

Stand Out in the  
**Digital World**



**Interim Report**  
**Q1** | 2015

# Key Figures

as of March 31, 2015 (IFRS, unaudited)

In € millions (unless otherwise stated)	Q1 2015	Q1 2014	Change in %
<b>Revenue</b>	<b>194.1</b>	<b>208.9</b>	<b>-7%</b>
<b>By type:</b>			
• Products	146.2	147.4	-1%
• Services	47.7	61.3	-22%
• Other	0.2	0.2	
<b>By business line:</b>			
• Digital Business Platform	91.0	95.3	-5%
• Adabas & Natural	55.4	51.1	8%
• Consulting	47.7	62.5	-24%
<b>EBIT*</b>	<b>29.3</b>	<b>30.5</b>	<b>-4%</b>
• as % of revenue	15.1%	14.6%	
<b>Net income</b>	<b>18.7</b>	<b>18.6</b>	<b>1%</b>
• as % of revenue	9.6%	8.9%	
Earnings per share (€. basic)	0,24	0.23	4%
Earnings per share (€. diluted)	0.24	0.23	4%
Free cash flow	60.3	47.8	26%
<b>Employees (full-time equivalents)</b>	<b>4,367</b>	<b>5,108</b>	
• of which in Germany	1,188	1,663	
• of which in R&D	962	995	
<b>Balance sheet</b>	<b>March 31, 2015</b>	<b>Dec. 31, 2014</b>	
Total assets	1,964.3	1,848.9	
Cash and cash equivalents	403.1	318.4	
Net debt	46.4	125.7	
Shareholders' equity	1,105.9	1,013.4	
• as % of total assets	56%	55%	

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



# Stand Out in the **Digital World**

Digitization is changing the world. New technologies change the way companies do business. They bring about new organizational approaches. They create innovative work opportunities. The speed at which this happens is not the only challenge: an ever increasing volume of data is produced in mere milliseconds. This opens up fascinating opportunities and creates potential for success for those who can make use of it.

Innovative products without digitization will be unthinkable in the future. Every company and every organization needs a digital strategy. Only those who master the enormous data volumes, put information to the best possible use as a raw material and digitize their business models will be successful.

Software AG provides what businesses and organizations need to grow and stay competitive. Our portfolio of products and services enables customers to fully exploit the opportunities of the digital era. We build on existing IT landscapes, harmonize them and implement digital technologies to create flexible infrastructures that analyze data in real time—including automated decision-making tools. For our customers, this means that they can tap into new, agile business models and design running processes more efficiently. They will be faster, more competitive and more successful.

Software AG is the global technology leader in application infrastructure and middleware software and drives innovation in real-time analytics products, which have great potential in the Industry 4.0 (Internet of Things) growth market. We focused on business-critical software solutions early on. Our products now cover virtually every megatrend in information technology, making our portfolio the most comprehensive and innovative of its kind. Forrester and Gartner position us as a leader in 13 market sectors worldwide.

**SHAPING CHANGE.**

For a top position in the digital world.

# Significant Events

## During the Reporting Period

### **CeBIT 2015:** Software AG unveils the world's first Digital Business Platform



Responding to today's rapidly digitizing economies, Software AG presented the first-ever Digital Business Platform at the CeBIT IT expo in Hannover, Germany. The Digital Business Platform enables enterprises to adapt and embrace the fast changes and huge opportunities, in both the private and public sectors, driven by the growth of the global digital economy. Today's enterprise application solutions, designed for stable and predictable business situations, cannot provide the agility and speed needed to address today's customers' requirements. The Digital Business Platform, in contrast, focuses on fast adaptability. It fosters co-innovation between Software AG and its customers for developing joint software solutions based on the Digital Business Platform. This approach enables fast development and deployment of adaptive and differentiating applications and business solutions, customized to customers' individual needs.

### **External honors for Software AG**



Forrester Research, a leading industry analyst firm, named Software AG a "leader" in "The Forrester Wave: Portfolio Management Tools for the Business Technology Agenda, Q1 2015" for its Alfabet solution. Alfabet IT Planning and Portfolio Management is a collaborative platform used by business and IT leaders to better understand their IT landscape. Alfabet enables IT strategy planning and efficient execution thanks to fine-tuned coordination between business and IT portfolio management.

Furthermore, Forrester also named Software AG a "leader" in "The Forrester Wave: Strategic Planning for the Business Technology Agenda, Q1 2015" for its Alfabet solution. Forrester cites Software AG as an example of a vendor with "extensive and configurable scenario planning capabilities that can provide real-time results to changes in portfolio options." According to the report, Alfabet is the only vendor to receive the highest achievable score for deployment options in all three segments of the evaluation.

### **The Hannover Industrial Fair 2015:** Software AG presents Industry 4.0 scenario with smart big data

In addition to the actual manufactured good, today's factories produce massive amounts of data, which continuously flow between self-regulating components, sensors, machines and plants. This data holds huge potential for organizations that choose to employ real-time

big data analytics for their production, planning and maintenance processes. Using the steel industry as an example, Software AG demonstrated at the Hannover Fair how the concept of smart big data can be implemented.

## Product-related business lines renamed



In order to better reflect the strategic positioning of two business lines, Software AG's Management Board decided early April to rename them.

- The BPE portfolio was renamed to Digital Business Platform.
- The ETS portfolio was renamed to Adabas&Natural.
- The Consulting business line will remain unchanged.

In calling its largest business line "Digital Business Platform," Software AG is emphasizing its conceptual and technological innovation of recent years. Its portfolio and positioning in the application infrastructure and middleware software market changed during this time—from a process-driven approach to a holistic view of business consisting of process, data, integration and (real-time) decision logic. Moreover, the new name reflects the high demand for agile applications, which are necessary for enterprise digital transformation. The composition of the portfolio and the revenues generated by the respective business lines will remain unchanged.

