



**Interim Report 3** | 2014

# Transforming Excellence into Future

# Key Figures

in € millions (unless otherwise stated)

	9m 2014	9m 2013	Change in %	Q3 2014	Q3 2013	Change in %
<b>Revenue</b>	<b>610.5</b>	<b>701.2</b>	<b>- 13%</b>	<b>205.6</b>	<b>238.5</b>	<b>- 14%</b>
<b>By type:</b>						
• Product revenue	446.5	501.4	- 11%	157.8	175.1	- 10%
• Services	163.5	199.0	- 18%	47.7	63.2	- 25%
• Other	0.5	0.8		0.1	0.2	
<b>By business line:</b>						
• Business Process Excellence	276.4	296.1	- 7%	96.6	114.3	- 15%
• Enterprise Transaction Systems	168.4	199.3	- 16%	61.3	59.0	4%
• Consulting	165.7	205.8	- 19%	47.7	65.2	- 27%
<b>EBIT*</b>	<b>104.6</b>	<b>135.1</b>	<b>- 23%</b>	<b>49.1</b>	<b>49.1</b>	<b>0%</b>
• as % of revenue	17.1%	19.3%		23.9%	20.6%	
<b>Net income</b>	<b>63.1</b>	<b>87.1</b>	<b>- 28%</b>	<b>30.4</b>	<b>31.1</b>	<b>- 2%</b>
• as % of revenue	10.3%	12.4%		14.8%	13.0%	
Earnings per share (€, basic)	0.79	1.03	- 23%	0.38	0.37	3%
Earnings per share (€, diluted)	0.79	1.03	- 23%	0.38	0.37	3%
Free cash flow	85.8	105.6	- 19%	19.4	33.3	- 42%
	<b>Sept. 30, 2014</b>	<b>Dec. 31, 2013</b>				
<b>Employees (full-time equivalents)</b>	<b>4,553</b>	<b>5,356</b>				
• of which in Germany	1,237	1,735				
• of which in R & D	989	1,005				
<b>Balance sheet</b>						
Total assets	1,791.8	1,996.9				
Cash and cash equivalents	275.0	450.0				
Net debt	162.0	163.4				
<b>Shareholders' equity</b>	<b>972.4</b>	<b>965.6</b>				
• as % of total assets	54%	48%				

\* EBIT: Net income + income taxes + other taxes + financial expense, net

# 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 sees itself as 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 September 30, 2014, or the third 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—with the webMethods, ARIS, Alfabet, Apama and Terracotta product families), Enterprise Transaction Systems (ETS—with the Adabas and Natural product families) and Consulting (all consulting services associated with Software AG products, applicable since Q3 2014).

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# Interim Management Report

## Significant Events During the Reporting Period

### Software AG expands Management Board

In an ad hoc release on August 21, 2014, in accordance with section 15 of WpHG, Software AG announced that the Management Board would be expanded through the addition of a new member with global responsibility for sales, consulting and marketing (Chief Customer Officer). The Supervisory Board appointed a highly experienced international IT sales leader and general manager, Eric Duffaut (52), to the newly created board position as of October 1, 2014. With the appointment of Mr. Duffaut, Software AG is bundling all of its go-to-market activities. The new organizational structure will strengthen Software AG's direct sales execution capabilities as well as the development of its partner eco-system. This will accelerate its transformation to a more customer-centric organization.

### Presentation of the Digital Business Platform

In the period under review Software AG continued to develop its product portfolio in the Business Process Excellence (BPE) segment. This included expanding the offering with cloud solutions and the announcement of a new "Digital Business Platform," which is the first-ever end-to-end software platform. It enables enterprises across all industries to accelerate their transformation to a Digital Enterprise as they

have to rapidly adapt to ever changing business environments. The new platform was presented for the first time at Software AG's global customer event in New Orleans (USA).

### Software AG's innovative program to promote German startups

Software AG's Fast Startup program is designed for young companies that have already developed a business model for a promising idea, and are now looking for a reliable partner. The first startup to be chosen for the program is the Darmstadt, Germany-based rialgo realtime systems GmbH. The partnership will offer the young company free access to big data analytics, cloud computing and business process management products by Software AG. In addition, Software AG will support the startup in creating a growth strategy, expanding its sales operations and technology development.

### Software AG—at the forefront of the digital revolution

Germany's Minister of Economic Affairs, Sigmar Gabriel, paid a visit to Software AG's corporate headquarters in Darmstadt in July 2014. He emphasized the urgent need for digitization in German industry. In that context, he underscored the key role of regional initiatives, such as the Software Cluster, for

which Software AG has served as the official spokesperson since April 2014. The Software Cluster is Europe's most productive network of companies and academic and research institutions in the field of software development.

In cooperation with partners and customers, Software AG presented numerous digital revolution success stories at the company's own Innovation Day 2014, held in Bonn, Germany. The focus was on solutions, best-practice scenarios, strategies and visions that pave the way to becoming a Digital Enterprise.

### Technology leadership confirmed by industry analysts

Independent market research institute Forrester Research, Inc. ranked Software AG as a "leader" in its recent study on Big Data Streaming Analytic Platforms. In its report entitled, "The Forrester Wave™: Big Data Streaming Analytics Platforms, Q3 2014," Software AG received top scores in the Current Offering and Strategy categories, and among the highest scores in the Market Presence category. Software AG's Apama Complex Event Processing platform, part of the company's Intelligent Business Operations (IBO) offering, was evaluated.

The leading industry analyst Gartner, Inc. also placed Software AG's webMethods integration platform in its magic quadrant for On-Premises Application Integration Suites in its latest study, entitled, "Magic Quadrant for On-Premises Application Suites."

## Financial Performance

### Total revenue

Software AG generated €205.6 million (2013: €238.5 million) in total Group revenue in the third quarter of 2014. This reflects a 13.8-percent decline year-on-year (2013: €238.5 million) and 4.9-percent growth quarter-on-quarter (Q2: €196.0 million).

The primary reason for the revenue drop was the total divestiture of SAP consulting operations. In order to focus its consulting activities on its own software products, Software AG sold this business unit to the Scheer Group GmbH. The transaction was finalized on May 31, 2014. SAP consulting revenues will thus no longer be reported as of the quarter under review. The comparable Group revenue figure from the same quarter of last year—adjusted for SAP consulting operations—was €220.8 million.

Global product revenue, which includes license and maintenance sales, was up from the previous quarter at €157.8 million (Q2: €141.3 million), though down year-on-year (2013: €175.1 million). This represents 76.8 percent (2013: 73.4 percent) of total revenue.

