Half-Year Report 2020

Key Figures

as of June 30, 2020 (IFRS, unaudited)

in € millions (unless otherwise stated)	H1 2020 (IFRS)	H1 2019 (IFRS)	+/– as %	+/– as % acc[1]
Group bookings	**200.0**	**153.9**	**30 %**	**30 %**
Bookings DBP (incl. Cloud & IoT)[2]	139.7	110.6	26 %	27 %
thereof DBP (excl. Cloud & IoT)[2]	91.4	78.6	16 %	18 %
thereof DBP (Cloud & IoT)[2]	48.3	32.0	51 %	50 %
Bookings A&N[2]	60.2	43.3	39 %	39 %
Revenue	**411.7**	**411.4**	**0 %**	**0 %**
DBP (incl. Cloud & IoT)	210.2	210.3	0 %	0 %
thereof DBP (excl. Cloud & IoT)	184.3	187.9	–2 %	–2 %
thereof DBP (Cloud & IoT)	25.8	22.3	15 %	15 %
A&N	110.0	107.7	2 %	3 %
Licenses	91.1	92.8	–2 %	–1 %
Maintenance	214.5	214.7	0 %	0 %
SaaS	14.2	10.3	39 %	39 %
Annual recurring revenue (ARR)	**508.4**	**461.0**	**10 %**	**12 %**
DBP (incl. Cloud & IoT)[3]	355.2	315.3	13 %	14 %
A&N	153.2	145.7	5 %	8 %
Operating EBITA (non-IFRS)	**81.1**	**107.7**	**–25 %**	
as % of revenue	19.7 %	26.2 %		
DBP segment earnings	28.4	45.0	–37 %	
Segment margin	13.5 %	21.4 %		
A&N segment earnings	70.8	75.9	–7 %	
Segment margin	64.4 %	70.4 %		
EBIT (IFRS)	**60.7**	**89.9**	**–33 %**	
Net income (non-IFRS)	**56.1**	**75.6**	**–26 %**	
Earnings per share (non-IFRS)[4]	**0.76**	**1.02**	**–26 %**	
Operating cash flow	**87.7**	**90.6**	**–3 %**	
CapEx[5]	8.4	6.0	40 %	
Repayment of lease liabilities	7.9	7.7	3 %	
Free cash flow	**71.4**	**76.9**	**–7 %**	
Free cash flow per share	**0.96**	**1.04**	**–7 %**	
Balance sheet	**June 30, 2020**	**Dec. 31, 2019**		
Total assets	**2,066.8**	**2,116.1**	**–2 %**	
Cash and cash equivalents	507.9	513.6	–1 %	
Net cash	284.8	217.0	31 %	
Employees (FTE)	**4,642[6]**	**4,948**	**–6 %**	

[1] acc = At constant currency
[2] Bookings as per 2020 definition on p. 7
[3] Annual recurring revenue
[4] Based on weighted average shares outstanding (basic) 6M 2020: 74.0 mn/6M 2019: 74.0 mn/Q2 2020 74.0 mn/Q2 2019: 74.0 mn
[5] Cash flow from investing activities adjusted for acquisitions and investments in debt instruments
[6] Not including 438 FTE from sold Spanish Professional Services unit

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

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Preliminary Remarks

This half-year 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 June 30, 2020, 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 (DBP, including the webMethods, ARIS, Alfabet, Apama, Cumulocity, Terracotta and TrendMiner, etc. product families), Adabas & Natural (A&N, including the Adabas and Natural product families) and Professional Services.

Software AG's Share

First Half of 2020: Capital Markets Overshadowed by Pandemic

The first quarter of 2020 brought historic drops in stock prices due to fears over the economic impact of the pandemic. The second quarter of the year subsequently turned out to be the best stock markets have seen in decades. Tech stocks had a particular advantage, mainly because the transition to remote working and computing became more relevant and the willingness of companies to invest in information technolgy increased.

Software AG proved to be especially resilient in times of crisis with a continued high level of liquidity, reduction of debt and strong cash flow in the first half of the year.

Software AG's Share Price Performance[1]

Software AG's stock started out the new financial year at €31.11. The capital market responded with optimism following Software AG's Capital Markets Day held in London in February. International investors and financial analysts attending in person as well as those tuned into the live webcast from around the world were presented with the encouraging progress the company has made in rolling out its new Helix strategy. The continued upward trend was interrupted by the stock market slump in March 2020 resulting from the corona pandemic. Software AG released its first-quarter results in April 2020, confirming the company's financial resilience. Since then, the share price has consistently outperformed benchmark indexes.

Software AG's share ended the first half of 2020 with a 15.4 percent gain at €35.90, its peak for the current year. Software AG exceeded the German stock market's liquidity requirement with an XETRA average daily trading volume of 250,515.

Strong Participation in First Virtual Annual Shareholders' Meeting

To comply with pandemic-related health regulations, the Annual Shareholders' Meeting, originally scheduled for May 20, 2020 in Darmstadt, was held virtually on June 26, 2020. The entire meeting was streamed via Internet. An exceptionally high rate of participation was achieved with about 75 percent of the company's share capital (2019: 65 percent) represented. Shareholders and their proxies could submit questions up to two days prior to the Annual Shareholders' Meeting. This resulted in a slightly higher volume of questions.

Software AG Share Price Performance Compared to MDAX and TecDAX (indexed)

Source: Inventis service

[1] Market capitalization was €2,656.6 million on June 30, 2020.

Both the Supervisory Board and Management Board answered all questions.

All items of the agenda were approved by a majority, including the election of a new Supervisory Board and the proposed record dividend of €0.76 (+7% vs. 2018) per share for fiscal 2019. The company's total dividend disbursement increased to €56.2 million. Visit Software AG's website for all voting results.

High Degree of Attention from Capital Market

Thanks to its commitment to cultivating relationships with the financial community, Software AG enjoys a high degree of recognition from financial analysts in Germany and abroad. In the period under review, 18 investment banks published assessments and investment recommendations on Software AG. Of these, 17 issued a positive or neutral rating. Following the release of its preliminary Q2 results, the average analyst price target for Software AG was €33.83.

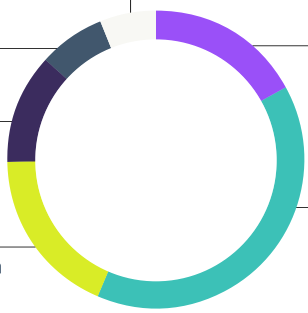
Since the outbreak of the COVID-19 pandemic, all meetings with investors and analysts have been conducted via phone or video conference. Many capital market conferences in Germany and abroad also took place in digital format in the first half of 2020.

Shareholder Structure[2]

Software AG's repositioning as an ongoing value investment with increased growth potential has led to more international and growth-driven shareholders. The Software AG Foundation continues to be Software AG's largest shareholder.

After deducting the balance held by the Software AG Foundation and the company's treasury shares, Software AG's free float is approximately 66 percent.

Regional Distribution of the Free Float



Source: IPREO, July 2020

Top Investors

Investor	Percentage of share capital
Software AG Foundation	33.7%
Fidelity International Limited – FIL Investment Services (U.K.), LTD	5.67%
Schroder Investment Management, LTD	5.02%
Allianz Global Investors GmbH	2.98%
Norges Bank Investment Management (Norway)	2.97%
Janus Henderson Investors (U.K.)	2.32%
The Vanguard Group, Inc.	1.98%
BlackRock Asset Management (Germany) AG	1.97%
Beutel Goodman & Company, LTD	1.44%
Deka Investment GmbH	1.34%
J.P. Morgan Asset Management (UK), LTD	1.21%

Source: IPREO, July 2020

[2] Key investors that exceeded or fell below the disclosure threshold during the period are listed at investors.softwareag.com/en

Consolidated Interim Management Report

Fundamental Aspects of the Group

Software AG began implementing its Helix transformation strategy in the first half of 2019. This strategy defines a multi-year path to sustainable and profitable growth and is based on three pillars:

Focus: Concentrating resources on key markets offering the best growth opportunities: Germany, North America, England, France, Japan, and China; while focusing on the products that serve these markets and can maximize their growth potential.

Execution: Implementing a new operating model to optimize Software AG's access to additional channels, enabled by a simplified, clearer go-to-market strategy and improved sales structures. This approach includes Software AG's transition to subscription-based software, benefiting customers and helping the company sell its products more successfully.

Team: Building a specialized global team to drive growth, enabled by the implementation of a matrix model based on products and regions. This pillar will break down existing functional silos, eliminate inefficient processes and establish a structure of accountability. In addition, Software AG is building a wide-reaching partner ecosystem with continued successes in the first half of 2020.

For more information on the Helix strategy and its individual components, please refer to the 2019 Annual Report available at the newly designed corporate website (www.SoftwareAG.com).

Key Company Performance Indicators

One of Software AG's goals is to sustainably increase the value of the company, focusing on profitable growth and continuously strengthening financial resilience. As part of this strategic realignment, Software AG has added four new key performance indicators to the existing ones, which had previously focused primarily on revenue growth and profit margin. The new indicators are used to measure the extent to which the strategic goal of changing from the traditional perpetual license model to new subscription license models is successfully implemented. The focus is primarily on the promising Digital Business Platform (DBP, incl. Cloud & IoT) segment.

From now on, the new system of key performance indicators distinguishes between the traditional lagging indicators and the new leading indicators. These are leading because they provide an early indication of the success of the transformation even before the expected effects on sales and margins.

