software AG FLEXIBILITY CLOUD
DIGITAL BUSINESS PLATFORM
MIDDLEWARE CUSTOMER CENTRICITY
DIGITAL TRANSFORMATION
ON-PREMISE REALTIME ANALYTICS
IN-MEMORY DIGITIZATION

# INNOVATE DIFFERENTIATE AND WIN IN THE DIGITAL WORLD

PARTNER ECOSYSTEM CONNECTIVITY
CONSULTING PROCESS OPTIMIZATION
VALUE STRATEGY
ADABAS & NATURAL BIG DATA
SPEED INTERNET OF THINGS
INTEGRATION ANNUAL REPORT 2015

# KEY FIGURES

**in € millions (unless otherwise stated)**

| | 2015 | 2014 |
|---|---|---|
| Revenue | 873.1 | 857.8 |
| **By Type** | | |
| Products | 678.8 | 641.4 |
| Services | 193.4 | 215.8 |
| Other | 0.9 | 0.6 |
| **By Business Line** | | |
| Digital Business Platform | 431.5 | 394.5 |
| Adabas & Natural | 248.0 | 245.3 |
| Consulting | 193.6 | 218.0 |
| EBIT* | 209.4 | 176.0 |
| as % of revenue | 24.0% | 20.5% |
| Net income | 139.6 | 110.6 |
| as % of revenue | 16.0% | 12.9% |
| Earnings per share (€, basic) | 1.78 | 1.39 |
| Earnings per share (€, diluted) | 1.78 | 1.39 |
| Free cash flow | 170.0 | 132.7 |
| Employees (full-time equivalents) | 4,337 | 4,421 |
| of which in Germany | 1,178 | 1,216 |
| Balance sheet | Dec. 31, 2015 | Dec. 31, 2014 |
| Total assets | 1,814.8 | 1,848.9 |
| Cash and cash equivalents | 300.6 | 318.4 |
| Net debt | 25.7 | 132.9 |
| Shareholders' equity | 1,089.7 | 1,013.4 |
| as % of total assets | 60.0% | 54.8% |

* EBIT: Net income + income taxes + other taxes + net financial income/expense

# YOUR DIGITAL FUTURE.
# TODAY.

Traditional companies in every industry are facing the same challenge: the digital transformation of their business models. Disruptive technologies have given rise to entirely new organizational forms of enterprises and changed the way they do business. Anyone who does not digitize will lose touch. “Digital challengers” illustrate just how heavy the pressure is on these companies. These young challengers with their fully digitized business models can oust established market leaders from their top position within a short period of time.

The change triggered by information and communication technology (ICT) impacts IT architectures first and foremost. Companies with complex, static systems will find it increasingly difficult to take action in the market with the necessary agility, flexibility and speed. They need to build up digital expertise to remain responsive and competitive over the long term. A digital strategy’s objective must be to master data volumes that are growing at breakneck speed, increase process efficiency and make effective use of information as a raw material to be able to respond to rapidly changing customer needs in real time.

## Digital transformation—more than an IT project

Agile middleware platforms help businesses conquer the technological challenges of digitization. They build on existing IT systems, on the one hand forming an interface for the technical integration of existing systems, data and processes, while on the other providing a platform for developing new, adaptive applications. Software AG's Digital Business Platform further offers a unique product combination of integration, real-time analysis, process, data management and development software for transforming an entire business model. Companies receive comprehensive, vendor-neutral support in digitizing their business model based on their existing IT infrastructure.

In this age of fast-paced change, no one knows which applications will be needed in one year, or five years from now. For that reason, a modern IT landscape and its functionalities must to take into account all potential needs for differentiation and innovation in the business world. Co-innovation is the order of the day. Collaboration between IT providers and their customers is essential to successfully identify the suitable business models and processes and adapt them to the requirements of the digital world. This puts companies in the position of driving their own innovation again and pursuing short innovation cycles.

As a technology leader, Software AG supports companies through the digital transformation of their business models and processes. Building on over 45 years of customer-centric innovation, Germany's second-biggest software provider is ranked a leader by analysts in many innovative IT categories. Software AG has more than 4,300 employees in 70 countries and generated total revenues of €873 million in 2015.

# CONTENTS

# HIGHLIGHTS OF 2015

JANUARY – JUNE

CeBIT HANNOVER

## CeBIT 2015: In the name of co-innovation with customers and partners

Software AG presented the world's first Digital Business Platform at CeBIT in Hannover, Germany as an answer to the irreversible digitization of the business world. It gives businesses the flexibility to realize adaptive applications and custom software solutions in an extremely short period of time. Its approach is close collaboration with strong partners and customers. Software AG will continue to work with them to vigorously drive the concept of co-innovation—the joint development of software solutions.


DIGITAL BUSINESS PLATFORM

ADABAS & NATURAL

## "Digital Business Platform" and "Adabas & Natural" renamed

In April 2015 Software AG's Management Board approved new names for the product-related business lines:

- The BPE portfolio was renamed Digital Business Platform (DBP).
- The ETS portfolio was renamed Adabas & Natural (A&N).
- The Consulting business line remained unchanged.

This better expresses the strategic positioning of both business lines. The composition of each area's portfolio as well as the resulting revenues remained unchanged. By renaming the traditional ETS business line to "Adabas & Natural," Software AG moved the well-known product names that enjoy such a positive reputation among customers, partners and the IT industry into the foreground. Designating the largest business line as the "Digital Business Platform" emphasizes the product portfolio's conceptual and technological innovations. The perfect synergy of process, data, integration and (real-time) decision logic with flexible applications form the foundation for a company's digital transformation.

DBP
A&N
Consulting

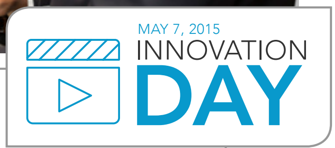
## Software AG redeems treasury shares

Utilizing an authorization granted by the Annual Shareholders' Meeting on May 3, 2013, the Management Board of Software AG resolved on April 28, 2015 to redeem 7,943,945 Software AG shares, which had been acquired by the Company through various repurchase authorizations, with the effect of decreasing share capital. That amount represents 9.14 percent of Software AG's share capital prior to the redemption and capital decrease. The shares were redeemed on April 30, 2015.

## Annual Shareholders' Meeting: new Supervisory Board members

As scheduled, Software AG shareholders elected their new representatives to the Supervisory Board at the Company's Annual Shareholders' Meeting on May 13, 2015. Upon entry into the commercial register of the Articles of Incorporation amendment, which was approved at the Annual Shareholders' Meeting, Software AG's new Supervisory Board will consist of the following members:

- Dr. Andreas Bereczky, Director of Production, ZDF
- Ms. Eun-Kyung Park, CEO, ProSiebenSat.1 TV Deutschland GmbH
- Mr. Alf Henryk Wulf, Chairman of the Board, Alstom Deutschland AG
- Mr. Markus Ziener, board member and Director of Asset Management, Software AG Foundation
- Mr. Guido Falkenberg, Software AG employee representative
- Mr. Christian Zimmermann, Software AG employee representative

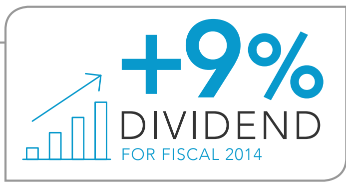



## Innovation Day 2015

Which strategies lead to a company's success? Which technologies are best suited for digitization? Software AG joined forces with partners and customers to present answers and solutions in a range of presentations and showcases at the Innovation Day event in Bonn, Germany on May 7, 2015. One special feature was the revolutionary smart signage solution for analog point-of-sale, which brought customized moving image advertising from the online world into brick-and-mortar retail.

## 9 Percent dividend increase

At the Annual Shareholders' Meeting, Software AG shareholders approved the payout of a dividend in the amount of €0.50 (2014: €0.46) per common share for fiscal 2014, which is 9 percent higher than the year before. Based on 78.9 million (2014: 78.9 million) dividend-bearing shares, the total payout sum will be approximately €39.5 million (2014: €36.3 million). The dividend ratio will increase to 32 percent (2014: 25 percent) measured by Software AG's average net income and free cash flow. Based on the closing share price for 2014, this corresponds to a dividend yield of 2.5 percent.



# HIGHLIGHTS OF 2015

JULY – DECEMBER

2.71
MILLION
SHARES

## New share buyback program concluded

Software AG announced on September 3, 2015 in an ad hoc release pursuant to section 15 of the WpHG, that, with the consent of the Supervisory Board, the Management Board had approved the buyback of treasury shares valued up to €70 million by December 31, 2015. This decision utilized the authorization granted by the Annual Shareholders' Meeting on May 13, 2015. The share buyback was concluded on December 4, 2015. A total of 2.71 million shares were acquired for €70 million, which is equal to an average price of €25.81 per share.

## Contract renewed with CFO Arnd Zinnhardt

In early August 2015, Software AG's Supervisory Board renewed its contract with Management Board member Arnd Zinnhardt until July 2021. As Chief Financial Officer of the Company, he oversees Finance, Controlling, Taxes, Treasury, Mergers & Acquisitions, Business Operations, Investor Relations and Global Procurement. Arnd Zinnhardt has been a member of Software AG's Management Board since 2002.

## Street festival app for German Unity Day

The German state of Hesse commissioned Software AG to develop an app for German Unity Day to give festival visitors an overview of the wide array of activities offered on the national holiday on October 3, 2015 in Frankfurt. It was a great honor for Software AG to contribute to the festivities for the 25th anniversary of German Unity Day by designing a free mobile app for the public.


## Innovation World 2015: Digital Business Platform 2.0 and Digital Marketplace

Software AG presented the latest updates for the world's first digital business platform at its major customer event in Las Vegas. The Digital Business Platform 2.0 closes the communication gap between application planning and development as well as implementation. Now businesses and government agencies can implement their digitization strategies even faster. In addition to presenting new innovations and pioneering customer projects, Software AG also introduced the Digital Marketplace Internet portal at the Innovation World event on October 12–14, 2015. Not only can customers find components for IT development there, they can also access complete solutions developed by Software AG with partners or customers.

LAS VEGAS
INNOVATION
WORLD

DIGITAL. COMPETENT. INNOVATIVE!
**GOVERNMENT 4.0**
DIGITAL ADMINISTRATION AND PUBLIC
SECTOR IT PLATFORM

## IT Summit 2015: potential of digitization for Germany's public sector

Accompanying the transition to a digital society in a globalized world is a key economic and policy task. As co-chair of the "Digital Administration and Public Sector IT" platform, Software AG introduced specific recommendations for action at the ninth National IT Summit. Under the patronage of Germany's Minister of Economic Affairs Sigmar Gabriel and Chancellor Angela Merkel, leaders from politics, the ICT sector and business met in Berlin to improve the implementation of the digital agenda and framework conditions for the digital transition.

## A leading product portfolio

"IoT Evolution" magazine, a publication covering technologies for the Internet of Things, named Software AG's Digital Business Platform "2015 Product of the Year." The Digital Business Platform also won a gold medal for the Big Data Insider IT portal's Readers' Choice Award in the "Big Data Middleware" category.

Furthermore, Software AG was also positioned as a leader by Gartner—a top industry analyst—in its "Magic Quadrant for Integrated IT Portfolio Analysis Applications"[1,3] and "Magic Quadrant for Enterprise Architecture Tools"[2,3].

Forrester Research, an independent market research firm, cited Software AG as a leader in 2015 in the following categories: for Alfabet in "The Forrester Wave™: Portfolio Management Tools for the BT Agenda, Q1 2015," "The Forrester Wave™: Strategic Planning for the BT Agenda, Q1 2015" and "The Forrester Wave™: Enterprise Architecture Management Suites, Q3 2015" and for the Terracotta In-Memory Data Fabric software solution in "The Forrester Wave™: In-memory Data Grids, Q3 2015."

1 Gartner, Magic Quadrant for Integrated IT Portfolio Analysis Applications, Daniel B. Stang, Jim Duggan, November 30, 2015
2 Gartner, Magic Quadrant for Enterprise Architecture Tools, Saul Brand, November 4, 2015
3 Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

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# LETTER FROM THE MANAGEMENT BOARD

**KARL-HEINZ STREIBICH**
Chief Executive Officer (CEO)
Chairman of the Board

**ERIC DUFFAUT**
Chief Customer Officer (CCO)

**DR. WOLFRAM JOST**
Chief Technology Officer (CTO)

**ARND ZINNHARDT**
Chief Financial Officer (CFO)

## Software AG is expanding its technology leadership: relevance with customers, market share and profitability

Dear Ladies and Gentlemen,
Dear Shareholders,

Software AG has a successful year behind it. Group maintenance revenues reached a record level in 2015 and our Company became even more profitable. At the same time, total Group revenue increased as a result of our organic growth: We have further expanded our new business line with the Digital Business Platform (DBP, previously called BPE). The strategic measures as part of this transformation are beginning to bear fruit. The successful realignment of our go-to-market strategy as well as cost reductions through process optimization and financial discipline also contributed to the positive result. Our excellent performance in 2015 is the visible success of our value-oriented management focusing on profitable growth. Our goal is to continue to set Software AG apart in the market as a technology leader through the innovative growth and development of our award-winning product portfolio.

Our biggest business line, Digital Business Platform (DBP), is the foundation for this profitability. This is where we bundle our products for digitizing businesses: integration software, solutions for process optimization and analysis tools for big data and the Internet of Things. Over the past fiscal year, the DBP segment achieved the highest revenues in Software AG's history. In light of the advancing digitization all over the world, the relevance of our products is growing and consequently the average deal value as well. Positive customer feedback and a good project pipeline confirm this development.

Our traditional database line, Adabas & Natural (A&N, previously called ETS), again proved to be a robust business. The ongoing high degree of customer loyalty illustrates the importance of A&N for running successful applications. A stronger focus on customer centricity and innovation supported business stability. We would like to provide our customers with support for operation of their A&N systems through the year 2050 and beyond.

The Consulting business line saw stable growth without taking account of SAP consulting operations sold in 2014. It is noteworthy here that segment earnings have continually improved and the segment margin has risen significantly.

Software AG's strategic direction pursues a value-oriented approach focusing on long-term company growth. Our actions focus on our customers and their needs. This includes thinking now about what kind of software solutions our customers will want in the future and how we can develop our innovative product portfolio to meet their needs. At the same time, we are concentrating on profitable growth and will therefore pursue acquisitions that promise long-term profitability for the entire Company.

Over the last 12 months we have driven the transformation of our sales organization, achieving significant progress in the efficiency of sales. Efficiency has also played a primary role in all of our other processes. Internal processes have been simplified, silos dismantled and synergies promoted between departments. Moreover, these efficiency measures have also enabled us to further increase the Group's profitability.

Overall, we have made great progress toward our goal of playing a lasting pioneering role in digital transformation and firmly establishing our products with customers, both on premise and in the cloud.

We will continue to drive organic growth in the DBP segment in 2016. The A&N business line demonstrated impressively how highly relevant it still is for our customers. For that reason, we only anticipate a slight decline for the coming fiscal year. According to our forecast, the operating profit margin (non-IFRS) will continue rising to reach 30 to 31 percent during the fiscal year 2016. This places us well on our way to meeting our long-term goal for 2020 of a profit margin between 32 and 35 percent.

On behalf of the whole 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 €0.55 per share at the 2015 Annual Shareholders Meeting.

Yours sincerely,

**KARL-HEINZ STREIBICH**
CEO

**+26.0%**

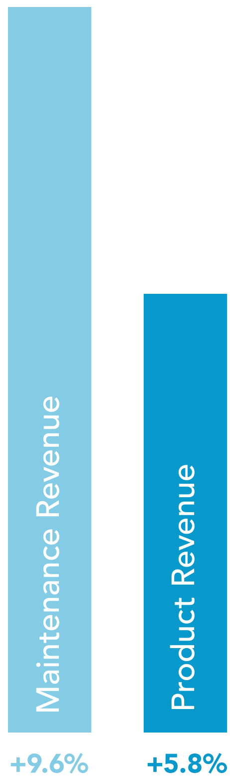
OPERATING
**EARNINGS**

**+28.1%**

**FREE CASH FLOW**

# 29.7%

Highest **operating profit margin** in Software AG's history




# EBIT
# +19.0%

**SEGMENT MARGIN**

| | | |
|---|---|---|
| DBP | 29.0% | +2.5pp |
| A&N | 70.0% | +1.8pp |
| Consulting | 11.3% | +3.5pp |

» THESE RESULTS UNDERSCORE THE ENORMOUS **POTENTIAL** of our DIGITAL BUSINESS PLATFORM and confirm our **TECHNOLOGY LEADERSHIP** in the market. «

# STRATEGY & PRODUCTS
# INNOVATIVE SOLUTIONS FOR THE DIGITAL ENTERPRISE


**Companies need agility, flexibility and speed to compete in a dynamic market environment—something only digitization can accomplish. Those who do not digitize will be driven out of the market. Software AG is the technology leader in digitization and a proven transformation partner for businesses.**

Digitization is more than an IT project. It stands for an entirely new form of entrepreneurial activity. Software AG itself is also wrapping up a successful transformation to a Digital Enterprise right now. With its decades of experience in process and data management and an innovative product portfolio, Software AG meets all the conditions needed to successfully support its customers in their transformation to the Digital Enterprise. As a provider of technology for organizations across all industries, it is our mission to help our customers exploit the growth potential of digital business models.

## Business Lines

Software AG's activities are organized in three business lines:

The **Digital Business Platform** (DBP) business line—previously Business Process Excellence (BPE)—is Software AG's biggest business line as well as its future-oriented growth driver. The new name emphasizes the product portfolio's conceptual and technological innovations: We focus on the customer's needs. Our market-leading and innovative product portfolio serves to realize new digital business models within the shortest innovation cycles. With the world's first Digital Business Platform customers can optimize their digital processes, drive innovations, boost efficiency, develop agile business applications and take advantage of sales opportunities in real time. The Digital Business Platform builds on existing systems with vendor-neutral solutions so that the IT infrastructure in the cloud or on-premise merges into a single homogenous platform.

The mainframe-based database business represents Software AG's origins. By renaming this traditional business line to **Adabas & Natural** (A&N)—previously Enterprise Transaction Systems (ETS)—the Company is moving the well-known product names that enjoy such a positive widespread reputation in the IT industry into the foreground. Database products from Software AG are an indispensable key technology for a large customer base including many well-known major enterprises. For that reason, we will ensure that our database portfolio guarantees reliable operation of business-critical applications with high availability. In the interest of its customers, Software AG is preparing itself to continue long-term development of the A&N product portfolio—through the year 2050 and beyond.

The **Consulting** business line concentrates primarily on providing support for Software AG's own software products. Drawing on their many years of proven market and methodology expertise, our consultants support customers with the implementation of DBP and A&N 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. Through these efforts Software AG ensures comprehensive support for its customers in their transformation to the digital enterprise.

## A Leading Product Portfolio

Software AG's products and services support a company's value chain. The combination of our software and service portfolio for digitization, automation and integration of business models is, according to numerous studies, unique to the global market. We believe it therefore gives us an excellent competitive position in a software market marked by rapid consolidation.

### Readers' Choice Award


Software AG's Digital Business Platform won Gold in the Big Data Middleware category of the Readers' Choice Awards 2015.

### Product of the Year

"IoT Evolution" magazine, a leading publication covering technologies for the Internet of Things, named Software AG's Digital Business Platform 2015 Product of the Year.

### Gartner

Software AG was positioned as a leader by Gartner in its 2015 "Magic Quadrant for Integrated IT Portfolio Analysis Applications"[1,3] and "Magic Quadrant for Enterprise Architecture Tools."[2,3]

1, 2, 3 see Highlights on p. 9

### Forrester

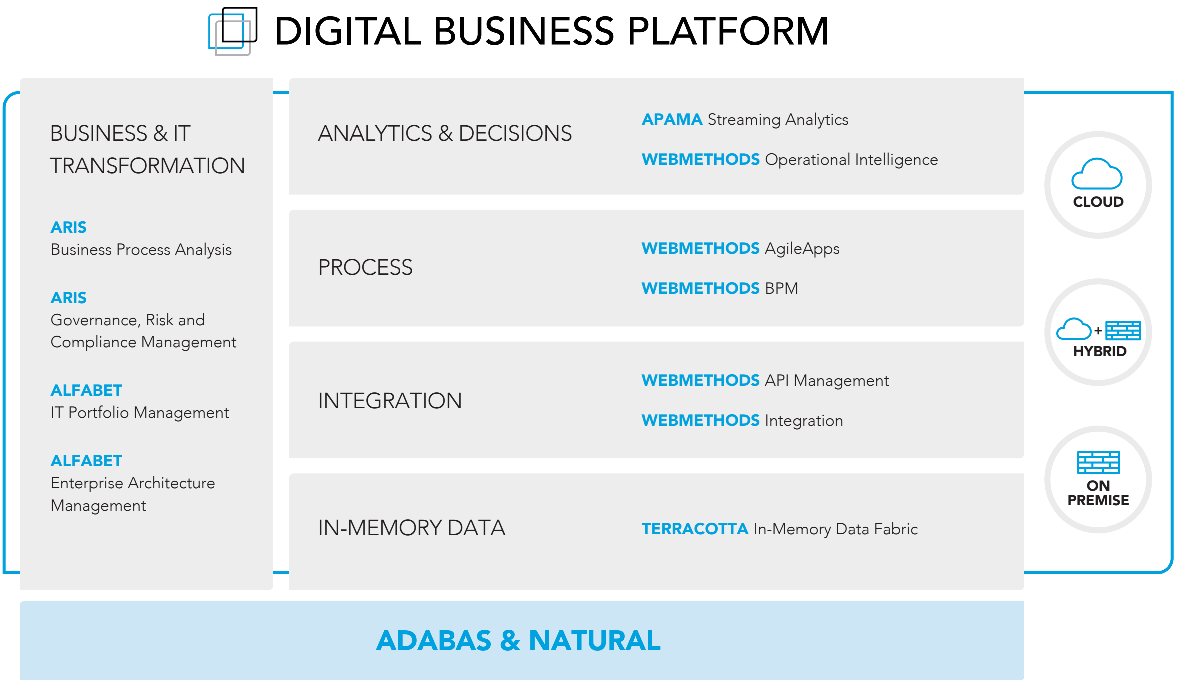
Software AG was ranked a leader for its Alfabet product line in "The Forrester Wave™: Portfolio Management Tools for the BT Agenda, Q1 2015," "The Forrester Wave™: Strategic Planning for the BT Agenda, Q1 2015," "The Forrester Wave™: Enterprise Architecture Management Suites, Q3 2015" and for the Terracotta In-Memory Data Fabric software solution in "The Forrester Wave™: In-Memory Data Grids, Q3 2015."

## Culture of Innovation Since 1969

The history of Software AG has been shaped by great innovative power since its founding in 1969. As Europe's first globally-active software company, our business constantly reinvented itself and adapted its product portfolio to the changing market. Software AG has once again positioned itself as a global strategy leader with its vision of the Digital Enterprise. Holding this leading position for many years is an exceptional achievement, especially in the fast-paced IT industry, because this industry is characterized by very short innovation cycles, IT providers coming and going, global competitive pressure and fast-changing market trends. Since it was founded, Software AG has launched innovations on the market every decade that helped shape the technology trends of that era. And with the Digital Business Platform, Software AG has once again demonstrated its instinct for its customers' needs and trends that revolutionize the industry.

## Products

The Digital Business Platform bundles Software AG's comprehensive product portfolio. It combines data, integration and process platforms from our established product brands with aligned software products. It supports co-innovation with customers as an agile and adaptive development platform, enabling the integration of existing IT landscapes as well as the management and intelligent analysis of the huge data volumes that accrue in the age of big data. Innovation cycles are growing shorter all the time. Adabas and Natural have been optimized for digital business models so central database applications run reliably and can be fully leveraged. Therefore, the entire product portfolio is fully focused on supporting customers as they transform into a Digital Enterprise.




## Digital Business Platform

The vendor-neutral solutions in the Digital Business Platform can be used in the cloud, on premise and as a hybrid variation, meaning a needs-based mixture of cloud and on-premise models. Using a clearly structured brand architecture, the individual product families have been separated into five core themes:

### Business & IT Transformation

The ARIS and Alfabet products form the foundation for transforming business processes and optimizing the IT infrastructure. ARIS is comprised of a technology platform for process analysis and an environment for seamless process optimization in a framework of defined governance rules to introduce companywide compliance and risk management systems and run them efficiently. Alfabet is a technology platform that allows complete mapping of the IT environment as well as thorough planning and optimization of the IT infrastructure.

### In-Memory Data

When used properly, big data enables companies to increase revenues, improve customer service and differentiate their portfolio of offerings. Terracotta enables real-time management of big data and is suitable for distributed, scalable in-memory data management with extremely low, planable latency. In-memory technology is integrated, allowing huge data volumes in the central repository to be searched within microseconds and access to analysis results. The Terracotta product family is aligned with the Apama products for intelligent business operations.

### Integration

Companies that integrate applications, partners, devices, services, big data and application programming interfaces (APIs) quickly and easily perform better and are more profitable. The webMethods for Integration and webMethods for API Management products for integrating systems and processes make that possible. They harmonize new IT applications with applications at partner companies, with cloud applications as well as the existing IT landscape within a company.

#### Agile Applications & Processes

Companies increasingly need to be able to respond immediately to new business needs and customer requirements. To do this successfully, business processes have to be fast, transparent, agile and efficient. webMethods AgileApps helps customers develop digital business applications that can immediately display changes in the business environment. webMethods iBPMS is used to create business applications that are based on orchestrated, structured and monitored end-to-end processes and workflows.

#### Analytics & Decisions

The growing interaction of people and machines requires a new generation of customer-centric streaming data applications. Apama Streaming Analytics for big data analysis and webMethods Operational Intelligence for decision logic are designed for developing precisely this type of application. Streaming analytics enables smart, automated control of big data streams. Companies can analyze entire business transactions and customer interactions in real-time as well as recognize big data patterns during transmission. Operational intelligence enables real-time monitoring of systems regardless of the installed software.

## Adabas & Natural

Adabas is a long-established, efficient database management system for mainframe computers. Even four decades after its first installation, its performance is highly relevant for many companies. 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 and is the basis of hundreds of thousands of mainframe software applications that support the core processes of major companies across all industries. Both solutions have been optimized for digital business models.

# **CUSTOMER** REFERENCES

Software AG supports its customers with innovative technologies in their transition to an agile Digital Enterprise. Here is a selection of customers who successfully employ Software AG's product portfolio.

The Australian Energy Market Operator (AEMO) plays an important role in supporting the energy industry in Australia to deliver a more integrated, secure and cost-effective national energy supply. AEMO operates the energy markets and systems and also delivers planning advice in eastern and south-eastern Australia.

**Statement:** *"We selected Software AG as a partner due to its demonstrated commitment to understanding our unique business challenges and its creation of a flexible implementation plan that aligned to our needs and those of our stakeholders."*

*Luke Barlow | Group Manager, Information and Architecture Strategy, AEMO*

KIABI

fashions for low prices

Kiabi is the French inventor of low-cost, off-the-rack fashion and a renowned brand in clothing for the whole family. It offers a great choice in quality garments, accessible to all at lower prices. The company has 8,200 employees and generates €1.56 billion in revenue.

**Statement:** *"Our goal is to make our systems more real time, agile and open and to speed up the lead time on our IT projects. WebMethod's APIs allowed just that, by providing a solution to avoid useless data-exchange development. And it enabled us to communicate faster and more simply with our external partners."*

*Jean-François Rompais | IT & Architecture Leader, Kiabi*

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.

**Statement:** *"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, Fujitsu Technology Solutions*

DigitalGlobe® is a leading global provider of commercial high-resolution Earth imagery products and services with more than 1,000 employees in North America, Europe and Asia. DigitalGlobe's products and services enable organizations to easily access and integrate high-quality imagery into their business operations and applications.

**Statement:** *"webMethods enables me to be more responsive to the business. If you are concerned about time-to-market, buy this tool."*

*Steve Miller | Manager, Enterprise Integration, DigitalGlobe*

Hermes Fulfilment, founded in 2006, currently employs more than 5,000 people at four different locations in Germany. As a specialist in the Hermes Europe Group, the company is responsible for retail logistics and e-commerce for national and international clients in a variety of industries. The company achieves a fulfillment rate of 99.9 percent with approximately 60 million orders handled and around 300 million goods moved annually.

**Software AG Benefit:**

TIME NEEDED TO GENERATE A LIST OF SERVICES DROPPED FROM **ONE DAY** to 10 MINUTES

OPTIMIZATION POTENTIAL easier to IDENTIFY and **MAXIMIZE**

**PROCESS MODELING** TWICE AS FAST

The Zurich Airport is Switzerland's gateway to the world with a total of 26.3 million passengers in 2015. Every day millions of data must be transferred and analyzed quickly and precisely.

**Statement:** *"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*

Established in 2006, The Logrand Group operates 14 casinos and more than 6,000 slot machines at gaming and entertainment establishments across Mexico. The company is known for excellent quality service, making sure customers have the most unique and unforgettable experience.

**Statement:** *"Our strategy is to develop a process layer that guarantees the supply of value and at the same time integrates all of our front and back-office systems. To achieve this, we selected ARIS, webMethods Integration Platform, webMethods BPM and Apama. One of the main reasons for choosing Software AG's platform was its high level of integration."*

*Alejandro Marroquin | CIO, Logrand Group*

The Georgia Technology Authority (GTA) manages the delivery of IT infrastructure services to 85 executive branch agencies and managed network services to 1,400 state and local government entities in the U.S. The authority's strategic vision is to create a transparent, integrated enterprise where technology decisions are made with the citizen in mind. Its mission: to connect Georgians to their government.

**Statement:** *"We are saving millions of dollars by not having to rip and replace systems. webMethods helps us connect virtually any system or application for faster data sharing. It helps keep state agencies in sync and compliant with standards."*

*Jim McGibeny | Director, Data Sharing Services, Georgia Technology Authority*

KV Hessen, the Association of Statutory Health Physicians of the German state of Hessen, represents around 11,000 doctors and psychotherapists to lawmakers and insurance companies.

**Statement:** *"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*

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.

**Statement:** *"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 | Software Engineer, CERN*

P&O Ferries Holdings Limited (P&O Ferries), a division of Dubai World and the U.K.'s leading ferry company, delivers award-winning services that link the U.K. with France, Belgium, the Netherlands and Ireland. P&O Ferries, a top-10 most recognized travel brand in the U.K. today, carries close to 9 million passengers every year, plus 2 million freight and 1.7 million tourist vehicles.

**Software AG Benefit:**

**8-TIMES**
MORE CUSTOMER
INTERACTIONS MANAGED PER MONTH

**SIGNIFICANT**
INCREASE
IN E-COMMERCE REVENUE AND CUSTOMER CONVERSIONS

**FLEXIBILITY**
REDUCES BUSINESS RISK

MAPFRE

MAPFRE is a global leader in insurance, with a direct presence in 49 countries and 29 million customers. It is among the top 10 insurance providers in Europe and the leader in non-life insurance in Latin America.

**Software AG Benefit:**

END-TO-END **TRANSPARENCY**

**IMPROVED** SYSTEM **RESPONSE** TIME

**INTEGRATION** OF MORE THAN **10,000** USERS AT **5,000** LOCATIONS

ATB Financial

Alberta Treasury Branches (ATB) is a financial institution and crown corporation that provides financial services to 680,000 Canadians and Alberta-based businesses. ATB has 170 branches and 130 agencies, serving 242 communities. Headquartered in Edmonton with total assets of approximately $37.7 billion, ATB is the largest Alberta-based financial institution.

**Software AG Benefit:**

**$2.5** MILLION IN ADDED **EFFICIENCY**

**NEW CUSTOMERS APPROVED** IN LESS THAN 1 HOUR

**70% APPLICANTS** AUTO-APPROVED

Coca-Cola Erfrischungsgetränke

Germany's largest beverage company, Coca-Cola Refreshments, has around 9,500 employees in 24 locations which 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.

**Statement:** *"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

With 52,000 employees, the Dutch financial institution, ING, specializes in private and commercial banking services and serves customers in more than 40 countries.

**Statement:** *"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*

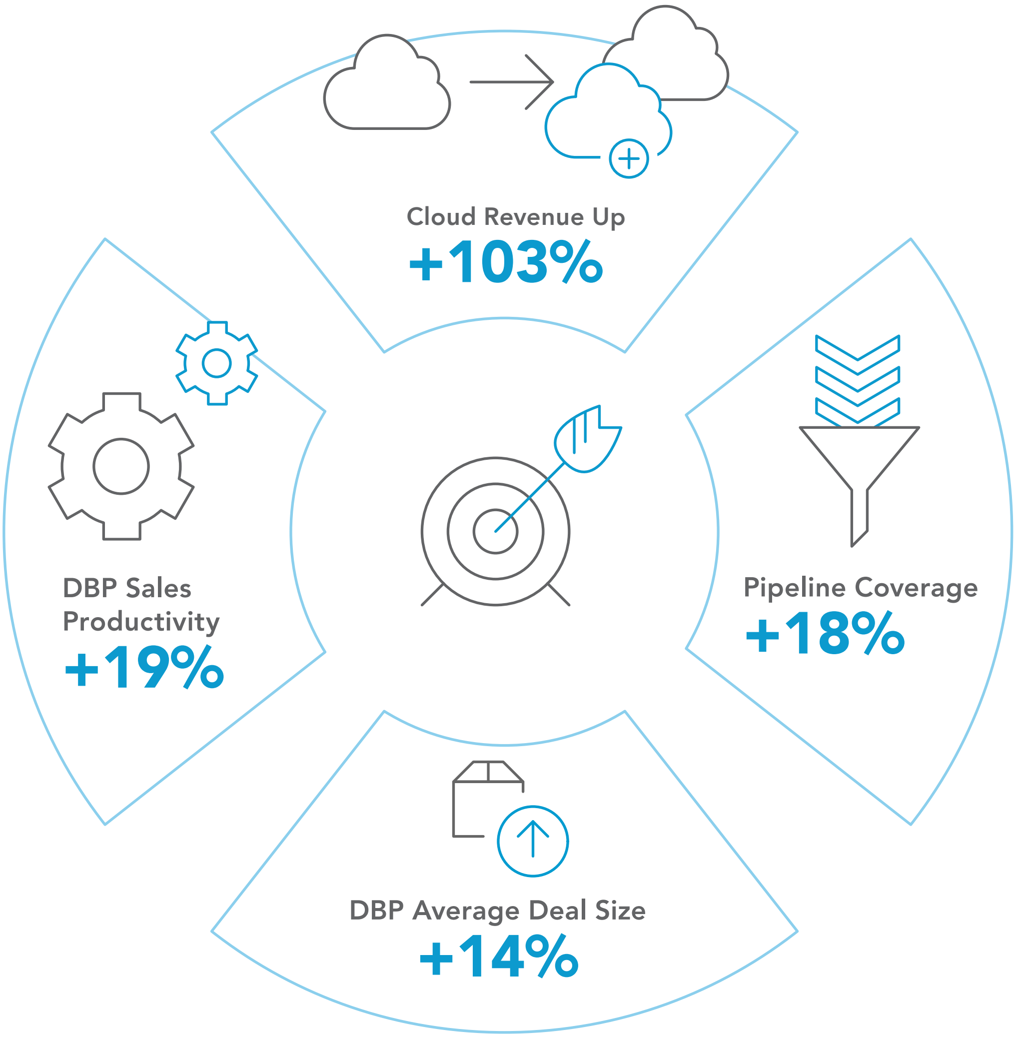
Ekurhuleni
METROPOLITAN MUNICIPALITY

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.

**Statement:** *"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*

# SALES
CUSTOMER-CENTRIC SUCCESS




**Software AG is laying the foundation for long-term competitive advantages with a customer-centric, value-oriented sales approach. The go-to-market model, realigned in 2015, further boosted sales efficiency.**

Software AG presented its innovative product portfolio at numerous tradeshows and customer events, and discussed current developments in the dynamic market with customers, interested parties, partners, industry experts and journalists. CeBIT in March 2015 was the prelude. In keeping with the motto "d!conomy," it offered the right framework for introducing the world's first Digital Business Platform and positioning Software AG as a trailblazer and driver of digitization and in the field of Industry 4.0.

**500**

**CUSTOMERS AND INTERESTED**
parties learned at the Innovation Day event in Bonn how to successfully implement digitization in their own organization

Which digital strategies lead to a company's success? Software AG joined forces with top managers at partner and customer companies to present practical, real-world solutions at Innovation Day in Bonn on May 7, 2015. Participants also attended numerous industry-specific workshops and presentations to learn about successful digitization projects with our customers and partners. Additional Innovation Day events were held throughout the year in the USA, Great Britain, South Africa, Spain and United Arab Emirates.

**1,000**

**ATTENDEES IN LAS VEGAS**
learned about about Digital Business Platform 2.0 at Innovation World in Las Vegas

Software AG's biggest customer event of the year was held in October in Las Vegas: At the three-day Innovation World event our customers and partners took advantage of the opportunity to learn about innovations to the Digital Business Platform and the latest trends in technology trends and products.


**BIG DATA MEETS BIG STEEL**
This was the title of Software AG's press showcase at CeBIT 2015 demonstrating how an innovative application of IT can turn steel into a real high-tech product—and secure the competitiveness of businesses

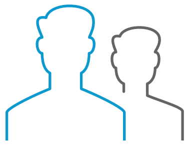
## Sales and Marketing Activities

User groups are one of the most important instruments for strengthening customer loyalty. Users of Software AG's key product lines come together in groups to share their experiences at regular regional meetings. They discuss with Software AG how the products should be developed in the future. In addition to the regional meetings, Rotterdam in the Netherlands hosted the annual International User Group conference in May 2015.

Chief Customer Officer Eric Duffaut's team significantly sharpened the sales focus in 2015 and developed a go-to-market concept that places customers and their needs at the center of all sales and marketing activities. A more consistent alignment of sales structures by vertical market segments leads to a comprehensive understanding of industry-specific needs and requirements.

The innovative power of Software AG's product portfolio and our all-round solution approach play a decisive role. The Digital Business Platform and its components support every relevant area and level of digitization initiative. Customers value the tight integration of the individual platform components. Software AG is taking on a pioneering role in sales with its leading service offering. Existing customer relationships can also be utilized for cross-selling activities, for example, when an ARIS customer selects IT architecture management with Alfabet.

