtained in the Internet "cloud". Users no longer need to buy the required hardware or software or install and maintain them on-site, but instead can flexibly obtain the desired services via the Internet and use them as a service when needed.

CMDB
Abbreviation for configuration management database. Information about all ***» IT*** equipment and resources is managed in this database, such as PCs and their software and hardware components, contracts, etc. Unlike conventional IT asset management databases, the mutual dependencies of the managed objects are also shown.

Compliance
Commitment by a company and its managers to observe the rules prescribed by the law, shareholders or the Supervisory Board, including various ethical aspects of the corporate philosophy.
The aim is to avoid a negative image and prevent cases of liability or actions for damages.

Configuration management
Configuration management provides the necessary information about the IT infrastructure and services for ***» IT service management.*** Constantly updated and historical information about configuration items (CIs) is available in the configuration management database - ***» CMDB***).

Corporate Governance
Describes the responsible management and controlling of a company with a view to long-term value creation. Key standards are compiled by the Government Commission for the German Corporate Governance Code and consolidated in the German Corporate Governance Code.

Data Science
Is an interdisciplinary field, which describes in general extracting knowledge from data.

DAX
Abbreviation for the Deutscher Aktienindex (German Stock Index). As the most important stock index in Germany, the DAX reflects the development of the 30 largest companies with the strongest growth that are listed on the Frankfurt Stock Exchange.

Destatis
Abbreviation for the German Federal Statistical Office.

GDPR
General Data Protection Regulation.

Gross income
Sales less cost of sales.

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortization.

EBT
Abbreviation for earnings before taxes.

Equity ratio
The ratio of shareholders' equity in the statement of financial position to total assets. The higher a company's equity ratio, the lower its debt-to-equity ratio.

Gartner
Abbreviation for Gartner Inc., a US market research company.

Goodwill
Goodwill is an intangible asset resulting from the acquisition of business operations and capital consolidation.

Hausse (French for increase)
stands for increasing prices on a (stock) market, and thus for a bull market.

HGB
Abbreviation for Handelsgesetzbuch (German Commercial Code).

IFRS
International Financial Reporting Standards are designed in particular to ensure that accounting methods and disclosures in financial statements are internationally comparable and to improve confidence in the financial markets and investor protection.

Impairment test
An impairment test is used to examine non-current assets in order to identify whether the recognition of an impairment loss is necessary.
Instead of amortization, impairment testing is performed at least once a year for the **»** ***goodwill*** reported in the consolidated statement of financial position in accordance with **»** *IFRS* 3. Impairment testing can result in either the confirmation of the reported goodwill or in an impairment loss that serves to reduce net profit for the period.

Industrial big data
Industrial big data describes an extremely large volume of unstructured and semi-structured machine data generated in the manufacturing industry as a result of intelligent networking along the entire production chain.

IPO
Abbreviation for Initial Public Offering and describes the start of public trading of company shares on the stock exchange, the actual launch of a company on the exchange.

ISIN
Abbreviation for International Securities Identification Number. The ISIN is a twelve-digit international identification number for securities that allows a security traded on the stock market to be clearly identified.

IT
Abbreviation for information technology.

IT analytics
This term describes the overarching analysis, monitoring and controlling of information from all relevant **»** ***IT service management*** systems.

IT service
Provision of one or more technical or non-technical systems (hardware, software, employees) required to conduct business processes.

ITSM
Abbreviation for **»** ***IT service management.***

IT Service Management
The sum of all tried and tested measures and methods that are required to achieve the best possible support for business processes by means of the IT organization. IT service management describes the transition of **»** *IT* towards customer and service orientation while taking into account economic objectives. By integrating organization-wide knowledge into the company's core processes with a view to creating value, USU also offers its customers the potential to further optimize and operate their business processes in a cost-efficient manner using a consistent basis of information.

Katana
is a new **»** *USU* division that emerged from USU's research department and that focuses on **»** *big data* analytics applications and data-driven services.

KatanaFlow
KatanaFlow is a new graphical development environment for data science in mechanical and plant engineering. The powerful, user-friendly web application supports engineers in analyzing and processing industrial data.

AI
Artificial intelligence. AI is a branch of computer science that addresses the automation of intelligent behavior and machine learning.

Knowledge Bot
A » *bot* solution developed by the » *USU* » *unymira* division to provide service support for standard questions.

KnowledgeFirst
An intelligent solution for web self-service developed by the » *USU* » *unymira.* The application provides support for questions and problems and delivers the right answer on the basis of the integrated » *knowledge database.*

Knowledge database
Knowledge databases are special databases for knowledge management. They provide the basis for gathering information. Organizations use them to make their ideas, solutions, articles, processes, user guides and other content available to all authorized parties. Knowledge databases require carefully structured classifications, formatted content and user-friendly search functions.

Knowledge management
A summary term for all strategic and operational activities and management tasks aimed at handling knowledge as effectively as possible.

Deferred taxes
See: Deferred tax assets/liabilities.

LeuTek
Abbreviation for LeuTek GmbH. LeuTek is a subsidiary of » *USU* Software AG. LeuTek is a software company that develops and distributes standard software in the field of systems management, such as the internally developed » *ZISSystem* software.

