software AG

ANNUAL REPORT | 2012

CHANGE
CHALLENGE
CHANCE

KEY FIGURES

in € millions	**2012**	2011
Revenue	1,047.3	1,098.3
By type		
• Licenses	318.9	295.2
• Maintenance	393.3	378.7
• Services and other revenue	335.1	424.4
By business line		
• Business Process Excellence (BPE)	547.0	527.9
• Enterprise Transaction Systems (ETS)	375.2	381.3
• IDS Scheer Consulting (IDSC)	125.1	189.2
EBIT*	**248.3**	269.2
as % of revenue	23.7	24.5
Net income	**164.7**	177.2
as % of revenue	15.7	16.1
Employees (full-time equivalents)	**5,419**	5,535
of which in Germany	1,768	1,881
Balance Sheet		
Total assets	1,771.9	1,680.7
Cash and cash equivalents	315.6	216.5
Net debt**	-49.6	60.9
Shareholders' equity	1,060.1	951.5
as % of total assets	**59.8**	57.0

*EBIT: consolidated net income + income tax + other tax + financial result
**Negative value = cash surplus

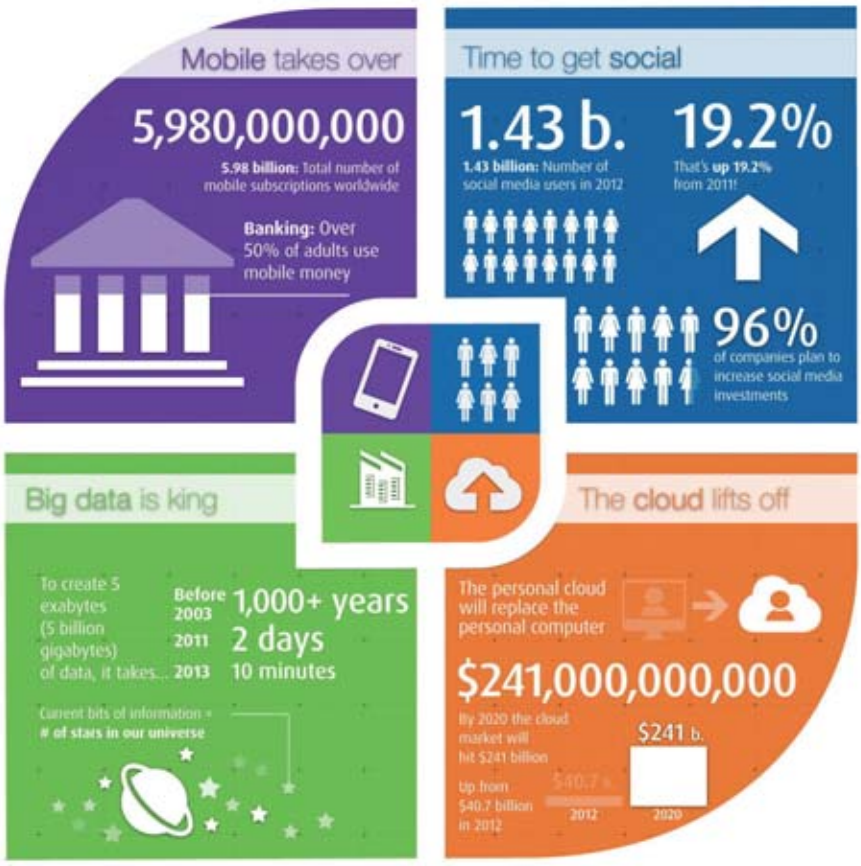
CHANGE
CHALLENGE
CHANCE

FOR THE DIGITAL **ENTERPRISE**

Digitization is changing the world and our lives. New technologies change the way companies do business. They bring about new organizational approaches. They create innovative work opportunities. The speed at which this happens is not the only challenge. Software AG helps its customers propel their transformation to becoming a Digital Enterprise and achieve their business goals. We have been setting standards in process automation, data management and system integration for more than 40 years. This innovative power has made us a technology leader. It also presents chances. Chances that we are taking in order to move forward on our path of success.

CHANGE. CHALLENGE. CHANCE: Not just true for our customers, also for us.

TECHNOLOGIES AROUND THE 4 FORCES



Software AG drives innovations for four megatrends: big data, cloud, social, mobile.

SOFTWARE AG AT
A GLANCE

- Technology market leader in system integration, process automation and data management
- Proven track record & experienced management
- Strong cash flow generation due to robust business model
- Consistent revenue and earnings
- Innovative products to digitize organizations
- More than €1 billion in revenue in 2012
- Market capitalization €2.5 billion
- More than 5,400 employees working in 70 countries
- 71% free float, 29% Software AG Foundation
- Global customer base

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GROUP MANAGEMENT REPORT

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HIGHLIGHTS

JANUARY 12
RECOGNIZED AS TECHNOLOGY LEADER

Gartner positioned Software AG as a "leader" in its Business Process Analysis (BPA) Tools magic quadrant. The same month, analysts at Forrester named Software AG a "leader" in the integrated SOA governance market.

MARCH 5
BUSINESS SUCCESS WITH PROCESS EXCELLENCE

Faster business results with process excellence: At CeBIT 2012 Software AG promoted the trade fair's theme "Managing Trust" with its new cloud-ready strategy. IT professionals learned how customers from all industries can realize Business Process Excellence and achieve their business goals faster through cloud solutions and countless reference cases.

APRIL 16
SOFTWARE AG ACQUIRES MY-CHANNELS

By acquiring U.K.-based technology provider my-Channels, Software AG has enhanced its integration technology with extremely fast messaging software. It allows customers to stream massive amounts of business-critical data to staff, customers and partners glitch-free from anywhere and via any channel or device.

MAY 7
SOFTWARE AG SHAREHOLDERS REWARDED WITH RECORD-HIGH DIVIDEND

It was decided at the Software AG Annual Shareholders' Meeting that shareholders would receive a dividend of €0.46 per share for fiscal year 2011—a 7-percent increase over the previous year. After earnings in 2011 hit an all-time high, the Management and Supervisory Boards wanted their dividend proposal to appropriately include shareholders in the Company's success.

MAY 10
SOFTWARE AG NAMED TOP EMPLOYER

Software AG was chosen for the "Employer Branding Award 2012" by the trendence European research institute with special recognition for its University Relations program. The program, in which 350 departments at 180 colleges and universities worldwide participate, enables Software AG to find the best and brightest young professionals and counteract the shortage of skilled labor.

MAY 30
PROCESS EXCELLENCE— EXPERIENCE MEETS INNOVATION

Software AG demonstrated what Business Process Excellence (BPE) means and how excellent processes contribute to business success at Processforum in Darmstadt. Customers and specialists from industry, research and the public sector convened at the IT conference themed "Process Excellence—Experience Meets Innovation".

JUNE 15
20 YEARS OF SOFTWARE AG FOUNDATION

The Software AG Foundation celebrated its 20th anniversary in 2012. Software AG's largest shareholder is now one of Germany's largest foundations thanks to its highly successful development work. Since its creation, the foundation has financed more than 3,100 projects worth a total volume of €265 million, thereby promoting self-help initiative in Europe and Brazil.

AUGUST 1
SOFTWARE AG EXPANDS ITS GLOBAL PARTNER NETWORK

Software AG placed partner sales under new leadership to significantly step up activities in this area. Global partner management is a component of the Company's growth strategy for accessing important markets and industries. The goal is to globally expand business relationships and attract new partners.

AUGUST 16
MOVE YOUR FEET TO GIVE A HAND

Corporate responsibility: With "Move Your Feet to Give a Hand" as its motto, Software AG donates around €40,000 each year to social projects. The Company has been actively supporting individuals with disadvantages around the world since 2007. The employee campaign stands for both athletic and charitable involvement alike.

SEPTEMBER 5
BIG DATA TOP INNOVATOR AWARD

BigMemory, the industry-leading in-memory big data management solution by Terracotta, a Software AG subsidiary, received Dataweek magazine's "top innovator" award for big data technology. This award recognizes innovative strength in data management. Three weeks later Software AG became a finalist for the big data award by leading German IT publication, Computerwoche.

OCTOBER 2
PROCESSWORLD 2012

Software AG unveiled webMethods 9.0 and ARIS 9.0 at Processworld 2012 in Orlando and, with them, key nnovations in cloud, big data, mobile and social collaboration. The new software versions illustrate how cutting-edge technological advances drive value creation for organizations.

NOVEMBER 13
GERMAN NATIONAL IT SUMMIT

Representatives from politics and industry met to discuss topics around the theme "digitize_network_build" at the 7th German national IT Summit held in Essen, Germany. Karlheinz Streibich, Software AG CEO, is actively involved as co-chair of working group 3, which deals with the subject of innovative state IT offerings.

DR. WOLFRAM JOST
Chief Technology Officer (CTO)

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

ARND ZINNHARDT
Chief Financial Officer (CFO) and Labor Director

Dear Ladies and Gentlemen, Dear Shareholders,

2012 was a successful fiscal year for Software AG.

We met our targets—both for revenue, which again surpassed one billion euros, as well as for our EBIT margin. But, above all, 2012 was a year of transformation. We set the strategic course for a new dimension of our Company's continued growth.

Our business performance in the past year demonstrates that we are pursuing the right strategy. Our main growth engine, the innovation-driven Business Process Excellence (BPE) business line, developed excellently, clearly outperforming the market with 13.9 percent product revenue growth. License revenue, which is critical for success in that it is linked to new business, increased 15.5 percent. Enterprise Transaction Systems (ETS)—our traditional database business—also outdid expectations, again proving to be a solid and profitable foundation.

The magnitude of our success is reflected by our revenue distribution: We generated 54 percent of total product revenue with our BPE portfolio alone, Software AG's business of the future. The percentage of product revenue as compared to service revenue also improved. Product revenue plays in important role in our long-term success and contributed almost 70 percent of total Group revenue last year.

We stepped up the dynamic expansion of BPE by investing some €40 million in 2012 in this high-growth segment. Our massive investment program promotes both sales as well as research and development. And it has already produced results. At the same time, we are implementing numerous strategic measures, including the reorganization of our IDSC business line, which will now focus on process consulting for SAP application environments in key German-speaking markets.

Despite expenses resulting from these forward-looking measures, we were still able to steadily increase our EBIT margin during the year. It reached 27.2 percent in the fourth quarter.

We will drive forward the high-growth BPE business in a dedicated manner. As you know, we have already assumed a leadership position in the Business Process Excellence market. Thanks to our employees and portfolio, Software AG is ideally equipped to clearly expand this market position. We have therefore taken the next step: BPE product revenue is planned to reach one billion euros and account for 80 percent of our total product revenue by 2018. To achieve this, we will pursue a growth strategy. We want to win market share from the competition through product, marketing and sales innovation.

Our license revenue from big data products quadrupled in 2012, which illustrates the potential of BPE. There is currently a convergence of four megatrends in information technology:

1. MOBILE—increase of mobile communication and mobile use of the Internet
2. CLOUD—the shift of data and applications to the Internet
3. SOCIAL COLLABORATION—increased use of social networks
4. BIG DATA—processing and analysis of growing, vast volumes of data

This unparalleled constellation is propelling the digitization of society and industry. To successfully compete globally, companies in every industry must become Digital Enterprises. Enabling this is what Software AG is all about. Thanks to our early entrance into the up-and-coming Business Process Excellence market space, we are in the unique position to be able to offer an entire range—solutions for automated, flexible business processes, forward-looking cloud-to-cloud integration software, and the in-memory-technology of our U.S.-based subsidiary Terracotta.

Starting in 2013 we have begun to focus more intensively on the opportunities offered by our customers' Digital Enterprises. While the market is expected to grow 10 percent on average, we have set our target for BPE product revenue growth at 16 to 22 percent at constant currency. We will invest in this high-growth market in the current fiscal year with the support of ETS—Software AG's highly profitable traditional database business.

As a leading company in the software sector, we drive change and progress. Looking toward the future and the ability to innovate form the foundation of our success. I would like to express my gratitude to the employees of Software AG for their dedicated contribution to our positive business results and for their active support of the ongoing development of our Company.

On behalf of the entire Management Board, I would like to thank our shareholders for their trust in Software AG. We will continue to do everything in our power to keep Software AG an attractive investment. One aspect of that is the dividend. To include you in the Company's financial results, the Management Board and Supervisory Board will propose a dividend of €0.46 per share at the 2013 Annual Shareholders' Meeting.

Yours sincerely,

KARL-HEINZ STREIBICH

Chief Executive Officer

CHANGE CREATES VALUE

THANKS TO OUR CONSISTENT FOCUS ON THE FUTURE, SOFTWARE AG DRIVES ITS CUSTOMERS' SUCCESS AS WELL AS OUR OWN PROGRESS. OUR GOAL IS BECOME A MARKET LEADER THROUGH A STRATEGY THAT SIGNIFICANTLY ACCELERATES CORPORATE GROWTH.

Software AG's customer base includes thousands of large companies and organizations from all industries of the private and public sector. More than 5,400 employees, including over 880 in Research and Development, work in 70 countries to enable our customers' success. We are utilizing this excellent position for qualitative and profitable growth and to convert our technology leadership into market leadership.

BUSINESS MODEL BASED ON THREE STRONG LINES

Our Company encompasses three strategic business lines: Business Process Excellence (BPE), Enterprise Transaction Systems (ETS) and IDS Scheer Consulting (IDSC). Their common denominator is that all three offer solutions that enable companies and government agencies to achieve their goals faster and more reliably.

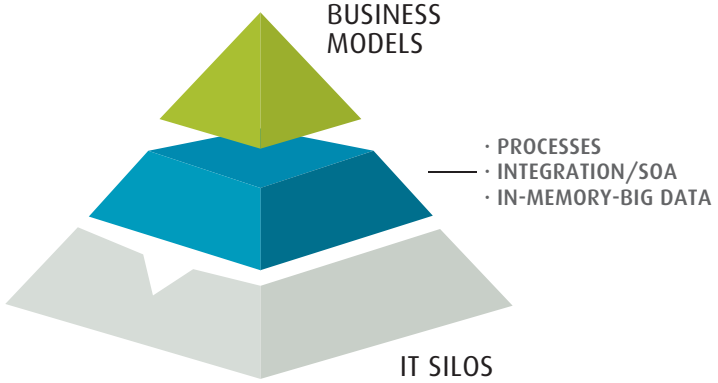
- BUSINESS PROCESS EXCELLENCE (BPE) is the largest division, our future-oriented business and primary engine for growth. Its focus is on innovative technologies for the optimization and efficient creation of business processes. Software AG is a global leader in this field.
- ENTERPRISE TRANSACTION SYSTEMS (ETS) addresses the traditional database business. Our mainframe software solutions have been providing the backbone of IT landscapes around the world for decades.
- IDS SCHEER CONSULTING (IDSC) delivers product-independent consulting services for Business Process Excellence with a growing focus on process consulting for SAP IT landscapes.

PIONEER OF PROGRESS

The modern world is driven by technology. This is especially true of the IT sector. Developments like the Internet change basically all areas of work and life. Software AG considers itself to be a catalyst to progress. For more than 40 years our Company has stood for innovations that are geared toward benefiting customers. We marketed the first high-performance transactional database, the first platform for business process analysis, the first B2B server and the first SOA-based integration platform.

Always with an eye on the future, we adjust our business model according to changes and challenges as they arise. Software AG's original focus was the field of traditional mainframe products, which even today remain essential for many customers. However, in the wake of advancing digitalization, the ETS line's volume of business will gradually diminish. We have therefore created a new area of business with BPE that provides dynamic growth and ensures long-term business success. BPM has evolved into Software AG's largest business line. This expanding future-oriented business accounts for more than half of our global product revenue.

SOFTWARE AG PROVIDES AN AGILITY LAYER — THE SWEET SPOT OF THE DIGITAL WORLD



WHY INVEST IN SOFTWARE AG?