Renaming the traditional ETS line, which specializes in mainframe-based database business, to Adabas&Natural indicates a return to Software AG's roots. It also reflects the positive connotation of the proven Adabas and Natural names and the fact that they are more established than ETS with customers, partners and across the IT sector.

## Software AG proposes higher dividend

Software AG's Management Board and Supervisory Board will propose a dividend of €0.50 (2014: €0.46) per share for the 2014 fiscal year at the Annual Shareholders' Meeting on May 13, 2015. This reflects a nine-percent increase. Based on the company's current 78.9 million (2014: 78.9 million) dividend-bearing shares, the total payout sum would increase to about €39.5 million (2014: €36.3 million). Based on the average net income and free cash flow, the dividend ratio would increase to approximately 32 percent (2014: 25 percent). Based on the closing share price in 2014, this proposal is equal to a dividend yield of about 2.5 percent.

## Software AG and Wipro announce a strategic partnership around IoT (Internet of Things)



In January 2015, Software AG and Wipro, a leading IT services company, announced a strategic partnership. To address the huge market potential created by streaming analytics in conjunction with IoT and Industry 4.0, the global IT, consulting and outsourcing company Wipro has chosen Software AG's Digital Business Platform to develop its IoT solution "Looking Glass" for connected smart products. This offering will allow enterprises to respond to events in real-time with tremendous scalability and adapt dynamically through streaming analytics. This is an excellent example of partner innovation on top of Software AG's Digital Business Platform that will accelerate customer value and drive Software AG's products market adoption.

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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, 2015, 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: Digital Business Platform (formerly BPE, including the webMethods, ARIS, Alfabet, Apama and Terracotta product families), Adabas & Natural (formerly ETS, including the Adabas and Natural product families) and Consulting (all consulting services associated with Software AG products since Q3 2014).

# Interim Management Report

## Financial Performance

### Total revenue

Software AG's **revenue** totaled €194.1 million (2014: €208.9 million) in the first quarter of 2015. The figure from 2014 included the SAP consulting business, which Software AG sold in the second quarter of 2014. Adjusted for those divested, non-strategic consulting activities, total group revenue remained fairly constant for the continued operations at €194.1 million (2014: €195.1 million). Software AG disposed of all SAP consulting units in 2014 in order to focus completely on the development, sale and consulting services of its own market-leading product portfolio. With this step, the company is pursuing a strategy of transforming to a high-profit product company with a focus on sustainable profitability and value-oriented enterprise development.

Software AG's **group product revenue**, consisting of license and maintenance revenue from both product lines, also stayed on par with last year at €146.2 million (2014 adjusted for divestitures: €146.2 million). As a percentage of total revenue, product sales increased to 75.3 percent (2014: 71.0 percent). This positive revenue mix trend confirms Software AG's strategy of transforming into a product provider with a focus on its own software products.

**License revenue** for the two product lines totaled €46.5 million (2014: €57.0 million) in the quarter under review. **Maintenance revenue** rose to €99.7 million (2014 adjusted for divestitures: €89.2 million). This is 12-percent growth year-on-year and a Q1 record for Software AG. Maintenance therefore accounted for 51.3 percent (2014: 42.7 percent) of total revenue. This further underpins Software AG's intensified value focus through sustainable recurring high-margin revenue streams.

### Exchange rate effects

Exchange rates had a positive 9-percent effect on Software AG's total revenue in the first quarter of 2015. This is mainly due to the decreased value of the euro against the U.S. dollar, but also to the increased percentage of revenues in

U.S. dollars. This rise to 31 percent resulted from Software AG's international expansion with a specific focus on North America. This is a 10-percent increase over the first quarter of 2014.

License and maintenance revenue benefited from exchange rate effects the most with gains of 13 percent and 9 percent respectively. Services were least affected, because consulting revenues are generated primarily in the eurozone.

The percentage of total revenue in currencies other than the euro rose to 64 percent (2014: 57 percent); accordingly, the percentage in euros decreased to 36 percent (2014: 43 percent). In addition to the U.S. dollar, other currencies accounting for significant portions of revenue were the pound sterling (GBP) at 6 percent, the Israeli shekel (ILS) at 5 percent, the Brazilian real (BRL) at 4 percent and the Canadian and Australian dollar at 3 percent respectively.

### Earnings performance

In the first quarter of 2015 Software AG further lowered its cost of sales to €54.8 million (2014: €68.0 million), which is 19 percent below the same quarter the year before. This savings was achieved through the consolidation of the Consulting business line and continued cost discipline. Software AG's gross margin improved accordingly to 71.8 percent (2014: 67.4 percent).

Research and development (R&D) expenses remained constant at €27.4 million (2014: €27.2 million). Expenses for sales and marketing, on the other hand, were 8 percent lower at €64.1 million (2014: €69.4 million). Administrative expenses went up slightly to €20.1 million (2014: €19.1 million).

Earnings before interest and taxes (EBIT) in the first quarter were €29.3 million (2014: €30.5 million). As a percentage of total revenue, this shows an increased EBIT margin of 15.1 percent (2014: 14.6 percent). Key factors which led to the jump in profitability were the strong performance of the A&N business, higher DBP maintenance revenue, the Consulting line's earnings contribution and stringent cost management across the entire organization.

In order to increase its long-term enterprise value, Software AG wants to continue growing profitably and augmenting its financial strength. To achieve these strategic goals, the company employs an internal control system. Software AG regards DBP and A&N product revenue based on IFRS reporting, operating income (non-IFRS) and operating profit margin (non-IFRS) as its most relevant performance indicators.

