software AG

HALF-YEAR REPORT

2018

KEY FIGURES

Key Figures as of June 30, 2018 (IFRS)

in € millions (unless otherwise stated)	HY1 2018	HY1 2017	+/– as %	+/– as % acc[1]	Q2 2018	Q2 2017	+/– as %	+/– as % acc[1]
Revenue	**392.3**	**413.3**	**–5**	**1**	**205.7**	**207.4**	**–1**	**4**
Digital Business Platform (DBP)	202.9	210.3	–4	3	107.1	104.4	3	7
of which DBP not including Cloud & IoT	191.2	203.9	–6	0	101.8	100.9	1	6
of which Cloud & IoT	11.6	6.4	81	88	5.3	3.5	52	56
Adabas & Natural (A&N)	97.3	100.3	–3	4	52.6	52.3	0	7
Licenses	87.6	92.2	–5	1	53.5	47.3	13	17
Maintenance	204.2	214.0	–5	2	101.7	107.0	–5	1
SaaS	8.1	4.1	98	107	4.3	2.2	97	103
ARR[2] DBP including Cloud & IoT	287.5	262.8						
ARR[2] Cloud & IoT	24.8	12.2						
EBITA (non-IFRS)	**112.7**	**117.6**	**–4**		**61.5**	**61.3**	**0**	
as % of revenue	28.7	28.4			29.9	29.5		
DBP segment earnings	57.5	60.6	–5		30.8	30.6	1	
Segment margin as %	28.3	28.8			28.8	29.3		
A&N segment earnings	68.7	67.4	2		37.5	36.4	3	
Segment margin as %	70.6	67.2			71.3	69.6		
Net income (non-IFRS)	**78.7**	**77.5**	**1**		**42.2**	**40.2**	**5**	
Earnings per share (non-IFRS)[3]	**1.06**	**1.03**	**3**		**0.57**	**0.54**	**6**	
Net cash provided by operating activities	**95.1**	**108.4**	**–12**		**33.5**	**46.6**	**–28**	
CapEx[4]	6.5	22.6			5.0	4.1		
Free cash flow	**88.6**	**85.8**	**3**		**28.5**	**42.5**	**–33**	
Balance sheet	**June 30, 2018**	**Dec. 31, 2017**						
Total assets	**1,897.3**	**1,907.5**	**–1**					
Cash and cash equivalents	388.0	365.8	6					
Net liquid assets/(net debt) in acc. with IFRS	72.7	55.2	32					
Employees (full-time equivalents)	**4,655**	**4,596**	**1**					

1 acc = At constant currency
2 Annual recurring revenue
3 Based on weighted average shares outstanding (basic) Q2 2018: 74.0 mn/Q2 2017: 74.8 mn/HY1 2018: 74.0 mn/HY1 2017: 75.3 mn
4 Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

In some cases, rounding could mean that values in this report do not add up to the exact sum given or percentages do not equal the values presented.

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For more information about Software AG, please refer to the Image and Strategy Brochure at www.Software.AG/AR.

Preliminary Remarks

This half-year report contains forward-looking statements. They are based on plans, estimates and projections that are currently available to Software AG's Management Board. Forward-looking statements therefore apply only to the date on which they were made. Software AG accepts no obligation to develop forward-looking statements based on new information or future events. Forward-looking statements by nature contain factors of risk and uncertainty. A number of important factors can contribute to actual results deviating considerably from forward-looking statements. All of the information in this report that does not represent forward-looking statements relates to the situation on June 30, 2018, unless otherwise stated. Software AG's segment reporting is prepared in accordance with IFRS 8 (Segment Reporting). Segmentation is by business line and corresponds to the Group's internal controlling and reporting lines: Accordingly, Software AG reports on the following business lines: Digital Business Platform (DBP, including the webMethods, ARIS, Alfabet, Apama, Cumulocity and Terracotta product families), Adabas & Natural (A&N, including the Adabas and Natural product families) and Consulting.

HIGHLIGHTS

OF THE FIRST HALF OF 2018

Change on Management Board

In its meeting on January 31, 2018, Software AG's Supervisory Board approved the appointment of Sanjay Brahmawar as Software AG's new Management Board Chairman and Chief Executive Officer for a term of five years as of August 1, 2018. He succeeds Karl-Heinz Streibich whose appointment of more than 14 years at the helm of the Company ends on July 31, 2019 when he reaches the official age limit.

Sanjay Brahmawar, a veteran high-tech executive, joins Software AG with more than 18 years of successful experience in this sector. He most recently served as General Manager of IBM Watson Internet of Things overseeing worldwide sales of data analysis and artificial intelligence software.

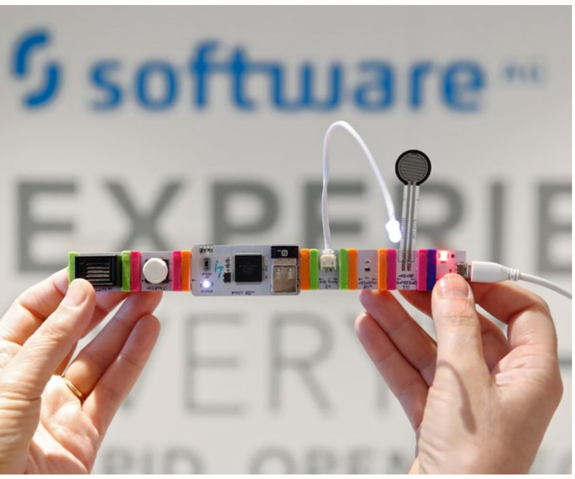
Image: © Marc Fippel Fotografie

Capital Decrease

Software AG's Management Board decided on March 13, 2018 to redeem 2,400,000 of Software AG's treasury shares, which had been acquired by the Company in past years through various buyback authorizations. As a result, Software AG's share capital decreased by €2.4 million. This represents 3.14 percent of Software AG's share capital prior to the redemption and capital decrease.

Record Dividend

The Management Board and Supervisory Board of Software AG proposed a dividend increase for fiscal 2017 for a record-breaking €0.65 (2017: €0.60) per share at the Annual Shareholders' Meeting held on May 30, 2018 in Darmstadt. This, as well as all other items on the agenda, was approved by more than 90 percent of those shareholders present, representing over 60 percent of the Company's share capital.



Hannover Fair and CEBIT

The motto of this year's Hannover Fair held from April 23–27, 2018 was "Integrated Industry—Connect & Collaborate" featuring the latest Industry 4.0 innovations. Software AG was involved in several ways. For example, attendees could take a guided IIoT tour and experience how Software AG customers and partners are using its innovative products.

Software AG's stand at CEBIT from June 11–15, 2018 occupied more than 600 square meters and presented the Company's complete product portfolio. Visitors could see for themselves how easy getting started in the age of IoT is. In just a matter of minutes they were able to create and test their own IoT.

Image: © Lars Kaletta Fotografie

DBP Cloud & IoT

IoT mega trend: Software AG started reporting on the DBP Cloud & IoT business separately at the beginning of 2018.This will provide a metric for the momentum of the cloud and IoT business. Based on strong business performance in the first quarter and expected deals in 2018, the Management Board raised its forecast on April 13 for fiscal 2018 Cloud & IoT revenue growth from between 70 and 100 percent to between 100 and 135 percent.

IoT Innovation Tour

Software AG's IoT Innovation Tour made stops in Stuttgart, Munich and Hamburg in May. Customers from manufacturing, logistics and commerce showcased their success stories with real-life IoT solutions and demonstrated to attendees how to implement them. The tour will visit three more venues in September 2018: Dusseldorf, Germany on September 13, Vienna, Austria on September 19 and Zurich, Switzerland on September 26.

Acquisition of TrendMiner

Software AG's acquisition of TrendMiner expands its leading position in the rapidly growing IoT market. TrendMiner is an intuitive Web-based analytics platform that enables flexible visualization of industrial processes and measurement data. TrendMiner complements Software AG's Cumulocity IoT portfolio and allows companies to quickly and easily recognize patterns and trends in their process data, identify production irregularities, and make necessary process adjustments early—without the help of IT specialists or data scientists. TrendMiner was founded in 2008 as a spin-off of the K.U. Leuven University in Belgium. Headquartered in Belgium, it has sales offices in the Netherlands, Germany, Spain and the USA.

Image: © Lars Kaletta Fotografie

New Partnerships

Software AG announced new strategic partnerships and signed new customers in the first half of 2018. Its partnership with GFT aims to support medium-sized companies in defining and implementing IoT strategies. In cooperation with Bilfinger SE, Software AG will help companies in the process industry significantly reduce risk, value creation time and the cost of implementing IoT.

Software AG also began collaborating with A1 Digital, Telefónica and CirrusLabs this year. Furthermore, Trackerando, POST Luxembourg, Sensor-Technik Wiedemann and Ooredoo started using Software AG's Cumulocity IoT. And, the British Ministry of Defence now employs Software AG's webMethods API platform.

SOFTWARE AG'S SHARE

FIRST HALF OF 2018

Political Uncertainty Curbed Stock Market Optimism

Geopolitical events dominated stock market sentiment this half-year. The increasingly protectionist attitude of the U.S. administration as well as Italy's election outcome and the subsequent lengthy formation of government caused economic unpredictability. Furthermore, Brexit negotiations and the economic consequences of a "hard Brexit" were in the spotlight again this half-year. In addition to these events, the challenges associated with the refugee crisis in Europe continued to fuel insecurities and concern over a growing divide between EU nations.

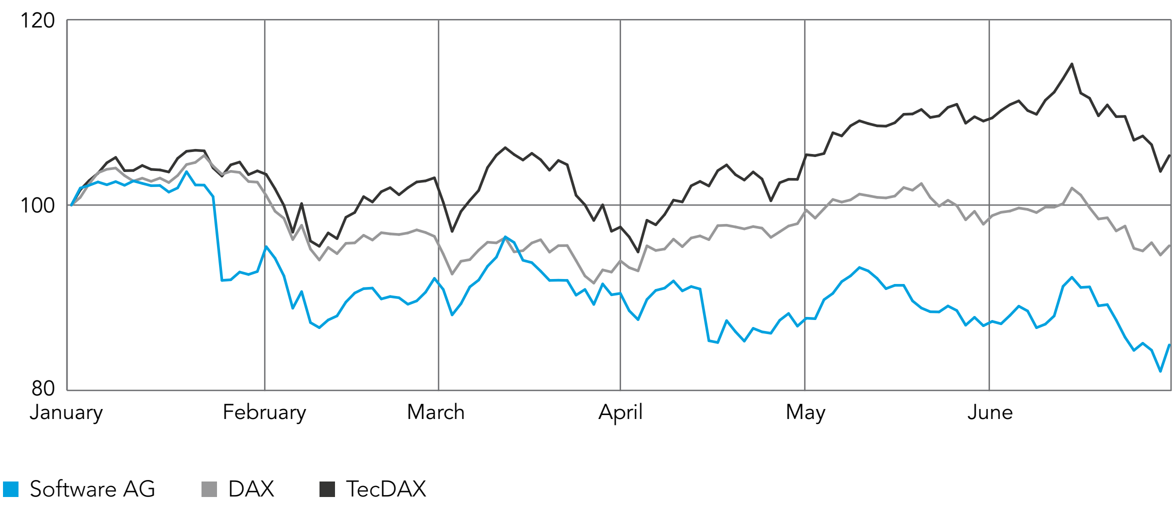
Software AG operates in more than 70 countries and generates the majority of its revenue in core European countries and the USA. Changing political landscapes, exchange rate fluctuations and other activities in these regions can influence business at national levels. Software AG's customers are diversified across many industries. Its software is firmly anchored in customers' systems. And a large percentage of sales are recurring maintenance revenues. Thanks to these factors, Software AG's business model and share price are relatively resistant to macroeconomic effects. Changes in exchange rates are reflected in reported revenues (currency translation effects). But due to Software AG's relatively high percentage of local costs, they only have a minimal impact on earnings (natural hedging).

Software AG's Share Price Performance

While the DAX remained virtually unaffected from political uncertainties last year, investors saw a sluggish climate in the German benchmark index at the beginning of 2018. Ultimately, the DAX closed out the period with a loss of just under 5 percent. Software AG's share price started off the year at €47.00 and peaked on January 19 at €48.69, which is the highest it has been in more than 15 years. Investors' profit-taking tendencies continued in light of the price increase.

