



Interim Report 1 | 2014

Transforming Excellence into Future

Key Figures

in € millions (unless otherwise stated)

	Q1 2014	Q1 2013	Change in %
Revenue	208.9	224.9	- 7 %
By type:			
• Products	147.4	157.1	- 6 %
• Licenses	57.1	63.6	- 10 %
• Maintenance	90.3	93.5	- 3 %
• Services	61.3	67.5	- 9 %
• Other	0.2	0.3	- 33 %
By business line:			
• Business Process Excellence	95.3	90.3	6 %
• Enterprise Transaction Systems	51.1	64.5	- 21 %
• Consulting	62.5	70.1	- 11 %
EBIT*	30.5	41.6	- 27 %
• as % of revenue	14.6 %	18.5 %	
Net income	18.6	27.2	- 32 %
• as % of revenue	8.9 %	12.1 %	
Earnings per share (€, basic)	0.23	0.32	- 28 %
Earnings per share (€, diluted)	0.23	0.32	- 28 %
Free cash flow	47.8	62.7	- 24 %
Employees (full-time equivalents)	5,108	5,300	
• of which in Germany	1,663	1,727	
• of which in R&D	995	901	
Balance sheet	March 31, 2014	Dec. 31, 2013	
Total assets	1,935.9	1,996.9	
Cash and cash equivalents	421.4	450.0	
Net debt	191.5	163.4	
Shareholders' equity	916.6	965.6	
• as % of total assets	47 %	48 %	

* EBIT: net income + income taxes + other taxes + financial result

Transforming Excellence into Future



Software AG is one of the world's leading providers of process and integration software, equipping customers for their transformation to a Digital Enterprise.

We help companies design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing business needs. This flexibility and agility are essential for staying competitive in the business world. Companies have to stake their claim in their respective market and continually adjust to short innovation cycles and the advancing digitization of our society.

In doing this, organizations build on existing IT landscapes that have evolved gradually over time. These complex IT landscapes can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient and automated support for business processes.

Transformation is the only option. IT systems must be replaced, harmonized or modernized. This situation usually does not affect just the IT architecture. But rather it requires an extensive overhaul of all processes in the organization. This creates a cycle.

New technologies enable business processes to be modeled, measured and to function more efficiently. Thanks to its product portfolio, Software AG considers itself to be an engine of this transformation cycle, driving the digitization of enterprises.

Software AG embraces the opportunities of the digital age with expertise and foresight.

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Preliminary Remarks

This quarterly 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 March 31, 2014, or the first quarter of the current fiscal year ended on that date, 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: Business Process Excellence (BPE—comprising the webMethods, ARIS, Alfabet, Apama and Terracotta product families), Enterprise Transaction Systems (ETS—comprising the Adabas and Natural product families) and Consulting (all consulting services associated with Software AG products, as of Q2 2014).

Interim Management Report

Significant Events During the Reporting Period

Consolidation of SAP consulting operations through the sale of IDS Scheer Consulting

The Scheer Group GmbH and Software AG entered an agreement on March 31, 2014 concerning the sale of IDS Scheer Consulting GmbH. The transaction includes all SAP services in Germany, Austria and Switzerland (DACH). As part of its efforts to focus on the high-margin product business, Software AG downscaled its SAP consulting operations in three stages: In January 2013 the company divested its SAP operations in Canada and the USA. That was followed by the sale of its SAP consulting unit in Eastern Europe a few months later. And, finally, the sale of SAP operations in the DACH region concluded the consolidation of Software AG's SAP service activities. The transaction is expected to close in the second quarter of 2014.

Technology acquisition

Software AG successfully concluded its 100-percent takeover of Berlin-based metaquark GmbH in the first quarter of 2014. With this step, Software AG will integrate metaquark's mobile app technology with its own Intelligent Business Operations platform and Business Process Management product line. Integrating the metaquark technology will enable Software AG to offer an end-to-end solution to any organization seeking a platform for mobile enterprise applications.

Innovations from CeBIT 2014

Software AG took advantage of CeBIT in Hanover/Germany in March 2014 to present numerous technological innovations for the Digital Enterprise. There was even a visit from German chancellor Angela Merkel and British Prime Minister David Cameron to Software AG's CeBIT stand during their traditional tour of the IT show.

- Unveiling of the Intelligent Business Operations (IBO) platform: The new solution is a building block for the transformation to a Digital Enterprise. It offers functionality such as comparison of data from sensors and networked digital devices with business performance and operational market data. The solution is built around an in-memory architecture that enables real-time processing of large volumes of data. It provides organizations with a 360-degree view of ongoing operations including process performance monitoring and recognition of specific information within in large data streams. It allows decision makers to quickly identify business-relevant opportunities and risks and react accordingly. With it, rapidly growing volumes of data (big data) become more manageable, opening the door to new potential uses (smart data).
- Following its acquisition of Alfabet AG in June 2013, Software AG presented its integration of the Alfabet and ARIS product lines: a new strategic platform that allows smooth interconnectivity of business and IT. The platform supports unified planning activities across an entire organization—from business decisions to their implementation in the IT landscape.

