Half-Year Report H1 2023

Key Figures

in € millions (unless otherwise stated)	H1 2023	H1 2022	+/- as %	+/- as % acc[1]	Q2 2023	Q2 2022	+/- as %	+/- as % acc[1]
Group revenue	**459.0**	**432.9**	**6**	**8**	**248.4**	**226.9**	**9**	**14**
Product revenue	**380.9**	**354.6**	**7**	**9**	**211.1**	**187.6**	**12**	**17**
thereof Digital Business	258.4	246.8	5	6	137.8	135.8	1	4
thereof Adabas & Natural (A&N)	122.6	107.8	14	17	73.3	51.8	41	49
thereof Licenses	142.1	122.9	16	19	91.7	67.4	36	42
thereof Maintenance	191.9	199.2	-4	-3	95.6	101.8	-6	-3
thereof Software as a Service (SaaS)	46.9	32.4	45	46	23.8	18.5	29	32

	June 30, 2023	June 30, 2022	+/- as %	+/- as % acc[1]
Group ARR[2]	**718.4**	**658.6**	**9**	**12**
thereof Digital Business ARR[2]	527.5	481.0	10	12
thereof A&N ARR[2]	190.8	177.6	7	11

	H1 2023	H1 2022	+/- as %	Q2 2023	Q2 2022	+/- as %
Operating EBITA (non-IFRS)	**77.9**	**90.3**	**-14**	**54.3**	**49.4**	**10**
Operating margin (EBITA, non-IFRS) as %	17.0	20.9		21.9	21.8	
Digital Business segment earnings	5.8	18.1	-68	8.2	10.1	-19
Segment margin as %	2.3	7.3		5.9	7.4	
A&N segment earnings	93.5	71.7	30	59.5	33.7	77
Segment margin as %	76.3	66.5		81.2	65.0	
EBIT	**25.4**	**61.9**	**-59**	**22.3**	**31.9**	**-30**
Operating net income (non-IFRS)	**20.0**	**53.9**	**-63**	**13.0**	**28.4**	**-54**
Operating earnings per share (non-IFRS)[3] in €	**0.27**	**0.73**	**-63**	**0.18**	**0.38**	**-54**
Operating cash flow	**-4.6**	**12.1**	**-138**	**-31.2**	**-18.5**	**68**
CapEx[4]	-4.5	-4.2		-1.2	-0.6	
Repayment of lease liabilities	-4.9	-5.3		-2.5	-2.6	
Free cash flow	**-14.0**	**2.6**	**-629**	**-34.9**	**-21.7**	**-61**
Free cash flow per share[3] in €	**-0.19**	**0.04**	**-629**	**-0.47**	**-0.29**	**-61**

Balance sheet	June 30, 2023	Dec. 31, 2022	+/- as %
Total assets	**2,595.7**	**2,678.4**	**-3**
Cash and cash equivalents	388.4	427.1	-9
Net cash position[5]	-265.3	-240.0	52
Employees (FTE)	**4,775**	**4,996**	**-4**

1 At constant currency.
2 Annual recurring revenue.
3 Based on weighted average shares outstanding: 74.0 mn.
4 Cash flow from investing activities adjusted for acquisitions and investments in debt instruments.
5 Net cash position includes cash and cash equivalents less financial liabilities.

Content

Software AG's financial report for the first half of 2023 (Half-Year Report) meets the requirements of German Accounting Standard No. 16 "Half-Yearly Financial Reporting" (DRS 16). It complies with the legal requirements in accordance with the German Securities Trading Act (WpHG) and includes the Consolidated Interim Management Report, Condensed Consolidated Interim Financial Statements, and Responsibility Statement in accordance with the German Securities Trading Act, section 115(2). This Half-Year Report carries on from the 2022 Consolidated Financial Statements and presents significant events and transactions from the first half of 2023 and updated forward-looking information as well significant key figures contained in the 2022 Consolidated Management Report. All of the information in the Half-Year Report is unaudited. This means that the information has been subject neither to any audit nor to any review by an independent auditor. Unless otherwise stated, all figures are in accordance with IFRS.

Changes are presented in rounded numbers. Because the figures in this report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact.

Consolidated Interim Management Report

Fundamental Aspects of the Group

Software AG uses its technological expertise to connect people, systems, and devices, enabling customers and partners—and the Company itself—to have a positive impact on people's lives. That applies to delivering better product offerings in the present as well as embracing co-innovation toward a smarter, more connected, and sustainable future.

For more than 50 years, Software AG has provided its customers with products and services that expand existing IT architectures through innovation and allow integration of new functions and technologies. Software AG uses its industry expertise to support companies with data integration, regardless of its source, and with process management. The Company's digital business solutions are intended to enable customers to develop new business models and robust solutions that meet the needs of their end users.

This is underpinned by horizontal integration capabilities both within the Company's own product portfolio as well as the partners' technology segments. Software AG offers open technology and pursues a vendor-neutral approach to integrating the best software solutions. The Company preserves customer choice, the ability to use whatever applications they need, and the agility to react to rapidly changing markets and economic conditions. With the broad availability of its software solutions in the cloud, Software AG also enables its customers to quickly implement use cases and create incremental value while reducing operating costs at the same time.