Global license revenue was €64.1 million (2013: €79.5 million), which also shows quarter-on-quarter growth but a year-on-year decline. Maintenance revenue from the two product lines—BPE and ETS—approximated last year's level with €93.7 million (adjusted for SAP operations) and increased slightly over the second quarter (€91.1 million).

## Exchange rate effects

Following the highly negative impact of the strong euro on Software AG's revenue and earnings in the first two quarters of 2014, the tide turned in the third quarter. Due to the growing strength of the U.S. dollar against the euro, the quarter under review saw no significant exchange rate effects on reported revenue. For the nine-month period as a whole, the burden of exchange rates was considerable at €14.2 million.

The percentage of total revenue in euros rose to 38 percent (2013: 37 percent). The U.S. dollar accounted for the largest percentage of foreign currency with 25 percent (2013: 26 percent), followed by the pound sterling (7 percent), the Brazilian real and Israeli shekel (5 percent respectively).

## Earnings performance

Software AG clearly improved its gross margin, pushing it from 69.6 percent last year to 75.0 percent in the third quarter of 2014. This increase is due on one hand to the higher share of products as a percentage of total revenue and to an optimized consulting business on the other.

Research and development (R&D) expenses in the quarter under review increased slightly to €27.2 million (2013: €26.1 million) due to corporate acquisitions. At the same time, sales and marketing expenses were substantially less at €57.5 million (2013: €72.5 million). General administrative expenses were €19.4 million, as compared to €17.3 million year-on-year.

Through stringent cost control in sales and marketing, third-quarter earnings before interest and taxes (EBIT) equaled last year's at €49.1 million (2013: €49.1 million). This represents an increased return on sales of 23.9 percent (2013: 20.6 percent).

Software AG has included non-IFRS operating earnings in its financial reporting in order to ease the comparison of profitability with competitors—particularly those based in the USA. 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
- Earnings of divested business units

Software AG achieved €62.8 million (2013: €66.3 million) in operating income (non-IFRS) in the third quarter of 2014. The operating margin increased to 30.5 percent (2013: 27.7 percent). This positive earnings performance is even more notable in a quarter-on-quarter comparison. Operating non-IFRS income in the second quarter was €45.1 million, which results in a 23.0-percent margin. This impressive improvement is a result of Software AG's refocus on its product business, financial discipline and increased efficiency of internal processes. This has solidified Software AG's financial foundations for further strategic development of its business.

Software AG's tax rate rose in the third quarter to 35.3 percent (2013: 34.2 percent). High tax payments, particularly in the U.S., had an impact on this result. Of total taxes, income tax accounted for €14.5 million, as in 2013.

Other taxes went up year-on-year to €2.1 million (2013: €1.6 million). Net financial expense rose to €2.1 million (2013: €1.8 million). Net income after taxes in the third quarter was €30.4 million (2013: €31.1 million). And earnings per share rose to €0.38 (2013: €0.37).

## Revenue and earnings by business line (Segment Report)

Software AG's Group revenue in the amount of €205.6 million was generated by three business lines. Their respective contributions to revenue in the third quarter of 2014 was as follows:

- BPE revenue as a percentage of total revenue was stable as compared to last year's high level at 47.0 percent (2013: 47.9 percent).
- Contrary to the long-term trend, ETS revenue increased to 29.8 percent (2013: 24.7 percent).
- The share of Consulting revenue decreased to 23.2 percent (2013: 27.3 percent) due to the sale of SAP consulting operations.

The BPE business line continued to account for the largest share of Group revenue by a wide margin, which supports its role as Software AG's future-oriented source of revenue.

### Business Process Excellence (BPE)

In the quarter under review the Business Process Excellence (BPE) business line generated revenue from licenses and maintenance for integration and process software as well as big data solutions in the amount of €96.6 million (2013: €114.3 million). License sales totaling €42.2 million were down from the previous year's extraordinarily strong level (€61.8 million). The third quarter of last year was marked by the extremely positive impact of two deals among the

largest in the company's history, contributing to the exceptionally high license result. Quarter-on-quarter, BPE license revenue was up by 29.1 percent (Q2: €32.7 million) as a result of new deals signed.

The BPE portfolio was further developed in the quarter under review. This includes the launch of cloud solutions as well as the announcement of a new Digital Business Platform. It is the first ever end-to-end software platform to cover the entire enterprise value creation chain. It enables customers across all industries and the public sector to accelerate their transformation to a Digital Enterprise as they have to rapidly adapt to ever changing business environments.

BPE maintenance revenue was €54.4 million (2013: €52.5 million), which reflects a year-on-year increase of 3.6 percent. Quarter-on-quarter, maintenance revenue was up 4.8 percent (Q2: €51.9 million). This positive trend reflects the strength of the global maintenance business, which guarantees highly profitable recurring revenue.

The cost of sales for this business line approximated last year's level at €5.4 million (2013: €5.5 million). Expenses for sales and marketing were 19.0 percent lower at €40.8 million (2013: €50.4 million). Because of technology acquisitions undertaken last year, research and development (R&D) expenses increased moderately to €21.3 million (2013: €20.2 million). With lower license revenue and higher R&D expenses, the segment's earnings were down to €29.1 million (2013: €38.2 million). The BPE segment's profit margin was 30.1 percent (2013: 33.4 percent), which is nearly twice that of the previous quarter's 15.7 percent. License growth by 29 percent coupled with lower costs quarter-on-quarter contributed to a boost in profitability for the BPE business.



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## Enterprise Transaction Systems (ETS)

The Enterprise Transaction Systems (ETS) database business generated revenue from licenses and maintenance for the Adabas and Natural product families in the amount of €61.3 million (2013: €59.0 million), which shows a 3.9-percent year-on-year increase. ETS license sales performed significantly better than in the same quarter last year, up 23 percent to €21.9 million (2013: €17.8 million). Maintenance revenue was stable, nearly equaling last year's level at €39.3 million (2013: €41.1 million). This result confirms Software AG's long-term customer relationships and the loyalty of its customers to its traditional product line.

In light of the expected long-term downward trend in the ETS mainframe business, Software AG further reduced costs in this segment. The cost of sales was 11.4 percent lower at €3.1 million (2013: €3.5 million). Sales and marketing expenses were down 21.2 percent to €7.8 million (2013: €9.9 million). And, R&D expenses for the same period saw a slight decrease to €5.9 million (2013: €6.0 million). Thanks to the exceptional growth of licenses in combination with cost reductions, the ETS segment's earnings rose to €44.5 million (2013: €39.6 million). As a result, the segment's profit margin improved to 72.6 percent (67.1 percent).