We help organizations become faster and more efficient with our vendor-neutral software and service portfolio for Business Process Excellence (BPE). In other words:
We enable them to achieve the agility and flexibility needed to react appropriately to changing markets.

PRODUCT PORTFOLIO FOR THE DIGITAL ENTERPRISE

Software AG's portfolio currently addresses four technological areas: business processes, integration, big data and transactions. Our brand architecture is clear and to the point: Each specialized product family and respective brand represents one of these areas.

PRODUCT-HIGHLIGHTS

Big data and in-memory technology	Integration of data applications and digital work flows	Process planning and analysis	High-performance database
TERRACOTTA®	WEBMETHODS	ARIS	ADABAS·NATURAL
BIG DATA	INTEGRATION	BUSINESS PROCESS	ADABAS·NATURAL

- ARIS perfects business processes with a solutions portfolio that covers strategy, analysis, design and control
- WEBMETHODS facilitates integration of data from existing systems with cutting-edge business processes.
- TERRACOTTA focuses on big data, enabling absolute usability of even the largest volumes of data through in-memory technology.
- ADABAS-NATURAL Natural delivers high-performance data management and modernization of mainframe-based IT systems.

ARIS, webMethods and Terracotta form the BPE portfolio; ADABAS-Natural comprises ETS. Software AG leads a total of 15 market sectors with these product families. Our software solutions allow customers to protect their investments through the use of existing IT systems. Existing infrastructures can stay in place and gain value.

MARKET LEADERSHIP WITH A FOCUSED STRATEGY

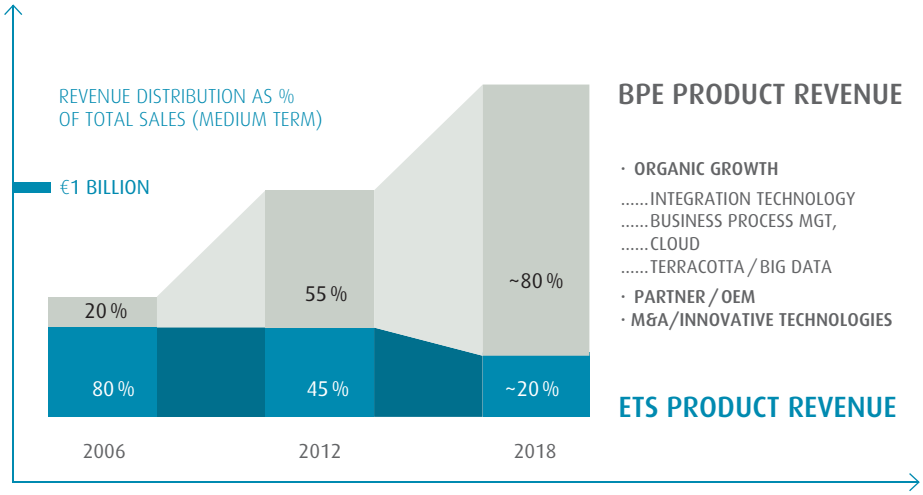
We plan to expand our technology leadership to become a global market leader in the medium term. We will do this by pursuing a strategy aimed at profitable growth and a continuous increase in the value of our Company. With customer-centric innovations and partnerships, we will be able to expand our market position to international high-growth markets.

Software AG's growth strategies are long-term. We combine straightforward goals with consistent and fast implementation. The numerous awards we have received for our corporate strategy show that this is the right way. But the best confirmation is our business success. After defining a one-billion-euro-revenue strategy in 2004 for the Software AG Group, we met the target earlier than expected.

FOUR FORCES: PROFITING FROM MEGATRENDS

We launched our second one-billion-euro-revenue strategy at the beginning of 2013. This one applies explicitly to Business Process Excellence activities. Our target is to grow product revenue in this future-oriented business line to one billion euros by 2018. This means that we will strive to achieve between 16 and 22 percent BPE product growth annually.

TRANSFORMATION OF PRODUCT REVENUE DRIVERS



Software AG is ideally positioned with BPE. Gartner Group identified four technology segments that will decisively fuel growth in our industry over the next few years: mobile, big data, social collaboration and cloud. Each of these "four forces," as Gartner calls them, is a megatrend. And Software AG's portfolio covers all four. We entered these promising fields early, which is now paying off.

The convergence of several megatrends at once is a novelty for the IT sector. The result will be far-reaching changes, which will press companies in all industries to digitize their operations. We will profit from this, because the digital enterprise and the digital government agency is our market.

INVESTMENTS IN NEW PRODUCTS AND GLOBAL SALES

Our Business Process Excellence business line is already achieving two-digit growth rates and clearly outperforming the market. To build on this strength we are investing in trailblazing products that address the four forces as well as in sales and marketing. We are setting a strategic course to secure early market share for Software AG.

Our growth strategy will substantially accelerate Software AG's expansion and enable us to win market share from our competitors. It is based on organic growth in the fields of business processes, integration, big data and cloud. The topic of big data has become extremely important in its role as a success driver. We are therefore increasing our innovations in in-memory technology, in particular.

Expanding our technology leadership through acquisitions remains a key component of our strategy. In addition, we are driving forward our global sales activities through the dedicated creation and expansion of our international partner program. We exploit attractive opportunities not only in established regions but in emerging markets as well.

GROWTH BOOST FOR THE WHOLE COMPANY

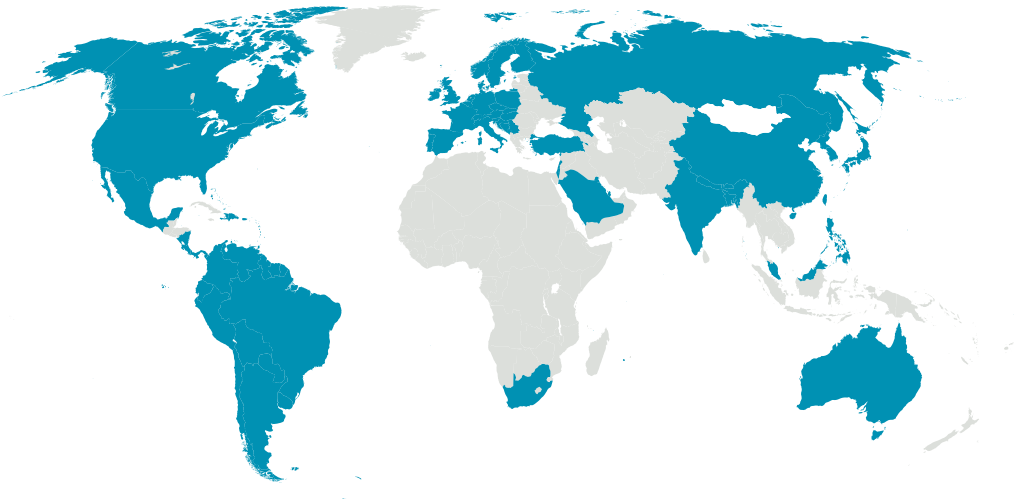
The excellent performance of the BPE business will speed up our Company's growth for the long term. The other two business lines also contribute to our positive results. ETS continues to be a highly profitable base for Software AG. We will therefore not change the role of ADABAS and Natural. And, we will continue to incorporate the latest technology trends and developments into our database business.

Our IDSC business line will concentrate on German-speaking markets with an increased focus on process consulting for SAP IT landscapes. Here we can take advantage of the combination of our industry expertise, process orientation and SAP know-how.

CHANGE. CHALLENGE. CHANCE.
SOFTWARE AG CAN UTILIZE ITS POSITION OF STRENGTH TO REACH A NEW DIMENSION OF GROWTH.

SOFTWARE AG'S GLOBAL PRESENCE

USA
South America
Europe
Middle East
Asia
Australia



EMPLOYEES

A SOFTWARE COMPANY'S MOST IMPORTANT ASSET ARE ITS EMPLOYEES.

Committed, skilled staff members with specialized expertise on one hand and creativity on the other drive innovation and are key to the successful business development of Software AG. Attractive performance-based pay, a flextime scheduling model and, last but not least, personal and professional development opportunities create a highly motivating work atmosphere that promotes team and innovative spirit.

We currently face a dramatic transformation of market requirements. This is caused by increasingly shorter innovation cycles, growing global competition and megatrends in our industry. The pressure to change poses enormous challenges for organizations and requires the highest level of flexibility and life-long learning among employees.

Software AG offers employees a wide range of personal development and professional qualification programs, diverse international career opportunities and the chance to work with colleagues across department and country borders. Our international High Potential program, for example, is already in its fifth year. Our Corporate University embodies the idea of life-long learning. The goal of the program is to maintain close contact with colleges and universities worldwide, circulate our software products for teaching and research and to train and attract motivated, highly skilled employees. We won the trendence Employer Branding Award 2012 for our commitment to the academic sector.

TechSummit 2012 at Software AG in Bangalore, India. Jonathan Heywood, Director of Product Management, discusses the new features of the webMethods product family.

The facts speak for our success: Software AG is among the top 100 most attractive employers in Germany. As part of a "graduate barometer," the trendence Institute surveyed college students and graduates about their goals, hopes and expectations for an employer. It shows that we meet recent graduates' and skilled employees' desired mix of business success, challenging work, excellent continuous education opportunities, attractive pay and benefits and a work/life balance.

Little ones get in on the action: An art contest for children of Software AG Spain employees (Madrid)

A work/life balance is becoming more and more important, especially to young employees and applicants. We not only offer flextime scheduling, part-time positions, telecommuting and state-of-the-art IT equipment. We also provide support for our employees in the way of counseling to help them find child and family care (home care for the sickly and elderly) solutions. Furthermore, we offer financial and personal accounting advice, athletics and health education as well as coaching for all life situations.

The foundation of our successful customer-oriented business is understanding cultural differences and mutual respect. Interaction among our employees and with our customers is based on fundamental values such as trust, open communication and a drive to succeed. True diversity improves motivation and the power to innovate ensuring that individual personalities can be developed to their fullest within our Company. It is only natural to us that qualification-based human resource activities do not depend on culture, gender or nationality.

Feedback from our staff members about structures, processes and job dissatisfaction is of utmost importance to us. We therefore conduct broad-reaching employee surveys on a regular basis. The results enable us to better steer the Company, and therefore improve employee motivation, loyalty and productivity for the long term.

CORPORATE RESPONSIBILITY

WE LIVE IN A FAST-PACED ERA THAT IS CHARACTERIZED BY UNCERTAINTY AND PRESSURES ASSOCIATED WITH CHANGE. IT REQUIRES SOCIAL RESPONSIBILITY FROM EVERY INDIVIDUAL AND EVERY ORGANIZATION.

Software AG takes this task seriously and makes long-lasting contributions to creating a sustainable society in a variety of fields. Our definition of "sustainability" is acting responsibly for long-term economic success in harmony with employees, customers, partners, society and the environment.

A prerequisite for that is conscious respect. Values like trust, respect, open communication and tolerance shape our work and our increasingly global operations. We instituted a Code of Conduct which takes different cultures into account. The Code of Conduct outlines internal values and rules and establishes a Company-wide foundation for respectful interaction and responsible behavior.

The most important asset of a service company are its employees, their expertise, motivation and ability to innovate. Software AG is an attractive employer. As such we have created a productive, innovation-driving workplace that offers flexibility for self-initiated activities and creativity as well as job security and international career opportunities.

Software AG is playing a key role in the change in energy policy in Germany: Karl-Heinz Streibich explains our display of intelligent, software-driven grids to politicians Brigitte Zypries and Frank-Walter Steinmeier.

We are committed to promoting education and innovation. We recognize the importance of software for strategic economic policy. Examples of Software AG's social commitment are our active participation in the annual German IT Summit, in a regional software cluster and in the BITKOM industry association.

Education and life-long learning are basic tenants of our knowledge society and essential for securing Germany's role as a center of business. We therefore endorse universities and schools and build on international partnerships between companies and a regional competency cluster. As a leading provider of highly complex IT systems and high-quality services, it is in our interest to promote young highly skilled professionals and to contribute to the competitiveness of our economy.

The four new megatrends of our industry—social collaboration, mobility, cloud computing and big data—are the impetus for a cultural transformation in the working and business worlds as well as in interpersonal communications worldwide. The digital revolution is changing people's lives even in places that previously did not have the necessary infrastructure, such as in parts of Africa and Asia. Recent customer reference cases show how Software AG's solutions can play a role in bettering the economic situation of people in these countries. Software AG's portfolio not only helps organizations reap sustainable benefits from new technology trends, but also has an influence on progress.

Building bridges between sports and social involvement: Software AG's "Move your Feet to Give a Hand" campaign

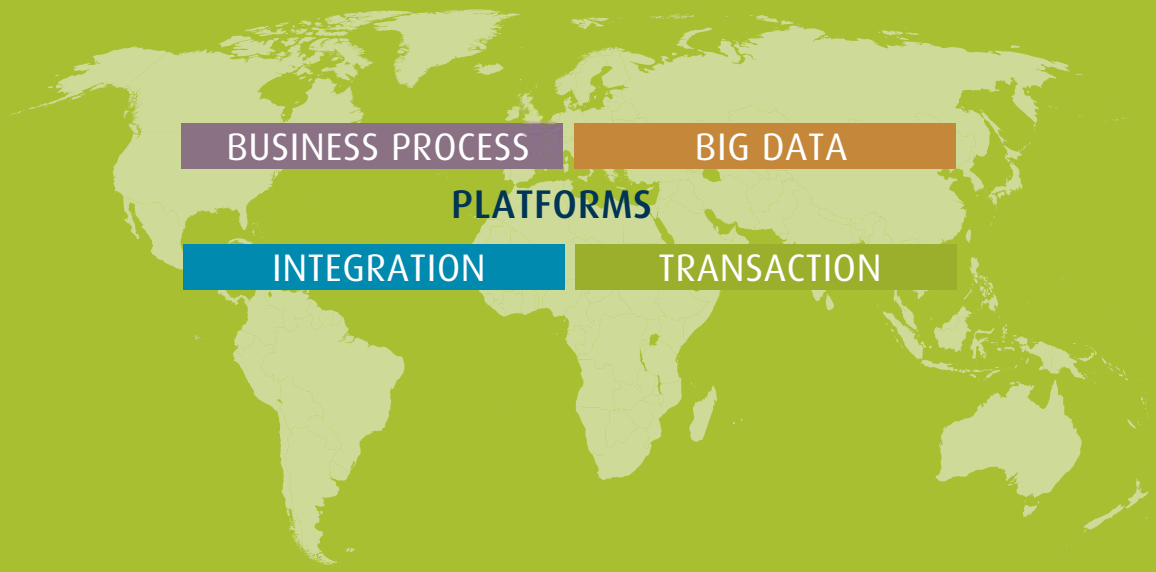
Individual initiative and social responsibility are the cornerstones of our society. We are proud that so many of our employees are active in social projects, and we support this volunteer involvement. As part of the "Move Your Feet to Give a Hand" campaign, Software AG, the employee representatives on the Supervisory Board of Software AG and the Software AG Foundation donate a five-digit figure in euros each year to social and environmental projects. But more importantly, they build a bridge between sports and social involvement. For every kilometer run by Software AG employees at official races anywhere in the world, €3.50 is donated to a charitable cause.

Social action is a firmly anchored assumption in our organization. The Software AG Foundation, started 20 years ago by one of our Company's co-founders, Peter Schnell, fosters social projects in a wide variety of areas. With 29 percent of Software AG's stocks, the foundation is an important anchor investor providing the Company with long-term independence and its employees with job security.

