WIN TOGETHER IN THE DIGITAL WORLD

2017 HALF-YEAR REPORT

KEY FIGURES

Key Figures as of June 30, 2017 (IFRS)

in € millions (unless otherwise stated)	**H1 2017**	**H1 2016**	**Δ as %**	**Δ as % acc***	**Q2 2017**	**Q2 2016**	**Δ as %**	**Δ as % acc***
Revenue	**413.3**	**409.6**	**1%**	**–1%**	**207.4**	**203.4**	**2%**	**1%**
Licenses	95.2	108.6	–12%	–14%	48.9	49.6	–1%	–2%
Maintenance	214.6	202.0	6%	3%	107.4	103.1	4%	2%
DBP business line	209.8	195.0	8%	6%	104.1	100.5	4%	3%
A&N business line	100.3	116.0	–14%	–17%	52.3	52.3	0%	–3%
Operating EBITA (non-IFRS)	**117.6**	**115.0**	**2%**		**61.3**	**55.8**	**10%**	
as % of revenue	28.4%	28.1%			29.5%	27.4%		
DBP segment earnings	60.6	52.3	16%	15%	30.6	28.6	7%	8%
Segment margin	28.9%	26.8%			29.4%	28.5%		
A&N segment earnings	67.4	79.8	–16%	–20%	36.4	35.0	4%	0%
Segment margin	67.2%	68.8%			69.6%	66.9%		
Net income (non-IFRS)	**77.5**	**75.5**	**3%**		**40.2**	**36.7**	**10%**	
EPS in € (non-IFRS)*	**1.03**	**0.99**	**4%**		**0.54**	**0.48**	**13%**	
Operating cash flow	**108.4**	**120.3**	**–10%**		**46.6**	**58.4**	**–20%**	
Free cash flow	**85.8**	**114.3**	**–25%**		**42.5**	**53.8**	**–21%**	
CapEx***	22.6	6.0			4.2	4.6		
Balance sheet	**June 30, 2017**	**Dec. 31, 2016**						
Total assets	**1,833.5**	**1,957.2**						
Cash and cash equivalents	303.8	374.6						
Net liquid assets/(net debt) as per IFRS	–4.7	73.1						
Employees (FTE)	**4,570**	**4,318**						

* acc = at constant currency
** Based on weighted average shares outstanding (basic) Q2 2017: 74.8 mn/Q2 2016: 76.2 mn/ H1 2017: 75.3 mn/H1 2016: 76.2 mn
*** Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

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For more information on Software AG, its offerings, its global organization and its employees, 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, 2017, 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 and Terracotta product families), Adabas & Natural (A&N, including the Adabas and Natural product families) and Consulting.

HIGHLIGHTS
OF THE FIRST HALF OF 2017

Digital Summit

Premiere in Ludwigshafen: Representatives from the IT sector, science and government convened for Germany's first Digital Summit on June 12–13, 2017. Previously referred to as the IT Summit, this digital policy conference has led the discussion on the challenges and opportunities associated with the digital transformation in Germany since 2006.

This year's focal points were digital health, the Rhein-Neckar region as a model for smart interconnectivity and the digitalization of business and government. Software AG examined how these concepts will become reality with other companies and leaders from the public sector and science.

Picture: © BMWi / Maurice Weiss

Management Board Expanded

Software AG's Management Board was expanded to include a fifth member as of April 1, 2017. The appointment of Dr. Stefan Sigg as the new Chief Research & Development Officer (CRDO) underlines Software AG's intensified focus on the rapidly growing market for new digital solutions.

Technological innovation is driven by the Industry 4.0 and the Internet of Things (IoT) megatrends. Dr. Sigg's new position at Software AG will focus on product innovation for the Group in the key areas of IoT, real-time analytics, process management, API management and data integration.

Industry 4.0

Software AG launched the Industry 4.0 initiative "Made in Digital Germany" at this year's CeBIT, held from March 20–24, 2017. The initiative is designed to propel European manufacturing into the 21st century by facilitating close collaboration between the manufacturing and IT sectors.

At the Hanover Messe from April 24–28, 2017, Software AG also showcased its software services for Industry 4.0 and the incredible possibilities of digitalization—the key driver of future innovation, growth and profitability for companies in all industries.

Limited Edition Soccer Jersey

In cooperation with the Darmstadt 98 soccer club, Software AG commemorated the first anniversary of Jonathan Heimes' death and raised awareness for his initiative known as "DUMUSSTKÄMPFEN!" (YOU GOTTA FIGHT!). Together they produced a limited edition soccer jersey that Darmstadt 98 players wore for their match against FSV Mainz 05 on March 11, 2017. Software AG gave up its prime advertising spot on the front of the shirt to make space for the non-profit initiative's logo. Arnd Zinnhardt, CFO of Software AG, commented, "Johnny was an inspiring individual, and his spirit continues to encourage many young people fighting cancer today."

Internet of Things

Software AG's acquisition of Cumulocity GmbH expands its leadership in the cutting-edge IoT market. Cumulocity provides a cloud platform for integrating networked devices. Embedding Cumulocity's solutions into Software AG's portfolio allows enterprises to rapidly integrate their IT applications with operational IoT devices.

Record Dividend

The Management Board and Supervisory Board of Software AG proposed a further dividend increase for fiscal 2016 at the Annual Shareholders' Meeting held on May 17, 2017 in Darmstadt. In addition to the record dividend in the amount of €0.60 per share, shareholders will also profit from the concluded share buyback program and redemption of treasury shares.

New Partnerships

Software AG entered new strategic alliances at the beginning of the year. Its expertise in the field of Industry 4.0 will be particularly strengthened through collaboration with Dürr AG. In cooperation with Huawei, Software AG will address the growing demand for a comprehensive IoT solution. Through the Company's collaboration with Google, Software AG's leading webMethods Hybrid Integration Platform—recently positioned as a leader by the independent analyst firm Forrester Inc.—is now available on the Google Cloud. More of Software AG's key Digital Business Platform products will become available on the Google Cloud this year.

SOFTWARE AG'S SHARE

2017 On the Stock Market: Optimism Prevails Over Political Uncertainty

The mood on the stock markets has been largely positive this year. Factors such as the drop in unemployment rates, simplified financing options and continued expansionary financial policy boosted economic growth in the European Union. But cause for uncertainty remained nonetheless. The Netherlands experienced difficulty forming a government following the country's general elections in March; Italy's government attempted to bail out crisis-ridden banks; and optimism in the USA subsided as economic stimulus reforms were not pursued as promised.

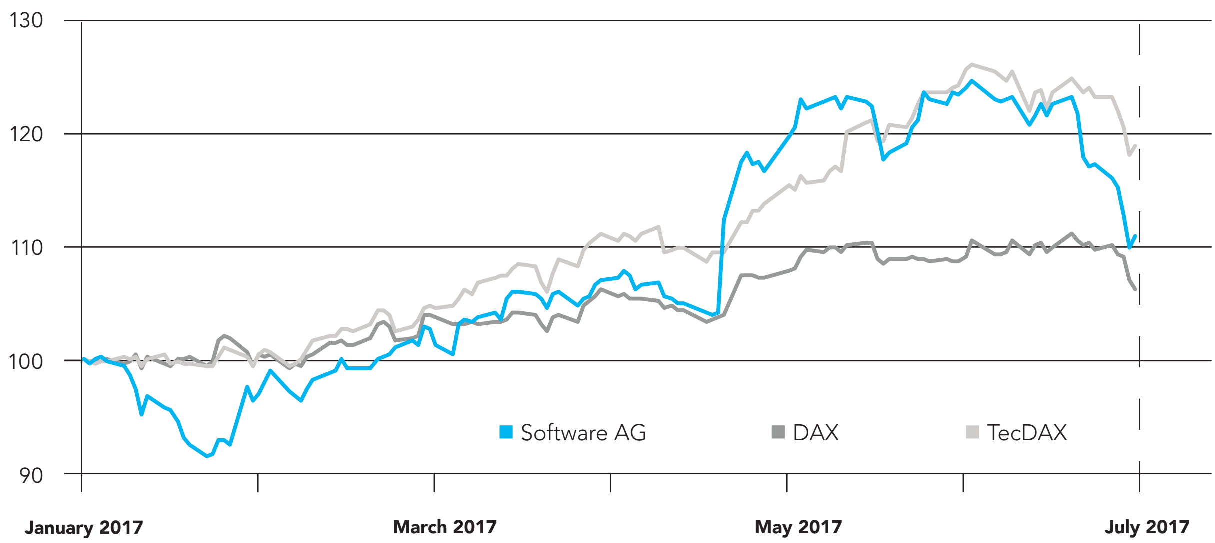
Software AG operates in more than 70 countries with the majority of its revenue coming from the U.S. and core European countries. Political changes, currency fluctuations and other factors can influence business in the relevant countries. But Software AG is broadly diversified across many countries and industries. Its software plays a firmly rooted role in customers' IT systems. And, it generates a high percentage of recurring income from maintenance revenues. Its business model and share price are therefore relatively resistant to external factors.