Software AG published its preliminary results for the first quarter of 2018 in an ad hoc release on April 13, 2018 due its raised outlook for the year in the Cloud & IoT business. This correction did not have a lasting impact on the reserved mood of investors though. In general, tech shares were seen more critically due to their high valuations. And, investors became more cautious—despite growth forecasts for the whole sector and Software AG. That led to continued profit takes and corrections at the end of the half-year period. Software AG's share still

Software AG Share Price Performance Compared to DAX and TecDAX (indexed)



Source: Inventis service

ended the first six months of the current fiscal year at €39.91, reflecting a gain of more than 4 percent year-on-year. Software AG exceeded the stock market's liquidity requirement in the first half of 2018 with an XETRA average daily trading volume of 278,897 and therefore did not need a designated sponsor for ensuring smooth trading transactions. Software AG placed 12th in the Deutsche Börse AG's ranking of TecDAX companies based on market capitalization as of June 2018.

The Deutsche Börse will restructure the MDAX and SDAX as of September 20, 2018. The change will allow high-tech TecDax companies—such as Software AG—to also be listed in the MDAX or SDAX. Software AG currently expects to be added to the MDAX.

Key Figures

	2018	2017
Half-year closing price in €	39.91	38.35
Half-year high in €	48.69	43.14
Half-year low in €	38.57	31.63
Total number of shares outstanding	74,000,000	76,400,000
Market capitalization at end of first half year in € millions	2,953.34	2,929.94
Free float as %	66.27%	64.06%

Based on XETRA closing prices on June 29, 2018

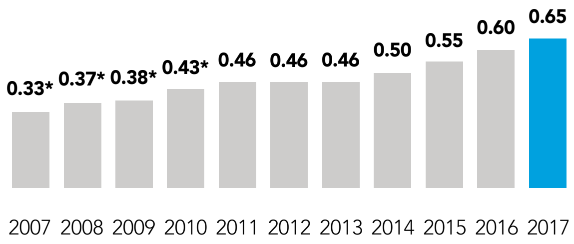
Annual Shareholders' Meeting Approves Dividend Increase

Software AG's Annual Shareholders' Meeting was held on May 30, 2018 in Darmstadt, Germany. Those shareholders in attendance accounted for approximately 64 percent of the Company's total voting rights and shared the Supervisory and Management Boards' optimism in a positive future outlook.

All items on the agenda were approved by overwhelming majorities above 90 percent. These included the Management's proposal to disburse a record dividend of €0.65 (+€0.05 per share) per dividend-bearing share for the 2017 fiscal year. This reflects a continuation of Software AG's highly value-oriented dividend policy. The total payout sum increased to a record-breaking €48.1 million.

Dividend Development Since 2007

in € per share



*Adjusted after 3-for-1 split, rounded

High Degree of Attention from Capital Market

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves adapting the base in targeted ways. Addressing specific potential investors is a challenging aspect of investor relations work and requires the precise analysis of financial markets.

Numerous meetings were conducted with investors and analysts during the first half of 2018. Software AG participated in a total of six capital market conferences in Germany and abroad.

In addition, roadshows and analyst visits in Germany, the U.K. and Ireland, France and the U.S. were also an important medium for engaging the investor community. Software AG continued to enjoy a high degree of attention from financial analysts in the first half of the current fiscal year. This was reflected in the large number of well-known securities brokerage firms in Germany and abroad tracking Software AG's share. Software AG hosted its annual Capital Market Day, focusing on the new DBP Cloud & IoT business, on March 12, 2018 in Darmstadt. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland were invited to corporate headquarters to learn about Software AG's strategy in this young market. The high degree of interest among investors and financial analysts was also reflected in the number of attendees that participated in Software AG's investor relations program at this year's Hannover Fair and CeBIT.

Analysts from 22 investment banks tracked Software AG and regularly published their investment recommendations in the first half of 2018. Software AG's stock received a positive or neutral rating from 15 of them at the end of the first six months of 2018. Analysts' overall average price target was €43.98.

Share Redemption

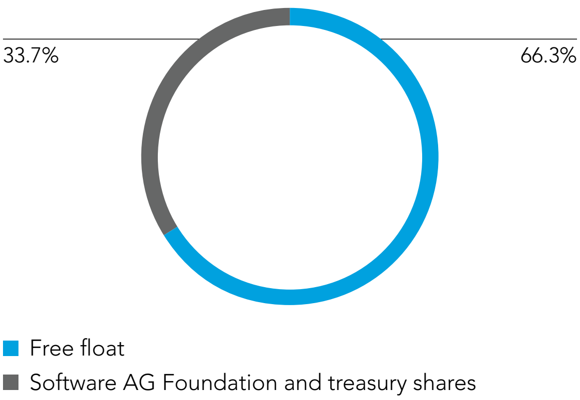
On March 27, 2018 Software AG redeemed 2,400,000 of its 2,423,761 treasury shares (3.14 percent of its share capital prior to the redemption and capital decrease). This was approved by Software AG's Management Board by way of its authorization granted on May 31, 2016. The Company's new share capital totaling €74 million is divided into 74 million registered.

Shareholder Structure

Software AG's positioning as a value investment with increasing growth potential is reflected in its investor structure. Its profitable growth is convincing numerous new investors. Continually rising dividends over the course of years, value increases through share buybacks, its promising technology leadership in the digitalization segment and its potential in the Cloud & IoT market are the sustainable value drivers of Software AG's share price. The Software AG Foundation continues to be Software AG's largest shareholder and key anchor investor. Due to Software AG's decreased share capital resulting from the share redemption, the Software AG Foundation's share in the Company went up about 1 percentage point to around 33.7 percent. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects in support of education, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental fields.

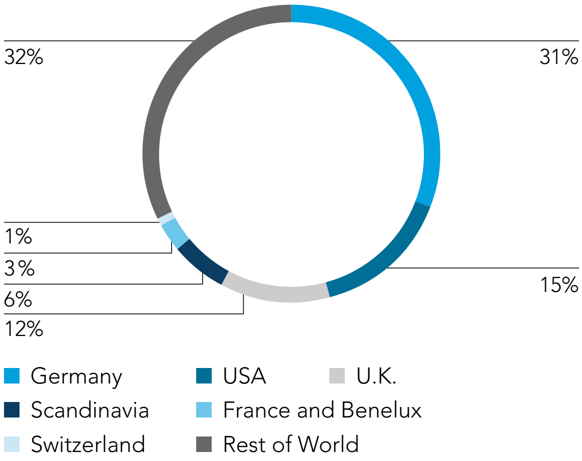
After deducting the balance held by the Software AG Foundation and the Company's treasury shares, Software AG's free float was about 66 percent. This is calculated as defined by the Deutsche Börse as the percentage of a stock corporation's shares that can be traded freely on the stock market because they are not held by long-term investors.

Shareholder Structure



Shareholder	Voting Share	No. of shares
Software AG Foundation	33.7%	24,960,000
Software AG (treasury shares)	0.03%	23,761
Free float (shareholders with less than 5% of share capital)	66.3%	49,016,239

Regional Distribution of the Free Float



Source: IPREO, June 30, 2018

Select Indices

TecDAX
Prime All Share
LTecDAX
Technology All Share
HDAX
CDAX
EURO STOXX
TecDAX Kursindex
DAXglobal Sarasin Sustainability Germany Index EUR
DAXglobal Sarasin Sustainability Germany

Top Investors

Institution

Investor	Percentage of share capital	Percentage of free float
Deutsche Asset Management Investment GmbH	4.66%	7.03%
Norges Bank Investment Management	3.25%	4.90%
J.P. Morgan Asset Management, LTD	3.00%	4.54%
Shareholder Value Management AG	2.12%	3.20%
The Vanguard Group, Inc.	1.63%	2.46%
Investec Asset Management, LTD	1.52%	2.30%
Allianz Global Investors GmbH	1.45%	2.20%
Dimensional Fund Advisors, L.P.	1.31%	1.98%

Source: IPREO, June 30, 2018

Key Share Data

ISIN	DE 000A2GS401
WKN	A2GS40
Symbol	SOW
LEI	529900M1LIO0SLOBAS50
Reuters	SOWGn.DE
Bloomberg	SOW:GR
Stock exchange	Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO on	April 26, 1999
Issue price (adjusted)*	€10*
Stock split	1:3 (2011)

* 3-for-1 split in May 2001

Disclosure of Voting Share Changes Pursuant to Section 40 (1) of WpHG	**Voting Share**	**Date Threshold Met**
Norges Bank Investment Management	>3%	Oct. 5, 2017
Deutsche Asset Mgt. Investment	>3%	Oct. 20, 2017
Axxion S.A.*	>3%	March 13, 2018
JPMorgan Chase Bank*	>3%	April 26, 2018
BlackRock, Inc*	>3%	May 24, 2018
Software AG (treasury shares)	**<3%**	**March 27, 2018****

* Including shares attributable to other companies
** Disclosure pursuant to section 40 (1), sentence 2 of WpHG

CONSOLIDATED INTERIM MANAGEMENT REPORT

FUNDAMENTAL ASPECTS OF THE GROUP

For more details on Software AG's **organization, corporate structure, business operations, strategy and objectives**, please refer to its combined Management Report for fiscal 2017 (in the 2017 Annual Report, starting on p. 35). From the Company's point of view, there were no significant changes in the first half of 2018.

Internal Corporate Control System

Software AG's unequivocal goal is to sustainably increase enterprise value and thus focus on profitable growth and ongoing improvement of its financial position. To achieve these strategic goals, the Company employs an **internal control system**. DBP and A&N product revenue (at constant currency) as well as operating profit margin (non-IFRS) are key strategic indicators for managing the Company. The operating profit margin (non-IFRS) is the focal point of internal controlling. Operating earnings per share (non-IFRS) also account for tax-related factors.

These performance indicators are calculated as follows:

Operating margin (EBITA, non-IFRS)

Earnings before interest and taxes (EBIT)

+ Acquisition-related depreciation of intangible assets

+ Acquisition-related decreases in product revenue due to purchase price allocations

+/– Other acquisition-related effects on earnings

+/– Income/expense resulting from share price-based remuneration

+ Restructuring/severance/litigation

= EBITA (non-IFRS)

The operating profit margin (EBITA, non-IFRS) is calculated by dividing EBITA (non-IFRS) by Group revenue adjusted for acquisition-related product revenue decreases.

Operating earnings per share (non-IFRS)

Earnings before income taxes:

+ Other taxes

+/– Net financial income/expense

EBIT (before all taxes)

+ Acquisition-related depreciation of intangible assets

+ Acquisition-related decreases in product revenue due to purchase price allocations

+/– Other acquisition-related effects on earnings

+/– Income/expense resulting from share price-based remuneration

+ Restructuring/severance/litigation

EBITA (non-IFRS)

+/– Net financial income/expense

– Other taxes

Operating income before income taxes

– Income tax based on Company's income tax rates

Operating net income (non-IFRS)

÷ Divided by average number of shares outstanding

= Operating earnings per share (non-IFRS)

For further information on the Company's internal management indicators, please refer to the 2017 Annual Report starting on p. 46.

GROUP BUSINESS SUMMARY

Performance in the Second Quarter of 2018

Despite currency translation effects totaling –€9.5 million, Software AG reported €205.7 million (2017: €207.4 million) in **total revenue** in the quarter under review. This is a rise of 4 percent at constant currency. This growth is due primarily to the strong performance of **Group license revenue,** which increased 17 percent at constant currency to €53.5 million (2017: €47.3 million). Group **maintenance revenue** totaled €101.7 million (2017: €107.0 million) (1 percent growth at constant currency). Usage-based **SaaS revenue** increased to €4.3 million (2017: €2.2 million) in the second quarter, which is 103 percent growth at constant currency. Accordingly, Software AG's second-quarter **product revenue**, consisting of license, maintenance and SaaS income, was up 7 percent at constant currency to total €159.7 million (2017: €156.7million).