NO MATTER WHAT BUSINESS YOU'RE IN

YOUR BUSINESS MUST BECOME DIGITAL

CHANGE
CHALLENGE
CHANCE

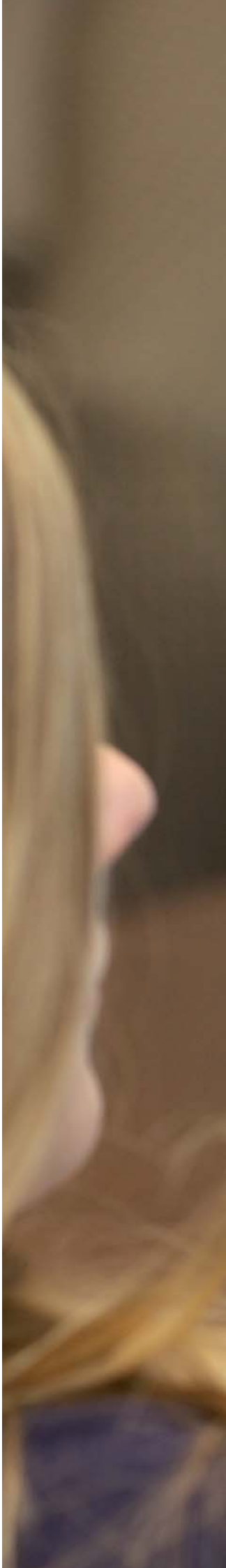


Software AG Suite
Powering the Digital Enterprise.

CHANGE
RECORD-BREAKING ACCELERATION

FROM 800 TO 20 MILLISECONDS. THANKS TO THIS RECORD-BREAKING ACCELERATION, A LEADING ONLINE PAYMENT SYSTEM IS ABLE TO PROTECT ITS CUSTOMERS FROM MILLIONS OF DOLLARS' WORTH OF LOSS.

The online payment system based in Silicon Valley, employs in-memory technology by Software AG subsidiary Terracotta to detect credit card fraud—at the very moment the payment transaction is placed. This type of analysis across huge amounts of data is what is making big data such a revolutionary technology trend.



Software AG Suite
Powering the Digital Enterprise.

20 MSECS

800
MILLISECONDS

TECHNOLOGICAL TRENDS

FUEL FOR DIGITAL ENTERPRISES

The digitization of society is an irreversible trend. The speed at which it is happening is a major challenge for everyone. Organizations, in particular, must continually adapt themselves and their processes accordingly. After all, nothing runs smoothly in the private or public sector without information technology. It serves an interdisciplinary purpose and has become indispensable in nearly every industry. But IT landscapes that have evolved over time are often rigid and cumbersome. They can no longer keep pace with modern-day business processes. Software AG's products and services enable organizations to design more flexible and transparent IT infrastructures. They allow them to digitally link and optimize their internal processes and thus react more quickly to change, for example, by opening their applications to the Internet. They become more agile. And that is precisely what gives them the decisive lead over the competition.

There is hardly any other market that changes faster than ours: information technology. But Software AG has continued setting technological standards over the past four decades: from ADABAS, a high-performance database for mainframes, to webMethods, a software, that harmoniously integrates Web-based services within a service-oriented IT architecture.

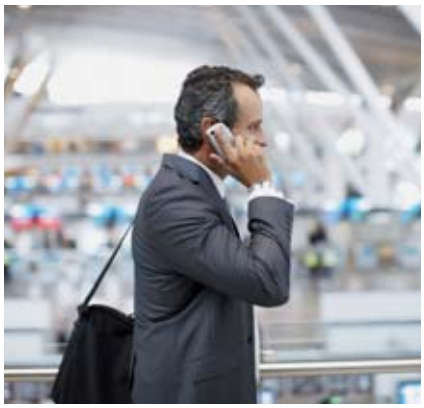
FOUR TECHNOLOGICAL TRENDS ARE SHAKING UP THE CONVENTIONAL BUSINESS MODELS OF OUR CUSTOMERS, CHANGING THEM FROM THE INSIDE OUT AND THUS FUELING OUR BUSINESS.

MOBILE

Mobile communication and mobile Internet use are booming. Mobile data traffic is growing. This is possible thanks to the high-speed connectivity of third-generation mobile telecommunications standards, affordable prices and user-friendly devices. Smartphones, tablets, notebooks and netbooks are being designed specifically with mobile access to data services in mind. Mobile surfing became widely popular with the iPhone if not earlier. It is not limited to just mobile searches for information. Mobile shopping and banking are also becoming more and more common, for example, via applications for mobile devices or "apps."

SWISSCOM_OPTIMIZED CROSS-ENTERPRISE PROCESSES

THE CONEXTRADE B2B MARKETPLACE OPERATED BY SWISSCOM IT SERVICES IS A CROSS-INDUSTRY PLATFORM FOR ELECTRONIC PROCUREMENT AND BILLING TRANSACTIONS. FOR MORE THAN A DECADE, WEBMETHODS TECHNOLOGY HAS BEEN HELPING BOOST THE EFFICIENCY OF PAPER-FREE PROCESSES.



More than 1,000 interconnected organizations, invoices worth a total volume of several billion Swiss franks and millions of managed documents: Conextrade marketplace handles a vast amount of data. Thanks to a suite of webMethods products, the processes are secure, fast and reliable and can be tracked in a transparent way. This keeps process and labor costs low.

The result: Companies' value creation is shifting from stationary to mobile business. If they want to stay competitive, they have to overhaul their business processes and reorient themselves to different devices and operating systems. Ultimately customers and/or business partners define the communications channel they will use to get in touch.

BIG DATA

The amount of data—in enterprise applications, websites and social networks—is getting ever vaster. Experts no longer speak in terms of mega- or gigabytes, but of exabytes (one billion gigabytes). And, there is no end in sight. The digitization of all areas of work and life are certain to provide a fresh supply. Conventional methods and tools can no longer handle these volumes adequately, not to mention with the necessary speed. In-memory technology, such as that which we market under the Terracotta brand, alleviates this situation. It enables efficient

management of large and, above all, unstructured data and direct access to data stored in the main memory (cache). That makes data access up to 1,000 times faster than with databases. Organizations using this technology get information faster, which can work to their advantage. For example, mobile telecommunications companies can send customers their current charges in real time. Or credit card companies can inform a corporate customer within seconds of a transaction how high the risk of fraud is.

CLOUD

The number of organizations that run their own computing centers is shrinking. Instead they are moving their internal data and applications to external providers. They get their IT from an electrical outlet over the Internet. Or, as we say, from the cloud. The advantage: They pay only for actual consumption—Software as a Service. This gives them enormous flexibility. Software AG's products and solutions are designed to support the interplay of applications in an organization's local infrastructure and applications stored in the cloud.

SPRINGER_BUSINESS CONTROL WITH PROCESS KPIs

CRYSTAL-CLEAR TRANSPARENCY WITH ON-DEMAND KPIs. AT SPRINGER PUBLISHING HOUSE, DIRECT ACCESS TO SAP DATA IS REPLACING CONVENTIONAL EXCEL SPREADSHEETS.

A monitoring solution based on ARIS enables the publisher to keep track of its sales processes at all times including outsourced warehouse operations and print-on-demand machines. It also offers the option to conduct performance evaluations. A chance for higher quality.

LOGISTICS_ FASTER REACTIONS TO CUSTOMER NEEDS

A MULTINATIONAL LOGISTICS COMPANY LINKS ITS BUSINESS UNITS' IT SYSTEMS THROUGH A COMMON PROCESS PLATFORM.

Software AG's total integration solutions play a key role in process automation by enabling transparent and flexible coordination of new and existing processes.

SOCIAL COLLABORATION

Sharing knowledge, giving recommendations, collaborating on ideas and moving decisions forward—an ever growing number of people in the private domain use social networks for these activities. Companies as well have recognized that there are a host of advantages to promoting interactive collaboration and pooling knowledge among employees. With the help of IT, specialists from different departments—R&D, marketing, sales and customer service—can all be involved in the enhancement of a product. This improves quality and speeds up control and approval processes. The company saves time and money thereby strengthening its competitiveness. The fact that Software AG's products have mastered this is illustrated not only by customer projects but also by the ARIS Community. With more than 100,000 members, it is the largest collaboration network for business process management in the world. Individuals, companies and academic institutions engage in expert-level discussions and collaboration on specialist subjects.

CHALLENGE REFRESHING PRODUCTIVITY BOOST

COCA COLA ENTERPRISES (CCE) SUCCESSFULLY SEPARATED ITS ENTIRE TECHNOLOGY BASE WITHIN SIX MONTHS FOLLOWING A MAJOR M&A TRANSACTION.

The soft drink bottler created an entirely new data center infrastructure, completing a full network swing of more than 120 physical sites, migrating more than 1,100 applications and more than 10,000 cloud-based enterprise e-mail accounts. Thanks to Software AG Technology CCE met the challenge with minimal interruption to normal business.

Software AG Suite
Powering the Digital Enterprise.

MORE THAN 1,100 APPLICATIONS

MIGRATION

STRATEGIC CHALLENGES

REALIGNMENT OF BUSINESS MODELS AND ORGANIZATIONAL STRUCTURES

Time and time again organizations are confronted with having to rethink their business models and processes in order to align them with key market and technology trends. Software AG does not make any exceptions here. 2012 was a year of transformation for us. We positioned our products, services and organization in a way that better prepares us for the future. We consolidated traditional areas of business and reinforced new areas of growth with targeted investments.

In sync with the times with new products

We have mastered the technologies that will revolutionize the business world. But innovation cycles in the IT sector are short. So we are constantly working to stay abreast of current trends and set new standards. For this reason we again invested extensively in research and development in the past fiscal year. As a result we were able to unveil the new version 9.0 of the ARIS and webMethods software products in mid-October. They will be available to the general public in 2013. They represent two important product innovations that address the technological megatrends, mobile, big data, social collaboration and cloud. Our ProcessWorld customer event provided confirmation that we are right on track. More than 700 IT professionals from 30 countries attended.

Sales and marketing initiative in high-growth U.S. market

We began stepping up our marketing and sales activities with a regional focus on North America in the past fiscal year. We put a new person in charge of this IT market, the biggest in the world, and appointed him as a member to the Group Executive Board in 2012. This body consists of the members of the Management Board as well as divisional executive directors representing the operational areas of the Company. We expanded our sales network in North America primarily in order to boost our process and integration software business there. One measure we took was the creation of the Federal Unit—a team dedicated to business with the public sector. As a non-American company, this increases our chances when bidding on public contracts from the U.S. government and signing large deals with new customers in the public sector. Our expanded presence in the region is also an important factor. We not only moved our Chief Marketing Officer to Silicon Valley but also part of our Mergers and Acquisitions team. The region south of San Francisco, where the headquarters of our subsidiary, Terracotta, are located, is widely known as the leading hub of innovation for the entire IT sector. This allows us to identify and exploit marketing opportunities early, connect with young startups and initiate possible acquisitions.

Portfolio expansion through acquisitions

We reinforce our position as technology leader through targeted acquisitions of innovative IT companies. We expanded our portfolio in 2012 with the acquisition of U.K.-based technology provider my-Channels. Its universal messaging software enables real-time access to data from any place, via any transmission channel and with any device. my-Channels is thus a key stepping stone in Software AG's path to enhancing and expanding its technology for in-memory management of big data. Software AG entered this market in 2011 when it acquired California-based Terracotta. With expected medium-term revenue growth between 50 and 100 percent annually, it is considered to be a strategic future market.

Partnerships expanded

Global partner management is a component of our growth strategy. Our global network consists of system integrators, service providers and, in the future, OEMs. It enables us to offer customers not only comprehensive consulting, but also complete Software AG platform solutions. We are able to deliver our broad service spectrum anywhere in the world from a local provider and accelerate innovation. The expansion of our portfolio to an enterprise digital platform has made having a large, innovative partner ecosystem more important than ever.

Consulting realigned

Our priority for IDS Scheer Consulting was to continue the realignment and lay the foundation for profitability. This included exiting unprofitable markets such as the SAP consulting business in Russia and China. We sold our North American SAP services business at the beginning of 2013. We defined process consulting for SAP solutions in German-speaking regions, in particular, as a core market for the future.

Boost to operational performance

We created a Global Operations unit in order to increase Software AG's operational performance. It ensures that our resources and processes are utilized globally and efficiently. It includes, for instance, a global unit for maintenance and support, which promotes customer proximity, customer retention and profitability.

CHANCE FASTER REACTION TIMES

THE RAPIDLY GROWING CUSTOMER SERVICE DEPARTMENT AT FUJITSU TECHNOLOGY SOLUTIONS CAN NOW CONNECT TO NEW CUSTOMERS 30 PERCENT MORE EFFICIENTLY. THIS IS A MAJOR MILESTONE IN ACHIEVING PREMIUM CUSTOMER SERVICE.

Software AG's webMethods technology enables Fujitsu to meet the needs of its customers faster. The platform addresses all aspects of b2b such as service, sales and suppliers. It simplifies processes and saves time and money. More than 300 partners and 17 different systems are now interconnected. Currently a total of 7 million documents are managed each month.

Software AG Suite
Powering the Digital Enterprise.

30%
LESS EXPENSE

ON TRACK TO GROWTH

THREE PROMISING BUSINESS LINES

Technological progress goes hand in hand with changes in user behavior and in the working world. This offers many chances—both for our customers and for Software AG. Chances that pay off if you recognize them and how to take advantage of them. Our strategy reflects this. It is aimed at sustainable profitable growth and, with that, increased enterprise value. It also includes organic growth. Two of the world's three biggest companies currently trust at least one of our products. We are strengthening our technology leadership and expanding our customer reach through targeted acquisitions.

Business Process Excellence (BPE): our growth engine

Our Business Process Excellence (BPE) business line fuels growth for future business. With these software products and services, organizations can employ data to analyze, develop, control and optimize their business processes in an automated way. This business currently generates more than half of Software AG's product revenue—54 percent and rising. We want it to account for 80 percent of revenue and reach one billion euros in product revenue by 2018. With 10 percent of the market, Software AG is the world's fourth-largest vendor in this segment.

The webMethods (integration software) and ARIS (process software) product families are the key components of this segment. But the Terracotta products, the subsidiary acquired in 2011, are its strongest growth-driving factors. They employ in-memory technology, which enables efficient management of extremely large and unstructured amounts of data (big data)—a requirement that is becoming indispensable in light of the growing flood of data from all different sources. We assume that this technology alone can maintain revenue growth between 50 and 100 percent annually in the medium term. It is a market of tomorrow in which Software AG is ideally positioned today. Our early entrance into this high-opportunity market will ensure long-term success for our Company.

Enterprise Transaction Systems (ETS): robust and profitable

We have played an important role in the IT landscapes of large companies and public agencies around the world for many years with our Enterprise Transaction Systems (ETS), or data management. These are the roots of our Company. Many customers that began using our high-performance ADABAS database four decades ago still use our software today. The Natural development environment is a software that enables new programs to be written and existing ones to be modified. Natural is the basis for hundreds of thousands of software applications that form the technological backbone of these organizations' core processes. Rather than starting from scratch, many of our customers choose to invest in modernizing their tried-and-tested applications and opening them to new platforms and technologies like the Internet. The database management, application development and application modernization business is essentially stable with strong profit margins. These are earnings that allow us to invest in new and innovative market segments as well as make bold decisions for the future. We anticipate a moderate yet steady one-digit decline in annual revenue in the future. The constant decline is due to the saturation of the database market. Because there are practically no new customers for Software AG in this area, the license business comes primarily from existing customers. We will reduce costs further in order to maintain the high profit margin in this business line.

IDS Scheer Consulting (IDSC): opportunities through focus

Consulting services are often sold as part of projects in both the BPE as well as ETS segments. We also offer consulting services through our IDS Scheer Consulting (IDSC) line, which is a traditional project service business with a focus on the optimization of IT-based business processes. Our core competence is process consulting and integration of SAP solutions into the IT landscapes of our customers. As of the first quarter of 2013 the consulting services for all business lines will be pooled from an operational standpoint and reported on as a new segment called Consulting and Services. As a product-independent, vendor-neutral consulting partner, we aim to provide organizations with comprehensive support for their transformation projects.

