software AG

Freedom as a Service

2019

HALF-YEAR REPORT

Key Figures

as of June 30, 2019 (unaudited)

in € millions (unless otherwise stated)	H1 2019	H1 2018	+/– as %	+/– as % acc[1]	Q2 2019	Q2 2018	+/– as %	+/– as % acc[1]
Revenue	**411.4**	**392.3**	**5**	**3**	**210.0**	**205.7**	**2**	**1**
DBP (incl. Cloud & IoT)	210.3	202.9	4	2	110.3	107.1	3	1
thereof DBP excl. Cloud & IoT	187.9	191.2	–2	–4	97.5	101.8	–4	–6
thereof Cloud & IoT	22.3	11.6	92	89	12.8	5.3	144	141
A&N	107.7	97.3	11	10	53.0	52.6	1	0
Licenses	92.8	87.6	6	5	50.2	53.5	–6	–7
Maintenance	214.7	204.2	5	3	107.6	101.7	6	4
SaaS	10.3	8.1	27	25	5.4	4.3	25	23
Share of annual recurring revenue DBP (incl. Cloud & IoT)	84%				84%			
Bookings DBP (incl. Cloud & IoT)	110.2				67.0			
ARR[2] DBP (incl. Cloud & IoT)	315.3	287.5	3	6				
thereof ARR[2] DBP (Cloud & IoT)	39.6	24.8	32	21				
Operating EBITA (non-IFRS)	**107.7**	**112.7**	**–4**		**56.1**	**61.5**	**–9**	
as % of revenue	26.2	28.7			26.7	29.9		
DBP segment earnings	45.0	57.5	–22		27.5	30.8	–11	
Segment margin as %	21.4	28.3			25.0	28.8		
A&N segment earnings	75.9	68.7	11		36.6	37.5	–2	
Segment margin as %	70.4	70.6			69.1	71.3		
Net income (non-IFRS)	**75.6**	**78.7**	**–4**		**39.3**	**42.2**	**–7**	
Earnings per share (non-IFRS)[3]	**1.02**	**1.06**	**–4**		**0.53**	**0.57**	**–7**	
Operating cash flow	**90.6**	**95.1**	**–5**		**30.6**	**33.5**	**–9**	
CapEx[4]	6.0	6.5			3.7	5.0		
Repayment of lease liabilities	7.7				4.5			
Free cash flow	**76.9**	**88.6**	**–13**		**22.4**	**28.5**	**–21**	
Adjusted operational free cash flow	**92.6**				**27.0**			
as % of revenue	22.5				12.9			
Adjusted operational free cash flow per share	1.25				0.36			
Balance sheet	**June 30, 2019**	**Dec. 31, 2018**						
Total assets	**2,048.0**	**2,007.9**	**2**					
Cash and cash equivalents	509.9	462.3	10					
Net cash	136.3	149.0	–9					
Employees (FTE)	**4,740**	**4,763**	**0**					

[1] At constant currency
[2] Annual recurring revenue
[3] Based on weighted average shares outstanding (basic) 6M 2019: 74.0 mn / 6M 2018: 74.0 mn / Q2 2019: 74.0 mn / Q2 2018: 74.0 mn
[4] Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

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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For more information about Software AG, please refer to the Image and Strategy Brochure at www.Software.AG/AR.

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, 2019, 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.

Highlights

of the 1st Half of 2019

Strategic Realignment

In January 2019, Software AG announced a strategy refresh with its financial results for fiscal 2018. The details of the strategic refresh were presented to a broad audience of investors and financial analysts at the Company's Capital Markets Day in London on February 5, 2019. The transformation project is a multi-year journey geared towards delivering sustainable and profitable growth with a mission to empower customers to unlock their data, turn it into value and shape a better future. The transformation is built on three pillars: **Focus**—on products, markets, and resources; **Execution**—a shift towards subscription and sales excellence; and **Team**—teaming with partners and investing in people (see p. 10). The transformation will translate into financial growth, which will be driven predominantly by the Company's digital and IoT business.

Over the medium term, Software AG's digital business including IoT is targeted to grow by 10 percent CAGR, delivering an operating margin of more than 30 percent again. All of this will be underpinned by a shift to subscription, leading to recurring revenue making up 80–90 percent of product revenue. The transformation builds on Software AG's core strengths and long-term expertise. In 2019, the Company celebrates its 50th anniversary, with a clear purpose for the next 50 years.

New Officers

In June, Software AG's Supervisory Board appointed Dr. Elke Frank as the Company's first Chief Human Resources Officer (CHRO), effective August 1, 2019. The expansion of the Management Board to five seats highlights the vital role that human resources plays in delivering Software AG's new growth strategy. Elke Frank brings more than 20 years of experience in HR leadership and cultural transformation.

The Executive Leadership Team, positioned under the Management Board, also underwent two key personnel-related changes in January 2019. Bernd Gross assumed the role of Chief Technology Officer. He is a distinguished expert in the field of Internet of Things and analytics software. Also joining the Company, Paz Macdonald was appointed as Chief Marketing Officer. She was previously Vice President of Marketing for EMEA and APAC at MongoDB, a software provider for hybrid cloud databases.

A Visionary

Software AG is at the forefront of the global market for Industrial Internet of Things (IIoT) platforms. We believe this was verified by leading industry analyst firm Gartner in its "Magic Quadrant for Industrial IoT Platforms"[1] report, which was published in July and named Software AG a Visionary for its Cumulocity IoT platform. In addition, in its new "Critical Capabilities for Industrial IoT Platforms"[2] report, Gartner gave Software AG the highest score in every use case mentioned in the report: Monitoring Use Case, Predictive Analytics for Equipment Use Case and Connected Industrial Assets Use Case.

Coca-Cola Partnership

Software AG signed on Coca-Cola European Partners (CCEP), the world's largest independent Coca-Cola bottler, as a new customer in March. CCEP chose Software AG's hybrid integration platform as a key enabler for implementing its companywide technology and business transformation program. The beverage giant was formed through the merger of three western European bottling companies in 2016. The successfully completed implementation of the central integration platform will be fundamental to executing CCEP's future digital strategy.

[1] Gartner Magic Quadrant for Industrial IoT Platforms, Eric Goodness, Scot Kim, Ted Friedman, Alfonso Velosa, Emil Berthelsen, Amitesh Shrivastava, 25 June 2019.

[2] Gartner Critical Capabilities for Industrial IoT Platforms, Alfonso Velosa, Ted Friedmann, Emil Berthelsen, Peter Havart-Simkin, Eric Goodness, June 26, 2019.

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Software AG Celebrates 50 Years

Software AG celebrated its 50th birthday at the end of May. Founded as a start-up on May 30, 1969 in Darmstadt, Germany, the Company has since become the largest independent IoT and integration software provider in the world. The current fiscal year also marks its 20th anniversary since becoming listed on the stock exchange. Software AG's IPO took place on April 29, 1999 and was the world's biggest software industry IPO at the time.

Software AG has touched the lives of millions of people for the last half century, often without them even knowing—whether for online transactions, while traveling or simply buying a coke at the movies. This success story will continue to be written over the next 50 years to come. Anniversary celebrations will be held around the world through the end of 2019.

Fifth Consecutive Dividend Increase

Software AG is continuing its shareholder-oriented dividend policy in 2019. The Annual Shareholders' Meeting on May 28 confirmed the Management Board's and Supervisory Board's dividend proposal for fiscal 2018 in the record amount of €0.71 per share (2017: €0.65) with an approval rate of 99.99 percent. Based on the closing share price for 2018, this corresponds to a dividend yield of 2.2 percent and represents the fifth dividend increase in a row. It also demonstrates the high level of shareholder participation in the Company's successful growth.

IoT Partnership with Deutsche Telekom

In July, Deutsche Telekom and Software AG announced an expansion of their strategic partnership to deliver global Internet of Things (IoT) services. Deutsche Telekom and its enterprise customer unit T-Systems will expand their IoT platform, known as Cloud of Things, using Software AG technology. The partnership "IoT made in Germany" allows both companies to make a bold play for and grow in the multi-billion international Internet of Things market, generating significant revenue potential. Together, the two partners will expand their presence across Europe and the United States.

Collaboration with Adobe

Adobe and Software AG signed a growth-oriented partnership agreement in May at the Adobe Summit EMEA. The objective of the partnership is to help companies transform their customer experience management (CXM) by bringing together customer data from across multiple enterprise systems into a centralized and actionable real-time customer profile. Adobe and Software AG will create integration between Adobe Experience Platform and Software AG's webMethods services resulting in a complete view of the customer journey.

Software AG's Share

First Half of 2019 on the Stock Market

Weak economy results from continued tensions in trade and politics

In addition to ongoing uncertainties due to Brexit, the escalating trade conflict between China and the USA dampened prospects for global growth. This was confirmed by the International Monetary Fund's economic forecast followed by the World Bank's recently published negative outlook: A drop in trade and investments will slow global growth in 2019.

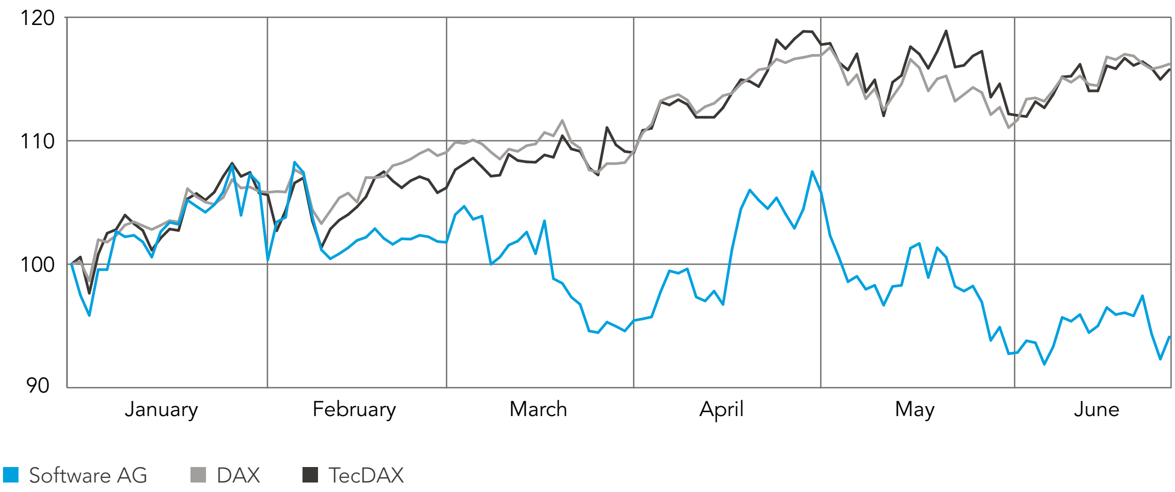
Software AG operates in more than 70 countries andgenerates the majority of its revenue in core European countries and North America. Changing political landscapes, exchange rates and other activities in these regions can influence business at national levels. Software AG's customers are diversified across many industries. Its software is firmly anchored in customers' systems. And a large percentage of sales are recurring maintenance revenues. Due to these factors, Software AG's business model and share price are relatively resistant to macroeconomic effects. Fluctuations in exchange rates are reflected in reported revenues (currency translation effects). But due to Software AG's relatively high percentage of local costs, they only have a minimal impact on earnings (natural hedging).

