



**Interim Report 2** | 2014

# Transforming Excellence into Future

# Key Figures

in € millions (unless otherwise stated)

	<b>HY1 2014</b>	HY1 2013	Change in %	<b>Q2 2014</b>	Q2 2013	Change in %
<b>Revenue</b>	<b>404.9</b>	<b>462.7</b>	<b>- 12%</b>	<b>196.0</b>	<b>237.7</b>	<b>- 18%</b>
<b>By type:</b>						
• Products	288.7	326.2	- 11%	141.3	169.1	- 16%
• Services	115.9	135.8	- 15%	54.6	68.3	- 20%
• Other	0.3	0.7		0.1	0.3	
<b>By business line:</b>						
• Business Process Excellence	179.9	181.8	- 1%	84.6	91.4	- 7%
• Enterprise Transaction Systems	107.0	140.3	- 24%	55.9	75.8	- 26%
• Consulting	118.0	140.6	- 16%	55.5	70.5	- 21%
<b>EBIT*</b>	<b>55.5</b>	<b>86.0</b>	<b>- 35%</b>	<b>25.0</b>	<b>44.4</b>	<b>- 44%</b>
• as % of revenue	13.7%	18.6%		12.8%	18.7%	
<b>Net income</b>	<b>32.7</b>	<b>56.0</b>	<b>- 42%</b>	<b>14.2</b>	<b>28.8</b>	<b>- 51%</b>
• as % of revenue	8.1%	12.1%		7.2%	12.1%	
Earnings per share (€, basic)	0.41	0.66	- 38%	0.18	0.34	- 47%
Earnings per share (€, diluted)	0.41	0.66	- 38%	0.18	0.34	- 47%
Free cash flow	66.3	72.3	- 8%	18.5	9.6	93%
<b>Employees (full-time equivalents)</b>	<b>4,606</b>	<b>5,375</b>				
• of which in Germany	1,251	1,777				
• of which in R&D	977	941				
<b>Balance sheet</b>	<b>June 30, 2014</b>	<b>Dec. 31, 2013</b>				
Total assets	1,730.7	1,996.9				
Cash and cash equivalents	253.9	450.0				
Net debt	183.0	163.4				
<b>Shareholders' equity</b>	<b>909.1</b>	<b>965.6</b>				
• as % of total assets	53%	48%				

\* EBIT: Net income + income taxes + other taxes + financial expense, net

# Transforming Excellence into Future



Software AG is one of the world's leading providers of process and integration software, equipping customers for their transformation to a Digital Enterprise.

We help companies design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing business needs. This flexibility and agility are essential for staying competitive in the business world. Companies have to stake their claim in their respective market and continually adjust to short innovation cycles and the advancing digitization of our society.

In doing this, organizations build on existing IT landscapes that have evolved gradually over time. These complex IT landscapes can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient and automated support for business processes.

Transformation is the only option. IT systems must be replaced, harmonized or modernized. This situation usually does not affect just the IT architecture. But rather it requires an extensive overhaul of all processes in the organization. This creates a cycle.

New technologies enable business processes to be modeled, measured and to function more efficiently. Thanks to its product portfolio, Software AG considers itself to be an engine of this transformation cycle, driving the digitization of enterprises.

Software AG embraces the opportunities of the digital age with expertise and foresight.

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### Preliminary Remarks

This quarterly report contains forward-looking statements. They are based on plans, estimates and projections that are currently available to Software AG's Management Board. Forward-looking statements therefore apply only to the date on which they were made. Software AG accepts no obligation to develop forward-looking statements based on new information or future events. Forward-looking statements by nature contain factors of risk and uncertainty. A number of important factors can contribute to actual results deviating considerably from forward-looking statements. All of the information in this report that does not represent forward-looking statements relates to the situation

on June 30, 2014, or the second quarter of the current fiscal year ended on that date, unless otherwise stated. Software AG's segment reporting is prepared in accordance with IFRS 8 (Segment Reporting). Segmentation is by business line and corresponds to the Group's internal controlling and reporting lines. Accordingly, Software AG reports on the following business lines: Business Process Excellence (BPE—with the webMethods, ARIS, alfabet, Apama and Terracotta product families), Enterprise Transaction Systems (ETS—with the Adabas and Natural product families) and Consulting (all consulting services associated with Software AG products as of the sale of IDS Scheer GmbH).

# Share

## Markets

Major stock indices in both the USA and Europe saw significant gains during the period under review. The market's high level of liquidity combined with ongoing low interest rates continued to make stocks an attractive investment. But growth wasn't as harmonious as the year before, and volatility played a larger role.

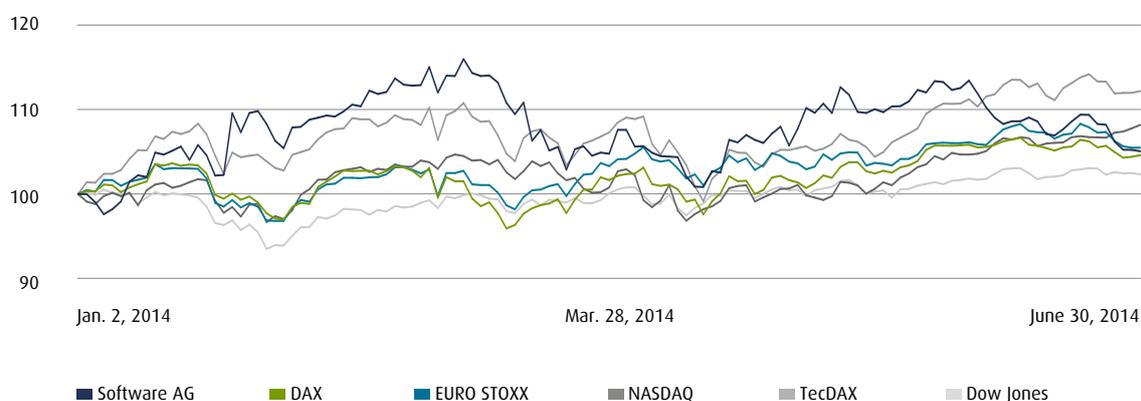
Germany's technology index, the TecDAX, kicked off 2014 energetically at 1,166 points and went on to outperform Germany's DAX benchmark index in the first half of the year. The DAX, on the other hand, wasn't as spirited and opened year at 9,400 points. Both indices demonstrated an upward trend during the first half of the year and picked up speed in the second quarter. They reached record highs in trading on July 19 (TecDAX 1,337) and July 20 (DAX 10,050) of this year. The TecDAX closed out the first half of the year at 1,309

points, which marked a gain of 12 percent over the beginning of the year. The DAX finished the first six months at 9,833, reflecting nearly 5-percent growth. The Dow Jones also hit record highs in the first six months of 2014 ending the period with a cautious 1.5-percent gain at 16,826 points.

## Software AG Share

Software AG's share began the 2014 fiscal year at €24.89. As a result of strong financial performance in the decisive fourth quarter, the share price achieved major gains following the release of the company's results and positive analyst ratings. Until early March Software AG's share performed very well with up to 17-percent growth. Not even the TecDAX or the DAX achieved that level of growth during the same period.

Share Price Development (indexed)



Software AG communicated the closing of the sale of its SAP consulting operations in early April 2014. The capital market applauded this strategic step and the company's shift in focus to the product business, and the share price enjoyed a brief 2.5-percent jump to €27.00.

In light of the weak market—caused by the release of U.S. competitor Tibco's preliminary results and of American software giant Oracle's modest quarterly results—Software AG's share price took a downward path in June, which could only be interrupted on several individual occasions.

The capital market reacted to the ad hoc release of the company's second-quarter results on July 15, 2014 with a significant price drop. License revenue in the high-growth BPE line fell due to the unexpected delay of large projects in this business line. In addition, customers were taking longer to evaluate cloud projects. The share price ended the day at €20.00. Software AG's Management Board presented a plan of appropriate measures in a teleconference on the same day as the release.

The share price demonstrated a high level of liquidity in the first half of 2014. The average daily XETRA trading volume for Software AG's share was 374,963. At its peak, up to 3 million shares were traded on one day in the period until July 31, 2014.

## Investor Relations

Software AG's Investor Relations department engaged in intensive dialog with investors, analysts and other interested parties on more than 50 occasions in the first half of 2014. The IR team presented Software AG's equity story at roadshows and conferences, in one-on-one meetings and during investor visits to corporate headquarters in Darmstadt and via teleconferences.