Traditional lagging indicators:

- Currency-adjusted product sales in the DBP (excl. Cloud & IoT), DBP Cloud & IoT and Adabas & Natural (A&N) segments
- Operating margin (EBITA, non-IFRS)

New leading indicators:

- Bookings—normalized 3-year order value of a customer contract, independent of the license model
- Annual recurring revenue (ARR)—annualized order backlog of recurring product business
- Share of subscription and Software as a Service (SaaS) bookings in total bookings (as a percentage)
- Share of recurring product revenues in total product revenues (as a percentage)

The four leading performance indicators are described in detail in the following section.

1) Bookings

Software AG sells a range of usage models (perpetual, fixed-term, service-oriented and usage-based licenses), for which the timing of revenue recognition is different. Perpetual and time-based licenses are recognized at the beginning of the respective contract periods, provided that the customer gains control of the software. Both maintenance services and SaaS services are recognized monthly pro rata over the respective contract periods. To measure operational sales performance effectively, Software AG has defined incoming orders (bookings) as a new leading performance indicator. Due to the different revenue recognition methods described above, this indicator normalizes incoming orders for the various license models.

Bookings are calculated as follows and normalized over three years:

Licenses of indefinite duration	Full order value
Maintenance services with new licenses of indefinite duration	3 years maintenance services
Subscription contracts[1]	Contract value divided by the term of agreement, multiplied by 3 years
Software as a Service (SaaS)[1]	Contract value divided by the term of agreement, multiplied by 3 years
Usage-based license models incl. maintenance	The contract value is equivalent to the booked revenue based on the measured usage in the individual quarter

[1] Contracts with a term of less than 360 days are included in the value of bookings using their contract volume.

The following key performance indicators describe the development of **recurring product business**:

2) Annual recurring revenue (ARR)—annualized order backlog for recurring product business

This ratio shows the annualized contract value of the active contracts[2] of recurring product business at the end of the reporting period, irrespective of the time of actual revenue generation. ARR is therefore a leading indicator of the expected recurring annualized cash flows if these active contracts are continued.

3) Subscription and Software as a Service (SaaS) bookings as a percentage of total bookings

This key figure reflects the share of the total value of incoming orders in a period that can be allocated to recurring product business. It therefore shows the extent to which the strategic goal of moving towards subscription-based license models in sales is progressing.

4) Recurring product revenue as a share of total product revenue (as a percentage)

This key figure compares the share of sales from all recurring product transactions in a period to the total product sales in the same period. This shows the extent to which the strategic goal of increasing the share of recurring sales in product sales is reflected in the sales realized in the current period.

For more information on key performance indicators, please refer to the 2019 Annual Report from p. 49 onwards.

Recurring product business is based on the following components:

- Subscription contracts with time-limited licenses in conjunction with closely contractually linked maintenance services
- Maintenance services from licenses of indefinite duration
- SaaS services, which a customer can use online, without gaining control over the software. The software is operated by Software AG or its service providers for the customer. The service character of these services results from this.
- Usage-based licenses including maintenance services

[2] The value of all active contracts at the end of the period (excluding one-time effects), divided by the term of agreement (in months), multiplied by 12.

Group Business Summary

Management's Assessment of the Half-Year Results

The first half of the 2020 fiscal year took place in unprecedented conditions. In the face of the COVID-19 pandemic, our people and our business have proven resilient, adaptable and capable of driving forward our strategy for sustainable profitable growth. That strategy aligns us with accelerating market trends. The need for many businesses to adopt digital transformation software is growing, and our reshaped go-to-market and revamped sales approach around subscription leaves us well-positioned to capitalize on this.

Our financial results reflect our progress: Group product bookings were up 30 percent for the half-year, and total Group revenue was in line with market expectations at €411.7 million (2019: €411.4 million). We also delivered on our profitability commitments, with good cost control enabling a non-IFRS EBITA margin approaching our full-year guidance corridor (20–22 percent) at 19.7 percent. This overall performance provides a strong platform on which to build towards our full-year ambitions in the second half of 2020.

During the first half we delivered balanced performance across geographies, with the North America region performing particularly strongly in the second quarter following its extensive transformation. Our APJ and DACH regions also delivered strong bookings growth, while the EMEA region performed solidly despite seeing some delays in customer decisions due to COVID-19. Transformation momentum is building with product innovation, cultural evolution and subscription progress driving our business forward.

The way that our business has responded is a testament to the momentum created by our Helix transformation program, even at this early juncture. During the first half we delivered our Helix milestones according to plan, and we made continued progress in each of our three transformation pillars: Focus, Execution, and Team.

In **Focus,** we continued to invest in our market-leading product set. At our Capital Markets day in February we presented the innovations planned for the first half of 2020: launching our webMethods App Mesh product to increase ease of use and accelerate API-based integrations; our Cumulocity IoT Data Hub to enable the most sophisticated analytics available, by connecting our data to market-leading tools like Microsoft Power BI or Azure Machine Learning; and the improvements, which, among other things, ensure availability on various cloud platforms such as Amazon Web Services or Microsoft Azure, we wanted to make within TrendMiner, our self-service analytics platform. We've achieved all of these aims. We also made excellent progress with our Cloud strategy, delivering a new, cloud-native, SaaS-based process mining tool for ARIS, and further preparing the ground for partner success by launching both webMethods and Cumulocity on Microsoft Azure. Confirmation of the quality of our products includes external factors such as our overall NPS which, at the end of June, was extremely strong at plus 52, against our 2020 ambition of plus 40.

In **Execution,** we saw real success in our transformation to subscription, driving our momentum forward. Our revamped sales force and new go-to-market approach delivered 110 new logos in the first half. These new customer wins, enabled in part by our new digital sales engine which has allowed us to respond quickly to the demands of COVID-19, included a landmark IoT deal with Swiss-based Schindler, a globally leding provider of elevators, escalators and the associated services. We also chalked up a competitive win for an agreement in Integration with BMC, both secured in Q1. In the second quarter we had success with Brightstar, the global distributor for mobile phones and devices, and Alicorp, the distributor of consumer goods in Latin America. During the second quarter we also delivered important expansions with the global chemicals and ingredients distributor Univar, and long-time Cumulocity customer Stanley Black & Decker. Many of these wins demonstrate success against our global software peers, as we continue to take market share and strengthen our position in focus areas. In Q2 we also signed a significant IoT agreement with Hillrom, a major U.S. medical equipment company. The deal, a fully virtual process across just a three-months sales cycle, is being delivered jointly with Microsoft—a great example of the strength and potential of our partner ecosystem. This ecosystem continues to expand, with partnership agreements announced during the first half with PwC Germany, Tech Mahindra, AWS, IFM Group, Jabil and Coupa. Bookings with partners grew by a double-digit rate.

In **Team,** we continued the cultural evolution driving our external success. We strengthened our workforce, welcoming 200 colleagues during the first six months of the year; bolstered our Executive Leadership Team with new senior professionals; and continued to support the talent in our business with a new Learning and Development program focused on navigating the new "with-COVID" world. We also intensified our efforts on talent management, diversity and inclusion, and creating a more agile working culture. We continue to be focused on building a diverse, passionate, and talented workforce that has the autonomy to seize the opportunities in front of them.

Entering the second half of 2020, we feel Software AG remains well-positioned to deliver robust full-year performance. While of course the external environment remains unpredictable due to COVID-19, we are confident that our financial resilience, execution capability and product strength will enable us to manage the full range of potential scenarios that may emerge.

Financial Performance

Group Bookings

Beginning in 2020, Software AG started to actively promote subscriptions as its preferred deployment model; replacing the so-called perpetual licensing model, which had served both the company and sector historically. Customers prefer the subscription model because they do not have to buy licenses for future use in advance. This structure also allows customers to add and change products more flexibly according to their business needs. Software AG has responded to this shift in customer demand by dramatically reshaping its sales approach, revising the pricing and packaging of its products and presenting them differently to market; retraining and retooling its sales force; amending its sales incentives and compensation plans; and refocusing its approach to marketing.

Despite a significant acceleration in this shift to subscription during the first half, a consequence of this transformation is that the Group's reported revenue no longer reflects the extent of its sales success. This is because revenue from subscription and SaaS, now a larger share of the Group's total than in prior periods, is recognized over a contract's total lifetime rather than up-front. Sales success going forward is therefore measured by bookings. This new KPI reflects the contract value signed in the reported period and—for reasons of better comparison—is calculated for a standard three-year contract duration. The period of three years was defined because it corresponds to the average duration of all Software AG contracts. SaaS and subscription contracts provide recurring revenue during their lifetime which leads to a steadier cash flow and less volatile results in the quarterly reporting than a more volatile perpetual license-based business model. The increased focus on subscription also provides the Group with a larger stream of predictable future recurring revenue, which is best measured with a further KPI: annual recurring revenue (ARR). This metric shows the annualized contract value of active contracts in recurring product business at the end of a reporting period.

During the first half of 2020, Software AG delivered strong financial results reflecting accelerated transformation progress despite the impact of COVID-19. The Group delivered growth across all its transformation lead Indicators, with outstanding sales execution across all business lines and geographies. This drove total product bookings up 30 percent year-on-year and annual recurring revenue (ARR) up 12 percent year-on-year to €508.4 million (2019: €461.0 million).