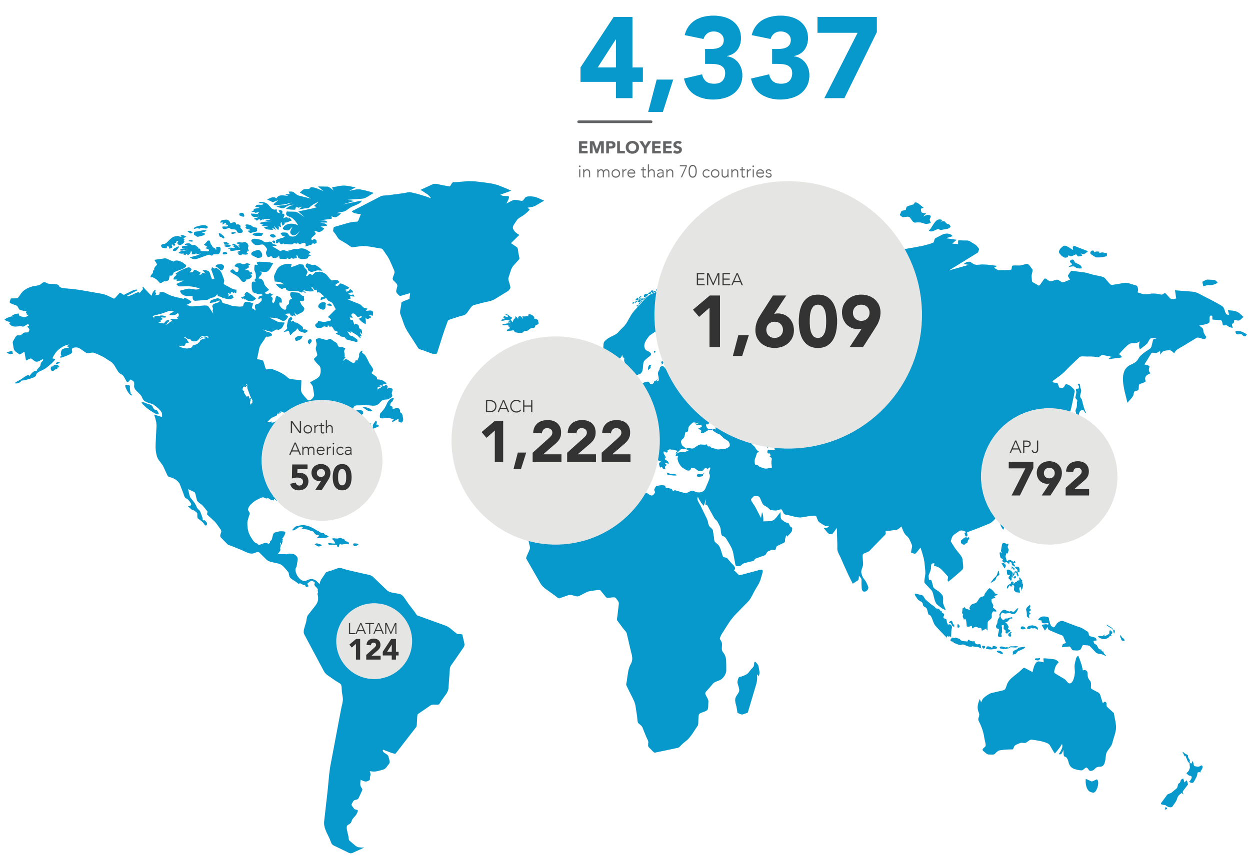
Software AG helps customers in investment decision-making for digitization projects by offering arguments based on value propositions. The Business Value Engineering approach analyzes the financial effects of the planned measures based on customer-specific parameters as well as best practices from comparable projects. Together with our customers, we calculate the most important key financial indicators as well as the investment's cash flows to prepare the best possible solution architecture.



**360+**

**MORE THAN 360 PEOPLE**
from 200 organizations and 36 countries attended the International User Group conference

# EMPLOYEES
## THE SOFTWARE BUSINESS IS A PEOPLE BUSINESS




**A leading software firm can only compete in the global marketplace with highly innovative and agile employees, with people who are open to the constant changes in the market and take a solution-oriented approach to the challenges of digitization. Software AG supports its employees with comprehensive human resources activities and an open, modern work environment.**

Talented and committed employees are the key to business success. So promoting a diverse staff with robust commitment, leadership strength and expert knowledge is a high priority for Software AG. The Human Resources department supports employees so they can succeed. Our employees live out the guiding principle "Succeeding in the digital world with innovation and differentiation" on a daily basis.

As of December 31, 2015, Software AG employed 4,337 people worldwide (full-time equivalents) in over 70 countries. Software AG employed 1,178 people in Germany. Like last year, around 30 percent of employees worldwide were women.

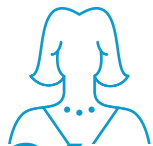
Employees are constantly facing new requirements because of the continually changing work environment. Flexibility and innovative thinking are required of them. At the same time, creative freedom needs to be brought in line with clear structures. Software AG is not only the pioneer for the Digital Enterprise and an important partner for its customers, we embody this role within our Company. For this reason, we optimized the Human Resources department in 2015 to better support our employees and managers with processes that cover global and local needs equally. The goal is to train and deploy our employees in keeping with Software AG's strategy.

HR's core responsibilities are career paths, talent management, management development, integrated performance management, training offerings through the Corporate University and consistent, fair and market-appropriate compensation structures as well as incentive models. The new department structure promotes closer integration with requirements in the business lines and regions while at the same time standardizing and digitizing HR management processes. This enables employees in the Human Resources department to work more closely with the operational business areas. Additionally, the HR Information Systems department was expanded and strengthened, the Corporate University and University Relations were integrated into HR and a new team responsible for global HR communication was established.

Software AG pursues a holistic staff development approach for all employees—from trainees to senior management. Demographic change and the constantly changing IT market require us to focus on flexible work times, work-life balance and take into consideration the different learning behavior of the younger generation. All HR measures take place regardless of culture, gender or nationality. Diversity is an integral part of our global identity. Software AG expresses respect for its employees through individual recognition, market-appropriate compensation as well as many social and other benefits.

**70**

**COUNTRIES**
Our employees sell products and services in over 70 countries around the world



**26%**

**THE NUMBER OF FEMALE MANAGERS WORLDWIDE**
rose from 21% in 2014 to 26% in 2015


Software AG staff members at the J.P. Morgan Corporate Challenge run in Frankfurt, Germany

Differentiated employer branding activities strengthened our position as an appealing employer and created an innovative, performance-oriented work environment. To solidify its position as a market leader, Software AG not only has to find and acquire the most skilled specialists—we need to retain, motivate and support them through individual development plans. The goal is to reveal clear development prospects to employees all over the world on the management as well as expert tracks.

**>32,000**

Software AG has more than 32,000 **FOLLOWERS** on LinkedIn

A digital, interactive and transparent solution was implemented in 2015 for the first time to measure the development of an employee's commitment. This new method was introduced in a pilot project with around 2,900 employees in the Sales and Services departments. This new smart, digital employee survey enables us to develop measures based on employee answers and implement them quickly. Due to the high participation rate, the tool will be rolled out in every department in 2016.

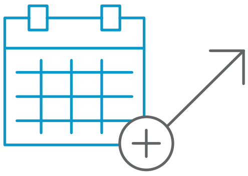
Social media and mobile accessibility are important components for recruiting and securing talent. To that end, Software AG has implemented an e-recruiting system based on social media that allows the HR team to maintain a strong presence on the relevant social networks, actively identify talents and establish an external talent pipeline. Paper CVs are now passé thanks to the e-recruiting system: The entire recruiting process is digitized, standardized and aligned with our corporate strategy worldwide. Our onboarding platform developed in-house supports the integration and training of new employees.

## Employee Development and Training

### Corporate University

Software AG's employees determine its success. With their hard and soft skills, they make a significant contribution to convincing customers, investors and business partners to choose our company. Particularly when competition for the best minds is growing more fierce, offering high-value training is a key competitive advantage. This is especially true for the highly innovative IT sector. Only employees with excellent education and training are able to unfailingly develop and implement the best solution for our customers.

To live up to this lofty aspiration, the Corporate University offers a comprehensive training offering, which previously focused on technical topics. The Corporate University has been part of HR since mid-2015. In addition to providing technical training for employees, it now has the task of implementing new concepts of talent and management development as well as providing a modern training program for key social skills worldwide.



**+70%**

**PARTNER TRAINING DAYS**
over the previous year

Digitization also reached our training and continuing education offerings. Product-related training was fully digitized in 2015 as part of the six-month release cycle. All training programs were either developed as e-learning sessions or conducted using modern technology such as Web conferencing, virtual classroom or remote video training, recorded and made available online on the companywide learning platform.

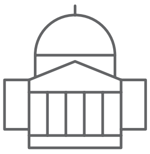
In addition to training Software AG's own employees, training for our partner networks grew in 2015. Developing and quickly providing high-value training material achieved measurable successes in partner management: The number of qualified partners increased by more than 23 percent over the previous year.

### University Relations

Software AG follows a simple and sustainable recipe for success when searching for premium young talent: Providing today's 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. 1,100 schools in 72 countries and more than 20,000 students have taken advantage of this opportunity to date.

**>20,000**

**STUDENTS**
and college faculty members benefit from Software AG's University Relations



**1,100**

**COLLEGES AND UNIVERSITIES**
in 72 countries
use Software AG products
for teaching and research

**The University Relations strategy comprises three core components:**

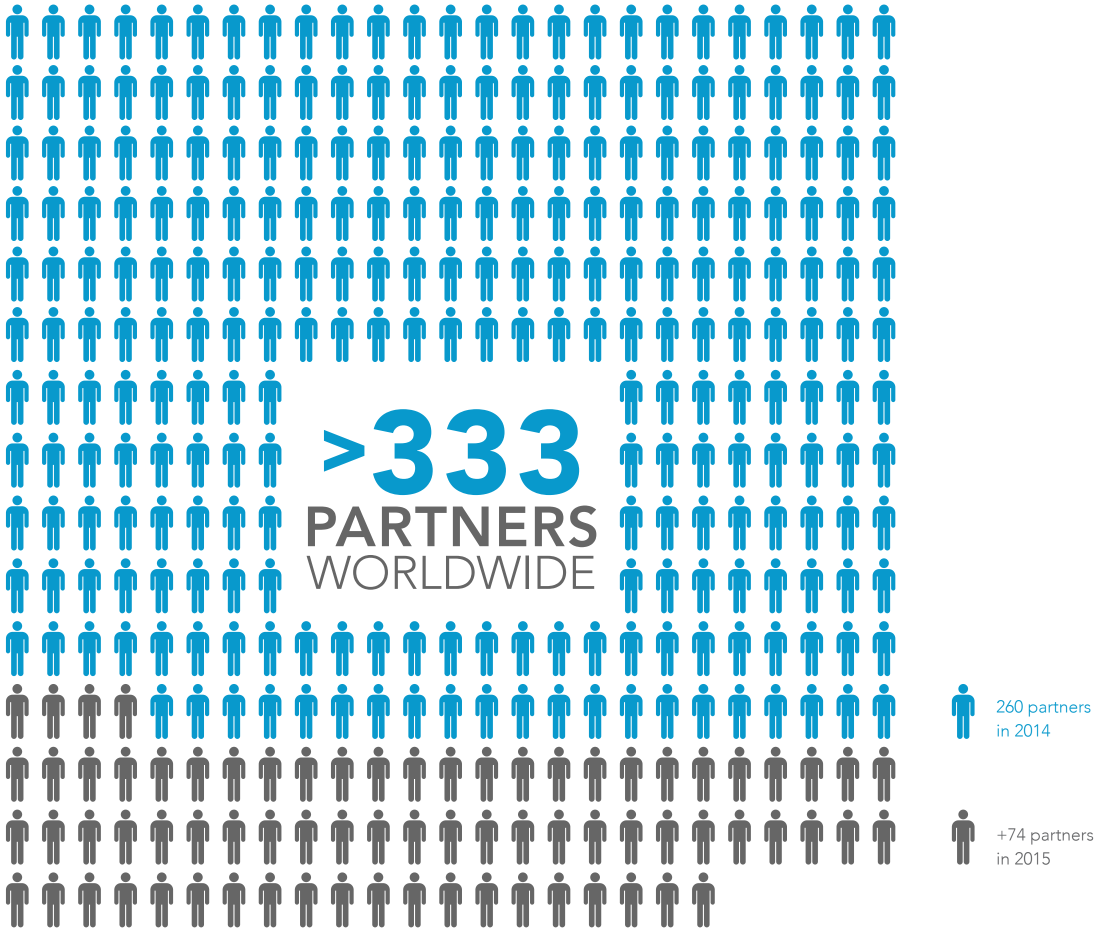
1) **High-value projects** pursue the approach of transforming ideas to innovations—from the classroom to market-ready solutions. Through this program, Software AG helps students and academic institutions develop their ideas and research findings in a practice-oriented manner. Twice a year Software AG launches an idea contest for students and educational institutions worldwide and calls upon students 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.

   The Fast Startup Program launched in 2014 not only aims to support young entrepreneurs during the startup process, but also to promote their long-term business success through a close partnership. These young business owners 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** 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 education packages are now available on the TechCommunity portal covering the topics of mobile computing, integration, big data and streaming analytics for teaching and research.

3) **Recruiting** is the third component and promotes close collaboration with academic institutions to recruit new employees. 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 prospective Software AG employees and as rising talent for our customers. For example, we offer academic institutions regular visits to Software AG facilities and guest lectures.

# PARTNER ECOSYSTEM
## PRACTICAL CUSTOMER SOLUTIONS THROUGH STRATEGIC ALLIANCES




**Software AG relies on a global network of partnerships and strategic alliances. They are a key pillar in our business model for expanding our own capabilities with industry-specific expertise, sales resources, services and solutions in the interest of comprehensive customer care.**

**+60%**

**INCREASE**
in the number of active reseller partnerships compared to last year

**360°**

**360° APPROACH**
encompasses every dimension of business collaboration, close cooperation in implementation projects as well as co-innovation and development of new applications for shared customers

**STRATEGIC ALLIANCES**
The advantages of strategic alliances include better economies of scale, broader market coverage, faster innovations and greater customer relevance

Software AG continued to drive the brisk expansion of its partner network in 2015. Our existing and ever expanding ecosystem currently includes 334 companies that act as sales or service partners. These partners are recruited, managed and supported by regional account managers.

High-quality training and qualification of our partners is crucial. A training system customized for the specific partner and their role builds the necessary digitization skills as efficiently as possible to successfully execute customer projects. Our PowerUp program also gives partners attractive conditions for sales and project-related collaboration.

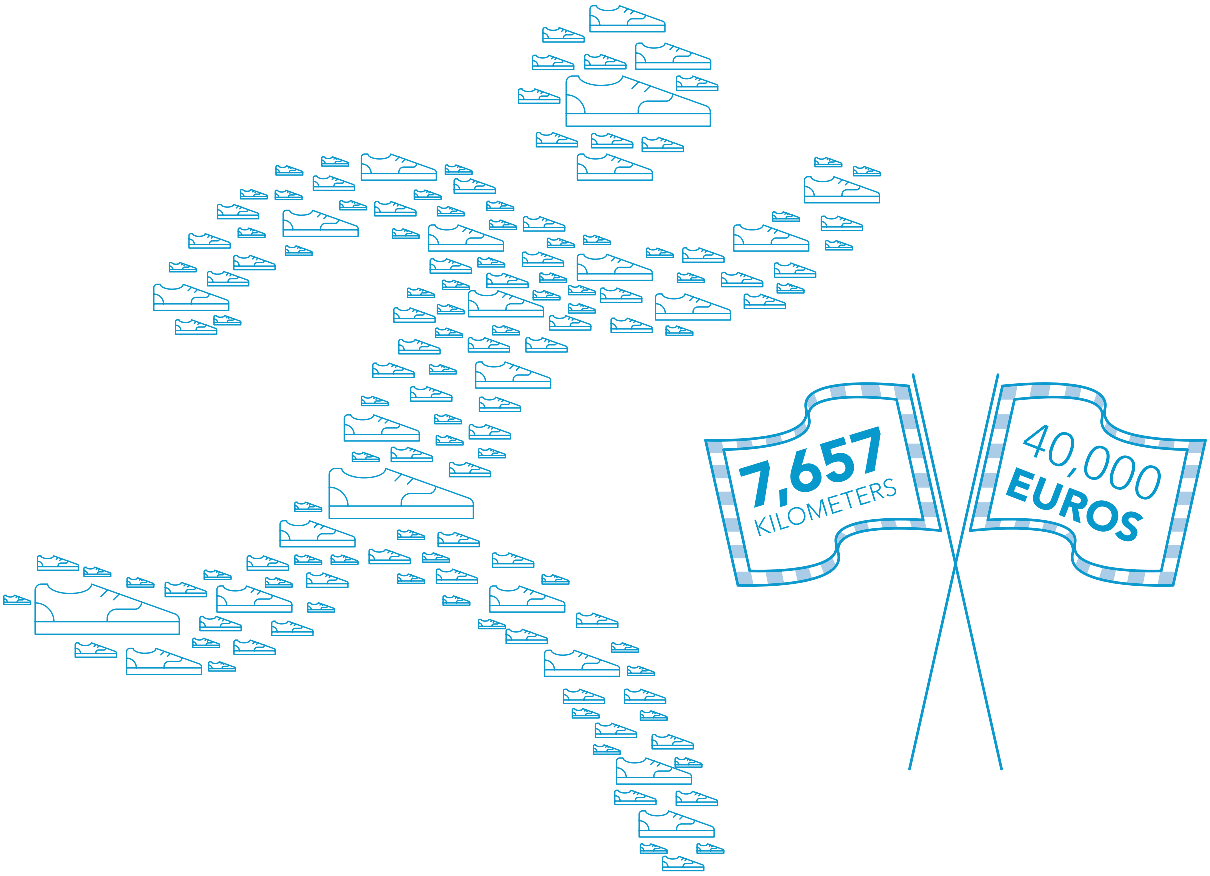
As in previous years, building strategic alliances was a focal point of partner management in 2015. Many projects were won last year due to our successful collaboration with leading global system integrators including Accenture, Capgemini, Cognizant, TCS and Wipro. This is also reflected in our highest-ever jointly achieved licensing revenues in the DBP product line. In these efforts we utilize a 360° approach, which Software AG pursues with its strategic alliance partners.

What is the best way to move business processes to the cloud? To address this key question about business digitization, Software AG successfully executed the "Journey to the Cloud" campaign together with its strategic Infrastructure-as-a-Service partner, Amazon Web Services, in 2015. It supports businesses in identifying the specific systems and processes appropriate for cloud migration and implementing the transformation process securely and effectively.

Over the current year Software AG will continue to leverage its partner ecosystem to promote profitable growth. Partners are important evangelists for increasing market coverage with our products. In 2016 we want to expand partner sales to win new customers in previously untapped market segments and regions. Software AG will also continue to focus on promoting our partners' expertise in 2016. To this end, we are introducing simpler processes, systems and content that quickly communicate the necessary know-how in the form of training and practical applications.

Expansion of strategic partnerships is a further focus of 2016 so as to guide joint customers though their transformation to becoming a Digital Enterprise with innovative solutions.

# SOCIAL RESPONSIBILITY
## CONSCIOUS RESPECT FOR RESPONSIBLE AND SUSTAINABLE ACTION




**Corporate Social Responsibility (CSR) is a top priority for Software AG. All sustainability concerns—economic, environmental and social—are integrated into our business activities and interrelationships with relevant stakeholders.**

Software AG considers sustainability as a holistic concept for 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 important values to Software AG. Sustainability and responsible action are guiding principles for our Company. For the sake of future generations, it is important for 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.

One prerequisite for that is conscious respect. We focus on people at Software AG. Employees are the most important success factor for a software company. Values like trust, respect, open communication and tolerance shape our collaboration in international business activities. Software AG offers employees the necessary leeway for creative, innovative work and support for social engagement worldwide. These measures include a diverse range of opportunities for professional and personal development, flexible working hours with home office options and managing reintegration into the workplace. In the area of health, there are many company sports groups around the world, annual health events and "leading healthily" management coaching.

Moreover, Software AG supports its employees' volunteering activities and is proud of the enormous commitment displayed in numerous campaigns around the world. For example, the "Move your Feet to Give a Hand" campaign has been in place for eight years. It bridges the gap between company sports, team spirit, charitable activity and athletic commitment. 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 all over the world generate donation funds totaling around €40,000 a year.


**UNDER THE SIGN OF THE LILY**
Promoting charitable events with SV Darmstadt 98

As part of the "Under the Sign of the Lily" social campaign, Software AG has joined forces with the SV Darmstadt 98 soccer team for charitable events for people with physical and developmental limitations. As the premier division team's top sponsor for a number of years, Software AG worked together with Special Olympics Hessen to organize a soccer training session with disabled athletes.

Social values not only shape how we treat each other, they characterize global business activities as well. To take differing cultures into consideration, Software AG implemented companywide guidelines 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.


Soccer practice with Software AG staff and athletes from Special Olympics Hessen

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 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.

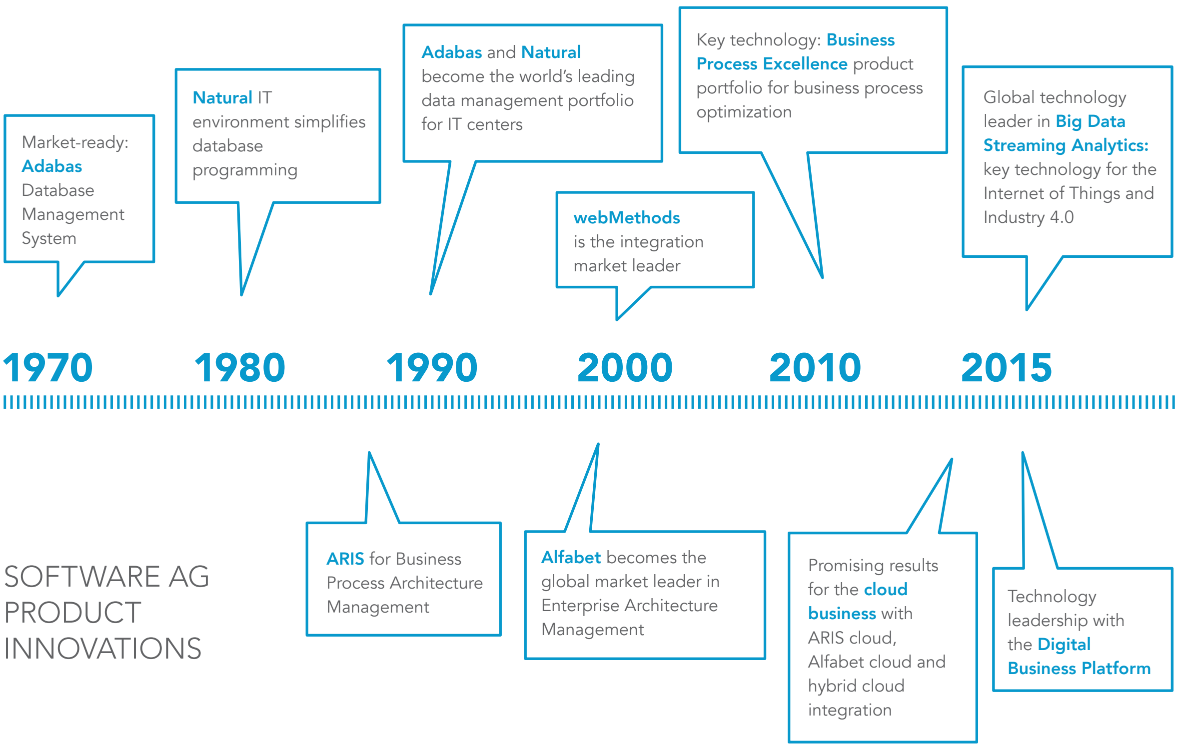
And finally, Software AG and its product portfolio contribute to social progress through digitization—also in developing nations. For example, a municipality in South Africa is working with a process-driven program for services for the needy. We contribute to equal opportunity, to long-term economic success, improved quality of life and adding value while protecting the environment. Another example from Germany: Software AG developed a festival app for the event in Frankfurt celebrating the 25th anniversary of the German Unity Day on October 3, 2015.

Social responsibility and civic engagement are firmly ingrained in Software AG's identity. More than 20 years ago, Company founder Peter Schnell established the Software AG Foundation and laid the cornerstone for responsibility and sustainability.

**31.6%**

**THE SOFTWARE AG FOUNDATION**
is an important anchor investor with 31.6% of Software AG shares, providing our Company with long-term independence and job security

# RESEARCH & DEVELOPMENT
# BASIS FOR A TECHNOLOGICAL LEAD




**The Research and Development (R&D) department comprises a key building block of our innovation-oriented business strategy. The spotlight in 2015 was on the Digital Business Platform as well as implementing a co-innovation strategy. Technological advances lay the foundation for shaping IT trends.**

In light of the heavy pressure to change facing its customers, Software AG will maintain a high speed of innovation in R&D, launching new solutions quickly. The R&D department concentrated on developing the Digital Business Platform in the areas of integration, cloud, mobility and Internet of Things in 2015. The latest innovations to the Digital Business Platform were unveiled at Innovation World 2015 in Las Vegas. Joint research projects based on the design thinking method with customers, users and partners, universities, research institutions and startups provided valuable stimulus for innovation.

## Participation in Research Programs

In order to recognize market and technology trends early on, Software AG collaborates on joint research projects—national and international—with prestigious partners from the science and business communities:

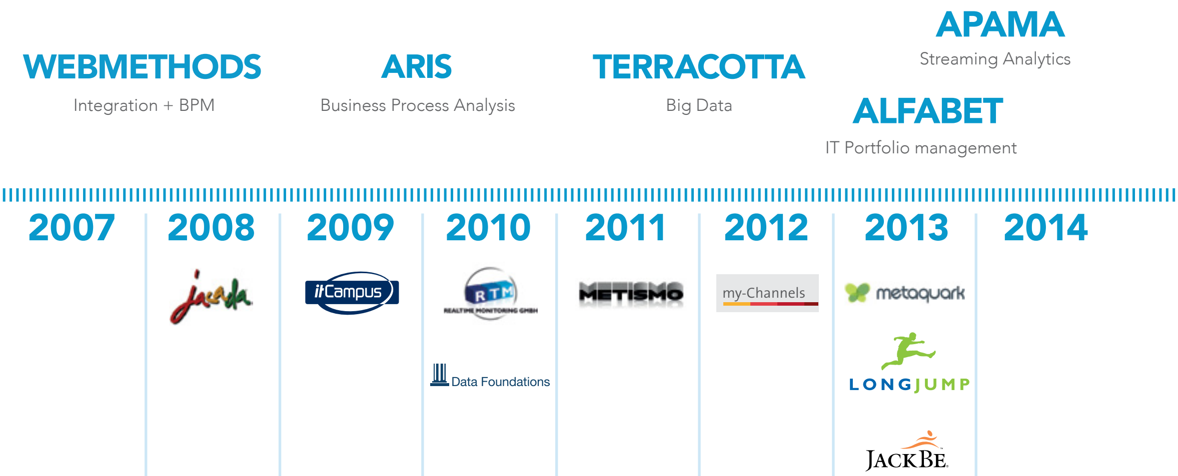
- The European Union's SYNCHRO-NET project couples slow steaming, a fuel-conserving process in container ship logistics, with synchro-modal transport, meaning dynamic and highly flexible route planning via different transport carriers. Not only does this boost efficiency, but the reliability of logistics as well. Software AG provides key components of the project's technical software solution with its Terracotta and Apama products.

- The iTESA (intelligent Traveler Early Situation Awareness) early warning system came out of the Federal Ministry for Economic Affairs' smart data technology competition. The project's objective is to develop a smart alarm system fed by social networks and other Internet sources that warns and informs travelers in real time about travel risks so that they can change their plans themselves before starting their trip.

- The sd-kama project originated in the same program. This project establishes an information platform supported by image, sensor and land registry data, which emergency responders can use to get a real-time overview of the current dangerous situation when a catastrophe occurs. Software AG is contributing Apama Steaming Analytics and webMethods Operational Intelligence to the iTESA and sd-kama projects.

New digital business models will fundamentally change the markets. Products alone no longer dominate the spotlight: Additional data-based, customized services—called smart services—that add value for customers are moving to the forefront. Data is the basis for the competitive advantage in this marketplace segment. Software AG offers our customers this advantage with the Digital Business Platform, which combines an innovative product portfolio.

# MERGERS & ACQUISITIONS
## SYSTEMATIC INTEGRATION AND ONGOING DEVELOPMENT




OVERVIEW OF ACQUISITIONS IN RECENT YEARS

**Software AG has coupled its own R&D efforts with targeted strategic acquisitions to develop and grow its innovation portfolio and focused on systematically integrating, developing and selling these products.**

Throughout its 45-year company history, Software AG has succeeded in regularly transforming and sometimes even reinventing itself. This is a key prerequisite for companies facing an accelerating pace of change and shrinking innovation cycles in today's IT world. With our technology acquisitions in recent years, Software AG has picked up new impetus and expertise and integrated it effectively. This contributed to the dynamic drive and powerful ideas of our own solution platform, opening up new markets as well as solidifying our leading market position. No new companies were acquired in the reporting year due to high company valuations in the market.

Software AG acquired 14 companies between 2007 and 2013 to supplement its traditional Adabas & Natural database business with the new future-oriented Digital Business Platform. In fiscal years 2014 and 2015, we focused on the systematic integration of these acquisitions. No new companies were acquired in 2014 and 2015 due to the high prices for technology companies in the M&A environment and the fact that many of the available opportunities did not align with Software AG's value creation philosophy.

## Smooth Integration

In order for the financial investment in an acquisition to be worthwhile, organizations and product portfolios must integrate smoothly, as must their employees and corporate cultures. For that reason, we thoroughly review beforehand whether an acquisition—the technology, market access and culture—is compatible with Software AG and what synergy potential exists. We utilize our experience with integrations to deepen and accelerate our own innovative power and add value to the Company. This approach enabled us to build our successful DBP business and make it a long-term market leader.

## Investing in High-Growth Startups

Software AG launched a venture capital program at the end of 2013 with the goal of investing early in high-growth startups to stay on top of innovations, new markets and their growth potential. That allows us to participate in development outside of our own business focus and learn from the innovative power of courageous young entrepreneurs. By holding a seat on the board and participating in strategic meetings, we gain insight into innovative markets.

Because acquisitions are key components of the value chain and part of Software AG's long-term growth strategy, the M&A department was relocated to California. Due to the high number of globally leading IT companies and the prevalent startup culture in that region, we are actively involved in quickly identifying and exploiting future trends in the IT sector.

**VENTURE CAPITAL PROGRAM**
To date we have invested in four companies:

**Datameer**

Datameer develops software for big data analysis (San Francisco, CA, USA)

**iCharts**

iCharts develops software for cloud-based data visualization (Sunnyvale, CA, USA)

**traxpay**

Traxpay offers a payment service for businesses that enables them to access synchronized real-time transaction data at any time online (Frankfurt am Main, Germany)

**Predixion**

Predixion is developing a machine learning technology that can actually be used with the Internet of Things (Aliso Viejo, CA, USA)

# SOFTWARE AG'S SHARE

## 2015: Economic fluctuations and historically low interest rates

**Turbulent stock markets and geopolitics were key influential factors in 2015. Investors cashed in on some attractive returns, particularly on European stocks. But nerves of steel were necessary given the extreme fluctuations on capital markets, which in Germany were likely caused by the European Central Bank's eased interest policy and the low euro.**

The BRIC nations—previously emerging markets—had a dampening effect on the economic climate in 2015. Former engines of growth, Russia and Brazil became cause for concern due to their respective recession and economic crisis. Slowed growth in the Chinese economy set the stage for fears of a global recession. Following the summer crash on the Chinese stock market, its central bank devalued the yuan. Combined with the meltdown in oil prices, these were all unsettling signs for the global economy.

Software AG operates in 70 countries. Of the BRIC countries, only Brazil accounts for a significant portion of revenue. Exchange rate fluctuations, political events and other activities in those countries can influence business at country level.

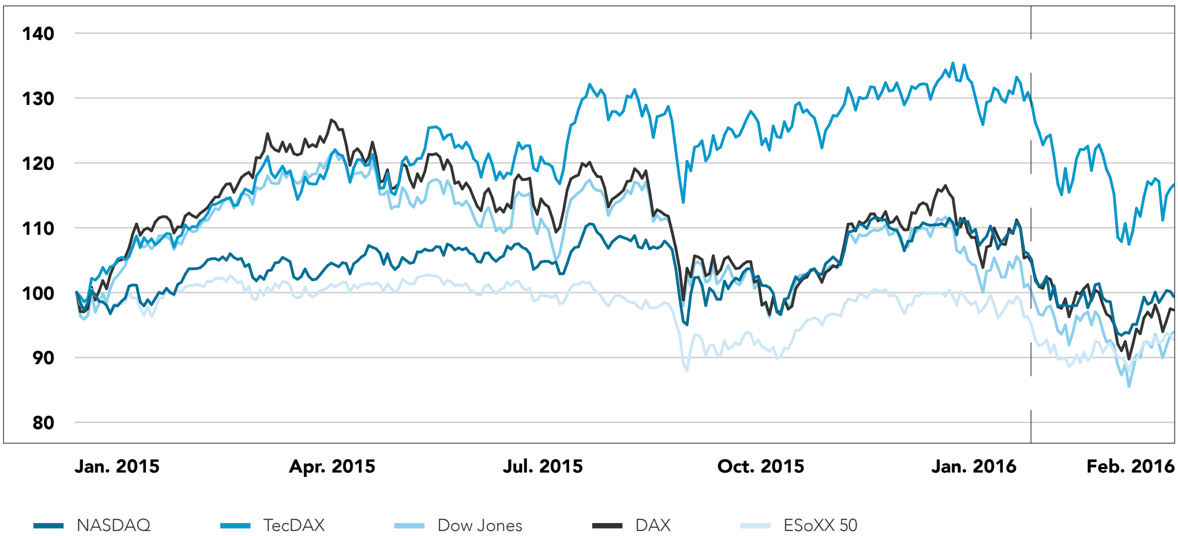
The majority of Software AG's revenue, however, is generated in the USA and the core countries of Europe. Software AG's customers are diversified across many industries; its software is firmly anchored in customers' systems; and a large percentage of sales are recurring maintenance revenues. Thanks to these factors, Software AG's business model and stock have proven to be relatively resistant to macroeconomic effects.

## Upward Trend for Capital Markets

The DAX started 2015 at 9,765 points, quickly peaked at 12,375 on April 10, 2015 and ended the year at 10,743 points. This shows a 10.0 percent gain over the 12-month period.

Companies in the digital business sector continued to enjoy an upward trend on stock markets. This verifies the economic significance of the field of digitization. Accordingly, the NASDAQ-100 Index performed dynamically,

## Stock Index Performance Comparison (indexed)



gaining 10.0 percent in 2015. In contrast, the Dow Jones index consisting of traditional industry sectors lost 1.3 percent during the 12-month period. The Euro-Stoxx-50 was able to close out the year with a 4.7-percent gain.

The TecDax, Germany's technology barometer and where Software AG's shares are listed, opened the year at 1,382 points. It overtook other indexes in a dash for the finish line ending the year on a positive note at 1,831 points. This marks an increase of 32.5 percent over the beginning of the year.

## Software AG Share Price Performance

Beginning the year at €20.02 on January 2, 2015, Software AG soon bottomed out on January 6 at €20.51. It went on to follow a positive trajectory for the rest of the year. With a gain of 19.8 percent on June 30, 2015, Software AG's share demonstrated a strong first half of the year. High-tech shares in particular were in demand in the first quarter of 2015; the TecDAX significantly outperformed the DAX. Software AG's share's performance was also buoyed by first-quarter financial results, which were released on April 29, 2015.

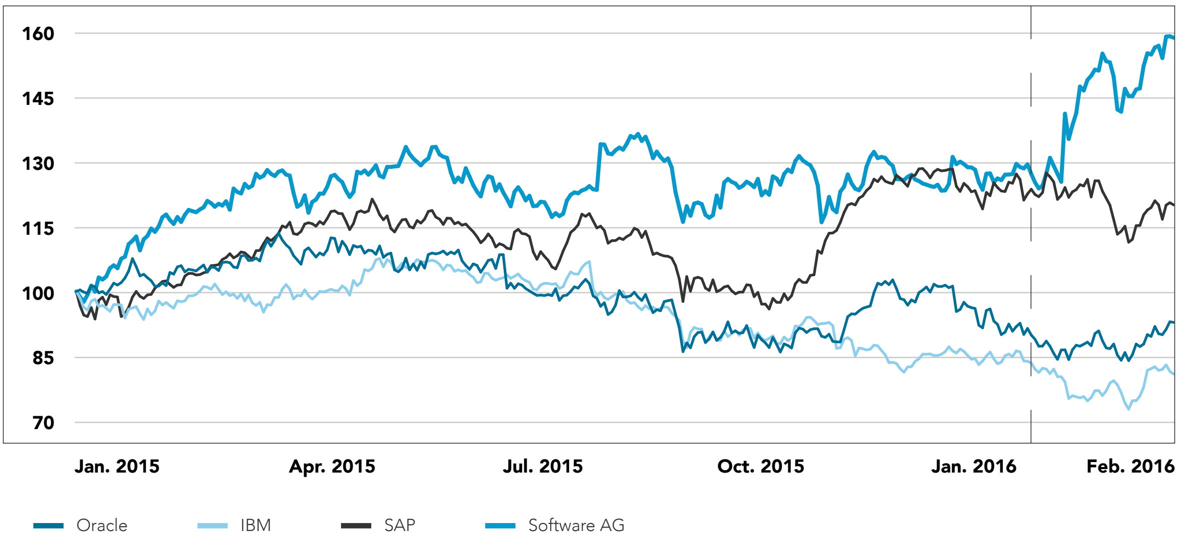
With increased earnings and revenue in the second quarter, the Company's results exceeded market expectations. This was rewarded on the capital market with a significant jump in share price. When the quarterly financial results were reported on July 23, 2015, the share ended the day at €27.51 (8.6 percent up from one day earlier) and went on to peak for the year at €28.00 on August 6, 2015.

The opposite played out in October 2015. Third-quarter license revenue in Software AG's DBP business line missed analysts' expectations (ad hoc release on October 13, 2015). An overall weak climate prevailed on the stock market, and Software AG stock fell to €23.80 on October 14. The trend reversed immediately when investors driven by sustainable business development rather than short-term quarterly results bought shares. That pushed Software AG's share price up to end trading on December 31 at €26.42, a 28.8 percent gain over the beginning of the year.

Software AG exceeded the stock market's liquidity requirement in 2015 with an XETRA average daily trading volume of 215,165. This is of particular note considering that a large percentage of Software AG shares have moved to off-exchange trading venues.

2016 began on a surprisingly weak note in stock trading, due primarily to the crash on the Chinese stock market on January 7, 2016. This drove the German stock market into negative territory. The DAX lost 2.3 percent, falling below 10,000 points. Software AG's stock, in contrast, lost just 1.5 percent. With the release of its preliminary Q4 results (ad hoc release on January 19, 2016), Software AG's

## Software AG Share Price Performance Compared to Peer Group (indexed)

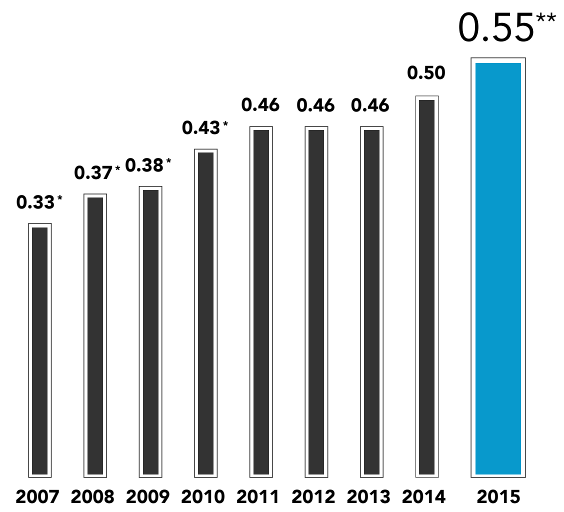


profitability was verified with robust license revenue growth and earnings. Software AG shares bounced up 12.6 percent that day and gained 23.6 percent in value in the first two months of 2016.

Software AG is currently (end of February 2016) ranked number nine of the top-ten TecDax companies based on market capitalization by Deutsche Börse AG.