A growing number of large global companies are employing Software AG's leading technologies to digitize their business processes. Contributing more than half of total Group revenue, the **Digital Business Platform (DBP)** business line reported €107.1 million (2017: €104.4 million) in revenue in the second quarter, which reflects 3 percent (7 percent at constant currency) growth. This solid performance was fueled by the significant increase in DBP's Cloud & IoT revenue to €5.3 million (2017: €3.5 million), which represents 56 percent growth at constant currency over last year. So far, mandatory first-time application of the new IFRS 15 revenue reporting norm has had a positive impact this fiscal year; nevertheless, its application in fiscal 2017 would not have significantly changed the DBP revenue growth presented in this report. Annual recurring revenue from the Cloud & IoT business increased 106 percent at constant currency. This growth trend confirms the increasing demand for cloud solutions in the IoT market. DBP license revenue not including Cloud & IoT rose 11 percent at constant currency to €35.7 million (2017: €33.4 million) in the second quarter. Maintenance revenue was €66.1 million (2017: €67.5 million), which reflects 3 percent growth over last year at constant currency. Accordingly, DBP product revenue totaled €101.8 million (2017: €100.9 million) in the second quarter of 2018. This is an increase of about 6 percent at constant currency. DBP's segment margin was 28.8 percent (2017: 29.3 percent).

The **Adabas & Natural (A&N)** business line also started off 2018 on a strong note. License revenue in this business line went up 38 percent at constant currency to €17.6 million (2017: €13.2 million) in the second quarter. Maintenance revenue was €34.8 million (2017: €38.9 million). A&N product revenue grew 7 percent at constant currency to total €52.4 million (2017: €52.2 million). First-time application of IFRS 15 resulted in a €2.5 million decrease in reported A&N revenue. In the quarter under review, A&N's segment margin improved from an already high level to 71.3 percent (2017: 69.6 percent). The overall positive performance underlines the stability of this segment and the high degree of loyalty of the A&N customer base. With the Adabas & Natural 2050+ innovation program, Software AG is protecting customers' long-term investment and enabling them to modernize their IT landscapes.

Second-quarter revenue in the **Consulting** business line was €46.0 million (2017: €50.7 million). The segment margin was 12.6 percent (2017: 14.0 percent).

EBIT in the second quarter of 2018 surpassed last year's figure by a significant 9 percent, reaching €52.2 million (2017: €48.1 million). As a result, the **EBIT margin** increased 220 basis points to 25.4 percent (2017: 23.2 percent). Software AG's net income saw an equally clear increase, up 15 percent to €35.8 million (2017: €31.3 million). Accordingly, earnings per share rose 14 percent to €0.48 (2017: €0.42) in the second quarter.

Following the extremely high free cash flow reported in the second quarter of 2017, **free cash flow** was down in the second quarter of 2018 at €28.5 million (2017: €42.5 million) due to the seasonality of the license business in the first quarter. Free cash flow per share dropped accordingly to €0.39 (2017: €0.57) in the second quarter of 2018. However, both figures rose for the half-year period.

Management's Assessment of the Half-Year Results

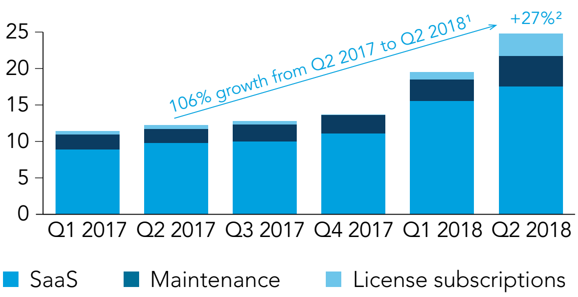
With a significant improvement over the first quarter, our results from June 30, 2018 continue to chart a course of success. DBP license revenue reached a record high in the fourth quarter of 2017. We were able to raise our outlook for DBP Cloud & IoT revenue for fiscal 2018 in the first quarter of this year. The second quarter of 2018 was the fifth consecutive quarter in which we reported A&N license growth. Our financial indicators for the first half of 2018 as well as our new strategic IoT partnerships with global companies like Bilfinger, Telefónica, A1 Digital and Ooredoo confirm our position as a technology leader in digitalization and IoT.

A further highlight of the first half of the year was our acquisition of TrendMiner. The Web-based TrendMiner analytics platform enables visualization of industrial processes and measurement data. It is highly relevant in process and mechanical engineering.

We made significant progress in the Cloud & IoT field during the past six months. Furthermore, our extensive partner ecosystem has laid the foundation for exponential growth. Our key success indicators show that the level of interest among current and prospective customers in our DBP Cloud & IoT solutions continues to be high. SaaS revenue rose in the first half of the year by 107 percent (at constant currency). ARR for DBP Cloud & IoT also doubled since last year with 106 growth (at constant currency). This market is clearly gaining relevance with respect to our enterprise value.

ARR: DBP Cloud & IoT Performance

in € millions (As of Q2 2018)



1 At constant currency (based on year-on-year rates)
2 Compared to last quarter

Our digital business, comprising the Digital Business Platform, performed according to expectations in the first half of the year and is within the forecast range for the fiscal year. The second half of the year has demonstrated growth momentum in past years. We are certain that this trend will continue, particularly given the outlook for a strong revenue pipeline in the third quarter.

The Adabas & Natural (A&N) success story also carries on. License revenue in the first half of 2018 grew 32 percent year-on-year at constant currency. This growth was fueled by large deals signed in North America. A&N's segment margin of 70.6 percent was excellent in the first half of the year. A&N's ongoing strong performance of the last five quarters illustrates not only its significance for our customers' mission-critical applications, but also the success of our Adabas & Natural 2050+ innovation program as well. We expect license renewals to plateau slightly in the second half of the year. But we expect to hit the upper end of the forecast range for the full fiscal year.

The focus of the Consulting business line remains strategic customer projects with sophisticated consulting services and high profitability. The revenue decline in the second quarter was due primarily to negative currency effects and the cancellation of a project in the U.K. At 10.8 percent (2017: 12.2 percent), the Consulting segment's margin was down from last year, but high compared to the sector average nevertheless.

As expected, the first half of 2018 was very negatively affected by currency effects. This was true for revenue from all other business lines as well. These effects came from two primary currencies: the U.S. Dollar and the Brazilian real. We expect a slight relief in the second half of 2018, at least with regard to the U.S. dollar year-on-year.

Group revenue showed a moderate 1 percent increase at constant currency. Profitability growth is apparent based on the rise in EBIT to €94.3 million (2017: €89.6 million). This is a year-on-year increase of 5 percent. The operating profit margin (EBITA, non-IFRS) was 28.7 percent (2017: 28.4 percent) in the first half of 2018. This makes us one of the most profitable companies in the high-tech sector. The continued earnings improvement is not a one-time effect. It is a result of sales efficiency and an improved worldwide structure whereby the balance between high and low-cost locations is optimized on an ongoing basis. These factors enabled us to further increase our already high margin and continue the positive earnings trend of the past quarters.

Software AG is positioned extremely well in all of its market segments and received multiple awards recognizing its leading technology. After the first two quarters and strong start to the second half of 2018, we consider the Company to be right on target and confirm our outlook for fiscal 2018.

FINANCIAL PERFORMANCE

Total Revenue

Despite negative currency translation effects, Software AG reported stable performance and increased profitability year-on-year. Group revenue for the period rose by 1 percent year-on-year at constant currency to reach €392.3 million (2017: €413.3 million).

Product revenue, consisting of license, maintenance and SaaS sales in the Digital Business Platform (DBP) and Adabas & Natural (A&N) product lines, was €299.9 million (2017: €310.2 million) in the first half of 2018. The two product business lines generated €87.6 million (2017: €92.2 million) in license revenue, which is 1 percent growth at constant currency. Total maintenance revenue was €204.2 million (2017: €214.0 million). This is a 2 percent gain at constant currency. At €8.1 million (2017: €4.1 million), SaaS income nearly doubled in the first six months of the year. This is a rise of 107 percent at constant currency. This increase is due to the accelerated growth in DBP Cloud & IoT, which hit a new record in the period.

Exchange Rate Effects

Exchange rates effects had a negative impact of 6 percent on Software AG's Group revenue in the first half of 2018. These effects amount to a decrease in reported revenue of €23.9 million when compared to revenue at constant exchange rates.

Currency exchange rates had an impact on all types of revenue in the first six months of the year. They caused a decrease in SaaS and Consulting revenue by 4 percent respectively. Exchange rates had a somewhat more significant effect on license revenue in the amount of –6 percent and on maintenance revenue in the amount of –7 percent. The negative impact was primarily due to the relatively weak U.S. and Brazilian currencies.

Currency Impact on Revenue

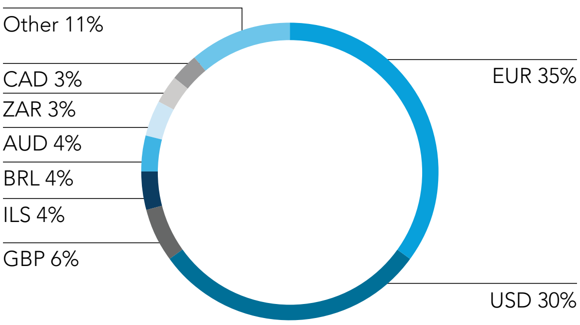
	Q2 2018		HY1 2018	
in € millions, yoy		as %		as %
Licenses	–1.9	–3	–5.1	–6
Maintenance	–6.0	–6	–14.9	–7
SaaS	–0.1	–3	–0.4	–4
Consulting & other	–1.6	–3	–3.6	–4
Total	**–9.5**	**–4**	**–23.9**	**–6**

Software AG's international strategy and its operations in 70 nations are reflected in the fact that almost two-thirds of its total revenue is generated in foreign currencies. At 65 percent (2017: 67 percent), the share of total revenue generated in foreign currencies remained stable in the first half of 2018. Accordingly, revenue in euros was 35 percent (2017: 33 percent).

Like last year, the U.S. dollar accounted for the largest portion of revenue outside the eurozone at 30 percent. Following the two major currencies (euro and U.S. dollar), other significant shares of revenue were generated in pound sterling (GBP) at 6 percent (2017: 6 percent), Israeli shekel (ILS) at 4 percent (2017: 5 percent), Brazilian real (BRL) at 4 percent (2017: 5 percent) and Australian dollars (AUD) at 4 percent (2017: 3 percent). Three percent of revenue was generated in South African rand (ZAR; 2017: 4 percent) and Canadian dollars (CAD; 2017: 3 percent) respectively. Eleven percent (2017: 10 percent) of revenue was generated in other currencies.

Currency Split in First Half of 2018

35% Revenue in EUR
65% Revenue in foreign currency

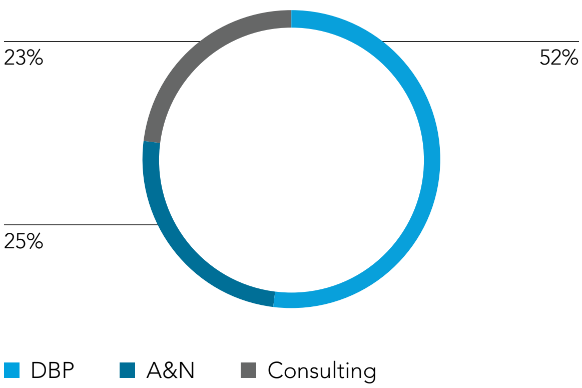


Revenue and Earnings by Business Line (Segment Report)

Software AG's total Group revenue in the first half of 2018 was €392.3 million (2017: €413.3 million) and can be broken down by business line as follows:

- Revenue in the Digital Business Platform business line accounted for 52 percent (2017: 51 percent) of total Group revenue.
- The Adabas & Natural (A&N) business line's share of total revenue rose to 25 percent (2017: 24 percent).
- The Consulting business line accounted for 23 percent (2017: 25 percent) of revenue.

Revenue Split



HY1 2018	in € millions	as %
Total revenue	**392.3**	**100**
DBP (including Cloud & IoT)	202.9	52
A&N	97.3	25
Consulting	92.1	23

Digital Business Platform (DBP)

All Software AG products for enterprise digital transformation comprise the **DBP** business line. It is the Company's highest revenue-generating segment and contributed more than half of total revenue in the first six months of 2018 with €202.9 million (2017: €210.3 million). This indicates 3 percent growth at constant currency.

Software AG began reporting revenue separately for its **DBP Cloud & IoT** business, which belongs to the DBP segment, in January 2018. This new revenue category totaled €11.6 million (2017: €6.4 million) in the first half of 2018, which marks a a rise of 88 percent at constant currency. This strong performance was fueled by the 50 percent growth in Cloud & IoT license and maintenance revenue as well as by the 107 percent increase in SaaS revenue (at constant currency). Annual recurring revenue (ARR) is a key indicator and climbed 106 percent at constant currency to total €24.8 million (2017: €12.2 million) in the DBP Cloud & IoT business.

