ANNUAL REPORT

2017

KEY FIGURES

in € millions (unless otherwise stated)	2017	2016	Δ as %	Δ as % acc*	Q4 2017	Q4 2016	Δ as %	Δ as % acc*
Revenue	**879.0**	**871.8**	**1**	**1**	**268.4**	**263.9**	**2**	**7**
Licenses	256.7	263.0	–2	–3	115.3	107.5	7	14
Maintenance	421.6	412.2	2	3	103.7	106.2	–2	2
Digital Business Platform (DBP) business line	455.4	441.4	3	3	144.7	144.4	0	6
Adabas & Natural (A&N) business line	223.7	234.6	–5	–4	74.6	69.5	7	14
Operating EBITA (non-IFRS)	**279.5**	**272.0**	**3**		**98.4**	**90.2**	**9**	
as % of revenue	31.8	31.2			36.7	34.2		
DBP segment earnings	150.9	147.8	2	20	57.4	59.4	–3	
Segment margin as %	33.1	33.5			39.7	41.1		
A&N segment earnings	156.5	162.4	–4	–5	55.7	46.5	20	
Segment margin as %	70.0	69.2			74.6	66.9		
Net income (non-IFRS)	**177.3**	**180.4**	**–2**		**56.7**	**61.1**	**–7**	
Earnings per share (non-IFRS)**	**2.38**	**2.37**	**0**		**0.77**	**0.80**	**–4**	
Free cash flow	**161.9**	**187.0**	**–7**		**40.6**	**41.6**	**–2**	
CapEx***	27.5	16.7			2.8	4.9		
Balance sheet	**Dec. 31, 2017**	**Dec. 31, 2016**						
Total assets	**1,907.5**	**1,957.2**	**–3**					
Cash and cash equivalents	365.8	374.6	–2					
Net liquid assets/ (net debt) as per IFRS	55.2	73.1	–24					
Employees (FTE)	**4,596**	**4,471**	**3**					

* acc = At constant currency
** Based on weighted average shares outstanding (basic) Q4 2017: 74.0 mn/Q4 2016: 76.2 mn/FY 2017: 74.6 mn/FY 2016: 76.2 mn
*** Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

YEAR 2017 IN NUMBERS

Software AG helps customers master their digital transformation with products that reflect decades of expertise in software development and IT. Software AG's Digital Business Platform enables organizations to better interact with customers, enhance their business models and maximize new market potential. Software AG also offers leading Internet of Things (IoT) solutions to integrate, connect and manage IoT components as well as to analyze data and predict future events based on artificial intelligence.

FACTS & FIGURES*

2017 Learning! 100 award
Top Ten
Private Corporate Universities

€0.60
per share
Record Dividend

€879.0
million
Total Revenue

New Record
31.8%
Operating Profit Margin
(EBITA, non-IFRS)

Cloud Growth
+66%

4,596
Employees
+3 percent year-on-year

New Cloud Orders
+110%

Partner Ecosystem
>400
Alliances and Channel Partners

* As of December 31, 2017

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For more information on Software AG, its offerings, its global organization and its employees, please refer to the Image and Strategy Brochure, a supplement to this Annual Report.

Reference to other sections of the Annual Report

Reference to information on the Internet

Reference to the Image and Strategy Brochure

FOR OUR SHAREHOLDERS

ERIC DUFFAUT
Chief Customer Officer (CCO)

ARND ZINNHARDT
Chief Financial Officer (CFO)

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

DR. STEFAN SIGG
Chief Research & Development Officer (CRDO)

DR. WOLFRAM JOST
Chief Technology Officer (CTO)

LETTER FROM THE MANAGEMENT BOARD

Software AG has earned a leading position in the fast-growing IoT market

Dear Ladies and Gentlemen,
Dear Shareholders,

2017 was an exceptional year for Software AG. First, the last 12-month period represents one of the most successful fiscal years in our Company's history. Second, we laid the foundation in 2017 for breaking more records in the future. We earned a leading position in the promising and fast-growing Internet of Things (IoT) market by establishing many strategic partnerships with top global companies all over the world. This new market is still far from mature and holds enormous potential. Software AG demonstrated its sense for future technologies six years ago with its acquisition of Terracotta. We steadily expanded our big data expertise with further acquisitions including Apama and Universal Messaging. And finally, we made a perfect entrance into the IoT market in 2017 with the acquisition of Cumulocity as well as the launch of the strategic partnership ADAMOS. Software AG will continue to make courageous strides in this sector and collaborate with its partners to set new market standards.

The pioneering spirit that Software AG has embodied since the beginning is based on two very solid pillars that have their roots at the Company's core. Two of our segments, the Digital Business Platform (DBP) and Adabas & Natural (A&N), have enjoyed positive growth in the last year. In 2017, our biggest business line, DBP, grew by 5 percent at constant currency and generated €455 million in revenues, exceeding the record level of 2016. The market has gotten the message: Software AG is the trusted partner for businesses worldwide when it comes to digital transformation. The profitable growth of our Digital Business line underscores our relevance in the IT sector. Digital business platforms and modern software solutions are essential resources for transforming, innovating and differentiating traditional business models in this environment. With our Digital Business Platform, we offer everything businesses need to do that: integration software, process optimization solutions and analytics tools for big data and IoT. Therefore, our digital segment is still the core of our portfolio and the basis of our profitable growth.

A&N, Software AG's original business, constitutes the second pillar. We renewed our commitment to this segment back in 2016 with the A&N 2050+ innovation program. With this program, we are acknowledging the strategic value and importance of our customers' business applications developed over decades with A&N and showing that they can count on us in the face of modernization. The A&N 2050+ agenda aims in particular to enable our customers to develop the next generation of cutting-edge, sustainable digital business applications. As a result, we are not only stabilizing our existing customer base, we are also generating additional business with help of our DBP portfolio. Therefore, the A&N business line continues to be a significant driver of added value for us.

These two key pillars of our business are supported by our third business line: Global Consulting Services. With their many years of market experience and industry expertise, our consultants help customers implement our solutions and establish a seamless digital organizational structure.

Through their total support during the digital transformation, they promote product portfolio sales as well as customer satisfaction. This makes it all the more satisfying that the Consulting segment also saw positive growth in 2017.

On behalf of the entire Management Board, I would like to thank the employees of Software AG. Their commitment and hard work over the last year played a substantial role in our customers' success.

However, we cannot rest on the laurels of our success. Quite the opposite: They spur us on to develop solutions that are even smarter, simpler and stronger. We have always been driven by our pioneering spirit and passion for adding real value for our customers using the best technologies. We have already achieved a great deal: Top market research firms and industry analysts regularly rank us as the technology leader in numerous digitalization fields. In order to do an even better job of keeping our finger on the pulse of the latest technology trends and identifying growth markets as early as possible, we established a Scientific Advisory Board in 2017 to create a direct line to where progress emerges in its purest form: research. In this way, the Scientific Advisory Board will be a key complement to our strategic development and product planning. The board is focusing on topics including artificial intelligence and blockchain. But the best technology on its own is nowhere near a guarantee for success. We recognized early on that we cannot force value for our customers out of off-the-shelf solutions. That's why, for us, customers are always at the heart of everything we do. Whether A&N, DBP or IoT—our close collaboration with our customers is characterized by partnership and co-innovation. Ultimately, the combination of IT expertise and industry know-how is the key to long-term success.

We focus on creating long-term value—in our relationships with customers and partners, in the development and implementation of our technologies, with investments in our Company as well as with our employees' expertise. This emphasis on long-term value orientation is a key component of our Company's leadership and culture, to the benefit of our shareholders and society as a whole. Our commitment to sustainability is fed by our conviction that moral guidelines and fiscal revenues not only go hand-in-hand, they belong together. To emphasize our understanding of sustainability and show in detail how we engage and commit, we are also publishing a Sustainability Report this year for the first time as part of the Management Report contained in this Annual Report.

In the new fiscal year 2018, we will continue on our proven course and strive for even greater successes. We laid the foundations for dynamic, profitable growth in the IoT and Industry 4.0 sectors in 2017. We will account for the IoT and cloud business separately for the first time in 2018. Due to the strong demand, we anticipate revenue growth here of 70 to 100 percent at constant currency. Our traditional DBP business—without IoT and cloud activities—will also continue to grow in the coming year. For this segment, we predict growth between 3 and 7 percent at constant currency. Thanks to the strong loyalty of our customers, we also anticipate merely a moderate decline in the A&N business line of 2 and 6 percent. In addition, the operating profit margin (non-IFRS) is expected to be between 30.0 and 32.0 percent according to our annual forecast for 2018.

As a sign of our long-term business success and our value orientation, the Management Board and Supervisory Board will propose a dividend increase to €0.65 per share. Share buyback programs will remain a potential component of our strategy as well. On behalf of the entire Management Board, I would like to thank you, our shareholders, for your trust and loyalty. Let's shape the digital transformation together again in 2018—with determination and passion for our customers and a successful digital future!

And on a final, personal note: After 14 years as the CEO of Software AG, I am writing this year's letter from the Management Board to you for the last time. On August 1, 2018, I will be passing the baton to my successor, Sanjay Brahmawar. It will be his job to continue expanding Software AG's position as leader of the digital transformation and implement innovative projects for the digital age together with our customers, partners and employees. I wish him and Software AG a bright future and would like to thank you for your many years of trust.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

HIGHLIGHTS OF 2017

Partnerships

Over the past year, Software AG entered several new strategic partnerships, especially in the major growth markets of Industry 4.0 and Internet of Things (IoT). A joint development project with Huawei, for example, will address the growing demand for a complete IoT solution. And worth mentioning: Siemens AG decided at the end of 2017 to strengthen its own IoT open system, MindSphere, with Software AG's highly scalable Cumulocity IoT Platform components. For more information, please refer to the **General Statement on Business Performance**, starting on p. 53.

Recognition

For years, market research firms and industry analysts have given Software AG recognition. For example, in 2017 Gartner, Inc. recognized Software AG as a Leader in the Magic Quadrant for Enterprise Architecture Tools for its Alfabet Enterprise Architecture Management (EAM) for the 10th time in a row. For more information on Software AG's **market positioning**, please refer to p. 40.

CeBIT 2017

Software AG presented its software solutions at last year's CeBIT under the motto of the Industry 4.0 initiative, "Made in digital Germany." There it joined forces with FabSpace 2.0, an Earth observation laboratory, and astronaut and ESA coordinator Thomas Reiter to launch the "Space 4.0—From Space to Business" startup competition. For more information on **sales activities**, please refer to p. 81.

Innovation Tour

Software AG's global digitalization conference brought together more than 3,400 leading businesses to discuss current topics such as IoT, the platform economy, and the digital future. Influential experts from business, IT and government met all over the world between April and November 2017 for thought-provoking discussions. For more information on **customers and partners**, please refer to p. 82.

Management Board Expansion

Dr. Stefan Sigg joined Software AG's Management Board on April 1, 2017. In his role as Chief Research & Development Officer (CRDO), Dr. Sigg focuses on promoting successful research and development work. The primary objective lies in bringing relevant market developments and customer requirements together in the product portfolio, enabling Software AG to pave the way for its customers into the new world of data-driven business models.

Strategic IoT Acquisition

Software AG strengthened its IoT technology leadership with the acquisition of IoT specialist Cumulocity GmbH in the spring of 2017. The market launch of the expanded Cumulocity IoT portfolio for cloud-based platform services enablement combined with the high performance of the Digital Business Platform followed in September 2017. For more information on Software AG's **product and brand portfolio**, please refer to p. 38.

Record Dividends

Software AG continued its value-oriented dividend policy last year: 99.9 percent of shareholders voted for an increased dividend for 2016. In addition to the record dividend of €0.60 per share, Software AG shareholders also profit from the current share buy-back program and the Company retiring its own stocks. For more information on **Software AG's share**, please refer to p. 14.

Scientific Advisory Board

Software AG established its own Scientific Advisory Board. The role of the board is to consider technology trends from a scientific perspective. This outside impetus promotes the scientific research discourse and complements Software AG's strategic development and product planning. For more information on Software AG's **R&D activities**, please refer to p. 77.

Special Jersey for the Lilies

Software AG and the SV Darmstadt 98 soccer team held a special action to honor the first anniversary of Jonathan Heimes' death and support the charitable foundation that he founded, "DUMUSSTKÄMPFEN!" (English: You have to fight!). They designed a special jersey together that the Lilies wore during their home match against the 1. FSV Mainz 05 on March 11, 2017. Software AG removed its jersey advertising on that day and replaced it with the logo of the charitable "DUMUSSTKÄMPFEN!" initiative on the front.

Strategic Alliance

After Software AG entered a strategic partnership with Dürr in April 2017, the two companies joined forces with three more partners—Zeiss, DMG MORI and ASM PT—and formed a strategic alliance of equals: On October 1, 2017, they founded ADAMOS (ADAptive Manufacturing Open Solutions) to address the pioneering areas of Industry 4.0 and the Industrial Internet of Things (IIoT). Software AG united its cross-industry core competencies with the expertise of the global market leader in the machinery and industrial equipment construction industry with the goal of establishing the vendor-neutral and open platform ADAMOS as a global industry standard. For more information on Software AG's **strategic partnerships**, please refer to the section on Key Events Affecting Business Performance on p. 52.

SOFTWARE AG'S SHARE

The Year on the Stock Market

The trend from past years continued as growth prevailed on the stock markets in 2017. Every member country of the European Union reported economic expansion. Investors demonstrated hesitance at the beginning of the year. But that changed with the continuation of the European Central Bank's relaxed interest rate policy and the victory of pro-European candidates in the elections in France and the Netherlands. Germany's unusually difficult process of forming a government in the last quarter of 2017 barely showed any effect on stock markets.

Upward trend on global markets

The Chinese economy proved to be more robust than forecasts predicted last year. The U.S. economy reacted similarly following the change of administration in the White House. Even the escalation of the conflict with North Korea did not cloud the positive economic mood.

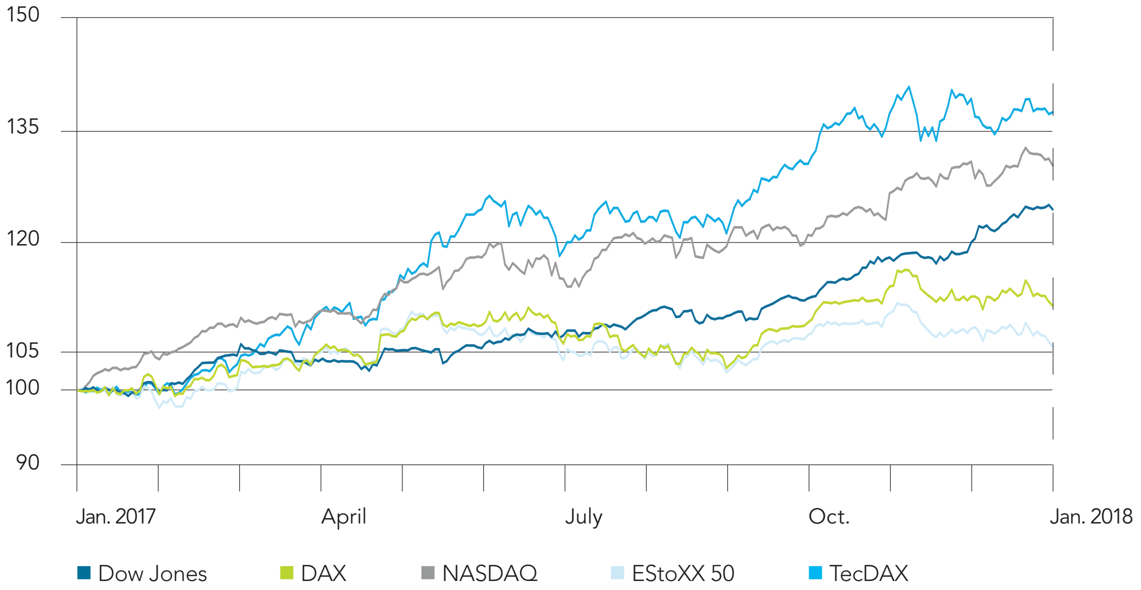
Software AG operates in more than 70 countries and generates the majority of its revenue in core European countries and the USA. Political events, exchange rate fluctuations and other activities in those regions can influence business at country level. Software AG's customers are diversified across many 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 share price are relatively resistant to macroeconomic effects. Changes in exchange rates are reflected in reported revenues (currency translation effects). But due to Software AG's relatively high percentage of local costs, they only have a minimal impact on earnings (natural hedging).

Stock indexes hit record levels

Having started off the year at 11,481 points, the DAX German benchmark index ended the year at 12,918 points—the highest it had ever been. This shows a 12.5 percent gain for the year.

The Dow Jones Industrial Average in the USA gained 25.1 percent over the 12-month period, ending the year at 24,719 points.

Stock Index Performance Comparison
January 2, 2017–December 29, 2017 (indexed)



Following the same encouraging trend, the NASDAQ–100—which indexes U.S. digital business companies—climbed 31.5 percent.

The TecDAX, Germany's technology barometer including Software AG shares, opened the year at 1,812 points. The TecDAX significantly improved its sluggish performance from the year before and closed at 2,529 points, marking a 39.6 percent annual gain.

Software AG's share price up nearly 36 percent

Having kicked off fiscal 2017 at €34.49 on January 2, 2017, Software AG's share troughed for the year on January 23 at €31.63. From there, it took a positive direction for the rest of the financial year.

The Company's hearty growth in the digital business coupled with a share buyback program led to a mid-year 11.2 percent uptick and promising interim level on June 30, 2017.

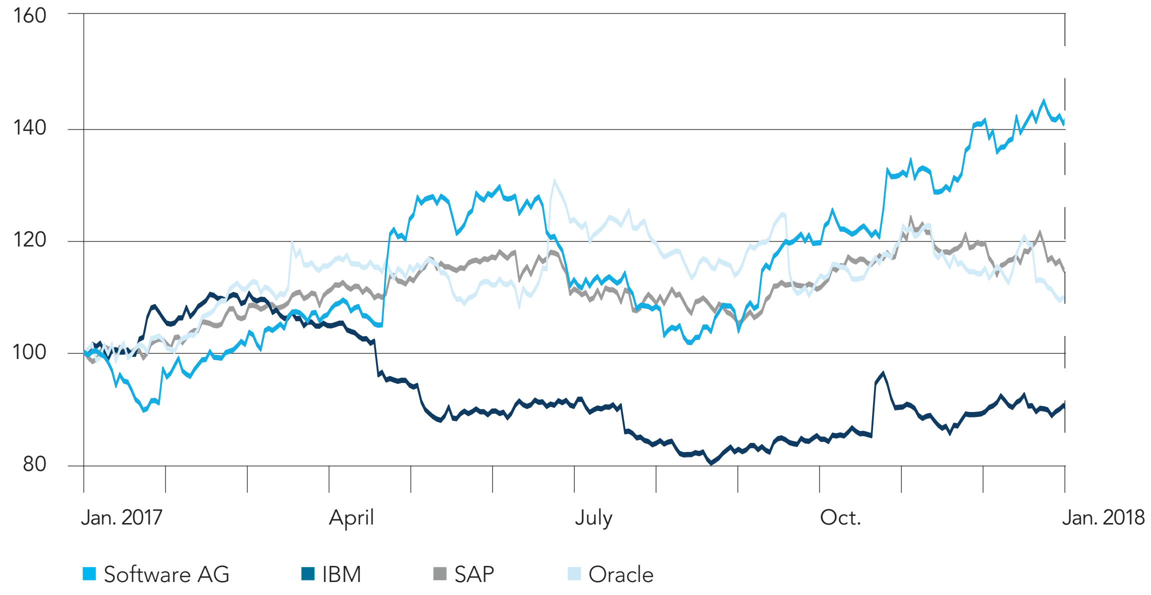
The announcement of the ADAMOS strategic alliance and other major Internet of Things (IoT) projects propelled the share price in the second half of the year. The medium-term growth potential of the IoT market resounded well in the capital market resulting in a further share price gain. Software AG stock peaked for the year on December 19, 2017 at €47.54.

It maintained its heightened price and ended 2017 trading at €46.86 for a 35.9 percent increase over the beginning of the year.

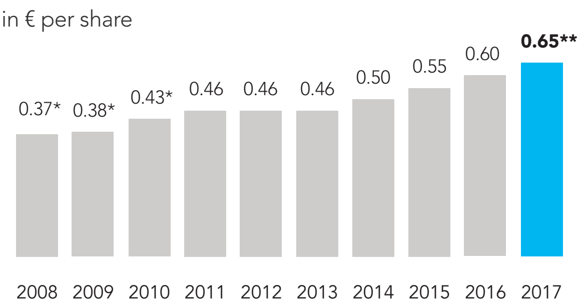
Software AG's market capitalization was €3.58 billion at the end of the 2017 fiscal year.

Software AG again exceeded the German stock market's prime standard liquidity requirement in 2017 with an Xetra average daily trading volume of 245,880.

Software AG Share Price Performance Compared to Peer Group
January 2, 2017–December 29, 2017 (indexed)



Dividend Development since 2008



* Adjusted after 3:1 stock split, rounded
** Dividend proposal, subject to shareholder approval in May 2018

Key Figures

	2017	2016
Closing price in €	46.86	34.49
Year high in €	47.54	38.88
Year low in €	31.63	25.41
Total number of shares at year end	76,400,000	79,000,000
Treasury shares held by Software AG	2,423,761	2,768,369
Market capitalization at year end in € millions	3,580.1	2,724.71
Free float as %	64.2	64.9

Consistent dividend policy

Software AG's Annual Shareholders' Meeting took place on May 17, 2017 in Darmstadt, Germany. The Management Board and Supervisory Board shared their confidence in the Company's continued prosperous business development with attendees. All items on the agenda were approved by overwhelming majorities above 99 percent. Those shareholders in attendance accounted for 68.7 percent of total voting rights.

A further increase was approved for a record-level dividend of €0.60 per dividend-bearing share for fiscal 2016. This equals a total payout of €44.4 million. Based on the closing share price (as of Dec. 30, 2016: €34.49), this corresponds to a dividend yield of 1.74 (2015: 2.1) percent.

Software AG will be able to continue its value-driven dividend policy for fiscal 2017. The dividend is paid from Software AG's earnings and cash flow. The dividend ratio is usually between one-third and one-quarter of the Company's averaged earnings and free cash flow. The Management Board and Supervisory Board will propose a dividend in the amount of €0.65 for fiscal 2017 at the Annual Shareholders' Meeting on May 30, 2018. This will set a new record in the history of Software AG's dividends. The treasury shares held by Software AG are not entitled to a dividend.

Share buybacks and share redemption

On March 6, 2017 Software AG redeemed 2,600,000 of its 2,768,369 treasury shares (3.3 percent of its share capital prior to redemption and capital decrease). This was approved by Software AG's Management Board by way of its authorization granted on May 31, 2016.

Software AG announced a further treasury share buyback of up to €100 million on March 6, 2017. The share buyback plan began on March 13, 2017 and ended on May 11, 2017. A total of 2,326,892 treasury shares were repurchased for a total of €89,559,770 (excluding transaction fees). This corresponds to an average price of €38.49 per share.

Counting all share buyback plans, Software AG now holds 2,423,761 treasury shares, which represents 3.2 percent of its share capital.

Changing shareholder structure

Software AG's positioning as a value investment is increasingly reflected in its investor structure. Its profitable growth is convincing numerous new investors. Continually rising dividends over the course of years, value increases through share buybacks and Software AG's promising technology leadership in the digitalization segment are the sustainable value drivers of its share price. The Software AG Foundation is still Software AG's largest shareholder and its key anchor investor. Due to Software AG's decreased share capital resulting from the share redemption, the Software AG Foundation's holdings in the Company went up about 1.1 percent to 32.7 percent. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany.

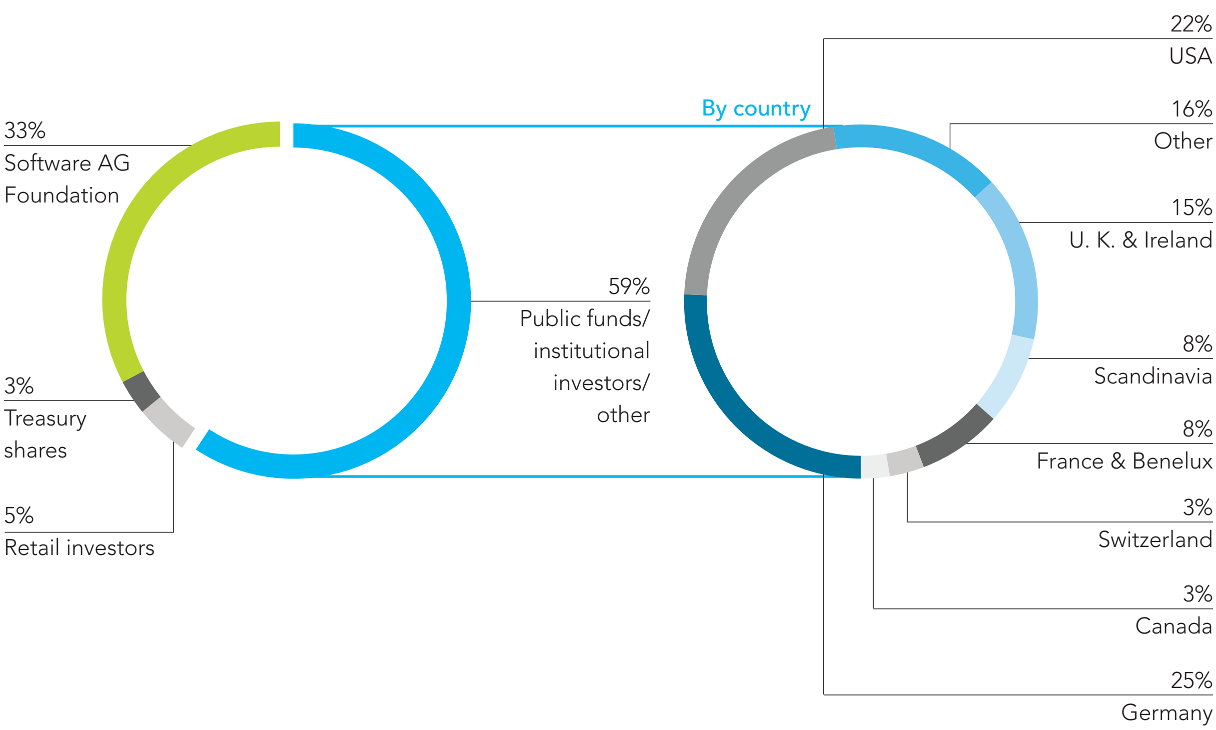
It is committed to projects in support of education, training, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental fields.

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

A regional analysis of the identified free float shows that 31 percent is held in Germany, 20 percent in the USA, 14 percent in the U.K. and 8 percent in Scandinavia. Additionally, 3 percent of Software AG's investors are in Switzerland and 6 percent in France and Benelux.

	Before share redemption	Share redemption on March 6, 2017	After share redemption (March 7, 2017)	Dec. 31, 2017
Share capital	79,000,000	–2,600,000	76,400,000	76,400,000
Software AG Foundation's holding in shares	24,960,000		24,960,000	24,960,000
as %	31.6		32.7	32.7
Software AG's holding in shares	2,768,369		168,369	2,495,261
as %	3.5		0.2	3.3

Shareholder Structure



Ongoing dialog with investors

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves adapting the base in targeted ways. Addressing specific potential investors 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 2017. Software AG participated in a total of 14 capital market conferences in Germany and abroad.

In addition, roadshows and analyst visits in Germany, the U.K., Ireland, Switzerland, France, the U.S. and Canada were also an important medium for engaging the investor community. The transition from bearer shares to registered shares in October 2017 drastically improved Software AG's ability to communicate directly with investors. It allows the Investor Relations team to counteract any potential consolidation in the banking sector or lower quality service from brokerage firms resulting from new EU regulations (MiFID II).

Software AG continued to enjoy a high degree of attention from financial analysts in the fiscal year under review. This was reflected in the large number of well-known securities brokerage firms in Germany and abroad tracking Software AG's share. Software AG's Capital Market Day was held on March 14, 2017. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland were invited to corporate headquarters in Darmstadt to learn about Software AG's strategy and trends in digitization. The impressive turnout of investors and financial analysts at Software AG's investor relations events at CeBIT as well as its Innovation Tour 2017 for customers, held in Bonn, London and Chicago, is further evidence of the high degree of interest in the financial community.

Analysts from 22 investment banks tracked Software AG and regularly published their investment recommendations in 2017. Software AG's stock received a positive or neutral rating from 15 of them at the end of 2017. Analysts' overall average price target was €42.80.

Top Investors

Disclosure of Voting Share Changes Pursuant to Section 26 (1) of WpHG	Voting share	Date Threshold Met
Software AG Foundation	32.7	4/30/2015
Deutsche Asset Investment GmbH	4.9	10/20/2017
Software AG (treasury shares)	3.3	5/9/2017

Professional investor relations work

Software AG's Investor Relations team continued its commitment to comprehensive and prompt communication with all capital market participants in 2017. These high standards mean providing all investors with the same information and quickly dispelling any possible misunderstandings in the capital market; embracing feedback from target audiences to continuously optimize communication.

And, furthermore, 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 communication with investors. The Company provides all members of the capital market with relevant up-to-date information on the Investor Relations website at SoftwareAG.com/investors.

Select Indices

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

Key Share Data

ISIN	DE 000A2GS401
WKN	A2GS40
Symbol	SOW
LEI	529900M1LIO0SLOBAS50
Reuters	SOWGn.DE
Bloomberg	SOW:GR
Stock exchange	Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO on	April 26, 1999
Issue price	€30*

* Before 3-for-1 split (May 2011)

CORPORATE GOVERNANCE REPORT

Statement on Corporate Governance

All information contained in this Statement on Corporate Governance reflects the situation as of February 14, 2018.

Basic understanding

Good corporate governance is a core component of management at Software AG. The Management Board and the Supervisory Board are committed to it, and all business lines 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.

Software AG's corporate bodies

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 five members. The Supervisory Board resolved that members of the Management Board are not permitted to be older than 65. As of the release date of this report, the Management Board members were Karl-Heinz Streibich, Arnd Zinnhardt, Dr. Wolfram Jost, Eric Duffaut and Dr. Stefan Sigg (since April 1, 2017).

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 expires at the end of July 2018. Mr. Streibich is responsible for the following corporate functions: Global Human Resources, Global Legal, Global Information Services (IT), Corporate PR, Processes, Audits and Quality and Corporate Office. Mr. Streibich is also responsible for environmental, social and governance topics.

He is a member of the supervisory boards of Deutsche Telekom AG, Dürr AG (chair since Jan. 1, 2018), Wittenstein SE and Deutsche Messe AG. He serves on a volunteer basis on the steering committees of Acatech e.V. and Germany's BITKOM IT association. Mr. Streibich also co-chairs the German National Government's Digital Summit platform, "Digital Government and Public IT." Furthermore, Mr. Streibich co-founded the German Software Cluster of Excellence. He chairs the supervisory board of ADAMOS GmbH and the digitalization board of the Deutsche Angestellten Krankenkasse (DAK) insurance fund.

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 and Controlling, Corporate Investor Relations, Treasury, Global Procurement, Mergers & Acquisitions, Taxes and Business Operations. His term is in effect until 2021.

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba).

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 Product Management and Product Marketing, the technological preparation of Mergers & Acquisitions, management of the global CTO and the Sales Engineering Community, strategic customer projects and technology acquisitions. His term is in effect until 2023.

Eric Duffaut, born in 1962, member of the Software AG Management Board since October 2014. As Chief Customer Officer, Mr. Duffaut oversees Sales, Services, Partner Channel Development and Marketing. His term is in effect until 2019.

Dr. Stefan Sigg, born in 1965, degree in mathematics, member of the Software AG Management Board since April 2017. As Chief Research & Development Officer, Dr. Sigg oversees R&D and Global Support. His term is in effect until 2022.

On January 31, 2018, Software AG's Supervisory Board announced the appointment of Mr. Sanjay Brahmawar as Software AG's (new) Chief Executive Officer, effective on August 1, 2018. A five-year term was necessary to bring this outstanding candidate on board; a five-year term is not intended to become the rule for future first-time appointments.

Diversity concept for the Supervisory Board and Management Board

The Supervisory Board discussed the preparation of a diversity concept for the Supervisory Board and Management Board in its meetings on July 21, 2017, October 23, 2017 and December 7, 2017. The Supervisory Board is certain that diversity is critical to Software AG's successful development. It therefore approved a diversity concept for the Supervisory and Management Boards on December 7, 2017 that aims to promote diversity in the Company, and specifically among the members of the Supervisory Board and Management Board, and to secure Software AG's sustainable success. The concept covers age and term caps, gender quotas (refer to the section on Target Percentages for Women in this Corporate Governance Report) and the explicit need to establish a sensible and broad mix of backgrounds with respect to education and (professional) experience as well as international experience/cultures on the boards.

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The Supervisory Board determined the following targets for caps on age and term length and the percentage of women:

Objective	**Supervisory Board**	**Management Board**
Age cap	70 (optionally 65)	65
Maximum term	15 years (for all members first appointed after July 30, 2015)	Unlimited
Target female percentage	16.7%	0%

Moreover, the Supervisory Board established targets for its member composition, which—supplemented by the following requirements that: a) a member of the Supervisory Board must have knowledge of financial reporting or financial auditing; b) the members as a whole must be informed on the sector to which the Company pertains (enterprise software)—form a skill profile for the Supervisory Board and represent a component of the diversity concept for the Supervisory Board:

1. Members' professional backgrounds should be in one or more of the following fields and/or one or more of the following areas of expertise:

   a. ICT and media

   b. Direct or indirect experience with enterprise IT and/or understanding of digitalization and enterprise software solutions

   c. CTO or CR&DO of a large high-tech company

   d. Knowledge of the demands of a medium-sized company

   e. In-depth expertise in financial reporting or financial auditing

2. 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.

3. International experience

The Supervisory Board also determined that half of its members (currently three) should be independent. In the estimation of the Supervisory Board, its independent members are currently: Dr. Bereczky, Ms. Park, Mr. Wulf and Mr. Ziener. The Supervisory Board does not consider Mr. Ziener's employment with the Software AG Foundation to be a dependency.

In summary, based on ongoing consideration of current business and strategic priorities, the Supervisory Board strives to achieve the widest possible spectrum of backgrounds in the composition of its boards so that they can use their diversity to form opinions and make the best possible decisions for Software AG. The Supervisory Board considers its skill profile and concrete targets for its composition to be met.

The Supervisory Board sees no reason to define a rigid skill profile for the Management Board. The Committee for Compensation and Succession Issues regularly evaluates the composition of the Management Board and compares the skills and experiences represented on the Management Board with its current requirements. It is the judgment of the Committee for Compensation and Succession Issues of the Supervisory Board as to how the results are handled. Even with regard to the selection of Sanjay Brahmawar as Software AG's new CEO, the Committee for Compensation and Succession Issues made sure that, based on current and future business development, an optimal range of skills and experiences will be represented by the Management Board as a whole. Moreover, the Management Board targets for age limit and female percentage (for more details, continue reading) were met; Mr. Streibich will step down from the Management Board at the end of July 2018 at 65 years of age.

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 for meeting this target was June 30, 2017; the targets set were met on June 30, 2017. In its meeting on May 17, 2017 the Supervisory Board established 0 percent as the target percentage for female members on the Management Board. The deadline for meeting this target is April 30, 2022. The current composition of the Management Board meets these targets.

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 target of 10 percent female managers in the first level of management directly below the Management Board and 15 percent in the second level had to be met by June 30, 2017. In actual fact, **11.9 percent** of the first level of management directly below the Management Board was female, and **14.8 percent** of the second management level was female as of June 30, 2017. The target percentage of women in the second level of management below the Management Board was therefore not met as of June 30, 2017. This is because the percentage of women trained in technical professions is less than 30 percent worldwide. For that reason, the advancement of young female managers is not leading to an increase in the percentage of women in management positions as quickly as hoped.

The Management Board discussed the fulfillment of these targets in its meeting on July 20, 2017 and defined new ones for the quota of first and second-tier female managers below the Management Board: 12 percent female managers in the first tier and 15 percent in the second tier below the Management Board. The deadline for meeting this target is June 30, 2022. The first level of management below the Management Board consisted of **15.2 percent** women and the second consisted of **13.4 percent** women as of December 31, 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

The Supervisory Board of Software AG is composed in accordance with the regulations of the One-Third Participation Act. Representatives elected to the Supervisory Board by the employees of the Software AG Group entitled to vote on January 2, 2015 are Guido Falkenberg (Deputy Chairman, employee of Software AG) and Christian Zimmermann (employee of Software AG). Their term began upon conclusion of the Annual Shareholders' Meeting on May 13, 2015. Of the shareholder representatives, Dr. Andreas Bereczky (CEO, production director at ZDF), Eun-Kyung Park (CEO, SevenOne AdFactory GmbH), Alf Henryk Wulf (CEO, GE Power AG) and Markus Ziener (Director, asset management, Software AG Foundation, Darmstadt) were elected to the Supervisory Board during the Annual Shareholders' Meeting on May 13, 2015. The term of the shareholder representatives began on May 27, 2015 upon entry of the amendment to the Articles of Incorporation in the Commercial Register regarding the composition of the Supervisory Board pursuant to the One-Third Participation Act.

The Supervisory Board held a total of six regular meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held four extraordinary meetings. For all of them the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to hold meetings by telephone.

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.

The Supervisory Board established three committees 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 when they affect the remuneration, appointment, reappointment or dismissal of the members of the Management Board. The Committee for Compensation and Succession Issues has three members, one of which is an employee representative. In the past fiscal year, the Committee for Compensation and Succession Issues met ten times.

The **Audit Committee** deals with issues related to monitoring the financial reporting process, risk management, half-year and quarterly reports, financial statement audits—particularly the independence of the auditor, the internal audit and compliance. The Audit Committee has three members, one of which is an employee representative. The Audit Committee met three times in fiscal year 2017.

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 did not meet in 2017.

The members of the Supervisory Board evaluate the efficiency of their work annually. Each individual member completes 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 committees, please refer to the most recent Report of the Supervisory Board. For more detailed information on the current members of the Supervisory Board, including their curricula vitae and committee membership, please visit SoftwareAG.com/svb. The CVs are updated regularly—at least once per year.

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The Supervisory Board defined the following targets for its membership composition: Members should be actively engaged in their careers when appointed 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. The composition of the Supervisory Board is intended to meet the respective skill profile that the Supervisory Board has defined for itself. The limit on the terms of Supervisory Board members (for all members elected after July 30, 2015) is 15 years. 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. The Supervisory Board considers Dr. Bereczky, Ms. Park, Mr. Wulf and Mr. Ziener to be independent.

In its meeting on July 30, 2015, the Supervisory Board established **16.7 percent** as the target percentage for female members on the Supervisory Board in accordance with section 111 (5) of the German Stock Corporation Act (AktG). The deadline for meeting this target was 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 was met within the allotted period of time. The Supervisory Board renewed **16.7 percent** at its target in its meeting on May 17, 2017. The deadline for meeting this target is April 30, 2022.

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 Annual Shareholders' Meeting

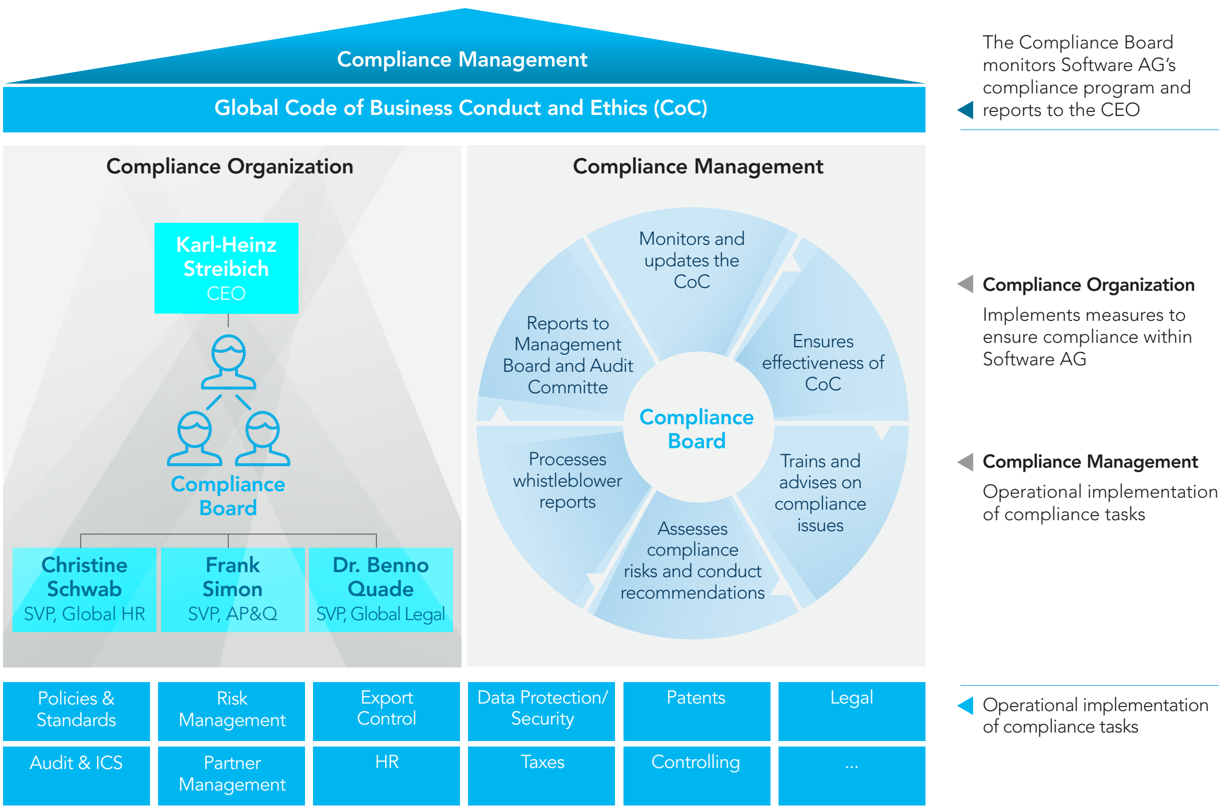
The **Annual Shareholders' Meeting** is one of Software AG's main corporate bodies through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including 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. The most recent Annual Shareholders' Meeting was held on May 17, 2017 in Darmstadt. Approximately **68.7 percent** of voting shares were present. The next Annual Shareholders' Meeting will convene on May 30, 2018 in Darmstadt.

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

Compliance Management System

Software AG has an effective and efficient compliance management system that serves as part of Software AG's Global Code of Business Conduct and Ethics. The Compliance Board reports to the CEO. It initiates and orchestrates measures to ensure strict compliance management at Software AG.

Software AG's Compliance Management System



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 SoftwareAG.com/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, 585 employees received certificates of successful completion of a course on the subject of the code. The **Compliance Board** meets monthly and makes decisions about questionable cases.

Compliance Board

In total, employees of Software AG filed 59 inquiries and external parties filed two inquiries with the Compliance Board in 2017. The Compliance Board 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.

There is an email address on the Software AG Intranet and Internet for anyone who wishes to send an anonymous message to the Compliance Board. Both internal and external parties made use of this option during the year under review.

Financial Reporting and Auditing

The 2017 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO), as **Software AG's financial auditor.**

BDO also advises the Company on individual tax matters in connection with tax returns and tax audits. Non-audit services subject to approval may only be rendered by BDO after January 1, 2017 if and provided they have been approved by the Audit Committee in accordance with the legally binding approval process. No business, financial, personal or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO, its corporate bodies or audit managers and Software AG or the members of its corporate bodies.

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

Primary auditors' fees and services

Software AG Group

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO totaling €859 thousand (2016: €845 thousand). Of this amount, €821 thousand (2016: €790 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €10 thousand (2016: €10 thousand) to other testation services and €28 thousand (2016: €45 thousand) to tax advisory services. To ensure comparability, last year's figures were adjusted to the allocation requirements of the IDW RS HFA 36 (IDW = Institute of Public Auditors in Germany).

Separate financial statements of Software AG (parent company)

Total expenses for the financial auditors and Group financial auditors from BDO were €858 thousand (2016: €834 thousand) in fiscal 2017. These fees consist of €820 thousand (2016: €779 thousand) for the audit of the financial statements, €10 thousand (2016: €10 thousand) for miscellaneous testation services and €28 thousand (2016: €45 thousand) for tax advisory services. To ensure comparability, last year's figures were adjusted to the allocation requirements of the IDW HFA 36 (IDW = Institute of Public Auditors in Germany).

Capital Market Communication

Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. The Company participated in numerous investor conferences, road shows and other capital market events in fiscal year 2017.

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 corporate communication is handled. 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, Software AG maintains electronic registries of persons with insider information who have been informed of their corresponding legal obligations by the Company.

Software AG uses a suitable service provider for releasing mandatory disclosures throughout Europe. All ad hoc releases are published in German and English.

Software AG is also in full compliance of the **Act on Electronic Commercial Registers, Registers of Cooperatives, and Business Registers (EHUG)**, which came into force on January 1, 2007. All documents requiring publication in electronic form are sent to the operator of the electronic version of the Federal Gazette, as required.

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 the financial calendar, which is also published on the website.

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive its financial communication. Criticism and suggestions provide Software AG with impetus for further improvement. Its performance in the most recent study, conducted in October 2017, received a good overall rating of 2.31.

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

For information on Software AG's shareholder structure, please refer to the section on Software AG's Share. p. 14
Disclosures on changes to voting shares in fiscal 2017 pursuant to section 26 (1) of the Securities Trading Act (WpHG) are published on the Software AG website at SoftwareAG.com/votingrights. Disclosures subject to publication will also be available after January 3, 2018 pursuant to section 40 (1) of WpHG.

Directors' dealings (pursuant to art. 19 of MAR)

Software AG also discloses personal business dealings conducted by any individuals who carry out management duties and by those closely related (natural or legal) to them, pursuant to the provisions of art. 19 MAR (directors' dealings). These transactions can be viewed on the website within the legally required period of time.

No reportable transactions were declared during the 2017 calendar year. For more information, please visit the Internet at SoftwareAG.com/director_dealings_en.

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. Software AG's risk management system is presented in the Opportunity and Risk Report of the 2017 Annual Report. p. 108 Opportunities that are strategic to the Company are described in the Outlook section of the 2017 Management Report. Please refer to the Notes to the Consolidated Financial Statements in the 2017 Annual Report for information on Software AG's consolidated financial reporting.

Stock Option Plans

For details on Software AG's stock option plans and similar equity-based incentive programs, please refer to the complete Remuneration Report within the Combined Management Report.

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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
Dr. Stefan Sigg	0

Supervisory Board

Members of the Supervisory Board:	Number of shares
Dr. Ing. Andreas Bereczky	0
Alf Henryk Wulf	400
Eun-Kyung Park	0
Markus Ziener	400
Guido Falkenberg	0
Christian Zimmermann	0

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 (GCGC)

The Management Board and Supervisory Board hereby declare that, since the last Declaration of Compliance was submitted on January 30/31, 2017, the recommendations of the government commission's GCGC dated May 5, 2015 were followed and the recommendations from the code dated February 7, 2017 will be followed in the future, with the following exceptions:

(a) In deviation of point 4.2.3, paragraph 2, s. 6 of the GCGC, there are no caps in absolute terms on variable remuneration components in place, but rather caps are expressed as percentages, from which an absolute amount can be calculated. There is no explicit cap expressed as an absolute amount on total remuneration; for this reason, Software AG is declaring a deviation from point 4.2.3, paragraph 2, s. 6 of the GCGC as a precautionary measure.

(b) In deviation of point 4.2.3, paragraph 4, s. 3 and paragraph 5 of the GCGC, the severance payment in one Management Board member's contract is not limited to the remaining term of the contract; and the annual target salary in all Management Board members' contracts is the basis for calculating the severance caps (including severance caps in the event of a change in control), so as to provide a straightforward basis for calculation in the event someone leaves the Company mid-year.

Darmstadt, January 31/February 1, 2018

Software AG

The Management Board	The Supervisory Board
Karl-Heinz Streibich Chief Executive Officer	**Dr. Andreas Bereczky** Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

DR. ANDREAS BERECZKY,
Chairman of the Supervisory Board

The Internet of Things (IoT) was in the spotlight for Software AG in fiscal 2017. Software AG complemented its IoT portfolio with the acquisition of Cumulocity and laid the groundwork for a new IoT/cloud business line with the formation of the ADAMOS strategic corporate alliance. New strategic partnerships with Bosch and Siemens in the field of IoT reflect Software AG's technological relevance. The Supervisory Board closely followed the Management Board's strategic decisions; and the Committee for Compensation and Succession Issues worked intently in 2017 to fill the position of Chief Executive Officer. The Supervisory Board considers Software AG's technological and strategic focus to be an outstanding basis for further growth.

Collaboration between the Management Board and Supervisory Board

In fiscal year 2017, the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Management Board in running the Company and supervised its management. In doing so, the Supervisory Board was directly involved in all 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 included 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 a total of six regular meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held four extraordinary meetings. For all 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 the year under review.

The following table illustrates the attendance of members at Supervisory Board meetings held in 2017:

In its first meeting of fiscal 2017, held on January 30, the Supervisory Board discussed the 2016 preliminary financial results; it approved the 2017 budget and conducted its annual efficiency evaluation. The Committee for Compensation and Succession Issues prepared topics related to the Management Board and issued a recommendation on Management Board members' goals for fiscal 2017, which, among other things, the Supervisory Board then finalized.

At the accounts meeting on March 15, 2017, in the presence of financial auditors, the 2016 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' variable remuneration for fiscal 2016 after the financial auditors' verification of the accuracy of the calculations.

The Supervisory Board discussed buying all shares in Cumulocity GmbH in an extraordinary meeting on March 23, 2017.

Supervisory Board Meetings in 2017

	1/30/2017	3/15/2017	3/23/2017	5/17/2017	7/21/2017	8/18/2017	9/4/2017	10/2/2017	10/23/2016	12/7/2017
			(via telephone)			(via telephone)	(via telephone)	(via telephone)		
Bereczky	x	x	x (tel.)	x	x	x (tel.)	x (tel.)	x (tel.)	x	x
Falkenberg	x	x	x (tel.)	x	x	x (tel.)	x (tel.)	x (tel.)	x	x
Park	x	x	x (tel.)	x	x	x (tel.)	x (tel.)	x (tel.)	x	x
Wulf	x	x	x (tel.)	x	x	x (tel.)	x (tel.)	x (tel.)	x	x
Ziener	x	x	x (tel.)	x	e	x (tel.)	x (tel.)	x (tel.)	x	x
Zimmermann	x	x	x (tel.)	x	x	x (tel.)	x (tel.)	x (tel.)	x	x

e = Excused tel. = Attended via phone

On May 17, 2017, the day of the Annual Shareholders' Meeting, the Supervisory Board met once to discuss the financial results for the first quarter of 2017. The Supervisory Board also dealt with targets regarding the gender quota (percentage of women) for the Management Board and Supervisory Board at this meeting; both targets were met as of June 30, 2017. The new targets, which have to be met by April 30, 2022, are 16.67 percent for the Supervisory Board and 0 percent for the Management Board.

Topics dealt with at the Supervisory Board's meeting on July 21, 2017 included the financial results of the second quarter and first half of 2017; additionally, the Supervisory Board examined key points of Software AG's strategy and relevant projects.

On the recommendation of the Committee for Compensation and Succession Issues, Dr. Wolfram Jost's term as Chief Technology Officer was renewed until July 31, 2023 in a telephone meeting on August 18, 2017. The Supervisory Board also voted in favor of signing a financing agreement and had an in-depth discussion about the ADAMOS project at this meeting.

In a telephone meeting held on September 4, 2017, the Supervisory Board further discussed the ADAMOS project and, following thorough deliberation, approved the strategic corporate alliance.

In a telephone meeting on October 2, 2017, the Supervisory Board approved Mr. Karl-Heinz Streibich's chairmanship of the supervisory board of Dürr AG.

The subject of the Supervisory Board's meeting on October 23, 2017 included strategic budget planning for 2018. Furthermore, after consideration and in-depth discussion of the recommendation of the Committee for Compensation and Succession Issues, the Supervisory Board approved a new long-term incentive plan, Management Incentive Plan 2018 (MIP 2018) for members of the Management Board.

In its last meeting of the year under review on December 7, 2017, the Supervisory Board's discussion included the financial results for the third quarter of 2017. In addition, a proportional payout cap for MIP 2018 was approved. Following thorough consideration, the Supervisory Board also approved a diversity concept for the Management Board and Supervisory Board as well as the audit of the Corporate Social Responsibility Report. Furthermore, the Supervisory Board informed itself of all legal disputes relating to Software AG.

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. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairs 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 during a reporting year.