Our consultants enter the picture at the very latest when an existing IT landscape has gotten too big to control and the cost of maintaining the complex IT structures has gotten too high. This is when modernization is called for: IT systems must be harmonized and enhanced. The goal is to design IT infrastructures that are so flexible that they can be adapted at any time to reflect the changing business needs of our customers. As a technology pioneer with industry expertise, we know our customers' processes and are the right choice when it comes to guiding and propelling the transformation to a digital enterprise.

SOFTWARE AG SHARE

DAX BUCKS THE TREND IN A YEAR DOMINATED BY THE EURO CRISIS

The German stock market defied all the risks in 2012 and achieved healthy growth. The DAX enjoyed its strongest year since 2003 with an increase of more than 29 percent. The index slumped to 6,000 points mid-year as a result of investors' concerns about the future of the euro, thereby reversing the gains it had made since the beginning of the year. However, a lasting turnaround was triggered by the European Central Bank's (ECB) clear indication of its commitment to the eurozone and, shortly thereafter, by the introduction of the European Stability Mechanism (ESM). Sizable growth followed. The MDAX—Germany's index of medium-sized companies — soared 34 percent; the TecDAX technology barometer jumped 21 percent; and small-cap German shares as measured by the SDAX surged 19 percent.

European shares listed in the Euro Stoxx 50 index gained 13.8 percent in 2012, putting them roughly on a level pegging with the 13-percent increase achieved by the S&P 500 in the U.S. Share prices therefore suffered next to no negative impact whatsoever from concerns about the euro debt crisis, a less-than-rosy earnings outlook for some American companies in the second half of the year, and worries about the effects of potential tax hikes in the U.S. Most sectors in the U.S. benefited from this positive stock-market trend, with technology shares in particular appreciating almost entirely across the board. The NASDAQ-100, which lists the shares of 100 non-financial companies with the highest market capitalization weightings in America and abroad, followed suit with 14.5 percent growth. The Dow Jones, which tracks the 30 largest U.S. companies, appreciated by 7.2 percent in 2012.

SHARE ON A STEADY UPWARD TREND IN THE SECOND HALF OF 2012

Software AG's shares had an eventful year on the stock market in 2012. The share price closed the first day of trading in fiscal 2012 at €29.38 in Xetra, but came under pressure in the course of the subsequent days. Our preliminary fourth-quarter results did not meet the high capital market expectations for license performance due to structural and economic factors. Because license revenue development is a critical growth indicator for software companies in particular, it is subject to special scrutiny by investors. Consequently, following the publication of Q4 results on January 10, 2012, the share price closed at €24.25 in the Xetra electronic trading system.

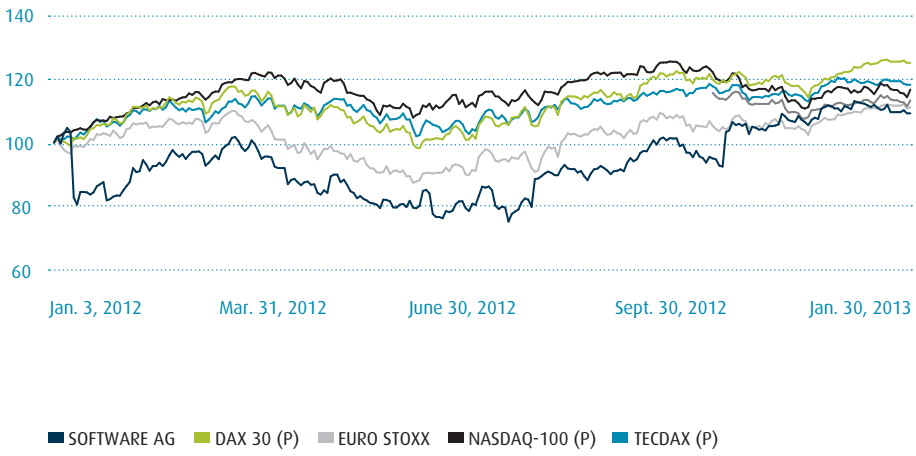
Development of the share price was characterized by volatility in the first half of 2012. The stock was unable to draw any lasting stabilizing strength from factors such as the decision of the Annual Shareholders' Meeting to increase the dividend to €0.46 per share, the acquisition of the U.K. technology provider my-Channels or Q1 2012 results, which met capital market expectations. Software AG's share price fluctuated heavily and hit its low for the year at €22.03 on July 12, 2012.

The substantial increase in licenses, which we reported with the publication of our half-year results on July 24, 2012, confirmed the sustainability of our business model and was rewarded by the capital market. Our share price was clearly on an upward trend by the end of the year, boosted, among other things, by the Company's results for the third quarter of 2012. Here Software AG outperformed the market as a whole thanks to the innovative new product portfolio. Software AG's stock hit a high for the year at €33.24 on December 6, 2012.

Software AG's share ended the trading year with an Xetra closing price of €32.11 on December 28, 2012. Based on the 86,917,445 shares in circulation at the end of the year, this equated to market capitalization of €2.79 billion. The stock's average daily trading volume was around 266,000 shares.

Software AG stood its ground in the top five in Deutsche Börse AG's TecDAX ranking and was once again rated second, as in the previous year. The key criteria for this ranking are market capitalization and trading volume.

SHARE PRICE DEVELOPMENT (INDEXED)



FURTHER INCREASE IN SHARE CAPITAL

The development of the Software AG share price made it possible for employees and management to exercise their stock options in the reporting period. The volume of outstanding shares therefore rose by 89,600 to 86,917,445.

KEY SHARE DATA

	2012	2011	2010
Closing price in €	32.11	28.6	36.6*
Year high in €	33.24	43.7	36.6*
Year low in €	22.03	22.3	24.9*
Total number of shares at year end	86,917,445	86,827,845	85,330,806*
Market capitalization at year end in € millions	2,790.9	2,483.3	3,123.1
Free float in %	71.2	71.2	70.7

Source: XETRA closing prices
*Adjusted for 3-for-1 stock split on May 13, 2011

SOFTWARE AG EMPHAZISES DIVIDEND CONTINUITY

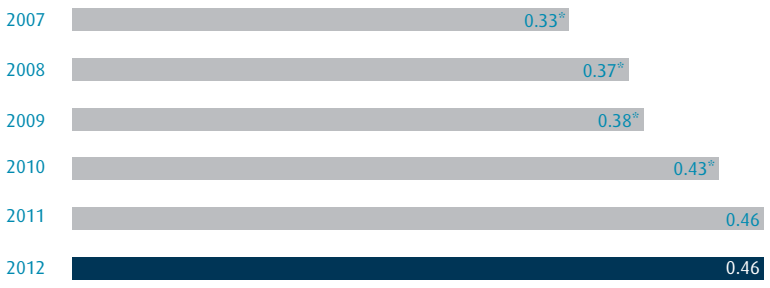
In accordance with a resolution from the Annual Shareholders' Meeting on May 4, 2012, Software AG paid out the record sum of €39.9 million in dividends for the 2011 fiscal year which equated to a price of €0.46 per dividend-bearing share. The dividend has been sustainably increased over the past years.

Software AG also intends to uphold its earnings and liquidity-based dividend policy. Despite the focus of its investment program on long-term growth, which will negatively affect profits in fiscal 2012, the Management and Supervisory Boards have proposed that a dividend of €0.46 per dividend-bearing share once again be paid for the 2012 fiscal year. With the volume of shares outstanding, this would reflect an increased payout ratio of 24 percent of the 2012 consolidated net income. In addition to the proposed dividend, the Management and Supervisory Boards also decided to initiate a share buyback program with a total volume of up to €180 million in February of this year. Treasury shares, which are held by the Company itself and do not entitle the bearer

to dividends, will result in a reduced payout sum. The proposed dividend of €0.46 will not be affected by the program.

Dividend Development Since 2007

in € per share



*Adjusted for 3-for-1 stock split, rounded

SHAREHOLDER STRUCTURE STILL SOLID

Software AG's primary shareholder continues to be the Software AG Foundation, which owns around 29 percent of the voting capital. The Software AG Foundation is an independent, non-profit organization under civil law and is based in Darmstadt, Germany. It provides non-profit associations, businesses and initiatives with funds for defined projects in areas such as socialization and education, children and youth and disabled welfare.

In addition, some 48 percent of our outstanding shares are known to be held by institutional investors. The remaining stock is spread across private and unidentifiable institutional investors around the world.

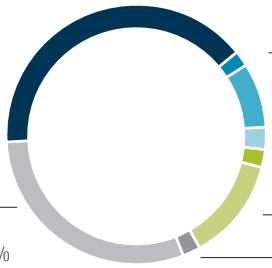
TOP 5 INVESTORS

	in %
Software AG Foundation	28.74
Deka Investment GmbH	5.03
Fidelity Manangement & Research	4.96
Alken Asset Management LLP	4.75
Templeton Investment Counsel LLC	3.00

Source: ThomsonOne, December 2012, Software AG, February 2013

In terms of the geographical distribution of the stock, approximately 40 percent of Software AG's identified shares are held in Germany, followed by around 13 percent in the U.S. and some 8 percent in the U.K. There have been gratifying year-on-year increases in the shareholdings in the U.S. and in more minor financial hubs such as Scandinavia and the Benelux countries.

SHAREHOLDER STRUCTURE



Source: ThomsonOne, December 2012

Pursuant to the voting rights disclosures required by stock corporation law, in addition to the Software AG Foundation, the following shareholders held more than 3 percent of Software AG shares as of the end of 2012: Fidelity (FMR LLC, Fidelity Low-Priced Fund), Alken Asset Management, Deka Investment GmbH, DWS Investment GmbH and Templeton Investment Counsel LLC.

BROAD MARKET COVERAGE THROUGH INTERNATIONAL ANALYST FIRMS

Analysts act as financial intermediaries, providing all investor groups with key information upon which to base their investment decisions. They also serve as a source of information for the financial media. The Company therefore continues to foster close and ongoing interaction with this target group. More than 20 investment companies reported on Software AG at the end of 2012, and the average expected target share price was €33.

The announcement of Software AG's medium-term corporate strategy on January 29, 2013 resulted in a revaluation, and thus a reduction, of the share price. The Company announced that it would continue to invest heavily in BPE up to the year 2018 in order to ensure the sustainability of the business line's dynamic growth. Analysts' models were amended on the basis of this strategic measure.

At the end of February 2013, the average target share price among analysts was €32. Their appraisals were very balanced, with nine recommendations to buy, nine neutral recommendations and six recommendations to sell.

SHARE BUYBACK PROGRAM LAUNCHED

As the announcement of the growth strategy caused an unexpectedly strong share price reaction, the Management Board elected to buy back treasury stock. Moreover, it offered the most attractive returns on freely disposable cash due to prevailing interest rates at the time, and the financial markets offered enough liquidity for organic and inorganic growth. On February 7, 2013, the decision was made to buy back treasury shares worth up to €180 million. At the end of February 2013, 884,000 shares with a volume of €26.4 million had already been repurchased.

FIRST-RATE INVESTOR RELATIONS ACTIVITIES RECOGNIZED

Software AG's capital market communications were rewarded in the last fiscal year as in the past. The Company again ranked first in the TecDAX category of the Thomson Extel Investor Relations Award. Thomson Extel surveys fund managers and analysts from around the world and assesses corporate communications and the performance of individual employees within investor relations departments. Here, too, Software AG succeeded in achieving first place.

Software AG's website was rated best in the TecDAX by NetFederation in the year under review. In addition, the U.S. organization IR Global Rankings conducted a global analysis of companies' investor relations websites, in which Software AG secured itself an impressive third place in the technology sector.

Additionally, Software AG's Investor Relations team commissions an external company to survey analysts and institutional shareholders using a specific list of questions on an annual basis. The aim is to directly apply the findings to the implementation of measures that will maintain and improve the high quality of the Company's investor relations. In the most recent study conducted in September 2012, Investor Relations succeeded in further improving its 2011 rating of 2.28 with a new rating of 1.99 (on a scale ranging from one to six).

We foster close relations with our private investors first and foremost by means of the availability of in-depth information on our website, but through phone calls and emails as well, if requested. We also like to use our Annual Shareholders' Meeting as a means of communication and as a way of gaging shareholder sentiment.

In addition to events such as analyst and investor conferences and the Annual Shareholders' Meeting, other important sources of information for interested capital market participants are teleconferences and the Internet.

INTENSIVE INVESTOR RELATIONS CONTINUE

In an effort to further enhance the Company's profile as an attractive investment, Software AG's investor relations activities continued to focus on optimizing how the Company addressed (potential) investors.

In this vein, Software AG attended 17 conferences in Germany, the U.K., France, Switzerland and the USA, some spanning several days. There were also 19 roadshow days in European and North American financial hubs. Communication with investors was further bolstered by means of phone calls and in meetings at Software AG headquarters. In all, we held more than 450 talks with investors, during which we discussed our corporate strategy and answered investors' questions.

At our annual Analyst Day in Darmstadt, more than 40 investors and analysts took the opportunity to find out about our products and innovations and how our corporate strategy related to them.

Other platforms for exchange between investors, Software AG management and Software AG customers included CeBIT in Hanover, the Process World customer events in Berlin, Germany and Orlando, Florida and a product seminar in Paris, France.

At all times, Software AG endeavors to make sure its communication with all capital market participants is relevant, up to date, transparent and comprehensive. Our standard remains: All investors have equal access to the same level of comprehensive information.

KEY DATA

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

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

INDICES

- CDAX Performance Index
- HDAX Performance Index
- TECDAX Performance Index
- Technology All Share Performance Index
- DAXsector Software
- DAXsubsector Software
- Midcap Market Performance Index
- Stoxx Europe 600
- Prime All Share Performance Index
- DAXsupersector Information Technology
- DAXsector All Software
- DAXsubsector All Software
- DAX International 100

CORPORATE GOVERNANCE

STATEMENT ON CORPORATE GOVERNANCE/ CORPORATE GOVERNANCE REPORT

ALL INFORMATION CONTAINED IN THIS STATEMENT ON CORPORATE GOVERNANCE REFLECTS THE SITUATION AS OF FEBRUARY 12, 2013.

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 our divisions guide themselves by it. Responsible, qualified and transparent corporate governance focuses on a company's long-term success. It includes both compliance with the law and total adherence to generally accepted standards and recommendations. It focuses on values such as sustainability, transparency and value orientation.

Management Board and Supervisory Board

THE MANAGEMENT BOARD

The Management Board leads the Company with the goal of sustainable value creation. The members of the Board share the responsibility of managing 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 Chairman/Chief Executive Officer. The Management Board of Software AG currently consists of three members: Karl-Heinz Streibich, Arnd Zinnhardt and Dr. Wolfram Jost.

KARL-HEINZ STREIBICH

Born in 1952, degree in communications engineering, Chairman of the Management Board/ Chief Executive Officer of Software AG since September 2003. His term is in effect until 2016. In addition to chairing the Group Executive Board, his areas of corporate responsibility include: Corporate Communications, Global Legal, Global Audit, Processes & Quality, Global Partner Management, Corporate Office and Top Management Development.

He is a member of the supervisory board of Dürr AG and, since January 1, 2013, of Deutsche Messe AG. He works on a volunteer basis on the steering committee of the German BITKOM IT association and on the board of the Frankfurt Rhein Main e.V.regional business initiative. He is also co-chairman of the German National IT Summit's working group 3, Innovative State IT Offerings. Mr. Streibich is co-founder of the German Software Cluster and member of the Council of the Economy and Future of the Hessian state government.

ARND ZINNHARDT

Born in 1962, financial auditor and tax advisor, Chief Financial Officer and member of the Software AG Management Board since 2002. In this function he is responsible for Finance, Controlling, Human Resources, Taxes, Treasury, Mergers & Acquisitions, Business Operations, Investor Relations and Global Procurement. He additionally assumed the position of Labor Director of Software AG on December 14, 2010. His term is in effect until 2016.

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 Research and Development. His term is in effect until 2018.