## Consulting

Revenue in the Consulting business line, consisting of BPE and ETS-related services in the third quarter, fell to €47.7 million (2013: €65.2 million). The decline is thus due solely to the sale of IDS Consulting (SAP services) in the second quarter of 2014. Adjusted for the disposal of that business, third-quarter revenue was up moderately (adjusted for SAP operations, 2013: €47.4 million).

As part of Software AG's efforts to focus on the high-margin product business, the company divested of its SAP consulting operations in three stages: In January 2013 the company sold its SAP operations in Canada and the USA. This was followed by Eastern Europe in mid-2013. And, finally, the sale of IDS Scheer Consulting GmbH—specialized in SAP consulting in Germany, Austria and Switzerland—to the Scheer Group GmbH was concluded in the second quarter of 2014.

As a result of the deconsolidation of the SAP consulting business, the cost of sales fell to €37.6 million (2013: €56.1 million). And sales and marketing expenses were nearly cut in half to €4.8 million (2013: €8.1 million). Following the concluded reorganization of the consulting business line, including a refocus on Software AG's own products and cut costs, the Consulting segment's contribution increased to €5.3 million (2013: €1.0 million), thereby generating a double-digit segment margin once again. With this turning point in earnings results, Software AG has achieved its goal to consistently prioritize profitability in all business lines—even in the resource-intensive service business.

## The first nine months of 2014

Software AG generated €610.5 million (2013: €701.2 million) in total Group revenue in the first nine months of 2014. This is a year-on-year decrease of 12.9 percent. Exchange rates had a very negative effect in the nine-month period, totaling €14.2 million. This was primarily caused by the ongoing strength of the euro in the first two quarters of the year. Maintenance revenue suffered the greatest impact with a total effect of €9.0 million in the nine-month period. Only during the course of the third quarter did the euro begin to weaken against major currencies, such as the U.S. dollar. This had a moderately positive effect on Group revenue in the amount of €0.9 million.

The eurozone accounted for 38 percent (2013: 37 percent) of Software AG's revenue in the nine-month period. The remaining share of revenues was primarily generated in the USA (25 percent), followed by a wide margin by Great Britain (7 percent), Brazil, (5 percent) and Israel (5 percent), all of whose shares equaled those of last year.

Product revenue, consisting of license and maintenance revenue for the BPE and ETS product lines, totaled €446.5 million (2013: €501.4 million). This represents an 11-percent decrease. Of product revenue, licenses accounted for €171.5 million (2013: €219.3 million) and maintenance for €275.0 million (2013: €282.1 million). Consulting revenue was €163.5 million (2013: €199.0 million).

The BPE business line generated €276.4 million (2013: €296.1 million) in the first three quarters of the year. Maintenance revenue increased from €149.6 million to €157.7 million. This shows that the sales successes of the past are having a positive impact on the maintenance business. It also confirms the investments of the past year. ETS revenue totaled €168.3 million (2013: €199.3 million). Furthermore, Consulting revenue for SAP solutions dropped significantly to €20.0 million (2013: €52.4 million) due to the finalized sale of this business at the end of May 2014.

EBIT for the nine-month period fell to €104.6 million (2013: €135.1 million). This indicates a decline of 22.6 percent compared to the same period in 2013. The EBIT margin was 17.1 percent (2013: 19.3 percent). Operating income (non-IFRS) was €150.9 million (2013: €173.9 million) for the period; accordingly the profit margin was 24.7 percent (2013: 24.8 percent).

## Financial Position

Net cash provided by operating activities fell in the third quarter of 2014 to €22.0 million (2013: €36.6 million), due to high cash inflows recognized in the second quarter. The decrease is also a result of changes in non-current receivables and higher income tax payments. At €94.5 million (2013: €115.4 million), net cash provided by operating activities in the first nine months of 2014 developed in line with net income.

Cash outflows from investing activities in the quarter under review were €7.5 million (2013: €110.1 million). The substantial decrease is primarily because there were no net payments for acquisitions in the third quarter of 2014, compared to €55.6 million in the same quarter of 2013. The relatively high level of payments in 2013 was mainly due to the acquisition of JackBe. Moreover, payments for the purchase of securities in the third quarter of 2014 exceeded proceeds from the sale of securities by €4.8 million and thus by considerably less than last year (2013: €51.5 million).

Cash inflows from financing activities decreased from €254.9 million to outflows of €0.6 million. Proceeds from new loans and outflows from the repayment of financial liabilities basically offset each other in the third quarter. The third quarter of the previous year had been impacted by new financial liabilities related to the placement of a promissory note totaling €300.0 million as well as the scheduled repayment of a loan from the Software AG Foundation totaling €45.2 million.

Cash and cash equivalents as of September 30, 2014 totaled €275.0 million (2013: €448.4 million).

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## Assets

Software AG's total assets decreased from €1,996.9 million on December 31, 2013 to €1,791.8 million on September 30, 2014. This drop was due primarily to the reduction in financial liabilities through the scheduled repayment of a promissory note loan in the amount of €200.1 million in the second quarter of 2014. In addition, trade receivables were down by €63.0 million. Software AG's fixed assets went down by €6.2 million as compared to December 31, 2013. Net debt including securities as of September 30, 2014 decreased as compared to June 30, 2014 by €25.8 million to €101.9 million. Including the value of treasury shares resulted in a net cash flow position.

Despite the share buyback program successfully concluded in the first quarter of 2014 as well as the company's dividend payout, shareholders' equity increased to €972.4 million (2013: €965.6 million) in the quarter under review. This is primarily due to the company's solid overall result. Equity ratio rose in comparison to December 31, 2013 to 54.3 percent (2013: 48.4 percent). This also reflects a quarter-on-quarter improvement (Q2: 52.5 percent).

During the period from November 2013 to February 2014 Software AG purchased 4.1 million treasury shares for a total price of €110.0 million. As of September 30, 2014, Software AG held 8,025,101 treasury shares representing 9.2 percent of the company's share capital.

## Employees

As of September 30, 2014, Software AG had 4,553 (full-time equivalent) employees compared to 5,238 as of December 31, 2013 and 5,356 as of September 30, 2013. The reduction is nearly in proportion to revenue performance and is mainly due to the sale of the company's SAP consulting operations. The number of employees in Sales and Marketing decreased to 1,026 (December 31, 2013: 1,180) as a result of adjustments in the Consulting segment and to corporate back-office functions. There were 989 (December 31, 2013: 998) people working in Research and Development as of September 30, 2014. The number of employees in Administration decreased to 654 (December 31, 2013: 713) as of September 30, 2014. The disposal of the SAP consulting units had a particularly strong impact in Germany, decreasing the staff to 1,237 (December 31, 2013: 1,711).