Software AG considers its sustainable success to be the reason for its long-term customer relationships. This allows customers' IT investments to be protected and enables Software AG's long-term planning, ongoing product innovations, and smart technology acquisitions.

Customers are also at the center of Software AG's flexible licensing options. The Company's focus on shifting its licensing model toward subscriptions including usage-based licenses (Software as a Service, SaaS) aligns with its customers' preference for subscriptions over traditional licensing models.

Finally, as a global technology provider, Software AG has a special connection to customer and employee issues. Responsible conduct and integrity are of key importance in a highly competitive market environment.

Software AG operates three complementary business lines to address differing customer requirements and business objectives:
- Digital Business
- Adabas & Natural (A&N)
- Professional Services

The first two business lines, Digital Business and A&N, represent Software AG's broad product portfolio and are the primary revenue drivers through license and maintenance fees. Licenses for Software AG's product portfolio can be term (subscription) or perpetual. Maintenance contracts consist of support services and regular product enhancement updates. In addition, Software AG customers can use products as part of SaaS offerings.

The Professional Services business line comprises consulting and implementation services that accelerate customer deployment of Software AG products.

Management's Assessment of the Half-Year Results

We closed out the first half of 2023 according to plan, underpinned by strong Adabas & Natural (A&N) business in the second quarter and continued traction in the Digital Business segment. We further delivered on our strategy within a challenging macroeconomic environment and remain confident about meeting our full-year guidance. Going forward, we are excited about continuing our journey with Silver Lake and fully focused on our mission to offer unique AI-enabled Enterprise Integration Platform in the cloud.

As expressed in the Joint Reasoned Statement by the Management Board and the independent Takeover Committee of the Supervisory Board, we believe that the Silver Lake transaction is in the best interest of all our stakeholders. Silver Lake has secured 84 percent of Software AG's outstanding share capital as part of the offer process. This will lead to a majority shareholding once regulatory clearances have been successfully completed. The transaction is expected to close in the fourth quarter of this year. After closing, Silver Lake intends to pursue a delisting of Software AG.

The Management Board and Supervisory Board of Software AG are convinced that the deepening of our relationship with Silver Lake, one of the world's leading technology investors, is an important milestone for our business. Given our strategic focus on integration and "cloud first," we will have one totally aligned strategic partner to help us drive our strategy forward with Silver Lake as our new majority owner. They have been backing our priorities since their PIPE investment announced in 2021, which helped to fund the acquisition of StreamSets. And they bring in-depth knowledge in data integration as well as in Software as a Service (SaaS) transformations of software companies.

Taking all of this into consideration, we firmly believe that Silver Lake's long-term support in a non-listed environment will enable us to execute the next phase of our strategy even more efficiently.

During the first half, we demonstrated our ability to deliver on our operating plan amid a continuously challenging macroeconomic environment. Despite some customers staying cautious on IT spending as a result of this uncertainty, we nevertheless executed well on our mission-critical products.

As of the end of the second quarter of 2023, Digital Business annual recurring revenue (ARR) increased 12 percent year-on-year at constant currency and landed within the full-year guidance range. We expect the traditional seasonality, which is more weighted to the second half of the year, to continue. Digital Business ARR from SaaS contracts grew 33 percent year-on-year. This development follows the trend in customer demand we have been seeing since last year and reaffirms our decision to make SaaS and cloud offerings a key cornerstone of the next phase of our strategy.

Driven by ongoing migration to subscriptions, first-half ARR in the Group's A&N segment increased 11 percent at constant currency. Compared with the end of the first quarter, ARR in the A&N segment grew 3 percent. As a result, we saw higher A&N revenue which led to year-on-year Group product revenue growth of 9 percent at constant currency in the first half of the year, also in line with expectations. Combined with first-half revenue from Professional Services of €78.4 million, Group revenue amounted to €459.0 million, representing growth of 8 percent year-on-year at constant currency.

Supported by the unfolding success of our cost savings program and the accelerated shift to subscriptions within our A&N business, operating margin (EBITA, non-IFRS) reached 17.0 percent in the first half of the year. With the expected seasonality in mind, we remain confident about delivering on all of our 2023 guidance targets.

As in previous quarters, we continued to see technical headwinds on cash flow due to our business model transformation and subscription shift. But we expect to emerge from the current trough in upcoming quarters. Looking at the numbers, free cash flow amounted to -€14 million in the first half of the year. This was mainly due to one-off effects from share-based payments triggered by recent share price developments, takeover-related consultancy and legal fees, severance payments as part of the cost optimization program, as well as payments related to the settlement of litigation claims and the negative impact from StreamSets. Taking these factors into account, the underlying operational business has significantly improved.

We continued our cost discipline in the second quarter and made good progress on our cost savings program announced earlier this year. Sales and marketing as well as administrative costs decreased significantly in the second quarter, reflecting meaningful cost saving initiatives across various areas like Go-to-Market (GTM), Customer Support, General and Administrative (G&A) functions, and Professional Services. Our announced headcount reduction of 200 employees is in an advanced stage.

Building on the five strategic priorities revealed in February, we have evolved our strategy towards a more balanced and less complex product portfolio which we see as the key to creating value for our stakeholders. Going forward, we will double down on innovation in integration and accelerate our journey to cloud first. We are fully focused on our mission to offer a truly differentiated, full-stack, AI-enabled Enterprise Integration Platform.