Total Revenue

Software AG's ongoing shift towards a more subscription and SaaS-based sales model sees a larger share of revenue recognized over the lifetime of a contract rather than up-front. This dynamic led to flat year-on-year revenue development, and despite the strong growth in bookings, Software AG reported €411.7 million (2019: €411.4 million) in Group revenue for the first half of 2020. Product revenue, consisting of license, maintenance and SaaS revenue in the Digital Business Platform (DBP, incl. Cloud & IoT) and Adabas & Natural (A&N) product lines, grew 1 percent at constant currency to €319.9 million. In DBP and A&N, license revenue accounted for €91.1 million (2019: €92.8 million) and maintenance revenue amounted to €214.5 million (2019: €214.7 million). Both license and maintenance revenue was broadly flat, whereas SaaS/usage-based revenue grew 39 percent year-on-year to €14.2 million (2019: €10.3 million).

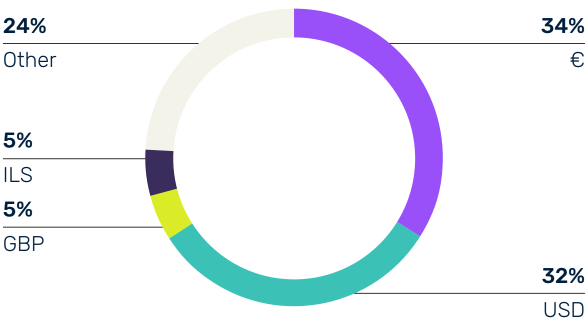
Exchange Rate Effects

Exchange rate effects had a modest impact (-0.2 percent) on Software AG's total revenue in the first half of 2020. These effects amounted to a decrease of €0.7 million when compared to revenue at constant exchange rates. With respect to the different types of revenue, exchange rates caused a slight negative impact on license and maintenance revenue (in sum €1.3 million), but a €0.6 million gain in the Professional Services segment. The respective currency effect was mainly due to the changing euro/U.S. dollar relation in the course of the first six months 2020.

The percentage of Software AG's revenue in foreign (non-euro) currencies is nearly twice as high as that in euros due to its global focus and operations in 70 countries. At 66 percent (2019: 65 percent), the share of total revenue in foreign currency in the first half of 2020 increased by 1 percentage point year-on-year, whereas the euro share decreased to 34 percent. The U.S. dollar continued to account for the largest portion of revenue outside the eurozone at 32 percent, an increase of 5 percentage points from last year's level (2019: 27 percent). This reflects the reinforced U.S. business unit after significant restructuring.

Currency Split in First Half of 2020

34% of revenue in €
66% of revenue in foreign currencies

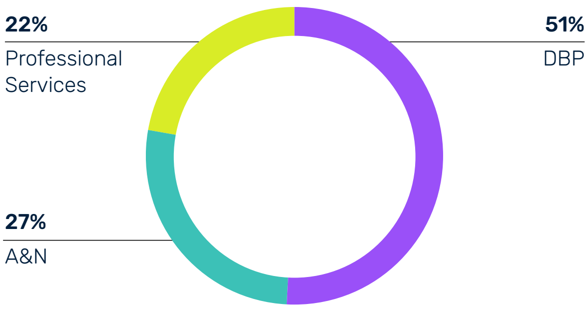


Revenue and Earnings by Business Line (Segment Report)

Software AG's total Group revenue in the first half of 2020 was €411.7 million (2019: €411.4 million) and can be broken down by business line as follows:

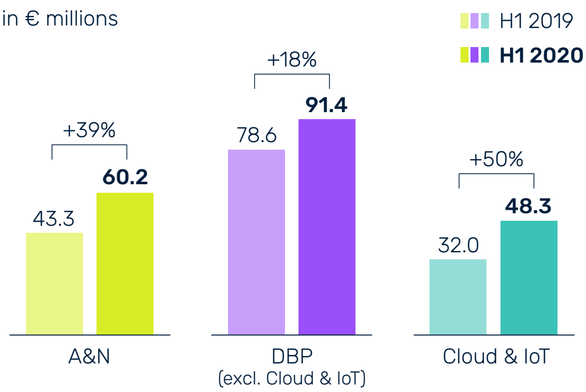
- Revenue in the Digital Business Platform (DBP, including Cloud & IoT) business line performed in line with expectations and accounted for 51 percent (2019: 51 percent) of total Group revenue.
- Adabas & Natural (A&N) continued its trend of strong performance. Its total share of revenue accounted for 27 percent (2019: 26 percent).
- The Professional Services business line remained stable, contributing 22 percent of total revenue (2019: 23 percent).

Revenue Split



Group Bookings

in € millions



Digital Business Platform (incl. Cloud & IoT)

The DBP business line (incl. Cloud & IoT) consists of all Software AG products that facilitate customers' business transformation, integration and API management as well as Cloud & IoT projects. The segment addresses Software AG's growth markets and helps businesses solve complex and often critical problems.

DBP (incl. Cloud & IoT) delivered bookings growth of 26 percent (27 percent at constant currency) to €139.7 million (2019: €110.6 million), while the subscription and SaaS proportion of bookings in DBP (incl. Cloud & IoT) was up to 80.3 percent from 53.0 percent on June 30, 2019. The ongoing shift to subscription led to total revenue for the first half of 2020 of €210.2 million (2019: €210.3 million), which reflects year-on-year stability at constant currency.

Looking more closely at the Cloud & IoT business within the broader digital business line, bookings increased by 50 percent at constant currency to €48.3 million (2019: €32.0 million) also driven by a higher share of subscription and SaaS contracts in the first half compared to the prior-year period. As expected, revenue stood at €25.8 million (2019: €22.3 million) in the first half, representing 15 percent growth. Cloud & IoT license revenue fell to €7.6 million (2019: €8.7 million), while maintenance revenue grew 18 percent to €4.0 million (2019: €3.3 million) in line with the growing share of subscription. Revenue from SaaS and usage-based revenue increased 39 percent to €14.2 million (2019: €10.3 million).

DBP (excl. Cloud & IoT) delivered encouraging results in the first half of 2020, with bookings up 16 percent (18 percent at constant currency) from €78.6 million to €91.4 million.

DBP (excl. Cloud & IoT) license revenue was down 9 percent from the previous year to €45.2 million (2019: €50.0 million), while maintenance revenue grew 1 percent to €139.1 million (2019: €137.9 million).

Overall, the cost of sales in DBP (incl. Cloud and IoT) increased 25 percent year-on-year to €23.7 million (2019: €18.9 million). This is due to the impact of SaaS revenues and related hosting costs as well as external experts for IoT and growing managed services. Software AG's expenditure in Research and Development reflects its targeted approach to investment in areas of opportunity. R&D expenses in the first half of 2020 accounted for €57.5 million, including Cloud & IoT. Due to these continued investments, margin for the segment fell from 21.4 percent on June 30, 2019 to 13.5 percent.

Annual recurring revenue (ARR) in DBP (incl. Cloud & IoT) grew 14 percent year-on-year and at constant currency to €355.2 million (2019: €315.3 million).

Adabas & Natural (A&N)

The Adabas & Natural business line continued its strong performance trend in the first half of 2020, supported by the unexpected early closing of two large deals from the H2 pipeline. This timing is partly explained by certain customers wishing to secure mission-critical software sooner than expected due to COVID-19.

Overall, the business line achieved 39 percent bookings growth compared to the prior year, totaling €60.2 million (2019: €43.3 million). Revenue rose 3 percent at constant currency to €110.0 million (2019: €107.7 million), which, coupled with bookings growth, reflects the shift to subscription. Notably, SaaS and subscription bookings within A&N bookings increased from 15.7 percent in the first half of 2019, to 35.7 percent in the first half of 2020.

License revenue grew 13 percent to €38.3 million (2019: €34.0 million) while maintenance revenue was fairly constant at €71.5 million (2019: €73.4 million).

The cost of sales in A&N rose slightly from €4.0 million to €4.7 million and R&D expenses increased by €4.0 million to €16.2 million. This business line is experiencing a shift to younger software engineers who will lead A&N into the next generation (Adabas & Natural 2050+ initiative). This includes early retirement plans for older software developers and thus higher expenditures which resulted in segment earnings of €70.8 million (2019: €75.9 million) and a margin of 64.4 percent (2019: 70.4 percent). This strong momentum signals the confidence customers are expressing in the Adabas & Natural 2050+ initiative, their need to secure A&N mission-critical offerings and the success of Software AG's additional innovations, including cloud containerization and the shift of workload to IBM's dedicated zIIP processors.

Professional Services

The COVID-19 environment led to both positive and negative effects on Professional Services during the first half. Software AG quickly adapted its onsite services to remote deployment, which customers received with enthusiasm. This was offset by fewer new projects and first implementations than expected. Revenue within Professional Services was therefore €91.5 million (2019: €93.4 million), representing a slight decline of 2 percent on the previous year.

The cost of sales in Professional Services rose from €71.4 million to €74.4 million, Segment earnings stood at €8.7 million (2019: €13.4 million), with its margin at 9.5 percent (2019: 14.3 percent).

The sale of Software AG's Spanish Professional Services business to Babel Tenedora de Participaciones closed as planned at the end of June. This transaction will impact operating results from Q3 2020 onward, with an expected reduction of some €37 million in annualized service revenue and a reduced cost level because of a headcount reduction of approximately 440 full time employees. Overall, the transaction will have a marginally positive impact on segment earnings.

Earnings Performance

Software AG's **cost of sales** was €106.8 million in the first half of 2020 (2019: €98.6 million). The 8 percent year-on-year increase is due to the growing cloud business and the associated hosting costs. As a result, **gross profit** declined 3 percent to €304.8 million (2019: €312.8 million). The Group's **gross profit margin** was 74.1 percent (2019: 76.0 percent).

