Process Excellence
for the Digital Enterprise

Quarterly Report | 2/2011

KEY FIGURES 2011

KEY FIGURES on June 30, 2011
IFRS, unaudited

in € millions (unless otherwise stated)	June 30, 2011	June 30, 2010	change in %	Q2 2011	Q2 2010	change in %
Revenue	**529.7**	**517.6**	**3 ***	**257.1**	**267.3**	**0 ***
Product revenue	315.8	308.6	3 *	151.5	161.9	–1 *
Consulting and services revenue	211.1	206.7	2 *	104.8	104.4	2 *
Business Line						
Business Process Excellence	245.6	231.2	7 *	121.6	121.5	4 *
Enterprise Transaction Systems	186.5	185.4	1 *	89.7	96.3	–2 *
IDS Scheer Consulting	97.7	101.0	–3 *	45.8	49.5	–5 *
EBIT	**119.1**	**105.5**	**13**	**58.9**	**58.9**	**0**
as % of revenue	22.5	20.4		22.9	22.0	
Net income	**78.7**	**65.4**	**20**	**38.7**	**37.4**	**3**
as % of revenue	14.9	12.6		15.1	14.0	
Earnings per share (€ basic)	0.92	0.76	21	0.45	0.44	2
Earnings per share (€ diluted)	0.91	0.76	20	0.44	0.44	0
Free Cash flow	**95.0**	**96.1**	**–1**	**45.9**	**36.3**	**26**
Total assets	**1,666.1**	**1,651.5**	**1**			
Cash and cash equivalents	**194.6**	**155.8**	**25**			
Net debt	**158.5**	**292.0**	**–46**			
Shareholders' equity	**809.5**	**672.0**	**20**			
as % of total assets	49	41				
Employees **	**5,478**	**5,792**	**–5**			
of which in Germany	1,946	2,110	–8			
of which R&D	845	839	1			

* at constant currency to reflect the business volume in local markets
** Full-time equivalent

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 are unique in offering the world's only end-to-end and easiest-to-use business process management (BPM) solutions, with the lowest total cost of ownership. Our industry-leading brands: ARIS, webMethods, Adabas, Natural, CentraSite, and IDS Scheer Consulting, represent a unique portfolio for: process design, implementation and control; SOA-based integration and data management; process-driven SAP implementation; and strategic process consulting and services.

CONTENTS

SOFTWARE AG STOCK

With a gain of almost 14 percent, Software AG stock (ISIN DE0003304002/SOW) outperformed all benchmark indices in the first half of 2011. The stock performance reversed in July, and the increase was neutralized.

Germany's TecDAX technology barometer gained almost four percent during the first half of the year, reaching 893.78 points. The German DAX benchmark index rose five percent since the start of the year, closing at 6,989.74 points on June 30, 2011.

On July 13, 2011 Software AG announced that second-quarter results had not met the high expectations of the market. This news reversed the share price gains that had continued progressively since the beginning of 2011. While some analysts downgraded their target price for Software AG stock, other traders considered this an overreaction and recommended buying it. But the market in general weakened due to the financial crisis in the euro zone and worsening economic data. Therefore our share price was not able to recover.

INVESTOR RELATIONS

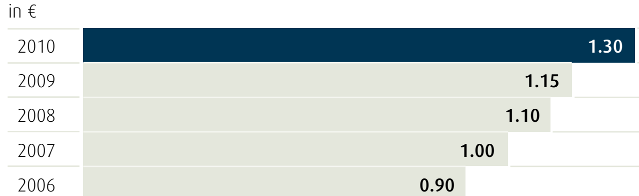
We communicate our corporate strategy and current developments to all capital market stakeholders transparently and comprehensively. A significant part of our investor relations work involves extensive and ongoing communication with investors and analysts, whom we were able to meet with on numerous occasions during the first half of 2011. We held roadshows in Germany, the UK, and the U.S. and placed a particular focus on attending investor relations conferences. This allowed us to reach many investors effectively and to gain valuable feedback on how we can optimize our financial communication.

ProcessWorld, our annual customer events, took place in Berlin and Orlando in the second quarter of 2011. The events were excellent opportunities for us to discuss our portfolio strategy with analysts and investors from Germany and abroad. We also announced our acquisitions of UK-based Metismo Ltd. (mobile app platform) and U.S.-based Terracotta Inc. (in-memory technology). Both technologies comprise essential components of Software AG's cloud technology. For further information on these acquisitions, please refer to page 6 of this report.