The **Committee for Compensation and Succession** Issues prepares personnel-related decisions made by the Supervisory Board provided they affect the remuneration policies for the members of the Management Board or appointment resolutions. It has three members and is constituted based on one-third co-determination. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met ten times in fiscal year 2017. It dealt with personnel matters related to the Management Board, particularly the Management Board members' defined targets for fiscal 2017, preparation of the Supervisory Board's decision regarding their achievement of these targets and the resulting determination of their variable remuneration for fiscal 2016. In addition, the Committee for Compensation and Succession Issues prepared Dr. Wolfram Jost's term renewal as regular member of the Management Board of Software AG. The Committee for Compensation and Succession Issues also prepared the decision to approve MIP 2018. In the year under review, however, the Committee for Compensation and Succession Issues worked primarily on searching for and selecting a successor to the Chief Executive Officer of the Company. In doing that, the Committee for Compensation and Succession Issues worked in close, trusting and transparent cooperation with the Supervisory Board to define the process and prepare the job description to commission an HR consultant. After commissioning a consultant, the Committee for Compensation and Succession Issues participated in numerous telephone conferences and meetings to define the desired profile, screen and interview (in person and via video conference) candidates. On the request of the Committee for Compensation and Succession Issues and with the approval of the Supervisory Board, the CEO advised as needed during the process.

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

Committee for Compensation and Succession Issues in 2017

	1/30/2017	3/15/2017	5/4/2017	5/17/2017	5/31/2017	7/21/2017	10/4/2017	10/23/2017	10/20/2017	12/5/2017
Bereczky	x	x	x	x	x	x	x	x	x	x
Falkenberg	x	x	x	x	x	x	x	x	x	x
Wulf	x	x	x	x	x	x	x	x	x	x

The **Audit Committee** deals with issues related to monitoring the financial reporting process, risk management, half-year and quarterly reports, financial statement audits—particularly the independence of the auditor, the internal audit and compliance. The Audit Committee also prepares the Supervisory Board's discussion and vote to approve the annual and consolidated financial statements. It has three members and is constituted based on one-third co-determination. The Audit Committee was chaired by Mr. Markus Ziener until March 15, 2017; Ms. Eun-Kyung Park has chaired the Audit Committee since then. The Audit Committee met three times in fiscal year 2017. In a meeting on March 15, 2017, 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 and independence of the financial auditor for fiscal 2017 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. The Audit Committee also informed itself of the internal audit and compliance matters at this meeting. On October 23, 2017, the Audit Committee discussed the key points of the 2017 audit, revisions to IFRS 15 and corporate social responsibility reporting (non-financial reporting). On December 7, 2017 the Audit Committee discussed the results of the preliminary audit and risk report in the presence of auditors. It also considered and approved specific non-audit services rendered by the auditors.

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

Audit Committee in 2017

	3/15/2017	10/23/2017	12/7/2017
Park	x	x	x
Ziener	x	x	x
Zimmermann	x	x	x

The task of the **Nominating Committee** is to nominate qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. All three members of the Nominating Committee (Dr. Andreas Bereczky, Alf Henryk Wulf and Markus Ziener) are shareholder representatives. The Nominating Committee was chaired by Andreas Bereczky. It did not convene in fiscal year 2017.

Annual Audit

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft of Hamburg (Germany) to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2017. BDO AG has been Software AG's financial auditor since 1997.

BDO AG Wirtschaftsprüfungsgesellschaft of Hamburg (Germany) examined the financial statements and consolidated financial statements for the year ended December 31, 2017, as well as the Management Report and the accounting books and records. The auditor issued an unqualified audit option. Mr. Klaus Eckmann and Mr. Ralf Pfeiffer were the signers of the auditor's certificate and responsible for the audit on behalf of BDO AG Wirtschaftsprüfungsgesellschaft. Mr. Klaus Eckmann was responsible for the audit for the second time; Mr. Ralf Pfeiffer participated for the first time in the audit of the 2015 financial statements.

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 thoroughly reviewed the audit reports in its meeting on March 13, 2017, and the Supervisory Board thoroughly reviewed the audit reports in its meeting on March 15, 2018. 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.

BDO Wirtschaftsprüfungsgesellschaft AG also performed an audit of Software AG's first-time Non-Financial Report for the 2017 fiscal year (limited assurance audit) and issued a statement pursuant to ISAE 3000 (revised). The complete Auditors' Report can be found starting on p. 221 of the Annual Report. The responsible public accountancy practitioner from BDO AG Wirtschaftsprüfungsgesellschaft was Mr. Nils Borcherding. He presented the outcome of the audit in person to the Audit Committee in a meeting on March 13, 2018. The Supervisory Board discussed the matter thoroughly in a meeting on March 15, 2018 and, on the recommendation of the Audit Committee, approved the Non-Financial Report at this meeting.

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Corporate Governance Code

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate

Governance Code (GCGC) again in fiscal year 2017. In its meeting on January 30, 2017 the Supervisory Board approved the annual Declaration of Compliance. On March 15, 2017 the Supervisory Board evaluated the Management Board's Rules of Procedure and the included list of transactions requiring approval. The subject of the Supervisory Board's meeting on May 17, 2017 were revisions to the GCGC. In its meetings on October 23 and December 7, 2017, the Supervisory Board drafted a diversity concept for the Supervisory and Management Boards including a skill profile for the Supervisory Board and targets for its membership composition.

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2017. (For further information, refer to the Remuneration Report in the 2017 Annual Report.) The corresponding model tables as per the GCGC dated February 7, 2017 were used. The remuneration system for the members of the Management Board was not amended in 2017.

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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 GCGC can be found in the Corporate Governance Report in the 2017 Annual Report. The Declaration of Compliance has been made public on the Company's website at SoftwareAG.com/compliance_en.

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Changes to the Management Board and Supervisory Board

Dr. Stefan Sigg joined Software AG's Management Board as of April 1, 2017. The Supervisory Board renewed his term on August 18, 2017 until July 31, 2023. Mr. Ziener stepped down from his position as chair of the Audit Committee on March 15, 2017; Ms. Park has chaired the Audit Committee since then. There were no other personnel changes on the Management Board or Supervisory Board of Software AG in 2017.

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 2017.

Darmstadt, March 15, 2018

The Supervisory Board

Dr. Andreas Bereczky
Chairman

For more information on the members of the Supervisory Board, please refer to Other Disclosures in the 2017 Annual Report or visit SoftwareAG.com/svb.

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COMBINED MANAGEMENT REPORT

FUNDAMENTAL ASPECTS OF THE GROUP

Organization and Group Structure

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 Software AG 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 Software AG into one **Consolidated Management Report**. Unless otherwise stated, "Software AG" will hereinafter refer to the Software AG Group.

Software AG was founded in 1969 in Darmstadt, Germany. It has been listed on the Frankfurt Stock Exchange since April 26, 1999.

Software AG has control and profit transfer agreements with its three German subsidiaries: SAG Deutschland GmbH, SAG Consulting Services GmbH and SAG LVG mbH. Otherwise, the Group is structured as a **matrix organization** reflected in its reporting lines, global policies and committees. The current consolidated Group is discussed in Note [2] of the Notes to the Consolidated Financial Statements.

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Major locations

A global company with a far-reaching sales and partner network, Software AG strives to maintain proximity to its customers by serving customers in more than 70 **locations** in all continents worldwide. The Company's **corporate headquarters** are located in Darmstadt, Germany. Its largest subsidiaries are in Darmstadt (Germany), Bangalore (India), Madrid (Spain), Or-Yehuda (Israel) and Reston (USA). Software AG employs 4,596 (2016: 4,471) people around the world.

In 2017, Software AG strengthened its presence in important strategic markets, particularly in the APJ and DACH regions. From 2016 to 2017, employee numbers there grew by 8 percent (APJ) to 1,025 (2016: 948) and 4 percent (DACH) to 1,242 (2016: 1,189). The increase in the APJ region can be attributed primarily to India. Software AG's employee numbers grew there by 7 percent to 823 (2016: 766) in 2017. Software AG is positioning itself both in established as well as in emerging and high-potential locations as part of its global geographic strategy. Software AG's key Research & Development (R&D) hubs in Bulgaria and Malaysia showed the strongest proportional growth in 2017. The number of employees there grew by 16 percent (Bulgaria) to 197 (2016: 170) and 12 percent (Malaysia) to 86 (2016: 77). An overview of employee number development throughout the entire Group can be found under Employees in the Other Intangible Assets section of the Economic Report.

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Management and control

Software AG's **Management Board** consists of five members: the Chief Executive Officer (CEO) Karl-Heinz Streibich, the Chief Financial Officer (CFO) Arnd Zinnhardt, the Chief Technology Officer (CTO) Dr. Wolfram Jost, the Chief Customer Officer (CCO) Eric Duffaut and, since April 2017, the Chief Research & Development Officer (CRDO) Dr. Stefan Sigg. For more information on Board members, please refer to Note [38] of the Notes to the Consolidated Financial Statements. The Management Board is appointed, supervised and advised by the Supervisory Board.

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The **Supervisory Board** of Software AG is composed in accordance with the stipulations of the One-Third Participation Act. It has consisted of six Supervisory Board members (four shareholder representatives and two representatives of Software AG employees) since the amendment to the Articles of Incorporation passed at the Annual Shareholders' Meeting on May 13, 2015 was entered into the Commercial Register on May 27, 2015. For more information on the Board members, refer to Note [38] of the Notes to the Consolidated Financial Statements.

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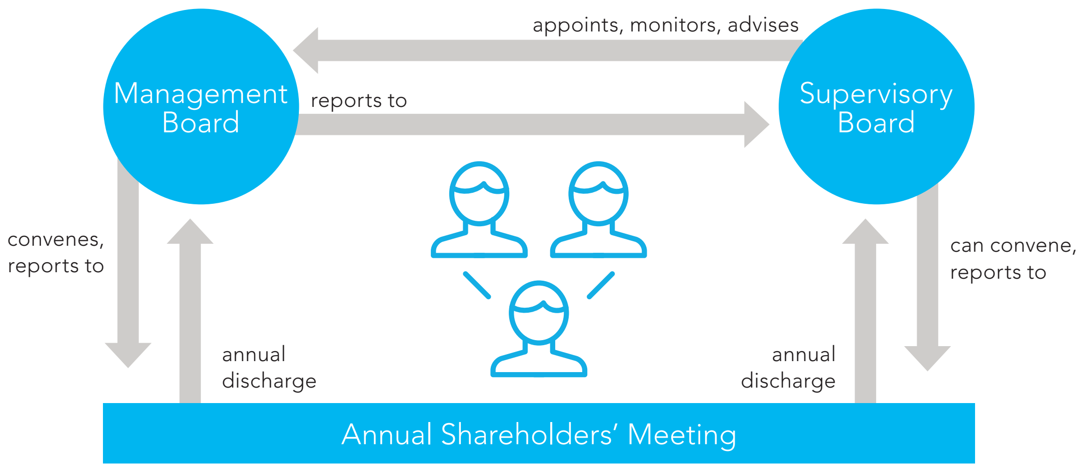
Corporate Governance Structure



Business Activities

Business model

Software AG develops leading technology solutions for digitalization, including products for real-time analysis, which have great potential in the Industry 4.0 and Internet of Things (IoT) growth markets. Its portfolio is not limited to individual market sectors; rather, Software AG serves as a **technology service provider for companies in every industry**. The product portfolio offers customers both investment protection for their existing IT architecture as well as a sustainable future for modern technologies. The **customized solutions** focus on the customer's needs, building on existing IT landscapes and improving usage flexibility so that processes and applications can be adapted quickly and easily to changing market conditions in the future. Furthermore, Software AG supports its customers in their **digital transformation** with custom consulting services and comprehensive IT expertise. The business model is separated into three revenue types: licenses, maintenance and consulting. These lay the foundation for financial success. For more information on Software AG's strategy, please refer to the Strategy and Goals section. p. 43

Software AG operates in a growth market. In light of the unstoppable digitalization of the professional and private spheres worldwide, **building in-house software expertise** provides the most important source for innovation and growth at any modern company. Digitally transforming is becoming a criterion for existence as growing numbers of innovative enterprises enter the market and overtake traditional market leaders in record time. Companies in every industry are being confronted with new competitors, market developments and disruptive technologies created by **digital business models**. At the same time, business processes and IT infrastructures are all becoming increasingly complex. As a result of the digital transformation, companies are facing the challenge of changing their IT landscapes from inflexible application silos to modern software-driven IT platforms. They need modular applications that are flexible and adaptable to deliver the openness, speed and agility to enable their transformation to a digital real-time enterprise. This enables them to establish the conditions to set themselves apart from their competition through innovation and efficient change processes.

Business lines

Software AG's **operations** in fiscal 2017 can be divided into the three following business lines. They also reflect its **corporate structure**:

- Digital Business Platform (DBP)
- Adabas & Natural (A&N)
- Consulting

The DBP and A&N business lines generate license and maintenance revenues from Software AG's software products. The Consulting segment provides customer-specific consulting services primarily for Software AG's own products. For a summary of the business lines' performance in fiscal 2017, please refer to Segment Reporting in the Financial Performance section of the Economic Report.

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Digital Business Platform (DBP)

Software AG launched the world's first end-to-end platform for digital transformation based on open standards. The platform integrates five building blocks: business and IT transformation, analytics and decisions, process and applications, integration and API, and devices. With the DBP, businesses and public organizations can optimize their processes, drive innovations, develop agile business applications, boost efficiency and take advantage of sales opportunities in real time. In the future, revenue from the pioneering IoT business will be reported as a separate item in this business line. DBP builds on existing systems with modular, vendor-neutral solutions so that innovative applications can be developed and integrated faster and with greater flexibility. This business line is Software AG's growth driver and is being expanded through extensive Research & Development measures as well as targeted technology acquisitions.

Adabas & Natural (A&N)

Software AG's business line consisting of A&N-based applications represents the Company's origins. These applications—and thus A&N-—remain an indispensable key technology for a large customer base including many well-known major enterprises and public institutions. Adabas is a long-established, efficient database management system for all platforms. Adabas is able to process more than 320,000 calls or 80,000 transactions per second. Natural is a development environment and is the basis of hundreds of thousands of software applications that support the core processes of major companies across all industries. A&N is optimized for digital business models; it enables the use of all modern development standards and tools and can operate on any infrastructure—from mainframe to the cloud. Software AG's capabilities for application digitalization in this business line was enhanced with its acquisition of CONNX Solutions Inc. in August 2016. With this step, Software AG is protecting the investments of many long-time customers and accelerating the digitalization of their business models. The A&N products have been established for nearly 50 years in the IT landscapes of major companies and public administrations.

Consulting

The Consulting business line focuses primarily on projects and services involving Software AG's own software products. With their proven market experience and industry expertise, Software AG's consultants provide crucial support for product sales in the DBP and A&N lines and support customers in implementing the systems and digital process organization. Through these efforts, Software AG ensures comprehensive support for its customers in their transformation to the digital enterprise.

Product and brand portfolio

The **ARIS**, **Alfabet**, **Apama**, **Cumulocity**, **Terracotta** and **webMethods** product families form the **DBP business line**. **Adabas** and **Natural** form the product offering of the **A&N business line**. The entire product portfolio is designed to comprehensively support customers transform to a digital enterprise.

Using a clearly-structured **brand architecture**, the individual product families have been separated into six modules, which represent the core themes of digital enterprise transformation.

- **Business and IT Transformation:** ARIS products optimize business processes—from strategy and analytics to design and controlling. Alfabet software streamlines the complete transformation of business processes with the resulting modifications to the IT systems.
- **Analytics and Decisions:** This platform combines Terracotta and Apama Streaming Analytics for real-time big data analytics. The Zementis product family enables predictive analytics with artificial intelligence (AI) and machine learning capabilities.

- **Process and Applications:** webMethods Business Process Management and webMethods AgileApps enable management of agile applications and processes.

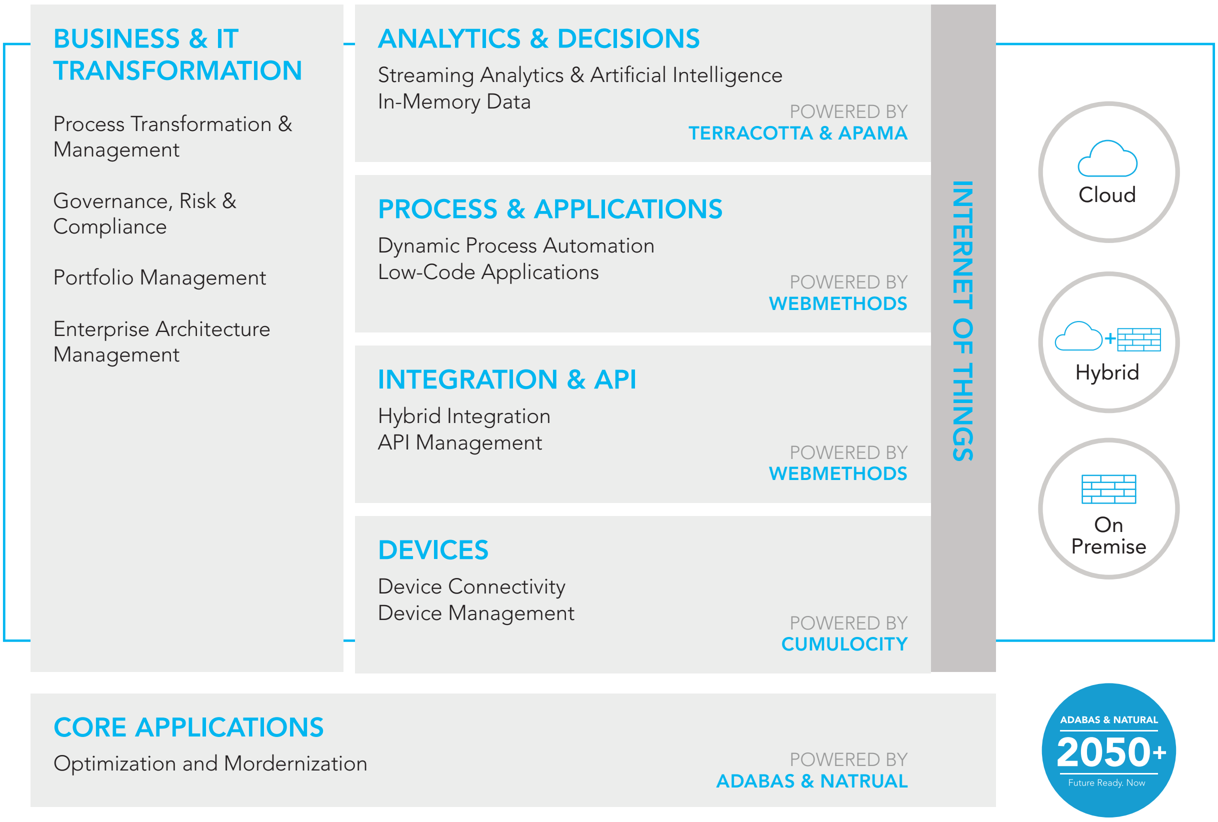
- **Integration and API:** webMethods Integration and webMethods API Management enable integration of systems and processes.

- **Devices:** The Cumulocity product portfolio contains a series of preconfigured products and solutions for condition monitoring, predictive maintenance and track and trace as well as functions for fast and uncomplicated management of devices and sensors for the Internet of Things.

- **A&N:** This product offering is made complete with A&N transaction processing. With its Adabas & Natural 2050+ agenda, Software AG aims to support and ongoing development for its A&N product portfolio through the year 2050 and beyond. The innovation focus includes mainframe optimization, digitalization of business-critical A&N applications as well as DevOps support with NaturalONE.

Software AG's DBP portfolio is cloud-ready and can run both on-premise as well as in a hybrid environment.

Product Portfolio



Market positioning

Sales markets

Software AG has global market coverage. The Company optimized its regional structure to further leverage synergies in the German-speaking markets and the rest of EMEA. As of January 1, 2018, the greater EMEA region is divided into the DACH and remaining non-German-speaking EMEA regions. The geographic sales markets are now divided into the following five regions:

Regions	**Sales markets**
North America	USA and Canada
Latin America	Latin America (LATAM)
DACH	Germany Austria Switzerland
Europe, Middle East, Africa (EMEA)	All non-German-speaking EMEA countries
Asia-Pacific and Japan (APJ)	Australia Japan Asia and China

As the world's biggest IT market, the North American market continues to be a key driver for Software AG's business and the largest of all its geographic sales markets. Measured by percentage of total revenue, the EMEA, DACH, APJ and LATAM regions follow in that order. In the EMEA region, Great Britain and France are the most important markets. Software AG is positioning itself both in established as well as in emerging and high-potential locations as part of its global geographic strategy.

Software AG's customer portfolio is broad enough to effectively respond to its customers' requirements for a modern IT infrastructure in their different market segments. In addition to the geographic perspective, target markets can also be separated by industry. Thanks to a continuously expanding, extremely loyal customer base including many leading companies, Software AG is extremely well-established in the public, financial and IT service sectors (including outsourcing). The manufacturing, services, transport and logistics and telecommunication and media industries are also key market segments for Software AG.

Software AG complies with business ethics and refrains from selling products and services that are not permitted in certain markets. Nor does it sell products or services which are called into question by stakeholders or are the subject of public debate.

For more information on revenue growth in individual countries and industries in 2017, please refer to Product Revenue by Region and Product Revenue by Industry in the Financial Performance section of the Economic Report. p. 57

Competitive situation

The market for enterprise software is in the midst of a fundamental transformation. The development of new business models has brought new, innovative competitors onto the scene with technology startups and former industry outsiders. At the same time, customer market power has grown. Established companies are facing major innovative pressure. In light of this situation, portfolio quality and ongoing development as well as differentiation from the competition with unique solutions are key criteria for success.

Numerous analysts confirm that Software AG has established itself as one of the world's leading providers of digital business platforms under these tough conditions. The combination of its software and service portfolio for digitalization, automation and integration of business processes as well as for machines and devices along with the development of new adaptive apps is unique to the global market at this level of specialization. Software AG can provide its customers with comprehensive support for their companywide digital transformation like no other p. 42

company—from planning and integration to evaluation, analysis and automated decision-making. The Company clearly sets itself apart from the competition through its independent position, giving it an excellent **competitive position** in a tough software market. The following key **differentiators** are summarized below:

Software AG's Unique Selling Points

Vendor-neutral portfolio	Software AG enables the integration of different systems and technologies from different providers—now and in the future.
Integrated platform	DBP is already integrated at the detail level. Thus the focus is on company-level integration right from the start to uncover new knowledge and opportunities.
Reliable and proven	For almost 50 years, Software AG has been a trusted partner for thousands of top companies in more than 70 countries. Gartner, Forrester and other market analysts name Software AG a technology leader every year because of its innovative power.
The right size	Software AG is large enough to support major companies and agile enough to be able to focus on individual customer requirements.
Fast return on investment (RoI)	Digitalization is just the starting point for Software AG because the goal is to recognize and fully exploit the potential of market differentiation at the intersection of technologies. Software AG supports its customers on this journey.
Consistent customer focus	Software AG's goal is to co-innovate with its customers and work closely with them at the management level.

With these key differentiators, Software AG can address customers' growing need for custom solutions of the highest quality. The Company is also positioning itself in the most important growth markets with its products for process improvement, digital transformation and IoT technologies.

Software AG's **market access** has continued to improve particularly in Europe's core markets in which Software AG has reached critical mass. Moreover, the Company has established a basis for effective market cultivation and higher sales productivity through a focused, scalable go-to-market model. Extending the partner network and close collaboration with universities and research institutions support this direction. For more information about strategic partnerships and alliances, please refer to Sales, Customers, and Partners in the Other Intangible Assets section of the Economic Report. p. 81 For more information about Software AG's Scientific Advisory Board, please refer to Research and Development in the same section. p. 77

Product portfolio

Software AG considers the recognition of independent research firms as confirmation of its strategy and quality of products and services. For years, the Company believes its portfolio has received leading positions in market analysts' evaluations. Software AG was recognized in 2017 as follows:

A Leader

The following **Gartner**[1] studies recognized Software AG as a Leader:

- "Magic Quadrant for Enterprise Architecture Tools"[2]
- "Magic Quadrant for Integrated IT Portfolio Analysis Applications"[3]

A Leader

The following **Forrester** studies recognized Software AG as a Leader:

- "The Forrester Wave™: Enterprise Architecture Management Suites, Q2 2017"[4]
- "The Forrester Wave™: Digital Process Automation Software, Q3 2017"[5]
- "The Forrester Wave™: Streaming Analytics, Q3 2017"[6]
- "The Forrester Wave™: Strategic Portfolio Management Tools, Q3 2017"[7]

A Visionary

In addition, the following **Gartner** study named Software AG a Visionary:

- "Magic Quadrant for Intelligent Business Process Management Suites"[8]

Software AG also took second place in the "2018 IoT Edge ScoreCard," by IoT analyst **MachNation**.[9]

Industry environment and influencing factors

Software AG's growth is influenced by a variety of factors. Key external influencing variables include the global economy, particularly in the major markets of Europe and North America, as well as developments in the international IT market. How these factors impacted Software AG's business during the 2017 reporting year is presented in the Business Summary section of the Economic Report. p. 51

In addition, macroeconomic uncertainty and exchange rate fluctuations affect Software AG's global business, as they do all players in the free economy. For more information on the impact of exchange rate fluctuations on the Group, please refer to Financial Operating Risks in the Key Individual Risks and Opportunities section of the Opportunity and Risk Report. p. 118

Software AG's business is closely tied to the ongoing digitalization of business and society, because software is the fundamental material and driver of the next industrial revolution (Industry 4.0 and IoT). The ability of business to compete will pivot on the ability to create software-based products and services of the highest quality. Software know-how will be the prerequisite for Germany in maintaining its leading position in engineering and in exports. A dynamic and successful German software industry serves as a strong impetus for many other sectors of the economy and thus for the competitive position of the German national economy. In the future, innovative products and services will not be possible without software. These conditions were a positive stimulus for Software AG's business in fiscal 2017. By the same token, having access to a stable, secure and productive infrastructure is a matter of survival for the software industry. That means estab-

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2 Gartner, Inc., "Magic Quadrant for Enterprise Architecture Tools," Samantha Searle, Marc Kerremans, May 2, 2017.
3 Gartner, Inc., "Magic Quadrant for Integrated IT Portfolio Analysis Applications," Daniel B. Stang, Stefan Van Der Zijden, November 27, 2017.
4 The Forrester Wave™: Enterprise Architecture Management Suites, Q2 2017, Forrester Research, Inc., June 14, 2017.
5 The Forrester Wave™: Digital Process Automation Software, Q3 2017, Forrester Research, Inc., July 5, 2017.
6 The Forrester Wave™: Streaming Analytics, Q3 2017, Forrester Research, Inc., September 7, 2017.
7 The Forrester Wave™: Strategic Portfolio Management Tools, Q3 2017, Forrester Research, Inc., September 20, 2017.
8 Gartner, Inc., "Magic Quadrant for Intelligent Business Process Management Suites," Rob Dunie, Marc Kerremans, et al., October 24, 2017.
9 MachNation: 2018 IoT Edge Scorcard, December 6, 2017.

lishing a clearly defined legal framework to guarantee the security of cloud offerings, but also the expansion of faster broadband networks with adequate transmission capacities. Regulatory and political changes and uncertainty in countries and markets in which Software AG operates are key influential factors in the Group's business. The associated risks are described in the Key Individual Risks and Opportunities section of the Opportunity and Risk Report. p. 111

Strategy and Goals

Vision and business strategy

Software AG's long-term vision is to secure its position as a global market leader in digital business platforms for application infrastructure and middleware software and expand that position with innovative solutions. Following this guiding theme, Software AG works to deliver the best support to customers in every industry worldwide in their digital transformation and to steadily grow the value of the company. To achieve this goal, the Company is combining established longtime business activities with innovation and commitment in promising new market segments and regions.

Accordingly, Software AG's business strategy focuses on long-term, profitable growth in select market segments and countries. An essential component of Software AG's success strategy is the **ongoing development of its own product portfolio** including the integration of technologies acquired in previous years and co-innovation with its customers and partners. To strengthen its own technology leadership and gain market share, Software AG is propelling its own growth on one hand and making selected investments in innovation-driven businesses on the other. Another important success factor is increasing new license business. 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 revenues which, in turn, generate positive cash flow. Because of the significant potential for growth and higher earnings compared to services, the **product business** is the backbone of Software AG's strategic approach.

Financial objectives

Software AG anticipates further margin growth in years to come. Based on its current business model, the Company's target operating EBITA profit margin (non-IFRS) range is 32.0 to 35.0 percent by 2020. Given stable margins in the A&N business line, organic growth in the traditional DBP business and ongoing acceleration in market activities for the IoT serve as the essential basis for improved margins. Productivity improvements in sales and a growing partner network will further support the margin. With respect to growth in DBP licenses, Software AG expects annual growth rates ranging between mid to high single digits, while the IoT segment is expected to see dynamic growth. Recurring revenues in the DBP maintenance segment with growth rates in the low to mid single digits and dynamic revenue growth in Software as a Service (SaaS) will particularly promote margin growth.

Non-financial objectives

Software AG is focusing on long-term, sustainable growth. An essential component of Software AG's success strategy is the **ongoing development of its own product portfolio** including the integration of technologies acquired in previous years and co-innovation with customers and partners. Software AG has identified factors for sustainable, continued development to drive profitable growth. These factors are discussed under p. 48 Non-Financial Performance Indicators in the Internal Corporate Control System section. For information about the key drivers of sustainable company governance, please refer to the Combined Non-Financial p. 88 Statement.

Strategic direction of business lines

Digital Business Platform (DBP)

With regard to the business lines, Software AG is focusing strategically on heavily expanding the pioneering **DBP** line, which has become the Company's top revenue generator in recent years. The reason: The transition to the digital enterprise also requires transformation of the internal IT architecture. Today everything focuses on an event-driven real-time platform that is needed in practically every field, from product development to customer interaction. This business line's goal is to deliver a comprehensive, cloud-based, consistent, flexible platform that is built on modern architecture elements (API, microservices, containers, events)—and with technology that is always one step ahead of the competition. To this end, Software AG is constantly developing the different DBP building blocks as part of its own R&D work as well as making targeted acquisitions to strengthen its technology leadership in this area. p. 45 For more information on this topic, please refer to Equity p. 49 Interests and Research and Development.

Internet of Things

For many companies, IoT has become a strategic element of new business models. Software AG further expanded its leading position in the emerging IoT market with its acquisition of Cumulocity GmbH in March 2017. Adding Cumulocity's IoT solutions to the Software AG portfolio enables businesses to integrate their IT applications more quickly and easily with operating IoT devices. This enables Software AG to deliver leading solutions for the integration, networking and management of IoT components as well as data analysis and prediction of future events based on AI. This has already led to numerous project deals in the IoT sector. In light of this development, Software AG will begin reporting revenues from the growing IoT business separately as part of the DBP business line starting January 2018.

Adabas & Natural (A&N)

The A&N business line provides a solid, highly profitable base for enabling flexible, strategic **investments in innovative pioneering fields**. Moreover, the Company can rely on an established customer base that offers promising sales potential for DBP products in this segment. The **Adabas & Natural 2050+** agenda provides the strategic roadmap for the A&N segment. The Company announced the agenda in summer of 2016, reaffirming its decision to continue to develop and support the A&N product portfolio through the year 2050 and beyond. This is an unprecedented commitment in the industry to long-term viability and investment security for customers. It is Software AG's response to an independent survey, which showed that 98 percent of A&N customers employ the high-performance platform to run their strategic, mission-critical enterprise applications. By pursuing this long-term agenda, the Company also aims to support its customers through the generational shift that is facing the entire software industry. Software AG wants to help its customers to secure and expand the expertise built up during decades of development work on enterprise applications. The goal is to provide customers with a single, integrated platform for digitalization that they can use to develop the next generation of future-proof business applications.

Consulting

Sustainable profitability and high service quality are Software AG's two strategic targets for its **Consulting** business line. The Company therefore focuses its activities on projects and services that comprehensively support its product business. Furthermore, Software AG is reducing its presence in regions with low profit expectations and strengthening its commitment in more promising markets.

Equity interests

Mergers & Acquisitions (M&A) strategy

Corporate acquisitions and participating interests are a strategic instrument at Software AG for opening up new markets while solidifying its technology leadership. Throughout almost 50 years of company history, Software AG has succeeded in reinventing itself and transforming time and again—a key prerequisite for staying successful in today's IT world with its changes at breakneck speed and shrinking innovation cycles. With its technology acquisitions in recent years, Software AG has picked up new impetus and expertise and integrated it. The Company acquired 18 companies between 2007 in 2016 to grow and develop its product portfolio. The acquisition of Cumulocity GmbH in 2017 represents an important step in expanding Software AG's technology leadership in the IoT sector. For more details on the latest acquisitions, please refer to Note [4] of the Notes to the Consolidated Financial Statements. p. 173

The headquarters of Software AG's M&A department is in California. Through the multitude of leading global IT companies located there and California's distinctive start-up culture, the Company can recognize future IT trends early on, to test, harness and develop them. Whether in Europe, Silicon Valley or other promising locations, Software AG will continue to keep a close eye on the technology development market in order to enhance its product portfolio through targeted acquisitions and expand its global presence.

Scope of consolidation

The family of Software AG companies currently consists of 79 affiliated companies, nine of which are domestic entities, while the remainder are distributed worldwide. Software AG's strategic corporate structure is outlined in Note [2] of the Notes to the Consolidated Financial Statements. p. 160

Strategic financing measures

Software AG's strong free cash flow is the backbone of its financing strategy. In combination with a high equity ratio, it offers financial flexibility for organic and inorganic growth. In addition, the Company uses bank loans, promissory note loans, factoring and leasing models to cover any additional financing needs. Software AG controls its liquidity position centrally through active working capital management. Financial investments are generally oriented toward the short term to ensure near-money market interest rates on the Group's funds. The Company broadly diversifies its investments and uses stringent criteria in selecting transaction partners. The loans used are predominantly at variable interest rates and have terms to maturity of no more than six years. Combined with a comfortable liquidity position, this results in a financing structure that is independent of short-term capital market conditions thereby ensuring the solvency of all subsidiaries. For more information on financial management and financing instruments, please refer to the section on Financial Position in the Economic Report. p. 193 p. 66

Internal Corporate Control System

Performance indicators and monitoring

Software AG's internal control system enables it to meet strategic corporate objectives. Software AG focuses on continued profitable growth and strengthening its financial power so that it can help customers master digital transformation and increase its own enterprise value. To this end, Software AG has established a comprehensive **internal corporate control system** that measures both hard and soft performance indicators of success.

For target values that were not reached or just barely reached during the year, Software AG will readjust in the new fiscal year. To do so, the Company has established a standard process between the local Commercial teams and Controlling that is conducted on a quarterly basis. A financial scorecard model is the foundation and starting point of this process. Suitable measures are developed and initiated if deviations from goals are detected, then the results are incorporated directly into a rolling forecasting and budgeting process. At the heart of this rolling process is a new planning horizon that has been expanded by two quarters to a total of six quarters. This enables Software AG to map out the effects from those measures beyond the current calendar year. In this case, rolling means that the planning horizon shifts from quarter to quarter.

Targets Met in 2017

as %	Bottom range	Top range	KPI 2017
Digital Business Platform product revenue*	+5	+10	+5
Adabas & Natural product revenue*	–6	–2	–4
Operating margin (non-IFRS)**	31.0	32.0	31.8

* At constant currency
** Before adjusting for non-operating factors (see non-IFRS results); original forecast of 30.5 to 31.5 percent was raised in July 2017 to 31.0 to 32.0 percent

Group financial indicators

DBP and A&N product revenue (at constant currency) as well as **operating profit margin (non-IFRS)** are key strategic indicators for managing the Company. The operating profit margin (non-IFRS) is the focus of internal controlling. These performance indicators are calculated as follows:

Operating margin (EBITA, non-IFRS)

Earnings before interest and taxes (EBIT)

+	Acquisition-related depreciation of intangible assets
+	Acquisition-related decreases in product revenue due to purchase price allocations
+/–	Other acquisition-related effects on earnings
+/–	Income/expense resulting from share price-based remuneration
+	Restructuring/severance/litigation

= EBITA (non-IFRS)

The **operating profit margin (EBITA, non-IFRS)** is calculated by dividing EBITA (non-IFRS) by Group revenue adjusted for acquisition-related product revenue decreases.

As is typical across the software sector as a whole, capital-oriented financial indicators play a minor role for Software AG. This is due to the fact that the business model's commitment of capital is low. Software AG's largest expense block are its personnel costs, as described in Note [14] of the Notes to the Consolidated Financial Statements. Other key indicators are provided by the segments and types of revenue on which Software AG's business model is based.

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Operating EPS (non-IFRS) was added as an additional key indicator for the year 2018 to account for tax-related factors.

These performance indicators are calculated as follows:

Operating earnings per share (non-IFRS)

Earnings before income taxes

+	Other taxes
+/−	Net financial income/expense

EBIT (before all taxes)

+	Acquisition-related depreciation of intangible assets
+	Acquisition-related decreases in product revenue due to purchase price allocations
+/−	Other acquisition-related effects on earnings
+/−	Income/expense resulting from share price-based remuneration
+	Restructuring/severance/litigation

EBIT (non-IFRS)

+/−	Net financial income/expense
−	Other taxes

Earnings before income taxes

−	Income tax based on Company's income tax rates

Net income (non-IFRS)

Divided by average number of shares outstanding

= Operating earnings per share (non-IFRS)

For more information and the definition of Software AG's **non-IFRS financial indicators**, please refer to SoftwareAG.com/apm.

Segment performance indicators

The key performance indicators for the product business are those reflecting sales efficiency. Efficiency is portrayed through the cost of sales ratio, which reflects the **sales and marketing expenses** of a product in relation to the associated product revenue. The factors influencing optimization of the cost of sales ratio are determined using additional efficiency indicators such as revenue performance per Sales employee and average deal size trends.

The **segment margin** (revenue less cost of sales and sales and marketing expenses) is reported in the segment report and is an especially important performance indicator for the Consulting line. It is influenced primarily by the capacity utilization of staff in the Delivery department, sales and marketing expenses and the cost per employee. The last factor can be optimized by controlling on/offshore high/low cost percentages.

Monitoring types of revenue

Software AG continuously monitors revenue and costs in the areas of licenses, maintenance and services. **License revenue** is a key growth driver of maintenance and service revenue. Software AG also employs 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 the most important goals is the constant improvement of **sales efficiency**. Software AG achieves this through its customer-centric go-to-market model led by the Chief Customer Officer, responsible for Global Sales, Services and Marketing. A cross-regional sales and service structure and steady expansion of inside sales activities and the partner network offer additional potential for market coverage and growth.

Cost and cash flow management

All cost items in the Group are subject to stringent budget control and are assigned to clearly defined controlling areas depending upon their business segment (R&D, Sales, Management). On a monthly basis, the individual profit and cost centers are reviewed to determine whether budgets were adhered to, how forecast costs evolved, and how cost growth compares to revenue growth. Software AG uses a **dynamic budget model**, ensuring that key components of the cost budget remain flexible in relation to sales growth. The cost budget is adjusted as needed throughout the year in order to achieve or surpass profit targets.

Receivables management has a significant effect on cash flow. It is controlled centrally by Software AG and executed locally by subsidiaries. Receivables management is monitored by way of various internal controlling processes.

Software AG's cash management is a centralized function and is carried out at corporate headquarters in Darmstadt using a global, standardized **cash management system**. It enables Software AG to optimize its investment strategy and minimize investment risk.

Non-financial performance indicators

Software AG's enterprise value is defined not only by financial indicators, but also by non-financial performance indicators. Software AG strongly believes that they are an element of long-term business success. To clarify how the Company measures the individual performance indicators, the table below illustrates examples of operationalizing practices.

Performance indicator	Operationalization examples
Strategic product positioning in the market	External analyst ratings
Customer satisfaction and loyalty, as well as feedback	Average deal sizes, maintenance agreement termination rates, regional trends, customer satisfaction analyses
Employee satisfaction and retention	Performance-based compensation, length of service, turnover
Research & Development	Number of product release cycles, analyst ratings
Focus of sales activities	Sales efficiency and effectiveness
Partner network	Number of sales and technology partners, revenue influenced by partners or through partners

Company-specific early warning indicators

The early warning indicators used by Software AG are separated into **cross-departmental** and **department-specific indicators.**

The key cross-departmental early warning indicator is **license revenue growth**, because license sales directly impact the Company's profitability and indirectly affect it through the resulting maintenance and consulting business. At the beginning of a reporting period, the existing qualified project pipeline is the essential early warning indicator for licensing business growth. In this qualified project pipeline, existing opportunities are evaluated in size and probability and placed in relation to expected revenues. Since opportunities naturally become disqualified, delayed, lost or contracted during the sales process, the relation between the pipeline and revenues is not fixed. Rather, it is subject to constant change until the end of the reporting period. To actively manage the complexity of this early warning indicator, Software AG uses an appropriate customer relationship management tool that shows the correlation between the existing pipeline and anticipated revenue in real time. Therefore, at the start of a quarter the value of that quarter's opportunities equals at least three times the expected revenue volume. If this is not the case, activities in license sales need to be intensified accordingly.

Software AG's business model considers order intake in Consulting as well as in some areas of the product business to be an indicator of future business development. In the Consulting line, a report on order intake for consulting projects is submitted monthly. Work orders typically define a clear order value, whereas service agreements only stipulate an anticipated volume. Since neither the size of orders nor the date they are received are evenly distributed, order intake can fluctuate considerably. For this reason, Software AG assigns greater importance to the Consulting line's **order backlog** than to its order intake. The order backlog at the end of a period is defined as: the order backlog during a period plus all new orders during that period minus all new projects realized in that period (completed). The order backlog for a reporting period should increase by about the same rate as the target revenue growth for the next periods. Should that not be the case, the Consulting business line has to intensify its sales activities.

Another department-specific early warning indicator is the **cancellation rate for maintenance agreements**. Due to contractually defined cancellation periods, terminations received during the course of the year combined with anticipated licensing revenues allow the Company to draw conclusions about maintenance revenue growth for the subsequent reporting periods. With low termination rates of 6–7 percent in industry comparison, experience has shown that Software AG can expect single-digit percentage growth in maintenance revenues of 1 to 4 percent (2017: 3 percent) compared to the previous year (at constant currency) if licensing revenue growth remains positive (assuming other conditions remain constant).

Integrated management system

The integrated management system implemented in 2016 is a supplemental control system that currently includes the areas of **quality management and business continuity management.** Both of these were initiated to provide an adequate answer to the growing compliance requirements on the customer side.

By defining internal quality goals and continuously monitoring compliance with them through management reviews and key quality indicators, Software AG is creating a corporate culture that is committed to maintaining high quality standards. Its successful **certification to ISO 9001:2015** is evidence of this commitment.

Software AG has performed a targeted analysis of its business processes and the accompanying IT systems to develop strategies that enable it to preserve the most critical processes from a customer's perspective in crisis situations, or be able to restore them as quickly as possible. This also includes concepts for redundant data storage. The Company is further securing its constant preparedness through ongoing training of the global Incident Response Team and testing crisis scenarios. The Company's successful **ISO 22301:2012 certification** (business continuity management) confirms the effectiveness of these measures.

For more information about quality assurance and the **ISO 27001-certified cloud information management system** (Cloud IMS), please refer to Customer Concerns in the Company Aspects section of the Combined Non-Financial Statement. p. 101

Research and Development

Innovations and expertise

Targeted technology acquisitions, in-house Research & Development (R&D) as well as the resulting innovations form the basis for long-term success for Software AG. The goal of R&D activities is to continually develop the Company's product portfolio while considering customer requirements as well as business concerns.

To firmly anchor the enormous importance of R&D activities at the highest level, Software AG appointed Dr. Stefan Sigg to the Management Board as the Company's first-ever Chief Research & Development Officer (CRDO). This action strengthens Software AG's ongoing focus on developing technological innovations in the fast-paced growth market for digital solutions. The Industry 4.0 and Internet of Things (IoT) mega trends are of particular focus.

As part of Software AG's **co-innovation strategy**, its R&D unit collaborates closely with customers and strategic partners including Siemens and Google, participates in various **research programs** and also established a Scientific Advisory Board in 2017. For more information about Software AG's **Scientific Advisory Board**, please refer to the Research and Development section in Other Intangible Assets. p. 77

Innovative **technology acquisitions** are another key component for gaining expertise. Further information about the corporate structure, M&A strategy and the Company's own venture capital program can be found in Fundamental Aspects of the Group. In addition, Software AG legally protects its knowledge and expertise with **patents**. Details on Software AG's patent practices are covered under Legal Risks in the Key Individual Risks and Opportunities section of the Opportunity and Risk Report. p. 117

A security system based on OpenSAMM ensures the security of software development. Maintaining common security processes even during development is a guarantee for a robust software security. Furthermore, the Company contracts with external security consultants that inspect the software for weak points to continually improve its security. In Germany, R&D also collaborates with the Fraunhofer Institute for Secure Information Technology (SIT) on the process aspects of secure software development.

R&D performance indicators

Software AG performs an **ongoing breakeven analysis for products** in the R&D unit as part of this process and optimizes its innovative power by combining technological acquisitions and in-house solutions.

With the **Customer Value Navigator**, Software AG is making use of a tool based on its own technology for analyzing concluded customer contracts. The findings regularly yield new knowledge that can help R&D and Sales in particular to optimize the value that Software AG's product portfolio adds for its customers.

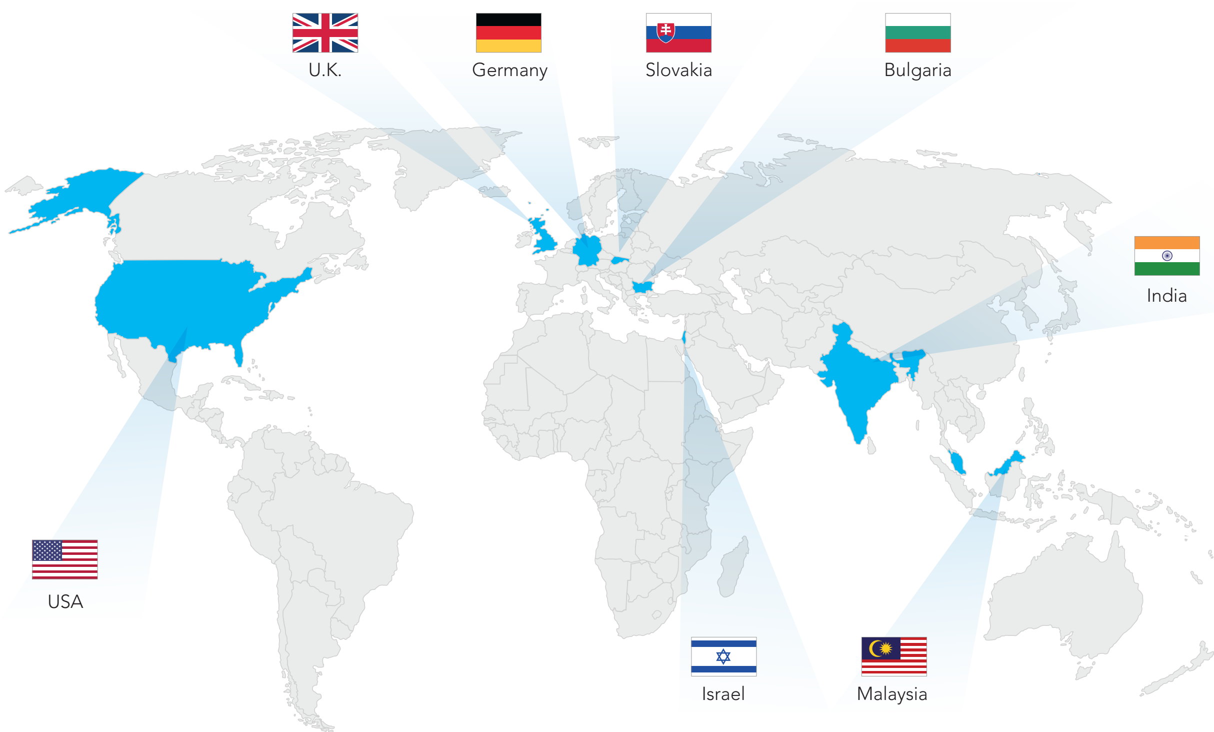
Employees and results

Thanks to its intensive R&D activities, Software AG has always been a pioneer and innovation leader in the software industry. The Company set a new standard with its first Digital Business Platform in late 2014 and is working continuously on developing its product portfolio. In 2017, Software AG released comprehensive product updates and focused intently on IoT, a substantial growth area.

Considering the strategic importance of R&D for the Group, the number of employees in this area has been growing accordingly since 2014 and reached a record high of 1,176 employees in 2017. A detailed breakdown of the Company's earnings in fiscal year 2017 as well as multi-period earnings summaries on employee numbers and expenses can be found in the Research and Development (R&D) section in the Economic Report. p. 77

Software AG has R&D centers in the following countries:

R&D Locations



ECONOMIC REPORT

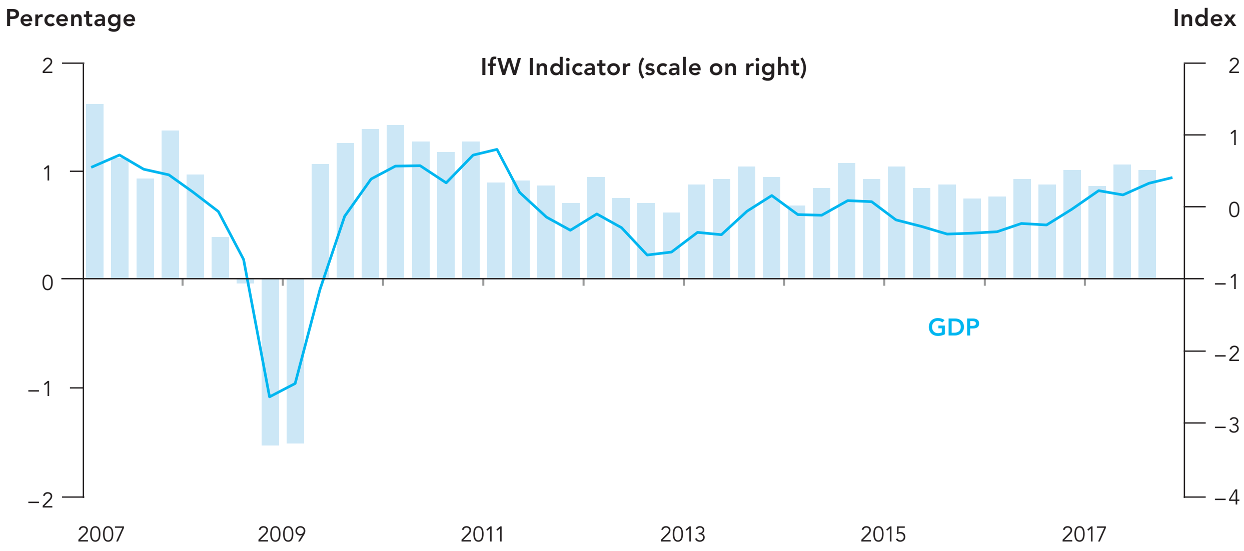
Business Summary

General economic conditions

Expansion of the global economy picked up with considerable speed in 2017 after having bottomed out in 2016. According to the Institute for the World Economy in Kiel, Germany (IfW), nearly all major national economies began their upward trajectory at the same point in time. The USA's gross domestic product grew 0.8 percent in both the second and third quarters respectively. The main forces behind this growth were increased investments and continued household demand. For the year as a whole, the U.S. economy gained 2.3 percent (2016: 1.5 percent).* **The eurozone economy** was fueled by internal forces. According to IfW, the economies of all eurozone countries were on an upswing at the end of 2017. The eurozone's GDP grew 2.4 percent (2016: 1.8 percent)* in the year under review. Operating well over normal capacity, the **German economy** was rapidly approaching an economic boom in 2017. According to IfW, Germany's GDP grew 2.3 percent (2016: 1.9 percent)* in the year under review. **Emerging economies** continued to solidify during the course of 2017. This trend was bolstered by the high price of raw materials and the robust economies in other countries. Less restrictive monetary policy in Latin America was also a factor. Expansion stayed strong throughout Asia. On the whole, average annual global economic output for 2017 grew 3.8 percent (2016: 3.1 percent).*

* Sources: Institute for the World Economy in Kiel, Germany (IfW), Economic Reports, Global Economy in Winter 2017 No. 37 (2017|Q4), Dec. 13, 2017; Institute for the World Economy in Kiel, Germany (IfW), Economic Reports, German Economy in Winter 2017 No. 38 (2017|Q4), Dec. 13, 2017

Global Economic Activity From 2007–2017



Quarterly data; seasonally adjusted; indicator calculated based on sentiment index in 42 countries; GDB: adjusted for price, change re. previous quarter.

