

Stand Out in the
Digital World



Annual Report | 2014

Key Figures

in € millions (unless otherwise stated)

	2014	2013
Revenue	857.8	972.7
By type:		
• Products	641.4	705.7
• Services	215.8	266.0
• Other	0.6	1.0
By business line:		
• Business Process Excellence	394.5	422.9
• Enterprise Transaction Systems	245.3	274.5
• Consulting	218.0	275.4
EBIT*	176.0	205.5
• as % of revenue	20.5%	21.1%
Net income	110.6	134.0
• as % of revenue	12.9%	13.8%
Earnings per share (€, basic)	1.39	1.60
Earnings per share (€, diluted)	1.39	1.60
Free cash flow	132.7	159.1
Employees (full-time equivalents)	4,421	5,238
• of which in Germany	1,216	1,711
• of which in R&D	968	998
Balance sheet	Dec. 31, 2014	Dec. 31, 2013
Total assets	1,848.9	1,996.9
Cash and cash equivalents	318.4	450.0
Net debt	125.7	163.4
Shareholders' equity	1,013.4	965.6
• as % of total assets	55%	48%

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



Stand Out in the **Digital World**

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

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

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

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

SHAPING CHANGE.

For a top position in the digital world.

Contents

The Company

- 06** _ Letter from the Management Board
- 10** _ Highlights of 2014
- 12** _ About Software AG
- 36** _ Software AG Share
- 42** _ Corporate Governance Report
- 48** _ Report of the Supervisory Board

Group Management Report

- 58** _ Business and General Conditions
 - 58** _ Corporate Structure and Business Activities
 - 61** _ Corporate Control, Objectives and Strategy
- 63** _ Economic Report
 - 63** _ Business Summary
 - 64** _ Financial Performance
 - 72** _ Financial Position
 - 74** _ Assets
 - 78** _ Other Intangible Assets
 - 80** _ Overall Statement on Financial Position
- 81** _ Risk and Opportunity Report
 - 81** _ Risk and Opportunity Management System
 - 81** _ Organization of the Risk Management System
 - 84** _ Presentation of Key Individual Risks
 - 89** _ General Statement on the Group's Risk Situation
 - 89** _ Software AG's Rating
- 89** _ Events After the Balance Sheet Date
- 90** _ Remuneration Report

106	_	Forecast
106	_	Economic Conditions in the Next Two Fiscal Years
108	_	Expected Financial Performance
109	_	Anticipated Financial Position
110	_	Takeover-Related Disclosures
112	_	Statement on Corporate Governance

Consolidated Financial Statements

114	_	Consolidated Income Statement
115	_	Statement of Comprehensive Income
116	_	Consolidated Balance Sheet
118	_	Consolidated Statement of Cash Flows
120	_	Consolidated Statement of Changes in Equity

Notes to the Consolidated Income Statement

123	_	General
133	_	Notes to the Consolidated Income Statement
136	_	Notes to the Consolidated Balance Sheet
152	_	Other Disclosures
181	_	Responsibility Statement
182	_	Auditors' Report

Additional Information

183	_	Glossary
186	_	Five-Year Summary
187	_	Financial Calendar 2015/Publication Credits

Letter from the Management Board



DR. WOLFRAM JOST

Chief Technology
Officer (CTO)

ERIC DUFFAUT

Chief Customer
Officer (CCO)

KARL-HEINZ STREIBICH

Chief Executive Officer (CEO)/
Chairman of the
Management Board

ARND ZINNHARDT

Chief Financial
Officer (CFO) and
Labor Director

Growing profitability and improving sales efficiency: Software AG is focusing on long-term success factors.

*Dear Ladies and Gentlemen,
Dear Shareholders,*

Technology leadership in growth markets, extraordinary innovative strength and a broad customer base—those were Software AG's key indicators in fiscal year 2014. Through value-oriented management we also set a course for growth and profitability, and achieved visible success with this strategic direction during the second half of the year.

Our biggest business line, Business Process Excellence (BPE), saw increasingly positive development throughout the year. Revenue from BPE licenses and maintenance also increased significantly in the second half of the year. License revenue grew by 34 percent compared to the first half of the year; maintenance revenue increased by 9 percent. The strong new business and growing maintenance revenue as well as the larger customer base show that our strategic measures are effective and ensuring positive effects long term.

In the Enterprise Transaction Systems (ETS) business line, the database segment for mainframe computers, revenue reached the upper end of the target range for 2014. This development underscores yet again the long-term loyalty of our

customers and importance of our database products as an indispensable key technology worldwide. The cash flow from this business is an important value driver in our overall strategy.

The Consulting business line benefited from targeted portfolio streamlining and focusing on the core business. Absolute earnings and profit margin increased significantly in the second half of 2014.

The strategic focal points of the past year included ongoing customer-centric development of the product portfolio, concluding the restructuring of our Consulting business and continuing to strengthen our sales efficiency. Combined with the robust maintenance business, we have achieved significant successes in the last two quarters: EBIT for the entire Group more than doubled compared to the first half of the year. The operating profit margin (non-IFRS) reached 36 percent in the fourth quarter, marking the highest value of the past five years.

Focusing on profitable growth and continuing our dynamic development remain key objectives of Software AG in the current fiscal year. We anticipate revenue growth between 6 and 12 percent at constant currency for the BPE business line, with the improved license sales bringing in long-term maintenance revenues.

Our medium-term planning calls for increasing the operating profit margin from its current level of 28 percent to 32-35 percent by 2020. Our BPE business will remain the growth driver, and we will further reinforce it by improving sales productivity. We anticipate further impetus from the positive development in profitable maintenance revenues. At the same time, we are strengthening and expanding our global partner network, which will enable Software AG to optimize market coverage and customer reach to scale profitably.

We are extremely well positioned for the future. Our innovative product portfolio covers the new growth engine of IT—digitization. In order to benefit from this trend long term, we focused on the relevant technologies early on and made targeted investments in them. We systematically and successfully integrated the

acquisitions made in the previous year into our product portfolio in fiscal year 2014. That is why we are considered a technology leader in nearly every one of our product areas. We use customer-centric software solutions to ensure that companies can fully exploit the opportunities of digitization in the best possible way. IT is increasingly becoming a significant success factor for businesses. This is an excellent position from which to be starting for our future success. The future is digital—in business, the public sector and already in many areas of everyday life.

On behalf of the entire Management Board, I would like to thank the employees of Software AG for their commitment and hard work. We would also like to thank our shareholders for their loyalty and trust. The Management Board and Supervisory Board will propose a dividend of €0.50 per share at the 2014 Annual Shareholders Meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K-H Streibich', written in a cursive style.

KARL-HEINZ STREIBICH

Chief Executive Officer

Highlights of 2014

Book publication: **The Digital Enterprise**



Software AG published the book, "The Digital Enterprise: The Moves and Motives of the Digital Leaders," in February 2014. In it, Software AG CEO Karl-Heinz Streibich presents his perspective on the changes that the digital transition currently involves for every industry, and illustrates them using more than 20 customer examples from all over the world.

Share buyback

In addition to targeted investments and acquisitions, Software AG used its high cash reserves to buy back shares. An authorization for up to a total volume of €110 million was given. The Company repurchased 8,084,101 shares (9.2 percent of the share capital) before the buyback program was concluded on February 28, 2014.

Dividends

Software AG follows a sustainable dividend policy. The Management Board and Supervisory Board proposed on May 16, 2014 to distribute a dividend of €0.46 per share for 2013. Therefore, based on the 78.9 million shares entitled to dividends, the total dividend payout amounted to around €36.3 million. The dividend ratio was based on the average free cash flow and net income and increased to 25 percent

Innovations at **CeBIT 2014**



Intelligent Business Operations was presented as a building block on the road to the Digital Enterprise: The platform based on in-memory architecture enables real-time processing of huge data volumes and provides a 360° view of ongoing business. German Chancellor Angela Merkel and British Prime Minister David Cameron visited Software AG's booth at CeBIT.

On the cutting edge of the digital revolution

Germany's Minister of Economic Affairs, Sigmar Gabriel, paid a visit to Software AG's corporate headquarters in Darmstadt in July 2014. He emphasized the urgent need for digitization in German industry. He further underscored the key role of regional initiatives, such as the Software Cluster, for which Software AG has served as the official spokesperson since April 2014.

New focus for the Consulting business

Software AG announced the sale of its SAP consulting business to Scheer Group GmbH in Q1 and concluded the transaction on May 31, 2014. The Group had already separated itself from its SAP business in Canada, the USA and eastern Europe in 2013. As a provider of software products, Software AG will focus on the development, sales and service of its own products.

Software AG turns 45

Late in May Software AG celebrated an anniversary that is not common in the IT sector: It turned 45 years old, making it one of Europe's first global software companies. Since it was founded on May 30, 1969, the Company has launched innovations on the market every decade that have helped define the technology and market trends of the time. Thanks to continuous adjustments to the market and the Company's own agility, Software AG is now Germany's second-largest software firm.

Software AG speaks for the Software Cluster

Software AG has provided the spokesperson for Germany's Software Cluster—Europe's top-performing software development network of companies, higher education and research institutions—since April 2014. Located in southwestern Germany, the cluster focuses on interdisciplinary networking and develops strategies for improving German competitiveness as a business location.

Software AG expands its Board



On August 21, 2014, Software AG announced the expansion of its Management Board by one member who will have global responsibility for Sales, Marketing and Services. Eric Duffaut (52), a senior executive with many years of sales leadership and international experience in the IT industry, was appointed to the new position of Chief Customer Officer on October 1, 2014. All customer-facing activities will be consolidated under this new position to strengthen Software AG's go-to market strategy.

Innovation World



At the annual international Innovation World customer conference in New Orleans (USA) in October, Software AG presented the latest developments for its BPE product portfolio and introduced the first Digital Business Platform to more than 1,000 attendees. It supports customers in every industry in their transformation to a Digital Enterprise, to continuously align their business models with the dynamic market environment.

Strategy and Products

Speed and agility, short innovation cycles and constant changes characterize modern digital business—driven by rising customer demands and real-time interactions. The five equally strong megatrends are driving this massive change: cloud computing, mobile, big data, social collaboration and the Internet of Things (Industry 4.0). They are changing the way that businesses collaborate with customers, partners and employees—and impact nearly every aspect of society and everyday life, all over the world.

Modern organizations must become digital. That is the only way they can compete in this fast-paced world and differentiate themselves from the competition. As the technology leader in the growth market of Business Process Excellence, Software AG has many years of expertise and an innovative product portfolio to support customers through their transformation into a Digital Enterprise.

More than 4,400 employees work in over 80 locations to enable our customers' success. We have reached critical mass in Europe's core markets and strengthened our presence in North America. In addition, we have expanded our market access in specific areas through building our sales force and establishing key partnerships. Our mission is to develop and exploit the growth potential of digital business models for our customers and enable the Digital Enterprise and the Digital Administration.

Business Lines

Software AG's products and services support an organization's entire value chain. The combination of our software and service portfolio for digitization, automation and integration of business processes is, according to numerous studies, unique to the global market. It therefore gives us an excellent competitive position in a software market marked by rapid consolidation. The Group's business activities are divided into three business lines: Business Process Excellence, Enterprise Transaction Systems and Consulting.

Business Process Excellence (BPE)

Business Process Excellence is Software AG's largest business line and at the same time its future-oriented growth driver. It focuses on software solutions for designing optimized business processes. Our cross-industry BPE suite is one of the most comprehensive and innovative of its kind. With solutions for application infrastructure and middleware software as well as products for real-time analysis, it covers all of the megatrends in IT. For our customers, this means they can take full advantage of digitization and its potential, making them faster, more efficient and above all more successful. Software AG has established itself worldwide as a leading provider in the Business Process Excellence field.

Enterprise Transaction Systems (ETS)

The traditional Enterprise Transaction Systems business line specializes in database solutions for mainframes and represents Software AG's origins. Database products from Software AG remain an indispensable key technology for a large customer base comprised overwhelmingly of well-known major enterprises. For that reason, we make sure that our database portfolio remains state-of-the-art and ensures reliable operation of business-critical applications with high availability.

Consulting

Since mid-2014, the Consulting segment has concentrated fully on supporting the Group's own software products. Drawing on their many years of proven market and methodology expertise, our consultants support customers with the implementation of BPE and ETS products. One of our key goals is the optimization of strategic business and technology investments so that customers can fully exploit the potential that our software solutions offer for digitizing their processes. They ensure integrated support for customers all along their transformation to a Digital Enterprise.

Excellent Products for the Digital Enterprise

Our entire product portfolio has been bundled into the Digital Business Platform. It contains data, integration and process platforms from our established product brands combined with aligned software products. They are geared toward supporting our customers as they transform into a Digital Enterprise. With these agile, adaptive development platforms, they can design their business processes more efficiently and adjust them with greater flexibility.

Digital Business Platform



Using a clearly-structured brand architecture, the individual product families have been separated into five core themes:

Business and IT Transformation

This platform includes ARIS and Alfabet products to support the transformation of business processes and IT.

ARIS originally began as a model to describe information systems. It has evolved into a technological platform for process excellence that enables companies to plan, visualize and evaluate processes, applications, technologies, data and organizational structures. It offers a central repository that ensures the logical integration of all information. It allows elements for planning, designing and developing solution scenarios to be reused across an organization. The platform provides all process stakeholders in an organization with

target-specific information specifically relevant to their daily work. The goal is to improve processes faster by applying more know-how and expertise from inside an organization and automatically applying it to the process design.

ARIS offers a shared environment for seamless process optimization as part of defined governance rules. ARIS Governance, Risk and Compliance Management is implemented to introduce compliance and risk management systems and run them efficiently.

Alfabet is a technology platform for planning and optimizing IT infrastructures. With it, organizations have a complete summary of their current IT portfolio, allowing them to manage it and develop a new, future-oriented architecture. The IT environment can be mapped in detail with Alfabet and everything displayed at a glance—including requirements, applications, technologies, projects, finances and risks.

Intelligent Business Operations

This platform contains the webMethods (operational intelligence) and Apama (streaming analytics) products for big data analysis and decision logic.

webMethods bridges a service-oriented architecture (SOA) with process automation/optimization and real-time monitoring and control applications. With the help of this platform, partner, in-house, cloud and legacy data as well as systems, services and devices can be integrated into consistent, optimized business processes that can be automated, managed and monitored. Organizations can use data from their existing systems to develop and operate automated, flexible and efficient business processes. This is achieved with Web-based programs, known as Web services, that form an independent integration layer over existing systems. Web services are unique because they can be reused in their entirety and partially to create new processes efficiently.

Apama is a flexible, high-performance platform for real-time development of event-driven applications. These include specific solutions for investment banks, funds and other institutional traders, for example, automated algorithm-based platforms for security and currency trading or market monitoring and surveillance applications. With Apama, companies can analyze entire business transactions and customer interactions in real-time as well as recognize big data patterns during transmission and correlate and aggregate the data.

Agile Processes

This platform includes the webMethods Business Process Management and webMethods Agile Apps products, which enable the development of agile applications.

Integration

This platform component bundles the webMethods for Integration and webMethods for API Management products for integrating systems and processes. New IT applications often need to be aligned with applications at partner companies, cloud applications and the existing IT landscape within a company. Products in the integration area support these activities.

In-Memory Data Fabric

This platform consists of the Terracotta solution for managing enormous amounts of data (big data) in real time. It is based on in-memory technology that searches these huge data volumes and retrieves results in microseconds, since they enable the storage of massive data amounts in the central repository and allow extremely fast processing. The Terracotta product family improves the performance and scalability of applications that work with large volumes of data. These products are integrated with the Apama products for Intelligent Business Operations.

Transaction Processing

Adabas is the most efficient database management system for mainframe computers. Even four decades after its first installation, its performance is still superior: The system is able to process 320,000 calls or 80,000 transactions per second. The database is employed primarily on mainframes. Natural is a development environment that allows users to create new programs and modify existing ones. It is the basis of hundreds of thousands of mainframe software applications in connection with Adabas or DB2 in the mainframe environment that support the core processes of organizations across all industries.

Software AG Cloud

This cloud-based Platform-as-a-Service facilitates collaboration in social networks and via mobile devices, and can be integrated with existing systems in hybrid cloud environments. It consists of: ARIS Cloud for collaborative process optimization that enables cross-department/location collaboration for improving requirements management and business processes; Alfabet Cloud as a cloud-based service for immediate, intuitive IT portfolio management; webMethods Cloud for process integration through the cloud; and webMethods AgileApps Cloud for process-driven, situation-specific visual modeling without the need for programmers.

Together, the ARIS, Alfabet, webMethods, Apama, Terracotta and Software AG Cloud families form the BPE business line. Adabas and Natural comprise the product offering in the ETS business line.

Software AG has established itself as a technology leader in the BPE market segments. According to Forrester and Gartner, we are positioned as a leader in 13 market sectors with our products.

Recognized by leading market research firms

		software™
	Application Integration Suites	•
	Application Services Governance	•
	Business Process Analysis Tools	•
	Business Process Management Suites	•
	Enterprise Architecture Tools	•
	Governance, Risk and Compliance	•
	Integrated IT Portfolio Analysis Apps	•
	Big Data Streaming Analytics Platforms	•
	EA Management Suites	•
	Elastic Caching Platforms	•
	Hybrid Integration	•
	Integrated SOA Governance	•
	SOA Service Life-Cycle Management	•

45 years: a culture of innovation

Our entire Company history is characterized by a distinct innovative power. Late in May 2014, Software AG celebrated an anniversary that is not common in the IT sector: It turned 45 years old. Founded in 1969, it became Europe's first global software company that still exists today. This is an impressive feat in a fast-paced IT industry marked by very short innovation cycles, the coming and going of IT providers, global competitive pressure and rapidly changing market trends.

Since its inception, Software AG has succeeded in continually adjusting its product portfolio to suit market changes. Keeping our eye firmly focused on our customers' success, we have paved the way for IT innovations and pioneered digitization. With our vision of the Digital Enterprise, we have positioned ourselves as a global strategy leader in the area of digitization.

Software AG has launched innovations on the market every decade that helped shape the technology trends of that era. In the 1970s—a time dominated by mainframe computer systems—Software AG brought the Adabas database management system to market, launching the greatest commercial success in the Company's history. Natural followed in the 1980s as a complementary system to Adabas. It provided an IT environment that simplified database programming.

With the widespread expansion of the Internet at the end of the millennium, Software AG developed Tamino, an XML database management system that played an important role as an enabling technology on the road to service-oriented architecture (SOA). The first decade of the new millennium ended with a global financial and economic crisis that required all types of industries to adjust their business models and IT. For that reason, the focus on business processes was revolutionary, yet it brought about a breakthrough for business agility: With its product platforms for BPE, Software AG is providing key technologies to make future events predictable and enable fast reactions. Renowned market analysts confirm it—our product portfolio for Business Process Excellence leads the market.

Employees

Change is the only constant—this saying is especially apropos for the IT market. A leading software firm can only compete in the global marketplace with highly innovative and agile employees, with people who are aware of the constant changes in the market and take a solution-oriented approach to challenges. To achieve this goal, we support our employees with a systematic and comprehensive range of human resources activities.



Software AG is a business by people, for people. Our people make our brand special. As we work on continuously improving our product positioning, we also see the need to further strengthen our image as an appealing employer. This is particularly important in times of trained personnel shortages, which our industry has been experiencing for years. For that reason, we refreshed and reinvigorated our employer brand in 2014. Since employees are the best brand ambassadors, we concentrate not only on recruiting talent from outside, we also focus on the satisfaction and motivation of existing employees. And success has proven us right: We received an HR Excellence award in December 2014 for our new guiding principle as an employer, “Powering the Digital Enterprise. Personally.”

Understanding change as an opportunity, accepting change with optimism and helping to shape it: That is our strength—and our responsibility at the same time. As a software pioneer and partner for our Digital Enterprise customers, we

have to exhibit maximum agility. We are armed for the digital revolution with flexibility and innovative power to actively participate in shaping change. The principles guiding our employee and our management culture reflect these lofty goals: independent and creative thinking, ongoing professional development as well as diversity, proactive initiative and commitment.

In addition to expanding the employer brand, HR activities in 2014 concentrated on comprehensive professional development, e-recruiting, integrated talent and performance management, consistency in the remuneration structures and increasing educational offerings. This requires the expertise, powerful ideas and problem-solving skills that our managers and senior specialists need to accompany customers through a successful transformation. Software AG pursues a holistic staff development approach for all employees—from trainees to senior management. As an appealing employer, we support the innovative power and

international career opportunities of each individual as well as flexible work times and personal leeway. All HR measures take place regardless of culture, gender or nationality. Diversity is part of our identity. We promote the hire and retention of qualified women; about 20 percent of our managers are female. We are aware: In a world that is constantly changing, targeted staff development is more important than ever.

Recruiting new talent from within our own ranks is a fundamental principle at Software AG and an important incentive for our employees. Through our Career4U talent management platform, we are able to foster our employees' diversity of personalities and skills and promote them specifically. This helps employees and their supervisors agree on an individual development plan, define personal goals and evaluate and implement the results of annual performance reviews. Anyone who wants to conquer the market needs endurance. With this comprehensive development program, our employees can make long-term plans and pursue their own specific career path.

In 2014, all employees were placed on an internationally consistent remuneration and incentive system for the first time in Company history. This brings the advantages of comparability for global jobs, professional salary benchmarking, market-appropriate compensation offers as well as standardization of titles and career paths. In this effort, we tackled the challenge posed by the constant pressure of change: All HR processes have been completely digitized and are scalable—all over the world. Paper CVs are now passé thanks to e-recruiting, and the same applies to the recruiting process. With the help of our onboarding process tool developed in-house, new employees receive systematic training and orientation. The hiring processes were also harmonized and optimized at the same time.

These days social media and mobile systems are important for winning and securing young talent. To that end, we have introduced one of the most innovative solutions on the market for employee recruitment: an e-recruiting system based on social media. The HR team achieved a visible presence on social networks quickly and efficiently using this add-on module for the Career4U talent management platform. In addition, we also built up an external talent

pipeline (talent community) for finding passive candidates who are not searching for a job, but are interested and often highly qualified.

Group-wide efforts to promote enthusiasm for technology, expert knowledge and management expertise in an increasingly diverse staff hold a high priority for us. Our training offerings are customized and take into account different learning generations and methods. They range from information and integration days for new employees to sales training and programs for managers (High Potential programs), from soft skill training to technical subjects at our Corporate University. Employees who distinguish themselves through excellent performance have the opportunity at Software AG to develop their potential through multi-level training programs. The goal is always to impart expertise, leadership, strategy, innovation and responsibility.



Corporate University & University Relations

Knowledge is a raw material that grows the more it is used. This principle applies especially to modern professional life in the information age. Software AG operates its own Corporate University for that reason, offering a broad range of training in technical as well as specialty skills. Aside from that, we consider it important to discover and foster young people's potential through the University Relations program before they even enter the professional world—and to win new rising talent.

Corporate University

The requirements facing experts at Software AG are increasing all the time. These days a committed employee must keep on learning in every regard, whether it is the latest IT trends, process innovations or international communication necessities—just as our entire Company must keep reinventing itself in light of constantly changing market conditions. That requires lifelong learning, because it takes systematic broadening of horizons, the creative exchange of ideas and effective real-world application of new knowledge to make a company into an innovation and market leader.

In fiscal year 2014 we continued optimizing our own training academy, Corporate University, and updating our state-of-the-art learning management system. This appealing training environment allows both collaborative work in virtual learning spaces as well as informal knowledge sharing through forums and chat rooms. In keeping with current trends, we also established the technical conditions to allow mobile learning so participants have access both online and offline. Now our employees can learn anytime, anywhere, using any device. Fittingly, independent e-learning offerings were also expanded in comparison to in-person training sessions.

Training development was integrated into the software development process, so now the Corporate University is able to provide seamless support with technical seminars for Software AG products. This has all made learning more efficient and effective for our employees, partners and customers. In the future, the Corporate University will focus on providing excellent partner qualification—acting as a knowledge multiplier and hence contributing to our partner ecosystem expansion.

University Relations

In addition to internal qualification, recruiting outside talent also plays a crucial role. Software AG follows an easy and sustainable recipe for success when searching for premium young talent: Providing today's enthusiastic students with the best possible education will pay off in the future. Through the University Relations program, Software AG maintains close contact with colleges and universities and provides them with select software products for teaching and research free of charge. 940 schools in 72 countries and more than 18,000 students have taken advantage of this opportunity to date.

The University Relations strategy comprises three core components:

1) High-value projects: These are projects that transform ideas to innovations—from the classroom to the market, from research findings to market-ready solutions. Through this program, we help students and academic institutions develop their ideas and research findings in a practice-oriented manner. Give creativity free range. In keeping with this motto, we launch our idea contest for students and educational institutions worldwide twice a year: once for the world's largest technology tradeshow, CeBIT in Hannover (Germany); and second for our annual Innovation World customer conference held in the USA. Teams of students are called on to submit innovative ideas and concepts based on our products. Winners are awarded a grant of up to €10,000 and have the chance to present their concept to a broader audience at the event.

A large photograph showing the silhouettes of several graduates in academic regalia, throwing their mortarboards into the air. The scene is set against a bright blue sky with the sun visible, creating a celebratory atmosphere. The graduates are positioned in the lower half of the frame, with their caps flying upwards towards the top half.

940

colleges and universities
in 72 countries use free
software products for
teaching and research.

The Fast Startup Program started in 2014 also builds on this pillar. It aims to not only support young businesses as they are being founded, but also to promote their success long-term through a close partnership. As part of this concept, young entrepreneurs receive our technology for developing their solutions free of charge in the first few years. At the same time, they can draw on Software AG's extensive network, expert knowledge and other technology partners. This creates strong, future-facing alliances.

2) The high-volume program: This second component was established in 2012 and addresses the long-term high demand for free Software AG products for teaching and research purposes. Young scholars and professors can download full versions of the ARIS software, for example. Additional software packages for teaching and research are offered through the TechCommunity portal.

3) Recruiting: The third component we use is the opportunity for recruiting new employees through close collaboration with academic institutions. Especially in times when there is a shortage of skilled labor, we stay in constant contact with well-trained college graduates and young scholars as potential Software AG employees. For example, we offer regular visits to Software AG facilities and guest lectures.

As part of the expansion of the University Relations program, the House of IT (HIT) was established in 2011 in Darmstadt and was an important step in strengthening the European software sector. The Hessian state government and partners from science and industry—including Software AG—jointly founded HIT to promote close collaboration, drive innovation and create jobs.

Our multifaceted activities geared toward attracting and supporting young talent play a key role in securing Software AG's long-term competitive edge and success.

Social Responsibility

For Software AG, corporate responsibility means taking responsibility for the effects of our activities on society. It serves as a tool for integrating all sustainability concerns—economic, environmental and social—into our business activities and interrelationships with stakeholders.

Software AG views sustainability not only from the ecological perspective. Sustainability as we understand it refers to the creation of long-term value. The relationships to our customers, our technology, our partnerships, investments in our Company and the expertise of our employees are values that we have fostered and maintained for years—to the benefit of our shareholders and society as a whole. Sustainability and responsible action are guiding principles for our Company. It is important to us to handle resources responsibly to achieve sustainable economic, environmental and social progress. Only companies that do business sustainably while conserving resources and taking guidance from values will be successful over the long term.

We focus on people at Software AG. Employees are the most important success factor for a software company, which is why we adhere to the concept of collaborative empowerment: actively promoting independent action and collaboration, fostering professional and personal development.

Targeted personnel development is increasingly important as our world is constantly changing. The digital revolution and the speed of change require the greatest flexibility and innovative power—from us as a company and from each individual employee.

Software AG offers a whole bundle of measures for strengthening our employees' motivation and fitness. They range from continuing education opportunities in the area of health skills to flexible working hours with home office options, from 13 different Company sports groups to annual health events, and from managing reintegration into the workplace to "leading healthily" management coaching.

Motivation is created through solidarity: For example, the "Move your feet to give a hand" campaign has been running for seven years. It bridges the gap between Company sports, team spirit, charitable activity and athletic commitment. Ultimately, the capacity for teamwork develops where



Software AG staff at the JP Morgan Corporate Challenge 2014 in Frankfurt, Germany

people overcome challenges together—where people motivate and encourage each other, where they stick together and celebrate shared successes. For every kilometer run by our employees at official races, Software AG, employee representatives on the Supervisory Board and the Software AG Foundation all donate a fixed amount. These athletic challenges from all over the world generate donation funds totaling more than €40,000 a year. We support our employees' volunteer social engagement and are proud that so many of our colleagues participate in numerous civic projects around the world, whether in New York, São Paulo and Frankfurt, Israel, South Africa, Malaysia and Australia, to name just a few examples.

Values like trust, respect, openness, dedication and transparency shape our global business activities. This becomes even more important as our employee structure becomes more diversified. For that reason, Software AG implemented guidelines in every area that ensure positive, responsible corporate governance. In addition to our compliance with the German Corporate Governance Code, Software AG established a Code of Business Conduct and Ethics in the year 2011. This voluntary commitment defines the ethical and legal framework for our business activities and relationships with employees, customers, business partners, shareholders and competitors.



Software AG hosts German Minister of Economic Affairs Sigmar Gabriel and State Secretary Brigitte Zypries

Software AG is committed to a variety of social projects, particularly in the area of education and innovation. Since April 2014, Software AG has provided the spokesperson for Germany's software cluster—Europe's top performing software development network of companies, higher education and research institutions with more than 11,000 companies and over 120,000 employees. The cluster promotes the interdisciplinary networking and development of strategies that strengthen Germany's role as a center of business while securing a large number of highly skilled jobs. Some other areas of commitment are our active participation in the German government's annual IT summit and in the BITKOM IT association.

And finally, Software AG and its product portfolio contribute to social progress through digitization—also in developing nations. We contribute to equal opportunity for people in every region, to long-term economic success, improved quality of life in every society and adding value while protecting the environment.

Sustainability is close to our hearts and we are aware of the relevance of our activities for the environment and society. Social responsibility is firmly ingrained in our identity. Part of Software AG's DNA is our link with the charitable Software AG Foundation, which was established more than 20 years ago by Company founder Peter Schnell. Holding around 29 percent of shares, the foundation is an important anchor investor providing Software AG with long-term independence and its employees with job security. It is one of the top-10 largest charitable foundations in Germany and supports social projects around the world to the tune of around €25 million per year.

Research and Development (R&D)

In a globalized, extremely dynamic and digital world, a software company can only grow sustainably with ongoing innovation. As a market-leading company, our goal is to continually enhance and develop our product portfolio. That is why Research and Development (R&D) plays a key role in our business and growth strategy.



In 2014 Software AG's R&D strategy combined customer-centric development of existing solutions, new product innovations and the systematic integration of technologies acquired through the previous year's numerous acquisitions. Joint research projects with colleges and universities, partners and users provided valuable insight as well. This R&D mix is the foundation of Software AG's technology lead. Our focus is always on our customers because only those innovations that offer a clear added value and enrich our customers' value chains are successful in the market.

Our software solutions have already shaped the market in many ways. Time and again, Software AG has launched new base technologies on the market that helped shape the technology trends of that era—from Adabas, the first high-performance database, to ARIS, the first platform for analyzing business processes, and from webMethods, the first SOA-based integration platform, to the first Digital Business

Platform. Analysts confirm regularly that our product portfolio for business process excellence occupies a top position—a competitive advantage that we continue to expand largely through in-house research and development supplemented by selected technology acquisitions and close networks with other technology companies and research institutions.

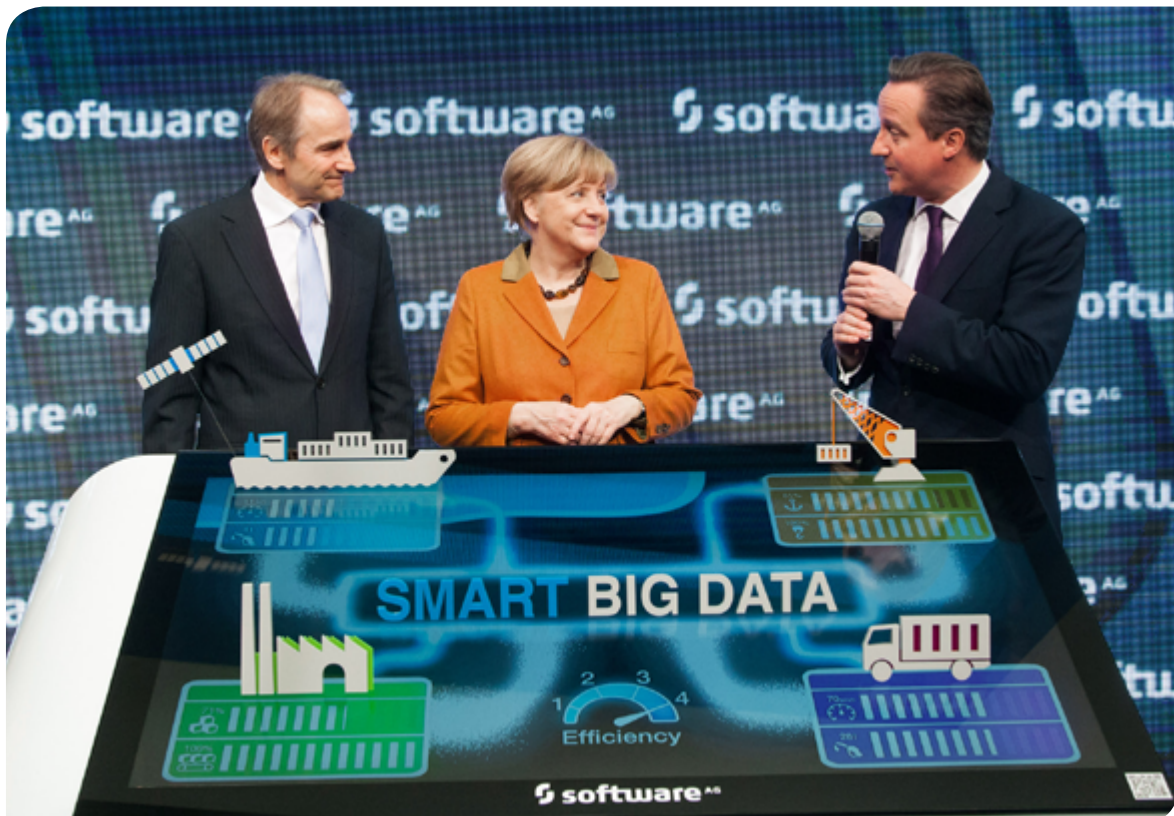
In light of the intense pressure of change in our market environment, we have increased our own speed of innovation. We now pursue a development cycle of only six months for each new product version: It used to be 18 months. In order to turn innovations over to the market quickly, to secure interoperability of the product lines and to give customers planning security, Software AG will unveil the new versions of its products twice a year, at CeBIT in the spring and at Innovation World in fall. The new versions of Software AG products released in fall 2014 already follow this six-month cycle.

To fully support our customers' value chains digitally, Software AG has been bundled its products into the first Digital Business Platform. This platform, which was presented at the Innovation World customer conference in New Orleans, is the result of many years of investments in acquisitions and in-house R&D. With the introduction of the Digital Business Platform, Software AG has become a thought leader in the area of digitization. It stems from the recognition that the existing standard for systems implemented over the last 20 years will not meet the requirements of the digital world. Flexibility and agility are essential today when it comes to meeting new business requirements.

The Digital Business Platform is based on five key functional elements: Business/IT Alignment, In-Memory Fabric, Integration, Agile Processes and Intelligent Business Operations. All Software AG BPE products are combined in this platform: They supplement and build on each other.

Based on our market-leading application, infrastructure and middleware technology, the platform will support customers in their digital transformation. It ensures that the existing conventional applications can keep up with the dynamic pace. The development platform is so agile and adaptive that customers can quickly develop applications and adjust them to new circumstances. Furthermore, backend applications like standard business applications can be integrated with flexible, easily-adaptable frontend apps. Streaming analytics and in-memory technology increase agility. This establishes the basis for innovative products and services that the business can use to set itself apart from the competition.

In addition to the Digital Business Platform, we also significantly expanded our existing cloud offering in 2014. ARIS Enterprise Cloud, Alfabet Enterprise Cloud and webMethods Cloud Integration were also presented as new enhancements



Karl-Heinz Streibich welcomes Chancellor Angela Merkel and Prime Minister David Cameron at Software AG's booth during CeBIT 2014

at Innovation World, giving Software AG an appealing cloud offering that meets its customers' needs. Businesses are tending more and more to lease software functions as a cloud service rather than purchase a license and access them through the internet. In this type of cloud model, customers do not have to invest in their own hardware and they also do not need their own IT experts to manage the system. The cloud provider supplies all of this—bringing major cost and flexibility advantages for customers.

Beyond that, Software AG also presented the new API Management solution at Innovation World. APIs (application programming interfaces) are increasingly becoming a type of enabler for new software architectures. Cloud and mobile applications communicate with backend systems or other cloud solutions through APIs. In the future, APIs will handle the integration of company business applications across departments and borders. As such, they are the new "glue" of software components.

In October 2014, Software AG announced the new version of its Apama Streaming Analytics platform with its unique scalability and performance. Thanks to its innovative multi-channel processing approach, an individual computer's performance is increased by 20 times to over 32 million events per second. For industries such as financial markets, where Apama leads the market, high-performance applications with low latency are a key prerequisite for high-frequency trading, electronic currency trading (eFX), market surveillance and risk management.

Over the next few years, the Digital Business Platform in 2014 will be a focal point of development activities. Software AG is represented in all the new, forward-looking areas of IT with innovative solutions regarding cloud computing and the Internet of Things (Industry 4.0). Digital economy, the keynote theme of CeBIT 2015, addresses the digital revolution that is ever more strongly shaping our workday and personal lives in both our economy and society. The Internet





of Things and all-encompassing networking are strongly driving the development of business models, processes and products. Big data and cloud computing, mobility, social networks and data security issues pose major challenges as

well as major opportunities, especially for a traditional business location like Germany. At the tradeshow, Software AG will use its Digital Business Platform to show how every company can take advantage of these opportunities.

Mergers and **Acquisitions**

A leading software company needs to constantly develop its innovation portfolio—and quickly. Therefore in addition to its own R&D efforts, Software AG is pursuing a strategy of strengthening organic growth through targeted acquisitions.

As fast-paced as today's IT market is, Software AG has to adapt its solution platform to changing demands just as quickly. However, with the current speed of change, a company cannot develop everything itself. It needs to follow trends that move at lightning speed, seize on momentum from outside and incorporate the special expertise of other companies and startups. To utilize the dynamic drive and powerful ideas from other companies and geographical regions, Software AG has made several technology acquisitions over the last few years and integrated them successfully.

Throughout its 40-year history, Software AG has succeeded in regularly transforming and sometimes even reinventing itself. Market analysts consider this agility a key prerequisite for successful companies in today's IT world. This is how Software AG has supplemented its traditional database business with the new, future-facing Business Process Excellence (BPE) business line over the last decade. To this end, Software AG has acquired over 14 companies since 2007. The major companies it has purchased include: web-Methods (2007), a leading provider of integration technology; IDS Scheer (2009), the market leader in process modeling; and Terracotta (2011), innovative experts for in-memory data management.

The primary objective of these acquisitions was to acquire new, innovative technologies that have the potential to strengthen Software AG's leading business position as well as open up access to new fields quickly. These days, a company that develops software for itself from the ground up needs four or five years to bring a stable product to the market. By acquiring the right technology early on, we gain time—and a time advantage is critical for success. Innovation cycles in the software industry are extremely short.

In 2013, a total of five technology acquisitions were made to supplement the innovative BPE suite. For that reason, we focused on the systematic integration of these acquisitions in fiscal year 2014. In addition, Software AG completed the

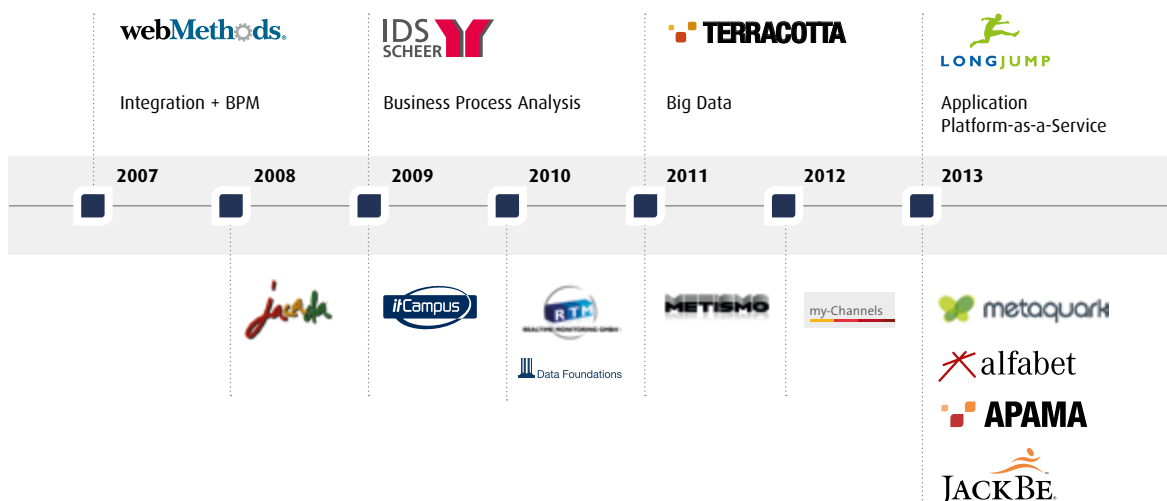
full takeover of Berlin-based metaquark in Q1 of 2014. With this step, metaquark's technology for mobile applications was integrated into the IPO platform and the BPM product portfolio. Now Software AG can offer a comprehensive solution to companies that need a platform for mobile enterprise applications. ACG National Capital, a U.S.-based network organization, recognized our 2013 acquisition of JackBe, a provider of real-time data visualization and analysis software, as the strategic M&A transaction of the year in the category up to \$100 million.

The systematic integration of acquisitions from 2013 has led to success: With its new Streaming Analytics Platform, industry analysts have named Software AG a global leader in a core function of the Internet of Things—an important emerging market. This platform is based on products acquired with Terracotta, Universal Messaging, Presto and Apama. This recognition provides a clear confirmation of the quality of the M&A strategy and resulting integration measures.

On May 31, 2014, Software AG concluded refocusing its Consulting activities with the sale of its SAP consulting business to Scheer Group GmbH. The transaction included all SAP services in Germany, Austria and Switzerland (DACH) and is a result of the Group's focus on its profitable product business. Software AG phased out the SAP consulting business in three steps: In January 2013 the Company divested its SAP operations in Canada and the USA. That was followed by the sale of its SAP consulting unit in eastern Europe a few months later. And, finally, the sale of operations in the DACH region in 2014 concluded the consolidation of Software AG's SAP service activities. As a provider of software products, Software AG will focus on the development, sales and service of its own products.

Software AG launched a venture capital program at the end of 2013 with the goal of investing in high-growth startups. At its core, the program addresses the issue of how we can recognize innovations early on where completely new

Acquisitions at a glance



markets are emerging—and which markets have growth potential. With an acquisition, a company needs to strategically fit into our portfolio and have a certain degree of maturity. But with innovative startups, it is about participating in a very early phase rather than acquiring the business. We want to participate in developments outside Software AG's focused business model and learn from agile young entrepreneurs with powerful ideas. Up to now we have invested in three companies, which are located in California and have some tie to Europe: Datameer develops software for big data analysis, iCharts creates software for cloud-based data visualization and Traxpay offers a payment service for companies that want to be able to access synchronized transaction data in real time through the Internet 24/7. By holding a seat on the board and participating in strategic meetings, we gain insight into innovative markets.

M&A activities are a key component of our value chain and our continued value-oriented growth strategy. In order to identify emerging potential and target companies, the Mergers & Acquisitions (M&A) department was relocated to California. Due to the high number of globally leading IT companies and the prevalent start-up culture in that region, Software AG is actively involved in quickly identifying and exploiting future trends in the IT sector.

To ensure that the financial investment in an acquisition is worthwhile, good integration after the transaction is crucial—the product portfolios, processes, organization, human resources and different corporate cultures. That is one of Software AG's special strengths. Our experience with integration helps us deepen and accelerate our own innovative power. Integration is an essential key and driver of greater innovative force. To support this effort, an integration manager was named in early 2014. We have implemented risk-minimizing processes for the time before and after the acquisition. We thoroughly review beforehand whether an acquisition—a technology, market access or culture—is compatible with Software AG and what synergy potential exists. In the integration phase we identify potential problem areas based on established control mechanisms. It is important for us that the employees, organizations and customer projects merge smoothly and that Software AG's overall value increases. We built our successful BPE business this way and actively grew it.

Sales

Customer requirements in the digital age are becoming increasingly differentiated. In order to better address customer needs on the road to the Digital Enterprise, Software AG is working to become an entirely customer-centric company.

Software AG has used countless tradeshows and customer events throughout the year to pursue in-depth discussions with customers, interested parties, partners, industry experts and opinion leaders. As with every year, the season opened with CeBIT in March 2014 in Hanover (Germany) and focused on an audience of expert professionals for the first time. Using current use cases, we demonstrated what businesses on the road to the Digital Enterprise need to pay attention to and how they can achieve the transformation with the help of cutting-edge software solutions. Software AG also hosted a high-level panel of experts with representatives from the realms of business, politics and research to commemorate the recent publication of the book by Karl-Heinz Streibich, "The Digital Enterprise: The Moves and Motives of the Digital Leaders." The visit of German Chancellor Angela Merkel and British Prime Minister David Cameron to Software AG's trade-show booth was a particular highlight. They were won over by our products and how they can lead to significant cost savings and reduced workloads in logistics companies.