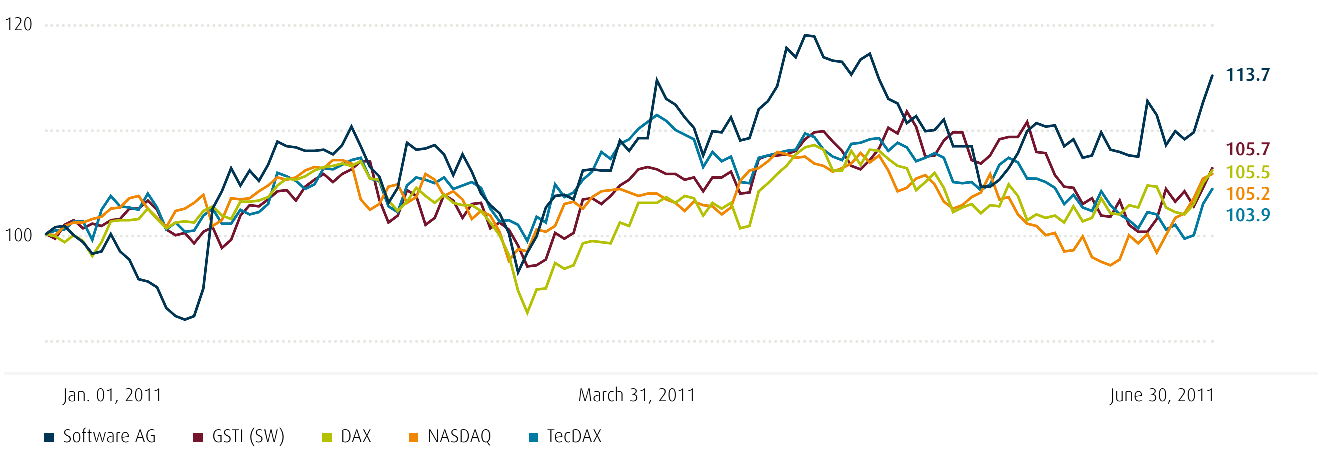
We held this year's Annual Shareholders' Meeting at the "darmstadtium" in Darmstadt. The resolutions included a dividend of €1.30 (2010: €1.15) per Software AG share for fiscal year 2010. This reflects a 13-percent increase (or 15 cents per share) over the dividend paid out for fiscal 2009.

DIVIDEND DEVELOPMENT

in €



SHARE PRICE DEVELOPMENT (INDEXED)



Furthermore, Software AG shareholders voted in favor of a three-for-one stock split. This made Software AG stock available to an even broader spectrum of investors and increased the stock's liquidity. The share capital of the Company became 86,148,183 bearer shares. Due to the exercise of employee stock options, the number of shares outstanding is now 86,755,783.

This year our investor relations work once again received numerous awards. We received the 2011 Capital Investor Relations Award and were ranked first in the TecDax. In Thomson Reuters Extel's ranking published in the economic journal, Wirtschaftswoche, we were awarded first place for "Best IR" in the TecDax. The capital market's interest in Software AG continued to grow. The number of valuations of our shares by brokerage firms currently totals 32 (2010: 26). Software AG stock was given a "buy" rating by 14 firms, "hold" by 12, and "sell" by six.

SHAREHOLDER STRUCTURE

Software AG Foundation continues to hold almost 29 percent of Software AG's share capital. Software AG's free float is therefore currently 71 percent of outstanding shares and is held by institutional investors and private investors alike. Regionally, 45 percent of our identifiable shareholdings is in the hands of institutional investors in Germany. The remainder is divided between the United Kingdom (around 10%), Switzerland (5%), the U.S., France, and Scandinavia.

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 (with the webMethods and ARIS product families), Enterprise Transaction Systems (with the Adabas and Natural product families), and IDS Scheer Consulting (with a focus on SAP consulting).

1 SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

1.1 TECHNOLOGY AND CUSTOMERS

Software AG strengthens technology leadership with acquisition of in-memory technology and a mobile app development platform

In the second quarter of 2011 Software AG acquired U.S.-based Terracotta Inc. and UK-based Metismo Ltd.

Terracotta is a leading provider of in-memory technology, which significantly boosts business process performance. Even highly complex processes and vast amounts of data can be processed in real time with in-memory technology. It provides the level of scalability needed for Software AG's future cloud offerings. With Metismo, Software AG has acquired one of the world's most innovative and flexible platforms for the development of device-independent mobile apps. It enables customers to quickly and easily extend integrations and process interaction to virtually any mobile device. This lays the foundation for mobile business process monitoring and control for Software AG customers.

Software AG launches webMethods 8.2 and ARIS 7.2

Software AG presented the major product releases resulting from the recently integrated webMethods business process management platform and ARIS business process analysis platform at the Gartner Business Process Management Summit in the U.S. webMethods 8.2 and ARIS 7.2 take advantage of an SOA-based, flexible integration and process layer. This independent and unique end-to-end platform supports multiple vendor applications. It presents and controls business processes from their design and operation to their ongoing optimization. Only with an integrated, independent process platform such as this can communication between applications be so flexibly, efficiently, and easily adapted to ever-changing requirements. Software AG's webMethods 8.2 and ARIS 7.2 together deliver this comprehensive spectrum of functionality. The solution provides our customers with tools to map their processes from beginning to end, control them in real time, and modify them efficiently and flexibly according to changing business objectives. The integrated portfolio covers the complete business process lifecycle.

Software AG named "leader" in enterprise service bus technology

Independent industry analyst firm Forrester Research Inc. gave Software AG top scores for the fourth consecutive time. Software AG was rated a "leader" in the Forrester Wave™ Enterprise Service Bus report. Published in April 2011, the report gives Software AG the highest grades in current offering, strategy, and market presence from among nine enterprise service bus (ESB) vendors and 11 ESB products. According to Forrester Research, Inc., Software AG and the other leaders' top-ranking position was based on having "the most-comprehensive support for ESB features."

Promissory note expands financing flexibility

Software AG successfully placed a promissory note for €200 million in the euro capital market in the second quarter of 2011. The placement was effected with more than 70 investors, the majority of which were private banks, state banks, and savings banks.

The promissory note replaced an existing variable note worth €113 million. With the now lower rates and higher credit volume, the Company has created further flexibility for financing corporate growth.