Software AG defines operating income as follows:

#### Earnings before all taxes

+ Acquisition-related depreciation of intangible assets
+ Acquisition-related decreases in product revenue by way of purchase price allocations
+ Other acquisition-related effects on earnings
+ Expenses resulting from share price-based remuneration
+ Restructuring/severance expenses
+ Other one-time effects
<hr/>
= Operating income (non-IFRS)

Operating profit margin is calculated by dividing EBITA (non-IFRS) by total group revenue.

**Operating income (EBITA, non-IFRS)** showed a notable rise to €48.1 million (2014: €43.0 million) in the first quarter of 2015 due to the company's strategic value focus. This pushed the **operating profit margin (non-IFRS)** to 24.8 percent (2014: 20.6 percent), which is the highest quarterly margin Software AG has achieved since having begun reporting this metric.

**Net financial expense** fell to €1.4 million (2014: €2.8 million). The amount in 2014 included high financing costs related to the placement of a promissory note in mid-2013 with a total volume of €300 million. Income taxes increased in the first quarter of 2015 to €7.7 million (2014: €7.4 million). Accordingly, Software AG's tax rate was 29.1 percent (2014: 28.6 percent).

**Net income** after taxes in the first quarter was up slightly year-on-year at €18.7 million (2014: €18.6 million). As a result, earnings per share rose to €0.24 (2014: €0.23).

## Revenue and earnings by business line (segment report)

Software AG's revenue in the first quarter of 2015 totaling €194.1 million can be broken down as follows:

- DBP's share of revenue rose to 47 percent (2014: 46 percent) of total revenue.
- A&N's share of revenue increased to 29 percent (2014: 25 percent).
- Consulting revenue was purposefully reduced to 25 percent (2014: 30 percent) of total revenue through the sale of SAP consulting operations.

This revenue mix reflects Software AG's transformation to a product provider with a focus on its high-margin product lines. DBP—the largest business line—again grew its contribution to group revenue in the first quarter of 2015.

### Digital Business Platform (DBP)

The DBP business line, which consists of all Software AG products for enterprise digitization, generated €91.0 million (2014: €95.3 million) in revenue in the first quarter of 2015. Nearly two-thirds, or 65.8 percent (2014: 54.1 percent), of the business line's revenue came from recurring revenue sources. DBP maintenance revenue increased to €59.9 million (2014: €51.6 million), which is 16-percent growth year-on-year. The maintenance business ensures highly profitable recurring revenue. For Software AG this positive trend confirms that its strategic measures are effective and sustainable.

DBP license revenue totaled €31.1 million (2014: €43.7 million) in the quarter under review. This figure went down from the same period the year before, which had been heavily influenced by one very large transaction. Strong business performance in key markets such as the USA and various European countries signifies the initial success of the new product portfolio positioning, and the optimized Go-to-Market strategy established on January 1<sup>st</sup>, 2015.

The DBP portfolio was further developed in the quarter under review. This included the launch of cloud solutions as well as the new Digital Business Platform in March 2015. Software AG is technology leader in the application infrastructure and middleware software market segment. It drives the development of products for real-time analytics, which have great potential in the high-growth Industry 4.0 (Internet of Things) market.

The cost of sales in the DBP line increased to €7.0 million (2014: €5.7 million). At the same time, sales and marketing

expenses continued to fall to €46.1 million (2014: €49.1 million). Research and development (R&D) expenses were up moderately at €22.0 million (2014: €20.9 million). With lower license revenue and higher a cost of sales and R&D expenses, the segment's earnings were down to €15.9 million (2014: €19.6 million). DBP's segment margin was 17.5 percent (2014: 20.5 percent).

### Adabas & Natural (A&N)

The A&N database business generated €55.4 million (2014: €51.1 million) in revenue in the first quarter of 2015, up 8 percent year-on-year. This was fueled primarily by license revenue, which rose 16 percent to €15.5 million (2014: €13.3 million), resulting from Software AG's intensified investments in its existing customer base. Mainframe-based database products continue to play a key role in the smooth business operations of A&N customers.

Moreover, A&N maintenance revenue increased by 6 percent to €39.8 million (2014: €37.6 million). This reflects a contract renewal rate of 97 percent (2014: 93 percent), a three-year high. Although the market for traditional database software is in decline due to its maturity and saturation, Software AG nevertheless successfully developed this high-margin business segment in Q1. This highlights the degree of customer engagement and loyalty in Software AG's traditional A&N product line.

The cost of sales in the A&N line was stable at €3.4 million (2014: €3.4 million). Sales and marketing expenses decreased slightly totaling €8.7 million (2014: €9.1 million) in the first quarter. R&D expenses for the same period fell to €5.4 million (2014: €6.2 million). Due to the exceptional growth of licenses and maintenance in combination with stringent cost management, A&N segment earnings rose to €37.9 million (2014: €32.5 million). As a result, the segment's profit margin improved to 68.3 percent (2014: 63.5 percent).

### Consulting

Revenue in the Consulting business line was €47.7 million (2014: €62.5 million) in the first quarter of 2015. The reason for the decrease was the complete sale of non-strategic SAP consulting operations in the second quarter of 2014. Deducting the revenue recognized last year from the divested consulting operations results in a comparable revenue figure in 2014 at €48.7 million. Since the sale of all service operations related to third-party solutions, Software

AG now focuses exclusively on the development, sale and service of its own software products.

Due to the consolidation of the SAP consulting business, the cost of sales in this line fell considerably to €39.1 million (2014: €51.9 million). Sales and marketing expenses also dropped significantly to €4.8 million (2014: €7.3 million).

Following the concluded realignment of the Consulting business, including the focus on Software AG's own products and cost reductions, the Consulting segment's contribution increased to €3.8 million (2014: €3.3 million). With respect to the lowered revenue, this marks an improved segment margin of 7.9 percent (2014: 5.3 percent). This positive trend confirms Software AG's strategy of prioritizing profitability—even in the labor-intensive services business.