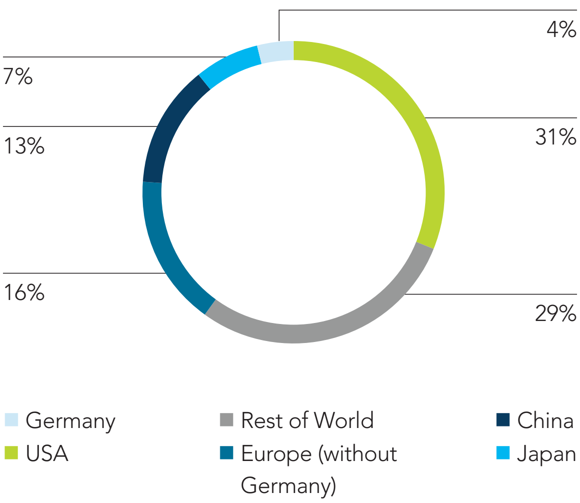
Source: Institute for the World Economy in Kiel, Germany (IfW), Economic Reports, German Economy in Winter 2017 No. 37 (2017|Q4), Dec. 13, 2017

Sector-specific conditions

The IT market was extremely stable in 2017. U.S.-based market research firm Gartner estimates that worldwide IT spending totaled $3.5 trillion in 2017. Software AG's market segments, in contrast, demonstrated growth. Spending for enterprise software was up 8.5 percent to $354 billion; the IT services market segment grew 4 percent to $931 billion.

The European Information Technology Observatory (EITO) expects growth rates, estimating worldwide sales in information and communication technology (ICT) products and services at €3.2 trillion (2016: €3.1 trillion) in 2017, which is 3.3 percent above the previous year. The USA continues to generate the largest share in global sales of ICT products and services accounting for €979 billion. According to EITO, emerging economies are the key growth engines of digitalization. According to the German Association of Information, Telecommunications and New Media (Bitkom), EITO estimates that revenue in the ICT sector in Germany climbed to €161 billion (2016: €158 billion) for the first time, reflecting 1.9 percent year-on-year growth. Information technology demonstrated the largest expansion and absolute market volume with sales at €56 billion and 3.4 percent growth.

The ICT Market : 2017 Revenue Shares by Country/Region



Note: ICT revenue does not include consumer electronics, business consulting or BPO

Source: EITO, IDC

Key events affecting business performance

Software AG expanded its technological expertise in the highly relevant Internet of Things (IoT) market with its acquisition of Cumulocity GmbH, Düsseldorf (Germany) in March 2017. Cumulocity provides a cloud platform for integrating networked devices. The integration of these solutions into Software AG's DBP portfolio means customers can connect their IT applications with operational IoT devices even faster.

Software AG's Management Board was expanded to include a fifth member as of April 1, 2017. With the appointment of Dr. Stefan Sigg as the new Chief Research & Development Officer (CRDO), Software AG will better address the rapidly growing market for new digital solutions. Dr. Sigg will drive product innovation in the fields of IoT, real-time analytics, process and interface management as well as data integration through intensive Research & Development activities. The objective is to unite relevant market developments and customer requirements within the product portfolio and further strengthen Software AG's innovative power.

Developments in the key Industry 4.0 and IoT growth markets engaged organizations across all industries in fiscal 2017. IoT gained an especially high degree of attention in industry. The Industrial Internet of Things (IIoT) was developed by manufacturing companies to meet the specific needs of their sector. Software AG was able to position itself in these growth markets exceptionally well and entered several strategic partnerships during the year. In April 2017 Software AG announced an IoT partnership Dürr AG.

Subsequently, the two companies joined forces with three additional partners—Zeiss, DMG MORI and ASM PT—to launch ADAMOS (ADAptive Manufacturing Open Solutions) on October 1, 2017. This is a strategic alliance between equal partners to address the relevant topics of Industry 4.0 and IIoT. Their goal is to establish the vendor-neutral and open ADAMOS platform as a global industry standard. This unites Software AG's cross-sector core competency with the expertise of global market leaders in mechanical and plant engineering. A strategic partnership between Software AG and Siemens AG was announced at the end of 2017. This alliance means Software AG's highly scalable DBP components are now available across industries on the Siemens MindSphere IoT operating system.

Management's general statement on business performance and financial position

IoT and Industry 4.0 were among the most influential factors of the 2017 fiscal year. Software AG's acquisition of Cumulocity opened up access to a new growth market. In an extremely short amount of time, we signed strategic IoT and Industry 4.0 partnerships with leading companies including Siemens and Deutsche Telekom in Germany, KPN in Holland, Telstra in Australia and many more. Furthermore, we launched ADAMOS, a cloud-based IIoT platform that sets a new digital standard for mechanical engineering. These early successes confirm the relevance of our technology-leading software portfolio and give us momentum to accelerate. In addition to our multiple prize winning DBP technology, Cumulocity IoT and its excellent device and platform management capabilities also became part of our offering through the acquisition.

Our head start with IoT also clearly lays the foundation for dynamic growth in the future. Our revenue will further grow with the number of connected devices and data volume transferred and/or with each data transaction via the cloud. We generated €15 million in revenue in the high-growth IoT/cloud segment in 2017. We want to outperform the market and capture additional market share in 2018. Gartner and McKinsey both predict growth of 30 percent in the IoT/Industry 4.0 market segment in 2018. We anticipate 70 to 100 percent growth in our IoT business. Consequently, we decided to report revenue for this market separately starting in 2018.

In 2017 we also successfully expanded our DBP segment—with a strong acceleration for our cloud business. We maintained stability in our Adabas & Natural (A&N) customer base and significantly grew profitability and increased the number of Software AG employees from 4,471 (Dec. 31, 2016) to 4,596 (Dec. 31, 2017).

The percentage of total revenue attributable to our future-oriented **DBP** business line continued to rise. Fueled by record earnings in the fourth quarter of 2017, DBP product license revenue went up 3 percent at constant currency. Accounting for 51.8 percent of total revenue, the DBP business is now approximately twice as large as the A&N business line (25.5 percent).

With regard to A&N, it is important to note that the whole market for traditional database software for mainframes is in decline due to its maturity and saturation. We have therefore been projecting a gradual decline in this business for some years. In line with this assumption and our guidance, our second business line, **A&N**, went down a slight 4 percent year-on-year. This moderate decline emphasizes the continuous stability of our traditional business line and loyalty of our A&N customer base. This is largely thanks to our commitment to protect our customers' investment through continued maintenance of our A&N technology beyond 2050 and modernization of their IT architectures by combining the A&N and DBP portfolios.

Our Consulting business also performed well. As planned, **Consulting** revenue increased moderately in 2017, and its segment margin went up to 11.9 percent, which is above the industry average. These results illustrate that our Global Consulting Services strategy to focus on high-value consulting and services for Software AG's own products is bearing fruit.

Due to our successful business performance and strong project pipeline, we raised our operating profit margin guidance for 2017 to between 31.0 and 32.0 percent (previously 30.5 to 31.5 percent) mid-year. We nearly achieved the top of that range with a record-breaking 31.8 percent. An additional indication of our successful strategy implementation was Software AG's share price performance, which continued to gain during all 12 months and peaked at an all-time year-end high at €47.54. Factors bolstering this positive trend were our overall profitable growth, the growth in the digital business and our strong momentum in IoT—including the launch of ADAMOS.

Encouraged by last year's performance, we are optimistic about the future. After having laid the foundation for dynamic, profitable growth with IoT and Industry 4.0 in 2017, our goal for 2018 is to further accelerate and gain markets. Sanjay Brahmawar, Software AG's new CEO whose term is expected to begin in August, will bring new impetus in that regard, thanks to his background in IoT and AI. We also hope to expand our technology leadership in IoT and reach another milestone on the course to global leadership of the digital business platform market in 2018. For more information on our forecast for 2018, please refer to the Outlook section. p. 137

Comparison of actual performance with forecast issued last year

Please note that revenue forecasts are at constant currency. Earnings targets, however, are not adjusted for currency effects, acquisition or restructuring-related expenses or short-term effects that arise during the course of the year, all of which are unforeseeable.

Software AG communicated the following forecast for fiscal 2017 with the release of its 2016 consolidated results on January 26, 2017:

- Based on its market-leading product portfolio, the growing demand for Software AG technology and its excellent financial basis, the Company predicted DBP revenue growth between 5 and 10 percent at constant currency in fiscal year 2017.

- The Company projected a decline in the A&N business line at constant currency between 2 and 6 percent year-on-year.

- Furthermore, the Company forecast a high EBITA margin (non-IFRS) between 30.5 and 31.5 percent.

The Management Board confirmed this guidance with the release of the first-quarter financial results on April 21, 2017.

Following the end of the second quarter, Software AG raised its guidance for the full 2017 fiscal year on July 18, 2017 and published the increased operating profit margin target in an ad hoc statement that same day. Based on increased profitability in the second quarter, business development in the first half of 2017 and a strong project pipeline for the next six months, the Management Board communicated the following guidance:

- An increased operating profit margin (EBITA, non-IFRS) between 31.0 and 32.0 percent (previously 30.5 to 31.5 percent);

- Growth in Digital Business Platform (DBP) revenue between 5 and 10 percent at constant currency (unchanged);

- An unchanged revenue target for the Adabas & Natural (A&N) database business line between −2 and −6 percent (at constant currency) (unchanged).

Software AG posted the following results for the 2017 fiscal year:

- Operating profit margin (EBITA, non-IFRS) rose to 31.8 percent (2016: 31.2 percent), hitting the upper end of the target range raised mid-year. The achieved operating profit margin (EBITA, non-IFRS) exceeded the upper end of the target range announced at the beginning of the year by 30 basis points.

- The DBP line posted €455.4 million (2016: €441.4 million) in revenue in 2017, which is 5 percent growth year-on-year and at constant currency. This figure thus hit the low end of the projected range for growth between 5 and 10 percent.

- The A&N line generated €223.7 million (2017: €234.6 million) in fiscal 2017, which reflects a 4 percent decrease compared to last year at constant currency. This result is exactly mid projected range.

- At €199.9 million (2016: €195.9 million), the Consulting segment posted 2 percent growth year-on-year, both in absolute terms and at constant currency. The goal to achieve low single-digit growth, which was published in 2016, was thus achieved.

These results meet Software AG's raised guidance for the year 2017 and bring the Company a significant step forward in reaching its medium-term objective of an operating margin between 32.0 and 35.0 percent by 2020.

Financial Performance

Revenue

Software AG met all its targets in in fiscal 2017 increasing revenue and overall profitability. All Software AG business lines demonstrated especially strong growth (at constant currency) in the fourth quarter with a 7 percent increase in Group revenue. Group revenue for the full fiscal year grew 1 percent, or 2 percent at constant currency, to €879.0 million.

The percentage of total revenue attributable to the future-oriented Digital Business Platform (DBP) line continued to rise. DBP revenue was up 3 percent, or 5 percent at constant currency, to €455.4 million (2016: €441.4 million). As projected, the Adabas & Natural (A&N) business line generated €223.7 million (2016: €234.6 million) in revenue, reflecting 4 percent growth year-on-year at constant currency.

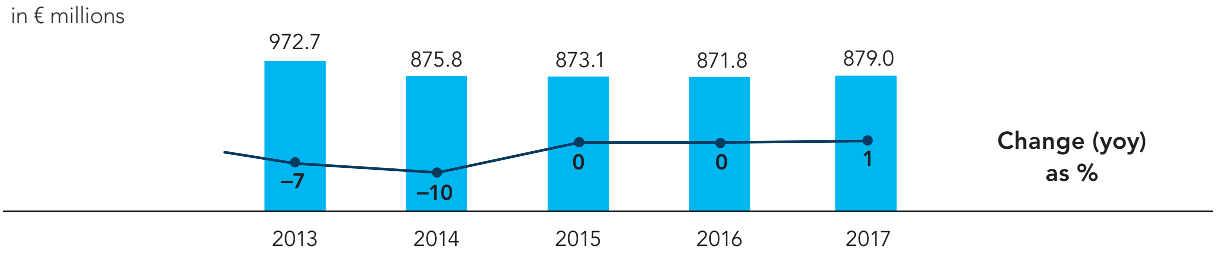
New strategic Internet of Things (IoT) partnerships in 2017 laid the foundation for scalable and dynamic growth. Accordingly, Software AG will report its IoT and cloud revenues separately starting in 2018.

Currency impact on revenue

Currency translation had a less significant impact on Software AG's revenue in fiscal 2017 than in 2016. The negative impact on Group revenue totaled €10.0 million in the year under review. This result was primarily due to the strengthened euro against the U.S. dollar, which is the most important currency for the Company after the euro.

The largest percentage of Software AG's global revenue was again generated in euros (EUR), at 34 percent (2016: 33 percent). That is followed by the U.S. dollar (USD) at 31 percent (2016: 32 percent). The next largest shares of revenue generated in foreign currencies were 6 percent (2016: 7 percent) in pound sterling (GBP) and, like last year, 4 percent respectively in Brazilian real (BRL) and Israeli shekel (ILS). The share of revenue in Australian dollars (AUD) and South African (ZAR) rand stayed at 3 percent respectively. Other currencies accounted for the remaining 15 percent (2016: 14 percent) of revenue. The broad distribution of currency share reflects Software AG's highly global focus.

Five-Year Revenue Performance



Quarterly Revenue

	Q1		Q2		Q3		Q4	
in € millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Group revenue	205.9	206.2	207.4	203.4	197.3	198.3	268.4	263.4
as % of total annual revenue	23	24	24	23	22	23	31	30

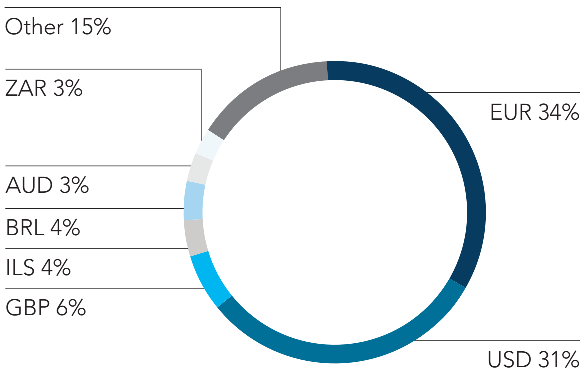
Exchange rates had varying effects on the three types of revenue. License revenue felt the strongest impact at €7.2 million (−3 percent), which was notably higher than the year before. The impact of exchange rates on maintenance revenue, in contrast, was €2.2 million (−1 percent). And, the negative effect on services was only €0.6 million (0 percent).

Currency Impact on Revenue

in € millions	2017	as %
Licenses	−7.2	−3
Maintenance	−2.2	−1
Consulting and other	−0.6	0
Total	**−10.0**	**−1**

2017 Currency Split

34% revenue in euros
66% revenue in foreign currency



Sales by revenue type

Software AG's Group revenue includes product revenue—consisting of license and maintenance sales—and consulting revenue. Product revenue was €678.3 million (2016: €675.2 million) in fiscal 2017, which is 2 percent growth at constant currency. As a percentage of total revenue, product revenue approximated its high level from the year before at 77.2 percent. License revenue, consisting of Software AG's DBP and A&N products, was down slightly year-on-year at €256.7 million (2016: €263.0 million).

Maintenance revenue in the two product lines rose to €421.6 million (2016: €412.2 million) in the period under review. This represents a 3 percent increase at constant currency. The high-margin maintenance share of total revenue increased to 48.0 percent (2016: 47.3 percent). This is a result of Software AG's dedicated focus on repeat high-margin and profitable income.

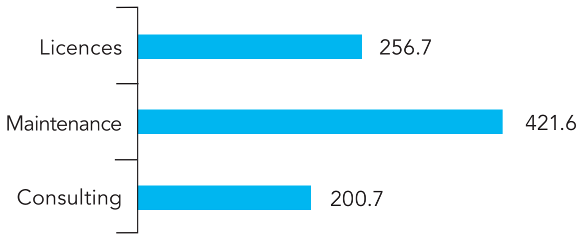
Consulting revenue, which refers solely to projects associated with Software AG's own products, rose to €198.8 million (2016: €195.2 million) in the year under review (not including other income). This result is a consequence of Software AG's strategic decision to focus more intensively on high-quality consulting and profitability and less on rapid growth.

Sales by Revenue Type

in € millions	2017	2016
Licenses	256.7	263.0
Maintenance	421.6	412.2
Consulting	200.7	196.6
Total	**879.0**	**871.8**

2017 Sales by Revenue Type

in € millions



Product revenue by region

Software AG's global product revenue is divided into three regions:

The **Americas** (North and South America) is Software AG's biggest single market, delivering the highest revenue and earnings to the Group. This ever-important region for Software AG generated €314.6 million (2016: €323.1 million) in 2017, which translates to 46 percent (2016: 48 percent), or nearly half, of product revenue. As expected, broken down by country, the USA accounted for the largest share of revenue, followed by Brazil and Canada.

EMEA (Europe, Middle East and Africa) increased its revenues to €309.3 million (2016: €295.7 million) and thus its share of global product revenue to 46 percent (2016: 44 percent). EMEA's most important single markets are **Germany**—the largest contributor of revenue—the United Kingdom, France, South Africa, the Iberian Peninsula and Benelux. Germany alone accounted for €90.1 million (2016: €88.4 million), or 13 percent (2016: 13 percent) of product revenue.

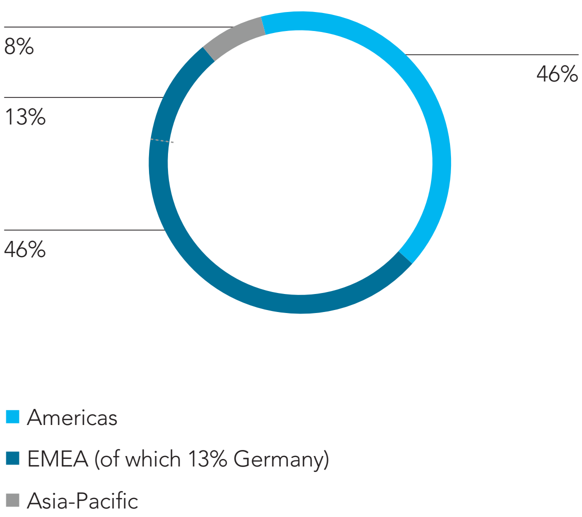
Asia-Pacific (**APJ**; Australia, Japan, Asia and China) was stable at last year's strong €51.0 million (2016: 51.5 million) in 2017 and accounted for 8 percent (2016: 8 percent) of Group product revenue. Australia was this region's top performer.

Regional distribution will be adjusted as of January 1, 2018 as described in Sales Markets in the section on Market Positioning in Fundamental Aspects of the Group. p. 40

Product revenue by industry

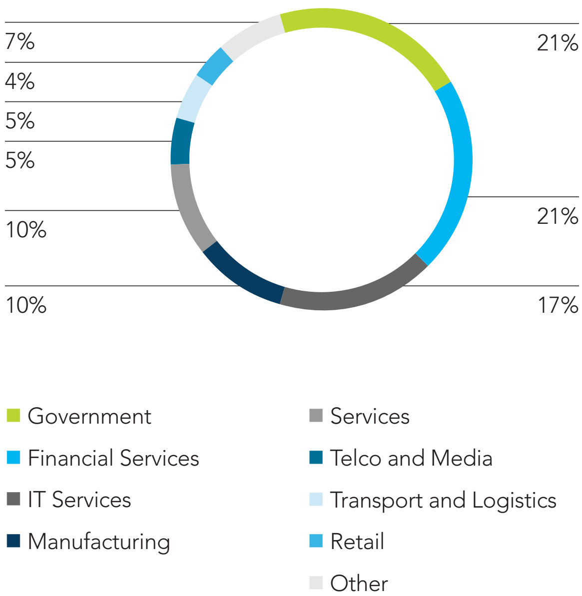
Thanks to a continuously expanding, extremely loyal customer base including many big names from all industries, Software AG is well established in the public, financial and IT (including outsourcing) sectors. These sectors together accounted for over half, or 59 percent, of Group revenue. Based on revenue volume, the following sectors followed: manufacturing (10 percent), services (10 percent), telecommunications and media (5 percent), transport and logistics (5 percent), commerce (4 percent) and other sectors (7 percent).

Product Revenue by Region*



* Based on product revenue in 2017 by management approach (contracts can be distributed across multiple countries/regions).

Product Revenue by Industry*



* Based on product revenue in 2017

Order intake

p. 48

As described in Fundamental Aspects of the Group, order backlog in Consulting is an especially important company-specific early warning indicator. Software AG's order backlog as of December 31, 2017 demonstrated stability and thus supports the expected growth stability for the following period. Accordingly, at the end of 2017 the forward order book (order backlog/revenue * 365 days) was four to five months (2016: four to five months).

Order intake for products with perpetual licenses play a minimal role, because new orders usually lead to immediate revenue. New orders in maintenance renewal, maintenance agreements and product subscriptions (Software as a Service) are not a separate performance indicator for the Group. They are managed in line with the Consulting business via resulting order backlog performance. The order backlog for these product revenue components in 2016 showed a single-digit growth rate year-on-year. The forward order book is not calculated for the entire product business. It is not a reliable measure due to the heterogeneity of the various components (perpetual licenses, maintenance renewal, maintenance agreements and subscriptions).

Performance of key items on the income statement and cost structure

Software AG's cost of sales grew at a slightly slower rate than revenue in fiscal 2017 to total €213.3 million (2016: €211.9 million). Gross profit thus rose 1 percent to total €665.6 million (2016: €660.0 million). The gross profit margin as a percentage of Group revenue therefore held last year's excellent 75.7 percent. The strong fourth quarter of 2017 had a particularly positive impact on full-year earnings; Software AG's fourth quarter gross profit margin soared to 78.4 percent. The key factors involved in the continued high profitability were Software AG's focus on efficiency in all areas of the Company—particularly in Sales—the high ratio of product revenue to total revenue, the increased volume of extremely profitable recurring maintenance revenues, the continuing high profit margin in the traditional A&N line and the improved margin in Consulting.

To further secure Software AG's technology leadership in the dynamic digital market, expenses for R&D were raised 7 percent to €120.6 million (2016: €112.5 million). R&D expenses as a percentage of product revenue (licenses and maintenance) increased from 17 percent the year before to 18 percent in the year under review. This increase was primarily related to R&D investments in the amount of €96.9 million (2016: €89.9 million) in the rapidly growing DBP segment. An additional reason for the rise in R&D expenditures was the strategy introduced at the end of 2016 to continue developing and supporting the A&N database business through 2050 and beyond. Most recently, the Adabas & Natural 2050+ innovation program led to a major rise in fourth-quarter A&N product revenue. Expenditures for near and offshore capacities—mainly staffing in India—went up. This measure was intended for the purpose of striking a good balance between costs and global service quality.

Sales, marketing and distribution expenses were down slightly year-on-year at €243.5 million (2016: €245.7 million) in the year under review. These expenses as a percentage of total revenue thus decreased to 27.7 percent (2016: 28.2 percent). This positive trend illustrates that the conditions for increasing sales efficiency have been met in recent years. All customer-related activities were consolidated, and the go-to-market strategy was realigned under the Chief Customer Officer. Sales efficiency remains a key operating performance indicator for the management of Software AG.

General and administrative expenses went down a notable 4 percent year-on-year to €75.9 million (2016: €79.3 million). General and administrative expenses as a percentage of total revenue decreased to 8.6 percent (2015: 9.1 percent).

2017 Income Statement

in € millions	2017	2016	Δ as %	Δ as % acc*
Licenses	256.7	263.0	–2	0
Maintenance	421.6	412.2	2	3
Services	198.8	195.2	2	2
Other	1.9	1.4	36	32
Total revenue	**879.0**	**871.8**	**1**	**2**
Cost of sales	–213.4	–211.8	1	
Gross profit	**665.6**	**660.0**	**1**	
R&D expenses	–120.6	–112.5	7	
Sales, marketing and distribution expenses	–243.5	–245.7	–1	
General and administrative expenses	–75.9	–79.3	–4	
Other taxes	–7.2	–5.5	31	
Operating earnings	**218.4**	**217.0**	**1**	
Other income/expense, net	–2.8	–8.6	–67	
Financial income/expense, net	1.5	–4.4	–134	
Earnings before income taxes	**217.1**	**204.0**	**6**	
Income taxes	–76.5	–63.6	20	
Net income	**140.6**	**140.4**	**0**	
thereof attributable to shareholders of Software AG	**140.3**	**140.2**	**0**	
thereof attributable to non-controlling interests	**0.3**	**0.2**	**34**	
Earnings per share in € (basic)	1.88	1.84	2	
Earnings per share in € (diluted)	1.88	1.84	2	
Weighted average number of shares outstanding (basic)	74,645,119	76,231,631	–2	
Weighted average number of shares outstanding (diluted)	74,649,890	76,254,712	–2	

* acc = At constant currency

Earnings performance

Software AG's operating income (IFRS) increased in fiscal 2017 to €218.4 million (2016: €217.0 million). The operating margin held last year's strong level at 24.8 percent. The main factors behind the robust operating earnings were the high-margin product revenue, accounting for 77.2 percent of total revenue, the ongoing strength of the very profitable A&N business, and the improved Consulting earnings—supplemented by efficiency in sales and all central processes thanks to active cost management.

Despite increased R&D investments, EBIT (net income plus income taxes plus other taxes plus net financial income/expense) went up in fiscal 2017 to €222.8 million (2016: €213.9 million). This was propelled by strong earnings in the last quarter of the year. EBIT climbed to €82.7 million (2016: €75.1 million) in the fourth quarter of 2017, breaking an all-time quarterly record for Software AG. The EBIT margin also soared 230 basis points to an all-time high of 30.8 percent (2016: 28.5 percent) in the fourth quarter.

Other net income fell to €2.8 million (2016: €8.6 million), primarily due to decreased litigation expenses. Net financial income improved significantly from -€4.4 million in 2016 to €1.5 million in fiscal 2017. This significant year-on-year improvement is due in part to the fact that Software AG's net financial income had suffered negatively from the extraordinary effect of interest expenses in 2016 in the amount of €2.6 million related to a ruling in an appeal case in the USA. Other positive factors in fiscal 2017 were the reduced annual average credit volume and improved financing terms on loans, which pushed interest expenses down €2.1 million.

Accordingly, earnings before income taxes went up 6 percent to €217.1 million (2016: €204.0 million). Income taxes went up 20 percent to €76.5 million (2016: €63.6 million), which is an exceptionally substantial rise. The increase was due to a negative one-time effect in fiscal 2017 resulting from the tax reform rolled out in the USA in December 2017 and extremely high tax burden on license revenue still in place there in the year under review. The new tax legislation will reduce taxes considerably on corporate earnings in the USA. This will have a positive effect on Software AG's business results starting in 2018 and will in all likelihood over compensate for the negative effect in the current fiscal year. For more details, please refer to the Outlook section. As a result, the effective tax rate saw a one-time rise to 35.2 percent (2016: 31.2 percent). p. 137

At €140.6 million, net income held last year's level nonetheless. Accordingly, there was a 2 percent increase in earnings per share (basic) to €1.88 (2016: €1.84) after the number of shares decreased due to a share buyback program.

2017 Earnings

in € millions	2017	2016	Δ as %
Total revenue	**879.0**	**871.8**	**1**
Cost of sales	–213.4	–211.8	1
Gross profit	**665.6**	**660.0**	**1**
Margin as %	75.7	75.7	—
R&D expenses	–120.6	–112.5	7
Sales, marketing and distribution expenses	–243.5	–245.7	–1
General and administrative expenses	–75.9	–79.3	–4
Other income/expense (net)	–2.8	–8.6	67
EBIT	**222.8**	**213.9**	**4**
Margin as %	25.3	24.5	—

Appropriation of profits

Software AG adheres to a sustainable dividend policy, which is geared toward long-term development and value orientation of the Company. This strategy will be pursued further in the interest of solid shareholder relations. The Management Board and Supervisory Board will therefore propose a dividend in the amount of €0.65 per share at the Annual Shareholders' Meeting on May 30, 2018 for fiscal year 2017. Last year, the dividend was raised by 10 percent to €0.60 per share. Subject to the approval of the Annual Shareholders' Meeting and assuming 74.6 million (2016: 76.2 million) dividend-bearing shares outstanding, this would be a total payout sum of €48.1 million (2016: €44.3 million). Based on the closing share price in 2017 (Xetra closing price on December 29, 2017: €46.86/2016: €34.49), this proposal is equal to a dividend yield of about 1.39 percent (2016: 1.74 percent).

Dividend Development Since 2008

in € per share

* Adjusted for 1:3 stock split, rounded
** Dividend proposal, subject to shareholder approval in May 2018

Software AG's Management Board resolved in 2015 to increase the dividend ratio range to 25 to 33 percent of the averaged net income (attributable to shareholders of Software AG) and free cash flow. Based on average free cash flow (€161.9 million / 2016: €187.0 million) and net income (€140.6 million / 2016: €140.4 million) of €151.1 million (2016: €163.6 million) in fiscal 2017, the dividend ratio would equal 31.8 percent (2016: 28.0 percent). This consistent dividend policy stands for the Company's unequivocal commitment to stability and value and will continue in upcoming years.

Additional earnings performance indicators

In order to improve the comparability of Software AG with competitors (primarily in the U.S.) which do not use IFRS accounting standards, Software AG also reports non-IFRS performance indicators (for more information, please refer to Internal Corporate Control System at the beginning of this Management Report.) p. 46

These performance indicators are as follows:

Operating Earnings per Share (non-IFRS)

in € millions	2017	2016
Earnings before income taxes	**217.1**	**204.0**
Other taxes	7.2	5.5
Financing income	–10.1	–9.9
Financing expenses	8.6	14.3
Net financial income/expense	–1.5	4.4
EBIT (before all taxes)	**222.8**	**213.9**
+ Acquisition-related depreciation of intangible assets	29.6	29.1
+ Acquisition-related decreases in product revenue due to purchase price allocations	0.4	0.0
+/- Other acquisition-related effects on earnings	1.3	3.0
+/- Income/expense resulting from share price-based remuneration	20.7	14.2
+ Restructuring/severance/ litigation	4.7	11.8
EBITA (non-IFRS)*	**279.5**	**272.0**
as % of revenue (non-IFRS)	**31.8**	**31.2**
Net financial income/expense	1.5	–4.4
Other taxes	–7.2	–5.5
Earnings before income taxes	273.8	262.1
Income taxes (FY 2017: 35.2%; FY 2016: 31.2%)*	–96.5	–81.7
Net income (non-IFRS)	177.3	180.4
Earnings per share (non-IFRS)**	**€2.38**	**€2.37**
Average number of shares outstanding (No.)	74.6 mn	76.2 mn

* Income tax rates shown are equal to the actual rates for fiscal 2017 and 2016.

Operating profit margin (EBITA, non-IFRS) is Software AG's key performance indicator for monitoring profitability. EBITA (non-IFRS) went up 3 percent to €279.5 million (2016: €272.0 million) in fiscal 2017. There was a one-time effect resulting from increased expenses for share-based compensation in the amount of €20.7 million (2016: €14.7 million). Because these expenses were estimated at the full amount in the year under review, this effect will have a reverse, positive effect in 2018. In contrast, last year's high figure for restructuring, severance payments and, above all, litigation decreased significantly to €4.7 million (2016: €11.8 million).

Software AG's operating profit margin (EBITA, non-IFRS) based on Group revenue rose 60 basis points to 31.8 percent (2016: 31.2 percent)—a new all-time high for the Company. The operating margin was thus higher than expected at the beginning of 2017, hitting the top of the range that had been raised during the year. This substantial improvement in operating income has solidified Software AG's financial foundation for further strategic development of its business.

Net income (non-IFRS) was €177.3 million (2016: €180.4 million). Accordingly, earnings per share (non-IFRS) based on the average number of shares outstanding (basic) in the amount of 74.6 million (2016: 76.2 million) were €2.38 (2016: €2.37). The number of shares was decreased with a share buyback program.

Multi-Period Earnings Summary

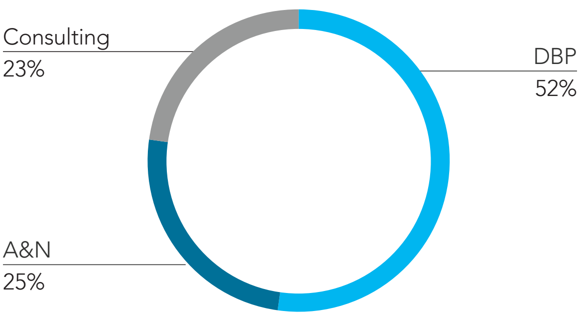
in € millions	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total revenue	**879.0**	**871.8**	**873.1**	**857.8**	**972.7**	**1,047.3**	**1,098.3**	**1,119.5**	**847.4**	**720.6**
thereof product revenue	678.3	675.2	678.8	641.4	707.5	712.2	673.9	696.8	580.5	539.0
EBIT (before all taxes)	**222.8**	**213.9**	**209.4**	**176.0**	**205.5**	**248.3**	**296.2**	**268.6**	**218.2**	**180.5**
as % of total revenue	25.3	24.5	24.0	20.5	21.1	23.7	27.0	24.0	25.8	25.0
Net income	**140.6**	**140.4**	**139.6**	**110.6**	**134.0**	**164.7**	**177.2**	**175.6**	**140.8**	**115.9**
as % of total revenue	16.0	16.1	16.0	12.9	13.8	15.7	16.1	15.7	16.6	16.1

Segment reporting

Software AG's business operations are divided into three segments: Digital Business Platform (DBP), Adabas & Natural (A&N) and Consulting.

The high-growth DBP segment consists of a future-oriented product platform for customers' digital transformation. It accounted for more than half of total revenue. DBP's share of revenue rose to 51.8 percent (2016: 50.6 percent)—confirmation of the high business and market relevance of this future-oriented business line. The percentage of revenue from the traditional A&N is expected to decrease gradually. It was 25.4 percent (2016: 26.9 percent) in 2017. The percentage of Consulting revenue went up slightly to 22.7 percent (2016: 22.5 percent) due to its focus on quality projects.

Revenue Split



2017	in € mn	as %
Total revenue	**879.0**	**100**
DBP	**455.4**	**52**
A&N	**223.7**	**25**
Consulting	**199.9**	**23**

Digital Business Platform (DBP)

All Software AG products for enterprise digital transformation are part of the DBP business segment. This segment generated €455.4 million (2016: €441.4 million) in total revenue with its integration and process management software and IT management, cloud and IoT solutions. This reflects 5 percent growth at constant currency. The DBP segment thus performed on target.

The DBP segment's license and maintenance sales demonstrated growth during the year. Fueled by record-earnings in the fourth quarter of 2017, license sales from DBP products posted an increase at €186.9 million (2016: €186.3 million) in fiscal 2017. This reflects 0 percent growth, or 3 percent at constant currency. At €144.7 million in quarterly revenue, Software AG concluded its most successful quarter in history in its digital business line. This confirms the growing relevance of the DBP business. At €186.9 million (2016: €186.3 million), license revenue remained stable year-on-year. At constant currency, this is a 3 percent increase. Maintenance revenue was up 5 percent, or 6 percent at constant currency. Software AG's cloud and IoT revenue went up significantly, as did the number of new projects. Due to the strategic significance of future-oriented cloud and IoT topics, revenue will be reported as a separate part of DBP business.

DBP maintenance revenue increased to €268.5 million (2016: €255.1 million). This is one result of long-term DBP license agreements signed in previous years that bring recurring, highly profitable maintenance revenue. Increasing maintenance revenue reflects Software AG's focus on the profitable sales of its own products and sustainable customer relationships.

DBP segment earnings went up to €150.9 million (2016: €147.8 million) in spite of higher R&D investments. The DBP segment margin was 33.1 percent (2016: 33.5 percent).

2017 Segment Report for the Digital Business Platform (DBP)

in € millions	2017	2016	Δ as %	Δ as % acc*
Licenses	186.9	186.3	0	3
Maintenance	268.5	255.1	5	6
Total revenue	**455.4**	**441.4**	**3**	**5**
Cost of sales	–33.3	–31.3	6	—
Gross profit	**422.1**	**410.1**	**3**	**—**
Sales, marketing and distribution expenses	–174.3	–172.4	1	—
R&D expenses	–96.9	–89.9	8	—
Segment earnings	**150.9**	**147.8**	**2**	**—**
Margin as %	**33.1**	**33.5**	**—**	**—**

* acc = At constant currency

Adabas & Natural (A&N)

Software AG's A&N product segment generated €223.7 million (2016: €234.6 million) in revenue, which is a 5 percent decline in fiscal 2017. This represents the 4 percent decrease at constant currency, which is exactly in the middle of the forecast range. The whole market for traditional database software for mainframes is in decline due to its maturity and saturation. So Software AG has been projecting a moderate decrease in this business for some years.

Full-year A&N licenses were down at €69.9 million (2016: €76.8 million). Fourth quarter 2017, however, showed growth at €37.6 million (2016: €29.4 million). A&N maintenance revenue for 2017 was €153.1 million (2016: €157.1 million). The fact that the decline in this traditional business slowed down reflects the loyalty of the A&N customer base, which continues to rely on Software AG's dependable technology to run their business-critical applications.

A&N segment earnings went down accordingly to €156.5 million (2016: €162.4 million). While the cost of sales and sales and marketing expenses dropped disproportionately, R&D investments went up. This was due to Software AG's announcement in late 2016 to continue development and support for the A&N portfolio beyond the year 2050. The Adabas & Natural 2050+ innovation program has had a positive impact since its introduction and will trigger new impetus for this segment in the medium term.

A&N's segment margin maintained the record-breaking 70 percent from the two years before. Because of the segment's outstanding performance at the end of the year, its margin reached 74.6 percent (2016: 66.9 percent) in the final quarter of 2017.

2017 Segment Report for Adabas & Natural (A&N)

in € millions	2017	2016	Δ as %	Δ as % acc*
Licenses	69.9	76.8	–9	–6
Maintenance	153.1	157.1	–3	–3
Product revenue	**223.0**	**233.9**	**–5**	**–4**
Other	0.7	0.7	0	–1
Total revenue	**223.7**	**234.6**	**–5**	**–4**
Cost of sales	–10.1	–11.7	–14	–
Gross profit	**213.6**	**222.9**	**–4**	**–**
Sales, marketing and distribution expenses	–33.3	–38.0	–12	–
R&D expenses	–23.8	–22.5	6	–
Segment earnings	**156.5**	**162.4**	**–4**	**–**
Margin as %	**70.0**	**69.2**	**–**	**–**

* acc = At constant currency

Consulting

The Consulting segment, focusing primarily on high-value consulting projects related to Software AG's own DBP and A&N products, posted increased revenue at €199.9 million (2016: €195.9 million) in 2017. Software AG's objectives for its Consulting business are profitability and high service quality rather than rapid growth. The Consulting line was thus able to support the sustainable success of the other two product-driven business lines.

Segment earnings continued to grow due to Consulting's high level of quality and profitability, reaching €23.8 million (2016: €20.8 million). This reflects above-average 14 percent growth following a decline for the segment the year before. The Consulting's segment margin was up at 11.9 percent (2016: 10.6 percent), which is very strong for the consulting market. This sustainable earnings improvement emphasizes the increasing relevance of Software AG's strategic consulting services for its customers. It also illustrates the success of the transformation of the Consulting business line.

2017 Segment Report for Consulting

in € millions	2017	2016	Δ as %	Δ as % acc*
Total revenue	**199.9**	**195.9**	**2**	**2**
Cost of sales	–156.9	–157.5	0	—
Gross profit	**43.0**	**38.4**	**12**	**—**
Sales, marketing and distribution expenses	–19.2	–17.6	9	—
Segment earnings	**23.8**	**20.8**	**14**	**—**
Margin as %	**11.9**	**10.6**	**—**	**—**

* acc = At constant currency

The Group's 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 fluctuations in capital market conditions. Software AG ensures the solvency of all subsidiaries in the Group through central liquidity management. 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. Software AG consistently minimizes its 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, controls internal allocation of currency positions and minimizes remaining balances using derivative financial instruments. In doing so, only existing balance sheet items or expected cash flows are hedged.

Financing analysis

Software AG's net liquidity as of December 31, 2017 was €55.2 million (2016: €73.1 million). Thanks to the strong free cash flow, this figure was achieved despite large investments for the acquisition of an IoT company (€44.6 million) and for the purchase of office premises (€17.3 million), the share buyback (€89.6 million) and the further increased dividend (€44.6 million). At €161.9 million, free cash flow was down €25.1 million or 13 percent from last year's record level. This change is primarily due to investments in office premises at corporate headquarters in Darmstadt.

Borrowing (net) totaled €25.4 million (2016: €38.0 million in net credit payments) in light of the attractive market climate. Payments included €89.6 million for share repurchases, €49.4 million (2016: €43.1 million) for acquisitions (net) and €44.6 million (2016: €42.1 million) for dividends.

Shareholders' equity was €1,118.3 million (2016: €1,196.8 million) at the end of fiscal 2017, which is 7 percent down year-on-year. Retained earnings were slightly up at €1,176.7 million (2016: €1,145.4 million), while other reserves were down at -€66.9 million (2016: €19.8 million). This was because of effects relating to the currency exchange differences of foreign operations. The value of treasury shares was €91.2 million (2016: €71.6 million). In addition, 2,326,892 treasury shares were repurchased in 2017, which reduced shareholders' equity by €89.6 million. Capital reserves approximated last year's level at €22.7 million (2016: €23.7 million).

Software AG's equity-to-assets ratio fell from 61.1 percent in 2016 to 58.6 in the year under review. This is still a strong

Multi-Period Financial Position Summary

in € millions	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	365.8	374.6	300.6	318.4	450.0	315.6	216.5
Current financial liabilities	210.3	101.5	113.0	110.8	208.3	58.7	37.5
Non-current financial liabilities	100.3	200.0	213.2	340.5	410.5	213.4	254.3
Net liquid assets/net debt	55.2	73.1	–25.7	–132.9	–168.8	43.5	–75.3
Equity	1,118.3	1,196.8	1,089.7	1,013.4	965.6	1,060.1	951.5
Equity ratio	59	61	60	55	48	60	57
Total assets	**1,907.5**	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**

figure despite the dividend payout and share repurchases. A redemption of 2,600,000 shares from previously repurchased shares reduced Software AG's share capital from 79,000,000 shares as of December 31, 2016 to 76,400,000 shares as of December 31, 2017.

Software AG used its high level of cash and cash equivalents in fiscal year 2017 to make one technology acquisition, which will further strengthen its innovation portfolio in the highly relevant IoT market and thus the Group's future organic growth.

Financing instruments

Software AG's financing is based largely on continued strong free cash flow. In addition, bank loans, promissory note loans, factoring and finance leasing models are used 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 variable interest rates and have remaining terms to maturity of no more than five years. Variable interest payments are based on the prevailing interest rate on the reporting date. Liabilities in foreign currency are calculated at the exchange rate valid on December 31, 2017.

Investment analysis

Capital expenditure for property, plant and equipment and intangible assets generally play a minor role at software companies such as Software AG. Nevertheless, in 2017 the considerable sum of €17.3 million was invested in the purchase of a building that Software AG had already been using for more than ten years near corporate headquarters in Darmstadt. That led to an increase in investments in property, plant and equipment to €25.4 million (2017: €12.7 million). This amount also includes operating and office equipment in Sales and R&D offices.

Liquidity analysis

Cash flow continued its robust performance in fiscal 2017. Net cash provided by operating activities was down 7 percent at €189.4 million (2016: €203.7 million). This is due to the significant rise in tax payments made in the current fiscal year as well as the change in deferred income. Further share-based remuneration payments were made and were accounted for in liabilities changes. Payments in 2016 for Management Incentive Plan (MIP) III as an optional compensation instrument, however, were recognized separately in the cash flow statement.

Software AG engaged in consistent receivables and cost management to keep cash flow high.

Cash outflows from investing activities increased 22 percent to €73.3 million compared to €60.0 million in 2016. The rise is due primarily to higher investments in property, plant and equipment related to the aforementioned purchase of office premises at corporate headquarters in Darmstadt. Furthermore, net payments in the amount of €49.4 million were made for the acquisition of IoT and cloud specialist Cumulocity GmbH in Düsseldorf (Germany) in 2017. Payments for several technology acquisitions the year before totaled €43.1 million.

Cash outflows from financing activities decreased 33 percent from €80.5 million in 2016 to €107.0 million 2017. While no treasury shares were bought back in 2016, Software AG spent €89.6 million for the repurchase of treasury shares and €1.7 million for using treasury shares to fulfill stock option plans in the year under review. €70.9 million (2016: €122.4 million) in non-current financial liabilities were paid back and €80 thousand (2016: €75.0 million) in new non-current financial liabilities were recognized. Proceeds from new current financial liabilities totaled €96.3 million (2016: €9.5 million). Software AG's total dividend payout increased to €44.6 million (2016: €42.1 million), because the dividend per share was raised from €0.55 in 2016 to €0.60 in fiscal 2017.

Free cash flow in the year under review was €161.9 million (2016: €187.0 million), which is 13.4 lower than in 2016. This is 18.4 percent of total Group revenue compared to 21.4 percent in 2016. The cash-conversion ratio (free cash flow to net income: €161.9/€140.6 million) was 115.1 percent (2016: 133.2 percent). Free cash flow per share was €2.17 (2016: €2.45). 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.

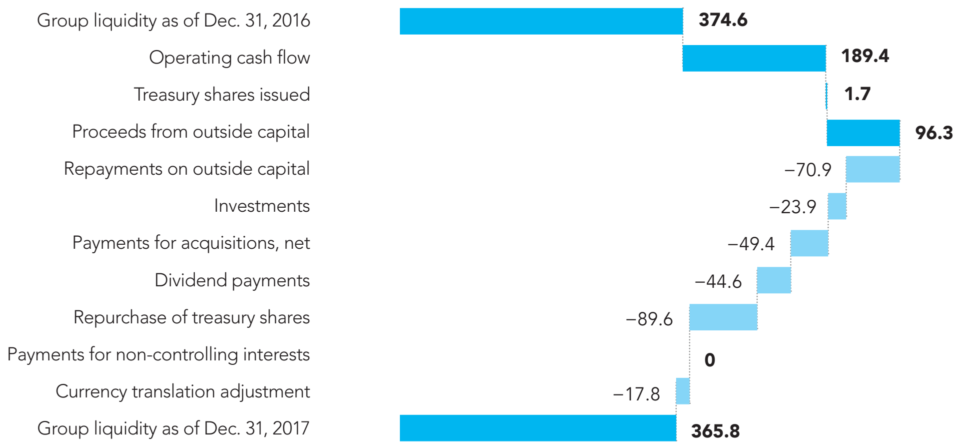
All in all, Software AG's statement of cash flows reflects its value-oriented focus on profitable growth. Specifically, this means that the Company employs its cash flow for future-oriented investments, dividends and share buy-back programs.

Statement of Cash Flows for Fiscal Year 2017

in € millions	2017	2016
Net cash provided by operating activities	189.4	203.7
Net cash used in investing activities	–73.3	–60.0
Net cash provided by/used in financing activities	–107.0	–80.5
Net change in cash and cash equivalents	–8.8	74.0
Cash and cash equivalents at end of period	365.8	374.6
Free cash flow	**161.9**	**187.0**

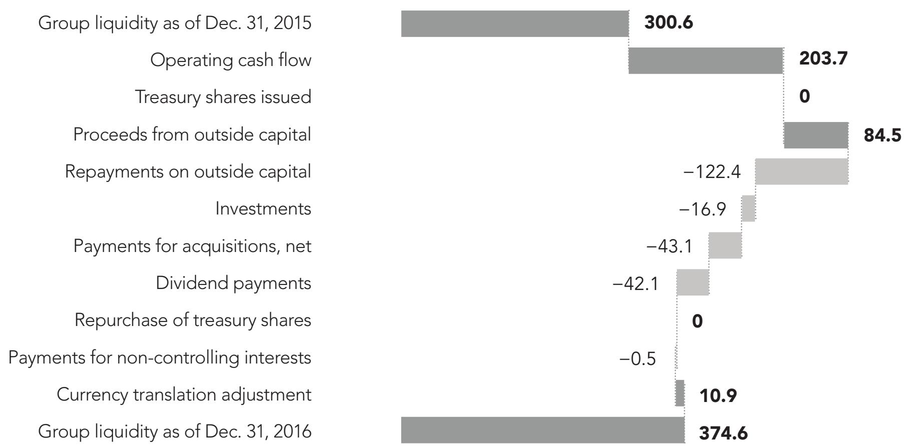
2017 Group Liquidity

in € millions



2016 Group Liquidity

in € millions

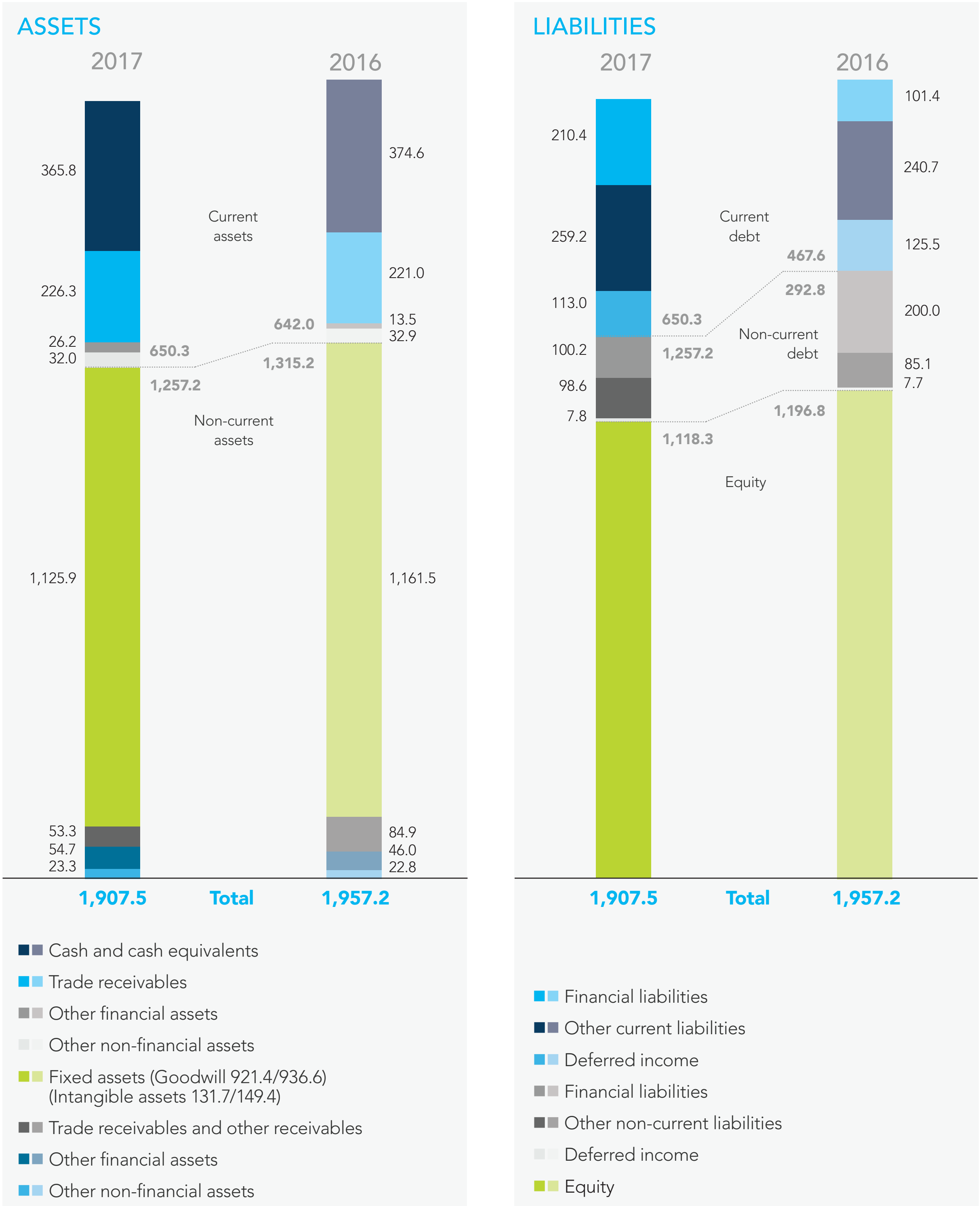


Asset structure analysis

Software AG continued to have a strong balance sheet. Assets as of December 31, 2017 were down marginally at €1,907.5 million compared to €1,957.2 million the year before.