- In cooperation with more partners than ever before, Software AG not only demonstrated the breadth of its portfolio for digital enterprises, but the practical nature of the solutions when it comes to supporting business managers. Partners such as Accenture, Fujitsu, nterra integration and Telefónica Germany presented successful use case scenarios with Software AG solutions in day-to-day business.

External honors

Studies by independent industry analysts and market researchers again positioned Software AG's products and solutions as market-leading in the first quarter of the year, confirming Software AG as a high-quality vendor. A survey conducted by Forrester Research Inc. titled "The Forrester Wave: Hybrid Integration" ranked Software AG's webMethods Suite and AgileApps Live as leaders in the categories of Wide Integration, Deep Integration and Internet of Things Integration.

For the second time in a row, the well-known international publication "Waters Technology" named Apama the industry's leading high-performance complex-event processing technology. The Best Sell-Side CEP Technology award specifically recognized Apama's speed and scalability.

Share buyback and dividend

In addition to targeted investments and acquisitions, Software AG also employed its high level of cash and cash equivalents, amounting to €450.0 million as of December 31, 2013, to repurchase treasury stock. The share buyback program was approved at a volume of up to €110.0 million by the Management Board and Supervisory Board on October 25, 2013. The treasury share buyback ended on February 28, 2014.

After having purchased 1,463,438 shares through this program in the fourth quarter of 2013, Software AG bought an additional sum of 2,653,845 treasury shares for a total price of €70,560,638.50 based on February 28, 2014 as a value date. The company's treasury shares as of February 28, 2014 totaled 8,084,101, which represents 9.3 percent of its share capital.

The company adheres to a sustainable dividend policy, which is geared toward long-term development of Software AG. It will pursue this continuity in the interest of a dependable relationship with stockholders. The Management and Supervisory Boards will therefore propose a dividend of €0.46 (2013: €0.46) per share for the concluded 2013 fiscal year at the Annual Shareholders' Meeting on May 16, 2014. The dividend ratio based on the average free cash flow and net income would increase to 25 percent (2013: 23 percent).

Financial Performance

Total revenue

Software AG generated €208.9 million (2013: €224.9 million) in total revenue in the first quarter of 2014. The company's realigned focus and consolidation within its consulting business as well as the drop in Enterprise Transaction Systems (ETS) revenue led to a decline in total business volume of approximately 7 percent. At constant currency, the decrease in total revenue was only about 3 percent. At the same time, Software AG started the new fiscal year on a trend of continued dynamic growth in its largest business line—Business Process Excellence (BPE). The BPE segment returned a 6-percent revenue increase in the first three months of the year (11 percent at constant currency) totaling €95.3 million (2013: €90.3 million).

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Product revenue from BPE and ETS solutions (license and maintenance sales) reached €146.2 million (2013: €154.6 million), which is a 5-percent drop year on year. At constant currency, this figure is level with last year. BPE revenue accounted for almost two-thirds (2013: 58 percent) of Software AG's total product revenue. This resulted in an improved revenue mix in favor of the high-growth future-oriented BPE segment.

License revenue from BPE and ETS products was down 10 percent, or 4 percent at constant currency, to €57.0 million (2013: €63.0 million). Global maintenance revenue for these products fell to €89.2 million (2013: €91.6 million), which reflects a 3-percent decrease or, at constant currency, a 3-percent gain.

Exchange rate effects

Exchange rates had a very negative effect on Software AG's revenue in the first quarter of 2014. Because the euro was high against all relevant currencies, exchange rate fluctuations reduced Group revenue by €9.7 million year on year. All three business lines were affected, though maintenance suffered the biggest squeeze with a loss of €4.9 million. The effects on license and consulting revenue were –€3.7 million and –€1.1 million respectively. The contribution of the euro zone to revenue in the quarter under review rose to 43 percent (2013: 36 percent). The U.S. dollar (USD) accounted for the largest percentage in foreign currency with 21 percent (2013: 21 percent).

Earnings performance

In the first quarter of the current fiscal year, Software AG reduced its Group-wide cost of sales by 10 percent to €68.0 million (2013: €75.8 million). This was primarily due to consolidation measures in the Consulting segment. The reduction in consulting sales in combination with the positive revenue trend in licenses and maintenance continued to have a positive impact on the company's revenue mix: The company's gross margin grew from the previous year's high 66.3 percent to 67.4 percent in the quarter under review.