The targeted investment in the Helix transformation program drove a 15 percent increase in R&D expenses in the first six months of 2020 to €73.8 million (2019: €64.0 million). Investment in sales and marketing also increased during the period with a particular focus on virtual customer engagement to ensure the strength of Software AG's pipeline despite the limitations placed on Sales teams due to COVID-19. Sales and marketing expenses for the first half of 2020 totaled €130.5 million, up 4 percent from last year (2019: €125.6 million). This lower-than-expected increase reflects the adjustments caused by pandemic limitations to marketing events and travelling, the postponement of lower priority investments and a phased recruitment aligned with expected business development. Administrative expenses rose slightly from the prior-year level to €35.8 million (2019: €35.2 million).

In line with expectations, **earnings before interest and taxes (EBIT)**[1] totaled €60.7 million (2019: €89.9 million).

Operating income (EBITA, non-IFRS)[1] was at €81.1 million (2019: €107.7 million) in the first six months of 2020, which reflected the impact of the short-term step-up in investment due to Helix. As expected, the **operating margin (non-IFRS)**[1] was 19.7 percent (2019: 26.2 percent). This margin development was in line with expectations and brings the Group close to its stated full-year margin guidance corridor.

Net financial income declined to €2.2 million (2019: €2.9 million) mainly due to lower interest rates. Income taxes were €18.4 million (2019: €26.8 million). Software AG's total imputed tax rate was 33.3 percent (2019: 32.0 percent).

In total, **net income** went down 34 percent year-on-year to €41.9 million (2019: €63.1 million). While the number of shares outstanding remained unchanged, earnings per share (basic) decreased to €0.56 (2019: €0.85).

Financial Position

Cash flow from operating activities reached €87.7 million in the first half of the year and was thus below the previous year's figure of €90.6 million, mainly due to a €20.4 million decline in receivables. Overall, the cash flow statement reflects the implementation of the Helix strategy.

Cash outflow from investing activities fell to €8.5 million compared with €11.6 million in the same period of the previous year. This was primarily due to the €5.1 million lower payments for acquisitions compared with the previous year.

Cash outflow from financing activities was €78.0 million compared with €36.6 million in the same period of the previous year. This was primarily due to the repayment of current financial liabilities of €44.8 million and the repayment of non-current financial liabilities of €25 million in the first half of the year.

Cash and cash equivalents as of June 30, 2020 amounted to €507.9 million (2019: €509.9 million) compared to €513.6 million at the beginning of the year. Free cash flow fell slightly in the first half of the year to €71.4 million, compared with €76.9 million in the same period of the previous year. This decline was mainly due to the planned increase in sales and marketing expense as well as research and development as part of the Helix strategy. FCF as a percentage of revenue amounted to 17 percent (2019: 19 percent) and 170 percent in relation to net income (2019: 122 percent). Accordingly, free cash flow per share amounted to €0.96 (2019: €1.04) in the reporting period.

[1] Please see the 2019 Annual Report p. 50 for definitions.

Balance Sheet

Software AG's balance sheet remained robust. As of June 30, 2020, total assets amounted to €2,066.8 million compared to €2,048.0 million as of the previous year's reporting date and €2,116.1 million as of December 31, 2019.

In **assets**, current assets amounted to €743.0 million, down from €776.0 million as of December 31, 2019.

The assets held for sale amounting to €4.8 million and the liabilities in connection with assets held for sale amounting to €5.1 million as of December 31, 2019 were disposed of on June 30, 2020 as a result of the sale of the Spanish consulting business.

Cash and cash equivalents decreased by just €5.8 million to €507.9 million since the beginning of the year. This was due to repayment of financial liabilities in the amount of €69.8 million in the first half of 2020, which were largely offset by active receivables management. Both current and non-current trade receivables declined significantly, mainly due to the seasonal nature of the business and active working capital management. Current trade receivables fell by €28.1 million from €206.6 million as of December 31, 2019 to €178.5 million as of June 30, 2020, a reduction of 14 percent. Non-current trade receivables decreased by €9.5 million, or 10 percent, from €96.5 million as of December 31, 2019 to €87.0 million as of June 30, 2020.

Other current non-financial assets rose by €3.6 million from €26.3 million to €29.9 million. Other non-current non-financial assets increased by €1.3 million from €3.0 million to €4.3 million. Both increases are mainly the result of increased capitalization and longer amortization periods of sales commissions in accordance with IFRS 15. This increase in capitalized sales commissions resulted from the amended sales commission plan, which is now more sustainably aligned to longer-term revenue flows as part of the Helix strategy change. Amortization on capitalized sales commissions is always carried out on the basis of the underlying revenue flow. The longer this revenue flow is recorded in terms of time, the longer the amortization periods of these items.

While current other financial assets increased by only €1.7 million to €7.4 million, non-current other financial assets rose by €6.5 million from €17.1 million to €23.6 million. This increase is primarily due to the higher value of hedging instruments relating to share-based payment instruments. This increased value resulted from the rise in the price of Software AG stock in the first half of 2020 and the hedging of the new Management Incentive Plan 2020 introduced in the second quarter of 2020.

Non-current intangible assets amounted to €110.6 million, down from €116.6 million at the end of last year. This reduction resulted from ongoing amortization of this item. Goodwill decreased by only €1.0 million to €979.1 million compared to €980.1 million as of December 31, 2019 due to the stable exchange rate relationship between the euro and the U.S. dollar.

On the **liabilities** side, current financial liabilities of €24.8 million were €71.6 million lower than the €96.4 million at the beginning of the year. This decline is primarily due to the repayment of financial liabilities in the amount of €69.8 million. Non-current financial liabilities of €198.2 million fell slightly by €2.0 million compared to the year-end 2019 figure of €200.2 million due to repayments.

Other current non-financial liabilities decreased by €16.2 million from €116.4 million at the end of the previous year to €100.2 million as of June 30, 2020. This reduction is primarily due to the customary seasonal payment of variable remuneration components from the previous year in the first half of 2020.

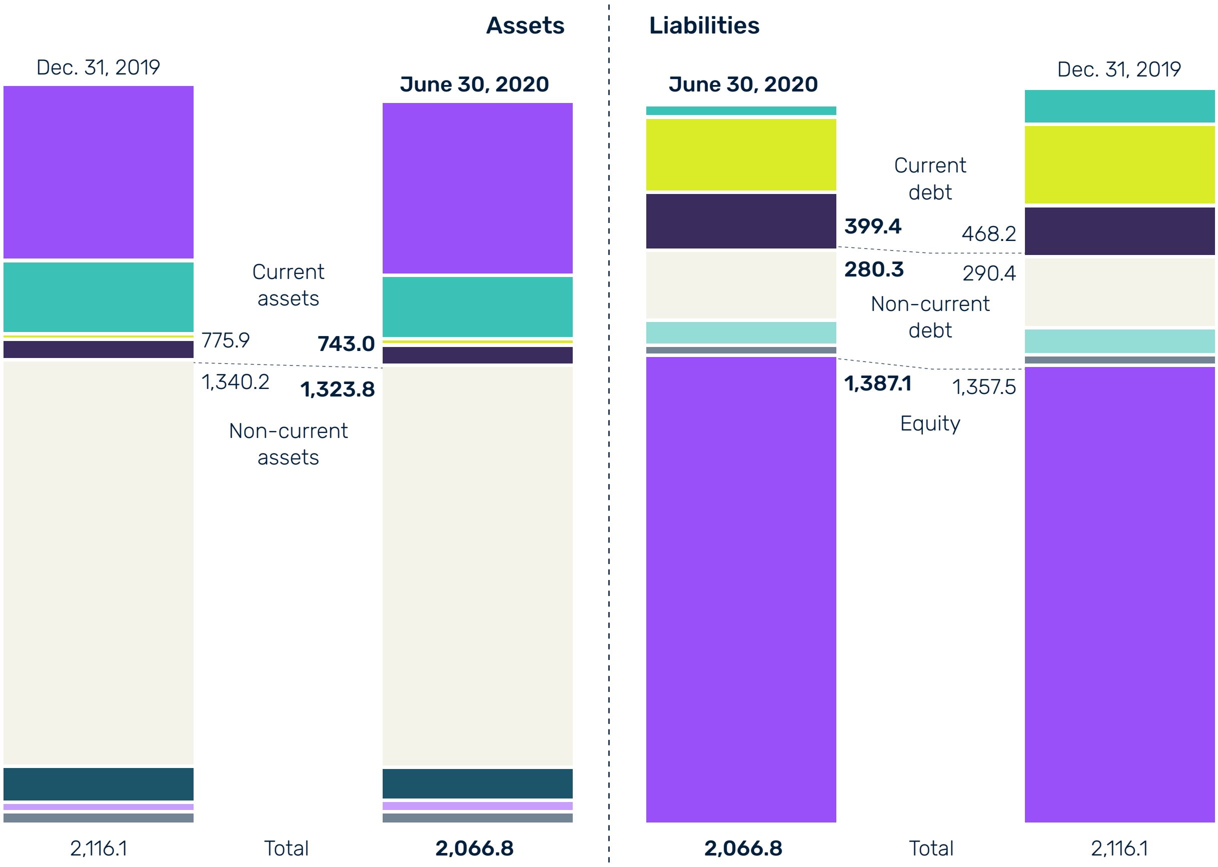
Due to the high proportion of maintenance business, current contract liabilities/deferred income, which include the volume of future maintenance revenues, increased to €161.4 million compared with €140.9 million as of December 31, 2019. This 15 percent increase is mainly due to this balance sheet item's development during the course of the year. Because customers pay the largest percentage of their annual maintenenace fees in the first quarter, deferred income is typically highest at the end of the first quarter and decreases steadily with each successive quarter until reaching its lowest point at the end of the year.