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## Management's Assessment of Third-Quarter Results

The Management Board is of the opinion that, technologically speaking, Software AG is very well positioned in the global market and is progressing in its transformation into a solutions provider with a focus on the key future segment of BPE.

As expected, total BPE revenue in the third quarter of 2014 was down from the exceptionally high level the year before due to significantly prolonged sales cycles. The quarter-on-quarter comparison, however, confirms the company's strategic focus on further expanding the BPE segment.

Moreover, the substantial earnings improvement with an operating margin upward of 30 percent marks a turning point in business development in the current fiscal year and confirms the company's sustainable profitability.

Management is optimistic that, as enterprise digitization intensifies, the demand for integration solutions and agile adaptive application development platforms will continue, driving BPE product revenue globally. The expansion of the Management Board to include a Chief Customer Officer and the bundling of all go-to-market activities is intended to accelerate Software AG's transformation to a more effective customer-centric organization.

## Events After the Balance Sheet Date

In a meeting on October 31, 2014, the Supervisory Board decided to introduce a maximum value limit for existing long-term Management Incentive plans (MIP III and IV) in accordance with recommendations of the German Corporate Governance Code. This cap is subject to the approval of participants of the respective plans. The planned value cap for the existing MIP IV (option strike price: €41.34) is €13.66 and would be reached if the share price hits €55. Accordingly, the exercise threshold of €60 would no longer apply. The planned value cap for the remaining options under MIP III from the year 2007 (strike price: €24.12) will be reached if the share price hits €45; in exchange, the exercise period would be extended by three years.

The change to MIP III increases its market value by approximately €1 to €2 million, while decreasing the market value of MIP IV by about the same amount. These adjustments to the stock appreciation plans therefore did not result in a net change to the sum of market values at the time the resolution was passed. In October 2014, the corporate bodies of Software AG agreed on the principle of instituting a follow-up stock appreciation plan as of 2015.

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## Risks and Opportunities

Software AG's 2013 Annual Report contains a comprehensive Risk and Opportunity Report (see pp. 98–107). It discusses specific risks that could have a negative impact on business and financial performance or assets and financial position. It also describes key opportunities for Software AG. There were no changes to the risk and opportunity situation of the Software AG Group in the third quarter of 2014 as compared to the risks and opportunities identified in the 2013 Annual Report.

## Outlook

Software AG confirms its existing outlook for fiscal year 2014 expects BPE revenue to approximate last year's level. The long-term decline in revenue in the traditional ETS database business will range between –16 and –9 percent (at constant currency). Software AG expects an operating profit margin (non-IFRS) for fiscal 2014 between 26 and 28 percent (2013: 26.8 percent).

# Interim Financial Statements

## Consolidated Income Statement

for the nine months and quarter ended September 30, 2014, IFRS, unaudited

in € thousands	9m 2014	9m 2013	Change in %	Q3 2014	Q3 2013	Change in %
Licenses	171,495	219,255	- 22%	64,184	79,875	- 20%
Maintenance	274,986	282,091	- 3%	93,631	95,232	- 2%
Services	163,549	199,001	- 18%	47,685	63,210	- 25%
Other	480	812	- 41%	141	183	- 23%
<b>Total revenue</b>	<b>610,510</b>	<b>701,159</b>	<b>- 13%</b>	<b>205,641</b>	<b>238,500</b>	<b>- 14%</b>
Costs of sales	- 182,316	- 221,877	- 18%	- 51,412	- 72,551	- 29%
<b>Gross profit</b>	<b>428,194</b>	<b>479,282</b>	<b>- 11%</b>	<b>154,229</b>	<b>165,949</b>	<b>- 7%</b>
Research and development expenses	- 81,010	- 78,546	3%	- 27,210	- 26,112	4%
Sales, marketing and distribution expenses	- 191,105	- 219,257	- 13%	- 57,463	- 72,506	- 21%
General and administrative expenses	- 54,413	- 52,472	4%	- 19,401	- 17,272	12%
Other taxes	- 6,150	- 4,825	27%	- 2,109	- 1,590	33%
<b>Operating result</b>	<b>95,516</b>	<b>124,182</b>	<b>- 23%</b>	<b>48,046</b>	<b>48,469</b>	<b>- 1%</b>
Other income	37,707	32,532	16%	21,495	9,859	118%
Other expenses	- 34,749	- 26,457	31%	- 22,528	- 10,820	108%
Net financial income/expense	- 7,602	- 4,582	66%	- 2,126	- 1,769	20%
<b>Earnings before income taxes</b>	<b>90,872</b>	<b>125,675</b>	<b>- 28%</b>	<b>44,887</b>	<b>45,739</b>	<b>- 2%</b>
Income taxes	- 27,748	- 38,540	- 28%	- 14,485	- 14,636	- 1%
<b>Net income</b>	<b>63,124</b>	<b>87,135</b>	<b>- 28%</b>	<b>30,402</b>	<b>31,103</b>	<b>- 2%</b>
Thereof attributable to shareholders of Software AG	62,990	87,031	- 28%	30,369	31,029	- 2%
Thereof attributable to non-controlling interests	134	104	-	33	74	-
Earnings per share (€, basic)	0.79	1.03	- 23%	0.38	0.37	3%
Earnings per share (€, diluted)	0.79	1.03	- 23%	0.38	0.37	3%
Weighted average number of shares outstanding (basic)	79,331,652	84,192,182	-	78,918,844	82,950,627	-
Weighted average number of shares outstanding (diluted)	79,374,563	84,395,142	-	78,918,844	82,970,822	-

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## Statement of Comprehensive Income

for the nine months and quarter ended September 30, 2014, IFRS, unaudited

in € thousands	9m 2014	9m 2013	Q3 2014	Q3 2013
<b>Net income</b>	<b>63,124</b>	<b>87,135</b>	<b>30,402</b>	<b>31,103</b>
Currency translation differences	42,924	-21,984	29,061	-18,236
Net gain/loss on remeasuring financial assets	523	1,081	36	168
Net gain/loss arising from translating net investments in foreign operations	3,112	-780	2,796	-1,076
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>46,559</b>	<b>-21,683</b>	<b>31,893</b>	<b>-19,144</b>
Net actuarial gain/loss and asset caps on defined benefit plans	-79	36	-160	0
<b>Items that will not be reclassified subsequently to profit or loss</b>	<b>-79</b>	<b>36</b>	<b>-160</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>46,480</b>	<b>-21,647</b>	<b>31,733</b>	<b>-19,144</b>
<b>Total comprehensive income</b>	<b>109,604</b>	<b>65,488</b>	<b>62,135</b>	<b>11,959</b>
Thereof attributable to shareholders of Software AG	109,470	65,384	62,102	11,885
Thereof attributable to non-controlling interests	134	104	33	74