Software AG's Share Price Performance

Software AG's stock started out the new financial year at €31.51. On February 5, 2019, Software AG held its Capital Markets Day in London to present its new HELIX strategy to a broad audience. London provided an attractive venue as an international financial hub. An impressive number of investors and financial analysts from Great Britain, Germany, France and Switzerland attended the conference. Viewers around the world could also tune in live to the webcast. The event received very positive feedback. Software AG's share ended trading on the evening of February 5, 2019 at €34.20—its peak for the half year.

The multi-year transformation process aimed at maximizing Software AG's enormous growth potential to successfully position the Company in the global IT market has not yet been acknowledged by investors. Even Software AG's

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



Source: Inventis service

preliminary Q1 2019 results, published in an ad hoc release on April 11, 2019, did not change their reserved attitude.

Software AG's share ended the first half of the current fiscal year at €30.20, which marks a loss of nearly 4.2 percent in the first half of 2019. Software AG exceeded the stock market's liquidity requirement in the first half of 2019 with an XETRA average daily trading volume of 216,151 and therefore did not need a designated sponsor for ensuring smooth trading transactions. Software AG placed 88th in the Deutsche Börse AG's ranking of MDAX companies based on market capitalization as of June 2019.

Annual Shareholders' Meeting Approves Fifth Consecutive Dividend Increase

Software AG's Annual Shareholders' Meeting was held on May 28, 2019 in Darmstadt, Germany. Those shareholders in attendance accounted for approximately 65 percent of the Company's voting rights and shared the Supervisory and Management Boards' optimism in a positive future outlook.

All items on the agenda were met with overwhelming approval. Management's proposal to raise the divided for fiscal 2018 to a record €0.71 (+6 cents vs. 2017) per dividend-bearing share was approved by close to 100 percent of the votes represented. This reflects a continuation of Software AG's sustainable dividend policy. The Company's total dividend payout increased to a record-breaking €52.5 million.

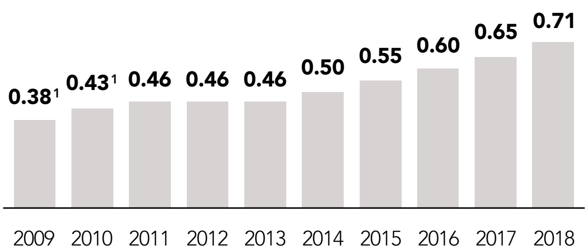
Key Figures

	2019	2018
Half-year closing price in €	30.20	39.91
Half-year high in €	34.20	48.69
Half-year low in €	29.03	38.57
Total number of shares outstanding	74,000,000	74,000,000
Market capitalization at end of first half year in € millions	2,234.8	2,953.34
Free float as %	66.2%	66.2%

Based on XETRA closing prices on June 28, 2019

Dividend Development since 2009

in € per share



[1] Adjusted after 3:1 stock split, rounded

High Degree of Attention from Capital Market

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves adapting the investor base in targeted ways. Addressing specific potential investors is a challenging aspect of investor relations work and requires the precise analysis of financial markets.

Numerous meetings were conducted with investors and analysts during the first half of 2019. Software AG participated in a total of 12 capital market conferences in Germany and abroad. In addition, roadshows and analyst visits in Germany, the U.K. and Switzerland were also an important medium for engaging the investor community.

Thanks to its commitment to cultivating relationships with the financial community, Software AG enjoys an ongoing high degree of recognition from well-known financial analysts and securities brokerage firms in Germany and abroad that market its share. Twenty-two investment banks covered Software AG in the first half of 2019, which includes publication of assessments of Software AG's business development and investment recommendations. Eighteen of them gave Software AG's stock a positive or neutral rating at the end of the first six months of 2019. Analysts' overall average price target was €36.79.

The avid interest among investors and financial analysts was also reflected in the number of attendees that participated in Software AG's investor relations activities and events program at this year's Hannover Fair. For two days, large numbers of financial analysts and investors streamed into our booth or caught up on innovations in fields like IoT at our customers' and partners' booths (Siemens, Bosch, Dürr).

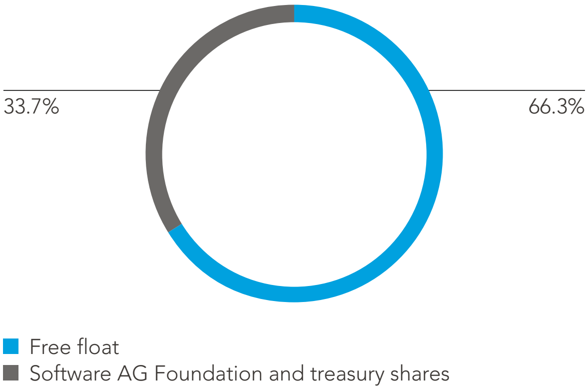
Shareholder Structure

Software AG's positioning as a value investment with increasing growth potential is reflected in its investor structure. Many new investors were persuaded by the Company's new strategy with an intensified focus on growth. Continually rising dividends over the course of years, value increases through share buybacks, Software AG's promising technology leadership in the digitalization segment and its potential in the Cloud & IoT market are the sustainable value drivers of its share price.

The Software AG Foundation continues to be Software AG's largest shareholder and key anchor investor. Due to Software AG's decreased share capital resulting from a share redemption, the Software AG Foundation's share in the Company went up about 1 percentage point to around 33.7 percent. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects in support of education, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental fields.

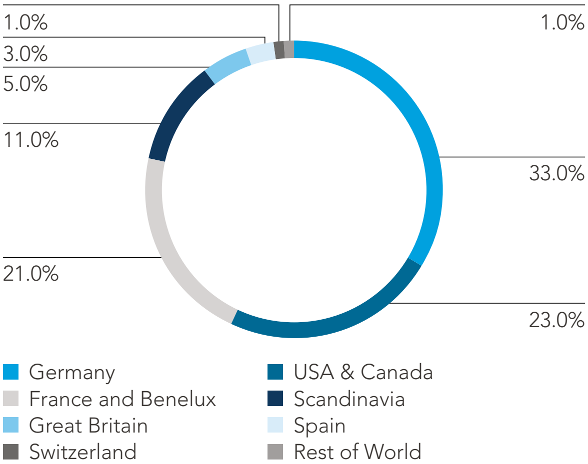
After deducting the balance held by the Software AG Foundation and the Company's treasury shares, Software AG's free float is approximately 66 percent. This is calculated as defined by the Deutsche Börse as the percentage of a stock corporation's shares that are not held by long-term investors and can thus be traded freely on the stock market.

Shareholder Structure



Shareholders	Voting Share	No. of Shares
Software AG Foundation	33.7%	24,960,000
Software AG (treasury shares)	0.03%	20,111
Free float (shareholders with less than 5% of share capital)	66.3%	49,019,889

Regional Distribution of the Free Float



Source: IPREO, June 30, 2019

Selected Indices

TecDAX-Kursindex
DAXglobal Sarasin Sustainability Germany Index EUR
DAXglobal Sarasin Sustainability Germany
MDAX; TecDAX
Prime All Share
LTecDAX
Technology All Share
HDAX
CDAX
EURO STOXX

Top Investors

Investor	Percentage of share capital	Percentage of free float
Shareholder Value Management AG	3.27%	4.94%
Axxion S.A. (Luxembourg)	2.97%	4.48%
DWS Investment GmbH	2.84%	4.29%
Norges Bank Investment Management (Norway)	2.79%	4.22%
Allianz Global Investors GmbH	2.27%	3.42%
Lyxor Asset Management SAS	1.88%	2.83%
The Vanguard Group, Inc.	1.79%	2.70%
Goldman Sachs Asset Management, L.P. (U.S.)	1.38%	2.08%

Source: IPREO, June 30, 2019

Key Share Data

ISIN	DE 000A2GS401
WKN	A2GS40
Symbol	SOW
LEI	529900M1LIO0SLOBAS50
Reuters	SOWGn.DE
Bloomberg	SOW:GR
Listed on	Frankfurt Stock Exchange
Market segment	Prime Standard
Index	MDAX; TecDAX
IPO on	April 26, 1999
Issue price	€10[1]

[1] After 3-for-1 split (May 2011)

Disclosure of Voting Share Changes Pursuant to Section 40(1) of WpHG	Voting Share	Date Threshold Met
JPMorgan Chase Bank[1]	> 3%	4/26/18
Software AG (treasury shares)	**< 3%**	**3/27/18[2]**
DWS Investment	< 3%	2/6/19
Axxion S.A.	< 3%	4/11/19
Norges Bank Investment Management	< 3%	5/1/19
Black Rock Inc.	> 3%	6/19/19

[1] Including shares attributable to other companies
[2] Disclosure pursuant to section 40(1), sentence 2 of WpHG

Consolidated Interim Management Report

Fundamental Aspects of the Group

Software AG began implementing its Helix transformation strategy on February 5, 2019. This strategy defines a multi-year path to sustainable and profitable growth and is based on three pillars:

Focus: Concentration of resources on those key markets that offer 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: A new operating model will optimize Software AG's access to additional channels, enabled by a a simplified, clearer go-to-market strategy and improved sales structures. Furthermore, Software AG is driving its transition to subscription-based software forward.This change will benefit customers as well as help the Company sell its products more successfully.