During the period under review, 23 banks and analyst firms tracked Software AG's business performance. As of June 30, 2014, twelve of them had issued a recommendation to buy

Software AG stock, six to hold it and five considered the share to be overvalued. After the release of the second-quarter 2014 results, these ratings shifted to three buy recommendations, 13 hold recommendations and 7 sell ratings.

Software AG's Darmstadt headquarters again served as the venue for its annual Capital Market Day on February 11, 2014. The company's board members and department heads took advantage of the opportunity to discuss market trends, the company's strategy and new products. In particular, the new Intelligent Business Operations Platform (IBO), which combines integration and analytics functionality, was unveiled. The event in general as well as the new software products resonated very well with participating analysts.

Software AG's Investor Relations team was again recognized for its work this year. Software AG was ranked the third TecDAX company for "best IR" in the *Wirtschaftswoche* financial magazine in a study conducted by Thomson Reuters.

Software AG brought numerous investors and analysts from Germany and abroad together with its product specialists at the CeBIT IT fair in March. In addition to a wide array of product demonstrations, in-depth discussions on cloud positioning were the focus of their attention.

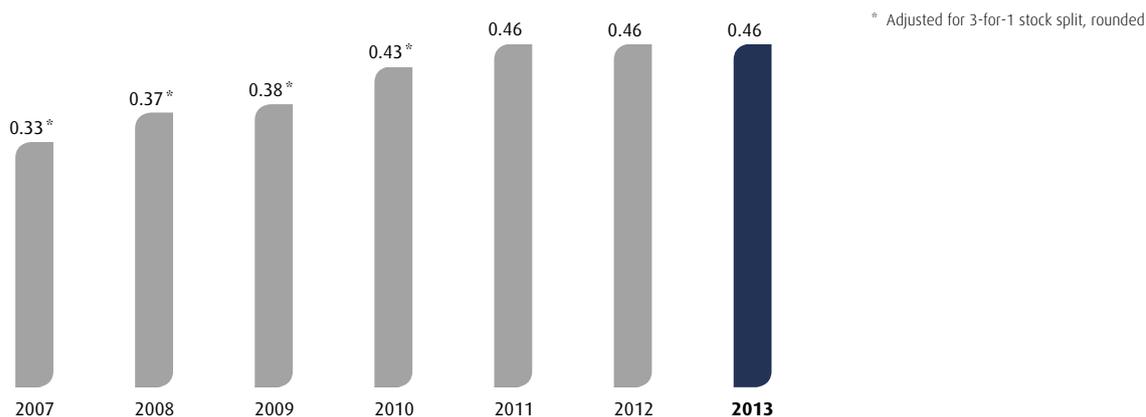
## Share Buyback

Software AG concluded a share buyback program in February 2014, which had been approved at the Annual Shareholders' Meeting on May 3, 2013. In the period from November 2013 to February 2014 the company acquired an additional 4.8 percent of its shares and therefore currently holds—together with those shares purchased during the buyback period from February to April 2013—a total of 9.2 percent of its existing share capital. The statutory 10-percent cap on the repurchase of treasury shares has thus almost been reached. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation legislation and by the authorization of the Annual Shareholders' Meeting on May 3, 2013.

## 2014 Annual Shareholders' Meeting

Software AG's Annual Shareholders' Meeting took place on May 16, 2014 in Darmstadt, Germany. Those shareholders in attendance accounted for 65.9 percent of total voting rights. They approved a dividend payout of €0.46 per dividend-bearing share. The total payout sum was €36.3 million, which is 27 percent of the Group's net income in 2013. The shares repurchased by Software AG are not entitled to a dividend.

### Dividend Development since 2007



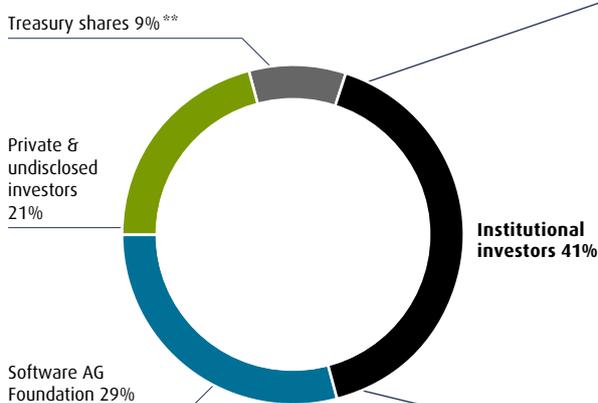
## Shareholder Structure

Software AG's anchor investor—the Software AG Foundation—continues to hold approximately 29 percent of the company's share capital. In addition, Software AG currently holds 9.2 percent in treasury shares. Software AG's free float therefore represents about 62 percent of shares outstanding.

The percentage of the free float held by institutional investors increased from 38 percent at the end of 2013 to 42 percent in the first half of 2014. The percentage of private and other shareholders dropped from 28 percent to 21 percent during the same period of time.

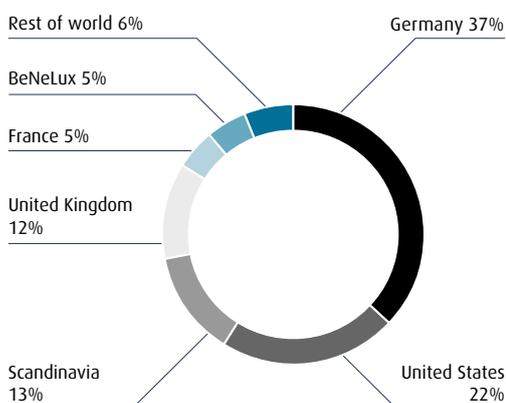
Of the institutional investors, the percentage of German institutions rose significantly from 30 percent to 37 percent, forming the largest single group of investors. In contrast, U.S.-based investors decreased their share by 2 percentage points, from 24 percent in 2013 to 22 percent in 2014. The percentage of investors from the U.K. also dropped to 10 percent. At the same time, the share of Scandinavian investors went up by more than 50 percent, from 9 percent to 14 percent. This was due primarily to the efforts of Norges Bank (Norway). For the first time ever, investors from the Benelux countries accounted for a significant group with an identifiable share of 5 percent.

Shareholder Structure by Investors



\* Source: ThomsonOne  
 \*\* as of May 2014

Institutional Investors by Region \*



# Interim Management Report

## Significant Events During the Reporting Period

### Sale of the SAP consulting business concluded

The sale of Software AG's SAP consulting operations to Scheer Group GmbH closed on May 31, 2014. An agreement on the transaction had been signed by both parties in the first quarter of the year.

As part of its increased focus on the high-margin product business, Software AG's SAP consulting division was completely divested. Software AG sold its SAP operations in Canada and the USA in January 2013 and in Eastern Europe a few months later. As a provider of software products, Software AG will focus on the development, sales and service of its own products.

Software AG and IDS Scheer Consulting, a subsidiary of the Scheer Group, formed a strategic partnership in the course of the transaction. Accordingly, the two companies will expand their consulting and sales activities for the ARIS process optimization solution. IDS Scheer Consulting GmbH will be a new Software AG distribution partner for ARIS license sales with small and medium-sized enterprises focusing on the German, Austrian, Swiss and neighboring markets.

### External honor

In April, the American Association for Corporate Growth recognized Software AG's acquisition of JackBe Corp. as the Strategic M&A deal of the Year within the \$100 million category. ACG National Capital is a network of business professionals involved in corporate growth, corporate development and M&A. Software AG acquired JackBe in August 2013 and incorporated the technology into its new webMethods Intelligent Business Operations (IBO) platform. This technology

provides visualization and analytics for real-time data for all types of devices including mobile. Particularly in the USA, the JackBe acquisition was considered one of the big data market's key deals of 2013.

For the second time running Software AG's Apama solution was honored for its contribution to sustainable financial market stability in April 2014. The widely respected Waters Technology magazine recognized Apama as the industry-leading, ultra-high performance complex event processing technology.