# Consolidated Balance Sheet

as of September 30, 2014, IFRS, unaudited

## Assets

in € thousands	<b>Sept. 30, 2014</b>	Dec. 31, 2013
<b>Current assets</b>		
Cash and cash equivalents	275,033	449,984
Securities	60,047	56,514
Inventories	84	109
Trade receivables	191,831	226,739
Other receivables and other assets	35,341	25,881
Income tax assets	38,551	10,291
	<b>600,887</b>	<b>769,518</b>
<b>Non-current assets</b>		
Intangible assets	185,328	211,771
Goodwill	848,063	829,173
Property, plant and equipment	62,132	64,460
Financial assets	8,203	4,519
Trade receivables	68,358	96,418
Other receivables and other assets	2,066	2,030
Income tax assets	3,656	2,711
Deferred taxes	13,088	16,253
	<b>1,190,894</b>	<b>1,227,335</b>
<b>Total assets</b>	<b>1,791,781</b>	<b>1,996,853</b>



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## Equity and Liabilities

in € thousands	<b>Sept. 30, 2014</b>	Dec. 31, 2013
<b>Current liabilities</b>		
Financial liabilities	98,317	202,888
Trade payables	28,047	36,140
Other liabilities	52,606	66,289
Other provisions	54,121	83,598
Tax liabilities	26,469	38,477
Deferred income	132,781	105,664
	<b>392,341</b>	<b>533,056</b>
<b>Non-current liabilities</b>		
Financial liabilities	338,696	410,486
Trade payables	0	0
Other liabilities	6,695	4,775
Provisions for pensions	50,076	50,707
Other provisions	7,572	7,291
Deferred taxes	22,575	22,577
Deferred income	1,475	2,366
	<b>427,089</b>	<b>498,202</b>
<b>Equity</b>		
Share capital	86,944	86,944
Capital reserve	48,658	46,144
Retained earnings	1,114,043	1,087,328
Other reserves	- 53,600	- 100,080
Treasury shares	- 224,466	- 155,534
<b>Share attributable to shareholders of Software AG</b>	<b>971,579</b>	<b>964,802</b>
<b>Non-controlling interests</b>	<b>772</b>	<b>793</b>
	<b>972,351</b>	<b>965,595</b>
<b>Total equity and liabilities</b>	<b>1,791,781</b>	<b>1,996,853</b>

## Consolidated Statement of Cash Flows

for the nine months and quarter ended September 30, 2014, IFRS, unaudited

in € thousands	9m 2014	9m 2013	Q3 2014	Q3 2013
Net income	63,124	87,135	30,402	31,103
Income taxes	27,748	38,540	14,485	14,636
Net financial income/expense	7,602	4,582	2,126	1,769
Amortization/depreciation of non-current assets	39,625	40,910	12,185	14,726
Other non-cash income/expense	11,220	-5,707	7,271	-1,416
<b>Operating cash flow before changes in working capital</b>	<b>149,319</b>	<b>165,460</b>	<b>66,469</b>	<b>60,818</b>
Changes in inventories, receivables and other current assets	38,135	47,839	-17,414	10,561
Changes in payables and other liabilities	-16,313	-43,514	-4,437	-21,363
Income taxes paid	-65,798	-48,419	-17,658	-10,422
Interest paid	-16,976	-12,460	-6,752	-5,210
Interest received	6,171	6,480	1,837	2,256
<b>Net cash provided by operating activities</b>	<b>94,538</b>	<b>115,386</b>	<b>22,045</b>	<b>36,640</b>
Proceeds from the sale of property, plant and equipment/ intangible assets	2,418	1,071	1,083	735
Purchase of property, plant and equipment/intangible assets	-8,609	-10,766	-2,607	-3,943
Proceeds from the sale of financial assets	177	424	21	0
Purchase of financial assets	-2,769	-526	-1,136	-141
Sale of securities	26,000	0	20,000	0
Purchase of securities	-29,533	-51,538	-24,779	-51,538
Proceeds from the sale of disposal groups	18,057	6,830	-131	387
Payment for acquisitions, net	-3,667	-112,846	0	-55,619
<b>Net cash used in investing activities</b>	<b>2,074</b>	<b>-167,351</b>	<b>-7,549</b>	<b>-110,119</b>

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in € thousands	<b>9m 2014</b>	9m 2013	<b>Q3 2014</b>	Q3 2013
Proceeds from issue of share capital	0	0	0	0
Purchase of treasury stock (incl. hedge premiums paid)	- 70,582	- 114,926	0	0
Sale of treasury stocks	1,423	0	0	0
Dividends paid	- 36,430	- 38,206	0	- 49
Additions to financial liabilities	35,000	400,158	10,000	300,158
Repayments of financial liabilities	- 212,566	- 48,870	- 10,554	- 45,220
<b>Net cash provided by/used in financing activities</b>	<b>- 283,155</b>	<b>198,156</b>	<b>- 554</b>	<b>254,889</b>
Change in cash and cash equivalents from cash-relevant transactions	- 186,543	146,191	13,942	181,410
Currency translation adjustment	11,592	- 13,439	7,147	- 7,307
<b>Net change in cash and cash equivalents</b>	<b>- 174,951</b>	<b>132,752</b>	<b>21,089</b>	<b>174,103</b>
Cash and cash equivalents at beginning of period	449,984	315,637	253,944	274,286
<b>Cash and cash equivalents at end of period</b>	<b>275,033</b>	<b>448,389</b>	<b>275,033</b>	<b>448,389</b>
<b>Free cash flow</b>	<b>85,755</b>	<b>105,589</b>	<b>19,406</b>	<b>33,291</b>

## Consolidated Statement of Changes in Equity

for the nine months ended September 30, 2014, IFRS, unaudited

	Share capital	Capital reserve	Retained earnings	
	Common shares outstanding (no.)			
in € thousands				
<b>Equity as of January 1, 2013</b>	<b>86,875,068</b>	<b>86,917</b>	<b>42,124</b>	<b>991,651</b>
Comprehensive income				87,031
Transactions with equity holders				
Dividend payment				- 38,157
New shares issued				
Stock options			3,194	
Issue and disposal of treasury stock				
Purchase of treasury stock	- 3,924,441			
Transactions between shareholders				
<b>Equity as of September 30, 2013</b>	<b>82,950,627</b>	<b>86,917</b>	<b>45,318</b>	<b>1,040,525</b>
<b>Equity as of January 1, 2014</b>	<b>81,513,689</b>	<b>86,944</b>	<b>46,144</b>	<b>1,087,328</b>
Total comprehensive income				62,990
Transactions with equity holders				
Dividend payment				- 36,275
New shares issued				
Stock options			2,679	
Issue and disposal of treasury stock	59,000		- 165	
Purchase of treasury stock (incl. hedge premiums paid)	- 2,653,845			
Transactions between shareholders				
<b>Equity as of September 30, 2014</b>	<b>78,918,844</b>	<b>86,944</b>	<b>48,658</b>	<b>1,114,043</b>