DBP revenue not including Cloud & IoT remained stable in the first half of 2018 at €191.2 million (2017: €203.9 million). This represents a change of 0 percent at constant currency. After the year-on-year decline in license revenue in the first quarter of 2018, growth picked up considerably in the second quarter. As a result, DBP licenses generated €59.1 million (2017: €69.9 million) in the first half of the year. This represents a 10 percent decrease at constant currency. So far, mandatory first-time application of the new IFRS 15 revenue reporting norm has had a positive impact this fiscal year; nevertheless, its application in fiscal 2017 would not have significantly changed the DBP revenue growth presented in this report. DBP licenses accounted for 67 percent (2017: 76 percent) of Software AG's total license revenues. Maintenance revenue in DBP not including Cloud & IoT was up 5 percent at constant currency to total €132.1 million (2017: €134.0 million). This reflects 65 percent of the Group's €204.2 million (2017: €214.0 million) in total maintenance revenue.

The DBP (including Cloud & IoT) **cost of sales** rose 29 percent (at constant currency) to €17.7 million (2017: €14.4 million). **Sales and marketing expenses** were 7 percent lower at constant currency at €80.8 million (2017: €86.7 million). **Research and development (R&D) expenses** decreased to €46.9 million (2017: €48.7 million). At constant currency, they stayed the same as last year. Staff in both R&D and Sales and Marketing grew by a total of 95 employees including those from the acquired company, TrendMiner N. V.

DBP (including Cloud & IoT) achieved €57.5 million (2017: €60.6 million) in **segment earnings**, which is 4 percent growth at constant currency. The DBP **segment margin** stayed high at 28.3 percent (2017: €28.8 percent).

Adabas & Natural (A&N)

The **Adabas & Natural** business line posted **revenue** in the amount of €97.3 million (2017: €100.3 million) in the first half of the year. This represents a 4 percent increase at constant currency.

As expected, **maintenance revenue** demonstrated a slight decline at €70.5 million (2017: €78.9 million) in the first half of the year. This is a 3 percent drop at constant currency. **License revenue**, however, increased significantly, climbing to €26.5 million (2017: €21.1 million). This marks a 32 percent increase at constant currency year-on-year. First-time application of IFRS 15 led to a €2.4 million decrease in reported A&N revenue. This development confirms the long-term importance of A&N software for mission-critical applications. But it is also a result of Software AG's successful **Adabas & Natural 2050+** innovation program. This program offers A&N customers long-term investment protection with innovations, support and updates through the year 2050 and beyond.

The A&N **cost of sales** dropped 39 percent year-on-year at constant currency to €2.7 million (2017: €4.8 million). **Sales and marketing expenses** went down 7 percent at constant currency to €14.5 million (2017: €16.1 million). **R&D expenses** were also down 3 percent (at constant currency) to €11.5 million (2017: €12.0 million).

Segment earnings rose to €68.7 million (2017: €67.4 million), which reflects growth of 11 percent at constant currency. A&N's **segment margin** was 70.6 percent (2017: 67.2 percent), which was even higher than last year. Due to the strong pipeline for the second half of the year, the stability of maintenance sales and the typical seasonality of the business, Software AG regards its full-year outlook optimistically.

Consulting

The **Consulting** business line accounted for €92.1 million (2017: €102.7 million) of total revenue in the first half of 2018 . This represents a decline of 7 percent at constant currency.

The **cost of sales** in this segment dropped 5 percent to €73.5 million (2017: €80.3 million). **Expenses for sales and marketing** were reduced by 8 percent at constant currency to €8.6 million (2017: €9.9 million).

The Consulting line posted €10.0 million (2017: €12.5 million) in **segment earnings**. This represents a **segment margin** of 10.8 percent (2017: 12.1 percent). This continues to be a very good number compared to the industry average and confirms Software AG's successful consulting transformation from a traditional project implementer to a strategic partner with sophisticated customer services.

Group Earnings Performance

Software AG's total **cost of sales** again grew at a lower rate than revenue, falling 5 percent (at constant currency) to €97.9 million (2017: €106.7 million) in the first half of 2018. As a result, **gross profit** increased 3 percent at constant currency to €294.5 million (2017: €306.7 million). The **gross profit margin** continued to rise to 75.1 percent (2017: €74.2 percent). This strong indicator of profitability confirms Software AG's successful focus on a growing product business with sustainable profitability.

R&D expenses were €58.4 million (2017: €60.7 million) in the first six months of fiscal 2018. At constant currency, they are on par with last year. In contrast, **sales and marketing expenses** went down to €110.5 million (2017: €121.7 million) and **administrative expenses** to €35.0 million (2017: €38.0 million). This is a 4 percent decrease for both (at constant currency). It is important to note that R&D and Sales and Marketing staff has increased by 103 full-time employees since December 31, 2017.

Fueled by the high profits, **EBIT** (earnings before interest and tax) outperformed last year's €89.6 million by 5 percent to total €94.3 million. **EBIT margin** rose accordingly, surpassing last year's 21.7 percent with 24.0 percent this year.

EBITA (non-IFRS) was €112.7 million (2017: €117.6 million) in the first half of 2018. In line with total revenue, this reflects a 4 percent decrease. This year's first-half **operating profit margin** (non-IFRS) slightly outperformed last year at 28.7 percent (2017: 28.4 percent). Software AG attributes the further increase in profitability to its excellent cost structure whereby the balance between high and low-cost locations is optimized on an ongoing basis.

Net financial income improved to €2.1 million (2017: €0.0). This is due primarily to a reduced average credit volume with improved financing terms and excellent investment options outside of the eurozone. Income taxes were just above last year's figure at €27.4 million (2017: €27.3 million), whereas **other taxes** were 14 percent lower at €3.2 million (2017: €3.7 million). Accordingly, Software AG's total imputed **tax rate** went down to 31.7 percent (2017: 34.6 percent).

In total, **net income** went up 12 percent year-on-year to €65.8 million (2017: €58.6 million). **Earnings per share** (basic) continued to rise to €0.89 (2017: €0.78).

FINANCIAL POSITION

Net cash provided by operating activities was down year-on-year from €108.4 million in 2017 to €95.1 million in the first half of 2018 due to reduced liabilities and provisions.

Cash outflows from investing activities decreased to €36.4 million compared to €68.4 million one year ago. Payments in the amount of €29.6 million were made for the acquisition of TrendMiner N. V. compared with last year's period in which Cumulocity GmbH was acquired as well as an office building near corporate headquarters in Darmstadt.

Cash outflows from financing activities were down from €101.3 in the first half of 2017 to €36.4 million in 2018. The 2017 figure included share repurchases totaling €89.6 million. Dividend payments were higher due to the decision to increase the dividend per dividend-bearing share to €0.65 (2017: €0.60). The total dividend disbursement to Software AG shareholders went up to a record-breaking €48.3 million (2017: €44.3 million). This reflects Software AG's commitment to a value-driven dividend policy. Net proceeds from external financing totaled €11.8 million, compared to €31.3 million one year ago.

Cash and cash equivalents were €388.0 million (2017: €303.8 million) as of June 30, 2018 compared to €365.8 million at the beginning of the year. **Free cash flow** in the first half of fiscal 2018 went up to €88.6 (2017: €85.8) million. The free cash flow to revenue ratio was 22.6 percent (2017: 20.8 percent) and free cash flow to net income was 134.7 percent (2017: 146.4 percent). Accordingly, free cash flow per share was €1.20 (2017: €1.14) in the period under review.

All in all, Software AG's statement of cash flows reflects its value-oriented focus on profitable growth. Specifically, this means that the Company employs its cash flow for future-oriented investments, dividends and share buyback programs.

ASSETS

Software AG continued to have a strong **balance sheet**. Software AG's total assets were €1,897.3 million as of June 30, 2018 compared to €1,833.5 million the year before and €1,907.5 million as of December 31, 2017.

On the **assets** side, current assets were down €31.2 million from €650.3 million as of December 31, 2017 to €619.1 million as of June 30, 2018. This drop is due primarily to the changes in the balance sheet described below. Current trade receivables and other receivables fell €46.9 million to €179.5 million due to active working capital management and lower (season-related) license revenue in the second quarter compared to the fourth quarter of 2017. Furthermore, other financial assets were down by €20.4 million. This decrease results from hedging transactions having been closed out through the exercise of employee stock options and performance phantom shares. Cash and cash equivalents, in contrast, increased by €22.2 million from €365.8 million at the beginning of the year to €388.0 million.

Non-current assets increased from €1,257.2 million by €11.0 million to total €1,278.2 million. Specifically, intangible assets rose by €5.5 million to €137.1 million resulting from the balance of effects relating to the acquisition of TrendMiner and exchange rate fluctuations as well as from the amortization of this item in the first half of 2018. Goodwill went up by €31.8 million to reach €953.3 million. This increase also resulted from the acquisition of TrendMiner and exchange rate fluctuations. Non-current other financial assets went down €11.8 million to €42.9 million, largely due to value changes from hedging transactions for employee stock options.

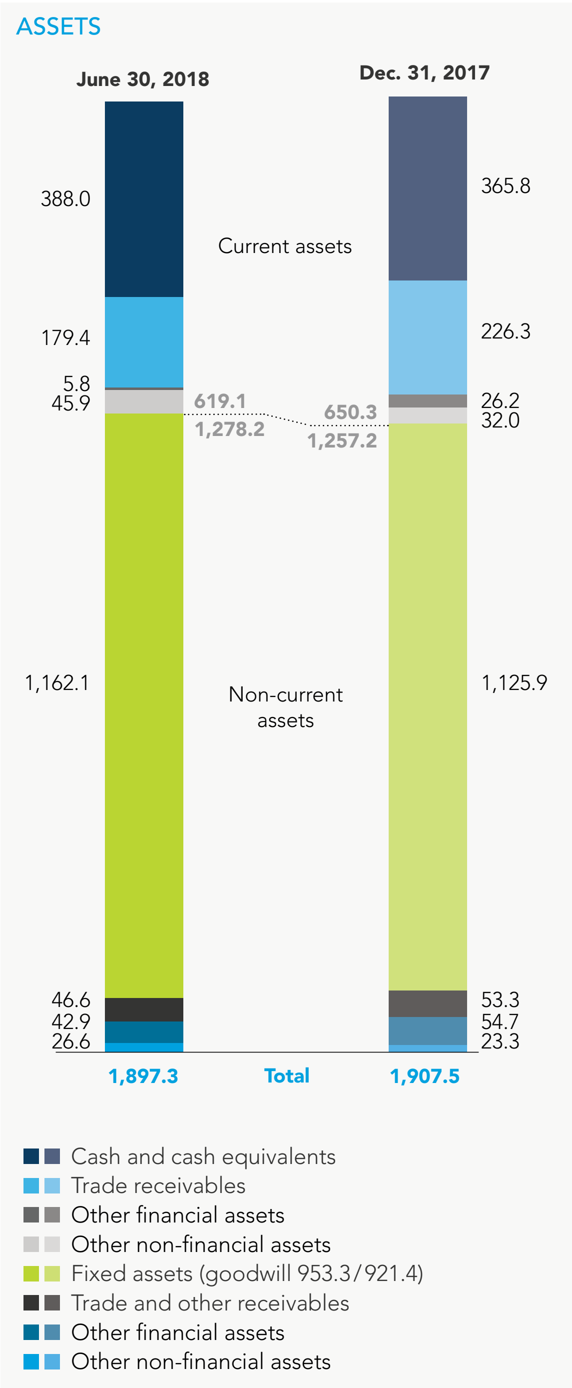
Current **liabilities** fell by €127.7 million from €582.6 million to €454.9 million. Current financial liabilities decreased by €95.3 million to €115.0 million due to a long-term refinancing. Other non-financial liabilities decreased by €59.4 million to €91.0 million. This reduction is due mainly to the disbursement of variable remuneration components and employee options and to the payment of tax liabilities in the first half of 2018. Deferred income, in contrast, went up mainly because of seasonal factors by €39.9 million to total €152.9 million. This is a 35 percent increase which reflects the Company's strategic focus on high-margin recurring maintenance revenues.