Software AG's Share Price Performance

The DAX remained immune to the political uncertainty at the beginning of the year and demonstrated a constant positive trajectory during the first six months of 2017. Ultimately, the German benchmark index closed out the period with a gain of more than 6 percent. Software AG's share price started off the fiscal year at €34.59 and continued to perform extremely well following the release of the Company's financial results in late January. It ended the first half of 2017 at €38.35, which reflects an 11 percent gain and a clear outperformance of the DAX in the period.

The Company's stock price was ignited for a second time with the release of its Q1 2017 results on April 21, 2017. The digital market's dynamic growth and the resulting improvement of Software AG's key performance indicators confirm the direction of the Company's strategy. Its share price hit €43.14 on June 2, 2017, which is the highest it has been in more than five years. In subsequent weeks, tech shares were given more critical consideration due to their high valuations. Investors became more cautious, which affected growth forecasts for the sector as well as Software AG. That led to profit taking and corrections at the end of the half-year period.

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



Source: Investis service

Software AG exceeded the stock market's liquidity requirement in the first half of 2017 with an XETRA average daily trading volume of 269,537 and therefore did not need a designated sponsor for the supervision of trading transactions. As of June 2017, Software AG ranked ninth in the Deutsche Börse AG's list of top-ten TecDAX companies based on market capitalization.

Key Share Data

	H1 2017	H1 2016
Half-year closing price in €	38.35	33.55
Half-year high in €	43.14	34.90
Half-year low in €	31.63	25.41
Total number of shares outstanding	76,400,000	79,000,000
Market capitalization in € millions	2,929.94	2,413.45
Free float as percentage	64.06%	64.90%

Based on XETRA closing prices on June 30

Annual Shareholders' Meeting Approves Dividend Increase and Conversion to Registered Shares

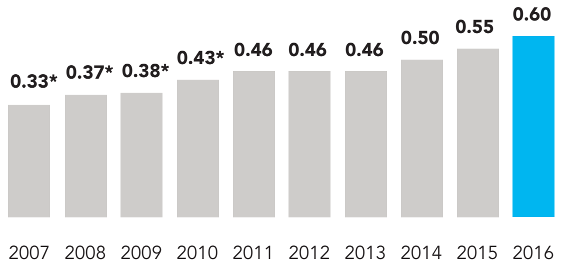
Software AG's Annual Shareholders' Meeting was held on May 17, 2017 in Darmstadt, Germany. The Management Board and Supervisory Board shared their optimism in a positive future outlook with investors. Those shareholders in attendance accounted for approximately 69 percent of the Company's total voting rights. All items on the agenda were approved by overwhelming majorities above 99 percent. They included the Management's proposal to convert Software AG's shares from bearer to registered shares, which will enable more direct communication with shareholders. It will also simplify the process of registering for Annual Shareholders' Meetings for shareholders. The national and international securities identification numbers (ISIN) will change to A2GS40 and DE000A2GS401 respectively, as a result of the change. The ticker symbol (SOW) will stay the same. The conversion is scheduled for the end of September 2017; details will be publicized in a timely manner.

Software AG management's proposal to increase the divided for fiscal 2016 to €0.60 (+5 cents) per dividend-bearing share was approved by 99.9 percent. This reflects a continuation of Software AG's highly value-oriented dividend policy. The dividend ratio is usually between one-quarter and one-third of the Company's averaged net income and free cash flow. Both figures increased again in fiscal 2016.

The total dividend payout went up to a record-breaking €44.3 million. Based on the closing share price for the year (Dec. 30, 2016: €34.49), this corresponds to a dividend yield of 1.7 percent (2016: 2.1 percent), which is again significantly higher than the current yield on German government bonds.

Dividend Development Since 2007

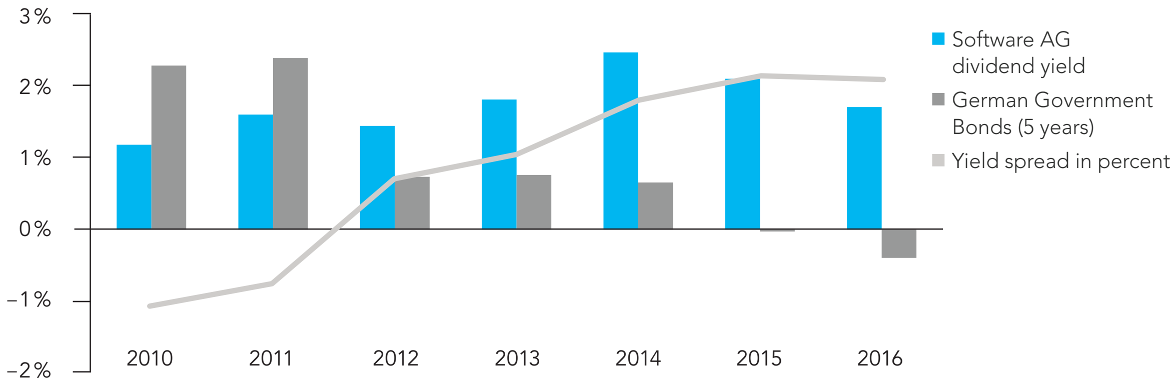
in € per share



* Adjusted after 1:3 stock split, rounded

Software AG's dividend yields have been significantly higher than German government five-year bonds in recent years.

Dividend Yield Exceeds German Government 5-Year Bond Yields



High Degree of Attention from Capital Markets

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves targeted expansion of that base. Software AG participated in a number of capital market conferences in Germany and abroad in the first half of 2017. Roadshows in Germany, the U.K., Canada and the USA were also an important medium for interacting with the investor community. Software AG's most informative event was its annual Capital Market Day on March 14, 2017. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland joined members of the Management Board and other key executives at Software AG's corporate headquarters in Darmstadt, Germany to discuss the rapidly progressing digitalization.

Software AG continued to enjoy a great deal of attention from the capital market. Analysts from 22 banks regularly cover Software AG. Nine of them have issued a neutral "hold" recommendation for Software AG shares (as of July 2017). Six recommend buying Software AG shares and seven selling. Software AG's average target price was above €37.

Shareholder Structure

Software AG's positioning as a sustainable value investment is increasingly reflected in its investor structure. New investors were not only attracted by its intrinsic value, but by the Company's long-term growth potential as well.

The Software AG Foundation remains Software AG's largest shareholder and an important anchor investor with a voting share of 32.7 percent. Following the concluded share buyback program in the spring of 2017, Software AG held 2,440,111 treasury shares as of June 30, 2017. This is 3.2 percent of Software AG's share capital.

After deducting the balance held by the Software AG Foundation and the Company's treasury shares, Software AG's free float is about 64 percent. This is calculated as defined by the Deutsche Börse as the percentage of a stock corporation's shares that can be traded freely on the stock market because they are not held by long-term investors.

Software AG has a broad free float shareholder base consisting of private and institutional investors in Germany and abroad. A regional analysis of the identified free float shows that 31 percent is held in Germany, 30 percent in the USA and 18 percent in the United Kingdom. Additional investors are located in Scandinavia, Switzerland, France, Benelux as well as other countries around the world.