Research and development expenses rose slightly due to the consolidation of acquired companies during the previous year totaling €27.2 million (2013: €26.2 million) in the three-month period. Software AG's general and administrative expenses went up 7 percent to €19.1 million (2013: €17.8 million). Expenses for sales and marketing totaled €69.4 million (2013: €72.8 million). Earnings before interest and taxes (EBIT) were €30.5 million (2013: €41.6 million). This reflects a 27-percent decline as compared to the same quarter last year, which did however contained a high volume of one-time revenues. Software AG's EBIT margin was 14.6 percent (2013: 18.5 percent) in the first quarter of 2014.

In order to improve the basis of comparison between Software AG and those competitors which do not use the IFRS accounting standard—especially those in the USA—Software AG is additionally reporting operating (non-IFRS) income. This figure is calculated based on EBIT (before all taxes) adjusted for:

- Amortization of acquisition-related intangible assets
- Reduction of acquisition-related product revenue through purchase price allocation
- Other acquisition-related effects on earnings
- Share price-based remuneration
- Restructuring/severance payments

Operating (non-IFRS) income was €43.0 million (2013: €48.9 million); accordingly the operating (non-IFRS) margin was 21 percent (2013: 22 percent).

Software AG's tax rate was stable at 32.6 percent (2013: 32.5 percent). Net income decreased to €18.6 million (2013: €27.2 million). Earnings per share were therefore €0.23 (2013: €0.32) in the quarter under review.

Revenue and earnings by business line (segment report)

Software AG's total revenue in the first quarter of 2014 was €208.9 million and can be broken down by business line as follows:

- BPE accounted for 46 percent (2013: 40 percent) of total Group revenue in the quarter under review.
- ETS generated 24 percent (2013: 29 percent) of total revenue.
- Consulting contributed 30 percent (2013: 31 percent) to total revenue.

This changed revenue mix illustrates the positive trend toward a profitable product business in the high-growth BPE line. This development also confirms the success of Software AG's strategic focus on the future-oriented integration and process software markets as well as big data solutions.

Business Process Excellence (BPE)

Software AG was able to continue the strong performance in its largest business line, BPE, in the first quarter of 2014 with growth of 11 percent (at constant currency) and revenue of €95.3 million (2013: €90.3 million). This result indicates that the company again clearly outperformed its competitors in the quarter under review. The dynamic

development verifies the impact of strategic growth measures—including the consistent expansion of sales and new products in key future markets—which were introduced last year. The double-digit BPE growth is a result of the company's transformation strategy. Customers are increasingly investing in innovative software to fuel the digitization of their businesses with new process management and integration solutions.

Within BPE product revenue, licenses were up to €43.7 million (2013: €41.9 million), which is 10-percent growth (at constant currency). Maintenance revenue increased 11 percent (at constant currency) to €51.6 million (2013: €48.4 million) in Q1 2014. The positive results illustrate the impact of the strategic BPE measures initiated in specific markets and the amplified investments in sales and marketing.

Sales and marketing expenses rose to €49.1 million (2013: €46.0 million) due to Software AG's strategic growth initiatives. Research and development expenses were raised by 6 percent to €20.9 million. The cost of sales was about equal to last year at €5.7 million. The segment earnings for the high-growth BPE business line increased 6 percent from €18.8 million to €19.6 million.

Enterprise Transaction Systems (ETS)

The traditional ETS database business includes revenue from licenses, maintenance and services for the Adabas and Natural product families. On target with expectations, the business line generated €51.1 million (2013: €64.5 million) in revenue in the quarter under review. Fewer ETS deals were closed in the first quarter of 2014 because more ETS software licenses than expected had been sold in the fourth quarter of 2013. As a result, license sales were down to

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€13.3 million (2013: €21.1 million), as was expected. Maintenance revenue for the same period fell from €43.2 million to €37.6 million.

The cost of sales in the ETS segment dropped moderately to €3.3 million (2013: €3.8 million). Central sales and marketing expenses were down 31 percent to €9.1 million. Moreover, research and development expenses decreased to €6.2 million (2013: €6.5 million). Segment earnings were down 11 percent (at constant currency) from last year at €32.5 million (2013: €40.4 million). The segment margin maintained last year's high level.

Consulting

The Consulting business line posted first-quarter revenue of €62.5 million (2013: €70.1 million). This decline is primarily due to the targeted consolidation of SAP consulting activities. Operations in North American and Eastern Europe were sold last year in that context. An agreement on the sale of SAP consulting in Germany, Austria and Switzerland to the Scheer Group in Saarbrücken/Germany followed in March 2014.

The transaction marked the successful conclusion of the realignment of Software AG's consulting activities. As a provider of software products only, Software AG will be able to focus on its own product portfolio and achieve higher margins than was possible with third-party consulting services. The Consulting segment contribution rose to €3.3 million (2013: €0.3 million), further confirmation of the successful operational turnaround.

Financial Position

Net cash provided by operating activities was down from €65.4 million in the first quarter of 2013 to €50.1 million in the first quarter of the current fiscal year. Cash flow therefore developed in line with net income, nevertheless exceeding it significantly. The repeat increase in cash flow is due primarily to active working capital management.