### Software AG turns 45

Late in May Software AG celebrated an anniversary that is not common in the IT sector. With 45 years under its belt, Software AG is Europe's longest standing global software company. In the year 1969, six young employees from the Institute of Applied Information Processing at the Technical University of Darmstadt started Software AG with 6,000 German marks in start-up capital. Since then the company has continued growing, quickly adapting its business focus to the dynamically changing IT market. Having consistently geared its strategic focus to changing market requirements, Software AG is now Germany's second-largest software company and the technology leader in the high-growth markets of integration software, business process management and big data.

## Software AG speaks for the Software Cluster

The German Software Cluster is a network of large companies in the software industry and academic and research institutions from the field of software development in southwestern Germany. The cluster develops new strategies to secure and strengthen the competitiveness of Germany as an IT hub. In April 2014 Software AG became responsible for providing a spokesperson for the German Software Cluster. Dr. Harald Schöning was unanimously elected by the strategy board of the Software Cluster as the new spokesman. The previous cluster speaker was a representative of SAP AG.

## New mobile functionality for Intelligent Business Operations and webMethods platform

Following the acquisition of metaquark GmbH in the past fiscal year, Software AG has now integrated the Berlin-based company's mobile app technology into its own platform for Intelligent Business Operations (IBO) and webMethods BPM product family. The IBO platform provides enterprises with thorough real-time analytics and decision management functionality. The integration of metaquark technology enables customers to use these functions as well as graphical real-time analysis any time and anywhere on mobile devices, for instance, for Customer Experience Management (CEM) and the Internet of Things (IoT).

## Financial Performance

### Total revenue

Software AG reported Group revenue of €196.0 million (2013: €237.7 million) in the second quarter of 2014. This reflects a sequential decline of approximately 12 percent (Q1 2014: €208.9 million) and 44 percent year on year. The primary reasons for this development were the expected revenue decrease in the traditional Enterprise Transaction Systems (ETS) business line, the postponement of large deals in the Business Process Excellence (BPE) business line, the initial consolidation of the SAP consulting business and the extremely negative impact of exchange rates.

Group product revenue, comprised of license and maintenance revenue for BPE and ETS solutions, was €141.3 million (2013: €169.1 million), representing 72 percent (2013: 71 percent) of total revenue. The revenue mix therefore further shifted in favor of the high-margin license and maintenance revenue. This trend reflects Software AG's strategy of transforming into a product provider with a focus on its own software products.

Global license revenue for BPE and ETS products was down year on year at €50.2 million (2013: €75.8 million), which is a 33-percent regression at constant currency. Maintenance revenue from these products was nearly on par with that of last year at €91.1 million (2013: €93.4 million), which is a 2-percent rise at constant currency. In terms of a quarterly comparison, maintenance revenue outperformed that of the first quarter of 2014 (€90.3 million).

The BPE business line posted €84.6 million (2013: €91.4 million) in second-quarter revenue. Year on year this marks a 7-percent decline or 5 percent at constant currency. BPE's contribution to total Group product revenue continued to rise from 54 percent to about 60 percent.

## Exchange rate effects

As in previous quarters, exchange rates also had an extremely negative effect on Software AG's global revenue in the quarter under review. The continued strength of the euro caused exchange rate fluctuations to reduce Group revenue by €5.4 million year on year. All three business lines were affected, though maintenance suffered the greatest loss with –€3.9 million. The effects on consulting and license revenue were –€1.0 million and –€0.5 million respectively. With regard to the whole first half of fiscal 2014, exchange rate effects decreased Software AG's global revenue by €15.1 million.

The percentage of total revenue in euros rose to 41 percent (2013: 37 percent). The U.S. dollar accounted for the largest percentage in foreign currency with 22 percent (2013: 23 percent), which was equal to last year. The remainder of Software AG's second-quarter revenue was generated primarily in the United Kingdom (7 percent), Brazil (5 percent) and Israel (5 percent).

## Earnings performance

Software AG lowered its cost of sales in the three-month period by 14 percent to €62.9 million (2013: €73.5 million). The reduction is mainly due to the consolidation of the Consulting business line. As a result of the targeted cost cuts, Software AG's gross margin remained at the high level of the previous year at 67.9 percent (2013: 69.1 percent).

Research and development expenses in the second quarter of 2014 totaled €26.6 million (2013: €26.2 million). Due to efficiency programs and optimized back-office processes, Software AG lowered its general and administrative expenses by 9 percent from €17.4 million to €15.9 million. Sales and marketing expenses went down to €64.2 million (2013: €73.9 million). Following major investments associated with the company's global sales and marketing initiative in 2013 and with the sluggish trend in license revenue in the current year, these expenses decreased by nearly €10 million.

Earnings before interest and taxes (EBIT) were €25.0 million (2013: €44.4 million). The 44-percent decline year on year is a result of the decrease in product revenue and the initial consolidation of the SAP consulting business. Accordingly, Software AG's EBIT margin was 12.8 percent (2013: 18.7 percent).

Because many competitors—particularly in the USA—do not use the IFRS accounting standard, Software AG has included non-IFRS operating earnings in its financial reporting in order to improve comparability. This figure is calculated based on EBIT (before all taxes) adjusted for:

- Amortization of acquisition-related intangible assets
- Reduction of acquisition-related product revenue through purchase price allocation
- Other acquisition-related effects on earnings
- Share price-based remuneration
- Restructuring/severance payments
- Earnings from divested business units (Q2)

Operating (non-IFRS) income was €45.1 million (2013: €58.7 million); accordingly the operating (non-IFRS) margin was 23.0 percent (2013: 24.7 percent).

Software AG's tax rate rose in the second quarter of 2014 to 36.6 percent as compared to the same period last year at 32.9 percent. High tax payments particularly in the U.S. and Germany had an impact. Due to increased financing costs related to the placement of promissory notes, net financial expense rose to –€2.6 million (2013: –€1.5 million) in the second quarter. Software AG placed promissory notes worth a total volume of €300 million (of that 65 million were in U.S. dollars) at the beginning of the second half of 2013.

Net income fell to €14.2 million (2013: €28.8 million). Earnings per share were therefore €0.18 (2013: €0.34) in the quarter under review.

## Revenue and earnings by business line (segment report)

Software AG's total Group revenue in the second quarter of 2014 was €196.0 million and was distributed among the three business lines as follows:

- BPE's share of total revenue rose 4.7 percentage points to 43.1 percent (2013: 38.4 percent).
- The share of ETS revenue fell as expected to 28.5 percent (2013: 31.9 percent).
- The share of Consulting revenue decreased to 28.3 percent (2013: 29.7 percent) due to the sale of SAP consulting operations.

The BPE business line again accounted for the largest share of Group revenue and strengthened its role as Software AG's key source of revenue.

### Business Process Excellence (BPE)

The BPE business line posted €84.6 million (2013: €91.4 million) in second-quarter revenue. License revenue was down year on year at €32.7 million (2013: €42.8 million). Maintenance revenue however was up 7 percent at €51.9 million (2013: €48.6 million), which at constant currency is an increase of 11 percent. Maintenance revenue also increased for the half-year period from €97.1 million to €103.3 million. This strong performance reflects the ongoing growth of the Group-wide maintenance business, which ensures long-term, highly profitable revenues.

Licenses in the BPE business line were below expectations for the quarter due to a surprising reluctance by customers to commit to major infrastructure projects. Software AG's strategic realignment included an intensified focus on large-scale deals of at least one million euros. Due to the high level of complexity and the multitude of involved decision makers at large multinational companies, deals of that size require significantly more time than the average sales effort between six and nine months.

The cost of sales in the BPE business line rose to €5.5 million (2013: €4.9 million) in the second quarter of 2014. Expenses for sales and marketing, in contrast, were 6 percent lower at €45.4 million (2013: €48.1 million). Research and development expenses increased slightly due to technology acquisitions in the past fiscal year from €19.8 million to €20.4 million. Because of lower revenues and the rise in the cost of sales and in R&D expenses, segment earnings were down at €13.3 million (2013: €18.6 million).

### Enterprise Transaction Systems (ETS)

The traditional ETS database business posted €55.5 million (2013: €75.8 million) in revenue from licenses and maintenance for the Adabas and Natural product families in the period under review. This performance is in line with expectations for the business line. ETS license revenue was €17.4 million (2013: €32.6 million). Maintenance revenue was €38.3 million (2013: €43.1 million), which is an 11-percent drop or 6 percent at constant currency.