This includes bringing multiple integration patterns together, such as app, data, API, B2B, and events, in an enterprise integration cloud, deployable across infrastructure locations and geographies with a unified user experience. We will offer the world's only platform that leverages the conversational capability of generative AI and combines it with a broad range of integration patterns, including our leading webMethods.io and StreamSets offerings. This new product roadmap will give us a demonstrable differentiation to the market by enabling customers to unlock the value from their data more productively and efficiently than ever before. Our first proof point will be a major product launch in October 2023.

Our evolved strategy rests on **five key cornerstones**:

1. Building a differentiated Enterprise Integration Platform
2. Embracing cloud first
3. Creating a superior GTM
4. Becoming operationally lean
5. Investing in and developing talent

These cornerstones will be translated into long-term initiatives that will take our current programs beyond this year into the medium and long term.

Our increasing focus on cloud will offer us attractive economies of scale as we meet growing customer demand. To achieve this, we will work more closely with a select network of hyperscalers to scale our cloud products and optimize our support costs. Additionally, we will continue to manage our costs tightly across the entire Company while building a superior go-to-market function. All in all, these initiatives will enable us to accelerate Software AG's journey towards positive cash generation as well as sustainable and profitable growth.

Financial Performance

ARR Performance

As of the end of the second quarter of 2023, Software AG's Digital Business ARR was €527.5 million (2022: €481.0 million), representing year-on-year growth of 10 percent or 12 percent at constant currency. Compared with the end of the first quarter, Digital Business ARR rose by €8.6 million, a sequential increase of 2 percent. ARR in the A&N business was €190.8 million at the end of the second quarter of 2023. Compared to the previous year's €177.6 million, this reflects growth of 7 percent or 11 percent at constant currency. Quarter-on-quarter, A&N ARR grew by €5.4 million or 3 percent.

Total Revenue

Software AG generated €459.0 million (2022: €432.9 million) in revenue in the first half of 2023 thereby achieving growth of 6 percent or 8 percent at constant currency. Of that amount, product revenue accounted for €380.9 million (2022: €354.6 million), marking a rise of 7 percent or 9 percent at constant currency. Subscriptions and SaaS accounted for 61 percent of product revenue in the first half of the year, which is an increase of 13 percentage points year-on-year. This performance was due to Software AG's ongoing transition to a sales model with a greater focus on subscriptions and SaaS. Owing to the shift to subscriptions, revenue from perpetual licenses decreased by 35 percent or 30 percent at constant currency in the first half of the year. The associated maintenance revenue was down 16 percent or 15 percent at constant currency.

Exchange Rate Effects

Exchange rate effects decreased revenue by €8.0 million, or 2 percent, in the first half of 2023. The percentage of Software AG's revenue in foreign (non-euro) currency is around three-times higher than the percentage in euros due to its global focus and operations in 70 countries. The share of revenue generated in foreign currency was 76 percent (2022: 68 percent) in the first half of 2023. Accordingly, the share of revenue in euros was 24 percent. The US dollar continued to account for the largest portion of revenue outside the eurozone, which at 38 percent (2022: 28 percent), was above the prior-year level.

Earnings Performance

Software AG's cost of sales rose 15 percent or 16 percent at constant currency to €120.1 million (2022: €104.5 million) in the first half of 2023. Gross profit increased 3 percent or 5 percent at constant currency to €338.9 million (2022: €328.4 million). Software AG's gross margin totaled 73.8 percent compared with 75.9 percent in the previous year.

Research & development (R&D) expenses in the first half of 2023 rose 16 percent to €98.0 million (2022: €84.6 million). Sales, marketing, and distribution expenses totaled €152.8 million (2022: €153.5 million). In addition to new business and the shift to subscriptions, Software AG remains highly focused on end-to-end customer care in order to maximize customer relationships and lifetime value. General and administrative expenses went down year-on-year by 15 percent or 14 percent at constant currency to €38.3 million (2022: €44.9 million). Other net income/expenses in the first half of 2023 totaled -€24.3 million compared with €16.5 million in the previous year. The main drivers of this result were negative exchange rate effects, expenses for operational restructuring measures, and one-off expenses in connection with Silver Lake's takeover offer. Earnings before interest and taxes (EBIT) totaled €25.4 million (2022: €61.9 million), which represents a decrease of 59 percent or 47 percent at constant currency.

Software AG's operating EBITA (non-IFRS) decreased by 14 percent from €90.3 million in the first half of 2022 to €77.9 million in the first half of 2023. This resulted in an operating margin (EBITA, non-IFRS) of 17.0 percent (2022: 20.9 percent), which is mid-range for fiscal 2023 guidance after the first six months.

Net financial income/expenses improved to €0.4 million (2022: -€5.4 million) due mainly to higher income on interest. Software AG's income taxes totaled €16.9 million (2022: €18.8 million) with a total imputed tax rate of 76.4 percent (2022: 37.4 percent). The increase over the previous year resulted primarily from a valuation adjustment to deferred tax assets and changes in nondeductible expenses.