2 FINANCIAL PERFORMANCE

2.1 GROUP REVENUE IN THE SECOND QUARTER OF 2011

Group revenue in the second quarter of 2011 remained steady compared to the same period last year and at constant currency. Due to the strength of the euro, conversion from foreign currencies led to weaker posted figures in euros. These currency effects lowered total reported revenue by €10.2 million to total €257.1 (Q2 2010: 267.3) million. Product revenue totaled €151.5 (Q2 2010: €161.9) million, of which €57.7 (Q2 2010: €68.8) million was in licenses. Growth in license revenue, particularly in the BPE business line, did not develop as planned. Second-quarter maintenance generated a total of €93.8 (Q2 2010: €93.1) million, which represents five-percent growth at constant currency. Services, which include Global Consulting Services and IDS Scheer Consulting, posted a revenue increase in the second quarter to total €104.8 (Q2 2010: €104.4) million.

2.2 REVENUE AND EARNINGS BY BUSINESS LINE (SEGMENT REPORT)

Business Process Excellence (BPE)

Software AG's innovative BPE line, which encompasses the two leading product families, webMethods (business management platform) and ARIS (business analysis platform), grew four percent at constant currency year on year to €121.6 million. At €31.3 (Q2 2010: €39.1) million, license revenue did not continue to expand as in recent quarters. Contrary to expectations, various license deals did not close before the quarter ended despite a solid project pipeline. Our highly profitable maintenance business generated €41.6 million, which reflects 13-percent growth at constant currency. The excellent performance of Software AG's BPE products in the past two quarters led to a revenue increase in services in the second quarter of 2011 totaling €48.7 (Q2 2010: €43.8) million. Compared to this 11-percent rise in services and consulting revenue, the three-percent increase in the cost of sales is disproportionately low and therefore demonstrates a sustainable improvement in the profitability of our project business. The BPE line contributed €34.7 (Q2 2010: €34.8) million to Software AG's total earnings in the quarter under review. Given its good project pipeline, Software AG expects BPE license growth to be significantly above 20 percent in the third quarter.

Enterprise Transaction Systems (ETS)

The ETS business line includes revenue from licenses, maintenance, and services from the Adabas and Natural product families. In the second quarter of 2011, ETS posted €89.7 million in total revenue, which is a two-percent drop year on year and at constant currency. In the U.S.—a core market for Software AG—a double-digit increase in revenue was reported. Sales in Europe however were down. Product revenue, consisting of licenses and maintenance, fell by one percent year on year and at constant currency to total €73.2 million. As expected, services revenue was below last year's figure (Q2 2010: €17.9 million) at €16.5 million. At €14.5 million, we were again able to optimize sales and marketing expenses successfully by 14 percent as compared to the second quarter of 2010. A comparable efficiency increase was reported for research and development expenses. Here we cut costs by 13 percent to total €6.8 million in the quarter under review. As a result, this segment's profit margin grew by two percent year on year to reach 54.5 percent.

IDS Scheer Consulting (IDSC)

The IDSC business line offers industry-specific consulting services for Business Process Excellence with a special focus on SAP implementation. Its performance in the second quarter of 2011 was two-sided. In the U.S., we reported notable revenue expansion, while contraction was apparent in parts of Europe, especially in the German-speaking countries. Total revenue was €45.8 million as compared to €49.5 million the previous year. Of that, €5.4 (Q2 2010: €5.9) million came from external products, primarily SAP products. Consulting and services revenue was €40.4 (Q2 2010: €43.6) million, down five percent from last year. The cost of sales included one-time items, which are reflected in the decrease in gross earnings from €4 million to €1.7 million. We reduced sales and marketing expenses to €6.7 (Q2 2010: €7.9) million in order to align sales performance with organizational structure.

Earnings

Second-quarter operating earnings (EBIT) were equal to last year's at €58.9 (Q2 2010: €58.9) million. Despite the modest revenue trend in the three-month period under review, we increased our EBIT margin by 90 basis points to 22.9 percent year on year. Positive influential factors were success-based salary components, the high share of costs incurred in local currency, and the realization of acquisition-related cost synergies. Software AG's total expenses decreased by €10.4 million, with R&D expenses down five percent to €21.9 million and sales and marketing expenses down eight percent to €53.6 million. Administrative expenses dropped to €15.7 (Q2 2010: €20.1) million.

Net income

Software AG's net income rose to €38.7 million, up from €37.4 million the previous year. Earnings per share increased two percent to total €0.45.

First half-year 2011

Group revenue in the first half of fiscal 2011 was €529.7 (2010: €517.6) million. This represents a three-percent increase at constant currency. Product revenue for the first half of the year totaled €315.8 million, also a three-percent rise year on year and at constant currency. Services and consulting revenue went up in the period—mainly due to the innovative BPE projects—to €211.1 (2010: €206.7) million.

EBIT grew 13 percent to total €119.1 (2010: €105.5) million in the first half of 2011. During the same period, the EBIT margin climbed to 22.5 percent (2010: 20.4 percent). Further debt reduction efforts and optimized debt financing lowered interest expenses. Combined with an improved tax rate, this led to €78.7 million in net income in the first half of 2011, a 20-percent rise year on year.

3 FINANCIAL POSITION

Cash flow

Free cash flow totaled €45.9 (Q2 2010: €36.3) million in the quarter under review, which reflects a 26-percent increase year on year. Free cash flow in the first half of fiscal 2011 totaled €95.0 (2010: €96.1) million. Free cash flow per share in the first half of 2011 was €1.11 (2010: €1.13).