Based on the assumption that ETS will decline, Software AG reduced costs in this division. The cost of sales for this segment in the second quarter of 2014 fell 6 percent to €2.9 million (2013: €3.1 million). Sales and marketing expenses were down 35 percent to €8.8 million (2013: €13.5 million). R&D expenses for the same period saw a slight decrease to €6.3 million (2013: €6.4 million). Segment earnings were down 25 percent (at constant currency) from last year at €37.9 million (2013: €52.8 million). The segment margin remained high at 68 percent.

### Consulting

The Consulting business line generated €55.5 million (2013: €70.5 million) in revenue the second quarter of 2014. The primary reason for the decline was the deconsolidation of the company's SAP service activities. As part of Software AG's efforts to focus on the high-margin product business, the company downscaled its SAP consulting operations in three stages: In January 2013 the company divested its SAP operations in Canada and the USA. This was followed by Eastern

Europe in mid-2013. The sale of IDS Scheer Consulting GmbH—specialized in SAP consulting in Germany, Austria and Switzerland—to the Scheer Group GmbH was concluded in the second quarter of 2014 after an agreement had been signed on March 31, 2014. Since the sale of its business based on third-party solutions, Software AG has begun focusing exclusively on the development, sale and service of its own products. Consulting revenue from BPE and ETS-related services was €47.2 million (2013: €50.4 million) in the second quarter. Total revenue was €55.5 million (2013: €70.5 million)

As a result of the deconsolidation of the SAP consulting business, the cost of sales fell to €48.1 million (2013: €59.2 million) and sales and marketing expenses to €5.9 million (2013: €8.6 million). Segment earnings were €1.5 million (2013: €2.7 million).

## First half-year 2014

Software AG's Group revenue in the first six months of the current fiscal year totaled €404.9 million (2013: €462.7 million), a decline of 12 percent, or 9 percent at constant currency. Exchange rates had a very negative impact, reducing Software AG's global revenue in the first half of 2014 by €15.1 million.

Product revenue in the period was €288.7 million (2013: €326.2 million), which reflects an 11-percent decrease, 8 percent at constant currency. Of that amount, licenses accounted for €107.3 million (2013: €139.4 million) and maintenance for €181.4 million (2013: €186.8 million). At constant currency licenses grew by 2 percent. Services revenue dropped as a result of the sale of SAP consulting operations to €115.9 million (2013: €135.8 million).

The BPE business line performed comparably well to the same period last year with €179.8 million (2013: €181.8 million). Maintenance revenue increased from €97.1 million to €103.3 million. This shows that the sales successes of the past are now having a positive impact on the maintenance business. It also confirms the investments of the past year.

ETS product revenue reached €106.7 million (2013: €139.9 million). Consulting revenue was down further to €118.0 million (2013: €140.6 million) as a result of the initial consolidation of SAP service operations.

EBIT for the first half of fiscal 2014 was down to €55.5 million (2013: €86.0 million). This indicates a decline of 35 percent compared to the same six-month period in 2013. The EBIT margin was 13.7 percent (2013: 18.6 percent).

## Financial Position

Net cash provided by operating activities increased in the second quarter of 2014 to €22.4 million (2013: €13.3 million). This rise was due primarily to the decrease of €68.5 million in trade receivables. Software AG's active working capital management enabled substantial growth in cash flow despite the decline in net income year on year.

Cash inflows from investing activities in the quarter under review were €15.7 million (2013 outflow: –€60.1 million). This rise was due primarily to the considerable drop in net payments for acquisitions, which totaled €2.7 million in the second quarter of 2014. The amount spent on investments was higher in 2013 at €57.1 million largely due to acquisitions. Sequentially speaking, Software AG's proceeds were significantly higher at €18.2 million due to the sale of IDS Scheer Consulting GmbH in the second quarter. In the second quarter of 2014, proceeds from the sale of securities exceeded payments for securities by €1.3 million.

Cash outflows from financing activities increased from –€89.3 million in 2013 to –€210.1 million in the second quarter of 2014, the main reason being the high repayment volume of financial liabilities in the quarter. In particular, a promissory note worth a total amount of €200.1 million from the year 2011 was repaid on schedule.

Cash and cash and cash equivalents decreased substantially due to the repayment of liabilities. As of June 30, 2014 they totaled €253.9 million compared to €421.4 million as of the

end of the first quarter of 2014 and €450.0 million at the beginning of the fiscal year.

Free cash flow in the second quarter of 2014 increased year on year by 94 percent to €18.5 million (2013: €9.6 million). The second-quarter figure is therefore greater than Group net income. In line with that, free cash flow per share increased to €0.23. Free cash flow in the first quarter was €47.8 million. Free cash flow in the first half of the year went down to €66.3 million (2013: €72.3 million).

## Assets

Software AG's total assets decreased from €1,996.9 million on December 31, 2013 to €1,730.7 million on June 30, 2014. This decline was due primarily to the reduction in financial liabilities through the scheduled repayment of the promissory note loan in the amount of €200.1 million. In addition, trade receivables were down by €68.5 million. Furthermore, fixed assets decreased by €31.2 million compared to December 31, 2013. The decline in intangible assets to €186.7 million (2013: €211.8 million) was due to the sale of the brand and customer base associated with the divestiture of IDS Scheer Consulting GmbH. Net debt was up from €163.4 million last year to €183.0 million as of June 30, 2014. Including the value of treasury shares results in net cash flow.

Due to the share buyback program successfully concluded in the first quarter of 2014 as well as the dividend payout in the second quarter of 2014, shareholders' equity decreased to €909.1 million (2013: €965.6 million). Nevertheless, Software AG's equity ratio as of June 30, 2014 achieved a 52.5-percent increase compared to December 31, 2013 (48.4 percent). This was a result of the significant decrease in total assets.

The company acquired a total of 4.1 million treasury shares for a price of €110.0 million in the period from November 2013 to February 2014. As of June 30, 2014, Software AG held 8,025,101 treasury shares, which represents 9.2 percent of its share capital.

## Employees

As of June 30, 2014 Software AG had 4,606 (full-time equivalent) employees compared to 5,238 as of December 31, 2013. The number of employees in Sales and Marketing decreased to 1,042 (Dec. 31, 2013: 1,180) as a result of adjustments in the Consulting and ETS segments as well as in Marketing departments throughout the Group. The number of employees in administrative departments as of June 30, 2014 fell to 664 (Dec. 31, 2013: 713) and in R&D to 977 (Dec. 31, 2013: 998). The number of employees in Germany went down to 1,251 (Dec. 31, 2013: 1,711).

## Management's assessment of second-quarter results

The Management Board is of the opinion that Software AG is well positioned in the global market, and its transformation into a product provider with a focus on the future segment of BPE will lead to sustainable growth and profitability. The Group was not able to continue its positive BPE performance in the second quarter of 2014, as planned, due to surprising reluctance by customers to commit to major IT infrastructure projects and significantly longer sales cycles in this field. Because of our solid pipeline of large-volume deals, we are still confident that demand for integration and process software will continue as enterprises increasingly embrace digitization and undertake new BPE projects—despite the challenging market climate. In order to counteract this volatility, we will expand our sales efforts to focus on medium-sized deals as well.

## Events After the Balance Sheet Date

In an ad hoc release on July 14, 2014, in accordance with section 15 of WpHG, Software AG communicated its preliminary second-quarter results prior to the scheduled announcement as well as an adjustment to its full-year guidance. The company announced that its BPE business line had been affected by a surprising reluctance among customers to commit to large infrastructure projects and that BPE license revenue as well as BPE product revenue were down from the previous year. While the ETS business line declined as expected, EBIT (IFRS) was negatively impacted by one-time effects related to the sale of the company's SAP consulting operations.

currency). Software AG expects its operating (non-IFRS) profit margin for fiscal 2014 to be between 26 and 28 percent (2013: 26.8 percent). Previously, the company had projected growth in Group profit margin as well as operating (non-IFRS) income between 2 and 7 percent year on year.

## Risks and Opportunities

Our 2013 Annual Report contains a comprehensive Risk and Opportunity Report (see pp. 98-107). It discusses specific risks that could have a negative impact on our business and financial performance or our assets and financial position. It also describes key opportunities for Software AG. There were no changes to the risk and opportunity situation of the Software AG Group in the second quarter of 2014 as compared to the risks and opportunities identified in the 2013 Annual Report.