## Dividend by Fiscal Year Since 2007

(in € per share)




* Adjusted for 3:1 stock split, rounded
** Dividend proposal, subject to shareholder approval in May 2016

## Key Share Data

| | 2015 |
|---|---|
| Closing price in € | 26.42 |
| Year high in € | 28.00 |
| Year low in € | 20.02 |
| Total number of shares at year end | 79,000,000 |
| Market capitalization at year end in € millions | 2,087.18 |
| Free float as % | 64.90% |

* Based on XETRA closing prices

## Consistent Dividend Policy

Software AG's Annual Shareholders' Meeting took place on May 13, 2015 in Darmstadt, Germany. The Management Board and Supervisory Board shared confidence in a positive future outlook with attendees. All items on the agenda were met with overwhelming approval. Those shareholders in attendance accounted for 62.8 percent of total voting rights.

At the meeting an increase was approved for a record-level dividend payout for fiscal 2014 of €0.50 per dividend-bearing share. The payout sum totaled €39.5 million, which is 32 percent of the Group's averaged net income and free cash flow in 2014. Based on the closing share price for the year (December 30, 2014: €20.20), this corresponds to a dividend yield of 2.5 percent (2014: 1.8 percent).

Software AG continued its value-driven dividend policy in fiscal 2015. The dividend is payed from Software AG's earnings and cash flow. The dividend ratio is usually between one-third and one-fourth of the Company's averaged earnings and cash flow. Both figures increased in fiscal 2015. For fiscal 2015 the Management and Supervisory Boards will propose the highest dividend in the history of Software AG at €0.55 at the Annual Shareholders' Meeting on May 31, 2016. The treasury shares repurchased by Software AG are not entitled to a dividend.

## Share Buybacks and Share Redemption

Software AG has executed three share buyback plans in the past few years.

During the period from February 12, 2013 to February 26, 2014 Software AG repurchased a total of 8,041,724 shares (9.25 percent of treasury shares) in two separate tranches.

On April 30, 2015 Software AG redeemed 7,943,945 of those shares (9.14 percent of its share capital prior to redemption and capital decrease). This was approved by Software AG's Management Board making use of the authorization granted by the Annual Shareholders' Meeting of May 3, 2013.

Software AG announced a further treasury share buyback in the amount of €70 million on September 3, 2015. The share buyback plan began on September 8, 2015 and ended on December 4, 2015, when the maximum repurchase amount approved by the Management Board was reached. A total of 2,712,513 treasury shares were repurchased for €69,999,987.85 (excluding transaction fees). This corresponds to an average price of €25.81 per share.

Taking into account all share buyback plans, Software AG now holds 2,768,369 treasury shares, which represents 3.5 percent of its share capital.

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 65 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.

## Changing Shareholder Structure

Software AG's positioning as a value investment is increasingly reflected in its investor structure. Many new value-oriented investors have become convinced of Software AG's intrinsic value.

As a result of the decrease in share capital, Software AG Foundation's share increased by 2.88 percent on April 30, 2015 to 31.59 percent and was still that on December 31, 2015. The Software AG Foundation is therefore still Software AG's largest shareholder and its key anchor investor.

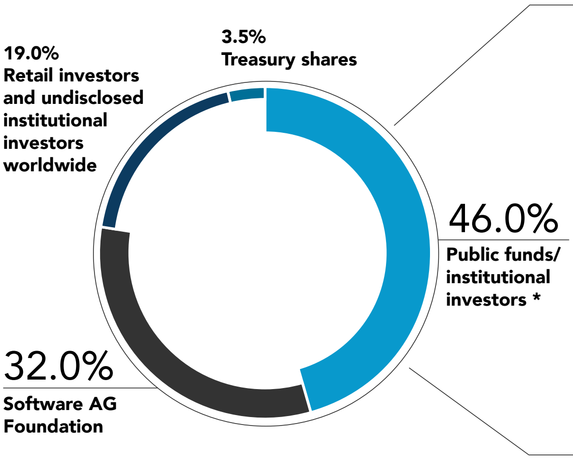
The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects in support of education, training, children, the disabled and the elderly. The foundation also funds a wide variety of scientific and environmental fields.

A regional analysis of the identified free float shows that 35 percent of Software AG shares are held in Germany, 25 percent in the USA, 16 percent in the U.K. and 11 percent in Scandinavia. Additionally, 9 percent of Software AG's shares are held by investors in Switzerland and 3 percent in France and Benelux.

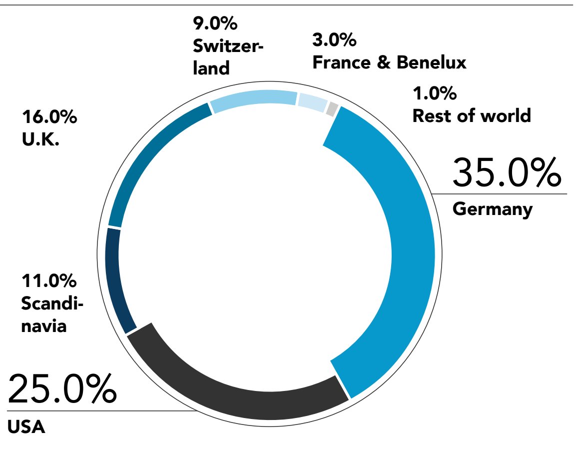
## Share Buybacks and Redemption

| | Before share redemption | Share redemption on April 30, 2015 | After share redemption on May 1, 2015 | December 31, 2015 |
|---|---|---|---|---|
| Share capital | 86,943,945 | −7,943,945 | 79,000,000 | **79,000,000** |
| Software AG Foundation's holding in shares | 24,960,000 | | 24,960,000 | **24,960,000** |
| as % | 28.71% | | 31.59% | **31.59%** |
| Software AG's holding in shares | 8,025,101 | | 81,156 | **2,768,369** |
| as % | 9.23% | | 0.10% | **3.50%** |

## Shareholder Structure




## Institutional Investors by Region (reported) *




## Ongoing Dialog with Investors

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves 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. Software AG's Investor Relations team conducted numerous meetings with investors and analysts in 2015. Software AG participated in a total of 17 capital market conferences in Germany and abroad. In addition, roadshows and analyst visits in Germany, the U.K., Switzerland, France and the U.S. were also an important medium for engaging the investor community.

Software AG continued to enjoy a high level of attention from financial analysts in the fiscal year under review. This was reflected in the high number and standing of the securities brokerage firms in Germany and abroad. Furthermore, this year's Capital Market Day was held on February 4, 2015 at corporate headquarters in Darmstadt, Germany. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland learned about Software AG's strategy and key trends in digitization.

Analysts from 21 investment banks currently cover Software AG, regularly publishing study results. Software AG's stock received a positive or neutral rating from 18 of them as of the end of February 2016. The analysts' average price target was €30.56.

## Superior Investor Relations Work

Software AG's Investor Relations team continued its commitment to comprehensive and prompt communication with all capital market participants in 2015. Software AG's high standards require that all investors are provided with the same level of information and that any misunderstandings are quickly dispelled. This includes embracing feedback from target audiences to continuously optimize communication.

A wide array of events, meetings, telephone conferences, the Annual Shareholders' Meeting and the IR website are all essential elements forming the foundation of Software AG's investor communication. Software AG provides all members of the capital market with relevant and up-to-date information on the Investor Relations website. These efforts were acknowledged by the annual IR Benchmark website ranking conducted by NetFederation, which awarded Software AG's Investor Relations website first place (like last year) in the TecDAX.

## Top Investors

| Voting Share Disclosures persuant to sec. 26(1) of WphG | Voting Share | Date Threshold Met |
|---|---|---|
| Software AG Foundation | 31.59% | 4/30/15 |
| Remo Stoffel | 3.66% | 4/30/15 |
| Software AG (treasury shares) | 3.50% | 12/4/15* |
| JP Morgan | 3.22% | 2/3/16 |
| Fidelity FMR LLC | 2.98% | 3/7/16 |

* Disclosure pursuant to article 4(4) of Regulation (EC) no. 2273/2003

## 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 |

## 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)

# STATEMENT AND REPORT ON CORPORATE GOVERNANCE

**All information contained in this Statement on Corporate Governance reflects the situation as of February 8, 2016.**

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 are guided 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 Board and Supervisory Board

### 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. They 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. Mr. Streibich is responsible for the following corporate functions: Global Human Resources, Legal, Information Services (IT), Corporate Communications, Processes, Audits & Quality and Corporate Office. He is a member of the supervisory board of Deutsche Telekom AG, Dürr AG and Deutsche Messe AG. He serves on a volunteer basis on the steering committee of the German BITKOM IT association. He also co-chairs the German Chancellor's National IT Summit platform, "Digital Government and Public IT." Furthermore, Mr. Streibich is cofounder of the German Cluster of Software Excellence.

*Arnd Zinnhardt*

Born in 1962, degree in business administration, member of the Software AG Management Board since May 2002. As Chief Financial Officer, Mr. Zinnhardt oversees Global Finance, Controlling, Taxes, Treasury, Business Operations, Mergers & Acquisitions, Investor Relations and Purchasing. He also held the position of Labor Director until May 13, 2015. His term is in effect until 2021.

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

*Dr. rer. nat. Wolfram Jost*

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

*Eric Duffaut*

Born in 1962, member of the Software AG Management Board since October 2014. As Chief Customer Officer, Mr. Duffaut oversees Global Sales, Marketing, Partner Ecosystem and Consulting Services & Support. His term is in effect until 2019.

## Target Percentages for Women

In its meeting on July 30, 2015 the Supervisory Board established 0 percent as the target percentage for female members on the Management Board in accordance with section 111, paragraph 5 of the German Stock Corporation Act (AktG). The deadline by which this target must be reached is June 30, 2017; the current composition of the Management Board corresponds to this target.

In its meeting on July 2, 2015 the Management Board established targets for the percentage of women in the two management levels below the Management Board as well as corresponding deadlines for the fulfillment of these targets In accordance with the provisions of section 76 IV of AktG. The percentage of women in the first level of management directly below the Management Board must be 10 percent and in the second level 15 percent. The percentage of women in the first management level was already 10.8 percent in 2015. The percentage of women in the second management level was 14.3 percent at the end of 2015. The deadline for meeting the aforementioned targets is June 30, 2017.

## 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.

## Composition

Elections for shareholder representatives to the Supervisory Board were held at the Annual Shareholders' Meeting on May 13, 2015. Until May 13, 2015, the following were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (director of Asset Management at 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 GE Power AG).

Until May 13, 2015, the following were employee representatives to the Supervisory Board: Maria Breuing (employee of Software AG), Peter Gallner (trade union secretary of Vereinte Dienstleistungsgewerkschaft ver.di), Dietlind Hartenstein (employee of Software AG), Monika Neumann (Deputy Chairwoman of the Supervisory Board and employee of Software AG), Martin Sperber-Tertsunen (trade union secretary of IG Metall) and Karl Wagner (employee of Software AG).

On January 2, 2015 the Management Board of Software AG communicated its opinion in the Federal Gazette and via notices in all corporate offices and affiliated companies that the Supervisory Board must be not be composed based on the regulations of the Codetermination Act but on those of the One-Third Participation Act in accordance with section 97, paragraph 1 of AktG. Furthermore, the Management Board announced its intention to propose an amendment to the Articles of Incorporation at the Annual Shareholders' Meeting to reduce the Supervisory Board from twelve to six members, two of which had to be employee representatives in accordance with section 4, paragraph 1 of the One-Third Participation Act. Following the successful outcome to the status proceedings, the Supervisory Board had to be composed in accordance with the regulations of the One-Third Participation Act.

Employees of the Software AG Group entitled to vote elected their two representatives, Guido Falkenberg (employee of Software AG) and Christian Zimmermann (employee of Software AG and Chairman of the General Works Council of SAG Deutschland GmbH), to the Supervisory Board on May 7, 2015. Their terms began on May 13, 2015 upon conclusion of the Annual Shareholders' Meeting.

The amendment to the Articles of Incorporation as proposed by the Management and Supervisory Boards to reduce the number of Supervisory Board members to six members was approved at the Annual Shareholders' Meeting on May 13, 2015. And, conditional upon entry of the aforementioned amendment, the following shareholder representatives were elected to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Eun-Kyung Park (CEO, ProSiebenSat.1 TV Deutschland GmbH), Alf Henryk Wulf (CEO, GE Power AG) and Markus Ziener (head of asset management, Software AG Foundation, Darmstadt). Their term began upon entry of the amendment to the Articles of Incorporation in the Commercial Register on May 27, 2015.

The Supervisory Board convened for its inaugural meeting in its new composition on June 15, 2015.

## Committees

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. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

Until the new formation of the Supervisory Board after the Annual Shareholders' Meeting on May 13, Mai 2015, the Supervisory Board had four committees in addition to the Mediation Committee, which is mandatory in accordance with the Codetermination Act. Those were the Committee for Compensation and Succession Issues, the Audit Committee, the Strategy Committee and the Nominating Committee. With the new formation of the Supervisory Board in accordance with the regulations of the One-Third Participation Act, the Supervisory Board established three committees in order to efficiently carry out its duties: the Audit Committee, the Committee for Compensation and Succession Issues and the Nominating Committee.

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 was composed of four members based on parity until May 13, 2015. Since June 15, 2015 the Committee for Compensation and Succession Issues has had three members, one of which is an employee representative. In the past fiscal year, the Committee for Compensation and Succession Issues met four times.

The Audit Committee deals with issues related to financial reporting standards, financial auditing, risk management and compliance. It was composed of six members based on parity until May 13, 2015. Since June 15, 2015 the Audit Committee has had three members, one of which is an employee representative. The Audit Committee met three times in fiscal year 2015.

The Strategy Committee was composed of six members based on parity until May 13, 2015. It focuses on the preparation and success monitoring of acquisitions, partnerships and joint ventures. The Strategy Committee met once in the year under review.

The Nominating Committee nominates qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. It consists of three shareholder representatives. The Nominating Committee met four times in 2015. The Mediation Committee did not convene in 2015.

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 on p. 54 of this Annual Report. For more detailed information, including curricula vitae, on the current members of the Supervisory Board and their committee membership, please visit www.softwareag.com/corporate/company/people/svb.

The Supervisory Board defined the following targets 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, 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. In its meeting on January 28, 2016 the Supervisory Board determined the number of independent Supervisory Board members as defined in point 5.4.2 of the German Corporate Governance Code to be three, which still corresponds to 50 percent of the Supervisory Board members. The composition of the Supervisory Board reflects this target.

In its meeting on July 30, 2015 the Supervisory Board established 16.67 percent as the target percentage for female members on the Supervisory Board in accordance with section 111, paragraph 5 of AktG. The deadline for meeting this target is June 30, 2017. Through the election of Supervisory Board members, including Eun-Kyung Park, at the Annual Shareholders' Meeting on May 13, 2015, one woman was elected to the Supervisory Board, and thus the target of 1/6 has been met within the allotted period of time.

The Supervisory Board applied the principles described above to the elections held during the year under review as well as to the nomination of candidates.

Aside from agreements related to employment contracts with the employee representatives, 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.

## Shareholders and the 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, shareholders are informed of Software AG's business developments, financial performance, assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 13, 2015 in Darmstadt at which 62.784 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 31, 2016 in Darmstadt.

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, the Annual Report and reports and documents required by law are published along with the agenda and the date of the Meeting on the Software AG website www.softwareag.com/corporate/inv_rel/finpub/events/annualgenmeeting. 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/overview/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, 3,620 employees received certificates of successful completion of a course on the subject of the code. In total, Software AG employees addressed the Compliance Board with 43 inquiries in 2015. The Compliance Board meets monthly and makes decisions about questionable cases. It consisted of Ms. Christine Schwab (Senior Vice President, Global HR), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Dr. Benno Quade (Senior Vice President, Global Legal) in the year under review.

## Financial Reporting and Auditing

The 2015 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO), as Company auditor.[1]

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.

1 Subsequent note: BDO Wirtschaftsprüfungsgesellschaft AG has served as Software AG's auditor since 1997. The audit of the 2015 annual and consolidated financial statements was handled for the first time by Kai-Niclas Rauscher und Ralf Pfeiffer due to a scheduled internal change at BDO.

## Primary Auditors' Fees and Services

Software AG's general and administrative expenses included expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €701 thousand (2014: €794 thousand). Of this amount, €604 thousand (2014: €680 thousand) related to the audit of the financial statements of the domestic entities and the Group, €71 thousand (2014: €68 thousand) to tax advisory services and €26 thousand (2014: €46 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 2015.

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 2015, received a good overall rating of 2.41.

## Opportunities and Risks

Software AG deals with opportunities and risks 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 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 2015 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/sharecapital/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.

No reportable transactions were declared during the 2015 calendar year. For more information, please visit the Internet at www.softwareag.com/corporate/inv_rel/corpgovernance/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 (p. 100).

## Shareholdings of the Members of the Management Board and Supervisory Board

### Management 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 |

### Supervisory Board

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

| Members of the Supervisory Board | Number of shares |
|---|---|
| Dr. Ing. Andreas Bereczky | 0 |
| Willi Berchtold* | 0 |
| Maria Breuing* | 0 |
| 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-Tertsunen* | 0 |
| Eun-Kyung Park | 0 |
| Markus Ziener | 400 |
| Guido Falkenberg | 0 |
| Christian Zimmermann | 0 |

* As of May 13, 2015; term ended upon conclusion of the Annual Shareholders' Meeting on May 13, 2015

## Compliance with the German Corporate Governance Code

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

The Management Board and Supervisory Board hereby declare that in fiscal year 2015 (January 1, 2015 to December 31, 2015), all recommendations of the government commission's German Corporate Governance Code dated June 24, 2014 and May 5, 2015 were and are being followed with the following exceptions.

(a) The Code recommends under point 4.2.3, paragraph 2, sentence 6 that "variable remuneration components […] [should] be based on demanding and relevant comparison parameters." Moreover, the Code recommends under sentence 7 of the same paragraph that "a retrospective amendment to the performance targets or to the comparison parameters […] [should] be prohibited."

The new Management Incentive Plan (MIP 2016) approved in December 2015 has only one performance target, namely a minimum increase of the Company's share price to €30.00 within a period of three years, whereby the price must have reached the target on a minimum of 10 consecutive days in the third year. As a precautionary measure, a deviation from point 4.2.3, paragraph 2, sentence 6 must therefore be declared.

The existing Management Incentive Plan (MIP V), which provided for the option of annual allocations, ended. The performance target was a 30-percent increase in Software AG's share price during a period of three years. The new MIP 2016 was approved with the performance target described in the last paragraph. As a precautionary measure, a deviation from point 4.2.3, paragraph 2, sentence 7 must therefore be declared. The conditions of MIP 2016 explicitly prohibit an amendment to the performance target/comparison parameters.

(b) The Code recommends under point 5.4.2, sentence 1 that an appropriate number of independent members should be on the Supervisory Board. In its meeting on February 7, 2013 the Supervisory Board determined that "at least six independent members as defined by point 5.4.2 of the GCGC should be on the Supervisory Board […]." This number corresponded to half of the Supervisory Board members, as the Supervisory Board still consisted of 12 members at that point in time. Following the conclusion of status proceedings pursuant to section 97 of AktG in February 2015, an amendment to section 9, paragraph 1 of Software AG's Articles of Incorporation was passed at the Annual Shareholders' Meeting whereby the Supervisory Board would henceforth consist of six people. In its meeting on January 28, 2016 the Supervisory Board stipulated three as the appropriate number of independent Supervisory Board members as defined by point 5.4.2 of the Code. This is likewise equal to half of the members. As a precautionary measure, a deviation from point 5.4.2, sentence 1 is being declared for the interim period from May 13, 2015 until January 28, 2016.

Darmstadt, January 28/29, 2016

Software AG

Management Board    Supervisory Board

# REPORT OF THE SUPERVISORY BOARD

**DR. ANDREAS BERECZKY**
Chairman of the Supervisory Board

Software AG focused on realigning its go-to-market strategy in fiscal 2015, including the expansion of its partner ecosystem and cloud-enablement of its DBP product portfolio. These and other activities led Software AG back to organic growth in 2015. Large-scale license agreements in the DBP line verified the strategic relevance of Software AG's Digital Business Platform for big companies. The Supervisory Board was closely involved in the development of the strategy and its implementation by the Management Board. The Supervisory Board is certain that the foundation has been laid for sustainable high-margin growth, which will continue in 2016. The Supervisory Board is aware that Software AG operates in a highly competitive market with very short innovation cycles, especially when it comes to new cloud providers.

## Collaboration between the Management Board and Supervisory Board

The Supervisory Board—whose composition changed in fiscal 2015 due to status proceedings and the election of new Supervisory Board members at the Annual Shareholders' Meeting on May 13, 2015—fulfilled all duties required of it by law and the Company’s Articles of Incorporation in fiscal 2015. It advised the Management Board in running the Company and supervised its management. In doing so, the Supervisory Board was directly involved in all decisions of key relevance to 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 work between the Management Board and Supervisory Board was based on close, trusting cooperation and an open, constructive dialog.

The Supervisory Board's deliberations addressed, among other things, 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. Documents relevant for decisions were forwarded to the Supervisory Board in due time before the relevant meeting.

## Supervisory Board Meetings

The Supervisory Board held seven (three of them prior to the formation of the newly elected Supervisory Board as of June 15, 2015) ordinary meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held three (one of them prior to the formation of the newly elected Supervisory Board as of June 15, 2015) extraordinary meetings. For three 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. All Supervisory Board members attended at least half of the Supervisory Board meetings that took place during their term and the year under review.

The following tables illustrate the attendance of members at Supervisory Board meetings held in 2015:

## Supervisory Board 2015

(as composed prior to the newly elected Supervisory Board as of June 15, 2015)

| | **Feb. 2** | **March 3** | **March 27 T** | **May 13** |
|---|---|---|---|---|
| Bereczky | x | x | tel. | x |
| Berchtold | x | x | tel. | x |
| Breuing | x | x | tel. | x |
| Gallner | x | x | tel. | x |
| Geidt | x | x | tel. | x |
| Hartenstein | x | x | tel. ** | x |
| Neumann | x | x | tel. | x |
| Requardt | x | x | tel. | x |
| Schäferkordt | x** | x | tel. | x |
| Sperber-Tertsunen | x | x | tel. | x |
| Wagner | x | x | tel. | x |
| Wulf | x | x | tel. | x |

## Supervisory Board 2015

(as composed after the newly elected Supervisory Board as of June 15, 2015)

| | **June 6** | **June 29 T** | **July 30** | **Aug. 4 T** | **Oct. 29** | **Dec. 7** |
|---|---|---|---|---|---|---|
| Bereczky | x | tel. | x | tel. | x | x |
| Falkenberg | x | tel. | x | tel. | x | x |
| Park | x | tel. | x | tel. | x | x |
| Wulf | x | tel. | x | e | x | x |
| Ziener | x | tel. | x | e * | x | x** |
| Zimmer-mann | x | tel. | x | tel. | e | x |

T = Meeting held via phone
e = Excused
* = Ballot cast in writing
tel. = Attended via phone
** = In part

At the accounts meeting on March 9, 2015, in the presence of financial auditors, the 2014 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 2014 after the financial auditors' verification of the accuracy of the calculations.

The last meeting of the 12-member Supervisory Board was conducted prior to the Annual Shareholders' Meeting on May 13, 2015, the day of the Annual Shareholders' Meeting. By way of status proceedings initiated by the Management Board of Software AG it was determined that the Supervisory Board must be composed in accordance with the provisions of the One-Third Participation Act. Consequently, at the Annual Shareholders' Meeting on May 13, 2015, an amendment to the Articles of Incorporation (section 9, paragraph 1), as proposed by the Management and Supervisory Boards, was passed to reduce the number of Supervisory Board members to six members. And, then, conditional upon entry of the amendment in the Commercial Register, four shareholder representatives were elected to the Supervisory Board. Employees of the Software AG Group entitled to vote had already elected their two representatives to the Supervisory Board on May 7, 2015.

The inaugural session of the new Supervisory Board was held on June 15, 2015, after the amendment to the Articles of Incorporation passed at the Annual Shareholders' Meeting on May 13, 2015 had been entered in the Commercial Register on May 27, 2015. In addition to approving new Rules of Procedure, this meeting dealt with the election of Andreas Bereczky as Chairman of the Supervisory Board and Guido Falkenberg as Deputy Chair of the Supervisory Board, the election of members to the established committees and Software AG's strategy (status of implementation and outlook).

At the Supervisory Board meeting on July 30, 2015 the roles of Management Board members were discussed and altered somewhat. Furthermore, on the recommendation of the Committee for Compensation and Succession Issues and in accordance with section 111, paragraph 5 of AktG, the Supervisory Board determined targets for the percentage of female members on the Supervisory Board (16.67 percent) and Management Board (0 percent), to be reached by June 30, 2017. In addition, a limit of 15 years on the terms of Supervisory Board members (for members of the Supervisory Board elected in the future) was established.

In an extraordinary telephone meeting on August 4, 2015, the Supervisory Board discussed the reappointment of Mr. Arnd Zinnhardt to the Management Board for a term of five years from August 1, 2016 until July 31, 2021.

Its meeting on October 29, 2015 dealt with matters such as the financial results of the third quarter of 2015 and preparation of the 2016 budget.

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 the long-term incentive plan, MIP 2016, and the allocations of the MIP 2016 stock appreciation rights to Board members in its last meeting of the fiscal year.

## Committees

In order to efficiently carry out its duties, the Supervisory Board established a Committee for Compensation and Succession Issues, an Audit Committee and a Nominating Committee. A Strategy Committee and, pursuant to section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee were in place until the day of the Annual Shareholders' Meeting on May 13, 2015. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers are transferred to the committees to the extent allowable. The committee chairs report to the Supervisory Board plenum about the results of the respective committee meetings. All members of the Supervisory Board must attend at least half of the meetings of the committees to which they belong(ed) during a reporting year and their term.

The Mediation Committee had the number of members required by law (four) and was constituted based on parity until May 13, 2015. It was chaired by Andreas Bereczky. The Mediation Committee did not convene in 2015.

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 had four members and was constituted based on parity until May 13, 2015. The Committee for Compensation and Succession Issues has consisted of three members and has been based on one-third co-determination since the Supervisory Board was newly formed. It was and is chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met four times in fiscal year 2015. It dealt with personnel matters related to the Management Board, particularly the Management Board members' defined targets for fiscal 2015, preparation of the Supervisory Board's decision regarding their achievement of these targets and the resulting determination of their achieved variable remuneration for fiscal 2014. It handled the preparation of the reappointment of Arnd Zinnhardt to the Management Board for a further five years from August 1, 2016 until July 31, 2021, the Management Board remuneration system and the long-term incentive plan, MIP 2016.

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

### Committee for Compensation and Succession Issues 2015

(as composed prior to the newly elected Supervisory Board as of June 15, 2015)

| | Feb. 2 | March 9 |
|---|---|---|
| Bereczky | x | x |
| Neumann | x | x |
| Hartenstein | x | x |
| Wulf | x | x |

### Committee for Compensation and Succession Issues 2015

(as composed after the newly elected Supervisory Board as of June 15, 2015)

| | July 30 | Dec. 7 |
|---|---|---|
| Bereczky | x | x |
| Falkenberg | x | x |
| Wulf | x | x |

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 had six members and was constituted based on parity until May 13, 2015. Since the new formation of the Supervisory Board, the Audit Committee has consisted of three members and has been based on one-third co-determination. Willi Berchtold chaired the Audit Committee until May 13, 2015; since June 15, 2015 Markus Ziener has served as Chairman of the Audit Committee. The Audit Committee met three times in fiscal year 2015. In a meeting on March 9, 2015, 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, the Management Board's proposal on the appropriation of profits, the selection of the financial auditor for fiscal 2015 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. On July 30, 2015 the Audit Committee discussed topics such as the risk management and management information system. In a meeting on December 7, 2015 the Audit Committee discussed, in the presence of auditors, the focal points of the 2015 audit, new legislation and changes to IFRS standards as well as the effects of the change to IFRS 15 Revenue Recognition. In addition, the Audit Committee meeting dealt with Software AG's Risk and Opportunity Report, Internal Audit and Compliance and Treasury.

The following tables show meeting attendance of the members of the Audit Committee:

## Audit Committee 2015
(as composed prior to the newly elected Supervisory Board as of June 15, 2015)

| | March 9 |
|---|---|
| Berchtold | x |
| Breuing | x |
| Gallner | x |
| Geidt | x |
| Hartenstein | x |
| Schäferkordt | x |

## Audit Committee 2015
(as composed after the newly elected Supervisory Board as of June 15, 2015)

| | July 30 | Dec. 7 |
|---|---|---|
| Park | x | x |
| Ziener | x | x |
| Zimmermann | x | x |

The Strategy Committee consisted of six members until May 13, 2015. It was constituted based on parity. This committee dealt primarily with the preparation and success monitoring of strategic partnerships, acquisitions and joint ventures. It was chaired by Andreas Bereczky. The Strategy Committee met once in 2015.

## Strategy Committee 2015

| | Jan. 19 T |
|---|---|
| Bereczky | x |
| Breuing | x |
| Requardt | x |
| Sperber-Tertsunen | x |
| Wagner | x |
| Wulf | x |

T Meeting held via phone

The Nominating Committee was chaired by Andreas Bereczky. It convened four times in fiscal year 2015.

## Nominating Committee 2015

| | Jan. 19 T | Feb. 2 | March 9 | March 27 T |
|---|---|---|---|---|
| Bereczky | x | x | x | x |
| Geidt | x | x | x | x |
| Requardt | x | x | x | x |

T Meeting held via phone

## 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 2015.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, examined the financial statements and consolidated financial statements for the year ended December 31, 2015, as well as the Management Report and the accounting books and records. The auditor issued an unqualified audit option.

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 10, 2016. 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 2015. In its meeting on July 30, 2015 the Supervisory Board defined targets for the percentage of female members on the Management Board and Supervisory Board. It also determined a limit on the term of members of the Supervisory Board (see above). At all times during fiscal year 2015 until May 13,

2015 there were six independent members as defined by point 5.4.2 of the German Corporate Governance Code on the Supervisory Board.

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2015. (For further information, refer to the Remuneration Report, p. 100 of the 2015 Annual Report.) The corresponding model tables as per the German Corporate Governance Code dated May 5, 2015 were used. The remuneration system for the members of the Management Board did not change in 2015.

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. 46 of the 2015 Annual Report). The declaration of compliance has been made public on the Company's website at www.softwareag.com/corporate/inv_rel/corpgovernance/compliance.

## Changes to the Management Board and Supervisory Board

The following personnel changes occurred on the Management Board and Supervisory Board of Software AG in 2015:

On August 4, 2015 Arnd Zinnhardt was reappointed to the Management Board of Software AG for a further five years from August 1, 2016 until July 31, 2021.

Upon conclusion of the Annual Shareholders' Meeting on May 13, 2015 the terms of former Supervisory Board members Andreas Bereczky, Willi Berchtold, Maria Breuing, Peter Gallner, Heinz Otto Geidt, Dietlind Hartenstein, Monika Neumann, Hermann Requardt, Anke Schäferkordt, Martin Sperber-Tertsunen, Karl Wagner and Alf Henryk Wulf ended.

On May 7, 2015 Guido Falkenberg and Christian Zimmermann were elected as employee representatives to the Supervisory Board; their term commenced upon conclusion of the Annual Shareholders' Meeting on May 13, 2015.

Andreas Bereczky, Eun-Kyung Park, Alf Henryk Wulf and Markus Ziener were elected as shareholder representatives to the Supervisory Board at Software AG's Annual Shareholders' Meeting on May 13, 2015; their term began on May 27, 2015. In the Supervisory Board meeting on June 15, 2015 Andreas Bereczky was elected as Chairman and Guido Falkenberg as Deputy Chairman of Software AG's Supervisory Board. The Supervisory Board elected its committee members in that meeting as follows:

**Committee for Compensation and Succession Issues**

1) Dr. Andreas Bereczky (Chairman)
2) Guido Falkenberg
3) Alf Henryk Wulf (Deputy Chairman)[1]

**Audit Committee**

1) Markus Ziener (Chairman)
2) Eun-Kyung Park
3) Christian Zimmermann (Deputy Chairman)[1]

**Nominating Committee**

1) Dr. Andreas Bereczky (Chairman)
2) Alf Henryk Wulf
3) Markus Ziener

Committee members also elected the respective committee chairs in the meeting on June 15, 2015. The committee deputy chairs, also indicated above, were elected in the meetings of the Committee for Compensation and Succession Issues and Audit Committee on July 30, 2015.

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 2015.

Darmstadt, January 28, 2016

The Supervisory Board

**DR. ANDREAS BERECZKY**

Chairman

1 Election in the Committee for Compensation and Succession Issues meeting on July 30, 2015

For more information on the members of the Supervisory Board, please refer to the Notes to the Consolidated Financial Statements under Other Disclosures on p. 163 of the 2015 Annual Report or visit www.softwareag.com/de/company/people/svb.

# COMBINED MANAGEMENT REPORT

# ECONOMIC 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 technology leader in application infrastructure and middleware software. It drives the development of digitization solutions and services, such as products for real-time analytics, which have great potential in the high-growth Industry 4.0 and Internet of Things (IoT) markets. Because digitization's penetration of all areas of work and life all over the world is unstoppable, every modern business will transform to a more or less Digital Enterprise.

Our world is transforming. Large portions of business are moving to the Internet. Customers are more informed and open to change. Young digital vendors are entering the market and quickly overtaking long-established market leaders. More and more companies in every industry are confronted with new competitors, market developments and disruptive technologies born of Internet-based business models and globalization trends. The complexity of enterprise processes, big data and IT infrastructure is steadily growing. Businesses must therefore adapt to shorter innovation cycles and mega trends like the cloud, mobile, big data, social collaboration and Internet of Things as well as develop digital business models.

We support the digital transformation of our customers. Our adaptive solution platform, the Digital Business Platform, helps them design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing market conditions. This agility, flexibility and speed are critical in today's competitive landscape. In comparison, the large application systems that have been implemented over recent years and decades are too inflexible and do not adapt fast enough. Those who succeed in transforming to a Digital Enterprise profit from competitive advantages and are able to meet growing customer expectations.

Our comprehensive portfolio protects enterprises' investment in existing applications and enhances them with an agile digital platform. In this way, Software AG solutions build on existing IT landscapes that have often evolved gradually over years becoming extremely heterogeneous. These complex and sometimes monolithic infrastructures can no longer keep up with the rapidly changing digital market. The Digital Enterprise has to stand out from the competition with innovation and efficient change processes. It therefore needs applications that can adapt continuously and flexibly. With its products and services, Software AG considers itself to be an innovative driver of this transformation affecting all organizations in the digital age.

To position the Company more strategically, Software AG's Management Board resolved to rename two business lines in early April 2015.

- The BPE portfolio became Digital Business Platform (DBP).
- The ETS portfolio was renamed Adabas & Natural (A&N).
- The Consulting business kept its existing name.

The composition of the portfolio and the revenues generated by the respective business lines remain unchanged.

## Digital Business Platform

To meet the demands of digital transformation, Software AG unveiled the world's first digital transformation platform, the Digital Business Platform. This software platform enables companies and government agencies to optimize digital processes, drive innovation, increase efficiency, develop adaptive applications and harness sales opportunities in real time. Thanks to vendor-neutral solutions, the Digital Business Platform works with existing systems allowing innovative applications to be developed and integrated faster and more flexibly.

## Adabas & Natural

Software AG's traditional business line specializes in the field of mainframe-based databases. The renaming reflects the fact that the proven Adabas and Natural names are well-known and popular with customers, partners and across the IT sector as a whole. Since it was founded, this division of Software AG has offered database solutions for mainframes and the development and modernization of mainframe-based IT systems. This provides long-standing customers with long-term investment protection. Our high-performance Adabas database and the Natural development environment have been playing an important role in the IT landscapes of large companies and government agencies for more than 45 years.

## Consulting

The Consulting segment was consolidated, and since consists of services for Software AG's software products only. This segment also included SAP consulting services until June 2014.

For more information on the three business lines, please refer to the Segment Reports.

## Major locations

Software AG serves customers in more than 70 locations worldwide. The Company's corporate headquarters are located in Darmstadt, Germany. The largest offices are in Darmstadt, (Germany), Madrid (Spain), Bangalore (India), Or-Yehuda (Israel) and Reston (USA). Software AG operates globally. The Company maintained its strong presence in key strategic markets in the year 2015 and seeks proximity to customers through its broad sales network. The North American market is the largest IT market in the world and continues to drive our business significantly. Software AG's product revenue in the USA grew by 5.1 percent in 2015. North America is Software AG's second-largest sales territory, surpassed by the EMEA region (Europe, Middle East and Africa) by just a small margin. Germany is the key EMEA market, followed by the Iberian Peninsula and the United Kingdom. Positioning itself in new, emerging and future-proof locations is also part of Software AG's global geographic strategy. This strategy is producing results: For example, Software AG's highest year-on-year revenue growth rate (at constant currency) was in South Africa, with 56.1 percent more revenue than in 2014. India demonstrated the most expansion of all Software AG locations in 2015, with the number of employees up by 34 percent to 611. Israel is also an important R&D location with some 350 staff members.

## Management and control

Software AG's Management Board consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Technology Officer (CTO) and the Chief Customer Officer (CCO). The Management Board is appointed, supervised and advised by the Supervisory Board. The Supervisory Board consisted of 12 members until the day of the Annual Shareholders' Meeting on May 13, 2015. By way of status proceedings initiated by the Management Board it was determined at the 2015 Annual Shareholders' Meeting that the Supervisory Board was to be composed in accordance with the provisions of the One-Third Participation Act. Since then the Supervisory Board has been comprised of six members: four shareholder representatives and two representatives of the employees of Software AG.

## Key products, services and business processes

The DBP and A&N business lines generate license and maintenance revenues from Software AG's products. Since June 1, 2014 the Consulting segment has provided consulting services primarily for Software AG's own products.

## Product and brand portfolio

The ARIS, Alfabet, webMethods, Apama, Terracotta and Software AG Cloud product families form the DBP business line. Adabas and Natural form the product offering of the A&N business line.

So nearly the entire brand portfolio is bundled into the Digital Business Platform. Using a clearly-structured brand architecture, the individual product families have been separated into five modules, which represent the core themes of Digital Enterprise transformation.

- **Business & 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.
- **Analytics & Decisions:** This platform combines webMethods Operational Intelligence and Apama Streaming Analytics for real-time big data analytics and decision-making logic.
- **Process:** webMethods Business Process Management and webMethods Agile Apps enable management of agile applications and processes.
- **Integration:** webMethods Integration and webMethods API (application programming interfaces) Management enable integration of systems and processes.
- **In-Memory Data:** 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 A&N transaction processing as well as Software AG cloud solutions. For more information, please refer to the section on Strategy and Products of this Annual Report.

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 expanded, modified and modernized while operating. We have a global team to develop our service and maintenance business across countries and business lines, which promotes customer proximity and loyalty.

## Key sales markets and competitive position

Software AG has established itself as one of the world's leading providers of digital business platforms. The combination of our software and service portfolio for digitization, automation and integration of business processes along with the development of new adaptive apps is, according to numerous market studies, leading the global market. It therefore gives Software AG an excellent competitive position in a software market marked by rapid consolidation.

Software AG was the first in the world to unveil a Digital Business Platform. Analysts from the two leading U.S. market research firms, Gartner and Forrester, confirm Software AG's position as a pioneer and market leader in multiple market segments.

Achieving a critical mass in key European markets and expanding our physical presence in North America have improved our market reach. By merging all customer-related activities under one board member and implementing a focused, scalable go-to-market model in October 2014, we have also laid the foundation for effective market development and higher productivity. The new focus has been fortified by the expansion of a partner ecosystem and close cooperation with colleges and universities, research institutes and technology partners.