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	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	<b>Total</b>
	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				
	<b>- 38,731</b>	<b>- 3,546</b>	<b>- 21,467</b>	<b>3,498</b>	<b>- 1,157</b>	<b>1,059,289</b>	<b>777</b>	<b>1,060,066</b>
	- 21,984	1,081	36	- 780		65,384	104	65,488
						- 38,157	- 49	- 38,206
						0		0
						3,194		3,194
						0		0
					- 114,926	- 114,926		- 114,926
	<b>- 60,715</b>	<b>- 2,465</b>	<b>- 21,431</b>	<b>2,718</b>	<b>- 116,083</b>	<b>974,784</b>	<b>832</b>	<b>975,616</b>
	<b>- 77,111</b>	<b>- 2,055</b>	<b>- 22,945</b>	<b>2,031</b>	<b>- 155,534</b>	<b>964,802</b>	<b>793</b>	<b>965,595</b>
	42,924	523	- 79	3,112		109,470	134	109,604
						0		0
						- 36,275	- 155	- 36,430
						0		0
						2,679		2,679
					1,650	1,485		1,485
					- 70,582	- 70,582		- 70,582
	<b>- 34,187</b>	<b>- 1,532</b>	<b>- 23,024</b>	<b>5,143</b>	<b>- 224,466</b>	<b>971,579</b>	<b>772</b>	<b>972,351</b>

# 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 September 30, 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 September 30, 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.

Software AG waived a voluntary audit and review of the consolidated interim financial statements.

### [2] Changes in the Consolidated Group

The following changes occurred in the consolidated Group in the first nine months of fiscal 2014.

	Germany	Foreign	Total
<b>Jan. 1, 2014</b>	<b>12</b>	<b>77</b>	<b>89</b>
Disposals (including mergers)	1	5	6
<b>Sept. 30, 2014</b>	<b>11</b>	<b>72</b>	<b>83</b>

The disposals resulted from the liquidation of IDS Scheer entities, from a merger in the USA and in Israel and the closing of an enterprise in Singapore.

### [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.

**First-time application of new accounting rules**

The accounting rules to be applied in fiscal 2014 regarding IAS 32 "Financial Instruments" (description of balancing financial assets and financial liabilities) had no significant effect on Software AG's quarterly financial statements.

**New but not yet effective accounting rules**

The IASB published amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" on May 12, 2014. Based on current analyses, this has no significant effect on Software AG.

The IASB published IFRS 15 "Revenue from Contracts with Customers" on May 28, 2014. IFRS 15 provides a uniform model by which companies must recognize revenue from contracts with customers. IFRS 15 replaces the current rules for recording revenues in IAS 11 and IAS 18 as well as the associated interpretations. The core principle of the model is that a company should recognize revenue in an amount that reflects the consideration the company expects in exchange for services it has agreed on contractually. Revenue should be recognized at the point in time at which the contractual obligations are met. The standard contains significantly more extensive application guidelines and requirements for information included in the notes to the consolidated financial statements than the current rules. Software AG is currently assessing the effects this has on the presentation of its financial position, financial performance and cash flow. The new rules must be applied for fiscal years that begin on or after January 1, 2017, and they have not yet been adopted by the European Union as European law.

For further information on the new, not yet effective accounting rules and those for which Software AG has not opted for early application, please refer to Note 3 of the 2013 Annual Report.

**[4] Business Combinations**

Software AG did not acquire any companies during the first nine months of 2014. Software AG acquired only the remaining 84 percent of shares in metaquark GmbH, of 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."

**[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 transfer took place on May 31, 2014. The divestiture included all SAP services in the DACH region controlled by the IDS Scheer Consulting GmbH subsidiary, which had approximately 500 employees and €64 million in total revenue (in fiscal 2013). The transaction resulted in a loss of around €1 million.

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### [6] Intangible Assets and Goodwill

Goodwill amounted to €848,063 thousand as of September 30, 2014, an increase of €18,890 thousand compared to December 31, 2013. Of that amount, €28,298 thousand resulted from positive currency translation effects, particularly from the strong U.S. dollar. Furthermore, –€8,550 thousand resulted from the disposal of IDS operations and –€858 thousand from the final adjustment related to the acquisition of JackBe in the USA.

The carrying amounts of goodwill and of intangible assets with indefinite useful lives for each segment as compared to December 31, 2013 were as follows:

Segment in € thousands	Sept. 30, 2014	Dec. 31, 2013
ETS	313,225	311,642
BPE	512,013	486,945
Consulting	22,825	30,586
<b>Goodwill</b>	<b>848,063</b>	<b>829,173</b>
ETS	0	0
BPE	36,757	35,063
Consulting	5,413	9,766
<b>Intangible assets with indefinite useful lives</b>	<b>42,170</b>	<b>44,829</b>

### [7] Equity

#### Share capital

Software AG's share capital totaled €86,944 thousand as of September 30, 2014 (December 31, 2013: €86,944 thousand), divided into 86,943,945 bearer shares (December 31, 2013: 86,943,945). Each share entitles its holder to one vote.

#### Dividend payment

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 16, 2014 to appropriate €36,275 thousand (2013: €38,157 thousand) for a dividend payout from the net retained profits of €136,042 thousand reported by Software AG, the controlling Group company, in 2013. This corresponded to a dividend of €0.46 (2013: €0.46) per share. A total amount of €99,766 thousand (2013: €220,700 thousand) was carried forward.

#### Share buyback

Software AG instituted a program for the repurchase of treasury shares up to a total value of €110 million between November 12, 2013 and 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). In the second quarter of 2014, 59,000 treasury shares were used to service stock options exercised under MIP III. As of September 30, 2014 Software AG held 8,025,101 treasury shares representing €8,025,101 (9.2 percent) of the share capital.



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## 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: integration, business process management and big data with the webMethods, Aris, Alfabet, Apama and Terracotta product families)
- Enterprise Transaction Systems (ETS: data management with the Adabas-Natural products)
- Consulting with a focus on implementation of Software AG products

The table on the next page shows the segment data for the third quarters of 2014 and 2013.