Top Investors

Disclosure of Voting Share Changes Pursuant to Section 26 (1) of WpHG	Voting Share	Date Threshold Met
Software AG Foundation	31.59 %	April 30, 2015
Deutsche Asset Mgt. Investment	5.01%	July 5, 2016
Norges Bank	3.18 %	May 23, 2017
Software AG (treasury shares)	**3.068 %**	**May 9, 2017***

* Disclosure pursuant to section 26 (1), sentence 2 of WpHG

Indices (Selection)

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

Key Share Data

ISIN	DE 0003304002
WKN	330400
Symbol	SOW
Reuters	SOWG.DE
Bloomberg	SOW GY
Stock exchange	Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO on	April 26, 1999
Issue price	€ 30 *
Stock split	1:3 (2011)

* Before 1:3 stock split (May 2011)

MANAGEMENT REPORT

FINANCIAL PERFORMANCE

Total Revenue

Software AG reported positive results for the first half of 2017 with increased profitability and improvements to nearly all its key performance indicators compared to the same period last year. **Group revenue** for the period rose by 1 percent to reach €413.3 million (2016: €409.6 million).

Product revenue, consisting of license and maintenance sales in the Digital Business Platform (DBP) and Adabas & Natural (A&N) product lines, was stable year-on-year at €309.8 million (2016: €310.6 million). **License revenue** in the two product lines was down 12 percent at €95.2 million (2016: €108.6 million). **Maintenance revenue,** in contrast, rose to €214.6 million (2016: €202.0 million). This 6 percent gain is due to the accelerated growth in the digital segment, which set a new record in maintenance sales. The rise in maintenance revenue had a direct effect on profitability and underlines the Company's focus on profitable growth.

Exchange Rate Effects

Exchange rate effects had a moderately positive impact (2 percent) on Software AG's total revenue in the first half of 2017. These effects amounted to an increase of €9 million when compared to revenue at constant exchange rates.

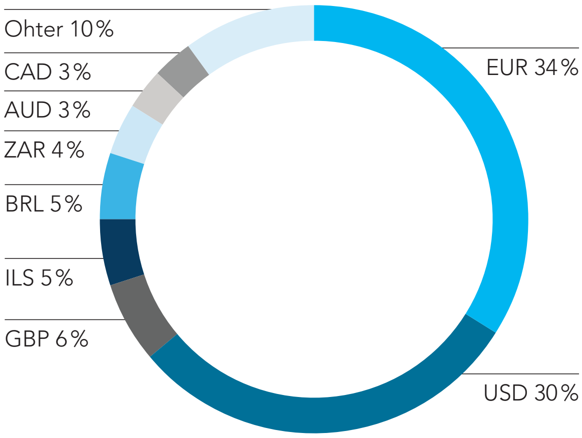
With respect to the different types of revenue, exchange rates caused a 2 percent gain in license revenue and a 1 percent gain in Consulting sales. Maintenance, which demonstrated overall growth, was more strongly impacted by exchange rates, and was 3 percent higher than the constant-currency calculation. This tailwind was helped by relatively strong U.S. and Brazilian currencies, which compensated somewhat for the weak pound sterling.

The percentage of Software AG's revenue in foreign (non-euro) currencies is nearly twice as large as that in euros due to its global focus and operations in 70 countries. At 66 percent (2016: 66 percent), the share of total revenue in foreign currency in the first half of 2017 remained the same as the previous year. Accordingly, revenue generated in euros stayed at 34 percent.

Like last year, the U.S. dollar accounted for the largest portion of revenue outside the euro zone at 30 percent. After the two major currencies (euro and U.S. dollar), other large shares of revenue were generated in the pound sterling (GBP) at 6 percent (2016: 7 percent), the Israeli shekel (ILS) at 5 percent (2016: 5 percent), the Brazilian real (BRL) at 5 percent (2016: 4 percent) and the South African rand (ZAR) at 4 percent (2016: 3 percent). Three percent of revenue was generated in Australian (AUD) and Canadian (CAD) dollars respectively. Ten percent (2016: 14 percent) of revenue was generated in other currencies.

Currency Split – YTD 2017

- 34% revenue in euros
- 66% revenue in foreign curency



Currency Impact on Revenue

	H1 2017		Q2 2017	
	in € millions	as %	in € millions	as %
Licenses	1.9	2%	0.3	1%
Maintenance	5.8	3%	1.9	2%
Consulting & other	1.3	1%	0.7	1%
Total	**9.0**	**2%**	**2.9**	**1%**

Earnings Performance

Software AG's **cost of sales** again grew at a lower rate than revenue in the first half of 2017, dropping 3 percent year-on-year to € 106.7 million (2016: € 110.5 million). As a result, **gross profit** increased 3 percent to € 306.7 million (2016: € 299.1 million). The **gross profit margin** continued to rise to 74.2 percent (2016: € 73.0 percent). This favorable trend confirms Software AG's focus on sustainable profitability.

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 2016. As a result, R&D expenses in the first six months of fiscal 2017 increased by 11 percent to total € 60.7 million (2016: € 54.9 million). This was primarily related to adding staff, particularly through the acquisition of small innovative software companies. In contrast, expenses for sales and marketing increased only slightly. They rose in line with revenue by 1 percent to € 121.7 million (2016: € 120.0 million). It is important to note that the number of employees in both areas increased by 48 full-time equivalents. General and administrative expenses went down slightly to € 38.0 million (2016: € 38.3 million), which reflects 9 percent of total revenue. While increasing revenue in the period under review, Software AG invested in the growth of R&D activities as well as the number of employees. This equips the Company with a future-oriented and sustainable structure.

Fueled by the increase in highly profitable maintenance revenues in the second quarter of 2017, **earnings before interest and taxes (EBIT,** net income plus income taxes plus other taxes plus net financial income/expense) slightly outperformed last year's € 88.7 million to reach € 89.6 million. Accordingly, the **EBIT margin** remained comparable to last year's rate of 21.7 percent.

Internal Corporate Control System

Software AG's unequivocal goal is to sustainably increase its enterprise value and thus to focus on profitable growth and ongoing improvement of its financial position. The Company employs an **internal control system** to achieve these strategic goals. DBP and A&N product revenue at constant currency as well as operating income (non-IFRS) and operating profit margin (non-IFRS) are Software AG's most relevant indicators. Software AG defines operating income (non-IFRS) as follows:

+	Earnings before all interest and taxes (EBIT)
+	Acquisition-related depreciation of intangible assets
+	Acquisition-related decreases in product revenue due to purchase price allocations
+/–	Other acquisition-related effects on earnings
+/–	Income/expenses resulting from share price-based remuneration
+	Expenses for restructuring and personnel changes
+/–	Extraordinary litigation/other one-time effects
=	**Operating EBITA (non-IFRS)**

The **operating profit margin** is calculated by dividing EBITA (non-IFRS) by Group revenue adjusted for acquisition-related product revenue decreases. For further information on the Company's internal management indicators, please refer to the 2016 Annual Report starting on page 35.

Software AG's **operating EBITA (non-IFRS)** increased by 2.3 percent in the first half of 2017 to €117.6 million (2016: €115.0 million). As a result, the **operating profit margin (non-IFRS)** achieved a considerable increase of 30 basis points to 28.4 percent (2016: 28.1 percent).

Software AG was again able to increase its operating margin despite intensified investments in R&D activities as well as R&D and Sales and Marketing staff. The continued earnings improvement was a result of a higher maintenance sales volume and an improved global cost structure through ongoing optimization of the balance between high and low-cost locations. This enabled Software AG to further increase its already high margin in all business lines and continue the positive earnings trend of the past quarters.

Net financial income rose to €0.0 million (2016: −€0.5 million) due to a reduction in the Company's loan balance and improved investment options outside the eurozone. Income taxes were down slightly year-on-year at €27.3 million (2016: €27.6 million). Software AG's total imputed tax rate remained constant at 34.6 percent (2016: 34.6 percent).

In total, **net income** went up 2 percent year-on-year to €58.6 million (2016: €57.7 million). Earnings per share (basic) continued to rise to €0.78 (2016: €0.75).