## Financial Position

**Cash flow from operating activities** performed well in the first quarter of the year. This is due to advance payments on maintenance agreements, which generated an increased volume of revenue in the period under review. Cash flow from operating activities was €61.5 million (2014: €50.0 million) in the first quarter. The cash-conversion rate improved during the period as well. Active receivables management as well as advance payments from customers led to increased proceeds. Increased prepaid expenses and decreased liabilities had a positive effect on cash flow from operating activities in the amount of €20.4 million (2014: –€2.1 million). Due to exchange rate effects, other non-cash income rose by €6.1 million to €6.9 million (2014: €0.8 million).

**Cash inflows from investing activities** in the quarter under review were €2.0 million (2014 outflows: €6.1 million). Capital expenditure for property, plant and equipment and intangible assets dropped significantly to –€1.6 million (2014: –€3.3 million). Payments due on securities led to proceeds in the amount of €4.2 million, while payments for the purchase of securities in the amount of €2.8 million were reported in the same period in 2014.

**Cash inflows from financing activities** were up substantially at €1.3 million (2014 outflows: €72.5 million). This is primarily due to a payment of €70.6 million for the repurchase of treasury shares the year before.

As of March 31, 2015 cash and cash equivalents were €403.1 million, compared to €421.4 million one year before and €318.4 million at the beginning of the current fiscal year.

**Free cash flow** in the first quarter of 2015 increased year-on-year by 26 percent to €60.3 million (2014: €47.8 million).

This is 31 percent (2014: 23 percent) of total group revenue. The free cash flow to net income ratio rose to 323 percent (2014: 257 percent). Free cash flow per share also increased accordingly to €0.76 (2014: €0.60).

## Assets

Software AG's **total assets** were €1,964.3 million as of March 31, 2015 compared to €1,935.9 million the year before and €1,848.9 million on December 31, 2014 (+6.2 percent).

The most notable factor leading to the growth in assets was that Software AG reported net cash at the end of the first quarter in the amount of €4.8 million (2014: -€132.2 million). This reflects an increase of €137.0 million over the same quarter in 2014 despite the repurchase of shares and dividend payments during the past 12 months. Net debt at the end of fiscal 2014 was €70.4 million.

On the assets side, active receivables management led to high proceeds, which reduced this item on the balance sheet accordingly. At €273.9 million, trade receivables were down by €8.0 million year-on-year and by €24.7 million quarter-on-quarter.

On the liabilities side, financial liabilities fell €163.4 million to €449.5 million (2014: €612.9 million). Increased deferred income at €163.3 million (2014: €138.2 million) was primarily a result of maintenance revenue growth.

Software AG's **shareholders' equity** increased to €1,105.9 (2014: €916.6 million) as of March 31, 2015. Accordingly, the equity ratio climbed to 56.3 percent (2014: 47.4 percent).

## Employees

As of March 31, 2015 the Software AG Group had 4,367 (2014: 5,108) employees (full-time equivalents). This decline is primarily due to the sale of non-strategic consulting activities. The number of employees in Consulting dropped to 1,816 (2014: 2,283) and in Sales and Marketing to 967 (2014: 1,131). There were 962 (2014: 995) employees in Research and Development. The number of employees in Administration decreased to 622 (2014: 699) as of March 31, 2015.

Geographically speaking, the sale of the Consulting units had a particularly strong impact in Germany. As of March 31, 2015 the number of employees there was 1,188 (2014: 1,663). In the United States, the number of employees was 632 (2014: 752). Software AG staff in other countries

accounted for the vast majority at 2,547 (2014: 2,693) employees.

## Management's assessment of third-quarter results

Software AG's Management Board considers the profitability increase in the first quarter of 2015 as well as positive feedback from customers and analysts concerning its market-leading product portfolio – which has been renamed to better reflect its strategic market positioning – to be validating factors. Business development in the first three months of the year confirms the success of the company's value-oriented strategy focusing on growing recurring revenue and profitability.

In the period under review, Software AG increased its operating margin (non-IFRS) to 24.8 percent (2014: 20.6 percent) and its equity ratio to 56.3 percent (2014: 47.4 percent) through an improved revenue mix, consistent efficiency improvements to internal processes and stringent financial discipline. DBP license revenue could not yet be developed as planned, but the A&N line saw exceptional growth in licenses thanks to an intensified focus on existing customers. Moreover, recurring income broke new records in first-quarter maintenance revenue in both business lines. Optimizing and transforming Software AG's Go-to-Market model for its DBP business line led to initial promising results in key markets and other positive trends such as partner network expansion. We are confident that further improvements will be seen in more countries.

We are of the opinion that, Software AG is very well positioned in the global market and is making large strides in its transformation into a strategic and relevant platform provider, enabling customers to stand out in the Digital world, with growing recurring business. As the foundation of future innovation and earnings per share growth, increased profitability will remain Software AG's focus. Based on stable product revenue, increased maintenance revenue and profitability as well as initial Go-to-Market optimization and a strong project pipeline, Software AG confirms its outlook for the 2015 fiscal year.

## Events After the Balance Sheet Date

Software AG disclosed the recall of treasury shares on April 28, 2015 in an ad hoc release pursuant to section 15 of WpHG. Utilizing the authorization granted by the Annual Shareholders' Meeting of May 3, 2013, the Management Board resolved to recall 7,943,945 Software AG shares, which had been acquired by the company based on various repurchase authorizations. This led to a decrease in share capital. That amount represents 9.14 percent of Software AG's share capital prior to the retirement and capital decrease. Since the shares have been retired, Software AG's share capital totals €79,000,000.00, divided into 79.0 million bearer shares with each share representing a pro rata amount of €1 of the share capital. The capital decrease will not affect the reported earnings per share or dividend.