These unique selling points allow us to meet the growing needs of customers for improved processes and digital transformation and to position ourselves in key high-growth markets. The digital age is changing the significance of information technology entirely. Now, IT is what makes the difference between success or failure and enables new business models. Software AG's new Digital Business Platform delivers everything customers need to succeed in the digital world. Our cross-industry portfolio provides customers with the vendor-neutral solutions and IT components and services they need for their transformation to a Digital Enterprise.

## Market survey recognition

Numerous studies carried out by highly respected independent research institutes confirm the strategy and quality of Software AG's product and service offering. Market analysts have been acknowledging Software AG's portfolio for years with top scores and leading rankings. Software AG was recognized eight times in fiscal 2015 for its product portfolio. The awards and honors are discussed in detail in the section on Strategy and Products of this Annual Report.

## 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 technological leadership and position as a top export nation. 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 active in the German software cluster to promote a flourishing hub and 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.

## Corporate control, objectives and strategy

### Internal corporate control system

In order to increase our enterprise value for the long term, we continue to focus our efforts on 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 DBP and A&N product revenue based on IFRS reporting as well as operating earnings (non-IFRS) and operating profit margin (non-IFRS) to be relevant performance indicators. In fiscal 2015 the operating profit margin (non-IFRS) was the focus of internal controlling. Software AG defines it as follows:

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

The 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 expenses in the areas of licenses, maintenance and services. License revenue is 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 broken down further 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. We achieve it through our recently established Management Board position for global sales, services and marketing, the new go-to-market strategy, 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 positions of 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 costs remain flexible in relation to sales growth. We adjust the 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 29.7 percent (FY 2015) to between 32.0 and 35.0 percent by 2020. This will be achieved primarily through organic growth in the DBP business line, the continuation of productivity improvements in sales and a growing share of revenues via an expanded partner ecosystem. With respect to organic growth in DBP 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. This mega trend will be the key driving force of growth in the software sector. An essential component of this strategy is the ongoing development of our product portfolio through the integration of technologies acquired in previous years and co-innovation with customers and partners. Our long-term vision is to evolve into a global market leader in application infrastructure and middleware 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 A&N business line provides us with a profitable and solid basis for flexible and strategic investments in visionary markets of the future. Furthermore, it is an established customer base that holds promising potential for DBP 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, loyalty and feedback (e.g. maintenance agreement termination rates, regional trends)
- Employee satisfaction and retention
- Research and development (e.g. product-release cycles)
- Focus on sales and marketing excellence (e.g. efficiency and effectiveness, average deal size)
- Management and expansion of the sales partner ecosystem (e.g. number of partners, revenue via partners)

Software AG considers these aspects to be essential to long-term business 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 DBP business. This segment has become our primary revenue generator over the past few years, most recently accounting for more than 49.4 percent (2014: 46.0 percent) of Group revenue. Our traditional A&N database business contributed 28.4 percent (2014: 28.6 percent) and Consulting 22.2 percent (2014: 25.4 percent) to total global revenue.

This shows that, as a product provider, Software AG has further optimized its revenue mix in favor of high-margin license and maintenance revenue. The reason for the focus on product revenue is its significant potential compared to services for growth and higher earnings. 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 with a good profit margin.

For more information, please refer to the section on Strategy and Products of this Annual Report.

# Business Summary

## General economic conditions

Global economic expansion slowed down over the course of 2015. The Institute for the World Economy (IfW) anticipates that global output grew on an annual average by 3.1 percent, following 3.4 the year before. In addition to the expansionary monetary policy upheld by developed nations, low oil prices played a major role in economic developments. Economic recovery in the eurozone was stymied by structural problems in some of the monetary union countries. The eurozone's economy grew slightly during 2015, showing a 1.5 percent (2014: 0.8 percent) gain. After a slow start to the year, the USA's gross domestic product (GDP) achieved a solid year-on-year increase to 2.5 percent (2014: 2.2 percent). Emerging economies saw slow growth in 2015 due to domestic economic problems and the low price of raw materials.

## Sector-specific conditions

The IT market exhibited a variable trend in 2015, according to analysts at U.S. market research firm, Gartner. Global IT spending in the year under review fell 5.8 percent to total of $3.5 trillion. The market segments in which Software AG operates did better in comparison: Spending for enterprise software decreased 1.4 percent to $310 billion; the IT services market segment lost 4.5 percent at $912 billion. The European Information Technology Observatory (EITO), however, expects stronger growth rates and estimates worldwide sales in IT and telecommunications products and services to be €2.8 trillion in 2015, which is 3.8 percent above the previous year. The USA continues to account for the largest share in global sales of ICT products and services (28.4 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 predicted growth in Germany. Sales in the ICT sector rose slightly in 2015 to €156 billion (+1.9 percent).

## Key events affecting business performance

In fiscal 2015 Software AG focused on profitable organic growth, the realignment of its go-to-market strategy—including expansion of its partner network—targeted process optimization and increasing profitability. The relevant measures taken led to improvements in all of the Group's key performance indicators. It also meant major progress in becoming a completely customer-centric organization.

Responding to today's rapidly digitizing economies, Software AG presented the first-ever Digital Business Platform at CeBIT 2015. The agile data, integration and process platform is geared to fast adaptability and enables co-innovation—joint, needs-based development of software solutions with customers. It serves as a foundation for Digital Enterprise transformation. Its strategic relevance to large companies was confirmed by large license deals signed, especially in the last quarter of 2015.

## Management's general statement on business performance and financial position

Software AG's focus of the two previous years was its transformation to a profitable product vendor. In fiscal 2015, the Company then returned to organic growth. Its strategic priorities were customer-driven development of the product portfolio, growth in recurring income—particularly maintenance revenue—and more efficient and productive sales activities as part of the new go-to-market concept.

This value-oriented strategy led to successive improvement in all key performance indicators and ultimately to a record-breaking quarter at the end of 2015. Group revenue in 2015 totaled €873.1 million, outperforming the year before by 1.8 percent. The operating profit margin (non-IFRS) was 29.7 percent, exceeding the Company's forecast, which had been raised three months earlier (28.0 to 29.0 percent). The Company's profitable maintenance revenue showed excellent growth in all quarters. Totaling €406.9 million (2014: €371.3 million), the percentage of total revenue from maintenance increased to 46.6 percent (2014: 43.3 percent) in fiscal 2015. This reflects Software AG's intensified focus on repeat high-margin income.

The Company saw a steady improvement in total revenue and operating income (non-IFRS) during the year. Over the four quarters, Group revenue grew from €194.1 million to €205.6 million to €215.9 million and, finally, to €257.5 million. The DBP business also grew continuously: It started out at €91.0 million in the first quarter, went up to €99.8 million in Q2, to €103.2 million in Q3 and then to €137.6 million in Q4. This shows stronger sequential growth in the final quarter than in the first half of the year. Furthermore, Software AG grew its cloud business by more than 100 percent in fiscal 2015; at the end of the year, incoming orders were up more than 150 percent year-on-year.

Because A&N-based applications remain success-critical for customers, the traditional Adabas & Natural line posted its smallest loss of the past four years. The segment's margin increased to a record-breaking 70.0 percent. Therefore, the traditional profitable business line accounted for 50 percent of accumulated segment earnings of all three business lines. This reflects the importance of the A&N segment in earnings and business as well as the high level of stability and loyalty of customers, consisting primarily of large well-known corporations.

The positive shift in the revenue mix to a higher share of product revenue combined with stringent cost management led to increased profitability and ultimately a record fourth quarter with multiple all-time highs. The Digital Business Platform line achieved license revenue growth of 23.0 percent and the highest quarterly revenue in the history of Software AG in the fourth quarter. Fourth-quarter maintenance sales went up 9.7 percent, which also marks a quarterly record. The 4.1 percent increase in total revenue enabled the Company to raise earnings at above-average rates in the fourth quarter: Both the operating profit margin (EBITA, non-IFRS) at 35.8 percent and EBIT margin (IFRS) at 31.1 percent set new records. Propelled by the exceptionally strong fourth quarter, Software AG closed fiscal 2015 with revenue and earnings growth. We were among the industry's top performers thanks to our high earnings level in the final quarter.

This continued performance over four quarters marks a clear trend in business performance. It reflects the huge potential of our Digital Business Platform and confirms our technology leadership of the market. Our excellent product portfolio, our progress in the transformation of our go-to-market model, the lasting loyalty of our Adabas & Natural customers and the efficiency improvements achieved to date are the primary reasons for the upward trend. Step by step, improvements to operating results led to success in 2015; so quarterly performance translated into a long-term business trend.

We met and even surpassed some of our financial and non-financial objectives. In addition to the operating increase in revenue and earnings, free cash flow also rose 28.1 percent. Equity ratio reached the high level of 60.0 percent at the end of the year.

This level of profitability will serve as the foundation for innovation and expansion and for Software AG's successful development. We are the technology leader in application infrastructure and middleware software. As such, we drive the development of products for real-time analytics, which have great potential in the high-growth Industry 4.0 and Internet of Things market. The excellence of our product portfolio was confirmed by multiple studies conducted by respected market analysts and customer feedback. We are of the opinion that, technologically speaking, the Company is very well positioned in the global market and has made significant progress in its transition to a product provider with a focus on the key future segment of Digital Business Platform (DBP).

## Comparison of actual performance with forecast issued last year

Software AG communicated the following forecast for the full fiscal year on January 28, 2015:

- Software AG expected a revenue increase in the DBP line between 6 and 12 percent year-on-year (at constant currency) for fiscal 2015. It expected a revenue decline in the A&N line between −8 and −14 percent year-on-year and at constant currency. Furthermore, the Management Board expected an operating EBITA margin (non-IFRS) in the range of 27.5 to 28.5 percent.

Software AG confirmed the forecast released in January at the conclusion of the first quarter and the first half of 2015. In the third quarter and first nine months of the year A&N revenue and operating EBITA margin (non-IFRS) were higher than expected due to the shift in revenue mix and effective cost management, mainly in sales. Furthermore, DBP revenue was lower than had been forecast at the beginning of the year. Due to these developments combined with the project pipeline for the fourth quarter, Software AG released the following update to its fiscal 2015 forecast on October 13, 2015:

- The Management Board of Software AG then anticipated revenue growth in the Digital Business Platform (DBP) business line between 0 percent and 3 percent (previously 6 to 12 percent) and a revenue decline in A&N between only −4 and −6 percent (previously −8 to −14 percent) year-on-year and at constant currency. Furthermore, Software AG raised its forecast for its operating profit margin (EBITA, non-IFRS) by 50 basis points to between 28.0 and 29.0 percent (previously 27.5 to 28.5 percent).

The Company's actual performance in fiscal 2015 reported €431.5 million (2014: €394.5 million) in revenue in the Digital Business Platform (DBP) line—1.8 percent growth year-on-year and at constant currency. This figure is above the average projected range for growth between 0 and 3 percent.

The Adabas & Natural (A&N) line generated €248.0 million (2014: €245.3 million) in fiscal 2015, which reflects a 4.7 percent decrease compared to last year at constant currency. This figure is in the middle of the updated forecast range.

Software AG achieved an operating EBITA (non-IFRS) margin of 29.7 percent (2014: 27.9 percent) in 2015. This result exceeded the publicized forecast of 28.0 to 29.0 percent (previously 27.5 and 28.5 percent) thanks to the unanticipated early impact of cost-reducing measures within the context of restructuring.

# Financial Performance

## Revenue

Software AG increased Group revenue from €857.8 million in 2014 to €873.1 million in 2015, which is 1.8 percent growth. Without accounting for the SAP consulting operations sold the year before, this shows an improvement of 4.2 percent (SAP Consulting 2014: €20.0 million) The positive performance is primarily a result of Software AG's new go-to-market strategy, which is reflected in all key performance indicators. The Company also achieved a number of all-time highs in the last four quarters, with the fourth quarter of 2015 setting new standards: The Digital Business Platform line reported 23.0 percent growth in licenses and 9.7 growth percent in maintenance. In addition, Software AG increased its cloud business by 103.3 percent in fiscal 2015.

## Currency impact on revenue

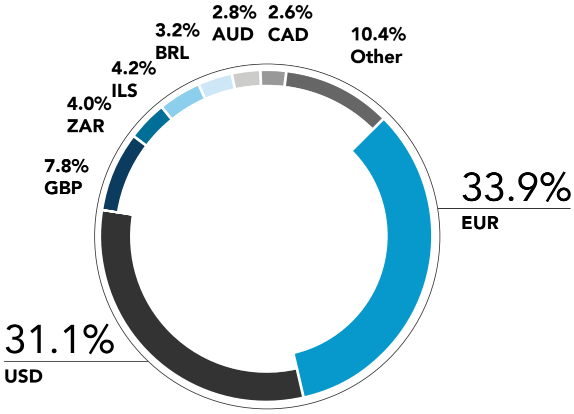
Currencies had a positive effect in the amount of €51.9 million (2014: −€7.8 million) on total revenue in fiscal 2015. This was due primarily to the expansion of business in the North American market and the resulting increase in the share of revenues in U.S. dollars—as well as the strong U.S. dollar against the euro—to 31.1 percent.

The euro still accounted for the largest percentage, although it dropped from 38.7 to 33.9 percent. The dollar was followed by the pound sterling (GBP) at 7.8 percent, the Israeli shekel (ILS) at 4.2 percent and the South African rand (ZAR) at 4.0 percent. The share in Brazilian real (BRL) decreased to 3.2 percent due to the economic crisis in Brazil, putting it at a similar level as the Australian dollar (AUD) at 2.8 percent and the Canadian dollar (CAD) at 2.6 percent.

Exchange rates had a positive effect on all business lines: Licenses benefited from currencies in the amount of €17.8 million; maintenance also saw an effect of €26.4 million. Consulting felt a currency-related tailwind in the amount of €7.7 million.

## Revenue by Currency 2015

**34% Revenue in euros**
**66% Revenue in foreign currency**




## Currency Impact on Revenue

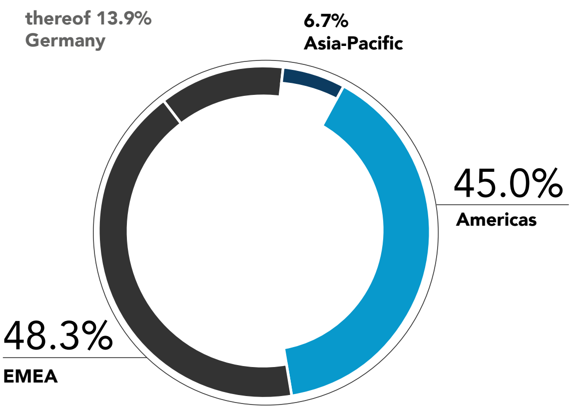
| in € millions | 2015 | as % |
|---|---|---|
| Licenses | 17.8 | 7.0% |
| Maintenance | 26.4 | 7.0% |
| Consulting & Other | 7.7 | 4.1% |
| Total | 51.9 | 6.3% |

## Sales by revenue type

License revenue for DBP and A&N products rose slightly to €271.9 million (2014: €270.1 million), which is 0.7 percent growth. The Group's maintenance revenue increased considerably to €406.9 million (2014: €371.3 million), which is 9.6 percent growth. As a percentage of total sales, maintenance thus made a noteworthy climb to 46.6 percent (2014: 43.3 percent), confirming Software AG's focus on long-term repeat revenues. In total, product revenue (licenses plus maintenance) rose 5.8 percent to €678.8 million (2014: €641.4 million). Product revenue as a percentage of total revenue was up at 77.7 percent (2014: 74.8 percent), which mirrors the success of Software AG's planned transition to a product provider in favor of license and maintenance revenues.

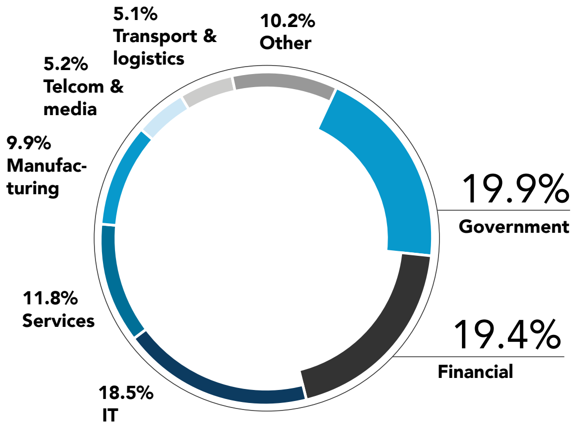
Revenue in the Consulting line remained stable. Calculated on a comparable basis (not accounting for SAP consulting operations sold in 2014), Consulting saw only a marginal decrease from €195.8 million to €193.4 million; the focus for this segment was on strengthening the margin.

## Product Revenue by Region*




* Based on 2015 product revenue

## Product Revenue by Industry




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

EMEA generated the largest share of product revenue in fiscal 2015 with 48.3 percent or €312.9 million at constant currency. After Germany, the U.K., South Africa and France were Software AG's biggest EMEA markets. At constant currency, Germany alone accounted for €90.0 million, or 13.9 percent of product revenue.

The Americas contributed €291.3 million or 45.0 percent to product revenue at constant currency in fiscal 2015.

Product revenue in the Asia-Pacific region fell to €43.5 million (2014: €48.8 million). Australia was this region's top performer by a wide margin. Altogether the region accounted for 6.7 of the Group's product revenue.

Software AG used product revenue by region as a basis for these results given that service revenue from large-scale international projects is more difficult to allocate to specific regions.

Software AG's products and services are employed by organizations in all sectors, because they are based on industry-neutral, interdisciplinary technology for all types of business processes. The Company's broad coverage of different market segments is an essential and proven factor in Software AG's stability, and it shields the entire Group's business from economic fluctuations in any specific industry. That has always been a key component in the stability and security of Software AG's business model. Software AG has exceptionally strong ties to growing customer bases in the public, financial and IT (including outsourcing) sectors, accounting for 57.8 percent of its revenue. Based on revenue share, they are followed by the general services sector, manufacturing, telecommunications and transport/logistics.

## Performance of key items on the income statement and cost structure

Software AG reduced its cost of sales by 10.2 percent to €212.2 million (2014: €236.3 million) in fiscal 2015 due to the ongoing optimization of its global field organization as well as internal processes. This year-on-year improvement was facilitated by the absence of costs related to the divested SAP consulting operations in the German-speaking region.

Gross profit increased by 6.3 percent to €660.9 million (2014: €621.5) in 2015. Accordingly, gross profit margin as a percentage of Group revenue went up to 75.7 percent (2014: 72.5 percent). The key factors involved in the improved gross margin were the higher share of product revenue of total revenue, the increased percentage of high-margin recurring maintenance revenues and the increased margin in services.

Despite staff increases, research and development expenses dropped slightly to €106.4 million (2014: €109.1 million), or by 2.4 percent. As a result, R&D expenses in relation to product revenue (licenses and maintenance) fell from 17.0 percent to 15.7 percent. The higher figure in 2014 included significant R&D expenses related to products from the five technology acquisitions in previous years along with the associated expansion of R&D resources and products. The reduction in expenses in 2015 also reflects the efficient management of R&D activities through use of near and offshore capacities. As an innovation leader, Software AG continues to invest unrelentingly in visionary products and markets in the DBP business line. With this investment strategy Software AG is committed to driving the evaluation and development of new technologies for the Digital Enterprise.

Sales and market expenses rose in line with revenue in 2015 by 2.2 percent to €268.8 million (2015: €263.0 million), which, as 30.8 percent (2014: 30.7 percent) of total revenue, is on par with last year. The prerequisites were met for increased sales efficiency in this business line. All customer-related activities were consolidated and the go-to-market strategy was realigned under the new Chief Customer Officer, Eric Duffaut. The realignment had a positive impact on the fiscal 2015 results in all parts of the Company.

General administrative expenses decreased due to one-time effects (refer to Earnings Performance) to €69.4 million (2014: €74.1 million), or by 6.3 percent. These expenses as a percentage of total revenue decreased to 7.9 percent (2014: 8.6 percent). Adjusted for the one-time effects, general administrative expenses approximated the figure from the year before. Software AG's other taxes fell dramatically by 29.0 percent to €6.0 million (2014: €8.4 million).

## Income Statement for Fiscal Year 2015

| in € millions | 12 months 2015 | One-time effects* 2015 | 12 months 2015 (operating) | 12 months 2014 | Change as % | Change as % (operating) |
|---|---|---|---|---|---|---|
| Licenses | 271.9 | 0.0 | 271.9 | 270.1 | 1% | 1% |
| Maintenance | 406.9 | 0.0 | 406.9 | 371.3 | 10% | 10% |
| Services | 193.4 | 0.0 | 193.4 | 215.8 | –10% | –10% |
| Other | 0.9 | 0.0 | 0.9 | 0.6 | 50% | 50% |
| **Total revenue** | *873.1* | *0.0* | *873.1* | *857.8* | *2%* | *2%* |
| Cost of sales | –212.2 | 1.1 | –211.1 | –236.3 | –10% | –11% |
| **Gross profit** | *660.9* | *1.1* | *662.0* | *621.5* | *6%* | *7%* |
| Research and development expenses | –106.4 | –1.5 | –107.9 | –109.1 | –2% | –1% |
| Sales, marketing and distribution expenses | –268.8 | 6.7 | –262.1 | –263.0 | 2% | 0% |
| General and administrative expenses | –69.4 | –5.6 | –75.0 | –74.1 | –6% | 1% |
| Other taxes | –6.0 | 0.0 | –6.0 | –8.4 | –29% | –29% |
| **Operating earnings** | *210.3* | *0.7* | *211.0* | *166.9* | *26%* | *26%* |
| Other income/expenses, net | –6.8 | 0.0 | –6.8 | 0.7 | – | – |
| Net financial income/expense | –3.0 | 0.0 | –3.0 | –9.2 | –67% | –67% |
| **Earnings before taxes** | *200.5* | *0.7* | *201.2* | *158.4* | *27%* | *27%* |
| Income taxes | –60.9 | 0.0 | –60.9 | –47.8 | 27% | 27% |
| **Net income** | **139.6** | **0.7** | **140.3** | **110.6** | **26%** | **27%** |
| **Thereof attributable to shareholders of Software AG** | *139.4* | *0.7* | *140.1* | *110.4* | *26%* | *27%* |
| **Thereof attributable to non-controlling interests** | *0.2* | *0.0* | *0.2* | *0.2* | *0%* | *0%* |
| Earnings per share in € (basic) | 1.78 | 0.01 | 1.79 | 1.39 | 28% | 29% |
| Earnings per share in € (diluted) | 1.78 | 0.01 | 1.78 | 1.39 | 28% | 28% |
| Weighted average number of shares outstanding (basic) | 78,429,032 | 78,429,032 | 78,429,032 | 79,228,450 | – | – |
| Weighted average number of shares outstanding (diluted) | 78,510,932 | 78,510,932 | 78,510,932 | 79,228,450 | – | – |

* Refer to explanation on next page

## Earnings performance

Software AG's operating earnings (IFRS) were €210.3 million (2014: €166.9 million) in fiscal 2015, which is an increase of €43.4 million or 26.0 percent. The operating margin went up to 24.1 percent (2014: 19.5 percent). The driving forces behind the profitability growth were increased product revenue and the associated revenue mix improvement, sustainable maintenance revenue growth and improved Consulting earnings. Additional factors were the stability in the A&N business line, increased sales efficiencies through the consolidation of sales activities under the new CCO and the new go-to-market strategy. Furthermore, optimized processes combined with active cost management also contributed to the results.

Two one-time effects had essentially no effect on the income statements: First, expenses accumulated in past years under MIP IV amounting to €14.7 million were reversed in the third quarter because the targets defined by the plan were not met. The 5-year plan from 2011 had focused heavily on acquisition-based growth, but Software AG opted to not undertake acquisitions in 2014 and 2015 due to high prices in the M&A market. Second, Software AG continued to successfully align its future-oriented sales organization. For the year as a whole, €14.7 million resulting from the reversal of accumulated expenses calculated for share-based remuneration (Management Incentive Plan IV) offset restructuring costs primarily related to the realignment of sales in the amount of €15.4 million. This resulted in an effect in the amount of −€0.7 million.

Software AG's EBIT (net income before taxes and net financial income/expense) increased 19.0 percent in fiscal 2015 to €209.4 million (2014: €176.0 million). The EBIT margin went up to 24.0 percent (2014: 20.5 percent), which is primarily due to the rise to 31.1 percent (2014: 28.9 percent) in the fourth quarter of the year. This is also an all-time high for the EBIT margin (IFRS).

Other net income/expense changed from €0.7 in 2014 to −€6.8 million due to higher litigation expenses (please refer to Note 33 of the Consolidated Financial Statements). Net financial expense was €2.9 million (2014: €9.2 million) and thus had a much more minor impact on the net result than the year before. Accordingly, pre-tax earnings climbed 26.6 percent to €200.5 million (2014: €158.4 million). And, income tax was 27.4 percent higher at €60.9 million (2014: €47.8 million). The Group's effective income tax rate was 30.4 percent (2014: 30.2 percent).

Software AG's net income grew by 26.2 percent to €139.6 million (2014: €110.6 million). Earnings per share (basic) were therefore up at €1.78 (2014: €1.39). This improvement was also due to the decrease in the number of shares. The average number of shares outstanding (basic) in the year under review amounted to 78,429,032 (2014: 79,228,450). This decrease was because of the buyback of treasury shares.

## Earnings

| in € millions | 2015 | 2014 | Change as % | At constant currency as % |
|---|---|---|---|---|
| Total revenue | 873.1 | 857.8 | 2% | −4% |
| Cost of sales | −212.2 | −236.3 | −10% | −13% |
| Gross profit | *660.9* | *621.5* | *6%* | *−1%* |
| Margin as % | 75.7% | 72.5% | | |
| R&D | −106.4 | −109.1 | −2% | −8% |
| Sales and marketing | −268.8 | −263.0 | 2% | −4% |
| Administration | −69.4 | −74.1 | −6% | −9% |
| Other income/expenses (net) | −6.9 | 0.7 | | |
| EBIT | 209.4 | 176.0 | 19% | 9% |
| Margin as % | 24.0% | 20.5% | | |

## Appropriation of profits

Software AG adheres to a sustainable dividend policy, which is geared toward long-term development of the Company. It strives to pursue this continuity in the interest of a dependable relationship with stockholders. The Management and Supervisory Boards will therefore propose a 10 percent dividend increase—€0.55 (2014: €0.50) per share—for the 2015 fiscal year at the Annual Shareholders' Meeting on May 31, 2016. Subject to the approval of the Annual Shareholders' Meeting and assuming 76.2 million dividend-bearing shares outstanding, this would be a total payout sum of €41.9 million (2014: €39.5 million). Based on the average free cash flow and net income, the dividend ratio would equal 27 percent (2014: 32 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 indicators

EBITA (non-IFRS) went up by 8.3 percent to €259.1 million (2014: €239.3 million) in fiscal 2015. With respect to Group revenue, the operating profit margin (non-IFRS) increased to 29.7 percent (2014: 27.9 percent). This rise was spurred primarily by the strong fourth quarter, in which Software AG reported EBITA (non-IFRS) in the amount of €92.2 million (2014: €88.4 million), reflecting 4.3 percent growth. The EBITA (non-IFRS) profit margin was thus 35.8 percent (2014: 35.7 percent) in the fourth quarter, a record return on sales.

Net income (non-IFRS) increased to €173.9 million (2014: €155.1 million). Accordingly, earnings per share (non-IFRS) based on the average number of shares outstanding (basic) of 78.4 million (2014: 79.2 million) were €2.22 (2014: €1.96). This substantial improvement in operating income has solidified Software AG'S financial foundations for further strategic development of its business.

## Non-IFRS Earnings

| in € millions | 2015 | 2014 |
|---|---|---|
| EBIT (before all taxes) | 209.4 | 176.0 |
| Amortization on acquisition-related intangible assets | 35.0 | 39.2 |
| Reduction of acquisition-related product revenue by purchase price allocation | 0.0 | 0.5 |
| Other acquisition-related effects | 2.5 | 0.1 |
| Share-based payment | –3.1 | 11.7 |
| Restructuring/severance | 15.3 | 9.1 |
| Other one-off effects | 0.0 | 2.7 |
| EBITA (non-IFRS) | *259.1* | *239.3* |
| as % of revenue (non-IFRS) | 29.7% | 27.9% |
| Net income (non-IFRS) | *173.9* | *155.1* |
| **EPS (non-IFRS) *** | **€2.22** | **€1.96** |

* Based on average shares outstanding (undiluted). FY 2015: 78.4 mn/FY 2014: 79.2 mn

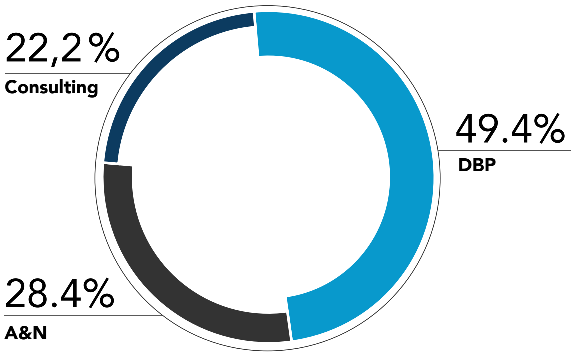
## Multi-Period Earnings Summary

| in € millions | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total revenue | 873.1 | 857.8 | 972.7 | 1,047.3 | 1,098.3 |
| thereof product revenue | *678.8* | *641.4* | *707.5* | *712.2* | *673.9* |
| EBIT | 209.4 | 176.0 | 205.5 | 248.3 | 296.2 |
| as % of total revenue | 24.0% | 20.5% | 21.1% | 23.7% | 24.5% |
| Net income | 139.6 | 110.6 | 134.0 | 164.7 | 177.2 |
| as % of total revenue | 16.0% | 12.9% | 13.8% | 15.7% | 16.1% |

## Segment reports by business line

Software AG's operations are divided into three segments: DBP, A&N 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 product families. The business relevance of the future-oriented DBP segment continued to increase, accounting for 49.4 percent (2014: 46.0 percent) of Group revenue. So nearly half of Software AG's total revenue is attributable to this segment. The traditional A&N line maintained the high level of the year before at 28.4 percent (2014: 28.6 percent). The Consulting line reached a stable 22.2 percent (2014: 25.4 percent) following the consolidation of consulting services.

## Revenue Split




| in € millions | |
|---|---|
| Total Revenue | 873.1 |
| DBP | 431.5 |
| as % | 49.4% |
| A&N | *248.0* |
| as % | 28.4% |
| Consulting | *193.6* |
| as % | 22.2% |

## Digital Business Platform

The Digital Business Platform business line generated €431.5 million (2014: €394.5 million) in total revenue in fiscal 2015 from the sale of integration and process management software and IT management and big data analytics solutions. The 9.4 percent growth (at constant currency: +1.8 percent) is a result of strong license sales, primarily in the maintenance business, which ended the year with a record quarter. Software AG also increased its low-level cloud revenue by more than 100 percent, thereby also raising its relevance. DBP maintenance revenue went up 15.0 percent to €248.0 million (2014: €215.7 million). Long-term DBP license deals closed in past periods laid the foundation for this success. Growth in maintenance revenue is therefore an indicator of the sustainability of Software AG's customer relationships and a consequence of its refocus on the profitable business relating to its own products only.

Licenses from the sale of DBP products totaled €183.5 million (2014: €178.9 million) in fiscal 2015, reflecting growth of 2.6 percent. After an inconsistent quarter-to-quarter trend, the fourth quarter of 2015 marked a decisive turnaround for the business line with a growth rate of 22.9 percent year-on-year and total revenue of €74.0 million (2014: €60.2 million). Optimized efficiencies in sales activities, initiated by the new go-to-market strategy, have begun producing long-anticipated successes.

Segment earnings rose to €125.2 million (2014: €104.4 million). This represents a 19.9 percent increase. The DBP segment margin was 29.0 percent.

## Digital Business Platform—FY 2015 Segment Report

| in € millions | 2015 | 2014 | Change as % | At constant currency as % |
|---|---|---|---|---|
| Licenses | 183.5 | 178.9 | 2.6% | –4.5% |
| Maintenance | *248.0* | 215.6 | 15.0% | 6.9% |
| Total revenue | 431.5 | 394.5 | 9.4% | 1.8% |
| Cost of sales | –27.9 | –22.8 | 22.4% | 17.9% |
| Gross profit | 403.6 | 371.7 | 8.6% | 0.8% |
| Sales and marketing | –192.7 | –182.5 | 5.6% | –1.5% |
| R&D | –85.7 | –84.8 | 1.1% | –7.4% |
| Segment earnings | 125.2 | 104.4 | 19.9% | 11.4% |
| Margin as % | 29.0% | 26.5% | | |

## Adabas & Natural

Software AG's mainframe-based traditional A&N database business line reported €248.0 million (2014: €245.3 million) in revenue, which is 1 percent higher than last year, in fiscal 2015. The market for traditional database software for mainframes is in decline due to its maturity and saturation. So this result reflects loyalty among A&N customers who continue to depend on Software AG's reliable technology for running their business-critical applications. Furthermore, the stability of the A&N business was also reinforced by Software AG's intensified focus on customers and innovation. Software AG will continue providing customers with an ongoing offering of new products for modernizing their existing systems.

A&N maintenance revenue was €158.9 million (2014: €153.7 million) in 2015, 3.4 percent above last year. The strong maintenance business along with positive exchange rate effects ultimately led to growth in the business line although a decline was expected. A&N license revenue for fiscal 2015 dropped to €88.4 million (2014: €91.0 million), because the demand for mainframe database upgrades is shrinking in general.

At constant currency the A&N line shrunk by 4.7 percent, which was within the forecast range, raised during the year, to −4 to −6 percent. Earnings in the A&N segment rose, however, to €173.6 million (2014: €167.3 million). This was achieved in part by reducing costs for sales and marketing as well as R&D. The segment's margin increased to a record-breaking 70.0 percent. The traditional profitable business line accounted for 50 percent of accumulated segment earnings of all three business lines while only accounting for 28.4 percent of revenue. Through this strong performance the Adabas & Natural business line has again proven its extreme cost-effectiveness and lasting stability thanks to a loyal customer base. We will therefore continue creating value for our customers in this segment in years to come. Based on the present situation, we intend to support customers in this business line with innovations through the year 2050 and beyond.

## Adabas & Natural—FY 2015 Segment Report

| in € millions | 2015 | 2014 | Change as % | At constant currency as % |
|---|---|---|---|---|
| Licenses | 88.4 | 91.0 | −2.9% | −8.5% |
| Maintenance | *158.9* | 153.7 | 3.4% | −2.4% |
| Product revenue | *247.3* | 244.7 | 1.1% | −4.7% |
| Other | *0.7* | 0.6 | | |
| **Total revenue** | **248.0** | **245.3** | **1.1%** | **−4.7%** |
| Cost of sales | −14.2 | −12.6 | 12.7% | 9.4% |
| Gross profit | 233.8 | 232.7 | 0.4% | −5.5% |
| Sales and marketing | −39.5 | −41.1 | −3.8% | −9.2% |
| R&D | −20.7 | −24.3 | −14.8% | −18.9% |
| **Segment earnings** | **173.6** | **167.3** | **3.8%** | **2.6%** |
| Margin as % | 70.0% | 68.2% | | |

## Consulting

As part of Software AG's shift to focus its services on in-house software products, the Consulting business line was further consolidated and restructured. The result of the consolidation of services was a stable trend in Consulting revenue to approximate last year's level. In fiscal 2015 total revenue in this line was €193.6 million (2014, excluding the sold SAP consulting operations: €195.8 million. Consulting's percentage of total revenue dropped from 25.4 percent to 22.2 percent. The segment's earnings improved by 29.0 percent after the sale of the non-strategic units to €21.8 million (2014: €16.9 million). The segment's margin thus increased to 11.3 percent (2014: 7.8 percent).

We continue to pursue a strategy of sustainable profitability in the Consulting line and are therefore focusing our activities on projects that comprehensively support our product business. Furthermore, we are reducing our presence in regions in which profit expectations are low and focusing on more promising markets. We are able to realize many projects with major customers thanks to our Global Consulting Services. We added numerous new reference customers in 2015 alone.

## Consulting—FY 2015 Segment Report

| in € millions | 2015 | 2014 | Change as % | At constant currency as % |
|---|---|---|---|---|
| DBP/A&N services | 193.6 | 195.8 | −1.2% | −5.1% |
| SAP product revenue * | – | 2.2 | – | – |
| SAP services * | – | 20.0 | – | – |
| Total revenue | 193.6 | 218.0 | −11.2% | −14.7% |
| Cost of sales | −153.3 | −178.0 | −13.8% | −16.8% |
| Gross profit | 40.3 | 40.0 | 0.7% | −5.7% |
| Sales and marketing | −18.5 | −23.1 | −19.9% | −24.2% |
| Segment earnings | 21.8 | 16.9 | 28.9% | 19.8% |
| Margin as % | 11.3% | 7.8% | | |

* 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 cash and cash equivalents were €300.6 million on December 31, 2015 as compared to €318.4 million at the start of the fiscal year. A total of €70.0 million of operating cash flow and cash and cash equivalents was used to pay for the share buyback between the beginning of September 2015 and the beginning of December 2015. An additional net sum of €130.0 million was used for the repayment of financial liabilities.

Shareholders' equity increased by €76.3 million to €1,089.7 million (2014: €1,013.4 million) as of December 31, 2015. While retained earnings went down to €1,047.1 million (2014: €1,161.4 million) due to the redemption of treasury shares, other reserves went up from −€54.5 million to −€5.8 million primarily due to currency translation effects from foreign operations. Software AG's equity-to-assets ratio rose from 54.8 percent in 2014 to 60.0 percent in 2015.

Software AG used its high level of cash and cash equivalents in fiscal years 2013, 2014 and 2015 to repurchase treasury shares. As of December 31, 2014 the Company held 8,025,101 treasury shares out of a total share capital of 86,943,945 shares. Utilizing the authorization granted at the Annual Shareholders' Meeting on May 3, 2013, Software AG's Management Board redeemed 7,943,945 shares (9.14 percent of the share capital prior to redemption and capital reduction) on April 28, 2015. Software AG's share capital went down to 79,000,000 shares.

## Multi-Period Financial Position Summary

| in € millions | Dec. 31, 2015 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 300.6 | 318.4 | 450.0 | 315.6 | 216.5 |
| Current financial liabilities | 113.0 | 110.8 | 208.3 | 58.7 | 37.5 |
| Non-current financial liabilities | 213.2 | 340.5 | 410.5 | 213.4 | 254.3 |
| Net debt | 25.7 | 132.9 | 168.8 | −43.5 | 75.3 |
| Shareholders' equity | 1,089.8 | 1,013.4 | 965.6 | 1,060.1 | 951.5 |
| Equity ratio | 60% | 55% | 48% | 60% | 57% |
| Total assets | 1,814.8 | 1,848.9 | 1,996.9 | 1,771.9 | 1,680.7 |

Software AG announced on September 3, 2015 that, with the consent of the Supervisory Board, the Management Board had approved the buyback of treasury shares valued up to €70.0 million by December 31, 2015. This decision utilized the authorization granted by the Annual Shareholders' Meeting on May 13, 2015. The share buyback began on September 8, 2015 and ended on December 4, 2015, when the maximum approved repurchase amount had been reached. The volume of repurchased treasury shares is limited to no more than 10 percent of the share capital at the time of the resolution, less any other treasury shares that the company has already purchased and still holds or that are attributable to it. A total of 2,712,513 treasury shares were repurchased for a total of €69,999,987.85 (excluding transaction fees). This corresponded to an average price of €25.81 per share. As of December 31, 2015, Software AG held a total of 2,768,369 treasury shares, which represents 3.5 percent of its 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 leasing for any additional financing needs. A primary financing risk arises form 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 can 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, 2015.