The Group's net income decreased by 83 percent year-on-year to €6.1 million (2022: €35.4 million). This led to earnings per share (basic as well as diluted) of €0.08 (2022: €0.48) with an unchanged number of shares outstanding.

Revenue and Earnings by Business Line (Segment Report)

Digital Business
Software AG's Digital Business product revenue was €258.4 million (2022: €246.8 million) in the first half of the year, marking an increase of 5 percent or 6 percent at constant currency. This reflects the continued momentum toward subscriptions and SaaS and away from perpetual licenses and the associated maintenance revenue. The segment's cost of sales rose 10 percent year-on-year to €37.4 million (2022: €34.1 million). This was due to the effects of increased SaaS revenue on hosting costs and cloud operations.

Sales, marketing, and distribution expenses came to €130.4 million (2022: €126.3 million) thereby showing a lower increase than product revenue. R&D expenses reflect Software AG's strategy of targeted investments in high-growth fields. In the first half of 2023, these expenses totaled €84.7 million (2022: €68.4 million). The segment margin decreased from 7.3 percent in the previous year to 2.3 percent due to these ongoing investments.

A&N
Product revenue in the A&N segment was €122.6 million (2022: €107.8 million) in the first half of the year, marking an increase of 14 percent or 17 percent at constant currency. Revenue from perpetual licenses showed a decrease of 11 percent or 2 percent at constant currency to €11.3 million (2022: €12.7 million) due to the shift to subscription agreements. Subscription revenue was up 76 percent or 80 percent at constant currency from the previous year at €59.8 million (2022: €34.1 million). This performance was driven primarily by a major customer's migration to a subscription contract. The cost of sales for the A&N segment decreased by 18 percent from €3.9 million to €3.2 million.

Sales, marketing, and distribution expenses came to €12.5 million (2022: €16.1 million). R&D expenses decreased 18 percent to total €13.3 million (2022: €16.2 million). A&N segment earnings saw an improvement of 30 percent or 35 percent at constant currency to €93.5 million (2022: €71.7 million). Its margin was 76.3 percent (2022: 66.5 percent). These results illustrate the lasting confidence customers have in the Adabas & Natural 2050+ program as well as the necessity to safeguard their business-critical A&N systems.

Professional Services
Revenue in the Professional Services segment was stable in the first half of the year at €78.1 million (2022: €78.4 million). The cost of sales increased by 13 percent to €65.7 million (2022: €58.2 million). Segment earnings were €6.1 million (2022: €13.6 million), which is a decline of 55 percent or 52 percent at constant currency.

Financial Position

Net cash flow from operating activities was down €16.7 million from €12.1 million in the previous year to -€4.6 million in the first half of 2023. In addition to the decline in earnings described in Financial Performance, this development was primarily due to payments made in connection with the conclusion of the IDS Scheer appraisal proceedings (please refer to Note [6] on Litigation in the Notes to the Consolidated Interim Financial Statements) as well as the increased exercise of rights from share-based remuneration plans that had been fully vested.

Cash outflows from **investing activities** were €4.5 million compared to €543.2 million in the previous year. This change is mainly attributable to the StreamSets acquisition which had a significant impact on cash flow in the previous year. Cash outflows from **financing activities** were €16.3 million compared to inflows of €296.5 million in the previous year which had been significantly affected by the issue of convertible bonds. Due to the changes described above, **cash and cash equivalents** amounted to €388.4 million as of June 30, 2023, compared with €427.1 million at the beginning of the year.

Free cash flow decreased to -€14.0 million in the first half of the year compared with €2.6 million one year before. This was mainly due to the change in net cash flow from operating activities as described above.

Balance Sheet

Software AG's balance sheet remained robust. As of June 30, 2023, the balance sheet total was €2,595.7 million compared with €2,678.4 million as of December 31, 2022. On the **assets** side, **current assets** decreased by €48.6 million from €769.9 million as of December 31, 2022, to €721.3 million due primarily to the following changes:

- As described in Financial Position, cash and cash equivalents decreased from €427.1 million at the beginning of the year to €388.4 million.
- Current trade receivables, contract assets, and other receivables decreased by €11.8 million compared with December 31, 2022, to €240.0 million as of June 30, 2023, due in particular to lower contract assets.
- Current other non-financial assets increased by €7.5 million from €52.0 million to €59.5 million due mainly to advance payments for future expenses and other effects which are regularly invoiced in the first half of the year and subsequently reversed on a pro rata basis.

Compared with December 31, 2022, **non-current assets** decreased by €34.1 million to total €1,874.4 million as of June 30, 2023. This change was primarily attributable to exchange rate-related fluctuations in the translation of non-current assets and ongoing depreciation of property, plant, and equipment and amortization of intangible assets. In contrast, non-current trade receivables, contract assets, and other receivables increased from December 31, 2022, by €13.5 million to €149.4 million, mainly due to the signing of multi-year subscription agreements and the associated rise in contract assets for unbilled services.