Pursuant to section 26, paragraph 1, sentence 2 of WpHG, Software AG communicated in a voting rights disclosure on May 4, 2015 that its percentage of treasury shares had fallen below the threshold of 5 percent and 3 percent of voting rights on April 30, 2015 totaling 0.10 percent (81,156 voting rights) on that date.

## Risks and Opportunities

Software AG's 2014 Annual Report contains a comprehensive Risk and Opportunity Report (see pp. 81–89), which describes specific risks that could have a negative impact on business and financial performance or assets and financial position. It also describes key opportunities for Software AG. There were no changes to the risk and opportunity situation of the Software AG Group in the second quarter of 2015 as compared to the risks and opportunities identified in the 2014 Annual Report.

## Outlook

Based on the financial results of the first quarter of 2015, the Go-to-Market improvements and our portfolio's market relevance, Software AG confirms the outlook released in January for the 2015 fiscal year. The company anticipates revenue growth in the Digital Business Platform business line between 6 percent and 12 percent and a revenue decline in Adabas & Natural between 8 percent and 14 percent year-on-year (each at constant currency). Software AG assumes that further efficiency increases in sales and marketing and across the organization as a whole will have a positive effect on profitability. Software AG therefore expects an operating profit margin (non-IFRS) between 27.5 and 28.5 percent.

# Interim **Financial Statements**

## Consolidated **Income Statement**

for the three months ended March 31, 2015 (IFRS, unaudited)

in € thousands	<b>Q1 2015</b>	Q1 2014	Change in %
Licenses	46,541	57,104	- 18%
Maintenance	99,702	90,304	10%
Services	47,636	61,293	- 22%
Other	178	185	- 4%
<b>Total revenue</b>	<b>194,057</b>	<b>208,886</b>	<b>- 7%</b>
Cost of sales	- 54,768	- 68,025	- 19%
<b>Gross profit</b>	<b>139,289</b>	<b>140,861</b>	<b>- 1%</b>
Research and development expenses	- 27,392	- 27,152	1%
Sales, marketing and distribution expenses	- 64,132	- 69,422	- 8%
General and administrative expenses	- 20,088	- 19,088	5%
Other taxes	- 1,571	- 1,638	- 4%
<b>Operating earnings</b>	<b>26,106</b>	<b>23,561</b>	<b>11%</b>
Other income	15,927	11,741	36%
Other expenses	- 14,276	- 6,461	121%
Net financial income/expense	- 1,361	- 2,847	- 52%
<b>Earnings before income taxes</b>	<b>26,396</b>	<b>25,994</b>	<b>2%</b>
Income taxes	- 7,683	- 7,427	3%
<b>Net income</b>	<b>18,713</b>	<b>18,567</b>	<b>1%</b>
Thereof attributable to shareholders of Software AG	18,670	18,558	1%
Thereof attributable to non-controlling interests	43	9	
Earnings per share in € (basic)	0.24	0.23	4%
Earnings per share in € (diluted)	0.24	0.23	4%
Weighted average number of shares outstanding (basic)	78,918.844	80,186.767	-
Weighted average number of shares outstanding (diluted)	78,918.844	80,377.053	-

# Statement of Comprehensive Income

for the three months ended March 31, 2015 (IFRS, unaudited)

in € thousands	Q1 2015	Q1 2014
<b>Net income</b>	<b>18,713</b>	<b>18,567</b>
Currency translation differences	64,669	2,506
Net gain/loss on remeasuring financial assets	895	134
Net gain/loss arising from translating net investments in foreign operations	4,729	8
<b>Items to be reclassified to profit or loss if certain conditions are met</b>	<b>70,293</b>	<b>2,648</b>
Net actuarial gain/loss and asset caps on defined benefit plans	0	0
<b>Items not to be reclassified to profit or loss</b>	<b>0</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>70,293</b>	<b>2,648</b>
<b>Total comprehensive income</b>	<b>89,006</b>	<b>21,215</b>
Thereof attributable to shareholders of Software AG	88,963	21,206
Thereof attributable to non-controlling interests	43	9

# Consolidated Balance Sheet

as of March 31, 2015 (IFRS, unaudited)

## Assets

in € thousands	<b>March 31, 2015</b>	Dec, 31, 2014
<b>Current assets</b>	<b>403,113</b>	<b>318,396</b>
Cash and cash equivalents	51,204	55,311
Securities	79	85
Inventories	214,184	211,178
Trade receivables	23,846	20,689
Other receivables and other assets	31,605	29,725
Income tax receivables	724,031	635,384
<b>Non-current assets</b>		
Intangible assets	183,875	180,196
Goodwill	904,074	857,279
Property, plant and equipment	60,183	61,171
Financial assets	7,351	7,103
Trade receivables	59,690	87,447
Other receivables and other assets	6,268	4,996
Income tax receivables	5,410	4,423
Deferred taxes	13,436	10,937
	<b>1,240,287</b>	<b>1,213,552</b>
<b>Total Assets</b>	<b>1,964,318</b>	<b>1,848,936</b>

## Equity and Liabilities

in € thousands	<b>March 31, 2015</b>	Dec, 31, 2014
<b>Current liabilities</b>		
Financial liabilities	102,771	103,646
Trade payables	29,565	32,600
Other liabilities	61,404	56,049
Other provisions	52,890	78,849
Income tax liabilities	22,530	32,605
Deferred income	162,453	111,348
	<b>431,613</b>	<b>415,097</b>
<b>Non-current liabilities</b>		
Financial liabilities	346,776	340,499
Other liabilities	2,366	6,320
Provisions for pensions	43,697	42,566
Other provisions	11,166	13,205
Deferred taxes	22,005	17,131
Deferred income	800	738
	<b>426,810</b>	<b>420,459</b>
<b>Equity</b>		
Share capital	86,944	86,944
Capital reserves	46,705	43,195
Retained earnings	1,180,080	1,161,411
Other reserves	15,758	-54,535
Treasury shares	-224,466	-224,466
<b>Attributable to shareholders of Software AG</b>	<b>1,105,021</b>	<b>1,012,549</b>
<b>Non-controlling interests</b>	<b>874</b>	<b>831</b>
	<b>1,105,895</b>	<b>1,013,380</b>
<b>Total Equity and Liabilities</b>	<b>1,964,318</b>	<b>1,848,936</b>