Cash outflows from investing activities in the quarter under review were €6.1 million (2013 inflow: €3.6 million) because of the high expenditure for acquisitions. Net payments for acquisitions in the first quarter of 2013 were just €0.1 million, whereas this figure rose to €1.0 million in the first quarter of the current fiscal year. Furthermore, investments in securities increased to €2.8 million (2013: 0). Capital expenditure for property, plant and equipment and intangible assets in the first quarter of 2014 held steady with the same quarter last year at €3.3 million and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken.

Cash inflows from financing activities in the first quarter of 2014 were down from €32.6 million in 2013 to -€72.5 million. This change is a direct result of the share buyback which began in November 2013. Unlike in the same period last year, Software AG incurred no new financial liabilities. Free cash flow was down 24 percent to €47.8 million or €0.60 per share in the first quarter of the year. This is considerably higher than the Group's net income.

Assets

Software AG's total assets decreased from €1,996.9 million on December 31, 2013 to €1,935.9 million on March 31, 2014. Trade receivables were down by €41.3 million. Fixed assets decreased in part due to the €31.0 million in planned amortization of acquisition-related goodwill.

Net debt was €132.2 million as of March 31, 2014. Including the value of treasury shares results in a net cash amount.

Shareholders' equity fell to €916.6 million (2013: €965.6 million). This was due to the repurchased treasury shares, which are offset against shareholders' equity in the balance sheet. Nevertheless, Software AG's equity ratio was high at 47.4 percent of total assets as of March 31, 2014.

Statement on corporate disposals

Please refer to the section on the consolidation of SAP consulting operations through the sale of IDS Scheer Consulting in Significant Events During the Reporting Period.

Employees

As of March 31, 2014 Software AG had 5,108 (full-time) employees compared to 5,238 as of December 31, 2013 and 5,300 as of March 31, 2013. The number of employees in Sales and Marketing decreased to 1,131 (December 31, 2013: 1,180) as a result of adjustments in the Consulting and ETS segments as well as in Marketing departments throughout the Group. There were 995 (December 31, 2013: 998) people working in Research and Development as of March 31, 2014. In Germany, the number of staff members fell to 1,663 (December 31, 2013: 1,711).

Management's assessment of the first-quarter results

Software AG's management is of the opinion that the new fiscal year began with solid financial performance. The Group was able to continue the positive trend in its largest and key future-oriented, high-growth BPE business line in the first quarter of 2014. We consider the double-digit BPE growth to be confirmation of our current transformation strategy. We charted our course for dynamic growth early on through the targeted expansion of sales and our product portfolio in key future markets. We expect continued dynamic growth in BPE over the course of fiscal 2014 and confirm our outlook for the year.

Events After the Balance Sheet Date

There were no significant events after the balance sheet date.

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Risks and Opportunities

Our 2013 Annual Report contains a comprehensive Risk and Opportunity Report (see pp. 99–109). It discusses specific risks that could have a negative impact on our business performance, financial performance, our assets and financial position. It also describes key opportunities for Software AG. There were no changes to the risk and opportunity situation of the Software AG Group in the first quarter of 2014 as compared to the risks and opportunities identified in the 2013 Annual Report.

Outlook

Software AG continues to expect positive business development and confirms its outlook, which was released on March 31, 2014 with the announcement of its sale of IDS Scheer Consulting GmbH. Accordingly, the company expects an increase in BPE revenue between 12 and 18 percent at constant currency for fiscal year 2014. Revenue in the traditional ETS database business is likely to fall by 9 to 16 percent (at constant currency). For the 2014 fiscal year, Software AG expects an improvement in the Group operating margin and growth in operating (non-IFRS) income between 2 and 7 percent (basis 2013: €260.7 million).

Interim Financial Statements

Consolidated Income Statement

for the three months ended March 31, 2014, IFRS, unaudited

in € thousands	Q1 2014	Q1 2013	Change in %
Licenses	57,104	63,581	- 10 %
Maintenance	90,304	93,502	- 3 %
Services	61,293	67,507	- 9 %
Other	185	320	- 42 %
Total revenue	208,886	224,910	- 7 %
Costs of sales	- 68,025	- 75,775	- 10 %
Gross profit	140,861	149,135	- 6 %
Research and development expenses	- 27,152	- 26,220	4 %
Sales, marketing and distribution expenses	- 69,422	- 72,811	- 5 %
General and administrative expenses	- 19,088	- 17,845	7 %
Other taxes	- 1,638	- 1,819	- 10 %
Operating result	23,561	30,440	- 23 %
Other income	11,741	16,144	- 27 %
Other expenses	- 6,461	- 6,775	- 5 %
Net financial income/expense	- 2,847	- 1,330	114 %
Earnings before income taxes	25,994	38,479	- 32 %
Income taxes	- 7,427	- 11,266	- 34 %
Net income	18,567	27,213	- 32 %
Thereof attributable to shareholders of Software AG	18,558	27,198	- 32 %
Thereof attributable to non-controlling interests	9	15	
Earnings per share in € (basic)	0.23	0.32	- 28 %
Earnings per share in € (diluted)	0.23	0.32	- 28 %
Weighted average number of shares outstanding (basic)	80,186,767	85,794,069	-
Weighted average number of shares outstanding (diluted)	80,377,053	86,196,214	-