Deferred tax liabilities decreased by €6.6 million to €4.0 million due to netting with higher deferred tax assets totaling €10.6 million. The higher deferred tax assets resulted primarily from the increased tax loss carryforwards in individual national companies.

Software AG's **shareholders' equity** as of June 30, 2020, was € 1,387.1 million compared to €1,357.5 million at the end of 2019. In relation to total assets, the **equity ratio** increased to 67.1 percent compared with 64.2 percent as of December 31, 2019.

Balance Sheet Structure

in € millions



507.9	(513.6)	Cash and cash equivalents
178.5	(206.6)	Trade and other receivables
7.4	(5.7)	Other financial assets
49.2	(50.0)	Other non-financial assets
1,187.3	(1,200.7)	Fixed assets (Goodwill 979.1/980.1)
87.0	(96.6)	Trade and other receivables
23.6	(17.1)	Other financial assets
25.9	(25.8)	Other non-financial assets

24.8	(96.4)	Financial liabilities
213.2	(230.9)	Other current liabilities
161.4	(140.9)	Deferred income
198.2	(200.2)	Financial liabilities
63.7	(70.0)	Other non-current liabilities
18.4	(20.2)	Deferred income
1,387.1	(1,357.5)	Equity

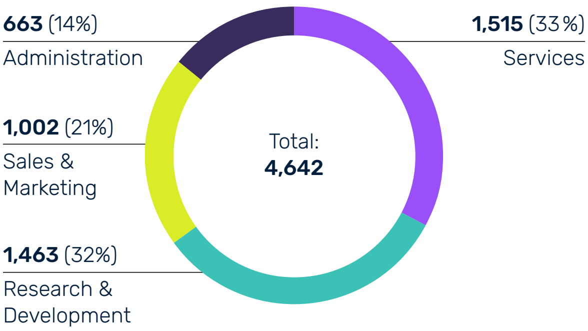
Employees

As of June 30, 2020, the Software AG Group employed 4,642 people (full-time equivalents), compared to 4,948 at the end of 2019. The number of employees thus decreased by 306 FTEs, which reflects the sale of the Professional Services unit in Spain with 438 FTEs. Like for like, the number of employees increased by 132 FTEs, or 3 percent, in the first half of 2020.

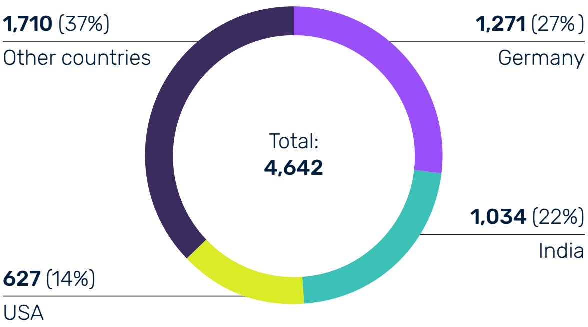
Software AG is committed to investing in a future-oriented Group structure and profitable growth in line with the Helix transformation strategy. Broken down by department, the number of employees at the end of the first six months of 2020 in Professional Services was 1,515 (Dec. 31, 2019: 1,915), in Administration 663 (Dec. 31, 2019: 653) and in Sales and Marketing 1,002 (Dec. 31, 2019: 961). This increase of 41 FTEs (+4 percent) reflects the rebuilding of the Sales organization in North America. The strategically key R&D team employs a total of 1,463 (Dec. 31, 2019: 1,419), which corresponds to an increase of 44 employees (+3 percent). In total, some 200 new staff members were onboarded in the first half of 2020; due to COVID-19 the recruiting process was entirely virtual.

The international structure of Software AG's staff reflects its global business operations. The regional distribution of employees can be broken down as follows: As of June 30, 2020, the Software AG Group employed 1,271 (Dec. 31, 2019: 1,278) people in Germany, 1,034 (Dec. 31, 2019: 1,004) in India and 627 (Dec. 31, 2019: 584) in the USA. A total of 1,710 (Dec. 31, 2019: 2,082) people were employed in countries other than those mentioned above.

Headcount by Function[1]



Headcount by Region[1]



[1] FTE in accordance with P&L structure as of June 30, 2020. For more information including average and absolute figures, please refer to Note [12] on p. 35.

Opportunity and Risk Report

Software AG's 2019 Annual Report contains a comprehensive Opportunity and Risk Report (see p. 110 onwards) 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. Primarily the COVID-19 pandemic caused the following changes to the risk and opportunity situation of the Software AG Group in the first half of 2020 as compared to the risks and opportunities identified in the 2019 Annual Report.

The COVID-19 pandemic leads to a higher sales risk. As a result, large, economically stable customers may become insolvent, with the risk that both outstanding receivables may default and future business potential with these customers may be lost. In addition, many customers have decided to implement cost-cutting measures which may even lead to an investment freeze. In particular, these customers will only conclude future business if this software investment is absolutely necessary for them for reasons of their business processes. Software AG has a large number of such customers, so business deals are expected to be concluded even during the pandemic phase. However, there may be time delays, as projects are started and/or implemented more slowly than originally anticipated due to temporary layoffs or other resource reductions on the customer side. The risks that have emerged to date in the area of receivables are in the mid single-digit million range and therefore do not represent a risk jeopardizing the existence of the company as a going concern as defined by section 91 (2) of the German Stock Corporation Act.

This crisis will also create business opportunities for Software AG's future business. The COVID-19 pandemic also means that many companies and government agencies are being forced to adapt their digitization strategy and significantly accelerate their digitization efforts. Since Software AG's products are needed in this digitization process, there are significant business opportunities in the medium term.

Software AG has a Business Continuity Management System that is externally certified according to ISO 22301. This management system has proven its worth during the crisis. It consists of best practice processes, crisis management teams and IT backup systems in various locations. Thus, the company was and is able to maintain all business-critical processes at any time and to help customers with their support center to maintain their business-critical processes.

Internally, Software AG began addressing the effects of the COVID-19 pandemic on the company's profitability in the first quarter of 2020. In particular, the focus was the health of employees and ensuring operational commitments to customers and suppliers.

A task force was implemented with the aim of averting potential health hazards for employees, regularly informing staff on the subject of the coronavirus, promoting collaboration and supporting all measures that enable employees to carry out their work from home. Taking the specific coronavirus situations in different regions and countries into account, local task force units were set up to enable fast and agile reactions. The task force convenes daily and reports directly to the entire Management Board on a regular basis. The number of COVID-19 infections in the Software AG Group at the time this report was released was in the low double-digit range.

In addition, a team was formed to deal with the possible operational risks of the pandemic for employees, customers and suppliers in order to prepare or initiate appropriate countermeasures. The risks were assessed both in terms of their significance and their probability of occurrence. In the case of risks with high significance and/or high probability of occurrence, appropriate measures were prepared or initiated. In particular, additional investments were made in IT infrastructure to safeguard operating business transactions and virtual marketing measures were promoted to counteract potential consequences on sales due to the cancellation of marketing events caused by COVID-19.

Another working group focused on the potential economic impact of the COVID-19 pandemic. Based on various COVID-19 scenarios, the Sales and Professional Services departments, in cooperation with the regions, predicted the corresponding effects on bookings and revenue. At the same time, a cross-divisional team, led by the Finance department, elaborated potential countermeasures for the respective scenarios to minimize the impact on earnings by adjusting costs. The results of this working group were presented to the Management Board in April 2020. Based on the sales scenario with the highest probability of occurrence, the Management Board decided to adjust the full-year 2020 guidance for bookings in the DBP (excl. Cloud & IoT) and DBP Cloud & IoT business lines. The Management Board also approved cost measures that allow guidance for the non-IFRS EBIT margin communicated at the beginning of the year to remain in place. These operational measures include COVID-19-related savings in travel and marketing events that will not significantly reduce the investment required to stay on a strategic growth path. Assumptions regarding expected bookings and revenue scenarios as well as cost measures are reviewed monthly so that the appropriate counter-measures can be undertaken immediately.

Outlook

Having delivered the anticipated solid performance in the first half of the financial year, Software AG reconfirms its guidance for fiscal 2020 which was adjusted for potential negative impacts from the COVID-19 pandemic on April 23, 2020.

The Management Board expects the company's key performance indicators to develop in the 2020 fiscal year as follows:

Outlook for Fiscal Year 2020

	Results FY 2019 (as of Dec. 31, 2019) in € millions	**Outlook FY 2020** (as of Jan. 29, 2020)	**Adj. Outlook FY 2020** (as of April 23, 2020)	**H1 2020** (as of June 30, 2020)
DBP excl. Cloud & IoT product bookings	241.1	+10% to +15%[1]	0% to +10%[1]	+18%
DBP Cloud & IoT product bookings	65.9	+40% to +60%[1]	+20% to +40%[1]	+50%
A&N product bookings	100.8	-3% to +3%[1]	no change	+39%
Operating margin (EBITA, non-IFRS)[2]	29.2%	20% to 22%[1]	no change	19.7%

[1] At constant currency
[2] Before adjusting for non-operating factors (see non-IFRS results).

All other financial performance indicators presented in the Outlook section of the 2019 Annual Report (p. 107) are expected to remain unchanged.

This continued view of Software AG's 2020 performance is supported by the underlying resilience of Software AG's business alongside its growing pipeline for potential new DBP deals and increased sales execution capabilities. At the same time, Software AG remains mindful of the uneven nature of the COVID-19 recovery across geographies and the difficulty that presents in accurate forecasting of deal closure timings. In addition, the pull-forward of certain deals from H2 into Q2 2020 will slow down bookings and revenue recognition for the A&N business line in the second half year.