## Outlook

Software AG's Management Board adjusted the full-year forecast for 2014 with the release of the half-year results. Due to the considerable delay in large-scale projects apparent in the second quarter, Software AG anticipates BPE revenue for fiscal 2014 to approximate last year's at constant currency (previous forecast: growth between 12 and 18 percent at constant currency). The expected decline for revenue in the traditional ETS database business remains unchanged between -16 and -9 percent (at constant

# Interim Financial Statements

## Consolidated Income Statement

for the six months and three months ended June 30, 2014, IFRS, unaudited

in € thousands	HY1 2014	HY1 2013	Change in %	Q2 2014	Q2 2013	Change in %
Licenses	107,311	139,380	- 23%	50,207	75,799	- 34%
Maintenance	181,355	186,859	- 3%	91,052	93,357	- 2%
Services	115,864	135,791	- 15%	54,571	68,283	- 20%
Other	339	629	- 46%	154	309	- 50%
<b>Total revenue</b>	<b>404,869</b>	<b>462,659</b>	<b>- 12%</b>	<b>195,984</b>	<b>237,748</b>	<b>- 18%</b>
Costs of sales	- 130,903	- 149,326	- 12%	- 62,879	- 73,551	- 15%
<b>Gross profit</b>	<b>273,966</b>	<b>313,333</b>	<b>- 13%</b>	<b>133,105</b>	<b>164,197</b>	<b>- 19%</b>
Research and development expenses	- 53,801	- 52,434	3%	- 26,649	- 26,213	2%
Sales, marketing and distribution expenses	- 133,642	- 146,752	- 9%	- 64,220	- 73,940	- 13%
General and administrative expenses	- 35,012	- 35,199	- 1%	- 15,924	- 17,355	- 8%
Other taxes	- 4,041	- 3,235	25%	- 2,403	- 1,416	70%
<b>Operating result</b>	<b>47,470</b>	<b>75,713</b>	<b>- 37%</b>	<b>23,909</b>	<b>45,273</b>	<b>- 47%</b>
Other income	16,212	22,673	- 28%	4,471	6,529	- 32%
Other expenses	- 12,221	- 15,637	- 22%	- 5,760	- 8,862	- 35%
Net financial income/expense	- 5,476	- 2,813	95%	- 2,629	- 1,483	77%
<b>Earnings before income taxes</b>	<b>45,985</b>	<b>79,936</b>	<b>- 42%</b>	<b>19,991</b>	<b>41,457</b>	<b>- 52%</b>
Income taxes	- 13,263	- 23,904	- 45%	- 5,836	- 12,638	- 54%
<b>Net income</b>	<b>32,722</b>	<b>56,032</b>	<b>- 42%</b>	<b>14,155</b>	<b>28,819</b>	<b>- 51%</b>
Thereof attributable to shareholders of Software AG	32,621	56,002	- 42%	14,064	28,804	- 51%
Thereof attributable to non-controlling interests	101	30	-	91	15	-
Earnings per share in € (basic)	0.41	0.66	- 38%	0.18	0.34	- 47%
Earnings per share in € (diluted)	0.41	0.66	- 38%	0.18	0.34	- 47%
Weighted average number of shares outstanding (basic)	79,538,055	84,812,959	-	78,889,344	83,831,849	-
Weighted average number of shares outstanding (diluted)	79,725,204	85,197,060	-	79,080,201	83,985,820	-

## Statement of Comprehensive Income

for the six months and three months ended June 30, 2014, IFRS, unaudited

in € thousands	<b>HY1 2014</b>	HY1 2013	<b>Q2 2014</b>	Q2 2013
<b>Net income</b>	<b>32,722</b>	<b>56,032</b>	<b>14,155</b>	<b>28,819</b>
Currency translation differences	13,863	- 3,748	11,357	- 24,172
Net gain/loss on remeasuring financial assets	487	913	353	- 623
Net gain/loss arising from translating net investments in foreign operations	316	296	308	- 733
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>14,666</b>	<b>- 2,539</b>	<b>12,018</b>	<b>- 25,528</b>
Net actuarial gain/loss and asset caps on defined benefit plans	81	36	81	21
<b>Items that will not be reclassified subsequently to profit or loss</b>	<b>81</b>	<b>36</b>	<b>81</b>	<b>21</b>
<b>Other comprehensive income</b>	<b>14,747</b>	<b>- 2,503</b>	<b>12,099</b>	<b>- 25,507</b>
<b>Total comprehensive income</b>	<b>47,469</b>	<b>53,529</b>	<b>26,254</b>	<b>3,312</b>
Thereof attributable to shareholders of Software AG	47,368	53,499	26,163	3,297
Thereof attributable to non-controlling interests	101	30	91	15

# Consolidated Balance Sheet

as of June 30, 2014, IFRS, unaudited

## Assets

in € thousands	<b>June 30, 2014</b>	Dec. 31, 2013
<b>Current assets</b>		
Cash and cash equivalents	253,944	449,984
Securities	55,267	56,514
Inventories	82	109
Trade receivables	195,120	226,739
Other receivables and other assets	28,726	25,881
Income tax assets	35,356	10,291
	<b>568,495</b>	<b>769,518</b>
<b>Non-current assets</b>		
Intangible assets	186,697	211,771
Goodwill	825,588	829,173
Property, plant and equipment	61,933	64,460
Financial assets	7,746	4,519
Trade receivables	59,516	96,418
Other receivables and other assets	1,930	2,030
Income tax receivables	3,543	2,711
Deferred taxes	15,215	16,253
	<b>1,162,168</b>	<b>1,227,335</b>
<b>Total assets</b>	<b>1,730,663</b>	<b>1,996,853</b>

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## Equity and Liabilities

in € thousands	<b>June 30, 2014</b>	Dec. 31, 2013
<b>Current liabilities</b>		
Financial liabilities	12,150	202,888
Trade payables	29,639	36,140
Other liabilities	54,075	66,289
Other provisions	48,307	83,598
Tax liabilities	28,296	38,477
Deferred income	137,771	105,664
	<b>310,238</b>	<b>533,056</b>
<b>Non-current liabilities</b>		
Financial liabilities	424,755	410,486
Trade payables	2	0
Other liabilities	3,583	4,775
Provisions for pensions	49,855	50,707
Other provisions	8,873	7,291
Deferred taxes	22,739	22,577
Deferred income	1,511	2,366
	<b>511,318</b>	<b>498,202</b>
<b>Equity</b>		
Share capital	86,944	86,944
Capital reserve	47,549	46,144
Retained earnings	1,083,674	1,087,328
Other reserves	-85,333	-100,080
Treasury shares	-224,466	-155,534
<b>Share attributable to shareholders of Software AG</b>	<b>908,368</b>	<b>964,802</b>
<b>Non-controlling interests</b>	<b>739</b>	<b>793</b>
	<b>909,107</b>	<b>965,595</b>
<b>Total equity and liabilities</b>	<b>1,730,663</b>	<b>1,996,853</b>

## Consolidated Statement of Cash Flows

for the six months and three months ended June 30, 2014, IFRS, unaudited

in € thousands	HY1 2014	HY1 2013	Q2 2014	Q2 2013
Net income	32,722	56,032	14,155	28,819
Income taxes	13,263	23,904	5,836	12,638
Net financial income/expense	5,476	2,813	2,629	1,483
Amortization/depreciation of non-current assets	27,440	26,184	13,431	13,485
Other non-cash income/expense	3,949	-4,291	3,150	-185
<b>Operating cash flow before changes in working capital</b>	<b>82,850</b>	<b>104,642</b>	<b>39,201</b>	<b>56,240</b>
Changes in inventories, receivables and other current assets	55,549	37,278	31,169	11,197
Changes in payables and other liabilities	-11,876	-22,151	-9,748	-25,943
Income taxes paid	-48,140	-37,997	-33,718	-24,351
Interest paid	-10,224	-7,250	-6,679	-5,896
Interest received	4,334	4,224	2,187	2,047
<b>Net cash provided by operating activities</b>	<b>72,493</b>	<b>78,746</b>	<b>22,412</b>	<b>13,294</b>
Proceeds from the sale of property, plant and equipment / intangible assets	1,335	336	369	274
Purchase of property, plant and equipment / intangible assets	-6,002	-6,823	-2,688	-3,703
Proceeds from the sale of financial assets	156	424	50	0
Purchase of financial assets	-1,633	-385	-1,619	-312
Proceeds from the sale of securities	6,000	0	6,000	0
Purchase of securities	-4,754	0	-1,941	0
Proceeds from the sale of disposal groups	18,188	6,443	18,188	0
Payment for acquisitions, net	-3,667	-57,227	-2,667	-57,123
<b>Net cash used in investing activities</b>	<b>9,623</b>	<b>-57,232</b>	<b>15,692</b>	<b>-60,864</b>