## Segment report for the nine months ended September 30, 2014, IFRS, unaudited

	Enterprise Transaction Systems (ETS)	
in € thousands	9m 2014	9m 2013
Licenses	52,610	71,406
Maintenance	115,271	127,392
<b>Product revenue</b>	<b>167,881</b>	<b>198,798</b>
Services	0	0
Other	465	489
<b>Total revenue</b>	<b>168,346</b>	<b>199,287</b>
Cost of sales	-9,318	-10,421
<b>Gross profit</b>	<b>159,028</b>	<b>188,866</b>
Sales, marketing & distribution expenses	-25,750	-37,162
<b>Segment contribution</b>	<b>133,278</b>	<b>151,704</b>
Research and development expenses	-18,407	-18,857
<b>Segment result</b>	<b>114,871</b>	<b>132,847</b>
General and administrative expenses		
Other taxes		
<b>Operating result</b>		
Other income, net		
Financial income/expense, net		
<b>Earnings before income taxes</b>		
Income taxes		
<b>Net income</b>		

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Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
9m 2014	9m 2013	9m 2014	9m 2013	9m 2014	9m 2013	9m 2014	9m 2013
118,693	146,501	192	1,348			171,495	219,255
157,732	149,620	1,983	5,079			274,986	282,091
<b>276,425</b>	<b>296,121</b>	<b>2,175</b>	<b>6,427</b>			<b>446,481</b>	<b>501,346</b>
0	1	163,549	199,000			163,549	199,001
0	1	15	322			480	812
<b>276,425</b>	<b>296,123</b>	<b>165,739</b>	<b>205,749</b>			<b>610,510</b>	<b>701,159</b>
-16,556	-16,285	-137,655	-175,448	-18,787	-19,723	-182,316	-221,877
<b>259,869</b>	<b>279,838</b>	<b>28,084</b>	<b>30,301</b>	<b>-18,787</b>	<b>-19,723</b>	<b>428,194</b>	<b>479,282</b>
-135,321	-144,545	-17,947	-26,318	-12,087	-11,232	-191,105	-219,257
<b>124,548</b>	<b>135,293</b>	<b>10,137</b>	<b>3,983</b>	<b>-30,874</b>	<b>-30,955</b>	<b>237,089</b>	<b>260,025</b>
-62,603	-59,689	0	0	0	0	-81,010	-78,546
<b>61,945</b>	<b>75,604</b>	<b>10,137</b>	<b>3,983</b>	<b>-30,874</b>	<b>-30,955</b>	<b>156,079</b>	<b>181,479</b>
						-54,413	-52,472
						-6,150	-4,825
						<b>95,516</b>	<b>124,182</b>
						2,958	6,075
						-7,602	-4,582
						<b>90,872</b>	<b>125,675</b>
						-27,748	-38,540
						<b>63,124</b>	<b>87,135</b>

## Segment report for the three months ended September 30, 2014, IFRS, unaudited

	Enterprise Transaction Systems (ETS)	
in € thousands	Q3 2014	Q3 2013
Licenses	21,949	17,763
Maintenance	39,259	41,103
<b>Product revenue</b>	<b>61,208</b>	<b>58,866</b>
Services	0	0
Other	136	146
<b>Total revenue</b>	<b>61,344</b>	<b>59,012</b>
Cost of sales	- 3,100	- 3,538
<b>Gross profit</b>	<b>58,244</b>	<b>55,474</b>
Sales, marketing & distribution expenses	- 7,816	- 9,856
<b>Segment contribution</b>	<b>50,428</b>	<b>45,618</b>
Research and development expenses	- 5,923	- 5,975
<b>Segment result</b>	<b>44,505</b>	<b>39,643</b>
General and administrative expenses		
Other taxes		
<b>Operating result</b>		
Other income, net		
Financial income/expense, net		
<b>Earnings before income taxes</b>		
Income taxes		
<b>Net income</b>		

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Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
Q3 2014	Q3 2013	Q3 2014	Q3 2013	Q3 2014	Q3 2013	Q3 2014	Q3 2013
42,235	61,778	0	334			64,184	79,875
54,345	52,556	27	1,573			93,631	95,232
<b>96,580</b>	<b>114,334</b>	<b>27</b>	<b>1,907</b>			<b>157,815</b>	<b>175,107</b>
0	0	47,685	63,210			47,685	63,210
0	0	5	37			141	183
<b>96,580</b>	<b>114,334</b>	<b>47,717</b>	<b>65,154</b>			<b>205,641</b>	<b>238,500</b>
-5,380	-5,529	-37,642	-56,019	-5,290	-7,465	-51,412	-72,551
<b>91,200</b>	<b>108,805</b>	<b>10,075</b>	<b>9,135</b>	<b>-5,290</b>	<b>-7,465</b>	<b>154,229</b>	<b>165,949</b>
-40,806	-50,446	-4,768	-8,167	-4,073	-4,037	-57,463	-72,506
<b>50,394</b>	<b>58,359</b>	<b>5,307</b>	<b>968</b>	<b>-9,363</b>	<b>-11,502</b>	<b>96,766</b>	<b>93,443</b>
-21,287	-20,137	0	0	0	0	-27,210	-26,112
<b>29,107</b>	<b>38,222</b>	<b>5,307</b>	<b>968</b>	<b>-9,363</b>	<b>-11,502</b>	<b>69,556</b>	<b>67,331</b>
						-19,401	-17,272
						-2,109	-1,590
						<b>48,046</b>	<b>48,469</b>
						-1,033	-961
						-2,126	-1,769
						<b>44,887</b>	<b>45,739</b>
						-14,485	-14,636
						<b>30,402</b>	<b>31,103</b>

### [9] Contingent Liabilities

As of September 30, 2014, no provisions had been recognized for the following contingent liabilities, expressed at their nominal amounts, since it appeared unlikely that any claims would be asserted:

in € thousands	<b>Sept. 30, 2014</b>	Dec. 31, 2013	Sept. 30, 2013
Contingent liabilities	0	0	2,598

The carrying amount of collateral received was €32 thousand (2013: €51 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	<b>Total</b>
Contractually agreed payments (gross amount)	8,016	47,282	7,423	62,721
Estimated income from subleases	815	5,911	0	6,726
Contractually agreed payments (net amount)	7,201	41,371	7,423	55,995