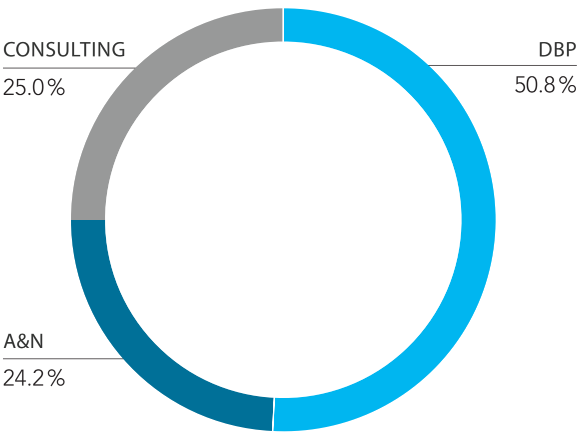
Revenue and Earnings by Business Line (Segment Report)

Software AG's total Group revenue in the first half of 2017 was €413.3 million (2016: €409.6 million) and can be broken down by business line as follows:

- Revenue in the **Digital Business Platform** business line achieved further growth and accounted for 51 percent (2016: 48 percent) of total Group revenue.

- The **Adabas & Natural** business line's share of total revenue fell, as expected, to 24 percent (2016: 28 percent).

- The **Consulting** business line maintained stability at 25 percent (2016: 24 percent) of total revenue.



Digital Business Platform (DBP)

All Software AG products for enterprise digital transformation are part of the DBP business line. Accounting for more than half of Software AG's total revenue in the first half of 2017, **revenue** in this high-performance segment was up 8 percent to €209.8 million (2016: €195.0 million). This is a 6 percent rise at constant currency.

DBP **license revenue** went up 5 percent to total €74.1 million (2016: €70.6 million). This represents a 3 percent increase at constant currency. DBP licenses accounted for 78 percent (2016: 65 percent) of Software AG's total license revenues. Of particular note is the boost in Software AG's cloud business, with new orders having increased more than 100 percent.

DBP **maintenance revenue** went up a substantial 9 percent (7 percent at constant currency) to reach €135.6 million (2016: €124.4 million). This is a record-breaking 63 percent of the Group's total maintenance revenue. This growth trend, which led to record-breaking results in the second quarter, confirms the Company's profitable growth strategy. Maintenance sales accounted for nearly two-thirds (65 percent) of the segment's revenue. This highly profitable type of recurring revenue was further boosted by the adoption of Enterprise Active Support (EAS), which provides 24x7 proactive customer assistance. Growth rates in maintenance sales are an indicator of the sustainability of the license business.

The **cost of sales** dropped substantially to €13.9 million (2016: €15.4 million), or by 10 percent. Expenses for sales and marketing were a moderate 4 percent higher at €86.7 million (2016: €83.5 million). Research and development (R&D) expenses were 11 percent above last year's level at €48.7 million (2016: €43.8 million). This increase is due primarily to the addition of 114 new R&D positions, including employees from acquired companies, Zementis and Cumulocity GmbH.

Additional key indicators for the DBP line are its pipeline and average deal size. The DBP pipeline for potential orders grew 17 percent year-on-year. The number of deals worth more than €1 million rose by 40 percent and those over €3 million by 50 percent. This trend is a successful result of Software AG's dedicated go-to-market activities and confirmation of the Company's greater market relevance.

DBP increased its segment earnings by 16 percent to €60.6 million (2016: €52.3 million). Furthermore, the segment margin jumped 210 basis points to 28.9 percent (2016: 26.8 percent).

Adabas & Natural (A&N)

The Adabas & Natural business line posted **revenue** in the amount of €100.3 million (2016: €116.0 million) for the period under review. This reflects a decline of 14 percent, or 17 percent at constant currency.

Maintenance revenue demonstrated stable performance at €78.9 million (2016: €77.6 million) in the first half of the year. This stability underscores the high degree of loyalty in the A&N base and exemplifies the long-term importance of A&N in business-critical applications. At €21.1 million (2016: €38.0 million), A&N **license revenue** was 44 percent (46 percent at constant currency) lower year-on-year. The majority of new deals are expected in the second half of 2017.

The **cost of sales** in the A&N line dropped 23 percent year-on-year to €4.8 million (2016: €6.2 million) in the first half of 2017. Sales and marketing expenses went down to €16.1 million (2016: €19.0 million). This represents a 15 percent decrease. Research and development expenses rose, in contrast, by 9 percent to €12.0 million (2016: €11.0 million).

A&N's segment earnings decreased by 16 percent to €67.4 million (2016: €79.8 million). The segment margin was 67.2 percent (2016: 68.8 percent), which is a very strong result. Due to the strong pipeline for the second half of the year, the stability of maintenance sales and the typical seasonality of the business, Software AG regards its full-year outlook optimistically.

In order to satisfy the ongoing high 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.

Consulting

The Consulting business line generated € 103.2 million (2016: €98.6 million) in **revenue** in the first half of 2017. This represents 5 percent growth.

The **cost of sales** in this segment dropped 3 percent to € 80.8 million (2016: € 83.4 million). As a result of the 5 percent—or € 4.6 million— increase in Consulting revenue, sales and marketing expenses rose by € 1.3 million (15 percent) to € 9.9 million (2016: € 8.6 million).

The Consulting line posted € 12.5 million (2016: € 6.6 million) in segment earnings. Furthermore, the segment margin jumped to 12.1 percent (2016: 6.7 percent). This figure, the highest in the industry, underlines Software AG's successful transformation of its consulting unit from a traditional project implementer to a strategic partner and high-value service provider for customers.

The ongoing strong revenue performance confirms the Company's strategy to focus more on consulting related to its own products, high-value services and to expand its concept of co innovation and technology partnerships with customers. This focus is a further element of Software AG's transformation to a highly profitable product provider with the goal of sustainable profitable growth.

PERFORMANCE IN THE SECOND QUARTER OF 2017

Software AG reported total revenue of € 207.4 million (2016: € 203.4 million) in the second quarter of 2017. This reflects growth of 2 percent, or 1 percent at constant currency. All in all, exchange rates had a slightly positive impact on revenue, resulting in a gain of € 2.9 million for the quarter. Furthermore, the margins in all three business lines continued to grow.

Product revenue—consisting of license and maintenance sales in all business lines—went up by 2 percent to € 156.3 million (2016: € 152.6 million). This is a 1 percent rise at constant currency. At € 107.4 million (2016: € 103.1 million), the profit-churning **maintenance** business accounted for more than two-thirds of product revenue. This reflects growth of 4 percent in maintenance sales year-on-year. **License sales** totaled € 48.9 million (2016: € 49.6 million) in the second quarter.

The **DBP business line** posted 4 percent revenue growth (3 percent at constant currency) and, at € 104.1 million (2016: € 100.5 million), accounted for more than half of the Company's total revenue. With 9 percent growth, the highly profitable maintenance revenue, boosted by the adoption of Enterprise Active Support (EAS), was a driving force here as well. The DBP segment margin improved to 29.4 percent (2016: 28.5 percent).

Quarterly revenue in the **A&N business line** equaled last year's figure at € 52.3 million. This reflects a 3 percent decrease at constant currency. A&N's segment margin improved from an already elevated level to 69.6 percent (2016: 66.9 percent). These results illustrate the high degree of ongoing loyalty in the A&N base and increasing profitability. And they confirm the expectation of continued positive performance for this business line in the second half of the year.

Although there were fewer billable workdays than the year before, revenue in the **Consulting** business line increased in 2017 by 1 percent to € 50.9 million (2016: € 50.5 million); and the segment margin improved significantly to 13.9 percent (2016: 9.3 percent).

EBIT in the second quarter of 2017 surpassed last year's figure by 11 percent, reaching € 48.1 million (2016: € 43.3 million). As a result, the **EBIT margin** increased to 23.2 percent (2016: 21.3 percent). Software AG's **net income** saw an equally clear increase, up 11 percent to € 31.3 million (2016: € 28.2 million). Accordingly, **earnings per share** rose 14 percent to € 0.42 (2016: € 0.37) in the second quarter.

