

PRESS RELEASE

Software AG increases quarterly earnings and confirms growth forecast for 2011

- Earnings in the second quarter up 3 percent over Q2 2010
- EBIT margin increased to 22.9 percent
- Free cash flow up 26 percent
- Revenue holds steady (at constant currency)
- Annual revenue and earnings forecast for 2011 confirmed

Darmstadt, Germany, July 28, 2011 - Software AG (Frankfurt TecDAX: SOW) increased its net income by 3 percent to €38.7 million in the second quarter of 2011, compared to the same period in 2010. Total revenue remained steady at €257.1 million (at constant currency rates). The operating income (EBIT according to IFRS) of €58.9 million is the same as the previous year. However, the company improved its EBIT margin to 22.9 percent (2010: 22.0%) and free cash flow climbed by 26 percent to €45.9 million. Software AG confirmed its 2011 annual forecast for revenue and income growth.

Group revenue for Q2 2011

As announced on July 13, 2011, the significant year-on-year increase in the strength of the euro led to lower stated euro revenue figures. Combined, these currency effects reduced the reported total revenue by €10.6 million to €257.1 million (2010: €267.3 million). Product revenue amounted to €151.2 million (2010: €161.9 million); of that, €57.7 million (2010: €68.8 million) came from licensing revenue. The licensing growth achieved in the first quarter did not continue because some license contracts were not closed in the second quarter as planned. The increase in service revenue to €104.8 million (2010: €104.4 million) is due mainly to the growth (+ 11%) of innovative BPE projects. In contrast, service revenue for SAP products only reached €40.4 million and was 7 percent lower than in the same quarter of the previous year.

"We are technology leaders in integration and process software. In the second quarter of 2011, however, we did not fully utilize the potential of our project pipeline and therefore we have taken steps to improve that," commented CEO Karl-Heinz Streibich regarding the results for Q2 2011. These steps also include some management changes. Darren Roos, an experienced and very successful manager within Software AG, has assumed responsibility for sales in the EMEA region (excluding the German-speaking countries). In addition, Global Consulting Services and IDS Scheer Consulting will be combined under Ivo Totev. Furthermore, Global Business Development was established as a new function on the Group Executive Board to increase sales efficiency. The goal is to combine the products of Software AG's extensive portfolio into specific industry solutions to address customer requirements more clearly and simplify the sales process.

Group results for Q2 2011

Despite lower revenue growth compared to the first quarter of 2011, the EBIT margin was increased to 22.9 percent (Q1: 22.0 percent). Revenue-based remuneration had a dampening effect on costs, as did the fact that a substantial share of the company's costs is incurred in local currency. CFO Arnd Zinnhardt added: "We successfully increased efficiency in the first six months, particularly in administrative processes. We have also improved our financing structure over the past quarter in terms of costs and better aligned it with our strategic development." Overall, Software AG reported second-quarter 2011 net income of 38.7 million and earnings per share of €0.45. Free cash flow development was even more positive. In comparison to the same quarter of the previous year it grew by 26 percent to €45.9 million (2010: €36.3 million).

First half of 2011

Group revenue amounted to €529.7 million (2010: €517.6 million) during the first six months of the current fiscal year. That is an increase of three percent at constant currency. Product revenue for this period also grew by 3 percent at constant currency to €315.8 million. Revenues from the services business grew during the reporting period to €211.1 million (2010: €206.7 million).

EBIT (IFRS) jumped by 13 percent to €119.1 million (2010: €105.5 million) in the first half of 2011. During that same time period, the EBIT margin grew to 22.5 percent (2010: 20.4%). Further debt reduction and optimized debt financing lowered interest expenses. Combined with an improved tax rate, this led to higher net income of €78.7 million (a rise of 20%). In the process, liquid assets increased by €92.2 million to €194.6 million, and the equity ratio climbed to 49 percent (2010: 41%).