# Consolidated Statement of Cash Flows

for the three months ended March 31, 2015 (IFRS, unaudited)

in € thousands	Q1 2015	Q1 2014
Net income	18,713	18,567
Income taxes	7,683	7,427
Net financial income/expense	1,361	2,847
Amortization/depreciation of non-current assets	13,643	14,009
Other non-cash income/expense	6,904	799
<b>Operating cash flow before changes in working capital</b>	<b>48,304</b>	<b>43,649</b>
Changes in inventories, receivables and other current assets	11,987	24,380
Changes in payables and other liabilities	20,392	-2,128
Income taxes paid	-18,249	-14,422
Interest paid	-2,879	-3,545
Interest received	1,945	2,147
<b>Net cash provided by operating activities</b>	<b>61,500</b>	<b>50,081</b>
Proceeds from the sale of property, plant and equipment/intangible assets	203	966
Purchase of property, plant and equipment/intangible assets	-1,550	-3,314
Proceeds from the sale of financial assets	138	106
Purchase of financial assets	-21	-14
Proceeds from the sale of current financial assets	4,216	0
Purchase of current financial assets	-3	-2,813
Proceeds from the sale of disposal groups	-1,000	0
Payment for acquisitions, net	0	-1,000
<b>Net cash used in investing activities</b>	<b>1,983</b>	<b>-6,069</b>

in € thousands	Q1 2015	Q1 2014
Repurchase of treasury stock (including hedge premiums paid)	0	- 70,582
Additions to financial liabilities	2,137	0
Repayments of financial liabilities	- 819	- 1,916
<b>Net cash provided by/used in financing activities</b>	<b>1,318</b>	<b>- 72,498</b>
Change in cash and cash equivalents from cash-relevant transactions	64,801	- 28,486
Currency translation adjustment	19,916	- 82
<b>Net change in cash and cash equivalents</b>	<b>84,717</b>	<b>- 28,568</b>
Cash and cash equivalents at the beginning of period	318,396	449,984
<b>Cash and cash equivalents at the end of period</b>	<b>403,113</b>	<b>421,416</b>

# Consolidated Statement of Changes in Equity

for the three months ended March 31, 2015 (IFRS, unaudited)

	Share capital	Capital reserves	Retained earnings	
	Common shares outstanding (no.)			
in € thousands				
<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>
<b>Comprehensive income</b>				<b>18,558</b>
<b>Transactions with equity holders</b>				
Dividend payment				
New shares issued				
Stock options			415	
Issue and disposal of treasury stock				
Repurchase of treasury stock	-2,653,845			
Other changes				
<b>Transactions between shareholders</b>				
<b>Equity as of March 31. 2014</b>	<b>78,859,844</b>	<b>86,944</b>	<b>46,559</b>	<b>1,105,886</b>
<b>Equity as of January 1. 2015</b>	<b>78,918,844</b>	<b>86,944</b>	<b>43,195</b>	<b>1,161,411</b>
<b>Comprehensive income</b>				<b>18,670</b>
<b>Transactions with equity holders</b>				
Dividend payment				
New shares issued				
Stock options			3,510	
Issue and disposal of treasury stock				
Repurchase of treasury stock				
Other changes				-1
<b>Transactions between shareholders</b>				
<b>Equity as of March 31. 2015</b>	<b>78,918,844</b>	<b>86,944</b>	<b>46,705</b>	<b>1,180,080</b>

## Consolidated Statement of Changes in Equity

	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>- 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>
	<b>2,506</b>	<b>134</b>	<b>0</b>	<b>8</b>		<b>21,206</b>	<b>9</b>	<b>21,215</b>
						0		0
						0		0
						415		415
						0		0
					- 70,582	- 70,582		- 70,582
						0		0
	<b>- 74,605</b>	<b>- 1,921</b>	<b>- 22,945</b>	<b>2,039</b>	<b>- 226,116</b>	<b>915,841</b>	<b>802</b>	<b>916,643</b>
	<b>- 32,299</b>	<b>- 1,365</b>	<b>- 27,308</b>	<b>6,437</b>	<b>- 224,466</b>	<b>1,012,549</b>	<b>831</b>	<b>1,013,380</b>
	<b>64,669</b>	<b>895</b>	<b>0</b>	<b>4,729</b>		<b>88,963</b>	<b>43</b>	<b>89,006</b>
						0		0
						0		0
						3,510		3,510
						0		0
						0		0
						- 1		- 1
	<b>32,370</b>	<b>- 470</b>	<b>- 27,308</b>	<b>11,166</b>	<b>- 224,466</b>	<b>1,105,021</b>	<b>874</b>	<b>1,105,895</b>

# Notes to the Interim Financial Statements

## General

### Basis of Presentation

Software AG's condensed and unaudited consolidated financial statements (interim financial statements) as of March 31, 2015 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, 2015 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.

### Changes in the Consolidated Group

The following changes in the consolidated Group took place in the first three months of fiscal 2015:

	Germany	Foreign	Total
<b>Dec. 31, 2014</b>	<b>11</b>	<b>70</b>	<b>81</b>
Disposals (including mergers)	1	1	2
<b>March 31, 2015</b>	<b>10</b>	<b>69</b>	<b>79</b>

The disposals resulted from a merger in Germany and a closure in Singapore.

