software AG

Process Innovation
for the Digital Enterprise

Quarterly Report | 2/2012

KEY FIGURES 2012

KEY FIGURES (IFRS, unaudited) as of June 30, 2012

in € millions (unless otherwise stated)	June 30, 2012	June 30, 2011	Change in %	Q2 2012	Q2 2011	Change in %
Revenue	**513.2**	**529.7**	**-3**	**258.6**	**257.1**	**1**
By type						
Licenses	141.3	129.0	10	76.0	57.7	32
Maintenance	195.8	186.8	5	99.5	93.8	6
Services	175.4	211.1	-17	82.7	104.8	-21
Other	0.7	2.8	-75	0.4	0.8	-50
By business line						
Business Process Excellence (BPE)	256.6	245.6	4	132.2	121.6	9
Enterprise Transaction Systems (ETS)	189.3	186.4	2	94.9	89.7	6
IDS Scheer Consulting (IDSC)	67.3	97.7	-31	31.5	45.8	-31
EBIT	**111.9**	**119.1**	**-6**	**57.1**	**58.9**	**-3**
as % of revenue	21.8	22.5		22.1	22.9	
Net income	**73.3**	**78.7**	**-7**	**37.5**	**38.7**	**-3**
as % of revenue	14.3	14.9		14.5	15.1	
Earnings per share in € (basic)	0.84	0.92	-9	0.43	0.45	-4
Earnings per share in € (diluted)	0.84	0.91	-8	0.43	0.44	-2
Free cash flow	100.9	95.0	6	41.8	45.9	-9
Total assets	1,727.4	1,666.1				
Cash and cash equivalents	270.0	194.6				
Net debt	14.8	158.5				
Shareholders' equity	999.9	809.5				
as % of total assets	58	49				
Employees (full-time equivalents)	**5,461**	**5,478**				
of which in Germany	1,803	1,946				
of which in R&D	896	845				

PIONEER AND MARKET LEADER

Software AG is the global leader in Business Process Excellence. Our 40 years of innovation include the invention of the first high-performance transactional database, Adabas; the first business process analysis platform, ARIS; and the first B2B server and SOA-based integration platform, webMethods.

We offer our customers a variety of end-to-end solutions delivering low total cost of ownership and high ease of use. Our industry-leading brands, ARIS, webMethods, Adabas, Natural, CentraSite, Terracotta and IDS Scheer Consulting, represent a unique portfolio encompassing: process strategy, design, integration and control; SOA-based integration and data management; process-driven SAP implementation; and strategic process consulting and services.

CONTENTS

SOFTWARE AG STOCK

Germany's TecDAX high-tech barometer opened the year 2012 at 699.7 points and closed the first half of the year 44 points higher, which reflects a gain of six percent. The DAX, Germany's leading index, ended the first day of trading of 2012 at 6,076 points. During the first six months of the year, it climbed to 6,416 points.

Software AG's stock started out the new year trading at €28.33. It then suffered significant losses following the release of the company's preliminary fourth-quarter 2011 financial results on January 10, 2012. In the remaining months of the first quarter the stock was initially able to recover from the decline. But investors' uncertainty about the euro crisis prevented a lasting improvement. At the end of June, Software AG's stock price was €24.44. The continued lack of confidence in the European economic area led to a reserved attitude among stock-market investors in general and particularly in the U.S. Additionally, a series of investment funds were closed and, as a result, Software AG stocks were forfeited. A number of large investors demonstrated a preference for investments in standard stocks over the high-tech sector during the first six months of the year. In its dialog with investors, Software AG noted a growing amount of interest among value investors.

The capital market reacted positively to the company's second-quarter financial results, which it publicized on July 24, 2012. Over the course of the day the share price rose to €26. On average a volume of 363,488 Software AG shares were traded each day during the first half of fiscal 2012.

INVESTOR RELATIONS

We communicate our corporate strategy and development to all capital market stakeholders transparently and comprehensively.

An essential component of our investor relations work involves extensive and ongoing communication with investors and analysts, whom we were able to meet with on numerous occasions during the first half of 2012. Software AG participated in a total of 12 capital market conferences in Germany and abroad during this period of time. Roadshows in Germany, the U.K., Canada and the U.S. were also an important medium for interacting with the investor community.

This year's Capital Market Day was held on February 22 in Darmstadt. More than 40 investors and analysts from Germany, the U.K., France and Switzerland learned about Software AG's high-tech innovations, current go-to-market strategy and planned sales-strengthening measures.

At the CeBIT IT trade fair in early March, the Investor Relations and Management teams were available during guided tours and meetings to answer questions and discuss the latest trends in technology and Software AG's strategic positioning.

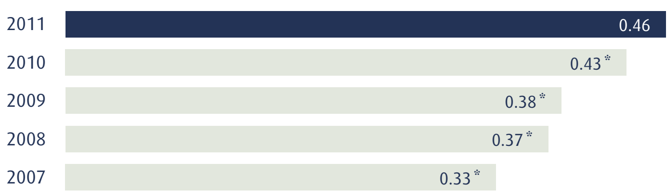
Investors in France are a focus of Software AG's investor relations work in 2012. Our Process Forum is a customer convention, which took place in Paris in mid-March. Analysts and investors from Germany and abroad took advantage of the event to discuss Software AG's strategic positioning. The product training session held in June at our subsidiary in Paris for French investors resounded excellently with attendees. They felt well informed after hearing the presentation of our current product portfolio in French and particularly the explanation of our big data strategy.

2012 ANNUAL SHAREHOLDERS' MEETING

The 2012 Annual Shareholders' Meeting took place on May 4 in the "darmstadtium" in Darmstadt. A resolution was passed for a dividend of €0.46 (2011: €0.43) per Software AG share, a seven-percent increase year on year. This is a record-breaking €39.9 million total pay-out sum. The dividend reflects the improvement of Software AG's financial results in fiscal 2011.