GROUP EXECUTIVE BOARD

The Group Executive Board is an extension of management and enables the Management Board to implement the corporate strategy throughout the entire Company by direct or collaborative channels. The following people left the extended management team in fiscal year 2012: Mr. Jonathan Smith on April 11, 2012, Mr. Paul Orme-Smith at the time of his resignation as President, Americas on June 30, 2012 and Mr. Kamyar Niroumand on July 5, 2012. The following individuals joined the Company: Mr. Tönnies-Hilmar von Donop and Mr. John (Jay) Johnson on July 1, 2012 and Mr. Robin Gilthorpe on September 1, 2012. As of the end of the year under review, the Group Executive Board consisted of nine people including the members of the Management Board and Tönnies-Hilmar von Donop, Mark Edwards, Robin Gilthorpe, John (Jay) Johnson, Darren Roos and Ivo Totev.

For more details on the members of the Group Executive Board and their specific areas of responsibility, please visit www.softwareag.com/corporate/company/people/geb/

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

In fiscal year 2012, the following were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (director of Asset Management at Software AG Foundation), Hermann Requardt (member of the management board of Siemens AG, CEO of Healthcare, director of Corporate Technology), Anke Schäferkordt (member of the management board of Bertelsmann AG; CEO, RTL Group) and Alf Henryk Wulf (chairman of the board of Alstom Deutschland AG).

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

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

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

In the past fiscal year, the Committee for Compensation and Succession Issues met five times, the Audit Committee twice and the Strategy Committee twice. The Nominating Committee did not convene in 2012. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

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

For more detailed information on the Supervisory Board's work and resolutions, please refer to the most recent Report of the Supervisory Board, which can be found on page 58 et seq. of this Annual Report. For more detailed information on the members of the Supervisory Board and their committee membership, please visit www.softwareag.com/corporate/company/people/svb/

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

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

Software AG's Supervisory Board determined the number of independent Supervisory Board members as defined in point 5.4.2 of the German Corporate Governance Code dated May 15, 2012 in its meeting on February 7, 2013. As a result, the Supervisory Board of Software AG will have six independent members. This was the case at all times during fiscal year 2012. With respect to this matter, for the period from June 15, 2012 to December 31, 2012, Software AG declared a deviation from point 5.4.1., paragraph 2, sentence 1, 3rd sub-sentence of the German Corporate Governance Code in its declaration of compliance for fiscal year 2012 pursuant to Section 161 of the German Stock Corporation Act (AktG).

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 the 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, about the ratification of the actions of the Management and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation, and measures that change the Company's capital. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business

developments, financial performance, and assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 4, 2012 in Darmstadt. Approximately 67.93 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 3, 2013 in Darmstadt. As in past years, the invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda are published on the Software AG website at
www.softwareag.com/corporate/inv_rel/annualgenmeeting/

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

CODE OF BUSINESS CONDUCT AND ETHICS

Software AG established a global code of business conduct and ethics in fiscal year 2011. It is availableon Software AG's website at
www.softwareag.com/corporate/inv_rel/csr/code_of_conduct/

The code describes Company-wide ethical standards with attention to specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. The Compliance Board intervenes to make decisions in questionable cases. The board convened to discuss four cases in 2012. In total, Software AG employees addressed the Compliance Board with 27 inquiries in 2012. The Compliance Board consisted of Ms. Christine Schwab (General Counsel), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Mr. Hanjörg Beger (Senior Vice President, Human Resources) in the year under review.

FINANCIAL REPORTING STANDARDS AND AUDITING

The 2012 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg, as Company auditor. BDO also advises the Company on individual tax matters in connection with tax returns and tax audits. No business, financial, personal or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO, its corporate bodies, or audit managers and Software AG or the members of its corporate bodies.

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

PRIMARY AUDITORS' FEES AND SERVICES

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €822 thousand (2011: €729 thousand). Of this amount, €714 thousand (2011: €639 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €7 thousand (2011: €17 thousand) to tax advisory services, €76 thousand (2011: €72 thousand) to other testation services, and €25 thousand (2011: €1 thousand) to other services (other audit services and audit-related advice).

OPEN AND TRANSPARENT COMMUNICATION

We communicate openly, transparently, comprehensively and in a timely manner with all market participants. In 2012 we further intensified communication with the capital market through participation in numerous investor conferences, road shows and other events for the capital market.

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. Our communications guidelines define how we handle corporate communication. They are published in the Investor Relations

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

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

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

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

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. We received a good grade (1.99 on a scale from one to six, with one being the best) in the most recent survey, which was conducted in September 2012.

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

Changing Voting Shares (Pursuant to Section 26 (1) of the Securities Trading Act (WpHG))

Pursuant to the German Law to Implement Transparency Guidelines (TUG), the threshold for issuing a mandatory disclosure concerning shareholdings in listed companies was reduced to three percent of the voting rights, effective January 20, 2007. In accordance with legislation to improve investor protection and functionality of the capital market (Investor Protection and Functionality Improvement Act—AnlSVG) from April 5, 2011, paragraphs 4d and 4e were added to Section 41 of the Securities Trading Act (WpHG). This required holders of financial and other instruments as defined by Section 25a of the WpHG, which, due to their terms, enabled the holder to acquire five percent or more of shares associated with voting shares that had already been issued by an issuer originating in the Federal Republic of Germany, to submit a stock declaration as of February 1, 2012. Shares had to be added together pursuant to Sections 21, 22 and 25 of the WpHG. Moreover, Section 25a was also added to the WpHG, which requires ongoing disclosure when further financial and other instruments are being held. As a result, identification of large shareholders and holders of further financial and other instruments has improved. For further information on Software AG's shareholder structure, please refer to the section on Software AG Stock.

Disclosures on changes to voting shares in fiscal 2012 pursuant to Section 26 (1) of the Securities Trading Act (WpHG) are published on the Software AG website at: www.softwareag.com/publications

DIRECTORS' DEALINGS (PURSUANT TO SECTION 15A OF WPHG)

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

No reportable transactions were announced in the 2012 calendar year.

STOCK OPTION PLANS

For details on our stock option plans and similar equity-based incentive programs, please refer to the complete Remuneration Report in the Management Report on page 127.

SHAREHOLDINGS OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Members of the Supervisory Board:	Number of shares
Karl-Heinz Streibich	5,250
Arnd Zinnhardt	25,353
Dr. Wolfram Jost	0
Total	**30,603**

SUPERVISORY BOARD

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

Members of the Supervisory Board:	Number of shares
Dr. Ing. Andreas Bereczky	0
Willi Berchtold	0
Heinz Otto Geidt	1,600
Hermann Requardt	0
Anke Schäferkordt	0
Alf Henryk Wulf	400
Monika Neumann	708
Peter Gallner	0
Dietlind Hartenstein	0
Karl Wagner	183
Roland Schley	0
Martin Sperber-Tertsunen	0
Total	**2,891**

Compliance with the German Corporate Governance Code

2012 DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

On February 7, 2013, the Management and Supervisory Boards of Software AG submitted a declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The Company followed all recommendations of the government commission's German Corporate Governance Code dated May 26, 2010 in the period from January 1, 2012 to June 14, 2012. In the period from June 15, 2012 to December 31, 2012, it followed the recommendations of the government commission's German Corporate Governance Code dated May 15, 2012 with the following exception:

Software AG's Supervisory Board determined the number of independent members to be six as defined in item 5.4.2 of the German Corporate Governance Code dated May 15, 2012 in its meeting on February 7, 2013. The Supervisory Board also determined that it had and has at least six independent members as defined by the aforementioned item of the German Corporate Governance Code at all times during the fiscal year and at the time the decision was made.

The Management Board and Supervisory Board intend to fully comply with the Code (dated May 15, 2012) in the future.

Software AG implements the recommendations of the German Corporate Governance Code. Further details can be found under Investor Relations at www.softwareag.com. The current version of the German Corporate Governance Code published by the Commission of the German Corporate Governance Code can be found in English at www.corporate-governance-code.de.

DR. ING. ANDREAS BERECZKY

Chairman of the Supervisory Board

Dear Ladies and Gentlemen, Dear Shareholders,

IN FISCAL YEAR 2012 SOFTWARE AG CONTINUED TO FOCUS ON BUSINESS PROCESS EXCELLENCE (BPE) ACTIVITIES AND UNDERTOOK A STRATEGIC RE-ALIGNMENT OF THE COMPANY.

The latter is of particular importance as it reflects the Company's priority to grow in future-oriented technology markets (big data and cloud). This involved the expansion of the sales force and adjustments to the incentive system for members of the Management Board and employees in key positions. The Supervisory Board was closely involved with the Management Board's and Group Executive Board's definition of the strategy. We are positive that a consistent implementation of the realignment will secure the Company's future and increase its market value accordingly.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In fiscal year 2012 the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Management Board in running the Company and supervised its management. In doing so, the Supervisory Board was directly involved in all key decisions about Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly about all important aspects of strategy, 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 is based on close, trusting cooperation and an open, constructive dialog.

These deliberations addressed the Company's strategic direction and measures for the implementation of strategies and risk management. The strategic realignment was discussed intensively by the relevant committees (Strategy Committee and Committee for Compensation and Succession Issues). Based on recommendations by the committees mentioned and following its own intensive discussion, the Supervisory Board unanimously approved the measures for implementing the growth strategy.

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

SUPERVISORY BOARD MEETINGS

The Supervisory Board held seven ordinary meetings during the year under review. At least one session took place each quarter. On one occasion 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. On two occasions the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to cast a vote in writing by means of circulation procedure. No member of the Supervisory Board attended fewer than half the Supervisory Board meetings.

THE FOLLOWING TABLE ILLUSTRATES THE ATTENDANCE OF THE MEMBERS AT SUPERVISORY BOARD MEETINGS AND ITS COMMITTEES HELD IN 2012:

Supervisory Board 2012	1/27	3/23	5/4	5/4	7/25	10/26	12/14
Bereczky	x	x	x	x	x	x	x
Berchtold	x	x	x	x	x	x	x
Gallner	o	x	x	x	x	x	x
Geidt	x	x	x	x	x	x	x
Hartenstein	x	x	x	x	x	x	x
Neumann	x	x	x	x	x	x	x
Requardt	X	o*	o	x	o	x	x
Schäferkordt	X	o*	X	x	x	o*	x
Schley	x	x	X	x	x	x	x
Sperber-Tertsunen	x	x	X	x	x	x	x
Wagner	x	x	x	x	x	x	x
Wulf	x	x	x	x	x	x	x

o*: Ballot cast in writing

At the first meeting of the year on January 27, 2012 the Supervisory Board discussed the Management Board's remuneration system and defined goals for fiscal year 2012. Furthermore, the Chairman of the Supervisory Board presented the results of the efficiency audit, which was discussed in depth. In addition, the Management Board's responsibility assignments were updated.

At the accounts meeting on March 23, 2012, in the presence of financial auditors, the 2011 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 approved the report of the Supervisory Board for the Annual Shareholders' Meeting and the proposals for the Annual Shareholders' Meeting agenda. The Supervisory Board approved an amendment to the existing control and profit transfer agreements between Software AG and a) SAG Deutschland GmbH, b) SAG Consulting GmbH and c) IDS Scheer Consulting GmbH. On the recommendation of the Strategy Committee, the Supervisory Board approved the acquisition of my-Channels (PCB Systems Ltd.). With regard to Management Board issues, the Supervisory Board determined the Management Board members' achieved variable remuneration for fiscal 2011 after the financial auditors' verification of the accuracy of its calculations. Moreover, the Supervisory Board evaluated the list of transactions requiring approval as it is included in the Rules of Procedure of the Management Board.

Two meetings took place on May 4, 2012, the day of the Annual Shareholders' Meeting. In the first meeting prior to the Annual Shareholders' Meeting, business development in the first quarter, particularly the business situation and growth-generating measures in the USA was the topic at hand. After the Annual Shareholders' Meeting another meeting took place that dealt with future talent recruitment and talent/career management for Software AG employees.

The next meeting took place on July 25, 2012. The focus of the meeting was the presentation of the Management Board's strategic ideas relating to Software AG's positioning, product portfolio and regional development (EMEA and U.S.). Furthermore, the Supervisory Board discussed the introduction of the new Strategic Management System at this meeting.

On August 27, 2012 the Supervisory Board approved the renewal of Dr. Wolfram Jost's appointment to the Management Board for a new five-year term (from August 1, 2013 until July 31, 2018). This decision was made by way of circulation procedure and had been thoroughly prepared in the meeting on July 25, 2012.

In its meeting on October 26, 2012 the Supervisory Board held an intensive discussion on the future strategic focus of Software AG and the resulting impact on the organization. The Supervisory Board dealt primarily with the Global Consulting Services division, the current, short and medium-term planned R&D projects and measures necessary for speeding up regional growth. The Supervisory Board also discussed in depth the required incentive programs for members of the Management Board and employees in key positions.

Following further considerations on adjusting the incentive programs for members of the Management Board and employees in key positions within the Committee for Compensation and Succession Issues, the Supervisory Board decided to amend the designated incentive programs by way of circulation procedure.

At the last meeting of the year on December 14, 2012 the Supervisory Board approved the 2013 budget and was informed of the status of the implementation of staff development programs by the Human Resources department. The Supervisory Board also approved the appointment of Karl-Heinz Streibich to the supervisory board of Deutsche Messe AG, Hannover.

COMMITTEES

To fulfill its duties efficiently in 2012, the Supervisory Board established the Committee for Compensation and Succession Issues, the Audit Committee, the Nominating Committee, the Strategy Committee and, pursuant to Section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairs reported to the plenum about the results of the committee meetings.

The Mediation Committee has the number of members required by law (four) and is constituted based on parity. It was chaired by Andreas Bereczky. The Mediation Committee did not convene in 2012.

The Committee for Compensation and Succession Issues prepares personnel-related decisions made by the Supervisory Board to the extent that they affect the remuneration policy of the members of the Management Board. It has four members and is constituted based on parity. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met five times in fiscal year 2012. On one occasion it took advantage of the option of a teleconference permitted by the Articles of Incorporation. It dealt with personnel issues for the Management Board including the reappointment of Dr. Wolfram Jost, the changed roles of the members of the Management Board as well as the incentive programs for the Management Board and employees in key positions.

THE FOLLOWING SHOWS MEETING ATTENDANCE OF THE MEMBERS OF THE COMMITTEE FOR COMPENSATION AND SUCCESSION ISSUES:

Committee for Compensation and Succession Issues 2012	1/27	3/23	7/25	10/26	11/1
Bereczky	x	x	x	x	x
Neumann	x	x	x	x	x
Hartenstein	x	x	x	x	x
Wulf	x	x	x	x	x

The Audit Committee deals with issues related to monitoring the financial reporting process, half-year and quarterly reports, financial statement audits—particularly the independence of the auditor—as well as the efficacy of risk management. It has six members and is constituted based on parity. The Audit Committee was chaired by Willi Berchtold. The Audit Committee met twice in fiscal year 2012. In a meeting on March 23, 2012, and in the presence of auditors, it dealt with the annual financial statements and the management report, the consolidated financial statements and Group management report, and the Management Board's proposal on the appropriation of profits. The Audit Committee examined the internal controlling and audit system of Software AG on December 14, 2012. Additional matters dealt with at the December meeting were the risk report and the results of the preliminary audit of the U.S. subsidiaries.

THE FOLLOWING SHOWS MEETING ATTENDANCE OF THE MEMBERS OF THE AUDIT COMMITTEE:

Audit Committee 2012	3/23	12/14
Berchtold	x	x
Gallner	x	x
Geidt	x	x
Schäferkordt	o*	x
Schley	x	x
Wagner	x	x

o*:Ballot cast in writing

The Strategy Committee has six members. It is constituted based on parity. This committee mainly deals with the preparation of and success monitoring of strategic partnerships, acquisitions and joint ventures. It was chaired by Andreas Bereczky. The Strategy Committee met twice in 2012.