### 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, 2014. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2014. These quarterly financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

### Business Combinations

Software AG did not acquire any companies during the first quarter of 2015.

# Notes to the Consolidated Balance Sheet

## Goodwill

Goodwill amounted to €904,074 thousand as of March 31, 2015, an increase of €46,795 thousand compared to December 31, 2014. This change is due solely to exchange rate fluctuations.

## Equity

### Share capital

Software AG's share capital totaled €86,944 thousand (2014: €86,944 thousand) as of March 31, 2015, divided into 86,943,945 (2014: 86,943,945) bearer shares. Each share entitles its holder to one vote.

### Dividend payment

Based on the number of shares outstanding as of February 24, 2015, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €91,144 thousand reported by Software AG, the controlling Group company, in 2014, as follows: to appropriate €39,459 thousand for dividends and to carry forward €51,685 thousand. This corresponds to a dividend of €0.50 per share.

### Share buyback

Software AG did not buy, issue or utilize treasury shares in the first quarter of 2015. Its balance of treasury shares of 8,025,101 (9.23 percent of its share capital) as of March 31, 2015 thus did not change with respect to December 31, 2014.

In the first quarter of 2014, Software AG repurchased 2,653,845 treasury shares (based on a value date) at an

average price of €26.59 per share, not 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

### Segment Reporting

As part of its strategic positioning, Software AG renamed its product-related business lines. The former Business Process Excellence (BPE) business line will now be known as "Digital Business Platform" (DBP). The Enterprise Transaction Systems (ETS) database business will operate as "Adabas & Natural" (A&N). The Consulting business line will remain unchanged. The renaming does not affect the internal reporting of the business lines in any way and thus of the segments.

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

- Digital Business Platform, formerly Business Process Excellence  
(DBP: integration, business process management and big data with the webMethods, ARIS, Alfabet, Apama and Terracotta product families)
- Adabas & Natural, formerly Enterprise Transaction Systems  
(A&N: data management with the Adabas-Natural products)
- Consulting  
(implementation of Software AG products)

The table below shows the segment data for the first quarters of 2015 and 2014:

## Segment Report for the three months ended March 31, 2015 (IFRS, unaudited)

	Adabas & Natural	
	Q1 2015	Q1 2014
in € thousands		
Licenses	15,477	13,300
Maintenance	39,767	37,649
<b>Product revenue</b>	<b>55,244</b>	<b>50,949</b>
Services	0	0
Other	159	182
<b>Total revenue</b>	<b>55,403</b>	<b>51,131</b>
Cost of sales	- 3,381	- 3,355
<b>Gross profit</b>	<b>52,022</b>	<b>47,776</b>
Sales, marketing and distribution expenses	- 8,732	- 9,089
<b>Segment contribution</b>	<b>43,290</b>	<b>38,687</b>
Research and development expenses	- 5,439	- 6,208
<b>Segment result</b>	<b>37,851</b>	<b>32,479</b>
General and administrative expenses		
Other taxes		
<b>Operating earnings</b>		
Other income/expense, net		
Financial income/expense, net		
<b>Earnings before income taxes</b>		
Income taxes		
<b>Net income</b>		

Digital Business Platform		Consulting		Reconciliation		Total	
Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014
31,064	43,718	0	86			46,541	57,104
59,935	51,562	0	1,093			99,702	90,304
<b>90,999</b>	<b>95,280</b>	<b>0</b>	<b>1,179</b>			<b>146,243</b>	<b>147,408</b>
0	0	47,636	61,293			47,636	61,293
0	0	19	3			178	185
<b>90,999</b>	<b>95,280</b>	<b>47,655</b>	<b>62,475</b>			<b>194,057</b>	<b>208,886</b>
-7,023	-5,709	-39,127	-51,905	-5,237	-7,056	-54,768	-68,025
<b>83,976</b>	<b>89,571</b>	<b>8,528</b>	<b>10,570</b>	<b>-5,237</b>	<b>-7,056</b>	<b>139,289</b>	<b>140,861</b>
-46,078	-49,067	-4,763	-7,254	-4,559	-4,012	-64,132	-69,422
<b>37,898</b>	<b>40,504</b>	<b>3,765</b>	<b>3,316</b>	<b>-9,796</b>	<b>-11,068</b>	<b>75,157</b>	<b>71,439</b>
-21,953	-20,944	0	0	0	0	-27,392	-27,152
<b>15,945</b>	<b>19,560</b>	<b>3,765</b>	<b>3,316</b>	<b>-9,796</b>	<b>-11,068</b>	<b>47,765</b>	<b>44,287</b>
						-20,088	-19,088
						-1,571	-1,638
						<b>26,106</b>	<b>23,561</b>
						1,651	5,280
						-1,361	-2,847
						<b>26,396</b>	<b>25,994</b>
						-7,683	-7,427
						<b>18,713</b>	<b>18,567</b>

## Contingent Liabilities

For more information on reportable contingent liabilities, please refer to the section on Litigation in Note 10.