## [10] Seasonal Influences

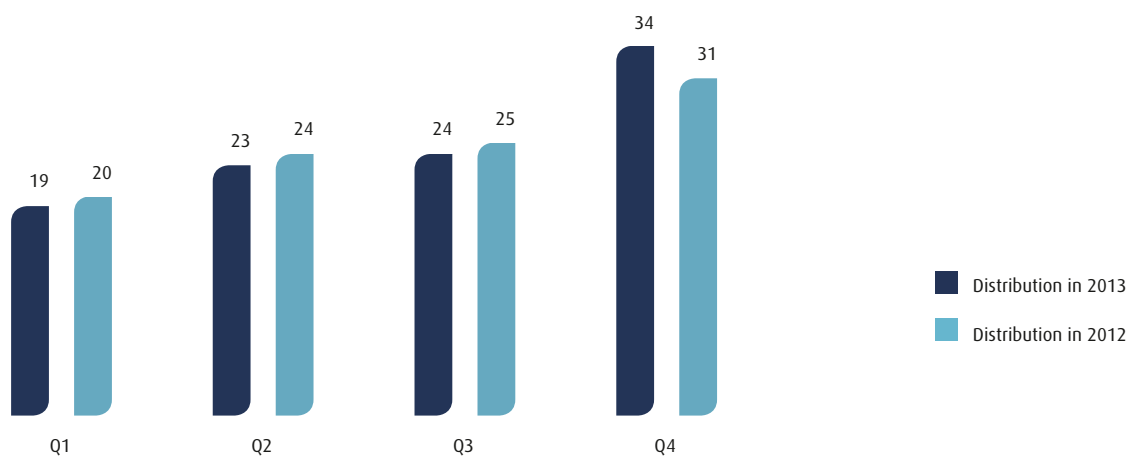
Revenues and pre-tax earnings were distributed over fiscal year 2013 as follows:

in € thousands	Q1 2013	Q2 2013	Q3 2013	Q4 2013	<b>2013</b>
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 and 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 case to set a precedent, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants.

In 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. A settlement to the dispute was reached in September 2014. The settlement did not lead to any unplanned costs.

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 light of the court's order to hear evidence

issued in September 2013, in the capacity of expert auditor, Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft provided a written opinion on questions concerning valuation in July 2014. The petitioners' opinions on it have not yet been finalized.

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. A selection process for a qualified expert is currently underway. 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 or other legal risks 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. The stock price-based remuneration plans as of September 30, 2014 are described in detail on pages 192–196 of Software AG's 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 nine months of fiscal 2014:

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2013</b>	<b>4,808,668</b>	<b>41.34</b>	<b>7.5</b>	<b>0</b>
Granted	15,000	41.34		
Forfeited	571,168	41.34		
<b>Balance as of Sept. 30, 2014</b>	<b>4,252,500</b>	<b>41.34</b>	<b>6.75</b>	
Thereof exercisable as of Sept. 30, 2014	0			

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

The balance of rights granted under Management Incentive Plan 2007 (MIP III) compared to the balance on December 31, 2013 changed as follows:

	Number of rights	Exercise price per right (in €)	Remaining term (in years)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2013</b>	<b>1,793,300</b>	<b>24.12</b>	<b>2.5</b>	<b>2,295*</b>
Forfeited	- 3,500	24.12		
Exercised (June; price €27.32)	- 64,000	24.12		
<b>Balance as of Sept. 30, 2014</b>	<b>1,725,800</b>	<b>24.12</b>	<b>1.75</b>	<b>0*</b>
Thereof exercisable as of Sept. 30, 2014	1,725,800	24.12		

\*) Based on the closing prices on September 30, 2014 and December 31, 2013

**[13] Employees**

In the first three quarters of 2014 the average number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

	Sept. 30, 2014	Sept. 30, 2013
Maintenance and Services	2,024	2,438
Sales and Marketing	1,072	1,234
Research and Development	987	949
Administration	672	722
	<b>4,755</b>	<b>5,343</b>

In absolute terms (i.e., part-time employees are counted in full), the Group employed 4,704 (2013: 5,556) people as of September 30, 2014.

#### [14] Changes and Information Regarding Corporate Bodies

Due to the completed sale of all shares in IDS Scheer Consulting GmbH to the Scheer Group GmbH, Mr. Roland Schley, employee representative to the Supervisory Board of Software AG, left the Supervisory Board of Software AG as of May 31, 2014. In accordance with section 104, paragraph 1 of the German Stock Corporation Act, the Darmstadt registration court resolved on June 26, 2014 to appoint Ms. Maria Breuing as Mr. Schley's successor to the Supervisory Board of Software AG for the remainder of his term.

Effective October 1, 2014, the Supervisory Board of Software AG appointed Mr. Eric Duffaut to the Management Board of Software AG for a term of five years ending September 30, 2019. Mr. Duffaut is responsible for the company's global sales, marketing and services operations.

#### [15] Events After the Balance Sheet Date

In a meeting on October 31, 2014, the Supervisory Board decided to introduce a maximum value limit for existing long-term Management Incentive plans (MIP III and IV) in accordance with recommendations of the German Corporate Governance Code. This cap is subject to the approval of

participants of the respective plans. The planned value cap for the existing MIP IV (option strike price: €41.34) is €13.66 and would be reached if the share price hits €55. Accordingly, the exercise threshold of €60 would no longer apply. The planned value cap for the remaining options under MIP III from the year 2007 (strike price: €24.12) will be reached if the share price hits €45; in exchange, the exercise period would be extended by three years.

The change to MIP III increases its market value by approximately €1 to €2 million, whereas it decreases the market value of MIP IV by about the same amount. These adjustments to the stock appreciation plans therefore did not result in a net change to the sum of market values at the time the resolution was passed. In October 2014, the corporate bodies of Software AG agreed on the principle of instituting a follow-up stock appreciation plan as of 2015.

There were no further events that occurred between September 30, 2014 and the date of release of this quarterly report that were of significance to the consolidated financial statements.

#### Date and authorization for issue

Software AG's Management Board approved the consolidated interim financial statements on November 10, 2014.

Darmstadt, November 10, 2014

Software AG



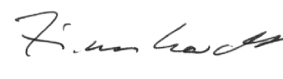
K.-H. Streibich



E. Duffaut



Dr. W. Jost



A. Zinnhardt

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## Financial Calendar 2015

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January 28	Preliminary financial figures Q4/FY 2014 (IFRS, unaudited)
April 29	Preliminary financial figures Q1/2015 (IFRS, unaudited)
May 13	Annual Shareholders' Meeting, Darmstadt, Germany
July 23	Preliminary financial figures Q2/H1 2015 (IFRS, unaudited)
October 28	Preliminary financial figures Q3/9M 2015 (IFRS, unaudited)

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## Publication Credits

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