Free cash flow was € 42.5 million (2016: € 53.8 million) in the second quarter due to higher tax payments. **Free cash flow per share** therefore dropped to € 0.57 (2016: € 0.71).

FINANCIAL POSITION

Net cash provided by operating activities was down € 12.8 million year-on-year from € 120.3 million to € 108.4 million in the first half of 2017 due to increased tax payments.

Cash outflows from investing activities went up to € 68.4 million compared to € 8.3 million one year ago. In addition to the purchase of an office building near corporate headquarters in Darmstadt, payments in the amount of € 49.4 million were made for the acquisition of Cumulocity GmbH.

Cash outflows from financing activities were € 101.3 million in the first half of 2017 compared to inflows of € 31.3 million in 2016. This resulted from the repurchase of shares carried out between March and May 2017 worth a total volume of € 89.6 million and from the increased dividend of € 0.60 (2016: € 0.55) per dividend-bearing share. The total dividend payout went up to a record-breaking €44.3 million. This reflects Software AG's commitment to a value-driven dividend policy. Net proceeds from external financing totaled € 31.3 million, compared to € 73.7 million one year ago.

Cash and cash equivalents were € 303.8 million (2016: € 445.0 million) as of June 30, 2017 compared to € 374.6 million at the beginning of the year. **Free cash flow** went down to € 85.8 million in the first six months of the year after having reached a record high at € 114.3 million the year before. The free cash flow to revenue ratio was 20.8 percent (2016: 27.9 percent) and free cash flow to net income was 146.4 percent (2016: 198.2 percent). Accordingly, free cash flow per share was € 1.14 (2016: € 1.50).

All in all, Software AG's statement of cash flows reflects its value-oriented focus on profitable growth. Specifically, this means that the Company employs its cash flow for future-oriented investments, dividends and share buy-back programs.

ASSETS

Software AG continued to have a strong **balance sheet.** Total assets were € 1,833.5 million as of June 30, 2017 compared to € 1,893.0 million the year before and € 1,957.2 million as of December 31, 2016.

On the **assets** side, current assets were down from € 642.0 million as of December 31, 2016 to € 552.6 million. At € 303.8 million, cash and cash equivalents were down compared to the beginning of the year. This resulted from value-driven investments and shareholder-oriented measures such as a dividend increase and a share buy-back program. Current and non-current trade receivables were reduced as a result of Software AG's active working capital management. In total, they dropped €70.6 million, or 23 percent, to €235.3 million (Dec. 31, 2016: € 305.9 million). At € 151.1 million, non-current intangible assets were slightly higher than € 149.4 million on December 31, 2016.

Income tax reimbursement claims rose to € 29.0 million (Dec. 31, 2016: € 19.6 million).

On the **liabilities** side, financial liabilities changed only slightly from € 301.5 million as of December 31, 2016 to € 308.5 million this period. Because of payment dates scheduled for January 2018, non-current financial liabilities in the amount of € 100.0 million were reclassified to current financial liabilities. Due to the large share of maintenance business, deferred income, which includes the increasing volume of future maintenance revenues, grew to € 163.2 million as compared to € 133.1 million as of December 31, 2016. This is a 23 percent increase which reflects the Company's strategic focus on high-margin recurring maintenance revenues.

Software AG's **shareholders' equity** totaled € 1,076.5 million as of June 30, 2017 as compared to € 1,196.8 million as of December 31, 2016. This results in an **equity ratio** of 58.7 percent (Dec. 31, 2016: 61.1 percent).

EMPLOYEES

As of June 30, 2017, the Software AG Group employed 4,570 (2016: 4,318) people (full-time equivalents). This is an increase of 252 people year-on-year. The 6 percent rise is a result of Software AG's strategy to invest in a future-oriented global structure and profitable growth without jeopardizing current profitability. More than 110 R&D specialists, 50 highly qualified Sales and Marketing personnel and 80 expert consultants were hired. This growth is mainly due to the corporate acquisitions of Zementis and Cumulocity GmbH as well as to the expansion of staff in India.

Broken down by department, the number of employees in Service and Consulting was 1,920 (2016: 1,839), in Sales and Marketing 888 (2016: 840) and in Administration 604 (2016: 595). The number of employees in R&D rose 11 percent to 1,158 (2016: 1,044).

The regional staff distribution is commensurate with global operations. As of June 30, 2016, the Software AG Group employed 1,183 (2016: 1,136) people in Germany, 597 (2016: 564) in the USA and 785 (2016: 696) in India. A total of 2,005 (2016: 1,922) people were employed in countries other than those mentioned above.

MANAGEMENT'S ASSESSMENT OF THE HALF-YEAR RESULTS

Our financial results in the first half of 2017 together with our new strategic IoT and Industry 4.0 partnerships with major industry players like Bosch, DHL, Dürr and Huawei clearly illustrate: Software AG's relevance in the global IoT market is growing rapidly.

Our future-oriented **Digital Business Platform** line continued its solid performance—boosted by the 9 percent increase in maintenance sales, which reached an all-time high in the second quarter of 2017. At €209.8 million in total revenue, the digital business line accounted for 50.8 percent of Group revenue. At constant currency, the digital business line's growth was within our target range for the fiscal year. This growth reflects Software AG's increasing relevance in a wide array of digital transformation projects with large well-known international customers. Of particular note is the significant boost in Software AG's cloud business. With new orders increasing more than 100 percent, this ensures future income.

As expected, license revenue in our profitable **Adabas & Natural** database business line was down year-on-year, while its maintenance revenue remained constant. This illustrates the high degree of loyalty among A&N customers and exemplifies the long-term importance of our database transaction software for business-critical applications. Based on the growing loyalty of our customers, the cyclicality and the high predictability of our A&N business, we remain very optimistic about the second half of the year and confirm our A&N targets for fiscal year 2017.

Consulting, our third business line, was successfully on track as well. We saw growth in both revenue and segment margin, which climbed to double digits (12.1 percent). This figure, the highest in our industry, magnifies the successful transformation of our Consulting unit from a traditional project implementer to a strategic partner and high-value service provider for customers. The success is especially encouraging given that revenue growth is not the top priority for this business line, but rather driving customers' success with premium consulting services for our products, co-innovation with customers and technology partnerships.

Total revenue went up moderately. Driven by the growth in recurring high-margin maintenance income, earnings before interest and taxes **(EBIT)** increased to €89.6 million (2016: €88.7 million). Maintenance revenue has a direct impact on our profitability and is evidence of Software AG's successful focus on value-oriented growth.

Software AG is one of the most profitable companies in the tech sector. We were able to increase our operating margin despite intensified investments in R&D activities as well as R&D and Sales and Marketing staff. Our continued improvement in earnings is not a one-time effect. It is the result of dedicated efforts to grow maintenance revenue, achieve sales efficiencies and improve our global structure with the ongoing optimization of the balance between high/low-cost locations. This enabled Software AG to further increase its already high margin and continue the positive earnings trend of past quarters.

We are optimistic our profitable growth will continue in the second half of the year. We raised our operating profit margin forecast for the fiscal year due to increased profitability and our strong pipeline. After a good start to the second half of the year, Software AG foresees a continuation of the first two quarters' positive trajectory. We will continue to invest in R&D as well as in Sales and Marketing to secure future growth—despite the raised margin target.

EVENTS AFTER THE BALANCE SHEET DATE

Fiscal 2017 Outlook Raised

In accordance with section 15 of WpHG (Insider Information pursuant to article 17 of MAR), Software AG published an ad hoc release on July 17, 2017 due to its raised forecast and preliminary quarterly results. It communicated the Management Board's decision to raise the Company's operating profit margin target. Based on the increased profitability in the second quarter, business development in the first half of 2017 and the strong project pipeline for the second half of the year, Software AG now expects its operating profit margin (EBITA, non-IFRS) to reach 31.0 to 32.0 percent (prior: 30.5 to 31.5 percent). For more details on the Company's forecast, please refer to the Outlook section at the end of this half-year report.