DIVIDEND DEVELOPMENT

in €

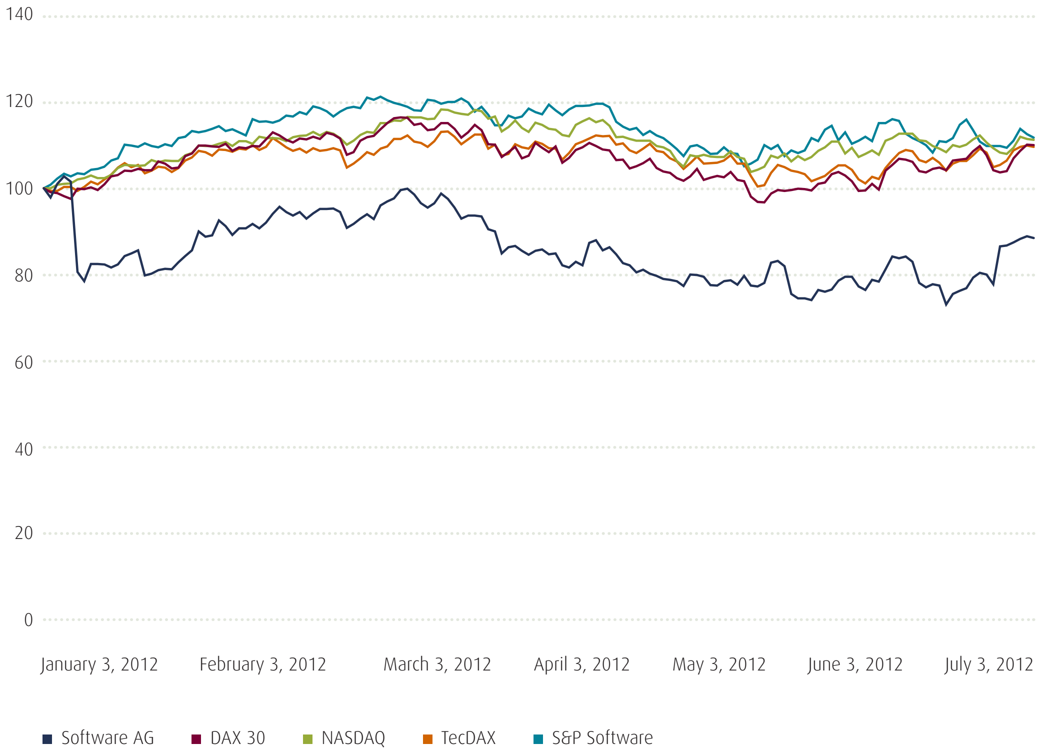


* 2007 – 2010 adjusted for 1:3 stock split

Our investor relations work was honored again in 2012. Software AG was ranked first for "best IR" in the TecDAX by Thomson Reuters Extel, which was published by the Wirtschaftswoche financial journal.

The consolidation of the banking sector caused a reduction in the number of analyst teams that regularly review our company and issue recommendations on its stock. Currently 23 brokerages have rated our stock. Eleven recommend "to buy", six "to hold" and six "to sell". Software AG's average share price in July was €29.34.

SHARE PRICE DEVELOPMENT (INDEXED)



SHAREHOLDER STRUCTURE

For more information on our shareholder structure, please refer to our website.

Software AG Foundation continues to hold almost 29 percent of Software AG's share capital. Our free float thus currently stands at 71 percent of shares outstanding. An analysis of our identifiable institutional investors shows that 35 percent of our stock is currently owned by investors in Germany. The remainder is distributed among the USA (23%), the United Kingdom (17%), Switzerland (10%), France and Scandinavia.

On July 20, Fidelity Investments (FMR LLC, Boston, USA) increased its stake to more than five percent (approximately 4.4 million shares) making it our largest fund investor.

INTERIM MANAGEMENT REPORT

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 business lines: Business Process Excellence (BPE, with the webMethods, ARIS and Terracotta product families), Enterprise Transaction Systems (ETS, with the Adabas and Natural product families), and IDS Scheer Consulting (IDSC, with a focus on SAP consulting).

1 SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

Implemented measures successful in improving competitive position

In the first half of 2012 Software AG successfully implemented sales and marketing activities, which had been announced in January 2012, to improve its competitive position in the BPE business space. Software AG is targeting these investments at specific markets which demonstrate clear sales opportunities for the company. From a geographic perspective, this includes the North American market, and from a thematic perspective, the big data market. With respect to regional development in the quarter under review, steadily growing BPE license revenue in Europe and South Africa gained more than 20 percent and was bolstered by double-digit growth in the U.S. in the second quarter of 2012. The targeted expansion of sales and marketing activities led not only to further growth from a geographic point of view. It also resulted in a number of new (large-scale) big data projects for Software AG's subsidiary, Terracotta — a leading vendor of in-memory products. Fast access to large data volumes plays a decisive role in the expansion of business for (new) customers, as reflected by the recent example of eBay subsidiary Pay Pal. Software AG's innovative technology enables direct access to data stored in the main memory (cache). This makes data access some 1,000 times faster than with databases and provides major cost and competitive advantages. Terracotta was already demonstrating a solid growth trend in the big data market in the first quarter of 2012. This momentum gained speed in the second quarter and resulted in higher revenue from the big data market than in the 2011 full fiscal year. Software AG expects a continuation of this growth.