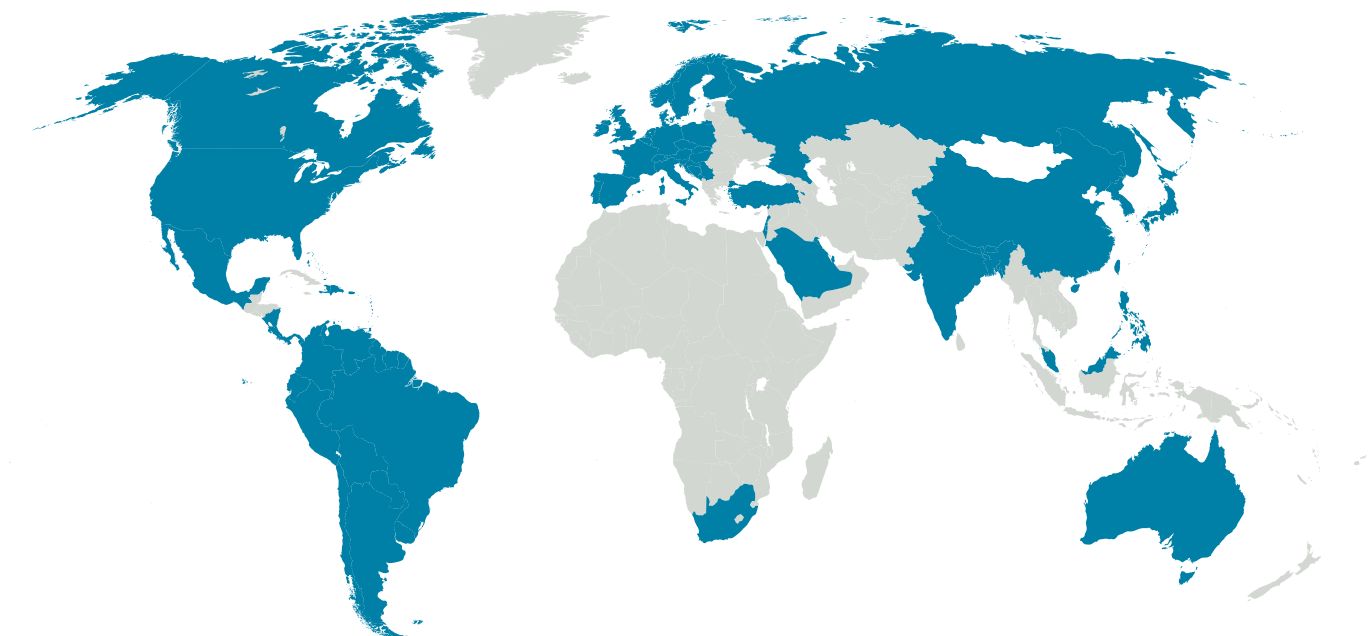
Where Digital Leaders Connect: Under this keynote theme, Software AG invited customers to its annual Innovation World customer conference in New Orleans (USA) in October. More than 1,000 customer representatives and industry experts from a wide variety of countries came together to discuss trends and specific implementation cases. Software AG introduced the first end-to-end Digital Business Platform. Customers can use it to develop their own adaptive business apps and accelerate their transformation to the Digital Enterprise, and to continually adjust their business models to suit their dynamic market environment.

Software AG's goal is to become a completely customer-centric company. To support this objective, all customer-related activities were bundled under a newly-created Management Board position. Eric Duffaut, a senior executive with many years of international experience in the IT industry, was appointed to the new position of Chief Customer Officer (CCO), responsible for Sales, Marketing and Services.



Panel discussion on the Digital Enterprise at Software AG's CeBIT 2014 booth

Software AG's global presence



Combining all customer-facing activities in this new area will strengthen Software AG's go-to-market strategy. Moreover, this new organizational structure will accelerate Software AG's own transformation course.

We aim to be the preferred strategic advisor and partner for every customer. To show businesses in every industry the specific value that Software AG can add, Eric Duffaut, the new CCO, has introduced a focused and scalable go-to-market strategy. Based on clear customer segmentation, this new go-to-market model aims to optimize market coverage, maximize customer touch points, increase Software AG's relevance and ultimately drive profitable growth. It further leverages an industry solutions-centric approach and an expanded ecosystem of partners as a true extension of Software AG's sales and services forces to improve sales efficiency. Increasing our knowledge of each individual customer, their challenges as well as opportunities, and changes in their market environment will put us in the position to find the optimal solution for our customers and improve their competitiveness. Businesses want to score measurable advantages with their digital financial investments and we

can demonstrate these advantages to them using real-world use cases and ROI calculations via a value-based selling approach.

With these efforts we are laying the foundation for long-term business relationships with our customers and ongoing maintenance revenues. We were already able to make progress in boosting sales efficiency in Q4 of 2014. The focus on value-based selling and improved sales productivity is already bearing fruit.

Partner Ecosystem

In addition to a powerful sales and service organization, partnerships and alliances form a key cornerstone of Software AG's business model and a key value driver for our customers. The partner ecosystem ensures industry-specific solution expertise as well as seamless worldwide market sales and services coverage across all customer segments.

Software AG continued to drive the expansion of its partner ecosystem as well as cooperation models for various partner categories in 2014. Our existing and ever expanding ecosystem of almost 300 partners is actively supported by the regional Software AG partner managers. They recruit local sales and service partners in the individual countries and manage them through close and intensive collaboration. We place great value on high-quality training and qualification in our partners, which includes all tried-and-tested methods for successfully communicating educational content. The PowerUp program gives partners intensive support and attractive conditions—and sponsors the necessary enablement programs. Our offerings were also expanded by setting a wide variety of collaboration models.



Building strategic alliances was a focal point of partner management in 2014. Partnerships were strengthened in particular with Accenture, Capgemini, Cognizant, Infosys, TCS and Wipro. Additional business areas were added with the service divisions of leading auditing firms Deloitte and PWC. In these efforts we utilize a 360° approach: We market Software AG products through our partners as well as engage in joint innovation development for new application solutions—essentially following the co-innovation principle.

The positioning of Software AG's cloud-based products is gaining in importance. Partnerships with leading providers in the fields of cloud infrastructure and applications are playing a more crucial role. For example, we enhanced our collaboration with Amazon Web Services in the area of Infrastructure-as-a-Service (IaaS) in 2014. We also launched a partnership with Salesforce.com, the leading provider of Customer Relations Management (CRM) software, on the topic of hybrid cloud integration in December 2014.

Our products are excellently suited for supporting the many different requirements a business will face with the fast-progressing pace of digitization. For that reason, we pushed full-speed ahead in establishing an original equipment manufacturer (OEM) partner model. This is where we support solution and service providers in developing and optimizing their specialized solutions with the help of our technologies, and marketing them on their own. After a successful start in the North American market, the OEM program is being rolled out in additional regions.

The fact that the importance of this partner network is growing is reflected in the increasing participation of partners at our events. Our annual Innovation World customer conference held in New Orleans in 2014 saw the highest level of partner participation ever. More than 1,000 customers and partners attended the conference. Innovation Days organized at the regional level were also enhanced by numerous



contributions and solution scenarios from our partners. The Partner Summits initiated by Software AG's regional and country organizations have proven to be an excellent platform: They foster active experience sharing between Software AG and its partners about important new updates, trends, products and technologies.

To support the goal of profitable growth, we are focusing on significantly increasing the revenue contribution from our partners in the next few years. We have clearly recognized the advantages of a successful partner ecosystem—better economies of scale, broader market coverage, faster innovation and greater customer relevance—and anchored them in our new go-to-market model.

As one example of co-innovation, Software AG and leading IT service provider Wipro announced a joint development of IoT (Internet of Things) solutions for smart, networked products in January 2015. To utilize the vast potential created by combining streaming analytics with the Internet of Things or Industry 4.0, the international IT, consulting and outsourcing company will use Software AG's Digital Business Platform

to develop its IoT solution. This will enable companies to respond to events in real time with nearly unlimited scalability and make dynamic adjustments with streaming analytics.

Growing the partner ecosystem will have high priority in the coming years, and it will affect all of our models for cooperative partnerships—OEM, resellers, sales and service partnerships, strategic alliances, cloud partnerships and innovative collaborations.

Customers

Businesses today are constantly facing new challenges: Digitization is accelerating nonstop and demands constant adjustment to these changes. Having agile IT gives companies an opportunity to create enormous competitive advantages. Software AG supports its customers with innovative technologies to become an agile Digital Enterprise. Here are few examples of success stories by customers who are successfully employing Software AG's product portfolio:

Zurich Airport

FLUGHAFEN ZÜRICH

The Zurich Airport is Switzerland's gateway to the world. Around 25 million people depart, arrive or change flights here, making it the region's top transit hub as well as its most important meeting place. Around 280 companies employ more than 25,000 people at the economic driving force that is Zurich Airport. The airport's infrastructure is highly complex and must meet the requirements of a wide array of user groups: passengers, airlines, ground crew, customs, security services and air traffic control to name just a few. Vastly different systems are used for these tasks, requiring millions of data to be transferred among them every day. To ensure quick and precise integration at all times, Flughafen Zürich AG utilizes the standard-based, platform-independent webMethods product suite. It was used to develop StarGate (service-oriented architecture gateway), the backbone for smooth data sharing between all of the instances involved in a business process.

"With webMethods, our in-house team of experts can respond quickly and efficiently to a wide variety of integration requirements without detouring through external service providers."

Dietrich Summer, Head of Data Management and EAI, Flughafen Zürich AG

Coca-Cola

Coca-Cola Erfrischungsgetränke

Germany's largest beverage company, Coca-Cola Refreshments, has 9,800 employees in 24 locations who generate a sales volume of nearly 4 billion liters a year. More than 1,000 delivery trucks and 400,000 sales partners deliver over 80 consumer products. Rapidly changing consumer trends require frequent product innovations as well as fast go-to-market strategies. Furthermore, the Coca-Cola Company is working to double its revenues worldwide as well as improve processes in its Vision 2020 plan. To this end, the German subsidiary was selected as a pilot center for introducing a global process model. More than 1,000 business processes were harmonized in central areas; 75 percent of existing applications were affected. The decision to go with Enterprise Architecture Management (EAM) was a clear success factor. ARIS Publisher with IT Inventory was implemented to manage the high degree of complexity and dependencies in the IT landscape. Products and process consulting from Software AG enabled the optimization of the IT landscape and simplified internal planning and change processes. The key to success: a fast, radical transformation of the corporate IT without incurring risks.

"Software AG is one of our two main consulting partners. The complexity of our major project required an excellent methodology and clear implementation of best practices. We discuss things together and find the best solution—the synergies are really good."

Alexander Grobe, Manager of Enterprise Architecture and Innovation, Coca-Cola Refreshments

ING Bank

With 63,000 employees, the Dutch financial institution, ING, specializes in private and commercial banking services and serves customers in more than 40 countries. ING also plays an important role as a stakeholder in large insurance companies. Improved and automated global trade monitoring and control enables ING to realize complex trading solutions faster. With Software AG's Apama Analytics & Decisions Platform, the financial service provider was quickly able to better integrate data analyses of the financial markets while at the same time adhering to complex regulatory requirements. ING is now able to meet dynamic business requirements faster and better than ever before. Thanks to these improvements, ING now often needs only three months to develop innovative financial solutions—instead of 18 months.

"Software AG connects with us on a shared understanding of our concerns. It is a mutual exchange, a common vision of how technology can bring us forward and how we can exploit its potential."

Colin Brooker, Business Manager, ING Commercial Banking Financial Markets

Association of Statutory Health Physicians (KV)



KV Hessen, the Association of Statutory Health Physicians of Hesse, represents around 11,000 doctors and psychotherapists to lawmakers and insurance companies. In addition to ensuring comprehensive coverage of outpatient medical care in the state of Hesse, KV guarantees insurance companies that all services are provided in accordance with regulations. An outdated and heterogeneous IT infrastructure that had grown over time made the administrative effort inefficient. And the number of different database systems and IT applications grew larger and more confusing. With the help of webMethods und ARIS, KV Hessen was able to optimize its core processes and will see efficiency improvements of up to 25 percent. Now the association will realize enormous

cost savings and achieve the ROI within the second year of its IT modernization.

"With the help of solutions from Software AG, we will be able to digitize up to 80 percent of our processes by the year 2020."

Alexander Bender, Head of Internal Services, KV Hessen

Ekurhuleni Municipality, South Africa



The South African municipality of Ekurhuleni provides comprehensive administrative services for more than three million citizens of the East Rand region, one of the most densely populated areas in South Africa. In the last two years Ekurhuleni has implemented a digital modernization program and shortened its response times for many administrative services by up to 70 percent. Using Software AG's webMethods integration technology, service was optimized in six areas: energy, water and sewer, law, urban development, infrastructure and health and social services. Processes were optimized and made leaner so that citizens and administrators could be informed about processing times for applications or bottlenecks at any time. One example of the shortened response times: free fundamental items such as water and electricity services for needy citizens. Processing these applications often took more than three months, so the citizens' power and water were sometimes shut off before the application was approved. Now the processing time is 21 days maximum. Thanks to Software AG technology, Ekurhuleni has become an efficient provider of digital services and a pioneering smart city.

"We are one of the first municipalities in South Africa with a process-driven program for services for the needy. We are convinced that we will achieve something completely new and can develop new income sources for the administration."

Vuyani Zware, Requirements Management and Solutions Delivery, Ekurhuleni administration

CERN

CERN, the European Organization for Nuclear Research in Geneva, Switzerland, is the world's largest research center for particle physics. International scientists conduct experiments in high-energy physics there using the Large Hadron Collider (LHC) particle accelerator. CERN must ensure that nothing compromises the efficacy of the LHC and monitor a nonstop stream of massive amounts of data. Part of this data is managed by CERN's control and monitoring platform C2MON, which oversees more than 94,000 sensors on technical systems. Almost 99 percent of the raw data materials are initially filtered without losing any relevant information. However, some 1.7 million non-redundant events per day remain which have to be analyzed by C2MON. In this process, Software AG's Terracotta in-memory data management technology contributes to the high availability of this system at CERN. Everything from the power supply, temperature levels, airlocks status, ventilation systems and many other key systems are continuously monitored and analyzed in real time to sustain an extremely high availability level of 99.97 percent.



"At CERN, there is little room for error, and system availability is a critical factor that can determine success or failure. Giving engineers and operators up-to-date information, in real time and without interruption means that if and when the smallest deviation occurs, they can act upon it immediately and avoid any unintended consequences."

Matthias Bräger, CERN Software Engineer

Fujitsu



Fujitsu is Japan's leading ICT company with a broad range of technology products and services. More than 170,000 employees support customers in over 100 countries. Fujitsu is growing rapidly with its service business and is now considered one of the world's leading IT service companies. This has led to growing IT requirements such as greater flexibility for customer interfaces, greater round-the-clock support, cost efficiency and faster integration of new customers. Reliable IT is business-critical due to demanding service level agreements (SLA) and the associated risks of contractual penalties (SLA compliance). For these reasons, Fujitsu used webMethods to standardize its processes worldwide to reduce costs while at the same time improving customer service flexibility. More than 300 partner companies and 17 backend systems were integrated quickly and easily—and the cost and effort for integrating new customers were reduced by 30 percent. Thanks to webMethods, Fujitsu can process more than 7 million service documents per month. New customers are served faster and enjoy a new, higher quality of service right from the start.

"We can adjust our IT infrastructure to suit new business requirements, process changes and technologies. All of that helps us be faster and more agile."

Benno Zollner, CIO of Fujitsu Technology Solutions

A selection of Software AG's reference customers



Software AG Share

The year on the stock market was marked by historically low interest rates, falling oil prices and turbulent geopolitical events

Reference interest rates at the beginning of the year were 0.25 percent in both the United States and Europe. This was the lowest they had ever been. At its last meeting of the year, the Fed made it clear that it would maintain its "cheap-money" policy. In June the ECB reduced interest rates to a record low of 0.15 percent, triggering a celebratory mood in European markets. The DAX responded immediately, cracking 10,000 points. Late in the summer, rates were lowered once again to just 0.05 percent. For the first time ever, market participants were talking about the possibility of negative interest rates.

Over the year as a whole the euro lost about 12 percent against the U.S. dollar. Persisting economic troubles in a number of euro countries stood in contrast to a stronger U.S. economy. The low euro undermined Europe's purchasing power while, at the same time, invigorating Germany's highly export-dependent economy.

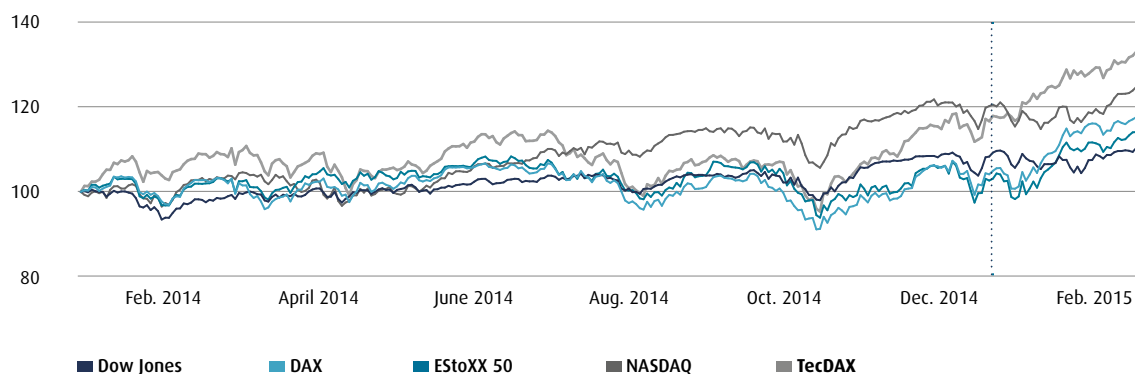
Sluggish demand and plentiful supplies were the downfall of oil prices in the second half of the year. The WTI oil price hit an all-time high of \$106 in June. It then dropped significantly to \$54 at year-end.

The Ukraine conflict had a strong impact on the year 2014. Not only did the Baltic region demonstrate worrisome effects, but other countries in eastern Europe as well. Even Russia suffered serious consequences from the Ukraine crisis during the year, with the ruble weakening steadily as the year progressed.

The European financial crisis, which was a tough test for the region in 2011, also gave reason for renewed concern. The European financial stability fund was needed to aid Greece several times. Investor fear stirred up major turbulence at the end of the year in Greek financial markets.

Software AG operates in more than 70 countries. Exchange rate fluctuations, political events and other activities in those countries can influence daily operations and business beyond that at country level. Oil prices have only an indirect influence. Falling prices relieve energy-intensive companies and give them greater flexibility to invest in IT, for example.

Stock index performance comparison (indexed)



Lateral trend on capital markets

German issuers like Zalando and Rocket Internet injected life into the German IPO market last year. The Chinese Internet giant Alibaba made its stock market debut in September. All three corporations are in the digital online business showing once again how significant the field of digitization is to the economy.

The stock markets reflected the geopolitical situation with a high-speed roller coaster ride. All in all key indexes demonstrated sideways movement in 2014. Only at the end of the year did the mood on international capital markets improve, and a number of indexes commenced an upward trajectory. Relaxed international monetary policies, low interest rates and cheap oil prices all factored into this development.

Euro-Stoxx-50 gained ground late in the year, closing with a 2-percent gain for 2014. The year-end rally on Germany's DAX benchmark index resulted in a new all-time high at 10,093 points. Ultimately, the DAX gained 4 percent for the year closing at 9,806 points. Germany's TecDAX high-tech barometer, where Software AG's shares are listed, made an impressive dash toward the finish line, closing out the year at 1,371 points, up 18 percent from the beginning of the year.

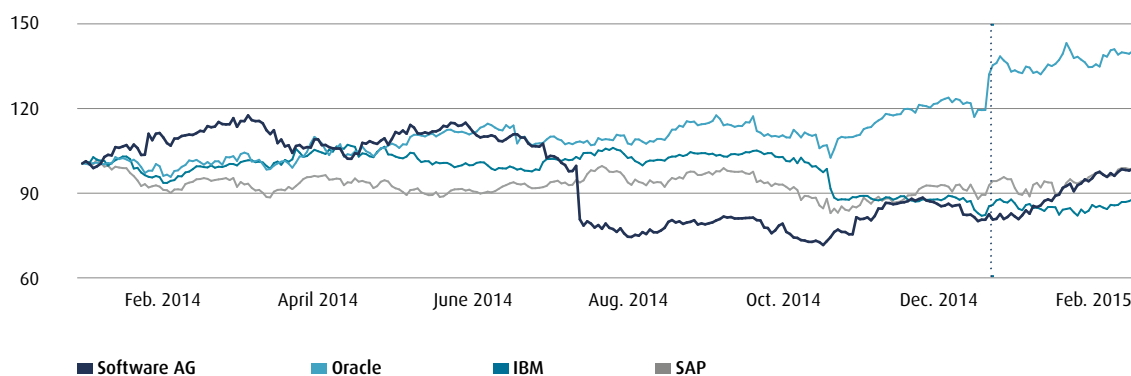
The story on other side of the Atlantic played out differently. American indexes ended their lateral trend earlier, opting for a steady upward climb as of mid-year. The Dow Jones gained 9 percent in the 12-month period. The Nasdaq Index also had a dynamic year with 20-percent annual growth.

Software AG share price performance

Having started off the year at €25.57 and gaining 6 percent by June 30, 2014, Software AG's share had a strong first-half year. The share price hit its year peak at €29.11 on March 6, 2014. High-tech shares were in demand in the first quarter of 2014; the TecDAX performed significantly better than the DAX. Software AG communicated the complete sale of its SAP consulting operations in early April 2014. The capital market honored this strategic step and the Company's shifted focus toward the product business. The share price enjoyed a brief increase of 2.5 percent to €27.00. First quarter 2014 results were released on May 2, 2014 and buoyed performance in the first half.

Software AG's ad hoc release on July 15, 2014 regarding Q2 2014 results was received by the capital market with a substantial drop in share price. The surprising reluctance

Software AG share price performance compared to peer group (indexed)



among customers to invest in large-scale infrastructure projects led to decreased license revenue in the BPE business segment. Accordingly, the Company adjusted its outlook for the fiscal year. The share price ended the day at €20.00.

It wasn't able to recover the loss in the remainder of the year. It reached its low point at €17.80 on October 16, 2014. Software AG's share experienced a boost from the Q3 2014 results released on October 29, 2014 marking a financial turnaround with quarter-on-quarter license revenue growth. But a total recovery by the end of the year was not in the cards. Software AG's share lost 19 percent over the year. At the end of trading on December 30, 2014 it was at €20.20.

Software AG's share got off to a good start in 2015. The release of preliminary Q4 2014 results on January 28, 2015 confirmed Software AG's increased profitability, which triggered a share price rise above €23. The upward trend continued in February.

Software AG again ranked well, placing in the top third of the Deutsche Börse AG's TecDAX ranking. At 8th place in total trading volume, our solid liquidity at the end of the year was confirmed.

Software AG again exceeded the stock market's liquidity requirement in 2014 with an XETRA average daily trading volume of 348,302. This saved the expense of a designated sponsor for ensuring sufficient trading volumes. This is of particular note considering that a large percentage of Software AG shares have moved to off-exchange trading venues.

Record dividend proposed

Software AG's Annual Shareholders' Meeting took place on May 16, 2014 in Darmstadt, Germany. Those shareholders in attendance accounted for 65.9 percent of total voting rights. A dividend payout of €0.46 per dividend-bearing share for fiscal 2013 was approved at the meeting. The total payout sum was €36.3 million, which is 27 percent of the Group's net income in 2013. As a percentage of the 2013 year-end share price (Xetra €25.40), the dividend yield rose to 1.8 percent (2012: 1.4 percent).

Software AG will continue to uphold an appropriate dividend policy in the fiscal year under review. The Management Board and Supervisory Board will propose a record dividend of €0.50 per share at the Annual Shareholders' Meeting for fiscal 2014. Based on the closing share price in 2014 of €20.20, this would be a further dividend yield increase, this year to 2.5 percent. Subject to the approval of the shareholders, this would be a total payout sum of €39.5 million for 2014. The shares repurchased by Software AG are not entitled to a dividend.

Shareholder structure

The Software AG Foundation is still the largest Software AG shareholder and anchor investor with some 29 percent of shares outstanding. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects that support early education, training, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental activities.

Key share data

	2014
Closing price in €	20.20
Year high in €	29.11
Year low in €	17.75
Total number of shares at year-end	86,943,945
Market capitalization at year-end in € millions	1,756.3
Free float as %	62.06

Source: XETRA closing prices

Software AG held a balance of approximately 8,025,101 treasury shares (9.2 percent of Software AG's share capital) at the end of 2014. Software AG's free float—based on the stock positions of the balance held by Software AG Foundation and the Company's treasury shares—is about 62 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 investor base consisting of private and institutional investors in Germany and abroad. A regional analysis of the identified free float shows that 35 percent is held in Germany, 24 percent in the USA, 14 percent in Scandinavia and 10 percent in the U.K. Additionally, 6 percent of Software AG's investors are located in France and 3 percent in Benelux.

Since mid-2014 we have noted increased interest among long-term-oriented investors who prefer companies with strong cash flow and attractive dividend yields. Software AG's sustainably profitable and growing maintenance business is especially attractive to this target group.

Aside from the Software AG Foundation and Software AG, only Fidelity FMR LLC held a percentage of voting shares (3.5 percent) that exceeded the disclosure threshold pursuant to stock corporation law at the end of 2014.

For up-to-date information on Software AG's shareholder structure, please refer to:

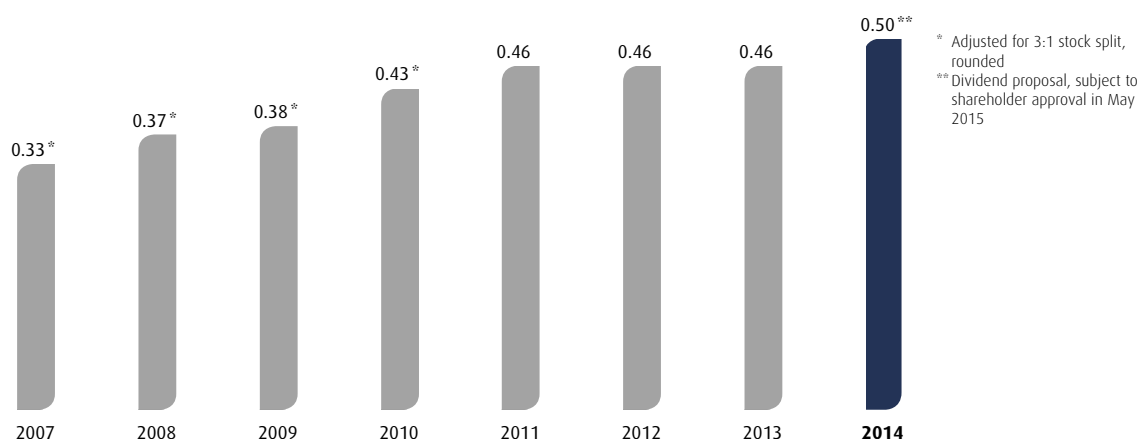
www.softwareag.com/corporate/inv_rel/stockinfo/wphg

Ongoing dialog with investors

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves the targeted expansion of that base. Addressing potential investors directly is a challenging aspect of investor relations work and requires the precise analysis of financial markets by region. Software AG's Investor Relations team will continue to focus on proactively addressing long-term-oriented value investors in the current year. In line with the Company's medium-term target to increase profit margin and earnings with moderate organic growth through ongoing improvement to productivity, a sustainable business model with strong cash flow and continuous dividend growth are key investment criteria.

In the year under review, we met with many existing and prospective investors during 17 conferences held in Germany, the United Kingdom, the USA and elsewhere. The Management Board and Investor Relations team conducted one-on-one and group interviews during 21 days of road shows in the major financial hubs of Europe and the USA. Investors also took advantage of the option to receive information via telephone or a visit to Software AG's corporate headquarters in Darmstadt, Germany.

Dividend by fiscal year since 2007 (in € per share)



We were able to discuss our business model and corporate strategy with more than 400 investors and analysts in fiscal 2014.

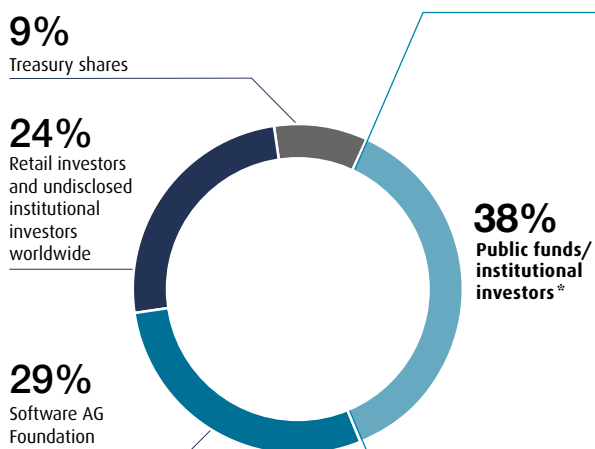
Our annual Investor Days in Darmstadt and the presence of our Investor Relations team at Cebit provided excellent opportunities for investors and analysts to hear about the latest trends, products and services as well as our corporate strategy. Customers gained valuable insight on our portfolio strategy and new Digital Business Platform at our international Innovation World event in New Orleans.

Software AG has been participating in the Level I American Depositary Receipt (ADR) program since 2005. It enables American investors to buy and sell non-U.S. securities in U.S. dollars. The goal is to heighten awareness and visibility of Software AG among U.S. investors.

Broad market coverage by global financial institutions

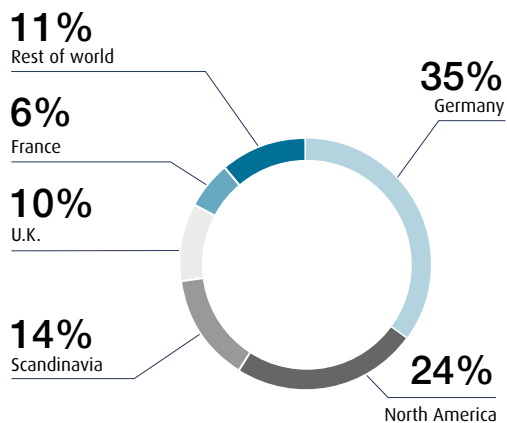
Financial analysts' reports and assessments are a key source of information for investors and the financial media. Software AG continued to enjoy a high level of attention from financial analysts in 2014. This was reflected in the number and standing of the reporting institutions. Analysts from 23 investment banks currently cover Software AG regularly publishing study results. Software AG's share was given a neutral or positive rating by 18 financial analysts at the beginning of February 2015. The average target stock price expected by all analysts was €23.

Shareholder structure



* Source: ThomsonOne, Software AG data, February 2015

Institutional investors by region



Superior investor relations work

Software AG's Investor Relations team continued its commitment to comprehensive and prompt communication with all capital market participants in 2014. Software AG's high internal standards require that all investors are provided with the same level of information and that any misunderstandings are quickly dispelled. Ongoing improvement is of utmost priority. That includes embracing feedback from target groups to continuously optimize communication.

A wide variety of events, meetings, telephone conferences, the Annual Shareholders' Meeting and the IR website form the foundation of Software AG's Investor Relations work.

Software AG's Investor Relations activities were again well received by capital market as illustrated by the German Investor Relations prize. Software AG was ranked third in the TecDAX by Wirtschaftswoche and Thomson Reuters Extel. Furthermore, two members of Software AG's Investor Relations team were chosen among the top 5 IR managers in the European software and service sector.

We provide all members of the capital market with key up-to-date information on the Investor Relations website. These efforts were acknowledged in the annual IR Benchmark website ranking conducted by NetFederation, which again placed Software AG's Investor Relations website in first place in the TecDAX.

Key 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 3-for-1 stock split (May 2011)

Indices

CDAX-GESAMTINDEX (PERF)
DAX INTERN.100 TR EUR
DAXPL.MAXIM.DIVI.TR.EUR
DAXPLUS FAM.30 TR EUR
DAXPLUS FAMILY PERF.-IND.
DAXSEC. ALL SOFTWARE TR
DAXSECTOR SOFTWARE TR
DAXSUB. ALL SOFTW.TR
DAXSUBSEC. SOFTWARE.PR
DAXSUPERS.INFOR.TE.TR
HDAX PERFORMANCE-INDEX
MIDCAP MKT TR
Prime ALL SH. TR
TECDAX TR
TECHN. ALL SHARE TR

Corporate Governance Report

All information contained in this statement on corporate governance reflects the situation as of February 10, 2015.

Basic understanding

Good corporate governance is a core component of management at Software AG. The Management Board and the Supervisory Board are committed to it, and all business lines guide themselves by it. Responsible, qualified and transparent corporate governance focuses on a company's long-term success. It includes both compliance with the law and extensively following generally accepted standards and recommendations. The focus is on values such as sustainability, transparency and value orientation.

The Management and Supervisory Boards

Management Board

The Management Board leads the Company with the goal of sustainable value creation. The members of the Board share responsibility for management of the Company. The guidelines for the work of Software AG's Management Board are elaborated in the Rules of Procedure of the Management Board. Above all, they define the members' individual responsibilities, the tasks assigned to the Board as a whole, adoption of resolutions and the rights and obligations of the Chief Executive Officer. The Management Board of Software AG currently consists of four members. The Management Board members are Karl-Heinz Streibich, Arnd Zinnhardt, Dr. Wolfram Jost and Eric Duffaut.

Karl-Heinz Streibich

Born in 1952, degree in communications engineering, Chairman of the Management Board/Chief Executive Officer of Software AG since September 2003. His term is in effect until 2018. He is responsible for the following corporate functions: Corporate Communications, Global Legal, Global Audit, Processes & Quality, Corporate Office, Global Information Services, Corporate University and Top Management Development.

Mr. Streibich is a member of the supervisory board of Deutsche Telekom AG, Dürr AG and Deutsche Messe AG (not publicly listed). He serves on a volunteer basis on the steer-

ing committee of the German BITKOM IT association. He also co-chairs the German Chancellor's National IT Summit's working group 3, "Innovative State IT Offerings." Mr. Streibich is also a co-founder of the German cluster of excellence for software and a member of the Council of the Economy and Future of the Hessian state government.

Arnd Zinnhardt

Born in 1962, degree in business administration, Member of the Software AG Management Board since 2002. In this function he is responsible for Finance, Controlling, Human Resources, Taxes, Treasury, Mergers & Acquisitions, Business Operations, Investor Relations and Global Procurement. He has also served as labor director of Software AG since December 14, 2010. His term is in effect until 2016.

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba). He is also a member of the Investment Committee of MainIncubator GmbH, Frankfurt.

Dr. rer. nat. Wolfram Jost

Born in 1962, degree in business administration, member of the Software AG Management Board since August 2010. Dr. Jost is responsible for Research & Development, Product Management and Product Marketing. His term is in effect until 2018.

Eric Duffaut

Born in 1962, member of the Management Board since October 2014. Mr. Duffaut is responsible for Global Sales, Consulting Services and Marketing. His term is in effect until 2019.

Supervisory Board

The Supervisory Board appoints, monitors and advises the Management Board. The Management Board reports to the Supervisory Board regularly, in a timely manner and comprehensively on the Company's performance, strategy, planning, the risk situation, risk management and compliance. The Supervisory Board determines the remuneration of the members of the Management Board in accordance with the proposal of the Committee for Compensation and Succession Issues, decides on the Management Board's remuneration system and reviews it regularly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, leads its meetings and maintains contact with the Chairman

of the Management Board between Supervisory Board meetings to discuss strategy, planning, business performance, the risk situation, risk management and compliance. The Chairman of the Management Board informs him without delay of any important events, which are relevant to the assessment of the Company's position and performance and to the leadership of Software AG. Transactions that require the approval of the Supervisory Board are listed in the Rules of Procedure of the Management Board. If necessary, the Supervisory Board meets without the Management Board.

In fiscal year 2014, the following were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (representative of Software AG Foundation), Hermann Requardt (member of the management board of Siemens AG, CEO of Healthcare, director of Corporate Technology), Anke Schäferkordt (member of the management board of Bertelsmann AG; CEO, RTL Group) and Alf Henryk Wulf (chairman of the board of Alstom Deutschland AG).

The employees of Software AG and its subsidiaries in Germany elected their representatives to the Supervisory Board on August 27, 2010. In the year under review, the following were employee representative members to the Supervisory Board: Maria Breuing (appointed by court as of June 26, 2014), Peter Gallner (trade union secretary of Vereinte Dienstleistungsgewerkschaft VERDI), Dietlind Hartenstein (employee of Software AG), Monika Neumann (Dep. Chairwoman of the Supervisory Board, employee of SAG Deutschland GmbH and Chairwoman of the Software AG General Works Council), Roland Schley (employee of Software AG) (left on May 31, 2014), Martin Sperber-Tertsunen (trade union secretary of IG Metall) and Karl Wagner (employee of Software AG).

The guidelines for the work of the Supervisory Board of Software AG are described in the Rules of Procedure of the Supervisory Board. In addition to the duties and powers of the Chairman of the Supervisory Board, they define the structure of meetings, the adoption of resolutions, and the formation of committees. In order to efficiently carry out its duties, the Supervisory Board has four committees in addition to the Mediation Committee, which is mandatory in accordance with the Codetermination Act.

The Committee for Compensation and Succession Issues prepares personnel-related decisions made by the Supervisory Board to the extent that they affect the appointment, reappointment or dismissal of the members of the Management Board. It has four members. The Audit Committee deals with issues related to financial reporting standards, financial auditing, risk management and compliance. The Strategy Committee focuses on the preparation of and success monitoring of acquisitions, partnerships and joint ventures. Both committees each have six members. The Nominating Committee nominates qualified candidates from the shareholders for election to the Supervisory Board by the Annual Shareholders' Meeting. It consists of three shareholder representatives. With the exception of the Nominating Committee, all other committees are composed based on parity.

In the past fiscal year, the Committee for Compensation and Succession Issues met six times and the Audit Committee twice. The Nominating Committee and the Strategy Committee did not convene in 2014. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

The members of the Supervisory Board evaluate the efficiency of their work annually. Members complete a questionnaire to assess all areas of the Supervisory Board's work. They discuss the results of the annual efficiency audit in detail and, if necessary, agree on measures to increase efficiency.

For more detailed information on the Supervisory Board's work and resolutions, please refer to the most recent Report of the Supervisory Board, which can be found on pp. 48 of this Annual Report. For more detailed information, including curricula vitae, on the members of the Supervisory Board and their committee membership, please visit www.softwareag.com/corporate/company/people/svb.

The Supervisory Board defined the following goals for its membership composition: Members should be actively engaged in their careers and should not exceed the age of 65; they should work in the fields of ICT/media or enterprise IT and, as an R&D board member of a large technology company, they should know the needs of medium-sized enterprises or possess in-depth knowledge in financial reporting and/or financial auditing. Moreover, 25 percent of the members should be female; members of the Supervisory Board should be familiar with the requirements and duties

associated with the two-tier governance structure of German Stock Corporation Law. The composition of the Supervisory Board reflects these goals.

The terms of those members of the Supervisory Board elected on May 21, 2010 will end upon completion of the 2015 Annual Shareholders' Meeting, where the actions of the Board in fiscal year 2014 will be ratified. The Supervisory Board will apply the aforementioned guidelines in preparing nominations for those elections—and any other prior elections that may become necessary—as well as conduct regular assessments of the guidelines in the meantime.

At all times during fiscal year 2014, the Supervisory Board consisted of six independent members, which is the number determined by the Supervisory Board in accordance with point 5.4.2 of the German Corporate Governance Code.

Software AG maintains no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist.

The Management Board of Software AG is of the opinion that the Supervisory Board is not composed in accordance with the applicable legal regulations. Pursuant to section 7, paragraph 1, item 1 of the Codetermination Act and section 9, paragraph 1 of the Articles of Incorporation, the Supervisory Board currently consists of 12 members, of whom—pursuant to the Codetermination Act—six members are elected by shareholders and six by employees respectively. Software AG normally employs more than 500 people, though no more than 2,000 as defined by section 1, paragraph 1 of the One-Third Participation Act and section 1, paragraph 1 of the Codetermination Act. Therefore the One-Third Participation Act applies, not the Codetermination Act.

Accordingly, the Management Board is of the opinion that the Supervisory Board must be composed of two-thirds shareholder representatives and one-third employee representatives pursuant to section 1, paragraph 1, item 1 and section 4, paragraph 1 of the One-Third Participation Act in conjunction with sections 95, 96, paragraph 1 and section 101, paragraph 1 of the German Stock Corporation Act. The Management Board therefore initiated status proceedings pursuant to section 97 of the German Stock Corporation Act (AktG). This was communicated on January 2, 2015 in the

Federal Gazette and via notices in all corporate offices and affiliated companies. To the knowledge of the Management Board, the competent court in accordance with section 98, paragraph 1 of AktG was not called within the one-month period stipulated by section 97, paragraph 2 of AktG. Therefore, the new Supervisory Board must be composed in accordance with the provisions of the One-Third Participation Act. Section 9, paragraph 1, first-half sentence of Software AG's Articles of Incorporation stipulates that the Supervisory Board must consist of 12 members. As part of the required changes related to the transition to the One-Third Participation Act, the Management Board intends to propose to the Annual Shareholders' Meeting that the Supervisory Board be reduced to six members, of whom two must be employee representatives in accordance with section 4, paragraph 1 of the One-Third Participation Act.

The reelection of shareholder Supervisory Board members is scheduled for the Annual Shareholders' Meeting on May 13, 2015.

Shareholders and Annual Shareholders' Meeting

The Annual Shareholders' Meeting is one of Software AG's main corporate bodies, through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including ratification of the actions of the Management and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation and measures that change the Company's capital. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business developments, financial performance, and assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 16, 2014 in Darmstadt. Approximately 95.94 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 13, 2015 in Darmstadt. As in past years, Software AG makes the invitation to the Annual Shareholders' Meeting, the legally mandatory reports and documents as well as the agenda available in a timely manner on its website at www.softwareag.com/corporate/inv_rel/annualgenmeeting.

Pursuant to the recommendations of the Corporate Governance Code, we conduct the Annual Shareholders' Meeting in an expedient manner, preferably within a time frame of four hours. To conduct the Annual Shareholders' Meeting efficiently, the chairperson has the option to cut short speakers who stray from the topic at hand and to refer to detailed information already published on the website. Shareholders who do not wish to exercise their voting rights may authorize a member of the Company to vote by proxy in accordance with the shareholder's instructions. Portions of the Annual Shareholders' Meeting will also be broadcast via the Internet. The invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda are published on the Software AG website along with the date of the Meeting. The resolutions adopted by previous shareholders' meetings as well as the quarterly reports of preceding fiscal years can also be found there.

Code of business conduct and ethics

Software AG established a code of business conduct and ethics in fiscal year 2011. It includes ethical standards applicable to the Company worldwide and is available on Software AG's website at www.softwareag.com/corporate/inv_rel/csr/code_of_conduct. The code includes specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. In the year under review, 72 employees received certificates of successful completion of a course on the subject of the code. The Compliance Board meets monthly and makes decisions about questionable cases. In total, Software AG employees addressed the Compliance Board with 18 inquiries in 2014. The Compliance Board consisted of Ms. Christine Schwab (General Counsel), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Mr. Hanjörg Beger (Senior Vice President, Human Resources) in the year under review.

Financial reporting standards and auditing

The 2014 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO), as Company auditor.

BDO also advises the Company on individual tax matters in connection with tax returns and tax audits. No business, financial, personal, or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO, its corporate bodies, or audit managers and Software AG or the members of its corporate bodies.

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, represented by the Chairman of the Audit Committee, appointed the auditor and agreed on the fee. In connection with the awarding of the contract, the Chairman of the Audit Committee has also agreed with the auditor to comply with the reporting duties pursuant to the German Corporate Governance Code. BDO participates in meetings of the Supervisory Board's Audit Committee concerning the financial statements and consolidated financial statements and reports on key audit findings. The Audit Committee had no doubt as to BDO's independence before it commissioned the firm.

Primary auditors' fees and services

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €794 thousand (2013: €921 thousand). Of this amount, €680 thousand (2013: €844 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €46 thousand (2013: €6 thousand) to tax advisory services, €68 thousand (2013: €71 thousand) to other testation services.

Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. We participated in numerous investor conferences, road shows and other capital market events in fiscal year 2014.

A globally consistent corporate message is required to earn the trust of investors, analysts and journalists. Regulatory bodies and the media review publications and press releases for consistency and to ensure that laws and regulations are upheld. Software AG's communications guidelines define how we handle corporate communication. They are published on the Software AG Investor Relations website under Corporate Governance. Software AG provides information to investors, analysts and journalists in accordance with standard criteria. This information is transparent for all capital market participants.

The Management Board immediately publishes insider information that affects Software AG, unless, after having met waiver requirements in specific cases, it is exempt from the disclosure requirement. In accordance with legal stipulations, we maintain registries of persons with inside information who have been instructed to maintain confidentiality.

We use a suitable service provider for publicizing mandatory disclosures throughout Europe. In addition, we publish all ad hoc releases in German and English.

We also fully comply with the Act on Electronic Commercial Registers, Registers of Cooperatives, and Business Registers (EHUG), which came into force on January 1, 2007, by sending the operator of the electronic version of the Federal Gazette all documents requiring publication in electronic form as prescribed by the Act.

All ad hoc disclosures, press releases, as well as presentations given at press and analysts' conferences and road shows are published promptly to the Investor Relations section on the website of Software AG. The corresponding dates can be found in our financial calendar, which is also published on our website.

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. Our performance in the most recent study, conducted in November 2014, received an overall rating of 2.6.

Opportunities and risks

Software AG deals with risks and opportunities responsibly, aided by a comprehensive opportunity and risk management process that identifies and monitors all significant risks and opportunities. It is consistently refined and adjusted to correspond to changing conditions. We have presented our risk management concept in the Risk and Opportunity Report in this Annual Report. Opportunities that are strategic to the Company are described in the Outlook section of the Management Report. Please refer to the Notes for information on our consolidated financial reporting.

Changing voting shares (pursuant to section 26, paragraph 1 of the Securities Trading Act [WpHG])

For information on Software AG's shareholder structure, please refer to the section on Software AG's Share. Disclosures on changes to voting shares in fiscal 2014 pursuant to section 26 (1) of the Securities Trading Act (WpHG) are published on the Software AG website at: www.softwareag.com/corporate/inv_rel/stockinfo/wphg

Directors' dealings (pursuant to section 15a of WpHG)

We also publish the purchase or sale of Software AG shares or related financial instruments, particularly derivatives, by members of our Management and Supervisory Boards and certain other related parties (directors' dealings). As soon as knowledge of these transactions is acquired, they must be posted to our website.