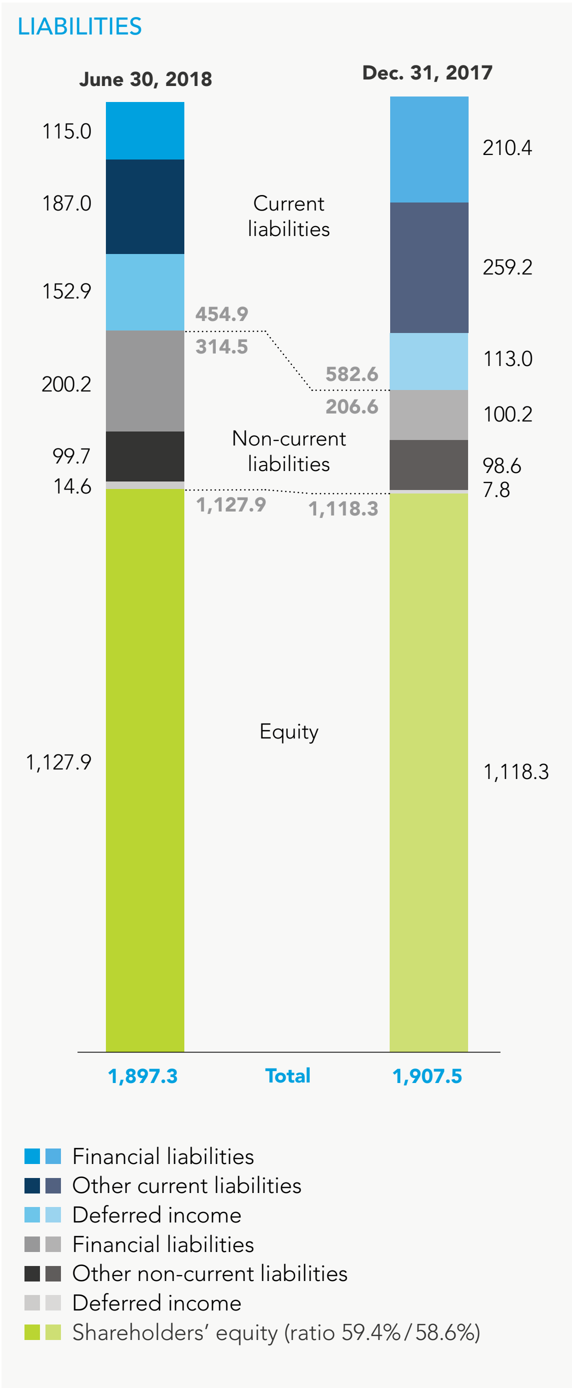
Non-current liabilities increased by €107.9 million from €206.6 million to €314.5 million. This increase is due in part to the €100.0 million rise in non-current financial liabilities to €200.2 million relating to the non-current financing mentioned above and to the €6.8 million seasonal rise in non-current deferred income for future maintenance revenue to €14.6 million.

Software AG's shareholders' equity totaled €1,127.9 million as of June 30, 2018 as compared to €1,118.3 million as of December 31, 2017. This results in an equity ratio of 59.4 percent (Dec. 31, 2017: 58.6 percent). Shareholders' equity thus increased by a further €9.6 million in the first half of 2018 due to earnings, despite the dividend disbursement in the amount of €48.3 million in June 2018.

Consolidated Balance Sheet

in € millions





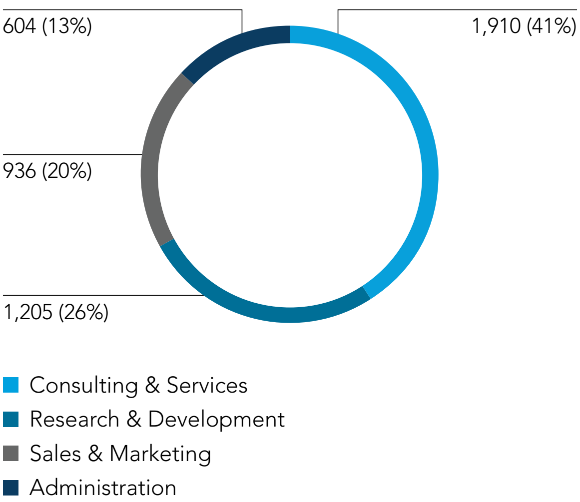
EMPLOYEES

As of June 30, 2018, the Software AG Group employed 4,655 (2017: 4,570) people (full-time equivalents). This reflects the addition of 85 new employees, which is a 2 percent increase. The expansion is primarily a result of Software AG's acquisition of TrendMiner, which has staff at six locations in Germany, Belgium, Spain, Portugal, the USA and Netherlands.

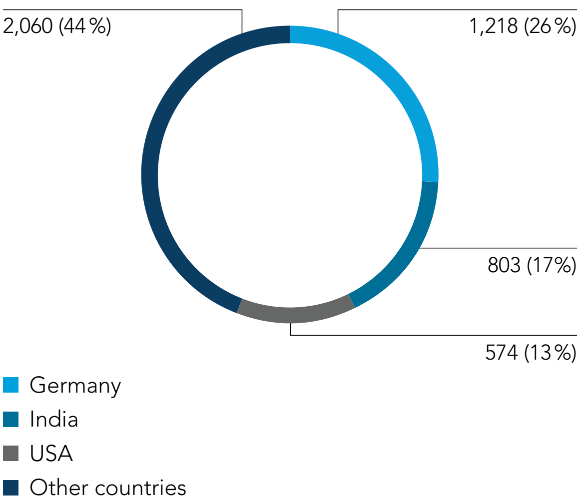
Software AG is committed to investing in a future-oriented Group structure and profitable growth. Broken down by department, the number of employees at the end of the first six months of 2018 in Service and Consulting was 1,910 (2017: 1,920), in R&D 1,205 (2017: 1,158), in Sales and Marketing 936 (2017: 888) and in Administration 604 (2017: 605) . The strategically key R&D and Sales and Marketing departments expanded by 47 (+4 percent) and 48 (+5 percent) new employees respectively.

The international structure of Software AG's staff reflects its global business operations. The regional distribution of employees can be broken down as follows: As of June 30, 2018, the Software AG Group employed 1,218 (2017: 1,183) people in Germany, 803 (2017: 785) in India and 574 (2017: 597) in the USA . A total of 2,060 (2017: 2,005) people were employed in countries other than those mentioned above.

Headcount by Function*



Headcount by Region*



*According to P&L structure as of Dec. 31, 2017 (year-on-year)

OPPORTUNITY AND RISK REPORT

Software AG's 2017 Annual Report contains a comprehensive Opportunity and Risk Report (see p. 108), which describes specific risks that could have a negative impact on business and financial performance or assets and financial position. It also describes key opportunities for Software AG. There were only minor changes to the risk and opportunity situation of the Software AG Group in the first half of 2018 as compared to the risks and opportunities identified in the 2017 Annual Report.

OUTLOOK

Software AG has confirmed its outlook from April 13, 2018 for fiscal 2018. Based on expectations for business performance in the next six months, the Management Board continues to anticipate an operating profit margin (EBITA, non-IFRS) between 30.0 and 32.0 percent for the 2018 fiscal year. Digital Business Platform (not including DBP Cloud & IoT) revenue is expected to increase between 3 and 7 percent at constant currency. DBP Cloud & IoT revenue is expected to increase between 100 and 135 percent (at constant currency). The revenue target for the Adabas & Natural database business line remains unchanged between –6 and –2 percent (at constant currency). Software AG assumes earnings per share (EPS, non-IFRS) will grow between 5 and 15 percent.

The table below shows the full forecast for the 2018 fiscal year:

Outlook for Fiscal Year 2018

	FY 2017 (as of Dec. 31, 2017) in € millions	**Outlook FY 2018** (as of April 13, 2018) as %	**HY1 2018** (as of June 30, 2018) as %
DBP revenue[1]	456.1	—	—
DBP not including Cloud & IoT[2]	441.5	+3 to +7[2]	0.0[2]
Cloud & IoT[1]	14.9	+100 to +135[1]	+87.61
A&N revenue[2]	223.7	–6 to –2[2]	+4.32
Operating margin (EBITA, non-IFRS)[3]	31.8%	30.0 to 32.0	28.1
Earnings per share (EPS, non IFRS)[4]	€2.38	+5 to +15[5]	€1.06[5]

1 At constant currency, including hosting services
2 At constant currency
3 Before adjusting for non-operating factors (see non-IFRS results)
4 Based on weighted average shares outstanding (basic/acc. to IAS 33.19) FY 2017: 74.6 mn/HY1 2018: 74.0 mn
5 Based on the recent U.S. tax reform and an exchange rate of €1/$1.18

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the six months ended June 30, 2018 (IFRS)

in € thousands	HY1 2018	HY1 2017
Licenses	87,636	92,213
Maintenance	204,168	213,952
SaaS	8,062	4,065
Services	92,100	102,708
Other	368	384
Total revenue	**392,334**	**413,322**
Cost of sales	–97,876	–106,664
Gross profit	**294,458**	**306,658**
Research and development expenses	–58,378	–60,655
Sales, marketing and distribution expenses	–110,462	–121,703
General and administrative expenses	–35,029	–38,006
Other taxes	–3,212	–3,738
Operating earnings	**87,377**	**82,556**
Other income	9,444	6,085
Other expenses	–5,759	–2,762
Financing income	5,171	4,609
Financing expenses	–3,084	–4,632
Earnings before income taxes	**93,149**	**85,856**
Income taxes	–27,375	–27,270
Net income	**65,774**	**58,586**
thereof attributable to shareholders of Software AG	65,665	58,465
thereof attributable to non-controlling interests	109	121
Earnings per share in € (basic)	0.89	0.78
Earnings per share in € (diluted)	0.89	0.78
Weighted average number of shares outstanding (basic)	73,977,152	75,326,261
Weighted average number of shares outstanding (diluted)	73,980,793	75,336,515

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended June 30, 2018 (IFRS)

in € thousands	HY1 2018	HY1 2017
Net income	**65,774**	**58,586**
Currency translation differences from foreign operations	4,285	–43,881
Net gain/loss on remeasuring financial assets	–9,330	193
Currency translation gain/loss from net investments in foreign operations	1,071	–3,236
Items to be be reclassified to the income statement if certain conditions are met	**–3,974**	**–46,924**
Net actuarial gain/loss on pension obligations	–34	625
Items not to be reclassified to the income statement	**–34**	**625**
Other comprehensive income	**–4,008**	**–46,299**
Comprehensive income	**61,766**	**12,287**
thereof attributable to shareholders of Software AG	61,657	12,166
thereof attributable to non-controlling interests	109	121

CONSOLIDATED BALANCE SHEET

as of June 30, 2018 (IFRS)

ASSETS

in € thousands	June 30, 2018	Dec. 31, 2017*
Current assets		
Cash and cash equivalents	387,972	365,815
Other financial assets	5,782	26,165
Trade and other receivables	179,452	226,314
Other non-financial assets	20,531	17,366
Income tax receivables	25,393	14,632
	619,130	**650,292**
Non-current assets		
Intangible assets	137,134	131,664
Goodwill	953,256	921,415
Property, plant and equipment	71,675	72,815
Other financial assets	42,919	54,730
Trade and other receivables	46,592	53,273
Other non-financial assets	2,783	199
Income tax receivables	8,838	8,575
Deferred tax receivables	14,987	14,507
	1,278,184	**1,257,178**
Total Assets	**1,897,314**	**1,907,470**

EQUITY AND LIABILITIES

in € thousands	June 30, 2018	Dec. 31, 2017*
Current liabilities		
Financial liabilities	115,023	210,347
Trade and other payables	30,704	37,617
Other non-financial liabilities	91,019	150,416
Other provisions	36,420	43,708
Income tax liabilities	28,875	27,505
Deferred Income	152,854	112,964
	454,895	**582,557**
Non-current liabilities		
Financial liabilities	200,203	100,250
Trade and other payables	3,630	3,677
Other non-financial liabilities	568	640
Other provisions	31,282	34,297
Provisions for pensions and similar obligations	43,708	43,869
Income tax liabilities	4,199	4,509
Deferred tax liabilities	16,306	11,599
Deferred income	14,604	7,790
	314,500	**206,631**
Equity		
Share capital	74,000	76,400
Capital reservesd	22,665	22,715
Retained earnings	1,102,479	1,176,722
Other reserves	–70,913	–66,905
Treasury shares	–757	–91,249
Attributable to shareholders of Software AG	**1,127,474**	**1,117,683**
Non-controlling interests	**445**	**599**
	1,127,919	**1,118,282**
Total Equity and Liabilities	**1,897,314**	**1,907,470**