Over the medium term, the Management Board continues to believe that demand for digitization should intensify as a consequence of the increasing importance organizations are placing on their operating structures. Software AG therefore also reconfirms its 2023 ambitions, most notably to reach €1 billion in revenue and expand operating margin to a 25 to 30 percent range.

Consolidated Interim Financial Statements

Consolidated Income Statement

for the six months ended June 30, 2020 (IFRS)

in € thousands	H1 2020	H1 2019
Licenses	**91,101**	**92,754**
Maintenance	214,536	214,664
SaaS	14,232	10,256
Services	91,577	93,440
Other	209	321
Total revenue	**411,655**	**411,435**
Cost of sales	–106,819	–98,603
Gross profit	**304,836**	**312,832**
Research and development expenses	–73,777	–63,994
Sales, marketing and distribution expenses	–130,490	–125,558
General and administrative expenses	–38,765	–35,212
Other income	13,367	4,420
Other expenses	–14,492	–2,548
Other taxes	–2,507	–2,912
Operating income	**58,172**	**87,028**
Financing income	4,836	6,230
Financing expenses	–2,679	–3,345
Net financial income/expenses	**2,157**	**2,885**
Earnings before income taxes	**60,329**	**89,913**
Income taxes	–18,434	–26,816
Net income	**41,895**	**63,097**
thereof attributable to shareholders of Software AG	41,785	62,927
thereof attributable to non-controlling interests	110	170
Earnings per share in € (basic)	0.56	0.85
Earnings per share in € (diluted)	0.56	0.85
Weighted average number of shares outstanding (basic)	73,979,889	73,979,889
Weighted average number of shares outstanding (diluted)	73,979,889	73,979,889

Statement of Comprehensive Income

for the six months ended June 30, 2020 (IFRS)

in € thousands	H1 2020	H1 2019
Net income	**41,895**	**63,097**
Currency translation differences from foreign operations	–15,647	13,858
Net gain/(loss) from cash flow hedges	1,359	403
Currency translation gain/loss from net investments in foreign operations	1	846
Items to be reclassified to the income statement if certain conditions are met	**–14,287**	**15,107**
Net gain/(loss) from equity instruments designated to measurement at fair value through other comprehensive income	–72	–1,462
Net actuarial gain/loss on pension obligations	2,472	113
Items not to be reclassified to the income statement	**2,400**	**–1,349**
Gain/loss recognized in equity	**–11,887**	**13,758**
Total comprehensive income	**30,008**	**76,855**
thereof attributable to shareholders of Software AG	29,898	76,685
thereof attributable to non-controlling interests	110	170

Consolidated Balance Sheet

as of June 30, 2020 (IFRS)

Assets

in € thousands	June 30, 2020	Dec. 31, 2019
Current assets		
Assets held for sale	0	4,795
Cash and cash equivalents	507,858	513,632
Other financial assets	7,447	5,720
Trade receivables, contract assets and other receivables	178,544	206,596
Other non-financial assets	29,915	26,299
Income tax receivables	19,258	18,943
	743,022	**775,985**
Non-current assets		
Intangible assets	110,659	116,601
Goodwill	979,133	980,088
Property, plant and equipment	97,540	103,977
Other financial assets	23,539	17,078
Trade receivables, contract assets and other receivables	86,958	96,544
Other non-financial assets	4,338	3,024
Income tax receivables	10,835	10,835
Deferred tax receivables	10,751	11,955
	1,323,807	**1,340,102**
Total Assets	**2,066,829**	**2,116,087**

as of June 30, 2020 (IFRS)

Equity and Liabilities

in € thousands	June 30, 2020	Dec. 31, 2019
Current liabilities		
Liabilities from assets held for sale	0	5,092
Financial liabilities	24,806	96,389
Trade and other payables	34,419	35,793
Other non-financial liabilities	100,170	116,367
Other provisions	41,598	38,099
Income tax liabilities	37,071	35,569
Contractual obligations/deferred income	161,362	140,893
	399,426	**468,202**
Non-current liabilities		
Financial liabilities	198,221	200,225
Trade and other payables	177	90
Other non-financial liabilities	982	1,343
Other provisions	8,621	7,360
Provisions for pensions and similar obligations	47,192	47,963
Income tax liabilities	2,653	2,643
Deferred tax liabilities	4,033	10,594
Contractual obligations/deferred income	18,404	20,212
	280,283	**290,430**
Equity		
Share capital	74,000	74,000
Capital reserves	22,580	22,580
Retained earnings	1,344,041	1,302,257
Other reserves	−53,191	−41,304
Treasury shares	−757	−757
Attributable to shareholders of Software AG	**1,386,673**	**1,356,776**
Non-controlling interests	**447**	**679**
	1,387,120	**1,357,455**
Total Equity and Liabilities	**2,066,829**	**2,116,087**

Consolidated Statement of Cash Flows

for the six months ended June 30, 2020 (IFRS)

in € thousands	H1 2020	H1 2019
Net income	41,895	63,097
Income taxes	18,434	26,816
Net financial income/expense	–2,157	–2,885
Amortization/depreciation of non-current assets	20,337	22,504
Payments for optional cash-settled claims to share-based compensation	0	–23
Other non-cash income/expense	2,054	56
Changes in receivables and other assets	30,957	51,392
Changes in payables and other liabilities	–3,432	–34,501
Income taxes paid/received	–22,599	–38,907
Interest paid	–2,682	–3,180
Interest received	4,888	6,231
Net cash flow from operating activities	**87,695**	**90,600**
Proceeds from the sale of property, plant and equipment/intangible assets	1,170	267
Purchase of property, plant and equipment/intangible assets	–6,246	–5,082
Proceeds from the sale of non-current financial assets	0	431
Purchase of non-current financial assets	–3,297	–1,574
Proceeds from the sale of current financial assets	276	250
Purchase of current financial assets	–523	–802
Net proceeds from disposals of assets held for sale	128	0
Net payments for acquisitions	0	–5,135
Net cash flow from investing activities	**–8,492**	**–11,645**

for the six months ended June 30, 2020 (IFRS)

in € thousands	H1 2020	H1 2019
Use of treasury shares	0	0
Dividends paid	–342	–52,846
Proceeds/payments for current financial liabilities	–44,750	24,021
Repayment of lease liabilities	–7,946	–7,735
New non-current financial liabilities	0	0
Repayment of non-current financial liabilities	–25,001	0
Net cash flow from financing activities	**–78,039**	**–36,560**
Change in cash and cash equivalents	1,164	42,395
Change in cash and cash equivalents from currency translation	–6,938	5,157
Net change in cash and cash equivalents	**–5,774**	**47,552**
Cash and cash equivalents at beginning of period	513,632	462,362
Cash and cash equivalents at end of period	**507,858**	**509,914**

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2020 (IFRS)

in € thousands	Subscribed capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Dec. 31, 2018	**73,979,889**	**74,000**	**22,612**	**1,201,689**
Application of IFRS 16				–2,779
Equity as of Jan. 1, 2019	**73,979,889**	**74,000**	**22,612**	**1,198,910**
Total comprehensive income				**62,927**
Transactions with shareholders				
Dividend payment				–52,526
Other changes			–32	1
Transactions between shareholders				
Equity as of June 30, 2019	**73,979,889**	**74,000**	**22,580**	**1,209,312**
Equity as of Jan. 1, 2020	**73,979,889**	**74,000**	**22,580**	**1,302,257**
Total comprehensive income				**41,785**
Transactions with shareholders				
Dividend payment				
Other changes				–1
Transactions between shareholders				
Equity as of June 30, 2020	**73,979,889**	**74,000**	**22,580**	**1,344,041**

Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
Currency translation differences from foreign operations	Net gain/loss on remeasuring financial assets	Net actuarial gain/loss on pension obligations	Currency translation gain/loss from net invest-ments in foreign operations				
–27,776	**–8,176**	**–31,845**	**8,659**	**–757**	**1,238,406**	**656**	**1,239,062**
					–2,779		**–2,779**
–27,776	**–8,176**	**–31,845**	**8,659**	**–757**	**1,235,627**	**656**	**1,236,283**
13,858	**–1,059**	**113**	**846**		**76,685**	**170**	**76,855**
					–52,526	–320	**–52,846**
					–31		**–31**
–13,918	**–9,235**	**–31,732**	**9,505**	**–757**	**1,259,755**	**506**	**1,260,261**
4,718	**–8,432**	**–44,513**	**6,923**	**–757**	**1,356,776**	**679**	**1,357,455**
–15,647	**1,287**	**2,472**	**1**		**29,898**	**110**	**30,008**
						–342	**–342**
					–1		**–1**
–10,929	**–7,145**	**–42,041**	**6,924**	**–757**	**1,386,673**	**447**	**1,387,120**

Notes to the Consolidated Interim Financial Statements

General

[1] Basis of Presentation

Software AG's condensed and unaudited interim financial statements (half-year financial statements) as of June 30, 2020 have been prepared in accordance with the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS), as applicable in the European Union (EU). The IFRS applicable as of June 30, 2020 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

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

The consolidated financial statements of Software AG are expressed in thousands of euros unless otherwise stated. Software AG waived a voluntary audit and a review of the consolidated interim financial statements (half-year report).