One reportable transaction was declared during the 2014 calendar year. For more information, please visit the Internet at: www.softwareag.com/corporate/inv_rel/corgovernance/direct_deal

Stock option plans

For details on our stock option plans and similar equity-based incentive programs, please refer to the complete Remuneration Report in the Management Report on page 90.

Shareholdings of the members of the Management Board and Supervisory Board

Members of the Management Board

	Number of shares
Karl-Heinz Streibich	5,250
Arnd Zinnhardt	25,353
Dr. Wolfram Jost	0
Eric Duffaut	0

The individual shareholdings of the members of the Supervisory Board is as follows:

Members of the Supervisory Board

	Number of shares
Dr. Ing. Andreas Bereczky	0
Willi Berchtold	0
Maria Breuing Heinz Otto Geidt	1,600
Hermann Requardt	0
Anke Schäferkordt	0
Alf Henryk Wulf	400
Monika Neumann	708
Peter Gallner	0
Dietlind Hartenstein	0
Karl Wagner	183
Martin Sperber Tersunen	0
Total	2,891

Compliance with the German Corporate Governance Code

Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 of AktG submitted by the Management Board and Supervisory Board of Software AG, Darmstadt

The Management Board and Supervisory Board hereby declare that in fiscal year 2014 (January 1 to December 31, 2014), all recommendations of the government commission's German Corporate Governance Code dated May 13, 2013 and June 24, 2014 were and are being followed with the exceptions described below. The Management Board and Supervisory Board would like to add the following:

The Code makes a new recommendation under point 4.2.3, paragraph 2, sentence 6 that, "Total remuneration and its variable remuneration components should have a maximum limit."

Caps on long-term share-based remuneration (PPS and MIP) were instituted. For PPS the cap is 200 percent of the average issue price; for options under MIP III it is €45.00 per participation right; and for options under MIP IV it is €55.00 per participation right. This required amendments to existing plans and Management Board contracts. That required concessions regarding the program structure since the participants would not have otherwise agreed to the contractual amendments. In exchange for the introduction of caps on all three components of share-based remuneration, the PPS TecDAX adjustment was removed—conditional upon the conclusion of the year 2016. The term of MIP III was extended by three years until June 30, 2019. And, the additional exercise threshold for MIP IV of €60.00 was removed—given the exercise price of €41.34 is unchanged. The Supervisory and Management Boards are of the opinion that, in the case of at least the last one, this is a matter of a subsequent amendment to one of the performance targets. Such subsequent amendments are, pursuant to the Code (point 4.2.3, paragraph 2, sentence 8), not permitted. The Supervisory Board therefore considered at length which deviation from Code recommendations was more severe. It concluded that the introduction of specifically calculated caps on the individual remuneration components and total remuneration were more important. Accordingly, there are now caps on total remuneration as well. But a deviation from point 4.2.3, paragraph 2, sentence 8 regarding the removal of the €60.00 exercise threshold for MIP IV must be declared.

The newly approved Management Incentive Plan (MIP V) has only one performance target, namely a 30-percent increase in the Company's share price within a period of three years, whereby this price must be reached on a minimum of 10 consecutive days in the third year. The Supervisory Board and Management Board are of the opinion that this performance target covers other operational company targets. However, as a precautionary measure, they declare a deviation from point 4.2.3, paragraph 2, sentence 7.

Darmstadt, February 2, 2015

Software AG

The Management Board

The Supervisory Board

Report of the **Supervisory Board**



DR. ANDREAS BERCZKY

Chairman of the Supervisory Board

Dear Ladies and Gentlemen,
Dear Shareholders,

Software AG took further steps in becoming the software provider of the Digital Enterprise in fiscal year 2014. The sale of its remaining SAP consulting operations and the appointment of a fourth Management Board member, responsible for all matters relating directly to customers, also represent further key milestones in this process. More than ever before, the focus of all of Software AG's activities is its customers. They place highly diversified requirements on Software AG and its product portfolio with the goal of digitizing their business model. Software AG's own products are now also the focus of all consulting services. The Supervisory Board was closely involved in the development and implementation of the strategy by the Management Board and was pleased to welcome Eric Duffaut, with ample international experience, as Chief Customer Officer to Software AG. The Supervisory Board is certain that the Company's focus on core business and its consolidation of all customer-related matters into one board position will help Software AG meet its ambitious medium and long-term growth targets thereby increasing its market value.

Collaboration between the Management Board and Supervisory Board

In fiscal year 2014, the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Management Board in running the Company and supervised its management. In doing so, the Supervisory Board was directly involved in all key decisions about Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly about all important aspects of strategy, the status of strategy implementation, planning, business development, the risk situation, and risk management, as well as compliance, and was available to the Supervisory Board in meetings for questions and discussions. Deviations from planned business developments were explained in detail.

The Supervisory Board Chairman was in regular contact with the CEO and consulted with him about Software AG's strategy, planning, business development, risk situation, risk management and compliance. The CEO informed him immediately of important occurrences. The close cooperation between the Management Board and Supervisory Board is based on close, trusting cooperation and an open, constructive dialog.

The Supervisory Board's deliberations addressed the Company's strategic direction and measures for the implementation of strategies and risk management.

The Supervisory Board and the Management Board discussed the quarterly and half-year results and reports and analyzed ongoing business development in detail. Any transactions requiring Supervisory Board approval in accordance with the Articles of Incorporation or applicable legislation were reviewed and approved, where appropriate. Documents relevant for decisions were forwarded to the Supervisory Board in due time before the relevant meeting.

Supervisory Board meetings

The Supervisory Board held eight ordinary meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held two extraordinary meetings. For one of them the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to hold meetings by telephone. If a member of the Supervisory Board was unable to attend a session, he or she had the option of participating via telephone or casting ballots in writing. No member of the Supervisory Board attended fewer than half the Supervisory Board meetings.

The following table illustrates the attendance of members at Supervisory Board meetings held in 2014:

Supervisory Board 2014	1/30	3/17	3/31	5/16	5/16	6/27	8/1	8/19	10/31	12/8
Bereczky	x	x	x	x	x	x	x	x	x	x
Berchtold	x	x	x	x	x	x	x	tel.	x	x
Breuing	N/A	N/A	N/A	N/A	N/A	x	x	x	x	x
Gallner	x	x	x	x	x	x	x	x	x	x
Geidt	e*	x	x	x	x	x	x	x	x	x
Hartenstein	x	x	x	x	x	x	x	x	x	x
Neumann	x	x	x	x	x	x	x	x	x	x
Requardt	x	e*	x	e	x	x**	e	tel.	x	e*
Schäferkordt	e*	x	x	x	x	x	x	tel.	x	x
Schley	x	x	x	x	x	N/A	N/A	N/A	N/A	N/A
Sperber-Tertsunen	x	e*	x	x	x	x	x	x	x	x
Wagner	x	x	x	x	x	x	x	tel.	x	x
Wulf	x	x	x	x	x	x	x	tel.	x	x

N/A = This person was not yet/no longer a member of the Supervisory Board on this date.

e = Excused

tel. = Attended via telephone

* = Ballot cast in writing

** = In part

At the accounts meeting on March 17, 2014, in the presence of financial auditors, the 2013 financial statements and consolidated financial statements were discussed in depth and then approved by the Supervisory Board on the recommendation of the Audit Committee and following its own thorough audit. At this meeting the Supervisory Board also approved the proposed resolutions for the Annual Shareholders' Meeting agenda. With regard to Management Board issues, the Supervisory Board determined the Management Board members' achieved variable remuneration for fiscal 2013 after the financial auditors' verification of the accuracy of its calculations. The Supervisory Board also decided that the remuneration system would be changed regarding share-based variable compensation, known as performance phantom shares (PPS), as follows: Firstly, a cap would be introduced to limit the increase in value of phantom shares to no more than twice their value at the time of payout (200 percent of average allotment price of the balance of all PPS held by a member of the Management Board). Secondly, the TecDAX adjustment would be eliminated for any phantom shares exercised after January 1, 2017, provided the holder were still employed by the Company as of June 30, 2016.

In an extraordinary telephone meeting on March 31, 2014, the Supervisory Board discussed the sale of SAP consulting operations in Germany, Austria and Switzerland in depth and approved the transaction.

Two meetings took place on May 16, 2014, the day of the Annual Shareholders' Meeting. In the first meeting prior to the Annual Shareholders' Meeting, business development in the first quarter of 2014 was the topic at hand. Following the Annual Shareholders' Meeting, another meeting was held in which various remuneration models for executive managers, particularly in the competitor U.S. market, were examined and discussed with an external consultant.

The next meeting took place on June 27, 2014. It dealt with Software AG strategy (status of implementation and outlook).

In an extraordinary telephone meeting on August 19, 2014, the Supervisory Board discussed the appointment of Eric Duffaut to the Software AG Management Board.

On October 31, 2014 the Supervisory Board discussed Management Board remuneration and the results of the remuneration study commissioned by the Committee for Compensation and Succession Issues. Following thorough deliberation, the Supervisory Board complied with the recommendation of the Committee for Compensation and Succession Issues arriving at the conclusion that the remuneration system for Software AG's Management Board members was balanced and their remuneration was appropriate, based on internal and external comparisons conducted. On the recommendation of the Committee for Compensation and Succession Issues and following an in-depth discussion, the Supervisory Board also approved changes to the existing Management Incentive Plans (MIP) as well as the introduction of a new Management Incentive Plan. Caps now apply to all Management Board member remuneration components.

Based on recommendations including that of the Committee for Compensation and Succession Issues and an in-depth internal discussion, the Supervisory Board approved the details of MIP V and the allocations of the MIP V stock appreciation rights to Board members in its last meeting of the fiscal year.

Committees

To fulfill its duties efficiently, the Supervisory Board established the Committee for Compensation and Succession Issues, the Audit Committee, the Nominating Committee, the Strategy Committee and, pursuant to section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairs reported to the Supervisory Board plenum about the results of the respective committee meetings.

The Mediation Committee has the number of members required by law (four) and is constituted based on parity. It was chaired by Andreas Bereczky. The Mediation Committee did not convene in 2014.

The Committee for Compensation and Succession Issues prepares personnel-related decisions made by the Supervisory Board to the extent that they affect the remuneration policy of the members of the Management Board. It has four members and is constituted based on parity. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met six times in fiscal year 2014. It dealt with personnel matters related to the Management Board, particularly the Management Board members' defined targets for fiscal 2014, preparation of the Supervisory Board's decision regarding their achievement of these targets and the resulting determination of their achieved variable remuneration for fiscal 2013, the appointment of Mr. Eric Duffaut as member of the Management Board and the Management Board remuneration system. The Committee for Compensation and Succession Issues commissioned a remuneration study in 2014, that was based on an internal comparison of Software AG employee groups of relevance and those defined by the Supervisory Board as well as on an external comparison of competitors.

The following table shows meeting attendance of the members of the Committee for Compensation and Succession Issues:

Committee for Compensation and Succession Issues 2014	1/30	3/17	8/19	9/15	10/17	12/8
Bereczky	x	x	x	x	tel.	x
Neumann	x	x	x	x	tel.	x**
Hartenstein	x	x	x	x	tel.	x
Wulf	x	x	tel.	x	tel.	x

** In part

The Audit Committee deals with issues related to monitoring the financial reporting process, half-year and quarterly reports, financial statement audits—particularly the independence of the auditor as well as the efficacy of risk management. It has six members and is constituted based on parity. The Audit Committee was chaired by Willi Berchtold. The Audit Committee met twice in fiscal year 2014. In a meeting on March 17, 2014, and in the presence of auditors, it dealt with the annual financial statements and the Management Report, the consolidated financial statements and Group Management Report, and the Management Board's proposal on the appropriation of profits, with the selection of the financial auditor for fiscal 2014 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. On December 8, 2014 the Audit Committee examined the internal controlling and audit system of Software AG, the Risk Report, the results of the preliminary audit and the focal points of the final audit for 2014.

The following table shows meeting attendance of the members of the Audit Committee:

Audit Committee 2014	3/17	12/8
Berchtold	x	x
Breuing	N/A	x
Gallner	x	x
Geidt	x	x
Hartenstein	N/A	x
Schäferkordt	x	x
Schley	x	N/A
Wagner	x	N/A

N/A = This person was not a member of the Audit Committee on this date.

The Strategy Committee has six members. It is constituted based on parity. This committee deals primarily with the preparation of and success monitoring of strategic partnerships, acquisitions and joint ventures. It was chaired by Andreas Bereczky. The Strategy Committee did not meet in 2014.

The Nominating Committee was chaired by Andreas Bereczky. It did not convene in fiscal year 2014.

Annual audit

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2014.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, examined the financial statements and consolidated financial statements for the year ended December 31, 2014, as well as the Management Report and the accounting books and records. The auditor issued an unqualified audit opinion.

The audit reports were presented to the Supervisory Board, and the head of the audit team explained the results in person to the Audit Committee, the Supervisory Board as a whole and the Management Board. The Audit Committee and the Supervisory Board thoroughly reviewed the audit reports in their meetings on March 9, 2015. The Supervisory Board concurred with the results of the audit and approved the financial statements and consolidated financial statements. This constitutes formal approval and acceptance of the annual financial statements. We, the Supervisory Board, uphold the recommendation of the Management Board with respect to the appropriation of profits.

German Corporate Governance Code

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code again in fiscal year 2014. At its meetings on March 17, 2014, October 31, 2014 and December 8, 2014, the Supervisory Board approved the introduction of caps on all components of Management Board remuneration and concluded relevant contractual agreements with all affected members of the Management Board. At all times during fiscal year 2014 at least six independent members as defined by point 5.4.2 of the German Corporate Governance Code were on the Supervisory Board.

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2014 (For further information, refer to the Remuneration Report, p. 90 of the 2014 Annual Report). For the first time, the corresponding model tables as per the German Corporate Governance Code dated June 24, 2014 were used. The remuneration system for the members of the Management Board did not change in 2014 with the exception of the introduction of the described caps and the agreements mentioned in that context.

No conflicts of interest on the part of members of the Supervisory Board arose in the year under review. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Management Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report (refer to p. 42 of the 2014 Annual Report). The declaration of compliance has been made public on the Company's website at www.softwareag.com/corporate/inv_rel/corpgovernance/statement

Changes to the Management Board and Supervisory Board

The following personnel changes occurred on the Management Board and Supervisory Board of Software AG in 2014:

Mr. Eric Duffaut was appointed to the Management Board effective as of October 1, 2014.

Mr. Roland Schley left Software AG as of June 1, 2014 as a result of the sale of SAP consulting operations. Ms. Maria Breuing succeeded him by way of court ordered appointment effective as of June 27, 2014.

In a meeting on August 19, 2014, the employee representatives on the Supervisory Board agreed on the following redistribution of responsibilities among the employee representatives regarding succession of Mr. Roland Schley in the Audit and Strategy Committees: Karl Wagner would move from the Audit Committee to the Strategy Committee, Maria Breuing would replace Roland Schley in the Audit and Strategy Committees and Dietlind Hartenstein would move from the Strategy Committee to the Audit Committee. Dietlind Hartenstein was elected as new deputy chairwoman of Software AG's Audit Committee in a meeting of the Audit Committee on December 8, 2014.

The Management Board of Software AG is of the opinion that the Supervisory Board is not composed in accordance with the applicable legal regulations. Pursuant to section 7, paragraph 1, item 1 of the Codetermination Act and section 9, paragraph 1 of the Articles of Incorporation, the Supervisory Board currently consists of 12 members, of whom—pursuant to the Codetermination Act—six members are elected by shareholders and six by employees respectively. Software AG normally employs more than 500 people, though no more than 2,000 as defined by section 1, paragraph 1 of the One-Third Participation Act and section 1, paragraph 1 of the Codetermination Act. The Management Board is therefore of the opinion that the One-Third Participation Act applies, not the Codetermination Act.

Accordingly, the Management Board is of the opinion that the Supervisory Board must be composed of two-thirds shareholder representatives and one-third employee representatives pursuant to section 1, paragraph 1, item 1 and section 4, paragraph 1 of the One-Third Participation Act in conjunction with sections 95, 96, paragraph 1 and section 101, paragraph 1 of the German Stock Corporation Act. The Management Board of Software AG therefore initiated status proceedings pursuant to section 97 of the German Stock Corporation Act; pursuant to section 97 I of the German Stock Corporation Act, this was communicated on January 2, 2015 in the Federal Gazette.

The Supervisory Board would like to thank the Management Board and all employees for their high degree of commitment and excellent work during fiscal year 2014.

Darmstadt, March 9, 2015

The Supervisory Board

DR. ANDREAS BERECHKY

Chairman

For more information on the members of the Supervisory Board, please refer to the Notes to the Consolidated Financial Statements under Other Disclosures on page 152 of the 2014 Annual Report or visit www.softwareag.com/corporate/company/people/svb.

Group Management Report

58 _ Business and General Conditions

- 58** _ Corporate Structure and Business Activities
- 61** _ Corporate Control, Objectives and Strategy

63 _ Economic Report

- 63** _ Business Summary
- 64** _ Financial Performance
- 72** _ Financial Position
- 74** _ Assets
- 78** _ Other Intangible Assets
- 80** _ Overall Statement on Financial Position

81 _ Risk and Opportunity Report

- 81** _ Risk and Opportunity Management System
- 81** _ Organization of the Risk Management System
- 84** _ Presentation of Key Individual Risks
- 89** _ General Statement on the Group's Risk Situation
- 89** _ Software AG's Rating

89 _ Events After the Balance Sheet Date

90 _ Remuneration Report

Business and General Conditions

Corporate Structure and Business Activities

Legal corporate structure

The Software AG Group is managed globally by the parent company, Software AG, acting as a holding company. The financial position of the parent company is shaped by the financial position of the Group. For this reason the Management Board of Software AG combines the management reports of the Group and of the parent company into one management report. Unless otherwise stated, "Software AG" will hereinafter refer to the Software AG Group.

Business lines and organizational structure

Software AG is the technology leader of the new field of application infrastructure and middleware software. We drive the development of products for real-time analytics, which have great potential in the high-growth Industry 4.0 (Internet of Things) market. Software AG guides its customers' transformation to a Digital Enterprise. We help them design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing market conditions. This flexibility and agility are key for companies to be competitive. It is an ongoing necessity to adjust to IT's short innovation cycles and the advancing digitization of business and society. A successful transformation to a Digital Enterprise opens up enormous competitive advantages.

Today's enterprises are increasingly confronted with new competitors and market developments emerging from Internet-based business models and globalization trends. Due to the increasing complexity associated with enterprise processes, huge amounts of data and IT infrastructures as well as the ever changing market conditions, companies have to react quickly and adapt their processes flexibly to new requirements. Not only product innovation, but ongoing process innovation as well, is needed to be flexible enough to adapt quickly. The only way to achieve this is with agile IT systems. Every organization's goal is ultimately sustainable, optimized processes or Business Process Excellence. Our comprehensive portfolio not only protects enterprises' investment when it comes to their existing IT architectures. It offers them the ability to integrate cutting-edge technologies further down the road as well. Software AG solutions build on existing IT landscapes that have often evolved

gradually over years, sometimes becoming extremely heterogeneous. At some point these complex infrastructures can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient support for business processes.

If it hasn't been addressed by now, this is when transformation becomes unavoidable, and IT systems must be integrated and modernized. It isn't just a matter of replacing IT application systems, but rather extensive and continuous evolution of all processes in the organization. This creates a cycle. Adaptive, scalable technologies enable business processes to be modified and optimized. With its products and services, Software AG considers itself to be an engine of this transformation cycle affecting all organizations in the digital age.

The Software AG Group's business activities are divided into three reporting segments: Business Process Excellence (BPE), Enterprise Transaction Systems (ETS) and Consulting.

- The Business Process Excellence (BPE) segment consists of completely integrated software solutions for the field of Business Process Management for organizations of all industries and sizes. The webMethods and ARIS (process and integration software) product families as well as the Terracotta products make up the key components of this segment. We enhanced our BPE product portfolio with five technology acquisitions during the year 2013: Apama, the leading Complex Event Processing (CEP) technology, Alfabet, a leading provider of Enterprise Architecture Management and IT portfolio management, metaquark, a mobile solutions company, LongJump, a cloud platform provider, and JackBe, a leading provider of real-time data visualization and analysis. Software AG systematically and successfully integrated these technologies in fiscal 2014.
- Since Software AG was started, the traditional Enterprise Transaction Systems (ETS) business segment has offered database solutions for mainframes and the development and modernization of mainframe-based IT systems. With this segment we provide our customers long-term investment protection. Our high-performance Adabas database and the Adabas-Natural development environment have been playing an important role in the IT landscapes of large companies and government agencies for more than 40 years. Our goal is to open the traditional software

applications that form the technological backbone of their core processes to new technologies and BPE solutions.

- The Consulting segment was consolidated in the year under review and since June 2014 consists of services for Software AG's software products only. Previously this segment had also consisted of SAP consulting services. Software AG gradually sold off all of its SAP service operations by the end of May 2014 in order to focus solely on its core business and its own high-margin products. As a result of the consolidation of its service activities, Software AG can now position itself as a software product company and focus completely on the development, sale and service of its own products. The goal of this portfolio streamlining was to exit unprofitable markets and increase the segment's earnings.

Major locations

Software AG serves customers in more than 80 locations worldwide. The Company's corporate headquarters are located in Darmstadt, Germany. The largest office locations are in Darmstadt, (Germany), Madrid (Spain), Bangalore (India), Or-Yehuda (Israel) and Reston (USA).

Software AG is undertaking intensive measures to strengthen its presence in the North American market. As the world's largest IT market, it holds great potential and will become a major driver of our business in the future. We therefore moved some strategic functions, such as the heads of Mergers & Acquisitions and Global Marketing, to the Silicon Valley. The region south of San Francisco, where our Terracotta subsidiary is based, is a renown hub of innovative, forward-looking startups, which are worthwhile investments. This is where technology trends are born. So by being there, we can identify marketing opportunities early and network closely with potential partners.

In order to drive business with process and integration software in the U.S. public sector, we established Software AG Government Solutions in 2013, a U.S. subsidiary with headquarters in Reston, Virginia. Because the U.S. government prefers to keep matters of national security within domestic borders, this new unit improves our chances as a non-American company on bids for public sector contracts.

Management and control

As of October 1, 2014, Software AG's Management Board is composed of four members. Previously, three members made up the Management Board. The Management Board is appointed, monitored and advised by a Supervisory Board consisting of 12 members.

For more information on the Management Board, please refer to the Corporate Governance Report on pp. 42–47.

Key products, services and business processes

The BPE and ETS business lines generate license and maintenance revenues from our products. Since the total disposal of all operations relating to SAP services as part of the Company's refocus on its core business, as of June 1, 2014, the Consulting segment provides consulting services for Software AG products only.

Product and brand portfolio

Our complete new BPE product portfolio was consolidated to create the "Digital Business Platform."

Using a clearly-structured brand architecture, the individual product families have been separated into five core themes:

- Business and IT Transformation: ARIS products optimize business processes—from strategy and analytics to design and controlling. Alfabet software streamlines the complete transformation of business processes with the resulting modifications to the IT systems.
- Intelligent Business Operations: This platform combines the webMethods (operational intelligence) and Apama (streaming analytics) products for real-time big data analytics and decision-making logic.
- Agile Processes: The webMethods products for Business Process Management and webMethods for Agile Apps enable management of agile applications.
- Integration: The webMethods solutions for Integration and webMethods for API (application programming interfaces) Management enable integration of systems and processes.
- In-Memory Data Fabric: The Terracotta software employs in-memory technology—which means saving large amounts of data in the main memory—to manage big data. This enables extremely fast data access.

The product offering is made complete with ETS transaction processing and Software AG cloud solutions, including cloud versions of some BPE products.

The ARIS, Alfabet, webMethods, Apama, Terracotta and Software AG Cloud product families belong to the BPE business line. Adabas and Natural form the product offering of the ETS business line.

The sale of our software products generally results in subsequent consulting, maintenance and service business. Only with specialized expertise can our technologies be incorporated into our customers' individual IT environments and later expanded, modified and modernized. We have a global team to develop our service and maintenance business across countries and business lines, which promotes customer focus and loyalty.

For more information on Strategy and Products, please refer to pp. 12–15.

Key sales markets and competitive position

Software AG has established itself as one of the world's leading providers of Business Process Excellence (BPE). The combination of our software and service portfolio for digitization, automation and integration of business processes is, according to numerous market studies, unique to the global market. It therefore gives us an excellent competitive position in a software market marked by rapid consolidation. Achieving a critical mass in key European markets and expanding our physical presence in North America have improved our market reach. Additionally, regrouping our customer-facing teams under one Management Board area, the roll-out of a focused and scalable go-to-market model supported by an expanding ecosystem of partners as of October 2014 laid the foundation for more effective market coverage and increased sales productivity. These unique selling points allow us to meet the growing needs of customers to improve their processes and to position ourselves in high-growth markets. Harmonization and integration of IT processes while becoming a Digital Enterprise is the key to long-term success for companies that compete globally. Our cross-industry portfolio delivers customers vendor-neutral solutions, covering the entire process life cycle. Supporting the value creation chain from end to end generates ongoing process innovations.

Market survey recognition

Numerous studies carried out by well-known research firms confirm the strategy and quality of Software AG's product offering. Market analysts have been acknowledging Software AG's portfolio for years with top scores and leading rankings. We continued to receive outstanding reviews for our solutions in fiscal 2014.

Software AG was positioned as a "leader" by Forrester and Gartner in the following 13 market sectors:

- Gartner Magic Quadrant for On-Premises Application Integration Suites
- Gartner Magic Quadrant for Application Services Governance
- Gartner Magic Quadrant for Business Process Analysis Tools
- Gartner Magic Quadrant for Business Process Management Suites
- Gartner Magic Quadrant for Enterprise Architecture Tools
- Gartner Magic Quadrant for Enterprise Governance, Risk and Compliance Platforms
- Gartner Magic Quadrant for Integrated IT Portfolio Analysis Applications
- Forrester Wave for Big Data Streaming Analytics Platforms
- Forrester Wave for Enterprise Architecture Management Suites
- Forrester Wave for Elastic Caching Platforms
- Forrester Wave for Hybrid Integration
- Forrester Wave for Integrated SOA Governance
- Forrester Wave for SOA Service Life-Cycle Management

Legal and economic factors

Software is the essential raw material of the current digitization of business and society as well as of the next industrial revolution (Industry 4.0 or Internet of Things). In the future, innovative products and services will not be possible without software. The ability of the German economy to compete will pivot on the ability to create software-based products and services of the highest quality. Software know-how will be the prerequisite for Germany in maintaining its leading position in engineering and in exports. As an interdisciplinary technology, a German software industry that is dynamic and successful serves as an important impetus for many other sectors of the economy and thus for the competitive position of the German national economy. Leading technology companies—such as Software AG—are therefore committed to promoting a prosperous German software cluster and fostering dialog between industry, academia and the public sector.

By the same token, having access to a stable, secure and productive infrastructure is a matter of survival for the software industry. That means establishing a clearly defined legal framework to guarantee the security of cloud offerings, but also the expansion of high-speed broadband networks with sufficient transmission capacities.

Macroeconomic uncertainty and exchange rate fluctuations can have a notable effect on Software AG's globally oriented business.

For more information on legal and economic factors, please refer to the Risk and Opportunity Report on pp. 78–87.

Corporate Control, Objectives and Strategy

Internal corporate control system

In order to increase our enterprise value for the long term, we want to continue growing profitably and increasing the financial strength of our Group. We achieve these strategic goals by employing an internal control system. Above all, we regard BPE and ETS product revenue based on IFRS reporting as well as operating income (non-IFRS) and operating profit margin (non-IFRS) as relevant performance indicators. In the first half of 2014 operating income in absolute terms was our key management parameter. Since the second half of the year operating profit margin (non-IFRS) has become the focus of internal controlling.

Software AG defines operating income as follows:

Earnings before all taxes

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

Operating profit margin is calculated by dividing EBITA (non-IFRS) by total Group revenue. As with most companies in the software industry, capital-oriented financial indicators play a minor role for us. This is due to the fact that our business model's commitment of capital is low, and personnel expenses make up the largest expense block in our business.

Revenue and earnings monitoring

We continuously monitor revenue and costs in the areas of licenses, maintenance and services. License sales are the key growth driver of maintenance and services revenue. For this reason, the development of license revenues over time is closely watched by all levels of management.

We also employ a multidimensional matrix structure to continuously monitor changes in EBITA for every profit and cost center. The matrix is divided according to business lines and revenue types and, within the business, by region. Furthermore, we constantly observe the operating income of our service business with respect to specific projects, from the time a quote is prepared through to project conclusion. One of our most important goals is the ongoing improvement of sales efficiency, which we achieve through our newly established Management Board position with global responsibility for Sales, Services and Marketing, highly qualified employees and partners, smooth global processes and growing project volumes. Our interregional sales and service structure offers significant additional potential.

Cost management

All cost items in the Group are subject to stringent budget control. On a monthly basis we review the individual profit and cost centers to determine whether budgets were adhered to and how forecast costs evolved. We use a dynamic budget model, ensuring that key components of the cost budget remain flexible in relation to sales growth. We adjust the cost budget as needed throughout the year in order to achieve or surpass our profit targets.

Management of research and development

Software AG's long-term business success as a software product provider is based on technology acquisitions, research and development (R&D) and the resulting innovations. We therefore continuously develop our portfolio by considering the needs of our customers and business. To this end, we calculate the profit contribution of our products on an ongoing basis. We optimize our utilization of resources by combining purchases of technology with in-house development and by striving to maintain a balanced mix of high-wage and low-wage product development centers.

Cash flow management

Receivables management has a significant effect on cash flow. At Software AG, receivables management is conducted locally and is subject to a variety of internal control processes. In order to improve our receivables structure, we selectively sell certain accounts receivable. Software AG's cash management, in contrast, is a centralized function and is carried out in Darmstadt. We use a global, standardized cash management system. This enables us to optimize our investment strategy and minimize investment risk.

Financial objectives

Software AG expects further margin growth in the next five years. Based on our current business model, our operating profit margin (EBITA, non-IFRS) will increase from its present level of 27.9 percent (FY 2014) to between 32 and 35 percent by 2020. This will be achieved primarily through organic growth in the BPE business line, continuation of productivity improvements in sales and a growing share of revenues via an expanded partner ecosystem. With respect to organic growth in BPE licenses, Software AG expects annual growth rates ranging between high single digits and low double digits. This will be supplemented with a positive trend in total Group maintenance revenues.

Non-financial objectives

This year we will focus on opportunities offered by enterprise digitization. Digitization will be the critical growth engine of the software sector. The integration of technology acquisitions is a key component of this strategy. Our long-term vision is to evolve into a global market leader in infrastructure software. We will propel this growth with our own efforts, but will not limit ourselves to that. We are ready to make additional selective investments in innovation-driven businesses that will strengthen our technology leadership and boost our market share. Our ETS business line provides us with a highly profitable base and the flexibility to invest strategically in visionary markets of the future. Furthermore, this segment gives us access to an established customer base that holds promising sales potential for BPE products.

Non-financial performance indicators

Software AG's enterprise value is defined not only by financial indicators, but also by the following non-financial performance indicators:

- Strategic product positioning in the market (e.g. external analyst ratings)
- Customer satisfaction and loyalty, as well as customer feedback (e.g. average deal size, maintenance agreement termination rate, regional trends)
- Employee satisfaction and retention
- Research and development (e.g. product-release cycles)
- Focus of sales activities (e.g. sales efficiency and efficacy)
- Management and expansion of the partner ecosystem (e.g. number of partners, revenue via partners)

Software AG strongly believes that these aspects are essential components of sustainable success.

Strategy

Software AG's strategy is aimed at sustainable profitable growth. We strive to continuously increase our enterprise value. Our long-term portfolio strategy is focused on the intensive expansion of our high-growth, future-oriented BPE business. This segment has become our primary revenue generator over the past few years, most recently accounting for more than 46 percent (2013: 43 percent) of Group revenue. Our traditional ETS database business contributed 29 percent (2013: 28 percent) and Consulting 25 percent (2013: 28 percent) to total global revenue.

This shows that, as a product provider, Software AG has optimized its revenue mix in favor of high-margin license and maintenance revenue. The reason for the focus on product revenue is the significant potential for growth and higher earnings compared to services. License sales in the software sector are considered to be a key indicator of future growth, because they typically lead to long-term, recurrent maintenance revenue that is characterized by a particularly high profit margin.

For more information on Strategy and Products, please refer to pp. 12–15.

Economic Report

Business Summary

General economic conditions

Global economic growth gained momentum during the year under review, particularly in the second half of 2014. The Institute for the World Economy (IfW) forecasts global output to grow by 3.4 percent on an annual average, following 2.9 the year before. In addition to the expansionary monetary policy upheld by developed nations, low oil prices played a major role in heating up the economy. Although measures to overcome the eurozone debt crisis continued to make an impact, economic recovery was stymied by structural problems in some of the monetary union countries. Additionally, the Ukraine conflict had a dampening effect. The eurozone's economy grew slightly over the year by 0.8 percent. After a slow start to the year, the United States of America's gross domestic product (GDP) increased considerably to 2.2 percent (2013: 1.6 percent), which reflects the same level of growth as the previous year. The increased demand from established countries also had a positive effect on emerging economies where economic expansion was especially apparent in the third quarter of the year.

Sector-specific conditions

The IT market exhibited a predominantly positive trend in 2014, according to analysts at U.S. market research firm, Gartner. Global IT spending in the year under review demonstrated moderate growth of 1.9 percent to total of \$3.7 trillion. Software AG's relevant market segments did better in comparison: Spending for enterprise software was up 5.8 percent to \$317 billion; the IT services market segment grew 2.7 percent to \$956 billion. The European Information Technology Observatory (EITO) expects stronger growth rates estimating worldwide sales in IT and telecommunications products and services to be €2.8 trillion in 2014, which is 4.0 percent above the previous year. The USA continues to account for the largest share in global sales of ICT products and services (27.8 percent). According to EITO, digitization is an important trigger of growth, especially in emerging economies. According to the German Association of Information, Telecommunications and New Media (BITKOM), EITO forecast a positive sector trend in Germany. Sales in the ICT sector rose slightly in 2014 to €153.4 billion (+1.6 percent).

Key events affecting business performance

Software AG gradually sold off its SAP consulting operations in 2013 and 2014 in order to focus solely on its core business and its own high-margin products. Following the sale of its SAP service operations in North America and eastern Europe the year before, Software AG concluded the divestiture process with the disposal of its SAP consulting operations in the DACH region at the end of May 2014. Through the consolidation of its service activities, Software AG is now specifically positioned as a software product company and completely focused on the development, sale and service of its own products. As a result, Group revenue fell considerably from the previous year, whereas the profit margin for the Group and services unit improved sustainably in the second half of the year.

Software AG aims to become a completely customer-centric organization. All customer-facing activities were therefore funneled into a new position on the Management Board as of October 1, 2014 under the leadership of a recently appointed board member (Chief Customer Officer). The consolidation of all Sales, Marketing and Services activities—including partner management—and the realignment around a standard and effective go-to-market model led to an increase in Q4 BPE revenue quarter-on-quarter.

Management's general statement on business performance

Like the two years before, 2014 was a year of transformation. Software AG's strategic priorities in fiscal 2014 were the customer-centric development of our product portfolio, realigning the focus of our Consulting unit on core business with our own software products and increasing the efficiency and productivity of sales activities. This led to initial successes in the second half of the year. Following weak business performance in the second quarter due to the postponement of large-scale projects, Software AG continued its upward trend from the third quarter through the end of the year.

Comparison of performance with forecast last year

Software AG released its forecast for the full fiscal year in January 2014. Forecasts are calculated assuming unchanging relevant currency rates and without accounting for acquisition and restructuring-related expenses.

Based on ongoing double-digit growth in the BPE segment, Software AG anticipated BPE product revenue to increase between 12 and 18 percent (at constant currency) in fiscal

2014. The BPE forecast was calculated on the assumption that the business line would continue to grow and that acquisitions undertaken in 2013 would form a larger customer base with higher cross-selling potential.

Because the traditional database software market was in decline due to its maturity and saturation, the Management Board anticipated an ongoing drop in revenue in the ETS business. ETS revenue was therefore expected to decrease between 9 and 16 percent (at constant currency) in 2014. The ETS forecast was based on historical data and assumptions regarding future customer behavior.

In Consulting, earnings—as opposed to revenue—was the focus of corporate management. Software AG worked to further improve this business segment's profitability.

Based on the assumptions presented in January 2014, the Management Board expected operating earnings (non-IFRS) to increase between 4 and 10 percent.

The Management Board adjusted the 2014 forecast with the release of the half-year results. In an ad hoc statement on July 15, 2014, in accordance with section 15 of WpHG, Software AG communicated its preliminary second-quarter results prior to the scheduled announcement as well as an adjustment to its full-year guidance. The announcement emphasized that the BPE business line had been affected by a surprising reluctance among customers to commit to large infrastructure projects and that BPE license and product revenue were therefore down from the previous year, whereas ETS had performed as expected.

Because of the significant delay of large projects in the second quarter, Software AG then expected BPE revenue to remain at the previous year's level at constant currency. The outlook for the traditional ETS database line was not adjusted. Software AG communicated a target range for its operating profit margin (non-IFRS) between 26 and 28 percent (2013: 26.8 percent). Actual business performance in the BPE segment in 2014 demonstrated a decrease in revenue to €394.5 million (2013: €422.9 million), which reflects a 6-percent loss at constant currency. This figure was down from the previous year, which had been positively impacted by two of the largest deals in the Company's history. In addition to extraordinarily high number of deals the year before, this is primarily due to the delay of large-scale customer projects and prolonged infrastructure project sales cycles. Performance of BPE business resumed a positive trend in the second half of the year with strong quarter-on-quarter results. The ETS segment generated €245.3 million (2013: €274.5 million) in the fiscal year under review. This is a

9-percent drop at constant currency, which is at the upper end of the forecast target range. Software AG's operating income (non-IFRS) was €239.3 million (2013: €260.7 million), which reflects an 8-percent drop.

Software AG increased its operating profit margin (non-IFRS) to 27.9 percent (2013: 26.8 percent) in fiscal 2014, thereby reaching the high end of target range between 26 and 28 percent, communicated in July.

Financial Performance

Revenue

Software AG reported €857.8 million (2013: €972.7 million) in total revenue for the 2014 fiscal year. In addition to a drop in revenue in the BPE and ETS business lines, an additional reason for the decline was the refocus of the Consulting business and the associated sale of all SAP consulting operations. Following its withdrawal from the SAP service market in North America and eastern Europe the year before, Software AG concluded its divestment process with the final sale of SAP consulting operations in the DACH region (Germany, Austria, Switzerland) in the first half of 2014. Adjusted for divestments, the imputed revenue from 2013 was €897.1 million.

Currency impact on revenue

Following the very negative impact of the strong euro on Software AG's reported revenue and earnings in the first two quarters of 2014, the tide turned in the third quarter. Due to the growing strength of the U.S. dollar against the euro, the third quarter saw no significant effects from exchange rate fluctuations on reported revenue. License and maintenance revenue were positively affected in the fourth quarter of 2014. The effects of exchange rates on total Group revenue for fiscal 2014 totaled –€7.8 million compared to –€37.8 million the year before, when exchange rates had made an extraordinarily negative impact on Software AG's currency translation. Maintenance and license revenue typically suffer the greatest impact.

The percentage of total revenue in euros rose slightly to 39 percent (2013: 36 percent). Of the remaining 61 percent in foreign currencies, the U.S. dollar accounted for the largest share, as in past years, with 26 percent (2013: 26 percent). It was followed by the pound sterling (GBP) with 7 percent (2013: 6 percent) and the Brazilian real with 5 percent (2013: 8 percent). Additionally, the Israeli shekel (ILS/2013: 4 percent), the Canadian dollar (CAD/2013: 3 percent) and

the Australian dollar (AUD/2013: 5 percent) each accounted for 4 percent of revenue respectively.

These were purely translation effects and not transaction effects. In addition, Software AG had natural hedge positions, because the positive impact on expenses in foreign currencies was offset substantially by the revenue effects described above.

Sales by revenue type

Software AG's total license revenue was €270.1 million (2013: €330.1 million) due to a weaker 2014 first half-year. At €371.3 million, total maintenance revenue for fiscal 2014 approximated last year's level (2013: €375.6 million), which reflects a 1-percent increase at constant currency. In total, product revenue was €641.4 million (2013: €705.7 million). As a percentage of total revenue, product revenue increased from 73 percent to 75 percent in the year under review.

Service revenue was down 19 percent to €215.8 million (2013: €266.0 million). This drop was due to Software AG's withdrawal from the SAP consulting business as of mid-2014 and its associated refocus on services for its own products. As a result, services fell to 25 percent (2013: 27 percent) of total revenue.

The increased percentage of product revenue shows that, as planned, Software AG successfully improved its revenue mix in favor of the high-margin license and maintenance sales. This confirms that the Company moved a major step

forward in its transformation to becoming a highly profitable product provider.

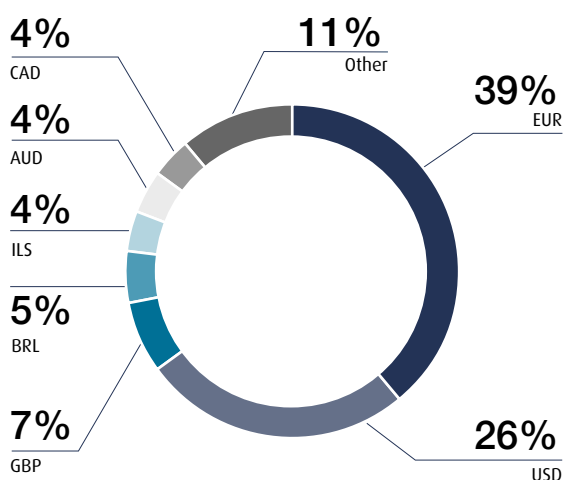
Product revenue by region

Geographically speaking, Software AG's Group revenue is divided into four regions: Germany, EMEA (Europe—excluding Germany, Middle East and Africa), the Americas (North and South America) and Asia-Pacific (APJ).

The Americas contributed the largest percentage of total Group product revenue in 2014 with 45 percent (2013: 48 percent). The most important sales markets of this region were the USA and Canada. Brazil, on the other hand, performed poorly as a result of the country's sluggish economy. Software AG's EMEA region generated about 33 percent (2013: 31 percent) of product revenue. The key single markets were Great Britain, France and Spain, where the largest growth was reported. Germany, Software AG's home market, alone accounted for 14 percent (2013: 12 percent). The Asia-Pacific region contributed 8 percent (2013: 9 percent) of product revenue. Australia led this region by a wide margin.

Maintenance revenue far exceeded license revenue in all regions. This is confirmation of Software AG's focus on the high-margin maintenance business, which, through recurring revenue, contributes significantly to the long-term revenue and earnings performance of a product provider.

Revenue by currency



Currency impact on revenue

	2014	in %
in € millions yoy		
Licenses	- 0.5	-
Maintenance	- 6.4	- 2
Consulting & Other	- 0.9	-
Total	- 7.8	- 1

Product revenue by industry

Our products and services are relevant to all companies across all sectors, because they are based on industry-neutral, interdisciplinary technology for all types of business processes. Our broad coverage across different sectors is an essential factor for Software AG's stability in that it shields our business from economic fluctuations in any one industry. That has always been a key component in the solidity and security of our business model.

Software AG has especially strong ties to growing customer bases in the public, financial and IT (including outsourcing) sectors. Accounting for 58 percent (2013: 55 percent), these three industries combined represented more than half of our product revenue in fiscal 2014. They were followed by the general service sector and the manufacturing industry.

Performance of key items on the income statement and cost structure

The cost of sales in fiscal 2014 was reduced by 20 percent to €236.3 million (2013: €294.6 million) year-on-year, which is proportionately lower than Group revenue. The reduction in the cost of sales is primarily due to the absence of costs in the second half of 2014 associated with the SAP consulting unit in the DACH region, which was sold at the end of May. In addition, internal processes were further optimized.

Gross profit decreased by 8 percent to €621.5 million (2013: €678.1). Accordingly, the margin in terms of gross profit as a percentage of Group revenue went up to 72.5 percent (2013: 69.7 percent). The key factors involved in the improved

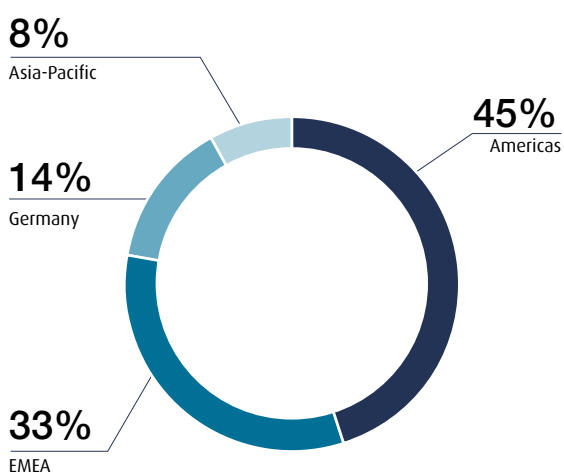
gross margin were the higher percentage of product revenue of total revenue, the increased percentage of high-margin recurring maintenance revenues and the sharp profitability boost in the service business.

Research and development (R&D) expenses for new and existing products increased moderately to €109.1 million (2013: €107.9 million). As a percentage of product revenue (licenses and maintenance), R&D expenses increased from 15.3 percent to 17.0 percent. The rise was due, among other factors, to the expanded product portfolio through the integration of targeted technology acquisitions from the year before. This reflects the Company's strategy of intensified investments in new future-oriented products and markets in the BPE business line. With this investment strategy Software AG is committed to driving the evaluation and development of new technologies and solutions for the Digital Enterprise.