Total assets

Software AG's total assets increased by €66.4 million compared to the end of fiscal 2010 to total €1,666.0 million on June 30, 2011. Software AG's liquid assets rose by €92.2 million to €194.6 million. Shareholders' equity also went up from €137.6 million the previous year to €809.5 million. Compared to the end of 2010, shareholders' equity grew five percent. The Company's equity ratio on June 30, 2011 was 48.6 percent (Q2 2010: 40.7 percent).

Net debt decreased by €133.5 million year on year to €158.5 million in spite of dividend payouts and acquisition costs.

As of June 30, 2011 Software AG employed 5,478 (2010: 5,792) people (full-time equivalents), of which 845 (2010: 839) worked in Research and Development. The total number of employees in Germany was 1,946 (2010: 2,110).

4 OPPORTUNITIES AND RISKS

There were no changes to the risk situation of the Software AG Group in the second quarter of 2011 as portrayed in the Risk Report of the 2010 Annual Report.

Corresponding opportunities are described in the Outlook section of this report and the 2010 Annual Report.

5 EVENTS AFTER THE BALANCE SHEET DATE

Software AG announced the following changes to its management structure on July 21, 2011:

Darren Roos, an experienced and successful manager within Software AG, assumed responsibility for Sales in the EMEA region (excluding German-speaking countries). He previously headed the regions of BeNeLux, Scandinavia, and South Africa.

Global Consulting Services and IDS Scheer Consulting were merged under the unified leadership of Group Executive Board member Ivo Totev.

Furthermore, with the aim of increasing sales efficiency, the area of Business Development was established as a function of the Group Executive Board under the leadership of new Group Executive Board member Jonathan Smith. The goal is to group the products of Software AG's extensive portfolio into industry-specific solutions to address customer requirements more directly and streamline the sales process.

In a meeting on July 27, 2011, Software AG's Supervisory Board resolved to renew the appointment of Arnd Zinnhardt as CFO. He signed a new five-year contract. Arnd Zinnhardt joined the Software AG Board in 2002 as CFO. This year he was also appointed as Software AG Labor Director whereby his responsibilities include Finance and Controlling, Human Resources, Investor Relations, and Mergers and Acquisitions.

Furthermore, Software AG reduced its Management Board to three members: Karl-Heinz Streibich (CEO), Arnd Zinnhardt (CFO), and Wolfram Jost (Research & Development). David Broadbent left the Software AG Management Board with immediate effect. He had been responsible for product sales in the EMEA region (excluding German speaking countries).

6 OUTLOOK

The Management Board confirms its previously released revenue and earnings forecast for fiscal 2011, with total revenue growth between five and seven percent at constant currency year on year. Software AG anticipates BPE product revenue growth to be between 10 and 15 percent and ETS product revenue to be within two percent above or below that of the previous year. Software AG foresees an increase in net income between 10 and 15 percent. The revenue pipeline for the second half of 2011 is good, based on expected licensing contracts and consulting projects. Therefore licensing growth of well over 20 percent can be expected in the third quarter of 2011 for Business Process Excellence products.

CONSOLIDATED INCOME STATEMENT for the first half-year and second quarter ended June 30, 2011
IFRS, unaudited

in € thousands	June 30, 2011	June 30, 2010	change in %	Q2 2011	Q2 2010	change in %
Licenses	128,951	130,064	-1	57,725	68,810	-16
Maintenance	186,821	178,561	5	93,782	93,081	1
Consulting and Services	211,143	206,672	2	104,771	104,410	0
Other	2,780	2,260	23	791	1,000	-21
Total revenue	**529,695**	**517,557**	**2**	**257,069**	**267,301**	**-4**
Cost of sales	-226,055	-217,608	4	-110,958	-111,278	0
Gross profit	**303,640**	**299,949**	**1**	**146,111**	**156,023**	**-6**
Research and development expenses	-43,435	-45,040	-4	-21,917	-23,011	-5
Sales, marketing, and distribution expenses	-110,096	-115,232	-4	-53,627	-58,496	-8
General and administrative expenses	-33,735	-39,897	-15	-15,664	-20,081	-22
Operating result	**116,374**	**99,780**	**17**	**54,903**	**54,435**	**1**
Other operating income	15,580	27,145	-43	11,979	15,034	-20
Other operating expenses	-12,838	-21,467	-40	-7,964	-10,596	-25
Earnings before interest and taxes (EBIT)	**119,116**	**105,458**	**13**	**58,918**	**58,873**	**0**
Net financial income/expense	-3,427	-7,484		-1,978	-2,881	-31
Earnings before taxes	**115,689**	**97,974**	**18**	**56,940**	**55,992**	**2**
Income taxes	-33,054	-29,611	12	-15,778	-17,149	-8
Other taxes	-3,923	-2,981	32	-2,497	-1,442	73
Net income	**78,712**	**65,382**	**20**	**38,665**	**37,401**	**3**
Thereof attributable to shareholders of Software AG	78,640	65,206	21	38,616	37,283	4
Thereof attributable to non-controlling interests	72	176		49	118	
Earnings per share (€ basic)	0.92	0.76	21	0.45	0.44	2
Earnings per share (€ diluted)	0.91	0.76	20	0.44	0.44	0
Weighted average number of shares outstanding (basic)	85,671,706	85,237,074	–	86,012,606	84,942,813	–
Weighted average number of shares outstanding (diluted)	86,833,991	85,237,074	–	87,045,854	84,942,813	–