Software AG strengthens presence in USA

In addition to the expansion of its North American sales network, Software AG also strengthened its presence in Silicon Valley in the quarter under review through the transfer of its Mergers & Acquisitions head and the planned transfer of its Chief Marketing Officer. The goal of this measure is to be in closer proximity to the hot spot of the IT industry and facilitate earlier recognition of marketing potential. This strengthens the company's image in the U.S. as an innovative software provider. Additionally, Software AG is undertaking preparations to establish a federal unit as a way to increase the number and size of its contracts with the U.S. government.

Technological edge through acquisition of universal messaging middleware platform

Software AG acquired U.K.-based technology provider my-Channels in the second quarter of 2012. This acquisition provides Software AG customers with state-of-the-art real-time messaging software. The technology enables the integration of enterprise applications, cloud-based applications and mobile devices for data exchange. It allows Software AG customers to exchange massive amounts of business-critical data with staff, customers and partners in real time from anywhere, any transmission channel or device. This acquisition marks an important step in the implementation of Software AG's strategy.

Automatic data protection in Adabas database environments

With the launch of Data Masking for Adabas in the second quarter, Software AG customers can now extract data from different Adabas environments and, by way of an automatic anonymity conversion process, can protect the confidentiality of sensitive elements. This process enables Adabas customers to test and develop applications using real-world, production-like data without having to compromise internal or external data security regulations.

Strategic partnership with leading IT security research center

The focus of Software AG's strategic alliance with the Center for Advanced Security Research Darmstadt (CASED) — a leading think tank in the field of IT security — is to establish a laboratory for secure software engineering. Through the collaboration, Software AG has access to the findings of cutting-edge research, which can be applied accordingly to its own software development processes. Furthermore, the alliance strengthens the collaboration of the two partners within the software cluster.

Employer Branding Award 2012 for best university marketing

Software AG won the trendence Employer Branding Award 2012 in Berlin in the second quarter of 2012. Trendence is the leading research institute for personnel marketing and recruiting in Europe. With its innovative personnel marketing concept, software AG received second place in the university marketing category. In particular, trendence acknowledged Software AG's University Relations program, which has been met with enormous enthusiasm by future IT professionals at colleges and university.

2 FINANCIAL PERFORMANCE

2.1 GROUP REVENUE IN THE SECOND QUARTER OF 2012

The second quarter was dominated by increasing software sales, which influenced the revenue mix to the benefit of high-margin product revenue. At the same time, a decline in service revenue counteracted the growth, which kept total Group revenue level with last year at €258.6 (Q2 2011: €257.1) million. In its core product business (licenses and maintenance), Software AG returned growth of 16 percent at €175.5 (Q2 2011: €151.5) million. License revenue in particular increased by a dynamic 32 percent to €76 (Q2 2011: €57.7) million. Here, the company posted strong growth in its integration and process software business. Software AG's maintenance revenue contributed €99.5 (Q2 2011: €93.8) million reflecting growth of six percent. In services, the company generated €83 (Q2 2011: €104.8) million of which €27.3 (Q2 2011: €40.2) million were from SAP consulting.

This development is due primarily to the company's withdrawal from unprofitable markets and projects. BPE and ETS services contributed €55.4 (Q2 2011: €64.6) million to total service revenue in the quarter under review. ETS service revenue showed a modest increase, whereas BPE service revenue was down due to the lower level of BPE license sales in previous quarters and a rising volume of product implementations carried out by external partners.

Software AG posted positive currency translation effects totaling €9 million in the second quarter of 2012. Exchange rates had a greater effect on licenses and maintenance revenue than on consulting business revenue, which is invoiced mainly in euros. Currency translation effects however not only impacted revenue. They also led to higher costs as a result of the company's natural hedging model for minimizing currency-translation-related risks. In the half-year period the percentage of revenue from the euro zone dropped to 38 percent (2011: 41 percent). Dependence on the euro thus continued to decrease, and the revenue split among various other currencies was more diversified.

2.2 REVENUE AND EARNINGS BY BUSINESS LINE (SEGMENT REPORT)

Revenue and earnings contributions from the business lines were as follows:

Business Process Excellence (BPE)

Software AG's innovative BPE line, which encompasses the webMethods (IT integration), ARIS (business process software) and Terracotta (big data) product families, grew nine percent year on year to €132.2 million. Thanks to sales measures implemented in the last quarter of 2011 — particularly in the Americas, South Africa and Europe — the technology-leading products returned double-digit revenue growth. Accordingly, product revenue climbed 29 percent to break a new second-quarter record at €93.7 (Q2 2011: €72.9) million. License revenue was €45.6 (Q2 2011: €31.3) million, which represents excellent growth of 46 percent. In sequential comparison to the first quarter of 2012, license revenue rose 28 percent. On one hand, this reflects the expected seasonal trend, but on the other shows that Software AG outperformed the current macroeconomic uncertainty in the second quarter. Maintenance revenue increased by 16 percent to reach €48.1 (Q2 2011: €41.6) million. This segment growth confirms the upward trend of the process optimization market and the rising demand for Software AG products. The development and expansion of sales and marketing activities made a significant contribution to BPE growth in the different regions. Sales and marketing expenses increased accordingly by 30 percent to €38.5 million.

Setting off the BPE revenue growth is a 25-percent rise in research and development expenses, totaling €18.8 million. The increase is due largely to the expansion of innovative technologies like Terracotta and my-Channels. Despite substantial investments in the BPE business model, this business line achieved a segment contribution of €32.2 (Q2 2011: €34.7) million to total earnings in the quarter under review.