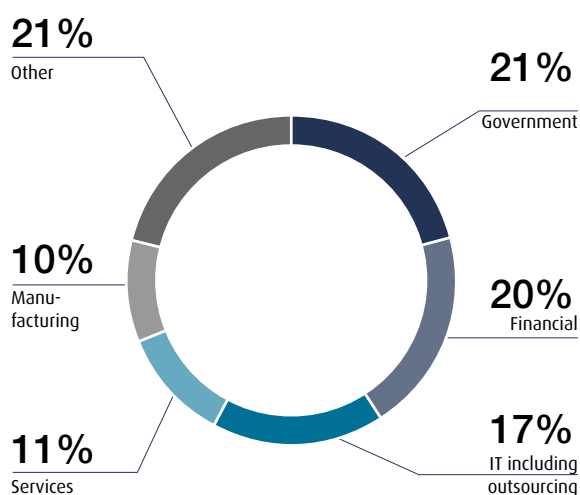
In proportion with Group revenue, sales and marketing expenses went down 12 percent to total €263.0 million (2013: €300.1 million) in fiscal 2014, which, as 30.7 percent (2013: 30.8 percent) of total revenue, is on par with last year. An efficient sales organization, leveraging a standard go-to-market model, has been the priority since the appointment of the new Chief Customer Officer and the consolidation of the sales force under single global leadership. Initial successes were reflected by the positive BPE earnings performance in the fourth quarter of 2014.

Administrative expenses were up slightly year-on-year at €74.1 million (2013: €73.2 million).

Product revenue by region



Product revenue by industry



Earnings performance

EBIT (earnings before interest, income tax and other taxes) in fiscal 2014 was €176.0 million (2013: €205.5 million). This reflects an EBIT margin of 20.5 percent (2013: 21.1 percent). Earnings followed a very positive trend during the course of the year. Thanks to Software AG's refocus on profitable growth in the second half of the year, the EBIT margin leaped to 26.6 percent. Key factors in the improved earnings were the stable ETS business, increased sales efficiency through the consolidation of all sales activities under one position on the Management Board, stringent cost control in sales and marketing, ongoing growth in BPE maintenance revenue and an improved earnings contribution in Consulting through the refocus on core business.

Operating IFRS earnings fell 12 percent to €166.9 million (2013: €189.8 million). At €0.7 million, other income played

a minor role in fiscal 2014 in contrast to the year before when it was €8.6 million (net, after other expenses) due to the sale of SAP service operations in the USA and Canada and the positive effects of low-interest loans. Net financial expense was up from last year at €9.2 million (2013: €8.4 million). Software AG's earnings before tax went down 17 percent to €158.4 million (2013: €190.0 million). Accordingly, income tax was 15 percent lower at €47.8 million (2013: €56.0 million). The Group's effective income tax rate in 2014 increased to 30.2 percent (2013: 29.5 percent). Net income decreased to €110.6 million (2013: €134.0 million). Earnings per share (basic) were therefore €1.39 (2013: €1.60). The average number of shares outstanding (basic) in the year under review amounted to 79,228,450 (2013: 83,702,176). This decrease is due to the buyback of treasury shares.

Income statement for fiscal years 2014 and 2013

in € thousands	2014	2013	Change in %
Licenses	270,099	330,138	- 18
Maintenance	371,341	375,566	- 1
Services	215,752	265,998	- 19
Other	642	990	- 35
Total revenue	857,834	972,692	- 12
Costs of sales	- 236,316	- 294,610	- 20
Gross profit	621,518	678,082	- 8
Research and development expenses	- 109,064	- 107,924	1
Sales, marketing and distribution expenses	- 263,049	- 300,067	- 12
General and administrative expenses	- 74,062	- 73,151	1
Other taxes	- 8,433	- 7,091	19
Operating result	166,910	189,849	- 12
Other income/expense, net	665	8,565	- 92
Financial expense, net	- 9,191	- 8,402	9
Profit before income taxes	158,384	190,012	- 17
Income taxes	- 47,833	- 56,001	- 15
Net income	110,551	134,011	- 18
Thereof attributable to shareholders of Software AG	110,358	133,835	- 18
Thereof attributable to non-controlling interest	193	176	
Earnings per share (EUR, basic)	1.39	1.60	- 13
Earnings per share (EUR, diluted)	1.39	1.60	- 13
Weighted average number of shares outstanding (basic)	79,228,450	83,702,176	-
Weighted average number of shares outstanding (diluted)	79,228,450	83,714,983	-

Earnings

in € millions	2014	2013	Change in %	At constant currency in %
Total revenue	857.8	972.7	-12	-11
Cost of sales	- 236.3	- 294.6	- 20	- 19
Gross profit	621.5	678.1	-8	-7
Margin as %	72.5%	69.7%		
R&D	- 109.1	- 107.9	1	1
Sales & marketing	- 263.0	- 300.1	- 12	- 11
Administration	- 74.1	- 73.2	1	2
Other income/expense	0.7	8.6	-	-
EBIT	176.0	205.5	- 14	- 14
Margin as %	20.5%	21.1%		

Appropriation of profits

The Company adheres to a sustainable dividend policy, which is geared toward long-term development of Software AG. It strives to pursue this continuity in the interest of a dependable relationship with stockholders. The Management and Supervisory Boards will therefore propose a dividend of €0.50 (2013: €0.46) per share for the 2014 fiscal year at the Annual Shareholders' Meeting on May 13, 2015. Subject to the approval of the Annual Shareholders' Meeting and assuming 78.9 million shares outstanding, this would be a total payout sum of €39.5 million (2013: €36.3 million). Based on the average free cash flow and net income, the dividend ratio would increase to 32 percent (2013: 25 percent).

Additional performance indicators

In order to improve the comparability of Software AG with competitors—especially in the USA—which do not use the IFRS accounting standard, Software AG also reports non-IFRS performance indicators. They are as follows:

Non-IFRS earnings 2014–2013

in € millions	2014	2013
EBIT (before all taxes)	176.0	205.5
Amortization on acquisition-related intangible assets	39.2	40.4
Reduction of acquisition-related product revenue by purchase price allocation	0.5	1.2
Other acquisition-related effects	0.1	1.7
Share-based payment	11.7	-0.7
Restructuring/severance	9.1	12.6
Other one-off effects	2.7	-
EBITA (non-IFRS)	239.3	260.7
in % of revenue (non-IFRS)	27.9	26.8
Net income (non-IFRS)	155.1	172.9
EPS (non-IFRS) *	1.96	2.07
Net income (IFRS)	110.6	134.0

* Based on average shares outstanding (undiluted) FY 2014: 79.2mn/FY2013: 83.7mn/

EBITA (non-IFRS) for fiscal 2014 was €239.3 million (2013: €260.7 million). The operating profit margin (non-IFRS) increased to 27.9 percent (2013: 26.8 percent) in 2014. A positive trend was also apparent during the course of the year. Down from the previous first half-year, increased sales efficiency and proactive cost management led to a rise in profitability in the second half of the year. Software AG therefore achieved operating income (non-IFRS) in the amount

of €151.2 million in the second half of 2014, which was up slightly year-on-year (H2 2013: €150.1 million). Accordingly, the return on sales (non-IFRS) for the period increased by 400 basis points to 33 percent. Operating income (non-IFRS) in the fourth quarter of 2014 went up to €88.4 million resulting in a 36-percent increase in the profit margin. Operating earnings per share (non-IFRS) rose 9 percent in the fourth quarter to €0.75 (2013: €0.69).

The improved operating earnings (non-IFRS) in Q4 2014 were a result of Software AG's refocus on core business with its own products, financial discipline and increased efficiency of internal processes. This has solidified Software AG's financial foundations for further strategic development of its business.

Net income (non-IFRS) was 155.1 million (2013: €172.9 million). Accordingly, earnings per share (non-IFRS) based on the average number of shares outstanding of 79.2 million (2013: 83.7 million) were €1.96 (2013: €2.07).

Multi-period earnings summary

in € millions	2014	2013	2012
Total revenue	857.8	972.7	1,047.3
thereof product revenue	641.4	707.5	712.2
EBIT	176.0	205.5	248.3
as % of total revenue	20.5%	21.1%	23.7%
Net income	110.6	134.0	164.7
as % of total income	12.9%	13.8%	15.7%

Segment reports by business line

Software AG's operations are divided into three segments: Business Process Excellence (BPE), Enterprise Transaction Systems (ETS) and Consulting.

The revenue distribution among the three lines reflects the Company's strategic focus on a profitable product business consisting of license and maintenance sales for Software AG's BPE and ETS product families. The business relevance of the future-oriented BPE segment continued to increase, accounting for 46 percent (2013: 43 percent) of Group revenue. Software AG's traditional ETS business line grew slightly to 29 percent (2013: 28 percent) year-on-year. Due to the disinvestment of low-margin activities, the percentage of revenue from the Consulting line dropped to 25 percent (2013: 28 percent).

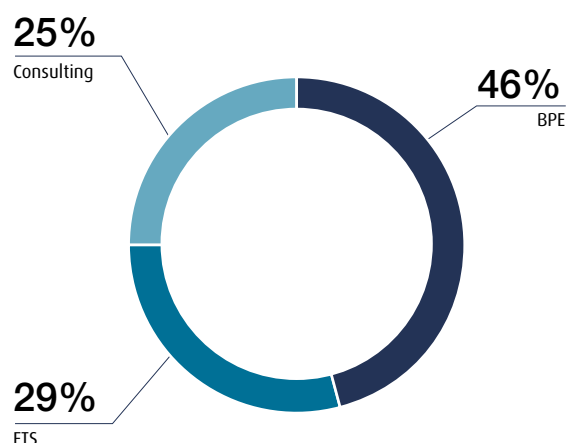
Business Process Excellence (BPE)

The Business Process Excellence (BPE) business line generated €394.5 million (2013: €422.9 million) in total revenue in fiscal 2014. This figure was down from the previous year, which had been impacted by two of the largest deals in the Company's history. An additional reason for the decline was the delay of large-scale customer projects and prolonged infrastructure project sales cycles.

BPE maintenance revenue increased to €215.6 million (2013: €202.8 million), which is 6-percent growth year-on-year. The fourth quarter was especially strong with 9-percent growth year-on-year and 7-percent growth quarter-on-quarter. These increases are a consequence of long-term BPE license agreements signed in the past. Growing maintenance revenue is an indicator that Software AG's strategic measures toward focusing on the profitable business associated with its own products are taking hold and will have a lasting impact.

Licenses from the sale of BPE products totaled €178.9 million (2013: €220.1 million) in fiscal 2014, which, for reasons discussed above, was below the historical high posted in 2013. BPE license sales charted an extremely positive trajectory during the course of the fiscal year. After a weak first half-year, BPE license revenue went up 43 percent in the fourth quarter to €60.2 million (Q3 2014: €42.2 million) quarter-on-quarter and a sizable 84 percent compared to the second quarter (Q2 2014: €32.7 million). The improved financial performance in the second half of the year reflects the Company's first successes resulting from the optimized efficiency of sales activities, laying a solid foundation for

Revenue split



fiscal 2015. Approximately 14 percent more deals valued between €0.1 and €1 million were signed in the fourth quarter than the year before, which had a positive effect on the quarter.

Segment earnings fell to €104.4 million (2013: €116.5 million). However, the segment's margin increased from 27 percent in 2013 to 28 percent in 2014, due to reduced costs in sales and marketing.

The future-oriented BPE segment accounted for 46 percent (2013: 43 percent) of Group revenue and therefore continued to strengthen its role as Software AG's largest business line.

Segment report BPE 2014

in € millions	2014	2013	Change in %	At constant currency in %
Licenses	178.9	220.1	- 19	- 19
Maintenance	215.6	202.8	6	8
Total revenue	394.5	422.9	- 7	- 6
Cost of sales	- 22.8	- 22.4	2	4
Gross profit	371.7	400.5	- 7	- 7
Sales & marketing	- 182.5	- 201.5	- 9	- 8
R&D	- 84.8	- 82.5	3	2
Segment earnings	104.4	116.5	- 10	- 10

Enterprise Transaction Systems (ETS)

As expected, the traditional Enterprise Transaction Systems (ETS) database business posted a decrease in 2014 revenue at €245.3 million (2013: €274.5 million). The 9-percent loss at constant currency is at the upper end of the forecast target range. This result is in line with the Company's projection that the market for traditional database software for mainframes is in decline because of its maturity and saturation.

ETS maintenance revenue for fiscal 2014 was €153.7 million compared with €166.3 million year-on-year. The database business reaped the benefits of customer loyalty in the year under review. As a result, Software AG further stabilized ETS maintenance revenue during the course of the year.

Because the demand for mainframe database upgrades is shrinking, license revenue for fiscal 2014 dropped to €91.0 million (2013: €107.4 million). ETS licenses in the fourth quarter, however, grew 7 percent year-on-year to total €38.4 million.

Software AG was able to steadily raise ETS product revenue during 2014. Fourth-quarter results show a 25-percent improvement over the third quarter with €76.8 million in product revenue (Q3 2014: €61.2 million).

ETS segment earnings for 2014 dropped to €167.3 million (2013: €184.7 million), whereas its 68-percent profit margin surpassed last year's high level (2013: 67 percent) due to stringent cost management. At about 70 percent, the ETS segment again accounted for the largest portion of Software AG's total earnings.

ETS contributed 29 percent of total revenue in 2014 which is on par with the previous year. Our strategy in the ETS business line is to maintain a stable customer base, to achieve a segment margin above 60 percent and to leverage cross-selling potential with our BPE products. ETS remains an essential business, delivering high profit margins for Software AG.

Segment report ETS 2014

in € millions	2014	2013	Change in %	At constant currency in %
Licenses	91.0	107.4	- 15	- 15
Maintenance	153.7	166.4	- 8	- 5
Product revenue	244.7	273.8	- 11	- 9
Other	0.6	0.7	- 14	- 14
Total revenue	245.3	274.5	- 11	- 9
Cost of sales	- 12.6	- 14.1	- 11	- 9
Gross profit	232.7	260.4	- 11	- 9
Sales & marketing	- 41.1	- 50.4	- 18	- 18
R&D	- 24.3	- 25.3	- 4	- 4
Segment earnings	167.3	184.7	- 9	- 8

In fiscal 2014 the Consulting business line was consolidated and restructured as part of measures to refocus on only those services associated with Software AG's own products. As a result of the sale of SAP consulting operations, revenue for fiscal 2014 fell to €218.0 million (2013: €275.4 million). Taking this portfolio streamlining into account, fiscal-year revenue amounting to €195.8 million was nearly on par with the previous year's adjusted figure of €199.6 million. Consulting revenue as a percentage of total revenue thus dropped from 28 to 25 percent in fiscal 2014.

At the same time, segment earnings improved considerably totaling €16.9 million (2013: €9.3 million). Its profit margin increased accordingly from 3 percent to 8 percent. The most notable earnings growth of the year was in the fourth quarter, with the profit margin posting at 13 percent following 11 percent in the third quarter. This positive performance confirms Software AG's commitment to a realignment of the Consulting line with a focus on Software AG's own products.

Segment report Consulting 2014

in € millions	2014	2013	Change in %	At constant currency in %
BPE / ETS services	195.8	199.6	- 2	- 1
SAP product revenue *	2.2	9.1	- 76	- 76
SAP services *	20.0	66.4	- 70	- 70
Other	-	0.3	-	-
Total revenue	218.0	275.4	- 21	- 21
Cost of sales	- 178.0	- 232.6	- 23	- 23
Gross profit	40.0	42.8	- 7	- 7
Sales & marketing	- 23.1	- 33.5	- 31	- 30
Segment earnings	16.9	9.3	82	77

* Deconsolidation of SAP-related business

Financial Position

General principles and objectives of Software AG's financial management

The primary objective of Software AG's financial management is to support the Group's profitable growth and ongoing portfolio optimization through an appropriate financing structure—regardless of short-term capital market conditions. Furthermore, the solvency of all Group entities must be ensured at all times. The Company has sufficient liquid assets available for this from net cash provided by operations and existing credit agreements. A high equity ratio and free cash flow provide the financial flexibility for accelerated organic growth and targeted acquisitions.

The corporate Finance department implements financial policy and risk management based on guidelines determined by the Management Board. Software AG's liquidity position is centrally controlled through active working capital management. Financial investments are essentially oriented toward the short term, which means that Group funds are invested at near money-market rates. We consistently minimize default risk through broadly diversified investments and using stringent criteria in selecting transaction partners.

Furthermore, Software AG's corporate Finance department also monitors the currency risks for all Group companies, minimizing them using derivative financial instruments. In doing so, we only hedge existing balance sheet items or expected cash flows.

Financing analysis

Software AG's financial liabilities decreased as of December 31, 2014 to €444.1 million (2013: €613.4 million) due the scheduled repayment of a promissory note loan in the amount of €200.0 in the second quarter. As a result, cash and cash equivalents dropped to €318.4 million (2013: €450.0 million) at year end. Shareholders' equity posted a net increase of €47.7 million to reach €1,012.5 million (2013: €964.8 million). Positive factors here were retained earnings, which were up by €74.1 million. Accordingly, the equity ratio climbed to 55 percent (2013: 48 percent).

In addition to targeted investments and acquisitions, Software AG also employed its high level of cash and cash equivalents, amounting to €450.0 million as of December 31, 2013, to repurchase treasury stock. The share buyback program was approved up to a volume of €110.0 million by the Management Board and Supervisory Board on October 25, 2013. The treasury share buyback ended on February 28,

2014. After having purchased 1,463,438 shares through this program in the fourth quarter of 2013, Software AG bought an additional sum of 2,653,845 treasury shares for a total price of €70,560,638.50 based on February 28, 2014 as a value date. The Company's treasury shares as of February 28, 2014 totaled 8,084,101, which represents 9.3 percent of its share capital. The 10-percent cap on the repurchase of treasury shares by law was thus almost reached. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation legislation and by the authorization of the Annual Shareholders' Meeting on May 3, 2013. As of December 31, 2014, Software AG held 8,025,101 treasury shares representing 9.2 percent of the Company's share capital.

Financing instruments

Software AG's financing is based largely on strong free cash flow. In addition, we use bank loans, promissory note loans, factoring and finance leasing models for any additional financing needs. A primary financing risk arises from the possibility that the Company would not be able to satisfy existing financial liabilities, which include loan agreements, lease agreements and trade accounts payable. Active working capital management and Group-wide liquidity control limit this risk. Financial obligations could always be balanced by available cash and bilateral lines of credit. The loans used are predominantly at fixed interest rates and have terms to maturity of no more than six years. We secured fixed-interest rates for some of the loans using interest rate swaps. Variable interest payments are based on the prevailing interest rate on the reporting date. We calculated liabilities in foreign currency at the exchange rate as of December 31, 2014.

Investment analysis

Capital expenditure for property, plant, and equipment and intangible assets play a minor role at software companies such as Software AG. At year-end these investments were down at €10.9 million (2013: €13.8 million) and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken.

The leading factor for the difference from the previous year was reduced payments for acquisitions and securities. Net expenditure for acquisitions was up significantly at €113.2 million in fiscal 2013 because of the five acquisitions undertaken that year. Subsequently this figure was down in 2014 at €3.7 million. The balance of income from the sale

of securities and payments for the purchase thereof totaled €1.2 million as compared to an investment of €56.5 million in 2013 for securities with terms greater than three months for the purpose of optimizing liquidity.

Liquidity analysis

Total cash flow developed in line with income in fiscal 2014. Net cash provided by operating activities dropped from €171.8 million in 2013 to €143.2 million in 2014. Cash inflows/outflows from investing activities changed substantially in the year under review, with €5.1 million in inflows in 2014 as compared to outflows of €175.6 million in 2013. This is primarily due to the reduced net payments made for acquisitions, which went from €113.2 million in 2013 to €3.7 million in the year under review. The comparably high figure the year before was for the acquisition of five technology companies. The payments in 2014 account for two partial payments for Metaquark and Metismo, both acquisitions from 2013. In addition, proceeds from the sale of IDS Scheer Consulting were reported in 2014. Proceeds from the sale of securities (€31.0 million) exceeded payments for securities (€29.8 million) by €1.2 million compared to payments amounting to €56.5 million the year before. The purchased securities were all puttable, fixed-interest investments with terms greater than three months. All investments have investment-grade credit ratings.

Cash inflows from financing activities fell to –€282.9 million (2013: €160.9 million). One difference was the change in financial liabilities. Financial liabilities in 2014 were only €35.3 million compared to €401.9 in 2013, in which year Software AG placed a promissory note loan with a total value of €300.0 million and took out a low-interest loan with the European Investment Bank in the amount of €100.0 million. A scheduled repayment of €200.0 million was made on the promissory note loan in the second quarter of 2014. In total, repayments on financial liabilities totaled –€212.6 million (2013: –€48.9 million) in fiscal 2014. The second factor was the lower payments for the purchase of treasury shares, which went from –€154.4 million in 2013 to –€70.6 million in 2014. The total dividend payout decreased to –€36.4 million (2013: –€38.3 million) because the number of shares outstanding fell after the buyback of treasury shares.

Free cash flow performance at -16.5 percent was in line with that of operating cash flow (-16.6 percent) to total €132.7 million (2013: €159.1 million) in fiscal 2014. This represents 15.5 percent (2013: 16.4 percent) of total revenue. The free cash flow to net income ratio (€132.7 million: €110.6 million) was 120 percent, which is level with the year before (cash conversion).

Cash flow 2014

in € millions	2014	2013	Change in %
Operating cash flow	143.2	171.8	- 17
././. CapEx*	- 10.5	- 12.7	
Free cash flow	132.7	159.1	- 17
as % of revenue	15.5 %	16.4 %	
Free cash flow per share**	1.68	1.90	- 12

* Cash flow from investing activities excluding acquisitions and investments in debt instruments.

** Based on average shares outstanding: FY 2014: 79.2mn/FY 2013: 83.7mn

Multi-period financial position summary

in € millions	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Cash and cash equivalents	318.4	450.0	315.6
Current financial liabilities	103.6	202.9	52.6
Non-current financial liabilities	340.5	410.5	213.4
Net debt	125.7	163.4	- 49.6
Shareholders' equity	1,013.4	965.6	1,060.1
Equity ratio	55%	48%	60%
Total assets	1,848.9	1,996.9	1,771.9

Assets

Balance sheet structure analysis

Software AG's total assets decreased from €1,996.9 million on December 31, 2013 to €1,848.9 million on December 31, 2014.

On the assets side, current assets dropped 17.4 percent to €635.4 million (2013: €769.5 million). The largest impact was the reduction of cash and cash equivalents from €450.0 million in 2013 to €318.4 million in 2014. This decline was primarily due to a scheduled repayment on a promissory note loan in the amount of €200.0 million in the first half of the year. Current trade receivables and other receivables and assets went down to €231.9 million (2013: €252.6 million).

Non-current assets remained fairly stable at €1,213.6 million (2013: €1,227.3 million) year-on-year. While intangible assets fell from €211.8 million to €180.2 million due to amortization and divestments, goodwill made a moderate gain to €857.3 million (2013: €829.2 million) thanks to positive currency effects. At €1,105.7 million, Software AG's total fixed assets remained on par with last year (€1,109.9 million). Non-current trade receivables were down by 9.3 percent due to lower revenues.

On the liabilities side, current liabilities decreased to €415.1 million (2013: €533.1 million). This drop was largely influenced by the €200.0 million repayment on a promissory note as described above. Non-current liabilities fell to €420.5 million (2013: €498.2 million) due to the impending repayment of financial liabilities.

Net debt was reduced to €125.7 million (2013: €163.4 million) through the measures discussed above.

Shareholders' equity increased to €1,013.4 million (2013: €965.6 million) at year-end. This was primarily due to the growth in retained earnings by €74.1 million to total €1,161.4 million (2013: €1,087.3 million) and positive currency effects amounting to €49.2 million, although the purchase of treasury shares had an effect of -€70.6 million (2013: -€154.4 million). The equity ratio increased to 55 percent (2013: 48 percent).

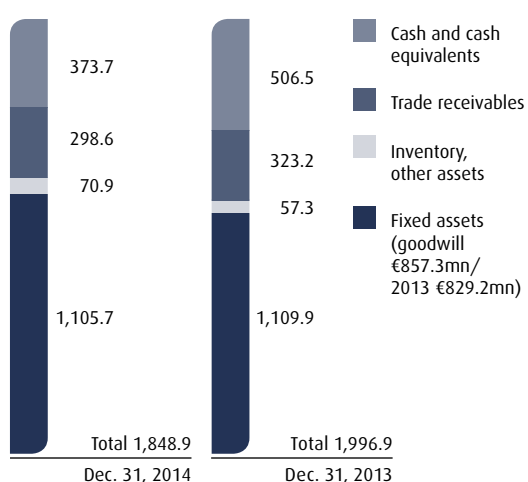
During the period from November 2013 to February 2014 Software AG purchased 4.1 million treasury shares for a total price of €110.0 million. As of December 31, 2014, Software AG held 8,025,101 treasury shares representing 9.2 percent of the Company's share capital.

Off-balance sheet assets

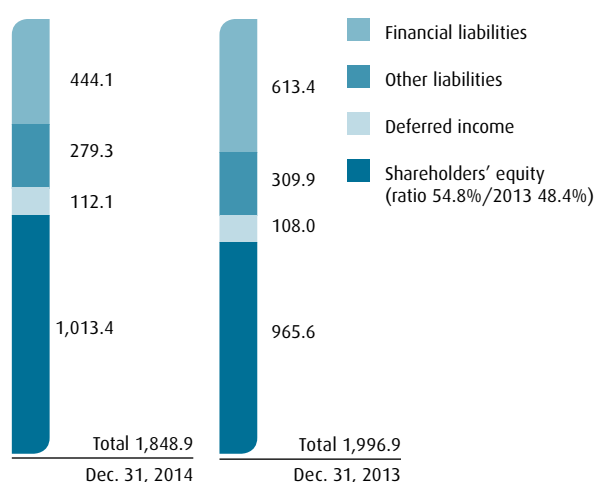
In addition to the assets reported in the consolidated balance sheet, Software AG has off-balance sheet assets. Off-balance sheet assets include the Software AG brand and internally developed software products, which are important intangible assets. Employees, their skills and their dedication are also critical to Software AG's success. Additional off-balance sheet assets included office space, leased company cars and hardware.

Consolidated balance sheet

Assets (in € millions)



Liabilities (in € millions)



Multi period assets summary

in € millions	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Assets			
Current assets	635.3	769.5	675.8
Non-current assets	1,213.6	1,227.4	1,096.1
	1,848.9	1,996.9	1,771.9
Equity and Liabilities			
Current liabilities	415.1	533.1	401.8
Non-current liabilities	420.4	498.2	310.0
Shareholders' equity	1,013.4	965.6	1,060.1
	1,848.9	1,996.9	1,771.9

Separate Financial Statements of Software AG (Parent Company)

Software AG's financial statements were prepared pursuant to the provisions of the German commercial code.

Financial performance of Software AG

The key items of the income statement are as follows:

in € millions	2014	2013	Change in %
Licenses	19.6	9.5	106.3
Maintenance	100.4	93.2	7.7
Services	88.5	102.5	- 13.7
Total revenue	208.5	205.2	1.6
Operating income and expenses	- 246.6	- 221.6	11.3
Income from investments and profit transfer	106.0	56.0	89.3
EBIT	67.9	39.6	71.5
Extraordinary expenses	0.0	- 6.8	- 100.0
Net financial income/expense	- 5.1	- 7.6	- 32.9
Earnings before taxes	62.8	25.2	149.2
Taxes	- 3.5	- 4.8	- 27.1
Net income/loss for the year	59.3	20.4	190.7

- "Licenses" resulted from license-related royalties from subsidiaries and from Software AG's own license sales in Germany, which increased significantly year-on-year.
- "Maintenance" includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products. The year-on-year increase resulted from a rise in royalty rates from 40 percent to 43 percent.
- "Services" include management fees crossed-charged to the subsidiaries as well as services rendered by central support and cross-charged research and development costs. The decrease is a result primarily of a discontinuation of cross-charging marketing costs. They are now covered by the increased royalty fees for maintenance.
- "Operating income and expenses" include changes in inventories of finished goods and work in progress, other operating income and expenses, expenses for purchased goods and services, personnel expenses and depreciation, amortization and impairment on intangible and tangible fixed assets. The increase is a result of offsetting currency-related losses, which increased by €17.8 million, against expenses for purchased services, which increased by €13.7 million.
- "Income from investments and profit transfer" includes dividends from subsidiaries, income and expenses arising from profit transfer agreements and impairment of financial assets and marketable securities. The rise in this item resulted primarily from impairment of financial assets, which decreased by €14.7 million, and losses resulting from disposals of investments totaling €35.3 million.
- "Net financial income/expense" is the result of offsetting other interest and similar income against interest and similar expenses. The year-on-year improvement of €2.4 million resulted mainly from appreciation on the subsidiaries' investment carrying amounts.
- Tax expenses dropped mainly due to the €1.3 million decrease in withholding taxes Software AG paid in foreign countries.

Balance sheet and financial position of**Software AG**

Software AG's total assets decreased by a total of €353.9 million, from €1,260.4 million on December 31, 2013 to €906.5 million on December 31, 2014.

The following depicts the major changes compared with the prior year:

Assets and financial position of Software AG

in € millions	Dec. 31, 2014	Dec. 31, 2013	Change in €
Intangible assets	28.3	31.1	- 2.8
Property, plant and equipment	25.3	11.5	13.8
Financial assets	654.7	793.5	- 138.8
Inventories	0.1	0.1	0.0
Receivables and other assets	103.7	184.7	- 81.0
Cash and cash equivalents and short-term securities	89.1	235.4	- 146.3
Prepaid expenses/other	5.3	4.1	1.2
Assets	906.5	1.260.4	-353.9
Equity	311.1	357.1	- 46.0
Provisions	72.1	67.5	4.6
Liabilities to banks	437.0	602.5	- 165.5
Liabilities	85.8	232.2	- 146.4
Deferred income	0.5	1.1	- 0.6
Equity and liabilities	906.5	1.260.4	-353.9

- "Intangible assets" decreased by €2.8 million due primarily to amortization and additions from the current year, in particular the purchase of intellectual property rights from metaquark in the amount of €1.4 million.
- "Property, plant and equipment" increased by €13.8 million from €11.5 million to €25.3 million mainly due to the internal purchase of an administrative office building in Saarbrücken, Germany.
- "Financial assets" reduced by €138.8 million, thereof €135.9 million through the merger with Software Financial Holding GmbH.
- "Receivables and other assets" as of December 31, 2014 went down by €81.0 million due to the reduced balance of subsidiaries through the merger with Software Financial Holding GmbH of €43.9 million proportionally as well as through payments.
- "Cash and cash equivalents" decreased by €146.3 million from €235.4 million to €89.1 million. The change is primarily a result of offsetting repayments on bank loans

in the amount of €200 million against new bank loans in the amount of €25 million. Software AG predominantly generates liquidity based on royalties, dividends, Group financing and management fees from the subsidiaries. For this reason, the cash flows of Software AG depend to a great extent on decisions regarding the dividend payouts of subsidiaries and financing arrangements between the parent company and the subsidiaries. A cash flow statement for Software AG alone would therefore have little meaning, for which reason we do not prepare such a statement.

- "Equity" of Software AG decreased by €46.0 million, from €357.1 million on December 31, 2013 to €311.1 million on December 31, 2014. This decrease resulted mainly from the balance of €70.6 million for the repurchase of treasury shares, €62.2 million in annual net income and €36.3 million for the dividend payout in fiscal 2014.
- "Provisions" increased by €4.6 million. This change resulted largely from the drop in pension provisions by

€11.0 million due to the net rise in plan assets and the increase in other provisions by €14.3 million. The rise in other provisions of €12.3 million related mainly to liabilities from share-based compensation plans.

- "Liabilities to banks" decreased from €602.5 million by €165.5 million to total €437.0 million. The change is primarily a result of offsetting repayments on bank loan in the amount of €200 million against new bank loans in the amount of €25 million.
- "Liabilities" decreased year-on-year by €146.4 million to total €85.8 million. This resulted primarily from the nullification of the loan with Software Financial Holding GmbH, which merged with Software AG.

Outlook

Software AG's future financial performance depends upon the financial standing of the Software AG Group and decisions regarding the payout of Group-internal dividends. Please refer to the Outlook in the Group Management Report.

Other Intangible Assets

Statement on corporate acquisitions

Corporate acquisitions and investments play an important role in Software AG's future-oriented, sustainable development. Following a total of five acquisitions in 2013 to expand the BPE product portfolio, Software AG's focus in fiscal 2014 was the systematic integration and completion of these

acquisitions. In addition, the Company took further steps to streamline its portfolio and develop its investment strategy.

In the first half of 2014 Software AG concluded the final phase of its gradual exit from the non-strategic SAP consulting market. As of May 31, 2014 all SAP service operations in Germany, Austria and Switzerland (DACH) were sold to the Scheer Group GmbH. The transaction included all SAP services in the DACH region controlled by the IDS Scheer Consulting GmbH subsidiary, which had approximately 500 employees and €64 million in total revenue (revenue in fiscal 2013).

For more information on M&As, please refer to pp. 26–27.

Employees

Headcount

As of December 31, 2014 Software AG employed 4,421 (2013: 5,238) people worldwide (full-time equivalents). In Germany, where corporate headquarters are located, the number of employees was 1,216 (2013: 1,711). The main reason for the drop in Germany was the conclusion of the disposal of SAP consulting operations in the DACH region in mid-2014. This change raised the percentage of staff outside of Germany to 72.5 percent (2013: 67.3 percent). This distribution illustrates the Company's focus on international markets.

Our employees are distributed according to function and region as follows:

Headcount by functional areas* and geography

	Dec. 31, 2014	Dec. 31, 2013	Change in %
FTE			
Total	4,421	5,238	- 16
Consulting & services	1,821	2,347	- 22
R&D	968	998	- 3
Sales & marketing	993	1,180	- 16
Administration	639	713	- 10
USA	654	778	- 16
Germany	1,216	1,711	- 29
Rest of world	2,551	2,749	- 7

* According to P+L structure

Recruiting and staff development

Software AG believes that highly qualified and committed employees are a key factor to sustainable business success. This is especially true in the extremely dynamic IT market. Pressures from global competition and the need to change require every employee to be extremely flexible and willing to learn on an ongoing basis. This is necessary if software companies want to gain and maintain a leading market position. For this reason, Software AG actively pursues a plethora of activities to foster staff recruitment and development, continued education, innovation culture, diversity, university relations, interdisciplinary partnerships and development as its brand as an employer.

For more information on Employees, please refer to pp. 16–17, and on the Corporate University and University Relations to pp. 18–19.

Research and Development (R&D)

Focus of R&D activities/

R&D expenditures and investments

Software AG's R&D strategy in fiscal 2014 concentrated on the expansion of existing solutions, new product innovations and the systematic integration of newly acquired technologies from the year before. Joint research projects with

colleges and universities, partners and users provided valuable insight as well. This R&D mix is the foundation of Software AG's technology leadership. The customer is the focus of everything we do. Only innovations that offer a clear added value and enrich customers' value creation chain are successful.

R&D expenses for new and existing products increased slightly to €109.1 million (2013: €107.9 million). As a percentage of Group product revenue (licenses and maintenance), R&D expenses increased from 15.3 percent to 17.0 percent. The rise was due, among other factors, to the expanded product portfolio and the integration of the five technology acquisitions from the year before. The increase in R&D effort reflects the Company's objective of continually investing in future-looking products and markets for the BPE business line. With this investment strategy Software AG is committed to driving the evaluation and development of new technologies and solutions for the Digital Enterprise.

As of December 31, 2014, 968 (2013: 998) employees were working in R&D at Software AG (part-time staff is taken into account on a pro-rata basis only). This is a 3-percent decline year on year. R&D specialists were distributed across 15 countries, with the majority based in Germany, India, the U.S. and Bulgaria.

Multi-period R&D summary

in € millions	2014	Change in %	2013	Change in %	2012
R&D expenses for ETS	24.4	3.6	25.3	3.0	26.1
R&D expenses for BPE	84.7	-2.5	82.6	-10.0	75.0
Total	109.1	-1.1	107.9	-7.0	101.1
As % of product revenue	17.0%		15.3%		14.2%
As % of total revenue	12.7%		11.1%		9.7%
R&D headcount (FTE)	968	-3.0	998	13.0	887

For more information on R&D, please refer to pp. 22–25.

Customers, sales and partners

Software AG's extensive customer base consisting of long-term, well-known large and medium-sized companies is extremely valuable to its stability and ongoing development. The Company's goal is now to guide its customers' transformation into a Digital Enterprise, which will enable them to flexibly adapt their business models to the ever-changing requirements of the market. With this in mind, Software AG bundled all customer-facing activities under a new position on the Management Board as of October 1, 2014. This change will strengthen Software AG's go-to-market model, sales efficiency and productivity.

For more information on Sales, please refer to pp. 28–29, on Partners to pp. 30–31 and on Customers to pp. 32–35.

Overall Statement on Financial Position

Management's assessment of financial position

2014 was a year of transformation. Software AG's strategic priorities in fiscal 2014 were the customer-centric development of our product portfolio, realigning the focus of our Consulting unit on the core business of our own software products and increasing the efficiency of Sales activities. The measures taken demonstrated initial success in the second half of the year. Following weak business performance in the second quarter due to the postponement of large-scale projects, Software AG continued its upward trend from the third quarter through the end of the year. The operating profit margin rose to about 37 percent in the fourth quarter. That is the highest it's been in the last five years.

This level of earnings in the last quarter of the year puts us at the top of our industry. The improved business performance in the second half of 2014 illustrates that we are making progress in pursuing a value-oriented strategy. We consider our Company to be very well positioned for profitable growth in the future.

Software AG is technology leader in application infrastructure and middleware software. It drives the development of products for real-time analytics, which have great potential in the high-growth Industry 4.0 (Internet of Things) market. In our estimation, the Company is technologically speaking very well positioned in the global market and is progressing in its

transformation to a solutions provider with a focus on the key future segment of Business Process Excellence (BPE).

Due to significantly longer sales cycles, total BPE revenue in fiscal 2014 was below the extraordinarily strong year before as well as our targets. However, a quarter-on-quarter improvement confirmed the Company's strategic focus on expanding the high-profit, future-looking BPE line. BPE license sales charted an encouraging trajectory during the course of the fiscal year. Quarter-on-quarter, BPE license revenue went up 43 percent in the fourth quarter to €60.2 million (Q3 2014: €42.2 million) and a sizable 84 percent compared to the second quarter (Q2 2014: €32.7 million). Furthermore, second half-year BPE earnings grew as well. The improved quarterly financial performance reflects the Company's first successes resulting from the optimized efficiency of sales activities and lays a solid foundation for fiscal 2015.

The traditional Enterprise Transaction Systems (ETS) database business achieved the upper end of our forecast target range with €245.3 million (2013: €274.5 million) in revenue in fiscal 2014. Here again we saw a positive trend quarter-on-quarter. Software AG was able to steadily grow ETS product revenue during the year. Fourth-quarter results showed a 26-percent improvement over the third quarter with €77.0 million in product revenue (Q3 2014: €61.3 million). Thanks to stringent cost management, the ETS profit margin rose to 68 percent for fiscal 2014, surpassing last year's high level of 67 percent. At about 70 percent, the ETS segment again accounted for the largest portion of Software AG's total earnings. This reflects the key role the ETS segment plays in earnings and business as well as the high level of stability and loyalty of ETS customers, mainly consisting of large well-known corporations.

We successfully concluded the consolidation of our Consulting business. Due to the sale of non-strategic SAP consulting units in the second quarter, reported revenue for the Consulting business line dropped to €218.0 million (2013: €275.4 million) in fiscal 2014. However, adjusted for the portfolio adjustment, revenue amounting to €195.8 million (2013: €199.6 million) remained nearly constant year-on-year. Segment earnings also improved significantly to €16.9 million (2013: €9.3 million) achieving an 8-percent (2013: 3 percent) margin. Here again the strongest earnings growth of the year was in the fourth quarter, with the margin at 13 percent following 11 percent in the third quarter.

We are certain that the significant earnings upswing in the second half of the year marks a turning point for business in the current year and illustrates the Company's sustainable profitability. The decisive factors leading to profitable growth were the higher percentage of product revenue in total revenue, the increased percentage of high-margin recurring maintenance revenues and the sharp boost to profitability in the service business. In addition, measures to increase sales efficiency such as merging all sales activities into a new board position, stringent cost control in sales and marketing as well as focusing on core business with Software AG products all had an impact and demonstrated sustainability.

Megatrends in IT require companies to transform to a Digital Enterprise. Software AG's innovative product portfolio and market expertise enable this goal to be achieved. Company management is therefore optimistic that, as digitization intensifies, demand for integration solutions and agile, flexible application development will continue and drive BPE product revenue. The expansion of the Management Board to include a Chief Customer Officer and funneling all go-to-market activities through this single position will strengthen the efficiency and effectiveness of Sales—in close cooperation with partners—and improve customer engagement. In this way, we intend to transform to a totally customer-centric organization.

The excellence of our product portfolio was confirmed by customer feedback. Software AG introduced the world's first Digital Business Platform at our international customer event "Innovation World" in the USA in the fourth quarter of 2014. The platform enables customers to develop their own apps and to accelerate their transformation to a Digital Enterprise as they have to rapidly adapt to ever-changing business environments.

Our goal for 2015 remains to increase profitability, which will serve as the foundation for innovation and expansion and for Software AG's successful development. We laid a strong foundation in fiscal 2014 to achieve sustainable, profitable growth and increase our enterprise value.

Risk and Opportunity Report

Risk and Opportunity Management System

Objectives of the risk management system

Software AG's primary goal is to generate long-term, profitable growth, accompanied by an increase in enterprise value. To that end, we combine established, stable business activities with an involvement in promising new market segments and regions. In order to ensure the long-term, sustainable development of Software AG, we forgo short-term opportunistic earnings increases and the resulting short-lived positive effects on share price. With a strategy that is based on sustainable, long-term success, we strive for balance between opportunities and risks and take on risks only if the business activities associated with them have a high probability of enhancing the value of Software AG. It is always a prerequisite that we can evaluate risks and that they remain manageable and controllable. In addition, we systematically monitor risks from ongoing business, for example, by keeping a constant eye on product and service quality and managing exchange-rate risks.

Organization of the Risk Management System

Fundamental organization of the global opportunity and risk management system

A Group-wide opportunities and risk management system enables us to identify potential risks early to then accurately assess and minimize them to the greatest extent possible. By continuously monitoring risks, we can constantly evaluate the overall status systematically and in a timely manner and better assess the effectiveness of appropriate countermeasures. In doing so, we include operational risks as well as financial, economic, legal and market risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas. Software AG uses various controlling tools for ongoing monitoring of the risk areas identified, which address the development of the entire Company as

well as department-specific issues. The Management Board receives ongoing information as to current and future risks and opportunities as well as the aggregated risk and opportunity situation via established channels. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Central responsibility for Group-wide processes

Risks and opportunities throughout the world are managed and controlled by the teams at corporate headquarters responsible for risk management for both Software AG and its subsidiaries. Corporate headquarters compiles risk and opportunity reports, initiates further development of our risk management system and elaborates risk-mitigating guidelines for the entire Group. We constantly review the functioning and reliability of the system as well as the reporting. Software AG's internal control system has operationalized business risks by way of internal policies on business policies and practices, as well as Group-wide specification of effective internal controls, compliance with which are continually monitored. The defined policies regulate internal procedures and areas of responsibility at the global and local levels. They are designed to provide information for management and to monitor the operating business risks of the Software AG Group. In order to enhance transparency, administration, communication and compliance assessment of the policies are carried out centrally on an ongoing basis. Another component of risk and opportunity management is the transfer of operating risks to insurance carriers. The General Services department at corporate headquarters coordinates this function globally.

Structure of the risk management system

a) Controlling

Controlling—which is under unified global leadership—monitors operating business risks in real time and reports management-relevant figures monthly to the Management Board. In addition, both operational and strategic risks are analyzed by means of a structured reporting system. It shows developments in all relevant departments using KPIs and reports them monthly or quarterly (depending on KPI) to the Management Board.

b) Finance

All accounting decisions relevant to the Company's financial statements as well as the revenue calculation process are monitored and/or executed by the global Corporate Finance department. This ensures compliance with IFRS accounting regulations throughout the Company.

c) Treasury

The Corporate Treasury team creates daily cash and weekly hedging transaction reports for the Management Board. All high-risk foreign-currency and hedging transactions may be conducted only by the Corporate Treasury team, which is directly below the CFO. The national subsidiaries are not forbidden by a global treasury policy from engaging in any high-risk transactions with derivatives. Regular internal audits monitor compliance with this policy.

d) Internal Audit

Software AG's Internal Audit is an active component of the Company's risk management system. Through a systematic and targeted approach, it ensures the effectiveness of risk management along with the evaluation and continual improvement of the internal control systems and the management and supervision processes. It is also geared to the creation of added value for Software AG by optimizing business processes. Internal Audit reports directly to the CEO and operates worldwide.

Risk management in the financial reporting process

The risk of financial reporting errors was largely eliminated through implementation of the following processes:

- Detailed, global, IFRS-compliant accounting standards must be used. Compliance with these standards is monitored by Corporate Finance and verified by Internal Audit.
- The national subsidiaries' accounting departments are monitored by the local Finance, Controlling, and Administration (FC&A) managers, who are in turn supervised by regional FC&A managers. The subsidiaries report their figures to Corporate Accounting, which is part of the Corporate Finance team. There, the figures from the national subsidiaries are consolidated using the SAP/BCS software tool. At the same time, Corporate Controlling consolidates the countries' profit and loss statements using Office Plus (management information system). Finally, the two consolidated Group profit and loss statements are compared

with each other, any deviations are investigated, and any discrepancies that arise are corrected.