## Investment analysis

Capital expenditure for property, plant and equipment and intangible assets play a minor role at software companies such as Software AG. At the end of fiscal 2015 these investments were up moderately at €12.1 million (2014: €10.9 million) and were used primarily for operating and office equipment in the sales and R&D offices and administrative headquarters in Darmstadt.

## Liquidity analysis

Total cash flow developed in line with earnings in fiscal 2015. Net cash provided by operating activities rose by €42.2 million to €185.4 million (2014: €143.2 million), which is growth of 29.5 percent. This result was impacted extremely positively by net income, which increased 26.2 percent to €139.6 million (2014: €110.6 million), combined with consistent receivables and cost management.

Cash inflows from investment activities also had a positive effect, rising from €5.1 million in 2014 to €32.8 million in the year under review. This income is primarily related to net proceeds from the sale of current financial assets amounting to €49.2 million (2014: €31.0 million). A further factor in the increase was that no acquisitions took place in fiscal 2015. Accordingly, acquisition-related payments

## Statement of Cash Flows for Fiscal Year 2015

| in € millions | 2015 | 2014 |
|---|---|---|
| Operating cash flow before changes in working capital | 245.5 | 231.2 |
| Net cash provided by operating activities | 185.4 | 143.2 |
| Net cash from investing activities | 32.8 | 5.1 |
| Net cash provided by/used in financing activities | –239.5 | –282.9 |
| Net change in cash and cash equivalents | –17.8 | –131.6 |
| Cash and cash equivalents at end of period | 300.6 | 318.4 |
| Free cash flow | 170.0 | 132.7 |

(purchase price liabilities) in 2014 amounted to €3.7 million. And, proceeds/payments from the sale of disposal groups decreased to −€1.0 million compared to €18.1 million in 2014. That was primarily due to the reduction in price for the sale of IDS Consulting.

Cash outflows from financing activities decreased to €239.5 million (2014: €282.9 million). Repayment of financial liabilities played a key part in that, totaling €138.7 million (2014: €212.6 million) in 2015, which is €73.9 million less than in 2014.

New financial liabilities amounted to just €8.7 million in 2015, compared to €35.3 in fiscal 2014. Payments for the repurchase of treasury shares (including option premiums) at €70.0 million were on par with last year (2014: €70.6 million). The total dividend payout rose to €39.6 million (2014: €36.4 million), because the dividend per share increased from €0.46 to €0.50.

Free cash flow improved 28.1 percent to €170.0 million (2014: €132.7 million), which illustrates similar growth to that of operating cash flow (+29.5 percent) and net income (+ 26.3 percent). This ratio of free cash flow to Group revenue is 19.5 percent—a considerable increase over last year's 15.5 percent. The cash-conversion ratio (free cash flow to net income: €170.0 million/€139.6 million) was 121.8 percent and slightly up from last year's 120.0 percent. Free cash flow per share increased to €2.17 (2014: €1.68) in the year under review.

### Cash flow in 2015

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including cash outflows for investments in current financial assets, proceeds from the sale of current financial assets, proceeds from the sale of disposal groups or net cash outflows for acquisitions.

## Assets

### Balance sheet structure analysis

Software AG's total assets decreased slightly from €1,848.9 million on December 31, 2014 to €1,814.8 million on December 31, 2015.

Current assets dropped by 8.1 percent to €584.2 million (2014: €635.4 million), the main reason being the reduction in other financial assets to €11.8 million (2014 €58.0 million). This change results primarily from the decrease in short-term debt instruments (securities) due to the share buyback and repayment of financial liabilities. Cash and cash equivalents went down from €318.4 million in 2014 to €300.6 million in 2015. Income tax reimbursement claims decreased by €5.3 million to €24.4 million. Current trade receivables and other receivables and assets went up to €232.6 million (2014: €214.4 million).

Non-current assets were up slightly year-on-year at €1,230.6 million (2014: €1,213.6 million). Intangible assets dropped from €180.2 million to €157.4 million due to amortization. Goodwill, on the other hand, rose to €900.0 million (2014: €857.3 million) at constant currency. While current other financial assets saw a considerable loss, non-current other financial assets from hedging stock option plans increased to €24.5 million (2014: €10.1 million). At the same time, non-current trade receivables and other receivables and assets fell significantly (in contrast to current) to €75.1 million (2014: €89.2 million).

Current liabilities increased to €439.5 million (2014: €415.1 million) primarily due to higher deferred income (+ €12.3 million). Due to the targeted expansion of the maintenance business, the associated recurring revenues as well as currency effects, deferred income, which includes the increasing volume of future maintenance revenues, grew to €123.6 million (2014: €111.3 million). Financial liabilities were on par with last year at €113.0 million (2014: €110.8 million), whereas other non-financial liabilities rose to €112.9 million (2014: €104.9 million) and other provisions to €28.3 million (2014: €18.6 million), including €13.8 million (2014: €3.3 million) for litigation.

Non-current liabilities were reduced considerably to €285.5 million (2014: €420.5 million), primarily due to the €127.3 million decrease in non-current financial liabilities. Furthermore, provisions for pensions and similar commitments went down to €35.6 million (2014: €42.6 million).

Net debt decreased significantly for the reasons discussed above from €132.9 million in 2014 to €25.7 million in 2015.

Software AG's shareholders' equity grew by €76.3 million to €1,089.7 million (2014: €1,013.4 million). Retained earnings went down to €1,047.1 million (2014: €1,161.4 million), while other reserves went up from −€54.5 million to −€5.8 million primarily due currency translation effects from foreign operations. Software AG's equity-to-assets ratio rose from 54.8 percent in 2014 to 60.0 percent in 2015.

## 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 include office space, leased company cars and hardware.

## Consolidated 2015 balance sheet

In order to improve the informative value of its financial statements, its assets in particular, Software AG made changes to the presentation/structure of the balance sheet as of December 31, 2015. Figures from 2014 were adjusted to reflect the new presentation structure.

## Multi-Period Assets Summary

| **in € millions** | **Dec. 31, 2015** | **Dec. 31, 2014** | **Dec. 31, 2013** | **Dec. 31, 2012** | **Dec. 31, 2011** |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | 584.2 | 635.4 | 769.5 | 675.8 | 574.3 |
| Non-current assets | 1,230.6 | 1,213.6 | 1,227.4 | 1,096.1 | 1,106.4 |
| | **1,814.8** | **1,848.9** | **1,996.9** | **1,771.9** | **1,680.7** |
| Equity and liabilities | | | | | |
| Current liabilities | 439.5 | 415.1 | 533.1 | 401.8 | 381.6 |
| Non-current liabilities | 285.5 | 420.4 | 498.2 | 310.0 | 347.7 |
| Shareholders' equity | 1,089.7 | 1,013.4 | 965.6 | 1,060.1 | 951.5 |
| | **1,814.8** | **1,848.9** | **1,996.9** | **1,771.9** | **1,680.7** |

# Separate Annual 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 | 2015 | 2014 | Change as % |
|---|---|---|---|
| Licenses | 8.7 | 19.6 | −55.6% |
| Maintenance | 104.6 | 100.4 | 4.2% |
| Services | 111.5 | 88.5 | 26.0% |
| Total revenue | 224.8 | 208.5 | 7.8% |
| Operating income and expenses | −234.4 | −246.6 | −4.9% |
| Income from investments and profit transfer | 114.0 | 106.0 | 7.5% |
| Operating earnings before interest and taxes | 104.4 | 67.9 | 53.8% |
| Net financial income/expense | −4.2 | −5.1 | −17.6% |
| Earnings before taxes | 100.2 | 62.8 | 59.6% |
| Taxes | −13.0 | −3.5 | 271.4% |
| Net income/loss for the year | 87.2 | 59.3 | 47.0% |

- "Licenses" resulted from license-related royalties from subsidiaries and from Software AG's own license sales in Germany, which decreased significantly year-on-year.
- "Maintenance" includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products. The year-on-year increase relates to higher maintenance revenue from the subsidiaries.
- "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 increase resulted primarily from first-time cross-charges of marketing and product management costs to the USA.
- "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 decrease is mainly due to a net decrease in exchange rate losses by €17.4 million, the decreased net result from the sale of share interests and €14.7 million in income from the cancellation of MIP IV.
- "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 €3.3 million, and income resulting from dividends and profit transfers, which increased by €4.7 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 €1.0 million resulted mainly from lower interest expenses to subsidiaries.

- Tax expenses rose mainly due to effects in 2014 and a rise of €9.5 million in taxable earnings.

## Balance sheet and financial position of Software AG

Software AG's total assets decreased by €34.5 million, from €906.5 million on December 31, 2014 to €872.0 million on December 31, 2015.

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

| in € millions | Dec. 31, 2015 | Dec. 31, 2014 | Change in € million |
|---|---|---|---|
| Intangible assets | 24.0 | 28.3 | –4.3 |
| Property, plant and equipment | 23.9 | 25.3 | –1.4 |
| Financial assets | 655.6 | 654.7 | 0.9 |
| Inventories | 0.1 | 0.1 | 0.0 |
| Receivables and other assets | 128.6 | 103.7 | 24.9 |
| Cash and cash equivalents and short-term securities | 34.9 | 89.1 | –54.2 |
| Prepaid expenses/other | 4.9 | 5.3 | –0.4 |
| Assets | 872.0 | 906.5 | –34.5 |
| Equity | 287.1 | 311.1 | –24.0 |
| Provisions | 73.4 | 72.1 | 1.3 |
| Liabilities to banks | 312.8 | 437.0 | –124.2 |
| Other liabilities | 198.5 | 85.8 | 112.7 |
| Deferred income | 0.2 | 0.5 | –0.3 |
| Equity and liabilities | 872.0 | 906.5 | –34.5 |

- "Intangible assets" decreased by €4.3 million due primarily to amortization and additions from the current year.

- "Property, plant and equipment" decreased by €1.4 million from €25.3 million to €23.9 million due to the balance of additions, disposals and amortization from the current year.

- "Financial assets" rose by €2.4 million due to purchases and improvements at affiliated companies and dropped by €1.5 million due to amortization.

- "Receivables and other assets" increased by €24.9 million as of December 31, 2015 This is related primarily to the increased volume over last year in dividend declarations by subsidiaries, which were still noncash items.

- "Cash and cash equivalents" decreased by €54.2 million from €89.1 million to €34.9 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 €24.0 million, from €311.1 million on December 31, 2014 to €287.1 million on December 31, 2015. This decrease resulted mainly from the balance of €70.0 million for the repurchase of treasury shares, €87.2 million in annual net income and €39.5 million for the dividend payout in fiscal 2015.

- "Provisions" increased by €1.3 million. This change is due primarily to the reduction of provisions for anticipated losses with forward currency contracts and the increase of revenue and earnings-based provisions for staff.

- "Liabilities to banks" decreased from €437.0 million by €124.2 million to total €312.8 million. The change is due primarily to the repayment of two promissory notes.

- "Other liabilities" increased year-on-year by €112.7 million to total €198.5 million. This is due primarily to the increase in loans from affiliated companies.

## Outlook

Software AG's future financial performance depends upon the financial standing of the Software AG Group and decisions regarding the payout of dividends by subsidiaries. For these reasons, please refer to the Group Outlook.

# Other Intangible Assets

## Statement on corporate acquisitions

Corporate acquisitions and investments play in important role in Software AG's future-oriented, sustainable development. Software AG gleaned new impetus and expertise through the targeted technology acquisitions of past years. They contributed to the dynamics and innovation of Software AG's own solutions and to the penetration of new markets and secured its leading position as a company.

Software AG made 14 corporate acquisitions between 2007 and 2014 to build and develop the DBP product portfolio. In 2015 no further acquisitions took place due to the high valuation of companies in the market. Software AG's focus in fiscal 2015 was on the comprehensive integration of the companies acquired, including their employees and portfolios.

## Employees

As of December 31, 2015 Software AG employed 4,337 (2014: 4,421) people (full-time equivalents) worldwide. Software AG employees sell products and services in 70 countries around the globe. In Germany, where corporate headquarters are situated, the number of employees was 1,178 (2014: 1,216).

Software AG's staff is distributed according to department and region as follows:

## Recruiting and staff development

Highly qualified and committed employees are a key factor to Software AG's sustainable business success. For this reason, Software AG actively pursues a plethora of activities to foster staff recruitment and development and to nurture its corporate culture. They include a comprehensive continued education offering, promoting innovation spirit and diversity as well as relationships and interdisciplinary partnerships with colleges. Software AG is also committed to strengthening its brand as an employer.

For more information, please refer to the section on Employees of this Annual Report.

## Headcount by Function* and Region

| FTE | Dec. 31, 2015 | Dec. 31, 2014 | Change as %** |
|---|---|---|---|
| Total | 4,337 | 4,421 | –1.9% |
| Consulting and Services | 1,866 | 1,821 | 2.4% |
| R&D | 992 | 968 | 2.4% |
| Sales and Marketing | 862 | 993 | –13.1% |
| Administration | 617 | 639 | –3.4% |
| Germany | 1,178 | 1,216 | –3.1% |
| USA | 561 | 654 | –14.2% |
| India | 611 | 456 | 33.9% |
| Rest of world | 1,987 | 2,095 | –5.1% |

* According to P+L structure
** YOY

## Research and Development (R&D)

In fiscal year 2015 Software AG's R&D department focused on customer-centric development of the Digital Business Platform and cloud-enabling the DBP product portfolio, further integration of technologies acquired in past years as well as implementing a co-innovation strategy.

R&D expenses for new and existing products in 2015 approximated last year's level at €106.4 million (2014: €109.1 million). As a percentage of Group product revenue (licenses and maintenance), R&D expenses decreased from 17.0 percent to 15.7 percent. The figure from 2014 was exceptionally high due to the necessary integration of the five technology acquisitions in 2013 and the corresponding portfolio expansion. The reduction in expenses in 2015 also reflects the efficient management of R&D activities through employment of resources in emerging nations. 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 and low-wage locations.

As a result, the number of R&D staff members as of December 31, 2015 rose to 992 (2014: 968) (part-time employees are taken into account on a pro rata basis only). This is a 2.5-percent increase year-on-year. R&D specialists were distributed across 14 countries, with the majority based in Germany, India, the U.S. and Bulgaria.

For more information, please refer to the section on Research and Development of this Annual Report.

## Customers, sales and partners

Software AG has an extensive customer base consisting of long-term, well-known large and medium-sized companies on all continents and in every industry. With the objective of profitable growth, Software AG shifted its focus to organic growth, improved efficiencies, increased maintenance revenue, nurturing its loyal A&N customer base, expansion of its partner ecosystem and generating new cloud business by cloud-enabling the entire portfolio. The defined goals were achieved in fiscal 2015, and the new focus had a visible positive effect on results. Software AG's new go-to-market strategy was reflected in all key performance indicators and has led the Company back on track toward organic growth.

For more information, please refer to the sections on Reference Customers, Sales and Partners of this Annual Report.

## Multi-Period R&D Summary

| in € millions | 2015 | Change in % | 2014 | Change in % | 2013 | Change in % | 2012 | Change in % | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| R&D expenses for A&N | 20.7 | −14.9% | 24.3 | −3.6% | 25.3 | −3.0% | 26.1 | −1.0% | 26.4 |
| R&D expenses for DBP | 85.7 | 1.2% | 84.7 | 2.5% | 82.6 | 10.0% | 75.0 | 21.8% | 61.6 |
| Total | 106.4 | −2.4% | 109.1 | 1.1% | 107.9 | 7.0% | 101.1 | 14.9% | 88.0 |
| as % of product revenue | 15.7% | | 17.0% | | 15.3% | | 14.2% | | 13.1% |
| as % of total revenue | 12.2% | | 12.7% | | 11.1% | | 9.7% | | 8.0% |
| R&D headcount (FTE) | 992 | 2.5% | 968 | −3.0% | 998 | 13.0% | 887 | 0.0% | 887 |

# 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 as well as opportunities from ongoing business, for example, by keeping a constant eye on product and service quality and managing exchange-rate fluctuations.

## 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 is carried out centrally on an ongoing basis. Group business processes are managed and monitored centrally using software applications based primarily on Software AG technology. 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, such as those from professional services, 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. Furthermore, if exceptional circumstances relating to potential business opportunities or risks arise, ad hoc analyses are conducted and reported to the Management Board.

*b) Finance*

The Finance department is responsible for establishing all guidelines for financial reporting in accordance with International Financial Reporting Standards (IFRS). 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 reports 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. A global treasury policy prohibits the national subsidiaries from engaging in any high-risk transactions with derivatives. Internal Audit evaluates compliance with this policy on a regular basis. The global process of receivables management is monitored centrally by the Treasury department.

*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 (ICS) and the management and supervision processes. It is also geared to the creation of added value for Software AG by rating the efficacy and efficiency of business processes. Internal Audit reports directly to the CEO and operates worldwide.

## Risk management in the financial reporting standards 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.

- In addition, contracts valued at more than €500 thousand are subject to spot checks with respect to consolidated 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.

- A global policy regulates 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 and opportunity management

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. A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring, assessing and managing identified strategic risks. The risk advisors are recommended by the core team and chosen by the Management Board. Risks are evaluated according to a uniform valuation system. The system takes into account the potential impact to Group EBIT for the next three years to determine the risk category. The calculation of this impact accounts for risk-mitigating measures taken by management.

The impact on EBIT over the next three years is 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. A major impact on EBIT of over €200 million in the next three years is risk category 3.

In a separate step, these impacts on EBIT in the next three years are categorized according to probability into 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. The risk categories and levels are assigned equivalence numbers between one and nine based on their expected values. All strategic risks/opportunities are evaluated based on this uniform risk matrix. Risks/opportunities not considered of strategic nature were not included in the risk matrix. All Group managers are responsible for reporting newly identified strategic risks/opportunities 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/opportunities. 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/opportunities as well as appropriate measures for managing risks/opportunities.

### 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.

## Key Individual Risks and Opportunities

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

## Environment and sector risks/ opportunities

### 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 impact the business potential of the individual business lines positively or negatively. Software AG's balanced revenue mix reduces dependence on a single geographical or professional IT submarket. Software AG markets technologies that are not specific to certain industries, ruling out a dependence on individual industries or 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 will continue to do so in the future. In this manner, we facilitate the flexibility of customers' existing IT infrastructures and thus lower costs substantially. This, in turn, secures our broad customer base over the long term. The ROI is relatively fast for our customers. 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 for years and often decades when running satisfactorily. Therefore, our revenue flow is stable, especially from maintenance services. Software AG sees itself as a technology leader in the enablement of business process digitization. The overwhelming trend of organizations digitizing their business processes (Industry 4.0) and the Internet of Things represent a major opportunity for Software AG's future development. 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 lingering since 2010 has had only a limited impact on Software AG's primary business. The Software AG Group earned only 3.8 percent (2014: 5.5 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Portugal, Italy, Ireland, Greece and Spain) in fiscal year 2015. The majority of that was from Spain. Software AG is not conducting business operations in Greece.

### Market opportunities

The discussion on efficient e-government structures in Germany and Europe resulting from the difficulties of registering refugees in IT systems illustrates the market opportunities that digitization of the public sector holds for Software AG as a provider of integration and digital platform software.

The momentum of the Industry 4.0 debate offers fertile ground for Software AG's Digital Business Platform sales activities.

## Corporate strategy risks and opportunities

### Product risks and opportunities

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 at 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). Large investments were and will be made in the Digital Business Platform (DBP). 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 six months. Software AG's customer-centric innovation process is based on close collaboration between Sales, Product Marketing, Product Management and R&D and customers, enabling market-driven and thus market-relevant product innovation.

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 close contact with customers in all industries and countries. To more closely analyze product deals within a certain period, a Customer Value Navigator was implemented in fiscal 2015. It enhances the existing product reporting process, facilitating the right allocation of R&D resources, for example. With newer development trends, Software AG's products are also augmented by acquisitions. As technological leaders in the Digital Business Platform product area—a fact confirmed by independent analysts—we are often operating in technological uncharted waters. This carries the risk of problems arising from the implementation of a customer solution that is not completely technologically mature, which can then damage customer relationships. We handle this risk through expectations management for customers and customer-specific support teams, consisting of R&D and Consulting. Customer situations are continuously monitored by carefully formed teams. This ensures that any arising problems are recognized early and solved in cooperation with customers. Problem fixes are incorporated in the standard product so as to be available to all other customers. This process guarantees closely linked 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.

There are major market opportunities for Software AG resulting from its technology leadership with the Digital Business Platform product line. This leadership has been confirmed multiple times by highly distinguished technology analysts such as Gartner and Forrester. The position of innovation leader enables Software AG to play a role in developing the market, given the growing trend of digitization of the private and public sectors.

The product risks described here were given equivalence level 5 at the end of 2015.

## Market risks and opportunities: Digital Business Platform (DBP)

The Digital Business Platform (DBP) market currently consists of submarkets such as Business Process Management Software (BPMS), integration software, Business Process Analytics (BPA), Governance Risk Analysis (CRC), Enterprise Architecture Management (EAMS), Critical Event Processing (CEP) as well as other smaller submarkets. With Software AG in the position of innovation leader, a whole new market for the Digital Business Platform is being created from these submarkets. The challenge is to continuously improve the individual products as well as the platform as a whole. If the solution scenarios developed based on the Digital Business Platform cannot be reused for other purposes, the potential economies of scale may not be sufficient.

The following measures were taken to proactively manage the market risks associated with the DBP:

- Development of replicable use cases for better scalability
- Strengthened Industry Solutions team
- Focus on the sale of replicable use cases
- Focus on larger country organizations with sufficient numbers of technology consultants
- Smaller country organizations focus on individual products or industry solutions

The DBP business line offers major opportunities for Software AG's future business development, especially through its technology lead and the rapidly growing trend of digitization of all business and administrative processes in every relevant organization of the private and public sectors (please refer to the market opportunities discussed above).

These risks were given equivalence level 7 at the end of 2015.

## Market risks and opportunities: Adabas & Natural (A&N)

Software AG's traditional A&N product family is currently in an advanced stage of the product life cycle. Revenues are therefore declining in this product line. Our strategy is based in part on extending customers' existing license rights as well as expanding their capacities. This generates new revenue for Software AG. Because this product portfolio depends on existing customers, A&N license revenues are in decline. Software AG has achieved extremely strong customer loyalty with A&N in past years. This is because the A&N products are highly valued due to their:

- High availability
- High performance
- Low operating costs
- High strategic relevance for operation of customers' applications running on A&N
- Future guarantee

This presents opportunities to interest customers with positive Software AG experience in long-term maintenance and modernization of their IT infrastructure while retaining the A&N technology. Software AG is the best partner for that. These opportunities are further enhanced by acquiring and expanding product expertise as well as the innovation-driving continuation of R&D activities in the A&N line. Software AG is prepared to demonstrate its intent to pursue its goal of innovation in the A&N product line by continuing to develop A&N and provide A&N customers with operating support for their systems through the year 2050 and beyond.

Software AG is countering these risks with the following measures:

- A&N modernization to continuously extend the product life cycle
- Customer surveys and evaluations to identify new benefits and revenue potential. For example, new revenue sources are being generated by the steady expansion of the A&N product portfolio through add-on products
- A&N modernization/integration with new technologies and product bundles
- Extended application support to serve customers with current A&N staff
- To reduce hardware costs, Software AG offers support for customers migrating from mainframe to open-systems platforms on A&N technology.
- Software AG intends to support the A&N product line through 2050 and beyond.
- Guarantee and possible set up of R&D and support resources at existing dynamic Software AG R&D hubs, which signals that Software AG will continue full support of this business line.

These measures can significantly slow down the decline of A&N revenue while offering opportunities for generating additional sources of revenue. Software AG expects a decrease in A&N product revenue between −4 percent and −8 percent at constant currency in fiscal 2016. The Company anticipates a moderate drop in revenue in the following years as well. Customer surveys conducted in 2015 and customer analyses to date show that the vast majority of all A&N installations are business-critical for the customer. This means that many customers' economic livelihood depends on the performance and availability of the A&N products. Those customers have invested heavily in this technology, which they cannot and will not forgo. Therefore, there is the opportunity that this business line will continue generating high revenues in the future.

There are significant opportunities associated with product innovation and modernization/digitization packages in the A&N product line; this type of offering can make the need for large, cost-intensive projects to replace A&N technology superfluous. In this way, A&N remains a future-proof technology, which can make a positive impact on A&N customers' investment decisions.

These risks were given equivalence level 7 at the end of 2015 with a future tendency toward 4.

## Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. Acquisitions present the opportunity to participate in waves of innovation, to expand the product portfolio and increase relevance in the market and among individual customers or prospective customers. 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 tech companies and private equity firms have very large financial reserves that they have to invest because of the current situation financial market situation and extremely low interest rates. This is driving prices sky-high. 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 attractive 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. 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 can be harmonized 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. The risks described here were given equivalence level 5 at the end of 2015.

**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 with regard to integration were rated at equivalence level 1 at the end of 2015 since no acquisitions took place in fiscal year 2015.

## Product distribution risks and opportunities

**Sales efficiency and sales risks and opportunities**
The complexity of our products together with the complexity of the requirements of our customers alike requires a high level of experience and expertise on the part of our sales force. This presents the risk that smaller deal sizes are handled by direct sales, rather than indirect, resulting in lower average revenue per sales employee. To counter this risk, the sales force will focus more intensively on the solution-oriented go-to-market model of the Digital Business Platform (DBP). The replicability of use cases and solutions is not yet far enough along, which hinders the scalability of the business model. The smaller country subsidiaries have too few technology consultants (Pre-Sales staff) to be able to provide customers with technical consulting on the entire platform.

The following measures are intended to significantly increase sales efficiencies and considerably improve the opportunity of further growth in the DBP line:

- Focus direct sales on strategic customers (customer-driven segmentation)
- Establish a balanced mix of direct sales and specialized partners, complemented by inside sales (telesales)
- Position the Digital Business Platform vision with customers
- Consistent global marketing strategy to improve Software AG's relevance and reputation
- Effective pipeline management
- Sales-enablement
- Investment in automated global sales tools and global harmonization of sales processes (best practices)
- Shift from product feature and function to value-driven sales approach (raise value of DBP for customers)
- Realignment of controlling within Sales teams
- Operational excellence in opportunity management

The equivalence level associated with these risks improved by 2 points to 7 since last year thanks to the measures taken.

### Partnership risks and opportunities

Software AG's growth strategy requires expansion of its partner ecosystem to accelerate relevance and scaled growth. The risks associated with partnerships can result from insufficient acceptance or relevance of our product portfolio among partners. Furthermore, inadequate growth of the partner ecosystem due to the lack of willingness among partners to develop solutions for customers based on the Digital Business Platform can limit Software AG's portfolio market adoption. Inadequate training of staff at system integrators on Software AG products reduces their ability to successfully deliver customer value. 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:

- Implementation of a global competitive partner program including partner life cycle management
- Clearly defined rules of engagement for partner business
- Improvement and expansion of partner/business-relevant systems and processes
- Innovation-based partnerships to expand solutions offering through OEMs, strategic system integrators, value-added resellers and cloud computing partners
- Implementation and development of standardized partner contracts with clear stipulations
- Enforcement of the Partner Code of Conduct

These measures are expected to significantly improve the strategic risk situation associated with partner business. This development of the partner business will lead to major opportunities for growth in in the DBP line in coming years. The risks associated with partnerships were given equivalence level 5 at the end of 2015.

### Personnel risks and opportunities

Employees are the most important asset for Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. The ability of an employer to hire and, above all, retain qualified and motivated employees is key to success. In particular, sales staff stability and continuity is of utmost importance to a growth strategy. The demographic trend in some countries and markets is also resulting in a reduction in potential growth due to a shortage of qualified young talent.

Software AG takes the following measures to counter this risk:

- Ensure market-oriented remuneration and target salaries based on global benchmarks
- Needs-based training for all staff and managers worldwide
- Staff development programs for all staff worldwide
- Increased use of social media for recruiting and image building
- Targeted efforts to develop young talent: "Generation Transfer" as part of the Adabas & Natural 2050 agenda

We value a balanced mix between high and low-cost locations.

Software AG assumes that these measures provide a sound basis for ensuring Software AG's long-term success. These personnel-related topics were therefore given equivalence level 1 at the end of 2015.

## 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 patent infringement risk was given equivalence level 1 as of December 31, 2015.

### Other legal risks: Regulatory, compliance and litigation risks

Regulatory and political changes, such as embargoes, can influence our business operations in difference national markets. That could have a negative impact on the Group's future business and financial performance. Uncertainties regarding regional legal systems could hinder or prevent the assertion of our rights (e.g. commercial property rights ).

A multinational software company is subject to global risks associated with legal disputes and government and official processes, relating to, for example, accusations of non-contractual provision of software or services, product defects and/or claims or suspicions of anti-competitive and antitrust violations. Anti-competitive and antitrust proceedings can, for example, result in fines, penalties or other sanctions or restrictions on an individual subsidiary or even the Group.

Software AG cannot rule out that litigation and proceedings will have negative effects on the position of the Company; as a rule, the Group's financial position can even be negatively affected when law suits are won, given the high cost of defense attorneys and other defense services needed to thwart accusations, for example in the U.S. This presents the risk that the calculated risk provisions are not sufficient and the actual cost of litigation is higher than assumed at present.

For information on specific litigation, please refer to Note 33 of the Notes to the Consolidated Financial Statements.

## Financial operating 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 only 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 2015 by €1.8 million (2014: €1.4 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, 2015 would have caused Group net income in 2015 to increase by €1.2 million (2014: €0.5 million). The remaining reserves in shareholders' equity would increase by €2.9 million (2014: €2.6 million). 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.

### General statement on the Group risk situation

An overall view indicates that the risk situation of the Software AG Group has improved from last year. The Management Board therefore assumes that the strategic risks are limited and manageable. 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 necessity for an external rating did not arise because of Software AG's solid financial structure and employed financing instruments. There is currently no official external rating of Software AG. Nevertheless, there are some facts that shed light on Software AG's external rating.

Based on the financial statements from December 31, 2014, as in previous years, 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 2015.

# 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 May 5, 2015 (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 and/or recommended by the German Commercial Code (HGB), the GCGC and the International Financial Reporting Standards (IFRS). It is part of the combined Management Report. The Remuneration Report provides details on the compensation system for the Management and Supervisory Boards as well as the amounts and structure of their compensation. 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 recommended by the GCGC, the allocation of different compensation components is shown for the year under review.

## Allocation

| in € | | | Karl-Heinz Streibich<br>Chief Executive Officer<br>Since October 1, 2003 | |
|---|---|---|---|---|
| | | | 2014 | 2015 |
| Non-performance-based components | Fixed compensation (base salary) | | 697,642.92 | 697,642.92 |
| | Additional benefits[1] | | 20,231.43 | 25,509.63 |
| | Total | | 717,874.35 | 723,152.55 |
| Performance-based components | One-year variable remuneration | | 2,980,504.88 | 3,063,211.34 |
| | Multi-year variable remuneration | | | |
| | with long-term share-based incentive | Performance Phantom Shares – PPS[2] | 174,232.36 | 220,821.50 |
| | | 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 V[2] | 0.00 | 0.00 |
| | | Management Incentive Plan 2016 – MIP 2016 | 0.00 | 0.00 |
| Total allocation | | | 3,872,611.59 | 4,007,185.39 |
| Service cost | | | 530,612.08 | 685,582.80 |
| Total allocation (GCGC) | | | 4,403,223.67 | 4,692,768.19 |

1 Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.
2 The allocation for the Performance Phantom Share (PPS) plan refers to payment on Management Board members' PPS balance as of the Annual Shareholders' Meeting equal to the approved dividend per share for each PPS. There were no payments from the exercise of phantom shares in 2014, since all exercisable phantom shares were reinvested by members of the Management Board. That means that the Company could continue to dispose of the relevant funds. Dividends received by Mr. Streibich and Mr. Duffaut are reported under allocation in fiscal 2015. Mr. Streibich reinvested all

The following table shows the allocation of fixed remuneration, additional benefits, one-year variable remuneration in/for the year under review and the allocation of multi-year variable remuneration with long-term share-based incentive during fiscal 2015.

| | 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 | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| | 150,000.00 | 600,000.00 | 360,000.00 | 459,999.96 | 441,715.32 | 441,715.32 |
| | 7,516.00 | 30,143.46 | 41,920.23 | 42,964.48 | 31,328.07 | 36,952.32 |
| | **157,516.00** | **630,143.46** | **401,920.23** | **502,964.44** | **473,043.39** | **478,667.64** |
| | 183,333.33 | 863,309.28 | 511,733.33 | 546,762.54 | 1,885,467.37 | 1,937,787.47 |
| | | | | | | |
| | 0.00 | 3,437.00 | 21,244.64 | 174,823.50 | 99,406.92 | 531,347.76 |
| | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | **340,849.33** | **1,496,889.74** | **934,898.20** | **1,224,550.48** | **2,457,917.68** | **2,947,802.87** |
| | 0.00 | 0.00 | 237,448.16 | 321,393.84 | 164,479.32 | 221,122.74 |
| | **340,849.33** | **1,496,889.74** | **1,172,346.36** | **1,545,944.32** | **2,622,397.00** | **3,168,925.61** |

322,025 exercisable phantom shares with a value of €7,263 thousand in Software AG. Mr. Jost reinvested 23,646 (80 percent) of 29,521 exercisable phantom shares with a value of €532 thousand in Software AG and received payment for 5,875 shares valued at €142 thousand. The remainder of the payout is €33 thousand for the dividends mentioned above. Mr. Zinnhardt reinvested 150,104 (90 percent) of 166,778 exercisable phantom shares with a value of €3,363 thousand in Software AG and received payment for 16,674 phantom shares valued at €404 thousand. The remainder of the payout is €127 thousand for the dividends mentioned above.

## Benefits granted (1)

in €

| | | | 2014 | 2015 |
|---|---|---|---|---|
| Non-performance-based components | Fixed compensation (base salary) | | 697,642.92 | 697,642.92 |
| | Additional benefits [1] | | 20,231.43 | 25,509.63 |
| | Total | | 717,874.35 | 723,152.55 |
| Performance-based components | One-year variable remuneration [2] | | 2,980,504.88 | 3,063,211.34 |
| | Multi-year variable remuneration | | | |
| | with long-term share-based incentive | Performance Phantom Shares – PPS [3] | 3,011,957.50 | 3,142,784.69 |
| | | Management Incentive Plan III – MIP III [4] | 1,593,000.00 | 0.00 |
| | | Management Incentive Plan IV – MIP IV [5] | −266,100.00 | 107,400.00 |
| | | Management Incentive Plan V – MIP V | 816,800.00 | 0.00 |
| | | Management Incentive Plan 2016 – MIP 2016 [6] | 0.00 | 1,222,493.92 |
| Total (DRS 17) | | | 8,854,036.73 | 8,259,042.50 |
| Service cost | | | 530,612.08 | 685,582.80 |
| Total (GCGC) | | | 9,384,648.81 | 8,944,625.30 |
| Losses from the cancellation of MIP IV, share price gains/losses and max. possible loss from vested share-based remuneration components [7] | | | −3,252,696.88 | −4,982,703.62 |
| Total economic allocation | | | 6,131,951.93 | 3,961,921.68 |

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

2 The one-year variable remuneration depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. One-third of over achievement (greater than 100 percent) is not paid in cash, but rather must be invested in phantom shares. The highest attainable one-year variable remuneration decreases accordingly.

3 Members of the Management Board must invest a portion of their variable compensation in phantom shares, which have a maximum waiting period of 3 years. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by the amount of the one-year variable remuneration, which is not paid out but invested in phantom shares, when performance exceeds 100 percent. Conversion to phantom shares is calculated based on Software AG's share price. When the waiting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is unlimited. When the waiting period is over, members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the interests of the Management Board members with those of the shareholders, payouts are made based on Software AG's current share price. The increased values of phantom share balances due to the cancellation of the TecDAX outperformance clause in 2014 were applied as a pro-rata increase to remuneration. As a result the following amounts were recognized for calculating increases to remuneration in fiscal 2015: €1,313 thousand for Mr. Streibich, €111 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

4 MIP III was instituted in Q3 2007 with a term until June 30, 2019. 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 are entitled to payment in the amount by which Software AG's share exceeds the base price of €24.12 during an exercise window.

| Karl-Heinz Streibich Chief Executive Officer Since October 1, 2003 | | Eric Duffaut Chief Customer Officer Since October 1, 2014 | | | |
|---|---|---|---|---|---|
| 2015 (min.) | 2015 (max.) | 2014 | 2015 | 2015 (min.) | 2015 (max.) |
| 697,642.92 | 697,642.92 | 150,000.00 | **600,000.00** | 600,000.00 | 600,000.00 |
| 25,509.63 | 25,509.63 | 7,516.00 | **30,143.46** | 30,143.46 | 30,143.46 |
| **723,152.55** | **723,152.55** | **157,516.00** | **630,143.46** | **630,143.46** | **630,143.46** |
| 0.00 | 3,548,220.10 | 183,333.33 | **863,309.28** | 0.00 | 1,000,000.00 |
| | | | | | |
| 0.00 | 5,795,201.49 | 166,666.67 | **886,730.24** | 0.00 | 2,255,134.00 |
| 0.00 | 0.00 | 0.00 | **0.00** | 0.00 | 0.00 |
| 0.00 | 409,800.00 | 0.00 | **0.00** | 0.00 | 0.00 |
| 0.00 | 0.00 | 408,400.00 | **0.00** | 0.00 | 0.00 |
| 0.00 | 3,395,234.72 | 0.00 | **611,246.96** | 0.00 | 1,697,617.36 |
| **723,152.55** | **13,871,608.86** | **915,916.00** | **2,991,429.94** | **630,143.46** | **5,582,894.82** |
| 685,582.80 | 685,582.80 | 0.00 | **0.00** | 0.00 | 0.00 |
| **1,408,735.35** | **14,557,191.66** | **915,916.00** | **2,991,429.94** | **630,143.46** | **5,582,894.82** |
| 0.00 | −21,970,603.41 | 0.00 | **14,985.32** | 0.00 | −181,611.08 |
| **1,408,735.35** | **−7,413,411.76** | **915,916.00** | **3,006,415.26** | **630,143.46** | **5,401,283.74** |

5 MIP IV was instituted in Q2 2011 with a term until June 30, 2021. The defined performance targets required 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 was 4 years. The remuneration value shown is the balance of new commitments to Mr. Streibich in the amount of 30,000 stock options with a market value of €3.58 and new commitments to Mr. Zinnhardt in the amount of 15,000 stock options with a market value of €3.58 in fiscal 2015. MIP IV options became null and void due to performance targets not being met in fiscal 2016.

6 MIP 2016 (share-based Management Incentive Plan 2016) was launched in December 2015, whereby members of the Management Board were awarded stock appreciation rights with a term of 3 years ending on December 31, 2018. These stock appreciation rights will be exercised between November 15, 2018 and December 15, 2018 at Software AG's average share price provided the share price during the period from December 1, 2017 to November 30, 2018 exceeds €30.00 on 10 consecutive trading days. The resulting maximum compensation is capped at €51.88 per share. The maximum remuneration values shown were calculated by multiplying that amount by the number of issued stock appreciation rights.

7 The losses from the cancellation of MIP IV were a result of the failure to meet the revenue target with new products by December 31, 2015 due to the strategic realignment geared toward more value-oriented growth. The historically accumulated remuneration reported to date under MIP IV was therefore presented in negative amounts for fiscal 2015. The negative remuneration amounts shown reflect €9,546 thousand relating to Mr. Streibich, €3,514 thousand to Mr. Jost and €4,773 thousand to Mr. Zinnhardt. The increased intrinsic value of stock options under MIP III and PPS balances resulting from positive share performance was recognized and accounted for an increase in remuneration in fiscal 2015. The 2015 (max.) column shows the maximum possible losses from vested share-based remuneration components and cancellation of MIP IV. In 2014 the decreased intrinsic value of MIP III and the maximum possible losses from the phantom share plan were shown.