Enterprise Transaction Systems (ETS)

The ETS business line, which includes revenue from licenses, maintenance and services from both the Adabas and Natural product families, achieved notable growth in revenue at €94.9 (Q2 2011: €89.7) million. License revenue was €30.1 million, 20 percent up from the same quarter in 2011 (€25.1 million). ETS maintenance revenue was stable with respect to the previous year at €47.6 (Q2 2011: €48.1) million. Service revenue was up five percent from 2011 at €17 (Q2 2011: €16.2) million. Due to the sharp rise in license sales and the associated sales commissions, sales and marketing expenses increased eight percent to €15.6 million year on year. The maintenance and support cost structure was further optimized resulting in a 14-percent reduction in the cost of sales to total €16.8 million. The cost of research and development was also decreased in the quarter under review to €6.5 million or by four percent. ETS segment earnings went up 15 percent to €56 million year on year. The segment's profit margin was 59 percent.

IDS Scheer Consulting (IDSC)

Software AG continued to pursue its first-quarter strategy of exiting unprofitable SAP consulting markets and projects. This resulted in decreased total revenue of €31.5 million down from €45.8 million the year before. Of that, €4.1 (Q2 2011: €5.4) million came from external products, primarily SAP products. The business line's structure was reorganized, which led to a decrease in sales and marketing expenses to €4.1 (Q2 2011: €6.7) million.

Earnings

Earnings before interest and taxes (EBIT) were slightly below last year's figure at €57.1 (Q2 2011: €58.9) million. This was a result of investments and thus higher costs in sales and marketing mainly in the BPE business. This reflects an EBIT margin of 22.1 percent (Q2 2011: 22.9 percent). Second-quarter earnings before interest, taxes, depreciation and amortization (EBITDA) were €69.9 (Q2 2011: €70) million. This represents an operating profit margin of 27 percent. Software AG's operating expenses rose by €14.4 million to €105.6 million. Investments in sales and marketing totaled €61.6 (Q2 2011: €53.6) million and led to a slight three-percent rise in the ratio of costs to total revenue. Research and development expenses totaled €25.3 (Q2 2011: €21.9) million. The cost ratio thus remained stable year on year at 14.4 percent of product revenue.

Net income

Net income went down by three percent to €37.5 million due to the above mentioned investments and currency translation effects. Earnings per share were €0.43 in the second quarter of 2012.

First half-year 2012

Product revenue rose in the fist six months of fiscal 2012 by seven percent to €337.1 (2011: €315.8) million. Service and consulting revenue was €175.4 (2011: €211.1) million. Group revenue in the first half of the current fiscal year was €513.2 (2011: €529.7) million.

Earnings before interest and taxes (EBIT) in the first half of fiscal 2012 were €111.9 (2011: €119.1) million due to investments. The EBIT margin was thus 21.8 percent (2011: 22.5 percent).

3 FINANCIAL POSITION

3.1 CASH FLOW

Free cash flow in the second quarter totaled €41.8 (Q2 2011: €45.9) million due to a changed interest payment plan. Free cash flow in the first half of fiscal 2012 went up six percent to €100.9 million. Free cash flow both in the quarter and half-year under review clearly exceeded after-tax earnings due to the company's active working capital management.

3.2 TOTAL ASSETS

Software AG's total assets increased by €46.7 million compared to the end of fiscal 2011 to total €1,727.4 million on June 30, 2012. Goodwill rose by €16 million to €767.7 million in the first six months of the year. This was due to the company's acquisition of my-Channels as well as currency translation effects. Shareholders' equity for the same period was five percent higher than one year earlier and totaled €999.9 (2011: €951.5) million. This represents an equity ratio of 58 percent. Receivables decreased by €5 million. Deferred income totaled €157 million, which is €51.1 million higher than on December 31, 2011. Net debt as compared to December 31, 2011 decreased by €46.1 million to €14.8 million in spite of dividend payouts and acquisition payments.

As of June 30, 2012 Software AG had 5,461 (2011: 5,478) full-time employees, of which 896 (2011: 845) worked in Research and Development (R&D). The total number of employees in Germany was 1,803 (2011: 1,946).

4 OPPORTUNITIES AND RISKS

There were no changes to the risk situation of the Software AG Group in the second quarter of 2012 as portrayed in the Risk Report of the 2011 Annual Report.

Corresponding opportunities are described in the Outlook section of this report and the 2011 Annual Report.

5 EVENTS AFTER THE BALANCE SHEET DATE

There were no relevant events concerning Software AG that took place after the balance sheet date.

6 OUTLOOK

Software AG will focus on growth targets according to business line as follows:

OUTLOOK FULL YEAR 2012

in € millions

	2011	Outlook 2012 ** (in %)	H1 2012 (in %)
Total product revenue	673.9	+2 to +7*	+3.4*
- BPE	527.9	+5 to +15*	+1.1*
- ETS	381.3	−6 to −3*	−0.7*
EBIT margin (in %)	24.5	23.0 to 24.5	21.8

* At constant currency, delta
** As of July 24, 2012

1. PRODUCT REVENUE

There was a notable difference between product and service revenue growth in the first half of the fiscal year. The profitable product revenue, which drove profit margin and earnings and provided a basis for further growth, increased 6.7 percent in the first half of fiscal 2012. Given that, the core product business will be the focus of Software AG's revenue outlook. Software AG is forecasting total product revenue growth as compared to fiscal 2011 between two and seven percent at constant currency for fiscal 2012.

2. BPE REVENUE

The company confirms its original BPE forecast at five to fifteen-percent growth.

3. ETS REVENUE

Product revenue for ETS exceeded expectations for the first two quarters of fiscal 2012. Based on those results, Software AG has increased its full-year forecast. It now expects only a slight decline in revenue between minus six and minus three percent at constant currency.

4. EBIT MARGIN

Software AG expects its EBIT margin to remain unchanged between 23 and 24.5 percent.