Team: A specialized global team is in place to drive growth, enabled by the implementation of a matrix model based on products and regions. It 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 some notable successes in the first half of 2019.

For more information on the Helix strategy and its individual components, please refer to the Q1 2019 statement.

Internal Corporate Control System

One of Software AG's goals is to sustainably increase enterprise value and thus focus on profitable growth and ongoing improvement of its financial position. DBP and A&N product revenue (at constant currency) as well as operating profit margin (non-IFRS) are key performance indicators and vital to the internal management of the Company.

In preparing its capital market communications for the 2020 fiscal year and beyond, Software AG added three new internal performance indicators during the current fiscal year.

1. The percentage of annual recurring revenue in the DBP segment (including Cloud & IoT)
2. New orders (hereafter referred to as "bookings") in the DBP segment (including Cloud & IoT)
3. Adjusted operating free cash flow in absolute terms and per share outstanding

1. The percentage of annual recurring revenue in the DBP segment (including Cloud & IoT) is calculated as follows:

Components comprising annual recurring revenue

- Subscription-based revenue including the associated licenses and maintenance
- Software as a Service (SaaS) revenue
- Maintenance revenue related to license agreements of indefinite duration
- Usage-based revenue from licenses and maintenance

Sum of annual recurring revenues

divided by DBP (including Cloud & IoT) product revenue

= Percentage of annual recurring revenue in DBP segment (including Cloud & IoT)

2. Bookings in the DBP segment (including Cloud& IoT) are calculated as follows:

Software AG offers licenses of indefinite duration with maintenance services, subscription agreements with licenses of limited duration in combination with tightly contractually linked maintenance as well as Software as a Service (SaaS), some with monthly contracts. Furthermore, Software AG offers usage-based software that includes maintenance. When referring to SaaS services, the customer is entitled to use the software online but does not receive any control over it. The software is operated for customers by Software AG or its service providers. This offering is therefore service-like in nature. The timing of revenue recognition varies for each of these components. Licenses of indefinite and limited duration are booked at the beginning of the respective agreement term provided the customer receives control over the software. Both maintenance and SaaS are recognized each month for the duration of the respective agreement on a pro-rated basis. Software AG has defined "bookings" as a new performance indicator for measuring operational sales performance. Given the different types of revenue recognition described above, this metric normalizes bookings for various license models.

Bookings are calculated as follows and normalized across three years:

Licenses of indefinite duration	Total contract value
Maintenance services with new licenses of indefinite duration	Three years of maintenance services
Subscription agreements	Contract value divided by the term of agreement, multiplied by three years
Software as a Service (SaaS)	Contract value divided by the term of agreement, multiplied by three years
Usage-based license models including maintenance	Difference between usage determined at the end of a quarter and beginning of quarter, multiplied by four (quarters), multiplied by three years

3. The adjusted operating free cash flow equals free cash flow adjusted for payments for non-operating business transactions as per EBITA (non-IFRS) calculation.

It is calculated as follows:

Net cash flow from operating activities (operating cash flow)	
Net cash from investing activities (CapEx)	
Adjusted for:	
– Proceeds from the sale of current financial assets	
+ Payments for investments in current financial assets	
– Proceeds from the sale of disposal groups	
+ Net payments for acquisitions	
– Repayment of leasing obligations (new due to application of IFRS 16)	
Free cash flow	
+ Payments for share price-based remuneration	
+ Payments for restructuring/severance/litigation	
+ Payments of other expenses associated with M&A activities	
Adjusted operating free cash flow	
divided by revenue in the period	divided by the average number of shares outstanding in the period
= As a percentage of revenue	**= Adjusted operating free cash flow per share**

For further information on the Company's internal performance indicators, please refer to the 2018 Annual Report starting on p. 47.

Group Business Summary

Performance in the Second Quarter of 2019

Software AG's revenue was up 1 percent at constant currency to €210 million (2018: €205.7 million) in the period under review. Currency effects caused an increase in revenue of €3.2 million compared with a decrease of €9.5 million last year. Group license revenue fell 7 percent at constant currency to €50.2 million (2018: €53.5 million). Maintenance revenue totaled €107.6 million (2018: €101.7 million) in the second quarter. This represents 4 percent growth at constant currency. SaaS sales increased to €5.4 million (2018: €4.3 million). This reflects growth of 23 percent at constant currency. Accordingly, Software AG's total product revenue (consisting of licenses, maintenance and SaaS income) increased 2 percent to €163.1 million (2018: €159.5 million).

The Digital Business Platform (DBP) line, including Cloud & IoT, grew 1 percent at constant currency to €110.3 million (2018: €107.1 million) in the second quarter of 2019. DBP will remain a key growth driver for Software AG in the medium term due to the structural growth opportunities in the markets addressed by this business line and the market-leading features of its digital products. Overall growth in this business line did not, however, meet expectations in the second quarter of 2019 as a result of the ongoing reorganization of the North American sales unit. The Group's DBP (not including Cloud & IoT) product revenue fell 6 percent to €97.5 million (2018: €101.8 million) at constant currency. A plan, led by John Schweitzer, Chief Revenue Officer and member of the Management Board, is in place to improve performance in North America.

In contrast, Software AG's Cloud & IoT business performed very well in the second quarter, with the DACH region posting particularly strong growth. Total revenue in the Cloud & IoT segment increased 141 percent at constant currency to €12.8 million (2018: €5.3 million). This trend highlights the high ongoing demand and interest in Software AG's Cloud and IoT solutions and is in line with the Company's ambitious growth targets for fiscal 2019. Annual recurring revenue (ARR) in Cloud & IoT went up 59 percent at constant currency from €24.8 million to €39.6 million. Software AG's Cloud & IoT product offering was positioned by Gartner as "visionary" in the second quarter. This is confirmation that the products continue to lead the industrial IoT market.

The Adabas & Natural (A&N) business line continued its recent trend, delivering stable performance in the quarter under review. A&N product revenue in the second quarter was €53.0 million (2018: €52.6 million), which reflects a slight decline of 0.3 percent at constant currency. A&N license sales decreased 8 percent to €16.2 million (2018: €17.6 million) at constant currency, whereas A&N maintenance sales increased 4 percent to €36.6 million (2018: €34.8 million) at constant currency. Software AG's Adabas & Natural 2050+ innovation program, which includes zIIP and containerization functionality, guarantees that this underlying technology will remain a decisive aid to customers in developing their IT landscapes.

At €46.7 million (2018: €46.0 million), the Professional Services business line demonstrated stable revenue performance at constant currency in the second quarter of 2019. Closely monitoring profitability in the Professional Services business line helped increase its segment margin to 14.3 percent (2018: 12.6 percent). Segment earnings went up 15 percent from €5.8 million to €6.7 million.

This strong performance is in line with expectations and results from a continuous clear focus in driving strategic license projects forward.

In accordance with forecasts, second-quarter EBIT was €47.7 million (2018: €52.2 million), which indicates an EBIT margin of 22.7 percent (2018: 25.4 percent). Accordingly, net income went down 7 percent to €33.4 million (2018: €35.8 million).

EBITA (non-IFRS) dropped 9 percent to €56.1 million (2018: €61.5 million).

As a result, second-quarter net operating income (non-IFRS) totaled €39.3 million (2018: €42.2 million); and earnings per share (non-IFRS) were €0.53 (2018: €0.57). This represents a 7 percent decrease in both cases.

Free cash flow was down slightly year-on-year due to investments in the Helix transformation strategy, which also had a negative impact on the profit margin. This metric remains at a high level, nevertheless. Free cash flow in the second quarter of fiscal 2019 totaled €22.4 million (2018: €28.5 million). The adjusted operating free cash flow was €27.0 million (2018: €32.2 million) or €0.36 (2018: €0.44) per share.

Management's Assessment of the Half-Year Results

Five months ago, we began implementing Helix, our multi-year transformation strategy aimed at guiding Software AG back to sustainable and profitable growth. In the first half of this fiscal year Group revenue grew 3 percent at constant currency. Total product revenue grew 4 percent at constant currency. Both Group EBIT and the non-IFRS EBIT margin were down for the period year-on-year. But they were on target with respect to our full-year forecast, considering the normal seasonal course of the financial year. Our overall performance demonstrates that we are on track as planned at the beginning of the year. With our strong financial position, we have exactly the right foundation on which to pursue our transition through Helix and deliver our mid-term strategy.

But the performance of the Digital Business Platform (DBP), excluding the IoT business line, was not as strong as expected. This is due to the ongoing reorganization of the Group's North American business, which is taking longer than first thought to implement. This has impacted performance. However, positive steps taken during the first half of the year to address historic underinvestment, resolve disruption to customer relationships, manage attrition and refocus our approach on long-term customer relationships are now taking hold. With IoT and A&N performing as expected, the slower than anticipated DBP progress in H1 led the Group to revise its full-year DBP guidance, with the expectation that it will now deliver year-on-year revenue growth between –6 and 0 percent in FY 2019. All other guidance ranges remain unchanged.

Despite these headwinds, we are driving our reorganization forward based on Helix and the three pillars of **focus, execution** and **team.** This is the right pathway to sustainable success. We made decisive progress in each of these pillars in the first half of the year.

With regard to the **focus** pillar of Helix, we reallocated more than 20 percent of our R&D resources to areas of greatest product and market priority. This accelerated our development lead time by 37 percent. The significance of this investment is best illustrated by the Hybrid Integration market, which, according to Gartner, will be worth $18 billion by 2022. Our team advanced our new webMethods.io product portfolio from concept to a market-ready offering within just a few months. We already have committed customers for these products, including Walgreens, the second-largest drug store chain in the U.S.

With respect to the **execution** pillar, we continued preparing our business for subscription-based sales in the first half of the year. SaaS and subscriptions in DBP (including Cloud & IoT) currently account for more than half of all bookings. Furthermore, we added upward of 60 new customers to our customer base in the period and expanded our relationship with Australian retailer and long-standing customer, Woolworth, around the topic of integration. We can also report successes with British retailer Tesco and the U.S. Marines in the field of business transformation. We are breaking new ground in the field of Cloud & IoT with Telstra and Micro Systems.