Balance Sheet Structure

in € millions



On the assets side, current assets were up moderately at €650.3 million (2016: €642.0 million). Cash and cash equivalents were down compared to the beginning of the year. This resulted from value-driven investments and shareholder-oriented measures such as a dividend increase and a share buyback program. Other financial assets increased €12.7 million to €26.2 million. This rise resulted primarily from the increased value of current hedging instruments for stock option plans due to Software AG's significant share price gains in 2017. Additional factors were trade receivables and other receivables, which rose €5.3 million to €226.3 million. The other non-financial assets went down a moderate €0.9 million. This drop is due to the balance of slightly increased recognized income tax claims to €14.6 million (2016: €12.6 million) and the decrease in remaining other non-financial assets from €20.3 million in 2016 to €17.4 million in 2017. This decrease is mainly the result of lower revenue tax receivables from tax authorities.

Non-current assets were down €58.0 million to €1,257.2 million (2016: €1,315.2 million). This decrease is due primarily to the €17.8 million drop in intangible assets to €131.7 million (2016: €149.4 million) and the €15,2 million drop in goodwill to €921.4 million (2016: €936.6 million). The decrease in intangible assets is due to amortization in the amount of €31.4 million and to currency effects in the amount of -€10.1 million, which is the result of the strong euro against other key currencies. This was offset by an addition in the amount of €23.7 million, mainly resulting from the acquisition of Cumulocity GmbH, Düsseldorf, Germany. The reduction in goodwill was due to the balance of the acquisition-related addition totaling €31.7 million and weaker foreign currencies against the euro in 2017. A considerable percentage of both those items was in U.S. dollars, pound sterling and Israeli shekel.

Furthermore, non-current trade receivables and other receivables went down €31.6 million to €53.3 million. This positive trend was possible due to Software AG's committed receivables management.

In addition to current other financial assets, non-current other financial assets rose €8.7 million to €54.7 million. As with current financial assets, this rise also resulted primarily from the increased value of hedging instruments for stock option plans due to Software AG's major share price gains in 2017.

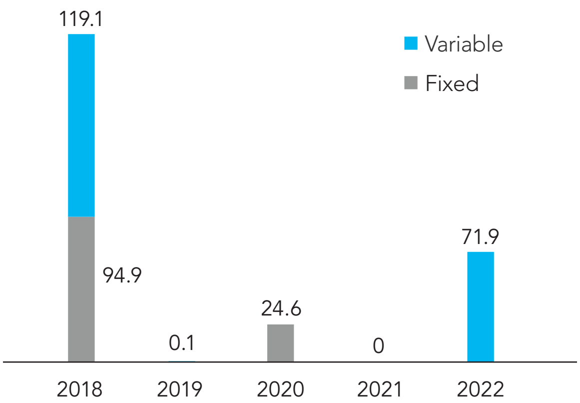
On the liabilities side, current debt increased 25 percent as of December 31, 2017 to €582.6 million (2016: €467.6 million). This substantial gain is due to the reclassification of a loan previously recognized as a non-current financial liability to current financial liabilities. This item therefore went up from €101.5 million in 2016 to €210.3 million in 2017. The reclassification of this loan was necessary because of its maturity date in January 2018. The associated financing in the amount of €100.0 million was extended for six more years until 2022. Other non-financial liabilities also went up 24 percent to €150.4 million (2017: €121.8 million). These are depicted above under other current liabilities. This increase is due primarily to the €7.8 million year-on-year rise in tax liabilities and the €21.0 million rise in liabilities due to employees. The reason for that increase was the strong performance of Software AG's share price and the significantly higher liabilities due to employees for the MIP V stock option plan. MIP V liabilities were disbursed in January 2018. Trade payables were nearly the same as last year at €37.6 million (2016 €39.7 million).

Non-current debt decreased 29 percent to €206.6 million (2016: €292.8 million)—primarily due to the aforementioned reclassification of non-current financial liabilities to current. Provisions for pensions and similar obligations remained stable at €43.9 million (2016: €42.2 million) with respect to last year. Software AG's other non-current provisions went up 38 percent to €34.3 million (2016: €24.8 million) as of December 31, 2017. This increase is a result of the significant gains in Software AG's share price affecting provisions for non-current stock option plans

Software AG's recurring income from maintenance revenue leads to current and non-current deferred income, which account for a significant percentage of liabilities. They totaled €120.8 million (2016: €133.1 million) as of December 31, 2017. This €12.3 million year-on-year decrease is a largely a result of currency effects, particularly due to weak foreign currencies against the euro at the end of 2017.

Maturity Profile of Financial Liabilities

in € millions



Software AG's net cash position was €55.2 million (2016: €73.1 million). Shareholders' equity was €1,118.3 million (2016: €1,196.8 million) at the end of fiscal 2017, which is 7 percent down year-on-year. This drop was a result of the balance of €31.3 million increase in retained earnings, the currency-related €86.7 million decrease in other reserves and the €19.7 million increase to the negative balance of treasury shares from the balance of a redemption and additional purchase of treasury shares. Software AG's equity-to-assets ratio was 58.6 percent on December 31, 2017 compared to 61.1 percent in 2016.

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 rented office space, leased company cars and hardware.

Multi-Period Assets Summary

in € millions	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Assets							
Current assets	650.3	642.0	584.2	635.4	769.5	675.8	574.3
Non-current assets	1,257.2	1,315.2	1,230.6	1,213.6	1,227.4	1,096.1	1,106.4
	1,907.5	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**
Equity and liabilities							
Current liabilities	582.6	467.6	439.5	415.1	533.1	401.8	381.6
Non-current liabilities	206.6	292.8	285.5	420.4	498.2	310.0	347.7
Equity	1,118.3	1,196.8	1,089.7	1,013.4	965.6	1,060.1	951.5
	1,907.5	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**

Financial Position of Software AG

Separate statement for parent company

The financial statements of Software AG (parent company) were prepared pursuant to the provisions of the German commercial code.

Software AG's financial performance

The key items of the income statement are as follows:

in € millions	2017	2016	Change as %
Licenses	49.8	8.9	459.6
Maintenance	108.0	107.1	0.8
Services	110.4	103.5	6.7
Total revenue	**268.2**	**219.5**	**22.2**
Operating income and expenses	–266.3	–247.1	7.8
Income from investments and profit transfer	88.9	139.1	–36.1
Operating earnings before interest and taxes	**90.8**	**111.5**	**–18.6**
Net financial income/expense	–2.6	–3.7	–29.7
Earnings before taxes	88.2	107.8	–18.2
Taxes	–11.8	–14.0	–15.7
Net income/loss for the year	**76.4**	**93.8**	**–18.6**

- **Licenses** resulted from license-related royalties from subsidiaries and from Software AG's own license sales in Germany. The significant year-on-year increase is due to a legal reorganization of the subsidiaries, which led to a substantial increase in Software AG's license revenues.
- **Maintenance** includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products.
- **Services** include management fees crossed-charged to the subsidiaries as well as services rendered by central support and cross-charged R&D costs. The year-on-year increase is due primarily to the reassignment of R&D projects from the U.S. to Germany.
- **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.
- **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 decline is due primarily to the €15.4 million decrease in dividends from subsidiaries and the €32.9 million decrease in profit transfer. This is related mainly to the changed legal structure regarding subsidiaries described in license revenue.
- **Net financial income/expense** is the result of offsetting other interest and similar income against interest and similar expenses. The year-on-year improvement was due mainly to the overall lower interest on liabilities to banks.

Financial position and balance sheet of Software AG

Software AG's **total assets** decreased by a total of €7.2 million, from €909.2 million on December 31, 2016 to €902.0 million on December 31, 2017.

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

in € millions	2017	2016	Change
Intangible assets	15.5	21.5	–6.0
Property, plant and equipment	39.4	41.3	–1.9
Long-term financial assets	730.1	679.6	50.5
Inventories	0.1	0.1	0.0
Receivables and other assets	103.6	130.6	–27.0
Cash and cash equivalents and short-term securities	6.6	28.8	–22.2
Prepaid expenses/other	6.7	7.3	–0.6
Assets	**902.0**	**909.2**	**–7.2**
Equity	266.8	322.6	–55.8
Provisions	112.7	110.6	2.1
Liabilities to banks	309.9	280.5	29.4
Liabilities	212.2	194.7	17.5
Deferred income	0.4	0.8	–0.4
Equity and liabilities	**902.0**	**909.2**	**–7.2**

- **Intangible assets** decreased by €6.0 million due primarily to the balance of amortization and additions from the current year.
- **Financial assets** went up by €50.5 million mainly because of the acquisition of Cumulocity GmbH.
- **Receivables and other assets** were down by €27.0 million as of December 31, 2017. This is due to €39.3 million in decreased receivables from affiliated companies and to €12.9 million in increased values of derivatives with positive fair values compared to last year.
- **Cash and cash equivalents and current securities** went down by €22.2 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. The relatively large decrease is due to the price paid for the acquisition of Cumulocity GmbH.
- Software AG's **equity** decreased by €55.8 million year-on-year. This drop is due primarily to the balance of net income for the year in the amount of €76.4 million, the dividend payout in fiscal 2017 in the amount of €44.3 million and the repurchase of treasury shares in the amount of €89.6 million.
- **Liabilities to banks** went up by €29.4 million. This increase is a result of financing the price paid for the acquisition of Cumulocity GmbH.

Outlook

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

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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 in the dynamic ICT market. A total of 18 corporate acquisitions were made between 2007 and 2016. They played a key role in the expansion of Software AG's product portfolio, its exploitation of new markets and technology leadership.

A further technology acquisition was made in fiscal 2017: Software AG announced its acquisition of Cumulocity GmbH based in Düsseldorf, Germany on March 27, 2017. This company develops innovative solutions for the Internet of Things (IoT) including an IoT cloud—an application and device management platform enabling easy connection of devices and sensors. Software AG had already integrated the Cumulocity IoT cloud platform into its Digital Business Platform (DBP) in 2016 as part of a technology partnership. The combination of DBP and Cumulocity technnology reduces the complexity of IoT and enables flexible, scalable management of millions of networked devices. With this acquisition, Software AG can help customers access IoT by reaping the benefits of an extended, comprehensive product portfolio that unites data from physical sensors with innovative, analytical software solutions. The acquisition of Cumulocity represents a further step in bolstering Software AG's technological market leadership of the high-growth IoT and Industry 4.0 markets. The purchase price was €50.1 million.

Employees

The number of Software AG employees worldwide rose as of December 31, 2017 to 4,596 (2016: 4,471) full-time equivalents, which reflects 3 percent growth. 1,935 (2016: 1,914) employees worked in Consulting and Services, 862 (2016: 841) in Sales and Marketing and 624 (2016: 605) in Administration. The number of employees working in Research & Development (R&D) increased to 1,176 (2016: 1,110)—primarily assigned to ongoing development of DBP.

Software AG employees worked in more than 70 countries around the globe. In Germany, the number of employees increased to 1,201 (2016: 1,148), which was primarily due to the acquisition of Cumulocity, an IoT company based in Düsseldorf, Germany. The number of employees in the USA went down to 575 (2016: 601), whereas in India, staff grew to 823 (2016: 766). This rise is a result of the strategic decision to add staff at three R&D locations in India.

Software AG's global staff was distributed according to function and region as follows:

Headcount* by Function and Region

FTE	Dec. 31, 2017	Dec. 31, 2016	Δ as %**
Total	**4,596**	**4,471**	**3**
Consulting and Services	1,935	1,914	1
R&D	1,176	1,110	6
Sales and Marketing	861	842	2
Administration	624	605	3
Germany	1,201	1,148	5
USA	575	601	–4
India	823	766	7
Other countries	1,997	1,956	2

* According to P&L structure ** Year-on-year

Recruiting and staff development

Software AG's highly qualified and committed staff plays a key role in the Company's success. Their expertise and personal skills are a crucial factor in customers', investors' and business partners' decision to choose Software AG. Particularly when competition for the best talent is so fierce, strategic HR measures such as individual staff development and high-value training are a key competitive advantage. Only employees with excellent education and training are able to stay on top of the dynamic digital sector and develop the best customer solutions. Against this backdrop, Software AG pursues a comprehensive **employee recruitment, retainment and development program** to manage the Company's culture and strengthen employer branding.

Software AG's **Corporate University** is an integral component of Human Resources and offers employees all over the world an extensive array of training, as e-learning, face-to-face sessions and, increasingly, in new interactive digital formats. In addition to technical expertise, training programs focus on talent and management development and particularly on leadership and social skills. iLearn, Software AG's digital learning platform, provides all employees worldwide with job-specific training, available around-the-clock. Software AG's Corporate University was awarded the bronze medal in Best Overall Corporate University by the Council of Corporate Universities (GlobalCCU) at the beginning of April 2017. 2,000 corporate universities from around the world competed for the awards. In addition, Software AG's Corporate University was ranked among the "Top Ten Best Private Corporate Universities" (2017 Learning! 100 Award).

The **University Relations Program** plays a key role in the search for the best rising talent thanks to its close ties to colleges, universities and graduates. Software AG provides software products for teaching and research purposes to more than 1,650 universities in over 70 countries. To date, more than 23,500 students have benefited from this program, learning about solutions from Software AG for a wide variety of technology trends. Since 2017, students have the option of receiving ARIS certification online. The 800-plus downloaded certificates enable the young specialists to verify their newly acquired expertise when applying for jobs. Software AG began expanding its activities into schools through the University Relations Program in 2017. This reflects the fact that digitalization is affecting ever-more facets of life at an earlier age.

With the help of differentiated **employer branding** activities, Software AG is solidifying its position as an attractive employer and creating an innovative, performance-oriented work environment at the same time. To strengthen its position as market leader, Software AG must not only find and hire the most talented experts and leaders, it needs to retain, motivate and support existing employees with their many years of knowledge about products, customer needs and processes. The Company's deep respect for its employees is manifested in individual recognition, competitive compensation, comprehensive social benefits and a flexible working environment.

Software AG's **corporate culture** is shaped by highly dedicated individuals, an international, open-minded staff and a global yet family-like environment. Promoting a diverse workforce, their leadership strengths and their expert knowledge while strengthening a global as well as individual identity is vitally important at Software AG. Modern, ergonomic workspaces as well as holistic health management add to Software AG's attractive working environment.

Promoting Young Talent and Staff Members

Target Audience	Initiatives (examples)
Youth	**Calliope Mini-Courses in Germany** • Programming classes for elementary, middle and high school students in the classroom and on YouTube. **Girls' Day in Germany and Slovakia** • Girls try working in a technical job for a day. **Talent at Home in Spain and India** • Software AG employees' children are invited to spend a day observing people at work at Software AG. **Hesse Technical School** • High school graduates with (technical) university entrance qualifications get the chance to learn first-hand about STEM fields through a combination of trial classes and company internships.
College Students	**Master's Degree in Digital Transformation Management** • Software AG helped in the creation of a master's program in Digital Transformation Management, which was first offered in 2017 at the Goethe Business School in Frankfurt, Germany. Software AG offers employees the option to complete this degree while working. **University Relations Program** • Through the University Relations program, Software AG maintains close contact with colleges and universities worldwide and provides them with select software products for teaching and research free of charge. **Software Campus** • As a founding partner of Software Campus, Software AG is making an active contribution to opening up excellent career prospects in Germany to tomorrow's IT managers.
Rising Talent	**Future Talents Program** • The Future Talents Program supports next-generation employees in driving important Software AG projects and products and filling them with new ideas and impetus.
Leadership	**Corporate Executive Program** • Software AG's Corporate Executive Program is a leadership development program geared to experienced managers and specialists.

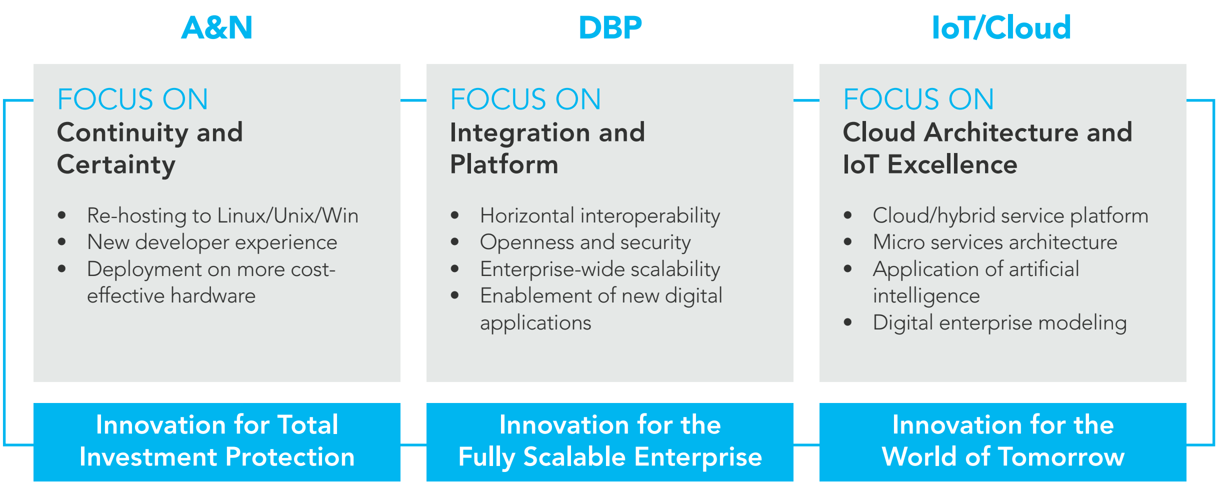
Research and Development (R&D)

Digital transformation is the driving force behind ongoing product development and bringing new solutions to market. To Software AG, innovative power and operational excellence continue to be the cornerstones of successful R&D. Ongoing portfolio development, partnerships and co-innovation projects with customers as well as joint research projects with academia, research centers and startups ensure that Software AG is always able to address the practical needs of customers based on the latest trends in technology.

Ongoing product portfolio development

R&D worked primarily on customer-centric DBP development in 2017, with a particular focus on a complementary product portfolio, integration of new partners' and acquired companies' technologies into the DBP and A&N product lines as well as implementing the co-innovation strategy. Key R&D topics in the DBP line were the digital enterprise (analytics, process management, data integration and API management) and IoT (platform services, device management and data streaming). A&N focused primarily on re-hosting and hardware optimization.

R&D Strategy



Software AG's biggest innovations that reached market maturity in 2017 were comprehensive cloud-based API management with an integrated portal and gateway, the Terracotta in-memory database for high-speed operational and analytical processing of big data, and new versions of Alfabet, Universal Messaging and Apama. Right in time for the ARIS product family's 25th birthday last year, ARIS 10—a new version of the world's leading tool for business process management and analysis—hit the market. The new version features significant enhancements such as new visualization options with dashboards and charts, important functionality to ensure compliance with the GDPR data protection regulation, and tools enabling transparent planning of IoT investments and integration with business process. R&D also continued integrating the acquired Zementis AI and Cumulocity IoT products.

Approaches such as scrum, design thinking and test automation are employed during the innovation process. Some practical examples of technological developments that were unveiled at international trade shows are a customized travel warning system for business travelers and a virtual process learning environment.

Partnerships and co-innovation

Software AG presented its key software services for Industry 4.0 at CeBIT 2017. The Core Idea: Co-innovation through close collaboration between industry and IT will safeguard the future of Germany and Europe as industrial hubs. A new IoT partnership was announced with Huawei, a globally leading information technology and telecommunication solutions provider.

ADAMOS was launched by DMG MORI, Dürr, Software AG, ZEISS and ASM PT at the beginning of September 2017. It is a strategic alliance for the emerging topics Industry 4.0 and the Industrial Internet of Things (IIoT). Germany's first alliance of big names from the industrial and software sectors intends to establish ADAMOS as a global industry standard and continue adding more mechanical engineering partners. The ADAMOS IIoT platform is open and vendor-neutral and unites cutting-edge IT with industry expertise. It was released for sale globally in October.

Software AG announced a partnership with Siemens AG in November 2017. Software AG will provide its highly scalable DBP components for MindSphere, the cloud-based, open IoT operating system by Siemens. This will help MindSphere users flexibly manage networks containing millions of end devices.

R&D expenses and internal strategy

Expenditures for R&D rose 7 percent in 2017 to €120.6 million (2016: €112.4 million). Accordingly, R&D expenses as a percentage of product revenue (licenses and maintenance) increased from 16.7 percent the year before percent to 17.8 percent in the year under review. This rise is due to higher R&D investments totaling €96.9 million (2016: €89.9 million) in the high-growth DBP line. To strengthen its position as an innovation leader, Software AG is committed to digital products and markets —as a long-term investment in the future. Software AG is dedicated to evaluating and developing technologies for the digital enterprise and thus to a sustainable and customer-centric investment strategy. An additional reason for the rise in R&D expenditures was the strategy introduced at the end of 2016 to continue developing and supporting the A&N database business through 2050 and beyond. This innovation program was reflected in the growth in A&N license revenue in the fourth quarter of 2017.

Expenditures for near and offshore capacities also went up, primarily in the area of staffing. This reflects Software AG's strategy of efficient distribution of R&D spending, whereby R&D capacities in various countries are taken into consideration. Over time, the Company has established three large, high-performance R&D centers in India, in the cities of Bangalore, Chennai and Hyderabad. Software AG's location strategy is based on global availability of outstanding talent and distributes product responsibility accordingly across R&D locations. Furthermore, Software AG allocates its resources optimally by combining technology acquisitions and in-house development.

Due to these factors, the number of employees (full-time equivalents) working in R&D rose to 1,176 (2016: 1,110) as of December 31, 2017. This is a 6 percent increase year-on-year and reflects the Company's sustainable long-term strategy. R&D specialists were distributed across 15 countries, with the majority based in Germany, India, the U.S. and Bulgaria in the year under review.

Multi-Period Summary for R&D

in € millions	2017	Δ as %	2016	2015	2014	2013	2012	2011
R&D expenses for A&N	23.8	6	22.5	20.7	24.3	25.3	26.1	26.4
R&D expenses for DBP	96.9	8	89.9	85.7	84.7	82.6	75.0	61.6
Total	**120.7**	**7**	**112.4**	**106.4**	**109.0**	**107.9**	**101.1**	**88.0**
as % of product revenue	17.8	—	16.7	15.7	17.0	15.3	14.2	13.1
as % of total revenue	13.7	—	12.9	12.2	12.7	11.1	9.7	8.0
R&D headcount (FTE)	**1,176**	**6**	**1,110**	**992**	**968**	**998**	**887**	**887**

Collaboration with science and research

Software AG set up a **Scientific Advisory Board** in July 2017. The new committee is composed of respected members of the scientific and research communities. Its objective assessments help Software AG derive innovations from scientific discourse and incorporate know-how and ideas related to trends in technology more quickly. This will strengthen the development of the product portfolio and, in turn, bring customers significant benefits. The task of the Scientific Advisory Board is to support Software AG's R&D activities in an advisory capacity; it is not a corporate controlling body in the legal sense. Members of the board determine what its areas of focus will be at least once per year. In addition to Software AG executives, the board consists of external members of the scientific and research communities who are appointed for a term of at least three years.

Software AG participated in collaborative research projects with universities, research institutes and other companies as part of national and European research programs in fiscal 2017. Sharing knowledge with partners from science and research leads to early identification of market and technology trends. Software AG employs these insights to offer customers a broad range of best-in-class innovations. The following is a summary of current research projects:

- **Cartox²** is developing a base platform of services essential to connected and automated driving. It focuses on digitally processed information on cellular network coverage, edge computing availability and traffic risk assessment. Like map data, these services are essential for automated driving—even on routes where car-to-car communication is limited due to urban canyons and the like. Software AG is developing a common service platform for the project and establishing connectivity with different data sources.

- **SynErgie** promotes cost-efficient transition to renewable energy sources. Its goal is to synchronize the electricity requirements of energy-intensive sectors, such as steel and aluminum production or the auto industry, through flexible adaptation of their production processes to the dramatically fluctuating supply of renewable energy, thereby stabilizing the power grid. With the help of modern ICT approaches, a highly dynamic management platform has been created to regulate the distribution of energy between industrial processes based on the fluctuating supply of energy. Software AG is developing a platform to identify and utilize areas of additional flexibility in manufacturing companies.

- **Transforming Transport** is pursuing the goal of significantly increasing the percentage of European transport and logistics companies that use big data, which is currently 19 percent. In addition to time and fuel worth about €500 billion annually, there is savings potential of nearly 380 megatons of CO_2 and the transport sector could become up to 15 percent more efficient. The project's seven areas of application address all relevant segments of the transport segment including smart streets, urban mobility and supply chain management. Software AG is collaborating with the Duisburg Port to develop a digital monitoring cockpit that feeds off of more than 25 data sources to display detailed information about current and future processes in the port.

Other Research & Development activities

Software AG is also active in many German and European **committees, associations and organizations**. This involvement enables the Company to react quickly to new challenges, set standards and positively influence digital transformation and its impact on society. The German **Software Cluster** is an example of its social involvement. This innovation network has been helping strengthen the software and IT services sector as an economic factor in Germany. Geographically speaking, the cluster encompasses software development hubs of Darmstadt, Kaiserslautern, Karlsruhe and Saarbrücken. There are about 11,000 software companies located in this region. And together they generate approximately €30 billion in annual revenue and employ more than 134,000 people. That is one-quarter of Germany's software and IT service workforce. In addition to small and medium-sized businesses, many global corporations are active in this region, which gives the "Silicon Valley of Europe" a top position in the international arena. Software AG is a founding member of the Software Cluster. It is actively involved in the Cluster's strategy board and provided the cluster spokesperson from 2014 to 2017.

Network Memberships and Political Involvement

Organization	To learn more
acatech—German National Academy of Science and Engineering	acatech.de
BDI—National Association of Germany Industry	bdi.eu
BDVA—Big Data Value Association	bdva.eu
Bitkom—Germany's Digital Association	bitkom.org
DFKI—German Research Center for Artificial Intelligence	dfki.de
Energy Research Networks	forschungsnetzwerke-energie.de
GI—Society of Computer Science	gi.de
House of IT e. V.	house-of-it.eu
Industry 4.0 Platform	plattform-i40.de
Initiative D21 e. V.	initiatived21.de
NESSI—The Networked European Software and Services Initiative	nessi-europe.com
SDIL—Smart Data Innovation Lab	sdil.de
Software Campus	softwarecampus.de
Software Cluster	software-cluster.org

Sales

Software AG further solidified its strong market position last year with its customer-centric, value-driven sales approach and its ever-expanding global partner network. Software AG is a trusted advisor for digital transformation, creating real customer value and long-term success with more than 2,000 consultants and Sales specialists.

Software AG started transforming its go-to-market model in early 2015 under the leadership of its Chief Customer Officer. This resulted in more effective and efficient use cases, a more customer-centric go-to-market approach and greater sales productivity.

The Company's go-to-market optimization and transformation measures led to enhanced market relevance and reputation as well as improved key financial indicators and, ultimately, a record-breaking quarter at the end of the year. Fiscal 2017 was a record year for DBP, cloud and Consulting revenue as well as for operating margin. Twenty-nine customers were already using Software AG's Cumulocity IoT platform for their IoT infrastructure in 2017. The A&N line has enjoyed the exceptional loyalty of its long-term customers for many years. Finally, Software AG's overall customer satisfaction, measured by the net promoter score, rose considerably.

The relevance of Software AG's products increased substantially due to the proliferation of digitalization in 2017. This is apparent in the continued growth of average deal sizes. Software AG's average deal value rose 2 percent to €374.3 thousand. The total value of new orders received remained on par with last year. Fifty-five percent (2016: 54.3 percent) of the total value of new software deals can be attributed to deals exceeding one million euros in value in the year under review.

Software AG's solutions-based, value-driven sales approach since the adoption of its new go-to-market strategy has led to a 23 percent increase in average deal size and to 56 percent in large-scale deals over €1 million over the last three years.

Software AG is currently developing a new pricing and licensing structure which will reflect the changing market. More than 300 product offerings will be bundled into user-friendly and manageable solution packages. The new model will ensure greater flexibility for customers. It gives them complete freedom not only to select their preferred implementation method (on-premise, cloud, hybrid), but also to select the way they want to pay regarding perpetual licensing and subscription-based options for DBP as well as pay-per-use for Cumulocity IoT. This is a further step in Software Ag's customer-centric model.

Sales and marketing activities encompass numerous trade shows and customer events. Software AG takes advantage of these opportunities to present its innovative product portfolio and engage with customers, prospects, partners and industry pundits.

- **CeBIT 2017:** "Made in Digital Germany" was the theme of Software AG's presence at the trade show in Hannover, Germany where it presented its most important software services for Industry 4.0, the concept of co-innovation and its first IoT partnerships.

- **Innovation Tour:** Software AG presented its portfolio to more than 3,400 customers during its 2017 Innovation tour. The tour consisted of more than 17 stops around the world in places like Sydney, Dubai, Tokyo, Melbourne, London and Washington D.C.

- **First Virtual Conference** Software AG held its first virtual conference in the fall of 2017. True to its title, "2017 Product Release," new product functionality and updates were unveiled in three time zones on October 17, 18 and 25, 2017. Software AG utilized this new event format to provide sessions to a broad global audience in real time.

- **Partner Summit:** As part of the annual sales kick-off, Software AG invited its entire partner network to a summit on January 16, 2017 in Rome. Regional events followed during the year in Asia, Germany, Latin America and the U.S. The event series gives Software AG partners direct insights to the respective product roadmaps, field reports and new developments in the partner program, such as enhanced service portfolios for partners.

Customer capital

Successfully serving customers as a trusted partner with innovative technologies to enable transformation to an agile digital enterprise is Software AG's primary objective. Software AG therefore leverages the concept of co-innovation: collaborating with users of its main product lines to further develop solutions. Multiple analyst awards confirmed the innovative strength of Software AG's product portfolio in 2017.

User groups serve as one of the most valuable instruments for strengthening customer relationships. These groups bring the users of Software AG's primary product lines together on a regular basis to share experiences. Customers discuss how products can evolve with representatives of Software AG. The international user groups comprise almost 1,600 members from more than 1,000 companies and 70 countries. They convene once a year. From May 8–12, 2017, 470 attendees from 225 organizations in 39 countries came together for Software AG's international user group conference in Salzburg, Austria. The next one will be held on April 9–13, 2018 in Berlin, Germany.

Software AG's solutions-based, value-driven sales approach since the adoption of its new go-to-market strategy has led to a 29 percent increase in average deal size and to 59 percent in large-scale deals over €1 million over the last three years.

Software AG's relevance as a global player of digital transformation is reflected in its ever-expanding international base and long-term customer relationships.

The customer base continued to grow in fiscal 2017. Based on the number of deals closed, 10 percent (2016: 21 percent) of orders received were deals with new customers. There was a notable rise in 2017 in the market

Software AG's Target Markets

relevance of Software AG products resulting from the spread of digitalization around the world. This was illustrated by a further increase in average deal size. The total value of new software orders received remained on par with last year.

The relevance of Software AG's products increased substantially due to the proliferation of digitalization in 2017. This is apparent in the continued growth of average deal sizes. Software AG's average deal value rose 2.3 percent to €374.3 thousand. The total value of new orders received remained on par with last year. 55.5 percent (2016: 54.3 percent) of the total value of new software deals can be attributed to deals exceeding one million euros in value in the year under review.

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Customer Segmentation

Segments by Sector
Banking and Securities
Communication Media and Services
Education
Energy and Natural Resources
Government
Healthcare
Insurance
Manufacturing
Retail
Transportation
Utilities

Partners

Software AG' **partner network** is a strategic component of its go-to-market model. Partners complement Software AG's domain expertise and solutions, services capability and capacity, as well as market coverage. Today's digitalization projects are so complex that no company can provide customers with a comprehensive end-to-end solution without an effective and competent partner network. There is a visible trend in the whole sector to engage in strategic alliances. It is especially prevalent in the IoT and Industry 4.0 market because of the need to connect millions of devices from different vendors.

Software AG continued to successfully expand its partner network in 2017. At the end of the fiscal year, the number of partners was up to 400 (2016: 389), and more than 1,200 partner consultants were trained in Software AG technology. Overall, partners directly contributed to more than 25 percent of Software AG's Digital Business Platform revenue.

International partner events were geared toward exchange with partners and maximizing their expertise. More than 1,000 consultants from Infosys, TCS, HCL, Cognizant, TechMahindra and Wipro received introductions and insights at the IoT Innovation Tour India.

Furthermore, Software AG entered strategic partnerships with hi-tech companies to fortify its leadership position in the areas of cloud infrastructure (AWS, Microsoft), IoT platform providers (Siemens, Huawei), global system integrators (Cognizant, Wipro, Infosys, HCL), IoT device and hardware manufacturers (Dell, HPE) and digital business transformation consultants.

After having cemented alliances with Dell, OCTO Telematics and Google in 2016, Software AG ascended to a new level of strategic IoT and Industry 4.0 partnerships in 2017. The Company succeeded in forming strategic technology partnerships with global high-tech and industrial companies like Siemens and with telecommunication providers like Deutsche Telekom, NTT in Japan, KPN in the Netherlands and Telstra in Australia.

Expanding 360° Ecosystem (Selection)


software AG
Strategy Consultants
Cloud & Marketplaces
ISVs & IoT Platforms
OEM & VARs
Global System Integrators
Local System SIs & Specialists
KPMG
Deloitte.
pwc
DIGITAL
gfi
NEW CHALLENGES, NEW IDEAS
HCL
accenture
Cognizant
Capgemini
Tech Mahindra
amazon web services
docker
DELL
Hewlett Packard Enterprise
Marketo
HUAWEI
TELSTRA
etisalat
OPENTEXT
TeliaSonera
立子云
Quark IoE
roundcube
NTT Communications
fiserv.

Supplier relationships and supply chain

The Software AG Group and its subsidiaries buy goods and services necessary for internal processes from a large number of suppliers in different countries according to clearly defined guidelines. Operational purchasing is handled locally by the relevant subsidiary. The overarching procurement process however is the responsibility of the corporate Purchasing department. The Purchasing department analyzes all procurements worldwide using a reporting system, verifies compliance with defined guidelines through the Audit, Processes and Quality department and initiates strategic measures. The goal is to ensure that procurement only occurs with the necessary approval, thereby keeping costs under control at all times.

Global Purchasing

All goods and services to be procured can be divided into the following structure:

+ Office supplies
+ Stock items (replenishment—for Purchasing department only)
+ Business cards
+ Literature
+ IT and telco Investments
+ Print office expenditures and investments
+ Rental agreements (no rented apartments/flats)
+ Facility-related investments and utilities (e. g. gas, electricity, water, cleaning, security)
+ All other goods
+ Corporate/product marketing (including free float and customer events)
+ Sales and Marketing local/lead generation (including free float and customer events)
+ Professional fees—legal services
+ Technology alliances
+ Professional fees—consulting, other (excluding sales and marketing)
+ Events, fairs, incentives (including internal events, PR events, excluding customer events)
+ Contract labor (revenue generating)
+ Insurance
+ In-house training (external trainers)
+ External training
+ Headhunters
+ Temporary help (no revenue generation)
+ Travel and cars

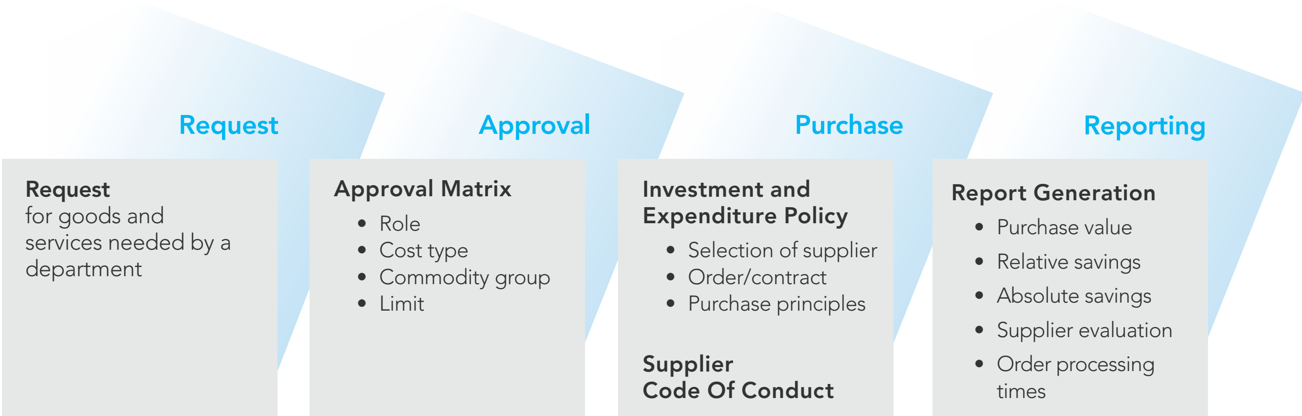
Investment and expenditure policy

The provisions of the procurement process are defined in the **Investment and Expenditure policy**. This policy describes purchasing principles, rules for ordering and selecting suppliers and the global approval process.

Global Sourcing

The entire approval and procurement process and reporting policy for the Purchasing department can be found in the digital Global Sourcing approval and order system for Software AG and its subsidiaries. The process is broken down in the system as follows:

Global Sourcing Prozess



Supplier Code of Conduct

The **Supplier Code of Conduct** defines guidelines for responsible and sustainable conduct of Software AG suppliers with regard to economic, ecological and social aspects. It is currently available in eight languages (German, English, Hebrew, Japan, Polish, Portuguese, Slovakian, Spanish). Suppliers must accept the applicable conditions prior to every order. There is a guideline that defines how the Supplier Code of Conduct is to be applied with a checklist to ensure compliance with all requirements. The Supplier Code of Conduct defines the following points:

- Interaction with employees (child labor, discrimination, forced labor, employee rights, compensation and working hours, health protection and occupational safety)
- Environmental laws, standards and policies
- Conduct in business situations (e.g. combatting corruption, avoiding conflicts of interest, free competition)

Significant changes in the organization and its supply chain

There were no significant changes in the organization or its supply chain in the year under review.

COMBINED NON-FINANCIAL STATEMENT

Fundamental Aspects

Reporting system

Software AG's Combined Non-Financial Statement relates to the fiscal year from January 1 to December 31, 2017. This is the first publication of a report in this format as part of the Combined Management Report.

The Combined Non-Financial Statement contains the information required by section 289c of the German Commercial Code (HGB) to enable readers to understand the Company's business growth, financial results, its situation and the effects of its activities on the aspects stated in section 289c (2) of the HGB. When preparing this report and thus when analyzing the requirement to report, Software AG made use of the option provided by section 289d of the HGB to prepare the Combined Non-Financial Statement based on the Global Reporting Initiative (GRI), an international standards framework.

The contents of the Combined Non-Financial Statement relate to Software AG and the Group. The Software AG Group's non-financial performance indicators are based on data from the consolidated Group's financial reporting, unless the relevant data is not available for the smaller locations. In those cases, only data from key Software AG locations is included. The measures mentioned with regard to the individual aspects are ongoing, unless stated otherwise.

External audit of the Combined Non-Financial Statement

Software AG's Combined Non-Financial Statement is audited externally by the auditing firm BDO AG. Auditing was conducted with the goal of attaining a limited level of assurance, based on the (revised) ISAE 3000 Standard.

Explanation of the business model

Software AG supports enterprise digital transformation. For more information on Software AG's business operations and business model, please refer to Fundamental Aspects of the Group in the Combined Management Report. p. 37

Corporate responsibility and sustainability

Responsible conduct and sustainability are guiding principles for Software AG. Software AG defines sustainability not only as the creation of long-term values for its stakeholders, but its customer relationships, its technology, its partnerships, its investments in the Company and its employees' expertise as well. These have been its core values for many years. Software AG will continue developing these for the benefit of its shareholders and the Company as a whole.

Software AG is certain that moral principles and economic success not only go together, they belong together. Out of respect for future generations, it is important to Software AG to conserve resources in order to achieve sustainable economic, ecological and social progress.

To Software AG, responsible conduct means:

- Playing a role in customers' long-term success
- Continually improving standards
- Being a long-term and therefore reliable partner
- Allowing staff to develop along with the company
- Adding value to society
- Pursuing the highest social standards in daily activities
- Promoting education and innovation globally and locally at Software AG locations

Values such as trust, respect, open-mindedness and transparency shape Software AG's global operations. Software AG is a multinational corporation with operations in more than 70 countries. This means many different cultures and legal systems converge. The Company therefore instituted a global Code of Conduct in 2011. It describes the values shared by all employees worldwide that form the basis for Software AG's conduct as a company—with customers, partners and employees alike.

Stakeholders

Software AG has internal and external stakeholders. The internal stakeholder groups comprise the employees, the Management Board, the Supervisory Board, the Compliance Board and the Company's Works Council. The external stakeholder groups include the customers, investors, partner network, suppliers, future employees, universities and research institutions, local communities and key multipliers such as analysts and the media.

Appreciation of stakeholders

Software AG attaches great importance to fostering an ongoing dialog with its stakeholder groups. This is also reflected by the Company's structure, which incorporates numerous departments dedicated to maintaining a dialog with the most important stakeholder groups. These include the Sales, Customer Support, Human Resources and Internal Communications, Marketing, University Relations, Investor Relations, Corporate Communications and Public Affairs departments.

The main stakeholder groups also have a direct voice in the Company, for example through the international user groups, employee representatives, the Supervisory Board, the Annual Shareholders' Meeting or the Scientific Advisory Board. The following table shows some examples of the groups and the intervals between their meetings and surveys:

Stakeholder Group	Committee	Interval/Meetings
Investors, employees, main shareholder (Software AG Foundation)	Elected representatives on the Supervisory Board	Regular meetings
Investors	Annual Shareholders' Meeting	One general meeting annually
Employees	Works Council (Germany)	Regular general and employee meetings
Employees	Employee survey	Surveys on specific topics
Customers	Global customer survey	One survey annually
Customers	International IT leadership meeting	Annual strategy meeting
Customers	International user groups	One trans-regional conference annually, regular regional meetings
Research & Development	Scientific Advisory Board	Regular meetings

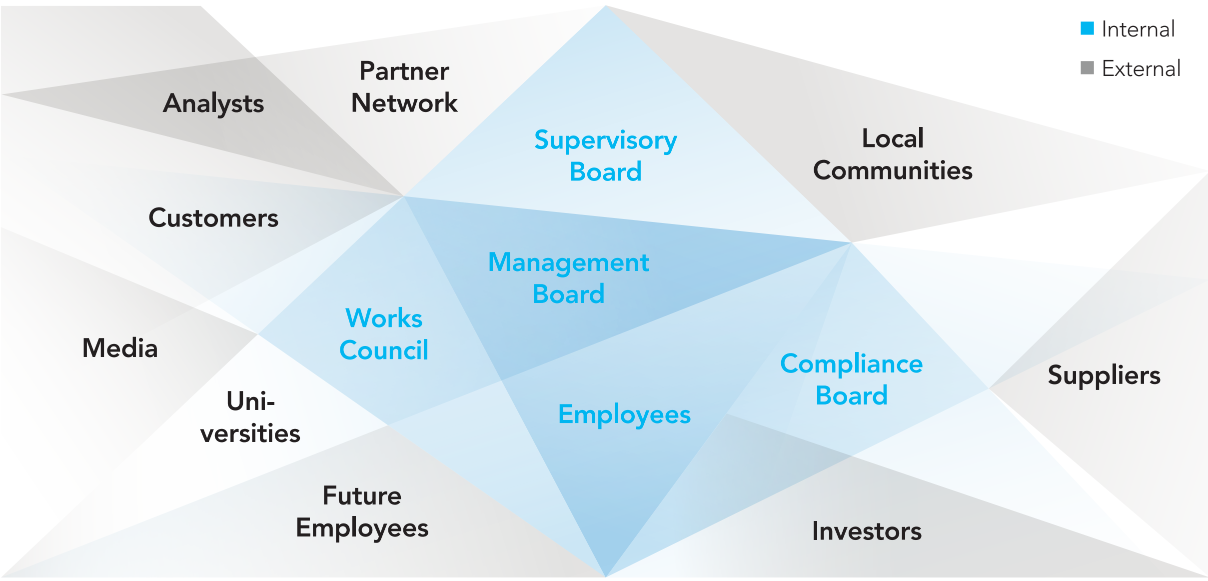
Key topics

Materiality analysis

Software AG conducted a materiality analysis involving its internal and external stakeholders in order to identify the non-financial issues that were of relevance to the Company in fiscal year 2017.

To carry out the materiality analysis, Software AG worked with an external consulting agency from Darmstadt, Germany, which specializes in implementing sustainable concepts. A joint workshop was held to identify the most important internal and external stakeholders as well as 45 potentially relevant issues on which the stakeholders were to be questioned. Based on these issues, a questionnaire was developed for the internal and external stakeholders, taking into account the GRI standards.

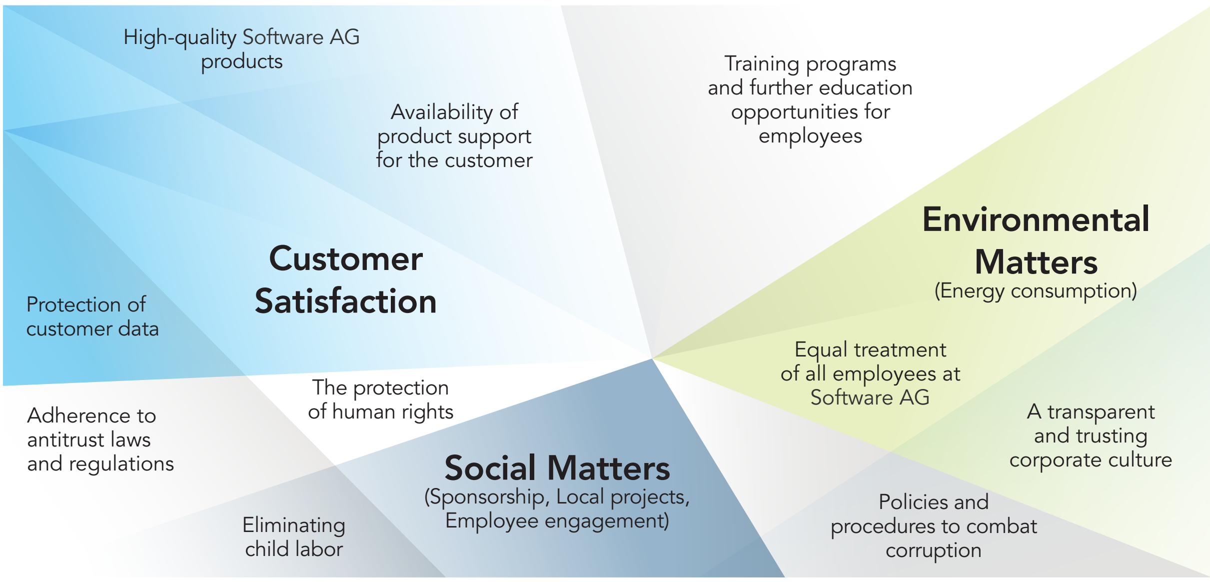
The Most Important Internal and External Stakeholders



The questionnaire was set up as an anonymous online survey, and stakeholders were sent an e-mail on April 26, 2017 inviting them to participate in the survey within a period of two weeks. Approximately 900 of those internal and external stakeholders contacted visited the questionnaire. At the end of the survey, on May 10, 2017, anonymous responses had been submitted by a total of 372 participants, including 344 internal and 28 external participants. The external participants consisted of customers, partners, investors, analysts, suppliers and prospective applicants. The participants were asked about 45 potentially relevant topics for Software AG; 32 of the 45 topics were classified as relevant, 11 of them as highly relevant.

In a second round of consultations with the Management Board, these 11 key issues were supplemented by two additional important topics: social matters and environmental aspects (energy consumption). Software AG's materiality matrix therefore covers a total of thirteen topics:

The 13 Material Topics for Software AG



List of key topics

As part of the 2017 materiality analysis, Software AG identified the following thirteen topics as highly relevant:

Aspects/Subjects	GRI Standards	Minimum content (according to HGB) and other aspects deemed to be material
Customer satisfaction	n/a	Customer concerns
High quality of Software AG products	n/a	Customer concerns
Availability of product support for customers	n/a	Customer concerns
Protection of customer data	GRI 418	Customer concerns
Transparent and trusting corporate culture	n/a	Employee concerns (section 289c (2), no. 2)
Social matters (sponsorship, local projects, employee engagement)	n/a	Social matters (section 289c (2), no. 3)
Energy consumption	GRI 302	Environmental matters (section 289c (2), no. 1)
Equal treatment of all Software AG employees	GRI 405	Employee concerns (section 289c (2), no. 2)
Employee training programs and further education	GRI 404	Employee concerns (section 289c (2), no. 2)
Policies and procedures to combat corruption	GRI 205	Anti-corruption aspects (section 289c (2), no. 5)
Adherence to competition laws and antitrust laws and regulations	GRI 206	Anti-corruption aspects (section 289c (2), no. 5)
Protection of human rights	GRI 412	Human rights aspects (section 289c (2), no. 4)
Elimination of child labor	GRI 408	Human rights aspects (section 289c (2), no. 4)

Code of Conduct and Conventions and Recommendations of International Organizations

The majority of Software AG's concepts and due diligence processes regarding the aspects listed above are represented in the Company's various Codes of Conduct. For that reason, they are summarized below:

Global Code of Business Conduct and Ethics

The **Global Code of Business Conduct and Ethics (Code of Conduct)** contains policies for good and responsible corporate governance. It sets out what Software AG considers to be ethically correct conduct in its day-to-day business. The relationships of Software AG employees with the Company's customers, partners and competitors follow these guidelines. All employees must read and understand the contents of the Code of Conduct. To this end, all employees attend mandatory, Web-based training programs and receive certification upon completion of the programs. The Code of Conduct is currently available in eight languages. In addition, the Company has other specific guidelines for conduct with partners and suppliers.

The Code of Conduct covers the following topics, among others:

- Software AG's values of and professional conduct
- Staff health and safety
- Equal treatment and anti-discrimination
- Data protection and trade secrets
- Fair competition and antitrust law
- Compliance and anti-corruption
- Protection of Company property
- Conduct in the event of conflicts of interest and for clarification of ethical issues

Compliance with the Code of Conduct

Software AG has introduced various mechanisms to help its employees comply with the Code of Conduct. For example,

- All employees must complete a regular online training program, which integrates hands-on examples, to familiarize them with the different aspects of Software AG's Code of Conduct.

- The online training is offered through Software AG's learning management system, which checks that employees complete the training. The duration of the training program varies, depending on the employee's individual speed, and is therefore not documented.

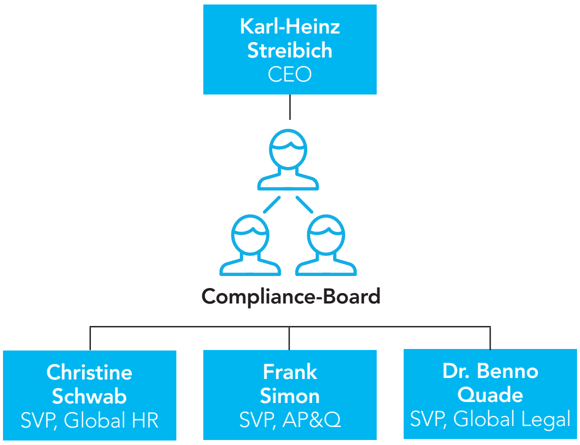
- At the end of the web-based training program, they complete a multiple-choice test; after passing the test, they are issued a certificate. As of December 31, 2017, 96.2 percent of Software AG employees worldwide had successfully completed the training program and received a certificate.

- The Compliance Board can be contacted (also anonymously) regarding all questions and approvals. Software AG has set up an email-based reporting system at complianceboard@SoftwareaAG.com for reporting incidents.

Software AG has established a Compliance Board, which is responsible for introducing, implementing and monitoring the Compliance Program. This Board reviews and assesses compliance issues and concerns and ensures that employees behave in compliance with the law, that internal rules and procedures are followed, and that conduct complies with Software AG's Code of Conduct.

The Compliance Board reports directly to CEO Karl-Heinz Streibich and consists of the following members:

Compliance Board



The essential duties and responsibilities of the Compliance Board include:

- Further developing the Code of Conduct, regularly reviewing and updating it to ensure its sustainable application worldwide
- Monitoring the implementation and application of the Code of Conduct
- Conducting training programs on compliance issues and on the Code of Conduct
- Advising employees on compliance issues and on the Code of Conduct
- Investigating compliance violations and making recommendations for appropriate measures in response to non-compliance
- In the event of non-compliance, the Compliance Board examines whether the compliance rules (including the Code of Conduct), procedures, training and organizational framework conditions need to be adjusted.

Illegal intentions or intentional misconduct on the part of employees cannot be completely ruled out. Violations of the Code of Conduct can be sanctioned by disciplinary measures (in addition to possible legal penalties).

Scope

The Code of Conduct applies to Software AG worldwide, including but not limited to employees, external staff and agents acting on behalf of Software AG.