On the **liabilities** side, the balance of **current and non-current liabilities** decreased from December 31, 2022, by total of €54.2 million to €1,113.1 million due primarily to the utilization of provisions and other liabilities to employees. The main drivers here were the conclusion of the IDS Scheer appraisal proceedings, which resulted in a supplementary settlement of €11.8 million including interest and fees (please refer to Note [6] on Litigation in the Notes to the Consolidated Interim Financial Statements), as well as the disbursement of share-based remuneration plans and other variable remuneration components that had accrued as of December 31, 2022. In addition, a reclassification from non-current financial liabilities to current financial liabilities was also made in connection with the upcoming maturity of credit payments.

Software AG's **shareholders' equity** totaled €1,482.6 million as of June 30, 2023, compared with €1,511.2 million at the end of 2022. The decline of €28.6 million was due mainly to currency translation effects at foreign subsidiaries in the amount of €26.7 million. The larger decrease in liabilities led to a slightly higher equity ratio in relation to total assets of 57.1 percent compared with December 31, 2022 (56.4 percent).

Opportunity and Risk Report

Software AG's 2022 Annual Report contains a comprehensive Opportunity and Risk Report (see p. 141 onward) which describes specific risks that could have a negative impact on business and financial performance and assets and financial position. It also describes key opportunities for Software AG.

Strategic risk and opportunity management consists of a central interdisciplinary core team of directors from Corporate Finance, Internal Audit, and Legal who report to the CFO in this function. A manager from the relevant field of expertise serves as risk advisor and is responsible for assessing, monitoring, and managing identified strategic risks. The risk advisors are recommended by the core team and chosen by the responsible member of the Management Board. The risk advisors conduct biannual risk evaluations with the core team.

In connection with the takeover offer by Mosel Bidco SE and any change of control, there is a fundamental risk of Software AG's lenders exercising a special right to terminate and thus its liabilities becoming due. For further information, please refer to Note [8] in the Notes to the Consolidated Interim Financial Statements.

Software AG's risk evaluations conducted in the first half of 2023 showed no other relevant changes to those risks described in the 2022 Annual Report. Consequently, the reported risk signals remained unchanged.

2023 Outlook

The Group has reiterated its guidance for the 2023 fiscal year as published on January 31, 2023.

Software AG's Management Board expects results at constant currency (i.e. based on 2022 exchange rates) within the following forecast ranges:

Outlook for Fiscal Year 2023

	FY 2022 in € millions	Outlook FY 2023 as of Jan 31, 2023 as %
Digital Business ARR	516.4	+10 to +15[1]
A&N ARR	183.8	-2 to +2[1]
Product revenue	795.6	+6 to +10[1]
Operating margin (EBITA, non-IFRS)[2] as %	18.6	16 to 18

[1] At constant currency.
[2] Before adjusting for non-operating factors (see definition in the 2022 Annual Report from p. 79).

In addition, Software AG remains committed to double-digit revenue growth in the Digital Business segment and reiterates its ambition to reach an operating profit margin in the high twenties in the medium term which will translate into improved cash flow generation.

Consolidated Interim Financial Statements

Consolidated Income Statement

For the six months ended June 30, 2023 and 2022

in € thousands	H1 2023	H1 2022
Licenses	142,065	122,892
Maintenance	191,903	199,235
SaaS	46,950	32,444
Product revenue	380,918	354,571
Services	78,015	78,355
Other	71	12
Total revenue	**459,004**	**432,938**
Cost of sales	-120,125	-104,548
Gross profit	**338,879**	**328,390**
Research and development expenses	-98,026	-84,595
Sales, marketing, and distribution expenses	-152,846	-153,472
General and administrative expenses	-38,298	-44,925
Other income	8,350	43,334
Other expenses	-32,652	-26,800
Other taxes	-2,770	-2,339
Operating income	**22,637**	**59,593**
Financing income	13,381	4,986
Financing expenses	-12,981	-10,347
Net financial income/expenses	**400**	**-5,361**
Earnings before income taxes	**23,037**	**54,232**
Income taxes	-16,942	-18,814
Net income	**6,095**	**35,418**
thereof attributable to shareholders of Software AG	6,095	35,155
thereof attributable to non-controlling interests	0	263
Earnings per share (basic) in €	0.08	0.48
Earnings per share (diluted) in €	0.08	0.48
Weighted average number of shares outstanding (basic)	73,979,889	73,979,889
Weighted average number of shares outstanding (diluted)	73,979,889	73,979,889

Statement of Comprehensive Income

For the six months ended June 30, 2023 and 2022

in € thousands	H1 2023	H1 2022
Net income	**6,095**	**35,418**
Currency translation differences from foreign operations	-26,686	62,676
Net gain/loss from cash flow hedges	748	127
Currency translation gain/loss from net investments in foreign operations	-6,454	15,711
Items to be reclassified to the income statement if certain conditions are met	**-32,392**	**78,514**
Net gain/loss from equity instruments designated to measurement at fair value through other comprehensive income	-323	-950
Net actuarial gain/loss from remeasurement of post-employment benefit obligations	1,627	538
Items not to be reclassified to the income statement	**1,304**	**-412**
Gain/loss recognized in equity	**-31,088**	**78,102**
Total comprehensive income	**-24,993**	**113,520**
thereof attributable to shareholders of Software AG	-24,993	113,257
thereof attributable to non-controlling interests	0	263