With respect to the **team** pillar, our growing market presence has helped us partner with some of the world's leading organizations. After entering a key agreement with Amazon Web Services (AWS) in the fourth quarter of last year, some major market players of our industry opted to intensify their collaboration with us in the first half of this year. Adobe, Microsoft and Deutsche Telekom all agreed to partner with Software AG and pursue a joint path for success. The Adobe partnership helps companies transform their customer experience management by bringing together customer data from across multiple enterprise systems into a centralized and actionable real-time customer profile. Adobe and Software AG will create integration between the Adobe Experience Platform and Software AG's webMethods Integration and API management services. A powerful new solution with Microsoft enables enterprises to accelerate and simplify migration to Microsoft Azure while ensuring business continuity. Software AG's new Cloud Migration Accelerator—based on the Company's webMethods.io Integration platform—allows enterprises to connect to applications, cloud services and data faster and more easily than ever before, providing a seamless path to a truly connected ecosystem. Deutsche Telekom and Software AG will deliver IoT services on a global scale. Deutsche Telekom and its enterprise customer unit T-Systems will expand their Cloud of Things offering, using Software AG's Cumulocity IoT platform. All these partnerships are strong driving forces for Software AG—not only because of the brand recognition and market presence we will gain by association with these names, but due to the significant sales potential as well.

Entering the second half of 2019, Software AG is well positioned in each of its target markets. The Management Board remains confident that the strategy and transformation is the right path for sustainable growth. Transformation is underway and has begun to take shape. We have the right team to drive our plans forward and can meet the challenges head on with our finely tuned concept. We look forward to making further progress in the second half of the year and beyond.

Financial Performance

Total Revenue

Software AG reported €411.4 million (2018: €392.3 million) in **Group revenue** for the first half of 2019. This marks 3 percent growth at constant currency year-on-year. **Product revenue,** consisting of license, maintenance and SaaS sales in the Digital Business Platform (DBP, including Cloud & IoT) and Adabas & Natural (A&N) product lines, grew 4 percent at constant currency to total €317.7 million (2018: €299.9 million). The two product lines generated €92.8 million (2018: €87.6 million) in **license revenue,** which is 5 percent growth at constant currency. Group **maintenance revenue** delivered similarly strong performance at €214.7 million (2018: €204.2 million). This a 3 percent gain at constant currency. This growth is attributable to the very successful first six months of the year in the Adabas & Natural business. Growing maintenance revenue guarantees the Company long-term recurring revenue with attractive margins.

Exchange Rate Effects

Exchange rate effects had a moderately positive impact (2 percent) on Software AG's total revenue in the first half of 2019. These effects amounted to an increase of €6.3 million when compared to revenue at constant exchange rates.

With respect to the different types of revenue, exchange rates caused a 0 percent gain in license revenue and a 1 percent gain in the Professional Services segment. Maintenance, which demonstrated overall growth, was more strongly impacted by exchange rates, and was 2 percent higher than the constant-currency calculation. This positive currency effect was due to the relatively strong U.S. dollar. No other currencies had a material impact.

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 65 percent (2018: 65 percent), the share of total revenue in foreign currency in the first half of 2019 remained the same as the previous year. Accordingly, revenue generated in euros stayed at last year's level of 35 percent.

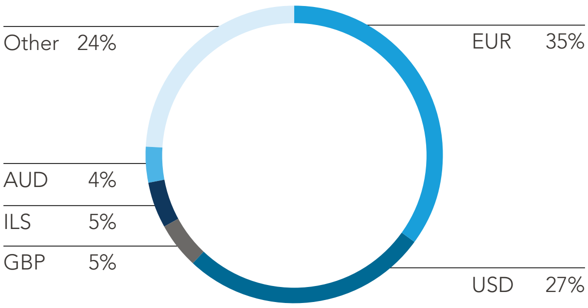
The U.S. dollar continued to account for the largest portion of revenue outside the eurozone at 27 percent, but did not quite reach last year's level (2018: 30 percent). Following the two key currencies—the euro (EUR) and the U.S. dollar (USD)—the next-highest percentages of revenue were generated in pound sterling (GBP) at 5 percent (2018: 6 percent), Israeli shekel (ILS) at 5 percent (2018: 4 percent) and Australian dollar (AUD) at 4 percent (2018: 4 percent). Other currencies accounted for 24 percent (2018: 21 percent) of revenue.

Currency Impact on Revenue

	Q2 2019		H1 2019	
in € millions		**as %**		**as %**
Licenses	0.4	1%	0.4	0%
Maintenance	2.0	2%	4.4	2%
SaaS	0.1	2%	0.2	2%
Consulting & other	0.7	2%	1.3	1%
Total	**3.2**	**2%**	**6.3**	**2%**

Currency Split in First Half of 2019

35% of revenue in EUR
65% of revenue in foreign currencies

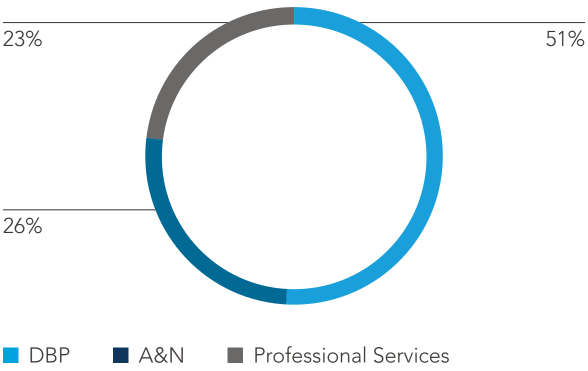


Revenue and Earnings by Business Line (Segment Report)

Software AG's total Group revenue in the first half of 2019 was €411.4 million (2018: €392.3 million) and can be broken down by business line as follows:

- Revenue in the **Digital Business Platform (DBP, including Cloud & IoT)** business line performed moderately well and accounted for 51 percent (2018: 52 percent) of total Group revenue.
- After a strong half year, the share of total revenue accounted for by the **Adabas & Natural** business line went up to 26 percent (2018: 25 percent).
- The **Professional Services** business line maintained stability at 23 percent (2018: 23 percent) of total revenue.

Revenue Split



H1 2019	in € millions	as %
Total revenue	**411.4**	**100**
DBP (including Cloud & IoT)	210.3	51
A&N	107.7	26
Professional Services	93.4	23

Digital Business Platform (including Cloud & IoT)

The DBP business line (including Cloud & IoT) consists of all Software AG products that facilitate customers' business transformation, integration and API management as well as Cloud & IoT projects. Accounting for more than half of Software AG's total revenue in the first half of 2019, this high-performance segment reported **revenue growth** of 4 percent to total €210.3 million (2018: €202.9 million). This is a 2 percent increase at constant currency.

Totaling €22.3 million (2018: €11.6 million) in the first half of the year, Software AG's **Cloud & IoT** revenue demonstrated very dynamic growth of 92 percent (at constant currency: 89 percent) year-on-year.

Licenses accounted for €8.7 million (2018: €2.0 million) of total revenue in the Cloud & IoT business, marking a 339 percent increase (at constant currency: 335 percent). **Maintenance** also returned strong revenue results with a 112 percent gain (at constant currency: 109 percent) to total €3.3 million (2018: €1.6 million). Revenue from SaaS (licenses, maintenance and hosting components minus one-time effects) and usage-based revenue grew 27 percent to €10.3 million (2018: €8.1 million). This reflects a 25 percent increase at constant currency.

DBP license revenue, without Cloud & IoT, was down 15 percent year-on-year at €50.0 million (2018: €59.1 million). This was due primarily to the ongoing reorganization of the North American sales unit. This represents a 16 percent decrease at constant currency.

DBP **maintenance revenue,** without Cloud & IoT, went up 4 percent (2 percent at constant currency) to reach €137.9 million (2018: €132.1 million).

The **cost of sales** in the DBP segment, including Cloud & IoT, went up 7 percent year-on-year from €17.7 million to €18.9 million. Expenses for sales and marketing increased 17 percent to €94.5 million (2018: €80.8 million). This was expected due to implementation of the transformation strategy. Research and development (R&D) expenses were 11 percent above last year's level at €51.8 million (2018: €46.9 million). A new metric, referred to as "bookings," has been included in fiscal 2019 reporting for the purpose of better evaluating this segment. Bookings totaled €110.2 million in the first half of 2019 and €67.0 million in the second quarter of 2019.

Furthermore, Software AG calculated and reported the percentage of annual recurring revenue in the DBP (including Cloud & IoT) segment for the first time in fiscal 2019. This was 84 percent in the first half of 2019 and 84 percent in the second quarter of 2019.

Both indicators were determined for the first time this fiscal year. They were not calculated last year and will therefore not be reported.

DBP (including Cloud & IoT) segment earnings dropped 22 percent to €45.0 million (2018: €57.5 million) due to expenses associated with the Helix transformation strategy. Accordingly, the segment margin at 21.4 percent (2018: 28.3 percent) reflected a loss of 690 basis points.

Adabas & Natural (A&N)

The Adabas & Natural business line performed well in the first half of the year posting **revenue** in the amount of €107.7 million (2018: €97.3 million). This reflects 11 percent growth or 10 percent at constant currency.

Maintenance revenue, A&N's indicator of customer loyalty, delivered extremely encouraging half-year results, growing 4 percent (at constant currency: 3 percent) to €73.4 million (2018: €70.5 million). At €34.0 million (2018: €26.5 million), A&N **license revenue** was up a notable 28 percent (at constant currency: 29 percent) over last year. This unexpected positive performance in the A&N business resulted from major deal closures with customers ahead of schedule.

Due primarily to one-time effects in 2018 as well as increased revenue, the **cost of sales** in this segment went up 50 percent to €4.0 million (2018: €2.7 million) in the first half of 2019. Sales and marketing expenses rose to €15.6 million (2018: €14.5 million). This represents an 8 percent increase. Research and development expenses went up a moderate 6 percent to €12.2 million (2018: €11.5 million).

A&N's segment earnings posted a gain of 11 percent to €75.9 million (2018: €68.7 million). A&N's segment margin approximated last year's high level at 70.4 percent (2018: 70.6 percent).