## Benefits granted (2)

**in €**

| | | | 2014 | 2015 |
|---|---|---|---|---|
| Non-performance-based components | Fixed compensation (base salary) | | 360,000.00 | **459,999.96** |
| | Additional benefits [1] | | 41,920.23 | **42,964.48** |
| | Total | | **401,920.23** | **502,964.44** |
| Performance-based components | One-year variable remuneration [2] | | 511,733.33 | **546,762.54** |
| | Multi-year variable remuneration | | | |
| | with long-term share-based incentive | Performance Phantom Shares – PPS [3] | 712,344.30 | **789,064.89** |
| | | Management Incentive Plan III – MIP III [4] | 0.00 | **0.00** |
| | | Management Incentive Plan IV – MIP IV [5] | −157,500.00 | **0.00** |
| | | Management Incentive Plan V – MIP V | 408,400.00 | **0.00** |
| | | Management Incentive Plan 2016 – MIP 2016 [6] | 0.00 | **611,246.96** |
| Total (DRS 17) | | | **1,876,897.86** | **2,450,038.83** |
| Service cost | | | 237,448.16 | **321,393.84** |
| Total (GCGC) | | | **2,114,346.02** | **2,771,432.67** |
| Losses from the cancellation of MIP IV, share price gains/losses and max. possible loss from vested share-based remuneration components [7] | | | −280,344.08 | **−3,185,993.78** |
| Total economic allocation | | | **1,834,001.94** | **−414,561.11** |

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

2 The one-year variable remuneration depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. One-third of over achievement (greater than 100 percent) is not paid in cash, but rather must be invested in phantom shares. The highest attainable one-year variable remuneration decreases accordingly.

3 Members of the Management Board must invest a portion of their variable compensation in phantom shares, which have a maximum waiting period of 3 years. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by the amount of the one-year variable remuneration, which is not paid out but invested in phantom shares, when performance exceeds 100 percent. Conversion to phantom shares is calculated based on Software AG's share price. When the waiting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is unlimited. When the waiting period is over, members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the interests of the Management Board members with those of the shareholders, payouts are made based on Software AG's current share price. The increased values of phantom share balances due to the cancellation of the TecDAX outperformance clause in 2014 were applied as a pro-rata increase to remuneration. As a result the following amounts were recognized for calculating increases to remuneration in fiscal 2015: €1,313 thousand for Mr. Streibich, €111 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

4 MIP III was instituted in Q3 2007 with a term until June 30, 2019. 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 are entitled to payment in the amount by which Software AG's share exceeds the base price of €24.12 during an exercise window.

| | | **Dr. Wolfram Jost Chief Technology Officer Since July 9, 2010** | | | | **Arnd Zinnhardt Chief Financial Officer Since May 1, 2002** |
|---|---|---|---|---|---|---|
| | 2015 (min.) | 2015 (max.) | 2014 | 2015 | 2015 (min.) | 2015 (max.) |
| | 459,999.96 | 459,999.96 | 441,715.32 | 441,715.32 | 441,715.32 | 441,715.32 |
| | 42,964.48 | 42,964.48 | 31,328.07 | 36,952.32 | 36,952.32 | 36,952.32 |
| | **502,964.44** | **502,964.44** | **473,043.39** | **478,667.64** | **478,667.64** | **478,667.64** |
| | 0.00 | 633,333.33 | 1,885,467.37 | 1,937,787.47 | 0.00 | 2,244,604.02 |
| | | | | | | |
| | 0.00 | 1,779,894.76 | 2,093,039.11 | 2,187,455.19 | 0.00 | 4,414,578.57 |
| | 0.00 | 0.00 | 796,500.00 | 0.00 | 0.00 | 0.00 |
| | 0.00 | 0.00 | −133,050.00 | 53,700.00 | 0.00 | 204,900.00 |
| | 0.00 | 0.00 | 408,400.00 | 0.00 | 0.00 | 0.00 |
| | 0.00 | 1,697,617.36 | 0.00 | 611,246.96 | 0.00 | 1,697,617.36 |
| | **502,964.44** | **4,613,809.89** | **5,523,399.87** | **5,268,857.26** | **478,667.64** | **9,040,367.59** |
| | 321,393.84 | 321,393.84 | 164,479.32 | 221,122.74 | 221,122.74 | 221,122.74 |
| | **824,358.28** | **4,935,203.73** | **5,687,879.19** | **5,489,980.00** | **699,790.38** | **9,261,490.33** |
| | 0.00 | −5,115,381.54 | −1,813,773.08 | −2,310,345.12 | 0.00 | −11,865,110.15 |
| | **824,358.28** | **−180,177.81** | **3,874,106.11** | **3,179,634.88** | **699,790.38** | **−2,603,619.83** |

5 MIP IV was instituted in Q2 2011 with a term until June 30, 2021. The defined performance targets required 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 was 4 years. The remuneration value shown is the balance of new commitments to Mr. Streibich in the amount of 30,000 stock options with a market value of €3.58 and new commitments to Mr. Zinnhardt in the amount of 15,000 stock options with a market value of €3.58 in fiscal 2015. MIP IV options became null and void due to performance targets not being met in fiscal 2016.

6 MIP 2016 (share-based Management Incentive Plan 2016) was launched in December 2015, whereby members of the Management Board were awarded stock appreciation rights with a term of 3 years ending on December 31, 2018. These stock appreciation rights will be exercised between November 15, 2018 and December 15, 2018 at Software AG's average share price provided the share price during the period from December 1, 2017 to November 30, 2018 exceeds €30.00 on 10 consecutive trading days. The resulting maximum compensation is capped at €51.88 per share. The maximum remuneration values shown were calculated by multiplying that amount by the number of issued stock appreciation rights.

7 The losses from the cancellation of MIP IV were a result of the failure to meet the revenue target with new products by December 31, 2015 due to the strategic realignment geared toward more value-oriented growth. The historically accumulated remuneration reported to date under MIP IV was therefore presented in negative amounts for fiscal 2015. The negative remuneration amounts shown reflect €9,546 thousand relating to Mr. Streibich, €3,514 thousand to Mr. Jost and €4,773 thousand to Mr. Zinnhardt. The increased intrinsic value of stock options under MIP III and PPS balances resulting from positive share performance was recognized and accounted for an increase in remuneration in fiscal 2015. The 2015 (max.) column shows the maximum possible losses from vested share-based remuneration components and cancellation of MIP IV. In 2014 the decreased intrinsic value of MIP III and the maximum possible losses from the phantom share plan were shown.

# Benefits Granted

## Fixed compensation

The fixed compensation agreed to by the members of the Management Board is paid monthly, 12 times a 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 remuneration 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 any percentage of performance 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 2015 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2016, 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 2017 to 2019, 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 three years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (expressed as a 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 is not subject to the TecDAX adjustment. New PPS issued since March 2014 are not subject to the TecDAX adjustment. In this context, remuneration caps were instituted in 2014 as recommended 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 annual financial results. This plan led to expenses relating to the members of the Management Board in the amount of €7,420 thousand (2014: €6,130 thousand) in fiscal year 2015. The following table illustrates the phantom shares to be issued based on the average share price in February 2016 and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2015:

| | Performance phantom shares | Expenses from performance phantom shares* in € |
|---|---|---|
| Karl-Heinz Streibich (CEO) | 51,725 | 3,221,230.71 |
| Eric Duffaut | 28,402 | 1,166,571.76 |
| Dr. Wolfram Jost | 20,753 | 800,067.95 |
| Arnd Zinnhardt | 44,950 | 2,232,121.30 |

* The expense consists of allocation at a price of €31.10 (2014: €24.24) per PPS at the time of award for fiscal 2015 and expenses from value changes to awards from previous years amounting to €4,263 thousand (2014: income of €3,619 thousand), less hedging income in the same amount. This item also includes payments on PPS balances in line with dividends for shares amounting to €384 thousand (2014: €295 thousand). Expenses relating to the removal of TecDAX outperformance clause in the amount of €2,087 thousand (2014: 2,086) are also still included.

*b) Stock option plans*

In December 2014, the Supervisory Board introduced caps for both Management Incentive Plans III and IV at €45.00 (MIP III) and €55.00 (MIP 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 was conditional upon approval of the proposed amendments. The specific changes are presented in detail in the corresponding plan descriptions below. Due to the Software AG Group's strategic realignment geared toward more value-oriented growth, revenue targets under MIP IV involving new products were not met by December 31, 2015. These stock options therefore became null and void at the end of 2015. A new management incentive plan was launched in December 2016 (MIP 2016).

*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 2015.

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 2015. 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. Because of this policy, Mr. Streibich received 30,000 MIP IV options and Mr. Zinnhardt 15,000 MIP IV options in fiscal 2015 all of which became null and void on December 31, 2015 along with those options awarded in past years.

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

On December 8, 2014 the plan's term was extended by three 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 was removed. The option to service with shares was reinstated as part of the changes to the plan on March 27, 2015.

*Stock option awards from Management Incentive Plan III*

| MIP III 2007–2011 (Table 1) | Balance on Jan. 1, 2015 No. of options | Base price in € | Value of option at time of grant in € | Remaining term Years | Granted options in 2015 No. of options |
|---|---|---|---|---|---|
| Karl-Heinz Streibich (CEO) | 900,000 | 24.12 | 6.80 | 4.5 | 0 |
| Arnd Zinnhardt | 450,000 | 24.12 | 6.80 | 4.5 | 0 |

*Stock option awards from Management Incentive Plan III*

| MIP III 2007–2011 (Table 2) | Forfeited options in 2015 No. of options | Exercised options in 2015 No. of options | Expired options in 2015 No. of options |
|---|---|---|---|
| Karl-Heinz Streibich (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 Jan. 1, 2015* No. of options | Thereof exercisable as of Dec. 31, 2015 No. of options | Remaining term on Dec. 31, 2015* Years | Accounting expenses from MIP III stock options in 2015 in € |
|---|---|---|---|---|
| Karl-Heinz Streibich (CEO) | 900,000 | 900,000 | 3.5 | 1,818,000.00 |
| Arnd Zinnhardt | 450,000 | 450,000 | 3.5 | 909,000.00 |

* 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 of €20.88 (€45.00 less €24.12) per option was instituted. The plan converted back to an equity-based plan on March 27, 2015. Stock options on the date of conversion were worth €4.96 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 1,745,000 ownership rights were issued to members of the Management Board as of December 31, 2015. If performance targets were 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 €60.00 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.

*b3) Management Incentive Plan V 2015 (MIP V)*

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 rights have a term of three years. Payment of exercise benefits is dependent upon a 30-percent share price increase. The target has been met when Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the reference price at issue of €21.22 by 30 percent or more on 10 consecutive trading days between November 15, 2016 and December 15, 2017. This represents an exercise threshold of €27.59. The reference price is equal to the average of the

*Stock option awards from Management Incentive Plan IV*

| MIP IV 2011–2016 (Table 1) | Balance on Jan. 1, 2015 No. of options | Base price in € | Value of option at time of award in € | Remaining term on Jan. 1, 2015 Years | Granted options in 2015 No. of options | Base price in € | Value of option at time of award in 2015 in € |
|---|---|---|---|---|---|---|---|
| Karl-Heinz Streibich (CEO) | 900,000 | 41.34 | 10.94 | 6.5 | 30,000 | 41.34 | 3.58 |
| Dr. Wolfram Jost | 350,000 | 41.34 | 10.49 | 6.5 | 0 | 41.34 | 3.58 |
| Arnd Zinnhardt | 450,000 | 41.34 | 10.94 | 6.5 | 15,000 | 41.34 | 3.58 |

*Stock option awards from Management Incentive Plan IV*

| MIP IV 2011–2016 (Table 2) | Forfeited options in 2015 No. of options | Exercised options in 2015 No. of options | Expired options in 2015 No. of options |
|---|---|---|---|
| Karl-Heinz Streibich (CEO) | 0 | 0 | –930,000 |
| Dr. Wolfram Jost | 0 | 0 | –350,000 |
| Arnd Zinnhardt | 0 | 0 | –465,000 |

*Stock option awards from Management Incentive Plan IV*

| MIP IV 2011–2016 (Table 3) | Balance on Dec. 31, 2015* No. of options | Thereof exercisable as of Dec. 31, 2015 No. of options | Remaining term on Dec. 31, 2015 Years | Accounting income from MIP IV stock options in 2015 in € |
|---|---|---|---|---|
| Karl-Heinz Streibich (CEO) | 0 | 0 | 0 | 3,728,977.61 |
| Dr. Wolfram Jost | 0 | 0 | 0 | 1,195,996.74 |
| Arnd Zinnhardt | 0 | 0 | 0 | 1,864,489.31 |

* Due to the Software AG Group's strategic realignment geared toward more value-oriented growth, all stock options from this plan became null and void.

Software AG's VWAP from November 15 to December 15, 2014. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP during the period from November 15 to December 15, 2017. The maximum possible exercise benefit per right is capped at 200 percent of the reference price, or €42.44.

The following expenses were incurred under this plan in fiscal 2015:

| | **Committed MIP V stock appreciation rights** | **Expenses from MIP V stock appreciation rights in €** |
|---|---|---|
| Karl-Heinz Streibich (CEO) | 0 | 387,485.94 |
| Eric Duffaut | 0 | 253,803.29 |
| Dr. Wolfram Jost | 0 | 193,742.97 |
| Arnd Zinnhardt | 0 | 193,742.97 |

*b4) Management Incentive Plan 2016 (MIP 2016)*

Management Incentive Plan 2016, a plan based on Software AG's share price performance, was approved in December 2015. The rights have a term of three years. Exercise benefits are paid out conditional upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the price of €30.00 on 10 consecutive trading days during the period between December 1, 2017 and November 30, 2018. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP during the period from November 15 to December 15, 2018. The maximum possible exercise benefit per right is capped at 200 percent of the reference price of €25.94. This is equal to €51.88. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15, 2015.

The fair value on the date of award was €18.68 per stock appreciation right.

The following stock appreciation rights were awarded and expenses incurred under MIP 2016 in fiscal 2015:

| | **Committed MIP 2016 stock appreciation rights** | **Expenses from MIP 2016 stock appreciation rights in €** |
|---|---|---|
| Karl-Heinz Streibich (Vorstandsvorsitzender) | 65,444 | 11,053.29 |
| Eric Duffaut | 32,722 | 7,239.91 |
| Dr. Wolfram Jost | 32,722 | 5,526.65 |
| Arnd Zinnhardt | 32,722 | 5,526.65 |

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 who is terminated due to a change of control within twelve months of such change 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 (2014: €14.0 thousand) per month, and the CEO will receive €28.0 thousand (2014: €27.9 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 €14.0 thousand (2014: €14.0 thousand) per month; the CEO's pension amounts to €28.0 thousand (2014: €27.9 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. Given the increased flexibility of pension benefit policies (in Germany), members of the Management Board were granted the option in fiscal 2015 to receive pension benefits as a one-time lump sum instead of pension benefit payments. The amount of the one-time lump sum payment is calculated based on the surrender value of the Company's life insurance policies taken out as reinsurance cover for pension entitlements. Beneficiaries must declare their choice to exercise the option of a one-time lump sum payment no later than three months and one week before the regularly scheduled beginning of their pension.

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 2015 and the present value of pension commitments as of December 31, 2015 are as follows:

| in € | Change in present value (DBO) from pension commitments 2015 | Present value of pension commitments Dec. 31, 2015 |
|---|---|---|
| Karl-Heinz Streibich (CEO) | −504,464.00 | 7,549,379.00 |
| Eric Duffaut | 0.00 | 0.00 |
| Dr. Wolfram Jost | −266,726.00 | 1,482,307.00 |
| Arnd Zinnhardt | −787,405.00 | 2,046,125.00 |

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 2014

The specific components of the Management Board's compensation in 2014 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 2014.

*Stock option awards from Management Incentive Plan III*

| MIP III 2007–2011 (Table 1) | Balance on Jan. 1, 2014 No. of options | Base price in € | Value of option at time of grant in € | Remaining term on Jan. 1, 2014 Years | Granted options in 2014 No. of options |
|---|---|---|---|---|---|
| Karl-Heinz Streibich (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 No. of options | Exercised options in 2014 No. of options | Expired options in 2014 No. of options |
|---|---|---|---|
| Karl-Heinz Streibich (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* No. of options | Thereof exercisable as of Dec. 31, 2014 No. of options | Remaining term on Dec. 31, 2014* Years | Accounting expenses from MIP III stock options in 2014 in € |
|---|---|---|---|---|
| Karl-Heinz Streibich (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 €24.12, equaling €20.88 per option.

## *Stock option awards from Management Incentive Plan IV*

| MIP IV 2011–2016 (Table 1) | Balance on Jan. 1, 2014 No. of options | Base price in € | Value of option at time of award in € | Remaining term on Jan. 1, 2014 Years | Granted options in 2014 No. of options | Base price in € | Value of option at time of award in 2014 in € |
|---|---|---|---|---|---|---|---|
| Karl-Heinz Streibich (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 | – | – | 0 |
| 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 No. of options | Exercised options in 2014 No. of options | Expired options in 2014 No. of options |
|---|---|---|---|
| Karl-Heinz Streibich (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* No. of options | Thereof exercisable as of Dec. 31, 2014 No. of options | Remaining term on Dec. 31, 2014 Years | Accounting expenses from MIP IV stock options in 2014 in € |
|---|---|---|---|---|
| Karl-Heinz Streibich (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.

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:

| in € | Change in present value (DBO) from pension commitments 2014 | Present value of pension commitments Dec. 31, 2014 |
|---|---|---|
| Karl-Heinz Streibich (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 |

## Supervisory Board remuneration

Remuneration for Supervisory Board members consists of fixed short-term compensation. 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 was €60,000 (2014: €50,000). Remuneration paid to the members of the Supervisory Board in fiscal year 2015 totaled €614 thousand (2014: €724 thousand).

## 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 Software AG's financial statements for the year of remuneration by the Supervisory Board or, if applicable, at 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 2015 was as follows:

| in € | Fixed remuneration | Remuneration for committee work | Total |
|---|---|---|---|
| Dr. Andreas Bereczky (Chairman) | 112,602.74 | 10,000.00 | **122,602.74** |
| Prof. Willi Berchtold (until May 13, 2015) | 21,863.01 | 2,500.00 | **24,363.01** |
| Maria Breuing (until May 13, 2015) | 21,863.01 | 1,500.00 | **23,363.01** |
| Guido Falkenberg (Deputy Chairman) (since May 13, 2015) | 54,739.73 | 3,000.00 | **57,739.73** |
| Peter Gallner (until May 13, 2015) | 21,863.01 | 1,500.00 | **23,363.01** |
| Heinz Otto Geidt (until May 13, 2015) | 21,863.01 | 3,000.00 | **24,863.01** |
| Dietlind Hartenstein (until May 13, 2015) | 21,863.01 | 3,000.00 | **24,863.01** |
| Monika Neumann (Deputy Chairwoman) (until May 13, 2015) | 32,794.52 | 3,000.00 | **35,794.52** |
| Eun-Kyung Park (since May 27, 2015) | 36,000.00 | 3,000.00 | **39,000.00** |
| Prof. Dr. Hermann Requardt (until May 13, 2015) | 21,863.01 | 3,000.00 | **24,863.01** |
| Anke Schäferkordt (until May 13, 2015) | 21,863.01 | 1,500.00 | **23,363.01** |
| Martin Sperber-Tertsunen (until May 13, 2015) | 21,863.01 | 0.00 | **21,863.01** |
| Karl Wagner (until May 13, 2015) | 21,863.01 | 0.00 | **21,863.01** |
| Alf Henryk Wulf | 57,863.01 | 6,000.00 | **63,863.01** |
| Markus Ziener (since May 27, 2015) | 36,000.00 | 5,000.00 | **41,000.00** |
| Christian Zimmermann (since May 13, 2015) | 38,301.37 | 3,000.00 | **41,301.37** |

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 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 (Deputy 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** |

# 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 3.4-percent growth in overall world economic output for fiscal 2016 and 3.8-percent growth the 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 1.8 percent in 2016 and 2017. Significantly greater growth rates are anticipated for the United States. Due to the sustainable improvement of economic conditions in the USA, the IfW predicts GDP growth there of 2.5 percent this year and 2.8 percent next year. 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 6.5 percent in 2016 and 6.3 percent in 2017. 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 do not escalate, financial market tensions are limited to short periods of time or single countries and no new doubts regarding the existence of the eurozone 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 stable growth in 2016. Market analyst firm Gartner anticipates that global IT spending will rise 0.6 percent to total approximately $3.5 trillion. According to their projection, the market segments in which Software AG operates should perform well. The enterprise software market segment is expected to expand 5.3 percent to $326 billion; the IT services segment should see growth of 3.1 percent to $940 billion.

According to the German Association of Information, Telecommunications and New Media (Bitkom), the European Information Technology Observatory (EITO) calculated moderate growth in the German ICT market of 1.5 percent to total €158.4 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 3.1 percent to total €82.9 billion. New jobs are being created, especially at software companies and IT service providers: Bitkom predicts the number of jobs in this sector will rise by 25,000 to total about 795,000 in Germany. It is anticipated that a total of 1.022 million people will be working in the ICT sector.

### The Group's focus

Software AG's focus is to be the world's leading provider of digital business platforms. To achieve that, the Company will continue investing in product innovations that play a key role for customers in maximizing the growth potential and opportunities of digitization.

We recognized the transformational power and potential of technological mega trends early. The Digital Business Platform therefore addresses the entire spectrum of converging IT trends now. The core components of our product portfolio are, according to analysts, high-growth fields. They help our customers become Digital Enterprises quickly and efficiently. Numerous studies and awards from respected market analysts confirmed that our product families are unique and leading in the market.

Software AG's position in growth markets combined with addressing customers' market-driven needs during the digital transformation provide the foundation for strong business development. Software AG's focus is on profitable growth.

Software AG therefore expects the positive trend to continue in the DBP business line in upcoming years. Thanks to our technology leadership, we are optimistic that we will achieve our targets for 2016 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 observe potential M&A targets and invest in select innovation-driven companies in order to strengthen our technology leadership and value-oriented growth.

Software AG will also focus on increasing new license revenue. License sales are a key factor for success in the software sector and an important indicator of long-term maintenance revenues and thus positive cash flow. In addition to these growth fields, increased efficiency of all areas of the Company will continue to be of utmost priority, above all in sales. The successfully launched go-to-market strategy and the unification of sales, marketing and service activities under the leadership of a new board position will be key factors in achieving that goal.

## 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 growing importance of its product portfolio and further impetus expected from its go-to-market strategy, Software AG expects DBP product revenue growth between 5 and 10 percent at constant currency in fiscal year 2016. The Company expects a decline in the A&N business line at constant currency between −4 and −8 percent year-on-year. Software AG anticipates stability in the Consulting business line. Furthermore, the Company forecasts a continuation of the improved EBITA (non-IFRS) margin to between 30.0 and 31.0 percent.

The Company's total financial planning—including the expected performance for DBP and A&N product revenue, Consulting revenue and operating EBITA margin—is approved by the Management Board and is based on individual national subsidiary planning. Factors used in their planning are anticipated economic developments in the specific regions, current order levels, existing pipelines, anticipated maintenance contract renewal rates and anticipated utilization of Consulting staff resources.

### 2016 Outlook

| | **2015 in € millions** | **2016 Outlook as of Jan. 27, 2016** |
|---|---|---|
| DBP product revenue | 431.5 | +5% to +10%* |
| A&N product revenue | 247.3 | −4% to −8%* |
| Operating margin (non-IFRS)** | 29.7% | 30.0% to 31.0% |

* At constant currency.
** Before adjustments for non-operating items (see non-IFRS results).

### Medium-term performance by 2020

Software AG expects further margin growth in upcoming years. Based on our current business model, our operating profit margin (EBITA, non-IFRS) will increase from its present level of 29.7 percent (FY 2015) to between 32.0 and 35.0 percent by 2020. This will be achieved primarily through organic growth in the DBP business line, continuation of productivity improvements in sales and a growing share of revenues via an expanded partner network. With respect to organic growth in DBP 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.

### Forecast for the Software AG holding 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 on the income statement

The cost of sales, consisting primarily of labor costs for consulting projects, will remain relatively stable year-on-year. R&D expenses in 2016 will increase at a low single-digit rate year-on-year because of higher investments in cloud resources and further expansion of R&D resources in low-cost locations. The allocation of expenses to the DBP and A&N business segments will, however, be relative to revenue growth. Sales and marketing costs will decrease year-on-year at a one-digit rate due to operating optimizations and the resulting efficiency improvements last year. Here, again, the allocation of expenses to the business segments will be adjusted based on revenue performance. General administrative costs (not including share-based remuneration) will be on par with last year.

### Anticipated dividends

#### Consistent dividend policy

Software AG regularly distributes dividends to its shareholders. The dividend is payed from Software AG's earnings and cash flow. The dividend ratio is usually between one-fourth and one-third of the Company's averaged earnings and cash flow. The payout sum was increased to this level last year (previously between 24.8 and 32.5 percent of the averaged net income and free cash flow) so as to reflect a value-oriented philosophy in the interest of our shareholders.

Software AG continued its value-based dividend policy in fiscal 2015. After having reached a record level at €0.50 per dividend-bearing share for fiscal 2014, the Management and Supervisory Boards will propose a dividend of €0.55 for fiscal 2015 at the 2016 Annual Shareholders' Meeting. Conditional upon the approval of the shareholders, this would equal a total payout sum of €41.9 million (2014: €39.5 million) and a dividend ratio of 27.1 percent (2014: 32.5 percent) of Group net income in 2015. Based on Software AG's closing share price (December 30, 2015: €26.42; 2014: €20.20), this proposal would equal a dividend yield of 2.1 percent (2014: 2.5 percent)—an attractive yield based on the current capital market climate.

## Anticipated Financial Position

### Planned financing activities

Due to Software AG's high level of cash flow and comfortable liquidity, the Company does not foresee a need for external financing. External financing measures are taken almost exclusively for financing large acquisitions. Because the timing of such acquisitions is not exactly foreseeable, neither an exact point in time nor the necessary financing can be named. Should a large acquisition arise, financing measures could be taken 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 2016. 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.

### Management's general statement on the anticipated development and position of the Group

In light of Software AG's positive business development, particularly in the second half of 2015, and it exceptionally strong fourth quarter, we consider our Company to be well equipped for sustainable, profitable growth. We strive to continuously increase our enterprise value.

We are convinced that Software AG's substantial earnings improvement during the 2015 fiscal year reflects the direction of its business trend and sustainable profitability. The decisive factors were the higher share of product revenue of total revenue, the increased percentage of high-margin recurring maintenance revenues and the considerable increase in profitability in the service business. In addition, specific 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 began producing results and indicate sustainable effects can be expected.

The objective of profitable growth means, as part of our own ongoing transformation, focusing on organic growth, improved efficiency, increased maintenance revenue, nurturing the loyal A&N customer base, expansion of the partner network and on cloud business. The foundation for that was laid, and the initial positive results were apparent in fiscal 2015. Software AG's new go-to-market strategy was reflected in all key performance indicators and has led the Company back on track toward organic growth.

The core of the Company's long-term portfolio strategy is intensive expansion of the future-oriented, profitable Digital Business Platform (DBP) line. This segment has become our primary source of revenue in the past few years. In order to drive the expansion of this promising business, we will continue investing in organic growth and developing our partnerships with research institutes and technology companies.

In the long term, Software AG plans to:

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

To achieve these goals, we will concentrate on the opportunities that the rapidly advancing digitization offers us and our customers in the years to come. Mega trends in technology like cloud, mobile, big data and Industry 4.0 require the transformation to a Digital Enterprise. These global trends will continue to be the critical engines of growth in the software sector. Software AG is equipped to help customers meet the associated requirements with its innovative product portfolio, including integration and consulting know-how. Software AG is therefore optimistic that, as digitization intensifies, demand for integration solutions and agile, flexible application development platforms will continue and will drive BPE product revenue.

Because the traditional A&N generates the largest share of Group earnings while maintaining a strong loyal customer base, we will secure customer relationships in this high-margin segment with long-term value-adding offerings. We would therefore like to support our A&N customers through the year 2050 and beyond.

In our Consulting line, we have initiated a successful transformation: from a project-based service provider to a proactive market shaper, delivering high-quality services and innovations thanks to comprehensive expertise. This high-end positioning has further strengthened this segment's profitability.

In addition to technological innovation, we will continue to focus on sales productivity process efficiency and revenue growth via our extended partner network. Software AG's successfully launched go-to-market strategy will boost the efficiency and power of its sales force—in close cooperation with partners—and improve customer engagement.

Increasing profitability remains a clear objective for the years to come. A high equity ratio and free cash flow provide the financial flexibility for accelerated organic growth and targeted acquisitions. Software AG considers itself well equipped to drive growth in 2016.

# TAKEOVER-RELATED DISCLOSURES

## Subscribed capital and voting rights

Software AG's share capital totaled €79,000,000 before deducting treasury shares and is divided into 79,000,000 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 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 12, 2020 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 to the Financial Statements of the Group and of Software AG for additional information on conditional capital, authorized capital and the acquisition of treasury stock.

## Significant shareholders

The Software AG Foundation, Darmstadt, holds approximately 32 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 €312.6 million (2014: €438.6 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 is terminated within 12 months of a change of control 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, any stock appreciation rights granted by the Company under Management Incentive Plans V and 2016, 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 8, 2016. It will be published in March 2016 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 January 28/29, 2016.

# **CONSOLIDATED** FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

**for fiscal years 2015 and 2014**

| in € thousands | Note | 2015 | 2014 |
|---|---|---|---|
| Licenses | | 271,901 | 270,099 |
| Maintenance | | 406,942 | 371,341 |
| Services | | 193,368 | 215,752 |
| Other | | 846 | 642 |
| Total revenue | [5] | *873,057* | *857,834* |
| Cost of sales | | –212,158 | –236,316 |
| Gross profit | | *660,899* | *621,518* |
| Research and development expenses | | –106,413 | –109,064 |
| Sales, marketing and distribution expenses | | –268,836 | –263,049 |
| General and administrative expenses | | –69,405 | –74,062 |
| Other taxes | [10] | –5,984 | –8,433 |
| Operating earnings | | *210,261* | *166,910* |
| Other income | [6] | 36,140 | 32,802 |
| Other expenses | [7] | –42,956 | –32,137 |
| Financing income | [8] | 8,746 | 8,315 |
| Financing expenses | [8] | –11,673 | –17,506 |
| Earnings before income taxes | | *200,518* | *158,384* |
| Income taxes | [9] | –60,913 | –47,833 |
| Net income | | 139,605 | 110,551 |
| Thereof attributable to shareholders of Software AG | | *139,445* | *110,358* |
| Thereof attributable to non-controlling interests | | *160* | *193* |
| Earnings per share in € (basic) | [12] | 1.78 | 1.39 |
| Earnings per share in € (diluted) | [12] | 1.78 | 1.39 |
| Weighted average number of shares outstanding (basic) | | 78,429,032 | 79,228,450 |
| Weighted average number of shares outstanding (diluted) | | 78,510,932 | 79,228,450 |

# STATEMENT OF COMPREHENSIVE INCOME

**for fiscal years 2015 and 2014**

| in € thousands | Note | 2015 | 2014 |
|---|---|---|---|
| Net income | | *139,605* | *110,551* |
| Currency translation differences from foreign operations | | 41,927 | 44,812 |
| Net gain/loss on remeasuring financial assets | [29] | 1,936 | 690 |
| Currency translation gain/loss from net investments in foreign operations | | 4,240 | 4,406 |
| Items to be reclassified to the income statement if certain conditions are met | | *48,103* | *49,908* |
| Net actuarial gain/loss on pension obligations | [25] | 624 | −4,363 |
| Items not to be reclassified to the income statement | | *624* | *−4,363* |
| Other comprehensive income | *[26]* | *48,727* | *45,545* |
| **Total comprehensive income** | | **188,332** | **156,096** |
| Thereof attributable to shareholders of Software AG | | 188,172 | 155,903 |
| Thereof attributable to non-controlling interests | | 160 | 193 |

# CONSOLIDATED BALANCE SHEET

**as of December 31, 2015 and 2014**

## Assets

| in € thousands | Note | 2015 | 2014* | Jan. 1, 2014* |
|---|---|---|---|---|
| Current assets | | | | |
| Cash and cash equivalents | | 300,567 | 318,396 | 449,984 |
| Other financial assets | [13] | 11,840 | 57,965 | 60,905 |
| Trade receivables and other receivables | [14] | 232,576 | 214,357 | 234,256 |
| Other non-financial assets | [15] | 14,794 | 14,940 | 14,082 |
| Income tax receivables | [16] | 24,406 | 29,726 | 10,291 |
| | | *584,183* | *635,384* | *769,518* |
| Non-current assets | | | | |
| Intangible assets | [17] | 157,438 | 180,196 | 211,771 |
| Goodwill | [17] | 899,954 | 857,279 | 829,173 |
| Property, plant and equipment | [18] | 56,221 | 61,171 | 64,460 |
| Other financial assets | [13] | 24,547 | 10,106 | 4,519 |
| Trade receivables and other receivables | [14] | 75,090 | 89,203 | 97,918 |
| Other non-financial assets | [15] | 82 | 237 | 530 |
| Income tax receivables | [16] | 6,215 | 4,423 | 2,711 |
| Deferred tax receivables | [19] | 11,039 | 10,937 | 16,253 |
| | | *1,230,586* | *1,213,552* | *1,227,335* |
| Total assets | | 1,814,769 | 1,848,936 | 1,996,853 |

* See Note 3 for adjustment of figures from last year

# Equity and Liabilities

| in € thousands | Note | 2015 | 2014* | Jan. 1, 2014* |
|---|---|---|---|---|
| Current liabilities | | | | |
| Financial liabilities | [20] | 113,033 | 110,767 | 208,320 |
| Trade payables and other liabilities | [21] | 33,016 | 36,884 | 38,610 |
| Other non-financial liabilities | [22] | 112,932 | 104,884 | 129,264 |
| Other provisions | [23] | 28,329 | 18,609 | 12,721 |
| Income tax liabilities | [24] | 28,626 | 32,605 | 38,477 |
| Deferred income | | 123,606 | 111,348 | 105,664 |
| | | *439,542* | *415,097* | *533,056* |
| Non-current liabilities | | | | |
| Financial liabilities | [20] | 213,247 | 340,499 | 410,486 |
| Trade payables and other liabilities | [21] | 90 | 0 | 0 |
| Other non-financial liabilities | [22] | 1,719 | 6,369 | 4,824 |
| Other provisions | [23] | 17,897 | 13,156 | 7,242 |
| Provisions for pensions and similar obligations | [25] | 35,644 | 42,566 | 50,707 |
| Deferred tax liabilities | [19] | 16,723 | 17,131 | 22,577 |
| Deferred income | | 178 | 738 | 2,366 |
| | | *285,498* | *420,459* | *498,202* |
| Equity | [26] | | | |
| Share capital | | 79,000 | 86,944 | 86,944 |
| Capital reserves | | 40,504 | 43,195 | 46,144 |
| Retained earnings | | *1,047,145* | *1,161,411* | *1,087,328* |
| Other reserves | | –5,808 | –54,535 | -100,080 |
| Treasury shares | | –71,596 | –224,466 | -155,534 |
| Attributable to shareholders of Software AG | | *1,089,245* | *1,012,549* | *964,802* |
| Non-controlling interests | | *484* | *831* | *793* |
| | | *1,089,729* | *1,013,380* | *965,595* |
| Total equity and liabilities | | 1,814,769 | 1,848,936 | 1,996,853 |

* See Note 3 for adjustment of figures from last year

# CONSOLIDATED STATEMENT OF CASH FLOWS [27]

**for fiscal years 2015 and 2014**

| in € thousands | 2015 | 2014 |
|---|---|---|
| Net income | 139,605 | 110,551 |
| Income taxes | 60,913 | 47,833 |
| Net financial income/expense | 2,927 | 9,191 |
| Amortization/depreciation of non-current assets | 49,432 | 50,840 |
| Other non-cash income/expense | –7,385 | 12,784 |
| Operating cash flow before changes in working capital | *245,492* | *231,199* |
| Changes in receivables and other assets | –16,473 | 15,926 |
| Changes in payables and other liabilities | 21,812 | –19,441 |
| Income taxes paid/received | –61,872 | –73,474 |
| Interest paid | –12,209 | –19,222 |
| Interest received | 8,687 | 8,212 |
| Net cash provided by operating activities | *185,437* | *143,200* |
| Proceeds from the sale of property, plant and equipment/intangible assets | 2,388 | 2,866 |
| Purchase of property, plant and equipment/intangible assets | –12,149 | –10,868 |
| Proceeds from the sale of non-current assets financial assets | 283 | 1,107 |
| Purchase of non-current financial assets | –5,977 | –3,567 |
| Proceeds from the sale of current financial assets | 49,232 | 31,000 |
| Purchase of current financial assets | –5 | –29,797 |
| Proceeds/payments from the sale of disposal groups | –1,000 | 18,057 |
| Payments for acquisitions, net | 0 | –3,667 |
| Net cash used in investing activities | *32,772* | *5,131* |

| in € thousands | 2015 | 2014 |
|---|---|---|
| Repurchase of treasury shares (including option premiums paid) | –70,021 | –70,582 |
| Use of treasury shares | 645 | 1,423 |
| Dividends paid | –39,633 | –36,430 |
| New financial liabilities | 8,705 | 35,278 |
| Repayment of financial liabilities | –138,687 | –212,588 |
| Payments for non-controlling interests | –500 | 0 |
| Net cash provided by/used in financing activities | *–239,491* | *–282,899* |
| Change in cash and cash equivalents | –21,282 | –134,568 |
| Change in cash and cash equivalents from currency translation | 3,453 | 2,980 |
| Net change in cash and cash equivalents | *–17,829* | *–131,588* |
| Cash and cash equivalents at beginning of period | 318,396 | 449,984 |
| Cash and cash equivalents at end of period | *300,567* | *318,396* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [26]

**for fiscal years 2015 and 2014**

| | Share capital | | Capital reserves | Retained earnings |
|---|---|---|---|---|
| **in € thousands** | **Common shares outstanding (no.)** | | | |
| 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** |
| Equity as of Jan. 1, 2015 | **78,918,844** | **86,944** | **43,195** | **1,161,411** |
| Total comprehensive income | | | | **139,445** |
| Transactions with shareholders | | | | |
| Dividend payment | | | | −39,459 |
| Stock options | | | −2,473 | |
| Issue and use of treasury shares | 25,300 | −7,944 | −50 | −214,252 |
| Repurchase of treasury shares (including option premiums paid) | −2,712,513 | | | |
| Other changes | | | −1 | |
| Transactions between shareholders | | | *−167* | |
| Equity as of Dec. 31, 2015 | **76,231,631** | **79,000** | **40,504** | **1,047,145** |

| Other reserves | | | | Treasury shares | Attributable to shareholders of Software AG | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| Currency translation differences from foreign operations | Net gain/loss on remeasuring financial assets | Net actuarial gain/loss on pension obligations | Currency translation gain/loss from net investments in foreign operations | | | | |
| −77,111 | −2,055 | −22,945 | 2,031 | −155,534 | 964,802 | 793 | 965,595 |
| **44,812** | **690** | **−4,363** | **4,406** | | **155,903** | **193** | **156,096** |
| | | | | | | | |
| | | | | | −36,275 | −155 | −36,430 |
| | | | | | −2,722 | | −2,722 |
| | | | | 1,650 | 1,423 | | 1,423 |
| | | | | −70,582 | −70,582 | | −70,582 |
| | | | | | | | |
| **−32,299** | **−1,365** | **−27,308** | **6,437** | **−224,466** | **1,012,549** | **831** | **1,013,380** |
| **−32,299** | **−1,365** | **−27,308** | **6,437** | **−224,466** | **1,012,549** | **831** | **1,013,380** |
| **41,927** | **1,936** | **624** | **4,240** | | **188,172** | **160** | **188,332** |
| | | | | | | | |
| | | | | | −39,459 | −174 | −39,633 |
| | | | | | −2,473 | | −2,473 |
| | | | | 222,891 | 645 | | 645 |
| | | | | −70,021 | −70,021 | | −70,021 |
| | | | | | −1 | | −1 |
| | | | | | *−167* | *−333* | *−500* |
| **9,628** | **571** | **−26,684** | **10,677** | **−71,596** | **1,089,245** | **484** | **1,089,729** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# 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, 2015 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 exists when Software AG can exercise power of control over an entity, is impacted by fluctuating returns on its share in the entity and, due to its power of control, can influence the amount of the returns.