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Statement of Comprehensive Income

for the three months ended March 31, 2014, IFRS, unaudited

in € thousands	Q1 2014	Q1 2013
Net income	18,567	27,213
Currency translation differences	2,506	20,424
Net gain/loss on remeasuring financial assets	134	1,536
Net loss/gain arising from translating net investments in foreign operations	8	1,029
Items to be reclassified to the income statement if certain conditions are met	2,648	22,989
Net actuarial gain/loss and asset caps on defined benefit plans	0	15
Items not to be reclassified to the income statement	0	15
Other comprehensive income	2,648	23,004
Total comprehensive income	21,215	50,217
Thereof attributable to shareholders of Software AG	21,206	50,202
Thereof attributable to non-controlling interests	9	15

Consolidated Balance Sheet

as of March 31, 2014, IFRS, unaudited

Assets

in € thousands	March 31, 2014	Dec. 31, 2013
Current assets		
Assets held for sale	31,330	0
Cash and cash equivalents	421,416	449,984
Securities	59,327	56,514
Inventories	96	109
Trade receivables	206,229	226,739
Other receivables and other assets	32,125	25,881
Income tax receivables	9,740	10,291
	760,263	769,518
Non-current assets		
Intangible assets	191,662	211,771
Goodwill	820,656	829,173
Property, plant and equipment	62,188	64,460
Financial assets	4,374	4,519
Trade receivables	75,677	96,418
Other receivables and other assets	1,998	2,030
Income tax receivables	2,872	2,711
Deferred taxes	16,162	16,253
	1,175,589	1,227,335
Total assets	1,935,852	1,996,853

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Equity and Liabilities

in € thousands	March 31, 2014	Dec. 31, 2013
Current liabilities		
Liabilities related to assets held for sale	13,503	0
Financial liabilities	203,042	202,888
Trade payables	30,392	36,140
Other liabilities	66,796	66,289
Other provisions	42,193	83,598
Tax liabilities	30,506	38,477
Deferred income	136,387	105,664
	522,819	533,056
Non-current liabilities		
Financial liabilities	409,906	410,486
Trade payables	2	0
Other liabilities	3,141	4,775
Provisions for pensions	49,637	50,707
Other provisions	8,861	7,291
Deferred taxes	23,074	22,577
Deferred income	1,769	2,366
	496,390	498,202
Equity		
Share capital	86,944	86,944
Capital reserve	46,559	46,144
Retained earnings	1,105,886	1,087,328
Other reserves	-97,432	-100,080
Treasury shares	-226,116	-155,534
Share attributable to shareholders of Software AG	915,841	964,802
Non-controlling interest	802	793
	916,643	965,595
Total equity and liabilities	1,935,852	1,996,853

Consolidated Statement of Cash Flows

for the three months ended March 31, 2014, IFRS, unaudited

in € thousands	Q1 2014	Q1 2013
Net income	18,567	27,213
Income taxes	7,427	11,266
Net financial income/expense	2,847	1,330
Amortization/depreciation of non-current assets	14,009	12,699
Other non-cash income/expense	799	-4,106
Operating cash flow before changes in working capital	43,649	48,402
Changes in inventories, receivables and other assets	24,380	26,081
Changes in payables and other liabilities	-2,128	3,792
Income taxes paid/received	-14,422	-13,646
Interest paid	-3,545	-1,354
Interest received	2,147	2,177
Net cash provided by operating activities	50,081	65,452
Proceeds from the sale of property, plant and equipment/intangible assets	966	62
Purchase of property, plant and equipment/intangible assets	-3,314	-3,120
Proceeds from the sale of financial assets	106	424
Purchase of financial assets	-14	-73
Cash outflows from current financial assets	0	0
Purchase of securities	-2,813	0
Proceeds from the sale of disposal groups	0	6,443
Payment for acquisitions, net	-1,000	-104
Net cash used in investing activities	-6,069	3,632

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in € thousands	Q1 2014	Q1 2013
Proceeds from issue of share capital	0	0
Purchase of treasury stock (incl. option premiums paid)	-70,582	-65,531
Dividends paid	0	0
Additions to financial liabilities	0	100,000
Repayments of financial liabilities	-1,916	-1,859
Net cash provided by/used in financing activities	- 72,498	32,610
Change in cash and cash equivalents from cash-relevant transactions	-28,486	101,694
Currency translation adjustment	-82	5,470
Net change in cash and cash equivalents	- 28,568	107,164
Cash and cash equivalents at the beginning of the period	449,984	315,637
Cash and cash equivalents at the end of period	421,416	422,801
Free cash flow	47,825	62,745