- Worldwide separation of the functions of generating and reviewing accounting figures is guaranteed by segregation into two areas: Corporate Finance and Corporate Controlling. Both of them, with different managers, report to the CFO separately.
- As part of monthly report generation, the Corporate Finance and Corporate Controlling departments analyze and review the figures from all reporting entities. Any differences that arise are corrected on a monthly basis.
- All internal Group supplier and service relationships are centrally coordinated and legally regulated through cooperation agreements. Central departments within Corporate Finance and Corporate Controlling handle internal service allocation. In addition, an intercompany transactions policy standardizes internal Group approval processes throughout the world. The revenue calculation process is rigorously monitored by means of globally managed approval processes as of the commencement of contract negotiations. The Global Deal Desk is a preventative internal control system and is employed worldwide. All offers to conclude contracts with customers go through this approval process, in which the Legal department as well as Corporate Finance, Corporate Controlling and the Management Board are also involved.
- Contracts with a volume of more than €100 thousand are subject to an additional review at the corporate level for revenue recognition.
- After completing the quarterly reporting, Internal Audit continually reviews all key customer contracts worldwide with a view to compliance with the approval process and correct representation in accounting.
- Global policies regulate access rules for the local and central accounting programs, which are monitored by the General Information Services (GIS) department.
- Only employees of Corporate Accounting have access to the data from the SAP/BCS consolidation program.
- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual-control principle.
- External experts are commissioned on a regular basis to evaluate such complex matters as stock option plans, pension provisions, legal risks and purchase-price assignments within the framework of acquisitions.

Strategic risk management (RCM)

The strategic risk management system is composed of a core interdisciplinary Group team of the directors of corporate Finance, Internal Audit and Legal who report to the CFO in this function, as well as risk advisors, who are responsible for identified risks. A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring, assessing and managing identified strategic risks. Risks are evaluated according to a uniform valuation system. The system takes into account the expected value of risk effects on Group EBIT for the next three years. The calculation of these expected values accounts for risk-mitigating measures taken by management.

Effects on EBIT are divided into three categories. A low impact, up to €50 million on Group EBIT, falls into risk category 1. Medium impact is category 2 and refers to effects on EBIT between €50 and €200 million. Large effects on EBIT of over €200 million in the next three years are risk category 3.

In a separate step, the probability of these effects on EBIT is also assigned one of three risk levels. Probability between 0 and 33 percent is risk level 1, between 34 and 66 percent is risk level 2 and above 66 percent is risk level 3.

All strategic risks are evaluated based on this uniform risk matrix. Risks not considered of strategic nature were not included in the risk matrix. All Group managers are responsible for reporting newly identified strategic risks to the central corporate team. The team then informs the Management Board for advice on possible strategies for handling them. The corporate team reports to the Management Board regularly about the ongoing development of the identified risks. The Management Board regularly presents the risk management system to the Audit Committee of the Supervisory Board and discusses with it the level of the identified risks as well as appropriate measures for eliminating risks.

Ensuring the effectiveness of the risk management system and internal control system

Internal Audit regularly reviews the effectiveness of the risk management system and the internal control system. If necessary, suggestions for improvement are developed, which are then introduced centrally or their introduction is monitored centrally. Corporate Finance and Corporate Controlling regularly conduct an internal review of accounting-relevant control processes and modifies them for new developments.

Presentation of Key Individual Risks

We explore key risk areas and individual risks discerned from the totality of risks identified through the risk and opportunity management system.

Environment and sector risks

Market risks

Among other things, market risks are related to the different economic developments in individual countries or regions. The technological evolution of the individual sectors of the IT industry can adversely impact the business potential of the individual business lines. The balanced revenue mix at Software AG reduces dependence on a single geographical or professional IT submarket. Software AG markets technologies that are not specific to certain industries, ruling out a concentration on individual customers. Thanks to our technological innovations, ongoing R&D investments and purchase of new technologies as part of our technology-driven acquisitions, we significantly expanded our product portfolio and our addressable target markets, and we will continue to do so in the future. In this manner, we facilitate the flexibility of customers' existing IT infrastructures, lowering their costs through innovation and securing our broad customer base over the long term. Our customers' return-on-investment times are typically 12 to 24 months and thus extremely short. Hence, our new products are a logical way to cope with market-related cost pressures even in weak economic periods. The overwhelming majority of our customers use our software for business-critical applications that are difficult to be replaced. Therefore, our revenue flow is stable, especially from maintenance services. Innovative products and new technology trends in our product portfolio will ensure further growth. The Company expects to see additional product revenue growth in the future on the basis of the opportunities discussed here.

Debt crisis

The debt crisis in individual eurozone countries that has been escalating since 2010 has had only a limited impact on Software AG's primary business. The Software AG Group earned only 5.5 percent (2013: 3.9 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Portugal, Italy, Ireland, Greece and Spain) in fiscal year 2014. The majority of that was from Spain. Software AG is not conducting business operations in Greece.

Corporate strategy risks

Product risks

As a high-tech industry, the software sector is characterized by very short innovation cycles with respect to new products and sales models, e.g. cloud computing. Large competitors have greater financial resources for innovation and ongoing development of their product portfolios. Because the future of the software sector is difficult to predict, a risk exists of insufficient attention being directed to future growth-relevant products. Software AG's business model in general is particularly susceptible to being negatively affected by the innovation risk of new competitor products.

In order to minimize this innovation risk, Software AG instituted a stronger focus within Research & Development (R&D). Substantial investments were and will be made in big data, cloud applications, product integration, life-cycle management and agile development platforms. Ongoing assessment of future market development is conducted in cooperation with leading technology analysts such as Gartner and Forrester. In order to react faster to changes in the market, Software AG's product release cycle was shortened in 2013 to 6 months. Close collaboration between Sales, Product Marketing, Product Management and Research and Development (R&D) makes it possible for the development of new products to be market-driven and thus market-relevant. One of the greatest challenges of our industry is to optimally allocate R&D resources. We reduce this risk by implementing our functional triangle (sales-marketing-R&D) and by maintaining close contact with customers in all industries and countries. Furthermore, a new product reporting system was developed and introduced in 2014, which better identifies value-promoting product units for our customers. This allows us to allocate R&D resources accordingly. With newer development trends, Software AG's products are also augmented by acquisitions. For these reasons, acquisitions of JackBe Corporation, USA, Relational Networks Inc., USA (LongJump), alfabet AG, the Apama division of Progress Software Corporation and of shares in metaquark GmbH were made in 2013. Software AG bought the remaining shares in metaquark GmbH in 2014. These acquisitions strengthened our Business Process Excellence (BPE) technology, particularly in the area of application Intelligent Business Operations (IBO). As a technology leader—a fact confirmed by independent analysts—in the BPE product area, we are often operating in technologically uncharted waters. This carries the risk of problems arising from the implementation of a customer solution is not completely technologically

mature, which can then damage customer relationships. We handle this risk through customer expectations management and customer-specific support teams, consisting of R&D and Consulting. Customer situations are continuously monitored by specifically formed teams. This ensures that any arising problems are recognized early and solved in cooperation with customers. Problem fixes are immediately incorporated into the standard product and are quickly available to all other customers. This process guarantees a tight link between innovation speed and product quality. Furthermore, project launches are monitored through key performance indicators based on region and country. In addition, Software AG made significant investments in proactive support teams in order to further improve customer satisfaction. The product risks described here were given risk category and risk level 2 at the end of 2014.

Enterprise Transaction Systems (ETS) products

Our traditional ETS product line is in an advanced stage of the product life cycle, with barely any new customer business. Revenues are therefore declining in this product line. Our stabilization strategy for this business is based in part on the option to extend customers' existing licensing rights as well as modernization of their IT landscape to generate new sales revenues. This option cannot be repeated arbitrarily after contracts have been adjusted. This accelerates the decrease in ETS license revenue. The steady trend of customers switching from mainframes to the less-expensive open systems platforms also leads to weakening maintenance revenues.

Software AG is countering these risks with the following measures:

- Central ETS customer teams are being formed to extend the useful life of ETS products.
- ETS modernization to extend the product life cycle
- Customer surveys and evaluations to identify new revenue potential
- New sources of revenue are being tapped by the steady expansion of the ETS product portfolio through add-on products.
- To generate additional revenue, Software AG offers support for customers migrating from mainframe to open-systems platforms on ETS technology.
- Intensified maintenance effort including quotes beyond standard maintenance.

The measures taken can slow the declining trend in the ETS business, but not stop it. Software AG expects a decrease in ETS product revenue between -8 percent and -14 percent at constant currency in fiscal 2015. The Company anticipates a further drop in revenue in the following years as well. This strategic risk was rated at risk category 2 leaning toward risk category 1 and risk level 3 at the end of the year.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. The uncertainty of future market and technology trends means that there is a risk associated with determining the right target companies. Furthermore, there are risks associated with due-diligence processes. The market for future-proof technology is currently undergoing an intense shakeout, which is significantly reducing the number of potential target companies. Big high-tech companies and private equity firms have very large financial reserves that they have to invest because of the current financial market situation and extremely low interest rates. This is driving prices skyhigh. To mitigate the selection risk, our M&A department is continuously observing and evaluating the market for technology developments both in the Silicon Valley and Europe alike.

Furthermore, there is a risk that the companies acquired will not be integrated successfully. Insufficient integration results in growth and profitability issues as well as failure to achieve combined business plan targets. It becomes difficult to quickly exploit revenue and cost synergies. There is an additional risk associated with the loss of key staff when not enough leadership positions are created quickly. The main challenges include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. In order to successfully integrate acquired companies, we instituted the position of global integration manager. The following risk-mitigating processes have been defined for the time prior to and after acquisitions:

Pre-acquisition phase:

Prior to a takeover, an intensive review is conducted to ascertain whether the technologies of the company in question effectively expand Software AG's product portfolio, how market access and market penetration will change, and what synergy potentials can be realized. Every acquisition is preceded by a precise analysis of the financial condition of the target company conducted by an experienced due diligence team.

Moreover, the question of whether the target company's corporate culture is compatible with ours is explored. In order to ensure consistent integration planning, staff members who will be responsible for integration later are included in due-diligence processes at an early point in time. Risks associated with the pre-acquisition phase were rated at risk category and risk level 2 as of December 31, 2014.

Post-acquisition phase:

We identify potential problem areas as quickly as possible using established control mechanisms. The implemented processes are coordinated centrally and ensure the integration of the following areas:

- R&D including products
- Marketing and branding
- Sales and partner business
- Administration

These processes enable us to quickly create revenue and cost synergies. Risks associated with the post-acquisition phase were rated at risk category 1 and risk level 2 as of December 31, 2014.

Product distribution risks

Sales efficiency and sales risks

The complexity of our products together with the complexity of the requirements of our customers alike require a high level of experience and expertise of our sales force. It also calls for development of industry-oriented solutions and use cases. In addition, the sophisticated technology of our products requires a considerable amount of information when selling them. Sales' focus on an industry solutions-oriented go-to-market model will be expanded. This requires close cooperation between R&D, Product Management and Product Marketing and Sales. This risk manifested itself in fiscal 2014 primarily in the 6-percent decrease in BPE product revenue at constant currency. To minimize this risk and increase sales efficiency, the following measures were taken in fiscal 2014:

- A new area of Management Board responsibility was introduced with the Chief Customer Officer
- Multi-product platforms and industry-centric use cases were developed to increase relevance and shorten time to value for our customers
- A value-based sales approach was rolled out globally,
- Expansion of a partner ecosystem to act as an extension of our own sales and services forces

The successful execution of these measures will lead to renewed profitable growth in BPE product revenue in the current fiscal year. The risks described here were rated at 3 for both risk category and risk level (2013: 2) as of December 31, 2014.

Partnership risks

Software AG's growth strategy requires a substantial expansion of its indirect sales channel in order to accelerate growth and to scale. Risks associated with partnerships result from insufficient partner skills, loss of control in sales and delivery process leading to potential customer escalations and finally, partners' unwillingness to develop innovative solutions for customers on top of Software AG's Digital Business Platform. Partner business can also lead to legal risks when partner management needs improvement.

In order to strengthen its partner business, Software AG implemented the following measures:

- A global, competitive partner program including partner life-cycle management was developed
- A partner recruitment program was established
- An OEM partner program was implemented
- Co-Innovation-based partnerships to expand solutions offering through OEMs, strategic system integrators, value-added resellers and cloud computing partners
- Uniform and standardized partner contracts
- Establishment of a scalable, standard enablement program
- Global code-of-conduct training for partners

These measures are expected to significantly improve the strategic risk situation associated with partner business. Risks associated with partnerships were rated at risk category and risk level 2 as of December 31, 2014.

Service risks

From a strategic point of view, the purpose of Software AG's service business is to promote the distribution of our products. This unit is managed predominantly by controlling and improving project margins. Project prices are a key criteria in sealing deals in the services business. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed budgeted costs. Successful product implementation is a prerequisite for earning satisfied reference customers, which fuel Software AG's momentum for further business. Reference customers also build up our reputation as a provider of high-quality software.

The Group-wide standardized and automated approval process (Global Deal Desk) and Software AG's project controlling guarantee that adequate risk-adjusted profit margins are taken into account and continuously monitored. All projects are subject to an ongoing monitoring process that is amplified for larger-scale projects.

In order to process orders effectively and efficiently, the Prime uniform implementation methodology was introduced worldwide in 2013, and the flow of information between Sales, Product Marketing, R&D and Global Consulting Services (GCS) was optimized. Furthermore, training for GCS consultants was enhanced.

Too few specialists are available in specific submarkets for our multitude of complex products. To reduce this risk, specialist and SWAT teams are being established in some regions to ensure adequate product knowledge and skill availability. Smaller country subsidiaries are focusing on specific sections of our product portfolio, and market positioning in the various submarkets is being realigned depending on the size of the country subsidiaries. The proportion of off-shore/nearshore resources could be increased for presenting efficient cost structures. We are currently developing them to increase our pool of available specialists around the world as well as to optimize cost structures. All service activities continue to be led under uniform management. Risks associated with services were rated at risk category and risk level 1 as of December 31, 2014.

Personnel risks

Employees are the most important asset for an innovative company like Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. Quickly hiring and retaining qualified and motivated employees, as an attractive employer, is a key criterion for success. In particular, shoring up staff coverage in Sales is key to a growth strategy. There is a risk associated with a high turnover rate in sales—also typical in other companies. The demographic trend in some countries is also resulting in a reduction in potential growth due to a shortage of qualified human resources.

This risk is reduced through expansion and enhancement of:

- Our image as a preferred employer
- Our presence in social media, such as LinkedIn and Facebook
- High potential programs for the development of managers
- Improved communication strategy

- Global benchmarking of compensation plans and target salaries
- Share-based remuneration
- Global staff and executive recruiting

In addition, we are working on balancing high and low-cost locations.

All in all Software AG is in a position to recruit highly qualified and motivated employees at all locations. Risks associated with personnel were therefore rated at risk category and risk level 1 as of December 31, 2014.

Financial risks

Exchange rate risks

The Software AG Group is exposed to exchange rate risks through our global business activities. Our sales organizations operate in the currency of the countries in which the sales are transacted. This can result in currency risks and opportunities for Group revenue. The sales-related expenses are in the same currency as the sales themselves, however. This natural hedging relationship is further strengthened in the U.S. due to the fact that components of our research and development and global marketing are based in the U.S. We further utilize derivative financial instruments for hedging. This mitigates the effects of exchange rate fluctuations on Group results. Our hedging instruments are used to cover existing foreign currency receivables and payables and anticipated cash flows. Income generated in foreign currencies from individual Group companies is also hedged against changes in value due to exchange rate fluctuations. All exchange rate risks are monitored centrally.

Risks from financial instruments

Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure existing balance sheet items or highly likely cash flows. Based on the financial instruments open on the balance sheet date, an increase in the market interest rate level by 100 basis points would have increased Group net income in 2014 by €1.4 million (2013: €2.4 million). Provided conditions such as revenue structure and balance sheet relationships remained constant and no further hedging transactions took place, this approximate correlation could be applied to future fiscal years as well. Under these conditions, a 10-percent decrease in the euro's value against the U.S. dollar as of December 31, 2014 would have caused Group net income in 2014 to increase by €0.5 million (2013: €1.6 million). The remaining

reserves in equity would increase by €2.6 million, whereas they would have remained unchanged in 2013. Constantly monitoring the creditworthiness of the affected banks helps us minimize the risk of losing our business partners with whom we conclude derivative financial instruments.

Other financial risks

Other financial risks include predominantly the risk of bad debt losses. No cluster risks exist due to Software AG's diversified markets and customer structure. Due to the long-range average, default risks are quite marginal as a result of the generally high level of creditworthiness on the part of our customers. To reduce the impacts of this risk, we are using an automated approval process for customer contracts, known as the Global Deal Desk, based on our own technology. To protect our cash holdings, we constantly monitor our partner banks' creditworthiness and adjust our investment decisions accordingly.

Legal risks

Patent infringements

Patent law, especially in the U.S. due to the large number of software patents granted combined with the peculiarities of U.S. procedural law, favors the bringing of patent lawsuits. This also affects Software AG.

Patent litigation in the U.S. entails the risk of higher procedural costs to defend ourselves against claims without provision for reimbursement in American procedural law.

The Company has an Intellectual Property Rights team to counter patent law suits. In addition to tasks associated with patent law protection, the team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against competitors' claims, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio. Software AG owns a number of patents, which can be used to protect our business and defend it against patent suits. These patents could also contribute in the future to generating additional licensing revenues. The risk associated with patent law infringements was rated at 1 for both risk category and risk level as of December 31, 2014.

Patent law suits

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 in a court in Virginia (USA). 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. The plaintiff's appeal was dismissed in January 2012. In response to further legal action, the case was partially acknowledged and partially referred back to the court of first instance in October 2013. In September 2014, the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants.

A case in the U.S. state of Delaware, which has been pending since February 2012, whereby a non-practicing entity (NPE: a company that solely pursues patent-right violations) sued Software AG for allegedly violating two of its software patents, was settled in September 2014. The settlement did not lead to any unplanned costs.

Other litigation

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In light of the court's order to hear evidence issued in September 2013, in the capacity of expert auditor, Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft provided a written opinion on questions concerning valuation in July 2014. The petitioners' opinions on it have not yet been finalized.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash

compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG submitted a complaint against the decision. In a decision on December 30, 2014, the Higher Regional Court of Saarland appointed an expert witness to verify the market price of IDS Scheer AG shares in the relevant reference period from November 3, 2009 to February 2, 2010. The court explicitly stated that the stock market price must always be taken into account unless the exception arises that it does not reflect the market value, for example in the event of a narrow market whereby no or no trade of relevance occurred over an extended period of time. Software AG is of the opinion that this was the case. Provisions are set up based on the estimated probable actual resource outflow.

A law suit was filed in the USA in December 2010 against our U.S. subsidiary by a competitor in a matter relating to a deal with a customer and the alleged violation of copyright laws. Software AG won the case at first instance. The plaintiff brought further legal action, and the court of first instance reopened the case. The hearing took place at the end of 2014. The jury, without stating a reason, ruled against Software AG with a fine of \$15 million. At the beginning of February 2015, the court ordered payment to be made to the plaintiff in the amount determined by the jury. Software AG considers the accusations to be groundless and will bring further legal action. At present, the Company assumes that final maximum damages from this case will be significantly lower than the amount cited by the jury. It is currently unforeseeable how long the case will last. Based on Software AG's experience with law suits in the USA, we estimated possible damage costs from this case and took the appropriate accounting precautions.

Furthermore, a small number of judicial proceedings arise concerning other operational issues. Generally, however, the number of other legal disputes is very low.

There were no other changes with respect to the legal disputes reported as of December 31, 2013, nor were there any new legal disputes or other legal risks that could potentially have a significant effect on the Company's financial position, financial performance or cash flows.

General Statement on the Group's Risk Situation

An overall view indicates that risks in the Software AG Group are limited and manageable. Please note that sales successes are of key importance here. No risks can be identified that are likely to jeopardize the going concern of the Company now or in the future.

Software AG's Rating

The need for a formal external rating is eliminated due to Software AG's solid financial structure and employed financing instruments. Nevertheless, there are some facts that shed light on Software AG's external rating.

Based on the financial statements from December 31, 2013, Software AG was given central bank eligibility by the German Central Bank (Deutsche Bundesbank). This means that lending banks can use credit claims with Software AG as collateral for refinancing with the Deutsche Bundesbank.

Software AG's own banks classified its creditworthiness as investment-grade at the end of 2014.

Events After the Balance Sheet Date

There are currently no relevant events after the balance sheet date to report.

Remuneration Report

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code from June 24, 2014 (hereinafter referred to as GCGC) and the provisions of the German financial reporting standard in its revised 2011 version no. 17 (DRS 17). It contains

the information required by the German Commercial Code (HGB), the GCGC and the International Financial Reporting Standards (IFRS). It is part of the Group Management Report. The Remuneration Report provides details on compensation amounts and the structure of the compensation

Allocation

			Karl-Heinz Streibich Chief Executive Officer Since October 1, 2003	
in €			2013	2014
Non-performance-based components	Fixed compensation (base salary)		697,642.92	697,642.92
	Additional benefits¹		18,107.95	20,231.43
	Total		715,750.87	717,874.35
Performance-based components	One-year variable remuneration		3,046,513.72	2,980,504.88
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS²	147,780.06	174,232.36
		Management Incentive Plan III – MIP III	0.00	0.00
		Management Incentive Plan IV – MIP IV	0.00	0.00
		Management Incentive Plan V – MIP V²	0.00	0.00
	Total allocation		3,910,044.65	3,872,611.59
Service cost		579,262.44	530,612.08	
Total allocation (GCGC)		4,489,307.09	4,403,223.67	

¹ Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

² The allocation for the Performance Phantom Share Plan is the payment on Management Board members' PPS balance at time of Annual Shareholders' Meeting in the amount of approved dividend per share for every PPS.
The PPS granted in previous years were extended by the board members both years, so no payment occurred.

system for the Management and Supervisory Boards. As required by the new GCGC, remuneration of Board members is presented as individual members' total amounts, broken down into non-performance-based components and one-year and multi-year performance-based components with long-term share-based incentive components. Furthermore, as required by the GCGC, the allocation of different compensation components is shown for the year under review.

The following table shows the allocation of fixed remuneration, additional benefits, one-year variable remuneration for the year under review and the allocation of multi-year variable remuneration with long-term share-based incentive during fiscal 2014.

Eric Duffaut Chief Customer Officer Since October 1, 2014			Dr. Wolfram Jost Chief Technology Officer Since July 9, 2010			Arnd Zinnhardt Chief Financial Officer Since May 1, 2002		
2013	2014		2013	2014		2013	2014	
0.00	150,000.00		360,000.00	360,000.00		441,715.32	441,715.32	
0.00	7,516.00		37,605.04	41,920.23		31,328.02	31,328.07	
0.00	157,516.00		397,605.04	401,920.23		473,043.34	473,043.39	
0.00	183,333.33		462,563.68	511,733.33		1,927,224.56	1,885,467.37	
0.00	0.00		13,136.68	21,244.64		76,397.26	99,406.92	
0.00	0.00		0.00	0.00		0.00	0.00	
0.00	0.00		0.00	0.00		0.00	0.00	
0.00	0.00		0.00	0.00		0.00	0.00	
0.00	340,849.33		873,305.40	934,898.20		2,476,665.16	2,457,917.68	
0.00	0.00		232,667.68	237,448.16		161,754.55	164,479.32	
0.00	340,849.33		1,105,973.08	1,172,346.36		2,638,419.71	2,622,397.00	

Benefits granted (1)

		Karl-Heinz Streibich Chief Executive Officer Since October 1, 2003			
in €		2013	2014	2014 (min.)	2014 (max.)
Non-perfor- mance-based components	Fixed compensation (base salary)	697,642.92	697,642.92	697,642.92	697,642.92
	Additional benefits ¹	18,107.95	20,231.43	20,231.43	20,231.43
	Total	715,750.87	717,874.35	717,874.35	717,874.35
Performance- based components	One-year variable remuneration	3,046,513.72	2,980,504.88	0.00	3,548,220.10
	Multi-year variable remuneration				
	Performance Phantom Shares – PPS	1,432,486.00	3,011,957.50	0.00	4,446,635.77
	with long-term share-based incentive				
	Management Incentive Plan III – MIP III ²	0.00	1,593,000.00	0.00	nn
	Management Incentive Plan IV – MIP IV ³	175,200.00	– 266,100.00	0.00	nn
	Management Incentive Plan V – MIP V	0.00	816,800.00	0.00	3,395,200.00
Total (DRS 17)		5,369,950.59	8,854,036.73	717,874.35	12,107,930.22
Service cost		579,262.44	530,612.08	530,612.08	530,612.08
Total (GCGC)		5,949,213.03	9,384,648.81	1,248,486.43	12,638,542.30
Price decrease and effects related to TecDAX outperformance clause and exercisable share-based remuneration components ⁴		– 12,598,691.42	– 3,252,696.88	0.00	– 6,176,463.91
Total remuneration adjusted for price decrease relating to share-based remuneration		–6,649,478.39	6,131,951.93	1,248,486.43	6,462,078.39

1 Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

2 MIP III was instituted in Q3 2007 with a term until June 30, 2016. Performance targets were defined as the achievement of specific long-term corporate targets by 2011 at the latest. Those targets were achieved at the end of 2010. The 4-year waiting period has concluded for all plan participants. They were entitled to payment in the amount by which Software AG's exceeded the base price of €24.12. A cap was introduced in 2014 for this program in the amount of €20.88 (€45.00 less €24.12) per stock option in exchange for a 3-year extension. The market value of this change to the plan's parameters is shown above as remuneration for fiscal 2014. A maximum value for the pro rated award granted in 2014 under MIP III could not be calculated. We therefore entered nn under maximum value. In total Mr. Streibich can, assuming corresponding share performance, receive a maximum of €18,792 thousand from this plan, which affects activities between the years 2007 and 2010. Of that amount, €6,123 thousand was already reported as compensation in 2007; the corresponding maximum value would have theoretically been infinite had a cap not been introduced in 2014.

3 MIP IV was instituted in Q2 2011 with a term until June 30, 2021. The defined performance target requires reaching at least €450 million in IFRS revenue with new products, including cloud business, by fiscal 2015 at the latest and an official Group non-IFRS EBIT margin of 10 percent by 2015. The waiting period following the award of participation rights is 4 years. An additional condition for exercising rights was defined whereby Software AG's stock price must be at least €60 on one of the five trading days before rights are exercised. In fiscal 2014 a cap for this plan was introduced in the amount of €13.66 (€55.00 less €41.34) per stock option. Moreover, the shown minimum price of €60.00 was removed in the fiscal year. The negative remuneration values under MIP IV resulted from the balance of changed values of the described plan changes. A maximum value for the pro rated award granted in 2014 under MIP IV could not be calculated. We therefore entered nn under maximum value. In total Mr. Streibich can, assuming corresponding share performance, receive a maximum of €12,294 thousand from this plan. Of that amount, €9,704 thousand was already reported in the remuneration reports from past years; the corresponding maximum value would have theoretically been infinite had a cap not been introduced in 2014.

4 The share price losses shown indicate a change to the intrinsic value of the instruments and not a change to their fair value. Losses from the TecDAX outperformance clause in the amount of –€4,545 thousand are included in the values for Mr. Streibich for 2013. This clause was removed in fiscal 2014; the corresponding remuneration components are thus included in remuneration for 2014 on a pro rated basis.

Eric Duffaut
Chief Customer Officer
Since October 1, 2014

	2013	2014	2014 (min.)	2014 (max.)
	0.00	150,000.00	150,000.00	150,000.00
	0.00	7,516.00	7,516.00	7,516.00
	0.00	157,516.00	157,516.00	157,516.00
	0.00	183,333.33	0.00	250,000.00
	0.00	166,666.67	0.00	564,420.56
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	408,400.00	0.00	1,697,600.00
	0.00	915,916.00	157,516.00	2,669,536.56
	0.00	0.00	0.00	0.00
	0.00	915,916.00	157,516.00	2,669,536.56
	0.00	0.00	0.00	0.00
	0.00	915,916.00	157,516.00	2,669,536.56

Benefits granted (2)

		Dr. Wolfram Jost Chief Technology Officer Since July 9, 2010			
in €		2013	2014	2014 (min.)	2014 (max.)
Non-performance-based components	Fixed compensation (base salary)	360,000.00	360,000.00	360,000.00	360,000.00
	Additional benefits ¹	37,605.04	41,920.23	41,920.23	41,920.23
	Total	397,605.04	401,920.23	401,920.23	401,920.23
Performance-based components	One-year variable remuneration ²	462,563.46	511,733.33	0.00	633,333.33
	Multi-year variable remuneration				
	Performance Phantom Shares – PPS	439,054.26	712,344.30	0.00	1,661,827.95
	with long-term share-based incentive				
	Management Incentive Plan III – MIP III ²	0.00	0.00	0.00	0.00
	Management Incentive Plan IV – MIP IV ³	0.00	-157,500.00	0.00	nn
	Management Incentive Plan V – MIP V	0.00	408,400.00	0.00	1,697,600.00
Total (DRS 17)		1,299,222.76	1,876,897.86	401,920.23	4,394,681.51
Service cost		232,667.68	237,448.16	237,448.16	237,448.16
Total (GCGC)		1,531,890.44	2,114,346.02	639,368.39	4,632,129.67
Price decrease and effects related to TecDAX outperformance clause and exercisable share-based remuneration components ⁴		-579,479.67	-280,344.08	0.00	-710,421.20
Total remuneration adjusted for price decrease relating to share-based remuneration		952,410.77	1,834,001.94	639,368.39	3,921,708.47

¹ Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

² MIP III was instituted in Q3 2007 with a term until June 30, 2016. Performance targets were defined as the achievement of specific long-term corporate targets by 2011 at the latest. Those targets were achieved at the end of 2010. The 4-year waiting period has concluded for all plan participants. They were entitled to payment in the amount by which Software AG's share exceeded the base price of €24.12. A cap was introduced in 2014 for this program in the amount of €20.88 (€45.00 less €24.12) per stock option in exchange for a 3-year extension.

The market value of this change to the plan's parameters is shown above as remuneration for fiscal 2014. A maximum value for the pro rated award granted in 2014 under MIP III could not be calculated. We therefore entered nn under maximum value. In total Mr. Zinnhardt can, assuming corresponding share performance, receive a maximum of €9,396 thousand from this plan, which affects activities between the years 2007 and 2010. Of that amount, €63,062 thousand was already reported as compensation in 2007; the corresponding maximum value would have theoretically been infinite had a cap not been introduced in 2014.

³ MIP IV was instituted in Q2 2011 with a term until June 30, 2021. The defined performance target requires reaching at least €450 million in IFRS revenue with new products, including cloud business, by fiscal 2015 at the latest and an official Group non-IFRS EBIT margin of 10 percent by 2015. The waiting period following the award of participation rights is 4 years. An additional condition for exercising rights was defined whereby Software AG's stock price must be at least €60 on one of the five trading days before rights are exercised. In fiscal 2014 a cap for this plan was introduced in the amount of €13.66 (€55.00 less €41.34) per stock option. Moreover, the shown minimum price of €60.00 was removed in the fiscal year. The negative remuneration values under MIP IV resulted from the balance of changed values of the described plan changes. A maximum value for the pro rated award granted in 2014 under MIP IV could not be calculated. We therefore entered nn under maximum value. In total Dr. Jost can, assuming corresponding share performance, receive a maximum of €4,781 thousand from this plan. Of that amount, €3,671 thousand was already reported in the remuneration reports from past years; the corresponding maximum value would have theoretically been infinite had a cap not been introduced in 2014. Mr. Zinnhardt can, assuming corresponding share performance, receive a maximum of €6,147 thousand (350,000 multiplied by €13.66) from this plan. Of that amount, €4,852 thousand was already reported in the remuneration reports from past years; the corresponding maximum value would have theoretically been infinite had a cap not been introduced in 2014.

⁴ The share price losses shown indicate a change to the intrinsic value of the instruments and not a change to their fair value. Losses from the TecDAX outperformance clause are included in the values for 2013 in the amount of -€408 thousand for Dr. Jost and -€2,398 thousand for Mr. Zinnhardt. This clause was removed in fiscal 2014; the corresponding remuneration components are thus included in remuneration for 2014 on a pro rated basis.

Arnd Zinnhardt Chief Financial Officer Since May 1, 2002				
	2013	2014	2014 (min.)	2014 (max.)
	441,715.32	441,715.32	441,715.32	441,715.32
	31,328.02	31,328.07	31,328.07	31,328.07
	473,043.34	473,043.39	473,043.39	473,043.39
	1,927,224.56	1,885,467.37	0.00	2,244,604.02
	1,246,030.92	2,093,039.11	0.00	3,734,102.58
	0.00	796,500.00	0.00	nn
	87,600.00	-133,050.00	0.00	nn
	0.00	408,400.00	0.00	1,697,600.00
	3,733,898.82	5,523,399.87	473,043.39	8,149,349.99
	161,754.55	164,479.32	164,479.32	164,479.32
	3,895,653.37	5,687,879.19	637,522.71	8,313,829.31
	-6,413,191.97	-1,813,773.08	0.00	-3,616,540.59
	-2,517,538.60	3,874,106.11	637,522.71	4,697,288.72

Benefits granted

Fixed compensation

The fixed compensation agreed to by the members of the Management Board is paid monthly, so 12 times per year.

Additional benefits

The fixed additional benefits consist of the commitment of an appropriate company car, voluntary social security benefits and accident insurance premiums.

One-year variable remuneration

Fifty percent of the one-year variable bonus depends on achievement of the Group revenue and earnings targets that are communicated to the capital market. In addition, each member of the Management Board agrees to different quantitative and qualitative targets relevant to the respective area of responsibility, which are in the interest of the medium to long-term strategic development of the Company. The bonuses are calculated based on the extent to which targets are achieved. If the level of achievement is zero, no variable remuneration is paid. The maximum achievable level is 200 percent. One-third of anything exceeding 100 percent will not be paid in cash, but put aside as performance phantom shares (PPS) and paid out at a later point in time based on future share price performance. The highest attainable one-year variable compensation decreases accordingly.

Multi-year variable remuneration

Performance-based components with long-term share-based incentive

a) Performance Phantom Share plan (PPS)

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2014 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2015, less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two and three years. On the due dates in March 2016 to 2018, the number of phantom shares will be multiplied by the then-applicable share price for February. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management

Board over a period of 3 years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (as percentage) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. If any PPS balances are extended beyond December 31, 2016 and the corresponding Management Board member is employed by the Company on June 30, 2016, the balance of PPS does not undergo TecDAX adjustment. New phantom shares issued since March 2014 do not undergo TecDAX adjustment. In this context, remuneration caps were instituted in 2014 as required by the new Corporate Governance Code. Pursuant to this cap policy, neither old PPS balances nor newly issued PPS will be fully included in future share price increases, but only up to a maximum of twice the reference price at issue of the corresponding PPS tranche.

The beneficiaries will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

Company officers may elect to let the Company dispose of the PPS that has become due after the defined waiting period for an unlimited period of time and thus continue to participate in the success of the Company.

At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading days after publication of the financial results. Those entitled receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of the phantom shares.

This plan led to expenses relating to the members of the Management Board in the amount of €6,130 thousand (2013: income of €3,530 thousand) in fiscal year 2014. The income in 2013 was due to the drop in share price with respect to the applicable PPS balances.

The following table illustrates the estimated phantom shares to be issued based on the average share price in February 2015 and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2014:

	Performance phantom shares	Expenses from performance phantom shares*
	Estimated shares	in €
Karl-Heinz Streibich (Chairman/CEO)	64,869	3,098,285.64
Eric Duffaut (since October 1, 2014)	7,092	166,666.67
Dr. Wolfram Jost	24,675	722,731.38
Arnd Zinnhardt	56,650	2,142,179.89

* The expense consists of allocation at an estimated price of €23.50 (2013: €27.68) per PPS at the time of award for fiscal 2014 and income from value changes to awards from previous years amounting to €3,619 thousand (2013: €3,195 thousand), less hedging expenses in the same amount. This item also includes payments on PPS balances in line with dividends for shares amounting to €295 thousand (2013: €237 thousand). Expenses relating to the removal of the TecDAX outperformance clause in the amount of €2,086 thousand (2013: 0) are also still included.

b) Stock option plans

In December, the Supervisory Board decided to introduce caps for both Management Incentive Plans III and IV in accordance with the German Corporate Governance Code. As part of this, the term of MIP III was extended by 3 years (until June 30, 2019) and the exercise condition of €60.00 for MIP IV was removed. The decision was also made to introduce a new Management Incentive Plan (MIP V) for fiscal 2015. Plan participants received the changes in December. Participation in MIP V is conditional upon approval of the proposed amendments. The specific changes are presented in detail in the corresponding plan descriptions below.

b1) Management Incentive Plan III 2007–2011 (MIP III)

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and officers was launched. A total of 3,150,000 (1,050,000 prior to the stock split in 2011) ownership rights were issued to members of the Management Board in past years. If performance targets are reached by June 30, 2016, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price of €24.12 (€72.36 prior to the stock split). The defined performance target involved reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These conditions were met in fiscal year 2010. No member of the Management Board exercised options under MIP III in 2014.

Participants of MIP III can be paid an annual bonus for unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year. This bonus was not paid in fiscal 2014. In the event that an authorized board member does not exercise these MIP III rights, although they are exercisable, for each year in which they are not exercised he receives additional rights from the MIP IV described below. Due to this rule, Mr. Streibich received 30,000 additional MIP IV stock options and Mr. Zinnhardt 15,000 additional MIP IV options in fiscal 2014.

As part of the above mentioned offer to amend plan conditions, the following changes were made:

The plan's term was extended by 3 years until June 30, 2019. In exchange, remuneration was limited in accordance with the German Corporate Governance Code through the introduction of a €45.00 cap with €20.88 per stock option assuming a base price of €24.12. Furthermore, the option to service with shares no longer exists. Accordingly, the exercise of options under this program will be serviced with money.

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 1)	Balance on Jan. 1, 2014	Base price	Value of option at time of grant	Remaining term on Jan. 1, 2014	Granted options in 2014
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chairman/CEO)	900,000	24.12	6.80	2.5	0
Arnd Zinnhardt	450,000	24.12	6.80	2.5	0

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 2)	Forfeited options in 2014	Exercised options in 2014	Expired options in 2014
	No. of options	No. of options	No. of options
Karl-Heinz Streibich (Chairman/CEO)	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 3)	Balance on Dec. 8, 2014*	Thereof exercisable as of Dec. 31, 2014	Remaining term on Dec. 31, 2014*	Accounting expenses from MIP III stock options in 2014
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chairman/CEO)	900,000	900,000	4.5	1,134,000.00
Arnd Zinnhardt	450,000	450,000	4.5	567,000.00

* MIP III, which had been an equity-based plan, converted to a cash-settlement plan on December 8, 2014. Its term was also extended by 3 years, and a remuneration cap was instituted of €45.00 less €24.14, equaling €20.88 per option.

**b2) Management Incentive Plan IV 2011–2016
(MIP IV)**

After Software AG had met the secondary conditions of MIP III (2007–2011) in 2010, it was necessary to launch a new long-term success-based incentive plan. Accordingly, a share-based incentive plan for members of the Management Board and managers was launched in the second quarter of 2011. A total of 1,700,000 ownership rights were issued to members of the Management Board as of December 31, 2014. If performance targets are reached by fiscal year 2015, the holders of these ownership rights are entitled

to a payment of the value by which the Software AG stock surpasses the base price. This entitlement is valid until June 30, 2021. The base price for ownership rights issued thus far is €41.34.

The defined long-term performance target involves doubling Group revenue for new products compared to fiscal year 2010 by no later than 2015. "New products" as defined for the revenue performance target are mainly all products outside of the Adabas, Natural and EntireX product portfolios. The Company therefore took the cloud computing megatrend into account in its calculations of relevant revenue.

This means that the cloud revenue that is generated on a pro rata subscription basis is recognized with a multiplying factor; IFRS revenue from new products must however be at least €450 million in fiscal year 2015. Furthermore, the objective was defined that the Software AG Group's publicized non-IFRS EBIT margin must be at least 10 percent respectively by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by an appropriate outperformance of the revenue performance target. The issue rights can be exercised for the first time four years after they were allotted. An additional condition for exercising rights was defined whereby Software AG's stock price must be at least €60 on one of the five trading days before rights are exercised.

Furthermore, participants of MIP IV can be paid an annual bonus on exercisable but unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year.

As part of the above mentioned offer to amend plan conditions, the following changes were made:

A cap of €55.00 was defined as part of a remuneration limit pursuant to the German Corporate Governance Code. Thus, the maximum income from exercising a right with a base price of €41.34 is capped at €13.66. As part of that, the condition that the share price must be €60.00 on at least one of the last five weekdays prior to exercise was removed accordingly.

Stock option awards from Management Incentive Plan IV

MIP IV 2011-2016 (Table 1)	Balance on Jan. 1, 2014	Base price	Value of option at time of award	Remaining term on Jan. 1, 2014	Granted options in 2014	Base price	Value of option at time of award in 2014
	Amount	in €	in €	Amount	Amount	in €	in €
Karl-Heinz Streibich (Chairman/CEO)	870,000	41.34	11.15	7.5	30,000	41.34	4.63
Dr. Wolfram Jost	350,000	41.34	10.49	7.5	–	–	–
Arnd Zinnhardt	435,000	41.34	11.15	7.5	15,000	41.34	4.63

Stock option awards from Management Incentive Plan IV

MIP IV 2011-2016 (Table 2)	Forfeited options in 2014	Exercised options in 2014	Expired options in 2014
	No. of options	No. of options	No. of options
Karl-Heinz Streibich (Chairman/CEO)	0	0	0
Dr. Wolfram Jost	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan IV

MIP IV 2011–2016 (Table 3)	Balance on Dec. 8, 2014*	Thereof exercisable as of Dec. 31, 2014	Remaining term on Dec. 31, 2014	Accounting expenses from MIP IV stock options in 2014
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chairman/CEO)	900,000	0	6.5	1,027,228.00
Dr. Wolfram Jost	350,000	0	6.5	444,786.00
Arnd Zinnhardt	450,000	0	6.5	513,614.00

* MIP IV, which had been an equity-based plan, converted to a cash-settlement plan on December 8, 2014. A remuneration cap of €55.00 less €41.34, equaling €13.66 per option, was instituted.

For further information on total remuneration of the Management Board, on the remuneration of former members of the Management Board and pension provisions for former members of the Management Board, please refer to the Notes to the consolidated financial statements.

Other remuneration components

A member of the Management Board whose employment ends within twelve months of a change of control and without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration. In case of resignation, the above mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control.

In the event of illness, the members of the Management Board will receive full pay based on the annual target remuneration for a period of six months. After six months, the variable remuneration component will be reduced by 1/12 for every month that follows. Salary payments will cease at the end of the term of the contract in any event. Any health insurance benefits received by the Board member must be credited against such payments.

In case of permanent disability, the employment contract of the Management Board member concerned will terminate at the end of the month in which the permanent disability was determined or at the end of the month in which the Management Board member has been incapacitated for work for an uninterrupted period of 12 months. In such a case, severance pay will be provided for one Management Board member in the amount of €158 thousand. Another

member will receive severance payment equal to the member's total fixed salary for the remainder of the contract period, but not to exceed six months. Two Management Board members will receive no severance pay in such a case. From the time of their departure until completion of their 62nd year of age, the German members of the Management Board will receive a disability pension of €14.0 thousand (2013: €13.8 thousand) per month, and the CEO will receive €30.2 thousand (2013: €27.5 thousand) per month. The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year.

The Company maintains accident insurance policies for the Management Board members with an insured amount equaling €1,500 thousand in the event of death and €3,000 thousand in the event of disability.

German members of the Management Board receive pensions for life after completing their 62nd year of age, regardless of their age when they joined the company. For two members of the Management Board, the pension amounts to €17.0 thousand (2013: €16.7 thousand) per month; the CEO's pension amounts to €30.2 thousand (2013: €30.2 thousand) per month. As part of the renewal of the CEO's contract, his pension was adjusted beyond the age limit of 62 using a straight-line method. The pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year. This pension commitment also includes a widow's annuity of 60 percent of the Management Board member's pension.

In the event that a Management Board member leaves the Company prior to the age of 62, and before reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to pension benefits, but they will be reduced on a pro-rated basis. In the event that a Management Board member leaves the Company prior to the age of 62, but after reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to full pension benefits. If the CEO leaves the Company prematurely, there is no pro-rated reduction.

Claims from the French Management Board member to pension or disability pension will be served by the applicable social security system for Company employees in France.

The change in present value from pension commitments in 2014 and the present value of pension commitments as of December 31, 2014 are as follows:

	Change in present value (DBO) from pension commitments 2014	Present value of pension commitments Dec. 31, 2014
	in €	in €
Karl-Heinz Streibich (Chairman/CEO)	2,456,174.00	8,053,843.00
Eric Duffaut (since October 1, 2014)	0	0
Dr. Wolfram Jost	707,279.00	1,749,033.00
Arnd Zinnhardt	902,601.00	2,833,530.00

In addition, German Management Board members who have served on the board for more than three years can, at the discretion of the Company, be given the opportunity to waive portions of their future variable target remuneration to finance additional supplementary benefits. In such a case, the Company pays an annual amount corresponding to the amount waived, raised to the percentage of the average target performance ratio for the preceding three full fiscal years before the respective waiver, into a pension plan negotiated by the Company for the benefit of the Management Board member. This option has thus far not been granted to any Management Board member.

In addition, all members of the Management Board are entitled to be provided with a suitable company car.

No additional commitments have been made regarding severance pay in the event an employment contract is not extended or a shareholder change occurs, nor regarding

supplementary state benefit paid to unemployed people who enter self-employment or found a new business, continuation of salary payments in the event of early termination of employment, or interest on severance payments. There are also no entitlements to payments based on customary practice.

Remuneration of the Management Board in 2013

The specific components of the Management Board's compensation in 2013 are contained in the complete tables in accordance with the German Corporate Governance Code. These components will therefore not be repeated here. Accordingly, this portion of the Remuneration Report will deal solely with the development of compensation relating to stock options and pension commitments in 2013.