Monitoring
Describes the monitoring of operations on individual computers, servers or entire data centers.

myCMDB
The current product suit of the subsidiary » *OMEGA.*
With myCMDB, the » *USU* Group offers a standard software solution in the field of » *IT service management* for SMEs and public administrations.

OMEGA
Abbreviation for Omega Software GmbH. OMEGA is a subsidiary of USU Software AG. It primarily performs services and distributes products such as the product suite » *myCMDB.*

Prime Standard
Admission and market segment of the Frankfurt Stock Exchange for companies wishing to position themselves internationally. Prime Standard companies are required to meet strict international transparency requirements that go far beyond the minimum statutory requirements for the regulated market.

SaaS
Abbreviation for » *Software-as-a-Service.*

SAM
Abbreviation for » *Software Asset Management.*

Self-service
Provides users with easy, intuitive access to the solution to their inquiry or problem. This simplifies and accelerates processes and increases user satisfaction.

Service desk
The service desk is the central point of contact for all service requests within an organizational structure. The main task of the service desk is to handle incoming and outgoing communication with users of » *IT services.*

Service Level Agreement
Describes the measurable description of an IT service to be provided, including the quality to be achieved and the benchmarks to be applied.

SLA
Abbreviation for » *Service Level Agreement.*

Smart data
Describes data sets containing valuable information that are extracted from larger volumes of data (cf. » *Big Data*) using algorithms. This allows workflows and decision-making processes to be optimized or automated.

SmartTrack
Software license management/ » *SAM* solution of Group subsidiary » *Aspera* ensuring audit-proof adherence to » *compliance* guidelines concerning the use of software licenses and the realization of extensive cost savings through license optimization. Customers who use SmartTrack save a large proportion of their expenditure on software licenses and can demonstrate compliance at all times.

Software as a service
Describes the flexible, scalable provision of software as a service on the Internet. Customers can use the required software via the Internet as required and no longer have to install it locally. In this respect, SaaS constitutes a sub-area of » *cloud computing.*

Software Asset Management
Describes the transparent and efficient management of control of software licenses.

Unymira
is a division of » *USU.* Unymira offers solutions for intelligent digitalization of business processes in customer and IT service.

USU
Abbreviation for the whole USU Group, i.e. the parent company USU Software AG and its subsidiaries, which include USU GmbH, » *Aspera,* » *Aspera Technologies,* » *LeuTek,* » *OMEGA,* and » *USU SAS.* The USU Group has strategically positioned itself in the market for » *IT service*/enterprise service and » *knowledge management* software.

USU Knowledge Center
The modular web-based product suite of the » *USU* division » *unymira* for the provision of information in knowledge-intensive business processes. KnowledgeCenter's patented technology has received numerous awards.

USU SAS
is a a subsidiary of » *USU* Software AG.
USU SAS is a highly specialized software provider in the area of software license management of Oracle products.

USU – U Step Up
» *USU*'s career model aimed at the continuous development and training of its workforce.

UX design
An abbreviation for user experience design, which describes offering the user the best possible experience when using products or services. UX is responsible for user interface design, e.g. for a website or an » *app.*

Valuemation
USU's Valuemation product suite supports organizations by providing comprehensive modular solutions for operational » *IT service management* and enterprise service management.

Loss carryforward
The transfer of tax losses to future fiscal years in order to offset them against future profits.

Voice Service
Describes the intelligent use of digital voice assistance in customer service, e.g. using » *Alexa*.

WKN
Abbreviation for Wertpapier-Kenn-Nummer (German Securities Code Number), which serves to clearly identify securities in Germany. As part of the global standardization of securities identification, the WKN has been superseded by the International Securities Identification Number or » *ISIN.*

XETRA
Abbreviation for the exchange electronic trading system of the Frankfurt Stock Exchange.

ZIS/ZIS system
Software product of the Group subsidiary » *LeuTek* for monitoring, visualization, automation and controlling of all systems and processes required for IT operations.

LEGAL NOTICE

Publisher
USU Software AG
Spitalhof
D – 71696 Möglingen
Tel.: +49 (0) 7141 4867-0
Fax: +49 (0) 7141 4867-200
www.usu.com

Investor Relations
Falk Sorge
Tel.: +49 (0) 7141 4867-351
Fax: +49(0) 4867-108
investor@usu.com

Public Relations
Dr. Thomas Gerick
Tel.: +49 (0) 4867-440
Fax: +49 (0) 4867-300
kommunikation@usu.com

Concept
Raimund Vollmer, Reutlingen

Artwork
Stephan Kieninger
Freework Grafik-Design GmbH, Möglingen

Image sources:
Titel: cranach/AdobeStock
magann/AdobeStock
S. 3 Vladimir Sviracevic/shutterstock
S. 4/5 claer/AdobeStock
hans12/AdobeStock/AdobeStock
photolas/AdobeStock
S. 6/7 yodiyim/AdobeStock
Kittichai/AdobeStock
S. 8*ff*. cunico/AdobeStock

All other origin of photo material and image editing are copyrighted material.

Print
Memminger GmbH
Druckerei & Verlag,
Freiberg a. N.

FSC
www.fsc.org
RECYCLED
Papier aus Recyclingmaterial
FSC® C011359

ISBN: 978-3-943825-10-7

USU Software AG
Spitalhof
71696 Möglingen
Germany

+49 7141 4867-0
+49 7141 4867-200
investor(at)usu.com