In order to satisfy the high ongoing demand for software support and updates, Software AG instituted its **Adabas & Natural 2050+ initiative.** This program guarantees support for the A&N product offering until year 2050 and beyond and provides A&N customers with long-term investment security.

Professional Services

The Professional Services business line accounted for €93.4 million (2018: €92.1 million) of the Group's total **revenue** in the first half of 2019. This reflects growth of 1 percent, which reflects year-on-year stability at constant currency. This revenue growth outperforms the Company's forecast for a slight decline in the Professional Services segment released at the beginning of the fiscal year.

The **cost of sales** in this segment dropped 3 percent to €71.4 million (2018: €73.5 million). Sales and marketing expenses stayed constant at €8.6 million (2018: €8.6 million).

Revenue growth coupled with a reduction in expenses in the Professional Services business led to increased segment earnings in the amount of €13.4 million (2018: €10.0 million). Furthermore, the segment margin jumped to 14.3 percent (2018: 10.8 percent). This figure is one of the highest in the industry and underscores Software AG's successful transformation of its consulting unit from a traditional project implementer to a strategic partner providing customers with excellent services.

The primary goal of the Professional Services segment is to achieve customer satisfaction and loyalty through successful software product implementation thereby driving sustainable and profitable growth in the product business across the Software AG Group.

Earnings Performance

Software AG's **cost of sales** again grew at a lower rate than revenue in the first half of 2019. At €98.6 million (2018: €97.9 million), this is growth of 1 percent year-on-year. As a result, **gross profit** increased 6 percent to €312.8 million (2018: €294.5 million). The **gross profit margin** rose 90 basis points to 76.0 percent (2018: 75.1 percent).

In the interest of customer-centric product development, Software AG intensified its investments in Research and Development (R&D) as compared to the same period in 2018. As a result, R&D expenses in the first six months of fiscal 2019 increased by 10 percent to total €64.0 million (2018: €58.4 million). Sales and marketing expenses saw a greater increase. Due to forward-looking investments associated with the Helix transformation strategy, they rose 14 percent, which is a higher rate than revenue, to total €125.6 million (2018: €110.5 million). Administrative expenses approximated last year's amount with a slight 1 percent increase to total €35.2 million (2018: €35.0 million).

In line with expectations, **earnings before interest and taxes (EBIT:** net income plus income taxes plus other taxes plus net financial income/expense) were down year-on-year to €89.9 million (2018: €94.3 million). The EBIT margin fell accordingly to 21.9 percent, which is 210 basis points below last year's margin of 24 percent.

Operating earnings (EBITA, non-IFRS) were down 4 percent year-on-year at €107.7 million (2018: €112.7 million) in the first six months of 2019. The **operating margin** (non-IFRS) was 26.2 percent (2018: 28.7 percent), which is 250 basis points below last year's margin. This meets expectations.

Net financial income rose to €2.9 million (2018: €2.1 million) due to a further reduction in interest rates on loans and improved investment options outside the eurozone. Income taxes were down slightly year-on-year at €26.8 million (2018: €27.4 million). Software AG's total imputed tax rate remained constant at 32 percent (2018: 32 percent).

In total, **net income** went down 4 percent year-on-year to €63.1 million (2018: €65.8 million). Earnings per share (basic) decreased to €0.85 (2018: €0.89).

The drop in IFRS net income is in line with the forecast released at the beginning of the current fiscal year, which predicted a low to mid single-digit percentage rate decrease.

Financial Position

Net cash provided by operating activities was €90.6 million in the first half of 2019. This marks a decrease from €95.1 million in 2018 due mainly to the fact that the reduction in receivables was €18.9 million lower.

Cash outflows from investing activities decreased to €11.6 million compared to €36.4 million one year ago. This decline is due primarily to the €24.5 million decrease in payments for acquisitions year-on-year.

Cash inflows from financing activities remained constant year-on-year totaling €36.6 million (2018: €36.4 million) despite the increase in dividend payments in the amount of €4.5 million. Software AG's dividend increased to €0.71 (2018: €0.65) per dividend-bearing registered share. The total dividend payout went up to a record-breaking €52.8 million (2018: €48.3 million). This reflects Software AG's commitment to a sustainable dividend policy. Reduced payments on current financial liabilities in the amount of €12.2 million had had a positive impact on the first half of last year.

Cash and cash equivalents were €509.9 million (2018: €388.0 million) as of June 30, 2019 compared to €462.4 million at the beginning of the year. **Free cash flow** went down to €76.9 million in the first six months of the year from €88.6 million the year before. This drop is primarily due to the planned increase in expenses in sales and marketing as well as in R&D associated with implementation of the Helix strategy. The free cash flow to revenue ratio was 19 percent (2018: 23 percent) and free cash flow to net income was 122 percent (2018: 135 percent). Accordingly, free cash flow per share was €1.04 (2018: €1.19) in the period under review.

Adjusted operating free cash flow is being recognized for the first time in fiscal 2019 as a performance indicator. It went down year-on-year to €92.6 million (2018: €110.0 million) in the first half of 2019. This corresponds to €1.25 per share, compared to €1.49 per share in the first half of last year.

Overall, Software AG's statement of cash flows reflects the implementation of the Helix strategy. The Company will employ its continued high level of cash flow for forward-looking investments, dividend payouts and share buybacks.

Assets

Software AG continued to have a strong **balance sheet.** The balance sheet total was €2,048.0 million as of June 30, 2019 compared to €1,897.3 million the year before and €2,007.9 million as of December 31, 2018.

On the **assets** side, current assets were up from €724.9 million as of December 31, 2018 to €743.4 million as of June 30, 2019. Cash and cash equivalents rose since the beginning of the year to €509.9 million despite shareholder-friendly measures such as an increased dividend. Current and non-current trade receivables decreased primarily due to seasonal trends in the business and Software AG's active working capital management. Current trade receivables went down by €35.5 million, or 17 percent, from €207.5 million as of December 31, 2018 to €172.0 million as of June 30, 2019. Non-current trade receivables went down by €9.3 million, or 14 percent, from €68.7 million as of December 31, 2018 to €59.4 million as of June 30, 2019.

Income tax receivables went up from €19.7 million as of December 31, 2018 to €29.9 million as of June 30, 2019. This increase relates primarily to the USA. Due to seasonal earnings trends, high income tax prepayments are often accounted for in the second quarter. Because profits are typically higher in the second half of the year, these tax prepayments are likely to be claimed.

Property, plant and equipment went up €35.6 million to €106.7 million as of June 30, 2019 (Dec. 31, 2018: €71.0 million). This increase resulted primarily from first-time recognition of long-term rental agreements for office space and leases on cars in accordance with the new leasing standard, IFRS 16, to be applied as of 2019.

Non-current intangible assets went down from €136.9 million at the end of 2018 to €126.5 million. This decrease resulted from the ongoing amortization of this item. Goodwill went up by €6.5 million due to exchange rate effects to total €970.9 million as of June 30, 2019 (Dec. 31, 2018: €964.4 million).

On the **liabilities** side, current financial liabilities went up by €58.3 million from €111.9 million at the beginning of the year to €170.2 million as of June 30, 2019. This rise is due to new short-term bank loans and recognition of leasing obligations due to first-time application of the new leasing standard, IFRS 16, in the amount of €24.0 million.

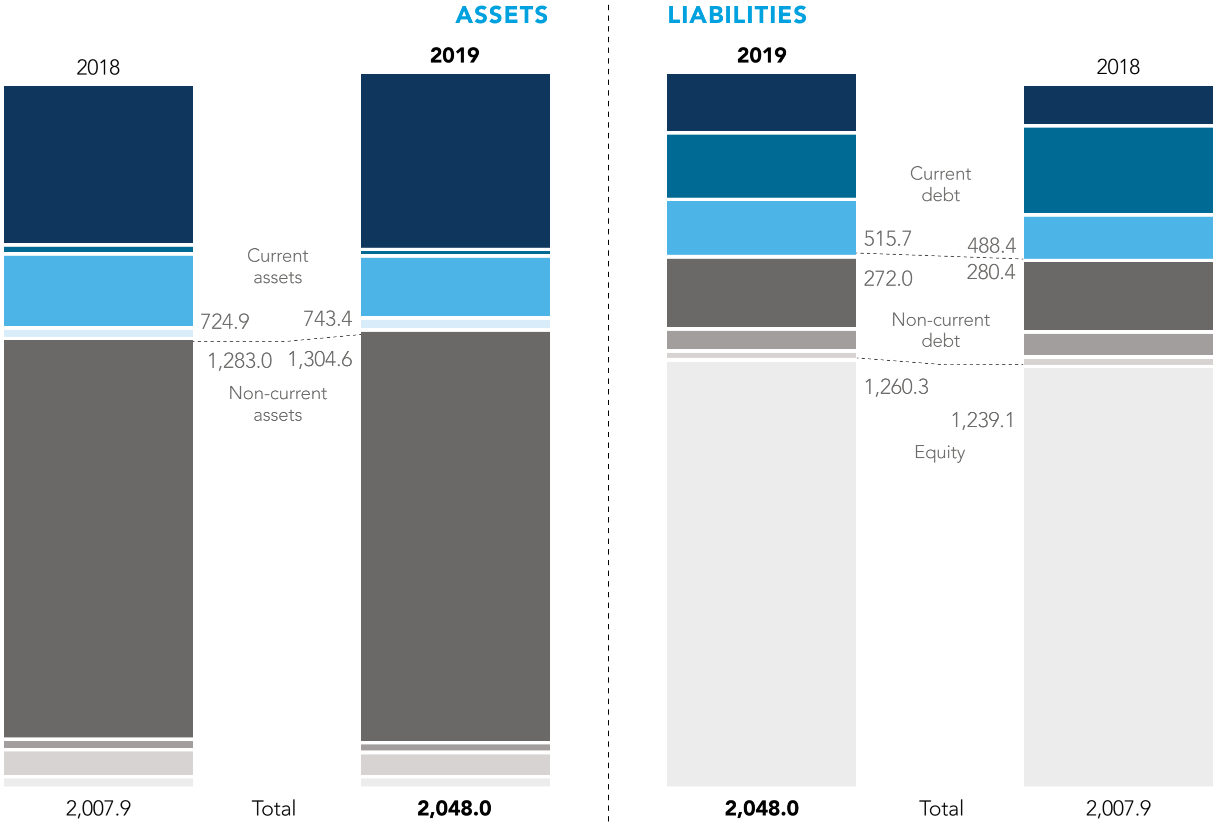
Current other non-financial liabilities decreased by €52.6 million from €145.8 million as of December 31, 2018 to €93.2 million as of June 30, 2019. This drop is due mainly to the seasonally typical payment of variable remuneration components from the previous year during the first half of 2019.