Consolidated Balance Sheet

ASSETS

in € thousands	June 30, 2023	Dec. 31, 2022
Current assets		
Cash and cash equivalents	388,424	427,105
Other financial assets	2,641	2,551
Trade receivables, contract assets, and other receivables	239,952	251,799
Other non-financial assets	59,474	51,987
Income tax receivables	30,827	36,505
	721,318	**769,947**
Non-current assets		
Intangible assets	200,180	221,702
Goodwill	1,362,517	1,381,828
Property, plant, and equipment	72,671	76,005
Investment property	5,513	5,635
Other financial assets	11,037	9,823
Trade receivables, contract assets, and other receivables	149,368	135,848
Other non-financial assets	49,559	52,812
Income tax receivables	16,441	15,748
Deferred tax receivables	7,075	9,057
	1,874,361	**1,908,458**
Total assets	**2,595,679**	**2,678,405**

EQUITY AND LIABILITIES

in € thousands	June 30, 2023	Dec. 31, 2022
Current liabilities		
Financial liabilities	125,457	31,888
Trade and other payables	59,187	57,350
Other non-financial liabilities	109,529	138,037
Other provisions	36,416	59,529
Income tax liabilities	28,404	30,673
Contract liabilities	155,300	137,168
	514,293	**454,645**
Non-current liabilities		
Financial liabilities	528,285	635,217
Trade and other payables	89	130
Other non-financial liabilities	609	866
Other provisions	8,798	5,504
Provisions for pensions and similar obligations	11,347	11,750
Income tax liabilities	894	911
Deferred tax liabilities	39,762	42,671
Contract liabilities	8,997	15,559
	598,781	**712,608**
Equity		
Subscribed capital	74,000	74,000
Capital reserves	55,882	55,737
Retained earnings	1,334,530	1,332,134
Other reserves	18,950	50,038
Treasury shares	-757	-757
	1,482,605	**1,511,152**
Total equity and liabilities	**2,595,679**	**2,678,405**

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2023 and 2022

in € thousands	Subscribed capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Jan. 1, 2022	73,979,889	74,000	22,580	1,369,375
Total comprehensive income				35,155
Transactions with shareholders				
Dividend payment				-56,225
Issue of convertible bonds			33,157	
Transactions between shareholders				
Equity as of June 30, 2022	73,979,889	74,000	55,737	1,348,305
Equity as of Jan. 1, 2023	73,979,889	74,000	55,737	1,332,134
Total comprehensive income				6,095
Transactions with shareholders				
Dividend payment				-3,699
Share-based remuneration			145	
Transactions between shareholders				
Equity as of June 30, 2023	73,979,889	74,000	55,882	1,334,530

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	Gain/loss from remeasurement of post-employment benefit obligations	Currency translation gain/loss from net investments in foreign operations				
10,252	-7,898	-37,076	6,924	-757	1,437,400	814	1,438,214
62,676	-823	538	15,711		113,257	263	113,520
							0
					-56,225	-474	-56,699
					33,157		33,157
							0
72,928	-8,721	-36,538	22,635	-757	1,527,589	603	1,528,192
41,002	-8,551	4,368	13,219	-757	1,511,152	0	1,511,152
-26,686	425	1,627	-6,454		-24,993		-24,993
							0
					-3,699		-3,699
					145		145
							0
14,316	-8,126	5,995	6,765	-757	1,482,605	0	1,482,605

Consolidated Statement of Cash Flows

For the six months ended June 30, 2023 and 2022

in € thousands	H1 2023	H1 2022
Net income	6,095	35,418
Income taxes	16,942	18,814
Net financial income/expenses	-400	5,361
Amortization/depreciation of non-current assets	28,236	24,412
Other non-cash income/expenses	229	-296
Changes in receivables and other assets	-4,672	-23,879
Changes in payables and other liabilities	-36,059	-6,311
Income taxes paid	-15,148	-39,109
Interest paid	-13,248	-7,317
Interest received	13,411	5,009
Net cash flow from operating activities	**-4,614**	**12,102**
Proceeds from the sale of property, plant, and equipment/intangible assets	577	607
Purchase of property, plant, and equipment/intangible assets	-4,239	-6,407
Proceeds from the sale of non-current financial assets	455	3,616
Purchase of non-current financial assets	-1,255	-2,011
Proceeds from the sale of current financial assets	269	67
Purchase of current financial assets	-298	-1,777
Cash outflow for acquisitions	0	-537,317
Net cash flow from investing activities	**-4,491**	**-543,222**
Dividends paid	-3,699	-56,699
Proceeds/payments for current financial liabilities	-387	69,185
Repayment of lease liabilities	-4,891	-5,267
New non-current financial liabilities	0	364,300
Repayment of non-current financial liabilities	-7,333	-75,000
Net cash flow from financing activities	**-16,310**	**296,519**
Change in cash and cash equivalents from cash in/outflows	-25,415	-234,601
Change in cash and cash equivalents from currency translation	-13,266	36,497
Net change in cash and cash equivalents	**-38,681**	**-198,104**
Cash and cash equivalents at beginning of period	427,105	585,844
Cash and cash equivalents at end of period	**388,424**	**387,740**

Notes to the Consolidated Interim Financial Statements

General

[1] Basis of Presentation

Software AG's condensed and unaudited Consolidated Interim Financial Statements as of June 30, 2023, were prepared in accordance with the reporting standards of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU). The IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable as of June 30, 2023, were observed. Software AG is a registered stock corporation under German law with headquarters in Darmstadt, Germany. 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 Interim Financial Statements of Software AG are expressed in thousands of euros unless otherwise stated.