CONSOLIDATED BALANCE SHEET (IFRS, unaudited) as of June 30, 2012

in € thousands	June 30, 2012	Dec, 31, 2011	June 30, 2011
ASSETS			
Current assets			
Cash and cash equivalents	270,013	216,479	194,634
Inventories	149	505	153
Trade receivables	306,197	304,736	327,280
Other receivables and other assets	36,647	43,909	51,601
Prepaid expenses	13,409	8,656	12,844
	626,415	**574,285**	**586,512**
Non-current assets			
Intangible assets	239,861	248,202	250,430
Goodwill	767,679	752,223	722,221
Property, plant and equipment	63,612	65,365	63,547
Financial assets	2,888	3,446	5,034
Trade receivables	7,200	13,197	14,583
Other receivables and other assets	4,060	3,990	1,862
Prepaid expenses	968	1,256	1,513
Deferred taxes	14,683	18,731	20,364
	1,100,951	**1,106,410**	**1,079,554**
	1,727,366	**1,680,695**	**1,666,066**
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	26,324	26,088	80,788
Trade payables	46,381	58,066	53,884
Other liabilities	77,617	88,656	91,816
Other provisions	65,720	83,315	66,542
Provisions for taxes	5,125	20,171	28,640
Deferred income	156,431	105,269	152,590
	377,598	**381,565**	**474,260**
Non-current liabilities			
Financial liabilities	258,462	251,278	272,394
Trade payables	42	453	73
Other liabilities	5,017	8,798	4,779
Provisions for taxes	38,146	38,200	40,591
Other provisions	10,838	11,495	10,309
Deferred taxes	36,776	36,745	52,969
Deferred income	619	679	1,147
	349,900	**347,648**	**382,262**
Equity			
Share capital	86,828	86,828	86,756
Capital reserve	37,725	35,716	32,067
Retained earnings	900,335	867,053	768,733
Other reserves	−24,079	−37,095	−76,815
Treasury shares	−1,675	−1,675	−1,675
Non-controlling interests	734	655	478
	999,868	**951,482**	**809,544**
	1,727,366	**1,680,695**	**1,666,066**

CONSOLIDATED INCOME STATEMENT (IFRS, unaudited)
for the first half-year and second quarter ended June 30, 2012

in € thousands	June 30, 2012	June 30, 2011	Change in %	Q2 2012	Q2 2011	Change in %
Licenses	141,286	128,951	10	76,040	57,725	32
Maintenance	195,778	186,821	5	99,510	93,782	6
Services	175,441	211,143	−17	82,703	104,771	−21
Other	694	2,780	−75	392	791	−50
Total revenue	**513,199**	**529,695**	**−3**	**258,645**	**257,069**	**1**
Costs of sales	−199,308	−226,055	−12	−97,616	−110,958	−12
Gross profit	**313,891**	**303,640**	**3**	**161,029**	**146,111**	**10**
Research and development expenses	−49,556	−43,435	14	−25,319	−21,917	16
Sales, marketing and distribution expenses	−120,909	−110,096	10	−61,635	−53,627	15
General and administrative expenses	−34,188	−33,735	1	−18,692	−15,664	19
Operating result	**109,238**	**116,374**	**−6**	**55,383**	**54,903**	**1**
Other operating income	14,359	15,580	−8	7,964	11,979	−34
Other operating expenses	−11,720	−12,838	−9	−6,290	−7,964	−21
Earnings before interest and taxes (EBIT)	**111,877**	**119,116**	**−6**	**57,057**	**58,918**	**−3**
Net financial income/expense	−3,932	−3,427		−1,870	−1,978	−5
Earnings before taxes	**107,945**	**115,689**	**−7**	**55,187**	**56,940**	**−3**
Income taxes	−30,995	−33,054	−6	−15,373	−15,778	−3
Other taxes	−3,631	−3,923	−7	−2,358	−2,497	−6
Net income	**73,319**	**78,712**	**−7**	**37,456**	**38,665**	**−3**
Thereof attributable to shareholders of Software AG	73,195	78,640	−7	37,438	38,616	−3
Thereof attributable to non-controlling interests	124	72		18	49	
Earnings per share in € (basic)	0.84	0.92	−9	0.43	0.45	−4
Earnings per share in € (diluted)	0.84	0.91	−8	0.43	0.44	−2
Weighted average number of shares outstanding (basic)	86,766,468	85,671,706	-	86,766,468	86,012,606	-
Weighted average number of shares outstanding (diluted)	86,890,380	86,833,991	-	86,781,331	87,045,854	-

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS, unaudited)
for the first half-year and second quarter ended June 30, 2012

in € thousands	June 30, 2012	June 30, 2011	Q2 2012	Q2 2011
Net income	73,319	78,712	37,456	38,665
Income taxes	30,995	33,054	15,373	15,778
Net financial income/expense	3,932	3,427	1,870	1,978
Amortization/depreciation of non-current assets	25,275	22,045	12,822	11,095
Other non-cash income/expense	2,818	3,844	2,732	5,102
Operating cash flow before changes in working capital	**136,339**	**141,082**	**70,253**	**72,618**
Changes in inventories, receivables and other assets	6,855	47,804	–4,520	50,778
Changes in payables and other liabilities	7,835	–27,668	10,227	–44,124
Income taxes paid	–42,815	–61,820	–28,190	–31,108
Interest paid	–7,239	–5,495	–5,629	–2,963
Interest received	3,825	3,688	1,614	1,377
Net cash provided by operating activities	**104,800**	**97,591**	**43,755**	**46,578**
Proceeds from the sale of property, plant and equipment/ intangible assets	383	625	277	461
Purchase of property, plant and equipment/intangible assets	–4,418	–3,224	–2,334	–1,147
Proceeds from the sale of financial assets	791	44	305	44
Purchase of financial assets	–247	–53	–247	–32
Cash inflows/outflows from current financial assets	–433	0	0	0
Payments for acquisitions, net	–16,889	–58,079	–16,476	–58,079
Net cash used in investing activities	**–20,813**	**–60,687**	**–18,475**	**–58,753**
Proceeds from issue of share capital	0	32,890	0	32,890
Purchase of treasury stock (incl. hedge premiums paid)	0	–19,900	0	–19,900
Dividends paid	–40,100	–37,160	–39,930	–36,998
Additions to financial liabilities	10,000	200,000	10,000	200,000
Repayments of financial liabilities	–3,070	–117,686	–1,921	–113,262
Net cash provided by/used in financing activities	**–33,170**	**58,144**	**–31,851**	**62,730**
Change in cash and cash equivalents from cash-relevant transactions	50,817	95,048	–6,571	50,555
Currency translation adjustment	2,717	–2,881	4,279	–160
Net change in cash and cash equivalents	**53,534**	**92,167**	**–2,292**	**50,395**
Cash and cash equivalents at beginning of the period	216,479	102,467	272,305	144,239
Cash and cash equivalents at end of period	**270,013**	**194,634**	**270,013**	**194,634**
Free cash flow	**100,876**	**94,983**	**41,756**	**45,904**