Revenue by segment

The Business Process Excellence business line (IT integration and process optimization), which includes the product groups webMethods (IT integration) and ARIS (business process software), achieved total revenue of €245.6 million in the first half of 2011, an increase of 7 percent at constant currency. Product revenues for Business Process Excellence grew by 5 percent to €152.3 million (2010: €147.2 million), at constant currency, in comparison to the same period in 2010. Growth of 11 percent, again at constant currency, brought service revenues up to €93.3 million (2010: 84.0 million) in the first half of 2011.

The Enterprise Transaction Systems ETS (database software) business line held steady in the first half of 2011, with reported revenue of €186.5 million (2010: €185.4 million). Product revenues increased by 2 percent at constant currency to €152.3 million, primarily due to increased demand in Germany and the United States.

The IDS Scheer Consulting business line (principally SAP implementation) contributed €97.7 million (2010: €101.0 million) to Software AG's revenues in the first six months of this fiscal year. Of this amount, €86.5 million (2010: €90.0 million) came from the service and consulting business and €11.2 million (2010: €11.0 million) from third party products.

Employees

As of June 30, 2011, Software AG had 5,478 (2010: 5,792) full-time employees, of which 845 (2010: 839) work in Research and Development (R&D). Employees in Germany numbered 1,946 (2010: 2110).

Outlook

The revenue pipeline for the second half of 2011 is good, based on expected licensing contracts and consulting projects. Therefore licensing growth of well over 20 percent can be expected in the third quarter of 2011 for Business Process Excellence products. Software AG confirms its forecast for the full year 2011 and continues to expect revenue growth of 5 to 7 percent at constant currency, along with an increase in profit of 10 to 15 percent compared to the previous year.

Key figures *

in € millions	H1 2011	H1 2010	Change Δ in %	Q2 2011	Q2 2010	Change Δ in %
Total revenue	529.7	517.6	+3**	257.1	267.3	0**
Product revenue	315.8	308.6	+3**	151.5	161.9	-1**
Consulting and Services	211.1	206.7	+2**	104.8	104.4	+2**
BPE Business Line revenue	245.6	231.2	+7**	121.6	121.5	+4**
ETS Business Line revenue	186.5	185.4	+1**	89.7	96.3	-2**
IDSC Business Line revenue	97.7	101.0	-3**	45.8	49.5	-5**
EBIT	119.1	105.5	+13	58.9	58.9	0
- as percentage of revenue	22.5%	20.4%		22.9%	22.0%	90 BP
Net income	78.7	65.4	+20	38.7	37.4	+3
- as percentage of revenue	14.9%	12.6%		15.1%	14.0%	
Earnings per share (EPS) (in €) basic	0.92	0.76	+21	0.45	0.44	+2
Earnings per share (EPS) (in €) diluted	0.91	0.76	+20	0.44	0.44	0
Free cash flow	95.0	96.1	-1	45.9	36.3	+26
Total Assets	1,666.1	1,651.5	+1			
Cash & cash equivalents	194.6	155.8	+25			
Net debt	158.5	292.0	-46			
Shareholder's equity	809.5	672.0	+20			
- Equity ratio	49%	41%				
Employees ***	5,478	5,792	-5			
Employees in Germany	1,946	2,110	-8			
Employees in R&D	845	839	+1			

* IFRS unaudited | ** Net of currency effects | *** Full time equivalent

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About Software AG

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

We offer our customers end-to-end [business process management \(BPM\)](#) solutions delivering low Total-Cost-of-Ownership and high ease of use. Our industry-leading brands, ARIS, webMethods, Adabas, Natural, CentraSite and IDS Scheer Consulting, represent a unique portfolio encompassing: process strategy, design, integration and control; SOA-based integration and data management; process-driven SAP implementation; and strategic process consulting and services.

Software AG had revenues of €1.1 billion in 2010 and has more than 5,600 employees serving 10,000 enterprise and public institution customers across 70 countries. Our comprehensive software and services solutions allow companies to continuously achieve their business results faster. The company is headquartered in Germany and listed on the Frankfurt Stock Exchange (TecDAX, ISIN DE 0003304002 / SOW).

Software AG - Get There Faster

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