* The 2017 balance sheet did not have to be adjusted for the new accounting and valuation methods because of the transition approach used by Software AG for the adoption of IFRS 15 und IFRS 9.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended June 30, 2018 (IFRS)

in € thousands	HY1 2018	HY1 2017
Net income	65,774	58,586
Income taxes	27,375	27,270
Net financial income/expense	–2,087	23
Amortization/depreciation of non-current assets	15,971	22,022
Other non-cash income/expense	–1,921	–234
Changes in receivables and other assets	70,330	61,026
Changes in payables and other liabilities	–45,651	–16,096
Income taxes paid/received	–36,346	–44,668
Interest paid	–3,542	–4,152
Interest received	5,170	4,611
Net cash from operating activities	**95,073**	**108,388**
Proceeds from the sale of property, plant and equipment/intangible assets	220	256
Purchase of property, plant and equipment/intangible assets	–4,259	–20,599
Proceeds from the sale of non-current assets financial assets	250	101
Purchase of non-current financial assets	–2,674	–2,376
Proceeds from the sale of current financial assets	188	4,128
Purchase of current financial assets	–534	–520
Payments for acquisitions, net	–29,609	–49,420
Net cash used in investing activities	**–36,418**	**–68,430**

in € thousands	HY1 2018	HY1 2017
Repurchase of treasury shares (including option premiums paid)	0	89,587
Use of treasury shares	88	1,330
Dividends paid	–48,348	–44,343
Proceeds/payments for current financial liabilities	11,815	41,895
New non-current financial liabilities	100,013	0
Repayment of non-current financial liabilities	–100,011	–10,574
Net cash provided by/used in financing activities	**–36,443**	**–101,279**
Change in cash and cash equivalents	22,212	–61,321
Change in cash and cash equivalents from currency translation	–55	–9,443
Net change in cash and cash equivalents	**22,157**	**–70,764**
Cash and cash equivalents at beginning of period	365,815	374,611
Cash and cash equivalents at end of period	**387,972**	**303,847**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended June 30, 2018

in € thousands	Share capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Jan. 1, 2017	**76,231,631**	**79,000**	**23,682**	**1,145,374**
Total comprehensive income				**58,466**
Transactions with shareholders				
Dividend payment				–44,343
Issue and use of treasury shares	55,150		–747	
Redemption of treasury shares		–2,600		–64,642
Repurchase of treasury shares (including option premiums paid)	–2,326,892			
Transactions between shareholders				
Equity as of June 30, 2017	**73,959,889**	**76,400**	**22,935**	**1,094,855**
Equity as of Dec. 31, 2017	**73,976,239**	**76,400**	**22,715**	**1,176,722**
Adoption of IFRS 15				–3,715
Adoption of IFRS 9				–154
Equity as of Jan. 1, 2018	**73,976,239**	**76,400**	**22,715**	**1,172,853**
Total comprehensive income				**65,665**
Transactions with shareholders				
Dividend payment				–48,085
Issue and use of treasury shares	3,650		–50	
Redemption of treasury shares		–2,400		–87,954
Transactions between shareholders				
Equity as of June 30, 2018	**73,979,889**	**74,000**	**22,665**	**1,102,479**

	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
	Currency translation differences from foreign operations	Net gain/loss on remeasuring financial assets	Net actuarial gain/loss on pension obligations	Currency translation gains/loss from net investments in foreign operations				
	38,190	2,926	–33,352	12,025	–71,596	1,196,249	546	1,196,795
	–43,881	193	625	–3,236		12,167	121	12,288
						–44,343		–44,343
					2,076	1,329		1,329
					–67,242	0		0
					–89,587	–89,587		–89,587
	–5,691	3,119	–32,727	8,789	–91,865	1,075,815	667	1,076,482
	–39,333	3,154	–37,617	6,891	–91,249	1,117,683	599	1,118,282
						–3,715		–3,715
						–154		–154
	–39,333	3,154	–37,617	6,891	–91,249	1,113,814	599	1,114,413
	4,285	–9,330	–34	1,071		61,657	109	61,766
						–48,085	–263	–48,348
					138	88		88
					90,354	0		0
	35,048	6,176	37,651	7,962	757	1,127,474	445	1,127,919

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

GENERAL

[1] Basis of Presentation

Software AG's condensed and unaudited interim financial statements (half-year financial statements) as of June 30, 2018 have been prepared in accordance with the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS), as applicable in the European Union (EU). The IFRS applicable as of June 30, 2018 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Due to the introduction of accounting in accordance with the new IFRS 15 and IFRS 9 standards as of January 1, 2018, a number of Software AG's accounting policies have changed.

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

The consolidated financial statements of Software AG are expressed in thousands of euros unless otherwise stated. Software AG waived a voluntary audit and a review of the consolidated interim financial statements (half-year report).

[2] Scope of Consolidation

The following changes occurred in the consolidated Group in the first six months of fiscal 2018.

	Germany	Foreign	Total
Jan. 1, 2018	**9**	**71**	**80**
Additions	1	3	4
Disposals (including mergers)	0	0	0
June 30, 2018	**10**	**74**	**84**

The additions consist of the acquisition of TrendMiner N.V., Hasselt, Belgium, including three subsidiaries in the Netherlands, Germany and the USA. The change to the scope of consolidation had no significant effect on comparability to last year.

[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, 2017; any exceptions result from the mandatory first-application of IFRS 15 and IFRS 9 and are described below. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2017. These half-year statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

Total revenue

Since the introduction of IFRS 15, accounting policies for revenue recognition are as follows:

Categories of sales revenue

Software AG sales revenues consist primarily of revenue from granting software licenses of temporary or indefinite duration, revenue from Software as a Service (SaaS) offerings, maintenance revenue and revenue from services. With respect to SaaS offerings, a customer is not entitled to terminate a hosting agreement or take the software into its own possession, either to operate in its own IT infrastructure or to engage an entity other than Software AG to provide software hosting or management services.

Identification of contractual obligations

Software AG's agreements with customers often include various products and services. The products and services described under Categories of Sales Revenue are usually to be treated as separate contractual performance obligations. The relevant portion of the contractual price is recognized separately. The determination as to whether a product or a service is treated as a separate contractual performance obligation requires judgment to be exercised.

When customers purchase products or services, Software AG sometimes offers them options for buying additional products or services. When determining whether such options give the customer a substantive right that it wouldn't have without signing this agreement, Software AG exercises its own judgment. In making this determination, the Company considers whether the options entitle the customer to a discount that is greater than the discount provided with the relevant products or services sold with the option.

Determination of transaction price

Software AG also exercises judgment when determining the consideration that it expects to receive in exchange for the transfer of products or services to a customer. This includes estimations as to whether and to what extent the customer is entitled to subsequent concessions or payments and whether the customer will pay the contractually agreed consideration as expected. In this exercise of judgment, primarily previous experiences with a specific or a comparable customer are considered.

Some agreements include significant financing elements. Software AG recognizes financing elements when the period of time between the transfer of purchased products or services to the customer and payment of these products or services by the customer is at least one year.

Division of transaction price

The transaction price is generally divided between the individual contractual performance obligations based on the individual sales prices. Software licenses of indefinite duration are often sold in combination with maintenance and services. In this case, when an agreement involves multiple elements, revenue recognition is based on the individually identifiable performance obligations of the transaction. Because it is impossible to calculate reliable individual sale prices for software licenses, revenue is divided among the individual revenue types using the residual method. Under the residual method, all determinable individual sale prices are deducted from the total transaction value. The residual amount is then attributed to the elements for which no reliable individual sales prices can be determined, using list prices.

Recognition of sales revenue

Software AG accounts for revenue from Software as a Service based on time elapsed during the period in which the relevant services are rendered.

Software license revenues are recognized as of the date on which the customer is granted access to the software and the license period begins when access is granted. Software AG recognizes revenues for these on-premise licenses as of the date on which the customer receives access to and thus control over the software. When deciding whether software offerings grant customers the right to use Software AG's intellectual property and not the right to access its intellectual property, the usefulness of its software for customers—without subsequent updates—is considered.

Maintenance revenues are recognized on a pro rata basis over the term of the maintenance contract period.

Revenue resulting from services invoiced on the basis of hours performed is recognized according to services rendered by a Software AG entity. Revenues and expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if Software AG's service generates an asset that does not provide Software AG with any alternative options for use and Software AG is legally entitled to payment for services already rendered. Should Software AG's service from a fixed-price contract generate or improve an asset and should the customer have control over the asset, the PoC method is also used for revenue recognition. The stage of completion of a contract is calculated on the basis of the percentage of total estimated contract costs incurred for work performed as of the balance sheet date. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

Incremental costs when acquiring new orders

The assets that Software AG capitalizes as costs associated with acquiring a new customer order consist primarily of sales employee commissions. The assets are amortized over the expected contract term using the straight-line method. Depreciation periods range from two to five years. The amortization of capitalized costs for the acquisition of new orders is included in sales and marketing expenses.

Software AG recognizes incremental costs for acquiring new orders as expenses as of the date on which they are incurred when the depreciation period is not assumed to be longer than one year.

Non-derivative financial assets

Software AG recognizes non-derivative financial assets as of the date it acquires the contractual right to receive cash or other financial assets from another entity. Standard purchases and sales are measured at fair value as of the value date.

Subsequent measurement is carried out based on the following categories of financial assets:

a) Amortized cost (AC)

b) Fair value through profit or loss (FVPL)

c) Fair value through other comprehensive income (FVOCI)

Software AG classified its balance of equity securities as of December 31, 2017 at fair value through other comprehensive income. Software AG generally uses the option that allows it to classify each new equity security individually as FVOCI or FVPL.

Trade receivables

Trade receivables are classified based on the business model (hold-to-collect versus hold-to-sell). Receivables which are not intended for sale and/or sale is not an option are measured at amortized cost (about 80 percent of receivable balance). Receivables available for sale are measured using fair value through profit or loss (FVPL) (about 20 percent of the receivable balance).

Software AG applies a simplified impairment model based on an impairment matrix. This impairment matrix is based primarily on historical data on credit losses and current data on receivables overdue.

Furthermore, outstanding receivables are monitored on an ongoing basis at local and central levels to determine if the relevant receivables show any objective indications of jeopardized creditworthiness. If, using this approach, Software AG arrives at the assumption that realization of a receivable is improbable, the relevant receivables are written down in part or in whole based on the values in the impairment matrix.

Derivative financial instruments

If derivative financial instruments are financial assets or financial liabilities in accordance with IFRS 9, they are recognized at fair value. Instruments for which hedge accounting is not applied are classified as FVPL. Changes in the fair value of the instruments are recognized directly in profit or loss.

If the criteria for hedge accounting in accordance with IFRS 9 are met, the derivative financial instrument is designated as a hedging instrument and accounted for pursuant to the hedge accounting provisions of IFRS 9.

Accordingly, in the case of cash flow hedges, the effective portion of changes in the fair value of derivatives is recognized directly in equity. The ineffective portion is recognized directly in profit or loss. Cumulative amounts previously recognized in equity are reclassified to the income statement for the fiscal years in which the hedged item affects profit or loss.

The Company did not recognize any fair value hedges.

If derivative financial instruments are equity instruments in accordance with IAS 32, they are reported as equity. Accordingly, paid premiums for acquired call options that entitle Software AG to buy back a set number of treasury shares for a set amount are deducted from equity.

All hedge accounting relationships as of December 31, 2017 continued to meet the hedge accounting requirements set forth by IFRS 9.

Non-derivative financial liabilities

In accordance with IFRS 9, Software AG classifies non-derivative financial liabilities at amortized cost (AC) or at fair value through profit or loss (FVPL).

Subsequent measurement of financial liabilities classified at AC is carried out using the effective interest rate.

Financial liabilities are derecognized when the contractual obligation has been settled, canceled or has expired.

New accounting rules applied in the fiscal year

The IASB published IFRS 15, "Revenue from Contracts with Customers," in May 2014. IFRS 15 replaces IAS 11 "Production Orders" and IAS 18 "Revenue Income" and the corresponding interpretations. According to the new standard, revenue recognition should reflect the transfer of promised goods or services to a customer as the amount of the consideration that the company expects to receive in exchange for these goods or services. Revenue is recognized when the customer receives power of control over the goods or services. Furthermore, IFRS 15 includes requirements on disclosing assets or liabilities from contracts with customers depending on the relationship between the service rendered by the company and payment made by the customer. In addition, the new standard requires disclosure of various quantitative and qualitative data that enable users of the consolidated financial statements to understand the type, the amount, the timing and possible uncertainty of revenues and cash flows from contracts with customers. In September 2015 the IASB decided to postpone the date of first-time application of the standard to fiscal years that begin on or after January 1, 2018; early application was permitted. In April 2016 a number of clarifications to IFRS 15 were published, in particular with regard to identifying separate contractual obligations, differentiating between principal and agent and recognizing licensing income. These clarifications were published on November 9, 2017 in the Official Journal of the European Union; IFRS 15 and the amendment to IFRS 15 on postponement of the date of first-time application were published on October 29, 2016 in the Official Journal of the European Union.