[2] Scope of Consolidation

Changes in the consolidated Group

The following changes occurred in the consolidated Group in the first six months of the 2020 fiscal year:

	Germany	Foreign	Total
Jan. 1, 2020	**10**	**68**	**78**
Additions	0	0	0
Disposals (including mergers)	0	1	1
June 30, 2020	**10**	**67**	**77**

The disposal relates to the sale of the Spanish entity, Software AG España Consulting SL (please refer to Note 4 for more information). The change to the scope of consolidation has no significant effect on comparability with last year.

[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, 2019. For more detailed information on accounting policies, please see Note 3 on pp. 164-173 of the consolidated financial statements for fiscal 2019. These half-year statements were prepared in accordance with IAS 34: Interim Financial Reporting.

[4] Disposal Groups/Groups of Assets and Liabilities Held to Sell

An agreement was announced on January 14, 2020 between Software AG and Babel Tenedora de Participaciones, SL, Madrid (Babel), on the sale of Software AG España service operations to Babel. The transaction was concluded at the end of June.

Because the sale of Software AG España's service operations was already assumed to be highly probable in December 2019, the assets and liabilities to be sold were reclassified to a disposal group as of December 31, 2019. The corresponding assets and liabilities were measured as of December 31, 2019 in accordance with IFRS 5, not at their carrying amount but at fair value less costs to sell.

All transferred assets and liabilities were derecognized as of June 30, 2020 due to the transfer of Software AG España's service operations to Babel at the end of June. The disposal resulted in an additional expense of €2,100 thousand in the first half of 2020. In total (including expenses recognized in fiscal 2019 resulting from measurement of the disposal group in the amount of €5,165 thousand), the loss associated with the disposal was €7,265 thousand. Because a portion of the purchase price payment is conditional upon the fulfillment of defined criteria which is associated with a degree of uncertainty, the final purchase price is an estimate. The final purchase price will be determined at the beginning of 2021. An adjustment to the final disposal loss in the low single-digit million euro range is possible.

The loss associated with the disposal, as well as expenses arising from measurement of the disposal group, were reported in other expenses in fiscal 2019.

The sold service operations accounted for approximately €19 million of Group revenue in the first half of 2020. Its annual revenue contribution is approximately €37 million. The transferred service operations' earnings contribution is immaterial with respect to both net income and segment earnings (Professional Services). Therefore, no proportionate goodwill was recognized for the disposal.

Notes to the Consolidated Balance Sheet

[5] Intangible Assets/Goodwill

Goodwill amounted to €979,133 thousand as of June 30, 2020, a decrease of €955 thousand compared to December 31, 2019. This change is due to exchange rate effects.

A qualitative and quantitative goodwill analysis was conducted as of June 30, 2020 to determine whether triggering events related to the effects of COVID-19 were present that would require an impairment test during the course of the year. An analysis of internal and external information sources led to the conclusion that, based on data currently available, the effects of COVID-19 on the cash-generating Digital Business Platform and Adabas & Natural units were immaterial and short-term in nature. Software AG therefore did not conduct an impairment test for these cash-generating units in the first half of 2020.

The company did however carry out an impairment test of the recoverable amount for the cash-generating Professional Services unit because its margin for the 2020 fiscal year is performing well below guidance provided at the beginning of the year. The test showed that the recoverable amount for the cash-generating unit was slightly higher than its carrying amount, so no value adjustment was necessary. The company's management will continue to monitor the key assumptions and, in particular, medium-term margin performance on a regular basis since changes could lead to an impairment in the future.

[6] Equity

Share capital

Software AG's share capital totaled €74,000 thousand (Dec. 31, 2019: €74,000 thousand) as of June 30, 2020. Software AG's share capital is divided into 74,000,000 (Dec. 31, 2019: 74,000,000) registered shares. Each share entitles its holder to one vote.

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on June 26, 2020 to appropriate €56,224 thousand (2019: €52,526 thousand) for a dividend payout from the net retained profits of €128,479 thousand reported by Software AG, the controlling Group company, in 2019. This corresponds to a dividend of €0.76 (2019: €0.71) per share. A total amount of €77,255 thousand (2019: €32,994 thousand) was carried forward.

Acquisition of treasury shares

As of June 30, 2020, Software AG held 20,111 (Dec. 31, 2019: 20,111) treasury shares representing an interest of €20,111 (Dec. 31, 2019: €20,111) or 0.03 percent (Dec. 31, 2019: 0.03 percent) of the share capital.

Pursuant to the Annual Shareholders' Meeting resolution from May 31, 2016, the company is authorized until May 30, 2021 to purchase Software AG shares totaling a maximum of 10 percent of the share capital at the time of the resolution. The shares purchased, together with other treasury shares that the company has already purchased and still holds or that are attributable to it in accordance with sections 71d and 71e of the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

Software AG did not acquire treasury shares in the first half of 2020 or the first half of 2019 nor did the balance of treasury shares change.

Other Disclosures

[7] Segment Reporting

Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. In addition to the new leading indicators consisting of bookings, annual recurring revenue (ARR), share of subscription and Software as a Service (SaaS) bookings in total bookings (as a percentage), and share of recurring product revenue in total product revenue (as percentage), internal control also focuses on the traditional lagging indicator, product revenue at constant currency for the two product segments (please refer to the Group Management Report for more details). Margins and earnings are controlled largely at Group level. Of considerably less importance are the segments' contributions and earnings at secondary level of control. Software AG reports on the following three segments:

- **Digital Business Platform (incl. Cloud & IoT)**
  (DBP: integration, business process management and big data with the webMethods, ARIS, Alfabet, Apama, Terracotta, Cumulocity, TrendMiner product families, etc.)

- **Adabas & Natural**
  (A&N: data management with the Adabas and Natural products)

- **Professional Services**
  (implementation of Software AG products)

The segment contribution does not include the amortization expense associated with the purchase of intangible assets through acquisitions. These charges are therefore shown separately under reconciliation. This presentation corresponds with internal control and reporting lines (management approach). The majority of sales and marketing expenses are classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research and development expenses are assigned to the segments based on expense components directly attributable to the R&D department as well as the overhead coded to R&D. They have no direct impact on internal control.

The table below shows the segment data for the first half of 2020:

Segment Report for the Six Months Ended June 30, 2020

	Digital Business Platform (DBP) incl. Cloud & IoT			Adabas & Natural (A&N)		
in € thousands	**H1 2020 IFRS**	**H1 2020 acc[1]**	**H1 2019 IFRS**	**H1 2020 IFRS**	**H1 2020 acc[1]**	**H1 2019 IFRS**
Licenses	52,823	53,104	58,766	38,278	38,397	33,988
Maintenance	143,069	142,938	141,233	71,467	72,523	73,431
SaaS	14,232	14,226	10,256	0	0	0
Product revenue	**210,124**	**210,268**	**210,255**	**109,745**	**110,920**	**107,419**
Services	88	88	0	0	0	0
Other	0	0	0	209	209	321
Total revenue	**210,212**	**210,356**	**210,255**	**109,954**	**111,129**	**107,740**
Cost of sales	–23,711	–23,744	–18,936	–4,728	–4,781	–4,022
Gross profit	**186,501**	**186,612**	**191,319**	**105,226**	**106,348**	**103,718**
Sales, marketing and distribution expenses	–100,600	–100,728	–94,528	–18,195	–18,367	–15,625
Segment contribution	**85,901**	**85,884**	**96,791**	**87,031**	**87,981**	**88,093**
Research and development expenses	–57,539	–56,697	–51,804	–16,238	–16,052	–12,190
Segment earnings	**28,362**	**29,187**	**44,987**	**70,793**	**71,929**	**75,903**
General and administrative expenses						
Other income						
Other expenses						
Other taxes						
Operating income						
Financing income						
Financing expenses						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

[1] At constant currency

	Professional Services			Reconciliation		Total		
	H1 2020 IFRS	**H1 2020 acc[1]**	**H1 2019 IFRS**	**H1 2020 IFRS**	**H1 2019 IFRS**	**H1 2020 IFRS**	**H1 2020 acc[1]**	**H1 2019 IFRS**
	0	0	0	0	0	91,101	91,501	92,754
	0	0	0	0	0	214,536	215,461	214,664
	0	0	0	0	0	14,232	14,226	10,256
	0	**0**	**0**	**0**	**0**	**319,869**	**321,188**	**317,674**
	91,489	90,850	93,440	0	0	91,577	90,938	93,440
	0	0	0	0	0	209	209	321
	91,489	**90,850**	**93,440**	**0**	**0**	**411,655**	**412,335**	**411,435**
	–74,354	–73,678	–71,437	–4,026	–4,208	–106,819		–98,603
	17,135	**17,172**	**22,003**	**–4,026**	**–4,208**	**304,836**		**312,832**
	–8,462	–8,453	–8,615	–3,233	–6,790	–130,490		–125,558
	8,673	**8,719**	**13,388**	**–7,259**	**–10,998**	**174,346**		**187,274**
	0	0	0	0	0	–73,777		–63,994
	8,673	**8,719**	**13,388**	**–7,259**	**–10,998**	**100,569**		**123,280**
						–38,765		–35,212
						13,367		4,420
						–14,492		–2,548
						–2,507		–2,912
						58,172		**87,028**
						4,836		6,230
						–2,679		–3,345
						2,157		**2,885**
						60,329		**89,913**
						–18,434		–26,816
						41,895		**63,097**

DBP Segment with Revenue Distribution for the Six Months Ended June 30, 2020 (IFRS)

in € thousands	DBP (Cloud & IoT)			Digital Business Platform (DBP) excl. Cloud & IoT			Digital Business Platform (DBP) incl. Cloud & IoT		
	H1 2020 IFRS	H1 2020 acc[1]	H1 2019 IFRS	H1 2020 IFRS	H1 2020 acc[1]	H1 2019 IFRS	H1 2020 IFRS	H1 2020 acc[1]	H1 2019 IFRS
Licenses	7,592	7,420	8,742	45,231	45,684	50,024	52,823	53,104	58,766
Maintenance	3,968	3,933	3,338	139,101	139,005	137,895	143,069	142,938	141,233
SaaS	14,232	14,226	10,256	0	0	0	14,232	14,226	10,256
Product revenue	**25,792**	**25,579**	**22,336**	**184,332**	**184,689**	**187,919**	**210,124**	**210,268**	**210,255**
Services	88	88	0	0	0	0	88	88	0
Other	0	0	0	0	0	0	0	0	0
Total revenue	**25,880**	**25,667**	**22,336**	**184,332**	**184,689**	**187,919**	**210,212**	**210,356**	**210,255**
Cost of sales							–23,711	–23,744	–18,936
Gross profit							**186,501**	**186,612**	**191,319**
Sales, marketing and distribution expenses							–100,600	–100,728	–94,528
Segment contribution							**85,901**	**85,884**	**96,791**
Research and development expenses							–57,539	–56,697	–51,804
Segment earnings							**28,362**	**29,187**	**44,987**

[1] At constant currency

[8] Contingent Liabilities

The carrying amount of collateral received was €135 thousand (2019: €251 thousand).