Due to the large share of maintenance business, current deferred income, which includes the increasing volume of future maintenance revenues, grew to €158.9 million as compared to €123.3 million as of December 31, 2018. This 29 percent increase is due primarily to the seasonality of this balance sheet item and reflects increased maintenance revenue.

Software AG's **shareholders' equity** totaled €1,260.3 million as of June 30, 2019 as compared to €1,239.1 million as of December 31, 2018. This results in an **equity ratio** of 61.5 percent (Dec. 31, 2018: 61.7 percent).

Balance Sheet Structure

in € millions



509.9	(462.4)	Cash and cash equivalents
7.6	(15.3)	Other financial assets
172.0	(207.5)	Trade and other receivables
23.9	(20.1)	Other non-financial assets
1,204.1	(1,172.4)	Fixed assets (Goodwill 970.9/964.4)
17.6	(19.6)	Other financial assets
59.4	(68.7)	Trade and other receivables
23.5	(22.3)	Other non-financial assets

170.2	(111.9)	Financial liabilities
186.6	(253.2)	Other current liabilities
158.9	(123.3)	Deferred income
203.4	(201.4)	Financial liabilities
54.4	(62.8)	Other non-current liabilities
14.2	(16.2)	Deferred income
1,260.3	(1,239.1)	Equity

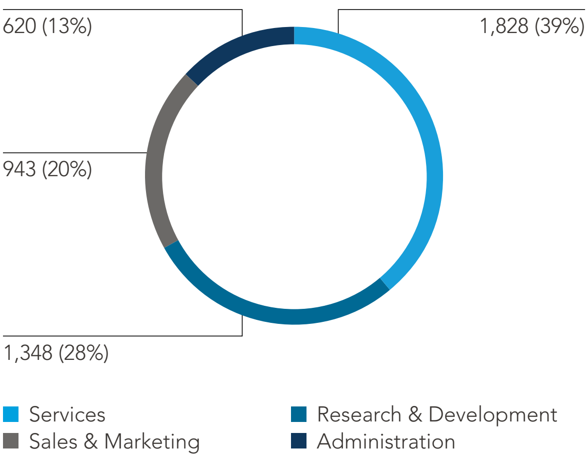
Employees

As of June 30, 2019, the Software AG Group employed 4,740 (2018: 4,655) people (full-time equivalents). The number of employees thus increased by 85 FTEs, which reflects 2 percent growth.

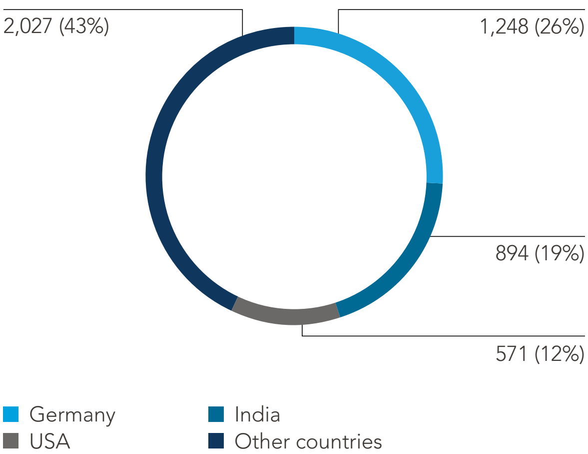
Software AG is committed to investing in a future-oriented Group structure and profitable growth in line with the Helix transformation strategy. Broken down by department, the number of employees at the end of the first six months of 2019 in Services was 1,828 (2018: 1,910), in Sales and Marketing 943 (2018: 936) and in Administration 620 (2018: 604). The strategically key R&D team employs a total of 1,348 (2018: 1,205), which corresponds to an increase of 143 employees (+12 percent), primarily a result of acquisitions last year and the addition of 39 employees in the first half of 2019.

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, 2019, the Software AG Group employed 1,248 (2018: 1,218) people in Germany, 894 (2018: 803) in India and 571 (2018: 574) in the USA. A total of 2,027 (2018: 2,060) people were employed in countries other than those mentioned above.

Headcount by Function[1]



Headcount by Region[1]



[1] In accordance with P&L structure as of June 30, 2019 (yoy)

Opportunity and Risk Report

Software AG's 2018 Annual Report contains a comprehensive Opportunity and Risk Report (see p. 106) 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 only minor changes to the risk and opportunity situation of the Software AG Group in the first half of 2019 as compared to the risks and opportunities identified in the 2018 Annual Report.

Outlook

Software AG confirms its outlook for the 2019 fiscal year from April 12, 2019 in all business lines except the Digital Business Platform (not including Cloud & IoT). The Management Board has determined a new range at constant currency for this business line: between –6 and 0 percent (previously 3 to 7 percent). This results in lowered guidance for expected Group revenue. A positive growth rate in the low single-digit range was expected for Group revenue until this point. The revised forecast now anticipates a mid single-digit decline in Group revenue at constant currency. The forecast from earlier this year regarding a slight decrease in Professional Services revenue at constant currency remains unchanged.

The expected IFRS net income for the Group has also been reduced from the previously anticipated low to mid single-digit negative growth rate to a low double-digit negative growth rate. Software AG's management considers IFRS net income to be of minor significance and thus does not use it as a performance indicator.

The Management Board continues to forecast the following for fiscal 2019:

- an operating profit margin (EBITA, non-IFRS) between 28.0 and 30.0 percent
- DBP Cloud & IoT revenue growth between 75 and 125 percent (at constant currency)
- Adabas & Natural revenue growth between –3 and +3 percent (at constant currency)

The table below shows the full forecast regarding key performance indicators for the 2019 fiscal year:

Outlook for Fiscal Year 2019

	Revenue FY 2018 (as of Dec. 31, 2018) in € millions	**Outlook FY 2019** (from Jan. 31, 2019) as %	**Outlook FY 2019** (from July 18, 2019) as %	**H1 2019** (as of June 30, 2019) as %
DBP excluding IoT & Cloud[1]	434.4	+3 to +7	–6 to 0[2]	–4
Cloud & IoT[3]	30.3	+75 to +125	+75 to +125	+89
A&N[1]	218.3	–5 to 0	–3 to 3[4]	+10
Operating margin (EBITA, non-IFRS)[5]	31.5%	28 to 30	28 to 30	26.2

[1] At constant currency
[2] The outlook for the DBP segment was adjusted on July 18, 2019 from +3% to +7% to –6% to 0%
[3] At constant currency, including hosting services
[4] The outlook for the A&N segment was adjusted on April 11, 2019 from –5% to 0% to –3% to +3%
[5] Before adjusting for non-operating factors (see non-IFRS results)

Consolidated Interim Financial Statements

Consolidated Income Statement

for the six months ended June 30, 2019 (IFRS)

in € thousands	H1 2019	H1 2018
Licenses	92,754	87,636
Maintenance	214,664	204,168
SaaS	10,256	8,062
Professional Services	93,440	92,100
Other	321	368
Total revenue	**411,435**	**392,334**
Cost of sales	–98,603	–97,876
Gross profit	**312,832**	**294,458**
Research and development expenses	–63,994	–58,378
Sales, marketing and distribution expenses	–125,558	–110,462
General and administrative expenses	–35,212	–35,029
Other taxes	–2,912	–3,212
Operating earnings	**85,156**	**87,377**
Other income	4,420	9,444
Other expenses	–2,548	–5,759
Financing income	6,230	5,171
Financing expenses	–3,345	–3,084
Earnings before income taxes	**89,913**	**93,149**
Income taxes	–26,816	–27,375
Net income	**63,097**	**65,774**
thereof attributable to shareholders of Software AG	62,927	65,665
thereof attributable to non-controlling interests	170	109
Earnings per share (€, basic)	0.85	0.89
Earnings per share (€, diluted)	0.85	0.89
Weighted average number of shares outstanding (basic)	73,979,889	73,977,152
Weighted average number of shares outstanding (diluted)	73,979,889	73,980,793

Statement of Comprehensive Income

for the six months ended June 30, 2019 (IFRS)

in € thousands	H1 2019	H1 2018
Net income	**63,097**	**65,774**
Currency translation differences from foreign operations	13,858	4,285
Net gain/loss on remeasuring financial assets	–1,059	–9,330
Currency translation gain/loss from net investments in foreign operations	846	1,071
Items to be reclassified to the income statement if certain conditions are met	**13,645**	**–3,974**
Net actuarial gain/loss on pension obligations	113	–34
Items not to be reclassified to the income statement	**113**	**–34**
Other comprehensive income	**13,758**	**–4,008**
Total comprehensive income	**76,855**	**61,766**
thereof attributable to shareholders of Software AG	76,685	61,657
thereof attributable to non-controlling interests	170	109

Consolidated Balance Sheet

as of June 30, 2019 (IFRS)

Assets

in € thousands	June 30, 2019	Dec. 31, 2018[1]
Current assets		
Cash and cash equivalents	509,914	462,362
Other financial assets	7,603	15,302
Trade and other receivables	171,978	207,494
Other non-financial assets	23,934	20,109
Income tax receivables	29,942	19,680
	743,371	**724,947**
Non-current assets		
Intangible assets	126,468	136,972
Goodwill	970,946	964,377
Property, plant and equipment	106,691	71,023
Other financial assets	17,617	19,563
Trade and other receivables	59,361	68,675
Other non-financial assets	3,661	2,924
Income tax receivables	10,295	9,416
Deferred tax receivables	9,572	10,007
	1,304,611	**1,282,957**
Total Assets	**2,047,982**	**2,007,904**

Equity and Liabilities

in € thousands	June 30, 2019	Dec. 31, 2018[1]
Current liabilities		
Financial liabilities	170,176	111,888
Trade and other payables	31,267	38,831
Other non-financial liabilities	93,184	145,839
Other provisions	27,006	30,630
Income tax liabilities	35,150	37,953
Deferred income	158,861	123,276
	515,644	**488,417**
Non-current liabilities		
Financial liabilities	203,398	201,432
Trade and other payables	29	3,245
Other non-financial liabilities	421	266
Other provisions	5,675	10,320
Provisions for pensions and similar obligations	34,038	34,621
Income tax liabilities	2,916	2,898
Deferred tax liabilities	11,342	11,398
Deferred income	14,258	16,245
	272,077	**280,425**
Equity		
Share capital	74,000	74,000
Capital reserves	22,580	22,612
Retained earnings	1,209,312	1,201,689
Other reserves	–45,380	–59,138
Treasury shares	–757	–757
Attributable to shareholders of Software AG	**1,259,755**	**1,238,406**
Non-controlling interests	**506**	**656**
	1,260,261	**1,239,062**
Total Equity and Liabilities	**2,047,982**	**2,007,904**

[1] An adjustment of last year's balance sheet to reflect the new accounting policies was not required due to the transition methods Software AG used in adopting IFRS 15 and IFRS 9.