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in € thousands	<b>HY1 2014</b>	HY1 2013	<b>Q2 2014</b>	Q2 2013
Proceeds from issue of share capital	0	0	0	0
Purchase of treasury stock (incl. hedge premiums paid)	- 70,582	- 114,926	0	- 49,395
Sale of treasury stock	1,423	0	1,423	0
Dividends paid	- 36,430	- 38,157	- 36,430	- 38,157
Additions to financial liabilities	25,000	100,000	25,000	0
Repayments of financial liabilities	- 202,012	- 3,650	- 200,096	- 1,791
<b>Net cash provided by/used in financing activities</b>	<b>- 282,601</b>	<b>- 56,733</b>	<b>- 210,103</b>	<b>- 89,343</b>
Change in cash and cash equivalents from cash-relevant transactions	- 200,485	- 35,219	- 171,999	- 136,913
Currency translation adjustment	4,445	- 6,132	4,527	- 11,602
<b>Net change in cash and cash equivalents</b>	<b>- 196,040</b>	<b>- 41,351</b>	<b>- 167,472</b>	<b>- 148,515</b>
Cash and cash equivalents at beginning of the period	449,984	315,637	421,416	422,801
<b>Cash and cash equivalents at end of period</b>	<b>253,944</b>	<b>274,286</b>	<b>253,944</b>	<b>274,286</b>
<b>Free cash flow</b>	<b>66,349</b>	<b>72,298</b>	<b>18,524</b>	<b>9,553</b>

## Consolidated Statement of Changes in Equity

for the six months ended June 30, 2014, IFRS, unaudited

	Share capital	Capital reserve	Retained earnings	
	Common shares outstanding (no.)			
in € thousands				
<b>Equity as of Jan. 1, 2013</b>	<b>86,875,068</b>	<b>86,917</b>	<b>42,124</b>	<b>991,651</b>
Total comprehensive income				56,002
Transactions with equity holders				
Dividend payment				- 38,157
New shares issued				
Stock options			2,281	
Issue and disposal of treasury stock				
Purchase of treasury stock	- 3,924,441			
Transactions between shareholders				
<b>Equity as of June 30, 2013</b>	<b>82,950,627</b>	<b>86,917</b>	<b>44,405</b>	<b>1,009,496</b>
<b>Equity as of Jan. 1, 2014</b>	<b>81,513,689</b>	<b>86,944</b>	<b>46,144</b>	<b>1,087,328</b>
Total comprehensive income				32,621
Transactions with equity holders				
Dividend payment				- 36,275
New shares issued				
Stock options			1,570	
Issue and disposal of treasury stock	59,000		- 165	
Purchase of treasury stock (incl. hedge premiums paid)	- 2,653,845			
Transactions between shareholders				
<b>Equity as of June 30, 2014</b>	<b>78,918,844</b>	<b>86,944</b>	<b>47,549</b>	<b>1,083,674</b>

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	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	<b>Total</b>
	Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains/losses from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
	<b>- 38,731</b>	<b>- 3,546</b>	<b>- 21,467</b>	<b>3,498</b>	<b>- 1,157</b>	<b>1,059,289</b>	<b>777</b>	<b>1,060,066</b>
	- 3,748	913	36	296		53,499	30	53,529
						- 38,157		- 38,157
						0		0
						2,281		2,281
					- 114,926	- 114,926		- 114,926
					0	0		0
	<b>- 42,479</b>	<b>- 2,633</b>	<b>- 21,431</b>	<b>3,794</b>	<b>- 116,083</b>	<b>961,986</b>	<b>807</b>	<b>962,793</b>
	<b>- 77,111</b>	<b>- 2,055</b>	<b>- 22,945</b>	<b>2,031</b>	<b>- 155,534</b>	<b>964,802</b>	<b>793</b>	<b>965,595</b>
	13,863	487	81	316		47,368	101	47,469
						0		0
						- 36,275	- 155	- 36,430
						0		0
						1,570		1,570
					1,650	1,485		1,485
					- 70,582	- 70,582		- 70,582
	<b>- 63,248</b>	<b>- 1,568</b>	<b>- 22,864</b>	<b>2,347</b>	<b>- 224,466</b>	<b>908,368</b>	<b>739</b>	<b>909,107</b>

# Notes to the Interim Financial Statements

## General

### [1] Basis of Presentation

Software AG's condensed and unaudited consolidated financial statements (interim financial statements) as of June 30, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs/IFRSs applicable as of June 30, 2014 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. Software AG is the parent company of a Group that is globally active in the fields of software development, licensing and maintenance as well as IT services.

The consolidated interim financial statements of Software AG are expressed in thousands of euros unless otherwise stated.

Software AG waived a voluntary audit and a review of the consolidated interim financial statements (half-year report).

### [2] Changes in the Consolidated Group

The following changes occurred in the consolidated Group in the first six months of fiscal 2014.

	Germany	Foreign	Total
<b>Jan. 1, 2014</b>	<b>12</b>	<b>77</b>	<b>89</b>
Additions	-	-	-
Disposals (including mergers)	1	3	4
<b>June 30, 2014</b>	<b>11</b>	<b>74</b>	<b>85</b>

The disposals relate to the sale of IDS Scheer entities in Germany, Austria and Switzerland as well as to the merger of a company in the USA.

### [3] Accounting Policies

The same accounting policies have been applied to the consolidated interim financial statements as were applicable to the consolidated financial statements as of December 31, 2013. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2013. These quarterly financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

#### First-time application of new accounting rules

The accounting rules to be applied in fiscal 2014 regarding IAS 32 "Financial Instruments" (description of balancing financial assets and financial liabilities) had no significant effect on Software AG's half-year financial statements.

### New but not yet effective accounting rules

The IASB published amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" on May 12, 2014. Based on current analyses, this has no significant effect on Software AG.

The IASB published IFRS 15 "Revenue from Contracts with Customers" on May 28, 2014. IFRS 15 provides a uniform model by which companies must recognize revenue from contracts with customers. IFRS 15 replaces the current rules for recognizing revenue in IAS 11 and IAS 18 as well as the related interpretations. The core principle of the model is that a company should recognize revenue in an amount that reflects the consideration the company expects in exchange for services it has agreed on contractually. Revenue should be recognized at the point in time at which the contractual obligations are met. The standard contains significantly more extensive application guidelines and requirements for information included in the notes to the consolidated financial statements than the current rules. Software AG is currently assessing the effects this has on the presentation of its financial position, financial performance and cash flow. The new rules must be applied for fiscal years that begin on or after January 1, 2017, and they have not yet been adopted by the European Union as European law.

For further information on the new not yet effective accounting rules and those for which Software AG has not opted for early application, please refer to Note 3 of the 2013 Annual Report.

### [4] Business Combinations

Software AG did not acquire any companies during the first half of 2014. Software AG acquired only the remaining 84 percent of shares in metaquark GmbH, of Berlin/Germany, in the first quarter. The company was completely consolidated as of the first quarter of 2013 due to the existence of call options. The purchase price for the shares (remaining 84 percent) was €3 million less than the amount assumed for the final purchase price allocation. Accordingly, income in

the amount of €3 million resulted from the acquisition of the remaining 84 percent and was reported under "other income."

## Notes to the Consolidated Balance Sheet

### [5] Disposal Group

Software AG entered an agreement on March 31, 2014 to sell its SAP consulting business in Germany, Austria and Switzerland to Scheer Group GmbH (Saarbrücken/Germany). The transfer took place on May 31, 2014. The divestiture included all SAP services in the DACH region (Germany, Austria and Switzerland) controlled by the IDS Scheer Consulting GmbH subsidiary, which had approximately 500 employees and €64 million in total revenue (in fiscal 2013).

The transaction resulted in a loss of around €1 million. All affected assets and liabilities were assigned to the Consulting segment.