OPPORTUNITY AND RISK REPORT

Software AG's 2016 Annual Report contains a comprehensive Opportunity and Risk Report (see pages 68–79) 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 2017 as compared to the risks and opportunities identified in the 2016 Annual Report.

Any changes to business opportunities and risks caused by the U.K.'s exit from the EU (Brexit) are difficult to assess at this point in time. Because the U.K. is an important market for Software AG, a prolonged weak pound sterling could lead to a decrease in any revenue converted into and reported in euros as well as in earnings. But the specific impact is currently not foreseeable since exit negotiations have just begun. A conclusive judgment cannot be made on the extent to which Brexit will affect the British economy and in turn Software AG's business in the U.K.. Software AG currently assumes the impact is likely to be minor. However, if our customers relocate U.K.-based operations to EU countries, we could see a boost in business in the respective countries.

OUTLOOK

The Management Board of Software AG decided on July 17, 2017 to raise the Company's forecast for its operating profit margin. This was communicated in an ad hoc release. Based on the increased profitability in the second quarter, business development in the first half of 2017 and the strong project pipeline for the second half of the year, Software AG now expects its operating profit margin (EBITA, non-IFRS) to reach 31.0 to 32.0 percent (prior: 30.5 to 31.5 percent). Digital Business Platform (DBP) revenue is expected to increase between 5 and 10 percent at constant currency. The revenue target for the Adabas & Natural database business line remains unchanged between −2 and −6 percent (at constant currency).

The table below shows the full forecast for the 2017 fiscal year:

Outlook for Fiscal Year 2017

	FY 2016 (in € millions)	**Outlook FY 2017** (as of June 30, 2017)	**H1 2017** (as of June 30, 2017)
Digital Business Platform product revenue	441.4	+5% to +10%*	+6%*
Adabas & Natural product revenue	233.9	−2% to −6%*	−17%*
Operating margin (EBITA, non-IFRS)**	31.2%	31.0% to 32.0%	28.4%

* At constant currency
** Before adjusting for non-operating factors (see non-IFRS results)

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2017 (IFRS)

in € thousands	H1 2017	H1 2016
Licenses	95,167	108,644
Maintenance	214,592	201,995
Services	102,708	98,249
Other	855	701
Total revenue	**413,322**	**409,589**
Cost of sales	–106,664	–110,515
Gross profit	**306,658**	**299,074**
Research and development expenses	–60,655	–54,890
Sales, marketing and distribution expenses	–121,703	–119,977
General and administrative expenses	–38,006	–38,341
Other taxes	–3,738	–2,869
Operating earnings	**82,556**	**82,997**
Other income/expense, net	3,323	2,793
Net financial income/expense	–23	–547
Earnings before income taxes	**85,856**	**85,243**
Income taxes	–27,270	–27,579
Net income	**58,586**	**57,664**
Thereof attributable to shareholders of Software AG	58,465	57,547
Thereof attributable to non-controlling interests	121	117
Earnings per share in € (basic)	0.78	0.75
Earnings per share in € (diluted)	0.78	0.75
Weighted average number of shares outstanding (basic)	75,326,261	76,231,631
Weighted average number of shares outstanding (diluted)	75,336,515	76,264,486

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2017 (IFRS)

in € thousands	H1 2017	H1 2016
Net income	**58,586**	**57,664**
Currency translation differences from foreign operations	−43,881	−7,539
Net gain/loss on remeasuring financial assets	193	1,564
Currency translation gain/loss from net investments in foreign operations	−3,236	−795
Items to be reclassified to the income statement if certain conditions are met	**−46,924**	**−6,770**
Net actuarial gain/loss on pension obligations	625	−211
Items not to be reclassified to the income statement	**625**	**−211**
Other comprehensive income	**−46,299**	**−6,981**
Total comprehensive income	**12,287**	**50,683**
Thereof attributable to shareholders of Software AG	12,166	50,566
Thereof attributable to non-controlling interests	121	117

CONSOLIDATED BALANCE SHEET

As of June 30, 2017 (IFRS)

ASSETS

in € thousands	June 30, 2017	December 31, 2016
Current assets		
Cash and cash equivalents	303,847	374,611
Other financial assets	20,234	13,488
Trade receivables and other receivables	188,098	220,966
Other non-financial assets	19,127	20,286
Income tax receivables	21,308	12,638
	552,614	**641,989**
Non-current assets		
Intangible assets	151,133	149,420
Goodwill	940,513	936,606
Property, plant and equipment	74,218	75,559
Other financial assets	40,031	45,957
Trade and other receivables	47,157	84,905
Other non-financial assets	251	291
Income tax receivables	7,680	6,988
Deferred tax receivables	19,937	15,502
	1,280,920	**1,315,228**
Total Assets	**1,833,534**	**1,957,217**

EQUITY AND LIABILITIES

in € thousands	June 30, 2017	December 31, 2016
Current liabilities		
Financial liabilities	208,384	101,467
Trade and other payables	33,941	39,695
Other non-financial liabilities	92,332	121,817
Other provisions	51,729	50,959
Income tax liabilities	22,353	28,224
Deferred income	154,874	125,464
	563,613	**467,626**
Non-current liabilities		
Financial liabilities	100,152	200,049
Trade and other payables	3,900	4,195
Other non-financial liabilities	424	381
Other provisions	16,844	24,793
Provisions for pensions and similar obligations	40,766	42,215
Deferred tax liabilities	23,013	13,498
Deferred income	8,340	7,665
	193,439	**292,796**
Equity		
Share capital	76,400	79,000
Capital reserves	22,935	23,682
Retained earnings	1,094,855	1,145,374
Other reserves	−26,510	19,789
Treasury shares	−91,865	−71,596
Attributable to shareholders of Software AG	**1,075,815**	**1,196,249**
Non-controlling interests	667	546
	1,076,482	**1,196,795**
Total Equity and Liabilities	**1,833,534**	**1,957,217**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2017 (IFRS)

in € thousands	H1 2017	H1 2016
Net income	58,586	57,664
Income taxes	27,270	27,579
Net financial income/expense	23	547
Amortization/depreciation of non-current assets	22,022	19,937
Payments for cash-settled claims to optional share-based compensation	0	−8,291
Other non-cash income/expense	−234	−4,553
Changes in receivables and other assets	61,026	26,978
Changes in payables and other liabilities	−16,096	31,480
Income taxes paid/received	−44,668	−31,837
Interest paid	−4,152	−3,704
Interest received	4,611	4,475
Net cash provided by operating activities	**108,388**	**120,275**
Proceeds from the sale of property, plant and equipment/intangible assets	256	222
Purchase of property, plant and equipment/intangible assets	−20,599	−4,802
Proceeds from the sale of non-current financial assets	101	1,415
Purchase of non-current financial assets	−2,376	−2,829
Proceeds from the sale of current financial assets	4,128	15,017
Purchase of current financial assets	−520	−16,903
Payments for acquisitions, net	−49,420	−413
Net cash used in investing activities	**−68,430**	**−8,293**

in € thousands	H1 2017	H1 2016
Repurchase of treasury shares (including option premiums paid)	–89,587	0
Use of treasury shares	1,330	0
Dividends paid	–44,343	–41,927
Proceeds/payments for current financial liabilities	41,895	3,344
New non-current financial liabilities	0	75,000
Repayment of non-current financial liabilities	–10,574	–4,647
Payments for non-controlling interests	0	–460
Net cash provided by / used in financing activities	**–101,279**	**31,310**
Change in cash and cash equivalents	–61,321	143,292
Change in cash and cash equivalents from currency translation	–9,443	1,098
Net change in cash and cash equivalents	**–70,764**	**144,390**
Cash and cash equivalents at beginning of period	374,611	300,567
Cash and cash equivalents at end of period	**303,847**	**444,957**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2017 (IFRS)

in € thousands	Subscribed capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of January 1, 2016	**76,231,631**	**79,000**	**40,504**	**1,047,145**
Comprehensive income				57,547
Transactions with shareholders				
Dividend payment				−41,927
Stock options			−15,735	
Other changes				
Transactions between shareholders			−503	
Equity as of June 30, 2016	**76,231,631**	**79,000**	**24,266**	**1,062,765**
Equity as of January 1, 2017	**76,231,631**	**79,000**	**23,682**	**1,145,374**
Total comprehensive income				58,466
Transactions with shareholders				
Dividend payment				−44,343
Issue and use of treasury shares	55,150		−747	
Redemption of treasury shares		−2,600		−64,642
Repurchase of treasury shares (including option premiums paid)	−2,326,892			
Transactions between shareholders				
Equity as of June 30, 2017	**73,959,889**	**76,400**	**22,935**	**1,094,855**