[9] Seasonal Influences

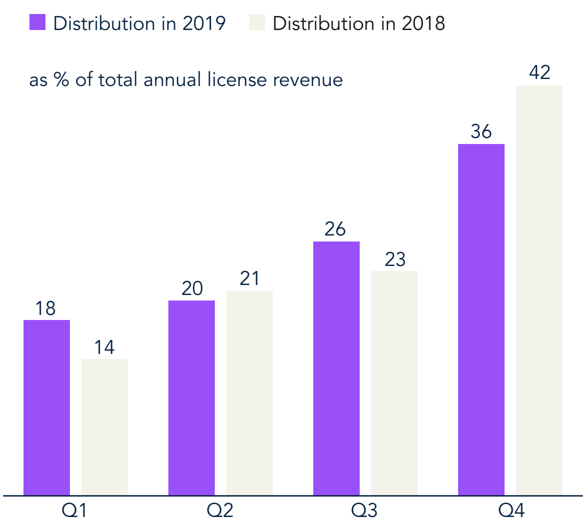
Revenues and pre-tax earnings were distributed over fiscal year 2019 as follows:

in € thousands	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019
License revenue	42,580	50,174	64,142	88,204	245,100
as % of license revenue for the year	18	20	26	36	100
Total revenue	201,416	210,018	224,157	255,016	890,607
as % of revenue for the year	22	24	25	29	100
Earnings before taxes	42,141	47,772	59,793	65,413	215,119
as % of earnings for the year	20	22	28	30	100

Based on historical data, the revenue and earnings distribution from 2019 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict. The transformation of the business model from predominantly perpetual licenses to time-limited licenses is also impacting the short-term predictability of revenue and earnings distribution. The change is intended to drastically improve revenue predictability and thus earnings distribution in the medium term.

The following graph illustrates the development of license revenue in 2019 and 2018:

License Revenue in 2019 and 2018



[10] Litigation

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 to valuation to be groundless. The Regional Court of Saarbrücken ruled on June 6, 2018 to reject the plaintiff's appeal. Multiple plaintiffs filed complaints against the decision within the appeal period. There were no significant developments regarding this case in the first half of 2020.

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 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 plus interest for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million plus interest. Software AG appealed the decision. The court-ordered expert witness submitted a report in the third quarter of 2017. Software AG presented a detailed opinion on the report in the fourth quarter of 2017. The court resolved on January 12, 2018 that the expert witness must appear for a hearing to explain the report and make additions to it prior to the appointment. This has not yet occurred. The date has not yet been scheduled. Provisions are set up based on the estimated probable actual resource outflow.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia, CNMC) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 on the suspicion of an inadmissible anti-competitive agreement. On April 25, 2016, the CNMC published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies on October 19, 2017. CNMC is accusing Software AG Spain of inadmissible price fixing and covert tenders. Following a hearing on June 12, 2018, the CNMC ruled on July 31, 2018 to impose a penalty on 11 companies, including Software AG Spain. The penalty for Software AG Spain was €6 million, which was paid by court order on January 28, 2019. Software AG appealed the agency's decision and submitted its concluding argument on May 23, 2019. A decision is not expected until 2021 due to COVID-19-related delays.

After a customer of Software AG in the USA, Shelby County, Tennessee, requested exemption from possible claims filed against the county and/or its employees by Software AG in 2017 and 2018, Software AG Cloud Americas, Inc. was added as a defendant in a class-action lawsuit in the U.S. District Court for the Western District of Tennessee on January 18, 2019. The backdrop to this are various lawsuits against a customer of Software AG, Shelby County, Tennessee. The class-action suit has not yet been admitted by the courts and is currently in the early discovery phase.

The risk evaluation for other litigation and legal risks was updated; and provisions were set up based on a new calculation of the probable actual resource outflow.

Provisions for litigation totaled €9,417 thousand (Dec. 31, 2019: €11,976 thousand) as of June 30, 2020.

In addition, contingent liabilities in the amount of €23,885 thousand as of June 30, 2020 (Dec. 31, 2019: €20,818 thousand) existed. But since a resource outflow was not probable as of the balance sheet date, no provisions were set up. Those relate to individual lawsuits and €8,200 thousand (Dec. 31, 2019: €8,200 thousand) in tax-related risks.

[11] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. All plans as of June 30, 2020 are described in detail in Note 37 on pp. 213-217 of Software AG's 2019 Annual Report.

Share-based remuneration resulted in a total expense of €5,285 thousand (H1 2019: €4,762 thousand) in the first half of fiscal 2020.

The rights granted under management incentive plans in previous years changed as follows in the first six months of the 2020 fiscal year:

Management Incentive Plan 2019

The rights granted under Management Incentive Plan 2019 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2019	**435,217**
Granted	0
Exercised	–57,314
Expired	–26,107
Balance as of June 30, 2020	**351,796**

Management Incentive Plan 2018

The rights granted under Management Incentive Plan 2018 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2019	**1,155,808**
Granted	0
Exercised	0
Expired	–31,652
Balance as of June 30, 2020	**1,124,156**

Management Incentive Plan 2017

The rights granted under Management Incentive Plan 2017 changed as follows in the first six months of the fiscal year:

Balance as of Dec. 31, 2019	**540,525**
Granted	0
Exercised	–171,000
Expired	–198,525
Balance as of June 30, 2020	**171,000**

[12] Employees

In the first half of 2020, the **average** number of employees (part-time employees are counted on a pro rata basis only) by area of activity was as follows:

	June 30, 2020	June 30, 2019
Maintenance and Services	1,728	1,836
Sales and Marketing	985	940
R&D	1,449	1,344
Administration	664	620
	4,826	**4,740**

In **absolute** terms (part-time employees are counted in full), the Group employed 4,811 (2019: 4,925) people as of June 30, 2020.

The decrease of 114 employees is due to 452 employees associated with the sale of Software AG España's service operations and 338 (net) new hires in the past 12 months.

[13] Changes and Information Regarding Corporate Bodies

Software AG shareholders elected three new members to the Supervisory Board at the Annual Shareholders' Meeting on June 26, 2020. From the conclusion of the Annual Shareholders' Meeting on June 26, 2020 until the conclusion of the Annual Shareholders' Meeting at which the actions of the Supervisory Board are ratified for the fourth fiscal year after the beginning of their term (not including the fiscal year in which their term began), the Supervisory Board will be composed of the following members:

- Karl-Heinz Streibich (shareholder representative, chairman of the Supervisory Board, chairman of the Committee for Compensation and Succession Issues, chairman of the Nominating Committee)
- Guido Falkenberg (employee representative, deputy chairman of the Supervisory Board, member of the Committee for Compensation and Succession Issues)
- Ralf Dieter (shareholder representative, chairman of the Audit Committee, member of the Nominating Committee)
- Ursula Soritsch-Renier (shareholder representative, member of the Audit Committee)
- Markus Ziener (shareholder representative, member of the Committee for Compensation and Succession Issues, member of the Nominating Committee)
- Christian Zimmermann (employee representative, member of the Audit Committee).

Guido Falkenberg and Christian Zimmermann were appointed by the Darmstadt District Court as temporary employee representatives until a point in time when COVID-19 restrictions are lifted and employee representative elections can take place.

Mr. Arnd Zinnhardt's term on Software AG's Management Board ended on March 31, 2020. No further changes occurred on the Management Board or Supervisory Board between January 1, 2020 and June 30, 2020.

Dr. Matthias Heiden assumed the role of Chief Financial Officer and member of Software AG's Management Board on July 1, 2020.

[14] Events After the Balance Sheet Date

Except for the changes and information regarding corporate bodies described in Note 13, there were no other events that occurred between June 30, 2020 and the release of this half-year report that were of significance to the consolidated financial statements.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on August 13, 2020.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. And the Combined Management Report includes a fair review of the development and performance of the business and the position of the company and Group, together with a description of the principal opportunities and risks associated with the expected development of the company and Group.

Darmstadt, August 13, 2020

Software AG

S. Brahmawar   Dr. E. Frank   Dr. M. Heiden

J. Schweitzer   Dr. S. Sigg

Additional Information

Financial Calendar

For the latest information on events and roadshows, please visit: SoftwareAG.com/financialcalendar.

Publication Credits

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