THE FOLLOWING SHOWS MEETING ATTENDANCE OF THE MEMBERS OF THE STRATEGY COMMITTEE:

Strategy Committee 2012	3/23	10/26
Bereczky	x	x
Schley	x	x
Hartenstein	x	x
Requardt	o*	x
Sperber-Tertsunen	x	x
Wulf	x	x

o*: Ballot cast in writing

The Nominating Committee was chaired by Andreas Bereczky. It did not convene in fiscal year 2012.

ANNUAL AUDIT

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2012.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, examined the financial statements and consolidated financial statements for the year ended December 31, 2012, as well as the management report, and the accounting books and records. The auditors issued an unqualified audit option.

The audit reports were presented to the Supervisory Board, and the head of the audit team explained the results in person to the Audit Committee, the Supervisory Board as a whole, and the Management Board. The Audit Committee and the Supervisory Board thoroughly reviewed the audit reports in their meetings on March 18, 2013. The Supervisory Board concurs with the results of the audit and approves the financial statements and consolidated financial statements. This constitutes formal approval and acceptance of the annual financial statements. We, the Supervisory Board, concur with the recommendation of the Management Board with respect to the appropriation of profits.

CORPORATE GOVERNANCE CODE

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code again in fiscal year 2012. The Supervisory Board and Management Board took the necessary steps to comply with the recommendations of the Code (version dated May 26, 2011 and the revised version dated May 15, 2012) up to the time this report was drafted. At its meeting on February 7, 2012 the Supervisory Board defined the objective that at least six independent Supervisory Board members as defined by item 5.4.2 of the Corporate Governance Code (dated May 15, 2012) must be on the Supervisory Board. At all times during fiscal year 2012 at least six independent members as defined by item 5.4.2 of the German Corporate Governance Code were on the Supervisory Board. Because this objective was not defined until February 7, 2013, the Company has declared a corresponding deviation from the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG).

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2012 (For further information, refer to the Remuneration Report, page 127 et seq. in this Annual Report). The remuneration system for the members of the Management Board did not change in 2012. No conflicts of interest on the part of members of the Supervisory Board arose. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Management Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report (refer to page 46 et seq. in this Annual Report). The declaration of compliance has been made public on the Company's website at www.softwareag.com/corporate/inv_rel/corpgovernance/

CHANGES TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no personnel changes on the Management Board or Supervisory Board of Software AG in 2012.

The Supervisory Board would like to thank the Management Board and all employees for their great dedication and excellent work during fiscal year 2012.

Darmstadt, March 18, 2013

The Supervisory Board

DR. ING. ANDREAS BERECZKY

Chairman

For more information on the members of the Supervisory Board, please refer to the Notes to the Consolidated Financial Statements under Other Disclosures on page 234 et seq. in this Annual Report.

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THE SOFTWARE AG GROUP

The origin of the current Software AG Group goes back more than four decades. The Company was founded on May 30, 1969 and was Europe's first multinational software company. Today it operates in 70 countries and is one of the world's leading software makers. The Software AG Group consists of 95 foreign and domestic subsidiaries and sub-subsidiaries. They are managed centrally by the strategic holding company, Software AG, with headquarters in Darmstadt (Germany).

In 1992 Dr. Peter Schnell, co-founder and long-term CEO of Software AG, established the Software AG Foundation. The Software AG Foundation holds approximately 29 percent of our Company's shares. Software AG has been listed on the Frankfurt stock exchange since April 26, 1999.

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

BUSINESS ACTIVITIES

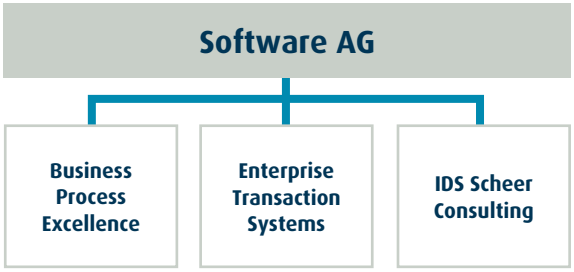
The Software AG Group is a leading provider of process and integration software and guides its customers in their transformation to a Digital Enterprise. We help them design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing business needs.

This flexibility and agility are key for companies to be competitive. It is an ongoing necessity to adjust to IT's short innovation cycles and the advancing digitization of our society. In doing this, organizations build on existing IT landscapes that have evolved gradually over time. At some point these complex IT landscapes can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient and automated support for business processes. This is when transformation becomes unavoidable: IT systems must be harmonized and modernized. It usually isn't just a matter of rebuilding the IT architecture, but rather an extensive overhaul of all processes in the organization. This creates a cycle. New technologies enable business processes to be designed differently and more efficiently. But by the

same token, meeting new requirements associated with how business is done necessitates more modern IT systems. Software AG considers itself to be an engine of this transformation cycle thanks to its products and services.

ORGANIZATION

The Group's business activities are divided into three reporting lines: business process management or Business Process Excellence (BPE), data management or Enterprise Transaction Systems (ETS) and IDS Scheer Consulting (IDSC).



The **Business Process Excellence (BPE)** segment consists of software products and services for completely integrated business process management solutions for organizations in all industries and of all sizes. They gain the ability to employ data to analyze, develop, control and optimize their business processes in an automated way. Our offering covers the entire value-creation chain: from analysis, consulting and planning to development, implementation and even monitoring of processes across the entire organization. The webMethods and ARIS (process and integration software) product families as well as the Terracotta products, a subsidiary which was acquired in 2011, make up the key components of this segment.

The **Enterprise Transaction Systems (ETS)** segment consists of database solutions for mainframes and the development and modernization of mainframe-based IT systems. With this segment we provide our customers with long-term investment protection. Our high-performance ADABAS database and Natural development environment have been playing an important role in the IT landscapes of large companies and government agencies for four decades. We open software applications that form the technological backbone of their core processes to new platforms and technologies such as the Internet.

The **IDS Scheer Consulting (IDSC)** segment comprises our SAP consulting business with a focus on processes and the integration of SAP solutions with the IT landscapes of our customers. They are traditional project services with a focus on the optimization of IT-based business processes.

To date, revenue from all three reporting segments has consisted of:

- Licenses
- Maintenance
- Consulting and services

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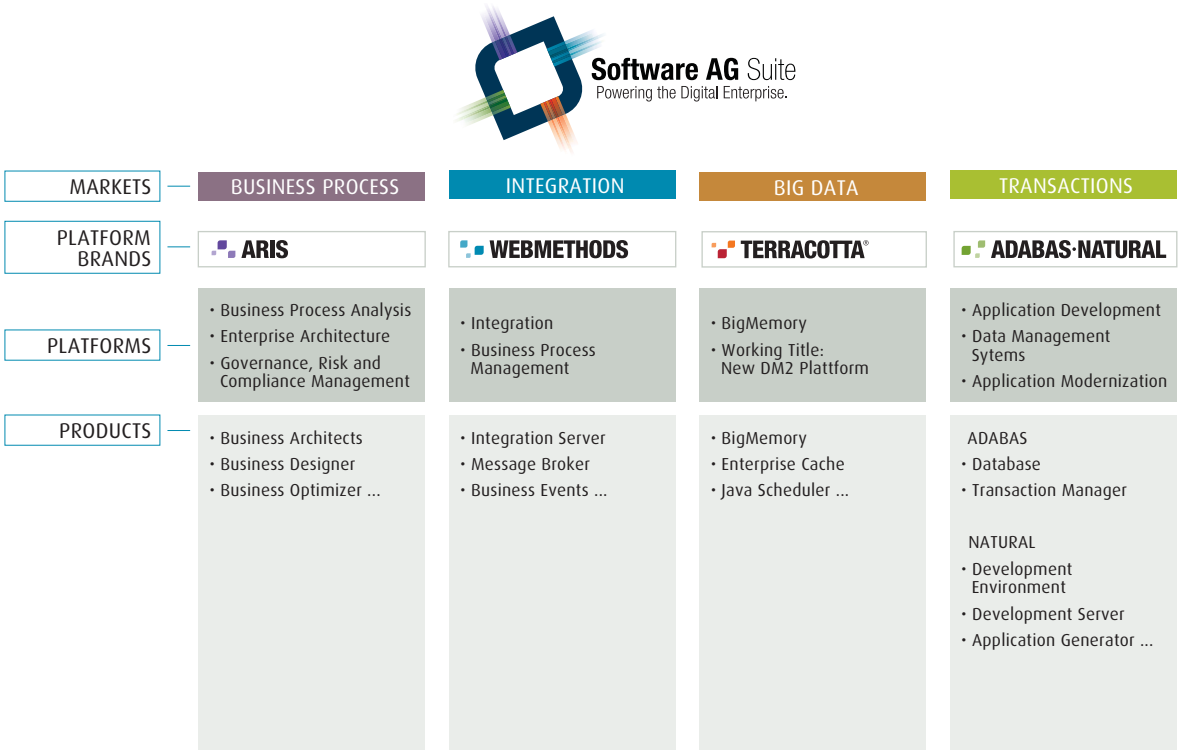
Changed segment reporting as of the first quarter of 2013

Consulting services are offered in all three segments: BPE, ETS and IDSC. In the past year the decision was made to merge the consulting activities of all three reporting segments under common direction. This took effect as of January 1, 2013. This change results in a new reporting structure and thus a new segmentation. As of the first quarter of 2013 consulting services for all business lines will be merged and reported as a new segment called "Consulting." Separating consulting services from the product business—which consists of license and maintenance revenue—will allow us to position ourself more strongly as product-independent, vendor-neutral consulting partner and provide more comprehensive support to organizations in their transformation projects.

Product portfolio

Our product portfolio is based on a technology suite which is a combination of standardized, finely tuned software products that are perfect complements to each other.

OUR BRAND ARCHITECTURE



- **ARIS** started out 20 years ago as a model to describe an enterprise information system. It has evolved into a technological platform for process excellence that enables companies to plan, model and evaluate processes, applications, technologies, data and organizational structures. It offers a central repository that ensures seamless integration of all information. It allows elements for planning, design and development solution scenarios to be reused across an organization. The platform provides all the different process stakeholders with information specifically relevant to them in their daily work. The latest version of the platform was unveiled in Fall 2012. It bundles the four technology trends: cloud, mobile, social collaboration and the analysis of big data. With ARIS, processes can be improved faster. More know-how and expertise from inside an organization can be applied to the design and testing of processes.

- **webMethods** bridges service-oriented architectures (SOA) with process automation /optimization and real-time monitoring and control of applications. With the help of this platform, organizations can use data from their existing systems to develop and operate automated, flexible and efficient business processes. This happens through Web-based programs called Web services. They form an independent integration layer over existing systems. Web services are unique because they can be reused in their entirety or as parts to create new processes quickly. The latest version of the platform was unveiled in Fall 2012.

- **Terracotta** manages enormous amounts of data (big data) using in-memory technology to search data and retrieve results in microseconds. This product family improves the performance and scalability of applications that work with large volumes of data.

- **ADABAS** is the most comprehensive database management system in the world. More than ten decades after its first installation, its performance is still unmatched: ADABAS is able to process 320,000 calls or 80,000 transactions per second. ADABAS is employed primarily on mainframes.

- **Natural** is a development environment that allows users to create new programs and modify existing ones. It is the basis for hundreds of thousands of software applications that form the technological backbone of core processes in organizations across all industries.

The ARIS, webMethods and Terracotta product families belong to the Business Process Excellence (BPE) business line. ADABAS and Natural comprise the Enterprise Transaction Systems (ETS) business line.

The sale of these standardized software products generally results in subsequent consulting, maintenance and service business. After all, technologies have to be integrated with our customers' specific IT environments and later expanded, modified and modernized. In the past fiscal year we established a global team to develop the maintenance business and promote customer focus and loyalty independent of country or business line. We are certain that this will have a positive impact on profitability

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Group structure and major locations

The Software AG Group is managed by a Management Board consisting of three members who are appointed, monitored and advised by the twelve members of the Supervisory Board.

Moreover, the **Group Executive Board** has nine members. This body represents the Company's operational areas and geographic markets.

For more detailed information on Software AG management, please refer to the Corporate Governance Report in this Annual Report.

The Software AG Group serves customers in more than 70 locations worldwide. Our corporate headquarters are located in Darmstadt (Germany). Our largest branch locations are Darmstadt and Saarbrücken (Germany), Reston and the Silicon Valley (USA), Madrid (Spain), Or-Yehuda (Israel), Bracknell (U.K.), Sydney (Australia), Bangalore (India) and São Paulo (Brazil).

In the past fiscal year the Group began expanding its presence in the North American market. This region holds great potential. It is the largest IT market in the world and will be a key driver of our business in the next decade. We therefore moved several strategic functions to the Silicon Valley such as our chief marketing officer and our Mergers and Acquisitions team. The region south of San Francisco, where the headquarters of our subsidiary Terracotta are located, is widely recognized as a breeding ground for innovative start-ups. That is where technology trends are born. Being there, we can identify marketing opportunities early and network with potential partners. We expanded our sales network in North America in order to boost our process and integration software business. This included the creation of our Federal Unit—a team dedicated to business with the public sector. As a non-American company, this unit helps our chances when bidding on public contracts from the U.S. government and signing large deals with new customers in the public sector. The contracting authorities for these types of projects aim to keep matters of national security within their own country. These measures will allow us to assert ourselves more successfully against our major U.S. competitors in their home market.

MARKET POSITION

Software AG established itself as the world's leading provider of Business Process Excellence (BPE). The combination of our software and service portfolio for digitization, automation and integration of business processes is, according to numerous market studies, unique to the global market. It therefore gives us an excellent competitive position in a software market marked by rapid consolidation. Software AG's market reach improved considerably by achieving a critical mass, particularly in Europe's core markets. These unique selling points allow us to meet the growing needs of customers to improve their processes and to position ourselves in high-growth markets.

For companies that compete globally, harmonization and integration of IT processes is the key to long-term business success while becoming a Digital Enterprise. Our cross-industry and vendor-neutral product portfolio covers the entire enterprise process life cycle. Supporting the value creation chain from end to end generates ongoing process innovations.

Adjusting IT strategies for greater agility

Today's enterprises are confronted with a continuous stream of new competitors and market developments emerging from Internet-based business models and globalization trends. Due to the increasing complexity of companies and their IT infrastructures as well as rapidly changing challenges of the global market, they have to react quickly and adapt their processes flexibly to new requirements. Not only product innovation, but ongoing process innovation as well, is needed to have the flexibility to react accordingly to dynamic markets. This is achieved only with the new agility of vendor-neutral IT systems. They enable organizations to adapt their business models faster. Every organization's goal is ultimately sustainable, optimized processes or Business Process Excellence.

An agile IT landscape was therefore high on many CIOs' list of priorities, according to market analysts with the Experton Group. Agility means that resources can be adjusted to quickly changing markets. Most organizations have an IT strategy. But, according to analysts' opinions, it does not adequately address the vision and focus of the organization.

Market survey recognition

Numerous studies carried out by well-known industry analysts confirm the strategy and quality of Software AG's leading product and service offering. Industry analysts have been acknowledging Software AG's portfolio for years with top-ranked positions. Again in fiscal 2012 numerous positive reviews by highly respected analysts confirmed Software AG's product development strategy.

- For the first time Software AG's was positioned as a leader in Gartner's magic quadrant for "Governance, Risk and Compliance" with ARIS.
- Likewise, we were listed as a leader in the magic quadrant for "Application Infrastructure for Systematic Application Integration Projects" and "Application Infrastructure for Systematic SOA Infrastructure Projects."
- According to Forrester and Gartner, Software AG's leading role in the Enterprise Architecture market has grown.
- We were also recognized as a leader in Forrester's new wave, "Integrated SOA Governance."
- Software AG was positioned in the leaders quadrant by Gartner in its recent competitive ranking, "Magic Quadrant for Business Process Analysis Tools."

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CORPORATE STRATEGY AND OBJECTIVES

Software AG's strategy is aimed at sustainable profitable growth. We strive to continuously increase our enterprise value.