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

| **a) Domestic entities** | **Ownership interest %** |
|---|---|
| SAG Deutschland GmbH, Darmstadt | 100 |
| SAG Consulting Services GmbH, Darmstadt | 100 |
| SAG LVG mbH, Darmstadt<br>and its foreign subsidiaries | 100 |
| • Software Dutch License Company C.V., Al's-Gravenhage/Netherlands | 99 |
| FACT Unternehmensberatung GmbH, Darmstadt<br>(acquisition of 15.52 percent of shares as of August 5, 2015)<br>and its subsidiary | 81 |
| • FACT Informationssysteme und Consulting AG, Neuss | 55 |
| itCampus Software und Systemhaus GmbH, Leipzig | 100 |
| alfabet GmbH, Berlin<br>and its subsidiary | 100 |
| • deepSTRUCTURE GmbH, Berlin (merged with alfabet GmbH as of April 23, 2015) | 100 |
| metaquark GmbH, Leipzig<br>(merged with itCampus Software and Systemhaus GmbH as of March 24, 2015) | 100 |

| 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, McMahons Point/Australia | 100 inactive | Australia |
| Software GmbH Österreich, Vienna/Austria | 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 |
| Software d.o.o., Split/Croatia (formerly IDS Scheer d.o.o. Croatia (Headquarters)) | 100 | Croatia |
| Software AG Denmark A/S, Hvidovre/Denmark and its subsidiary | 100 | Denmark |
| • Software AG Nordic A/S, Oslo/Norway | 100 inactive | 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, Bangalore, Karnataka/India | 100 | India |
| Software AG (India) Private Limited, Bangalore/India | 100 | India |
| S.P.L. Software Ltd, OR-Yehuda/Israel and its subsidiary | 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 | 100 | Luxembourg |
| SAG Central and Eastern Europe S.A., Capellen/Luxembourg | 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 | Saudia Arabia |
| in which SAG Software Systems AG also has a direct stake | 5 | |
| Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia | 95 | Saudia Arabia |
| Software AG (Singapore) Pte LTD, Singapore and its subsidiary | 100 | Singapore |
| • alfabet Pte Ltd, Singapore/Singapore (liquidated as of Feburary 26, 2015) | 100 | Singapore |
| Software AG Development Centre Slovakia s.r.o., Košice/Slovakia | 100 | Slovakia |
| Software d.o.o., Ljubljana/Slowenia (formerly IDS Scheer, d.o.o.) | 100 | Slovenia |
| Software AG South Africa (Pty) Ltd, Bryanston/South Africa | 100 | South Africa |

| b) Foreign entities | Ownership interest % | Country |
|---|---|---|
| Software AG España, S.A. Unipersonal, Tres Cantos, Madrid/Spain and its subsidiaries | 100 | Spain |
| • Software AG Brasil Informática e Serviços Ltda, São Paulo/SP/Brazil | 100 | Brazil |
| • Software AG Factoria S.A., Santiago de Chile/Chile | 100 | Chile |
| • 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 Portugal, Alta Tecnologia Informática, Ltd., Lisbon/Portugal | 97 | Portugal |
| in which Software AG also has a direct stake | 3 | |
| • Software AG De Puerto Rico, Inc., San Juan/Puerto Rico | 100 | Puerto Rico |
| • A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela | 100 inactive | Venezuela |
| • 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 (sold as of December 17, 2015) | 100 | Ukraine |
| Software AG (UK) Limited, Derby/U.K. and its subsidiaries | 100 | United Kingdom |
| • Software AG Belgium S.A., Watermael-Boitsfort/Belgium, | 76 | Belgium |
| in which Software AG also has a direct stake | 24 | |
| • PCB Systems Limited, Derby/U.K. | 100 inactive | 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, S.A. de C.V. (Mexico), Distrito Federal/Mexico | 100 | Mexico |
| Software AG USA, Inc., Reston, VA/USA and its subsidiaries | 100 | United States |
| • Software AG Australia (Holdings) Pty Ltd., McMahons Point/Australia and its subsidiary | 100 | Australia |
| • Software AG Australia Pty Ltd., McMahons Point/Australia | 100 | Australia |
| • webMethods Australia Pty Ltd., McMahons Point/Australia | 100 | Australia |
| • 9162-3439 Quebec Inc., Toronto/Canada (liquidated as of March 18, 2015) | 100 inactive | Canada |
| • webMethods Software Development (Beijing) Co. Ltd., Beijing/China | 100 | China |
| • webMethods Germany GmbH, Darmstadt/Germany | 100 | Germany |
| • Software AG Bangalore Technologies Private Ltd., Bangalore/India | 100 | India |
| • Software AG Chennai Development Center India Pvt Ltd, Chennai/India | 100 | India |
| • Software AG Kochi Pvt. Ltd., Bangalore, Karnataka/India | 98 | India |
| • Software AG Ltd. Japan, Tokyo/Japan | 100 | Japan |
| • Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia | 100 | Malaysia |

| b) Foreign entities | Ownership interest % | Country |
|---|---|---|
| • Software AG Korea, Ltd., Seoul/South Korea | 100 | South Korea |
| • Software AG Distribution LLC, Reston, VA/USA (founded on December 3, 2015) | 100 | United States |
| • Software AG Government Solutions, Inc., Reston, VA/USA and its subsidiary | 100 | United States |
| • JackBe Mexico, Mexico City/Mexico | 100 | Mexico |
| • Terracotta Inc., San Francisco/USA and its subsidiary | 100 | United States |
| • Terracotta Software India Pvt. Ltd., Bangalore, Karnataka/India | 100 | India |

## Changes in the consolidated Group

The number of consolidated entities changed as compared to December 31, 2014 as follows:

| | Germany | Foreign | Total |
|---|---|---|---|
| December 31, 2014 | *11* | *70* | *81* |
| Additions | 0 | 1 | 1 |
| Disposals (including mergers) | –2 | –3 | –5 |
| December 31, 2015 | 9 | 68 | 77 |

The disposals resulted from the merger and liquidation of consolidated enterprises. The addition relates to the opening of a new company in the United States. The changes to the scope of consolidation had no significant effect on comparability with last year.

## [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, share-based remuneration accounting, acquisition accounting, subsequent accounting of goodwill and other intangible assets, measurement of pension obligations, assessment of legal risks, measurement of trade receivables and income tax and deferred tax accounting.

### Adjustment of figures from last year

In order to improve the informative value of its financial statements, its assets in particular, Software AG made changes to the presentation/structure of the balance sheet as of December 31, 2015. Figures from 2014 were adjusted to reflect the new presentation structure.

So "securities and financial assets" was renamed "other financial assets." The items previously recognized as "other receivables and other assets" were reclassified as "other financial assets" (new) (reclassification: Dec. 31, 2014 €5,658 thousand; Jan. 1, 2014 €4,391 thousand), as "trade receivables and other receivables" (previously trade receivables) (reclassification: Dec. 31, 2014 €4,936 thousand; Jan. 1, 2014 €9,016 thousand) and as "other non-financial assets" (new) (reclassification: Dec. 31, 2014 €15,092 thousand; Jan. 1, 2014 €14,503 thousand).

On the liabilities side, "Finanzverbindlichkeiten" was renamed "Finanzielle Verbindlichkeiten" (no change in English to the existing term "financial liabilities"). The items previously recognized as "other liabilities" were reclassified as "financial liabilities" (reclassification: Dec. 31, 2014 €7,122 thousand; Jan. 1, 2014 €5,433 thousand), as "other non-financial liabilities" (new) (reclassification: Dec. 31, 2014 €48,499 thousand; Jan. 1, 2014 €62,285 thousand) and as "trade payables and other liabilities" (previously trade payables) (reclassification: Dec. 31, 2014 €4,283 thousand; Jan. 1, 2014 €2,470 thousand) and also as "other provisions" (reclassification: Dec. 31, 2014 €2,465 thousand; Jan. 1, 2014 €876 thousand).

Furthermore, some items from "other provisions" were reclassified as "other non-financial liabilities" (reclassification: Dec. 31, 2014 €62,754 thousand; Jan. 1, 2014 €71,803 thousand).

## 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, 2015).

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 German 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.

## Mergers

All mergers are recognized according to the purchase method. For every transaction, Software AG decides whether it recognizes the non-controlling interest in the acquired company at fair value or based on the corresponding share of identifiable net assets.

## 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 into euros.

Currency translation differences arising from equity consolidation are offset against equity and reported in a separate column 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 reported 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, 2015 | Dec. 31, 2014 | Change as % |
|---|---|---|---|
| U.S. dollar | 1.0887 | 1.2141 | 10.3% |
| Brazilian real | 4.3117 | 3.2207 | –33.9% |
| Pound sterling | 0.7340 | 0.7789 | 5.8% |
| Australian dollar | 1.4897 | 1.4829 | –0.5% |
| Israeli shekel | 4.2641 | 4.7216 | 9.7% |
| South African rand | 16.9530 | 14.035 | –20.8% |
| Canadian dollar | 1.5116 | 1.4063 | –7.5% |

## Average Rate

| 1 € | 2015 | 2014 | Change as % |
|---|---|---|---|
| U.S. dollar | 1.1097 | 1.3288 | 16.5% |
| Brazilian real | 3.6920 | 3.1226 | –18.2% |
| Pound sterling | 0.7260 | 0.8064 | 10.0% |
| Australian dollar | 1.4765 | 1.4724 | –0.3% |
| Israeli shekel | 4.3149 | 4.7471 | 9.1% |
| South African rand | 14.1523 | 14.4069 | 1.8% |
| Canadian dollar | 1.4176 | 1.4669 | 3.4% |

For the Venezuelan bolivar (VEF), the exchange rate as of December 31, 2015 (56.5664 VEF/EUR) 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.

## Total revenue

Software AG's 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 attached 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 the 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 or Monte Carlo).

## 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 | 5–11 | 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 resulting from mergers is recognized at cost. 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. Any impairment losses are reported directly in the income statement and cannot be recovered in the following period.

## Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation. 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 capitalized 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 | 25–50 |
| 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." Impairment losses are reversed provided the reasons for a previous impairment no longer exist.

## 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.

## Other provisions

Other 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

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.

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 other reserves.

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.

## New accounting rules to be applied starting in the fiscal year

None of the new accounting rules to be applied starting in the 2015 fiscal year had a significant effect on Software AG's consolidated financial statements.

## Published but not yet applicable accounting rules

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, 2015.

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 2016. 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. In July 2015 the IASB decided to postpone the date of first-time application of the standard to fiscal years that begin on or after January 1, 2018; early application is permitted. 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, 2015. 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 2015.

# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## [5] Total revenue

Revenue by segment and region is presented in the segment report in Note [28].

### Services revenue

Services revenue includes €28,917 thousand (2014: €23,126 thousand), which was 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, 2015 was as follows:

| in € thousands | 2015 | 2014 |
|---|---|---|
| Costs accumulated over the term of a (multi-year) project and not yet invoiced | 31,322 | 24,854 |
| Recognized profit (+)/loss (–) (during the entire term of the project) | 8,586 | 5,771 |

As of December 31, 2015, the net amount due from customers for unfinished project work was €3,652 thousand (2014: €3,022 thousand), and the amount due to customers for unfinished project work was €333 thousand (2014: €173 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 | 2015 | 2014 |
|---|---|---|
| Foreign exchange gains | 31,480 | 23,770 |
| Income from the reversal of provisions and deferred liabilities | 2,778 | 4,879 |
| Subsequent purchase price reduction for a company acquired in 2013 | 0 | 3,000 |
| Government grants in the form of low-interest-rate loans | 0 | 1,052 |
| Other income | 1,882 | 101 |
| | 36,140 | 32,802 |

## [7] Other expenses

Other expenses consist of the following items:

| in € thousands | 2015 | 2014 |
|---|---|---|
| Foreign exchange losses | 31,376 | 28,675 |
| Expenses relating to legal disputes | 7,731 | 2,226 |
| Other expenses | 3,849 | 1,236 |
| | 42,956 | 32,137 |

## [8] Net financial income/expense

Financial income includes interest on financial assets in the amount of €8,309 thousand (2014: €7,767 thousand). Financial expense includes interest expenses for financial liabilities in the amount of €9,697 thousand (2014: €14,924 thousand). No financing costs were capitalized as part of the cost of the asset in fiscal 2015.

## [9] Income taxes

Taxes on income are broken down into the following categories:

| in € thousands | 2015 | 2014 |
|---|---|---|
| Current domestic taxes | −12,970 | −71 |
| Current foreign taxes | −52,153 | −44,839 |
| | *−65,123* | *−44,910* |
| Deferred domestic taxes | 3,915 | 4,111 |
| Deferred foreign taxes | 295 | −7,034 |
| | *4,210* | *−2,923* |
| | **−60,913** | **−47,833** |

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 German entities is 30.98 percent starting in 2015 (2014: 31.05 percent). The changed tax rate is due primarily to the changed trade tax structure. Tax rates abroad range between 10 and 39 percent (2014: between 10 and 39 percent).

The income tax expense of €60,913 thousand (2014: €47,833 thousand) for fiscal year 2015 is €1,206 thousand lower than the expected income tax expense of €62,120 thousand (2014: €49,178 thousand) that resulted from applying the domestic tax rate of 30.98 percent currently applicable (2014: 31.05 percent) at Group level. The Group's effective tax rate is 30.38 percent (2014: 30.20 percent).

The difference between the expected and current tax expense can be attributed to the following:

| in € thousands | 2015 | 2014 |
|---|---|---|
| Earnings before income taxes | 200,518 | 158,384 |
| Expected income tax (30.98%; 31.05%) | −62,120 | −49,178 |
| Difference vs. foreign tax rates and changes in tax rates | −819 | −1,393 |
| Aperiodic income tax effects | −3,512 | 5,198 |
| Tax increases (−) due to tax-exempt income or non-tax deductible expenses | 13,008 | 219 |
| Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets | −4,970 | 110 |
| Non-deductible foreign and withholding taxes | −2,485 | −2,814 |
| Other adjustments | −15 | 25 |
| Reported income tax expense | −60,913 | −47,833 |

The changed income tax rates led to a total effect of −€164 thousand (2014: €70 thousand) in fiscal 2015.

## [10] Other taxes

Other taxes decreased €2,449 thousand to €5,984 thousand (2014: €8,433 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 2015 and 2014 were as follows:

| in € thousands | 2015 | 2014 |
|---|---|---|
| Wages and salaries | 393,066 | 413,094 |
| Social security contributions | 48,331 | 48,768 |
| Pension expenses | 8,966 | 9,986 |
| | 450,363 | 471,848 |

In fiscal 2015, the average number of employees (part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

| | 2015 | 2014 |
|---|---|---|
| Maintenance and Services | 1,840 | 1,974 |
| Sales and Marketing | 923 | 1,052 |
| R&D | 976 | 982 |
| Administration | 621 | 664 |
| | 4,360 | 4,672 |

In absolute terms (part-time employees are counted in full), the Group employed 4,479 (2014: 4,571) people as of December 31, 2015.

## [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 2015, the average weighted number of shares was 78,429,032 (2014: 79,228,450).

A total of 25,300 (2014: 59,000) stock options were exercised in 2015. In order to fulfill stock options, 25,300 (2014: 59,000) treasury shares were used. The number of shares outstanding increased accordingly by 25,300 (2014: 59,000). A total of 2,712,513 (2014: 2,653,845) shares were repurchased as part of the share buyback program in 2015. Of those treasury shares repurchased in previous years, 7,943,945 (2014: 0) shares were redeemed in 2015. The number of treasury shares decreased to 2,768,369 (2014: 8,025,101) as a result of the balance of the use of treasury shares, the redemption of treasury shares and the repurchase of treasury shares. The treasury shares are not expected see a dilution effect, since they can be sold at market prices.

1,683,500 (2014: 1,719,800) more stock options from the third stock option plan may be exercised.

| in € thousands | 2015 | 2014 |
|---|---|---|
| Net income | 139,605 | 110,551 |
| Less earnings attributable to non-controlling interests | –160 | –193 |
| Net income attributable to shareholders of Software AG | 139,445 | 110,358 |
| Weighted average number of shares outstanding | 78,429,032 | 79,228,450 |
| Effect of dilutive share-based payment | 81,900 | 0 |
| Weighted average number of shares outstanding (diluted) | 78,510,932 | 79,228,450 |
| Earnings per share in € (basic) | 1.78 | 1.39 |
| Earnings per share in € (diluted) | 1.78 | 1.39 |

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## [13] Other financial assets

Other financial assets as of December 31 were as follows:

| in € thousands | Dec. 31, 2015 Current | Non-current | Total |
|---|---|---|---|
| Debt securities | 8,766 | 1,414 | 10,180 |
| Equity securities | 0 | 11,751 | 11,751 |
| Investment funds | 2,202 | 0 | 2,202 |
| Derivatives | 872 | 11,382 | 12,254 |
| Total | 11,840 | 24,547 | 36,387 |

| in € thousands | Dec. 31, 2014 Current | Non-current | Total |
|---|---|---|---|
| Debt securities | 54,572 | 1,317 | 55,889 |
| Equity securities | 0 | 5,786 | 5,786 |
| Investment funds | 2,067 | 0 | 2,067 |
| Derivatives | 1,326 | 3,003 | 4,329 |
| Total | 57,965 | 10,106 | 68,071 |

Further information on the valuation of financial assets can be found in Note 29.

## [14] Trade receivables and other receivables

Trade receivables and other receivables as of December 31 were as follows:

| in € thousands | Dec. 31, 2015 Current | Non-current | Total |
|---|---|---|---|
| Trade receivables | 229,198 | 72,598 | 301,796 |
| Other receivables | 3,378 | 2,492 | 5,870 |
| Total | 232,576 | 75,090 | 307,666 |

| in € thousands | Dec. 31, 2014 Current | Non-current | Total |
|---|---|---|---|
| Trade receivables | 211,178 | 87,447 | 298,625 |
| Other receivables | 3,179 | 1,756 | 4,935 |
| Total | 214,357 | 89,203 | 303,560 |

The following trade receivables were not yet due or past due as of the reporting date:

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Carrying amount | 301,796 | 298,625 |
| of which neither impaired nor past due as of the balance sheet date | 273,603 | 258,776 |
| of which past due in the following periods as of the balance sheet date | | |
| 1 to 3 months | 18,246 | 29,042 |
| 4 to 6 months | 5,601 | 6,606 |
| 7 to 12 months | 2,612 | 1,658 |
| > 12 months | 0 | 2,543 |

## [15] Other non-financial assets

Other non-financial assets mainly consist of receivables due from tax authorities in the amount of €1,893 thousand (2014: €2,090 thousand) and prepaid expenses in the amount of €12,140 thousand (2014: €12,386 thousand).

## [16] Income tax receivables

Tax receivables in the amount of €30,621 thousand (2014: €34,148 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

## [17] Intangible assets and goodwill

Changes in intangible assets and goodwill as of December 31, 2015:

| in € thousands | Goodwill | Intangible assets | Total |
|---|---|---|---|
| Cost | | | |
| Balance as of Jan. 1, 2015 | 859,179 | 438,179 | 1,297,358 |
| Currency translation differences | 42,675 | 31,459 | 74,134 |
| Additions | 0 | 3,903 | 3,903 |
| Disposals | 0 | –514 | –514 |
| Balance as of Dec. 31, 2015 | 901,854 | 473,027 | 1,374,881 |
| Accumulated impairment/amortization | | | |
| Balance as of Jan. 1, 2015 | –1,900 | –257,983 | –259,883 |
| Currency translation differences | 0 | –19,144 | –19,144 |
| Additions | 0 | –38,947 | –38,947 |
| Disposals | 0 | 485 | 485 |
| Balance as of Dec. 31, 2015 | –1,900 | –315,589 | –317,489 |
| Residual carrying amount as of Jan. 1, 2015 | 857,279 | 180,196 | 1,037,475 |
| Residual carrying amount as of Dec. 31, 2015 | 899,954 | 157,438 | 1,057,392 |

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 impairment/amortization | | | |
| 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 |

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, 2015 | Carrying amount as of Dec. 31, 2014 | Remaining amortization period in years |
|---|---|---|---|
| Customer base obtained through webMethods acquisition | 25,941 | 27,864 | 4.0 |
| Customer base (rights and licenses) obtained through Jacada acquisition | 10,701 | 12,108 | 7.0 |
| Customer base obtained through SPL Israel acquisition | 10,439 | 10,660 | 8.2 |
| Software (rights and licenses) obtained through Terracotta acquisition | 9,346 | 12,538 | 2.0 |

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2015:

| in € thousands | Carrying amount as of Dec. 31, 2015 | Carrying amount as of Dec. 31, 2014 | Reason for assuming indefinite useful life |
|---|---|---|---|
| Brand name (webMethods) obtained through webMethods acquisition | 22,965 | 20,593 | 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 | 22,300 | 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:

## Segment

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Adabas & Natural (A&N) | 318,526 | 312,269 |
| Digital Business Platform (DBP) | 557,318 | 521,977 |
| Consulting | 24,110 | 23,033 |
| Goodwill | 899,954 | 857,279 |
| of which from acquisition of webM Inc. USA 2007 | 250,658 | 224,100 |
| of which from acquisition of IDS Scheer AG 2009 | 240,759 | 240,759 |
| of which from acquisition of SAG Inc. USA 2001 | 174,591 | 174,591 |
| Adabas & Natural (A&N) | 0 | 0 |
| Digital Business Platform (DBP) | 39,769 | 37,461 |
| Consulting | 5,496 | 5,432 |
| Intangible assets with indefinite useful lives | 45,265 | 42,893 |

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.

This is done 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 (2014: 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 Adabas & Natural (A&N) segment were discounted using a post-tax weighted average cost of capital (WACC) of 7.0 percent (2014: 8.9 percent). The sustainable growth rate was assumed to be 0 percent (2014: 0 percent). A discount of 20 percent (2014: 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 (2014: 2 percent) and a weighted average cost of capital (WACC) after tax of 10.0 percent (2014: 9.9 percent) for the Digital Business Platform (DBP) segment. A mid-range single-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 10-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 6.9 percent (2014: 6.3 percent) and a sustainable growth rate of 2 percent for perpetual annuity for the Consulting segment. Even if a sustainable growth rate of 0 percent were used for perpetual annuity, the fair value less costs to sell would be greater than the carrying amount.

# [18] Property, plant and equipment

## Changes in Property, Plant and Equipment as of December 31, 2015

| in € thousands | Land and buildings | Operating and office equipment | Total |
|---|---|---|---|
| Cost | | | |
| Balance as of Jan. 1, 2015 | 76,879 | 32,084 | 108,963 |
| Currency translation differences | 1,139 | 1,778 | 2,917 |
| Additions | 2,479 | 5,713 | 8,192 |
| Disposals | −4,311 | −5,305 | −9,616 |
| Balance as of Dec. 31, 2015 | 76,186 | 34,270 | 110,456 |
| Accumulated depreciation | | | |
| Balance as of Jan. 1, 2015 | −29,674 | −18,118 | −47,792 |
| Currency translation differences | −695 | −1,339 | −2,034 |
| Additions | −4,439 | −6,046 | −10,485 |
| Disposals | 1,677 | 4,399 | 6,076 |
| Balance as of Dec. 31, 2015 | −33,131 | −21,104 | −54,235 |
| Residual carrying amount as of Jan. 1, 2015 | 47,205 | 13,966 | 61,171 |
| Residual carrying amount as of Dec. 31, 2015 | 43,055 | 13,166 | 56,221 |

## 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** | | | |
| 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 |

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 €5,713 thousand (2014: €6,584 thousand) primarily relates to expenses for the initial purchase of computer equipment.

# [19] Deferred taxes

Deferred taxes were composed of the following as of the balance sheet date (before offsetting):

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| **in € thousands** | **Dec. 31, 2015** | **Dec. 31, 2014** | **Dec. 31, 2015** | **Dec. 31, 2014** |
| Intangible assets | 1,142 | 3,472 | 44,250 | 50,303 |
| Property, plant and equipment | 1,447 | 547 | 2,691 | 3,042 |
| Receivables and financial assets | 2,981 | 7,399 | 5,735 | 6,431 |
| Other obligations | 9,755 | 8,055 | 2,662 | 8,443 |
| Pension commitments | 8,707 | 6,546 | 0 | 0 |
| Prepaid expenses/deferred income | 3,908 | 3,889 | 0 | 35 |
| Tax loss carryforwards | 21,714 | 32,152 | 0 | 0 |
| Total | 49,654 | 62,060 | 55,338 | 68,254 |
| Amount offset | –38,615 | –51,123 | –38,615 | –51,123 |
| Amount recognized in the balance sheet | 11,039 | 10,937 | 16,723 | 17,131 |

Deferred tax assets on tax loss carryforwards fell from the prior year by €10,438 thousand. The decrease 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.

As of December 31, 2015, the consolidated Group had unutilized tax loss carryforwards in the amount of €43,351 thousand (2014: €40,522 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €8,220 thousand will expire in the period from 2016 to 2024, €10,385 thousand in the period from 2025 to 2034, and €24,746 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €10,849 thousand (2014: 8,494 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 2015, deferred taxes totaling €6,873 thousand (2014: €9,226 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.

## [20] Financial liabilities

Financial liabilities can be broken down as follows:

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| **Current financial liabilities** | | |
| Liabilities to banks | 100,784 | 101,662 |
| Other financial liabilities | 5,067 | 1,078 |
| Bills payable | 956 | 880 |
| Liabilities from finance leases | 34 | 26 |
| Other current financial liabilities | 6,192 | 7,121 |
| | 113,033 | 110,767 |
| **Non-current financial liabilities** | | |
| Liabilities to banks | 209,185 | 331,425 |
| Other financial liabilities | 4,000 | 9,000 |
| Liabilities from finance leases | 62 | 74 |
| | 213,247 | 340,499 |

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 | 39,774 | 46,091 |
| Loans with fixed interest rates | 66,077 | 167,094 |

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 €236,289 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

## [21] Trade payables and other liabilities

Trade payables and other liabilities can be broken down as follows:

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Payables to suppliers | 27,918 | 31,231 |
| Payments received on account of orders | 4,351 | 4,569 |
| Other liabilities | 837 | 1,084 |
| | 33,106 | 36,884 |

## [22] Other non-financial liabilities

Other non-financial liabilities relate to the following items:

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Liabilities due to employees | 81,675 | 73,665 |
| Tax liabilities | 23,204 | 21,784 |
| Liabilities for social security | 5,610 | 4,965 |
| Remaining other current liabilities | 4,162 | 10,839 |
| | 114,651 | 111,253 |

# [23] Other provisions

| in € thousands | Other personnel-related provisions | Miscellaneous other provisions | Total other provisions |
|---|---|---|---|
| Balance as of Jan. 1, 2015 | 24,339 | 7,426 | 31,765 |
| Currency translation differences | −42 | 253 | 211 |
| Additions | 13,891 | 12,207 | 26,098 |
| Utilization | −3,195 | −2,089 | −5,284 |
| Reclassification | −5,056 | 0 | −5,056 |
| Reversal | −489 | −1,019 | −1,508 |
| Balance as of Dec. 31, 2015 | 29,448 | 16,778 | 46,226 |
| of which with a remaining term of more than 1 year | | | 17,897 |

| in € thousands | Other personnel-related provisions | Miscellaneous other provisions | Total other provisions |
|---|---|---|---|
| Balance as of Jan. 1, 2014 | 13,344 | 6,619 | 19,963 |
| Currency translation differences | −6 | 203 | 197 |
| Additions | 13,201 | 3,386 | 16,587 |
| Utilization | −955 | −2,085 | −3,040 |
| Changes in the consolidated Group | 0 | −449 | −449 |
| Reversal | −1,245 | −248 | −1,493 |
| Balance as of Dec. 31, 2014 | 24,339 | 7,426 | 31,765 |
| of which with a remaining term of more than 1 year | | | 13,156 |

## Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

| in € thousands | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Litigation | 13,757 | 3,295 |
| Lease payment obligations | 1,024 | 1,920 |
| Anticipated losses | 1,107 | 1,295 |
| Asset retirement obligations | 451 | 387 |
| Other provisions | 439 | 529 |
| | 16,778 | 7,426 |

For further information on litigation, please refer to Note 33.

# [24] Income tax liabilities

| in € thousands | 2015 | 2014 |
|---|---|---|
| Balance as of Jan. 1 | 32,605 | 38,477 |
| Currency translation differences | −94 | 521 |
| Additions | 23,144 | 7,513 |
| Utilization | −20,321 | −11,423 |
| Reversal | −6,708 | −2,483 |
| Balance as of Dec. 31 | 28,626 | 32,605 |

# [25] Provisions for pensions and similar obligations

## Defined Benefit Plans

| | Defined benefit obligation (DBO) | | Fair value of plan assets | | Effects of asset caps | | Net defined benefit balance | |
|---|---|---|---|---|---|---|---|---|
| **in € thousands** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Germany | **33,508** | 36,844 | **18,662** | 16,166 | **0** | 0 | **14,846** | 20,678 |
| U.K. | **68,270** | 69,945 | **62,310** | 56,180 | **9,468** | 4,247 | **15,428** | 18,013 |
| Switzerland | **5,469** | 6,112 | **3,288** | 3,607 | **0** | 0 | **2,181** | 2,505 |
| Other insignificant pension plans and similar plans | | | | | | | **3,189** | 1,370 |
| | | | | | | | **35,644** | **42,566** |

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.

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.

| in € thousands | Defined benefit obligation (DBO) 2015 | Defined benefit obligation (DBO) 2014 | Fair value of plan assets 2015 | Fair value of plan assets 2014 | Net defined benefit balance (without effect of asset caps) 2015 | Net defined benefit balance (without effect of asset caps) 2014 |
|---|---|---|---|---|---|---|
| Balance as of Jan. 1 | 112,901 | 90,684 | 75,953 | 53,395 | 36,948 | 37,290 |
| Current service cost | 3,052 | 2,078 | | | 3,052 | 2,078 |
| Past service cost | –1,801 | 0 | 0 | 0 | –1,801 | 0 |
| Net interest income/expense | 3,617 | 3,691 | 2,698 | 2,441 | 919 | 1,250 |
| | *4,868* | *5,769* | *2,698* | *2,441* | *2,170* | *3,328* |
| Expense/income resulting from adjustments | | | | | | |
| Return on plan assets net of income recognized as net interest income/expense | 0 | 0 | –1,170 | 1,235 | 1,170 | –1,235 |
| Expectation adjustments | –2,292 | –3,350 | 0 | 0 | –2,292 | –3,350 |
| Net actuarial gain/loss from changes to financial assumptions | –6,701 | 17,723 | 0 | 0 | –6,701 | 17,723 |
| | *–8,993* | *14,373* | *–1,170* | *1,235* | *–7,823* | *13,138* |
| Currency-related changes | –542 | 2,721 | –407 | 3,529 | –135 | –808 |
| Employer contributions | 0 | 0 | 8,373 | 17,110 | –8,373 | –17,110 |
| Employee contributions | 478 | 1,139 | 478 | 1,139 | 0 | 0 |
| Plan-related payments | –1,465 | –1,785 | –1,664 | –2,896 | 199 | 1,111 |
| Settlement payments | 0 | 0 | 0 | 0 | 0 | 0 |
| | *–987* | *–646* | *7,186* | *15,353* | *–8,174* | *–16,000* |
| **Balance as of Dec. 31** | **107,247** | **112,901** | **84,260** | **75,953** | **22,987** | **36,948** |

The significant assumptions used for calculating the present value of the defined benefit obligations (DBO) are as follows:

| | 2015 | 2014 |
|---|---|---|
| **Discount rate** | | |
| Germany | 2.25% | 2.00% |
| U.K. | 4.00% | 3.75% |
| Switzerland | 0.75% | 1.50% |
| **Salary trend** | | |
| Germany | 0.00% | 0.00% |
| U.K. | 5.00% | 4.75% |
| Switzerland | 1.50% | 1.50% |
| **Pension trend** | | |
| Germany | 1.75% | 2.00% |
| U.K. | 3.00% | 3.00% |
| Switzerland | 0.00% | 0.00% |

A change in the above discount rates by 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%) | 2,957 | 8,088 | 548 |
| Discount rate (+0.5%) | −2,597 | −7,857 | −478 |
| Salary trend (−0.5%) | −156 | −860 | −61 |
| Salary trend (+0.5%) | 160 | 860 | 64 |
| Pension trend (−0.5%) | −1,981 | 2,263 | n/a* |
| Pension trend (+0.5%) | 2,199 | −2,257 | 354 |

* Pension trend was assumed at 0 percent for Switzerland (see above)

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** | **2015** | **2014** |
| Equities | 38,939 | 34,117 |
| Life insurance policies | 21,949 | 19,773 |
| Fixed-interest securities | 12,430 | 15,601 |
| Cash and cash equivalents | 10,942 | 6,462 |
| | **84,260** | **75,953** |

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 2016 are expected to amount to €6,213 thousand.

Expected benefit payments during the next 10 years are expected to be as follows:

| **in € thousands** | **Expected benefit payments** |
|---|---|
| 2016 | 3,178 |
| 2017 | 2,506 |
| 2018 | 2,412 |
| 2019 | 5,864 |
| 2020 | 2,613 |
| 2021–2025 | 14,765 |

## 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 €13,849 thousand (2014: €14,890 thousand) in 2015.

# [26] Equity

## Share capital

As of December 31, 2015, Software AG's share capital totaled €79,000 thousand (2014: €86,944 thousand), divided into 79,000,000 (2014: 86,943,945) bearer shares. Each share entitles its holder to one vote.

## Conditional capital

The following conditional capital existed as of December 31, 2015:

1.) 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.

The Management Board has not made use of this authorization.

2.) 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 2015.

## Authorized capital

As of December 31, 2015, 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 2015.

## Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 13, 2015, the Company is authorized on or before May 12, 2020

a) to purchase treasury shares up to a total of 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) This authorization applies to the acquisition of treasury shares until May 12, 2020. The authorization approved at the Annual Shareholders' Meeting on May 3, 2013 will be rescinded as of the effective date of this authorization.

c) 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 or a public invitation to submit an offer to sell. 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 or a public invitation to submit offers to sell, 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 or, in the case of an invitation to submit offers to sell, on the sixth through second trading days before the acceptance of the offer to sell. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer. 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 use Software AG shares purchased on the basis of the authorization pursuant to letter "a" above or an authorization granted at an earlier time for any legal purpose and sell them primarily 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, excluding shareholders' subscription rights, to employees and members of the Company's and its affiliates' senior management exclusion of shareholders' subscription rights

(i) in the context of the Company's existing stock option plan, Management Incentive Plan (MIP) III, whose targets (to achieve Group revenue of €1,000,000 thousand by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006) were met in fiscal 2010. At present a balance of 1,683,500 MIP III options are held by plan participants, of which 1,350,000 options were awarded to members of the Software AG Management Board and members of senior management at affiliated companies and the remainder to employees of Software AG and affiliated companies. All awards under MIP III have an original wait period of four years which has already expired. The base price for the options was €24.12. The value increase to be used per share is capped at a share price of €45.00, meaning that entitled plan participants receive a maximum economic benefit of €20.88 (gross) per share. Any proceeds beyond that belong to the Company. MIP III options were allocated between 2007 and 2010. Options may be exercised between May 19, 2011 and June 30, 2019;

(ii) The authorization to transfer treasury shares in the context of Software AG's Management Incentive Plan (MIP) IV stock option program became obsolete because the performance targets were not met by December 31, 2015. In accordance with the conditions of the options all MIP IV options were forfeited with no compensation at the end of December 31, 2015.

(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 excluding 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 excluding 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 8,025,101 (2014: 5,430,256) treasury shares representing an interest of €8,025,101 (2014: €5,430,256) or 9.23 percent (2014: 6.25 percent) in Software AG's share capital.

The Management Board decided on April 28, 2015 to redeem 7,943,945 treasury shares and decrease share capital accordingly. The share capital decrease was entered in the Commercial Register on July 10, 2015.

On September 3, 2015 the Company announced a share buyback program up to a volume of €70 million, to be concluded by December 31, 2015 at the latest. In the fiscal year, Software AG repurchased 2,712,513 treasury shares (2014: 2,653,845) at an average price of €25.81 per share (2014: €26.60), not including transaction fees, for a total cost of €70,000 thousand (2014: €70,561 thousand). This represents 3.43 percent (2014: 3.05 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 25,300 (2014: 59,000) shares to managers of Software AG under the stock option plan, which was passed as item 7a) of the agenda of the Annual Shareholders' Meeting on April 29, 2008, pursuant to the aforementioned section f (i) of the resolution of the Annual Shareholders' Meeting on May 13, 2015, which was item 8 of the agenda.

As of December 31, 2015 Software AG held 2,768,369 (2014: 8,025,101) treasury shares representing an interest of €2,768,369 (2014: €8,025,101) or 3.5 percent (2014: 9.23 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 and free cash flow. This results in a total dividend sum of €41,927 thousand (2014: €39,459 thousand) and a payout ratio of €27.1 percent (2014: 32.4 percent).

## Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 13, 2015 to appropriate €39,459 thousand (2014: €36,275 thousand) for a dividend payout from the net retained profits of €91,144 thousand reported by Software AG, the controlling Group company, in 2014. This corresponded to a dividend of €0.50 (2014: €0.46) per share. A total amount of €51,685 thousand (2014: €99,767 thousand) was carried forward.

Based on the number of shares outstanding as of February 29, 2016, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €87,193 thousand reported by Software AG, the controlling Group company, in 2015, as follows: to appropriate €41,927 thousand for dividends and to carry forward €45,266 thousand. This corresponds to a dividend of €0.55 per share.

## Other reserves

Other reserves changed as follows, taking into account tax effects:

| in € thousands | 2015 Pre-tax amount | 2015 Tax effect | 2015 Net amount | 2014 Pre-tax amount | 2014 Tax effect | 2014 Net amount |
|---|---|---|---|---|---|---|
| Currency translation differences from foreign operations | 41,927 | 0 | 41,927 | 44,812 | 0 | 44,812 |
| Net gain/loss on remeasuring financial assets | 2,807 | −871 | 1,936 | 1,004 | −314 | 690 |
| Currency translation gain/loss from net investments in foreign operations | 4,240 | 0 | 4,240 | 4,406 | 0 | 4,406 |
| Net actuarial gain/loss on pension obligations | 2,105 | −1,481 | 624 | −6,152 | 1,789 | −4,363 |
| Other comprehensive income | 51,079 | −2,352 | 48,727 | 44,070 | 1,475 | 45,545 |

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2014, net expense of €913 thousand (2014: €341 thousand) was recognized in profit or loss in fiscal year 2015.