STATEMENT OF COMPREHENSIVE INCOME (IFRS, unaudited)
for the first half-year and second quarter ended June 30, 2012

in € thousands	June 30, 2012	June 30, 2011	Q2 2012	Q2 2011
Net income	**73,319**	**78,712**	**37,456**	**38,665**
Currency translation differences	12,406	–31,990	24,894	–4,967
Net gain/loss on remeasuring financial assets	–275	–644	–681	–799
Net gain/loss arising from translating net investments in foreign operations	939	506	2,037	–890
Net actuarial gain/loss and asset caps on defined benefit plans	–54	0	–17	0
Other comprehensive income	**13,016**	**–32,128**	**26,233**	**–6,656**
Total comprehensive income	**86,335**	**46,584**	**63,689**	**32,009**
Thereof attributable to shareholders of Software AG	86,211	46,512	63,671	31,960
Thereof attributable to non-controlling interests	124	72	18	49

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS, unaudited)
for the six months ended June 30, 2012

in € thousands	Common shares (No.)	Share capital	Capital reserve	Retained earnings	Currency translation differences
Equity as of January 1, 2011	**85,330,806**	**86,148**	**22,512**	**727,070**	**−31,440**
Total comprehensive income				78,640	−31,990
Transactions with equity holders					
Dividend payment				−36,977	
New shares issued	607,600	608	14,048		
Stock options			17,810		
Purchase of treasury stock	756,000		−2,403		
Transactions between shareholders			−19,900		
Equity as of June 30, 2011	**86,694,406**	**86,756**	**32,067**	**768,733**	**−63,430**
Equity as of January 1, 2012	**86,766,468**	**86,828**	**35,716**	**867,053**	**−26,894**
Total comprehensive income				73,195	12,406
Transactions with equity holders					
Dividend payment				−39,913	
New shares issued					
Stock options			2,009		
Issue and disposal of treasury stock					
Purchase of treasury stock (incl. hedge premiums paid)					
Other changes					
Transactions between shareholders					
Equity as of June 30, 2012	**86,766,468**	**86,828**	**37,725**	**900,335**	**−14,488**

Other reserves			Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
Fair value measurement of securities and derivatives	Actuarial gains/ losses from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
603	**−13,850**	**0**	**−22,313**	**768,730**	**589**	**769,319**
−644	0	506		46,512	72	46,584
				0		0
				−36,977	−183	−37,160
				14,656		14,656
				17,810		17,810
			20,638	18,235		18,235
				−19,900	0	−19,900
−41	**−13,850**	**506**	**−1,675**	**809,066**	**478**	**809,544**
−3,054	**−11,332**	**4,185**	**−1,675**	**950,827**	**655**	**951,482**
−275	−54	939		86,211	124	86,335
				0		0
				−39,913	−187	−40,100
				0		0
				2,009		2,009
				0		0
				0		0
				0	142	142
				0		0
−3,329	**−11,386**	**5,124**	**−1,675**	**999,134**	**734**	**999,868**

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, 2012 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, 2012 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.

2 CHANGES IN THE CONSOLIDATED GROUP

The following changes occurred in the consolidated Group in the first six months of fiscal 2012:

in € thousands	Germany	Foreign	Total
January 1, 2012	10	107	117
Additions	0	1	1
Disposals (including mergers)	0	1	1
June 30, 2012	10	107	117

The addition relates to the acquisition of the U.K.-based company, my-Channels, as described in Note 4. The disposal relates to the sale of a subsidiary (FACT Unternehmensberatung Schweiz AG) that is not of material significance.

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, 2011. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2011.

These quarterly financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

4 BUSINESS COMBINATIONS

During the second quarter, Software AG acquired the British technology provider, my-Channels. The acquisition complements and extends Software AG's existing integration technology with an extremely fast (low latency) messaging software. The company currently has 10 employees. The consideration due for this acquisition amounted to €15.2 million.

The following table shows the provisional allocation of the cost of the business combination to the net assets acquired.

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	977	0	977
Intangible assets	0	7,522	7,522
Goodwill	0	8,159	8,159
Other assets	909	0	909
Total assets	**1,886**	**15,681**	**17,567**
Liabilities and provisions	207	0	207
Deferred tax liabilities	23	1,881	1,904
Deferred income	405	−103	302
Total equity and liabilities	**635**	**1,778**	**2,413**
Acquired assets and assumed liabilities, net	**1,251**	**13,903**	**15,154**
Acquisition cost, gross			**15,154**
Cash and cash equivalents acquired			977
Acquisition cost net of cash acquired			**14,177**

The full amount of goodwill resulting from the preliminary purchase price allocation was assigned to the Business Process Excellence segment.