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 1)	Balance on Jan. 1, 2013	Base price	Value of option at time of grant	Remaining term on Jan. 1, 2013	Granted options in 2013
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chairman/CEO)	900,000	24.12	6.80	3.5	0
Arnd Zinnhardt	450,000	24.12	6.80	3.5	0

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 2)	Forfeited options in 2013	Exercised options in 2013	Expired options in 2013
	No. of options	No. of options	No. of options
Karl-Heinz Streibich (Chairman/CEO)	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 3)	Balance on Dec. 31, 2013	Thereof exercisable on Dec. 31, 2013	Remaining term on Dec. 31, 2013	Accounting expenses from MIP III options in 2013
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chairman/CEO)	900,000	900,000	2.5	0.00
Arnd Zinnhardt	450,000	450,000	2.5	0.00

Stock option awards from Management Incentive Plan IV

MIP IV 2011–2016 (Table 1)	Balance on Jan. 1, 2013	Base price	Value of option at time of award	Remaining term on Jan. 1, 2013	Granted options in 2013	Base price	Value of option at time of award in 2013
	No. of options	in €	Years	Years	No. of options	in €	in €
Karl-Heinz Streibich (Chairman/CEO)	840,000	41.34	11.34	8.5	30,000	41.34	5.84
Dr. Wolfram Jost	350,000	41.34	10.49	8.5	0	–	–
Arnd Zinnhardt	420,000	41.34	11.34	8.5	15,000	41.34	5.84

Stock option awards from Management Incentive Plan IV

MIP IV 2011–2016 (Table 2)	Forfeited options in 2013	Exercised options in 2013	Expired options in 2013
	No. of options	No. of options	No. of options
Karl-Heinz Streibich (Chairman/CEO)	0	0	0
Dr. Wolfram Jost	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan IV

MIP IV 2011–2016 (Table 3)	Balance on Dec. 31, 2013	Thereof exercisable on Dec. 31, 2013	Remaining term on Dec. 31, 2013	Accounting expenses from MIP IV stock options in 2013
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chairman/CEO)	870,000	0	7.5	1,007,583.00
Dr. Wolfram Jost	350,000	0	7.5	349,816.00
Arnd Zinnhardt	435,000	0	7.5	432,987.00

	Performance phantom shares	Expenses from performance phantom shares
	No. of options	in € *
Karl-Heinz Streibich (Chairman/CEO)	57,506	– 2,731,312.52
Dr. Wolfram Jost	17,626	99,439.13
Arnd Zinnhardt	50,021	– 898,350.24

* The income shown here resulted from share price decreases. This income was reduced by a total of €3,195 thousand in hedging expenses.

The change in present value from pension commitments in 2013 and the present value of pension commitments as of December 31, 2013 are as follows:

	Change in present value (DBO) from pension commitments 2013	Present value of pension commitments Dec. 31, 2013
	in €	in €
Karl-Heinz Streibich (Chairman/CEO)	193,011.00	5,597,669.00
Dr. Wolfram Jost	245,143.00	835,867.00
Arnd Zinnhardt	182,968.00	1,930,929.00

Supervisory Board remuneration

Remuneration for Supervisory Board members is made up of fixed and performance-related components. Members receive additional remuneration for their work on the Committees (Committee for Compensation and Succession Issues, Audit Committee, Strategy Committee, Mediation Committee and Nominating Committee).

The fixed annual compensation of Supervisory Board members is €50,000 (2013: €50,000). In addition, members of the Supervisory Board receive performance-based annual compensation in the amount of €500 for every started percentage point by which Group earnings per share (basic) increase in comparison to Group earnings per share (basic) averaged over the defined period of time for comparison. The period of time used for comparison is the two prior fiscal years.

The figures reported in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the relevant fiscal year or fiscal years are utilized for calculating performance-related remuneration.

Remuneration of the Chairman/Deputy Chairman

The Chairman of the Supervisory Board receives twice the remuneration stated, and the Deputy Chairman one-and-a-half times such amount.

Other arrangements

Members of the Supervisory Board also receive €1,500 each time they attend a meeting of one of their committees in person. Attendance compensation is paid only once for multiple committee sessions occurring on the same day or for a session that takes place over consecutive days. The attendance compensation is €2,500 for the committee chairs.

Remuneration is payable one week after approval of the financial statements for the year by the Supervisory Board or, if applicable, the Annual Shareholders' Meeting. Members of the Supervisory Board who were on the Board for only a part of the fiscal year will receive remuneration for each day during the first month of activity and one-twelfth of the annual remuneration for each additional month.

Remuneration of Supervisory Board members for fiscal year
2014 was as follows:

in €	Fixed remuneration	Variable remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	100,000.00	0.00	12,500.00	112,500.00
Prof. Willi Berchtold	50,000.00	0.00	5,000.00	55,000.00
Maria Breuing (since June 26, 2014)	25,890.41	0.00	1,500.00	27,390.41
Peter Gallner	50,000.00	0.00	3,000.00	53,000.00
Heinz Otto Geidt	50,000.00	0.00	3,000.00	53,000.00
Dietlind Hartenstein	50,000.00	0.00	7,500.00	57,500.00
Monika Neumann (Dep. Chairwoman)	75,000.00	0.00	7,500.00	82,500.00
Prof. Dr. Hermann Requardt	50,000.00	0.00	0.00	50,000.00
Anke Schäferkordt	50,000.00	0.00	3,000.00	53,000.00
Roland Schley (until May 31, 2014)	20,684.93	0.00	1,500.00	22,184.93
Martin Sperber-Tertsunen	50,000.00	0.00	0.00	50,000.00
Karl Wagner	50,000.00	0.00	1,500.00	51,500.00
Alf Henryk Wulf	50,000.00	0.00	6,000.00	56,000.00

All information on the remuneration of the Supervisory
Board is included in the Notes to the consolidated financial
statements.

Remuneration of Supervisory Board members for fiscal year
2013 was as follows:

in €	Fixed remuneration	Variable remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	100,000.00	0.00	10,000.00	110,000.00
Prof. Willi Berchtold	50,000.00	0.00	5,000.00	55,000.00
Peter Gallner	50,000.00	0.00	3,000.00	53,000.00
Heinz Otto Geidt	50,000.00	0.00	3,000.00	53,000.00
Dietlind Hartenstein	50,000.00	0.00	4,500.00	54,500.00
Monika Neumann (Dep. Chairwoman)	75,000.00	0.00	4,500.00	79,500.00
Prof. Dr. Hermann Requardt	50,000.00	0.00	0.00	50,000.00
Anke Schäferkordt	50,000.00	0.00	3,000.00	53,000.00
Roland Schley	50,000.00	0.00	4,500.00	54,500.00
Martin Sperber-Tertsunen	50,000.00	0.00	1,500.00	51,500.00
Karl Wagner	50,000.00	0.00	3,000.00	53,000.00
Alf Henryk Wulf	50,000.00	0.00	6,000.00	56,000.00

Forecast

Economic Conditions in the Next Two Fiscal Years

Future overall economic situation

According to the Institute for the World Economy (IfW), global economic growth will accelerate in the forecast period. It foresees higher economic growth rates in developed nations in particular. The resulting spark in foreign demand will also benefit economic activity in emerging economies. The IfW forecasts 3.7-percent growth in overall world economic output for the current year and 3.9-percent growth next year. The IfW expects an increasing economic upswing in Europe in light of the continued adjustment processes in crisis-ridden countries. The eurozone's GDP is likely to grow by 1.2 percent in 2015 and 1.5 percent in 2016. Significantly greater growth rates are anticipated for the United States. Due to the sustainable improvement of economic conditions in the USA, the IfW predicts output growth there of 2.2 percent this year and 3.2 next. Emerging economies will see an accelerated economy in the forecast period, though not the high expansion rates of past years. According to the IfW, economic output in China, for example, should gain 7.0 percent in 2015 and 6.7 percent in 2016. This shows that China tends to grow more slowly but nevertheless considerably more dynamically than the global economy.

The IfW's forecast is based on the assumptions that geopolitical crises will not escalate, financial market tensions will be limited to short periods of time or single countries and no new doubts regarding the existence of the eurozone will arise. The IfW expects positive impetus from a continuation of expansionary monetary policies, low oil prices and ongoing debt reduction processes in the private sector.

Future sector situation

The IT market is likely to experience continued growth in 2015. Market analyst firm Gartner anticipates that global IT spending will rise 2.4 percent to total approximately \$3.8 trillion in 2013. According to their projection, Software AG's relevant market segments should perform well. The enterprise software market segment is expected to expand 5.5 percent to \$335 billion; the IT services segment should see growth of 2.5 percent to \$981 billion. According to the German Association of Information, Telecommunications and New Media (BITKOM), in January 2015 EITO calculated moderate growth in the German ICT market of 0.6 percent to total €154.3 billion. Information technology will remain the ICT industry's pillar of growth. Revenue from software, IT services and IT hardware is expected to increase by 2.4 percent to total €79.7 billion. Like in previous years, software sales are the fastest-growing, anticipated to gain 5.5 percent to total €20.2 billion. Sales in IT services are also expected to make major gains with 3.0 percent growth to total €37.4 billion. Big data and cloud computing are among the key growth engines.

The Group's focus

Software AG will maintain its strategy of becoming the global market leader in the Business Process Excellence (BPE) field. To achieve that, the Company will continue investing in innovative products that play a key role in customers leveraging the growth potential of their respective markets. According to analyst studies, our core BPE theme areas are indisputably high-growth markets. They help our customers become Digital Enterprises quickly and efficiently.

These are good preexisting conditions for profit-oriented enterprise development. Software AG's priority lies more so with profitability than with fast growth, because the current economic and political uncertainty affecting the global markets require a cautious, value-based strategy for the future. In times of global crisis and rapid change, the Management Board is of the opinion that revenue growth cannot be the only goal, but profitable growth as well.

For this reason, Software AG expects to achieve solid growth in BPE in fiscal 2015. Thanks to our technology leadership, we are optimistic that we will achieve our targets for 2015 under the assumption that the global economy and the IT sector develop according to current expectations.

Select acquisitions will continue to be a core component of our growth strategy. We will continue to explore the market and invest in select innovation-driven companies in order to strengthen our technology leadership and value-oriented growth.

Software AG will also focus on generating license revenue growth. License sales are a key factor for success in the software sector and an important indicator of long-term maintenance revenues and thus of strong earnings and cash flow. In addition to these growth fields, increased efficiency of all areas of the Company is of utmost priority, above all in Sales. Merging all sales, marketing and services under the single leadership of the new member of the Management Board will play an important role in achieving this goal.

Future sales markets

Customer requirements are becoming increasingly more diverse in the digital world. They have to adapt their business models to ever-changing markets. In order to guide them more effectively to becoming a Digital Enterprise, Software AG combined all customer-facing activities into a new area of responsibility on the Management Board as of October 1, 2014. Eric Duffaut, an internationally experienced executive leader, was appointed to the position of Chief Customer Officer (CCO) on the Management Board, responsible for global Sales, Services and Marketing. The consolidation of all customer-facing activities will enable Software AG to standardize its go-to-market model and to drive its overall sales efficiency and effectiveness as well as to increase customer value. In addition, the new CCO organizational structure will accelerate Software AG's own transformation to becoming a totally customer-centric company.

Software AG aims to significantly increase the share of revenue generated via partners in upcoming years. It also expects to benefit from intensified joint co-innovations with partners. In upcoming years Software AG aims to generate 20 to 25 percent of the BPE license revenue in cooperation with partners. To date, it was about 10 percent.

The new Management Board member introduced a focused and scalable go-to-market strategy to optimize market coverage and accelerate profitable growth. This go-to-market model will foster closer cooperation between all employees and partners of Software AG as one customer-centric team. The strategy will also optimize sales processes, vertical specialization and market reach. Software AG's focus on value-based selling, more productive processes, recurring maintenance revenue and larger deals will continue in 2015.

New future technologies, products and services

In addition to the enhanced customer engagement through the consolidation of the sales force, Software AG unveiled the world's first complete Digital Business Platform at our Innovation World customer event in New Orleans in October 2014. This software platform is based on our market-leading middleware technology and serves as a generator of agile enterprise apps. We also made targeted investments in cloud activities. Because of the high pressure to change in our market, we accelerated our innovation speed. We now follow a six-month development cycle for every new product release. Previously it was 18 months. In order to turn innovations over to the market quickly, Software AG will unveil new product releases twice a year—at CeBIT in spring and at Innovation World in autumn.

Software AG was committed in 2014 to successfully integrating the numerous acquired technologies from previous years, which translated into new successes. For example, Software AG became a global leader with its new real-time streaming analytics platform—a key functionality for the quickly growing field of Industry 4.0 (Internet of Things). It is based on products from the acquisitions of Terracotta in 2012, Universal Messaging in 2012, Presto in 2013 and Apama in 2013. We consider this a confirmation of the quality of our M&A and integration activities. Software AG is now a technology leader in the application infrastructure and middleware software market. Our constantly growing solutions portfolio allows Software AG to effectively guide customers in their transformation into a Digital Enterprise, which will enable them to more flexibly and rapidly adapt their business models to the ever-changing requirements of the market.

Expected Financial Performance

Anticipated revenue and earnings

Remarks on the forecast: It is important to note that the revenue and earnings forecast is calculated without accounting for currency exchange effects, acquisition or restructuring-related expenses or short-term effects that arise during the course of the year, all of which are unforeseeable.

Based on the positive financial performance in the second half of 2014, the initiated improvements in sales efficiency and the expanded leading product offering, Software AG expects between 6 and 12 percent growth in BPE revenue for fiscal 2015 year-on-year (at constant currency). Taking into account that the ETS customer base will continue to stabilize, we anticipate a decline in ETS revenue of – 8 to – 14 percent at constant currency year-on-year. Software AG's Consulting business has been focused on implementation of our own products since the sale of SAP consulting activities (2014 revenue: €22.2 million). Software AG expects a flat growth trend in this business. It anticipates the operating EBITA margin (non-IFRS) to be between 27.5 and 28.5 percent (2014: 27.9 percent). Efficiency increases in Sales and Marketing and the organization as a whole will have a positive effect on profitability in fiscal 2015.

Due to recent developments in Europe (Switzerland's decision to untie the frank from the euro, the European Central Bank's decision to ease monetary policy, Greece's new government), a continued weakening of the euro against other major currencies over the year cannot be ruled out. This could favor Software AG's internationally focused business development. If current exchange rates remained constant, reported revenue growth could exceed growth adjusted for currencies by 4 percent.

Outlook 2015

in € millions	2014	Outlook 2015
Product Revenue BPE	394.5	+ 6% to + 12% ¹
Product Revenue ETS	244.7	– 8% to – 14% ¹
Operating income (non-IFRS)²	27.9%	27.5% to 28.5%

¹ Revenue growth or decline at constant currency.

² Before adjustments for non-operating items (see non-IFRS earnings results).

Medium-term performance by 2020

Software AG expects further margin growth in the next five years. Based on our current business model, our operating profit margin (EBITA, non-IFRS) will increase from its present level of 27.9 percent (FY 2014) to between 32 and 35 percent by 2020. This will be achieved primarily through organic growth in the BPE business line, continuation of productivity improvements in sales and a growing share of revenues via an expanded partner ecosystem. With respect to organic growth in BPE licenses, Software AG expects annual growth rates ranging between high single digits and low double digits. This will be supplemented by a positive trend in total Group maintenance revenues.

Forecast for Software AG parent company (separate financial statements)

Software AG's future financial performance depends upon the financial standing of the Software AG Group and depends on decisions regarding the payout of Group-internal dividends. Therefore, please refer to the forecast on expected financial performance of the Software AG Group.

Anticipated performance of key items in the income statement

The cost of sales, which mainly consist of personnel expenses for consulting projects, will be down year-on-year due primarily to the sale of IDS Scheer Consulting. R&D expenses in 2015 will approximate the year before, although they will be allocated to the ETS and BPE segments based on revenue performance. Sales and marketing expenses should, based on expected revenue performance, increase by a single digit, although here again they will be allocated to the business segments to reflect revenue performance. General administrative expenses (without accounting for share price-based remuneration components) will decrease by a low single digit due to measures initiated in 2014.

Anticipated dividends

Software AG regularly distributes dividends to its shareholders. In past years between 20 and 25 percent of the averaged net income and free cash flow was customarily paid out. For fiscal 2014 we will deviate from this custom in a positive way for our shareholders and pay tribute to the idea of value orientation. Assuming the proposed dividend of €0.50 (2013: €0.46) per share, the total payout sum would be €39.5 million (2013: €36.3 million) and the payout ratio would be about 32 percent (2013: 25 percent) of the averaged net income and free cash flow. Based on the closing share price in 2014, this proposal is equal to a dividend yield of about 2.5 percent—a very attractive yield compared with the current capital market climate. Our approach for 2014 is not intended to be an exception. Software AG therefore decided to raise its previous range of 20 to 25 percent to 25 to 33 percent of the averaged net income and free cash flow. In doing so, we are taking our investors' interests into account and adding a further building block to our value orientation.

Anticipated Financial Position

Planned financing activities

Software AG's internal financing capability is higher than that which is necessary for normal business operations due to its high level of positive operating cash flow. External financing measures are taken almost exclusively for financing large acquisitions. Because the timing of such acquisitions is not exactly foreseeable, the necessary financing cannot be predicted in detail either.

In the past, Software AG has therefore engaged in reserve financing activities when capital market conditions appeared favorable. But favorable capital market conditions are also external factors, which Software AG can only anticipate to a limited extent. For these reasons, Software AG is currently planning no financing activities for fiscal year 2015. Should a large acquisition arise or should the capital market offer excellent conditions for reserve financing, or should both occur simultaneously, Software AG could take financing measures at any time.

Planned investments

There are currently no concrete plans for major investments. Software AG is however always prepared to take advantage of opportunities that arise for technology-driven acquisitions. Software AG has access to attractive financing options thanks to its high and stable cash flow. Given favorable circumstances, larger strategic acquisitions could therefore occur.

Anticipated liquidity

Free cash flow is expected to perform congruently to net income in fiscal 2015. The resulting positive free cash flow and the existing liquid assets at the beginning of the year cover the planned repayment of financial liabilities due during the 2015 calendar year amounting to €102.7 million.

General statement on the anticipated development of the Group

Software AG considers itself to be very well positioned for a successful year 2015. Our corporate strategy is aimed at sustainable profitable growth. We strive to continuously increase our enterprise value. Our long-term portfolio strategy is clearly focused on the intensive expansion of our future-oriented, highly profitable BPE business. This segment has become our primary source of revenue in the past few years. We will continue investing in organic and acquisition-based growth in order to drive the expansion of this future-oriented business. As a product provider, Software AG pursues the overall strategy of optimizing its revenue mix in favor of high-margin product revenue. License and maintenance revenue have great growth potential and fundamentally a significantly higher earnings capability than services.

In the long term, Software AG plans to:

- Become the world's leading provider of BPE products and solutions
- Remain independent with the help of anchor investor, the Software AG Foundation
- Seek acquisitions on a regular basis in order to bolster organic growth through external growth

To achieve these goals, we will concentrate on the opportunities that the transformation to a Digital Enterprise offers us and our customers in the upcoming years. These trends will continue to be the critical engines of growth in the software sector.

To better address customer needs, Software AG unveiled the world's first Digital Business Platform in October 2014. This adaptive software platform is based on our market-leading middleware technology and helps customers transform into a Digital Enterprise. In addition to technological enhancements, we will prioritize sales and marketing productivity as well as the revenue contribution from an expanded partner ecosystem.

Software AG recognized the transformational power and potential of technological megatrends early. The BPE product range therefore addresses the entire spectrum of these converging IT trends now. Numerous studies and awards from respected market analysts in 2014 confirmed that our product families are unique and leading in the market. Our software and services provide the equipment that every organization needs to embrace the rapidly advancing digitization, regardless of industry and size. Software AG is ideally positioned to guide customers through the transformation to a Digital Enterprise quickly and efficiently.

Takeover-Related Disclosures

Subscribed Capital and Voting rights

Software AG's share capital totaled €86,943,945 before deducting treasury shares and is divided into 86,943,945 bearer shares. Each share represents €1.00 of the Company's share capital. Each share entitles its holder to one vote. Shareholders can exercise their rights at the Annual Shareholders' Meeting, when they exercise their voting rights in accordance with legal stipulations and the Company's Articles of Incorporation.

Conditional Capital

The following conditional capital exists:

- In accordance with the resolution passed at the Annual Shareholders' Meeting on May 4, 2012, a total of €8,566,684 divided into 8,566,684 bearer shares for the purpose of granting subscription rights to the members of the Management Board and managers of Software AG and its foreign and domestic subsidiaries in accordance with the terms and conditions of the resolutions of the Annual Shareholders' Meetings on April 29, 2008 and May 4, 2012;
- In accordance with the resolution passed at the Annual Shareholders' Meeting on May 21, 2010, a total of €18,000,000 divided into 18,000,000 bearer shares for the purpose of servicing convertible bonds and warrants issued by Software AG or a wholly owned subsidiary in accordance with the terms and conditions of the resolution of the Annual Shareholders' Meeting on May 21, 2010;
- In accordance with the resolution passed at the Annual Shareholders' Meetings on May 21, 2010 and May 4, 2012, a total of €55,000 divided into 55,000 bearer shares for the purpose of servicing conversion and option rights granted by IDS Scheer AG in accordance with the terms and conditions of the resolution of the Annual Shareholders' Meeting on May 21, 2010.

Authorized Capital

In accordance with the resolution passed at the Annual Shareholders' Meeting on May 5, 2011, there is authorized capital. The Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 4, 2016 up to a total of €43,074,091 issuing up to 43,074,091 new bearer shares against cash contributions or contributions in kind (authorized capital).

Share Buyback

Furthermore, the Company is authorized to purchase treasury shares up to 10 percent of the existing share capital at the time of the resolution of the par value on or before May 2, 2018 in order to realize benefits associated with the acquisition of treasury shares in the interest of the Company and its shareholders. The treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.

Please refer to the Notes for additional information on the conditional capital, authorized capital and the acquisition of treasury stock.

Significant Shareholders

The Software AG Foundation, Darmstadt, holds approximately 29 percent of the outstanding shares in Software AG. The foundation is a separate non-profit legal entity and is devoted worldwide to the themes of therapeutic pedagogy, social therapy, education, services to youth and senior citizens, environment and research. No other shareholders hold more than 10 percent of the Company's share capital.

Appointment/Dismissal of Management Board Members and Changes in the Articles of Incorporation

Management Board members are appointed and dismissed in accordance with section 84 et seqq. of the German Stock Corporation Act. Any changes in the Articles of Incorporation are resolved by the Annual Shareholders' Meeting by a majority of at least three-fourths of the share capital represented at the time of the resolution in accordance with section 179 of the German Stock Corporation Act.

Change of Control

Liabilities to banks in the amount of €438.6 million (2013: €597 million) could become due, in full or in part, in the case of a change of control on the part of the creditors.

A member of the Management Board whose employment ends within 12 months of a change of control and without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration. In case of resignation, the above mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control.

In the event of a change of control, all stock options (for which the waiting period has been met or after completion of waiting period) granted by the Company under Management Incentive Plan IV become exercisable regardless of the achievement of success targets. In the event of a change of control, any stock appreciation rights granted by the Company under Management Incentive Plan V, must be paid out at fair value to the relevant plan participants within the term of the rights.

Other takeover-related disclosures not mentioned in this section do not apply to Software AG.

Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 24, 2015. It will be published in March 2015 on our website at www.softwareag.com/corporate/inv_rel/corpgovernance/statement

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on our website at www.softwareag.com/corporate/inv_rel/corpgovernance/compliance on February 2, 2015.

Consolidated **Financial Statements**

114 _ Consolidated Income Statement

115 _ Statement of Comprehensive Income

116 _ Consolidated Balance Sheet

118 _ Consolidated Statement of Cash Flows

120 _ Consolidated Statement of Changes in Equity

Consolidated Income Statement

for fiscal years 2014 and 2013

in € thousands	Note	2014	2013
Licenses		270,099	330,138
Maintenance		371,341	375,566
Services		215,752	265,998
Other		642	990
Total revenue	[5]	857,834	972,692
Cost of sales		-236,316	-294,610
Gross profit		621,518	678,082
Research and development expenses		-109,064	-107,924
Sales, marketing and distribution expenses		-263,049	-300,067
General and administrative expenses		-74,062	-73,151
Other taxes		-8,433	-7,091
Operating earnings		166,910	189,849
Other income	[6]	32,802	44,076
Other expenses	[7]	-32,137	-35,511
Net financial income/expense	[8]	-9,191	-8,402
Earnings before income taxes		158,384	190,012
Income taxes	[9]	-47,833	-56,001
Net income		110,551	134,011
Thereof attributable to shareholders of Software AG		110,358	133,835
Thereof attributable to non-controlling interests		193	176
Earnings per share in € (basic)	[12]	1.39	1.60
Earnings per share in € (diluted)	[12]	1.39	1.60
Weighted average number of shares outstanding (basic)		79,228,450	83,702,176
Weighted average number of shares outstanding (diluted)		79,228,450	83,714,983

Statement of Comprehensive Income

for fiscal years 2014 and 2013

in € thousands	Note	2014	2013
Net income		110,551	134,011
Currency translation differences		44,812	- 38,380
Net gain/loss on remeasuring financial assets	[28]	690	1,491
Net gain/loss arising from translating net investments in foreign operations		4,406	- 1,467
Items to be reclassified to the income statement if certain conditions are met		49,908	- 38,356
Net actuarial gain/loss on pension obligations	[24]	- 4,363	- 1,478
Items not to be reclassified to the income statement		- 4,363	- 1,478
Other comprehensive income	[25]	45,545	- 39,834
Total comprehensive income		156,096	94,177
Thereof attributable to shareholders of Software AG		155,903	94,001
Thereof attributable to non-controlling interests		193	176

Consolidated Balance Sheet

as of December 31, 2014 and 2013

Assets

in € thousands	Note	2014	2013
Current assets			
Cash and cash equivalents		318,396	449,984
Securities		55,311	56,514
Inventories		85	109
Trade receivables	[13]	211,178	226,739
Other receivables and other assets	[14]	20,689	25,881
Income tax receivables	[15]	29,725	10,291
		635,384	769,518
Non-current assets			
Intangible assets	[16]	180,196	211,771
Goodwill	[16]	857,279	829,173
Property, plant and equipment	[17]	61,171	64,460
Financial assets		7,103	4,519
Trade receivables	[13]	87,447	96,418
Other receivables and other assets	[14]	4,996	2,030
Income tax receivables		4,423	2,711
Deferred taxes	[18]	10,937	16,253
		1,213,552	1,227,335
Total assets		1,848,936	1,996,853

Equity and Liabilities

in € thousands	Note	2014	2013
Current liabilities			
Financial liabilities	[19]	103,646	202,888
Trade payables	[20]	32,600	36,140
Other liabilities	[21]	56,049	66,289
Other provisions	[22]	78,849	83,598
Income tax liabilities	[23]	32,605	38,477
Deferred income		111,348	105,664
		415,097	533,056
Non-current liabilities			
Financial liabilities	[19]	340,499	410,486
Other liabilities	[21]	6,320	4,775
Provisions for pensions	[24]	42,566	50,707
Other provisions	[22]	13,205	7,291
Deferred taxes	[18]	17,131	22,577
Deferred income		738	2,366
		420,459	498,202
Equity	[25]		
Share capital		86,944	86,944
Capital reserves		43,195	46,144
Retained earnings		1,161,411	1,087,328
Other reserves		- 54,535	- 100,080
Treasury shares		- 224,466	- 155,534
Attributable to shareholders of Software AG		1,012,549	964,802
Non-controlling interests		831	793
		1,013,380	965,595
Total equity and liabilities		1,848,936	1,996,853

Consolidated Statement of Cash Flows [26]

for fiscal years 2014 and 2013

in € thousands	2014	2013
Net income	110,551	134,011
Income taxes	47,833	56,001
Net financial income/expense	9,191	8,402
Amortization/depreciation of non-current assets	50,840	53,297
Other non-cash income/expense	12,784	-6,414
Operating cash flow before changes in working capital	231,199	245,297
Changes in inventories, receivables and other assets	15,926	22,722
Changes in payables and other liabilities	-19,441	-43,749
Income taxes paid	-73,474	-45,357
Interest paid	-19,222	-16,151
Interest received	8,212	9,021
Net cash provided by operating activities	143,200	171,783
Proceeds from the sale of property, plant and equipment/intangible assets	2,866	1,153
Purchase of property, plant and equipment/intangible assets	-10,868	-13,833
Proceeds from the sale of financial assets	1,107	597
Purchase of financial assets	-3,567	-648
Expense from current financial assets	31,000	0
Purchase of securities	-29,797	-56,514
Proceeds from the sale of disposal groups	18,057	6,830
Payments for acquisitions, net	-3,667	-113,193
Net cash used in investing activities	5,131	-175,608

in € thousands		
	2014	2013
Proceeds from issue of share capital	0	639
Repurchase of treasury shares (including option premiums paid)	- 70,582	- 154,378
Use of treasury shares	1,423	0
Dividends paid	- 36,430	- 38,317
Additions to financial liabilities	35,278	401,875
Repayments of financial liabilities	- 212,588	- 48,920
Net cash provided by/used in financing activities	- 282,899	160,899
Change in cash and cash equivalents from cash-relevant transactions	- 134,568	157,074
Currency translation adjustment	2,980	- 22,727
Net change in cash and cash equivalents	- 131,588	134,347
Cash and cash equivalents at beginning of period	449,984	315,637
Cash and cash equivalents at end of period	318,396	449,984

Consolidated Statement of Changes in Equity [25]

for fiscal years 2014 and 2013

	Share capital	Capital reserves	Retained earnings	
	Common shares outstanding (no.)			
in € thousands				
Equity as of Jan. 1, 2013	86,875,068	86,917	42,124	991,651
Total comprehensive income				133,835
Transactions with shareholders				
Dividend payment				- 38,157
New shares issued	26,500	27	612	
Stock options			3,408	
Repurchase of treasury shares (including option premiums paid)	- 5,387,879			
Other changes				- 1
Transactions between shareholders				
Equity as of Dec. 31, 2013	81,513,689	86,944	46,144	1,087,328
Equity as of Jan. 1, 2014	81,513,689	86,944	46,144	1,087,328
Total comprehensive income				110,358
Transactions with shareholders				
Dividend payment				- 36,275
Stock options			- 2,722	
Issue and use of treasury shares	59,000		- 227	
Repurchase of treasury shares (including option premiums paid)	- 2,653,845			
Other changes				
Transactions between shareholders				
Equity as of Dec. 31, 2014	78,918,844	86,944	43,195	1,161,411

	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
	Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains/ losses and asset caps from defined benefit plans	Currency translation gains/ losses from net investments in foreign operations				
	</							

Notes to the Consolidated Income Statement

123 _ General

133 _ Notes to the Consolidated Income Statement

136 _ Notes to the Consolidated Balance Sheet

152 _ Other Disclosures

181 _ Responsibility Statement

182 _ Auditors' Report

General

[1] Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with the International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and in accordance with the additional provisions required under German commercial law as set forth in section 315a (1) of the German Commercial Code (HGB). The IFRSs applicable as of December 31, 2014 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. It 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 functional currency of Software AG is the euro.

The consolidated financial statements of Software AG are expressed in thousands of euros unless otherwise stated.

[2] Scope of consolidation

The consolidated financial statements include Software AG and all of the entities it controls. Control is generally considered to exist if Software AG directly or indirectly controls the majority of voting rights of an entity's subscribed capital and/or is in a position to govern the financial and operating policies of a company.

The following affiliated entities are part of the Group of Software AG (parent company):

Company

a) Domestic entities	Ownership interest %
Software Financial Holding GmbH, Darmstadt (merged with Software AG as of December 5, 2014)	100
IDS Scheer Consulting GmbH, Saarbrücken (sold as of June 1, 2014) and its subsidiary	100
• IDS Scheer Schweiz AG, Zurich/Switzerland	100
SAG Deutschland GmbH, Darmstadt	100
SAG Consulting Services GmbH, Darmstadt	100
SAG LVG mbH, Saarbrücken (formerly IDS Scheer EMEA GmbH, Saarbrücken) and its foreign subsidiaries	100
• Software Dutch License Company C.V., Al's-Gravenhage/Netherlands	99
FACT Unternehmensberatung GmbH, Frankfurt/Main and its subsidiary	65
• FACT Informationssysteme und Consulting AG, Neuss	55
itCampus Software und Systemhaus GmbH, Leipzig	100
alfabet GmbH, Berlin and its subsidiary	100
• deepSTRUCTURE GmbH, Berlin	100
metaquark GmbH, Leipzig (acquisition of all shares as of February 28, 2014)	100

Company

b) Foreign entities	Ownership interest %	Country
Software A.G. Argentina S.R.L., Buenos Aires/Argentina	95	Argentina
in which SAG Deutschland GmbH also has a direct stake	5	
Software AG Sydney PTY LTD, McMahon's Point/Australia (formerly IDS Scheer Australia – New Zealand)	100	Australia
Software GmbH Österreich, Vienna/Austria and its subsidiary	100	Austria
• IDS Scheer GesmbH, Vienna/Austria (sold as of April 29, 2014)	100	Austria
Software AG (Gulf) S.P.C., Manama/Bahrain and its subsidiary	100	Bahrain
• Software AG International FZ LLC, Dubai/United Arab Emirates	100	United Arab Emirates
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	Brazil
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	Bulgaria
Software AG China Ltd., Shanghai/China	100	China
Software AG (Hong Kong) Limited, Hong Kong/China	100	China
IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100	Croatia
Software AG Denmark A/S, Hvidovre/Denmark and its subsidiary	100	Denmark
• Software AG Nordic A/S, Oslo/Norway	100 dormant	Norway
Software AG Finland Oy, Helsinki/Finland	100	Finland
Software AG France S.A.S, Courbevoie Cedex/France	100	France
Software AG India Sales Private Ltd, Bandra (E), Mumbai/India	100	India
Software AG (India) Private Limited, Bangalore/India	100	India
S.P.L. Software Ltd, OR-Yehuda/Israel and its subsidiaries	100	Israel
• SPL Systems (1986) Ltd, OR-Yehuda/Israel (merged with S.P.L. Software Ltd as of August 25, 2014)	100	Israel
• Software A.G. (Israel) Ltd, OR-Yehuda/Israel and its subsidiary	100	Israel
• Sabratec Technologies, Inc., OR-Yehuda/Israel	100	Israel
Software AG Italia S.p.A, Milan/Italy	100	Italy
SAG Software AG Luxembourg S.A., Capellen/Luxembourg (formerly IDS Scheer Luxembourg S.A.)	100	Luxembourg
SAG Central and Eastern Europe S.A., Capellen/Luxembourg (formerly IDS Scheer Central and Eastern Europe S.A.)	100	Luxembourg
Software AG Nederland B.V., Den Haag/Netherlands	100	The Netherlands
Software AG (Philippines), Inc., Makati City/Philippines	100	Philippines
Software AG Polska Sp. z o.o., Warsaw/Poland	100	Poland
OOO Software AG (RUS), Moscow/Russia	100	Russia
IDS Scheer Saudi Arabia LLC, Riyadh/Saudi Arabia	95	Saudi Arabia
in which SAG Software Systems AG also has a direct stake	5	
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia	95	Saudi Arabia
Software AG (Singapore) Pte LTD, Singapore and its subsidiaries	100	Singapore
• Software AG (Asia Pacific) Support Centre Pte Ltd, Singapore (liquidated as of July 10, 2014)	100	Singapore
• alfabet Pte Ltd, Singapore/Singapore	100	Singapore
Software AG Development Centre Slovakia s.r.o., Košice/Slovakia	100	Slovakia

Company

b) Foreign entities	Ownership interest %	Country
IDS Scheer, d.o.o., Ljubljana/Slovenia	100	Slovenia
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100	South Africa
Software AG España, S.A. Unipersonal, Tres Cantos, Madrid/Spain and its subsidiaries	100	Spain
• A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela	100	Venezuela
• Software AG Factoria S.A., Santiago de Chile/Chile	100	Chile
• Software AG Brasil Informática e Serviços Ltda, São Paulo/SP/Brazil	100	Brazil
• Software AG De Panamá, S.A., Corregimiento de Pueblo nuevo/Panama and its subsidiary	100	Panama
• Software AG de Costa Rica, S.A., San José/Costa Rica	100	Costa Rica
• Software AG De Puerto Rico, Inc., San Juan/Puerto Rico	100	Puerto Rico
• Software AG Portugal, Alta Tecnologia Informática, Ltd., Lisbon/Portugal	97	Portugal
in which Software AG also has a direct stake	3	
• Software AG Venezuela, C.A., Caracas/Venezuela	100	Venezuela
Software AG Sweden AB, Kista/Sweden	100	Sweden
SAG Software Systems AG, Zurich/Switzerland	100	Switzerland
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	Turkey
Software AG Development Center Ukraine LLC, Lviv City/Ukraine	100	Ukraine
Software AG (UK) Limited, Derby/U.K. and its subsidiaries	100	United Kingdom
• Software AG Belgium S.A., Watermael-Boitsfort/Belgium, in which Software AG also has a direct stake	76 24	Belgium
• PCB Systems Limited, Derby/U.K.	100 dormant	United Kingdom
SGML Technologies Limited, Derby/U.K.	100	United Kingdom
Software AG, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG (Canada) Inc., Cambridge, Ontario/Canada	100	Canada
• Software AG Government Solutions, Inc., Reston, VA/USA and its subsidiaries	100	United States
• JackBe LLC, Reston, VA/USA (merged with Software AG Government Solutions, Inc. as of February 28, 2014)	100	United States
• JackBe Mexico, Mexico City, Mexico	100	Mexico
• Software AG, S.A. de C.V. (Mexico), Distrito Federal/Mexico	100	Mexico
• Software AG International, Inc., Reston, VA/USA (merged with Software AG, Inc. as of December 31, 2014)	100	United States
• Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG Australia (Holdings) Pty Ltd., McMahon's Point/Australia and its subsidiary	100	Australia
• Software AG Australia Pty Ltd., McMahon's Point/Australia	100	Australia
• Software AG Bangalore Technologies Private Ltd., Bangalore/India	100	India
• Software AG Chennai Development Center India Pvt Ltd, Chennai/India	100	India
• Software AG Korea, Ltd., Seoul/Korea	100	Korea
• Software AG Ltd. Japan, Tokyo/Japan	100	Japan
• Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100	Malaysia

Company

b) Foreign entities	Ownership interest %	Country
• Terracotta Inc., San Francisco/USA and its subsidiary	100	United States
• Terracotta Software India Pvt. Ltd., Uttar Pradesh/India	100	India
• webMethods Australia Pty Ltd., McMahon's Point/Australia	100	Australia
• webMethods Germany GmbH, Darmstadt/Germany	100	Germany
• webMethods Software Development (Beijing) Co. Ltd., Beijing/China	100	China
• Software AG Kochi Pvt. Ltd., Pananpilly Nagar/India	98	India
• 9162-3439 Quebec Inc., Toronto/Canada	100 dormant	Canada

Changes in the Consolidated Group

The number of consolidated entities changed from the level as of December 31, 2013 as follows:

	Germany	Foreign	Total
Dec. 31, 2013	13	76	89
Disposals (including mergers)	2	6	8
Dec. 31, 2014	11	70	81

The disposals resulted from the merger, the liquidation and the sale of consolidated enterprises.

[3] Accounting policies

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions are made for certain items that have an impact on the recognition and measurement of recognized assets, liabilities, income, expenses and contingent liabilities. These estimates and assumptions are based on historical data and are reviewed on an ongoing basis.

Actual amounts may differ from the estimates made. The primary areas of application for estimates and assumptions are revenue recognition, assessment of legal risks, measurement of trade receivables, acquisition accounting, subsequent accounting of goodwill and other intangible assets and accounting for income taxes and deferred taxes.

Principles of consolidation

The separate financial statements of the entities included in the consolidated financial statements were prepared in accordance with uniform accounting policies pursuant to IFRS as of the balance sheet date for the consolidated financial statements (December 31, 2014).

The initial consolidation method applied to business combinations was based on the respective date of foundation in the case of companies founded by Software AG. Acquired companies are included for the first time on the date Software AG achieves control.

Changes in ownership interests that do not lead to a loss of control are excluded from income and reported within equity.

Since the transition to IFRS on January 1, 2003, goodwill previously recognized in line with the Commercial Code has been measured in accordance with IAS 36.

Revenue, expenses and income and receivables and payables arising between consolidated entities have been eliminated. Intercompany earnings are eliminated where they have not arisen from services to third parties. Group equity and net income attributable to minority interests are reported separately from equity and net income attributable to the shareholders of the parent company.

Currency translation

Financial statements of foreign subsidiaries are translated in accordance with the functional currency concept using the modified closing rate as set out in IAS 21. Since the subsidiaries operate independently from an organizational, financial and business standpoint, the respective local currency is identical with the functional currency.

Income and expenses are translated at the relevant monthly average rate, assets and liabilities are translated at the closing rate, and the respective equity of the subsidiaries is translated at historical rates.

Currency translation differences arising from equity consolidation are offset against equity and reported in a separate line item in the Statement of Changes in Equity.

In the schedule of changes in property, plant and equipment, the balances at the beginning and the end of the fiscal year are translated at the applicable closing rates, and other items are translated at average rates. Any differences arising from exchange rate fluctuations are shown as currency translation differences as a separate line item under both “cost” and “accumulated depreciation/impairment.”

In the separate financial statements of the consolidated entities, foreign currency receivables and payables are translated at the closing rate. Exchange rate gains and losses not yet realized as of the balance sheet date are included in profit or loss for the period, except for translation differences arising from long-term, intercompany monetary items that are part of a net investment in a foreign company. These differences are recognized directly in equity under “other reserves.”

The exchange rates used for the translation of the most important currencies changed as follows compared to the previous year:

Closing rate (€1)	Dec. 31, 2014	Dec. 31, 2013	Change in %
U.S. dollar	1.2141	1.3791	12.0
Brazilian real	3.2207	3.2576	1.1
Pound sterling	0.7789	0.8337	6.6
Australian dollar	1.4829	1.5423	3.9
Israeli shekel	4.7216	4.7815	1.3
South African rand	14.035	14.566	3.6
Canadian dollar	1.4063	1.4671	4.1

Average rate (€1)	2014	2013	Change in %
U.S. dollar	1.3288	1.3281	-0.1
Brazilian real	3.1226	2.8669	-8.9
Pound sterling	0.8064	0.8493	5.0
Australian dollar	1.4724	1.3770	-6.9
Israeli shekel	4.7471	4.7960	1.0
South African rand	14.4069	12.8308	-12.3
Canadian dollar	1.4669	1.3685	-7.2

For the Venezuelan bolivar (VEF), the prevailing exchange rate (60.69079 VEF/EUR) on December 31, 2014 was applied. Since January 1, 2010 Software AG has counted Venezuela as a hyperinflationary economy as defined in IAS 29. However, this has had no material impact on the consolidated financial statements. A further fall of the bolivar to 200 VEF/EUR would have no material impact on the consolidated financial statements. Operations were basically stopped in fiscal 2014.

Total revenue

Software AG sales revenues primarily consist of revenue from granting software licenses (usually of indefinite duration, though in certain cases temporary software licenses), maintenance revenue and revenue from services.

Revenue from granting temporary and perpetual licenses is only recognized once a legally binding contract exists, any rights to return have expired, the software has been delivered in accordance with the contract, a price has been

agreed or can be established and there is sufficient probability that payment will be made. Revenue from granting temporary licenses is treated in accordance with the specific features of the license. If the transaction resembles a sale, i.e. involves immediate payment, and the other requirements mentioned above are fulfilled, the income is recognized immediately. However, if the transaction resembles a transfer of use, the income is recognized in installments during the period of use.

Software licenses are often sold in combination with maintenance and service contracts. In this case, when an agreement involves multiple elements, revenue recognition is based on the individually identifiable elements of the transaction. Accordingly, revenue is attributed to the individual elements on the basis of their respective market values. If reliable market values cannot be determined for all elements, revenue recognition is based on the residual method. Under the residual method, all determinable market values are deducted from the total transaction value. The residual amount is then attributed to the elements for which no reliable market values can be determined, using list prices. Revenue from maintenance business is recognized proportionately over the period of service provision.

Revenue resulting from service agreements, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by the Software AG entities. Pursuant to IAS 18 in conjunction with IAS 11, revenues and expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if the revenues can be reliably measured, there is sufficient probability that Software AG will receive the economic benefits from the transaction, and all costs incurred for the transaction and the costs to complete the service can be reliably established. The stage of completion of a contract is calculated on the basis of the proportion of contract costs incurred for work performed as of the balance sheet date to the estimated total contract costs. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

Revenue is reported net of discounts, price rebates and customer bonuses.

Cost of sales

Cost of sales includes all production-related full costs based on normal capacity utilization. In particular, the cost of sales includes the individual unit costs that can be directly allocated to orders as well as fixed and variable overheads. No impairments on inventories were necessary during the reporting period.

Research and development expenses

Research and development expenses are recognized in the income statement as incurred.

New products are not technologically realizable until shortly prior to being ready for market launch. In the run-up to technological realizability, research and development processes are closely linked. Any research and development expenses incurred after technological realizability has been achieved are immaterial.

Sales, marketing and distribution expenses

Sales, marketing and distribution expenses include costs for personnel, materials, depreciation allocated to the sales cost center and advertising costs.

General and administrative expenses

General and administrative expenses include costs for personnel, materials and depreciation allocated to the administration cost center.

Government grants

Government grants are not recognized until there is reasonable assurance that the conditions attaching to them will be complied with and that the grant will be received by Software AG. This is normally the case upon receipt of payment. Government grants are reported under "other income."

If loans from the government are granted at an interest rate below the market rate, the interest-rate advantage is valued as the difference between the original carrying amount of loan, calculated in accordance with IAS 39, and the payments received. The interest-rate advantage is recognized under "other income," as soon as all conditions for receiving government grants have been met.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of the asset. Other borrowing costs are recognized as an expense for the period in which they were incurred.

Share-based payment

In accordance with IFRS 2, share-based payment transactions are divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at their fair value as of the grant date and then amortized as personnel expenses over the period in which the employees acquire an unconditional right to the cash settlement or equity instrument. Rights granted under cash-settled share-based payment transactions are remeasured at fair value on each reporting date until settlement.

If Software AG has a choice of settling either in cash or by providing equity instruments (shares), the right granted is accounted for as an equity-settled transaction, unless there is a present obligation to settle in cash.

The fair values are determined using an appropriate option pricing model (Black-Scholes, binomial model or Monte-Carlo simulation model).