[2] Accounting Policies

The same accounting policies were applied to the Consolidated Interim Financial Statements as to the Consolidated Financial Statements as of December 31, 2022. For more detailed information on accounting and valuation policies, please refer to Note [2] of the Consolidated Financial Statements for the 2022 fiscal year. These Consolidated Interim Financial Statements were prepared in accordance with IAS 34: Interim Financial Reporting.

[3] Scope of Consolidation

There were no significant changes in the scope of consolidation in the first half of the year. The number of subsidiaries included in the Consolidated Interim Financial Statements decreased from 72 as of December 31, 2022, to the current number of 70 companies. These changes resulted from the liquidation of Software AG Factoria S.A. in Chile and from the merger of itCampus Software- und Systemhaus GmbH with SAG Consulting Services GmbH.

[4] Segment Reporting

The following table shows the segment data for the first half of 2023:

For the six months ended June 30, 2023 and 2022

	Digital Business			A&N		
in € thousands	H1 2023 IFRS	H1 2023 acc[1]	H1 2022 IFRS	H1 2023 IFRS	H1 2023 acc[1]	H1 2022 IFRS
Licenses from subscriptions	75,044	76,262	66,429	46,426	47,550	24,928
Maintenance from subscriptions	50,841	51,152	37,988	13,422	13,643	9,131
Perpetual maintenance	76,235	76,613	91,112	51,405	52,702	61,004
SaaS	46,950	47,263	32,444	0	0	0
Recurring revenue	**249,070**	**251,290**	**227,973**	**111,253**	**113,895**	**95,063**
Perpetual licenses	9,290	9,731	18,786	11,305	12,483	12,749
Product revenue	**258,360**	**261,021**	**246,759**	**122,558**	**126,378**	**107,812**
Services	0	0	0	0	0	0
Other	0	0	12	0	0	0
Revenue	**258,360**	**261,021**	**246,771**	**122,558**	**126,378**	**107,812**
Cost of sales	-37,413	-37,497	-34,064	-3,183	-3,240	-3,870
Gross profit	**220,947**	**223,524**	**212,707**	**119,375**	**123,138**	**103,942**
Sales, marketing, and distribution expenses	-130,422	-130,956	-126,259	-12,532	-12,826	-16,070
Segment contribution	**90,525**	**92,568**	**86,448**	**106,843**	**110,312**	**87,872**
Research and development expenses	-84,701	-84,555	-68,394	-13,325	-13,359	-16,201
Segment earnings	**5,824**	**8,013**	**18,054**	**93,518**	**96,953**	**71,671**
General and administrative expenses						
Other income						
Other expenses						
Other taxes						
Operating income						
Financing income						
Financing expenses						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

[1] At constant currency.

	Professional Services			Reconciliation		Total		
	H1 2023 IFRS	H1 2023 acc[1]	H1 2022 IFRS	H1 2023 IFRS	H1 2022 IFRS	H1 2023 IFRS	H1 2023 acc[1]	H1 2022 IFRS
	0	0	0	0	0	121,470	123,812	91,357
	0	0	0	0	0	64,263	64,795	47,119
	0	0	0	0	0	127,640	129,315	152,116
	0	0	0	0	0	46,950	47,263	32,444
	0	**0**	**0**	**0**	**0**	**360,323**	**365,185**	**323,036**
	0	0	0	0	0	20,595	22,214	31,535
	0	**0**	**0**	**0**	**0**	**380,918**	**387,399**	**354,571**
	78,015	79,534	78,355	0	0	78,015	79,534	78,355
	71	72	0	0	0	71	72	12
	78,086	**79,606**	**78,355**	**0**	**0**	**459,004**	**467,005**	**432,938**
	-65,729	-66,773	-58,222	-13,800	-8,392	-120,125		-104,548
	12,357	**12,833**	**20,133**	**-13,800**	**-8,392**	**338,879**		**328,390**
	-6,266	-6,347	-6,494	-3,626	-4,649	-152,846		-153,472
	6,091	**6,486**	**13,639**	**-17,426**	**-13,041**	**186,033**		**174,918**
	0	0	0	0	0	-98,026		-84,595
	6,091	**6,486**	**13,639**	**-17,426**	**-13,041**	**88,007**		**90,323**
						-38,298		-44,925
						8,350		43,334
						-32,652		-26,800
						-2,770		-2,339
						22,637		**59,593**
						13,381		4,986
						-12,981		-10,347
						400		**-5,361**
						23,037		**54,232**
						-16,942		-18,814
						6,095		**35,418**

Other Disclosures

[5] Equity

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 17, 2023, to appropriate €3,699 thousand (2022: €56,225 thousand) for a dividend payout from the net retained profits totaling €48,760 thousand reported by Software AG in 2022. This corresponded to a dividend of €0.05 (2022: €0.76) per share.