Consolidated Statement of Changes in Equity

for the three months ended March 31, 2014, IFRS, unaudited

	Share capital	Capital reserve	Retained earnings	
	Common shares (No.)			
in € thousands				
Equity as of January 1, 2013	86,875,068	86,917	42,124	991,651
Total comprehensive income				27,198
Transactions with equity holders				
Dividend payment				
New shares issued				
Stock options			1,342	
Issue and disposal of treasury stock				
Purchase of treasury stock	-2,161,998			
Other changes				
Transactions between shareholders				
Equity as of March 31, 2013	84,713,070	86,917	43,466	1,018,849
Equity as of January 1, 2014	81,513,689	86,944	46,144	1,087,328
Total comprehensive income				18,558
Transactions with equity holders				
Dividend payment				
New shares issued				
Stock options			415	
Issue and disposal of treasury stock				
Purchase of treasury stock (incl. option premiums paid)	-2,653,845			
Other changes				
Transactions between shareholders				
Equity as of March 31, 2014	78,859,844	86,944	46,559	1,105,886

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	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
	Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains/losses from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
	- 38,731	- 3,546	- 21,467	3,498	- 1,157	1,059,289	777	1,060,066
	20,424	1,536	15	1,029		50,202	15	50,217
						0		0
						0	0	0
						0		0
						1,342		1,342
						0		0
					- 65,531	- 65,531		- 65,531
						0	0	0
	- 18,307	- 2,010	- 21,452	4,527	- 66,688	1,045,302	792	1,046,094
	- 77,111	- 2,055	- 22,945	2,031	- 155,534	964,802	793	965,595
	2,506	134	0	8		21,206	9	21,215
						0		0
						0		0
						415		415
						0		0
					- 70,582	- 70,582		- 70,582
						0		0
	- 74,605	- 1,921	- 22,945	2,039	- 226,116	915,841	802	916,643

Notes to the Interim Financial Statements

General

[1] Basis of Presentation

Software AG's condensed and unaudited consolidated financial statements (interim financial statements) as of March 31, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs/IFRSs applicable as of March 31, 2014 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

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

The consolidated interim financial statements of Software AG are expressed in thousands of euros unless otherwise stated.

[2] Changes in the Consolidated Group

The following changes in the consolidated Group took place in the first three months of fiscal 2014.

	Germany	Foreign	Total
Dec. 31, 2013	12	77	89
Disposals (including mergers)	-	1	1
March 31, 2014	12	76	88

The disposal relates to the merger of a company in the United States.

[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, 2013. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2013. These quarterly financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

[4] Business Combinations

Software AG acquired the remaining 84 percent of shares in metaquark GmbH, Berlin/Germany, in the first quarter. The company was completely consolidated as of the first quarter of 2013 due to the existence of call options. The purchase price for the shares (remaining 84 percent) was €3 million less than the amount assumed for the final purchase price allocation. Accordingly, income in the amount of €3 million resulted from the acquisition of the remaining 84 percent and was reported under "other income."

Notes to the Consolidated Balance Sheet

[5] Disposal Group

Software AG entered an agreement on March 31, 2014 to sell its SAP consulting business in Germany, Austria and Switzerland (DACH) to the Scheer Group GmbH (Saarbrücken/Germany). The transaction is expected to close in the second quarter of 2014. The divesture includes all SAP services in the DACH region pertaining to the IDS Scheer Consulting GmbH subsidiary, which has approximately 500 employees and €64 million in total revenue (in fiscal 2013).

Pursuant to IFRS 5 (non-current assets held for sale and discontinued operations), the assets and liabilities likely to be affected by this were recognized as the lower of the carrying amount and the fair value less costs to sell and presented separately in the balance sheet as assets and liabilities held for sale.

All affected assets and liabilities were assigned to the Consulting segment.

[6] Goodwill

Goodwill amounted to €820,656 thousand as of March 31, 2014, a decrease of €8,517 thousand compared to December 31, 2013. Of that amount, €33 thousand resulted from negative currency translation effects. Furthermore, €8,550 thousand resulted from moving the portion of goodwill relating to SAP consulting operations, which—as described in Note 5—was reclassified along with the other affected assets and liabilities.

[7] Equity

Share capital

Software AG's share capital totaled €86,944 thousand (2013: 86,917) as of March 31, 2014, divided into 86,943,945 (2013: 86,917,445) bearer shares. Each share entitles its holder to one vote.

Dividend payment

Based on the number of shares outstanding as of February 28, 2014, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €136,042 thousand reported by Software AG, the controlling Group company, in 2013, as follows: to appropriate €36,276 thousand for dividends and to carry forward €99,766 thousand. This corresponds to a dividend of €0.46 per share.