Partner Code of Conduct

Software AG's business relationships with its partners are regulated by its Code of Conduct for Software AG Partners and Self-Assessment. It requires partners to provide information and commit in writing to compliance with Software AG's Code of Conduct. To this end, they sign the Code of Conduct for Software AG partners and carry out a self-assessment. The Compliance Board plays a regulatory and auditing role.

Supplier Code of Conduct

There are also conduct guidelines for suppliers: Software AG's binding Supplier Code of Conduct is available in eight languages and must be confirmed in writing by all suppliers of the Software AG Group. An enforcement guideline regulates the process for existing and new suppliers as well as the archiving of signed Codes of Conduct. In addition, it gives the Compliance Board the right to perform regular audits to ensure that suppliers are adhering to the Code of Conduct. For suppliers that have their own code of conduct, the Compliance with Supplier Code of Conduct Checklist serves as a basis for comparison and to check their compliance with Software AG's requirements.

Conventions and recommendations of international organizations

In addition to the laws and regulations in the countries where Software AG operates, there are several conventions and recommendations by international organizations. They are primarily addressed to the member states and not directly to individual companies. However, they are a very important guideline for the conduct of a multinational company and its employees. Software AG therefore attaches great importance to compliance with these guidelines worldwide. The most important agreements of this kind are listed below:

- Universal Declaration of Human Rights (UNO), 1948
- European Convention for the Protection of Human Rights and Fundamental Freedoms, 1950
- Tripartite Declaration of Principles of the ILO (International Labor Organization) on Multinational Enterprises and Social Policy, 1977
- ILO Declaration on Fundamental Principles and Rights at Work, 1998 (especially regarding the following topics: elimination of child labor, abolition of forced labor, prohibition of discrimination, freedom of association and right to collective bargaining)
- OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions, 1997
- OECD Guidelines for Multinational Enterprises, 2000

General Aspects

Software AG has established concepts related to the respect of Human Rights and combating corruption and bribery as well as to employee, customer, environmental and social matters. The facts on these aspects are presented below.

Respect of human rights (section 289c [2], no. 4 HGB)

Prevention of human rights violations and child labor

Concepts and due diligence processes

Respect and protection of human rights constitute the foundation of Software AG's international operations. To ensure compliance with human rights and the prevention of child labor, Software AG has established a binding Code of Conduct for employees, suppliers and partners respectively (Code of Conduct). The Code of Conduct is a comprehensive management approach that sets out what Software AG considers to be ethically correct conduct in business. It also addresses issues such as equal rights, (sexual) harassment, child labor and compliance with basic codes of conduct and human rights. In addition, it refers to major international agreements and recommendations of international organizations.

Substantial risks and key performance indicators (performance indicators pursuant to GRI 408 and 412)

Globally active companies face the fundamental risk that the protection of children and young people may not be consistently guaranteed within their business relationships and supplier chains. For this reason, Software AG has taken targeted measures with its Code of Conduct to exclude the risk of child labor. Software AG mitigates the risks arising from working with partners and suppliers by requiring them to commit to excluding child labor and respecting human rights in the respective Codes of Conduct (Partner Code of Conduct, Supplier Code of Conduct). Furthermore, with regard to its own business activities, several years of training are an absolute prerequisite for people working in the IT industry and, in turn, for the vast majority of Software AG employees. The Company therefore sees no risk of child labor within its own business operations or in connection with the use of Software AG's products and services. For this reason, Software AG has not implemented any additional internal procedures or control measures to exclude child labor other than those set forth in the Code of Conduct.

Likewise, Software AG believes that its worldwide operations do not pose a significant risk of its activities having serious negative impact on human rights. Software AG is not aware of any cases where products or product components have been linked to human rights violations. Software AG assumes that its business partners comply with the relevant laws and the Code of Conduct. Software AG's Code of Conduct ensures that its business partners adhere to ethical principles of conduct that go beyond the legislation of their respective countries. As a result of these measures, Software AG believes that the risk of its business partners violating human rights and infringing on the rights of children and young people is very low.

Employee concerns (section 289c [2], no. 2 HGB)

Equal treatment of all Software AG employees

Concepts and due diligence processes

The Management Board of Software AG believes that diversity fosters an innovative corporate culture and that all individuals have a right to equal opportunities. The Supervisory Board of Software AG is aware of the opportunities offered by diversity within the Company and, against this background, developed a diversity concept in fiscal year 2017. This concept introduces diversity objectives for selecting members of the Management Board and the Supervisory Board. In addition, Software AG's Code of Conduct requires that employees interact in a non-discriminatory manner by setting out Software AG's fundamental guidelines and procedures governing equal treatment.

Substantial risks and key performance indicators (performance indicators pursuant to GRI 405)

As a global corporation, Software AG benefits from the high diversity of its employees. A further increase in the diversity of the workforce and an innovative corporate culture offer great opportunities for the sustainable development of the Company's business model. For Software AG, the significantly lower percentage of women studying STEM disciplines represents a high risk for an unequal distribution of male and female employees in technical fields in the future. For this reason, the Company has been making considerable efforts, especially in Germany, to increase the appeal of IT professions for women. Information events and short internships for students are already being offered at the high school level. Moreover, Software AG hosts special information events and participates in diverse projects exclusively for female students and women to boost their interest in STEM professions.

The diversity concept for populating the Management Board and Supervisory Board was taken into consideration in 2017 as part of the selection process in the search for a new CEO of Software AG.

Furthermore, Software AG sees no significant risks associated with its business relationships, products or services that would likely have serious negative effects on equal treatment. Fundamental key indicators of measuring and guiding diversity are listed in the following table:

Management Board and Supervisory Board by Gender and Age Group

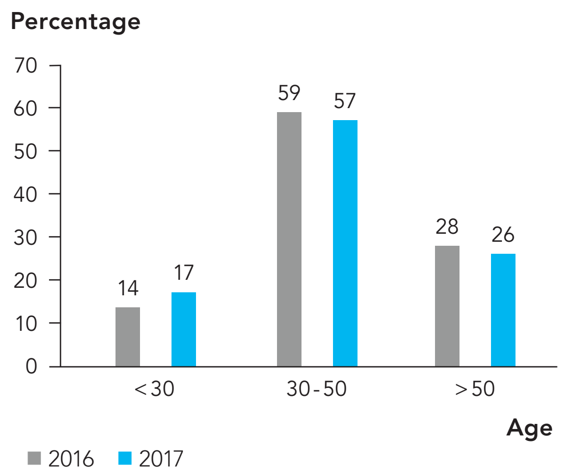
	Dec. 31, 2017	
Supervisory Board	**as %**	**by age group**
thereof male	83.3	>50 years
thereof female	16.7	30–50 years
Management Board	**as %**	**by age group**
thereof male	100	>50 years
thereof female	0	—

Employees* by Gender and Age Group

as %	Dec. 31, 2017	Dec. 31, 2016
Female by age group	**28.1**	**28.4**
<30	4.9	4.3
30–50	15.8	16.4
>50	7.4	7.7
Male by age group	**71.8**	**71.6**
<30	12.0	9.3
30–50	41.2	42.5
>50	18.6	19.8
Diverse by age group	**0.1**	**—**
30–50	0.1	—
>50	0.0	—
Total	**100**	**100**

* Adjusted for dormant employment contracts. There were no significant changes or seasonal fluctuations in the number of employees during the year.

Age Group Trend



Total Number of Employees* by Gender

Full-time employees	Dec. 31, 2017	Dec. 31, 2016	Δ as %
Male	3,300	3,219	3
Female	1,291	1,252	3
Diverse	5	—	—
Total full-time employees	**4,596**	**4,471**	**3**

Total Number of Employees* by Region

Full-time employees	Dec. 31, 2017	Dec. 31, 2016	Δ as %
thereof in EMEA	1,627	1,603	1
thereof in APJ	1,025	948	8
thereof at HQ	840	828	1
thereof in North America	596	624	–4
thereof in DACH	402	361	11
thereof in LATAM	106	107	–1
Total full-time employees	**4,596**	**4,471**	**3**

Total Number of Employees* by Employment Type and Gender

	Dec. 31, 2017	Dec. 31, 2016	Δ as %
Full-time	**4,280**	**4,156**	**3**
thereof male	3,207	3,110	3
thereof female	1,069	1,046	2
thereof diverse	4	—	—
Part-time	**316**	**315**	**<1**
thereof male	93	93	0
thereof female	222	222	0
thereof diverse	1	—	—
Total salaried employees	**4,596**	**4,471**	**3**

* Each as full-time equivalents, adjusted for dormant employment contracts. There were no significant changes or seasonal fluctuations in the number of employees during the year.

All information is based on key personnel data from Software AG's global database. The data were retrieved as of 31 December 2017, and all information is presented as FTE (full-time equivalent). Staff members who are not salaried employees of Software AG do not account for a significant proportion of the organization's activities.

Transparent and trusting corporate culture

Concepts and due diligence processes

Software AG's corporate culture encompasses the values, norms and attitudes that shape the decisions, actions and conduct of its members. Software AG employees live these values and norms every day. To ensure responsible corporate governance on a long-term basis, the shared guidelines for conduct have been set out in the Code of Conduct. In addition, in 2017, Software AG adapted its Leadership Principles to the requirements of a modern, open and transparent corporate culture within which all persons are treated as equals. The focus is on the guiding principle of authentic leadership with the aim of creating an environment in which staff and managers strive for excellence in everything they do.

The Leadership Principles of Software AG

The Leadership Principles are a guideline for continuously improving one's own performance, for developing new ideas or finding the best solution to a customer's problem. This quest for excellence is based on six pillars:

- **Customer Centricity:** The customer is the focus of our attention. Driven by a passion for our technology, we work closely with our customers to achieve the best-possible solution for them.

- **One Winning Team:** We work together across divisions and regions as a strong team in which the contribution of each individual counts.

- **Empower to Achieve Results:** Empowering and endowing employees with the necessary authority ensures that they feel responsible for achieving the best-possible results.

- **Innovation and Openness to Change:** We are open-minded and curious about new things and create space to develop creative, new and innovative solutions together with our customers or for our

- **Agility and Speed:** We carry out necessary changes quickly and flexibly.

- **People Focus:** All of the above can only be achieved if we appreciate and respect our employees. Employees need to feel that their performance is valued in order to perform at the highest level.

Software AG rolled out the new Leadership Principles in 2017 and integrated them into its employee development program and brand identity. In 2018, Software AG will continue to develop training programs and workshops on leadership principles and to drive forward the process of building and consolidating a transparent and trusting corporate culture. The focus will be on cooperation, communication and the recognition and empowerment of each individual employee. The Company’s leadership is closely involved in the development of these concepts and measures.

Substantial risks and key performance indicators

Software AG could not identify any significant risks to a transparent corporate culture associated with its own business activities, relationships with suppliers and partners, or its own products and services.

Measures promoting a transparent and trusting corporate culture will continue to be implemented and expanded. Training on the six pillars, including presentations by top management and training sessions, was offered as part of the Leadership Principles rollout. Software AG offers its employees a total of eleven different leadership and management training programs through its learning management system, iLearn. This portfolio was developed primarily in 2017. Two of these courses focus exclusively on Software AG's Leadership Principles, providing a general introduction and then an in-depth immersion into the Leadership Principles through a series of courses. Moreover, tailored management training is offered at the Company's locations as needed. The goal is to reach as many managers and employees as possible with this offering, and, so far, the staff response has been very positive. Around 1,300 employees signed up for both of the Leadership Principles offerings in 2017 alone. The courses will continue to be offered and expanded in 2018.

Training programs and further education measures

Concepts and due diligence processes

Software AG's Corporate University offers numerous training courses for all employees which can be accessed via the iLearn learning management system. The program includes online and face-to-face courses by the Company's own trainers and external trainers. Employees can book free training courses at any time. Training courses that are subject to a fee require the approval of an employee's manager; additional courses are provided by the Human Resources department and the Corporate University.

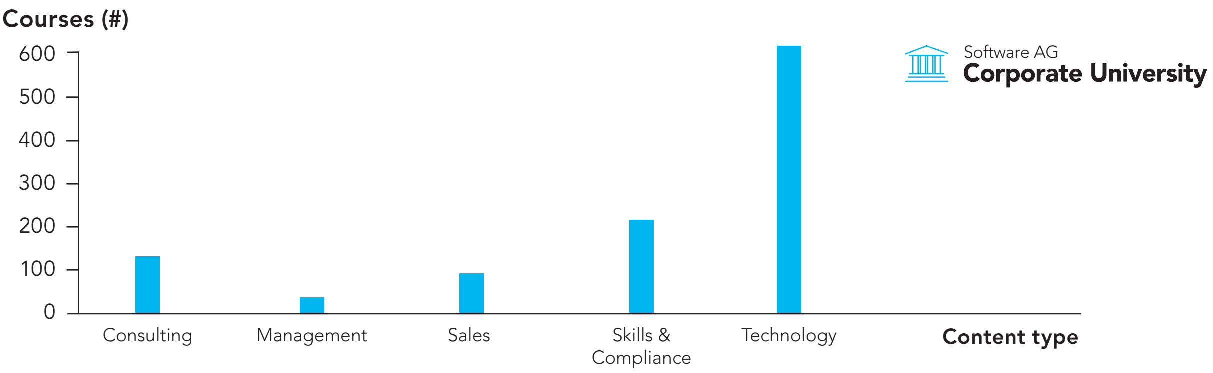
The entire training program is made available to all employees online in iLearn. In 2017, Software AG offered a total of 1,128 courses, of which 880 were e-learning courses. The vast majority of the courses were on technology topics. The portfolio of internally developed courses on soft skills was expanded significantly in 2017; it now comprises more than 130 courses, a little over 10 percent of all programs offered. Software AG deliberately focuses on developing in-house training solutions, as past experience has shown that these courses are more widely accepted by employees.

The Corporate University's course offerings are closely aligned with the requirements of the market, Software AG's users and products, the organization and its management and employees. The involvement of top management is especially crucial with offerings covering employee development and the Company's culture. The Management Board and top management levels are involved the topics regarding the leadership culture. In fact, the CEO emphasized the importance of the Leadership Principles drafted by the Management Board in an interview available to all employees as an e-learning offering. The Leadership Principles have flowed down from the top management level, and more e-learning offerings for managers will establish them in the Company's culture of living out these values.

iLearn's global training encompasses standardized training programs, such as basic training for new employees, the Global Consulting Services or the Sales Enablement Program. The Company has mapped out development paths to prepare employees for product certification or to provide training and further education for Software AG product consultants. Employees and their managers agree on an individual learning plan, which is documented in iLearn. In addition, there is a range of courses focusing on executive development, including courses for future talents and senior executives as well as business management courses for top management.

Regular performance and career development reviews are mandatory at Software AG. These reviews are supported by appropriate software and take place in the first and second quarter of a year for the previous year. In 2017, the fulfillment rate was 90 percent. The process does not apply to line–1 managers or probationary employees.

Course by Content Type



Information on substantial risks and key performance indicators (performance indicators according to GRI 404)

In a highly competitive market environment, neglecting ongoing training for their own employees poses a risk for companies. For that reason, Software AG is committed to the continuous training and further education of its employees, seeing it as an opportunity for achieving a significant competitive advantage. This is because Software AG's employees contribute decisively to the Company's business success with their professional and personal skills- Approximately 90 percent of the courses in the Corporate University's program are up-to-date, virtual online courses offered by internal and external providers. The remaining 10 percent of the courses offered are standard face-to-face training courses.

The satisfaction of the course participants is continuously monitored, which involves evaluating the training offered and adapting it to meet demand. The system provides reports with information on the registration, number and satisfaction of participants. According to the feedback, an average of 85.9 percent of participants were satisfied with the courses, which represents a further improvement of 1 percent compared to the previous year. The utilization rate of the program was also very good: In 2017, Software AG's employees registered for approximately eight courses on average across all divisions and regions. In particular, our own tutors and trainers received high approval ratings, with an average of 89.2 percent, showing that "everyone is a student and a teacher" is an approach that meets with broad acceptance and generates high quality.

Combating corruption and anti-competitive behavior (section 289c [2] no. 5 HGB)

A company's reputation is one of its most important assets and the basis of all relationships between employees, customers, partners, shareholders and a company's competitors. Alongside its efforts to survive in a highly competitive market environment, Software AG makes it a priority to act and do business responsibly and with integrity.

Concepts and due diligence processes

Software AG has therefore introduced a Code of Conduct that requires fair (competitive) conduct; all employees have to comply with all applicable antitrust and competition laws. Appropriate training and the clear rules of the Code of Conduct promote integrity and fair business practices at Software AG in the many countries where it operates. Employees with questions about competition and antitrust can consult the Software AG legal department responsible for their region or the Compliance Board. Software AG makes every effort to maintain integrity and fairness and to establish appropriate control measures.

The Code of Conduct sets out actions that are prohibited (without restriction), which include the following:

- Agreements with competitors that harm customers, such as price fixing, collusive arrangements regarding tenders and agreements that exclude competition for customers or contracts

- Agreements according to which the freedom of a customer or supplier to sell a product is unreasonably restricted, including agreements setting a resale price for a product or service, setting unreasonable terms and conditions for the sale of products, technologies or services and agreements according to which other Software AG products and services are purchased

- Attempts to monopolize, for example by exploiting a dominant market position in order to exclude others from competition

- Acquisition of information on the competition using illegal or unethical methods

The Compliance Board reviews and assesses compliance issues and concerns and ensures that employees behave in adherence with the law, that internal rules and procedures are followed, and that the Company's conduct complies with the Software AG Code of Conduct. The Compliance Board reports to the CEO. In the event of potential compliance violations, the Compliance Board continues to commission internal audits. These are approved by the CEO and carried out by Internal Audit. The results of the audit and the resulting corrective measures are reported to and reviewed by the Compliance Board and the CEO.

Software AG's Senior Vice President for Audit, Processes and Quality regularly reports the results of internal audits to the Supervisory Board's Audit Committee. This also applies to the results of the audits commissioned by the Compliance Board. The reports also cover other topics such as the continuous improvement of Software AG's compliance instruments and the effectiveness of internal controls.

Substantial risks and key performance indicators (performance indicators according to GRI 205 and 206)

Risks from corruption and anti-competitive behavior arise in international business activities due to differences in understanding regarding ethical and moral business practices from one country to the next. Software AG's goal is for all employees to adhere to its Code of Conduct. Software AG's employees are regularly informed about the regulations and measures for combatting corruption and anti-competitive behavior. To this end, the CEO sent the Code of Conduct to all employees by email when it was originally introduced. Since then the Code of Conduct has been part of the welcome package that all employees receive worldwide when they join the Company. A total of 96.2 percent of all Software AG's employees have completed training on the Code of Conduct and received the required certification. All Software AG's business partners are required to sign either Software AG's Partner Code of Conduct or Supplier Code of Conduct. The Compliance Board assesses and rules upon exceptions to this rule.

Software AG has added issues related to fraud detection and prevention to its annual internal audit plan for countries with a specific fraud detection index. The Company does not have a risk management department that explicitly deals with the detection of fraud at its locations.

In 2017, the Spanish Antitrust Authority (Comisión Nacional de los Mercados y la Competencia[CNMC]) has opened an investigation into Software AG ESPAÑA, S. A. Unipersonal (Software AG Spain) and 13 other IT companies. CNMC is accusing Software AG Spain of being involved in "covert tenders," price fixing, disclosure of information and other anti-competitive activities. Software AG investigates incidents of this kind at the top management level and, when necessary, implements and adapts measures as part of its fundamental concepts and due diligence processes to prevent them from recurring. Overall, Software AG estimates the risk from corruption and anti-competitive behavior to be low due to the measures it has taken.

Customer concerns

Customer satisfaction

Good working partnerships are based on trust, commitment and shared exchange. For Software AG, the success of its customers is and remains a goal to which the Company is firmly committed. For this reason, it regularly surveys its customers and also expects and encourages Company employees to suggest customer-centric solutions. In addition, it applies design-thinking methods so that it can quickly provide its customers with solutions that offer high benefits.

Concepts and due diligence

A key objective of Software AG is to promote innovation and competitive differentiation among its customers and to support their successful digital transformation. The three objectives of Software AG's Customer Satisfaction Program are closely linked to this.

Communication: Software AG attaches great importance to open communication with its customers. To improve its processes, products and services, it collects and reviews customer feedback on a regular basis.

Collaboration: Software AG collaborates closely within its own organization, within its partner network and with its customers to ensure that its customers get the maximum benefit from Software AG technology.

Co-innovation: Software AG uses state-of-the-art design-thinking methods in Research & Development to deliver constructive and relevant customer solutions as quickly as possible.

Substantial risks and key performance indicators

Software AG could not identify any significant risks to customer satisfaction associated with its own business activities, relationships with suppliers and partners, or its own products and services.

Each year, Software AG conducts a survey in order to understand its customers' experiences with Software AG. Depending on the type of collaboration with Software AG, customers are also regularly asked about their experiences with Software AG by the Global Support department, Global Consulting Services or Global Education Services. The aim of these surveys is to ensure that all customers are completely satisfied with the collaboration at all stages of the interaction.

Response Rate for the 2017 Customer Satisfaction Survey

as %	2017	2016	2015
Total	**8.9**	**5.5**	**1.7**

Summary of worldwide results of the 2017 customer satisfaction survey

The response rate of the worldwide customer survey rose significantly in 2017. This was because the distribution lists had been updated to specifically include active customers in the survey. Customer satisfaction, measured by the Net Promoter Score, increased further in 2017 in all regions except North America. In particular, the global brand perception of the Digital Business Platform improved compared to the previous year. In APJ, South EMEA and North America, the assessment of the Global Consulting Services department developed positively. The assessment of the Global Support department generally remained stable compared to 2016, with a positive trend in the APJ and South EMEA regions. Altogether, more customers stated that they would like to have more frequent contact with their sales representative.

The customer survey also included questions about market trends—relevant information for drawing conclusions about digitalization and IoT projects with Software AG customers. According to the results, 62 percent of the companies surveyed have begun their digital transformation and see the implementation of new technologies as the greatest challenge in this context. In the field of IoT, security and IT infrastructure issues are the most important challenges. The survey also included questions on customers' wishes for improvement, as they are an important starting point for Software AG to implement suitable measures to further increase customer satisfaction in the future.

Assurance of Software AG's high-quality products

Concepts and due diligence

Software AG's actions are driven by the desire to create added value for its customers and thus to contribute to their success. Software AG wants to enable its customers to differentiate themselves from their competitors in the digital world. In order to achieve this goal together, each Software AG employee is committed to the following values:

- The customer is at the heart of all dealings, from collaboration and co-innovation in the development of new products through to the way Software AG sells its services and solutions
- Compliance with laws and regulations regarding quality, safety and performance requirements in all countries where Software AG sells its products and services.
- Support and continuous improvement of Software AG's business continuity management system

Software AG will pursue these commitments in a transparent and consistent manner with the help of clearly documented processes, performance indicators (such as quality objectives, routine quality management reviews) and a corporate culture focused on quality. Software AG implements measures that aim for continuous certification in the areas of quality management, business continuity and information security. With the measures described below, the Company is working to reduce the possible risks that can arise from insufficient product quality.

ISO 9001-certified quality management system

Software AG's ISO 9001-certified quality management system (QMS) provides a basis for high levels of customer satisfaction, high-quality support services and software as well as continuous improvement. The product development and Global Support systems and all supporting functions are part of Software AG's QMS. They lay down the processes, roles and rules that apply to every employee in his or her daily work routine. They also set out how important systems are secured.

The quality management system

- Verifies compliance with laws and regulations regarding quality, safety and performance
- Ensures Software AG's ability to provide support services to its customers
- Clearly defines transparent processes
- Is the basis for continuous innovation within an agile development environment
- Integrates feedback to ensure that Software AG can deliver high-quality software to help its customers gain a competitive advantage

ISO 22301-certified business continuity management system

Software AG's ISO 22301-certified business continuity management system is highly digitalized. It incorporates proven governance processes and makes provisions for incident response teams and duplications of critical infrastructure and applications. This ensures that the central systems needed by Software AG's customers to meet their compliance requirements are available. The system enables Software AG to quickly provide its customers with the services they need, also in crisis situations. The system is constantly adapted to changing requirements and regularly monitored; its efficiency is continuously improved.

ISO 27001-certified cloud information security management system

The ISO 27001-certified cloud information security management system provides the basis for:

- Protecting information in the cloud from unauthorized access and use and protecting information from being passed on, changed, disclosed, viewed, stored or erased
- Proactively identifying security risks, preventing and detecting security breaches and violations and responding to them
- Compliance with legal, regulatory and contractual obligations
- Identifying potential for improvement, introducing appropriate improvements and reviewing their effectiveness

This certification is crucial to win and maintain the trust of potential and existing cloud customers and to meet the compliance requirements that they place on their suppliers.

Quality specifications for product development

Software AG's investments in quality management are closely linked to its commitment to customer-centric development. This means that the customer is closely involved in the cycle, starting from the idea through to the product. Clearly defined development and testing processes combined with feedback loops ensure that the Company has the agility and flexibility needed to deliver first-class software, enabling Software AG' s customers to achieve their competitive advantage. Regular software releases, updates and continuous improvements provide a sound foundation for operational efficiency and excellence.

Availability of product support for customers

Concepts and due diligence

In the digital world, customers expect Software AG to provide worldwide support 24/7, ensuring the continuity of their core business systems. In order to meet these expectations, Software AG's Global Support is committed to meeting the highest quality standards at all organizational levels. This is achieved through:

- Empowerment of employees
- Continuous improvement of employees' competencies
- Continuous measurement and monitoring of customer satisfaction
- Utilization of innovations to improve customer experience and own efficiency

Software AG's strategy for maintaining business continuity ensures that its customers receive the necessary services at all times.

Global Support quality guidelines

Software AG's Global Support is certified according to ISO 9001. This certification speaks for the high quality of Software AG's processes and tools. The success of its customers is Software AG's top priority, from the very first day a customer starts using the Company's products. With Enterprise Active Support, Software AG provides fast, agile and proactive customer support for its Digital Business Platform and its business-critical Adabas & Natural applications.

Customers who choose Enterprise Active Support benefit from industry-leading performance and fast response times in any time zone. The Enterprise Active Support services include:

- 24/7 support, including telephone support
- Technical support for critical cases
- Access to Empower, the 24/7 customer support portal and self-service extranet
- New product versions, patches and fixes

Software AG's Global Support helps customers in the event of a problem with a wide range of problem-solving measures. These include diagnosing and analyzing errors, evaluating diagnostic data and providing support with problem-solving. In addition, customers can consult Software AG's Knowledge Center to see if their problem is already known and if there is a solution to it. Customers reach Global Support and the Knowledge Center via Empower. With the login data for Empower, customers can also access Software AG's communities and discussion forums, where they can get in touch with experts, ask questions, obtain advice and share solutions and workarounds with other users.

The Global Support department has introduced processes for reporting and solving problems, for reporting critical problems, and processes for escalating problems to a more senior level. For example, a Strategic Support Manager coordinates all of Software AG's activities on behalf of a customer, ensuring that optimal solutions are found for complex problems. Furthermore, processes have been set up to ensure continuous feedback and, in turn, constant improvements. For example, when a fault report is closed, Global Support automatically sends out a questionnaire to the customer.

Protection of customer data

The protection of personal data is a fundamental right of individuals. Article 8 of the Charter of Fundamental Rights of the European Union (EU) defines the protection of personal data as a fundamental right; the protection of personal data is also part of EU data protection laws in accordance with the EU Data Protection Directive 95/46/EC. The new EU General Data Protection Regulation (GDPR) will enter into force in May 2018. Software AG respects the privacy of its customers' and their customers' personal data and must therefore take appropriate measures.

Concepts and due diligence

Software AG has appointed a Data Protection Officer and formed a data protection team to advise the business units on data protection. An integrated data protection management system (DMS) is currently being implemented in accordance with the requirements of the GDPR. The processes for handling data protection incidents and violations are integral components of the DMS, including incidents and violations that affect customer data. Software AG is implementing this new DMS with its own products ARIS, ARCM and Alfabet.

The effectiveness of the data protection processes is reviewed within the scope of the ISO 9001 audit. The results and findings are documented, and progress is measured in a central audit system. Management is regularly informed in relevant meetings.

Substantial risks and key performance indicators (performance indicators according to GRI 418)

In 2017, there were no incidents at Software AG in which customer data was violated or lost. No incidents were reported in accordance with the provisions of the applicable data protection laws. Overall, the Company classifies the situation with regard to protection of customer data as neutral in terms of risk and opportunities.

Social matters (section 289c [2], no. 3 HGB)

Dialog at the regional level and local community development

Concepts and due diligence

Software AG pursues the goal of networking with the communities where it operates and contributing to their well-being as a good corporate citizen. The topics of the environment, social matters and responsible corporate governance are firmly anchored at the highest levels of Company leadership. Software AG's concept is to address social concerns at the regional level. The management is involved accordingly in developing measures for local issues. Ever since Software AG was founded, social commitment has been a central part of its corporate culture. The Company is proud that so many colleagues around the world are involved in numerous volunteer projects and is happy to support and reward this commitment. The social commitment of Software AG's employees is reflected in many local projects at its locations throughout the world. Information on the individual projects is regularly updated at Software.AG/csr/en/.

The cornerstones for sustainability and responsible action were laid by the Company's founder, Dr. Peter Schnell, and his principles are still firmly anchored in Software AG's corporate culture today. He established the Software AG Foundation 26 years ago, which is an anchor investor with a shareholding of just under 33 percent.

Software AG's own activities, such as its worldwide campaign "Move Your Feet to Give a Hand," are designed to build a bridge between Company sports, team spirit and charitable and athletic commitment. Software AG, the representatives of the Supervisory Board and the Software AG Foundation donate a fixed amount of money for each kilometer run by employees at official running competitions. In 2017, staff members covered a distance of 6,376 (2016: 5,380) kilometers and raised a donation of €28,000 (2016: €24,000). Since the campaign began 10 years ago, Software AG's employees have covered 87,951 kilometers in total, more than two times around the world. Employees can make suggestions on which non-profit organizations the money should go to.

In particular at its corporate headquarters in Darmstadt, Software AG is firmly rooted in the region and is involved in numerous projects, working with and on behalf of a wide range of stakeholder groups.

Software AG has been a sponsor of the SV Darmstadt 98 soccer club (the Lilies) for many years. As part of the club's social campaign "Under the Sign of the Lilly," Software AG supports charitable activities to help people with mental or physical disabilities, such as organizing soccer training for disabled athletes in cooperation with Special Olympics Hessen.

Software AG is committed to strengthening the IT industry in Germany. As an active member of several industry networks, Software AG plays a strong role in shaping the political and economic landscape. Beginning with the modernization of the education system, continuing with the advancement of IT start-ups through to securing future-oriented jobs, Software AG is dedicated to developing the scientific and economic strengths of its industry in order to sustain the innovative capability of Germany as a competitive IT location.

The ongoing digitalization of education is an integral part of the German government's digital agenda and a central field of action—in classrooms, lecture halls, vocational schools and companies. Digitalization is a topic that broadly affects business and society at large, resulting in a need for basic broad-based digital education in schools, from elementary school onwards. Since 2007, Software AG has had its own University Relations Program, another example of the Company's social responsibility. Its goal is to develop digital competencies at universities and colleges worldwide. Training in elementary and high schools is new. In this context, at the10th Digital Summit in Saarbrucken, Software AG presented a micro-computer called "Calliope mini," which was tested in unique pilot lessons at the-Robinson Elementary School in Hattersheim, Germany. Software AG has made the results from this pilot instruction program available to the public in the form of YouTube instructional videos that can be accessed free of charge. To further support early childhood IT education, Software AG has also joined the non-profit association "Wissensfabrik," which supports a network of about 130 companies and foundations with the exchange of knowledge and experience in order to promote digital education.

Software AG participates in various research and innovation projects as a business partner. This also applies to the "System Innovation for Sustainable Development" research project at Darmstadt University of Applied Sciences. Its aim is to establish a learning system in the field of information and communication technologies for transparent and sustainable supply chain management. Software AG makes its expertise and technologies available for the focus on "sustainable consumption and production." Taking the example of leather chemistry, potential is being explored to find out how IoT solutions can be used to achieve full traceability of products, detect or even prevent impurities or unwanted contaminations at an early stage, and provide innovative and environmentally responsible ideas for the leather industry.

Substantial risks and key performance indicators

Software AG has not identified any significant risks in the area of social matters. Rather, it sees an opportunity here to give back to society—and especially the local communities of its operations worldwide—as part of its dedication to corporate social responsibility. Another example of the Company's social commitment is the local programs that support community development. Every full-time employee of Software AG in North America has the right to dedicate eight hours a year to volunteering. There is a similar program in Germany which enables employees to take paid leave to do voluntary youth work.

Environmental matters (section 289c [2], no. 1 HGB)

Software AG's technological solutions are already helping many customers to make optimal and sustainable use of their resources. Software AG feels a strong sense of responsibility for the environment: The 1,201 employees in Germany are supplied with green electricity. In addition, at the Company headquarters in Darmstadt, the waste heat from the servers is used to heat the building. The cafeteria offers the staff in Darmstadt a wide range of organic meals made with locally sourced products.

Energy consumption

Concepts and due diligence processes

Software AG is convinced that innovative technology developments always offer an opportunity to increase efficiency and conserve resources. This, in turn, has a positive effect on the environmental balance. As an IT company, Software AG wants to help reduce its carbon footprint by focusing on cutting its own energy consumption and using renewable energies for all of its operations in Germany.

Software AG takes a holistic approach to all aspects of energy management, demand and procurement for all its operations and is working toward reducing its energy footprint by saving energy and using more renewable energies. Electricity is the most important source of energy. The Company prefers electricity from renewable sources. In Germany, Software AG already obtains 100 percent of its electricity from renewable sources or produces it on-site itself.

To control power consumption for all its locations, Software AG continually implements energy-saving measures, such as retrofitting lighting systems, replacing motors and upgrading building technology. When planning the construction of new buildings, it pays close attention to making use of natural light, installing shading systems and state-of-the-art building technology. Software AG is also looking for ways to improve the energy intensity and performance of its data centers and to reduce energy consumption through innovation. Indeed, it has set itself the goal of reducing the energy intensity of its entire portfolio.

Substantial risks and key performance indicators (performance indicators in accordance with GRI 302)

Energy efficiency is of key importance to Software AG: It helps to reduce costs, achieve sustainability goals and reduce (environmental) risks. However, it is not only about saving money. Software AG's product portfolio forms the basis for the business operations of numerous companies worldwide. Software AG enables them to use resources intelligently and efficiently. In this way, customers leverage Software AG's solutions to improve their own energy footprint and reduce their CO_2 emissions.

On the whole, Software AG's business model incurs only a very low risk of negatively impacting the environment. The Company also sees the issue of environmental concerns as opportunity and risk neutral with regard to further consideration of its supply chain, products and services.

Energy Consumption in 2017

Key indicators for energy consumption*

Year	Employees (EMP)	m²	kWh/year	kWh/m²	kWh/EMP
2016	2,956	68,849	9,298,914	135	3,146
2017	3,042	69,225	8,639,678	125	2,840

* The data was collected from the Company's major locations and represents about 80 percent of Software AG's total floor area. Data from the USA was not available at the data collection deadline.

Energy consumption was reduced in 2017 from 135 to 125 kWh/m² (–7 percent) and per employee from 3,146 kWh/EMP to 2,840 kWh/EMP (–10 percent) due to the continuous upgrades in building technology, additional insulation and more energy-efficient systems including lighting systems (retrofitting with LEDs), modern window shades and air conditioning systems.

OPPORTUNITY AND RISK REPORT

Opportunity and Risk Managment

Goals

Software AG's primary goal is to generate long-term, profitable growth and increase enterprise value. To that end, we combine established 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 potentially 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 and opportunities from ongoing business, for example, by keeping a constant eye on product and service quality and managing exchange rate developments.

Organization

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. Risks are to be understood as deviations from planned values. Strictly speaking and as is customary in everyday spoken language, risks are defined as negative deviations from planned values, and opportunities as positive deviations. 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 the established channels. Software AG updates and monitors the applicable specifications for preventing and mitigating threats on an ongoing basis throughout the Group.

Responsibility

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 opportunity and risk management system

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.

Finanzen

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.

Treasury

The Corporate Treasury team creates daily cash reports and weekly hedging transaction reports for the Management Board. It also presents the European Monetary Infrastructure Regulations (EMIR) reports on a monthly basis. High-risk foreign-currency and hedging transactions may be conducted by the Corporate Treasury team only, which reports directly to 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 receivables management process is monitored centrally by the Treasury department.

Interne Revision

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 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 ooperation 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, a preventative internal control system, 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.

- Upon completion of 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 central interdisciplinary core team of directors from 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 responsible member of the Management Board. Risks are evaluated according to a uniform valuation system. The system considers the potential impact to Group EBIT for the next three years to determine the risk category. This impact is calculated taking into account the risk-mitigating measures taken by management.

Expected impact on EBIT in the next 3 years (cumulative) in € millions	**Risk category**
20-50	low
50-200	medium
> 200	high

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 high 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 into three risk levels according to probability.

Probability as %	**Risk level**
0-33	unlikely
34-66	likely
> 67	highly likely

Probability between 0 and 33 percent is valued at an unlikely risk level, between 34 and 66 percent at likely and above 66 percent at highly likely. The risk categories and levels are aggregated and assigned an equivalence marker based on expected values. These are then assigned to one of three cumulative risk signal levels.

Risk signal	**Risk relevance**
green	insignificant
yellow	medium
red	significant

All strategic risks and opportunities are evaluated based on this uniform risk matrix. Risks and opportunities not considered of strategic nature were not included in the risk matrix. All Software AG managers are responsible for reporting newly identified strategic risks and opportunities

to the core team at corporate headquarters. The team then informs the Management Board for advice on possible strategies for handling them. The core team reports to the Management Board regularly about the ongoing development of the identified risks and 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 and opportunities as well as appropriate measures for managing them.

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. When necessary, suggestions for improvement are prepared and implemented, which 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

Software AG presents key risk and opportunity areas and individual risks and opportunities discerned from the totality of risks and opportunities identified through the risk and opportunity management system in the Opportunity and Risk Report.

Environment and sector risks and 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.

Market opportunities

Software AG sees itself as a technology leader in the enablement of enterprise digitalization. This strong trend in the Internet of Things (IoT) segment is a big opportunity for Software AG's future development. Software AG expects annual growth of up to 100 percent in the IoT segment of the Digital Business Platform (DBP) in years to come.

European national 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 4.0 percent (2016: 3.6 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Portugal, Italy, Greece and Spain) in fiscal year 2017. The majority of that was from Spain. Software AG is not conducting business in Greece.

Brexit

Given the exit of Great Britain from the European Union, uncertainties have arisen with respect not only to the future of Britain's economy but of Europe's as well. The specific impact is currently not foreseeable since exit negotiations have not yet concluded. It is therefore impossible to make exact predictions other than the existing uncertainty. The British market is one of Software AG's most important markets. The fact that Software AG operates in all key financial centers of the European Union should have a risk-mitigating effect. Any financial companies that leave the United Kingdom to resettle in another EU country, such as Germany, France or Ireland, can be served by Software AG subsidiaries in the relevant location.

USA

The USA is Software AG's most important market. Software AG operates its own Sales organization in the USA with significant portions of other corporate departments like Marketing and R&D there as well. Having key local IP rights in the region leads to considerable royalties for the Company in the USA. A large percentage of Group profits is generated and taxed in the USA. The tax reform passed at the end of 2017 significantly reduces Software AG's tax burden assuming otherwise constant conditions. This will result in an expected increase of 5 to 10 percent in after-tax earnings per share in years to come. Because key parts of the Software AG group are based in the USA, it does not anticipate any major disadvantages from the current administration's "America First" strategy, despite being a German company. We also don't foresee any substantial risks to our global business resulting from the USA's global trade policy. Market opportunities should outweigh risks because the U.S. economy is currently doing very well.

Corporate strategy risks and opportunities

Product innovation

The software sector is subject to very fast innovation cycles with respect to new products as well as to go-to-market models, particularly user-dependent (pay-per-use) IoT and cloud models. These are based on constantly changing customer, market and integration requirements. Hitting the right balance between product quality on one hand and faster product innovation on the other is therefore of utmost importance. Technological and legal risks are higher in the cloud business than in the previously prevalent on-premise business due to data protection and security. Through consistent, externally certified quality management, the use of uniform product quality control standards and the creation of a cross-departmental response team for arising data protection and security failures, Software AG is accounting for the increased risk associated with the cloud business. Software AG also began contracting digital forensic specialists.

Because future trends in the software market are difficult to predict, there is a risk associated with not being able to recognize new innovation trends or not in time. This can lead to an insufficient focus on growth-relevant products. Large competitors have greater financial resources for innovation and ongoing development of their product portfolios. Software AG's business development is thus susceptible to being negatively affected by new competitor products. Furthermore, Software AG cannot allow its focus on existing markets to be impaired.

To minimize this innovation risk, significant investments have been and are being made in the development of the product portfolio. Ongoing assessment of future market development is conducted in cooperation with leading technology analysts such as Gartner and Forrester. 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 the industry in the context of innovation risk is to optimally allocate R&D resources. Specifically, the risk of not focusing sufficiently on future growth-relevant topics exists. We reduce this risk by implementing our functional square (sales-marketing-R&D-M&A) and by close contact with customers in all industries and countries. When new trends arise, Software AG enhances its product offering with acquisitions, as illustrated most recently by Cumulocity last fiscal year.

Entering the new IoT market offers major market opportunities for Software AG through 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. In light of the ever-faster moving trend toward Industry 4.0 and the advancing digitalization of organizations in the private and public sectors, Software AG can help shape markets from its position of innovation leadership.

The product risks described here were categorized as risk signal yellow (2016: yellow) at the end of 2017.

Market risks and opportunities for the Digital Business Platform (DBP), including IoT

Software AG's is committed to its focus on becoming the world's leading provider of digital business platforms. This strategy was expanded and stabilized with the Company's entrance into the IoT market. Through its own R&D efforts and targeted technology acquisitions, the Company will continue investing in product innovations that play a key role for customers in maximizing the opportunities of digitization. But, as innovation leader, Software AG competes with other companies also seeking to forge and dominate this market. This strategy requires a large investment in sales and marketing.

The Digital Business Platform combines the ARIS, Alfabet, webMethods, Apama and Terracotta product families. For this reason, the Digital Business Platform market includes sub-markets such as business process management software, integration software, business process analytics, governance risk and compliance analysis, enterprise architecture management and critical event processing as well as other smaller sub-markets. A segment of these markets is moving toward IoT. Software AG is striving to secure market leadership in that area, which requires a fast technological and go-to-market innovation speed. IoT companies were therefore acquired: Zementis in 2016 and Cumulocity in 2017. The IoT market is very likely to advance rapidly in the next two to three years. There is thus a significant risk associated with developing this business segment successfully with the necessary speed. But the increasing focus on IoT market development poses the risk of losing focus on the traditional DBP business. Software AG's challenge is to continuously improve the individual products as well as the platform as a whole. The modular, vendor-neutral structure of the Digital Business Platform and its ability to build on any vendor's systems represent a particular opportunity. The Digital Business Platform offers users a high degree of investment protection as it enables them to develop and integrate their own innovative applications quickly and flexibly based on their existing IT landscapes.

There is an additional challenge associated with building replicable solutions based on the Digital Business Platform in order to benefit from economies of scale. The replicability of solution scenarios developed therefore influences the profitability of the business line. The global advancement of digitalization offers a big opportunity. According to leading market analysts, the core components of the Digital Business Platform—integration software, process optimization solutions and analytics tools for big data and especially IoT—are exceptionally promising fields of growth.

Software AG's DBP solutions are gaining strategic importance with customers as they are increasingly employed for the transformation of entire business models. This results in opportunities and risks. On one hand, deal sizes are growing, and the number of Digital Business Platform multi-product deals are rising. But on the other, the situation requires a focus on a limited number of strategic customers and landing large-scale deals with them. This leads to longer go-to-market processes and the risk of more volatile license revenue in individual quarters.

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

- Implementation of new IoT business line
- Launch of the ADAMOS strategic alliance and strategic partnerships with other leading IoT companies
- Creation of a separate IoT Sales organization and ongoing Sales support of IoT partners
- Expansion of Sales using references
- Focus on larger country organizations with sufficient numbers of technology consultants
- Smaller country organizations focus on individual products or industry solutions with support from global competency team
- Existing customer relationship maintenance and improvement
- Ongoing supervision of go-to-market results and early response to problematic developments
- Identification and realization of further DBP use cases (digital city/digital administration, etc.)

The DBP business line offers major opportunities for Software AG's future business development, especially due to its technology lead and fast development of the IoT market as well as the rapidly growing enterprise digitalization trend. (For more information, refer to the market opportunities described above.) These risks were given the red risk signal at the end of 2017 (2016: red).

Market risks and opportunities for the Adabas & Natural (A&N) product line

Software AG's traditional A&N product family is currently in an advanced stage of the product life cycle. The age structure of A&N employees poses a challenge for Software AG and its customers. Revenues are therefore declining in this product line. Our strategy is based in part on extending customers' existing license rights and/or selling add-on products. This generates new revenue for Software AG. Because the product portfolio depends on existing customers, A&N license revenues are in decline. A&N customers continue to be extremely loyal to Software AG. This is because the A&N products are highly valued due to their:

- high availability
- high performance
- low operating costs
- high strategic relevance for customers' operations of applications running on A&N
- future guarantee

This presents opportunities to attract customers with positive Software AG experience for long-term maintenance and modernization of their IT infrastructure while retaining the A&N technology. Software AG is the best partner for that. Retaining and acquiring product expertise make these opportunities possible. Ongoing innovation and R&D activities lead to significantly better prospects for the A&N business line. Software AG began communicating its A&N 2050+ initiative in 2015. It is fundamentally willing to continue developing A&N and providing A&N customers support in operating their systems through the year 2050 and beyond. This initiative resonated extremely well with customers and increased the degree of loyalty among the customers base.

Software AG is countering these risks with the following measures:

- A&N modernization to continuously extend the product life cycle
- Ongoing development of hosting and private cloud availability for A&N products
- Enhancement of sales and compensation models
- Continuation of customer dedication initiative with the goal of developing common, long-term IT strategies and leveraging new benefits and revenue potential
- Extended application support to serve customers with current A&N staff
- Customer support for migration of mainframes to open system platforms on A&N technology to cut hardware costs for customers and prolong maintenance revenue
- Training and education programs for young A&N staff both at Software AG and customer organizations
- Securing and building R&D and support resources at dynamic Software AG R&D hubs; signalizes that Software AG continues to fully support this business line

These measures can significantly slow the downward trend of A&N sales while offering opportunities for generating additional sources of revenue. Software AG expects A&N product revenue growth between −2 percent and −6 percent at constant currency in fiscal 2018. In 2017 this figure was −4 percent which is the middle of the originally expected range between −2 and −6 percent. The Company anticipates a moderate drop in revenue in the following years as well. Customer evaluations show that the overwhelming majority of all A&N installations are business-critical for customers. 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.

Like last year, these risks were given a red risk signal at the end of 2017 and are currently leaning toward yellow.

Acquisitions

Selective acquisitions enable us to expand our technological product range and 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 with 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. Selection of an unsuitable target company leads to management resources and investment funds being tied up without sufficient return on investment. Due to the DBP market's current level of maturity, the number of possible target companies for strategic acquisitions is very low. Software AG's new strategic focus on the IoT market increased the number of potential targets significantly. Due to its early stage, this market is still extremely fragmented, though highly innovative. Software AG is therefore currently focusing on the acquisition of smaller IoT technology companies. The risk exists of damage to Software AG's reputation if it cannot maintain its current position of technological leadership in the IoT market. To reduce risks associated with due diligence processes, Software AG conducts a critical business model analysis of all potential target companies. In some cases, Software AG has entered a partnership with the potential target company prior to acquisition. In-depth due diligence is carried out with respect to technological, strategic and operational integration by experienced due diligence teams. Processes relating to corporate acquisitions have been optimized based on comprehensive past experience.

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 could result in growth and profitability issues as well as failure to achieve combined business plan targets. It would become difficult to quickly exploit revenue and cost synergies. There is an additional potential 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.

Due to the new focus of Software AG's acquisition strategy on IoT, the assessment of risks in the pre-acquisition phase was lowered from a yellow risk signal to green at the end of 2017.

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 and knowledge sharing
- Marketing and branding
- Sales and partner business
- Key staff members and new career opportunities
- Administration

These processes enable us to quickly create revenue and cost synergies. Specific KPIs are identified and monitored for each integration.

Opportunities and risks associated with integration in the post-acquisition phase were given a yellow risk signal (2016: yellow) at the end of 2017 because of two small-scale acquisitions in fiscal year 2016, one small acquisition in 2017 and the planned intensification of acquisition activities in the near future.

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 require a high level of experience and expertise of our Sales force as well as relatively long sales cycles. Furthermore, small average deal sizes can reduce the average revenue per Sales employee and the overall efficiency/profitability of our sales model. Sales and marketing expenses in fiscal 2017 were higher than 94 percent (2016: 93 percent) of license revenue. A sales focus on large key customers is critical to increasing average deal value and improving scalability. This increases the dependence of license revenue on a smaller number of large customers though. Software AG's complex product portfolio and long sales cycles cause annual license revenue to accumulate heavily in the fourth quarter. The smaller country subsidiaries could have too few technology consultants (Pre-Sales staff) and skills to be able to provide customers with technical consulting on the entire platform.

Software AG intends to continue increasing sales efficiency and thus accelerate further DBP product revenue growth with the following measures:

- Rollout of new IoT business line with better scalability and predictability thanks to a new usage-based pricing model, reusable go-to-market models
- Improved transparency and planning through new rolling forecasts for four to six quarters
- Expansion of Sales and Marketing capacities
- Expansion and harmonization of customer loyalty programs, including new customers
- Focus on multi-product platform sales with key customers
- Further strengthen Inside Sales organization to generate new leads and standardized contracts for small customers
- Further optimize balanced mix of direct and indirect sales

The risk rating signal remained unchanged at red from last year due to the continued relevance of sales-efficiency topics.

Partnership risks and opportunities

Software AG's growth strategy also relies on the expansion of its partner ecosystem to achieve vertical and regional coverage, to drive implementation of our software and to build solutions/uses cases on top of the Digital Business Platform thereby accelerating growth. The potential risk of ineffective partner selection and enablement could lead to too little involvement of the partner ecosystem in sales and thus negatively affect the exploitation of new market segments, Software AG's market relevance and technology adoption. The lack of trained Software AG consultants at system integrators could lead to a shortage of consulting services. Project problems and delays caused by partners could negatively affect customer satisfaction. Insufficient partner governance could result in potential legal and image risks and jeopardize the success of Software AG's partner business.

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

- Clearly defined criteria for partner channel products and target markets
- Expansion of an attractive global partner program with partner life cycle management
- Development and expansion of an effective and scalable partner enablement and qualification program to improve service capacity and quality
- Access to training materials and Software AG products and technology consultants
- Expansion of internal resources in support of partner sales
- Ongoing enhancement of partner channel-specific compliance instruments, consistent use of standard partner power-up contracts and partner training on Software AG's business model

The risks associated with partner business were given risk signal green at the end of 2017.

Personnel risks and opportunities

Employer appeal

Employees are the most important asset for Software AG. One of the central challenges is therefore 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 could also result in a reduction in potential growth due to a shortage of qualified young talent. The advancing age structure in the A&N business line could lead to a loss in expertise. The war for talent is extremely tough in attractive offshore regions like Bangalore, India and Malaysia. This is especially true for IoT technology. In the race for specialists, major competitors offer very attractive working conditions.

Software AG takes the following measures to counter this risk:

- Improved external and internal recruiting process
- Improved employer image
- Ongoing evaluation of 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
- Targeted efforts to develop young talent as part of the generational changeover related to the Adabas & Natural 2050+ agenda
- Optimized distribution of employees at high and low-cost locations
- Attractive employee benefits and compensation

Software AG assumes that these measures provide a sound basis for ensuring Software AG's long-term success. Due to the intense competition among employers for talent, personnel-related topics were assigned risk signal green (2016: green) at the end of 2017.

Legal risks

Intellectual property (IP) right protection

Due to the large number of software patents granted combined with peculiarities of U.S. procedural law, patent law in the U.S. favors patent-related legal disputes. 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 Software AG’s own patent applications and coordinates its defense against patent suits. Our own portfolio of patents is the best protection against claims from other market participants, because it offers opportunities for cross-licensing agreements. That is also one reason why Software AG is constantly working to expand its patent portfolio. Particularly in the USA, 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 to generating additional future licensing revenues. Implemented measures and processes reduce this risk considerably for Software AG. No new patent suits have been filed against Software AG since 2012. It is currently unforeseeable to what extent future patent suits will be fueled by the increasingly nationalistic tendencies worldwide. Because Software AG licenses third-party products, it must defend rights granted to customers, such as licenses to certain resources. Unauthorized undetected use by customers can result in liability risks relating to past license fees owed to software distributors. Software AG continued developing and enhancing its procurement process in order to mitigate this risk.