We have achieved this during the past 10 years. Following our strategic realignment phase from 2003 to 2006, in the period until 2009 we were able to significantly accelerate our profitable growth. The forces behind this growth were innovation, geographic expansion and accessing new customer groups via partners. There were also a number of acquisitions. This led to €1 billion in revenue and dynamic earnings growth.

Following a year of transformation during which we proved our ability to adapt and innovate, we announced our next major milestone at the beginning of 2013. We want to achieve €1 billion in product revenue by 2018 with our BPE process and integration business. This means annual growth between 10 and 20 percent in just that segment alone. We also foresee two-digit growth for our total revenue starting in 2015.

In order to reach that target, we will focus on the opportunities that a Digital Enterprise offers customers in the upcoming years through the interplay between the four megatrends—mobile, big data, social collaboration and cloud. These trends will be the critical engines of growth in the software sector. In the medium term we plan to establish a new business line that will encompass our in-memory and big data products and solutions. We assume that this line will generate mid to high-range two-digit growth rates in the long term.

Our acquisition of the U.K.-based technology provider myChannels in the second quarter of 2012 was an important component of this strategy. We enhanced our portfolio with an extremely fast messaging software. Our customers gained the ability to seamlessly integrate their enterprise applications, cloud-based applications and mobile devices through a unique, universal messaging layer. This enables them to stream large volumes of critical data to employees, customers and partners anywhere, via any channel and to any device.

Our long-term vision is to become a global market leader in infrastructure software. We will propel this growth with our own efforts, but will not limit ourselves to that. We are ready to make selective investments in innovation-driven acquisitions that will strengthen our technology leadership and boost our market share. We are also pursuing this goal by driving forward big data innovations through our U.S. subsidiary Terracotta. In addition to technological enhancements, we will also invest in sales and marketing as well as creating and expanding global partner activities.

Our ETS business line will provide us with a profitable base for a long time to come, which enables us to make bold investments in visionary markets of the future. Furthermore, it represents an established customer base that holds interesting sales potential for new products.

VALUE-ORIENTED CONTROL

In order to increase our enterprise value for the long term, we must continue growing profitably and increasing the financial strength of our Group. We use an internal information system to control these strategic goals.

Based on IFRS reporting, we consider relevant key indicators such as revenue, earnings before interest and taxes (EBIT), earnings per share and cash flow. As with most other companies in the software industry, capital-oriented financial indicators play a minor role for us. This is due to the fact that our business model's commitment of capital is low, and personnel expenses make up the largest expense block in our business.

Revenue and earnings monitoring

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

We also employ a multidimensional matrix structure to continuously monitor changes in EBITA for every profit and/or cost center. The matrix is divided according to business lines, revenue types and regional structures within the business lines. Furthermore, we constantly observe the operating income of our service business with respect to specific projects, from the time a quote is prepared through to project conclusion. One of our most important goals is the ongoing improvement of sales efficiency, which we achieve through more highly qualified employees and larger projects. Our interregional sales and service structure offers significant additional potential.

Cost management

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

Management of research and development

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

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Cash flow management

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

Software AG aims to:

- Become one of the world's top long-term providers of enterprise software
- Be one of the leading vendor-neutral BPE providers in those countries where we operate
- Be one of the most financially successful software companies in the world
- Remain independent with the help of our anchor investor, the Software AG Foundation
- Seek acquisitions on a regular basis in order to combine organic and external growth

ECONOMIC CONDITIONS

OVERALL ECONOMIC SITUATION

The global economy continued to lose momentum in 2012. Following moderate growth of 3.8 percent in 2011, the Kiel Institute for the World Economy (IfW) expects just 3.2 percent in global economic expansion. Industrialized countries in particular stalled growth. But developing and emerging economies, which in past years had differentiated themselves from the rest of the world by their robust economic growth, also slowed significantly.

Southern European countries caused a downward trend in the entire eurozone. In order to contain the ongoing national debt crisis, European governments established the European Stability Mechanism (ESM) whose objective is to ensure the solvency of eurozone member countries. The German economy was able to decouple itself from the negative trend dominating the eurozone in 2012. Here growth is expected to be 0.7 percent. This is due to strong exports and the low unemployment rate, among other factors

SECTOR TREND

The slow global economy was felt in the IT market, which grew just 3 percent to $3.6 trillion worldwide last year in contrast to 7.9-percent growth the year before, according to Gartner market researchers. Gartner also estimates that the enterprise software market segment increased by just 3.3 percent (2011: 9.8 percent) to $278 billion and the IT services market segment by just 1.8 percent (2011: 7.7 percent) to $881 billion.

Gartner calculates that IT spending in Europe, the Middle East and Africa (EMEA) last year totaled $1.138 trillion, which is a 3.6-percent decline. There was an even larger drop (-5.9 percent) in spending in western Europe. The European Information Technology Observatory (EITO) confirms this from a fundamental point of view although the two research institutes employ different ways of segmenting the markets. According to EITO, emerging economies are actually propelling industry growth. Even today they account for more than a quarter of global demand for information and communications technology (ICT). And this percentage is rising. In 2012

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ICT is expected to have grown in China by 12 percent to €220 billion, in which case it would replace Japan as the world's second-largest ICT market. This sector is likely to have expanded by only 1.2 percent in western Europe to total €617 billion.

Germany is considered to be a stabilizing market within the European ICT sector. According to the German Association of Information, Telecommunications and New Media (BITKOM), the ICT sector had a total sales volume of €139.1 billion in 2012, which reflects growth of 2.73 percent. Expenditure for softare totaled €16.9 billion—4.4 percent more than in 2011. Spending for IT services such as outsourcing and maintenance was €34.9 billion—€2.1 percent higher than the year before.

Worldwide IT Spending Forecast (in $ billions)

	2012 Spending	2012 Growth	2013 Spending	2013 Growth	2014 Spending	2014 Growth
Devices	627	2,9%	666	6,3%	694	4,2%
Data Center Systems	141	2,3%	147	4,5%	154	4,2%
Enterprise Software	278	3,3%	296	6,4%	316	6,8%
IT Services	881	1,8%	927	5,2%	974	5,1%
Telecom Services	1.661	-0,1%	1.701	2,4%	1.742	2,4%
Overall IT	3.588	1,2%	3.737	4,2%	3.881	3,8%

Source: Gartner (January 2013)

BUSINESS TREND AND ECONOMIC SITUATION

SUMMARY OF BUSINESS PERFORMANCE

2012 was a successful year of transformation for Software AG. We consolidated traditional areas of business and reinforced new areas of growth. A wide range of operational and strategic measures led to tangible progress in the development of our Company.

- Total revenue for the **BPE** business line climbed 3.6 percent year on year to €547.0 million (2011: €527.9 million). Product revenue rose 13.9 percent to total €384.7 million (2011: €337.8 million). With its BPE business the Software AG Group is setting its stakes on a promising high-growth market of the future. The Group is currently generating more than half of its revenue with this business line. In order to fuel growth in this promising business, some €40 million euros were invested in the expansion of sales and marketing and in research and development in the past year.
- The **ETS** business line posted a slight decline of 1.6 percent to €375.3 million (2011: €381.3 million) in the year under review. Product revenue was €309.6 million (2011: €312.9 million), which represents a 1.1-percent decrease. This business line performed more stably than expected. We assumed at the beginning of 2012 that this business' revenue could drop by up to 12 percent.
- The **IDSC** business line did not meet expectations. Revenue was down 33.9 percent from €189.2 million in 2011 to €125.1 million in 2012. External product revenue dropped 22.8 percent at €17.9 million (2011: €23.2 million). The cause was the ongoing reorganization of this business line. In the past year we withdrew from unprofitable markets and placed our emphasis on the process side of SAP application consulting—particularly in German-speaking countries.

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Total Group revenue in fiscal 2012 was on par with the previous year at approximately €1.05 billion (2011: €1.1 billion). Fueled by BPE's strong performance, product revenue (licenses and maintenance) increased 5.7 percent to €712.2 million (2011: €673.9 million) in 2012. Due to substantial expenses associated with the expansion of sales and marketing and research and development and lower IDSC revenue, EBIT was down 7.8 percent year on year at €248.3 million (2011: €269.2 million). The **EBIT margin** was 23.7 percent (2011: 24.5 percent).

Software AG calculates EBIT as the result of net income plus income tax, other tax and net financial income as follows:

in € millions	**FY 2012**	FY 2011	Change in %
Net income	**164.7**	**177.2**	**-7**
Income tax	+66.8	+71.1	-6
Other tax	+8.0	+11.0	-27
Net financial income	+8.8	+9.9	-11
EBIT	**248.3**	**269.2**	**-8**
Margin as %	23.7	24.5	

Net income was €164.7 million (2011: €177.2 million). Software AG's staff remained relatively stable with respect to 2011: As of December 31, 2012 the Group had 5,419 (2011: 5,535) employees, of which 1,768 (2011: 1,881) worked in Germany.

OVERALL STATEMENT ON FINANCIAL POSITION

Software AG prepared itself for the future by taking a number of operational and strategic measures in the fiscal year under review. The Company is in a solid financial position, well equipped for further profitable growth. The Group continued to invest in the high-growth BPE business last year for this purpose. Our investments began bearing the first fruits in the past year. Our ETS business line demonstrated stable performance marked by high profit margins. Its constant decline is due to the saturation of the database market. Because there are basically no new customers in this area, the license business comes primarily from existing customers. We reduced costs further in order to maintain the high profit margin in this business line. The IDS Scheer Consulting business line followed a downward trend. The reorganization of our SAP consulting led to a reduction in revenue. Due to low sales combined with high fixed costs in a labor-intensive division, its performance had a negative impact on earnings. Software AG considers itself to be well positioned for the future. We have adequate financial flexibility to make future investments in line with our growth strategy. Our innovative solutions provide answers to the challenges our customers encounter on the road to becoming a Digital Enterprise.

FINANCIAL PERFORMANCE

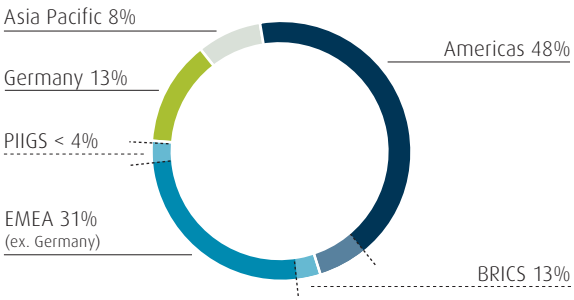
REVENUE PERFORMANCE

At €1.05 billion, total revenue in fiscal year 2012 nearly hit the high figure from the previous year.

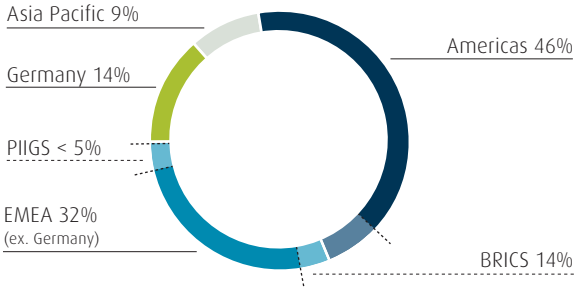
Product revenue by region

About 48 percent (2011: 46 percent), and thus almost half, of our product revenue came from North America. The region consisting of Europe, the Middle East and Africa (EMEA) was also a strong contributor with 31 percent (2011: 32 percent). Sales in Germany—Software AG's home market—are reported separately and accounted for 13 percent (2011: 14 percent). The Asia-Pacific region contributed 8 percent (2011: 9 percent) to Group revenue in 2012.

2012



2011



Positive currency translation effects totaled €25.3 million in 2012. The Group generated some 37 percent (2011: 41 percent) of total revenue in the common European currency. Other currencies thus accounted for about 63 percent. The main foreign currencies in which Software AG completed business transactions were: the U.S. dollar (26 percent), the Brazilian real (6 percent), the Australian and Canadian dollars, the pound sterling, the South African rand and the Israeli shekel all with 4 percent respectively.

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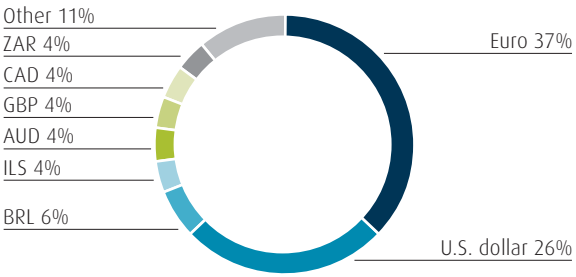
COMPARISON OF CURRENCY EFFECTS ON REVENUE 2011/2012

2012

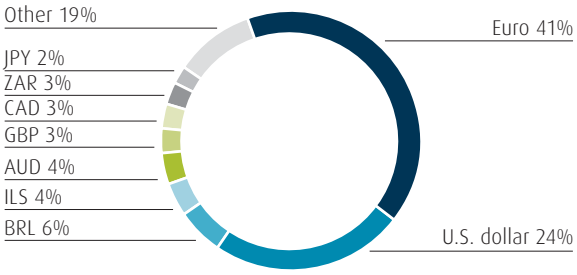
37% revenue in €
36% revenue in other currencies



Currency impact in € millions	FY 2012
Licenses	+8.2
Maintenance	+12.1
Consulting & other	+ 5.0
Total	**+ 25.3**

2011

41% revenue in €
59% revenue in other currencies



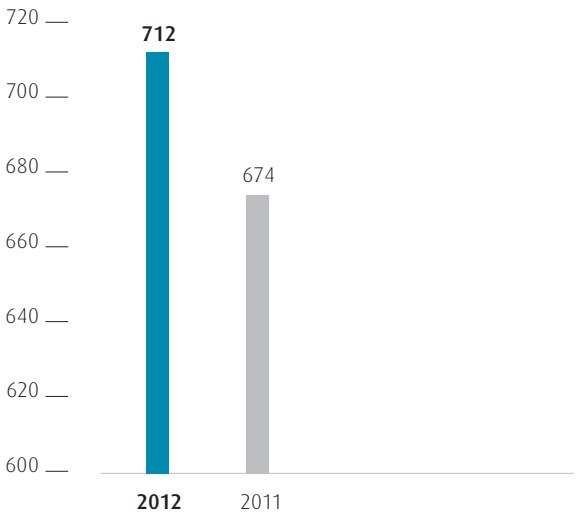
Currency impact in € millions	FY 2011
Licenses	-6.3
Maintenance	-4.9
Consulting & other	-2.0
Total	**-13.2**

Sales by revenue type

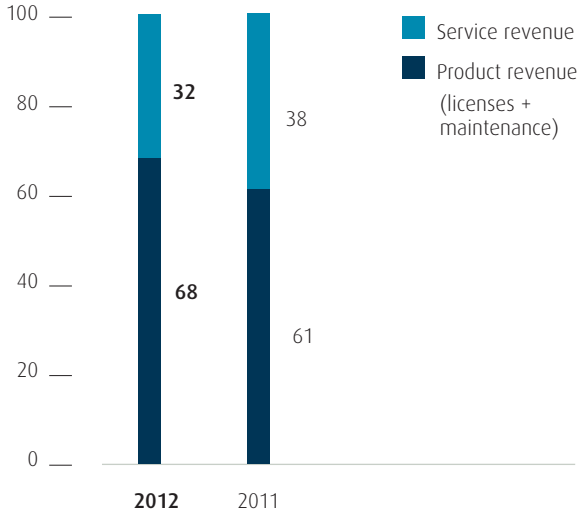
We generate the majority of our revenue through the sale of licenses and maintenance. More than two-thirds of our revenue, some 68 percent, came from product revenue. That is a substantial increase over 61 percent in 2011. Our product revenue not only has high profit margins but also has the strongest growth. It gained 5.7 percent to total €712.2 million (2011: €673.9 million). License sales increased by 8.0 percent to €318.9 million (2011: €295.2 million) and maintenance sales by 3.8 percent to €393.3 million (2011: €378.7). Overall product revenue was buoyed by BPE's strong performance. In this segment license sales were up 15.5 percent to €194.7 million (2011: €168.6 million) and maintenance sales up 12.3 percent to €190.0 million (2011: €169.2 million).