STATEMENT OF COMPREHENSIVE INCOME for the first half-year and second quarter ended June 30, 2011
IFRS, unaudited

in € thousands	June 30, 2011	June 30, 2010	Q2 2011	Q2 2010
Net income	**78,712**	**65,382**	**38,665**	**37,401**
Currency translation differences	−31,990	71,859	−4,967	34,791
Net gain/loss on remeasuring financial assets	−644	−2,110	−799	−1,301
Net gain/loss arising from translating net investments in foreign operations	506	−780	−890	110
Net actuarial gain/loss from defined benefit plans	0	−1,831	0	−1,831
Other comprehensive income	**−32,128**	67,138	**−6,656**	**31,769**
Total comprehensive income	**46,584**	132,520	**32,009**	**69,170**
Thereof attributable to shareholders of Software AG	46,512	132,344	31,960	69,052
Thereof attributable to non-controlling interests	72	176	49	118

CONSOLIDATED BALANCE SHEET as of June 30, 2011
IFRS, unaudited

in € thousands	June 30, 2011	Dec. 31, 2010	June 30, 2010
ASSETS			
Current assets			
Cash and cash equivalents	194,634	102,467	155,813
Inventories	153	1,341	636
Trade receivables	327,280	337,796	310,095
Other receivables and other assets	51,601	43,012	47,925
Prepaid expenses	12,844	9,536	15,418
	586,512	**494,152**	**529,887**
Non-current assets			
Intangible assets	250,430	232,631	250,688
Goodwill	722,221	717,297	727,358
Property, plant, and equipment	63,547	66,356	66,722
Financial assets	5,034	5,262	6,564
Trade receivables	14,583	13,028	11,730
Other receivables and other assets	1,862	47,836	30,823
Prepaid expenses	1,513	1,596	685
Deferred taxes	20,364	21,452	27,049
	1,079,554	**1,105,458**	**1,121,619**
	1,666,066	**1,599,610**	**1,651,506**
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	80,788	136,837	182,694
Trade payables	53,884	60,465	48,092
Other liabilities	91,816	68,064	69,392
Other provisions	66,542	139,685	73,148
Provisions for taxes	28,640	53,113	33,659
Deferred income	152,590	127,927	162,153
	474,260	**586,091**	**569,138**
Non-current liabilities			
Financial liabilities	272,394	132,871	265,150
Trade payables	73	91	286
Other liabilities	4,779	4,252	2,511
Provisions for pensions	40,591	41,890	34,939
Other provisions	10,309	15,726	28,288
Deferred taxes	52,969	47,388	76,585
Deferred income	1,147	1,982	2,654
	382,262	**244,200**	**410,413**
Equity			
Share capital	86,756	86,148	86,148
Capital reserve	32,067	22,512	16,530
Retained earnings	768,733	727,070	616,860
Other reserves	–76,815	–44,687	–15,437
Treasury shares	–1,675	–22,313	–32,788
Non-controlling interests	478	589	642
	809,544	**769,319**	671,955
	1,666,066	**1,599,610**	1,651,506

CONSOLIDATED STATEMENT OF CASH FLOWS for the first half-year and second quarter ended June 30, 2011
IFRS, unaudited

in € thousands	June 30, 2011	June 30, 2010	Q2 2011	Q2 2010
Net income	78,712	65,382	38,665	37,401
Income taxes	33,054	29,611	15,778	17,149
Net financial income/expense	3,427	7,484	1,978	2,881
Amortization/depreciation of non-current assets	22,045	22,862	11,095	12,449
Other non-cash income/expense	3,844	−2,111	5,102	−96
Operating cash flow before changes in working capital	**141,082**	**123,228**	**72,618**	**69,784**
Changes in inventories, receivables, and other assets	47,804	7,467	50,778	−15,339
Changes in payables and other liabilities	−27,668	15,601	−44,124	5,682
Income taxes paid	−61,820	−42,702	−31,108	−20,800
Interest paid	−5,495	−6,887	−2,963	−3,340
Interest received	3,688	3,647	1,377	1,880
Net cash provided by operating activities	**97,591**	**100,354**	**46,578**	**37,867**
Proceeds from the sale of property, plant, and equipment/intangible assets	625	286	461	212
Purchase of property, plant, and equipment/intangible assets	−3,224	−4,222	−1,147	−2,597
Proceeds from the sale of financial assets	44	1,164	44	836
Purchase of financial assets	−53	−1,453	−32	0
Payments for acquisitions, net	−58,079	−12,311	−58,079	−9,558
Net cash used in investing activities	**−60,687**	**−16,536**	**−58,753**	**−11,107**
Proceeds from issue of share capital	32,890	180	32,890	84
Purchase of treasury stock (incl. hedge premiums paid)	−19,900	−32,788	−19,900	0
Dividends paid	−37,160	−32,834	−36,998	−32,834
Additions to financial liabilities	200,000	305	200,000	0
Repayments of financial liabilities	117,686	−89,228	−113,262	−4,345
Purchase of non-controlling interests	0	−1,755	0	−775
Net cash provided by/used in financing activities	**58,144**	**−156,120**	**62,730**	**−37,870**
Change in cash and cash equivalents from cash-relevant transactions	95,048	−72,302	50,555	−11,110
Currency translation adjustment	−2,881	9,974	−160	6,332
Net change in cash and cash equivalents	**92,167**	**−62,328**	**50,395**	**−4,778**
Cash and cash equivalents at beginning of period	102,467	218,141	144,239	160,591
Cash and cash equivalents at end of period	**194,634**	**155,813**	**194,634**	**155,813**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the six months ended June 30, 2011
IFRS, unaudited