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 investments in foreign operations				
9,628	**571**	**–26,684**	**10,677**	**–71,596**	**1,089,245**	**484**	**1,089,729**
–7,539	1,564	–211	–795		50,566	117	50,683
					–41,927		–41,927
					–15,735		–15,735
					0		0
					–503	43	–460
2,089	**2,135**	**–26,895**	**9,882**	**–71,596**	**1,081,646**	**644**	**1,082,290**
38,190	**2,926**	**–33,352**	**12,025**	**–71,596**	**1,196,249**	**546**	**1,196,795**
–43,881	193	625	–3,236		12,167	121	12,288
					–44,343		–44,343
				2,076	1,329		1,329
				67,242	0		0
				–89,587	–89,587		–89,587
–5,691	**3,119**	**–32,727**	**8,789**	**–91,865**	**1,075,815**	**667**	**1,076,482**

NOTES TO THE 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, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs/IFRSs applicable as of June 30, 2017 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. Software AG is the parent company of a group that is globally active in the fields of software development, licensing and maintenance as well as IT services.

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

[2] Changes in the Consolidated Group

The following changes occurred in the consolidated Group in the first six months of fiscal 2017.

	Germany	Foreign	Total
January 1, 2017	**9**	**71**	**80**
Additions	1	0	1
Disposals (including mergers)	0	1	1
June 30, 2017	**10**	**70**	**80**

The disposal relates to the closing of a company in Luxembourg. The addition relates to the acquisition of Cumulocity GmbH in Düsseldorf, Germany. For further information, please refer to Note 4.

[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, 2016. For more detailed information on accounting policies, please see Note 3 of the consolidated financial statements for fiscal 2016. These half-year statements have been prepared in accordance with IAS 34: Interim Financial Reporting.

New accounting rules to be applied starting in the fiscal year

The new accounting rules to be applied in the first half of 2017 had no significant effect on Software AG's interim financial statements.

Published but not yet applicable accounting rules

For more details on published accounting rules for which Software AG has not opted for early application, please refer to Note 3 of the 2016 Annual Report.

The International Accounting Standards Board (IASB) published IFRS 15, "Revenue from Contracts with Customers," in May 2014. IFRS 15 replaces IAS 11 "Production Orders" and IAS 18 "Revenue Income" and the corresponding interpretations. Software AG reported on the subject matter of IFRS 15 and measures for implementation in the 2016 Annual Report.

Software AG will not exercise the option of early application before fiscal year 2018. In addition to complete retrospective application of IFRS 15, the standard permits modified retrospective application. The standard will be applied only after the date of first-time application so that periods being compared do not need to be adjusted retrospectively, with the exception of adjustments to equity. It that case, as of the date of first application, a company must balance only those contracts that, pursuant to the current accounting principles, have not yet expired prior to the date of first application in accordance with the new rules. Software AG currently plans to apply the standard using a modified retrospective method.

Software AG evaluated the rules of IFRS 15 and depicted how they will impact its business model. In addition, the relevant departments of the Company (Business & Sales Management, Finance, Product Management) received in-depth training and instruction.

Based on ongoing analysis of the rules of IFRS 15, Software AG does not anticipate first-time application to have a significant effect on recognition of revenues. The following differences beyond those described in the 2016 Annual Report between current rules and IFRS 15 were identified:

The extent of possible changes in Software AG's go-to-market approach resulting from the adoption of IFRS 15 is difficult to determine; it may have an impact on revenues recognized in future periods.

Pursuant to IFRS 15, costs incurred from acquiring new orders must be capitalized and then amortized subsequently. Software AG does not currently capitalize costs incurred from acquiring new orders. Software AG cannot determine the effect of capitalizing and amortizing costs associated with new orders at this point in time. Please refer to the 2016 Annual Report to read about the issues arising from the ongoing debate on the application of IFRS 15 at an international level.

[4] Business Combinations

In the first half of 2017, Software AG achieved control of Cumulocity GmbH through the acquisition of equity interests.

Company	Cumulocity GmbH
Headquarters	Düsseldorf, Germany
Line of business	Internet of Things (IoT); provider of IoT cloud, i.e. application and device management platform for easy integration of connected devices and sensors
Ownership interest recognized on the balance sheet as of June 30, 2017	100 %
Percentage of acquired shareholders' equity with voting rights	100 %
Date of acquisition	March 24, 2017
Number of employees	approx. 30
Purchase price	approx. € 50 mn

Cumulocity GmbH's financials were included in the consolidated income statement as of the date of acquisition.

The following table shows the provisional allocation of the cost of the business combination to the net assets acquired.

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	691	0	691
Intangible assets	57	25,000	25,057
Goodwill	0	31,000	31,000
Other assets	1,267	0	1,267
Deferred tax assets	0	562	562
Assets	**2,015**	**56,562**	**58,577**
Liabilities and provisions	658	0	658
Deferred tax liabilities	0	7,808	7,808
Equity and liabilities	**658**	**7,808**	**8,466**
Acquired assets and assumed liabilities, net	**1,357**	**48,754**	**50,111**
Payments to shareholders			50,111
Consideration not yet paid			0
Acquisition cost, gross			50,111
Cash and cash equivalents acquired			691
Net cost of the business combination			**49,420**

The full amount of goodwill resulting from the preliminary purchase price allocation was assigned to the Digital Business Platform segment. The recognition of goodwill resulted mainly from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. The goodwill arising from this acquisition is not likely to be tax deductible.

Since the acquisition, about €0.8 million of Software AG's Group revenue and –€0.5 million of operating income have resulted from Cumulocity GmbH.

NOTES TO THE CONSOLIDATED BALANCE SHEET

[5] Intangible Assets and Goodwill

Goodwill amounted to €940,513 thousand as of June 30, 2017, an increase of €3,907 thousand compared to December 31, 2016. This increase is a result of €31,000 thousand from the initial consolidation of Cumulocity GmbH and –€27,093 thousand from negative exchange rate changes.

[6] Equity

Share capital

Software AG's share capital totaled €76,400 thousand as of June 30, 2017 (Dec. 31, 2016: €79,000 thousand), divided into 76,400,000 bearer shares (Dec. 31, 2016: 79,000,000). Each share entitles its holder to one vote.

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 17, 2017 to change the Company's shares from bearer to registered shares. The respective amendment to the Articles of Incorporation was entered into the Commercial Register on June 26, 2017. For more information, please refer to the notification published on the website in accordance with section 30e of WpHG.

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 17, 2017 to appropriate €44,343 thousand (2016: €41,927 thousand) for a dividend payout from the net retained profits of €139,097 thousand reported by Software AG, the controlling Group company, in 2016. This corresponds to a dividend of €0.60 (2016: €0.55) per share. A total amount of €94,754 thousand (2016: €45,266 thousand) was carried forward.