Like last year, the risk associated with the protection of intellectual property rights was rated at risk signal green as of December 31, 2017.

Other legal risks

Regulatory, compliance and litigation risks
Regulatory and political changes, such as embargoes, can influence our business operations in different 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 like the Software AG Group is subject to global risks associated with legal disputes and government and official processes. Software AG cannot rule out that litigation and proceedings will have negative effects on the earnings 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. Despite detailed risk assessment and forward-looking risk provisions, there is a risk that the actual cost of litigation is higher than the assumed risk value.

For information on specific legal disputes, please refer to Note [26] in the Notes to the Consolidated Financial Statements and Other Provisions in the Separate Annual Financial Statements of Software AG (Parent Company). p. 188

Financial operating risks

Exchange rate risks

Software AG 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. For more information, refer to the 2017 Currency Split graphic in the Currency Impact on Revenue section of the Combined Management Report. p. 56

Exchange Rate Fluctuation Impact on Group Revenue in 2017:

Currency fluctuation in 2017	Change in exchange rates 2017 vs. 2016 as %	Impact on revenue in 2017 in € millions
U.S. dollar 31.5% of revenue	–2.1	–8.9
Pound sterling 6.1% of revenue	–7.0	–3.9
Israeli shekel 4.1% of revenue	4.4	1.6
Brazilian real 4.0% of revenue	6.7	2.2
Australian dollar 3.3% of revenue	1.1	–0.1
South African rand 2.9% of revenue	7.6	2.2
Canadian dollar 2.7% of revenue	0.1	–0.2
Other currencies 11.0% of revenue	–3.1	–2.9
Currency effects on total revenue	**–1.1**	**–10.0**

The sales-related expenses are in the same currency as the sales themselves, however. This natural hedging relationship is strengthened in the U.S. due to the fact that parts of our Research & Development and Global Marketing teams are based there. 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 2017 by €1.2 million (2016: €2.1 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, 2017 would have caused Group net income in 2017 to increase by €0.9 million (2016: €1.4 million). The remaining reserves in shareholders' equity would increase by €2.4 million (2016: €2.9 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 use 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's Risk Situation

The Software AG Group's overall consolidated risk situation improved slightly from last year. 44.4 percent (2016: 33.3 percent) of Software AG's strategic risks were categorized as risk signal green, 22.3 percent (2016: 33.4 percent) were categorized yellow, and, like last year, 33.3 percent were categorized red.

The Management Board assumes that the strategic risks are limited and manageable. No individual or consolidated risks can be identified that, due to the amount of their impact or their likelihood of occurring, are likely to jeopardize the going concern of the Company now or in the future.

Risk Summary

	Impact on EBIT in the next 3 years	Probability	Risk signal	Trend
Corporate strategy risks and opportunities				
Product innovation	medium	likely	yellow	constant
Market risks and opportunities: DBP (including IoT)	medium	highly likely	red	constant
Market risks and opportunities: A&N product line	low	highly likely	red	constant
Acquisitions Pre-acquisition phase (selection)	medium	unlikely	green	declining
Acquisitions Post-acquisition phase (integration)	medium	likely	yellow	constant
Product distribution risks and opportunities				
Sales efficiency and sales risks and opportunities	medium	highly likely	red	constant
Partnership risks and opportunities	low	likely	green	constant
Personnel risks and opportunities				
Employer appeal	low	likely	green	increasing
Legal risks				
Intellectual property (IP) right protection	low	unlikely	green	constant

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 for Software AG. Nevertheless, there are some facts that shed light on Software AG's external rating.

Based on the Company's financial statements from December 31, 2016, 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 in the high end of the investment-grade range at the end of 2017.

REMUNERATION REPORT

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code from February 7, 2017 (hereinafter referred to as GCGC) and the provisions of the German financial reporting standard in its revised 2017 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). The Remuneration Report is part of the Group Management Report and 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.

Allocation

The following table shows the allocation of fixed remuneration, additional benefits and one-year variable remuneration in/for the year under review and the partially prolonged amounts of multi-year variable remuneration with long-term share-based incentive during fiscal 2017.

Allocation

			Karl-Heinz Streibich Chief Executive Officer Since October 1, 2003	
in € millions			**2016**	**2017**
Non-performance-based components	Fixed compensation (base salary)		697,642.92	697,642.92
	Additional benefits[1]		25,623.99	24,044.07
	Total		**723,266.91**	**721,686.99**
Performance-based components	One-year variable remuneration		2,876,837.52	2,991,089.34
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares—PPS[2]	271,352.40	4,736,866.44
		Management Incentive Plan III—(MIP III) (2007 – 2011)[3]	9,252,720.00	0.00
Total allocation			**13,124,176.83**	**8,449,642.77**
Service cost			1,702,416.10	0.00
Total allocation (GCGC)			**14,826,592.93**	**8,449,642.77**

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 and partial exercise of existing PPS balances. Mr. Streibich invested 401,131 phantom shares at a value of €18,797 thousand in Software AG as of December 31, 2017. In addition, he received payment for 133,656 phantom shares valuing €4,496 thousand in fiscal 2017. Mr. Streibich continued reinvesting the full amount of cash-settled phantom shares in recent years, although the required minimum term had expired. The remaining disbursement of €241 thousand relates to the dividends described above. Dividends received by Mr. Duffaut are included in allocation. Mr. Duffaut invested 58,506 phantom shares at a value of €2,742 thousand in

	Eric Duffaut Chief Customer Officer Since October 1, 2014		**Dr. Wolfram Jost Chief Technology Officer Since July 9, 2010**		**Dr. Stefan Sigg Chief Research & Development Officer Since April 1, 2017**		**Arnd Zinnhardt Chief Financial Officer Since May 1, 2002**	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
	600,000.00	600,000.00	535,000.02	560,000.04	0.00	375,000.03	441,715.32	441,715.32
	30,246.79	29,191.82	38,667.51	37,361.56	0.00	25,132.97	37,617.39	44,164.86
	630,246.79	**629,191.82**	**573,667.53**	**597,361.60**	**0.00**	**400,133.00**	**479,332.71**	**485,880.18**
	810,783.28	842,983.03	533,765.66	561,988.69	0.00	247,807.20	1,819,887.40	1,892,163.10
	19,401.80	35,101.80	1,356,294.52	743,515.50	0.00	0.00	1,233,156.85	7,359,377.46
	0.00	0.00	0.00	0.00	0.00	0.00	4,626,360.00	0.00
	1,460,431.87	**1,507,276.65**	**2,463,727.71**	**1,902,865.79**	**0.00**	**647,940.20**	**8,158,736.96**	**9,737,420.74**
	0.00	0.00	214,924.12	220,119.85	0.00	362,427.00	148,003.55	163,614.05
	1,460,431.87	**1,507,276.65**	**2,678,651.83**	**2,122,985.64**	**0.00**	**1,010,367.20**	**8,306,740.51**	**9,901,034.79**

Software AG. Mr. Jost invested 42,091 phantom shares at a value of €1,972 thousand in Software AG as of December 31, 2017. Furthermore, he opted to receive payment for 20,965 phantom shares with a value of €719 thousand. The remainder of the disbursement of €25 thousand is for the dividends mentioned above. Mr. Zinnhardt invested 84,696 phantom shares at a value of €3,969 thousand in Software AG and received payment for 216,041 PPS at a value of €7,308 thousand as of December 31, 2017. Mr. Zinnhardt reinvested €5,597 thousand of that amount in recent years, although the required minimum term had expired. The remaining disbursement of €51 thousand relates to the dividends described above.

3 The allocations shown from MIP III in 2016 result from the exercise of these stock options by the relevant Management Board member.

Benefits Granted (1)

in €			Karl-Heinz Streibich, Chief Executive Officer Since October 1, 2003 2016	2017
Non-performance-based components	Fixed compensation (base salary)		697,642.92	697.642,92
	Additional benefits[1]		25,623.99	24.044,07
	Total		**723,266.91**	**721.686,99**
Performance-based components	One-year variable remuneration[2]		2,876,837.52	2.991.089,34
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares—PPS[3]	3,003,490.41	1,775,879.57
		Management Incentive Plan 2017—(MIP 2017)[4]	1,209,704.92	0.00
		Management Incentive Plan 2018—(MIP 2018)[5]	0.00	791,455.85
Total (DRS 17)			**7,813,299.76**	**6,280,111.75**
Service cost			1,702,416.10	0.00
Total (GCGC)			**9,515,715.86**	**6,280,111.75**
Share price gains/losses and max. possible loss from vested share-based remuneration components[6]			3,900,261.26	7,436,309.24
Total economic allocation			**13,415,977.12**	**13,716,420.99**

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 invest a portion of their variable compensation in phantom shares, which have a waiting periods of one, two and three years for each third of the phantom shares respectively. 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 one-third of the over-performance 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 limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the Management Board members with the interests of the shareholders and the capital market, payouts are made based on Software AG's current share price. 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 (in percent) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. 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 this TecDAX adjustment. The resulting increases in value of the phantom share balances were reported on a

		Eric Duffaut, Chief Customer Officer Since October 1, 2014			
2017 (min.)	**2017 (max.)**	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**
697,642.92	697,642.92	600,000.00	600,000.00	600,000.00	600,000.00
24,044.07	24,044.07	30,246.79	29,191.82	29,191.82	29,191.82
721,686.99	**721,686.99**	**630,246.79**	**629,191.82**	**629,191.82**	**629,191.82**
0.00	3,548,220.10	810,783.28	842,983.03	0.00	1,000,000.00
0.00	4,438,881.31	815,151.71	884,517.97	0.00	2,253,577.10
0.00	0.00	604,852.46	0.00	0.00	0.00
0.00	2,444,033.00	0.00	678,386.89	0.00	2,094,886.00
721,686.99	**11,152,821.40**	**2,861.034.24**	**3,035,079.71**	**629,191.82**	**5,977,654.92**
0.00	0.00	0.00	0.00	0.00	0.00
721,686.99	**11,152,821.40**	**2,861,034.24**	**3,035,079.71**	**629,191.82**	**5,977,654.92**
0.00	−18,796,998.66	240,094.16	2,018,262.12	0.00	−2,741,591.16
721,686.99	**−7,644,177.26**	**3,101,128.40**	**5,053,341.83**	**629,191.82**	**3,236,063.76**

pro rata basis over three years under Management Board remuneration. The following amounts were recognized as increases to remuneration in fiscal 2016: €1,313 thousand for Mr. Streibich, €46 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

4 The share-based Management Incentive Plan 2017 (MIP 2017) was instituted in December 2016 whereby members of the Management Board were awarded stock options in four tranches with an average term of 3.3 years ending on August 28, 2020. The base price of these stock options is €33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €33.18 by 20 percent on ten consecutive trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation Dr. Sigg from this plan is €1,413 thousand.

5 The share-based management incentive Plan 2018 (MIP 2018) was instituted in December 2017, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.3 years ending on August 27, 2021. The base price of these stock options is €45.27 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2017. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2020, in February 2021, in May 2021 and in August 2021. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €45.27 by 20 percent on ten consecutive trading days in the period from December 1, 2019 to November 30, 2020. The maximum possible compensation under this plan is capped at the amounts presented in the maximum compensation column above. This maximum amount is €2,444 thousand for the CEO (Mr. Streibich) and die €2,095 thousand for the other board members.

6 The increased intrinsic values of phantom share and MIP V balances in fiscal 2017 due to the positive share performance are presented in the 2017 column as increases to remuneration. The 2017 max. column shows the maximum possible losses from vested share-based remuneration components of the phantom share plan.

Benefits Granted (2)

in €			Dr. Wolfram Jost, Chief Technology Officer Since July 9, 2010 2016	2017	2017 (min.)	2017 (max.)
Non-performance-based components	Fixed compensation (base salary)		535,000.02	560,000.04	560,000.04	560,000.04
	Additional benefits[1]		38,667.51	37,361.56	37,361.56	37,361.56
	Total		**573,667.53**	**597,361.60**	**597,361.60**	**597,361.60**
Performance-based components	One-year variable remuneration[2]		533,765.66	561,988.69	0.00	666,666.67
	Multi-year variable remuneration					
	with long-term share-based incentive	Performance Phantom Shares—PPS[3]	757,864.81	793,952.63	0.00	2,009,538.29
		Management Incentive Plan 2017—(MIP 2017)[4]	604,852.46	0.00	0.00	0.00
		Management Incentive Plan 2018—(MIP 2018)[5]	0.00	678,386.89	0.00	2,094,886.00
Total (DRS 17)			**2,470,150.46**	**2,631,689.81**	**597,361.60**	**5,368,452.56**
Service cost			214,924.12	220,119.85	220,119.85	220,119.85
Total (GCGC)			**2,685,074.58**	**2,851,809.66**	**817,481.45**	**5,588,572.41**
Share price gains/losses and max. possible loss from vested share-based remuneration components[6]			586,168.23	1,809,662.35	0.00	−1,972,384.26
Total economic allocation			**3,271,242.81**	**4,661,472.01**	**817,481.45**	**3,616,188.15**

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 invest a portion of their variable compensation in phantom shares, which have a waiting periods of one, two and three years for each third of the phantom shares respectively. 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 one-third of the over-performance 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 limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the Management Board members with the interests of the shareholders and the capital market, payouts are made based on Software AG's current share price. 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 (in percent) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. 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 this TecDAX adjustment. The resulting increases in value of the phantom share balances were reported on a

Dr. Stefan Sigg, Chief Research & Development Officer Since April 1, 2017				**Arnd Zinnhardt, Chief Financial Officer Since May 1, 2002**			
2016	**2017**	**2017 (min.)**	**2017 (max.)**	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**
0.00	375,000.03	375,000.03	375,000.03	441,715.32	441,715.32	441,715.32	441,715.32
0.00	25,132.97	25,132.97	25,132.97	37,617.39	44,164.86	44,164.86	44,164.86
0.00	**400,133.00**	**400,133.00**	**400,133.00**	**479,332.71**	**485,880.18**	**485,880.18**	**485,880.18**
0.00	247,807.20	0.00	312,500.00	1,819,887.40	1,892,163.10	0.00	2,244,604.02
0.00	342,349.33	0.00	983,394.75	2,055,458.98	1,390,629.99	0.00	3,622,387.98
0.00	510,266.47	0.00	1,412,667.00	604,852.46	0.00	0.00	0.00
0.00	678,386.89	0.00	2,094,886.00	0.00	678,386.89	0.00	2,094,886.00
0.00	**2,178,942.89**	**400,133.00**	**5,203,580.75**	**4,959,531.55**	**4,447,060.16**	**485,880.18**	**8,447,758.18**
0.00	362,427.00	362,427.00	362,427.00	148,003.55	163,614.05	163,614.05	163,614.05
0.00	**2,541,369.89**	**762,560.00**	**5,566,007.75**	**5,107,535.10**	**4,610,674.21**	**649,494.23**	**8,611,372.23**
0.00	0.00	0.00	0.00	2,226,135.27	2,202,572.81	0.00	−3,968,854.56
0.00	**2,541,369.89**	**762,560.00**	**5,566,007.75**	**7,333,670.37**	**6,813,247.02**	**649,494.23**	**4,642,517.67**

pro rata basis over three years under Management Board remuneration. The following amounts were recognized as increases to remuneration in fiscal 2016: €1,313 thousand for Mr. Streibich, €46 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

4 The share-based Management Incentive Plan 2017 (MIP 2017) was instituted in December 2016 whereby members of the Management Board were awarded stock options in four tranches with an average term of 3.3 years ending on August 28, 2020. The base price of these stock options is €33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €33.18 by 20 percent on ten consecutive trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation for Dr. Sigg from this plan is €1,413 thousand.

5 The share-based management incentive Plan 2018 (MIP 2018) was instituted in December 2017, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.3 years ending on August 27, 2021. The base price of these stock options is €45.27 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2017. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2020, in February 2021, in May 2021 and in August 2021. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €45.27 by 20 percent on ten consecutive trading days in the period from December 1, 2019 to November 30, 2020. The maximum possible compensation under this plan is capped at the amounts presented in the maximum compensation column above. This maximum amount is €2,444 thousand for the CEO (Mr. Streibich) and €2,095 thousand for the other board members.

6 The increased intrinsic values of phantom share and MIP V balances in fiscal 2017 due to the positive share performance are presented in the 2017 column as increases to remuneration. The 2017 max. column shows the maximum possible losses from vested share-based remuneration components of the phantom share plan.

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

Seventy-five 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

Performance Phantom Share (PPS) 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 2017 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2018, less 10 percent (reference price). 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 2019 to 2021, the number of phantom shares will be multiplied by the then-applicable share price for February. The remuneration cap recommended by the then-applicable German Corporate Governance Code was first instituted in 2014. 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. This payment cap is determined annually for the balance of phantom shares awarded to the members of the Management Board based on the average award price.

Company officers will receive an amount per phantom share equal to the dividend paid to Software AG shareholders per share.

Company officers may elect to let the Company dispose of any PPS that have become due after the defined waiting period for up to six years and four months after the term of the respective Management Board contract has ended and thus continue to participate in the success of the Company.

The respective disbursement amount is determined on the date of disbursement using the disbursement price per share, multiplied by the number of phantom shares due to be converted. For tranches that aren't renewed, the disbursement share price is equal to the average closing price of Software AG's share in Xetra trading on the Frankfurt stock exchange on trading days during the month of February before phantom share disbursement. For tranches that are disbursed within the extension period, the disbursement share price is equal to the average closing price of Software AG's share in Xetra trading on the sixth to tenth trading days after the decision to exercise the phantom shares. The decision to exercise options can be made during the period from the date of publication of the financial results until the following fifth trading day. This plan led to expenses relating to the members of the Management Board in the amount of €5,486 thousand (2016: €7,049 thousand) in fiscal year 2017. The following table illustrates the phantom shares to be issued based on the average share price in February 2018 and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2017:

	Phantom shares granted in 2017 No.	**Expense from phantom shares granted in 2017* in €**
Karl-Heinz Streibich (CEO)	36,189	1,809,993.60
Eric Duffaut	20,023	1,136,975.31
Dr. Wolfram Jost	18,120	797,677.11
Dr. Stefan Sigg (since April 1, 2017)	8,070	342,349.33
Arnd Zinnhardt	31,583	1,399,375.18

* This expense is due to allocation in 2017 at a price of €42.42 (2016: €34.26) per PPS at the time of award and interest expenses for hedging the price of PPS balances amounting to €51 thousand.

Stock option plans

1. 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 had a term of three years. The fair value on the date of award was €10.21 per stock appreciation right. Payment of exercise benefits was dependent upon a 30 percent share price increase. The target was met because Software AG's volume weighted average share price (VWAP) in Xetra trading exceeded the reference price at issue of €21.22 by 30 percent or more on ten consecutive trading days between November 15, 2016 and December 15, 2017. This represented an exercise threshold of €27.59. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15, 2014.

The exercise threshold was reached during ten trading days between November 15, 2016 and November 28, 2017. When the exercise target was achieved, the gross exercise benefit was equal to Software AG's VWAP of €45.59 per stock option during the period from November 15 to December 15, 2017. The maximum possible exercise benefit per option was capped at 200 percent of the reference price, or €42.44. The price cap of €42.44 was thus employed for the exercise at the end of the year. Remuneration for this plan will be disbursed in January 2018.

The following expenses were incurred under this plan in fiscal 2017:

Management Incentive Plan V

	Committed MIP V stock appreciation rights in 2017 No.	**Expenses from MIP V stock appreciation rights in €**
Karl-Heinz Streibich (CEO)	0	1,622,255.59
Eric Duffaut	0	1,012,328.45
Dr. Wolfram Jost	0	811,127.79
Dr. Stefan Sigg (since April 1, 2017)	0	0.00
Arnd Zinnhardt	0	811,127.79

2. 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 had a term of three years. Exercise benefits are paid out conditional up 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 ten consecutive trading days during the period between December 1, 2017 and November 30, 2018. The exercise threshold was reached in the first ten trading days of December 2017. The stock option plan will be exercised at the end of the term in December 2018. Since the exercise target was achieved, the gross exercise benefit is equal to Software AG's VWAP during the period from November 15 to December 15, 2018. The maximum 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 expenses were incurred under this plan in fiscal 2017:

Management Incentive Plan 2016

	Committed MIP 2016 stock appreciation rights in 2017 No.	Expenses from MIP 2016 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	1,449,867.53
Eric Duffaut	0	790,159.38
Dr. Wolfram Jost	0	624,649.07
Dr. Stefan Sigg (since April 1, 2017)	0	0.00
Arnd Zinnhardt	0	624,649.07

3. Management Incentive Plan 2017 (MIP 2017)

The share-based Management Incentive Plan 2017 (MIP 2017) was instituted in December 2016 whereby members of the Management Board were awarded stock options in four tranches with a term of 3.3 years ending on August 28, 2020. The base price of these stock options is €33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €33.18 by 20 percent on ten consecutive trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation under this program was defined at €3,767 thousand for Mr. Streibich (CEO), at €3,767 thousand for Dr. Sigg and at €1,884 thousand for the other members of the Management Board. The average fair value on Dr. Sigg's date of the award was €5.39 per option. The average fair value on the date of award for the other board members the year before was €4.79 per option.

The following stock appreciation rights were awarded under MIP 2017 in fiscal 2017. In total, the expenses shown in the following table were incurred under the plan in 2017:

Management Incentive Plan 2017

	Committed MIP 2017 stock appreciation rights in 2017 No.	Expenses from MIP 2017 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	1,423,088.48
Eric Duffaut	0	498,335.78
Dr. Wolfram Jost	0	389,333.52
Dr. Stefan Sigg (since April 1, 2017)*	94,706	239,374.14
Arnd Zinnhardt	0	389,333.52

* Because Dr. Stefan Sigg joined the Company on April 1, 2017, he received 75 percent of the stock options issued to the other board members (not including the CEO) under MIP 2017 in December 2016.

4. Management Incentive Plan 2018 (MIP 2018)

The share-based Management Incentive Plan 2018 (MIP 2018) was instituted in December 2017, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.3 years ending on August 27, 2021. The base price of these stock options is €45.27 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2017. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2020, in February 2021, in May 2021 and in August 2021. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €45.27 by 20 percent on ten consecutive trading days in the period from December 1, 2019 to November 30, 2020. The maximum possible compensation under this program was defined at €2,444 thousand for Mr. Streibich (CEO) and at €2,095 thousand for the other members of the Management Board.

The average fair value on the award date was €6.72 per option.

Management Incentive Plan 2018

	Committed MIP 2017 stock appreciation rights in 2018 No.	Expenses from MIP 2018 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	117,820	18,320.74
Eric Duffaut	100,988	4,062.71
Dr. Wolfram Jost	100,988	3,173.00
Dr. Stefan Sigg (since April 1, 2017)	100,988	3,173.00
Arnd Zinnhardt	100,988	3,173.00

* Expenses under this plan relating to Mr. Streibich will be spread over time until his Management Board contract expires on July 31, 2018.

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 and the Notes to financial statements for Software AG (parent company).

Other remuneration components

A member of the Management Board who leaves after a change of control within 12 months of such change and without good cause will receive a severance payment equal to two or three annual salaries based on the most recently agreed annual target remuneration. In case of resignation by a member of the Management Board, 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.

When an employment contract is terminated prematurely but not by the member of the Management Board, the severance payment is limited to the target compensation for one or two years but no more than the remaining term of the contract. The employment contract from 2014 for one member of the Management Board limits the severance payment to one annual target remuneration and not to the remaining term of the contract.

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 twelve months. In such a case, severance pay will be provided for one Management Board member in the amount of €158.0 thousand. Another member will receive severance payment equal to his 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 €14.2 thousand (2016: €14.0 thousand) per month, and the CEO will receive €28.5 thousand (2016: €28.1 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. Furthermore, Software AG carries director and officer (D&O) insurance which covers members of the Management Board; the deductible is currently 10 percent of the damages but no more than 1.5-times the fixed annual salary of the Management Board member.

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 €14.3 thousand (2016: €14.0 thousand) per month and for one member to €13.0 thousand (2016: €0.0 thousand). The CEO's pension amounts to €28.5 thousand (2016: €28.1 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 and pledged to members of the Management Board 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 (IFRS) in 2017 and the present value of pension commitments as of December 31, 2017 are as follows:

in €	**Change in present value (DBO) from pension commitments in 2017**	**Present value of pension commitments as of Dec. 31, 2017**
Karl-Heinz Streibich (CEO)	–150,521.00	9,737,357.00
Eric Duffaut	0.00	0.00
Dr. Wolfram Jost	189,288.00	1,963,381.00
Dr. Stefan Sigg (since April 1, 2017)	409,651.00	409,651.00
Arnd Zinnhardt	302,936.00	2,734,908.00

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 2016

The specific components of the Management Board's compensation in 2016 are contained in the completetables 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 2016.

Management Incentive Plan III (MIP III) (2007 - 2011)

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 were reached by June 30, 2016, the holders of these ownership rights were entitled to a payment of the value by which the Software AG stock surpassed 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.

Participants of MIP III (2007–2011) could be paid an annual bonus for unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This was reapproved every year. As in past years, this bonus was not paid in fiscal 2016. In the event that an authorized Board member does not exercise these MIP III rights (although they are exercisable), he receives additional rights from the MIP IV described below for each year in which they are not exercised. 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) [1]	Balance on Jan. 1, 2016	Base price in €	Value of option at time of grant in €	Remaining term on Jan. 1, 2016 in years	Granted options in 2016 No.
Karl-Heinz Streibich (CEO)	900,000	24.12	6.80	3.5	0
Arnd Zinnhardt	450,000	24.12	6.80	3.5	0

Stock Option Awards from Management Incentive Plan III

MIP III (2007-2011) [2]	Forfeited options in 2016 No.	Exercised options in 2016 No.	Weighted average share price on the date of exercise in €	Expired options in 2016 No.
Karl-Heinz Streibich (CEO)	0	900,000	34.40	0
Arnd Zinnhardt	0	450,000	34.40	0

Stock Option Awards from Management Incentive Plan III

MIP III (2007-2011) [3]	Balance on Dec. 31, 2016* No.	Accounting expenses from MIP III stock options in 2016 in €
Karl-Heinz Streibich (CEO)	0	0.00
Arnd Zinnhardt	0	0.00

* 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 three 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.

The following expenses were incurred under Management Incentive Plan V 2015 (MIP V) in fiscal 2016:

	Committed MIP V stock appreciation rights in 2016 No.	Expenses from MIP V stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	1,369,941.71
Eric Duffaut	0	899,716.92
Dr. Wolfram Jost	0	684,970.86
Arnd Zinnhardt	0	684.970,86

The following expenses were incurred under Management Incentive Plan 2016 (MIP 2016) in fiscal 2016:

	Committed MIP 2016 stock appreciation rights in 2016 No.	Expenses from MIP 2016 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	744,971.18
Eric Duffaut	0	419,452.51
Dr. Wolfram Jost	0	320,192.76
Arnd Zinnhardt	0	320,192.76

The following MIP 2017 stock appreciation rights were awarded and expenses incurred under Management Incentive Plan 2017 (MIP 2017) in fiscal 2016:

Management Incentive Plan 2017

	Committed MIP 2017 stock appreciation rights in 2016 No.	Expenses from MIP 2017 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	252,548	20,643.43
Eric Duffaut	126,274	7,384.50
Dr. Wolfram Jost	126,274	5,637.02
Arnd Zinnhardt	126,274	5,637.02

The change in present value from pension commitments (IFRS) in 2016 and the present value of pension commitments as of December 31, 2016 are as follows:

in €	Change in present value (DBO) from pension commitments in 2016	Present value of pension commitments as of Dec. 31, 2016
Karl-Heinz Streibich (CEO)	2,338,499.00	9,887,878.00
Eric Duffaut	0.00	0.00
Dr. Wolfram Jost	291,786.00	1,774,093.00
Arnd Zinnhardt	385,847.00	2,431,972.00

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 €66,000 (2016: €60,000). Remuneration paid to the members of the Supervisory Board in fiscal year 2017 totaled €612 thousand (2016: €478 thousand).

Remuneration of the Chairman/Deputy Chairman

The Chairman of the Supervisory Board receives 2.2-times the remuneration stated, and the Deputy Chairman 1.5-times such amount.

Other arrangements

Members of the Supervisory Board also receive €2,000 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 €4,000 for the committee chairs. This policy took effect on January 1, 2017.

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

Remuneration of Supervisory Board members for fiscal year 2017 was as follows:

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	145,200.00	40,000.00	185,200.00
Guido Falkenberg (Deputy Chairman)	99,000.00	20,000.00	119,000.00
Eun-Kyung Park	66,000.00	10,000.00	76,000.00
Alf Henryk Wulf	66,000.00	20,000.00	86,000.00
Markus Ziener	66,000.00	8,000.00	74,000.00
Christian Zimmermann	66,000.00	6,000.00	72,000.00

The Supervisory Board's total remuneration is included in the Notes to the Consolidated Financial Statements and the Notes to the financial statements for Software AG (parent company).

Remuneration of Supervisory Board members for fiscal year 2016 was as follows:

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	120,000.00	7,500.00	127,500.00
Guido Falkenberg (Deputy Chairman)	90,000.00	4,500.00	94,500.00
Eun-Kyung Park	60,000.00	3,000.00	63,000.00
Alf Henryk Wulf	60,000.00	4,500.00	64,500.00
Markus Ziener	60,000.00	5,000.00	65,000.00
Christian Zimmermann	60,000.00	3,000.00	63,000.00

Members of the Supervisory Board are insured under the Company's Director & Officer (D&O) insurance policy. The deductible is equal to 10 percent of the damages but no more than 1.5-times the annual remuneration.

FORECAST

Economic Conditions for Upcoming Fiscal Years

Future overall economic situation

The Institute for the World Ecoomy (IfW) estimates that global production will accelerate in 2018.

IfW assumes that the eurozone will continue its economic upswing in 2018. Contributing factors to this trend will be the favorable financing conditions resulting from the ECB's expansive monetary policy. IfW also expects the eurozone's gross domestic product to stay on par with last year at 2.3 percent (2017: 2.4 percent). Two percent growth is projected for 2019.

Higher growth rates are anticipated for the United States. IfW predicts a 2.5 increase in output for 2018, and just 1.9 percent for 2019. Good consumer sentiment, increased disposable income and earnings as well as a favorable investment climate are largely responsible for the accelerated economy. The upswing is expected to lose speed in the latter part of the forecast period due to already high capacity utilization rates.

IfW forecasts about 5 percent growth in output in emerging economies over the next two years. Latin America's gross domestic product will keep expanding, according to the IfW, and will climb from 1.9 percent in 2018 to 2.3 in 2019.

With respect to the global economy as a whole, IfW anticipates expansion to slow down in the next two years; but, it will not lag to the level of past years. The gross domestic product is expected to be 3.9 percent in 2018 and 3.6 percent in 2019. Political uncertainty seems to have lessened on the whole, whereas normalization risks in monetary policy are becoming greater.

Key Data on Germany's Economic Development

For years 2016 to 2019*	**2016**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
GDP, price-adjusted	1.9	2.3	2.5	2.2
GDP, deflator	1.3	1.5	1.7	2.1
Consumer prices	0.5	1.7	1.7	2.0
Labor productivity (hourly concept)	1.3	1.0	1.2	1.2
Employed domestically (1,000 people)	43,638	44,291	44,842	45,337
Unemployment rate (%)	6.1	5.7	5.3	5.1
In relation to the nominal GDP				
Government deficit/surplus	0.8	1.4	1.5	1.6
Debt level	68.1	65.3	61.6	58.3
Account balance	8.5	8.0	7.8	7.8

* Gross domestic product, Consumer prices, Labor productivity: Changes compared to the previous year in percent; Unemployment rate: determined by the German Federal Employment Agency.

Source: Institute for the World Economy (IfW), Economic Reports, German Economy in Winter 2017 No. 38 (2017|Q4), Dec. 13, 2017

Economic indicators in Germany continue pointing toward expansion. The German economy has experienced an extended upswing for the last four years, which should persist through the next two years, according to IfW. The institute expects GDP growth of 2.5 percent for Germany in 2018.

GDP in Specific Countries and Regions

GDP*	2017 Forecast	2018 Forecast	2019 Forecast
USA	2.3	2.5	1.9
Japan	1.8	1.5	1.3
Eurozone	2.4	2.3	2.0
United Kingdom	1.5	1.4	0.9
Advanced nations, total	**2.4**	**2.3**	**1.9**
China	6.8	6.4	6.1
Latin America	1.4	1.9	2.3
India	6.4	7.3	7.0
East Asia	5.2	5.1	4.8
Russia	1.7	1.8	1.5
Global economy, total	**3.8**	**3.9**	**3.6**
Global economy (weighted based on market changes in 2015)	**3.3**	**3.3**	**3.0**

* Change (yoy) as %

Source: Institute for the World Economy in Kiel, Germany (IfW), Economic Reports, Global Economy in Winter 2017 No. 37 (2017|Q4), Dec. 13, 2017

Sector development

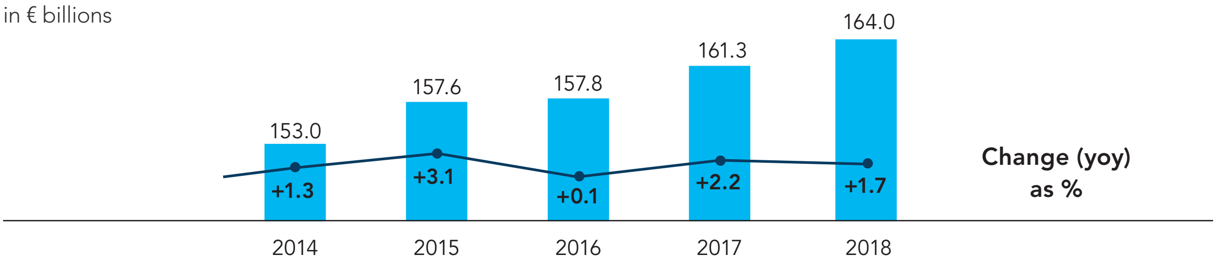
Gartner anticipates that global IT spending in 2018 will increase 4.5 percent to total $3.7 trillion; and in 2019, it will go up 2.7 percent to $3.8 trillion. According to their projection, Software AG's market segments of activity should perform well. The enterprise software market segment is expected to grow 9.5 percent to $389 billion in 2018. In 2019, according to Gartner, this segment will grow 8.4 percent to reach $421 billion. The IT services market segment is expected to see growth of 5.5 percent to $985 billion in 2018, and then 4.6 percent to $1 trillion in 2019.

Forecast of Global IT Spending

in $ billions	2018 Spending	2018 Growth (as %)	2019 Spending	2019 Growth (as %)
Enterprise software	389	9.5	421	8.4
IT services	985	5.5	1,030	4.6
Total IT	**3,683**	**4.5**	**3,784**	**2.7**

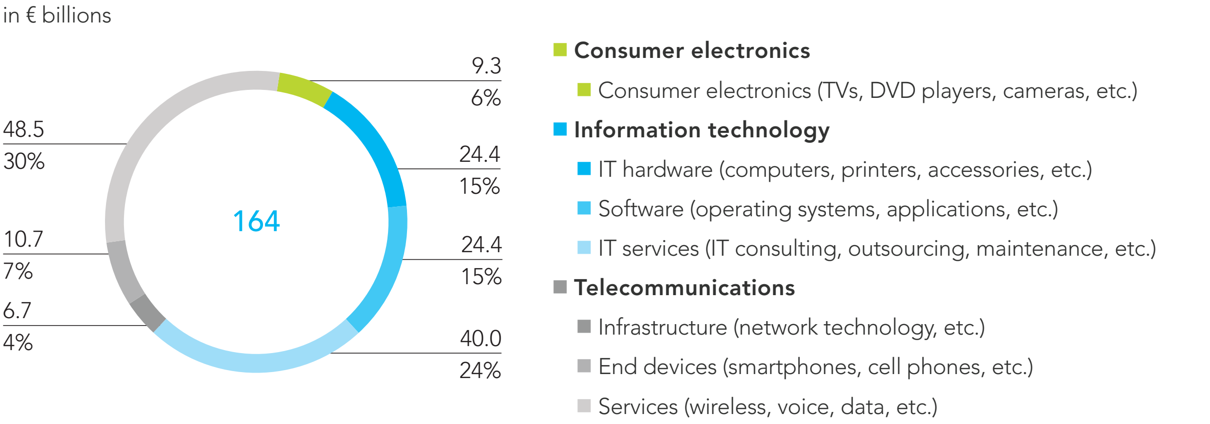
Source: Gartner Says Global IT Spending to Reach $3.7 Trillion in 2018 www.gartner.com/newsroom/id/3845563 (January 16, 2018).

ICT Product and Service Sales in Germany in 2018



Source: Bitkom, EITO, IDC, GfK

German ICT Market by Segment in 2018



Source: Bitkom, EITO, IDC, GfK

The Group's focus

We are committed to becoming the world's leading provider of independent digital business platforms. Through our own Research & Development (R&D) efforts and targeted technology acquisitions, we will continue investing in product innovations that play a key role in enabling our customers to stand out in the digital world.

We have recognized the power of change and potential offered by technology mega trends like digitalization, big data and now the Internet of Things (IoT) and Industry 4.0 and have aligned our product portfolio development efforts to reflect that. The world is becoming digital at lightning speed as software is the true driver of business innovations. Digitalization offers huge opportunities, but also poses the risk that organizations will react too slowly and get squeezed out by digital startups. The transition to a digital enterprise is based on the transformation of internal IT architectures. Today, everything is concentrated on an event-driven, real-time platform that is needed by basically every company across all industries for everything from product development to customer experience.

IT expertise and software know-how are critical to successful enterprise transformation. Companies must bring the responsibility for their IT architectures back into their own organizations if they want to design more flexible and agile IT and influence its evolution, for example for IoT. This requires transforming the existing IT landscape into a digital-ready, platform-based and scalable architecture that supports all necessary capabilities and reliably covers all digital use cases. Some of the most important digital use cases range from smart manufacturing and optimized-logistics processes to connectivity with customers and predictive maintenance. Some key topics for customers-include end-to-end customer experience, including real-time customer interaction, identification of customer location and automated customized feedback.

Software AG's position in **growth markets** combined with addressing customers' market-driven needs during the digital transformation lay the foundation for strong business development. Thanks to our technology leadership, we are optimistic that we will achieve our strategic goals for 2018 under the assumption that the global economy and the IT sector develop according to current expectations. As illustrated by our regional revenue split, we are successfully addressing new high-growth markets and reducing dependency on individual currencies through international diversification. Our focus however continues to be on profitable growth in select market segments and countries.

Our role as a global player of digital transformation is manifesting itself in our growing international customer base and in our growing partner network. In general, manufacturing companies are increasingly seeking partnerships with software vendors to drive Industry 4.0, and Software AG is well positioned as demonstrated by ADAMOS. After having laid the foundation for scalable and dynamic growth with new strategic **IoT partnerships** in 2017, we will focus on further accelerating IoT/cloud revenue in 2018. Our positive revenue and earnings performance in 2017 as well as our record figures in the fourth quarter of 2017 illustrate our growing relevance in the global IT market. They emphasize the relevance of Software AG for strategic IoT and Industry 4.0 projects. The global IoT market holds enormous growth potential. We therefore bundled our IoT/cloud business into its own business line and will report those revenues separately in the future. We have laid the groundwork for dynamic, exponential growth. We are certain that our growth will outperform the market in 2018.

Software AG's internal evolution into a learning organization will ensure long-term success in a highly dynamic environment such as the digital economy.

Carefully selected **acquisitions** will continue to be a component of our growth strategy. Our solid financial foundation provides the necessary flexibility. We will closely observe potential M&A targets and invest in select innovation-driven companies in order to strengthen our technology leadership and value-oriented growth.

Expected Financial Performance

Anticipated revenue and earnings

Software AG released its forecast for fiscal 2018 on January 25, 2018. It was calculated using the top-down/ bottom-up planning approach and foreign exchange rate projections. The forecast is based on performance indicators that are of primary significance to managing the Company. The following forecast was communicated:

Based on financial performance in 2017 and current business development, Software AG expects a 3 to 7 percent growth (at constant currency) in product revenue from the Digital Business Platform (DBP), excluding Internet of Things (IoT)/cloud, in fiscal 2018. Due to the high demand for Software AG's IoT and Industry 4.0 technologies, the Company anticipates 70 to 100 percent growth in IoT/ cloud revenue at constant currency. The Company foresees revenue growth (at constant currency) in the Adabas & Natural (A&N) business line between −2 and −6 percent year-on-year. Software AG anticipates stability in the Consulting business line. The operating profit margin (EBITA, non-IFRS) is projected to be between 30.0 and 32.0 percent for fiscal 2018. Operating EBITA (non-IFRS) is expected to grow at a mid single-digit rate. Operating earnings per share (EPS, non-IFRS) will increase between 5 and 15 percent.

As indicated above, revenue guidance is adjusted for exchange rates, which is customary in Software AG's sector. This is due to the fact that 66 percent of Software AG's revenues are generated in currencies other than the euro and their fluctuations cannot be predicted.

In contrast, the projected operating profit margin is calculated based on the reported figures, not adjusted for currencies. This is possible because Software AG's business model has built-in natural hedges to minimize significant remaining currency positions with financial instruments.

In addition to the figures critical to managing the Company discussed above, there are others of indirect importance. Approximations of these can be derived from some of the key performance indicators.

Under the assumption that revenue is distributed as indicated by the capital market outlook and that no currently-unforeseeable one-time effects arise, the Company believes that the DBP, A&N and Consulting segment margins in fiscal 2018 will remain essentially unchanged from 2017.

Software AG also expects a low double-digit improvement rate in IFRS net income, assuming stable conditions (precluding currently-unforeseeable one-time effects) apply.

After having landed key projects in the high-growth Industry 4.0 and IoT market and having entered several trailblazing partnerships with large high-tech and industrial companies in 2017, Software AG expects significant revenue growth in this business. For this reason, IoT and cloud revenue will be reported separately within the DBP business line.

The topics of cloud computing, machine learning, artificial intelligence and IoT will be focal points in 2018: four key high-tech fields that guide enterprises through the world of data-driven business models.

The Company's total financial guidance—including the expected performance for DBP, A&N and Consulting revenue and operating EBITA margin—is approved by the Management Board and Supervisory 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 resource utilization of Consulting staff.

Outlook for Fiscal Year 2018

	Current Reporting FY 2017 in € millions	Future Reporting FY 2017 in € millions	FY 2018 Outlook as of Jan. 25, 2018
DBP revenue*	455.4	455.4	—
DBP excluding IoT/cloud*	—	440.5	+3% to +7%*
IoT/cloud**	—	14.9	+70% to +100%*
A&N revenue*	223.7	223.7	−6% to −2%*
Operating margin (EBITA, non-IFRS)***	31.8%	31.8%	30.0% to 32.0%

* At constant currency, excluding hosting services
** At constant currency, including hosting services
*** Before adjusting for non-operating factors (see non-IFRS results)

Medium-term performance until 2020

Software AG expects further margin growth in upcoming years. Based on our current business model, we aim to increase our operating profit margin (EBITA, non-IFRS) from its presently high level of 31.8 percent in fiscal 2017 to a range between 32.0 and 35.0 percent by 2020. This target 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 enhanced with a positive trend in total Group maintenance revenues. Additional impetus is expected to come from the foreseeable rapid growth in license revenue the from cloud and IoT business.

Outlook 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 is determined by profit transfers and decisions regarding the payout of Group-internal dividends. 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, largely consisting of personnel costs related to consulting services, is expected to rise moderately year-on-year in line with Consulting revenues. R&D expenses should also see single-digit growth year-on-year, particularly to fuel innovation in the field of IoT. This includes expansion of R&D resources at low-cost locations. Expenses in DBP and A&N will follow the revenue trend. Sales and marketing expenses are expected to increase by a mid single-digit rate to boost growth in the DBP line and steadfastly serve the A&N customer base. General and administrative expenses will approximate those of the previous year.

The application of the new IFRS 15 reporting standard is mandatory for annual reporting periods starting on or after January 1, 2018. This new policy deals with revenue accounting. Specifically, IFRS 15 introduces new rules on the timing and amounts relating to revenue recognition. It primarily affects telecommunications and software companies that have multi-component agreements recognizing revenue on various dates. The effects from the adoption of IFRS 15 are described in Note [3], Published but Not Yet Applicable Accounting Rules, of the Notes to the Consolidated Financial Statements. p. 171

Furthermore, the recently announced federal tax reform in the USA will have a positive impact on Software AG's future earnings. According to initial calculations, the reform is expected to improve after-tax earnings and raise EPS between 5 and 10 percent in fiscal 2018 (assumptions: euro/dollar exchange rate 1.18; number of shares: unchanged at 76,400,000; unchanged revenue structure). This tax relief will not just have a positive effect on the current 2018 fiscal year. It will have a similarly positive impact on all periods thereafter as well. These repeat tax savings are offset in 2017 by a one-time U.S. tax expense amounting to a mid single-digit million-euro figure. Accounting for more than 30 percent of revenues, the USA is by far Software AG's largest single market. The Company has also made many acquisitions in the American market in the past. As a result, Software AG has intellectual property rights for key products there. The associated royalties are subject to U.S. taxation. Software AG will therefore benefit considerably from the planned reduction in federal tax rate from 35 percent to 21 percent.

Anticipated dividend development

Consistent dividend policy

Software AG adheres to a sustainable dividend policy, which is geared toward long-term, value-oriented development of the Company. This continuity is in the interest of reliable shareholder relationships and their appreciation for value. The dividend is paid for employing Software AG's earnings and cash flow. In addition to investments in profitable growth, Software AG's use of cash flow aims to enable shareholders to participate in the Company's profitability through attractive dividends. To reflect shareholder value, the Management Board raised its dividend ratio range in 2015 to 25 to 33 percent of the Group's average net income (attributable to shareholders of Software AG) and free cash flow.

Software AG continued its value-based dividend policy in fiscal 2017. After having raised the dividend to €0.60 per dividend-bearing share for fiscal 2016, the Management and Supervisory Boards will propose a dividend of €0.65 for fiscal 2017 at the 2018 Annual Shareholders' Meeting.

Conditional upon the approval of the shareholders, this would equal a total payout sum of €48.1 million (2016: €44.3 million), or, in relation to average net income (attributable to shareholders of Software AG) and free cash flow in 2017, a dividend ratio of 31.8 percent (2016: 28.0 percent). Based on the closing share price (Dec. 30, 2017: €46.86, 2016: €34.49) for the year, this would correspond to a dividend yield of 1.4 percent (2016: 1.7 percent). This is a comparatively attractive yield in the current capital market climate. The dividend policy is a clear indication of the Company's value focus and will continue in the future.

Software AG's shareholders also benefited from share buyback plans and ensuing capital decreases. Software AG has reduced the number of outstanding shares through several buyback measures and redemption of treasury shares in recent years. The treasury shares repurchased by Software AG are not entitled to a dividend. The Management Board was authorized by the 2017 Annual Shareholders' Meeting to repurchase up to 10 percent of the Company's share capital. It has not yet exercised this authorization. But it may be used at any time for future share buyback programs.

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 larger 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

Based on Software AG's positive outlook for revenue and earnings, the Company expects an ongoing stable trend in free cash flow. As in past years, free cash flow is expected to be similar to net income in 2018. This means that operating cash inflows will again be higher than dividend payments and contractual credit repayments, resulting in a further increase in liquidity and thus even more financial options for possible acquisitions.

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

Software AG was able to further increase its profitability and market relevance in fiscal 2017. Our strong earnings are tangible results of our value-oriented management focused on profitable growth and financial discipline. This positive trend was reflected by the extremely successful fourth quarter of 2017 and its record-breaking performance as well as by the early tangible successes in the growing IoT market. We therefore consider Software AG to be better equipped in 2018 than ever before to exploit the growing demand for digital transformation solutions in all industries around the world. We aim to stay on course for profitable growth in fiscal 2018, meeting our strategic goals along the way.

Thanks to our leading product portfolio, we were able to confirm our technology leadership in 2018 and lay the foundation for future market success. New strategic partnerships with global high-tech and industrial companies show that Software AG is a highly sought-after software provider when it comes to digital transformation. Awards from market analysts also confirmed an exceptionally high degree of customer loyalty and acceptance for our products. We are steadfast in driving innovation in forward-looking fields like Internet of Things (IoT) and Industry 4.0. Thanks to our multiple-award-winning product portfolio, we will be able to strengthen our market-leading position. And we believe our vendor-neutral DBP has the potential to become the industry standard for connected production. New strategic partnerships in the IoT market were a major step in that direction in 2017.

We foresee the following trends for 2018:

- A strong ADAMOS IoT partner network and growing license revenue thanks to pay-per-use models.

- The increasing relevance of the integration market which will become more important than ever due to the growing complexity of cloud architectures.

- Bundling the ARIS and Alfabet product families into a digital enterprise platform will trigger growth in this segment.

- The resonance of our Adabas & Natural 2050+ innovation program is growing among our customer base of loyal organizations who appreciate its modernization value.

- The successful go-to-market strategy will lead to continued sales efficiency and effectiveness in 2018 and continue to act as a growth engine in the future.

- Our business strategy will continue to focus on profitable organic growth, improved efficiency, increased maintenance revenues, cultivation of the loyal A&N customer base, partner network expansion and the rapidly-growing IoT and Industry 4.0 markets. The core of the Company's long-term portfolio strategy is intensive expansion of the future-oriented, profitable DBP line. This segment has become our primary source of revenue in the past few years. In order to keep our technology leadership and drive the expansion of this promising business, we will continue investing in acquisitions and developing our partnerships with research institutes and technology companies.

- In further increasing our operating profit margin from previous profitable years, we have advanced significantly in achieving our long-term goal: We aim to achieve an operating profit margin (EBITA, non-IFRS) between 32 and 35 percent by the year 2020. This strategy is propelled by Software AG's strong financial position, illustrated by extremely high cash flow and equity ratios of the past years. This position provides the flexibility necessary to invest in our own innovation and non-organic growth—provided a favorable market situation for acquisitions.

- In the long term, Software AG plans to expand its position as a globally leading provider of digital business platforms and IoT solutions.

- We have built up our Consulting line into an active market player. Thanks to their comprehensive expertise, our consultants offer high-value services for Software AG products and contribute to a high degree of customer satisfaction and success. This high-end positioning as a strategic partner for customers enabled us to grow revenue and profitability in this business segment.

- To promote innovative power and quickly recognize future trends in the highly dynamic digital economy, Software AG started a Scientific Advisory Board. This is an additional future-proofing measure for our Company.

Software AG considers itself well positioned to drive profitable growth in 2018.

We consider a steady dividend policy to be an important indication of our long-term business success and appreciation for our shareholders. The Management Board and Supervisory Board will therefore propose a new increase to the Software AG dividend for 2017. This dividend policy is Software AG's unequivocal commitment to value and will continue in the future.

TAKEOVER-RELATED DISCLOSURES

Subscribed Capital and Voting Rights

Software AG's share capital totaled €76,400,000 before deducting treasury shares and is divided into 76,400,000 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

There was no conditional capital to report.

Authorized Capital

In accordance with the resolution passed at the Annual Shareholders' Meeting on May 31, 2016, 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 30, 2021 up to a total of €39,500,000 issuing up to 39,500,000 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 30, 2021 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.