The share of Software AG G revenue and net income attributable to the acquired company since the date of the acquisition is immaterial for the financial position, financial performance or cash flows of the Group as a whole.

In addition to the consideration paid for my-Channels in the amount of €14,177 thousand (net), consideration not yet paid from a previous acquisition in the amount of €2,712 thousand was paid in the second quarter of 2012.

NOTES TO THE CONSOLIDATED BALANCE SHEET

5 GOODWILL

Goodwill amounted to €767,679 thousand as of June 30, 2012, an increase of €15,456 thousand compared to December 31, 2011. Of the rise in goodwill, €7,297 thousand resulted from currency translation gains, which were due, in particular, to the strong U.S. dollar, and €8,159 thousand from the company's acquisition of the London-based company, my-Channels.

Due to the business performance of the IDS Scheer Consulting (IDSC) segment, Software AG conducted an extraordinary goodwill review whereby the carrying amount of the cash-generating unit (IDSC) was compared to the fair value less costs to sell. This was the same method applied at year end, based on current strategic financial plans. The review showed that no impairment losses were required.

6 EQUITY

Share capital

Software AG's share capital totaled €86,828 thousand as of June 30, 2012, divided into 86,827,845 bearer shares. 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 4, 2012 to appropriate €39,913 thousand for a dividend payout, to transfer €1,965 thousand to other retained earnings and to carry forward €153,735 thousand of the net retained profits of €195,613 thousand reported by Software AG, the controlling Group company. This corresponded to a dividend of €0.46 per share.

OTHER DISCLOSURES

7 SEGMENT REPORTING

The table below shows the segment data for the second quarters of 2012 and 2011:

SEGMENT REPORT (IFRS, unaudited) for the three months ended June 30, 2012

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Licenses	30,115	25,143	45,613	31,329	312	1,253			76,040	57,725
Maintenance	47,596	48,080	48,134	41,597	3,780	4,105			99,510	93,782
Product revenue	**77,711**	**73,223**	**93,747**	**72,926**	**4,092**	**5,358**	**0**	**0**	**175,550**	**151,507**
Services	16,998	16,230	38,363	48,336	27,342	40,205			82,703	104,771
Other	232	224	105	344	55	223			392	791
Total revenue	**94,941**	**89,677**	**132,215**	**121,606**	**31,489**	**45,786**	**0**	**0**	**258,645**	**257,069**
Cost of sales	−16,832	−19,471	−42,747	−42,304	−32,025	−44,125	−6,012	−5,058	−97,616	−110,958
Gross profit	**78,109**	**70,206**	**89,468**	**79,302**	**−536**	**1,661**	**−6,012**	**−5,058**	**161,029**	**146,111**
Sales, marketing and distribution expenses	−15,556	−14,480	−38,468	−29,589	−4,088	−6,668	−3,523	−2,890	−61,635	−53,627
Segment contribution	**62,553**	**55,726**	**51,000**	**49,713**	**−4,624**	**−5,007**	**−9,535**	**−7,948**	**99,394**	**92,484**
Research and development expenses	−6,519	−6,793	−18,800	−15,046	0	−78	0	0	−25,319	−21,917
Segment earnings	**56,034**	**48,933**	**32,200**	**34,667**	**−4,624**	**−5,085**	**−9,535**	**−7,948**	**74,075**	**70,567**
General and administrative expenses									−18,692	−15,664
Other operating income/expenses, net									1,674	4,015
Earnings before interest/taxes									**57,057**	**58,918**
Net financial income/expense									−1,870	−1,978
Earnings before taxes									**55,187**	**56,940**
Taxes									−17,731	−18,275
Net income									**37,456**	**38,665**

The table below shows the segment data for the first six months of 2012 and 2011:

SEGMENT REPORT (IFRS, unaudited) for the six months ended June 30, 2012

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Licenses	58,839	55,557	81,293	70,407	1,154	2,987			141,286	128,951
Maintenance	95,205	96,713	93,010	81,888	7,563	8,220			195,778	186,821
Product revenue	**154,044**	**152,270**	**174,303**	**152,295**	**8,717**	**11,207**	**0**	**0**	**337,064**	**315,772**
Services	34,779	33,747	82,137	92,415	58,525	84,981			175,441	211,143
Other	489	454	114	839	91	1,487			694	2,780
Total revenue	**189,312**	**186,471**	**256,554**	**245,549**	**67,333**	**97,675**	**0**	**0**	**513,199**	**529,695**
Cost of sales	–35,876	–39,494	–86,176	–87,531	–65,448	–89,487	–11,808	–9,543	–199,308	–226,055
Gross profit	**153,436**	**146,977**	**170,378**	**158,018**	**1,885**	**8,188**	**–11,808**	**–9,543**	**313,891**	**303,640**
Sales, marketing and distribution expenses	–31,795	–31,140	–72,898	–59,946	–9,306	–13,209	–6,910	–5,801	–120,909	–110,096
Segment contribution	**121,641**	**115,837**	**97,480**	**98,072**	**–7,421**	**–5,021**	**–18,718**	**–15,344**	**192,982**	**193,544**
Research and development expenses	–13,208	–13,612	–36,348	–29,662	0	–161	0	0	–49,556	–43,435
Segment earnings	**108,433**	**102,225**	**61,132**	**68,410**	**–7,421**	**–5,182**	**–18,718**	**–15,344**	**143,426**	**150,109**
General and administrative expenses									–34,188	–33,735
Other operating income/expenses, net									2,639	2,742
Earnings before interest/taxes									**111,877**	**119,116**
Net financial income/expense									–3,932	–3,427
Earnings before taxes									**107,945**	**115,689**
Taxes									–34,626	–36,977
Net income									**73,319**	**78,712**

The segment contribution does not include the amortization expense associated with acquisitions of intangible assets. These charges are therefore shown separately under "reconciliation." This presentation corresponds with internal control and reporting lines (management approach). The business lines (segments) are managed on the basis of their segment contribution. Research and development costs are subsequently allocated to the business lines and have no impact on internal management.