Share buyback

Software AG instituted a program for the repurchase of treasury shares up to a total value of €110.0 million beginning November 12, 2013 and concluded on February 28, 2014. During the period from January 1, 2014 up to and including February 28, 2014 Software AG repurchased 2,653,845 additional treasury shares (based on a value date) at an average price of €26.59 per share—not including transaction fees (€26.60 including transaction fees)—for a total cost of €70,561 thousand—not including transaction fees (€70,582 thousand including transaction fees). As of March 31, 2014 Software AG held 8,084,101 treasury shares representing an interest in the share capital of €8,084,101 (9.3 percent).

Other Disclosures

[8] Segment Reporting

Segmentation is in accordance with the internal control of the Group. Software AG therefore reports on the following three segments:

- Business Process Excellence (BPE: Business Process Management) with the webMethods and ARIS product families
- Enterprise Transaction Systems (ETS: data management)
- Consulting with a focus on implementation of Software AG products

The table below shows the segment data for the first quarters of 2014 and 2013:

Segment report for the three months ended March 31, 2014, IFRS, unaudited

	Enterprise Transaction Systems (ETS)	
in € thousands	Q1 2014	Q1 2013
Licenses	13,300	21,069
Maintenance	37,649	43,207
Product revenue	50,949	64,276
Services	0	0
Other	182	204
Total revenue	51,131	64,480
Cost of sales	-3,355	-3,764
Gross profit	47,776	60,716
Sales, marketing and distribution expenses	-9,089	-13,804
Segment contribution	38,687	46,912
Research and development expenses	-6,208	-6,477
Segment result	32,479	40,435
General and administrative expenses		
Other taxes		
Operating result		
Other operating income/expense, net		
Financial income/expense, net		
Earnings before income taxes		
Income Taxes		
Net income		

General
Notes to the consolidated balance sheet
Other disclosures

Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013
43,718	41,919	86	593			57,104	63,581
51,562	48,426	1,093	1,869			90,304	93,502
95,280	90,345	1,179	2,462			147,408	157,083
0	0	61,293	67,507			61,293	67,507
0	0	3	116			185	320
95,280	90,345	62,475	70,085			208,886	224,910
-5,709	-5,831	-51,905	-60,211	-7,056	-5,969	-68,025	-75,775
89,571	84,514	10,570	9,874	-7,056	-5,969	140,861	149,135
-49,067	-46,007	-7,254	-9,596	-4,012	-3,404	-69,422	-72,811
40,504	38,507	3,316	278	-11,068	-9,373	71,439	76,324
-20,944	-19,743	0	0	0	0	-27,152	-26,220
19,560	18,764	3,316	278	-11,068	-9,373	44,287	50,104
						-19,088	-17,845
						-1,638	-1,819
						23,561	30,440
						5,280	9,369
						-2,847	-1,330
						25,994	38,479
						-7,427	-11,266
						18,567	27,213

[9] Contingent Liabilities

As in 2013, there were no reportable contingent liabilities as of March 31, 2014.

The carrying amount of collateral received was €32 thousand (2013: €28 thousand).

Disclosures on leases

The Group's rental agreements and operating leases relate chiefly to office space, vehicles and IT equipment. Lease payments under operating leases are recognized as an expense over the term of the lease.

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Contractually agreed payments (gross amount)	16,721	41,382	8,276	66,379
Estimated income from subleases	2,038	5,055	366	3,459
Contractually agreed payments (net amount)	14,683	36,327	7,910	58,920

[10] Seasonal Influences

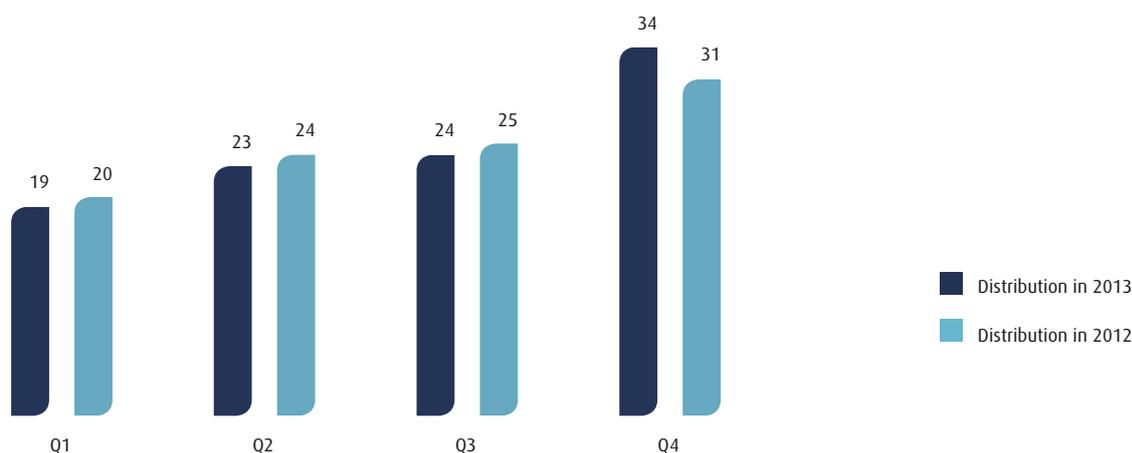
Revenues and pre-tax earnings were distributed over fiscal year 2013 as follows:

in € thousands	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
License revenue	63,581	75,799	79,875	110,883	330,138
as % of license revenue for the year	19	23	24	34	100
Total revenue	224,911	237,748	238,500	271,533	972,692
as % of revenue for the year	23	24	25	28	100
Earnings before taxes	38,479	41,457	45,739	64,337	190,012
as % of net earnings for the year	20	22	24	34	100

Based on historical data, the revenue and earnings distribution from 2013 is not fully representative.

The distribution of revenue and earnings is regularly affected by large individual contracts and is thus difficult to predict. The following graph illustrates the development of license revenues in 2013 und 2012.

As % of total annual license revenue



[11] 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 test case, 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. The proceedings

against the other defendants are still pending. Software AG assumes that the proceedings will be reopened in the first half of 2014.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed three similar parallel lawsuits against other defendants. The NPE withdrew its lawsuit against Software AG in January 2013. The NPE also filed a new lawsuit for the alleged

violation of two of its software patents in January 2013. The proceedings are in a very early stage. Hearings are not scheduled to take place until mid-2015.

A number of legal actions 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 September 2013 the court issued an order to hear evidence and requested that Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft provide an opinion on questions concerning valuation in the capacity of expert auditor. Warth & Klein's expert opinion is still pending.

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 and is currently waiting for the case to proceed. Provisions are set up based on the estimated probable actual resource outflow.

There were no other changes with respect to the legal disputes reported as of December 31, 2013, nor were there any new legal disputes that could potentially have a significant effect on the company's financial position, financial performance or cash flows.

[12] Stock Option Plans and Stock Appreciation Rights Program

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. Our stock price-based remuneration plans as of March 31, 2014 are described in detail on pages 194-198 of our 2013 Annual Report.

Management Incentive Plan 2011 (MIP IV) (2011–2016)

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

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in € thousand)
Balance as of Dec. 31, 2013	4,808,668	41.34	7.5	0
Granted	15,000	41.34		
Forfeited	- 92,500	41.34		
Balance as of March 31, 2014	4,731,168	41.34	7.25	
Thereof exercisable as of March 31, 2014	0			

Management Incentive Plan 2007 (MIP III) (2007–2011)

There were no changes to the balance of rights granted under Management Incentive Plan 2007 (MIP III) compared to the balance on December 31, 2013.

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in € thousand)
Balance as of Dec. 31, 2013	1,793,300	24.12	2.5	0
Forfeited	- 3,500	24.12		
Balance as of March 31, 2014	1,789,800	24.12	7.25	3,884*
Thereof exercisable as of March 31, 2014	1,789,800	24.12		

*) Based on the closing price on March 31, 2014

[13] Employees

As of March 31, 2014, 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:

	March 31, 2014	March 31, 2013
Maintenance and Services	2,283	2,456
Sales and Marketing	1,131	1,213
Research and Development	995	901
Administration	699	730
	5,108	5,300

In absolute terms (part-time employees are counted in full), the Group employed 5,362 people (2013: 5,495) as of March 31, 2014.

[14] Changes and Information Regarding Corporate Bodies

No changes occurred on either the Management Board or the Supervisory Board between January 1, 2014 and March 31, 2014.

[15] Events After the Balance Sheet Date

No significant events occurred between March 31, 2014 and the release of this quarterly report.

Date and authorization for issue

Software AG's Management Board approved the consolidated quarterly financial statements on May 9, 2014.

Darmstadt, May 9, 2014

Software AG



K.-H. Streibich



Dr. W. Jost



A. Zinnhardt

Financial Calendar 2014

May 2	Financial figures Q1 2014 (IFRS, unaudited)
May 16	Annual Shareholders' Meeting, Darmstadt/Germany
July 24	Financial figures Q2/H1 2014 (IFRS, unaudited)
October 29	Financial figures Q3/9M 2014 (IFRS, unaudited)

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Publisher

Software AG
Corporate Communications
Uhlandstraße 12
64297 Darmstadt
Germany

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

Editorial Support

Akima Media, Munich
www.akima.de 

Concept and Design

IR-One AG & Co., Hamburg
www.ir-1.com 

Contact

Software AG
Corporate Headquarters
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 6151-92-0
Fax +49 6151-1191
www.softwareag.com