Consolidated Statement of Cash Flows

for the six months ended June 30, 2019 (IFRS)

in € thousands	H1 2019	H1 2018
Net income	63,097	65,774
Income taxes	26,816	27,375
Net financial income/expense	–2,885	–2,087
Amortization/depreciation of non-current assets	22,504	15,971
Payments for optional cash-settled claims to share-based compensation	–23	0
Other non-cash income/expense	56	–1,921
Changes in receivables and other assets	51,392	70,330
Changes in payables and other liabilities	–34,501	–45,651
Income taxes paid/received	–38,907	–36,346
Interest paid	–3,180	–3,542
Interest received	6,231	5,170
Net cash flow from operating activities	**90,600**	**95,073**
Proceeds from the sale of property, plant and equipment/intangible assets	267	220
Purchase of property, plant and equipment/intangible assets	–5,082	–4,259
Proceeds from the sale of non-current financial assets	431	250
Purchase of non-current financial assets	–1,574	–2,674
Proceeds from the sale of current financial assets	250	188
Purchase of current financial assets	–802	–534
Payments for acquisitions, net	–5,135	–29,609
Net cash flow from investing activities	**–11,645**	**–36,418**

in € thousands	H1 2019	H1 2018
Use of treasury shares	0	88
Dividends paid	–52,846	–48,348
Proceeds/payments for current financial liabilities	24,021	11,815
Repayment of lease liabilities	–7,735	0
New non-current financial liabilities	0	100,013
Repayment of non-current financial liabilities	0	–100,011
Net cash flow from financing activities	**–36,560**	**–36,443**
Change in cash and cash equivalents due to business activities	42,395	22,212
Change in cash and cash equivalents from currency translation	5,157	–55
Net change in cash and cash equivalents	**47,552**	**22,157**
Cash and cash equivalents at beginning of period	462,362	365,815
Cash and cash equivalents at end of period	**509,914**	**387,972**

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2019

in € thousands	Share capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Dec. 31, 2017	**73,976,239**	**76,400**	**22,715**	**1,176,722**
Application of IFRS 15				–3,715
Application of IFRS 9				–154
Equity as of Jan. 1, 2018	**73,976,239**	**76,400**	**22,715**	**1,172,853**
Total comprehensive income				**65,665**
Transactions with shareholders				
Dividend payment				–48,085
Issue and use of treasury shares	3,650		–50	
Redemption of treasury shares		–2,400		–87,954
Transactions between shareholders				
Equity as of June 30, 2018	**73,979,889**	**74,000**	**22,665**	**1,102,479**
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**

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 gains/loss from net investments in foreign operations				
–39,333	**3,154**	**–37,617**	**6,891**	**–91,249**	**1,117,683**	**599**	**1,118,282**
					–3,715		–3,715
					–154		–154
–39,333	**3,154**	**–37,617**	**6,891**	**–91,249**	**1,113,814**	**599**	**1,114,413**
4,285	**–9,330**	**–34**	**1,071**		**61,657**	**109**	**61,766**
					–48,085	–263	–48,348
				138	88		88
				90,354	0		0
–35,048	**–6,176**	**–37,651**	**7,962**	**–757**	**1,127,474**	**445**	**1,127,919**
–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**

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, 2019 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, 2019 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 fiscal 2019.

	Germany	Foreign	Total
Jan. 1, 2019	**10**	**71**	**81**
Additions	0	0	0
Disposals (including mergers)	0	3	3
June 30, 2019	**10**	**68**	**78**

The disposals resulted from the closure and merger of three American companies. The change to the scope of consolidation had no significant effect on comparability to 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, 2018; any exceptions resulted from the mandatory first-time application of IFRS 16 and are described below. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2018. These half-year statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

Leases (IFRS 16)

As of the beginning of the 2019 fiscal year, Software AG will apply IFRS 16 (Leases) using the modified retrospective approach. Software AG did not exercise the option of early application. Software AG recognizes the cumulative effect of first-time application of the standard as an adjustment to the opening balance of retained earnings as of January 1, 2019. Last year's figures were not adjusted.

IFRS 16 introduces a uniform accounting model whereby leases must be recognized in the balance sheet of the lessee. A lessee recognizes a use right that represents its right to use the underlying asset and a debt from the lease that represents its obligation to make lease payments. Software AG exercised the option provided by the standard of exceptions for short-term leases and leases associated with low-value assets.

Through application of IFRS 16, straight-line expenses associated with operating leases will be replaced by depreciation expenses associated with use rights and interest expenses associated with leasing obligations.

This results in a negative impact on cash flow from financing activities and a positive impact on cash flow from operating activities.

Effects of application of IFRS 16

First-time application of IFRS 16 had the following effects on the balance sheet:

in € thousands	**Jan. 1, 2019[1]**	**June 30, 2019**
Rights of use		
Land and buildings (offices)	31,299	29,792
Other (e.g. cars)	5,158	4,755
	36,457	**34,547**
Non-current assets	1,319,414	1,304,611
Rights of use as % of non-current assets	2.8%	2.6%
Leasing obligations		
Leasing obligations (current)	8,877	17,575
Current financial liabilities	120,765	170,176
as % of current financial liabilities	7.4%	10.3%
Leasing obligations (non-current)	33,325	22,544
Non-current financial liabilities	234,757	203,398
as % of non-current financial liabilities	14.2%	11.1%
	42,202	**40,119**

[1] The adjustment to opening balances was made to retained earnings. The net effect of all IFRS 16-related adjustments to retained earnings, including deferred tax, amounted to €2,779 thousand.

First-time application of IFRS 16 had the following effects on the Consolidated Income Statement:

Impairment recognized on rights to use amounted to €6,599 thousand in the first half of the year. Expenses recognized in net financial income/expense for leasing obligations totaled €899 thousand in the first half of the year.

[4] Business Combinations

Software AG did not acquire any companies during the first half of 2019. The net payments for acquisitions presented in the Statement of Cash Flows in the amount of €5,153 thousand resulted from payments of open purchase price receivables from the acquisition of TrendMiner NV in fiscal 2018.

Notes to the Consolidated Balance Sheet

[5] Intangible Assets/Goodwill

Goodwill amounted to €970,946 thousand as of June 30, 2019, an increase of €6,569 thousand compared to December 31, 2018. This change is due to positive exchange rate effects.

[6] Equity

Share capital

Software AG's share capital totaled €74,000 thousand (Dec. 31, 2018: €74,000 thousand) as of June 30, 2019. Software AG's share capital is divided into 74,000,000 (Dec. 31, 2018: 74,000,000) registered shares. Each share entitles its holder to one vote.

As of June 30, 2019, Software AG held 20,111 (Dec. 31, 2018: 20,111) treasury shares representing an interest of €20,111 (Dec. 31, 2018: €20,111) or 0.03 percent (Dec. 31, 2018: 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.

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 28, 2019 to appropriate €52,526 thousand (2018: €48,085 thousand) for a dividend payout from the net retained profits of €85,520 thousand reported by Software AG, the controlling Group company, in 2018. This corresponds to a dividend of €0.71 (2018: €0.65) per share. A total amount of €32,994 thousand (2018: €35,829 thousand) was carried forward.

Acquisition of treasury shares

Software AG held 20,111 treasury shares representing €20,111, or 0.03 percent, of the share capital as of June 30, 2019. The balance of treasury shares did not change in the first half of 2019.

The balance of treasury shares changed as follows in the same period last year (first half of 2018):

Date/period	No. of shares	Reason for change
Jan. 1, 2018	**2,423,761**	
Q1 2018	–2,400,000	Redemption and capital decrease
Q2 2018	–3,650	Used for settling share-based plans (MIP III)
June 30, 2018	**20,111**	

Other Disclosures

[7] Segment Reporting

Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. Internal control focuses primarily on product revenue at constant currency for the two product segments. 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 (including Cloud & IoT) (DBP: integration, business process management and big data with the webMethods, ARIS, Alfabet, Apama, Terracotta, Cumulocity, TrendMiner, etc. product families)

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

- Professional Services (implementation of Software AG products)

The segment contribution does not include the amortization expense associated with acquisitions of intangible assets. 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 management.