Non-derivative financial assets

Software AG recognizes financial assets as of the date it acquires the contractual right to receive cash or other financial assets from another entity. Standard purchases and sales are measured at fair value as of the value date. Financial assets are measured at fair value on initial recognition. Financial assets that are not measured at fair value through profit or loss are measured at fair value plus directly related transaction costs. Interest-free or below-market-rate loans and receivables are initially recognized at the present value of the expected future cash flows.

Subsequent measurement is carried out based on the relevant category of financial assets in accordance with IAS 39:

a) Financial assets that are measured at fair value through profit or loss

These include only the financial assets being held for trading purposes, because Software AG does not designate any financial assets at fair value through profit or loss on initial recognition. This classification therefore includes only freestanding derivatives with a positive fair value. Financial assets that are measured at fair value

through profit or loss are measured at fair value, and the changes are recognized in profit or loss accordingly.

b) Financial investments held to maturity

If Software AG is able and intends to hold debt instruments until maturity, such financial assets are categorized as financial investments to be held until maturity. They are measured initially at fair value plus directly attributable transaction costs. Subsequently, financial assets to be held to maturity are measured at amortized cost using the effective interest rate less any impairments.

c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments not listed on an active market. On initial recognition, they are measured at fair value plus directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate less any impairments.

Loans and receivables include cash and cash equivalents as well as trade receivables and other receivables.

• Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and term deposits with maturities of up to three months as well as short-term, highly liquid securities classified as current assets that are readily convertible to known amounts of cash and are only subject to negligible risk of changes in value.

• Trade receivables

The carrying amount of trade receivables corresponds to their respective invoiced amount, less sales deductions and valuation allowances. If there is objective evidence that the receivables may be impaired, we recognize specific valuation allowances. In addition, certain classes of receivables are subject to portfolio-based valuation allowances based on past experience, taking into account the age of receivables. Non-interest bearing receivables with maturities of more than one year are discounted using an adequate interest rate. This item also includes services performed under fixed-price contracts that have not yet been invoiced and that are recognized in accordance with the percentage-of-completion method. Furthermore, it includes receivables from the sale of software licenses whereby the service has already been fully rendered but not yet invoiced.

d) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets, which were not assigned to any of the categories described above and comprise primarily investments and debt instruments. Financial assets available for sale are measured at fair value provided fair value can be determined based on market data. Changes to the fair value are reported net of taxes as other comprehensive income. Changes to the fair value are not recognized until assets are sold or an impairment is present. Financial assets available for sale for which no market price is available and a fair value cannot be calculated reliably because of the absence of an active market are measured at cost less impairments.

Derivative financial instruments

If the derivative financial instruments are financial assets or financial liabilities in accordance with IAS 32, they are recognized at fair value. Instruments for which hedge accounting is not applied are classified as held for trading. Changes in the fair value of the instruments are recognized directly in profit or loss.

If the criteria for hedge accounting in accordance with IAS 39 are met, the derivative financial instrument is designated as a hedging instrument and accounted for pursuant to the hedge accounting provisions of IAS 39.

Accordingly, in the case of cash flow hedges, the effective portion of changes in the fair value of derivatives is recognized directly in equity. The ineffective portion is recognized directly in profit or loss. Cumulative amounts previously recognized in equity are reclassified to the income statement for the fiscal years in which the hedged item affects profit or loss.

The Company did not have any derivative financial instruments to be accounted for as fair value hedges.

If the derivative financial instruments are equity instruments in accordance with IAS 32, they are reported as equity. Accordingly, paid premiums for acquired call options that entitle Software AG to buy back a set number of treasury shares for a set amount are deducted from equity.

Intangible assets

Intangible assets for which a useful life can be established are measured at cost less any accumulated amortization and impairment losses. The amortization period and method of amortization for key intangible assets are as follows:

	Amortization period in years	Amortization method
Acquired software	5–7	straight line
Acquired customer base	5–17	straight line
Acquired order portfolio	–	in accordance with order completion

Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses. Intangible assets with an indefinite useful life are tested for impairment at least once per year. Or, as soon as there is any indication that intangible assets might be impaired, an impairment test is carried out.

Goodwill

Goodwill is not amortized. Instead, it is tested for impairment at least once per year (as of December 31) and written down to its recoverable amount in case of impairment. Or, as soon as there is any indication that intangible assets might be impaired, an impairment test is carried out.

Tangible fixed assets

Property, plant and equipment are carried at cost less any accumulated depreciation and impairment losses. When items of property, plant and equipment are sold or scrapped, the corresponding cost and any accumulated depreciation are derecognized, and any gains or losses from disposal are recognized in the Consolidated Income Statement.

The cost of items of property, plant and equipment consists of the purchase price, including any import duties and non-refundable purchase taxes and any directly attributable costs required to prepare the asset for its intended use. Any subsequent expenditure, such as service or maintenance charges arising once the asset has been put into operation, is recognized as an expense in the period in which it is incurred. Subsequent expenditures relating to an item of property, plant and equipment are only added to the carrying amount of the asset if the expenditure improves the condition of the asset beyond its originally assessed standard of performance.

Items of property, plant and equipment are generally depreciated using the straight-line method in accordance with their useful economic lives.

	Years
Buildings	40–50
Improvements to buildings/leasehold	8–10
Operating and office equipment	3–13
Computer hardware and accessories	1–7

The terms of useful economic life and methods of depreciation are reviewed on a regular basis to ensure that they are in accordance with the expected pattern of economic benefits of the asset in question.

Assets under construction are recognized at cost. Depreciation on these items begins only after they have been put into operation.

Impairment of intangible assets and property, plant and equipment

As soon as there is any indication that an intangible asset or an item of property, plant and equipment might be impaired, an impairment test is carried out and, if an impairment loss is ascertained, the carrying amount of the asset is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life.

Impairment losses are reported under costs of the relevant functional area or under "other expenses."

Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the tax accounts (tax base) and the carrying amounts in the Consolidated Balance Sheet. Deferred tax assets also include claims for tax reductions resulting from the anticipated use of tax loss carryforwards in subsequent years, the realization of which is deemed probable.

Deferred taxes are calculated on the basis of tax rates anticipated to apply in the relevant countries in accordance with the legal situation prevailing at the time of realization (reversal of tax deferrals).

Deferred tax assets and liabilities are not discounted. The carrying amounts of the recognized assets and liabilities are regularly examined and adjusted if necessary.

Non-derivative financial liabilities

Software AG initially recognizes issued promissory note loans and subordinate loans as of the date they were incurred. All other financial liabilities are recognized as of the value date. Financial liabilities are derecognized when the contractual obligation has been settled, cancelled or has expired. Non-derivative financial liabilities are measured at fair value less directly attributable transaction costs on first recognition. Subsequently, they are measured at amortized cost using the effective interest rate.

Provisions

Provisions are reported when the Company has a current legal or constructive obligation towards a third party due to a past event that is likely to result in a future outflow of resources and for which the amount of the obligation can be reliably estimated. Estimates are regularly reviewed and adjusted. If the effect of discounting is significant, the provision is recognized in the amount of the present value of the expected future cash flows.

Provisions for pensions and similar obligations

The pension provisions are calculated using actuarial principles in accordance with the projected unit credit method set out in IAS 19 (revised in 2011, IAS 19R). This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

The pension provisions are reported at the full present value of the defined obligation, less the fair value of the reinsurance cover taken out for defined benefit obligations or the fair value of the plan assets accumulated to cover pension entitlements. The changes in the actuarial gains/losses compared to the previous year are excluded from income and allocated directly to retained earnings.

The payments for defined contribution pension plans are recognized in profit or loss for the period.

Deferred income

Deferred income consists of advance payments received from customers for maintenance services to be rendered in future periods. The deferred item is reversed and taken to income in the period in which the service is rendered.

First-time application of accounting rules

The following new or amended accounting rules were applied for the first time in 2014, but had no or no significant impact:

- IFRS 10 "Consolidated financial statements"
- IFRS 11 "Joint agreements"
- IFRS 12 "Disclosure of shares in other entities"
- IAS 27 "Separate financial statements"
- IAS 28 "Shares in affiliated companies and jointly controlled entities"
- "Disclosure of recoverable amount on financial assets" (Amendment of IAS 36)
- "Novation of derivatives and continuation of hedge accounting" (Amendment of IAS 39)
- "Consolidated financial statements, joint agreements and disclosure of shares in other entities: interim guidelines" (Amendment of IFRS 10, IFRS 11 and IFRS 12)
- "Investment companies" (Amendment of IFRS 10, IFRS 12 and IAS 27)
- "Balancing financial assets and debts" (Amendment of IAS 32)

New accounting provisions with regard to which Software AG has not opted for early application

The IASB has published the following standards, interpretations and amendments to standards that are not yet required to be applied and with regard to which Software AG has not opted for early application to the consolidated financial statements for the year ended December 31, 2014.

The IASB published the final version of IFRS 9 "Financing Instruments" in July 2014, which replaces all previous versions and concludes the project to replace IAS 39 "Financing Instruments." IFRS 9 is introducing a uniform approach for classification and measurement of financial assets. It is also introducing a new impairment model that is based on expected loan defaults. Furthermore, IFRS 9 contains new rules on hedge accounting. According to the standard, the first time IFRS 9 is applied is elective, whereby hedge relationships must be balanced pursuant to either the provisions of IFRS 9 or, as in the past, to those of IAS 39. The new standard is to be applied to fiscal years that begin on or after January 1, 2018. Application prior to that is permissible. Adoption of the standard by the European Union as European law is expected for the second half of 2015. Based on current expectations, this will not have any significant impact for Software AG.

The 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. According to the new standard, revenue recognition should reflect the transfer of promised goods or services to a customer as the amount of the consideration that the company expects to receive in exchange for these goods or services. Revenue is recognized when the customer receives power of control over the goods or services. IFRS 15 also contains guidelines on reporting performance surplus or performance obligations that exist at a contractual level. These can be assets or liabilities from contracts with customers depending on the relationship between the service rendered by the company and payment made by the customer. Furthermore, the new standard requires disclosure of various quantitative and qualitative data that enable users of the consolidated financial statements to understand the type, the amount, the timing and uncertainty of revenues and cash flows from contracts with customers. The new standard must be applied for fiscal years that begin on or after January 1, 2017 and has not yet been adopted by the European Union as European law. Application prior to that is permissible. Software AG is currently assessing what effects application of IFRS 15 has on the consolidated financial statements and will determine the timing of first-time application as well as the interim method.

In addition, the IASB and the IFRIC have issued a number of other pronouncements that were not yet required to be applied as of December 31, 2013. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

[4] Business combinations

Software AG did not acquire any companies during fiscal 2014. Software AG acquired only the remaining 84 percent of shares in metaquark GmbH, of Berlin/Germany, in the first quarter. The company was completely consolidated as of the first quarter of 2013 due to the existence of call options. The purchase price for the shares (remaining 84 percent) was €3 million less than the amount assumed for the final purchase price allocation. Accordingly, income in the amount of €3 million resulted from the acquisition of the remaining 84 percent and was reported under "other income."

Notes to the Consolidated Income Statement

[5] Total revenue

Revenue by segment and region is presented in the segment report in Note [27].

Services revenue

Services revenue includes sales of €23,126 thousand (2013: €39,575 thousand), recognized in accordance with the percentage-of-completion method. The status of uncompleted projects recognized under the percentage-of-completion method as of December 31, 2014 was as follows:

in € thousands	2014	2013
Costs accumulated over the term of a (multi-year) project and not yet invoiced	24,854	96,764
Recognized profit (+)/loss (-)	5,771	2,552
Advance payments received	0	1,991

As of December 31, 2014, the net amount due from customers for unfinished project work was €3,022 thousand (2013: €6,459 thousand), and the amount due to customers from running projects was €173 thousand (2013: €1,345 thousand).

The net balance of a project consists of costs incurred, plus the gains reported less the total amount of reported losses and progress billings.

[6] Other income

Other income includes the following items:

in € thousands	2014	2013
Foreign exchange gains	23,770	29,844
Income from the reversal of provisions and deferred liabilities	4,879	5,998
Subsequent purchase price reduction for a company acquired in 2013	3,000	0
Government grants in the form of low-interest-rate loans	1,052	4,500
Income from the sale of SAP service operations in USA and Canada	0	3,075
Other income	101	659
	32,802	44,076

[7] Other expenses

Other expenses consist of the following items:

in € thousands	2014	2013
Foreign exchange losses	28,675	35,017
Expenses relating to legal disputes	2,226	0
Other expenses	1,236	494
	32,137	35,511

[8] Net financial income/expense

Financial income includes interest on financial assets in the amount of €7,767 thousand (2013: €8,362 thousand). Financial expense includes interest expenses for financial liabilities in the amount of €14,924 thousand (2013: €15,858 thousand).

[9] Income taxes

Taxes on income are broken down into the following categories:

in € thousands	2014	2013
Current domestic taxes	- 71	- 12,721
Current foreign taxes	- 44,839	- 53,989
	- 44,910	- 66,710
Deferred domestic taxes	4,111	3,284
Deferred foreign taxes	- 7,034	7,425
	- 2,923	10,709
	- 47,833	- 56,001

In Germany, a uniform corporate income tax of 15 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for domestic companies will be 31.05 percent starting in 2014 (2013: 31.13 percent). Tax rates abroad range between 10 and 39 percent (2013: between 10 and 40 percent).

The income tax expense of €47,833 thousand for fiscal year 2014 (2013: €56,001 thousand) is €1,345 thousand lower than the expected income tax expense of €49,178 thousand (2013: €59,151 thousand) that resulted from applying the domestic tax rate of 31.05 percent currently applicable (2013: 31.13 percent) at Group level. The Group's effective tax rate is 30.20 percent (2013: 29.47 percent).

The difference between the expected and current income tax expense can be attributed to the following:

in € thousands	2014	2013
Earnings before income taxes	158,348	190,012
Expected income tax (31.05%; 31.13%)	- 49,178	- 59,151
Difference vs. foreign tax rates and changes in tax rates	- 1,393	- 921
Aperiodic income tax effects	5,198	3,437
Tax increases due to tax-exempt income or non-tax deductible expenses	219	- 2,347
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	110	6,507
Non-deductible foreign and withholding taxes	- 2,814	- 3,415
Other adjustments	25	- 111
Reported income tax expense	- 47,833	- 56,001

[10] Other taxes

Other taxes increased €1,342 thousand to €8,433 thousand (2013: €7,091 thousand) and included royalty-related indirect taxes in Brazil, land transfer taxes, property taxes, vehicle taxes and other indirect taxes.

[11] Personnel expenses

Personnel expenses in fiscal years 2014 and 2013 were as follows:

in € thousands	2014	2013
Wages and salaries	413,094	463,214
Social security contributions	48,768	56,335
Pension expenses	9,986	11,704
	471,848	531,253

In fiscal 2014, 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:

in € thousands	2014	2013
Maintenance and Services	1,974	2,416
Sales and Marketing	1,052	1,221
Research and Development	982	961
Administration	664	720
	4,672	5,318

In absolute terms (part-time employees are counted in full), the Group employed 4,571 (2013: 5,428) people as of December 31, 2014.

[12] Earnings per share

Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2014, the average weighted number of shares was 79,228,450 (2013: 83,702,176).

A total of 59,000 (2013: 26,500) stock options were exercised in 2014. In order to fulfill stock options, 59,000 (2013: 0) treasury shares were used and 0 (2013: 26,500) shares were generated by way of a capital increase. The number of shares increased accordingly by 0 (2013: 26,500). A total of 2,653,845 (2013: 5,387,879) shares were repurchased as part of the share buyback program in 2014. The number of treasury shares increased to 8,025,101 (2013: 5,430,256) due to the balance of the use of treasury shares against the repurchase of treasury shares. The treasury shares are not expected see a dilution effect, since they can be sold at market prices.

1,719,800 (2013: 1,793,300) more stock options from the third stock option plan may be exercised. There were no dilution effects from potentially exercisable equity instruments in 2014.

in € thousands	2014	2013
Net income	110,551	134,011
Less earnings attributable to non-controlling interests	- 193	- 176
Net income attributable to shareholders of Software AG	110,358	133,835
Weighted average number of shares in issue	79,228,450	83,702,176
Effect of dilutive share-based payment*	0	12,807
Weighted average number of shares in issue (diluted)	79,228,450	83,714,983
Earnings per share in € (basic)	1.39	1.60
Earnings per share in € (diluted)	1.39	1.60

*) Because the average price of Software AG's share (€23.61) in fiscal 2014 was below the base price of €24.12, there were no dilution effects.

Notes to the Consolidated Balance Sheet

[13] Trade receivables

The following trade receivables were not yet due or past due as of the reporting date:

in € thousands	Dec, 31, 2014	Dec, 31, 2013
Carrying amount	298,625	323,157
of which neither impaired nor past due as of the balance sheet date	258,776	285,539
of which past due in the following time bands as of the balance sheet date		
1 to 3 months	29,042	21,433
4 to 6 months	6,606	8,660
7 to 12 months	1,658	3,682
> 12 months	2,543	3,843

[14] Other receivables and other assets

Other receivables and other assets mainly consist of receivables due from tax authorities in the amount of €2,090 thousand (2013: €3,705 thousand) and prepaid expenses in the amount of €11,867 thousand (2013: €9,734 thousand).

[15] Income tax receivables

Tax receivables in the amount of €34,148 thousand (2013: €13,002 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

[16] Intangible assets and goodwill

Changes in intangible assets and goodwill as of December 31, 2014:

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2014	831,073	421,955	1,253,028
Currency translation differences	37,514	30,046	67,560
Additions	0	1,790	1,790
Disposals	-9,408	-15,612	-25,020
Balance as of Dec. 31, 2014	859,179	438,179	1,297,358
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2014	- 1,900	- 210,184	- 212,084
Currency translation differences	0	-17,031	-17,031
Additions	0	-41,227	-41,227
Disposals	0	10,459	10,459
Balance as of Dec. 31, 2014	- 1,900	- 257,983	- 259,883
Residual carrying amount as of Jan. 1, 2014	829,173	211,771	1,040,944
Residual carrying amount as of Dec. 31, 2014	857,279	180,196	1,037,475

Changes in intangible assets and goodwill as of December 31, 2013:

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2013	758,272	387,259	1,145,531
Currency translation differences	-10,283	-9,734	-20,017
Additions from acquisitions	83,084	43,314	126,398
Additions	0	2,466	2,466
Disposals	0	-1,350	-1,350
Balance as of Dec. 31, 2013	831,073	421,955	1,253,028
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2013	- 1,900	- 172,866	- 174,766
Currency translation differences	0	5,013	5,013
Additions	0	-43,365	-43,365
Disposals	0	1,034	1,034
Balance as of Dec. 31, 2013	- 1,900	- 210,184	- 212,084
Residual carrying amount as of Jan. 1, 2013	756,372	214,393	970,765
Residual carrying amount as of Dec. 31, 2013	829,173	211,771	1,040,944

Intangible assets mainly include software, customer bases and brand names obtained in connection with acquisitions. The following intangible assets with limited useful lives are of particular significance for the financial statements:

in € thousands	Carrying amount as of Dec. 31, 2014	Carrying amount as of Dec. 31, 2013	Remaining amortization period in years
Customer base obtained through webMethods acquisition	27,864	29,390	5.0
Software (rights and licenses) obtained through Terracotta acquisition	12,538	14,697	3.0
Customer base (rights and licenses) obtained through Jacada acquisition	12,108	12,185	8.0
Customer base obtained through SPL Israel acquisition	10,660	11,815	9.2

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2014:

in € thousands	Carrying amount as of Dec. 31, 2014	Carrying amount as of Dec. 31, 2013	Reason for assuming indefinite useful life
Brand name (webMethods) obtained through webMethods acquisition	20,593	18,129	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand names (ARIS & others) obtained through IDS acquisition	22,300	26,700	We plan to continue using the brand names for an indefinite period of time and to expand them in the future.

The brand names indicated above are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amounts of goodwill and of intangible assets with indefinite useful lives were allocated to the segments as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Segment		
ETS	312,269	311,642
BPE	521,977	486,945
Consulting	23,033	30,586
Goodwill	857,279	829,173
ETS	0	0
BPE	37,461	35,063
Consulting	5,432	9,766
Intangible assets with indefinite useful lives	42,893	44,829

The segments represent the smallest cash-generating units in the Group.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to fair value less costs to sell.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a period of three (2013: three) years. The budgets are designed on the basis of past experience, information derived from current operating results, and management estimates of future developments. Revenue trends at country level, for instance, is one element of management estimates of future developments that is particularly prone to uncertainty. This approach is rated as level 3 of the valuation hierarchy in accordance with IFRS 13.

The forecasts take into account historical values and estimates of future developments. Costs to sell are assumed to amount to 2 percent of the relevant fair value.

The estimated future cash flows for the Segment Enterprise Transaction System (ETS) segment were discounted using a post-tax weighted average cost of capital (WACC) of 8.9 percent (2013: 8.6 percent). The sustainable growth rate was assumed to be 0 percent (2013: 0 percent). A discount of 20 percent (2013: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even using a discount of 80 percent on the last year of detailed planning, the fair value less costs to sell would exceed the carrying amount.

We assumed a sustainable growth rate of 2 percent (2013: 2 percent) and a weighted average cost of capital (WACC) after tax of 9.9 percent (2013: 8.7 percent) for the Business Process Excellence (BPE) segment. A high single-digit to low double-digit revenue growth rate and a significant margin improvement (EBITA margin) were assumed in the period of detailed planning. However, given a sustainable growth rate of 0 percent and a 30-percent reduction in growth compared to the budget for the period of detailed planning, the fair value less costs to sell would still exceed the carrying amount.

We assumed a weighted average cost of capital (WACC) after tax of 6.3 percent (2013: 7.1 percent) and a sustainable growth rate of 2 percent for perpetual annuity for the Consulting segment. If a sustainable growth rate of 1.8 percent were used for perpetual annuity, the fair value less costs to sell would be approximately equal to the carrying amount. Disregarding the sustainable growth rate, the assumed margin improvement in the period of detailed planning is a significant assumption. An improvement (based on segment earnings) of 1 percentage point over the current 8-percent margin was assumed in the period of detailed planning.

[17] Property, plant and equipment

Changes in property, plant and equipment as of December 31, 2014:

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2014	75,326	42,223	117,549
Currency translation differences	1,047	1,909	2,956
Additions	2,493	6,584	9,077
Disposals	- 1,987	- 18,632	- 20,619
Balance as of Dec. 31, 2014	76,879	32,084	108,963
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2014	- 27,387	- 25,702	- 53,089
Currency translation differences	- 616	- 1,474	- 2,090
Additions	- 3,456	- 6,157	- 9,613
Disposals	1,785	15,215	17,000
Balance as of Dec. 31, 2014	- 29,674	- 18,118	- 47,792
Residual carrying amount as of Jan. 1, 2014	47,939	16,521	64,460
Residual carrying amount as of Dec. 31, 2014	47,205	13,966	61,171

Changes in property, plant and equipment as of December 31, 2013:

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2013	75,113	43,856	118,969
Currency translation differences	- 665	- 1,720	- 2,385
Additions	3,529	8,450	11,979
Disposals	- 2,651	- 8,363	- 11,014
Balance as of Dec. 31, 2013	75,326	42,223	117,549
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2013	- 27,015	- 27,940	- 54,955
Currency translation differences	420	1,341	1,761
Additions	- 3,141	- 6,673	- 9,814
Disposals	2,349	7,570	9,919
Balance as of Dec. 31, 2013	- 27,387	- 25,702	- 53,089
Residual carrying amount as of Jan. 1, 2013	48,098	15,916	64,014
Residual carrying amount as of Dec. 31, 2013	47,939	16,521	64,460

Most of the land and buildings are owned by the parent company and the Spanish subsidiary. The properties pertain mainly to the central administrative buildings of these entities. Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €6,584 thousand (2013: €8,450 thousand) primarily relates to expenses for the initial purchase of computer equipment.

[18] Deferred taxes

Deferred taxes were composed of the following as of the balance sheet date (before offsetting):

in € thousands	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Intangible assets	3,472	5,280	50,303	60,571
Tangible fixed assets	547	960	3,042	4,655
Receivables and financial assets	7,399	5,832	6,431	2,898
Other obligations	8,055	9,459	8,443	6,915
Pension commitments	6,546	9,300	0	0
Prepaid expenses/deferred income	3,889	6,716	35	273
Tax loss carryforwards	32,152	31,441	0	0
Total	62,060	68,988	68,254	75,312
Amount offset	- 51,123	- 52,735	- 51,123	- 52,735
Amount recognized in the balance sheet	10,937	16,253	17,131	22,577

Deferred tax assets on tax loss carryforwards rose from the prior year by €711 thousand. The increase resulted from ongoing consumption of the loss carryforwards as they are offset against taxable income and the appropriate subsequent capitalization based on future income expectations and changes in the consolidated Group. The drop in deferred tax liabilities in intangible assets by €10,268 thousand euros in fiscal 2014 is, in addition to amortization, due primarily to the first-time consolidation of IDS Scheer GmbH.

As of December 31, 2014, the consolidated Group had unutilized tax loss carryforwards in the amount of €40,522 thousand (2013: €49,687 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €9,015 thousand will expire in the period from 2015 to 2023, €11,223 thousand in the period from 2024 to 2033, and €20,284 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €8,494 thousand (2013: 7,193 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor future profit distributions are planned.

In fiscal year 2014, deferred taxes totaling €9,226 thousand (2013: €7,751 thousand) were recognized directly in equity. These amounts mainly resulted from actuarial gains/losses recognized directly in equity based on changes in the measurement of pension obligations as well as from financial instruments also recognized directly in equity.

[19] Financial liabilities

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Current financial liabilities		
Other financial liabilities	1,078	3,128
Liabilities to banks	101,662	199,339
Bills payable	880	401
Liabilities from finance leases	26	20
	103,646	202,888
Non-current financial liabilities		
Liabilities to banks	331,425	400,328
Other financial liabilities	9,000	10,000
Liabilities from finance leases	74	158
	340,499	410,486

Liabilities to banks and other financial liabilities had the following maturities as of the reporting date:

in € thousands	Up to 1 year	>1 year
Loans with variable interest rates	44,663	110,100
Loans with fixed interest rates	58,077	230,325
	102,740	340,425

The fair values of the liabilities to banks with variable interest rates are equal to their carrying amounts. The fair values of the liabilities with fixed interest rates amounted to €292,233 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

[20] Trade payables

Trade payables can be broken down as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Current liabilities		
Payables to suppliers	28,031	31,624
Payments received on account of orders	4,569	4,516
	32,600	36,140

[21] Other liabilities

Other liabilities relate to the following items:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Other current liabilities		
Tax liabilities	19,116	22,286
Liabilities due to employees	18,487	19,554
Considerations outstanding	0	7,060
Liabilities for social security	4,963	5,591
Interest rate swap evaluation	2,047	2,984
Deferred lease payments	2,627	1,146
Negative fair value from PPS hedging	2,175	1,600
Valuation of forward currency contracts	1,872	51
Remaining other current liabilities	4,762	6,017
	56,049	66,289
Other non-current liabilities		
Liabilities due to employees	3,222	3,644
Negative fair value from PPS hedging	3,089	1,124
Remaining other non-current liabilities	9	7
	6,320	4,775

[22] Other provisions

in € thousands	Other personnel- related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2014	58,643	32,246	90,889
Currency translation	2,380	355	2,735
Additions	27,798	24,514	52,312
Utilization	- 35,832	- 11,360	- 47,192
Changes in the consolidated Group	- 1,690	- 498	- 2,188
Reversal	- 2,780	- 1,722	- 4,502
Balance as of Dec. 31, 2014	48,519	43,535	92,054
of which with a remaining term of more than 1 year	49	13,156	13,205

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Bonuses	27,329	18,154
Litigation	3,295	1,907
Other taxes	2,669	2,884
Lease payment obligations	1,920	2,785
Impending losses for consulting projects	1,294	800
Asset retirement obligations	387	534
Remaining other non-current liabilities	6,641	5,182
	43,535	32,246

[23] Income tax liabilities

in € thousands	2014	2013
Balance as of Jan. 1	38,477	30,688
Currency translation	521	- 2,542
Additions	7,513	17,026
Utilization	- 11,423	- 6,530
Reversal	- 2,483	- 165
Balance as of Dec. 31	32,605	38,477

[24] Provisions for pensions

	Defined benefit obligation (DBO)		Fair value of plan assets		Effects of asset caps		Net defined benefit balance	
in € thousands	2014	2013	2014	2013	2014	2013	2014	2013
Germany	36,844	28,820	16,166	3,632	0	0	20,678	25,188
U.K.	69,945	54,748	56,179	45,100	4,247	10,234	18,013	19,881
Switzerland	6,112	7,117	3,607	4,663	0	0	2,505	2,454
Other insignificant pension plans and similar plans							1,370	3,184
							42,566	50,707

Pension benefits in Germany consist of fixed commitments to a select group of people. They are partially covered by life reinsurance policies. There are no minimum funding requirements or laws in Germany. Software AG paid out a total of €12,340 thousand for life reinsurance policies (plan assets) fiscal 2014, significantly increasing funding.

Pension benefits in the United Kingdom relate to commitments made by Software AG (UK) Limited. They comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period.

The commitments in Switzerland result from legal requirements of the BVG (law on occupational, survivor and disability planning). The law stipulates that every employer must grant entitled employees benefits after termination of their employment.

The defined benefit commitments result in risks to the Company due to possible fluctuations in obligations from defined benefit plans and fluctuations in plan assets. Fluctuations in defined benefit obligations result primarily from changes to financial assumptions such as discount interest rates and changed demographic assumptions (changing life expectancies). Possible changes in expected long-term wage and salary increases have no significant impact on the obligations due to the structure of the commitments. The fair value of plan assets and the fluctuation thereof depends mainly on the situation of the capital markets. Software AG seeks to account for this by controlling its asset investments.

	Defined benefit obligation (DBO)		Fair value of plan assets		Net defined benefit balance (without effect of asset caps)	
in € thousands	2014	2013	2014	2013	2014	2013
Balance as of Jan. 1	90,684	91,190	53,395	44,186	37,290	47,005
Current service cost	2,078	2,455			2,078	2,455
Past service cost	0	181			0	181
Net interest income/expense	3,691	3,422	2,441	1,799	1,250	1,622
	5,769	6,058	2,441	1,799	3,328	4,258
Expense/income resulting from adjustments						
Return on plan assets net of income recognized as net interest income/expense	- 3,350	- 1,886	1,235	4,018	- 4,585	- 5,904
Net actuarial gains/losses from changes to demographic assumptions	0	- 1,566	0	0	0	- 1,566
Net actuarial gains/losses from changes to financial assumptions	17,723	- 1,274	0	0	17,723	- 1,274
	14,373	- 4,726	1,235	4,018	13,138	- 8,744
Currency-related changes	2,721	- 1,316	3,529	- 809	- 808	- 508
Employer contributions	0	0	17,110	4,086	- 17,110	- 4,086
Employee contributions	1,139	1,270	1,139	1,270	0	0
Plan-related payments	- 1,785	- 1,791	- 2,896	- 1,155	1,111	- 636
Settlement payments	0	0	0	0	0	0
	- 646	- 521	15,353	4,201	- 16,000	- 4,722
Balance as of Dec. 31	112,901	90,685	75,953	53,395	36,948	37,289

The significant assumptions used for calculating the present value of the defined benefit obligations (DBO) are as follows:

in %	2014	2013
Discount rate		
Germany	2.00	3.25
U.K.	3.75	4.50
Switzerland	1.50	2.00
Salary trend		
Germany	0.00	0.00
U.K.	4.75	5.00
Switzerland	1.50	1.50
Pension trend		
Germany	2.00	2.00
U.K.	3.00	3.50
Switzerland	0.00	0.00

A change in the above discount rates by a half of a percentage point would have the following impact on the respective DBOs:

Change in DBO			
in € thousands	Germany	U.K.	Switzerland
Discount rate (-0.5%)	3,922	8,698	632
Discount rate (+0.5%)	-3,407	-8,435	-550
Salary trend (-0.5%)	-315	-905	-74
Salary trend (+0.5%)	324	912	78
Pension trend (-0.5%)	-2,598	2,428	n/a
Pension trend (+0.5%)	2,900	-2,414	361

Sensitivities were calculated by varying the respective parameter with otherwise constant assumptions.

The plan assets can be broken down as follows:

Fair value		
in € thousands	2014	2013
Equities	34,116	27,196
Life insurance policies	20,136	8,294
Fixed-interest securities	15,601	9,102
Cash and cash equivalents	6,462	8,803
	76,315	53,395

There was a market price quote in an active market for every component of the plan assets except for the life insurance policies.

Contributions from the Software AG Group to defined benefit plans for fiscal year 2015 are expected to amount to €6,087 thousand.

Expected benefit payments during the next 10 years are expected to be as follows:

in € thousands	Expected benefit payments
2015	3,709
2016	2,846
2017	2,782
2018	2,937
2019	3,483
2020-2024	18,313

Defined contribution plans

There is a minor volume of defined contribution pension commitments. Defined contributions are paid to external insurance companies or funds. Furthermore, Software AG makes contributions to the state and/or public pension fund primarily in Germany. Defined contribution pension commitments accounted for expenses of €14,890 thousand (2013: €17,597 thousand) in 2014.

[25] Equity

Share capital

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

Conditional capital

The following conditional capital existed as of December 31, 2014:

- 1) Up to €8,567 thousand divided into up to 8,566,684 bearer shares to service subscription rights under the third and fourth stock option plans (Management Incentive Plan III and IV, or MIP III and MIP IV) for members of the Management Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented in Note [33].

The Management Board did not make use of this authorization in fiscal 2014.

- 2) Up to €18,000 thousand divided into a maximum of 18,000,000 bearer shares, each with a notional interest in the share capital of €1.00, for the purpose of granting option rights and agreeing on option obligations arising from warrant bonds or granting conversion rights to and agreeing on conversion obligations with bearers of warrant bonds or convertible bonds in an aggregate principal amount of up to €500,000 thousand and with or without a limited term in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 21, 2010.

Pursuant to this authorization, the Management Board may, subject to the consent of the Supervisory Board, resolve on or before May 20, 2015 that the rights described be issued by Software AG or a directly or indirectly held wholly owned affiliate of Software AG.

As of December 31, 2014, the Management Board had not made use of this authorization.

- 3) Up to €55 thousand divided into a maximum of 55,000 bearer shares, each with a notional interest in the share capital of €1, for the purpose of granting bearer shares upon the exercise of conversion or option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005, such conversion or

option rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with Section 23 of the German Reorganization and Transformation Act (UmwG).

The Management Board did not make use of this authorization in fiscal year 2014.

Authorized capital

As of December 31, 2014, the Management Board was also authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 4, 2016 by up to a total of €43,074 thousand by issuing up to 43,074,091 new bearer shares in return for cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Management Board is authorized to exclude fractional amounts from shareholders' subscription rights.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights in the event of capital increases in return for contributions in kind, provided the contribution in kind is for the purpose of acquiring companies, parts of companies and/or equity interests in companies or as part of corporate mergers.
- Subject to the consent of the Supervisory Board, the Management Board is authorized, in the event of capital increases, to exclude subscription rights in return for cash contribution to the extent necessary to grant the holders of option or conversion rights or those with obligations to exercise options or convert warrant bonds or convertible bonds, which were issued by Software AG or a wholly owned direct or indirect subsidiary of Software AG, or the holders of option or or conversion rights, which Software AG—following the merger of IDS Scheer AG with Software AG—is obligated to recognize as a subscription right to new shares in the amount equivalent to that which they would be entitled as shareholders upon exercising their option or conversion rights or fulfilling their option or conversion obligations.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights of shareholders in the event of capital increases in return for cash contributions, provided the capital

increases resolved on the basis of this authorization do not exceed 10 percent of the issued share capital at the time the resolution is passed at the Annual Shareholders' Meeting or, if lower, of the share capital in issue at the time the authorization is acted upon and provided the issue price is not significantly lower than the stock market price.

- The upper limit of 10 percent of the issued share capital will be reduced by the pro rata amount of the share capital attributable to those treasury shares of the Company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to section 71 (1) no. 8, sentence 5 and section 186 (3) sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in section 186 (3) sentence 4 of the German Stock Corporation Act. The Management Board did not make use of this authorization in fiscal year 2014.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 3, 2014, the Company is authorized to purchase on or before May 2, 2018:

- a) Treasury shares up to 10 percent of the existing 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.
- b) Depending on the decision of the Management Board, the treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.
If the shares are purchased via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the

closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five stock market trading days preceding the purchase. The date of purchase is the date upon which the transaction is concluded.

If the shares are purchased via a public purchase offer, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five trading days prior to publication of the offer. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer.

- c) The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.
- d) The Management Board is authorized to sell the treasury shares purchased on the basis of the authorization pursuant to letter "a" above or an authorization granted at an earlier time via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally, such as through an offer addressed to all of the Company's shareholders.
- e) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholder subscription rights, to sell the treasury shares purchased based on the authorization according to letter "a" or a previously granted authorization, provided the shares are sold for cash at a price that is not significantly lower than the listed prices of Company shares that have the same terms and features at the time of the sale. This authorization is limited to shares with a notional interest in the share capital of up to a total of 10 percent of the Company's share capital in issue on the date of issue of the authorization or, if lower, the share capital in issue at the time the authorization is acted upon. The upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization as part of a capital increase subject to the exclusion of subscription rights pursuant to section 186 (3) sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those

shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in section 186 (3) sentence 4 of the German Stock Corporation Act. The average listed price of the Company shares—the unweighted average closing price in Xetra trading on the Frankfurt stock exchange or a successor system—during the five trading days preceding the sale will be considered the applicable listed price within the meaning of this paragraph. The date of sale is the date upon which the transaction is concluded.

f) The Management Board is also authorized, to transfer the treasury shares purchased on the basis of the authorization pursuant to letter “a” above or a previously granted authorization to employees and members of the Company’s and its affiliates’ senior management:

- (i) in the context of the Company’s stock option plan, which was resolved under item 7a) of the agenda for the Annual Shareholders’ Meeting on April 29, 2008;
- (ii) to offer them for purchase or commit or transfer them with a waiting/blackout period of no less than four years to employees and members of senior management of Software AG and its affiliates, whereby the work and/or entity relationship must exist at the time of the offer or commitment and the commitment or transfer must be dependent upon the achievement of at least one revenue-related target, which entails doubling revenue with new products by fiscal 2015 at the latest as compared to fiscal 2010 and annual revenue with new products of at least €450 million in the year this target is achieved. “New products” are all products that do not pertain to the Adabas-Natural product family, including EntireX, and are not third-party products that are sold individually under distribution rights. Revenue generated from changed licensing models for the cloud business should be made comparable. The Management Board can define further details or additional success targets.

If success targets are achieved, the Management Board must make the offer or commitment and/or the transfer contingent upon whether Software AG’s share price reaches at least €60 in a specific period

to be determined that is immediately following the purchase and a maximum of five stock market trading days.

Furthermore, the purchase can only occur during exercise periods that are between the 3rd and 15th trading day (up to and including respectively) on the Frankfurt stock exchange after the last day of the Annual Shareholders’ Meeting and after the release of the second or third-quarter results. The offer price is at least the unweighted average closing price of Software AG’s share in XETRA trading on the five trading days in Frankfurt am Main immediately following the day the offer is made. Provided afterward shares are transferred or offered for purchase to the members of the Management Board, this authorization applies to the Supervisory Board.

Up to 3,000,000 treasury shares can be offered for purchase, committed or transferred respectively to members of the Management Board or of senior management of Software AG and affiliate companies as well as their employees;

- (iii) to offer for purchase and transfer them to employees and members of senior management of Software AG and its affiliates in the context of the stock option plans resolved by the Annual Shareholders’ Meeting in accordance with section 193 (2) no. 4 of the German Stock Corporation Act in the future.

g) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders’ subscription rights, to sell the treasury shares purchased on the basis of the authorization pursuant to letter “a” above or a previously granted authorization to third parties, provided this occurs for the purpose of acquiring companies, corporate divisions and/or interests in companies or as part of corporate mergers.

h) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders’ subscription rights and in accordance with the terms and conditions of the bonds, to deliver the treasury shares purchased on the basis of the authorization pursuant to letter “a” above or a previously granted authorization to the holders of warrants or convertible bonds issued by the Company or by a wholly owned direct or indirect subsidiary of the Company.

- i) The Management Board is also authorized to recall all or part of the treasury shares purchased on the basis of the authorization pursuant to letter "a" above or a previously granted authorization in one or several steps without any additional authorization by the Annual Shareholders' Meeting. The shares may also be recalled without a capital decrease by adjusting the pro rata amount in the Company's share capital of the remaining shares. In such case, the Management Board is authorized to adjust the specification of the number of shares in the Articles of Incorporation.
- j) The authorizations for purchase and use of treasury shares can be exercised in full or partially and, in the case of the latter, multiple times, by the Company, its subsidiaries or for its or their account by third parties. Treasury shares may be purchased for one or more of the aforementioned purposes.

At the beginning of the reporting period Software AG held 5,430,256 (2013: 42,377) treasury shares representing an interest of €5,430,256 (2013: €42,377) or 6.25 percent (2013: 0.05 percent) in Software AG's share capital.

On October 25, 2013 the Company announced a share buy-back program up to a volume of €110.0 million, to be concluded by May 16, 2014 at the latest. In the fiscal year, Software AG repurchased 2,653,845 treasury shares (2013: 5,387,879) at an average price of €26.60 per share (2013: €28.65), not including transaction fees, for a total cost of €70,582 thousand (2013: €154,308 thousand). This represents 3.05 percent (2013: 6.25 percent) of Software AG's share capital. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation legislation and by the aforementioned authorization.

The Management Board transferred 59,000 (2013: 0) shares as part of a stock option plan, which was approved under point 7a) of the agenda at the Annual Shareholders' Meeting on April 29, 2008.

As of December 31, 2014 Software AG held 8,025,101 (2013: 5,430,256) treasury shares representing an interest of €8,025,101 (2013: €5,430,256) or 9.23 percent (2013: 6.25 percent) of the share capital.

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. Since software companies typically have a low level of capital expenditure for property, plant and equipment, equity is not a focus of corporate management. Dividends are calculated as the average of net income for the year and free cash flow. This results in a total dividend sum of €39,457 thousand (2013: €36,276 thousand) and a payout ratio of 32.4 percent (2013: 24.8 percent).

Dividend payment

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 16, 2014 to appropriate €36,276 thousand for a dividend payout and to carry forward €99,766 thousand of the net retained profits of €136,042 thousand reported by Software AG, the controlling Group company, in 2013. This corresponded to a dividend of €0.46 per share.

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

Other reserves

Other reserves changed as follows, taking into account tax effects:

	2014			2013		
in € thousands	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences	44,812	0	44,812	-38,380	0	-38,380
Net gain/loss on remeasuring financial assets	1,004	-314	690	2,172	-681	1,491
Net gain/loss arising from translating net investments in foreign operations	4,406	0	4,406	-1,467	0	-1,467
Net actuarial gain/loss on pension obligations	-6,132	1,789	-4,363	-1,017	-461	-1,478
Other comprehensive income	44,070	1,475	45,545	-38,692	-1,142	-39,834

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2013, net expense of €341 thousand (2013: 0) was recognized in profit or loss in fiscal year 2014.

Other Disclosures

[26] Notes to the statement of cash flows

Cash funds amounting to €318,396 thousand (2013: €449,984 thousand) comprise both cash and cash equivalents.

Cash funds include cash and cash equivalents amounting to €1,269 thousand (2013: €7,314 thousand), which were held by the sales subsidiary in Venezuela. Due to current legal limitations relating to foreign currency transactions in Venezuela, Software AG has only limited access to these funds.

Dividends paid reported in the statement of cash flows include dividend payments of €155 thousand (2013: €160 thousand) to minority shareholders of subsidiaries.

Net payments for acquisitions in 2014 amounted to €3,667 thousand (2013: €113,193 thousand) and consist of €3,667 thousand (2013: €119,288 thousand) in consideration paid less €0 (2013: €6,095 thousand) in cash and cash equivalents received.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including investments in securities, proceeds from the sale of securities, proceeds from the sale of disposal groups or net cash outflows for acquisitions. Accordingly, free cash flow totaled €132,738 thousand (2013: €159,052 thousand).

Effects from the disposal of subsidiaries and/or business units on cash flow and balance sheet items for the year:

in € thousands	
Cash and cash equivalents	1,799
Intangible assets	4,931
Goodwill	8,550
Receivables and other assets	13,289
Liabilities and provisions	- 8,418
Deferred tax liabilities	- 1,515
Disposal of net assets and liabilities	18,636
As part of the sale of incurred, non-cash liabilities	- 1,134
Cash considerations	19,856
Balance of disposed cash and cash equivalents	- 1,799
Net cash and cash equivalents received	18,057

The result of the sale of subsidiaries and/or business units in the amount of €87 thousand is reported under "other income."

[27] Segment reporting

Notes on segment reporting

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

- **Business Process Excellence**
(BPE: integration, business process management and big data with the webMethods, Aris, Alfabet, Apama and Terracotta product families)
- **Enterprise Transaction Systems**
(ETS: data management with the Adabas-Natural products)
- **Consulting**
(implementation of Software AG products)

The following table illustrates the segment data for fiscal years 2014 and 2013:

	Enterprise Transaction Systems (ETS)	
	2014	2013
in € thousands		
Licenses	91,040	107,426
Maintenance	153,681	166,326
Product revenue	244,721	273,752
Services	0	0
Other	623	719
Total revenue	245,344	274,471
Cost of sales	- 12,645	- 14,053
Gross profit	232,699	260,418
Sales, marketing and distribution expenses	- 41,072	- 50,427
Segment contribution	191,627	209,991
Research and development expenses	- 24,346	- 25,337
Segment earnings	167,281	184,654
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		

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 costs are subsequently allocated to the business lines and have no impact on internal management.