For more information on conditional capital, authorized capital and the acquisition of treasury shares, please refer to Note [29] in the Notes to the Consolidated Financial Statements. p. 191

Significant Shareholders

The Software AG Foundation, Darmstadt, holds approximately 33 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 €210.0 million (2016: €272.5 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 one-and-a-half (in two Management Board members' employment contracts) or three (in three Management Board members' employment contracts) annual salaries based on the most recently agreed annual target remuneration. In case of resignation by a member of the Management Board, the aforementioned 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 2016, 2017 and 2018, 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 14, 2018. It will be published in March 2018 on our website at SoftwareAG.com/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 SoftwareAG.com/compliance_en on January 31/February 1, 2018.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For Fiscal Years 2017 and 2016

in € thousands	Note	2017	2016
Licenses		256,729	263,027
Maintenance		421,616	412,205
Services		198,778	195,179
Other		1,860	1,422
Total revenue	**[5]**	**878,983**	**871,833**
Cost of sales	[6]	–213,349	–211,856
Gross profit		**665,634**	**659,977**
Research & Development expenses		–120,644	–112,452
Sales, marketing and distribution expenses	[7]	–243,461	–245,666
General and administrative expenses	[8]	–75,941	–79,322
Other taxes	[13]	–7,183	–5,523
Operating earnings		**218,405**	**217,014**
Other income	[9]	16,277	33,519
Other expenses	[10]	–19,094	–42,177
Financing income	[11]	10,055	9,945
Financing expenses	[11]	–8,588	–14,333
Earnings before income taxes		**217,055**	**203,968**
Income taxes	[12]	–76,459	–63,615
Net income		**140,596**	**140,353**
thereof attributable to shareholders of Software AG		140,333	140,156
thereof attributable to non-controlling interests		263	197
Earnings per share in € (basic)	[15]	1.88	1.84
Earnings per share in € (diluted)	[15]	1.88	1.84
Weighted average number of shares outstanding (basic)		74,645,119	76,231,631
Weighted average number of shares outstanding (diluted)		74,649,890	76,254,712

STATEMENT OF COMPREHENSIVE INCOME

For Fiscal Years 2017 and 2016

in € thousands	Note	2017	2016
Net income		**140,596**	**140,353**
Currency translation differences from foreign operations		–77,523	28,562
Net gain/loss on remeasuring financial assets	[32]	228	2,355
Currency translation gain/loss from net investments in foreign operations		–5,134	1,348
Items to be reclassified to the income statement if certain conditions are met		**–82,429**	**32,265**
Net actuarial gain/loss on pension obligations	[28]	–4,265	–6,668
Items not to be reclassified to the income statement		**–4,265**	**–6,668**
Other comprehensive income	**[29]**	**–86,694**	**25,597**
Comprehensive income		**53,902**	**165,950**
thereof attributable to shareholders of Software AG		53,639	165,753
thereof attributable to non-controlling interests		263	197

CONSOLIDATED BALANCE SHEET

As of December 31, 2017 and 2016

ASSETS

in € thousands	Note	2017	2016
Current assets			
Cash and cash equivalents		365,815	374,611
Other financial assets	[16]	26,165	13,488
Trade and other receivables	[17]	226,314	220,966
Other non-financial assets	[18]	17,366	20,286
Income tax receivables	[19]	14,632	12,638
		650,292	**641,989**
Non-current assets			
Intangible assets	[20]	131,664	149,420
Goodwill	[20]	921,415	936,606
Property, plant and equipment	[21]	72,815	75,559
Other financial assets	[16]	54,730	45,957
Trade and other receivables	[17]	53,273	84,905
Other non-financial assets	[18]	199	291
Income tax receivables	[19]	8,575	6,988
Deferred tax receivables	[22]	14,507	15,502
		1,257,178	**1,315,228**
Total Assets		**1,907,470**	**1,957,217**

EQUITY AND LIABILITIES

in € thousands	Note	2017	2016
Current liabilities			
Financial liabilities	[23]	210,347	101,467
Trade and other payables	[24]	37,617	39,695
Other non-financial liabilities	[25]	150,416	121,817
Other provisions	[26]	43,708	50,959
Income tax liabilities	[27]	27,505	28,224
Deferred income		112,964	125,464
		582,557	**467,626**
Non-current liabilities			
Financial liabilities	[23]	100,250	200,049
Trade and other payables	[24]	3,677	4,195
Other non-financial liabilities	[25]	640	381
Other provisions	[26]	34,297	24,793
Provisions for pensions and similar obligations	[28]	43,869	42,215
Income tax liabilities	[27]	4,509	0
Deferred tax liabilities	[22]	11,599	13,498
Deferred income		7,790	7,665
		206,631	**292,796**
Equity	**[29]**		
Share capital		76,400	79,000
Capital reserves		22,715	23,682
Retained earnings		1,176,722	1,145,374
Other reserves		−66,905	19,789
Treasury shares		−91,249	−71,596
Attributable to shareholders of Software AG		**1,117,683**	**1,196,249**
Non-controlling interests		**599**	**546**
		1,118,282	**1,196,795**
Total Equity and Liabilities		**1,907,470**	**1,957,217**

CONSOLIDATED STATEMENT OF CASH FLOWS

For Fiscal Years 2017 and 2016 [30]

in € thousands	2017	2016
Net income	140,596	140,353
Income taxes	76,459	63,615
Net financial income/expense	–1,467	4,388
Amortization/depreciation of non-current assets	41,202	40,162
Payments for cash-settled claims to optional share-based compensation	0	–16,319
Other non-cash income/expense	3,715	–8,198
Changes in receivables and other assets	2,159	–7,144
Changes in payables and other liabilities	8,993	56,019
Income taxes paid/received	–83,040	–64,111
Interest paid	–9,277	–15,019
Interest received	10,045	9,950
Net cash from operating activities	**189,385**	**203,696**
Proceeds from the sale of property, plant and equipment/intangible assets	591	385
Purchase of property, plant and equipment/intangible assets	–25,444	–12,687
Proceeds from the sale of non-current financial assets	1,932	1,457
Purchase of non-current financial assets	–4,579	–5,874
Proceeds from the sale of current financial assets	4,270	16,818
Purchase of current financial assets	–681	–16,970
Payments for acquisitions, net	–49,420	–43,117
Net cash used in investing activities	**–73,331**	**–59,988**

in € thousands	**2017**	**2016**
Repurchase of treasury shares (including option premiums paid)	–89,587	0
Use of treasury shares	1,725	0
Dividends paid	–44,553	–42,105
Proceeds/payments for current financial liabilities	96,257	9,475
New non-current financial liabilities	80	75,000
Repayment of non-current financial liabilities	–70,926	–122,432
Payments for non-controlling interests	0	–460
Net cash provided by/used in financing activities	**–107,004**	**–80,522**
Change in cash and cash equivalents	9,050	63,186
Change in cash and cash equivalents from currency translation	–17,846	10,858
Net change in cash and cash equivalents	**–8,796**	**74,044**
Cash and cash equivalents at beginning of period	374,611	300,567
Cash and cash equivalents at end of period	**365,815**	**374,611**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For Fiscal Years 2017 and 2016 [29]

in € thousands	Share capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Jan. 1, 2016	**76,231,631**	**79,000**	**40,504**	**1,047,145**
Total comprehensive income				**140,156**
Transactions with shareholders				
Dividend payment				–41,927
Stock options			–16,319	
Transactions between shareholders			–503	
Equity as of Dec. 31, 2016	**76,231,631**	**79,000**	**23,682**	**1,145,374**
Equity as of Jan. 1, 2017	**76,231,631**	**79,000**	**23,682**	**1,145,374**
Total comprehensive income				**140,333**
Transactions with shareholders				
Dividend payment				–44,343
Issue and use of treasury shares	71,500		–967	
Redemption of treasury shares		–2,600		–64,642
Repurchase of treasury shares (including option premiums paid)	–2,326,892			
Equity as of Dec. 31, 2017	**73,976,239**	**76,400**	**22,715**	**1,176,722**

Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
Currency translation differences from foreign operations	Net gain/loss on remeasuring financial assets	Net actuarial gain/loss on pension obligations	Currency translation gain/loss from net investments in foreign operations				
9,628	**571**	**−26,684**	**10,677**	**−71,596**	**1,089,245**	**484**	**1,089,729**
28,562	**2,355**	**−6,668**	**1,348**		**165,753**	**197**	**165,950**
					−41,927	−178	−42,105
					−16,319		−16,319
					−503	43	−460
38,190	**2,926**	**−33,352**	**12,025**	**−71,596**	**1,196,249**	**546**	**1,196,795**
38,190	**2,926**	**−33,352**	**12,025**	**−71,596**	**1,196,249**	**546**	**1,196,795**
−77,523	**228**	**−4,265**	**−5,134**		**53,639**	**263**	**53,902**
					−44,343	−210	−44,553
				2,692	1,725		1,725
				67,242	0		0
				−89,587	−89,587		−89,587
−39,333	**3,154**	**−37,617**	**6,891**	**−91,249**	**1,117,683**	**599**	**1,118,282**

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 IFRS applicable as of December 31, 2017 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

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

Software AG's Management Board prepared the consolidated financial statements on March 1, 2018. Software AG's Audit Committee discussed the consolidated financial statements in its meeting on March 13, 2018. The Supervisory Board approved the consolidated financial statements in its meeting on March 15, 2018.

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

The separate financial statements of the companies of the consolidated Group were prepared on the date of the consolidated financial statements.

[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 the entity, is impacted by fluctuating returns on its share in the entity and 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 as %	Equity* Dec. 31, 2017 in € thousands	2017 Earnings in € thousands
SAG Deutschland GmbH, Darmstadt	100	18,270	533
SAG Consulting Services GmbH, Darmstadt	100	898	830
SAG LVG mbH, Darmstadt and its foreign subsidiaries	100	959	0
• Software Dutch License Company C.V, Al's Gravenhage/ Netherlands	99	4,905	14
FACT Unternehmensberatung GmbH, Darmstadt and its subsidiary	100	598	233
• FACT Informationssysteme und Consulting AG, Neuss	55	1,331	584
itCampus Software- und Systemhaus GmbH, Leipzig	100	–543	251
SAG Cloud GmbH, Darmstadt	100	281	80
Cumulocity GmbH, Düsseldorf (acquired as of March 31, 2017) and its foreign subsidiaries	100	1,033	–324
• Cumulocity Pte. Ltd., Singapore/Singapore (liquidated as of October 25, 2017)	100	0	0
• Cumulocity Inc., Dover/USA (in liquidation)	100	0	0

* The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

b) Foreign entities	**Ownership interest as %**	**Equity* Dec. 31, 2017 in € thousands**	**2017 Earnings in € thousands**
Software A.G. Argentina S.R.L., Buenos Aires/Argentina	95	2,631	1,374
in which SAG Deutschland GmbH also has a direct stake	5		
Software AG Sydney PTY LTD, North Sydney/Australia	100 inactive	0	0
Software AG (Gulf)S.P.C., Manama/Bahrain and its subsidiary	100	4,028	−355
• Software AG International FZ-LLC, Dubai/United Arab Emirates	100	3,271	−12
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	152	−14
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	1,553	545
Software AG China Ltd., Shanghai/China	100	−3,972	−213
Software AG (Hong Kong) Limited, Hong Kong/China	100	−2,251	−665
Software AG Denmark A/S, Hvidovre/Denmark and its subsidiary	100	2,379	1,538
• Software AG Nordic A/S, Oslo/Norway	100 inactive	31	−4
Software AG Finland Oy, Helsinki/Finnland	100	973	609
Software AG France S.A.S, Courbevoie Cedex/France	100	18,572	4,301
Software AG (U.K.) Limited, Derby/U.K. and its subsidiaries	100	36,109	18,551
• Software AG Belgium S.A., Watermael-Boitsfort/Belgium	76	5,545	1,209
in which Software AG also has a direct stake	24		
• PCB Systems Limited, Derby/U.K.	100 inactive	2,038	0
• SAG SALES CENTRE IRELAND LIMITED, Dublin/Ireland	100	156	106
SGML Technologies Limited, Derby/U.K.	100	1,983	0
Software AG India Sales Private Ltd., Bangalore, Karnataka, India	100	3,211	1,575
Software AG (India) Private Limited, Bangalore/India	100	21	−2
S.P.L. Software Ltd., OR-Yehuda/Israel and its subsidiary	100	85,728	3,588
• Software A.G. (Israel) Ltd., OR-Yehuda/Israel and its subsidiary	100	17,506	1,704
Software AG Italia S.p.A, Milan/Italy	100	827	−921
Software d.o.o., Split/Croatia (in liquidation)	100	180	−31
SAG Software AG Luxembourg S.A.,Capellen/Luxembourg	100	258	114
SAG Central and Eastern Europe S.A., Capellen/Luxembourg (liquidated as of January 20, 2017)	100	0	0
Software AG Nederland B.V., Den Haag/Netherlands	100	7,771	2,333
Software GmbH Österreich, Vienna/Austria	100	7,832	1,331
Software AG (Philippines), Inc., Makati City/Philippines	100	1,327	796
Software AG Polska Sp. z o.o., Warsaw/Poland	100	4,397	1,325
OOO Software AG (RUS), Moscow/Russia	100	1,113	−133
IDS Scheer Saudi Arabia LLC, Riyadh/Saudi Arabia (in liquidation)	95	0	−21
in which SAG Software Systems AG also has a direct stake	5		

b) Foreign entities	Ownership interest as %	Equity* Dec, 31, 2017 in € thousands	2017 Earnings in € thousands
Software AG Saudi Arabia LLC, Riyadh/Saudi Arabia (in liquidation)	95	0	0
Software AG Sweden AB, Kista/Sweden	100	1,797	433
SAG Software Systems AG, Zurich/Switzerland	100	3,398	1,707
Software AG (Singapore) Pte LTD, Singapore	100	7,607	687
Software AG Development Centre Slovakia s.r.o., Košice/Slovakia	100	250	96
Software d.o.o., Ljubiljana/Slovenia (in liquidation)	100	64	33
Software AG España, S.A. Unipersonal, Tres Cantos, Madrid/Spain and its subsidiaries	100	55,669	22,716
• Software AG Brasil Informática e Serviços Ltda, São Paulo/SP, Brazil	100	22,096	2,962
• Software AG Factoria S.A., Santiago de Chile/Chile	100	0	–1
• Software AG De Panamá, S.A., Corregimiento de Pueblo nuevo/Panama and its subsidiary	100	–686	16
•• Software AG de Costa Rica, S.A., San José/Costa Rica	100	–47	8
• Software AG (Portugal) Alta Tecnologia Informática, Ltd., Lisbon/Portugal	97	1,615	270
in which Software AG also has a direct stake	3		
• Software AG De Puerto Rico, Inc., San Juan/Puerto Rico	100	457	137
• A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela	100 inactive	0	0
• Software AG Venezuela, C.A., Caracas/Venezuela	100	191	268
Software AG South Africa (Pty) Ltd., Bryanston/South Africa	100	17,633	6,790
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	2,182	279
Software AG, Inc., Reston, VA/USA and subsidiaries	100	377,057	154,465
• Software AG (Canada) Inc., Cambridge, Ontario/Canada	100	915	8,006
• Software AG, S.A. de C.V. (Mexico), Distrito Federal/Mexico	100	1,439	832
• Software AG Cloud Americas, Inc., Wilmington (New Castle)/USA	100	143	42
• Software AG CLOUD APJ PTY LTD, North Sydney/Australia	100	10	7
• Software AG USA, Inc., Reston, VA/USA and subsidiaries	100	430,636	53,269
•• Software AG Australia (Holdings) Pty Ltd., North Sydney/ Australia and subsidiaries	100	19,648	–2,108
••• Software AG Australia Pty Ltd., North Sydney/ Australia	100	54,017	7,040
•• Software AG Bangalore Technologies Private Ltd., Bangalore/India	100	8,939	3,160
•• Software AG Chennai Development Center India Pvt Ltd., Chennai/India	100	1,507	362
•• Software AG Kochi Pvt, Ltd., Bangalore, Karnataka/India	98	269	9
•• Software AG Ltd., Japan, Minato-ku, Tokyo/Japan	100	654	–404
•• Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/ Malaysia	100	5,134	802
•• Software AG Korea, Ltd., Seoul/South Korea	100	892	246
•• Software AG Distribution LLC, Reston, VA, USA	100	6,995	55,672

b) Foreign entities	Ownership interest as %	Equity* Dec, 31, 2017 in € thousands	2017 Earnings in € thousands
• CONNX SOLUTIONS Inc., Redmond, Washington/USA	100	–609	–458
• Zementis Inc., San Diego/USA	100	550	514
• Software AG Government Solutions, Inc., Reston, VA/USA and its subsidiary	100	40,359	17,927
• JackBe Mexico, Mexico City, Mexico	100	384	–55
• Terracotta Inc., San Francisco/USA and its subsidiary	100	0	0
• Terracotta Software India Pvt, Ltd., Bangalore, Karnataka/India	100	126	4

* The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

Changes in the consolidated Group

The number of consolidated entities changed from the level as of December 31, 2016 as follows:

	Germany	Foreign	Total
December 31, 2016	**9**	**71**	**80**
Additions	1	2	3
Disposals (including mergers)	1	2	3
December 31, 2017	**9**	**71**	**80**

The disposals relate to the liquidation of a consolidated company and a merger. The addition relates to the acquisition of Cumulocity GmbH in Düsseldorf, Germany. The change to the scope of consolidation had no significant effect on comparability to 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.

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, 2017). The initial consolidation method applied to business combinations was based on the respective date of foundation in the case of companies founded by Software AG. Acquired companies are included for the first time on the date Software AG achieves control. Changes in ownership interests that do not lead to a loss of control are excluded from income and reported within equity.

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

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

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 non-current, 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, 2017	Dec. 31, 2016	Change as %
U.S. dollar	1.1993	1.0541	–13.8
Brazilian real	3.9729	3.4305	–15.8
Pound sterling	0.8872	0.8562	–3.6
Australian dollar	1.5346	1.4596	–5.1
Israeli shekel	4.1635	4.0477	–2.9
South African rand	14.8054	14.4570	–2.4
Canadian dollar	1.5039	1.4188	–6.0

Average Rate

€1	Dec. 31. 2017	Dec. 31. 2016	Change as %
U.S. dollar	1.1293	1.1066	–2.1
Brazilian real	3.6041	3.8613	6.7
Pound sterling	0.8761	0.8189	–7.0
Australian dollar	1.4729	1.4886	1.1
Israeli shekel	4.0608	4.2469	4.4
South African rand	15.0434	16.2745	7.6
Canadian dollar	1.4644	1.4664	0.1

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.

Total revenue

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

Revenue from granting temporary and perpetual licenses is only recognized once a legally binding contract exists, any rights to return have expired, the software has been delivered in accordance with the contract, a price has been agreed or can be established and there is sufficient probability that payment will be made. Revenue from granting temporary licenses is treated in accordance with the specific features of the license. If the transaction resembles a sale, i.e. involves immediate payment, and the other requirements mentioned above are fulfilled, the income is recognized immediately. However, if the transaction resembles a transfer of use, the income is recognized in installments during the period of use.

Software licenses are often sold in combination with maintenance and service contracts. In this case, when an agreement involves multiple elements, revenue recognition is based on the individually identifiable elements of the transaction. Since reliable market values cannot be determined regularly 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 services, 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.

Research & Development expenses

Research & 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 & Development processes are closely linked. Any Research & 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 marketing and advertising costs.

General and administrative expenses

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

Government grants

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

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

Borrowing costs

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

Share-based payment

In accordance with IFRS 2, share-based payment transactions are divided into cash-settled and equity-settled transactions. The latter plays only a minor role for Software AG because there is only a very small number of rights left that can be settled in equity. Both types of payment transactions are measured at their fair value as of the grant date. The value is then recognized over the vesting period as remuneration expenses. 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.

Non-derivative financial assets

Software AG recognizes non-derivative 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 in this category 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, specific valuation allowances are recognized. 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 PoC 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 in 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	5–12.5	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 goodwill 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 goodwill 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 with an indefinite useful life 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 reversed provided the reasons for a previously scheduled impairment no longer exist.

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

Deferred taxes

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

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

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

Non-derivative financial liabilities

Software AG initially recognizes issued promissory note loans and subordinate loans as of the date they were incurred. All other financial liabilities are recognized as of the value date.

Financial liabilities are derecognized when the contractual obligation has been settled, cancelled or has expired.

Non-derivative financial liabilities are measured at fair value less directly attributable transaction costs on first recognition. Subsequently, they are measured at amortized cost using the effective interest rate.

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

The present value of pension obligations for defined benefit plans and the associated expenses are determined using actuarial principles in accordance with the projected unit credit method set out in IAS 19 (revised in 2011, IAS 19R). This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

The pension provisions are reported at the full present value of the defined obligation, less the fair value of the reinsurance cover taken out for defined benefit obligations or the fair value of the plan assets accumulated to cover pension entitlements. The result of the recalculated net obligation is recognized as other comprehensive income in the Statement of Comprehensive Income. It is comprised of actuarial gains and losses, the return on plan assets and changes in the effects of the asset cap less amounts previously recognized as net interest.

Payments for defined contribution pension plans are recognized as expenses in profit or loss for the period provided the employee has met the stated performance target.

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 assigned to income in the period in which the service is rendered.

Treasury shares

The amount paid for treasury shares, including directly attributable costs, is deducted from shareholders' equity. Treasury shares are reported as a separate item in the equity statement.

New accounting rules to be applied starting in the fiscal year

None of the new accounting rules to be applied starting in the 2016 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, 2017.

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. In April 2016 a number of clarifications to IFRS 15 were published, in particular with regard to identifying separate contractual obligations, differentiating between principal and agent and recognizing licensing income. These clarifications were published on November 9, 2017 in the Official Journal of the European Union; IFRS 15 and the amendment to IFRS 15 on postponement of the date of first-time application were published on October 29, 2016 in the Official Journal of the European Union.

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

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

An in-depth impact analysis shows that IFRS 15 does not require identification of performance obligations, which were not already considered performance obligations by current rules, to which revenue is assigned as part of a multi-component business transaction. Software AG identified no performance obligations by current definition which aren't performance obligations pursuant to IFRS 15. A new way to report revenue for individual performance obligations has arisen: According to existing rules, income from temporary licenses that resemble a transfer of use in nature (leasing licenses and subscriptions) is recognized in installments during the period of use. According to IFRS 15, revenue allocated to the license portion is recognized at the beginning of the transfer of use. Software AG expects a conversion effect resulting from the application of IFRS 15 to equal about

€800 thousand in equity. This value refers to the license portion of licenses and subscriptions, which, according to previous revenue recognition policies, was to be recognized in subsequent periods, and which, pursuant to IFRS 15, must be allocated in whole at the time of transfer of use. This license revenue will therefore not be reported as revenues in the Consolidated Income Statement in subsequent periods.

According to the accounting methods used to date, the revenue portion attributable to software licenses in a multi-component transaction was regularly determined using the residual method. Under the residual method, all determinable market values are deducted from the total transaction value. Some agreements offered customers options to purchase future services. According to IFRS 15, these options represent a substantive right to which a separate value must be assigned. Software AG expects a conversion effect resulting from the application of IFRS 15 to equal about €4,700 thousand in equity. This conversion effect will be recognized as maintenance revenue over the assumed term of the substantive right in subsequent years.

Some of Software AG's agreements grant customers rights of use for a limited period of time. When such a contract is renewed, the customer's temporary rights of use are extended. According to previous accounting methods, the resulting license revenue could be recognized before the period of renewal began. According to IFRS 15 license revenue cannot be recognized before the period of renewal has begun. Software AG expects a conversion effect on equity in the amount of some €4,500 thousand resulting from the application of IFRS 15. This conversion effect will be recognized as license revenue in 2018 as soon as the renewed period of temporary rights of use begins.

Pursuant to IFRS 15, costs incurred from acquiring new orders must be capitalized and then amortized subsequently. Software AG does not currently capitalize costs related to new orders. Software AG expects the capitalization of costs related to new orders to lead to a conversion effect on equity in the amount of some €5,200 thousand resulting from the application of IFRS 15.

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

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. The standard uses cash flow characteristics and the business model by which they are managed as its reference. It is also introducing a new impairment model that is based on expected loan defaults. Furthermore, IFRS 9 contains new rules on hedge accounting.

Software AG will adopt IFRS 9 on January 1, 2018 when it takes effect. Software AG is exercising its right to optional exceptions to rules regarding complete retrospective application and will show the effects of the first-time application as an adjustment to the initial balance of retained earnings.

Based on the conducted analysis of contractual cash flows from all debt securities, loans and other financial receivables, Software AG assumes that it can retain the existing classification for the majority of its financial assets and does not expect any significant effects resulting from the changed classification and/or subsequent measurement.

Based on an analysis of defaults on past trade receivables and the resulting valuation adjustment matrix, Software AG expects less than €500 thousand in adjustments. Software AG assumes that approximately 80 percent of its trade receivables will have to be classified at amortized cost, and approximately 20 percent directly in other comprehensive income at fair value due to the business model (hold to collect versus hold to sell).

Software AG classified its balance of equity securities as of December 31, 2017 at fair value as other comprehensive income, excluded from profit/loss.

All existing hedge accounting relationships as of December 31, 2017 met the requirements for hedge accounting pursuant to IFRS 9.

Software AG currently assumes that the first application and the associated consequences described above will not have a significant impact on its consolidated financial statements.

The IASB published IFRS 16 “Leases” in January 2016. IFRS 16 replaces the previous directive on leases, including IAS 17 “Leases,” IFRIC 4 “Determining Whether an Agreement Includes a Lease,” SIC−15 “Operating Leases–Incentives” and SIC−27 “Evaluating the Substance of Transactions in the Legal Form of a Lease.” IFRS 16 introduces a uniform accounting model whereby leases must be recognized in the balance sheet of the lessee. A lessee recognizes a right that represents its right to use an underlying asset and a debt from the lease that represents its obligation to make lease payments. There are exceptions to the rules for short-term leases and leases related to low-value assets. The lessor’s financial reporting is comparable to the current standard, meaning that the lessor will continue to classify leases as financing or operating leases. The standard is to be applied for the first time in the first reporting period of a fiscal year beginning on or after January 1, 2019. Early application is permitted for companies that apply IFRS 15 “Revenue from Contracts with Customers” when they first apply IFRS 16 or earlier. Accordingly, Software AG will not exercise the option of early application. Software AG is currently reviewing what implications application of IFRS 16 will have on its consolidated financial statements. At present, Software AG assumes that—except leases for rented office buildings—there are very few leases in the Software AG Group which do not fall under the exceptions for short-term leases and leases associated with low-value assets. The expected increase in assets and liabilities (assets from use rights and leasing obligations) resulting from leases for rented office buildings is likely to be around €40 million. The standard is not expected to have any other significant impact on Software AG.

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, 2017. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

[4] Business Combinations

Software AG acquired 100 percent of shares in Cumulocity GmbH in fiscal 2017. The basic data on the acquisition are as follows:

Company	**Cumulocity GmbH**
Headquarter	Düsseldorf (Germany)
Line of business	Internet of Things (IoT); IoT-cloud offering, i.e. application and device management platform enabling simple connectivity in networks of devices and sensors
Ownership interest recognized on the balance sheet as of Dec. 31, 2017	100%
Percentage of acquired shareholders’ equity with voting rights	100%
Date of acquisition	March 2017
Number of employees	about 30
Purchase price	€50,111 thousand

The acquisition was made to strengthen Software AG’s Internet of Things (IoT) business.

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

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	691	0	691
Intangible assets	57	22,976	23,033
Goodwill	0	31,664	31,664
Other assets	1,267	0	1,267
Assets	**2,015**	**54,640**	**56,655**
Liabilities and provisions	659	0	659
Deferred tax liabilities	0	5,885	5,885
Equity and liabilities	**659**	**5,885**	**6,544**
Acquired assets and assumed liabilities, net	**1,356**	**48,755**	**50,111**
Payments to shareholders			50,111
Considerations not yet paid			0
Acquisition cost, gross			**50,111**
Cash and cash equivalents			691
Net cost of the business combination			**49,420**

The full amount of goodwill resulting from the purchase price allocations was assigned to the Digital Business Platform (DBP) segment.

The recognition of goodwill resulted mainly from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. The goodwill arising from this acquisition is not likely to be tax deductible.

The earnings of Cumulocity GmbH were included in the consolidated income statement as of the date of acquisition.

Since the acquisition, about €3.0 million of Software AG's Group revenue and −€2.9 million of Group earnings have resulted from Cumulocity GmbH.

Providing fictitious amounts for Group revenue and net income for the fiscal year calculated under the assumption that all corporate acquisitions in 2013 had taken place at the beginning of the year is not possible with the information available and due to the seasonality of the business.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

[5] Total Revenue

Revenue by segment and region is presented in the Segment Report in Note [31].

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Services revenue

Services revenue includes €28,907 thousand (2016: €29,393 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, 2017 was as follows:

in € thousands	2017	2016
Costs accumulated over the term of a (multi-year) project and not yet invoiced	66,894	44,208
Recognized profit (+)/loss (–) (during the entire term of the project)	8,873	16,967

As of December 31, 2017, the net amount due from customers for unfinished project work was €5,369 thousand (2016: €3,835 thousand), and the amount due to customers from running projects was €453 thousand (2016: €649 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] Cost of Sales

The cost of sales in fiscal years 2017 and 2016 was as follows:

in € thousands	2017	2016
Personnel expenses	163,853	159,955
Other costs of sales	36,511	40,502
Amortization of intangible assets	12,985	11,399
	213,349	**211,856**

[7] Sales, Marketing and Distribution Expenses

Sales, marketing and distribution expenses in fiscal years 2017 and 2016 were as follows:

in € thousands	2017	2016
Personnel expenses	186,276	187,158
Other marketing expenses	18,018	18,078
Other sales and distribution expenses	22,539	22,730
Amortization of intangible assets	16,628	17,700
	243,461	**245,666**

[8] General and Administrative Expenses

General and administrative expenses in fiscal years 2017 and 2016 were as follows:

in € thousands	2017	2016
Personnel expenses	72,366	73,932
Other general and administrative expenses	3,575	5,390
	75,941	**79,322**

[9] Other Income

Other income included the following items:

in € thousands	2017	2016
Foreign exchange gains	8,256	27,232
Income from the reversal of provisions and deferred liabilities	7,237	2,177
Government grants in the form of low-interest-rate loans	0	4,110
Other income	784	0
	16,277	**33,519**

[10] Other Expenses

Other income included the following items:

in € thousands	2017	2016
Foreign exchange losses	11,382	24,567
Expenses relating to legal disputes	7,000	17,610
Other expenses	712	0
	19,094	**42,177**

[11] Net Financial Income/Expense

Financial income included interest on financial assets in the amount of €8,334 thousand (2016: €8,888 thousand). Financial expense included interest on financial liabilities in the amount of €5,375 thousand (2016: €8,251 thousand), including €493 thousand (2016: €973 thousand) from interest swaps. No financing costs were capitalized as part of the cost of the asset in fiscal 2015.

[12] Income Taxes

Taxes on income are broken down into the following categories:

in € thousands	2017	2016
Current domestic taxes	−11,151	−14,331
Current foreign taxes	−70,603	−59,672
	−81,754	**−74,003**
Deferred domestic taxes	3,435	9,787
Deferred foreign taxes	1,860	601
	5,295	**10,388**
	−76,459	**−63,615**

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 will be 31.83 percent (2016: 31.26 percent) in 2017. The changed tax rate is due primarily to the changed trade tax structure. Tax rates abroad range between 10 and 39.15 percent (2016: between 10 and 39.3 percent).

The income tax expense of €76,459 thousand for fiscal year 2017 (2016: €63,615 thousand) is €7,370 thousand higher than the expected income tax expense of €69,089 thousand (2016: €63,760 thousand) that resulted from applying the domestic tax rate of 31.83 percent (2016: 31.26 percent) currently applicable at Group level. The Group's effective income tax rate is 35.23 percent (2016: 31.19 percent).

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

in € thousands	2017	2016
Earnings before income taxes	**217,055**	**203,968**
Expected income tax (31.83%; 31.26%)	−69,089	−63,760
Difference vs. foreign tax rates and changes in tax rates	4,114	−464
Aperiodic income tax effects	−4,165	−2,982
Tax increases (-) due to tax-exempt income or non-tax-deductible expenses	−2,716	5,963
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	−541	6,178
Non-deductible foreign and withholding taxes	−4,054	−8,463
Other adjustments	−8	−87
Reported income tax expense	**−76,459**	**−63,615**

Income from deferred taxes totaled €5,295 thousand and consist of €16,709 thousand (2016: €4,497 thousand) in tax income relating to temporary differences that arose.

The changed income tax rates led to a positive effect of €6,004 thousand (2016: €234 thousand) in fiscal 2017.

The expense from deferred taxes decreased by €1,523 thousand as a result of the reversal of impairment losses on deferred taxes on tax loss carryforwards in fiscal 2017.

A one-time additional tax expense resulting from the U.S. tax reform in the mid-single-digit million-euro range is included in the income tax expense.

[13] Other Taxes

Other taxes increased €1,660 thousand to €7,183 thousand (2016: €5,523 thousand) and included royalty-related indirect taxes in Brazil, property taxes, vehicle taxes and other indirect taxes.

[14] Personnel Expenses

Personnel expenses in fiscal years 2017 and 2016 were as follows:

in € thousands	2017	2016
Wages and salaries	404,882	396,362
Social security contributions	60,062	54,474
Pension expenses	9,877	10,640
	474,821	**461,476**

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

in € thousands	2017	2016
Maintenance and Services	1,923	1,874
Sales and Marketing	869	847
R&D	1,159	1,060
Administration	612	600
	4,563	**4,381**

In absolute terms (part-time employees are counted in full), the Group employed 4,717 (2016: 4,633) people as of December 31, 2017.

[15] 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 2017, the average weighted number of shares was 74,645,119 (2016: 76,231,631).

A total of 71,500 (2016: 1,590,000) stock options were exercised in 2017. In order to fulfill stock options, 71,500 (2016: 0) treasury shares were used. The number of shares outstanding increased accordingly by 71,500 (2016: 0). Software AG repurchased 2,326,892 treasury shares (2016: 0) and redeemed 2,600,000 (2016: 0) treasury shares in 2017. The number of treasury shares therefore went down by 344,608 to total 2,423,761 (2016: 2,768,369) year-on-year. The treasury shares are not expected see a dilution effect, since they can be sold at market prices.

An additional 12,400 (2016: 83,900) stock options from the third stock option plan may be exercised.

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Net income	140,596	140,353
Less earnings attributable to non-controlling interests	–263	–197
Net income attributable to shareholders of Software AG	140,333	140,156
Weighted average number of shares outstanding	74,645,119	76,231,631
Effect of dilutive share-based payment	4,771	23,081
Weighted average number of shares outstanding (diluted)	74,649,890	76,254,712
Earnings per share in € (basic)	1.88	1.84
Earnings per share in € (diluted)	1.88	1.84

NOTES TO THE CONSOLIDATED BALANCE SHEET

[16] Other Financial Assets

Other financial assets as of December 31 were as follows:

	Dec. 31, 2017		
in € thousands	**Current**	**Non-current**	**Total**
Debt securities	0	0	0
Equity securities	0	9,736	9,736
Investment funds	2,285	567	2,852
Loans and other financial receivables	1,130	9,349	10,479
Derivatives	22,750	35,078	57,828
Total	**26,165**	**54,730**	**80,895**

	Dec. 31, 2016		
in € thousands	**Current**	**Non-current**	**Total**
Debt securities	4,000	0	4,000
Equity securities	0	10,189	10,189
Investment funds	2,200	0	2,200
Loans and other financial receivables	795	9,885	10,680
Derivatives	6,493	25,883	32,376
Total	**13,488**	**45,957**	**59,445**

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Further information on the valuation of financial assets can be found in Note [32].

[17] Trade Receivables and Other Receivables

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

	Dec. 31, 2017		
in € thousands	**Current**	**Non-current**	**Total**
Trade receivables	225,656	52,692	278,348
Other receivables	658	581	1,239
Total	**226,314**	**53,273**	**279,587**

	Dec. 31, 2016		
in € thousands	**Current**	**Non-current**	**Total**
Trade receivables	220,380	84,213	304,593
Other receivables	586	692	1,278
Total	**220,966**	**84,905**	**305,871**

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

in € thousands	**Dec. 31, 2017**	**Dec. 31, 2016**
Carrying amount	278,348	304,593
of which neither impaired nor past due as of the balance sheet date	242,706	270,990
of which past due in the following time periods as of the balance sheet date		
1 to 3 months	29,225	22,916
4 to 6 months	5,028	7,458
7 to 12 months	1,389	3,229
> 12 months	0	0

[18] Other Non-Financial Assets

Other non-financial assets mainly consist of receivables due from tax authorities in the amount of €2,021 thousand (2016: €5,058 thousand) and prepaid expenses in the amount of €12,445 thousand (2016: €13,116 thousand).

[19] Income Tax Receivables

Tax receivables in the amount of €23,207 thousand (2016: €19,626 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes

[20] Intangible Assets and Goodwill

Changes in Intangible Assets and Goodwill as of December 31, 2017

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2017	**938,506**	**502,042**	**1,440,548**
Currency translation differences	−46,855	−37,786	−84,641
Additions from acquisitions	31,664	23,033	54,697
Additions	0	696	696
Disposals	0	−2,545	−2,545
Balance as of Dec. 31, 2017	**923,315**	**485,440**	**1,408,755**
Accumulated impairment/amortization			
Balance as of Jan. 1, 2017	**−1,900**	**−352,622**	**−354,522**
Currency translation differences	0	27,694	27,694
Additions	0	−31,391	−31,391
Disposals	0	2,543	2,543
Balance as of Dec. 31, 2017	**−1,900**	**−353,776**	**−355,676**
Residual carrying amount as of Jan. 1, 2017	936,606	149,420	1,086,026
Residual carrying amount as of Dec. 31, 2017	921,415	131,664	1,053,079

Changes in Intangible Assets and Goodwill as of December 31, 2016

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2016	**901,854**	**473,027**	**1,374,881**
Currency translation differences	12,136	8,426	20,562
Additions from acquisitions	24,516	20,816	45,332
Additions	0	437	437
Disposals	0	–664	–664
Balance as of Dec. 31, 2016	**938,506**	**502,042**	**1,440,548**
Accumulated impairment/amortization			
Balance as of Jan. 1, 2016	**–1,900**	**–315,589**	**–317,489**
Currency translation differences	0	–6,183	–6,183
Additions	0	–31,514	–31,514
Disposals	0	664	664
Balance as of Dec. 31, 2016	**–1,900**	**–352,622**	**–354,522**
Residual carrying amount as of Jan. 1, 2016	899,954	157,438	1,057,392
Residual carrying amount as of Dec. 31, 2016	936,606	149,420	1,086,026

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 consolidated financial statements:

in € thousands	Carrying amount as of Dec. 31, 2017	Carrying amount as of Dec. 31, 2016	Remaining amortization period in years
Software obtained through Cumulocity acquisition	11,374	0	5.8
Customer base obtained through webMethods acquisition	11,283	19,257	2.0
Software obtained through Zementis acquisition	8,567	10,614	11.5
Customer base obtained through SPL Israel acquisition	8,226	9,728	6.2
Customer base (rights and licenses) obtained through Jacada acquisition	7,658	10,386	5.0

In addition, the following important intangible assets with indefinite useful lives existed as of December 31, 2017:

in € thousands	Carrying amount as of Dec. 31, 2017	Carrying amount as of Dec. 31, 2016	Reason for assuming indefinite useful life
Brand name (webMethods) obtained through webMethods acquisition	20,848	23,717	Use and future expansion of the brand name is planned for an indefinite period of time.
Brand names (ARIS and others) obtained through IDS acquisition	22,300	22,300	Use and future expansion of the brand name is planned for an indefinite period of time.

Brand names are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amounts of goodwill were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Adabas & Natural (A&N)	324,661	327,516
Digital Business Platform (DBP)	573,402	584,679
Consulting	23,352	24,411
Goodwill	**921,415**	**936,606**
of which from acquisition of SAG Inc. USA 2001	174,591	174,591
of which from acquisition of webM Inc. USA 2007	227,322	258,742
of which from acquisition of IDS Scheer AG 2009	240,759	240,759

The carrying amounts of intangible assets with indefinite useful lives were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Adabas & Natural (A&N)	0	0
Digital Business Platform (DBP)	37,709	40,502
Consulting	5,439	5,515
Intangible assets with indefinite useful lives	**43,148**	**46,017**

The segments represent the smallest cash-generating units in the Group.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to fair value less costs to sell.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a period of three (2016: 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 (2016: 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 6.7 percent (2016: 7.3 percent). The sustainable growth rate was assumed to be 0 percent (2016: 0 percent). A discount of 20 percent (2016: 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.

Software AG assumed a sustainable growth rate of 1 percent (2016: 2 percent) and a weighted average cost of capital (WACC) after tax of 6.4 percent (2016: 7.6 percent) for the Digital Business Platform (DBP) segment. A low double-digit revenue growth rate and a significant margin improvement (EBITA margin) were assumed in the period of detailed planning. However, given a sustainable growth rate of 0 percent and 0 percent revenue growth assumed for the period of detailed planning, the fair value less costs to sell would still exceed the carrying amount.

Software AG assumed a weighted average cost of capital (WACC) after tax of 6.5 percent (2014: 6.4 percent) and a sustainable growth rate of 1 percent (2016: 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.

The 1 percent reduction year-on-year in sustainable growth rate for perpetual annuity for the DBP and Consulting segments simply reflects a trend in valuation practice and does not in any way indicate a changed estimation of growth for either segment.

[21] Property, Plant and Equipment

Changes in Property, Plant and Equipment as of December 31, 2017

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2017	**89,300**	**33,098**	**122,398**
Currency translation differences	–672	–2,262	–2,934
Additions from acquisitions	0	43	43
Additions	2,602	5,774	8,376
Disposals	–1,048	–4,262	–5,310
Balance as of Dec. 31, 2017	**90,182**	**32,391**	**122,573**
Accumulated depreciation			
Balance as of Jan. 1, 2017	**–28,957**	**–17,882**	**–46,839**
Currency translation differences	363	1,717	2,080
Additions	–3,435	–6,377	–9,812
Disposals	851	3,962	4,813
Balance as of Dec. 31, 2017	**–31,178**	**–18,580**	**–49,758**
Residual carrying amount as of Jan. 1, 2017	60,343	15,216	75,559
Residual carrying amount as of Dec. 31, 2017	59,004	13,811	72,815

Changes in Property, Plant and Equipment as of December 31, 2016

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2016	**76,186**	**34,270**	**110,456**
Currency translation differences	–110	535	425
Additions from acquisitions	0	50	50
Additions	20,064	7,942	28,006
Disposals	–6,840	–9,699	–16,539
Balance as of Dec. 31, 2016	**89,300**	**33,098**	**122,398**
Accumulated decpreciation			
Balance as of Jan. 1, 2016	**–33,131**	**–21,104**	**–54,235**
Currency translation differences	138	–272	–134
Additions	–2,751	–5,897	–8,648
Disposals	6,787	9,391	16,178
Balance as of Dec. 31, 2016	**–28,957**	**–17,882**	**–46,839**
Residual carrying amount as of Jan. 1, 2016	43,055	13,166	56,221
Residual carrying amount as of Dec. 31, 2016	60,343	15,216	75,559

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 €5,774 thousand (2016: €7,942 thousand) primarily relates to expenses for the initial purchase of computer equipment.

[22] Deferred Taxes

Deferred tax assets on tax loss carryforwards fell from the prior year by €11,755 thousand. The decrease is due to ongoing consumption due to taxable income and tax rate reductions in the USA. This is offset by a change to the consolidated Group.

As of December 31, 2017, the consolidated Group had unutilized tax loss carryforwards in the amount of €15,299 thousand (2016: €29,746 thousand) for which no deferred tax assets have been recognized. The decrease is primarily due to the deconsolidation of a loss-making entity in 2017. Of the losses carried forward for which no deferred taxes were recognized, €6,776 thousand will expire in the period from 2018 to 2026, €1,955 in the period from 2027 to 2036, and €6,568 thousand can be utilized indefinitely.

The Software AG subsidiaries in Germany that suffered tax-related losses in the previous year estimated a surplus of deferred tax assets over deferred tax liabilities in the amount of €4,557 thousand (2016: €6,224 thousand). These assets are considered recoverable because, due to changed conditions, it is likely that taxable income will be sufficient to utilize deferred tax assets, like in 2017.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €12,270 thousand (2016: €13,220 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor profit distributions are planned in the near future. Deferred taxes in 2016 were also reversed to temporary differences for that reason.

In fiscal year 2017, deferred taxes totaling €7,813 thousand (2016: €7,111 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.

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

Deferred Taxes

	Deferred tax assets		Deferred tax liabilities	
in € thousands	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**
Intangible assets	1,453	203	32,386	43,398
Property, plant and equipment	731	1,487	2,574	2,617
Receivables and financial assets	3,014	3,832	3,632	10,638
Other obligations	11,497	14,592	2,986	3,556
Provisions for pensions and similar obligations	9,850	9,959	0	0
Deferred income	1,687	4,529	71	469
Tax loss carryforwards	16,325	28,080	0	0
Total	**44,557**	**62,682**	**41,649**	**60,678**
Amount offset	–30,050	–47,180	–30,050	–47,180
Amount recognized in the balance sheet	14,507	15,502	11,599	13,498

[23] Financial Liabilities

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Current financial liabilities		
Liabilities to banks	207,038	79,130
Purchase price liabilities related to the acquisition of land and buildings	0	17,370
Other current financial liabilities	943	2,719
Derivatives	2,366	2,248
	210,347	**101,467**

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Non-current financial liabilities		
Liabilities to banks	100,078	200,028
Other non-current financial liabilities	101	21
Derivatives	71	0
	100,250	**200,049**

Financial liabilities changed as follows in fiscal 2017:

in € thousands		Liabilities to banks	Financial liabilities	Derivatives	Total
	December 31, 2016	**279,158**	**20,110**	**2,248**	**301,516**
Change in cash and cash-equivalents	**Proceeds**				
	New current financial liabilities, net	98,919			98,919
	Payments				
	Repayment of current and non-current financial liabilities, net	−77,100	−19,012		−96,112
Non-cash changes	**Financial purchase**				
	Credit-financed purchase of MIP hedges	7,673			7,673
	Measurement				
	Interest adjustment for government loan	1,656			1,656
	Other adjustments	−1,117	−54	189	−982
	FX effects	−2,073			−2,073
	December 31, 2017	**307,116**	**1,044**	**2,437**	**310,597**
	Total change Δ	**27,958**	**−19,066**	**189**	**9,081**
		Thereof current financial liabilities			210,347
		Thereof non-current financial liabilities			100,250

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	112,188	75,078
Loans with fixed interest rates	94,850	25,000

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 €120,523 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

[24] Trade Payables and Other Liabilities

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

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Payables to suppliers	29,102	31,103
Payments received on account of orders	7,179	7,384
Other liabilities	5,013	5,403
	41,294	**43,890**

[25] Other Non-Financial Liabilities

Other non-financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Liabilities due to employees	111,794	90,586
Tax liabilities	28,717	20,936
Liabilities for social security	5,428	5,331
Remaining other current liabilities	5,117	5,345
	151,056	**122,198**

[26] Other Provisions

Other provisions changed as follows:

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2017	**53,732**	**22,020**	**75,752**
Currency translation differences	–99	–124	–223
Additions to the group of consolidated companies	0	507	507
Additions	22,293	8,639	30,932
Utilization	–15,290	–7,989	–23,279
Reversal	–874	–4,810	–5,684
Balance as of Dec. 31, 2017	**59,762**	**18,243**	**78,005**
of which with a remaining term of more than 1 year	34,209	88	34,297

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2016	**29,448**	**16,778**	**46,226**
Currency translation differences	–21	156	135
Additions	29,926	16,883	46,809
Utilization	–5,426	–11,277	–16,703
Reversal	–195	–520	–715
Balance as of Dec. 31, 2016	**53,732**	**22,020**	**75,752**
of which with a remaining term of more than 1 year	24,760	33	24,793

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2017	Dec. 31, 2016
Litigation	16,081	17,949
Anticipated losses related to consulting projects	113	2,243
Other onerous contracts	697	1,074
Asset retirement obligations	845	375
Other provisions	507	379
	18,243	**22,020**

For further information on litigation, please refer to
p. 208 Note [36].

[27] Income Tax Liabilities

in € thousands	2017	2016
Balance as of Jan. 1	**28,224**	**28,626**
Currency translation differences	–1,358	–296
Additions	17,160	17,535
Utilization	–11,592	–15,664
Reversal	–420	–1,977
Balance as of Dec. 31	**32,014**	**28,224**
of which with a remaining term of more than 1 year	4,509	0

[28] 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	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Germany	38,930	39,003	19,416	17,347	0	0	19,514	21,656
U.K.	90,035	84,263	69,168	67,507	0	0	20,867	16,756
Switzerland	5,901	6,710	4,019	4,424	0	0	1,882	2,286
Other insignificant pension plans and similar plans							1,606	1,517
							43,869	**42,215**

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 (U.K.) 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 Swiss law on occupational, survivor and disability planning (BVG). The law stipulates that every employer must grant entitled employees benefits after termination of their employment.

The defined benefit commitments result in risks to the Company due to possible fluctuations in obligations from defined benefit plans and fluctuations in plan assets. Fluctuations in defined benefit obligations result primarily from changes to financial assumptions such as discount interest rates and changed demographic assumptions (changing life expectancies). Possible changes in expected long-term wage and salary increases have no significant impact on the obligations due to the structure of the commitments. The fair value of plan assets and the fluctuation thereof depends mainly on the situation of the capital markets. Software AG seeks to account for this by controlling its asset investments.

	Defined benefit obligation (DBO)		Fair value of plan assets		Net defined benefit balance	
in € thousands	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance as of Jan. 1	**129,976**	**107,247**	**–89,278**	**–84,260**	**40,698**	**22,987**
Current service cost	2,415	2,633	0	0	2,415	2,633
Past service cost	0	1,112	0	0	0	1,112
Net interest income/expense	3,143	3,482	–2,313	–2,975	830	507
	5,558	**7,227**	**–2,313**	**–2,975**	**3,245**	**4,252**
Expense/income resulting from adjustments						
Return on plan assets net of income recognized as net interest income/expense	0	0	–1,239	–4,604	–1,239	–4,604
Expectation adjustment	–1,738	–1,771	0	0	–1,738	–1,771
Net actuarial gains/losses from changes to demographic assumptions	0	–882	0	0	0	–882
Net actuarial gains/losses from changes to financial assumptions	8,961	25,364	0	0	8,961	25,364
	7,223	**22,711**	**–1,239**	**–4,604**	**5,984**	**18,107**
Currency-related changes	–7,177	–6,333	2,840	5,538	–4,337	–795
Employer contributions	0	0	–6,351	–3,290	–6,351	–3,290
Employee contributions	396	363	–396	–363	0	0
Plan-related payments	–1,110	–1,239	619	676	–491	–563
Settlement payments	0	0	3,515	0	3,515	0
	–714	**–876**	**–2,613**	**–2,977**	**–3,327**	**–3,853**
Balance as of Dec. 31	**134,866**	**129,976**	**–92,603**	**–89,278**	**42,263**	**40,698**

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

as %	**2017**	**2016**
Discount rate		
Germany	2.00	1.75
U.K.	2.50	3.00
Switzerland	0.75	0.50
Salary trend		
Germany	2.00	2.00
U.K.	5.00	5.25
Switzerland	1.50	1.50
Pension trend		
Germany	1.75	1.75
U.K.	3.50	3.50
Switzerland	0.00	0.00

A change in the above discount rates by a half of a percentage point would have the following impact on the respective DBOs:

	Change in DBO		
in € thousands	**Germany**	**U.K.**	**Switzerland**
Discount rate (–0.5%)	3,196	10,877	597
Discount rate (+0.5%)	–2,812	–10,555	–520
Salary trend (–0.5%)	–152	–992	–64
Salary trend (+0.5%)	156	997	67
Pension trend (–0.5%)	–2,280	3,870	n/a*
Pension trend (+0.5%)	2,535	–3,721	378

* 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	**2017**	**2016**
Equities	50,751	38,970
Life insurance policies	23,434	21,770
Fixed-interest securities	10,943	16,560
Cash and cash equivalents	7,475	11,978
	92,603	**89,278**

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 2018 are expected to amount to €5,287 thousand.

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

in € thousands	**Expected benefit payments**
2018	3,113
2019	7,039
2020	2,531
2021	2,292
2022	2,591
2023–2027	15,083

Defined contribution plans

companies or funds. Furthermore, Software AG makes contributions to the state and/or public pension fund primarily in Germany. Defined contribution pension commitments accounted for expenses of €14,447 thousand (2016: €13,177 thousand) in 2017.

[29] Equity

Share capital

As of December 31, 2017, Software AG's share capital totaled €76,400 thousand (2016: €79,000 thousand), A resolution was passed at Software AG's Annual Shareholders' Meeting on May 17, 2017 to convert the bearer shares to registered shares along with the associated amendments to the Articles of Incorporation. The relevant amendments to the Articles of Incorporation took effect when they were entered into the Commercial Register at the Darmstadt District Court (HRB 1562) on June 26, 2017. Software AG's share capital is divided into 76,400,000 (2016: 79,000,000) registered shares. Each share entitles its holder to one vote.

Conditional capital

There was no conditional capital as of December 31, 2017 (2016: €55 thousand).

Authorized capital

As of December 31, 2017, the Management Board was 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 30, 2021 by up to a total of €39,500 thousand by issuing up to 39,500,000 new registered shares in return for cash contributions and/or contributions in kind (authorized capital).

The Management Board did not make use of this authorization in fiscal year 2017.

Acquisition of treasury shares

At the beginning of the reporting period Software AG held 2,768,369 treasury shares representing €2,768,369 or 3.5 percent of the share capital.