in € thousands	Common shares (No.)	Share capital	Capital reserve	Retained earnings
2010				
Equity as of Jan. 1, 2010	**86,125,230**	**86,125**	**39,406**	**584,211**
Total comprehensive income				65,206
Transactions with shareholders				
Dividend payment				–32,557
New shares issued	22,953	23	157	
Stock options			1,611	
Purchase of treasury shares	–1,200,000			
Transactions between shareholders			**–24,644**	
Equity as of June 30, 2010	**84,948,183**	**86,148**	**16,530**	**616,860**

in € thousands	Common shares (No.)	Share capital	Capital reserve	Retained earnings
2011				
Equity as of Jan. 1, 2011	**85,330,806**	**86,148**	**22,512**	**727,070**
Total comprehensive income				78,640
Transactions with shareholders				
Dividend payment				–36,977
New shares issued	607,600	608	14,048	
Stock options			17,810	
Issue and use of treasury shares	756,000		–2,403	
Purchase of treasury shares (incl. hedge premiums paid)			–19,900	
Transactions between shareholders				
Equity as of June 30, 2011	**86,694,406**	**86,756**	**32,067**	**768,733**

Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
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				
−78,130	**1,769**	**−6,923**	**780**	**0**	**627,238**	**19,923**	**647,161**
71,778	−2,110	−1,821	−780		132,273	176	132,449
					0		**0**
					−32,557	−278	−32,835
					180		180
					1,611		1,611
				−32,788	−32,788		−32,788
					−24,644	**−19,179**	**−43,823**
−6,352	**−341**	**−8,744**	**0**	**−32,788**	**671,313**	**642**	**671,955**
−31,440	**603**	**−13,850**	**0**	**−22,313**	**768,730**	**589**	**769,319**
−31,990	−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		−19,900
					0		**0**
−63,430	**-41**	**−13,850**	**506**	**−1,675**	**809,066**	**478**	**809,544**

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, 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs/IFRSs applicable as of June 30, 2011 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

Software AG is a joint stock corporation under German law with registered offices in Darmstadt. It 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 2011:

	Germany	Foreign	Total
January 1, 2011	10	107	117
Additions	0	3	3
Disposals (including mergers)	0	11	11
June 30, 2011	**10**	**99**	**109**

The additions relate to the acquisitions made in the second quarter of 2011 as described in Note 4. The disposals related to internal mergers of wholly-owned subsidiaries and the sale of two subsidiaries of itCampus GmbH that are 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, 2010. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2010.

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

4_ BUSINESS COMBINATIONS

During the second quarter, Software AG achieved control over the following companies and their subsidiaries through the acquisition of shares:

Company and line of business	Ownership interest (in %)	Date of acquisition/ initial consolidation
Terracotta Inc., San Francisco, CA, USA	100	May 11, 2011
Metismo Limited, Hampshire, United Kingdom	100	May 13, 2011

The earnings of the companies acquired have been included in the consolidated income statement as of the respective date of acquisition.

The consideration due for the two acquisitions amounted to €58,489 thousand, net of cash acquired, and was paid in cash, with the exception of contingent consideration not yet due (earn outs) in the amount of €410 thousand. The contingent consideration depends primarily on employees remaining in key positions.

The table below shows the preliminary allocation of the purchase price to the acquired net assets:

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	1,246	0	1,246
Intangible assets	62	44,192	44,254
Goodwill	0	23,981	23,981
Other assets	1,159	8,802	9,961
Assets	**2,467**	**76,975**	**79,442**
Liabilities and provisions	1,683	0	1,683
Deferred tax liabilities	1	17,356	17,357
Deferred income	2,669	−2,002	667
Total equity and liabilities	**4,353**	**15,354**	**19,707**
Acquired assets and assumed liabilities, net	**−1,886**	**61,621**	**59,735**
Payments to shareholders less acquired cash			58,079
Consideration not yet paid			410

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

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

5_ GOODWILL

Goodwill amounted to €722,221 thousand as of June 30, 2011, an increase of €4,924 thousand compared to December 31, 2010. The rise in goodwill resulted from acquisition-related additions in the net amount of €23,981 thousand based on the acquisition of Terracotta Inc. and Metismo Ltd. and from currency translation losses in the amount of €19,057 thousand, in particular due to the weak U.S. dollar.

6_ EQUITY

Share capital

The share capital of Software AG amounted to €86,756 thousand as of June 30, 2011. Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 5, 2011 to restructure the share capital (stock split). Following the 3-for-1 stock split, the Company's share capital was divided into a total of 86,755,783 bearer shares as of June 30, 2011. 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 5, 2011 to appropriate €36,977 thousand for a dividend payout and to carry forward €87,583 thousand of the 2010 net retained profits of €124,560 thousand reported by Software AG, the controlling Group company. This corresponded to a dividend of €1.30 per share.