Software AG analyzed the rules of IFRS 15 and depicted how they will impact its business model. The relevant departments of the Company (Business & Sales Management, Finance, Product Management) received in-depth training and instruction.

Software AG did not exercise the option of early application before fiscal year 2018. In addition to complete retrospective application of IFRS 15, the standard permits modified retrospective application. The standard will be applied only after the date of first-time application so that periods being compared do not need to be adjusted retrospectively, with the exception of adjustments to equity. It that case, as of the date of first application, a company must balance only those contracts that, pursuant to the current accounting principles, have not yet expired prior to the date of first application in accordance with the new rules. Software AG applied the standard using a modified retrospective method starting January 1, 2018.

The IASB published the final version of IFRS 9 "Financing Instruments" in July 2014, which replaces all previous versions and concludes the project to replace IAS 39 "Financing Instruments." IFRS 9 is introducing a uniform approach for classification and measurement of financial assets. The standard uses cash flow characteristics and the business model by which they are managed as its reference. It is also introducing a new impairment model that is based on expected loan defaults. Furthermore, IFRS 9 contains new rules for hedge accounting.

Software AG will adopt IFRS 9 on January 1, 2018 when it takes effect. Software AG is exercising its right to optional exceptions to rules regarding complete retrospective application and will show the effects of the first-time application as an adjustment to the initial balance of retained earnings.

Effects of application of IFRS 15

The findings of an in-depth impact analysis show that IFRS 15 requires a new way of determining the point in time at which sales revenue for some contractual obligations is recognized. The effects of first-time application of IFRS 15 described below do not account for deferred taxes. According to rules in effect until 2017, income from temporary licenses resembling a transfer of use in nature (leasing licenses and subscriptions) was recognized in installments during the period of use. According to IFRS 15, revenue allocated to the license portion is recognized at the beginning of the transfer of use. This aspect of application of IFRS 15 resulted in a positive conversion effect recognized in equity as of January 1, 2018 in the amount of €717 thousand; deferred income decreased by the corresponding amount. This value refers to the license portion of licenses and subscriptions, which, according to previous revenue recognition policies, was to be recognized in subsequent periods, and which, pursuant to IFRS 15, must be allocated in whole at the time of transfer of use. This license revenue will therefore not be reported as revenues in the Consolidated Income Statement in subsequent periods (so called "black hole"). License revenue reported for the first half of the year went down accordingly by €255 thousand.

IFRS 15 requires license revenue from leasing licenses and subscriptions to be recognized as of the beginning of the transfer of use. Previously applied reporting policies required it to be recognized over the period of use.

Software AG utilized the transition to new reporting policies to better address the recent change in customer behavior. It drew up significantly more subscription-based (OPEX) agreements than unlimited transfer of use (CAPEX) agreements. As discussed above, the contractual license percentages must be recognized immediately in these types of agreements so that the date of revenue recognition is not affected. Due to this approach, Software AG expects to be able to close deals faster and achieve higher cash flows from the customer base. The Company signed license revenue subscription agreements totaling €5,784 thousand in the first half of 2018.

According to the accounting methods used until 2017, the revenue portion attributable to software licenses in a multi-component transaction was regularly determined using the residual method. Under the residual method, all determinable market values were deducted from the total transaction value. Some agreements offered customers options to purchase future services. According to IFRS 15, these options represent a substantive right to which a separate value must be assigned. Application of IFRS 15 resulted in a negative conversion effect recognized in equity in the amount of €5,304 thousand as of January 1, 2018; deferred income increased accordingly. This conversion effect will be recognized as maintenance revenue over the assumed term of the substantive right in subsequent years. Of that amount, €622 thousand will be attributed to the first six months of the current fiscal year.

Some of Software AG's agreements grant customers rights of use for a limited period of time. When such a contract is renewed, the customer's temporary rights of use are extended. According to accounting methods in effect until 2017, the resulting license revenue could be recognized before the period of renewal began. According to IFRS 15 license revenue cannot be recognized before the period of renewal has begun. Application of IFRS 15 resulted in a negative conversion effect recognized in equity in the amount of €4,581 thousand as of January 1, 2018; deferred income increased accordingly. This conversion effect had to be recognized as license revenue in the first half of the year.

When determining the transaction price for an individual contract, IFRS 15 requires an estimate of the amount of variable considerations. First-time application of this approach in accordance with IFRS 15 resulted in a decrease in license revenue of €2,896 thousand, in maintenance revenue of €871 thousand and in service revenue of €455 thousand in the first half of 2018; trade receivables went down accordingly.

The total impact of adoption of IFRS 15 on DBP product revenue was €9,204 thousand in the first half of 2018. The majority of this amount relates to the conversion of licensing structures and the associated go-to-market activities focusing more intensively on OPEX. This proactive adaptation of contract modalities would not have happened without the adoption of IFRS 15. The aforementioned figure is therefore a theoretical IFRS 15-induced amount of no economic significance. Had Software AG applied IFRS 15 last fiscal year as well as this fiscal year, DBP product revenue would have increased by a similar total rate with the change in reporting policies from IAS 18 to IFRS 15 as presented in this report.

The impact of adoption of IFRS 15 on A&N product revenue was –€2,239 thousand in the first half of 2018.

Pursuant to IFRS 15, costs incurred from acquiring new orders must be capitalized and then amortized subsequently. Software AG did not capitalize costs related to new orders until 2018. Application of IFRS 15 resulted in a positive conversion effect recognized in equity as of January 1, 2018 in the amount of €4,294 thousand due to capitalization of costs from new orders; other non-financial assets increased accordingly. Sales and marketing expenses are recognized in the income statement in that amount as of January 1, 2018.

Operating expenses went down by €215 thousand due to the reduction of sales and marketing expenses in the first half of 2018. This resulted from capitalization of sales commissions as non-financial assets less amortization of the capitalized amounts.

The total impact of the aforementioned effects on earnings in the first half of 2018 was €6,725 thousand. This figure was due mainly to the IRFS-related earnings discussed above from the conversion of the go-to-market model, which would not have resulted without the adoption of IFRS 15. Therefore, this amount is also specific to the IFRS approach and of no economic significance.

Effects of application of IFRS 9

Software AG was able to retain the existing classification for the majority of its financial assets. There are thus no significant effects from the changed classification or subsequent valuation.

An analysis of past defaults on trade receivables and the resulting impairment matrix shows that trade receivables decreased by €154 thousand as of January 1, 2018; the corresponding negative effect was recognized in equity. Under classification of trade receivables based on business model (hold-to-collect versus hold-to-sell), approximately 80 percent of receivables are classified as AC and approximately 20 percent as FVPL.

Because all hedge accounting relationships as of December 31, 2017 met the requirements of hedge accounting in accordance with IFRS 9, there were no resulting effects.

Software AG therefore considers the effects of first-time application of IFRS 9 and the consequences described above to be insignificant to its consolidated financial statements.

[4] Business Combinations

Software AG acquired 100 percent of shares in TrendMiner in the first half of 2018. The basic data of the acquisition are as follows:

Company	TrendMiner, Belgium
Line of business	AI and analytics Development and sale of pattern recognition and analytics functionality, primarily in the oil, gas, life sciences and manufacturing industries
Ownership interest recognized on the balance sheet as of June 30, 2018	100%
Percentage of acquired shareholders' equity with voting rights	100%
Date of acquisition	June 11, 2018
Number of employees	approximately 70
Purchase price	€34,609 thousand

The acquisition of TrendMiner complements Software AG's roadmap in the fields of artificial Intelligence (AI) and analytics.

The following table shows the 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	280	0	280
Intangible assets	1	15,000	15,001
Goodwill	0	24,699	24,699
Other assets	3,659	0	3,659
Assets	**3,940**	**39,699**	**43,639**
Liabilities and provisions	1,828	0	1,828
Deferred tax liabilities	0	4,437	4,437
Deferred income	2,486	0	2,486
Equity and liabilities	**4,314**	**4,437**	**8,751**
Acquired assets and assumed liabilities, net	**–347**	**35,262**	**34,888**
Payments to shareholders			29,889
Considerations not yet paid			5,000
Acquisition cost, gross			**34,889**
Cash and cash equivalents			–280
Net cost of the business combination			**34,609**

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

The recognition of goodwill resulted mainly from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. The goodwill arising from this acquisition is not likely to be tax deductible.

The earnings of TrendMiner were included in the consolidated income statement as of the date of acquisition.

Since the acquisition, about €0.1 million of Software AG's Group revenue and –€0.5 million of Group earnings have resulted from TrendMiner.

Providing fictitious amounts for Group revenue and net income for the fiscal year calculated under the assumption that TrendMiner had been acquired at the beginning of the year is not possible with the information available.

NOTES TO THE CONSOLIDATED BALANCE SHEET

[5] Intangible Assets/Goodwill

Goodwill amounted to €953,256 thousand as of June 30, 2018, an increase of €31,841 thousand compared to December 31, 2017. This increase is a result of €24,699 from the initial consolidation of TrendMiner N.V. and €7,142 from positive exchange rate changes.

[6] Equity

Share capital

As of June 30, 2018, Software AG's share capital totaled €74,000 thousand (Dec. 31, 2017: €76,400 thousand). Software AG's share capital is divided into 74,000,000 (Dec. 31, 2017: 76,400,000) registered shares. Each share entitles its holder to one vote.

As of June 30, 2018 Software AG held 20,111 (Dec. 31, 2017: 2,423,761) treasury shares representing an interest of €20,111 (Dec. 31, 2017: €2,423,761) or 0.03 percent (2017: 3.2 percent) of the share capital.

Pursuant to the Annual Shareholders' Meeting resolution from May 31, 2016, the Company is authorized until May 30, 2021 to purchase Software AG shares totaling a maximum of 10 percent of the share capital at the time of the resolution. The shares purchased, together with other treasury shares that the Company has already purchased and still holds or that are attributable to it in accordance with sections 71d and 71e of the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 30, 2018 to appropriate €48,085 thousand (2017: €44,343 thousand) for a dividend payout from the net retained profits of €83,914 thousand reported by Software AG, the controlling Group company, in 2017. This corresponded to a dividend of €0.65 (2017: €0.60) per share. A total amount of €35,829 thousand (2017: €94,754 thousand) was carried forward.

Acquisition of treasury shares

At the beginning of the reporting period Software AG held 2,423,761 treasury shares representing €2,423,761 or 3.2 percent of the share capital.