Software AG's balance of treasury shares changed as follows in fiscal 2017:

Date/period	**No. of shares**	**Reason for change**
Jan. 1, 2017	**2,768,369**	
Q1 2017	–2,600,000	Redemption and capital decrease
Q1 2017	674,870	Share buyback
Q2 2017	1,652,022	Share buyback
Q2 2017	–55,150	Used for settling share-based plans (MIP III)
Q4 2017	–16,350	Used for settling share-based plans (MIP III)
Dec. 31, 2017	**2,423,761**	

As of December 31, 2017, Software AG held 2,423,761 (2016: 2,768,369) treasury shares representing an interest of €2,423,761 (2016: €2,768,369) or 3.2 percent (2016: 3.5 percent) of the share capital.

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

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. The dividend is based on Software AG's averaged net income (attributable to Software AG shareholders) and free cash flow. This results in a total dividend sum of €48,085 thousand (2016: €44,343 thousand) and a payout ratio of 31.8 percent (2016: 28.0 percent).

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 17, 2017 to appropriate €44,343 thousand (2016: €41,927 thousand) for a dividend payout from the net retained profits of €139,097 thousand reported by Software AG, the controlling Group company, in 2016. This corresponded to a dividend of €0.60 (2016: €0.55) per share. A total amount of €94,754 thousand (2016: €45,265 thousand) was carried forward.

Based on the number of shares outstanding as of March 1, 2018, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €83,914 thousand reported by Software AG in 2017, as follows: to appropriate €48,085 thousand for dividends and to carry forward €35,829 thousand. This corresponds to a dividend of €0.65 per share.

Other reserves

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2016, net income of €3,830 thousand (2016: €40 thousand) was recognized in profit or loss in fiscal year 2017.

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

Other Reserves

	2017			2016		
in € thousands	**Pre-tax amount**	**Tax effect**	**Net amount**	**Pre-tax amount**	**Tax effect**	**Net amount**
Currency translation differences from foreign operations	–77,523	0	–77,523	28,562	0	28,562
Net gain/loss on remeasuring financial assets	370	–142	228	3,429	–1,074	2,355
Currency translation gains/losses from net investments in foreign operations	–5,134	0	–5,134	1,348	0	1,348
Net actuarial gain/loss on pension obligations	–5,871	1,606	–4,265	–7,980	1,312	–6,668
Other comprehensive income	**–88,158**	**1,464**	**–86,694**	**25,359**	**238**	**25,597**

OTHER DISCLOSURES

[30] Notes to the Statement of Cash Flows

Cash and cash equivalents included €46 thousand (2016: €136 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 included dividend payments of €210 thousand (2016: €178 thousand) to minority shareholders of subsidiaries.

Net payments for acquisitions in 2017 amounted to €49,420 thousand (2016: €43,117 thousand) and consisted of €50,111 thousand (2016: €43,357 thousand) in consideration paid and €691 thousand (2016: €240 thousand) in cash and cash equivalents received.

Operating cash inflows and outflows are managed centrally based on free cash flow. 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 €161,885 thousand (2016: €186,977 thousand) in fiscal 2017. Free cash flow is controlled at Group level, not based on the business segments. For this reason, no data is collected on cash flow in the segments.

Software AG has a credit line of about €200,000 thousand. Approximately €100,000 thousand of that was unused as of December 31, 2017.

[31] Segment Reporting

Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. Internal control focuses primarily on product revenue at constant currency for the two product segments. Margins and earnings are controlled largely at Group level. Of considerably less importance are the segments' contributions and earnings at secondary level of control. Software AG reports on the following three segments:

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

The table on the following page shows the segment data for the 2017 and 2016 fiscal years:

Segment report for fiscal years 2017 and 2016

	Adabas & Natural (A&N)		Digital Business Platform (DBP)	
in € thousands	**2017**	**2016**	**2017**	**2016**
Licenses	69,951	76,765	186,778	186,262
Maintenance	153,098	157,119	268,518	255,086
Product revenue	**223,049**	**233,884**	**455,296**	**441,348**
Services	0	0	0	0
Other	680	686	87	48
Total revenue	**223,729**	**234,570**	**455,383**	**441,396**
Cost of sales	–10,119	–11,674	–33,347	–31,288
Gross profit	**213,610**	**222,896**	**422,036**	**410,108**
Sales, marketing and distribution expenses	–33,359	–37,994	–174,308	–172,384
Segment contribution	**180,251**	**184,902**	**247,728**	**237,724**
Research & Development expenses	–23,793	–22,522	–96,851	–89,930
Segment earnings	**156,458**	**162,380**	**150,877**	**147,794**
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 majority of sales and marketing expenses are classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research & Development expenses are assigned to the segments based on expense components as well as the overhead directly attributable to the Research & Development department. They have no direct impact on internal management.

	Consulting		Reconciliation		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	0	0			256,729	263,027
	0	0			421,616	412,205
	0	**0**			**678,345**	**675,232**
	198,778	195,179			198,778	195,179
	1,093	688			1,860	1,422
	199,871	**195,867**			**878,983**	**871,833**
	–156,898	–157,495	–12,985	–11,399	–213,349	–211,856
	42,973	**38,372**	**–12,985**	**–11,399**	**665,634**	**659,977**
	–19,166	–17,588	–16,628	–17,700	–243,461	–245,666
	23,807	**20,784**	**–29,613**	**–29,099**	**422,173**	**414,311**
	0	0	0	0	–120,644	–112,452
	23,807	**20,784**	**–29,613**	**–29,099**	**301,529**	**301,859**
					–75,941	–79,322
					–7,183	–5,523
					218,405	**217,014**
					–2,817	–8,658
					1,467	–4,388
					217,055	**203,968**
					–76,459	–63,615
					140,596	**140,353**

Information on geographic regions

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

Geographic Distribution of Revenues

	2017			
in € thousands	**Germany**	**USA**	**Other countries**	**Group total**
Licenses	38,659	99,640	118,430	256,729
Maintenance	58,296	148,136	215,184	421,616
Services	34,888	27,717	136,173	198,778
Other	755	324	781	1,860
Total	**132,598**	**275,817**	**470,568**	**878,983**

	2016			
in € thousands	**Germany**	**USA**	**Other countries**	**Group total**
Licenses	37,731	108,477	116,819	263,027
Maintenance	56,967	146,287	208,951	412,205
Services	34,468	19,945	140,766	195,179
Other	703	137	582	1,422
Total	**129,869**	**274,846**	**467,118**	**871,833**

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenue generated in the USA was reported separately as it was greater than 10 percent of Group revenue. 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	2017	2016
USA	557,191	630,508
Germany	432,608	387,360
Other countries	136,095	143,717
Group total	**1,125,894**	**1,161,585**

[32] 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, 2017

	Valuation category		Carrying amount	
in € thousands	**At amortized cost**	**At fair value**	**Held for trading purposes**	**Hedging instruments**
Assets				
Cash and cash equivalents	365,815			
Trade receivables and other receivables	279,587			
Other financial assets				
Financial assets available for sale				
Shareholders' equity	9,736			
Investment funds		2,852		
Loans and other financial receivables	10,479			
Derivative financial instruments				
designated as hedging instrument				
Stock options		25,366		25,366
not designated as hedging instrument				
Forward equity contracts		11,123	11,123	
Stock options		8,607	8,607	
Receivables from mature equity derivatives				
Stock options		12,732		12,732
Liabilities				
Trade and other payables	41,294			
Financial liabilities				
Non-derivative financial liabilities				
Loans	301,631			
Other non-derivative financial liabilities	6,529			
Derivative financial liabilities				
not designated as hedging instrument				
Forward currency contracts		2,437	2,437	

					Fair value			
	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	365,815			365,815				
	279,587			279,587				
				80,895				
		9,736		9,736				
		2,852		2,852	2,852			2,852
	10,479			10,479				
				25,366		25,366		25,366
				11,123		11,123		11,123
				8,607		8,607		8,607
				12,732		12,732		12,732
				41,294				
				310,597				
			301,631	301,631		302,303		302,303
			6,529	6,529		6,529		6,529
				2,437		2,437		2,437

December 31, 2016

	Valuation category		Carrying amount	
in € thousands	At amortized cost	At fair value	Held for trading purposes	Hedging instruments
Assets				
Cash and cash equivalents	374,611			
Trade receivables and other receivables	305,871			
Other financial assets				
Financial assets available for sale				
Debt securities		4,000		
Shareholders' equity	10,189			
Investment funds		2,200		
Loans and other financial receivables	10,680			
Derivative financial instruments				
designated as hedging instrument				
Stock options		18,651		18,651
not designated as hedging instrument				
Forward currency contracts		1,194	1,194	
Forward equity contracts		5,919	5,919	
Stock options		6,611	6,611	
Liabilities				
Trade and other payables	43,890			
Financial liabilities				
Non-derivative financial liabilities				
Loans	272,999			
Other non-derivative financial liabilities	26,269			
Derivative financial liabilities				
designated as hedging instrument				
Interest rate swaps		323		323
not designated as hedging instrument				
Forward currency contracts		1,925	1,925	

				Fair value			
Loans and receivables	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
374,611			374,611				
305,871			305,871				
			59,444				
	4,000		4,000		4,000		4,000
	10,189		10,189				
	2,200		2,200	2,200			2,200
10,680			10,680				
			18,651		18,651		18,651
			1,194		1,194		1,194
			5,919		5,919		5,919
			6,611		6,611		6,611
			43,890				
			301,516				
		272,999	272,999		275,050		275,050
		26,269	26,269		26,269		26,269
			323		323		323
			1,925		1,925		1,925

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2016 or 2017.

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	n/a	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.	n/a	n/a

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, 2017 and December 31, 2016.

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 gain from derivatives without qualifying hedging relationships amounted to €1,477 thousand (2016: −€9,948 thousand) in fiscal 2017. The net gain from derivatives designated as cash flow hedges was included in the income statement and amounted to €12,550 thousand in fiscal 2017 (2016: €3,796 thousand).

An impairment loss on equity interests was recognized in the amount of €1,480 thousand under net financial income/expense for fiscal 2017.

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 €1,192 thousand (2016: €2,062 thousand).

b) Exchange rate risks

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 selectively. Estimated cash flows can also be 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 (earnings before income taxes) 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 amount of 10 percent against the U.S. dollar would have increased earnings by €906 thousand (2016: €1,360 thousand) and other reserves by €2,414 thousand (2016: €2,918 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 credit default swap (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, 2017, 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 the customer base or due to the distribution of 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 €200.0 million (2016: €200.0 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 2017, 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. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2017.

2017

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (of this item)	30,438	3,677	0	34,115
Financial non-derivative liabilities	211,673	100,091	0	311,764
Derivative financial liabilities	2,366	71	0	2,437

2016

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (of this item)	32,311	4,195	0	36,506
Financial non-derivative liabilities	104,584	125,011	75,000	304,595
Derivative financial liabilities	2,248	0	0	2,248

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, 2017 and December 31, 2016. 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.

			2017			2016
in € thousands	**Notional amount**	**Fair value**	**Carrying amount**	**Notional amount**	**Fair value**	**Carrying amount**
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)		19,730	19,730	—	7,113	7,113
Forward currency contracts remaining term < 1 year				24,097	1,194	1,194
Stock options/forward equity contracts	76,526	19,730	19,730	70,228	12,530	12,530
Derivatives (cash flow hedges)		25,366	25,366	—	18,651	18,651
Stock options	53,570	25,366	25,366	14,148	18,651	18,651
Receivables from mature equity derivatives		12,732	12,732	—	—	—
Stock options	n/a	12,732	12,732	—	—	—
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	—	−2,437	−2,437	—	−1,925	−1,925
Forward currency contracts remaining term < 1 year	52,406	−2,366	−2,366	46,335	−1,474	−1,474
Forward currency contracts remaining term > 1 year	1,084	−71	−71	2,941	−451	−451
Derivatives (cash flow hedges)	—	0	0	—	−323	−323
Interest rate swaps	0	0	0	30,000	−323	−323

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.

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.

The financial instruments for hedging currency and interest rate risk have maximum terms to maturity of 2.1 years. Hedging transactions on the phantom share and MIP plans have remaining maximum terms of 3.6 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 it maintains relationships, whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly. In fiscal 2017, the interest rates for term deposit investments in euros were between 0 percent and 0.4 percent p.a., whereas up to 22 percent p.a. was reached for investments in foreign currencies abroad.

[33] 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.

2017

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Contractually agreed payments	15,754	39,375	4,574	59,703
Estimated income from subleases	671	2,216	0	2,887

2016

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Contractually agreed payments	17,507	40,878	8,344	66,729
Estimated income from subleases	738	1,232	0	1,970

Software AG made payments on leases in the amount of €17,445 thousand (2016: €20,124 thousand) in 2017.

[34] Contingent Liabilities

For more information on reportable contingent liabilities, please refer to the section on Litigation in Note [36]. p. 208

[35] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2017 as follows:

2017

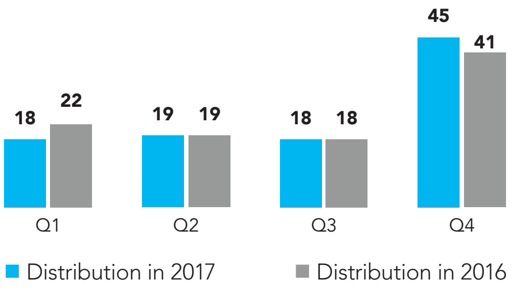
in € thousands	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
License revenue	46,253	48,913	46,221	115,342	256,729
as % of license revenue for the year	18	19	18	45	100
Total revenue	205,939	207,382	197,283	268,379	878,983
as % of revenue for the year	23	24	22	31	100
Earnings before taxes	39,379	46,447	48,486	82,743	217,055
as % of earnings for the year	18	22	22	38	100

Based on historical data, the revenue and earnings distribution from 2017 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 2017 and 2016.

License Revenues in 2017 and 2016

as % of total annual license revenue



[36] 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 issues a ruling regarding its review of the patents in question, which was initiated by the defendants. In summary proceedings in May 2015, the court decided in favor of one defendant; the plaintiff filed an appeal against the decision and won in part, which was reported by the plaintiff on August 18, 2016. After the original judge withdrew herself from the case, a new judge was assigned. The U.S. Patent office has since confirmed a decision relating to the invalidity of a TecSec patent. The proceedings are still pending for Software AG.

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 Wirtschafsprüfungsgesellschaft provided a written opinion on questions concerning valuation in July 2014. A hearing was held in the Regional Court of Saarbrücken on February 21, 2018. After considering the factual and legal situation, the court set the date of April 11, 2018 to announce its ruling in the matter.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision. The court-ordered expert witness submitted a report in the third quarter of 2017. Software AG took a detailed position on the report in the fourth quarter of 2017. The court resolved on January 12, 2018 that the expert witness must be present at a hearing to explain the report and add to it prior to the appointment. The date has not yet been scheduled. Provisions are set up based on the estimated probable actual resource outflow.

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

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia [CNMC]) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 for suspicion of an inadmissible anti-competitive agreement. On April 25, 2016 the Spanish cartel authority (CNMC) published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies in October 19, 2017. CNMC is accusing Software AG Spain of inadmissible price fixing and "covert tenders." Software AG rejects the accusations and has established provisions based on current estimates as to the probable actual resource outflow.

As stated in the 2017 Half-Year Report, one lawsuit in the USA was settled outside of court in the first half of 2017.

Status proceedings were brought to the Regional Court of Frankfurt on the matter of a motion submitted by shareholder Erzberger to determine whether Software AG's Supervisory Board must be constituted in accordance with the requirements of the Codetermination Act. The regional court ruled to reject the motion on December 21, 2017. The plaintiff appealed the decision on the last day of the appeal period.

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 €16,081 thousand (2016: €17,949 thousand) as of December 31, 2017. In addition, contingent liabilities in the amount of €19,593 thousand (2016: €16,991 thousand) existed. But since a resource outflow as of December 31, 2017 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, 2016, 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.

[37] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees.

Share-based remuneration resulted in a total expense of €20,678 thousand (2016: €14,198 thousand) in fiscal 2017.

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

Management Incentive Plan 2018

A share-performance-based Management Incentive Plan 2018 for members of the Management Board, upper management and key members of staff was approved in December 2017 (like last year). It consists of standard European call options to be settled in cash. Allocation took place in four tranches, differing only by terms. Gains on the exercise for members of the Management Board are paid contingent 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 ten consecutive trading days during the relevant period of time. The relevant share price is equal to the exercise target (€54.32) less dividends received since the beginning of the plan.

Allocation was based on the following parameters:

Reference price at issue/base price	€45.27
Term of rights	
Tranche 1	36 months
Tranche 2	39 months
Tranche 3	42 months
Tranche 4	45 months
Exercise target	€54.32
Relevant period for reaching the exercise threshold (only applies to members of the Management Board)	Dec. 1, 2019 until Nov. 30, 2020
Cap	€67.91

Fair values were calculated based on the price of hedging transactions entered into with a bank; the parameters of the transactions correspond to the employees' awards.

The fair values as of December 31, 2017 were:

Tranche 1	€6.61
Tranche 2	€6.73
Tranche 3	€6.81
Tranche 4	€6.72

In December 2017, 1,464,122 rights were awarded under Management Incentive Plan 2018.

Management Incentive Plan 2017

A share-performance-based Management Incentive Plan 2017 for members of the Management Board, upper management and key members of staff was approved in December 2016. It consists of standard European call options to be settled in cash. Allocation took place in four tranches, differing only by terms. Gains on the exercise for members of the Management Board are paid contingent 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 ten consecutive trading days during the relevant period of time. The relevant share price is equal to the exercise target (€39.82) less dividends received since the beginning of the plan.

The allocation was based on the following parameters:

Reference price at issue/base price	€33.18
Term of rights	
Tranche 1	36 months
Tranche 2	39 months
Tranche 3	42 months
Tranche 4	45 months
Exercise target	€39.82
Relevant period for reaching the exercise threshold (only applies to members of the Management Board)	Dec. 1, 2018 to Nov. 30, 2019
Cap	€49.77

In December 2016, 1,654,570 rights were awarded under Management Incentive Plan 2017.

The rights granted under Management Incentive Plan 2017 changed as follows in fiscal year 2017:

Balance as of Dec. 31, 2016	**1,654,570**
Granted	167,206
Forfeited	–36,100
Balance as of Dec. 31, 2017	**1,785,676**

Fair values were calculated based on the prices of hedging transactions entered into with a bank; the parameters of the transactions correspond to the employees' awards.

The fair values as of December 31, 2017 and December 31, 2016 were:

in €	2017	2016
Tranche 1	9.27	4.73
Tranche 2	9.08	4.81
Tranche 3	8.90	4.87
Tranche 4	8.58	4.76

A total expense of €3,260 thousand (2016: €0 thousand) was incurred under this plan in fiscal 2017. This figure is the balance of an expense of €5,292 thousand in original commitments plus €2,032 thousand in earnings from hedging the commitments as cash flow hedges.

Provisions totaled €5,292 thousand (2016: €0 thousand) as of December 31, 2017.

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 had an original term of three years. Exercise benefits are paid out conditional up 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 ten 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. The maximum possible exercise benefit per right is capped at 200 percent of the reference price.

Allocation was based on the following parameters:

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

The rights granted under Management Incentive Plan 2016 changed as follows in fiscal years 2017 and 2016:

Balance as of Dec. 31, 2015	**458,672**
Granted	0
Forfeited	–10,589
Balance as of Dec. 31, 2016	**448,083**
Granted	0
Forfeited	–6,586
Balance as of Dec. 31, 2017	**441,497**

The exercise threshold was reached in December 2017. All rights outstanding as of December 31, 2017 will thus be disbursed in January 2019.

The fair value was calculated based on the price of a hedging transaction entered into with a bank; the parameters of the transaction correspond to the employee's award. The fair value as of December 31, 2017 was €43.35 (2016: €29.28).

A total expense of €7,516 thousand (2016: €2,787 thousand) was incurred under this plan in fiscal 2017. This figure is the balance of an expense of €13,200 thousand (2016: €3,879) in original commitments plus earnings of €5,684 thousand (2016: €1,092 thousand) from hedging the commitments as cash flow hedges.

Provisions totaled €17,079 thousand (2016: €3,879 thousand) as of December 31, 2017.

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 had a term of three years. Payment of exercise benefits is dependent upon a 30-percent share price increase. The target has been achieved when Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the reference price at issue by 30 percent or more on ten consecutive trading days between November 15th of the second year of the term until December 15th of the third year of the term. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15 prior to issue. 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. The maximum possible exercise benefit per right is capped at 200 percent of the reference price.

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
Exercise threshold	€27.59
Cap	€42.44

The rights granted under Management Incentive Plan 2015 (MIP V) changed as follows in fiscal years 2017 and 2016:

Balance as of Dec. 31, 2015	**519,950**
Granted	0
Forfeited	–27,000
Balance as of Dec. 31, 2016	**492,950**
Granted	0
Forfeited	0
Balance as of Dec. 31, 2017	**492,950**

The fair value as of December 31, 2017 was equal to the exercise benefit of €42.44 per right. It was calculated using Software AG's volume weighted average share price (VWAP) from November 15 to December 15, 2017 and applying a cap of €42.44. The fair value as of December 31, 2016 equaled €32.89.

A total expense of €5,271 thousand (2016: €4,397 thousand) was incurred under this plan in fiscal 2017. This figure is the balance of an expense of €10,429 thousand (2016: €8,064 thousand) in original commitments plus €5,158 thousand (2016: €3,667 thousand) in earnings from hedging the commitments as cash flow hedges.

The commitment equal to the disbursement amount of €20,921 thousand was paid out to members of the Management Board in January 2018. Payment on claims to hedges was received in the same period in the amount of €12,732 thousand and was reported in other financial assets as of December 31, 2017.

Provisions totaled €10,491 thousand as of December 31, 2016.

Management Incentive Plan 2007–2011 (MIP III)

In 2007, a share-based incentive plan for members of the Management Board and upper management was launched. A total of 7,342,500 participation rights have been issued to Management Board members and managers under the plan.

The performance targets were achieved at the end of fiscal year 2010. The rights have therefore been exercisable since that date.

Conditions for the rights are as follows:

A standard call option with a base price of €24.12. Software AG may opt to settle in cash or equity instruments. There is a cap at €45.00, which limits the maximum benefit from exercising a right to €20.88.

The term of the rights expires after June 30, 2019.

The rights granted under Management Incentive Plan 2007–2011 (MIP III) changed as follows in fiscal years 2017 and 2016:

	Number of rights outstanding	Exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Jan. 1, 2016	**1,683,500**	**24.12**	**3.5**	**3,872***
Forfeited	–9,600	24.12		
Exercised	–1,590,000	24.12		
Balance as of Dec. 31, 2016	**83,900**	**24.12**	**2.5**	**870***
Exercised	–71,500	24.12		
Balance as of Dec. 31, 2017	**12,400**	**24.12**	**1.5**	**282***
Thereof exercisable as of Dec. 31, 2017	12,400	24.12		282*

* Based on the respective annual closing prices

The 71,500 rights exercised in 2017 were exercised at a weighted average price of €42.62 per share. They were settled in treasury shares only.

The 1,590,000 rights exercised in 2016 were exercised at a weighted average price of €34.38 per share and were settled in cash. They resulted in cash outflows of €16,320 thousand.

No expenses were incurred under this plan in fiscal 2017 or 2016.

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 2017 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2018, 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 2018 to 2020, the number of phantom shares will be multiplied by the then-applicable share price for February. 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 any PPS that have become due after the defined waiting period for up to six years and four months after the respective Management Board member leaves the Company and thus to 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 the decision to exercise the relevant phantom shares. The decision to exercise options must be communicated to the Company during the period from the date of publication of the financial results until the following fifth trading day. 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 €4,631 thousand (2016: €7,014 thousand) in fiscal 2017. This figure is the balance of €12,377 thousand (2016: €13,736 thousand) in original commitments plus €7,746 thousand (2016: €6,722 thousand) in earnings from hedging transactions with banks for the commitments.

The provision for the rights outstanding under the phantom share plan amounted to €29,766 thousand (2016: €30,420 thousand) as of December 31, 2017.

The intrinsic value of the rights exercisable under the phantom share plan as of December 31, 2017 amounted to €15,340 thousand (2016: €19,151 thousand) as of December 31, 2017.

[38] Corporate Bodies

Members of the Supervisory Board:

Dr. Andreas Bereczky
Dr.-Ing. in mechanical engineering
Shareholder representative
Chairman

Director of Production of ZDF, Mainz
Resident of: Aachen

Supervisory Board seats:

- *Member of the board of directors of GFT Technologies SE, Stuttgart*

Guido Falkenberg
Graduate in computer science
Employee representative
Deputy Chairman

Employee of Software AG
Resident of: Mühltal-Traisa

Supervisory Board seats:

- *none*

Eun-Kyung Park
Graduate in business administration
Shareholder representative

CEO
SevenOne AdFactory GmbH, Unterföhring
Resident of: Munich

Supervisory Board seats:

- *Member of the Supervisory Board of ad pepper media International N.V., Amsterdam*

Alf Henryk Wulf
Graduate in engineering
Shareholder representative

Chief Executive Officer
GE Power AG, Mannheim
Resident of: Stuttgart

Supervisory Board seats:

- *Chairman of the Supervisory Board of GE Boiler Deutschland GmbH, Stuttgart (until October 18, 2017)*
- *Member of the Supervisory Board of DEA Deutsche Erdoel AG, Hamburg*
- *Member of the Supervisory Board of GE Grid GmbH, Frankfurt am Main*

Markus Ziener
Graduate in economics
B.A. in business administration
Shareholder representative

Member of the board of the Software AG Foundation
Resident of: Seeheim-Jugenheim

Supervisory Board seats:

- *Member of the Supervisory Board of Amryt Pharma plc, Dublin*

Christian Zimmermann
Graduate in business information systems
Employee representative

Employee of SAG Deutschland GmbH
Resident of: Alsbach-Hähnlein

Supervisory Board seats:

- *none*

Members of the Management Board:

Karl-Heinz Streibich
Graduate in communications engineering

Chief Executive Officer
Global Human Resources, Global Legal, Global Information Services (IT), Corporate Communications, Global Processes, Audits and Quality and Corporate Office
Resident of: Frankfurt am Main

Supervisory board seats:

- *Chairman of the Supervisory Board of Dürr AG, Bietigheim-Bissingen (since January 1, 2018)*
- *Member of the Supervisory Board of Deutsche Telekom AG, Bonn (since, October 1, 2013)*
- *Member of the Supervisory Board of Deutsche Messe AG, Hannover (not listed on a stock exchange) (since January 1, 2013)*
- *Member of the Supervisory Board of WITTENSTEIN SE, Igersheim (not listed on a stock exchange) (since September 19, 2017)*

Eric Duffaut
Graduate in economics, finance and business management (Master)

Chief Customer Officer
Global Sales, Marketing, Consulting Services and Support
Resident of: Bordeaux, France

Supervisory board seats:

- *none*

Dr. rer. nat. Wolfram Jost
Graduate in business administration

Chief Technology Officer
Product Management, Product Marketing, Analyst Relations, CTO Community, Strategic Customer Programs
Resident of: Schmelz

Supervisory board seats:

- *none*

Dr. Stefan Sigg
Graduate in mathematics

Chief Research & Development Officer
Product Development and Delivery, Research and University Alliances, Global Support, Product Design and Architecture, R&D Operations and Shared Services
Resident of: Heidelberg

Supervisory board seats:

- *none*

Arnd Zinnhardt
Graduate in business administration

Chief Financial Officer
Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Global Procurement
Resident of: Königstein

Supervisory board and other seats:

- *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main*

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 2017 and MIP 2018 options, in fiscal 2017 was €18,573 thousand (2016: €18,104 thousand).

Awards under the new MIP 2018 stock option plan in the amount of €3,505 thousand (2016: €0 thousand) are included in total remuneration for the Management Board. Furthermore, awards under MIP 2017 in the amount of €510 thousand (2016: €3,024 thousand) are included in total remuneration for the Management Board in fiscal 2017.

The remuneration of the Management Board still includes the consideration paid for 113,985 (2016: 121,151) committed phantom shares totaling €4,835 thousand (2016: €4,150 thousand). The phantom shares had a fair value as of the grant date of €42.42 (2016: €34.26) per phantom share. Remuneration under this plan totaled €5,187 thousand (2016: €6,632 thousand) in fiscal 2017. Remuneration for former Management Board members totaled €367 thousand (2016: €367 thousand).

Pension provisions, offset against plan assets, for former Management Board members totaled €11,905 thousand (2016: €12,486 thousand). Gross pension liabilities for former Management Board members amounted to €14,086 thousand (2016: €14,570 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 2017 or in fiscal 2016. It also did not enter any contingent liabilities for these individuals.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the consolidated Management Report.

Remuneration of the Supervisory Board pursuant to section 314 (1), no. 6a of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board in fiscal 2017 amounted to €612 thousand (2016: €478 thousand). Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2017 or in fiscal 2016. It also did not enter any contingent liabilities for these individuals. Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the consolidated Management Report.

[39] 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 [38] as well as in the Remuneration Report contained in the Corporate Governance section of the consolidated Management Report.

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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	2017	2016
Short-term benefits	9,735	8,826
Post-service benefits*	830	2,139
Share-based compensation**	16,203	12,533
	26,768	**23,498**

* 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 Management Incentive Plan 2018 (MIP 2018), the Management Incentive Plan 2017 (MIP 2017), the Management Incentive Plan 2016 (MIP 2016) and the Management Incentive Plan V (2015) are shown here.

Net pension obligations for Management Board members amounted to −€202 thousand (2016: +€473 thousand). The negative number results from over funding of provisions through reinsurance policies. Gross pension liabilities for Management Board members amounted to €14,845 thousand (2016: €14,094 thousand).

Furthermore, obligations from share-based compensation plans for members of the Management Board—including bonuses converted to phantom shares as of year-end—amounted to €50,382 thousand (2016: €39,939 thousand).

Liabilities to members of the Management Board resulting from short-term variable remuneration components amounted to €6,536 thousand (2016: €6,041 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2017 totaled €612 thousand (2016: €478 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 consolidated 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 2017

[40] Auditor Fees

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €887 thousand (2016: €845 thousand). Of this amount, €821 thousand (2016: €790 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €38 thousand (2016: €10 thousand) to other testation services and €28 thousand (2016: €45 thousand) to tax advisory services. Other testation services refer primarily to audits in the context of the combined non-financial statement and EMIR compliance. Tax advisory services include tax advising only in the context of submitting tax returns and e-balance sheets. To ensure comparability, last year's figures were adjusted to meet the allocation requirements of the IDW RS HFA 36 (Institute of Public Auditors in Germany).

[41] Events After the Balance Sheet Date

In a meeting on January 31, 2018, Software AG's Supervisory Board appointed Mr. Sanjay Brahmawar for a five-year term as Chief Executive Officer of Software AG as of August 1, 2018. Brahmawar succeeds Karl-Heinz Streibich (65), who, after more than 14 years of leadership, will step down upon reaching the official age limit.

There were no further events that occurred between December 31, 2017 and the date of release of these consolidated financial statements that were of significance to the consolidated financial statements.

[42] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 14, 2018. It will be published in March 2018 on the website at SoftwareAG.com/compliance_en.

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 31/February 1, 2018 at: SoftwareAG.com/compliance_en.

[43] 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 a management report, 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 March 1, 2018.

Darmstadt, March 1, 2018

Software AG

K.-H. Streibich

E. Duffaut

Dr. W. Jost

Dr. S. Sigg

A. Zinnhardt

ADDITIONAL INFORMATION

RESPONSIBILITY STATEMENT

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

Darmstadt, March 1, 2018

Software AG

K.-H. Streibich

E. Duffaut

Dr. W. Jost

Dr. S. Sigg

A. Zinnhardt

INDEPENDENT AUDITORS' REPORT

To the Software Aktiengesellschaft, Darmstadt

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit opinions

We have audited the consolidated financial statements of Software Aktiengesellschaft, Darmstadt, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated income statement, statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the Group for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of those parts of the combined management report listed in "other information" section.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph 1] HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the combined management report listed in the "other information" section.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We have identified the following items as key audit matters:

1. Revenue recognition for software licenses

2. Impairment of goodwill

3. Recognition and measurement of income taxes

Revenue recognition for software licenses

Facts and circumstances

In the consolidated financial statements of Software AG, revenue amounting to €879.0 million was disclosed in the consolidated income statement and was mainly generated by granting software licenses (€256.7 million), from maintenance (€421.6 million) and from services (€198.8 million). Frequently, the Company's customers are granted software licenses combined with maintenance and/or services in multiple element contracts. To ensure that revenue generated from these highly complex business transactions is uniformly and consistently recognized, Software AG has implemented detailed accounting policy guidelines in line with the applicable accounting standards, and has established uniform processes throughout the Group. Due to the size of individually large contracts, management decisions requiring significant judgment may materially affect the consolidated financial statements. These decisions by management may especially be necessary in identifying specific elements of a contract and in allocating the transaction price to the separate elements. Moreover, the effects of applying IFRS 15 Revenue from Contracts with Customers for the first time were presented within the notes to the consolidated financial statements. Identifying differences and determining amounts relating to those differences in comparison to the accounting guidelines used at the time of preparing the financial statements is complex and is subject to significant judgment made by management.

The respective revenue disclosures presented by Software AG are to be found in the notes to the consolidated financial statements in sections "[3] Accounting Policies and Measurement Methods", "[5] Total Revenue" and "[31] Segment Reporting".

Audit response and findings

We examined whether the Software AG accounting policies complied with IFRS. We assessed the processes and controls for recognizing revenues generated by granting software licenses, especially in transactions involving multiple element contracts established by the Group, and examined their effectiveness. In particular, controls involving the proper identification of specific elements and the allocation of the transaction price were thereby tested. By involving our IT specialists, we additionally assessed the related systems used in accounting for revenue. All of the significant contracts and a selection of the remaining contracts for granting software licenses were examined to the extent required for assessing if they were presented in the consolidated financial statements in accordance with IFRS, if the accounting policies of Software AG had been uniformly applied throughout the Group, and if the decisions made by management using significant judgment were reasonable. By giving appropriate instructions to the component auditors, we ensured that the audit procedures were performed uniformly throughout the Group. We examined the disclosures presented in the notes concerning the first time adoption of IFRS 15 Revenue from Contracts with Customers, with particular focus on the description of the differences and calculations used to arrive at disclosed amounts.

Based on the audit procedures we performed, we are of the opinion that the underlying assumptions and management's judgment used for revenue recognition, in particular in the area of identifying specific elements and allocation of transaction prices of multiple element contracts, were presented fairly, in all material respects.

Impairment of goodwill

Facts and circumstances

In the consolidated financial statements of Software AG, goodwill as presented under non-current assets, amounts to €921.4 million, representing 48% of the balance sheet total. Goodwill was allocated to cash-generating units.

Cash-generating units with goodwill are subject to impairment tests by the Company at least once a year as well as to an additional impairment test if there are any indications of an impairment. The valuation is thereby made by using the discounted cash flow method. If the carrying amount of a cash-generating unit is higher than its recoverable amount, the carrying amount is written down to the recoverable amount. Assessing the recoverability of goodwill is complex and requires that management make numerous estimates and use significant judgment, especially with regard to revenue growth and the development of profit margins within a detailed three year budget period, a sustainable growth rate for cash flows expected for a forecast beyond the detailed budget period, and the discount rate to be used. This is a key audit matter due to the significance of the balance for goodwill in the consolidated financial statements of Software AG and because of considerable uncertainties associated with such a measurement.

Software AG's disclosures concerning goodwill are contained in section "[20] Intangible Assets and Goodwill" in the notes to the consolidated financial statements.

Audit response and findings

In the course of our audit we assessed the appropriateness of the material assumptions and the valuation parameters as well as the calculation methods used for impairment testing by involving our valuation specialists. We gained an understanding of the planning system and planning processes of management as well as of the significant assumptions they used. The budget for the subsequent year, as approved by the Supervisory Board, thereby constitutes the starting point for forecasting future cash flows within the detailed budget period. We examined the underlying budget assumptions and growth rates assumed for the expected cash flows beyond the detailed budget period by comparing past developments and current industry-specific market expectations. We reconciled the forecast of future cash flows in the first year of the detailed budget period with the budget approved by the Supervisory Board and determined reasonableness of the Company's historical forecasting accuracy by means of an analysis of budget-to-actual variances. Furthermore, we critically analysed the discount rates used on the basis of the average costs of capital of a peer group. Our audit also encompassed sensitivity analyses made by Software AG. Regarding the effects of possible changes in costs of capital and the growth rates assumed, we additionally performed our own sensitivity analyses.

Overall, we were able to gain reasonable assurance that the assumptions made by management when performing impairment tests and the valuation parameters used were traceable and within an appropriate range.

Recognition and measurement of income taxes

Facts and circumstances

In the consolidated financial statements of Software AG, income taxes reduced earnings before income taxes by 35.2%. This reduction comprised expenses for current taxes (37.7%) as well as income from deferred taxes (2.5%). Software AG conducts business in numerous jurisdictions and is consequently subject to many tax laws worldwide.

The recognition and measurement of income tax liabilities and tax receivables, including estimating the probability and extent income tax-related issues result in payment obligations, require significant judgment, and demand a high degree of expertise. In addition, the assessment of the extent to which tax authorities will question tax-related facts is subject to a high amount of uncertainty. Along with current taxes, tax items also encompass deferred taxes that result from temporary differences and tax loss carryforwards that will be realized in future financial years. In particular, the assessment of recoverability for deferred tax assets, which result from deductible temporary differences and tax loss carryforwards, requires significant judgment by management.

Software AG's disclosures on income taxes and deferred taxes are contained in sections "[12] Income Taxes," "[19] Income Tax Receivables," "[22] Deferred Taxes" and "[27] Income Tax Liabilities" in the notes to the consolidated financial statements.

Audit response and findings

We involved internal specialists from our Tax Department, who worked closely with the audit team. With their support we assessed, amongst others, the methodical procedures for determining, measuring, and accounting for all tax items. We examined the calculations of income tax liabilities and of tax receivables on the basis of our knowledge of the relevant tax regulations as well as their present application by government authorities and courts. In order to assess income tax risks, we furthermore read the correspondence with tax authorities as well as the transfer pricing documentation critically. The plausibility of the forecast and its effects on the future taxable income situation of Software AG was assessed, as it serves as the basis for the recognition and measurement of deferred tax assets resulting from deductible temporary differences and tax loss carryforwards. Tax specialists in our international network supported us in assessing tax items as well as in estimating the tax risks of significant foreign entities and reported the results of their assessments to us. We had our tax specialists analyse these reports. In particular, we examined how the accounting impacts on current and deferred taxes resulting from the U.S. tax reform dated December 21, 2017, were determined.

On the basis of the accounting procedures performed by us, we were, on the whole, able to gain reasonable assurance over the underlying assumptions held and the judgment used by management in accounting for and measuring current and deferred taxes.

Other information

The executive directors are responsible for the other information. The other information comprises:

- the non-financial statement included in the section "combined non-financial statement" of the combined management report
- the separately published statement on corporate governance to which section "statement on corporate governance" of the combined management report refers
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to article 10 of the eu audit regulation

We were elected as group auditor by the annual general meeting on May 17, 2017. We were engaged by the Supervisory Board on June 22, 2017. We have been the group auditor of the Software AG without interruption since the financial year 1997.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Ralf Pfeiffer.

Berlin, March 1, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Eckmann
German Public Auditor

Pfeiffer
German Public Auditor

GERMAN PUBLIC ACCOUNTANCY PRACTITIONER'S REPORT

To the Supervisory Board of Software AG, Darmstadt

German Public Accountancy Practitioner's Report Concerning a Limited Assurance Engagement[1]

We have performed an independent limited assurance engagement on the Non-Financial Group Statement of Software AG, Darmstadt, according to § 315b HGB, which is combined with the Non-Financial Statement of the parent company according to § 289b HGB, consisting of the section „Combined Non-Financial Statement" in the combined management report as well as the section „Business model" being incorporated by reference for the reporting period from January 1 to December 31, 2017.

Management´s responsibility

The legal representatives of the Company are responsible for the preparation of the Combined Non-Financial Statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the Combined Non-Financial Statement as well as making assumptions and estimates related to individual disclosures, which are reasonable under the given circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of the Combined Non-Financial Statement that is free from material misstatements, whether due to fraud or error.

German public accountancy practitioner's declarations relating to independence and quality assurance

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Accountancy Practitioner's and the quality assurance standard of the German Institute of Public Auditors (IDW) regarding Quality Assurance Requirements in Audit Practice (IDW QS 1).

German public accountancy practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Combined Non-Financial Statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, published by the IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the Combined Non-Financial Statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance

1 We have performed a limited assurance engagement on the German version of the Combined Non-Financial Statement and issued a German Public Accountancy Practitioner´s Report in German language, which is authoritative. The following text is a translation of the original German Public Accountancy Practitioner's Report.

engagement and therefore a substantially lower level of assurance is obtained. The choice of assurance procedures is subject to the German Public Accountancy Practitioner's professional judgement.

Within the scope of our assurance engagement, which substantially has been conducted in February and March 2018, we performed amongst others the following assurance and other procedures:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Combined Non-Financial Statement regarding the preparation process, the systems of internal controls relating to this process and selected disclosures in the Combined Non-Financial Statement
- Identification of likely risks of material misstatements in the Combined Non-Financial Statement
- Analytical evaluation of quantitative disclosures
- Evaluation of selected internal and external documents
- Assessment of the overall presentation of the disclosures

Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Combined Non-Financial Statement of Software AG, Darmstadt, for the reporting period from January 1 to December 31, 2017, has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Restriction of use

We issue this report on the basis of the engagement agreed with the Supervisory Board of the Company. The assurance engagement has been performed for purposes of the Supervisory Board of Software AG, Darmstadt, and the report is solely intended to inform this as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability

Our responsibility lies solely towards the Supervisory Board of Software AG, Darmstadt, and this is limited in accordance with the „Special Terms and Conditions of BDO AG Wirtschaftsprüfungsgesellschaft" as of January 1, 2017 and the „General Engagement Terms of the Institut der Wirtschaftsprüfer in Deutschland e.V. for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften" as of January 1, 2017 (www.bdo.de) as agreed with the Supervisory Board. We refer to the provisions contained there. We assume no responsibility or liability towards third parties.

Hamburg, March 9, 2018

BDO AG Wirtschaftsprüfungsgesellschaft

Ellen Simon-Heckroth	Nils Borcherding
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Accountancy Practitioner)	(German Public Accountancy Practitioner)

GLOSSARY

Adabas (Adaptable 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 launch in 1971, Adabas—together with Natural—has formed the backbone of many large corporations' and public institutions' IT.

Adabas & Natural (A&N)

A Software AG business line with products of the same name. Adabas and Natural have occupied a permanent space in the IT landscapes of companies and public institutions around the world for many years and will continue to do so for many more to come. With its Adabas & Natural 2050+ agenda, Software AG announced in 2016 its commitment to develop and support the A&N product portfolio through the year 2050 and beyond. This enables customers to maximize the innovation potential of digitalization for their applications. The A&N business line encompasses database management, application development and mainframe application technologies.

ADAMOS (Adaptive Manufacturing Open Solutions)

ADAMOS is a strategic alliance launched on October 1, 2017, between machinery and industrial equipment manufacturers DMG MORI, Dürr, ZEISS, ASM PT and Software AG to address the pioneering fields of Industry 4.0 and the Industrial Internet of Things (IIoT). The alliance aims to bundle its expertise in machinery construction, production and information technology and establish ADAMOS as a global industry standard in the machine and plant engineering sector. ADAMOS is open to additional members and partners. Since its launch, ENGEL Austria GmbH, global market leader in injection-mold equipment, and the KARL MAYER Group, a market leader in textile machinery, have joined the alliance.

Alfabet

Alfabet is a technology platform that allows users to map their entire IT environment for comprehensive IT infrastructure planning and optimization.

Apama

Apama Streaming Analytics is designed to help organizations develop customer-centric streaming data applications. Streaming analytics provides intelligent, automated management of big data. It allows enterprises to analyze and recognize patterns within high-volume business operations and customer interactions in real time.

ARIS (Architecture for Integrated Information Systems)

A scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation and measurement.

Artificial Intelligence (AI)

The term artificial intelligence, AI for short, refers to computer systems that imitate intelligent human behavior. The ideal AI does not currently exist. Until now, AI has mainly referred to simulations of intelligent behavior based on provided or learned patterns.

Big Data

Big data is a universal term for the vast amounts of data produced by digital technologies. Organizations can achieve competitive advantages by conducting fast and effective analysis of this data (data analytics), which tools in the Digital Business Platform can provide.

Business Process Management (BPM)

The methods, techniques and tools used to design, enact, control and analyze business operations involving people, systems, applications, data and organizations. Software AG's offering is known as the webMethods Business Process Management Suite.

Cloud

Cloud (computing) refers to the growing shift from data and application storage to the Internet.

Corporate Social Responsibility (CSR)

Corporate social responsibility, CSR for short, is part of sustainable business. CSR is about how profits are made, not what is done with them. It is not about simply doing good deeds or donating and sponsoring. Rather, a company's core business must illustrate that social and ecological corporate responsibility as well as sustainable business go hand-in-hand with economic success.

Cumulocity

Cumulocity GmbH develops innovative solutions for the Internet of Things (IoT) and offers an application and device management platform with its IoT cloud to enable easy integration of networked devices and sensors. Software AG strengthened its IoT technology leadership with the acquisition of Cumulocity GmbH in March 2017. Adding Cumulocity's IoT solutions to the Software AG product portfolio enables businesses to integrate their IT applications more quickly and easily with operating IoT devices.

Digital Business Platform (DPB)

Software AG unveiled the world's first Digital Business Platform at the end of 2014. It is an agile software platform that helps organizations achieve adaptive applications and customized software solutions quickly and flexibly. The combination of process, data, integration and (real-time) decision logic with versatile applications lays the foundation for enterprise digital transformation. Digital Business Platform is also the name of Software AG's biggest business line, in existence since 2015.

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.

Global Reporting Initiative (GRI)

The GRI is an independent international organization that has pioneered sustainability reporting since 1997. The GRI guidelines for sustainability reporting provide reporting fundamentals and information on standards as well as implementation instructions for creating sustainability reports for all organizations, regardless of size, industry or location.
(Source: https://www.globalreporting.org/Pages/default.aspx)

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.

Internal Control System (ICS)

Software AG's ICS operationalizes business risks. It contains internal policies on business policies and practices as well as Groupwide guidelines for effective internal controls with continuous compliance monitoring.

Internet of Things (IoT)

The Internet of Things describes a vision whereby computers become more and more obsolete and are replaced by smart objects such as embedded devices and sensors. The connectivity of physical objects in the virtual world within an Internet-like structure will inconspicuously help humans carry out many activities.

Industrial Internet of Things (IIoT)

The IIoT is a variation of the Internet of Things that focuses on the -application of the IoT in industrial and manufacturing environments.

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 creation of enterprise applications for mainframe and open systems platforms. Since its market launch in 1979, Natural and Adabas have formed the backbone of many large companies' and public institutions' IT.

Terracotta

Terracotta enables real-time management of big data and is a distributed, scalable in-memory data management platform with extremely low, predictable latency. Featuring integrated in-memory technology, large amounts of data can be searched within just a few microseconds. The Terracotta product family works with the Apama products for intelligent business operations.

webMethods

Systems, partners, data, devices and SaaS applications can be integrated quickly using webMethods. The webMethods product family includes Agile Applications, API Management, Business Process Management, Integration and Operational Intelligence.

Zementis

Artificial intelligence, machine learning and predictive analytics are the foundation of the next generation of Software. Zementis creates a shared, standard-based framework that can provide intelligent solutions for all industries and application areas. With Zementis, organizations gain fast insights into their data and make smart business decisions supported by predictive analytics.

LIST OF ABBREVIATIONS

acc	at constant currency
AI	Artificial Intelligence
Americas	North and South America
API	Application Programming Interface
APJ	Asia-Pacific and Japan
ARCM	ARIS Risk & Compliance Manager
ARIS	Architecture for Integrated Information Systems
AUD	Australian dollar
A&N	Adabas & Natural
Bitkom	German Association of Information, Telecommunications and New Media
BPM	Business Process Management
BRL	Brazilian real
CAD	Canadian dollar
CSR	Corporate Social Responsibility
DACH	Germany, Austria, Switzerland
DBP	Digital Business Platform
DCGK	German Corporate Governance Code
DevOps	Development and IT Operations
GDPR	General Data Protection Regulation
EBIT	Earnings before Interest and Taxes
EBITA	Earnings before Interest, Taxes and Amortization
EITO	European Information Technology Observatory
EMEA	Europe, Middle East, Africa (without DACH)
EMIR	European Market Infrastructure Regulation
EMP	Employees
EPS	Earnings per Share
FC&A	Finance, Controlling & Administration
FTE	Full-time Equivalent
GBP	British pound sterling
GIS	Global Information Services
iBPMS	Intelligent Business Process Management Suites
IFRS	International Financial Reporting Standards
IfW	Institute for the World Economy (Kiel)
ICS	Internal Control System
ILO	International Labor Organization
ILS	Israeli shekel
IMS	Information Management System
IoT	Internet of Things
ISAE 3000	International Standard on Assurance Engagements
ISO	International Organization for Standardization
ICT	Information and Communications Technology
kWh	Kilowatt hour
LATAM	Latin America
MIP	Management Incentive Plan
M&A	Mergers & Acquisitions
OECD	Organization for Economic Cooperation and Development
OpenSAMM	Open Software Assurance Maturity Model
PPS	Performance Phantom Share
QMS	Quality Management System
RMS	Risk Management System
RoI	Return on Investment
ROM	Risk and Opportunity Management
R&D	Research and Development
SaaS	Software as a Service
SI:SD	System Innovation for Sustainable Development
STEM	Science, Technology, Engineering, Math
USD	US dollar
VAR	Value-Added Reseller
VWAP	Volume-weighted Average Price
ZAR	South African rand

FINANCIAL CALENDAR

Highlights

2019	
January 24	Q4/FY 2018 financial results (IFRS, unaudited)
2018	
October 19	Q3/2018 financial results (IFRS, unaudited) Publication of Q3/2018 quarterly statement
August 14	Publication of 2018 Half-Year Report
July 18	Q2/2018 financial results (IFRS, unaudited)
May 30	Annual Shareholders' Meeting Darmstadt, Germany
April 19	Q1/2018 financial results (IFRS, unaudited) Publication of Q1/2018 quarterly statement

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

NINE-YEAR SUMMARY

Overview of Consolidated Financial Data

in € millions (unless otherwise stated)	2017	2016	2015
Revenue	**879.0**	**871.8**	**873.1**
By type			
Licenses	256.7	263.0	271.9
Maintenance	421.6	412.2	406.9
Services and other revenue	200.7	196.6	194.3
By business line*			
Digital Business Platform (DBP)	455.4	441.4	431.5
Adabas & Natural (A&N)	223.7	234.6	248.0
Consulting	199.9	195.8	193.6
EBIT**	**222.8**	**213.9**	**209.4**
as % of revenue	25.3	24.5	24.0
Net income	**140.6**	**140.4**	**139.6**
as % of revenue	16.0	16.1	16.0
Employees (FTE)	**4,596**	**4,471**	**4,337**
in Germany	1,155	1,148	1,178
Balance sheet	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2015**
Total assets	**1,907.5**	**1,957.2**	**1,814.8**
Cash and cash equivalents	365.8	374.6	300.6
Net debt/net cash***	55.2	73.1	25.7
Equity	1,118.3	1,196.8	1,089.7
as % of total assets	58.6	61.1	60.0

* 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 previous balance sheet structure

2014	2013	2012	2011	2010	2009
857.8	**972.7**	**1,047.3**	**1,098.3**	**1,119.5**	**847.4**
270.1	330.1	318.9	295.2	327.4	269.9
371.3	375.6	393.3	378.7	369.4	310.6
216.4	267.0	335.1	424.4	422.7	266.9
394.5	422.9	384.7	339.6	321.5	247.2
245.3	274.5	310.5	313.9	355.4	328.5
218.0	275.4	352.1	444.8	442.6	271.7
176.0	**205.5**	**248.3**	**269.2**	**268.6**	**218.2**
20.5	21.1	23.7	24.5	24.0	25.8
110.6	**134.0**	**164.7**	**177.2**	**175.6**	**140.8**
12.9	13.8	15.7	16.1	15.7	16.6
4,421	**5,238**	**5,419**	**5,535**	**5,644**	**6,013**
1,216	1,711	1,768	1,881	2,051	2,149
Dec. 31, 2014	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2010**	**Dec. 31, 2009**
1,848.9	**1,996.9**	**1,771.9**	**1,680.7**	**1,599.6**	**1,654.9**
318.4	450.0	315.6	216.5	102.5	218.1
132.9	168.8	-49.6	60.9	167.2	271.8
1,013.4	965.6	1,060.1	951.5	769.3	647.2
54.8	48.4	59.8	56.6	48.1	39.1

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