	Business Process Excellence (BPE)		Consulting		Reconciliation		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	178,867	220,096	192	2,616			270,099	330,138
	215,654	202,758	2,006	6,482			371,341	375,566
	394,521	422,854	2,198	9,098			641,440	705,704
	0	1	215,752	265,997			215,752	265,998
	-3	3	22	268			642	990
	394,518	422,858	217,972	275,363			857,834	972,692
	-22,856	-22,346	-177,945	-232,549	-22,870	-25,662	-236,316	-294,610
	371,662	400,512	40,027	42,814	-22,870	-25,662	621,518	678,082
	-182,511	-201,460	-23,161	-33,470	-16,305	-14,710	-263,049	-300,067
	189,151	199,052	16,866	9,344	-39,175	-40,372	358,469	378,015
	-84,718	-82,587	0	0	0	0	-109,064	-107,924
	104,433	116,465	16,866	9,344	-39,175	-40,372	249,405	270,091
							-74,062	-73,151
							-8,433	-7,091
							166,910	189,849
							665	8,565
							-9,191	-8,402
							158,384	190,012
							-47,833	-56,001
							110,551	134,011

Information on geographic regions

Revenues by location of the Company can be broken down into geographic regions as follows:

Geographic distribution of revenues

	2014			Group total
	Germany	USA	Other countries	
in € thousands				
Licenses	50,546	79,935	139,618	270,099
Maintenance	55,206	120,609	195,526	371,341
Services	52,382	20,298	143,072	215,752
Other	632	- 2	12	642
Total	158,766	220,840	478,228	857,834

	2013			Group total
	Germany	USA	Other countries	
in € thousands				
Licenses	38,931	104,066	187,141	330,138
Maintenance	55,914	124,458	195,194	375,566
Services	81,126	23,653	161,219	265,998
Other	689	22	279	990
Total	176,660	252,199	543,833	972,692

Countries included in “other countries” are presented separately once the revenue generated in the country in question reaches a significant level. Revenues in the U.S. contributed 10 percent or more to Group revenue and are therefore listed separately. These revenues are generated in U.S. dollars, so when comparing consecutive periods, exchange rate fluctuations should be considered.

Non-current assets

Non-current assets are comprised of intangible assets, and property, plant and equipment.

in € thousands	2014	2013
USA	567,474	540,570
Germany	389,575	419,079
Other countries	141,597	145,755
Group total	1,098,646	1,105,404

[28] Additional information on financial instruments and risk management

The table below shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair-value hierarchy. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

Dec. 31, 2014

	Fair value				
	Level 1	Level 2	Level 3	Total	
in € thousands					
Financial assets					
Financial assets measured at fair value					
Forward currency contracts		1,326		1,326	
Stock options		3,003		3,003	
Investment funds	2,067			2,067	
Shareholders' equity			5,786	5,786	
Other financial assets					
Promissory notes/time deposits					
Trade receivables and other receivables					
Cash and cash equivalents					
Financial liabilities					
Financial liabilities measured at fair value					
Interest rate swaps		2,047		2,047	
Forward currency contracts		1,872		1,872	
Forward equity contracts		5,229		5,229	
Other financial liabilities					
Liabilities to banks and other financial liabilities		447,975		447,975	
Trade payables					
Other non-derivative liabilities					

	Carrying amount					
	Held for trading purposes	Hedging instruments	Loans and receivables	Available for sale	Other financial liabilities	Total
	1,326					1,326
	3,003					3,003
				2,067		2,067
				5,786		5,786
			53,244			53,244
			160,059			160,059
			318,396			318,396
		2,047				2,047
	1,872					1,872
	5,229					5,229
					444,145	444,145
					32,600	32,600
					53,221	53,221

Dec. 31, 2013

	Fair value			
	Level 1	Level 2	Level 3	Total
in € thousands				
Financial assets				
Financial assets measured at fair value				
Forward currency contracts		227		227
Corporate bonds	2,013			2,013
Shareholders' equity			2,038	2,038
Other financial assets				
Promissory notes/time deposits				
Trade receivables and other receivables				
Cash and cash equivalents				
Financial liabilities				
Financial liabilities measured at fair value				
Interest rate swaps		2,984		2,984
Forward currency contracts		51		51
Forward equity contracts		2,700		2,700
Other financial liabilities				
Liabilities to banks and other financial liabilities		614,409		614,409
Trade payables				
Other non-derivative liabilities				

	Carrying amount					
	Held for trading purposes	Hedging instruments	Loans and receivables	Available for sale	Other financial liabilities	Total
	227					227
				2,013		2,013
				2,038		2,038
			54,500			54,500
			115,298			115,298
			449,984			449,984
		2,984				2,984
	51					51
	2,700					2,700
					613,374	613,374
					36,140	36,140
					65,329	65,329

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2013 or 2014.

The following table illustrates how the fair values of financial assets and liabilities are determined:

Financial assets/ financial liabilities	Hierarchy level	Valuation technique and key inputs	Significant unobservable inputs	Correlation between unobservable inputs and fair value
Interest rate swaps	2	Discounted cash flow approach; future cash flows are estimated based on forward interest rates (observable interest rate curves as of balance sheet date) and fixed interest rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties.	n/a	n/a
Forward currency contracts	2	Discounted cash flow approach; future cash flows are estimated based on forward exchange rates (observable exchange rates as of balance sheet date) and fixed forward exchange rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties.	n/a	n/a
Stock options	2	Option pricing model, which accounts for influential option pricing factors (share price, exercise price of the option, share price volatility, dividends as dividend yield, interest rates, option's remaining term)	n/a	n/a
Equity forward contracts	2	The fair values are measured based on the intrinsic values of the forward equity contracts, which are calculated using the share prices from an active market.	n/a	n/a
Investment funds	1	Prices quoted on active market.	n/a	n/a
Shareholders' equity	3 *	Financial assets available for sale for which no market price is available and a fair value cannot be calculated reliably because of the absence of an active market are measured at cost less impairments. There were no indications of impairments in 2014 or 2013, measurement was therefore based on cost.	n/a	n/a

*) Changes during the fiscal year resulted from additions only.

The fair values of cash and cash equivalents, time deposits, current receivables, trade payables and other current financial liabilities correspond approximately with their carrying amounts, primarily due to the short terms of these instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit ratings. Software AG calculates bad debt allowances to reflect expected defaults based on the measurement results.

Accordingly, the carrying amounts of these receivables corresponded approximately with their fair values as of December 31, 2014 and December 31, 2013.

Software AG calculates the fair values of liabilities to banks and other financial liabilities as well as other non-current financial liabilities by discounting the estimated future cash flows using the interest rates applicable to similar financial liabilities with comparable maturities.

The net gain/loss from loans and receivables was only affected significantly by currency translation effects. The net gain from derivatives without qualifying hedging relationships amounted to €3,753 thousand (2013: -€3,806 thou-

sand) in fiscal 2014. The net gain from derivatives designated as cash flow hedges was included in the income statement and amounted to €1,516 thousand in 2014 (2013: -€2,267 thousand).

Market risk and the use of derivative financial instruments

As a result of its international operating activities as well as its investing and financing activities, Software AG is exposed to various financial risks. Management continuously monitors these risks. Derivative financial instruments are used in accordance with internal guidelines in order to reduce risks arising from changes in interest rates, exchange rates, cash flows, or the value of cash investments. Derivatives are generally entered into to hedge existing balance sheet exposures and highly probable forecast transactions.

a) Interest rate risk

The Company is subject to interest rate fluctuations that affect both assets and equity and liabilities on the balance sheet.

On the assets side, income from investing cash and cash equivalents and future interest income resulting from discounting non-current receivables are particularly subject to interest rate risk. On the equity and liabilities side, interest expenses for current and non-current financial liabilities as well as pension provisions and other items related to long-term borrowings are especially exposed to interest rate risk. The sensitivity analysis required by IFRS 7 relates to interest rate risk arising from monetary financial instruments bearing variable interest rates.

Based on the current structure of the interest-bearing financial instruments, a hypothetical increase in the market interest level of 100 basis points would raise earnings by €1,365 thousand (2013: €2,332 thousand).

b) Exchange rate risk

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forward contracts. Foreign currency receivables and liabilities are offset if possible, and only the remaining net exposure is hedged. Estimated cash flows are also hedged in accordance with internal guidelines.

Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other assets or current liabilities. Changes in the fair value of derivative financial instruments designated as cash flow hedges are

reported under other reserves until the hedged item is required to be recognized in income. The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments that do not meet the requirements of hedge accounting are recognized immediately in profit or loss for the year in which they are incurred.

The sensitivity analysis required by IFRS 7 relates to exchange rate risk arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings result fundamentally only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.

Based on the monetary financial instruments available as of the reporting date, a devaluation of the euro in amount of 10 percent against the U.S. dollar would have increased earnings by €543 thousand (2013: €1,565 thousand) and other reserves by €2,570 thousand (2013: 0). This amount only represents a theoretical risk for us as these instruments are hedges of recognized transactions, rather than open trading positions.

c) Market risk

In line with Group policy, assets are controlled in terms of maturity, interest type and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk

Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. Major cash investments as well as derivative financial instruments are entered into with banks with credit ratings of at least investment grade and whose CDS rates are monitored continuously. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by management ensure that the credit risk from financial instruments is spread across various banks.

In the operating business, receivables are continuously monitored and default risk is taken into account via specific

and portfolio-based bad debt allowances. As of December 31, 2014, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. There is no concentration of credit risks with respect to single customers as a result of the size of our customer base or due to the distribution of our revenues across various sectors and countries. The theoretical maximum exposure to credit risk is reflected in the carrying amounts of the receivables, without taking any collateral into account.

e) Liquidity risk

A liquidity risk arises from the possibility that the Company may not be able to satisfy existing financial liabilities, for example, arising from loan agreements, lease agreements or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit.

Under credit agreements having a total volume of €2.7 million (2013: €3.4 million), the Company is required to limit

net debt within the Group to a maximum of 3-times EBITDA. Under additional credit agreements having a total volume of €125.0 million (2013: €100.0 million), the Company is required to limit net debt within the Group to a maximum of 3.25-times EBITDA and not fall below an interest coverage ratio of 4.25. As of year-end 2014, the Company's net debt in relation to EBITDA was significantly lower than this limit and the interest coverage ratio was significantly higher.

The table below shows the contractually fixed payments arising from financial liabilities. The values listed here show the undiscounted liabilities. Variable interest payments are based on the prevailing interest rate on the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2014.

2014

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
– Repayment	102,740	315,425	25,000	443,165
– Interest	6,577	9,885	158	16,620
Trade payables	32,601			32,601
Other financial liabilities	880			880
Finance lease liabilities	26	74		100
Other non-derivative liabilities	52,014	1,207		53,221
Derivative financial liabilities	4,034	5,114		9,148

2013

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
– Repayment	202,467	410,328		612,795
– Interest	11,120	14,707		25,827
Trade payables	36,140			36,140
Other financial liabilities	401			401
Finance lease liabilities	20	158		178
Other non-derivative liabilities	63,985	1,344		65,329
Derivative financial liabilities	2,304	3,431		5,735

Volume and measurement of derivative financial instruments

Derivative financial instruments are used only to hedge existing or estimated currency risk, interest rate risk, or other market risk.

The table below shows the notional amounts, the carrying amounts, and the fair values of derivative financial instruments as of December 31, 2014 and December 31, 2013.

The fair values of forward currency contracts are determined on the basis of forward foreign exchange rates. The fair values of stock options and equity forward contracts used to hedge the performance phantom share plan as well as the fair values of interest rate hedges are based on market prices, which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date.

	2014			2013		
in € thousands	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	0	4,329	4,329	0	227	227
Forward currency contracts remaining term < 1 year	16,615	1,326	1,326	14,502	116	116
Forward currency contracts remaining term > 1 year	0	0	0	14,502	111	111
Stock options/ forward equity contracts	6,366	3,003	3,003	0	0	0
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	0	-7,101	-7,101	0	-5,735	-5,735
Forward currency contracts remaining term < 1 year	17,791	-1,872	-1,872	1,244	-51	-51
Stock options/ forward equity contracts	18,691	-5,229	-5,229	16,886	-2,700	-2,700
Derivatives (cash flow hedges)	0	-2,047	-2,047	0	-2,984	-2,984
Interest rate swaps	30,000	-2,047	-2,047	93,500	-2,984	-2,984

The derivative financial instruments are designated to hedge the fair value of recognized assets or liabilities. Changes in the fair value of the hedging instruments are recognized in profit or loss. In addition, interest rate swaps are used to hedge financial liabilities with variable interest rates (cash flow hedges). Changes in the fair value of such financial instruments are reported under other reserves. Of the fair value of the interest rate swaps (cash flow hedge), -€691 thousand pertains to 2015, -€933 thousand to 2016 and -€423 thousand to 2017. These values represent the expected income from interest rate swaps.

Forward currency contracts and currency option transactions are entered into for the purpose of hedging foreign exchange risks related to future cash flows.

In order to hedge the risks arising from changes in value of the phantom share program and MIP V, the Company has entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency risk have remaining terms of a maximum of two years, whereas the financial instruments for hedging interest rate risk have remaining terms of up to 4 years.

Cash investment policy

Software AG takes a conservative approach with regard to its cash investments. The Company invests primarily in short-term time deposits and short-term fixed-income securities with a credit rating of at least "investment grade." Software AG has introduced a process in order to monitor the creditworthiness of the banks with which we maintain relationships whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly. In fiscal 2014, the interest rates for term deposit investments were between 0.08 percent and 0.70 percent p.a. in Germany, whereas up to 26.25 percent p.a. was reached abroad.

Software AG made payments on leases in the amount of €23,704 thousand (2013: -€22,823 thousand) in 2014.

[30] Contingent liabilities

In addition to the contingent liabilities required for disclosure, please refer to Note [32] for more information on litigation.

[29] Disclosures on leases

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

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Contractually agreed payments	20,778	34,052	16,803	71,633
Estimated income from subleases	-3,548	-3,199	0	-6,747

[31] Seasonal influences

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

in € thousands	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
License revenue	57,103	50,207	64,184	98,605	270,099
as % of license revenue for the year	21	19	24	36	100
Total revenue	208,886	195,984	205,641	247,323	857,834
as % of revenue for the year	24	23	24	29	100
Earnings before taxes	25,994	19,991	44,887	67,512	158,384
as % of earnings for the year	16	13	28	43	100

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

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

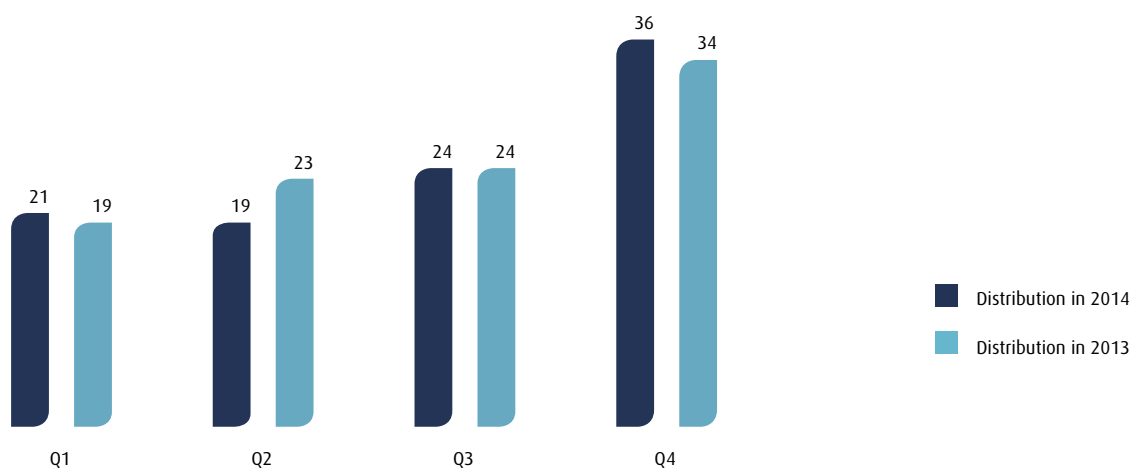
[32] Litigation

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 in a court in Virginia (USA). 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. The plaintiff's appeal was dismissed in January 2012. In response to further legal action, the case was partially acknowledged and partially referred back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants.

A case in the U.S. state of Delaware, which has been pending since February 2012, whereby a non-practicing entity (NPE: a company that solely pursues patent-right violations) sued Software AG for allegedly violating two of its software

As % of total annual license revenue



patents, was settled in September 2014. The settlement did not lead to any unplanned costs.

A law suit was filed in the USA in December 2010 against our U.S. subsidiary by a competitor in a matter relating to a deal with a customer and the alleged violation of copyright laws. Software AG won the case at first instance. The plaintiff brought further legal action, and the court of first instance reopened the case. The hearing took place at the end of 2014. Without stating a reason, the jury ruled against Software AG with a fine of \$15 million. At the beginning of February 2015, the court ordered payment to be made to the plaintiff in the amount determined by the jury. Software AG considers the accusations to be groundless and will bring further legal action. At present, the Company assumes that final maximum damages from this case will be significantly lower than the amount cited by the jury. It is currently unforeseeable how long the case will last. Based on Software AG's experience with law suits in the USA, we estimated possible damage costs from this case and set up the appropriate provisions.

In a matter relating to projects carried out under the European Union's Research and Innovation Funding Programs 6 and 7 by our former SAP consulting subsidiary in the Czech Republic (the projects took place between 2004 and 2009), accusations have been made in audit reports as to the use of funds for these projects. According the reports, funds were allegedly not used as intended by the program. As part of contract negotiations with Software AG, the buyer of the shares in the aforementioned company was exempt from any repayment claims by the European Commission. Software AG also assumed responsibility for preparation of the case as well as its defense. Software AG is of the opinion that the accusations in the audit report are groundless. The fact that the relevant period of time was so long ago makes preparation of facts related to the matter extremely difficult. Software AG is therefore seeking to discuss the parties' factual and legal appraisals with the European Commission. Provisions are set up based on the estimated probable actual resource outflow.

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash

settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In light of the court's order to hear evidence issued in September 2013, in the capacity of expert auditor, Warth & Klein Grant Thornton AG (financial auditing firm) provided a written opinion on questions concerning valuation in July 2014. The petitioners' opinions on it have not yet been finalized.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with 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 as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG submitted a complaint against the decision. In a decision on December 30, 2014, the Higher Regional Court of Saarland appointed an expert witness to verify the market price of IDS Scheer AG shares in the relevant reference period from November 3, 2009 to February 2, 2010. The court explicitly stated that the stock market price must always be taken into account unless the exception arises that it does not reflect the market value, for example in the event of a narrow market whereby no or no trade of relevance occurred over an extended period of time. Software AG is of the opinion that this was the case. Provisions are set up based on the estimated probable actual resource outflow.

Provisions for litigation totaled €3,295 thousand (2013: €1,907 thousand) as of December 31, 2014. In addition, contingent liabilities in the amount of €25,100 thousand existed. But since a resource outflow as of December 31, 2014 was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions were made.

There were no other changes with respect to the legal disputes reported as of December 31, 2013, nor were there any new legal disputes or other legal risks that could potentially have a significant effect on the Company's financial position, financial performance or cash flows.

[33] Stock option plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. These involve cash-settled plans and plans where the Company has the choice of settling either in cash or by providing equity instruments.

The expense for share-based compensation in fiscal 2014 was as follows:

in € thousands	2014	2013
Income/expense from share-based compensation	11,743	- 922
of which from share-based compensation that was accounted for as equity-settled plans pursuant to IFRS 2	3,899	3,408
of which from hedging activities relating to share-based compensation plans (PPS)	3,753	3,718

No expenses for share-based compensation transactions were capitalized as inventories or non-current assets.

In December, the Supervisory Board decided to introduce caps for both Management Incentive Plans III and IV in accordance with the German Corporate Governance Code. As part of this, the term of MIP III was extended by three years (until June 30, 2019) and the exercise condition of €60.00 for MIP IV was removed. The decision was also made to introduce a new Management Incentive Plan (MIP V) for fiscal 2015. Plan participants received the changes in December. Participation in MIP V is conditional upon approval of the proposed amendments. The specific changes are presented in detail in the corresponding plan descriptions below.

Management Incentive Plan 2015 – MIP V 2015

A share-performance-based Management Incentive Plan (MIP V) for members of the Management Board, upper management and key members of staff was approved in December 2014. The program provides for the annual issue of participation rights. Participation rights have a term of three years. Payment of exercise benefits is dependent upon a 30-percent share price increase. The target has been achieved when Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the reference price at issue by 30 percent or more on ten consecutive trading days between November 15th of the second year of the term and December 15th of the third year of the term of one tranche. The reference price is equal to the average of Software AG's VWAP from November 15 to December 15 prior to issue of a tranche. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP from November 15 to December 15 of the third year of the term of a tranche. The maximum possible exercise benefit per right is capped at 200 percent of the reference price. The first allocation tranche was based on the following parameters:

Reference price at issue	€21.22
Base price	€0
Term	3 years
Exercise threshold	€27.59
Cap	€42.44

555,600 rights were awarded under Management Incentive Plan V 2015 (MIP V 2015) in December.

Pursuant to IFRS 2 these rights are accounted for as cash-settled share-based compensation due to the obligation to settle in cash. Accordingly, a provision was recognized as of December 31 in the amount of the fair value of the rights based on the existing vesting period and expected fluctuation.

Due to the short period of time between the time of award and the end of the fiscal year, only €39 thousand in expenses resulted from the plan in fiscal 2014.

Management Incentive Plan 2011 (MIP IV) (2011–2016)

A share-performance-based Management Incentive Plan (MIP IV) for members of the Management Board and upper management was developed in 2011. The program offers stock options (hereinafter referred to as “rights.”) but the Company reserves the right to service these rights in cash or shares. The plan was officially approved by the Annual Shareholders’ Meeting in May 2012.

The first allocation tranche was based on the following parameters:

Base price	€41.34
Earliest exercise date	May 23, 2016
Term	10 years

The option to exercise rights depends upon the achievement of defined targets for revenue and Group net income. The first part of the defined target requires doubling Group revenue for new products compared to fiscal year 2010 by no later than 2015. “New products” as defined for the revenue performance target are mainly all products outside of the Adabas, Natural and EntireX product portfolios. This means that the cloud revenue that is generated on a pro rata subscription basis is recognized with a multiplying factor; IFRS revenue from new products must be at least €450 million in fiscal year 2015. Secondly, the non-IFRS EBIT margin (EBIT margin adjusted for the following one-time effects: effects of purchase price allocations, amortization associated with acquired intangible assets through corporate acquisitions, expenses from share-based compensation and one-time effects of restructuring) must be at least 10 percent by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by the appropriate outperformance of the revenue performance target.

As part of the above mentioned offer to amend plan conditions, the following changes will be made:

- With the introduction of a cap at €55.00, the maximum benefit from exercising a right is limited to €13.66.
- The condition that the share price must be €60.00 on at least one of the last five weekdays prior to exercise was removed.

The rights granted under Management Incentive Plan 2011 (MIP IV) changed as follows in fiscal years 2014 and 2013:

	Number of rights outstanding	Weighted average exercise price per right	Weighted average remaining term	Aggregated intrinsic value
		(€)	(years)	(€ thousands)
Balance as of Dec. 31, 2013	4,808,668	41.34		
Granted	0	41.34		
Forfeited	- 626,168	41.34		
Balance as of Dec. 31, 2014	4,182,500	41.34	6.5	0*
Thereof exercisable as of Dec. 31, 2014	0			

*) Based on the closing price on Dec. 31, 2014

	Number of rights outstanding	Weighted average exercise price per right	Weighted average remaining term	Aggregated intrinsic value
		(€)	(years)	(€ thousands)
Balance as of Dec. 31, 2012	5,262,000	41.34		
Granted	817,001	41.34		
Forfeited	- 1,270,333	41.34		
Balance as of Dec. 31, 2013	4,808,668	41.34	7.5	0*
Thereof exercisable as of Dec. 31, 2013	0			

*) Based on the closing price on Dec. 30, 2013

Because—conditional upon the described change to the plan—the obligation to settle in cash exists, these rights will, in accordance with IFRS 2, be recognized as cash-settled share-based compensation when the changes to the plan become effective. Accordingly, a provision was recognized as of December 31 in the amount of the fair value of the

rights based on the existing vesting period and expected fluctuation (in the amount of €3,717 thousand). This entry had no effect on profit or loss. In other words it was offset against equity, because the fair value of the rights at the time the plan changed, based on the original conditions, was less than the fair value based on the new conditions.

The fair value was determined using a binomial model based on the assumption of the following parameters:

	MIP IV "old"	MIP IV "new"
Software AG share price on Dec. 8, 2014 (date of the relevant Supervisory Board meeting)	€21.27	€21.27
Strike price of rights	€41.34	€41.34
Assumed average volatility	35.00%	33.40%
Expected dividend yield	2.0%	2.0%
Risk-free interest rate	0.01%	0.01%
Expected average term until exercise of the rights	6.5 years	5 years
Cap	none	€55.00
Minimum price at/prior to exercise	€60.00	N/A because above cap
Fair value on Dec. 8, 2014	€2.17	€1.72

Expenses for fiscal 2014 were recognized pursuant to IFRS 2 as a stock option plan with equity-based settlement based on the fair value of the rights on May 4, 2012 (date of Annual Shareholders' Meeting). The fair value was determined using a binomial model. For the measurement, the market condition that stipulates that the share price must be at least €60.00 on one of the last five weekdays prior to exercise was taken into account.

Valuation was based on the following parameters:

Software AG share price on May 4, 2012	€25.44
Strike price of rights	€41.34
Assumed average volatility	43.0%
Expected dividend yield	2.0%
Risk-free interest rate	1.1%
Expected average term until exercise of the rights	7.0 years

The expected volatility was derived by applying the implied volatility of stock options with comparable terms of maturity to Software AG shares.

This results in a fair value of €5.84 for all rights awarded prior to May 4, 2012 (6,515,500 rights) under the program. The fair values on the respective award dates for rights awarded after May 4, 2012 (1,204,501 rights) were between €5.00 and €7.50.

Expenses of €3,899 thousand (2013: €3,408 thousand) were incurred under this plan during fiscal year 2014.

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

In 2007, a share-based incentive plan for members of the Management Board and upper management was launched. A total of 7,342,500 (before stock split: 2,447,500) participation rights have been issued to Management Board members and managers under the plan.

As part of the plan, the defined performance target involved reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These performance targets were achieved at the end of fiscal year 2010. The rights have therefore been exercisable since that date.

As part of the above mentioned offer to amend plan conditions, the following changes will be made:

- With the introduction of a cap at €45.00, the maximum benefit from exercising a right is limited to €20.88.
- The plan's term will be extended by three years until June 30, 2019.
- Removal of the option to service in shares

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal years 2014 and 2013:

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2013	1,793,300	24.12		
Forfeited	- 14,500	24.12		
Exercised June 5, 2014 (closing price 27.36)	- 59,000	24.12		
Balance as of Dec. 31, 2014	1,719,800	24.12	4.5	0*
Thereof exercisable as of Dec. 31, 2014	1,719,800			

*) Based on the closing price on December 30, 2014

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2012	1,852,800	24.12		
Forfeited	- 33,000	24.12		
Exercised November 14, 2013 (closing price €27.99)	- 26,500	24.12		
Balance as of Dec. 31, 2013	1,793,300	24.12	2.5	2,295*
Thereof exercisable as of Dec. 31, 2013	1,793,300	24.12		

*) Based on the closing price on Dec. 30, 2013

Because of the obligation to settle in cash arising from the described change to the plan, these rights will, in accordance with IFRS 2, be recognized as cash-settled share-based compensation when the change to the plan comes into effect. Accordingly, a provision for all rights issued as of December 31 in the amount of the fair value of the rights

(€5,056 thousand) was recognized. Up to the amount of the fair value of the "old" award (€2,889 thousand), this entry had no effect on profit or loss, ie. could be offset against equity. The remaining fair value of the "new" award was recognized in profit or loss.

The fair value was determined using a binomial model based on the assumption of the following parameters:

	MIP III "old"	MIP III "new"
Software AG share price on Dec. 8, 2014 (date of relevant Supervisory Board meeting)	€21.27	€21.27
Strike price of rights	€24.12	€24.12
Assumed average volatility	27.90%	29.30%
Expected dividend yield	2.0%	2.0%
Risk-free interest rate	0.01%	0.01%
Expected average term until exercise of the rights	1.5 years	4.5 years
Cap	none	€45.00
Fair value on Dec. 8, 2014	€1.68	€3.45

The value of the "new" award was redetermined on December 31, 2014 based on Software AG's share price on December 31 in the amount of €20.20. That resulted in a value of €2.94 per right. The provision was adjusted in profit or loss accordingly. All rights outstanding under MIP III as of December 31, 2014 were exercisable.

A total expense of €2,167 thousand (2013: €0) was incurred under this plan during fiscal year 2014.

Performance Phantom Share Plan

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2014 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2015, less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two and three years. On the due dates in March 2016 to 2018, the number of phantom shares will be multiplied by the then-applicable share price for February. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management Board over a period of 3 years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (in percent) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. The TecDAX adjustment will not apply to existing phantom shares which are extended beyond December 31, 2016 and not yet paid out.

Furthermore, new phantom shares which have been issued since March 2014 are also not subject to the TecDAX adjustment. The beneficiaries will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

Company officers may elect to let the Company dispose of the PPS that has become due after the defined waiting period for an unlimited period of time and thus continue to participate in the success of the Company.

At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading days after publication of the financial results. Those entitled receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of the phantom shares.

This plan resulted in expenses of €5,677 thousand (2013: earnings of €4,330 thousand) in fiscal 2014.

The provision for the rights outstanding under the phantom share plan amounted to €9,258 thousand (2013: €7,419 thousand) as of December 31, 2014.

The intrinsic value of the rights exercisable under the phantom share plan as of December 31, 2014 amounted to €5,636 thousand (2013: €4,048 thousand).

[34] Corporate bodies**Members of the Supervisory Board:****Dr. Andreas Bereczky**

Dr.-Ing. graduate in mechanical
engineering
Shareholder representative
Chairman

Director of Production of ZDF, Mainz
Resident of: Eschweiler

Supervisory board seats:

- *Member of the supervisory board of GFT Technologies AG, Stuttgart*

Monika Neumann

State examination for
secondary education
Employee representative
Deputy Chairwoman

Employee of Software AG
Resident of: Schliersee

Supervisory board seats:

- *none*

Prof. Willi Berchtold

Graduate in economics
Shareholder representative
Supervisory board seats:

- Managing partner of CUATROB GmbH, Überlingen
Resident of: Überlingen
- *Chairman of the supervisory board of Bundesdruckerei GmbH, Berlin*
 - *Member of the supervisory board of Lufthansa Systems AG, Kelsterbach*
 - *Chairman of the supervisory board of Lotto24 AG, Hamburg*

Maria Breuing

Graduate in computer science
Employee representative
(since June 26, 2014)

Employee of Software AG
Resident of: Pfungstadt

Supervisory board seats:

- *none*

Peter Gallner

Employee representative

Trade union secretary of Vereinte Dienstleistungsgewerkschaft ver.di
Resident of: Koblenz

Supervisory board seats:

- *Member of the supervisory board of Atos Information Technology GmbH, Essen*

Heinz Otto Geidt

Graduate in business
administration
Shareholder representative

Independent consultant
Resident of: Kelkheim/Taunus

Supervisory board seats:

- *Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn*

Dietlind Hartenstein

Bank business clerk
Employee representative

Employee of Software AG
Resident of: Zweibrücken

Supervisory board seats:

- *none*

Prof. Dr. Hermann Requardt

Dr. phil. nat., graduate in physics Member of the management board of Siemens AG, CEO, healthcare, Erlangen
 Shareholder representative Resident of: Erlangen
Supervisory board seats: • *none*

Anke Schäferkordt

Graduate in business Co-CEO of RTL Group SA, Luxembourg, Member of the management board of
 administration Bertelsmann SE & Co. KGaA, Gütersloh
 Shareholder representative Managing director of RTL Television and Mediengruppe RTL Deutschland GmbH, Cologne
 Resident of: Cologne
Supervisory board seats: • *Member of the supervisory board of BASF SE, Ludwigshafen*

Roland Schley

Graduate in electrical engineering Employee of IDS Scheer Consulting GmbH, Saarbrücken
 Employee representative Resident of: Ottweiler
 (until May 31, 2014)
Supervisory board seats: • *none*

Martin Sperber-Tertsunen

Graduate in administrative Trade union secretary, IG Metall
 sciences Resident of: Kronberg
 Employee representative
Supervisory board seats: • *none*

Karl Wagner

Graduate in computer science Employee of Software AG
 Executive employee Resident of: Riegelsberg
 representative
Supervisory board seats: • *none*

Alf Henryk Wulf

Graduate in engineering Chief executive officer of ALSTOM Deutschland AG, Mannheim
 Shareholder representative Resident of: Stuttgart
Supervisory board seats: • *Chairman of the supervisory board of ALSTOM Power GmbH, Berlin*
 • *Chairman of the supervisory board of ALSTOM Transport Deutschland GmbH, Salzgitter*
 • *Member of the supervisory board of ALSTOM Boiler Deutschland GmbH, Stuttgart*

Members of the Management Board:**Karl-Heinz Streibich**

Graduate in communications
engineering

Chief Executive Officer

Corporate Communications, Global Legal, Audit/Processes & Quality, Corporate Office,
Global Information Services, Corporate University, Top Management Development
Resident of: Frankfurt am Main

Supervisory board seats:

- *Member of the supervisory board of Deutsche Telekom AG, Bonn*
- *Member of the supervisory board of Dürr AG, Bietigheim-Bissingen*
- *Member of the supervisory board of Deutsche Messe AG, Hannover*
- *Member of the supervisory board of MANN + HUMMEL GmbH, Ludwigsburg (until April 1, 2014)**
- *Member of the supervisory board of MANN + HUMMEL Holding GmbH, Ludwigsburg (until April 1, 2014)**

**) comprised of same people and convene jointly*

Eric Duffaut

(since October 1, 2014)

Master degree in economics
and finance

Management Board, Global Sales, Consulting Services and Marketing

Resident of: Bordeaux (France)

Supervisory board seats:

- *none*

Dr. rer. nat. Wolfram Jost

Graduate in business
administration

Management Board, R&D and Product Management

Resident of: Schmelz

Supervisory board seats:

- *none*

Arnd Zinnhardt

Graduate in business
administration

Management Board

Labor Director

Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations,
Human Resources, Global Procurement

Resident of: Königstein

*Supervisory board and
other seats:*

- *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main*
- *Member of the Investment committee, Main Incubator GmbH, Frankfurt (since March 2014)*

**Remuneration of the Management Board pursuant
to section 314 (1), no. 6 of the German Commercial
Code (HGB)**

Total remuneration for members of the Management Board
in 2014, including newly issued MIP IV and MIP V options
and the change to MIP III, MIP IV and the Performance Phan-
tom Share plan, amounted to €17,170 thousand (2013:
€10,987 thousand).

Total remuneration includes compensation in the amount of €2,390 thousand (2013: 0) for the extension of the term of MIP III by three additional years in conjunction with the introduction of a remuneration cap at €20.88 (€45.00 less €24.12) per option. This value was calculated using the binomial model.

Also included are stock options issued to members of the Management Board under MIP IV with a value that was measured using the binomial model in the amount of –€557 thousand (2013: €263 thousand).

Awards under the new MIP V stock option plan in the amount of €2,042 thousand (2013: 0) are also included in total remuneration for the Management Board. This value was calculated using the Monte Carlo method.

The remuneration of the Management Board still includes the consideration paid for the estimated 153,286 (2013: 125,153) committed phantom shares totaling €3,602 thousand (2013: €3,464 thousand). The phantom shares had an estimated fair value as of the grant date of €23.50 (2013: €27.68) per phantom share. Total remuneration also includes payments totaling €2,086 thousand resulting from the removal of the TecDAX outperformance clause from the Performance Phantom Share plan.

Remuneration for former Management Board members totaled €367 thousand (2013: €367 thousand).

Pension provisions for former Management Board members totaled €11,073 thousand (2013: €9,525 thousand). These amounts include provisions for periods of time in which two members of the Management Board were executive employees or members of the Group Executive Board Member.

Software AG did not grant any advances or loans to Management Board members in fiscal 2014 or in fiscal 2013.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the Management Report.

Remuneration of the Supervisory Board pursuant to section 314 (1), no. 6a of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board in fiscal 2014 amounted to €724 thousand (2013: €723 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2014 or in fiscal 2013.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the Management Report.

[35] Related party transactions

A related party as defined by IAS 24 Related Party Disclosures is any legal or natural person able to exercise control over Software AG or a Software AG subsidiary, that is controlled by Software AG or a Software AG subsidiary, or in which Software AG or a Software AG subsidiary has an interest that gives it significant influence over such legal or natural person. This also includes any legal or natural person having an interest in Software AG that gives it significant influence over Software AG (Software AG Foundation), unconsolidated subsidiaries, and the members of Software AG's executive bodies, whose remuneration is specified in Note [34] as well as in the Remuneration Report contained in the Corporate Governance section of the Management Report.

Disclosures on remuneration paid to related parties pursuant to IAS 24

Parties related to Software AG consist of the members of the Management Board and the Supervisory Board.

Remuneration paid to the Management Board can be broken down as follows:

in € thousands	2014	2013
Short-term benefits	7.365	7.023
Post-service benefits*	946	974
Share-based compensation**	9.856	– 1.740
	18.167	6.257

*) The service cost of pension obligations pursuant to IAS 19 and legal/voluntary benefits to pension insurance companies is shown here. The change in pension obligations was shown last year. Last year's figure was adjusted accordingly.

**) Expenses incurred under the PPS plan, the new MIP V and changes to MIP III and MIP IV are shown here. Earnings resulted last year from the decrease in Software AG's share price due to the reduction of provisions for phantom shares last year.

Pension provisions for Management Board members amounted to –€118 thousand (2013: €4,815 thousand). The negative number is a result of over funding of provisions through reinsurance policies.

Gross pension liabilities for Management Board members amounted to €12,636 thousand (2013: €8,364 thousand). Furthermore, obligations from share-based compensation plans for members of the Management Board amounted to €14,632 thousand (2013: €6,843 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2014 totaled €724 thousand (2013: €723 thousand). This remuneration included a fixed short-term component and compensation for committee work.

Remuneration of the Management and Supervisory Boards is outlined in detail in the Remuneration Report. The Remuneration Report presents the structure and amount of the individual components. It is part of the Management Report within this Annual Report.

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2014.

[36] Auditors' fees

Software AG's general and administrative expenses include expenses for auditors' fees paid to the BDO AG Wirtschaftsprüfungsgesellschaft, the Group auditor, totaling €794 thousand (2013: €921 thousand). Of this amount, €680 thousand (2013: €844 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €46 thousand (2013: €6 thousand) to tax advisory services, €68 thousand (2013: €71 thousand) to other testation services.

[37] Events after the balance sheet date

There were no events that occurred between December 31, 2014 and the date of release of these consolidated financial statements that were of significance to the consolidated financial statements.

[38] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 24, 2015. It will be published in March 2015 on our website at: www.softwareag.com/compliance.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on February 2, 2015 at: www.softwareag.com/corporate/inv_rel/corpgovernance/compliance

[39] Exemption for domestic Group companies pursuant to section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, SAG Consulting Services GmbH, Darmstadt and SAG LVG mbH, Saarbrücken, which are included in the consolidated financial statements of Software AG, have been exempt from the duty to prepare and publish annual financial statements, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on February 24, 2015.

Darmstadt, February 24, 2015

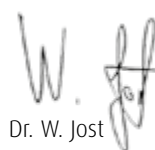
Software AG



K.-H. Streibich



E. Duffaut



Dr. W. Jost



A. Zinnhardt

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, February 24, 2015

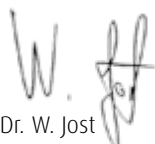
Software AG



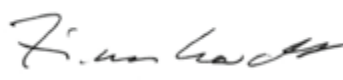
K.-H. Streibich



E. Duffaut



Dr. W. Jost



A. Zinnhardt

Auditor's Report

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, Darmstadt, comprising the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the notes to the consolidated financial statements together with the Management Report of the Group and Software Aktiengesellschaft for the fiscal year beginning January 1, 2014 and ending December 31, 2014. The preparation of the consolidated financial statements and the Management Report of the Group and Software Aktiengesellschaft in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to section 315a, paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined

primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a sufficiently substantial basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a paragraph 1 HGB. The consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these requirements. The Management Report of the Group and Software Aktiengesellschaft is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 24, 2015

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Schulz
Wirtschaftsprüfer
(German Public Auditor)

signed Sartori
Wirtschaftsprüferin
(German Public Auditor)

Additional Information

Glossary

Adabas (Adapted DAtaBAsE System)

Invented by Software AG founder, Peter Schnell, Adabas is the first high-performance transactional database that is so fast it can process more than 300,000 transactions per second. Since its market entry in 1971, Adabas—together with Natural—has formed the backbone of many large companies' and public institutions' IT.

ARIS (ARchitecture for Integrated Information Systems)

Developed by IDS Scheer AG founder, August-Wilhelm Scheer, this is a scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation and measurement.

Big Data

Big data is the universal term for ever-expanding vast amounts of data as a result of the Internet. Organizations can leverage the effective processing and analysis of this data to achieve competitive advantages.

Business Intelligence (BI)

A general term for computer-based analysis of business data.

Business Process Excellence (BPE)

Software AG defines BPE as the merging of business and technical approaches to Business Process Management (BPM) and, therefore, as the engine of the Digital Enterprise. BPE is much more than BPM in that it addresses the complete life cycle of a process, which comprises a business component (BPE life cycle) and a technical component (BPE platform). Software AG presented Enterprise BPM at CeBIT 2011 and in doing so has brought an integrated process and integration platform to the market that enables Digital Enterprises to achieve the highest level of process efficiency. BPE is also the name of the Software AG business line comprising the webMethods and ARIS products.

Business Process Management (BPM)

The methods, techniques and tools used to design, enact, control and analyze operational business processes involving people, systems, applications, data and organizations. Software AG's offering is known as the webMethods Business Process Management Suite.

Cloud (Computing)

The increasing shift of data and application storage to the Internet.

Complex Event Processing (CEP)

With this software tool, companies can monitor and analyze their activities via different data streams in real-time and make immediate business decisions.

Digital Enterprise

The Digital Enterprise of the future plans, implements, controls and monitors all of its business processes electronically and end to end. Software AG's vendor-neutral process and integration platform for Business Process Excellence enables the highest level of process efficiency, a prerequisite for the Digital Enterprise. With its cloud-enablement technology, Software AG accelerates innovation processes in Digital Enterprises.

Enterprise Architecture Management (EAM)

A complete management concept to optimize IT system landscapes. EAM includes the documentation of the current landscape as well as the design and planning of an ideal IT landscape for the future.

Enterprise Transaction Systems (ETS)

Software AG business line comprised of the Adabas and Natural products. With them, Software AG has played an integral role in the IT landscapes of companies and public institutions worldwide for many years. The ETS business line includes technologies such as database management, application development and mainframe applications.

Intelligent Business Operations Platform (IBO)

Software for the analysis of large amounts of data that offers easy ways to visualize data on business operations in real time.

Internet of Things (IoT)

The Internet of Things describes a vision in which the PC becomes more and more obsolete to be replaced with smart objects such as embedded systems and sensors. The connection of physical objects with the virtual world with an Internet-like structure will help humans in their activities in subtle ways.

Middleware

Integration software in a complex IT infrastructure whose task is to simplify mechanisms for accessing underlying layers. Middleware such as Software AG's webMethods facilitates data exchange between legacy application silos.

Mobile

The growing use of mobile communication and mobile Internet.

Natural

Software AG's high-performance development and deployment environment designed to support enterprise-scale applications on the mainframe and open-systems platforms. Since it was brought to market in 1979, Natural—together with Adabas—has formed the backbone of many large companies' and public institutions' IT.

Service-level agreement (SLA)

A service-level agreement is an agreement between a service provider and service user on recurring services. The objective is to provide the service user with transparent control mechanisms by defining aspects such as service scope, reaction speed and time frame.

Service-Oriented Architecture (SOA)

A software architecture in which the desired system functionality is made available by way of interaction between loosely coupled, reusable functions (services).

Social collaboration

Intensified interactive collaboration via social networks such as Facebook and Twitter.

webMethods Business Process Management Suite (BPMS)

Software AG's webMethods BPMS combines leading BPM and SOA functionality and offers a complete suite of fully integrated tools for process execution, real-time transaction monitoring, and the proactive identification of errors and warnings.

Five-Year Summary

Key Group Figures

in € millions	2014	2013	2012	2011	2010
Revenue	857.8	972.7	1,047.3	1,098.3	1,119.5
By type:					
• Licenses	641.4	330.1	318.9	295.2	327.4
• Maintenance	215.8	375.6	393.3	378.7	369.4
• Services and other revenue	0.6	267.0	335.1	424.4	422.7
By business line*:					
• Business Process Excellence	394.5	422.9	384.7	339.6	321.5
• Enterprise Transaction Systems	245.3	274.5	310.5	313.9	355.4
• Consulting	218.0	275.4	352.1	444.8	442.6
EBIT**	176.0	205.5	248.3	269.2	268.6
• as % of revenue	20.5%	21.1%	23.7%	24.5%	24.0%
Net income	110.6	134.0	164.7	177.2	175.6
• as % of revenue	12.9%	13.8%	15.7%	16.1%	15.7%
Employees (full-time equivalents)	4,421	5,238	5,419	5,535	5,644
• of which in Germany	1,216	1,711	1,768	1,881	2,051
Balance sheet	Dec. 12 2014				
Total assets	1,848.9	1,996.9	1,771.9	1,680.7	1,599.6
Cash and cash equivalents	318.4	450.0	315.6	216.5	102.5
Net debt/net cash	125.7	163.4	- 49.6	60.9	167.2
Shareholders' equity	1,013.4	965.6	1,060.1	951.5	769.3
• as % of total assets	55.0%	48.4%	59.8%	56.6%	48.1%

* 2010 and 2011: pro forma figures; change in segment reporting effective as of Jan. 1, 2012.

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

Financial Calendar 2015

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

Publication Credits

Publisher

Software AG
Corporate Communications
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 61 51-92-0
Fax +49 61 51-1191
press@softwareag.com

Editorial Support

Akima Media, Munich
www.akima.de

Concept and Design

IR-One AG & Co., Hamburg
www.ir-1.com



Contact

Software AG
Corporate Headquarters
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 6151-92-0
Fax +49 6151-1191
www.softwareag.com