Software AG's balance of treasury shares changed as follows in fiscal 2017:

Date/period	No. of shares	Reason for change
Jan. 1, 2018	**2,423,761**	
Q1 2018	–2,400,000	Redemption and capital decrease
Q2 2018	–3,650	Used for settling share-based plans (MIP III)
June 30, 2018	**20,111**	

OTHER DISCLOSURES

[7] Segment Reporting

Segmentation is in accordance with the internal control of the Group. Internal control focuses primarily on product revenue at constant currency for the two product segments. Margins and earnings are controlled largely at Group level. Of considerably less importance are the segments' contributions and earnings at secondary level of control. Software AG therefore reports on the following three segments:

- Digital Business Platform (including Cloud & IoT) (DBP: integration, business process management and big data with the webMethods, ARIS, Alfabet, Apama, Terracotta, Cumulocity, TrendMiner, etc. product families)
- Adabas & Natural (A&N: data management with the Adabas-Natural products)
- Consulting (implementation of Software AG products)

Segment report for the six months ended June 30, 2018

	Digital Business Platform (DBP including Cloud & IoT)			Adabas & Natural (A&N)		
in € thousands	HY1 2018 IFRS	HY1 2018 acc[1]	HY1 2017 IFRS[2,3]	HY1 2018 IFRS	HY1 2018 acc[1]	HY1 2017 IFRS[2]
Licenses	61,099	64,877	71,151	26,537	27,862	21,062
Maintenance	133,696	142,568	135,004	70,472	76,459	78,948
SaaS	8,062	8,434	4,065	0	0	0
Product revenue	**202,857**	**215,879**	**210,220**	**97,009**	**104,321**	**100,010**
Services	0	0	0	0	0	0
Other	41	46	30	323	324	334
Total revenue	**202,898**	**215,925**	**210,250**	**97,332**	**104,645**	**100,344**
Cost of sales	–17,704	–18,541	–14,360	–2,679	–2,917	–4,819
Gross profit	**185,194**	**197,384**	**195,890**	**94,653**	**101,728**	**95,525**
Sales, marketing and distribution expenses	–80,847	–85,860	–86,670	–14,458	–14,928	–16,076
Segment contribution	**104,347**	**111,524**	**109,220**	**80,195**	**86,800**	**79,449**
Research and development expenses	–46,867	–48,811	–48,654	–11,511	–11,600	–12,001
Segment earnings	**57,480**	**62,713**	**60,566**	**68,684**	**75,200**	**67,448**
General and administrative expenses						
Other taxes						
Operating earnings						
Other operating income/expenses, net						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

1 acc = At constant currency
2 To improve the informative value of its financial statements—particularly regarding earnings performance—Software AG restructured the revenue section of its income statement as of January 1, 2018. Accordingly, revenue from Software as a Service (SaaS) contracts is reported separately. Figures from 2017 were adjusted to reflect the new presentation structure.
3 As part of the change described above, segment assignment was also adjusted. Revenue from managed service agreements previously recognized in the Consulting segment is now shown in the DBP segment as Cloud & IoT revenue. The corresponding expenses were reallocated accordingly. Figures from 2017 were adjusted to reflect the new presentation structure.

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 majority of sales and marketing expenses are classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research and development expenses are assigned to the segments based on expense components directly attributable to the R&D department as well as the overhead coded to R&D. They have no direct impact on internal management.

The table below shows the segment data for the first half of 2018:

Consulting			Reconciliation		Total		
HY1 2018 IFRS	HY1 2018 acc[1]	HY1 2017 IFRS[2,3]	HY1 2018 IFRS	HY1 2017 IFRS	HY1 2018 IFRS	HY1 2018 acc[1]	HY1 2017 IFRS[2]
0	0	0	0	0	87,636	92,739	92,213
0	0	0	0	0	204,168	219,027	213,952
0	0	0	0	0	8,062	8,434	4,065
0	**0**	**0**	**0**	**0**	**299,866**	**320,200**	**310,230**
92,100	95,670	102,708	0	0	92,100	95,670	102,708
4	4	20	0	0	368	374	384
92,104	**95,674**	**102,728**	**0**	**0**	**392,334**	**416,244**	**413,322**
–73,506	–76,281	–80,300	–3,987	–7,185	–97,876		–106,664
18,598	**19,393**	**22,428**	**–3,987**	**–7,185**	**294,458**		**306,658**
–8,637	–9,104	–9,890	–6,520	–9,067	–110,462		–121,703
9,961	**10,289**	**12,538**	**–10,507**	**–16,252**	**183,996**		**184,955**
0	0	0	0	0	–58,378		–60,655
9,961	**10,289**	**12,538**	**–10,507**	**–16,252**	**125,618**		**124,300**
					–35,029		–38,006
					–3,212		–3,738
					87,377		**82,556**
					3,685		3,323
					2,087		–23
					93,149		**85,856**
					–27,375		–27,270
					65,774		**58,586**

DBP segment with revenue distribution for the six months ended June 30, 2018 (IFRS)

	DBP Cloud & IoT			Digital Business Platform (DBP not including Cloud & IoT)			Digital Business Platform (DBP including Cloud & IoT)		
in € thousands	**HY1 2018 IFRS**	**HY1 2018 acc[1]**	**HY1 2017 IFRS[2]**	**HY1 2018 IFRS**	**HY1 2018 acc[1]**	**HY1 2017 IFRS[2]**	**HY1 2018 IFRS**	**HY1 2018 acc[1]**	**HY1 2017 IFRS[2]**
Licenses	1,993	2,035	1,333	59,106	62,842	69,818	61,099	64,877	71,151
Maintenance	1,575	1,610	1,038	132,121	140,958	133,966	133,696	142,568	135,004
SaaS	8,062	8,434	4,065	0	0	0	8,062	8,434	4,065
Product revenue	**11,630**	**12,079**	**6,436**	**191,227**	**203,800**	**203,784**	**202,857**	**215,879**	**210,220**
Services	0	0	0	0	0	0	0	0	0
Other	0	0	0	41	46	30	41	46	30
Total revenue	**11,630**	**12,079**	**6,436**	**191,268**	**203,846**	**203,814**	**202,898**	**215,925**	**210,250**
Cost of sales							–17,704	–18,541	–14,360
Gross profit							**185,194**	**197,384**	**195,890**
Sales, marketing and distribution expenses							–80,847	–85,860	–86,670
Segment contribution							**104,347**	**111,524**	**109,220**
Research and development expenses							–46,867	–48,811	–48,654
Segment earnings							**57,480**	**62,713**	**60,566**

1 acc = At constant currency
2 To improve the informative value of its financial statements—earnings performance in particular—Software AG changed the structure of the revenues section of its income statement as of January 1, 2018. Accordingly, revenue from Software as a Service (SaaS) contracts is reported separately. Figures from 2017 were adjusted to reflect the new presentation structure.

[8] Contingent Liabilities

The carrying amount of collateral received was €319 thousand (2017: €83 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.

The following contractually agreed payments existed as of June 30, 2018:

in € thousands	**Up to 1 year**	**>1 to 5 years**	**> 5 years**	**Total**
Contractually agreed payments	9,980	42,602	1,451	54,033
Estimated income from subleases	340	2,365	0	2,705

The following contractually agreed payments existed as of June 30, 2017:

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Contractually agreed payments	9,477	40,864	4,531	54,872
Estimated income from subleases	341	1,138	0	1,479

[9] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2017 as follows:

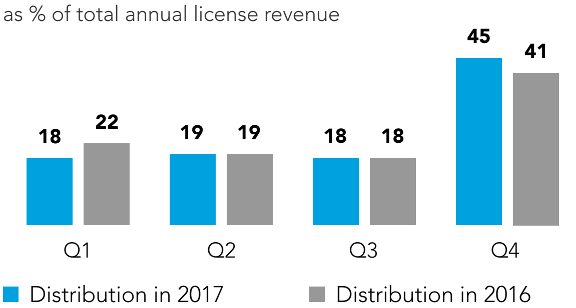
in € thousands	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
License revenue	46,253	48,913	46,221	115,342	256,729
as % of license revenue for the year	18	19	18	45	100
Total revenue	205,939	207,382	197,283	268,379	878,983
as % of revenue for the year	23	24	22	31	100
Earnings before taxes	39,379	46,447	48,486	82,743	217,055
as % of earnings for the year	18	22	22	38	100

Based on historical data, the revenue and earnings distribution from 2017 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict.

The following graph illustrates the development of license revenues in 2017 and 2016.

License revenue in 2017 and 2016

as % of 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. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the case to set a precedent, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants. In summary proceedings in May 2015, the court decided in favor of one defendant; the plaintiff filed an appeal against the decision and won in part, which was reported by the plaintiff on August 18, 2016. After the original judge withdrew herself from the case, a new judge was assigned. The U.S. Patent Office has since confirmed a decision relating to the invalidity of a TecSec patent. The proceedings are still pending for Software AG.

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. In response to the court's order to hear evidence issued in September 2013, Warth & Klein GmbH Wirtschafsprüfungsgesellschaft provided a written opinion on questions concerning valuation in the capacity of expert auditor in July 2014. A hearing was held in the Regional Court of Saarbrücken on February 21, 2018. The Regional Court of Saarbrücken ruled on June 6, 2018 to reject the plaintiff's appeal. Multiple plaintiffs filed complaints against this decision within the appeal period.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision. The court-ordered expert witness submitted a report in the third quarter of 2017. Software AG presented a detailed opinion on the report in the fourth quarter of 2017. The court resolved on January 12, 2018 that the expert witness must appear for a hearing to explain the report and add to it prior to the appointment. The date has not yet been scheduled. Provisions are set up based on the estimated probable actual resource outflow.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia [CNMC]) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 for suspicion of an inadmissible anti-competitive agreement. On April 25, 2016 the Spanish cartel authority (CNMC) published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies on October 19, 2017. CNMC is accusing Software AG Spain of inadmissible price fixing and "covert tenders." Software AG rejects the accusations and has established provisions based on current estimates as to the probable actual resource outflow. Following a hearing on June 12, 2018, Software AG expects a decision by the Spanish cartel authorities by August 8, 2018. For information on the ruling of the Spanish cartel authority on July 31, 2018, please see Note [14] Events After the Balance Sheet Date.

Status proceedings were brought to the Regional Court of Frankfurt on the matter of a motion submitted by shareholder Erzberger to determine whether Software AG's Supervisory Board must be constituted in accordance with the requirements of the Codetermination Act. The regional court ruled to reject the motion on December 21, 2017. The plaintiff filed a complaint against the decision on the last day of the appeal period, which it has since rescinded.

The risk evaluation for other litigation and legal risks was updated; and provisions were set up based on a new calculation of the probable actual resource outflow.

Provisions for litigation totaled €15,704 thousand (Dec. 31, 2017: €16,081 thousand) as of June 30, 2018. In addition, contingent liabilities in the amount of €16,604 thousand (Dec. 31, 2017: €19,593 thousand) existed. But since a resource outflow as of the balance sheet date was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions were made.

[11] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. All plans as of June 30, 2018 are described in detail on pages 209–213 of Software AG's 2017 Annual Report.

Management Incentive Plan 2018

The rights granted under Management Incentive Plan 2018 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2017	**1,464,122**
Granted	0
Expired	–6,998
Balance as of June 30, 2018	**1,457,124**

Management Incentive Plan 2017

The rights granted under Management Incentive Plan 2017 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2017	**1,785,676**
Granted	0
Expired	–13,275
Balance as of June 30, 2018	**1,772,401**

Management Incentive Plan 2016

The rights granted under Management Incentive Plan 2016 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2017	**441,497**
Granted	0
Expired	–2,787
Balance as of June 30, 2018	**438,710**

Management Incentive Plan 2007–2011 (MIP III)

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

	Number of rights outstanding	Exercise price per right in €	Weighted average remaining Term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2017	**12,400**	**24.12**	**1.5**	**282***
Expired	0			
Exercised	–3,650			
Balance as of June 30, 2018	**8,750**	**24.12**	**1.0**	**138***
thereof exercisable as of June 30, 2018	8,750	24.12		138*

* Based on the respective closing price

[12] Employees

As of June 30, 2018, the average number of employees (part-time employees are taken into account on a pro rata basis only) by area of activity was as follows:

	June 30, 2018	June 30, 2017
Maintenance and Services	1,924	1,906
Sales and Marketing	902	876
R&D	1,201	1,140
Administration	606	607
	4,633	**4,529**

In absolute terms (part-time employees are counted in full), the Group employed 4,818 (2017: 4,701) people as of June 30, 2018.

[13] Changes and Information Regarding Corporate Bodies

There were no changes on the Management Board or Supervisory Board between January 1, 2018 and June 30, 2017.

[14] Events After the Balance Sheet Date

Karl-Heinz Streibich stepped down from the Management Board due to age between June 30, 2018 and the release of this half-year report. Sanjay Brahmawar commenced activities as CEO of Software AG on August 1, 2018.

In the matter of the Spanish anti-trust case, the Spanish cartel authority ruled on July 31, 2018 to impose a penalty on 11 companies including Software AG Spain. The penalty against Software AG Spain consists of a fine of €6,016 thousand. Software AG is currently evaluating all legal options to challenge the decision, including ways to file for temporary legal protection against the administrative act so as to avoid paying a fine before a legally binding court ruling has been made. An initial evaluation of all legal options carried out by advising independent attorneys concludes that the fine will be due in 2019 at the earliest, if at all. Risks associated with this case are accounted for in full in the half-year statements for 2018.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on August 7, 2018.

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 Combined Management Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal opportunities and risks associated with the expected development of the Company and Group.

Darmstadt, August 7, 2018

Software AG

S. Brahmawar E. Duffaut

Dr. W. Jost Dr. S. Sigg

A. Zinnhardt

ADDITIONAL INFORMATION

FINANCIAL CALENDAR

For the latest information on events and roadshows, please visit: SoftwareAG.com/financialcalendar

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