### [6] Intangible Assets and Goodwill

Goodwill amounted to €825,588 thousand as of June 30, 2014, a decrease of €3,585 thousand compared to December 31, 2013. Of that amount, €4,964 thousand resulted from positive currency translation effects, particularly from the strong U.S. dollar. Furthermore, -€8,550 thousand resulted from the sale of the IDS Scheer Group (refer to Note 5).

The carrying amounts of goodwill and of intangible assets with indefinite useful lives for each segment as compared to December 31, 2013 were as follows:

Segment in € thousands	June 30, 2014	Dec. 31, 2013
ETS	312,961	311,642
BPE	490,358	486,945
Consulting	22,269	30,568
<b>Goodwill</b>	<b>825,588</b>	<b>829,173</b>
ETS	0	0
BPE	35,234	35,063
Consulting	5,371	9,766
<b>Intangible assets with indefinite useful lives</b>	<b>40,605</b>	<b>44,829</b>

The segments represent the smallest cash-generating units in the Group.

Because performance of the BPE segment in the first half-year was clearly below expectations for 2014, Software AG considered an impairment test for goodwill and intangible assets with indefinite useful lives to be necessary for the BPE segment. Because Management had not provided an updated strategic financial plan as of the time the half-year financial statements had been prepared, fair value was calculated based on a simulated estimation. The estimation showed that even in a scenario in which BPE product revenue growth were 0 percent in 2014 (with a non-GAAP EBITA margin of 26 percent [for the Group]) and BPE license growth remained 0 percent in the following three years, the value of goodwill would be more than adequately covered.

## [7] Equity

### Share capital

Software AG's share capital totaled €86,944 thousand as of June 30, 2014 (Dec. 31, 2013: €86,944 thousand), divided into 86,943,945 bearer shares (Dec. 31, 2013: 86,943,945). Each share entitles its holder to one vote.

### Dividend payment

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 16, 2014 to appropriate €36,275 thousand (2013: €38,157 thousand) for a dividend payout from the net retained profits of €136,042 thousand reported by Software AG, the controlling Group company, in 2013. This corresponded to a dividend of €0.46 (2013: €0.46) per share. A total amount of €99,767 thousand (2013: €220,700 thousand) was carried forward.

### Share buyback

Software AG instituted a program for the repurchase of treasury shares up to a total value of €110 million beginning November 12, 2013 and concluded on February 28, 2014. During the period from January 1, 2014 up to and including February 28, 2014 Software AG repurchased 2,653,845 additional treasury shares (based on a value date) at an average price of €26.59 per share, not including transaction fees (€26.60 including transaction fees), for a total cost of €70,561 thousand, not including transaction fees (€70,582 thousand including transaction fees). In the second quarter of 2014, 59,000 treasury shares were used to service stock options exercised under MIP III. As of June 30, 2014 Software AG held 8,025,101 treasury shares representing an interest in the share capital of €8,025,101 (9.2 percent).

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## Other Disclosures

### [8] Segment Reporting

Segmentation is in accordance with the internal control of the Group. Software AG therefore reports on the following three segments:

- Business Process Excellence (BPE: integration, business process management and big data with the webMethods, Aris, Alfabet, Apama and Terracotta product families)
- Enterprise Transaction Systems (ETS: data management with the products Adabas-Natural)
- Consulting with a focus on implementation of Software AG products

The table below shows the segment data for the second quarters of 2014 and 2013:

## Segment report for the six months ended June 30, 2014, IFRS, unaudited

	Enterprise Transaction Systems (ETS)	
in € thousands	HY1 2014	HY1 2013
Licenses	30,661	53,644
Maintenance	76,013	86,288
<b>Product revenue</b>	<b>106,674</b>	<b>139,932</b>
Services	0	0
Other	328	343
<b>Total revenue</b>	<b>107,002</b>	<b>140,275</b>
Cost of sales	-6,216	-6,882
<b>Gross profit</b>	<b>100,786</b>	<b>133,393</b>
Sales, marketing & distribution expenses	-17,933	-27,306
<b>Segment contribution</b>	<b>82,853</b>	<b>106,087</b>
Research and development expenses	-12,484	-12,882
<b>Segment result</b>	<b>70,369</b>	<b>93,205</b>
General and administrative expenses		
Other taxes		
<b>Operating result</b>		
Other operating income/expense, net		
Financial income/expense, net		
<b>Earnings before income taxes</b>		
Income taxes		
<b>Net income</b>		

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Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
HY1 2014	HY1 2013	HY1 2014	HY1 2013	HY1 2014	HY1 2013	HY1 2014	HY1 2013
76,458	84,723	192	1,013			107,311	139,380
103,386	97,065	1,956	3,506			181,355	186,859
<b>179,844</b>	<b>181,788</b>	<b>2,148</b>	<b>4,519</b>			<b>288,666</b>	<b>326,239</b>
0	0	115,864	135,791			115,864	135,791
1	1	10	285			339	629
<b>179,845</b>	<b>181,789</b>	<b>118,022</b>	<b>140,595</b>			<b>404,869</b>	<b>462,659</b>
-11,176	-10,756	-100,014	-119,430	-13,497	-12,258	-130,903	-149,326
<b>168,669</b>	<b>171,033</b>	<b>18,008</b>	<b>21,165</b>	<b>-13,497</b>	<b>-12,258</b>	<b>273,966</b>	<b>313,333</b>
-94,516	-94,100	-13,179	-18,151	-8,014	-7,195	-133,642	-146,752
<b>74,153</b>	<b>76,933</b>	<b>4,829</b>	<b>3,014</b>	<b>-21,511</b>	<b>-19,453</b>	<b>140,324</b>	<b>166,581</b>
-41,317	-39,552	0	0	0	0	-53,801	-52,434
<b>32,836</b>	<b>37,381</b>	<b>4,829</b>	<b>3,014</b>	<b>-21,511</b>	<b>-19,453</b>	<b>86,523</b>	<b>114,147</b>
						-35,012	-35,199
						-4,041	-3,235
						<b>47,470</b>	<b>75,713</b>
						3,991	7,036
						-5,476	-2,813
						<b>45,985</b>	<b>79,936</b>
						-13,263	-23,904
						<b>32,722</b>	<b>56,032</b>

## Segment report for the three months ended June 30, 2014, IFRS, unaudited

	Enterprise Transaction Systems (ETS)	
in € thousands	Q2 2014	Q2 2013
Licenses	17,362	32,574
Maintenance	38,365	43,082
<b>Product revenue</b>	<b>55,727</b>	<b>75,656</b>
Services	0	0
Other	146	139
<b>Total revenue</b>	<b>55,873</b>	<b>75,795</b>
Cost of sales	-2,861	-3,118
<b>Gross profit</b>	<b>53,012</b>	<b>72,677</b>
Sales, marketing & distribution expenses	-8,845	-13,501
<b>Segment contribution</b>	<b>44,167</b>	<b>59,176</b>
Research and development expenses	-6,276	-6,405
<b>Segment result</b>	<b>37,891</b>	<b>52,771</b>
General and administrative expenses		
Other taxes		
<b>Operating result</b>		
Other operating income/expense, net		
Financial income/expense, net		
<b>Earnings before income taxes</b>		
Income taxes		
<b>Net income</b>		

General  
Notes to the Consolidated Balance Sheet  
Other Disclosures

Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013
32,739	42,805	106	420			50,207	75,799
51,825	48,638	862	1,637			91,052	93,357
<b>84,564</b>	<b>91,443</b>	<b>968</b>	<b>2,057</b>			<b>141,259</b>	<b>169,156</b>
0	0	54,571	68,283			54,571	68,283
1	1	7	169			154	309
<b>84,565</b>	<b>91,444</b>	<b>55,546</b>	<b>70,509</b>			<b>195,984</b>	<b>237,748</b>
-5,467	-4,925	-48,110	-59,219	-6,441	-6,289	-62,879	-73,551
<b>79,098</b>	<b>86,519</b>	<b>7,436</b>	<b>11,290</b>	<b>-6,441</b>	<b>-6,289</b>	<b>133,105</b>	<b>164,197</b>
-45,448	-48,092	-5,925	-8,556	-4,002	-3,791	-64,220	-73,940
<b>33,650</b>	<b>38,427</b>	<b>1,511</b>	<b>2,734</b>	<b>-10,443</b>	<b>-10,080</b>	<b>68,885</b>	<b>90,257</b>
-20,373	-19,808	0	0	0	0	-26,649	-26,213
<b>13,277</b>	<b>18,619</b>	<b>1,511</b>	<b>2,734</b>	<b>-10,443</b>	<b>-10,080</b>	<b>42,236</b>	<b>64,044</b>
						-15,924	-17,355
						-2,403	-1,416
						<b>23,909</b>	<b>45,273</b>
						-1,289	-2,333
						-2,629	-1,483
						<b>19,991</b>	<b>41,457</b>
						-5,836	-12,638
						<b>14,155</b>	<b>28,819</b>

### [9] Contingent Liabilities

As in 2013, there were no reportable contingent liabilities as of June 30, 2014.