OTHER DISCLOSURES

7_ SEGMENT REPORTING

The table below shows the segment data for the second quarter of 2011 and 2010:

SEGMENT REPORT for the three months ended June 30, 2011
IFRS, unaudited

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010
Licenses	25,143	27,995	31,329	39,084	1,253	1,731			57,725	68,810
Maintenance	48,080	50,359	41,597	38,590	4,105	4,132			93,782	93,081
Product sales	**73,223**	**78,354**	**72,926**	**77,674**	**5,358**	**5,863**	**0**	**0**	**151,507**	**161,891**
Services	16,230	17,811	48,336	43,260	40,205	43,339			104,771	104,410
Other	224	164	344	545	223	291			791	1,000
Total revenue	**89,677**	**96,329**	**121,606**	**121,479**	**45,786**	**49,493**	**0**	**0**	**257,069**	**267,301**
Cost of sales	-19,471	-21,002	-42,304	-41,233	-44,125	-43,755	-5,058	-5,288	-110,958	-111,278
Gross profit	**70,206**	**75,327**	**79,302**	**80,246**	**1,661**	**5,738**	**-5,058**	**-5,288**	**146,111**	**156,023**
Sales, marketing, and distribution expenses	-14,480	-16,950	-29,589	-30,326	-6,668	-7,964	-2,890	-3,256	-53,627	-58,496
Segment contribution	**55,726**	**58,377**	**49,713**	**49,920**	**-5,007**	**-2,226**	**-7,948**	**-8,544**	**92,484**	**97,527**
Research and development expenses	-6,793	-7,815	-15,046	-15,124	-78	-72	0	0	-21,917	-23,011
Segment result	**48,933**	**50,562**	**34,667**	**34,796**	**-5,085**	**-2,298**	**-7,948**	**-8,544**	**70,567**	**74,516**
General and administrative expenses									-15,664	-20,081
Other operating income/ expenses, net									4,015	4,438
Earnings before interest and taxes									**58,918**	**58,873**
Net financial income/expense									-1,978	-2,881
Earnings before taxes									**56,940**	**55,992**
Taxes									-18,275	-18,591
Net income									**38,665**	**37,401**

The table below shows the segment data for the first half of 2011 and 2010:

SEGMENT REPORT for the six months ended June 30, 2011
IFRS, unaudited

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Licenses	55,557	53,601	70,407	73,114	2,987	3,349			128,951	130,064
Maintenance	96,713	96,900	81,888	74,040	8,220	7,621			186,821	178,561
Product sales	**152,270**	**150,501**	**152,295**	**147,154**	**11,207**	**10,970**	**0**	**0**	**315,772**	**308,625**
Services	33,747	34,540	92,415	82,683	84,981	89,449			211,143	206,672
Other	454	351	839	1,307	1,487	602			2,780	2,260
Total revenue	**186,471**	**185,392**	**245,549**	**231,144**	**97,675**	**101,021**	**0**	**0**	**529,695**	**517,557**
Cost of sales	-39,494	-39,466	-87,531	-79,535	-89,487	-88,540	-9,543	-10,067	-226,055	-217,608
Gross profit	**146,977**	**145,926**	**158,018**	**151,609**	**8,188**	**12,481**	**-9,543**	**-10,067**	**303,640**	**299,949**
Sales, marketing, and distribution expenses	-31,140	-33,629	-59,946	-59,639	-13,209	-15,778	-5,801	-6,186	-110,096	-115,232
Segment contribution	**115,837**	**112,297**	**98,072**	**91,970**	**-5,021**	**-3,297**	**-15,344**	**-16,253**	**193,544**	**184,717**
Research and development expenses	-13,612	-15,455	-29,662	-29,153	-161	-432	0	0	-43,435	-45,040
Segment result	**102,225**	**96,842**	**68,410**	**62,817**	**-5,182**	**-3,729**	**-15,344**	**-16,253**	**150,109**	**139,677**
General and administrative expenses									-33,735	-39,897
Other operating income/ expenses, net									2,742	5,678
Earnings before interest and taxes									**119,116**	**105,458**
Net financial income/expense									-3,427	-7,484
Earnings before taxes									**115,689**	**97,974**
Taxes									-36,977	-32,592
Net income									**78,712**	**65,382**

8_ CONTINGENT LIABILITIES

As of June 30, 2011, 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, 2011	Mar. 31, 2011	Dec. 31, 2010
	1,441	1,441	1,432

The carrying amount of collateral received was €28 thousand (June 30, 2010: €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)	15,615	52,011	5,463	73,089
Estimated income from subleases	−987	−8,531	0	−9,518
Contractually agreed payments (net amount)	14,628	43,480	5,463	63,571

9_ SEASONAL INFLUENCES

Revenues and pre-tax earnings were distributed over fiscal year 2010 as follows:

in € thousands	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010
Total revenue	250,256	267,301	275,309	326,661	1,119,527
in % of annual revenue	22	24	25	29	100
Earnings before taxes	41,983	55,991	65,362	91,034	254,370
in % of net income for the year	17	22	26	36	100

Revenues and pre-tax earnings of individual quarters benefited from several individual contracts of an above-average volume. A breakdown of the revenue by quarter would therefore not be particularly meaningful with respect to the situation in 2011.

10_ LITIGATION

In February 2010, a software company in Virginia, USA sued Software AG and 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 and are only being pursued against two of the defendants to set an example. In March 2011, the court dismissed the case against one of the defendants in the test case, upon which the plaintiff filed an appeal. Until a decision is made on the appeal, the proceedings initiated against Software AG will remain suspended.