8 CONTINGENT LIABILITIES

As of June 30, 2012, no provisions had been recognized for the following contingent liabilities, expressed at their nominal amounts, since it appeared unlikely that any claims would be asserted:

in € thousands	June 30, 2012	Dec. 31, 2011	June 30, 2011
	1,477	1,477	1,441

The carrying amount of collateral received was €28 thousand (2011: €0 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 – 5 years	> 5 years	Total
Contractually agreed payments (gross amount)	11,209	53,301	5,458	69,968
Estimated income from subleases	1,261	8,068	0	9,329
Contractually agreed payments (net amount)	**9,948**	**45,233**	**5,458**	**60,639**

9 SEASONAL INFLUENCES

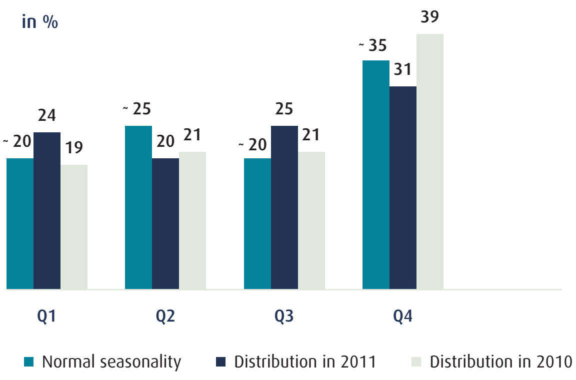
Revenues and pre-tax earnings were distributed over fiscal year 2011 as follows:

in € thousands	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011
License revenue	71,226	57,725	74,679	91,604	295,234
as % of license revenue for the year	24	20	25	31	100
Total revenue	272,626	257,069	274,632	294,007	1,098,334
as % of revenue for the year	25	23	25	27	100
Earnings before taxes	58,749	56,940	68,754	74,850	259,294
as % of net income for the year	23	22	26	29	100

Based on experience from past years, the revenue and earnings distribution in 2011 was not representative and is therefore not useful for calculating the expected distribution in 2012. The following image depicts the development of license revenues in 2011 and 2010 in comparison to normal license revenue development, which is expected for 2012.

The distribution of revenue and earnings is regularly affected by large contracts and is thus difficult to predict.

TOTAL ANNUAL LICENSE REVENUE



10 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. The proceedings were suspended for Software AG and additional defendants by order of the court. The proceedings are continuing against only one of the defendants. The verdict of these proceedings will determine if the proceedings against Software AG will be resumed. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. It remains to be seen whether the plaintiff will bring further legal action.

On February 10, 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 similar parallel lawsuits against other defendants. The proceedings are in an early stage. Hearings are not scheduled to take place until mid-2014.

A number of legal actions have been 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. The proceedings were combined into one. The first hearing took place at the end of February 2012 and had no outcome. A new date has not yet been rescheduled.

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. The proceedings were combined into one. The proceedings are in an early stage; as yet there have been no hearings before the court.

In connection with the termination of David Broadbent's Management Board membership, Mr. Broadbent has instituted legal proceedings before the Regional Court of Darmstadt, which the company considers to be unfounded. After an extensive exchange of briefs, the first hearing took place at the end of May 2012. Due to an order for further evidence, a second hearing was scheduled for the end of September 2012.

There were no other changes with respect to the legal disputes reported as of December 31, 2011, 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.

11 STOCK OPTION PLANS AND STOCK APPRECIATION RIGHTS PROGRAM

Software AG offers 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, 2012 are described in detail on pages 164-167 of our 2011 Annual Report.

The rights granted under Management Incentive Plan 2011 (MIP IV) changed as follows in the first six months of fiscal 2012:

	Number of rights outstanding	Exercise price per right (in €)	Weighted average remaining term (in years)	Aggregated intrinsic value (in €)
Balance as of Dec. 31, 2011	**5,596,667**	**41.34**	**9.5**	**0**
Granted	179,500	41.34		
Forfeited	−430,500	41.34		
Balance as of June 30, 2012	**5.345,667**	**41.34**	**9.0**	**0**

There were no changes to the balance of rights granted under Management Incentive Plan 2007 (MIP III) compared to the balance on December 31, 2011. All rights outstanding under MIP III as of June 30, 2012 were exercisable. Because there is no obligation to settle in cash, these rights are still accounted for as an equity-settled stock option program pursuant to IFRS 2. Accordingly, there were no provisions for rights from MIP III as of June 30, 2012.

12 EMPLOYEES

As of June 30, 2012, the average number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

	June 30, 2012	June 30, 2011
Maintenance and services	2,829	2,911
Sales and marketing	1,031	1,030
Research and development	890	833
Administration	730	731
	5,480	**5,505**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 5,641 people as of June 30, 2012 (June 30, 2011: 5,623 thousand).

13 CHANGES AND INFORMATION REGARDING CORPORATE BODIES

No changes occurred on either the Management Board or the Supervisory Board between January 1 and June 30, 2012.

14 EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred between June 30 and the date of release of these interim financial statements.

Date and authorization for issue

Software AG's Management Board approved the consolidated quarterly financial statements on August 13, 2012.

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, 2012

Software AG

K.-H. Streibich   Dr. W. Jost

A. Zinnhardt

FINANCIAL CALENDAR

2012	
October 30, 2012	Preliminary Q3 2012 financial figures (IFRS, unaudited)

2013	
End of January 2013	Preliminary Q4/FY 2012 financial figures (IFRS, unaudited)

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