# OTHER DISCLOSURES

## [27] Notes to the Consolidated Statement of Cash Flows

Cash and cash equivalents include €1,397 thousand (2014: €1,269 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 €174 thousand (2014: €155 thousand) to minority shareholders of subsidiaries.

No payments were made for acquisitions in 2015. Net payments for acquisitions in 2014 amounted to €3,667 thousand.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including cash outflows for investments in current financial assets, proceeds from the sale of current financial assets, proceeds from the sale of disposal groups or net cash outflows for acquisitions. Accordingly, free cash flow totaled €169,982 thousand (2014: €132,738 thousand).

Effects from the disposal of subsidiaries and/or business units on cash flow and balance sheet items in 2014 were as follows:

| 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 |

## [28] 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:

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

The table below shows the segment data for the 2015 and 2014 fiscal years:

## Segment Report for Fiscal Years 2015 and 2014

| | Adabas & Natural (A&N) | | Digital Business Platform (DBP) | |
|---|---|---|---|---|
| **in € thousands** | **2015** | **2014** | **2015** | **2014** |
| Licenses | 88,393 | 91,040 | 183,508 | 178,867 |
| Maintenance | 158,939 | 153,681 | 248,003 | 215,654 |
| Product revenue | *247,332* | *244,721* | *431,511* | *394,521* |
| Services | 0 | 0 | –1 | 0 |
| Other | 621 | 623 | 7 | –3 |
| Total revenue | *247,953* | *245,344* | *431,517* | *394,518* |
| Cost of sales | –14,126 | –12,645 | –27,933 | –22,856 |
| Gross profit | *233,827* | *232,699* | *403,584* | *371,662* |
| Sales, marketing and distribution expenses | –39,473 | –41,072 | –192,713 | –182,511 |
| Segment contribution | *194,354* | *191,627* | *210,871* | *189,151* |
| Research and development expenses | –20,720 | –24,346 | –85,693 | –84,718 |
| Segment earnings | *173,634* | *167,281* | *125,178* | *104,433* |
| 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.

| Consulting | | Reconciliation | | Total | |
|---|---|---|---|---|---|
| 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 0 | 192 | | | 271,901 | 270,099 |
| 0 | 2,006 | | | 406,942 | 371,341 |
| *0* | *2,198* | | | *678,843* | *641,440* |
| 193,369 | 215,752 | | | 193,368 | 215,752 |
| 218 | 22 | | | 846 | 642 |
| *193,587* | *217,972* | | | *873,057* | *857,834* |
| −153,325 | −177,945 | −16,774 | −22,870 | −212,158 | −236,316 |
| *40,262* | *40,027* | *−16,774* | *−22,870* | *660,899* | *621,518* |
| −18,436 | −23,161 | −18,214 | −16,305 | −268,836 | −263,049 |
| *21,826* | *16,866* | *−34,988* | *−39,175* | *392,063* | *358,469* |
| 0 | 0 | 0 | 0 | −106,413 | −109,064 |
| *21,826* | *16,866* | *−34,988* | *−39,175* | *285,650* | *249,405* |
| | | | | −69,405 | −74,062 |
| | | | | −5,984 | −8,433 |
| | | | | *210,261* | *166,910* |
| | | | | −6,816 | 665 |
| | | | | −2,927 | −9,191 |
| | | | | *200,518* | *158,384* |
| | | | | −60,913 | −47,833 |
| | | | | **139,605** | **110,551** |

## Information on geographic regions

Revenues by location of the Company can be broken down into geographic regions as follows:

## Geographic Distribution of Revenues

| in € thousands | 2015 Germany | 2015 USA | 2015 Other countries | 2015 Group total |
|---|---|---|---|---|
| Licenses | 38,929 | 104,652 | 128,320 | 271,901 |
| Maintenance | 57,814 | 145,581 | 203,547 | 406,942 |
| Services | 34,894 | 19,832 | 138,642 | 193,368 |
| Other | 649 | 29 | 168 | 846 |
| Total | 132,286 | 270,094 | 470,677 | 873,057 |

| in € thousands | 2014 Germany | 2014 USA | 2014 Other countries | 2014 Group total |
|---|---|---|---|---|
| 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 |

Countries included in "other countries" are presented separately once the revenue generated in a country 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 | 2015 | 2014 |
|---|---|---|
| USA | 589,456 | 567,474 |
| Germany | 377,107 | 389,575 |
| Other countries | 147,050 | 141,597 |
| Group total | 1,113,613 | 1,098,646 |

## [29] 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.

## December 31, 2015

| in € thousands | Valuation category | | | | |
|---|---|---|---|---|---|
| | At amortized cost | At fair value | Held for trading purposes | Hedging instruments | Loans and receivables |
| **Assets** | | | | | |
| Cash and cash equivalents | *300,567* | | | | *300,567* |
| Trade receivables and other receivables | *307,666* | | | | *307,666* |
| Other financial assets | | | | | |
| Financial assets available for sale | | | | | |
| Debt securities | | 4,000 | | | |
| Equity securities | | 11,751 | | | |
| Investment funds | | 2,202 | | | |
| Loans and other financial receivables | 6,181 | | | | 6,181 |
| Derivative financial instruments | | | | | |
| designated as hedging instrument | | | | | |
| Stock options | | 5,752 | | 5,752 | |
| not designated as hedging instrument | | | | | |
| Forward currency contracts | | 872 | 872 | | |
| Stock options | | 5,629 | 5,629 | | |
| **Liabilities** | | | | | |
| Trade payables and other liabilities | *33,106* | | | | |
| Financial liabilities | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans | 314,171 | | | | |
| Other non-derivative financial liabilities | 10,200 | | | | |
| Derivative financial liabilities | | | | | |
| designated as hedging instrument | | | | | |
| Interest rate swaps | | 1,193 | | 1,193 | |
| not designated as hedging instrument | | | | | |
| Forward currency contracts | | 519 | 519 | | |
| Forward equity contracts | | 197 | 197 | | |

| | Carrying amount | | | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | **Available for sale** | **Other financial liabilities** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | | | | | | |
| | | | *300,567* | | | | |
| | | | *307,666* | | | | |
| | | | *36,387* | | | | |
| | | | | | | | |
| | 4,000 | | 4,000 | | 4,000 | | 4,000 |
| | 11,751 | | 11,751 | | | 11,751 | 11,751 |
| | 2,202 | | 2,202 | 2,202 | | | 2,202 |
| | | | 6,181 | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | 5,752 | | 5,752 | | 5,752 |
| | | | | | | | |
| | | | 872 | | 872 | | 872 |
| | | | 5,629 | | 5,629 | | 5,629 |
| | | | | | | | |
| | | | *33,106* | | | | |
| | | | *326,280* | | | | |
| | | | | | | | |
| | | 314,171 | 314,171 | | 317,289 | | 317,289 |
| | | 10,200 | 10,200 | | 10,200 | | 10,200 |
| | | | | | | | |
| | | | | | | | |
| | | | 1,193 | | 1,193 | | 1,193 |
| | | | | | | | |
| | | | 519 | | 519 | | 519 |
| | | | 197 | | 197 | | 197 |

## December 31, 2014

| in € thousands | Valuation category | | | | |
|---|---|---|---|---|---|
| | **At amortized cost** | **At fair value** | **Held for trading purposes** | **Hedging instruments** | **Loans and receivables** |
| Assets | | | | | |
| Cash and cash equivalents | *318,396* | | | | *318,396* |
| Trade receivables and other receivables | *303,560* | | | | *303,560* |
| Other financial assets | | | | | |
| Financial assets available for sale | | | | | |
| Debt securities | | 53,000 | | | |
| Equity securities | | 5,786 | | | |
| Investment funds | | 2,067 | | | |
| Loans and other financial receivables | 2,889 | | | | 2,889 |
| Derivative financial instruments | | | | | |
| designated as hedging instrument | | | | | |
| Stock options | | 3,003 | 3,003 | | |
| not designated as hedging instrument | | | | | |
| Forward currency contracts | | 1,326 | 1,326 | | |
| Liabilities | | | | | |
| Trade payables and other liabilities | *36,884* | | | | |
| Financial liabilities | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans | 441,230 | | | | |
| Other non-derivative financial liabilities | 888 | | | | |
| Derivative financial liabilities | | | | | |
| designated as hedging instrument | | | | | |
| Interest rate swaps | | 2,047 | | 2,047 | |
| not designated as hedging instrument | | | | | |
| Forward currency contracts | | 1,872 | 1,872 | | |
| Forward equity contracts | | 5,229 | 5,229 | | |

| Carrying amount | | | Fair value | | | |
|---|---|---|---|---|---|---|
| **Available for sale** | **Other financial liabilities** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | | | | | |
| | | *318,396* | | | | |
| | | *303,560* | | | | |
| | | *68,071* | | | | |
| | | | | | | |
| 53,000 | | **53,000** | | 53,000 | | **53,000** |
| 5,786 | | **5,786** | | | 5,786 | **5,786** |
| 2,067 | | **2,067** | 2,067 | | | **2,067** |
| | | **2,889** | | | | |
| | | | | | | |
| | | | | | | |
| | | **3,003** | | 3,003 | | **3,003** |
| | | | | | | |
| | | **1,326** | | 1,326 | | **1,326** |
| | | | | | | |
| | | *36,884* | | | | |
| | | *451,266* | | | | |
| | | | | | | |
| | 441,230 | **441,230** | | 445,060 | | **445,060** |
| | 888 | **888** | | 888 | | **888** |
| | | | | | | |
| | | | | | | |
| | | **2,047** | | 2,047 | | **2,047** |
| | | | | | | |
| | | **1,872** | | 1,872 | | **1,872** |
| | | **5,229** | | 5,229 | | **5,229** |

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2014 or 2015.

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 2015 or 2014, 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, 2015 and December 31, 2014.

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 is only affected significantly by currency translation effects. The net loss from derivatives without qualifying hedging relationships amounted to €4,357 thousand (2014: gain of €3,753 thousand) in fiscal 2015. The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €892 thousand in fiscal 2015 (2014: gain of €1,516 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 €1,738 thousand (2014: €1,365 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 financial assets or financial 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 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 the amount of 10 percent against the U.S. dollar would have increased earnings by €1,199 thousand (2014: €543 thousand) and other reserves by €2,859 thousand (2014: 2,570 thousand). 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, 2015, 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 €1.6 million (2014: €2.7 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 (2014: €125.0 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 2015, 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, 2015.

## 2015

| in € thousands | Up to 1 year | >1 to 5 years | > 5 years | Total |
|---|---|---|---|---|
| Trade payables and other financial liabilities (of this item) | *28,665* | *90* | *0* | *28,755* |
| Financial non-derivative liabilities | | | | |
| Loans | 101,077 | 213,094 | 0 | **314,171** |
| Finance lease liabilities | 34 | 62 | 0 | **96** |
| Other non-derivative liabilities | 10,049 | 55 | 0 | **10,104** |
| Derivative financial liabilities | **1,873** | **36** | **0** | **1,909** |

## 2014

| in € thousands | Up to 1 year | >1 to 5 years | > 5 years | Total |
|---|---|---|---|---|
| Trade payables and other financial liabilities (of this item) | *32,315* | *0* | *0* | *32,315* |
| Financial non-derivative liabilities | | | | |
| Loans | 101,077 | 315,153 | 25,000 | 441,230 |
| Finance lease liabilities | 26 | 74 | 0 | 100 |
| Other non-derivative liabilities | 877 | 0 | 158 | 946 |
| Derivative financial liabilities | **8,876** | **272** | **0** | **9,148** |

## 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, 2015 and December 31, 2014. 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.

| in € thousands | 2015 Notional amount | 2015 Fair value | 2015 Carrying amount | 2014 Notional amount | 2014 Fair value | 2014 Carrying amount |
|---|---|---|---|---|---|---|
| **Derivatives with positive fair value** | | | | | | |
| Derivatives (without qualifying hedging relationship) | – | 7,194 | 7,194 | – | 4,329 | 4,329 |
| Forward currency contracts remaining term < 1 year | 64,297 | 873 | 873 | 16,615 | 1,326 | 1,326 |
| Stock options/forward equity contracts | 15,624 | 6,321 | 6,321 | 6,366 | 3,003 | 3,003 |
| Derivatives (cash flow hedges) | – | 5,727 | 5,727 | – | 0 | 0 |
| Stock options | 6,366 | 5,727 | 5,727 | 0 | 0 | 0 |
| **Derivatives with negative fair value** | | | | | | |
| Derivatives (without qualifying hedging relationship) | – | −716 | −716 | – | −7,101 | −7,101 |
| Forward currency contracts remaining term < 1 year | 14,975 | −483 | −483 | 17,791 | −1,872 | −1,872 |
| Forward currency contracts remaining term > 1 year | 3,674 | −36 | −36 | 0 | 0 | 0 |
| Stock options/forward equity contracts | 13,638 | −197 | −197 | 18,691 | −5,229 | −5,229 |
| Derivatives (cash flow hedges) | – | −1,193 | −1,193 | – | −2,047 | −2,047 |
| Interest rate swaps | 30,000 | −1,193 | −1,193 | 30,000 | −2,047 | −2,047 |

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), −€745 thousand pertains to 2016 and −€448 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 the MIPs, the Company has entered into hedging instruments on Software AG stock with banks.

Financial instruments for hedging currency risk have a maximum remaining term of 2.5 years, whereas financial instruments for hedging interest rate risk have a maximum remaining term of 1.5 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 2015, the interest rates for term deposit investments were between 0.025 percent and 0.71 percent p.a. in Germany, whereas up to 21.0 percent p.a. was reached abroad.

## [30] 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.

### 2015

| in € thousands | Up to 1 year | >1 to 5 years | > 5 years | Total |
|---|---|---|---|---|
| Contractually agreed payments | 18,219 | 37,576 | 13,401 | 69,196 |
| Estimated income from subleases | 1,634 | 2,214 | 0 | 3,848 |

### 2014

| 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 |

Software AG made payments on leases in the amount of €22,172 thousand (2014: €23,704 thousand) in 2015.

## [31] Contingent liabilities

For more information on reportable contingent liabilities, please refer to the section on Litigation in Note [33].

## [32] Seasonal influences

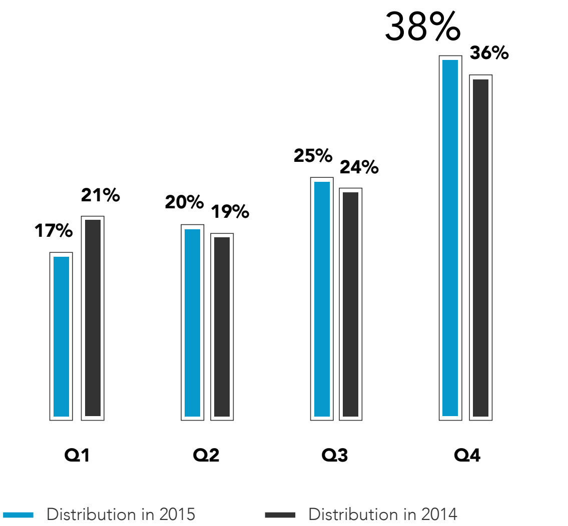
Revenues and pre-tax earnings were distributed over fiscal year 2015 as follows:

| in € thousands | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | 2015 |
|---|---|---|---|---|---|
| License revenue | 46,541 | 53,513 | 68,897 | 102,950 | 271,901 |
| as % of license revenue for the year | 17 | 20 | 25 | 38 | 100 |
| Total revenue | 194,057 | 205,630 | 215,871 | 257,499 | 873,057 |
| as % of revenue for the year | 22 | 24 | 25 | 29 | 100 |
| Earnings before taxes | 26,396 | 30,777 | 64,920 | 78,425 | 200,518 |
| as % of earnings for the year | 13 | 15 | 32 | 40 | 100 |

Based on historical data, the revenue and earnings distribution from 2015 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 2015 und 2014.

### As % of total annual license revenue




## [33] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the case to set a precedent, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants.

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. Now that the involved parties have issued opinions, the next court decision is pending.

With regard to 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 appealed the decision. The court has appointed an expert witness; Software AG has not yet received the expert's report. Provisions are set up based on the estimated probable actual resource outflow.

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. In January 2016 the European Commission communicated its intention to produce the final audit reports based on the existing preliminary audit reports. From Software AG's perspective, however, it is apparent that the preliminary audit reports were not prepared in accordance with the applicable regulations, and the Czech Board of Financial Auditors is currently in the process of reviewing a complaint to that extent. Software AG placed a call to the European Ombudsman. Provisions are set up based on the estimated probable actual resource outflow. Software AG estimates the maximum probable resource outflow to be approximately €3 million.

In the United States, Software AG's U.S. subsidiaries, Software AG USA Inc. and Software AG Inc., have appealed a judgment of the court of first instance ordering Software AG's U.S. subsidiaries to pay compensation for damages in the amount of $15 million. An oral hearing was held in appellate court on February 4, 2016. 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.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia [CNMC]) searched the offices of Software AG ESPAÑA, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 due to suspicion of an anti-competitive agreement. Software AG Spain filed an objection to the search warrant and received a rejection. Further legal action against the ruling on the objection is an option. It is not yet clear whether or not the CNMC will pursue infringement proceedings against Software AG Spain based on the given facts. According to advice from local external attorneys, the extent of the potential sentence is difficult to predict. Should proceedings be pursued and grounds for the accusation of an anti-competitive violation be deemed to exist, it would be reasonable to expect a fine between 3 and 5 percent of Software AG Spain's revenue in fiscal 2014. This would be a maximum risk of €2.3 and €3.8 million. Since the decision of the CNMC about initiating proceedings and thus the specific accusation against Software AG Spain are still pending, Software AG has not set up provisions for this legal risk.

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

Provisions for litigation totaled €13,757 thousand (2014: €3,295 thousand) as of December 31, 2015. In addition, contingent liabilities in the amount of €20,058 thousand (2014: €25,100 thousand) existed. But since a resource outflow as of December 31, 2015 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, 2014, 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.

## [34] 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.

Share-based remuneration resulted in total earnings of €3,147 thousand (2014: expenses of €11,743 thousand) in fiscal 2015.

No expenses for share-based compensation transactions were capitalized as inventories or non-current assets.

### Management Incentive Plan 2016

A share-performance-based Management Incentive Plan 2016 for members of the Management Board, upper management and key members of staff was approved in December 2015. The rights have a term of three years. Exercise benefits are paid out conditional upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds a defined price on 10 consecutive trading days during a defined period of time. 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 allocation was based on the following parameters:

| | |
|---|---|
| Reference price at issue | €25.94 |
| Base price | €0 |
| Term of rights | 3 years |
| Exercise target | €30.00 |
| Period in which exercise threshold is to be reached | Dec. 1, 2017 until Nov. 30, 2018 |
| Cap | €51.88 |

The fair value was calculated based on the price of a hedging transaction entered into promptly with a bank; the parameters of the transaction correspond to the employee's award.

In December 2015, 458,672 rights were awarded under Management Incentive Plan 2016.

## Management Incentive Plan 2015 (MIP V)

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 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 10 consecutive trading days between November 15 of the second year of the term until December 15 of the third year of the term of one tranche. The reference price is equal to the average of the 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 allocation of the rights in 2014 was based on the following parameters:

| | |
|---|---|
| Reference price at issue | €21.22 |
| Base price | €0 |
| Term of rights | 3 years |
| Exercise threshold | €27.59 |
| Cap | €42.44 |

Valuation of outstanding rights was carried out on December 31, 2015 using the following assumptions and parameters:

| | |
|---|---|
| Pricing model | Monte-Carlo |
| Share price | €26.42 |
| Risk-free interest rate | 0.01% |
| Assumed volatility | 29.3% |
| Expected dividend yield | 2.3% |
| Remaining term in years | 2 years |
| **Fair value on Dec. 31, 2015** | **€17.01** |

The rights granted under Management Incentive Plan 2015 (MIP V) changed as follows in fiscal years 2015 and 2014:

| | |
|---|---|
| **Balance as of Dec. 31, 2013** | **0** |
| Granted in 2014 | 555,600 |
| **Balance as of Dec. 31, 2014** | **555,600** |
| Granted in 2015 | 28,050 |
| Forfeited | –63,700 |
| **Balance as of Dec. 31, 2015** | **519,950** |

A total expense of €1,522 thousand (2014: €39 thousand) was incurred under this plan in fiscal 2015. This figure is the balance of €2,427 thousand in original commitments plus €905 thousand in earnings from hedging the commitments as cash flow hedges.

Provisions totaled €2,427 thousand (2014: €0) as of December 31, 2015.

## 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 allocation was based on the following parameters:

| | |
|---|---|
| Base price | €41.34 |
| Earliest exercise date | May 23, 2016 |
| Term of rights | 10 Years |

The option to exercise rights depended upon the achievement of defined targets for revenue and Group net income. The first part of the defined target required 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 generated on a pro rata subscription basis is to be recognized with a multiplying factor; IFRS revenue from new products had to 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) had to be at least 10 percent by 2015, whereby underperformance of the non-IFRS EBIT margin could be balanced out by the appropriate outperformance of the revenue performance target.

The conditions of the plan were modified in fiscal 2014 as follows:

- With the introduction of a cap at €55.00, the maximum benefit from exercising a right was 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 2015 and 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, 2014 | 4,182,500 | 41.34 | | |
| Granted | 0 | | | |
| Forfeited | –680,000 | | | |
| Expired at end of fiscal year | –3,502,500* | | | |
| Balance as of Dec. 31, 2015 | 0 | | 5.5 | 0** |
| Thereof exercisable as of Dec. 31, 2015 | 0 | | | |

* Because the revenue target was not met by the end of fiscal year 2015, all existing rights as of December 31, 2015 became null and void upon approval of the 2015 financial statements.
** Based on the closing price on December 31, 2015

| | 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 | 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 December 31, 2014

Accumulated expenses for the plan were reversed due to the failure to meet targets.

Accordingly, total earnings of €14,716 thousand (2014: expenses of €3,899 thousand) were incurred under this plan during fiscal year 2015.

## 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.

The conditions of the plan were modified in fiscal 2014 as follows:

- 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 was extended by three years until June 30, 2019.
- Removal of the option to service in shares.

Because of the obligation to settle in cash arising from the described change to the plan, these rights were, in accordance with IFRS 2, recognized as cash-settled share-based compensation when the changes to the plan become effective. Accordingly, a provision for all rights issued as of December 31, 2014 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. it 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 the 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 recalculated on December 31, 2014 based on Software AG's share price on December 31, 2014 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.

Based on the amendment passed on March 27, 2015 the option to service in shares was included again. Because of the removal of the obligation to settle in cash, these rights were recognized as equity-settled share-based payment in accordance with IFRS 2 when the changes to the plan became effective. The rights were therefore revalued based on the date of the plan's amendment.

The fair value was determined using a binomial model based on the assumption of the following parameters:

| | |
|---|---|
| Software AG share price on March 27, 2015 | €24.65 |
| Strike price of rights | €24.12 |
| Assumed average volatility | 29.3% |
| Expected dividend yield | 2.3% |
| Risk-free interest rate | 0.01% |
| Expected average term until exercise of the rights | 4.5 years |
| Cap | €45.00 |
| Fair value on March 27, 2015 | €4.96 |

The provision existing at that point in time in the amount of €8,525 thousand was reclassified to capital reserves.

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal years 2015 and 2014:

| | Number of rights outstanding | Weighted average exercise price per right (€) | Weighted average remaining term (years) | Aggregated intrinsic value (€ thousands) |
|---|---|---|---|---|
| Balance as of Jan. 1, 2015 | 1,719,800 | 24.12 | | |
| Forfeited | –11,000 | | | |
| Exercised | 25,300 | | | |
| Balance as of Dec. 31, 2015 | 1,683,500 | | 3.5 | 3,872* |
| Thereof exercisable as of Dec. 31, 2015 | 1,683,500 | | | |

* Based on the closing price on December 30, 2015

| | Number of rights outstanding | Weighted average exercise price per right (€) | Weighted average remaining term (years) | Aggregated intrinsic value (€ thousands) |
|---|---|---|---|---|
| Balance as of Jan. 1, 2014 | 1,793,300 | 24.12 | | |
| Forfeited | –14,500 | 24.12 | | |
| Exercised | –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

All rights outstanding under MIP III as of December 31, 2015 were exercisable.

A total expense of €3,469 thousand (2014: €2,167 thousand) was incurred under this plan during fiscal year 2015.

## 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 2015 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2016, 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 2017 to 2019, 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 three years. The TecDAX adjustment refers to an adjustment to the payout sum from the plan to reflect the amount (in percent) by which the share outperforms or underperforms the TecDAX index. Existing phantom share 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 €6,578 thousand (2014: €5,677 thousand) in fiscal 2015. This figure is the balance of €10,916 thousand (2014: €1,924 thousand) in original commitments plus €4,338 thousand in earnings (2014: expense of €3,753 thousand) from hedging transactions with banks for the commitments.

The provision for the rights outstanding under the phantom share plan amounted to €19,297 thousand (2014: €9,258 thousand) as of December 31, 2015.

The intrinsic value of the rights exercisable under the phantom share plan as of December 31, 2015 amounted to €12,022 thousand (2014: €5,636 thousand).

# [35] 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: Aachen

*Supervisory Board seats:*

- *Member of the supervisory board of GFT Technologies AG, Stuttgart*

**Monika Neumann**

State examination for secondary education
Employee representative
Deputy Chairwoman
(until May 13, 2015)

Employee of Software AG
Resident of: Schliersee

*Supervisory board seats:*

- *none*

**Guido Falkenberg**

Graduate in computer science
Employee representative
Deputy Chairman
(since May 13, 2015)

Employee of Software AG
Resident of: Mühltal-Traisa

*Supervisory Board seats:*

- *none*

**Prof. Willi Berchtold**

Graduate in economics
Shareholder representative
(until May 13, 2015)

Managing partner of CUATROB GmbH, Überlingen
Resident of: Überlingen

*Supervisory board seats:*

- *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
(until May 13, 2015)

Employee of Software AG
Resident of: Pfungstadt

*Supervisory Board seats:*

- *none*

**Peter Gallner**

Employee representative
(until May 13, 2015)

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 | Consultant<br>Resident of: Kelkheim/Taunus |
| Shareholder representative (until May 13, 2015) | |
| *Supervisory Board seats:* | • *none* |

**Dietlind Hartenstein**

| | |
|---|---|
| Bank business clerk | Employee of Software AG |
| Employee representative (until May 13, 2015) | Resident of: Zweibrücken |
| *Supervisory board seats:* | • *none* |

**Eun-Kyung Park**

| | |
|---|---|
| Graduate in business administration | CEO of ProSiebenSat.1 TV Deutschland GmbH<br>Resident of: Munich |
| Shareholder representative (since May 27, 2015) | |
| *Supervisory Board seats:* | • *Member of the supervisory board of ad pepper media International N.V., Amsterdam* |

**Prof. Dr. Hermann Requardt**

| | |
|---|---|
| Dr. phil. nat., graduate in physics | Member of the management board of Siemens AG, CEO, healthcare, Erlangen |
| Shareholder representative (until May 13, 2015) | Resident of: Erlangen |
| *Supervisory Board seats:* | • *none* |

**Anke Schäferkordt**

| | |
|---|---|
| Graduate in business administration | Co-CEO of RTL Group SA, Luxembourg<br>Member of the management board of Bertelsmann SE&Co. KGaA, Gütersloh |
| Shareholder representative (until May 13, 2015) | Managing director of RTL Television and Mediengruppe RTL Deutschland GmbH, Cologne<br>Resident of: Cologne |
| *Supervisory board seats:* | • *Member of the supervisory board of BASF SE, Ludwigshafen* |

**Martin Sperber-Tertsunen**

| | |
|---|---|
| Graduate in administrative sciences | Trade union secretary of IG Metall<br>Resident of: Kronberg |
| Employee representative (until May 13, 2015) | |
| *Supervisory Board seats:* | • *none* |

**Karl Wagner**

| | |
|---|---|
| Graduate in computer science | Employee of Software AG |
| Executive employee representative (until May 13, 2015) | Resident of: Riegelsberg |
| *Supervisory board seats:* | • *none* |

**Alf Henryk Wulf**

| | |
|---|---|
| Graduate in engineering<br>Shareholder representative | Chief Executive Officer of GE Power AG, Mannheim (since November 27, 2015)<br>ALSTOM Power AG, Mannheim (since March 26, 2015)<br>ALSTOM Deutschland AG, Mannheim *(until March 25, 2015)*<br>Resident of: Stuttgart |
| *Supervisory Board seats:* | • *Member of the supervisory board of GE Boiler Deutschland GmbH, Stuttgart (since December 11, 2015, formerly Alstom Boiler Deutschland GmbH)*<br>• *Member of the supervisory board of DEA Deutsche Erdoel AG (since September 1, 2015)*<br>• *Member of the supervisory board of ALSTOM Power GmbH, Berlin (until March 25, 2015, since March 26, 2015 Alstom Power AG)*<br>• *Chairman of the supervisory board of ALSTOM Transport Deutschland GmbH, Salzgitter (until October 15, 2015)*<br>• *Member of the supervisory board of ALSTOM Boiler Deutschland GmbH, Stuttgart (until December 11, 2015)* |

**Markus Ziener**

| | |
|---|---|
| Graduate in economics<br>Graduate in business administration (BA)<br>Shareholder representative (since May 27, 2015) | Board of directors and head of Asset Management at Software AG Foundation<br>Resident of: Seeheim-Jugenheim |
| *Supervisory Board seats:* | • *Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn* |

**Christian Zimmermann**

| | |
|---|---|
| Graduate in business information systems<br>Employee representative (since May 13, 2015) | Employee of SAG Deutschland GmbH<br>Resident of: Alsbach-Hähnlein |
| *Supervisory Board seats:* | • *none* |

## Members of the Management Board

**Karl-Heinz Streibich**

| | |
|---|---|
| Graduate in communications engineering | CEO<br>Global Human Resources, Legal, Information Services (IT), Corporate Communications, Processes, Audits & Quality and Corporate Office<br>Resident of: Frankfurt am Main |
| *Supervisory board seats:* | • *Member of the supervisory board of Deutsche Telekom AG, Bonn*<br>• *Member of the supervisory board of Dürr AG, Bietigheim-Bissingen*<br>• *Member of the supervisory board of Deutsche Messe AG, Hannover* |

**Eric Duffaut**

| | |
|---|---|
| Graduate in economics and finance (Master) | Management Board<br>Global Sales, Marketing, Partner Ecosystem and Consulting Services & Support<br>Resident of: Bordeaux (France) |
| *Supervisory board seats:* | • *none* |

**Dr. rer. nat. Wolfram Jost**

| | |
|---|---|
| Graduate in business administration | Management Board<br>Global Research & Development, Product Management, Product Marketing and Industry Analyst Relations<br>Resident of: Schmelz |
| *Supervisory board seats:* | • *none* |

**Arnd Zinnhardt**

| | |
|---|---|
| Graduate in business administration | Management Board<br>Global Finance, Controlling, Taxes, Treasury, Business Operations, Mergers & Acquisitions, Investor Relations and Purchasing<br>Resident of: Königstein |
| *Supervisory board and other seats:* | • *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main*<br>• *Member of the Investment committee, Main Incubator GmbH, Frankfurt* |

## 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, including newly issued MIP IV and MIP 2016 options, in fiscal 2015 was €18,969 thousand (2014: €17,170 thousand).

Also included are stock options issued to members of the Management Board under MIP IV with a value measured using the binomial model in the amount of €161 thousand (2014: –€557thousand).

Awards under the new MIP 2016 stock option plan in the amount of €3,056 thousand (2014: 0) are also included in total remuneration for the Management Board.

The remuneration of the Management Board still includes the consideration paid for 145,830 (2014: 149,180) committed phantom shares totaling €4,535 thousand (2014: €3,616 thousand). The phantom shares had a fair value as of the grant date of €31.10 (2014: €24.24) per phantom share. The number reported in 2014 was a preliminary estimate and was adjusted to reflect the final figures.

Remuneration under this plan totaled €7,006 thousand (2014: €5,984 thousand) in fiscal 2015.

Remuneration for former Management Board members totaled €367 thousand (2014: €367 thousand).

Pension provisions, offset against plan assets, for former Management Board members totaled €5,608 thousand (2014: €11,073 thousand). Gross pension liabilities for former Management Board members amounted to €13,331 thousand (2014: €14,418 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 2015 or in fiscal 2014.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the combined Management Report.

## Remuneration of the Supervisory Board pursuant to section 314 (1), no. 6 of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board in fiscal 2015 amounted to €614 thousand (2014: € 724 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2015 or in fiscal 2014.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the combined Management Report.

## [36] 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 combined 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 | 2015 | 2014 |
|---|---|---|
| Short-term benefits | 8,953 | 7,365 |
| Post-service benefits * | 1,287 | 946 |
| Share-based compensation ** | 4,416 | 9,856 |
| | 14,656 | 18,167 |

* The service cost of pension obligations pursuant to IAS 19 and legal/voluntary benefits to pension insurance companies is shown here.
** Expenses incurred under the PPS plan, the new MIP 16 and the MIP V as well as the projected value of MIP III and the reversal of expenses recognized historically for the MIP IV due to the forfeit of those options.

Net pension obligations for Management Board members amounted to −€1,799 thousand (2014: -€118 thousand). The negative numbers result from over funding of provisions through reinsurance policies.

Gross pension liabilities for Management Board members amounted to €11,077 thousand (2014: €12,350 thousand).

Furthermore, obligations from share-based compensation plans for members of the Management Board amounted to €19,310 thousand (2014: €14,632 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2015 totaled €614 thousand (2014: €724 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. The Remuneration Report is included in the combined Management Report.

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2015.

## [37] Auditors' fees

Software AG's general and administrative expenses include expenses for auditors' fees paid to the BDO AG Wirtschaftsprüfungsgesellschaft, the Group auditor, totaling €701 thousand (2014: €794 thousand). Of this amount, €604 thousand (2014: €680 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €71 thousand (2014: €68 thousand) to other testation services and €26 thousand (2014: €46 thousand) to tax advisory services.

## [38] Events after the balance sheet date

There were no events that occurred between December 31, 2015 and the date of release of these consolidated financial statements that were of significance to the consolidated financial statements.

## [39] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 8, 2016. It will be published in March 2016 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 January 28/29, 2016 at www.softwareag.com/corporate/inv_rel/corpgovernance/compliance.

## [40] 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 29, 2016.

Darmstadt, February 29, 2016

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 combined 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 29, 2016

Software AG

K.-H. Streibich E. Duffaut

Dr. W. Jost A. Zinnhardt

# AUDITORS' 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 combined Management Report for the fiscal year beginning January 1, 2015 and ending December 31, 2015. The preparation of the consolidated financial statements and the combined Management Report 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 combined 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 combined 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 combined 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 combined 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 of 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.

Berlin, February 29, 2016

BDO AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| signed Rauscher | signed Pfeiffer |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (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 320,000 calls or 80,000 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.

### Adabas & Natural (A&N)

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 A&N business line includes technologies such as database management, application development and mainframe applications.

### 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 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.

### Digital Business Platform (DBP)

Software AG unveiled the world's first Digital Business Platform at the end of 2014. This agile software platform enables organizations to realize adaptive applications and customized software solutions quickly and flexibly. The combination of process, data, integration and (real-time) decision logic with flexible applications provides companies with the ideal basis for their digital transformation. Software AG's largest business line was also named Digital Business Platform in 2015 in order to emphasize the product portfolio's conceptual and technological innovations.

## 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.

## Industry 4.0

This term refers to smart manufacturing (the fourth industrial revolution), which is possible today thanks to mega trends in ICT like the cloud, mobility, collaboration and big data. It entails the digital connectivity of all parts of the value chain, resulting in boosted productivity and quality as well as creation of new value.

## 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.

## 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.

## Social Collaboration

Intensified interactive collaboration via social networks such as Facebook and Twitter.

# SEVEN-YEAR SUMMARY

## Key Group Figures

| in € millions (unless otherwise stated) | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Revenue | 873.1 | 857.8 | 972.7 | 1,047.3 |
| By Type | | | | |
| Licenses | 271.9 | 270.1 | 330.1 | 318.9 |
| Maintenance | 406.9 | 371.3 | 375.6 | 393.3 |
| Services and other revenue | 194.3 | 216.4 | 267.0 | 335.1 |
| By Business Line* | | | | |
| Digital Business Platform | 431.5 | 394.5 | 422.9 | 384.7 |
| Adabas & Natural | 248.0 | 245.3 | 274.5 | 310.5 |
| Consulting | 193.6 | 218.0 | 275.4 | 352.1 |
| EBIT** | 209.4 | 176.0 | 205.5 | 248.3 |
| as % of revenue | 24.0% | 20.5% | 21.1% | 23.7% |
| Net income | 139.6 | 110.6 | 134.0 | 164.7 |
| as % of revenue | 16.0% | 12.9% | 13.8% | 15.7% |
| Employees (full-time equivalents) | 4,337 | 4,421 | 5,238 | 5,419 |
| of which in Germany | 1,178 | 1,216 | 1,711 | 1,768 |
| Balance sheet | Dec. 31, 2015 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2012 |
| Total assets | 1,814.8 | 1,848.9 | 1,996.9 | 1,771.9 |
| Cash and cash equivalents | 300.6 | 318.4 | 450.0 | 315.6 |
| Net debt/net cash *** | 25.7 | 132.9 | 168.8 | –49.6 |
| Shareholders' equity | 1,089.7 | 1,013.4 | 965.6 | 1,060.1 |
| as % of total assets | 60.0% | 54.8% | 48.4% | 59.8% |

* 2009 to 2011: Pro forma figures; changed segment reporting as of Jan. 1, 2012
** EBIT: Net income + income taxes + other taxes + net financial income/expense
*** 2009 to 2012: Pro forma figures based on former balance sheet structure

| 2011 | 2010 | 2009 |
|---|---|---|
| 1,098.3 | 1,119.5 | 847.4 |
| | | |
| 295.2 | 327.4 | 269.9 |
| 378.7 | 369.4 | 310.6 |
| 424.4 | 422.7 | 266.9 |
| | | |
| 339.6 | 321.5 | 247.2 |
| 313.9 | 355.4 | 328.5 |
| 444.8 | 442.6 | 271.7 |
| 269.2 | 268.6 | 218.2 |
| 24.5% | 24.0% | 25.8% |
| 177.2 | 175.6 | 140.8 |
| 16.1% | 15.7% | 16.6% |
| 5,535 | 5,644 | 6,013 |
| 1,881 | 2,051 | 2,149 |
| Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2009 |
| 1,680.7 | 1,599.6 | 1,654.9 |
| 216.5 | 102.5 | 218.1 |
| 60.9 | 167.2 | 271.8 |
| 951.5 | 769.3 | 647.2 |
| 56.6% | 48.1% | 39.1% |

# FINANCIAL CALENDAR

| 2016 | |
|---|---|
| Jan. 27 | Complete Q4/FY 2016 results (IFRS, unaudited) |
| Feb. 10 | Capital Market Day, Darmstadt |
| March 14–18 | CeBIT, Hannover |
| April 26 | Preliminary Q1 2016 results (IFRS, unaudited) |
| May 31 | Annual Shareholders' Meeting, Darmstadt, Germany |
| July 20 | Preliminary Q2/H1 2016 results (IFRS, unaudited) |
| Oct. 25 | Preliminary Q3/9M 2016 results (IFRS, unaudited |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