[6] Litigation

In connection with the merger of IDS Scheer AG and Software AG, appraisal proceedings were filed with the Regional Court of Saarbrücken, Germany, in which the petitioners sought a judicial review of the set exchange ratio and correction through cash compensation. On April 3, 2023, the court ruled in favor of a settlement in the amount of €7.22 per share for all former shareholders of IDS Scheer AG which resulted in a payment obligation, including interest, of €11,730 thousand, plus the joint representative's and petitioners' court and legal fees. The decision is final and binding.

Software AG's share of the amount settled in the class-action lawsuit before the US District Court for the Western District of Tennessee was capped at 5.5 percent as per judicial approval and is covered in full by insurance. The case closed in the first half of 2023.

Sanction-related supply stoppages and restrictions on business with Russia had such a negative impact on Software AG's existing customer relationships, that the remaining supply and service relationships were also discontinued. Under local law, non-fulfillment of current contracts due to international sanctions creates lawsuit risks; these could not yet be fully averted through sanction-compliant settlements as of June 30, 2023. A full settlement is expected by the end of August 2023. No more new customers were signed due to local risks.

The risk evaluation for other litigation and legal risks was updated; and provisions were set up based on a new calculation of the probable resource outflow. Provisions for litigation amounted to €8,524 thousand (2022: €13,189 thousand) as of June 30, 2023. The decrease is due to the lawsuit settlements described above.

There were no other changes with respect to the litigation reported as of December 31, 2022, nor has any new litigation or other legal risks become known that could potentially have a significant effect on the Group's assets, financial position, or financial performance.

[7] Seasonal Influences

Based on recent historical data, Software AG's revenue and earnings distribution is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict. Revenue and pre-tax earnings were distributed over fiscal year 2022 as follows:

in € thousands	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022
License revenue	55,511	67,381	56,361	135,244	314,497
as % of annual license revenue	18	21	18	43	100
Group revenue	206,032	226,906	221,412	303,830	958,180
as % of annual revenue	22	24	23	32	100
Earnings before income taxes	25,513	28,719	-10,505	21,380	65,107
as % of annual earnings	39	44	-16	33	100

[8] Related Party Transactions

Public Tender Offer by Silver Lake

On April 21, 2023, Software AG entered into an investment agreement with Mosel Bidco SE (the "investor"), previously Blitz 22-449 SE, a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C. ("Silver Lake"). The investment agreement is aimed at deepening the existing strategic partnership with Silver Lake and supporting the long-term growth and strategic objectives of Software AG.

In that context, the investor announced its intention to launch a voluntary public tender offer for all outstanding shares of Software AG. The Management Board and the independent Takeover Committee of the Supervisory Board both conducted a thorough assessment and analysis of the appropriateness of the offer, taking into account the results of the fairness opinions provided. In their Joint Reasoned Statement dated May 26, 2023, both Boards recommended that Software AG shareholders accept the offer.

On July 20, 2023, the investor announced that through its voluntary public tender offer plus the shares already held by Silver Lake, it had secured 84.29 percent of Software AG's share capital as of the end of the additional acceptance period on July 17, 2023.

Change of Control

In the event of a change of control, the change-of-control clauses contained in the financing contracts take effect whereby the lending banks and bond subscribers are entitled to extraordinary termination rights. Subject to approval by the relevant authorities, closing of the transaction, and thus the change of control, is expected in the fourth quarter of 2023.

As described in section 7.13.2 of the Reasoned Statement by the Management Board and Supervisory Board dated May 26, 2023, the bidder attached to the offer document a debt financing commitment from J.P. Morgan SE, Frankfurt am Main, Germany. In the opinion of the Management Board and Supervisory Board, it can be assumed with sufficient certainty based on the debt financing commitment that the Company will continue to have adequate liquid funds at its disposal and that there are no risks jeopardizing its going concern.

[9] Changes and Information Regarding Corporate Bodies

CFO Dr. Matthias Heiden left the Company as of December 31, 2022. His successor Daniela Bünger assumed responsibility as CFO effective as of January 1, 2023. Furthermore, the Annual Shareholders' Meeting elected James M. Whitehurst on May 17, 2022, to the Supervisory Board effective as of January 1, 2023.

No further changes occurred on the Management Board or Supervisory Board between January 1, 2023, and June 30, 2023.

[10] Events after the Balance Sheet Date

There were no further events that occurred between June 30, 2023, and the release date that were of significance to the Consolidated Interim Financial Statements. Software AG's Management Board approved them on August 10, 2023.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Interim Financial Statements give a true and fair view of the Group's assets, financial position, and financial performance. The Consolidated Interim 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 10, 2023
Software AG

S. Brahmawar

D. Bünger

J. Husk

Dr. B. Quade

Dr. S. Sigg

Additional Information

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This document includes forward-looking statements based on the beliefs of the management of Software AG (together with its consolidated subsidiaries, the **"Software AG Group"**), which are predictions, projections, or other statements about future events. Such statements reflect current views of Software AG with respect to future events and results and are subject to risks and uncertainties. Actual results may vary materially from those projected here, due to factors including changes in general economic and business conditions, changes in currency exchange, the introduction of competing products, lack of market acceptance of new products, services or technologies, and changes in business strategy. Software AG does not have any obligation to update these forward-looking statements and has no intention to assume such an obligation.

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Publication Credits

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