Treasury shares

The balance of treasury shares changed in the period under review as follows:

	Number of shares	Amount of share capital in €	Amount of share capital as %	Purchase price in € thousands	Average purchase price* in € per share
Balance as of December 31, 2016	**2,768,369**	**2,768,369**	**3.5**		
Redemption	–2,600,000	2,600,000	3.3		
Share buyback Q1	674,870	674,870	0.9	24,525	36.34
Share buyback Q2	1,652,022	1,652,022	2.2	65,062	39.38
Used to service employee stock options (MIP III)	–55,150	–55,150	0.0		
Balance as of June 30, 2017	**2,440,111**	**2,440,111**	**3.2**		

* Less transaction costs

OTHER DISCLOSURES

[7] Segment Reporting

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

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

The table below shows the segment data for the first half of 2017 and 2016:

Segment report for the six months ended June 30, 2017 (IFRS)

	Adabas & Natural (A&N)		Digital Business Platform (DBP)	
in € thousands	**H1 2017**	**H1 2016**	**H1 2017**	**H1 2016**
Licenses	21,063	38,035	74,104	70,609
Maintenance	78,948	77,580	135,644	124,415
Product revenue	**100,011**	**115,615**	**209,748**	**195,024**
Services	0	0	0	0
Other	334	348	30	22
Total revenue	**100,345**	**115,963**	**209,778**	**195,046**
Cost of sales	–4,819	–6,173	–13,889	–15,365
Gross profit	**95,526**	**109,790**	**195,889**	**179,681**
Sales, marketing and distribution expenses	–16,076	–18,983	–86,670	–83,514
Segment contribution	**79,450**	**90,807**	**109,219**	**96,167**
Research and development expenses	–12,001	–11,049	–48,654	–43,841
Segment earnings	**67,449**	**79,758**	**60,565**	**52,326**
General and administrative expenses				
Other taxes				
Operating earnings				
Other operating income/expense, net				
Net financial income/expense				
Earnings before income taxes				
Income taxes				
Net income				

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 business lines (segments) are managed on the basis of their segment contribution. Research and development expenses are assigned to the segments based on expense components directly attributable to an R&D team as well as the overhead coded to the team. They have no direct impact on internal management.

	Consulting		Reconciliation		Total	
	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
	0	0	0	0	95,167	108,644
	0	0	0	0	214,592	201,995
	0	**0**	**0**	**0**	**309,759**	**310,639**
	102,708	98,249	0	0	102,708	98,249
	491	331	0	0	855	701
	103,199	**98,580**	**0**	**0**	**413,322**	**409,589**
	–80,771	–83,398	–7,185	–5,579	–106,664	–110,515
	22,428	**15,182**	**–7,185**	**–5,579**	**306,658**	**299,074**
	–9,890	–8,603	–9,067	–8,877	–121,703	–119,977
	12,538	**6,579**	**–16,252**	**–14,456**	**184,955**	**179,097**
	0	0	0	0	–60,655	–54,890
	12,538	**6,579**	**–16,252**	**–14,456**	**124,030**	**124,207**
					–38,006	–38,341
					–3,738	–2,869
					82,556	**82,997**
					3,323	2,793
					–23	–547
					85,856	**85,243**
					–27,270	–27,579
					58,586	**57,664**

[8] Contingent Liabilities

The carrying amount of collateral received was €83 thousand (2016: €78 thousand).

Disclosures on leases

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

The following contractually agreed payments existed as of June 30, 2017:

June 30, 2017

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Contractually agreed payments	9,477	40,864	4,531	54,872
Estimated income from subleases	341	1,138	0	1,479

The following contractually agreed payments existed as of June 30, 2016:

June 30, 2016

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Contractually agreed payments	12,349	49,158	4,798	66,305
Estimated income from subleases	351	1,871	2	2,224

[9] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2016 as follows:

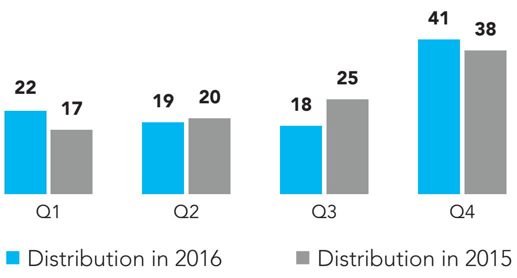
2016

in € thousands	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
License revenue	59,070	49,574	46,871	107,512	263,027
as % of license revenue for the year	22	19	18	41	100
Total revenue	206,229	203,360	198,300	263,944	871,833
as % of revenue for the year	24	23	23	30	100
Earnings before taxes	43,535	41,708	47,073	71,652	203,968
as % of earnings for the year	21	21	23	35	100

Based on historical data, the revenue and earnings distribution from 2016 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 2016 und 2015.

License revenue in 2016 and 2015

as % of total annual revenue



[10] Litigation

On April 25, 2016, the Spanish cartel authority (CNMC) published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. To date, the CNMC has not made any specific accusations. After an in-depth evaluation of the facts with external attorneys, the risk assessment remains unchanged for the time being.

A legal matter stemming from a sales relationship between Software AG and a former partner in the USA was settled outside of court in the first quarter of 2017; the settlement amount was covered by existing provisions.

The proceedings relating to projects carried out under the European Union's research and innovation funding programs 6 and 7 by Software AG's former SAP consulting subsidiary in the Czech Republic (the projects took place between 2004 and 2009) was concluded at the beginning of July 2017 through payment of the exact amount of funds that had been established as provisions for this legal dispute. Software AG is currently evaluating the option of suing the European Commission in Belgium for the amount of the payment.

There were no other significant changes to the legal cases described in Note 33 of the 2016 consolidated financial statements during the first half of 2017. Nor was there any new litigation or legal risks that could potentially have an effect on Software AG's assets, financial position or performance.

Provisions for litigation totaled €9,913 thousand (Dec. 31, 2016: €17,949 thousand) as of June 30, 2017. In addition, contingent liabilities in the amount of €15,585 thousand existed (Dec. 31, 2016: €16,991 thousand). But since a resource outflow as of June 30, 2016 was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions have been recognized.

[11] Stock Option Plans

Software AG has various stock option and share-based compensation plans for members of the Management Board, managers and other Group employees. All plans as of June 30, 2017 are described in detail on pages 163 – 166 of Software AG's 2016 Annual Report.

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 December 31, 2016	**1,654,570**
Granted	141,506
Forfeited	0
Balance as of June 30, 2017	**1,796,076**

Management Incentive Plan 2016

The rights granted under Management Incentive Plan 2016 changed as follows in the first six months of the fiscal year:

Balance as of December 31, 2016	**448,083**
Granted	0
Forfeited	–5,358
Balance as of June 30, 2017	**442,725**

Management Incentive Plan 2015 (MIP V)

The rights granted under MIP V changed as follows in the first six months of the fiscal year:

Balance as of December 31, 2016	**490,450**
Granted	0
Forfeited	–3,750
Balance as of June 30, 2017	**486,700**

Management Incentive Plan 2007 – 2011 (MIP III)

The rights granted under MIP III changed as follows in the first six months of the fiscal year:

	Number of rights outstanding	Exercise price per right, in €	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of December 31, 2016	**83,900**	**24.12**	**2.5**	**870***
Exercised	–55,150	24.12		
Balance as of June 30, 2017	**28,750**	**24.12**	**2**	**409**
Thereof exercisable as of June 30, 2017	28,750	24.12	2	409

* Based on closing price on December 30, 2016

The rights exercised in the period under review were exercised at a weighted average price of €42.50 per share and were settled under use of treasury shares. Accordingly, the intrinsic value of the 55,150 (0 for Management Board) rights exercised totaled €1,014 thousand. Because Software AG currently does not have a de facto obligation to settle rights in cash, they will continue to be recognized as equity-settled share-based compensation.

[12] Employees

As of June 30, 2017, the average number of employees (part-time employees are taken into account on a pro rata basis only) by area of activity was as follows:

	June 30, 2017	June, 30, 2016
Maintenance and Services	1,906	1,846
Sales and Marketing	876	837
R&D	1,140	1,028
Administration	607	598
	4,529	**4,309**

In absolute terms (part-time employees are counted in full), the Group employed 4,701 (2016: 4,475) people as of June 30, 2017.

[13] Changes and Information Regarding Corporate Bodies

Dr. Stefan Sigg was appointed to Software AG's Management Board as Chief Research & Development Officer as of April 1, 2017. No further changes occurred on the Management Board between January 1, 2017 and June 30, 2017.

[14] Events After the Balance Sheet Date

There were no events that occurred between June 30, 2017 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 8, 2017.

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 Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, August 8, 2017

Software AG

K.-H. Streibich | E. Duffaut

Dr. W. Jost | Dr. S. Sigg

A. Zinnhardt

FINANCIAL CALENDAR

For the latest information on events and roadshows, please visit:

SoftwareAG.com/financial-calendar.

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