There were no other changes with respect to the legal disputes reported as of December 31, 2010, nor were there any new legal disputes that could potentially have a significant effect on the financial position, cash flows, or profit or loss.

11_ STOCK OPTION PLANS AND STOCK APPRECIATION RIGHTS PROGRAM

Software AG has various stock option plans for members of the Management Board, officers, and other Group employees. Our stock price-based remuneration plans as of December 31, 2010 are described in detail on pages 144 – 146 of our 2010 Annual Report.

A new share-based Management Incentive Plan for members of the Management Board and officers (MIP IV) was launched in the second quarter of 2011. The program provides for virtual stock options (hereinafter: "rights"), with the Company able to settle the rights either in cash or in shares at its discretion. Settling the rights in shares requires the consent of the Annual Shareholders' Meeting. The following parameters are planned for the first tranche of allotments:

Strike price:	€41.34
Earliest exercise date:	May 4, 2016
Term of the rights:	10 years

For the rights to be exercisable, certain revenue and net income targets must be met by no later than the end of 2015. In addition, the share price may not fall below €60.00 during the 5 days prior to exercise. A total of 5,275,000 rights were issued, 1,440,000 of which to members of the Management Board.

Expenses for stock options accounted for as equity-settled share-based payment transactions pursuant to IFRS 2 amounted to €3,874 thousand in the first half of 2011 (June 30, 2010: €1,611 thousand). Expenses for stock options accounted for as cash-settled share-based payment transactions under IFRS amounted to €7,197 thousand in the first half of 2011 (June 30, 2010: €11,291 thousand).

Of the option rights outstanding on March 31, 2011 from the 2007 stock price-based remuneration plan, 1,100,000 rights were accounted for as cash-settled share-based payment transactions in accordance with the provisions of IFRS 2. In the first quarter of 2011, the constructive obligation to a cash settlement expired for a total of 460,000 of these rights, meaning that from such time the expense related to such rights was recognized in accordance with the provisions of IFRS 2 relating to equity-settled share-based payment transactions.

The rights granted under the Management Incentive Plan 2007 (MIP III) changed as follows in the first six months of 2011:

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in €)
Balance as of Dec. 31, 2010	**1,782,354**	**72.36**	**6.5**	**66,731,334**
Balance as of May 13, 2011 (after stock split)	5,347,062	24.12		
Exercised on May 19, 2011 (closing price: €40.42)	1,566,950*	24.12		
Exercised on May 26, 2011 (closing price: €38.02)	1,716,650	24.12		
Balance as of June 30, 2011	**2,063,462**	**24.12**	**6**	**35,491,546**

* thereof 450,000 by the Management Board

A total of 1,920,000 of the rights exercised in May were settled in cash (810,950 on May 19, 2011 and 1,109,050 on May 26, 2011). The other rights exercised in May were settled in shares. All shares still outstanding as of June 30 are exercisable. As no obligation to a cash settlement exists for these rights, they are recognized pursuant to the provisions of IFRS 2 relating to equity-settled share-based payment transactions. Accordingly, no provision was recognized for rights from the MIP III plan as of June 30.

The expense for rights granted under MIP III totaled €5,268 thousand in the first six months. This expense was offset by income from hedging these commitments in the amount of €7,121 thousand in the same period, which reduced personnel expenses accordingly.

The payments in connection with the rights settled in cash reduced operating cash flow by €27,790 thousand. The stock options purchased to hedge the MIP III plan were sold in the second quarter. The payment received from the sale increased operating cash flow by €51,181 thousand in the second quarter.

As none of the rights outstanding as of June 30, 2011 will expire nor does an obligation exist to settle them in cash, no future expense will arise from the MIP III plan.

12_ EMPLOYEES

As of June 30, 2011, 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, 2011	June 30, 2010
Maintenance and services	2,911	3,143
Sales and marketing	1,030	1,077
Research and development	833	844
Administration	731	800
	5,506	**5,864**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 5,623 people as of June 30, 2011 (June 30, 2010: 5,963).

13_ CHANGES AND INFORMATION REGARDING CORPORATE BODIES

No changes occurred on either the Management Board or the Supervisory Board between January 1, 2011 and June 30, 2011.

14_ EVENTS AFTER THE BALANCE SHEET DATE

At its meeting of July 27, 2011, the Supervisory Board of Software AG resolved to reduce the size of the Management Board to three members: (Karl-Heinz Streibich (CEO), Arnd Zinnhardt (CFO), and Wolfram Jost (Research & Development). David Broadbent is no longer on the Management Board of Software AG effective immediately. For detailed information on the changes in management structure, please see “Events After the Balance Sheet Date” in the Management Report.

Date and authorization for issue

Software AG’s Management Board approved the consolidated quarterly financial statements on August 10, 2011.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, 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 10, 2011

Software AG

K.-H. Streibich

A. Zinnhardt

Dr. W. Jost

FINANCIAL CALENDAR

Financial Calendar	2011
October 27, 2011	Q3 2011 financial figures (IFRS, unaudited)
	2012
End of January 2012	Q4/FY 2011 financial figures (IFRS, unaudited)

PUBLICATION CREDITS

PUBLISHER

Software AG
Corporate Communications
Uhlandstraße 12
64297 Darmstadt
Germany

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

CONTACT

Software AG
Corporate Headquarters
Uhlandstraße 12
64297 Darmstadt
Germany

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