The carrying amount of collateral received was €32 thousand (2013: €51 thousand).

#### Disclosures on leases

The Group's rental agreements and operating leases relate chiefly to office space, vehicles and IT equipment. Lease payments under operating leases are recognized as an expense over the term of the lease.

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	<b>Total</b>
Contractually agreed payments (gross amount)	10,884	45,564	7,312	63,760
Estimated income from subleases	1,395	5,533	12	6,940
Contractually agreed payments (net amount)	9,489	40,031	7,300	56,820

### [10] Seasonal Influences

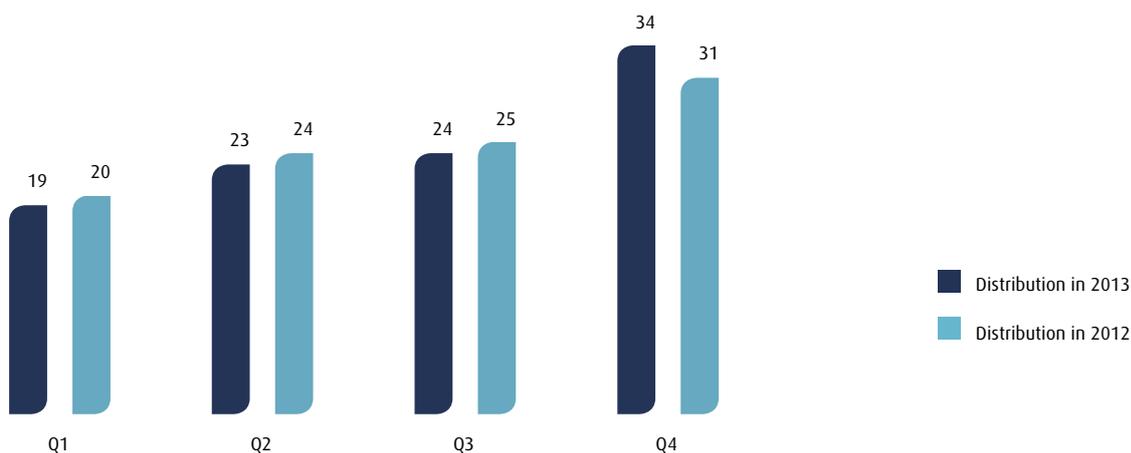
Revenues and pre-tax earnings were distributed over fiscal year 2013 as follows:

in € thousands	Q1 2013	Q2 2013	Q3 2013	Q4 2013	<b>2013</b>
License revenue	63,581	75,799	79,875	110,883	330,138
as % of license revenue for the year	19	23	24	34	100
Total revenue	224,911	237,748	238,500	271,533	972,692
as % of revenue for the year	23	24	25	28	100
Earnings before taxes	38,479	41,457	45,739	64,337	190,012
as % of net earnings for the year	20	22	24	34	100

Based on historical data, the revenue and earnings distribution from 2013 is not fully representative.

The distribution of revenue and earnings is regularly affected by large individual contracts and is thus difficult to predict. The following graph illustrates the development of license revenues in 2013 und 2012.

As % of total annual license revenue



### [11] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back

to the court of first instance in October 2013. The proceedings against the other defendants are still pending. Software AG assumes that the proceedings will be reopened in the second half of 2014.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed three similar parallel lawsuits against other defendants.

The NPE withdrew its lawsuit against Software AG in January 2013. The NPE also filed a new lawsuit for the alleged violation of two of its software patents in January 2013. The proceedings are in a very early stage. Hearings are not scheduled to take place until mid-2015.

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In September 2013 the court issued an order to hear evidence and requested that Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft provide an opinion on questions concerning valuation in the capacity of expert auditor. Warth & Klein's expert opinion is still pending.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with the Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision and is currently waiting for the case to proceed. Provisions are set up based on the estimated probable actual resource outflow.

There were no other changes with respect to the legal disputes reported as of December 31, 2013, nor were there any new legal disputes that could potentially have a significant effect on the company's financial position, financial performance or cash flows.

## [12] Stock Option Plans and Stock Appreciation Rights Program

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. Our stock price-based remuneration plans as of June 30, 2014 are described in detail on pages 194-198 of our 2013 Annual Report.

### **Management Incentive Plan 2011 (MIP IV) (2011–2016)**

The rights granted under Management Incentive Plan 2011 (MIP IV) changed as follows in the first six months of the fiscal year:

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2013</b>	<b>4,808,668</b>	<b>41.34</b>	<b>7.5</b>	<b>0</b>
Granted	15,000	41.34		
Forfeited	526,168	41.34		
<b>Balance as of June 30, 2014</b>	<b>4,297,500</b>	<b>41.34</b>	<b>7.0</b>	
Thereof exercisable as of June 30, 2014	0			

#### Management Incentive Plan 2007 (MIP III) (2007–2011)

There were no changes to the balance of rights granted under Management Incentive Plan 2007 (MIP III) compared to the balance on December 31, 2013.

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2013</b>	<b>1,793,300</b>	<b>24.12</b>	<b>2.5</b>	<b>2,295*</b>
Forfeited	-3,500	24.12		
Exercised (June; price €27.32)	-64,000	24.12		
<b>Balance as of June 30, 2014</b>	<b>1,725,800</b>	<b>24.12</b>	<b>2.0</b>	<b>3,883*</b>
Thereof exercisable as of June 30, 2014	1,725,800	24.12		

\*) Based on the closing prices on June 30, 2014 and December 31, 2013

### [13] Employees

As of June 30, 2014, the average number of employees (part-time employees are taken into account on a pro rata basis only) by area of activity was as follows:

	June 30, 2014	June 30, 2013
Maintenance and Services	2,094	2,470
Sales and Marketing	1,095	1,221
Research and Development	986	921
Administration	681	726
	<b>4,856</b>	<b>5,338</b>

In absolute terms (part-time employees are counted in full), the Group employed 4,753 (2013: 5,566) people as of June 30, 2014.

### [14] Changes and Information Regarding Corporate Bodies

No changes occurred on either the Management Board or the Supervisory Board between January 1, 2014 and June 30, 2014.

Due to the completed sale of all shares in IDS Scheer Consulting GmbH to the Scheer Group GmbH, Mr. Roland Schley, employee representative to the Supervisory Board of Software AG, left the Supervisory Board of Software AG as of May 31, 2014. In accordance with section 104, paragraph 1 of the German Stock Corporation Act, the Darmstadt registration court resolved on June 26, 2014 to appoint Ms. Maria Breuing as Mr. Schley's successor to the Supervisory Board of Software AG for the remainder of his term.

### [15] Events After the Balance Sheet Date

There were no events that occurred between June 30, 2014 and the date of release of this interim report that were of significance to the consolidated financial statements.

#### Date and authorization for issue

Software AG's Management Board approved the interim consolidated financial statements on August 13, 2014.

#### Responsibility Statement

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

Darmstadt, August 13, 2014

Software AG



K.-H. Streibich



Dr. W. Jost



A. Zinnhardt

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## Financial Calendar

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### 2014

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October 29

Preliminary Q3 / 9-month 2014 financial figures (IFRS, unaudited)

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Software AG  
Corporate Communications  
Uhlandstraße 12  
64297 Darmstadt  
Germany

Tel. +49 61 51-92-0  
Fax +49 61 51-1191  
press@softwareag.com

### Editorial Support

Akima Media, Munich  
[www.akima.de](http://www.akima.de) 

### Concept and Design

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[www.ir-1.com](http://www.ir-1.com) 

## Contact

Software AG  
Corporate Headquarters  
Uhlandstraße 12  
64297 Darmstadt  
Germany

Tel. +49 6151-92-0  
Fax +49 6151-1191  
[www.softwareag.com](http://www.softwareag.com)