The carrying amount of collateral received was €13 thousand (2014: €32 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)	16.169	43.577	14.381	74.127
Estimated income from subleases	2.835	3.268	0	6.103
Contractually agreed payments (net amount)	13.334	40.309	14.381	68.024

## Seasonal Influences

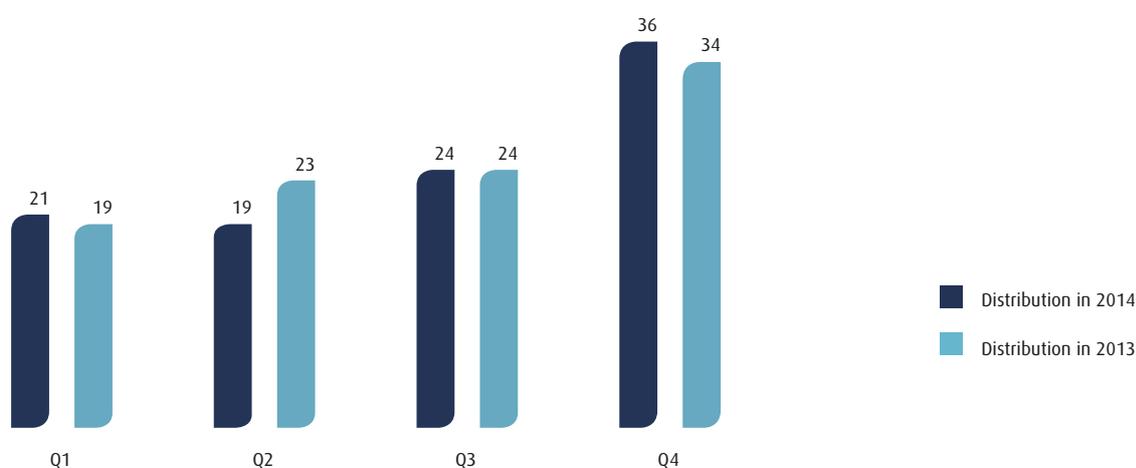
Revenues and pre-tax earnings were distributed over fiscal year 2014 as follows:

in € thousands	Q1 2014	Q2 2014	Q3 2014	Q4 2014	<b>2014</b>
License revenue	57.103	50.207	64.184	98.605	270.099
as % of license revenue for the year	21	19	24	36	100
Total revenue	208.886	195.984	205.641	247.323	857.834
as % of revenue for the year	24	23	24	29	100
Earnings before taxes	25.994	19.991	44.887	67.512	158.384
as % of earnings for the year	16	13	28	43	100

Based on historical data, the revenue and earnings distribution from 2014 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict.

The following graph illustrates the development of license revenues in 2014 and 2013.

As % of total annual license revenue



## Litigation

All litigation that is potentially significant to Software AG has been described in Note 32 of the 2014 consolidated financial statements. There were no changes in the first quarter of 2015 with respect to the legal disputes reported, 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.

Provisions for litigation totaled €6,065 thousand (2014: €3,295 thousand) as of March 31, 2015. In addition, contingent liabilities in the amount of €27,287 thousand existed (Dec. 31, 2014: €25,100 thousand). But since a resource outflow as of March 31, 2015 was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions were made.

## 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, 2015 are described in detail on pages 172–178 of our 2014 Annual Report.

### Management Incentive Plan 2015—MIP V 2015

The rights granted under Management Incentive Plan 2015 (MIP V) changed as follows in the first three months of the fiscal year:

	Number of rights	Exercise price per right  (in €)	Remaining term  (in years)
<b>Balance as of Dec. 31, 2014</b>	<b>555,600</b>	<b>0</b>	<b>3,00</b>
Granted	3,800	0	
Forfeited	-9,800	0	
<b>Balance as of Dec. 31, 2015</b>	<b>549,600</b>	<b>0</b>	<b>2,75</b>
Thereof exercisable as of March 31, 2015	0		

#### 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 €)	Exercise price per right  (in €)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2014</b>	<b>4,182,500</b>	<b>41,34</b>	<b>6,50</b>	<b>0</b>
Forfeited	-65,000	41,34		
<b>Balance as of Dec. 31, 2015</b>	<b>4,117,500</b>	<b>41,34</b>	<b>6,25</b>	
Thereof exercisable as of March 31, 2015	0			

### Management Incentive Plan 2007 (MIP III)

(2007–2011)

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

	Number of rights	Exercise price per right (in €)	Exercise price per right (in €)	Aggregated intrinsic value (in €)
<b>Balance as of Dec. 31, 2014</b>	<b>1,719,000</b>	<b>24.12</b>	<b>4.50</b>	<b>0</b>
Forfeited	- 1,000	24.12		
<b>Balance as of Dec. 31, 2015</b>	<b>1,718,800</b>	<b>24.12</b>	<b>4.25</b>	<b>232<sup>*)</sup></b>
Thereof exercisable as of March 31, 2015	1,718,800	24.12		

<sup>\*)</sup> Based on the closing price on March 31, 2015

### Employees

As of March 31, 2015, 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:

	<b>March 31, 2015</b>	March 31, 2014
Maintenance and Services	1,816	2,283
Sales and Marketing	967	1,131
Research and Development	962	995
Administration	622	699
	<b>4,367</b>	<b>5,108</b>

In absolute terms (part-time employees are counted in full), the Group employed 4,519 people (2014: 5,362) as of March 31, 2015.

### Changes and Information Regarding Corporate Bodies

No changes occurred on either the Management Board or the Supervisory Board between January 1, 2015 and March 31, 2015.

### Events After the Balance Sheet Date

Software AG's Management Board resolved to retire a total volume of 7,943,945 treasury shares on April 28, 2015. That represents 9.14 percent of Software AG's share capital prior to the retirement and capital decrease.

The resolution was passed making use of the authorization granted by the Annual Shareholders' Meeting of May 3, 2013. Since the shares have been retired, Software AG's share capital totals €79,000,000.00, divided into 79.0 million bearer shares with each share representing a pro rata amount of €1 euro of the share capital. The shares were retired on April 30, 2015.

There were no further events that occurred between March 31, 2015 and the date of release of this quarterly report that had a significant effect on the consolidated financial statements.

### Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on May 11, 2015.

Darmstadt/Germany, May 11, 2015

Software AG



K.-H. Streibich



E. Duffaut



Dr. W. Jost



A. Zinnhardt

## Financial Calendar 2015

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July 23	Financial figures Q2/H1 2015 (IFRS, unaudited)
October 28	Financial figures Q3/9M 2015 (IFRS, unaudited)

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