The following table shows the segment data for the first half of 2019:

Segment Report for the six months ended June 30, 2019

	Digital Business Platform (DBP) including Cloud & IoT			Adabas & Natural (A&N)		
in € thousands	**H1 2019 IFRS**	**H1 2019 acc[1]**	**H1 2018 IFRS**	**H1 2019 IFRS**	**H1 2019 acc[1]**	**H1 2018 IFRS**
Licenses	58,766	58,167	61,099	33,988	34,192	26,537
Maintenance	141,233	137,832	133,696	73,431	72,455	70,472
SaaS	10,256	10,038	8,062	0	0	0
Product revenue	**210,255**	**206,037**	**202,857**	**107,419**	**106,647**	**97,009**
Services	0	0	0	0	0	0
Other	0	0	41	321	321	323
Total revenue	**210,255**	**206,037**	**202,898**	**107,740**	**106,968**	**97,332**
Cost of sales	–18,936	–18,734	–17,704	–4,022	–3,982	–2,679
Gross profit	**191,319**	**187,303**	**185,194**	**103,718**	**102,986**	**94,653**
Sales, marketing and distribution expenses	–94,528	–92,439	–80,847	–15,625	–15,560	–14,458
Segment contribution	**96,791**	**94,864**	**104,347**	**88,093**	**87,426**	**80,195**
Research and development expenses	–51,804	–49,496	–46,867	–12,190	–12,018	–11,511
Segment earnings	**44,987**	**45,368**	**57,480**	**75,903**	**75,408**	**68,684**
General and administrative expenses						
Other taxes						
Operating earnings						
Other operating income/expenses, net						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

[1] At constant currency

Professional Services			Reconciliation		Total		
H1 2019 IFRS	**H1 2019 acc[1]**	**H1 2018 IFRS**	**H1 2019 IFRS**	**H1 2018 IFRS**	**H1 2019 IFRS**	**H1 2019 acc[1]**	**H1 2018 IFRS**
0	0	0	0	0	92,754	92,359	87,636
0	0	0	0	0	214,664	210,287	204,168
0	0	0	0	0	10,256	10,038	8,062
0	**0**	**0**	**0**	**0**	**317,674**	**312,684**	**299,866**
93,440	92,115	92,100	0	0	93,440	92,115	92,100
0	0	4	0	0	321	321	368
93,440	**92,115**	**92,104**	**0**	**0**	**411,435**	**405,120**	**392,334**
–71,437	–70,353	–73,506	–4,208	–3,987	–98,603		–97,876
22,003	**21,762**	**18,598**	**–4,208**	**–3,987**	**312,832**		**294,458**
–8,615	–8,473	–8,637	–6,790	–6,520	–125,558		–110,462
13,388	**13,289**	**9,961**	**–10,998**	**–10,507**	**187,274**		**183,996**
0	0	0	0	0	–63,994		–58,378
13,388	**13,289**	**9,961**	**–10,998**	**–10,507**	**123,280**		**125,618**
					–35,212		–35,029
					–2,912		–3,212
					85,156		**87,377**
					1,872		3,685
					2,885		2,087
					89,913		**93,149**
					–26,816		–27,375
					63,097		**65,774**

DBP segment with revenue distribution for the six months ended June 30, 2019 (IFRS)

in € thousands	DBP (Cloud & IoT)			Digital Business Platform (DBP) excluding Cloud & IoT			Digital Business Platform (DBP) including Cloud & IoT		
	H1 2019 IFRS	H1 2019 acc [1]	H1 2018 IFRS	H1 2019 IFRS	H1 2019 acc [1]	H1 2018 IFRS	H1 2019 IFRS	H1 2019 acc [1]	H1 2018 IFRS
Licenses	8,742	8,674	1,993	50,024	49,493	59,106	58,766	58,167	61,099
Maintenance	3,338	3,298	1,575	137,895	134,534	132,121	141,233	137,832	133,696
SaaS	10,256	10,038	8,062	0	0	0	10,256	10,038	8,062
Product revenue	**22,336**	**22,010**	**11,630**	**187,919**	**184,027**	**191,227**	**210,255**	**206,037**	**202,857**
Services	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	41	0	0	41
Total revenue	**22,336**	**22,010**	**11,630**	**187,919**	**184,027**	**191,268**	**210,255**	**206,037**	**202,898**
Cost of sales							–18,936	–18,734	–17,704
Gross profit							**191,319**	**187,303**	**185,194**
Sales, marketing and distribution expenses							–94,528	–92,439	–80,847
Segment contribution							**96,791**	**94,864**	**104,347**
Research and development expenses							–51,804	–49,496	–46,867
Segment earnings							**44,987**	**45,368**	**57,480**

[1] At constant currency

[8] Contingent Liabilities

The carrying amount of collateral received was €251 thousand (2018: €319 thousand).

[9] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2018 as follows:

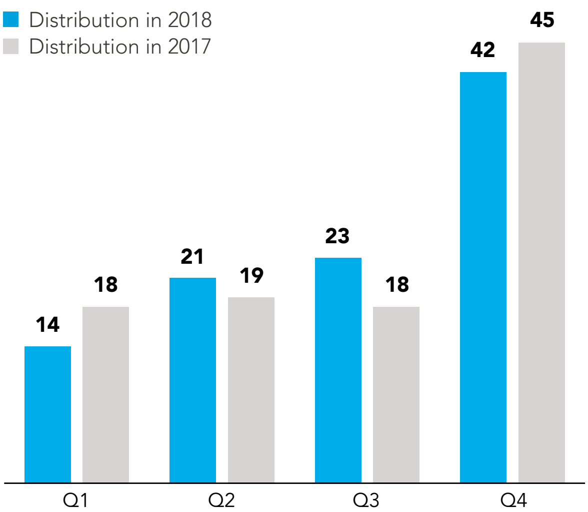
in € thousands	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
License revenue	34,165	53,471	56,743	104,987	249,365
as % of license revenue for the year	14	21	23	42	100
Total revenue	186,634	205,701	208,817	264,559	865,711
as % of revenue for the year	21	24	24	31	100
Earnings before taxes	41,629	51,520	54,240	81,481	228,870
as % of earnings for the year	18	22	24	36	100

Based on historical data, the revenue and earnings distribution from 2018 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 2018 and 2017:

License revenue in 2018 and 2017

as % of total annual license revenue



[10] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the case to set a precedent, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office made a decision regarding its review of the patents in question, which was initiated by the defendants. In summary proceedings in May 2015, the court decided in favor of one defendant; the plaintiff filed an appeal against the decision and, as reported on August 18, 2016, won in part. After the original judge withdrew herself from the case, a new judge was assigned. The U.S. Patent Office has since confirmed a decision relating to the invalidity of a TecSec patent.

In proceedings against one of the defendants, the presiding judge confirmed an infringement by the defendant that had been determined by the jury. However, damages determined by the jury in the amount of $1.75 million were deemed unwarranted by the judge. The outcome is that the plaintiff will received $0 in damages for the patent infringement of one of the defendants. The judge also set a date for a scheduling conference with the other defendants for July 19, 2019. The parties could not come to an agreement on that date. A follow-up meeting is likely. The proceedings will remain pending for Software AG until the next meeting.

A number of legal actions have been have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. 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. Software AG has until August 12, 2019 to submit a defense statement.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with the 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 took a detailed position to 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. The additional report has not yet been submitted. 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 for 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 in January 2019. Software AG appealed the agency's decision.

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. Since then, an additional defendant has been added, causing further delay to the proceedings. 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.

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 €9,196 thousand (Dec. 31, 2018: €15,440 thousand) as of June 30, 2019. In addition, contingent liabilities in the amount of €20,072 thousand (Dec. 31, 2018: €20,678 thousand) existed. But since a resource outflow as of the balance sheet date was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions were made.

[11] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. With the exception of Management Incentive Plan 2019, which was established in Q2 2019, a detailed description of all other plans as of June 30, 2019 can be found on pp. 210–213 of Software AG's 2018 Annual Report.

Management Incentive Plan 2019

A share-performance-based Management Incentive Plan for members of the Management Board, managers and key members of staff was approved in in the second quarter of 2019. Virtual (to be settled in cash) stock options can be broken down into retention SARs and performance SARs.

Allocation was based on the following parameters:

	Retention SARs	Performance SARs
Reference price at issue	€31.14	€31.14
Base price	€0	€0
Term of rights		March 2023
Tranche 1 (¼ of rights allocated)	March 2020	
Tranche 2 (¼ of rights allocated)	March 2021	
Tranche 3 (¼ of rights allocated)	March 2022	
Tranche 4 (¼ of rights allocated)	March 2023	
Performance factor	–	Nasdaq 100 Stock Index[1]
Cap	Payout amount limited to three-times the fair value of the rights at the time of award	
Number of rights allocated	314,667	152,693

Depending on the relative performance of Software AG's stock compared to the stock index (Nasdaq 100), the following performance factors apply:

Performance factor	Outperformance
2	≥ 20%
1.9	< 20% ≥ 18%
1.8	< 18% ≥ 16%
1.7	< 16% ≥ 14%
1.6	< 14% ≥ 12%
1.5	< 12% ≥ 10%
1.4	< 10% ≥ 8%
1.3	< 8% ≥ 6%
1.2	< 6% ≥ 4%
1.1	< 4% ≥ 2%
1.0	< 2% ≥ 0%
0	< 0%

Performance factors depend on the actual outperformance at the end of the term. This factor is multiplied by the number of rights, which can therefore change the payout value.

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, 2018	**1,374,808**
Granted	100,988
Expired	–129,025
Balance as of June 30, 2019	**1,346,771**

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, 2018	**1,703,101**
Granted	0
Expired	213,675
Balance as of June 30, 2019	**1,489,426**

Management Incentive Plan 2007–2011 (MIP III)

The last 5,750 rights under Management Incentive Plan 2007–2011 (MIP III) as of December 31, 2018 were exercised and settled in cash in the first half of 2019.

[12] Employees

In the first half of 2019, 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, 2019	June 30, 2018
Maintenance and Services	1,836	1,924
Sales and Marketing	940	902
R&D	1,344	1,201
Administration	620	606
	4,740	**4,633**

In absolute terms (part-time employees are counted in full), the Group employed 4,925 (2018: 4,818) people as of June 30, 2019.

[13] Changes and Information Regarding Corporate Bodies

Software AG announced on June 24, 2019 that the Supervisory Board would appoint Dr. Elke Frank as the new Chief Human Resources Officer as of August 1, 2019. She will be responsible for all aspects of human resources, including talent management, staff development and cultural transformation in line with the new strategy. With the appointment of Dr. Elke Frank, the Management Board will include a Chief Human Resources Officer for the first time.

No further changes occurred on the Management Board between January 1, 2019 and June 30, 2019.

[14] Events After the Balance Sheet Date

There were no events that occurred between June 30, 2019 and the date of 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 7, 2019.

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 7, 2019

Software AG

S. Brahmawar Dr. E. Frank J. Schweitzer

Dr. S. Sigg A. Zinnhardt

Additional Information

Financial Calendar

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

Publication Credits

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