INCREASED PRODUCT REVENUE RESULTS IN IMPROVED REVENUE SPLIT

Product revenue (licenses + maintenance) in € millions



Revenue split in %

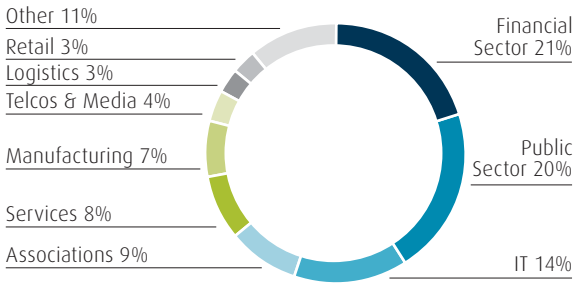


Revenue from consulting and services declined. Here the Company saw a decrease of €86.5 million from €419.8 million in 2011 to €333.3 million in 2012. This was a result of the consolidation of the IDSC business line in which service revenue was down 34.8 percent year on year at €107.0 million (2011: €164.2 million). ETS service revenue in the fiscal year under review fell only slightly to €64.8 million (2011: €67.3 million), whereas BPE service revenue slipped 14.2 percent to €161.5 million (2011: €188.3 million). This is due to the user-friendly nature of our new products, which therefore required less service support by our specialists

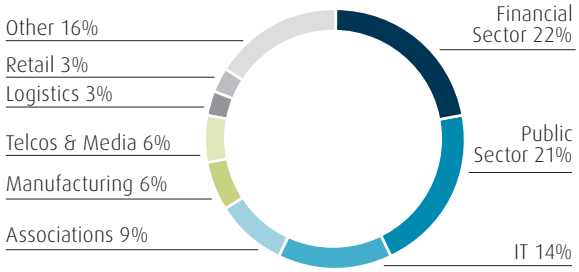
Product revenue by industry

Because our products and services serve multidisciplinary purposes, they are in demand by organizations in all industries. We are therefore largely independent of economic fluctuations of individual business sectors. We have a long tradition of close ties to the financial sector and public sector. Together they account for approximately 40 percent (2011: 43 percent) of our product revenue mix. We help banks, for instance, adhere to ever increasing regulatory requirements and to adapt their business models to current trends like online and mobile banking. In the public sector, we play a particularly important role in digitizing, and thus accelerating, work flows. In addition, some of our key customers are companies in the services and manufacturing sectors as well as associations.

2012



2011



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Sales by business line

Our business is divided into three segments: Business Process Excellence (BPE), Enterprise Transaction Systems (ETS) and IDS Scheer Consulting (IDSC).

The **BPE business line** proved to be our engine of growth and market of the future in 2012. It outperformed the other business lines in revenue as well as profitability. Revenue rose 3.6 percent to total €547.0 million (2011: €527.9 million). This means that integration and process software and innovative big data solutions now account for more that half of our total revenue.

Product revenue increased 13.9 percent to €384.7 million (2011: €337.8 million) in fiscal 2012. Big data product sales from our U.S. subsidiary Terracotta posted the strongest growth with license revenue, more than quadrupling to reach €16.2 million (2011: €3.4 million) in 2012.

Services and other revenues from this segment decreased by 14.6 percent to €162.3 million (2011: €190.1 million). This is because of the high level of maturity of our products, which makes software installations very user-friendly and thus low-maintenance. This trend had a positive effect on the profitability of the entire segment.

Despite significantly increased investments in marketing, sales and research and development, segment earnings rose 2.7 percent to €158.4 million (2011: €154.2 million).

in € millions	**FY 2012**	FY 2011	Change in %
Licenses	194.7	168.6	+15
Maintenance	190.0	169.2	+12
Product revenue	**384.7**	**337.8**	**+14**
Services & other	162.3	190.1	-15
Total revenue	**547.0**	**527.9**	**+4**
Cost of sales	-163.3	-187.1	-13
Gross profit	**383.7**	**340.8**	**+13**
Sales & marketing	-150.3	-125.3	+20
Research & development	-75.0	-61.3	+22
Segment earnings	**158.4**	**154.2**	**+3**

Our **ETS business line** outperformed expectations in the fiscal year under review. Our traditional database business remained stable with respect to last year with total revenue of €375.3 million (2011: €381.3 million) and product revenue of €309.6 million (2011: €312.9 million). Services and other revenue from this segment decreased by 4.1 percent from €68.4 million in 2011 to €65.7 million in 2012.

This business line has traditionally been known for high profit margins. In 2012 its segment earnings were nearly stable at €213.6 million (2011: €215.8 million). This represents a 56.9-percent segment earnings margin.

in € millions	FY 2012	FY 2011	Change in %
Licenses	121.3	120.1	+1
Maintenance	188.3	192.8	-2
Product revenue	**309.6**	**312.9**	**-1**
Services & other	65.7	68.4	-4
Total revenue	**375.3**	**381.3**	**-2**
Cost of sales	-70.8	-72.3	-2
Gross profit	**304.5**	**309.0**	**-1**
Sales & marketing	-64.8	-66.8	-3
Research & development	-26.1	-26.4	-1
Segment earnings	**213.6**	**215.8**	**+1**

The **IDSC business line** was reorganized and further consolidated in fiscal year 2012. We withdrew from unprofitable markets and placed our emphasis on the process side of SAP solution consulting—particularly in German-speaking countries (Germany, Austria and Switzerland).

As a result of this realignment, revenue went down from €189.2 million last year to €125.1 million this year. Because this is primarily our consulting business, service revenue accounts for the largest percentage of income with €107.2 million (2011: €166.0 million).

External product revenue was €17.9 million (2011: €23.2 million) including maintenance revenue of €15.0 million (2011: €16.7 million) and license revenue of only €2.9 million (2011: €6.5 million).

Due to short-term fixed personnel costs and the associated cost of sales totaling €120.3 million (2011: €162.3 million) as well as sales and marketing expenses in the amount of €17.7 million (2011: €25.7 million), the IDS segment reported a loss of €12.9 million (2011: €+0.8 million).

in € millions	FY 2012	FY 2011	Change in %
External product revenue	**17.9**	**23.2**	**-23**
Services & other	107.2	166.0	-35
Total revenue	**125.1**	**189.2**	**-34**
Cost of sales	-120.3	-162.3	-26
Gross profit	4.8	26.9	-82
Sales & marketing	-17.7	-25.7	-31
Research & development	0	-0.4	–
Segment earnings	**-12.9**	**0.8**	**–**

EARNINGS PERFORMANCE

At €248.3 million, earnings before interest and taxes (EBIT) were down some 8 percent from €269.2 million in 2011. Net income after taxes, which had been a record-breaking €177.2 million in 2011, was €164.7 million in the period under review.

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in € millions	**FY 2012**	FY 2011	Change in %
Total revenue	1,047.3	1,098.3	-5
Cost of sales	-378.4	-442.1	-14
Gross profit	668.9	656.2	+2
Margin as %	63.9	59.7	
Research & development	-101.1	-88.0	+15
Sales and marketing	-246.9	-230.2	+7
Administration	-75.8	-75.1	+1
Other income/expense	+3.2	+6.3	–
EBIT	248.3	269.2	-8
Margin as %	23.7	24.5	

The reason for the decline was primarily our investment in sales, which will lay a foundation for growth in coming years. Expenses for sales and marketing were therefore up 7 percent to €246.9 million (2011: €230.2 million). Their proportion to total revenue increased from 20.9 percent to 23.6 percent. We also drove forward the evaluation and development of new technologies and products, which are the engines of future revenue. This was reflected in research and development expenses, which went up 14.8 percent to €101.1 million as compared to €88.0 million last year. The proportion of R&D expenses to product revenue (licenses and maintenance) increased from 13.2 percent to 14.2 percent. Increased investments in the amount of €40 million were spent on the high-growth BPE business alone. In addition, one-time items were booked in the IDSC line resulting from consolidation of the SAP consulting business.

Our EBIT margin was 23.7 percent (2011: 24.5 percent), which was in the upper half of the forecast range. This was possible because we were able to keep our high-margin ETS business mostly stable and steadily increased our BPE product revenue. At the same time, we continued our strict cost management and made sure to further improve our administrative structures. As a result administrative expenses stayed stable year on year totaling €75.8 million for 2012. Their proportion to total revenue increased from 6.8 percent to 7.2 percent.

COST STRUCTURE

The cost of sales was €378.4 million (2011: €442.1 million), which is a 14.4-percent year-on-year reduction. The lower costs are primarily due to the €42.0 million decrease in the cost of sales, largely personnel costs, in the IDS Scheer business line. With the withdrawal from unprofitable markets, employees were also let go. R&D expenses for new and existing products increased 15 percent to €101.1 million (2011: €88.0 million). Sales and marketing expenses rose 7.2 percent to €246.9 million (2011: €230.2 million). The increased R&D expenses and sales and marketing expenses reflect the Company's strategy to invest in new products and new markets in the Business Process Excellence business line. General administrative expenses were €75.8 million (2011: €75.1million) and thus nearly constant in spite of higher variable remuneration compared to last year.

NET INCOME AND APPROPRIATION OF PROFITS

The Software AG Group's net income decreased from €177.2 million in 2011 to €164.7 million in 2012. The net financial expense improved year on year by €1.1 million to total €8.8 million (2011: €9.9 million). Pre-tax earnings were €231.5 million or 6.8 percent lower than the year before at €248.3 million. Income tax was €66.8 million, which is 6.0 percent less than the year before at €71.1 million.

The income tax rate was similar to last year at 28.9 percent (2011: 28.6 percent) and within the expected range. The percentage of revenue contributed by the countries in which Software AG operates is mainly responsible for the marginal change in tax rate.

Earnings per share (basic) were €1.90 (2011: €2.05). The average number of shares outstanding (basic) in the period under review amounted to 86,784,793 (2011: 86,195,814).

in € millions	**FY 2012**	FY 2011	Change in %
EBIT	**248.3**	**269.2**	**-8**
Other tax	-8.0	-11.0	-27
Net financial income/expense	-8.8	-9.9	-11
Earnings before tax	231.5	248.3	-7
Income tax	-66.8	-71.1	-6
Net income	**164.7**	**177.2**	**-7**
EPS in €	**1.90**	**2.05**	**-7**

Appropriation of profits

The Company will continue its consistent dividend policy with a payout to stockholders between 20 and 25 percent of net income. The Management Board and Supervisory Board will therefore propose a dividend of €0.46 per share at the Annual Shareholders' Meeting. With 86,097,990 shares outstanding (taking the share repurchase plan as of February 27, 2013 into account) and subject to the approval of the shareholders, this would be a total payout sum of €39.6 million (2011: €39.9 million).

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FINANCIAL POSITION

CAPITAL EXPENDITURE

Capital expenditure for property, plant and equipment and intangible assets normally plays a minor role at Software AG given that we are a software and consulting company. These investments totaled €13.3 million in 2012 compared to €14.4 million in 2011 and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken. Net expenditure for acquisitions fell from €59.2 million to €17.9 million.

CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash provided by operating activities dropped 7 percent due to decreased net income from €198.6 million in 2011 to €184.4 million in 2012.

Cash outflows from investing activities in the fiscal year under review were €31.7 million (2011: €70.2 million). This was due to lower payments for acquisitions. Software AG made payments related to the acquisitions of Terracotta and Metismo totaling more than €59.2 million in 2011. In 2012 net payments for acquisitions were significantly lower at €17.9 million.

Cash outflows from financing activities increased from €15.9 million in 2011 to €49.2 million in fiscal 2012. This figure had been positively impacted in 2011 by cash inflows from the addition of equity in the amount of €34.6 million.

Free cash flow dropped 9 percent from €187.7 million to €170.7 million, which is 16.3 percent of total revenue. This is in line with net income, but, as in the previous year, was above net income due to active working capital management.

in € millions	**FY 2012**	FY 2011	Change in %
Operating cash flow	184.4	198.6	-7
./. CapEx*	-13.7	-10.9	
Free cash flow	170.7	187.7	-9
as % of revenue	16.3	17.1	
Cash flow per share**	1.97	2.18	-10
Weighted average number of shares (in mns.)**	86.8	86.2	

*Cash flow from investing activities excluding acquisitions
**Pro forma after stock split

FINANCING

The objective of Software AG's financial management is primarily to support the sustainable growth of the Group through an adequate financing structure and to ensure solvency of all affiliated Group companies at all times. To do this we have sufficient liquid assets from net cash provided by operations and through credit agreements. A high equity ratio and strong free cash flow create the basis for organic growth and allow us to make acquisitions.

Based on guidelines determined by the Management Board, a central Finance department implements financial policy and risk management. It controls the Group's liquidity position centrally through active working capital management. Financial investments are essentially oriented toward the short term. This means that Group funds are invested at near money-market rates.

We minimize default risk by careful selection of transaction partners based on stringent criteria and broadly diversified investment. Our Finance department also monitors currency risks centrally for all Group companies and hedges them using derivative financial instruments. In doing so, we only hedge existing balance sheet items or expected cash flows. Cash and cash and cash equivalents increased year on year to €315.7 million (2011: €216.5 million). Net financial liabilities decreased from €277.4 million on December 31, 2011 to €266.0 million on the same date in 2012. Shareholders' equity rose to €1,060.1 million (2011: €951.5 million) year on year. Accordingly equity ratio was quite high at 59.8 percent (2011: 56.6 percent).

Financing instruments

We use bank loans, promissory note loans, finance leasing and internal financing with strong free cash flow as financing instruments. A financing 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 management of working capital and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit.

The loans used are predominantly at fixed interest rates and have terms to maturity of no later than 2017. Fixed-interest rates were secured for some of the loans using interest rate swaps. Variable interest payments are based on the prevailing interest rate on the reporting date. We calculate liabilities in foreign currency at the exchange rate as of December 31, 2012.

OTHER INTANGIBLE ASSETS

In addition to the assets reported in the Consolidated Balance Sheet, Software AG has off-balance sheet assets. These relate primarily to rented office space, leased company cars, and hardware. Off-balance sheet assets also include the Software AG brand and internally developed software products, which are important intangible assets. The brand was continuously enhanced in the year under review.

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BALANCE SHEET STRUCTURE AND KEY FINANCIAL INDICATORS

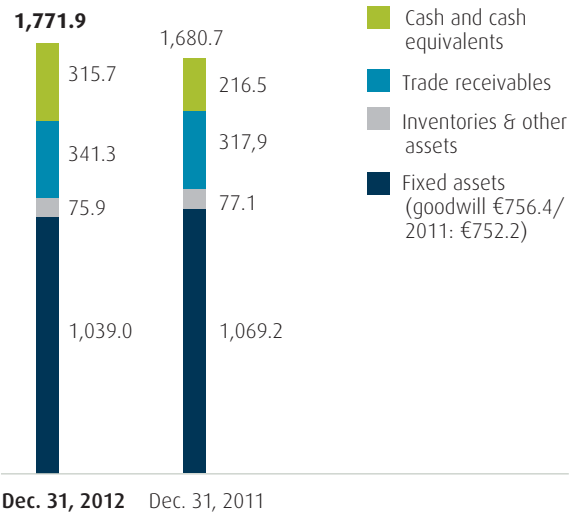
The Software AG Group's total assets increased from €1,680.7 million in 2011 to €1,771.9 million in 2012. Our balance sheet structure underwent some additional positive changes in 2012 compared to the year before.

On the assets side, current assets increased from €574.3 million to €675.8 million. Cash and cash equivalents went up by about €100 million. Non-current assets were €1,096.0 million in 2012 compared to €1,106.4 million in 2011 and thus basically stable. Goodwill at €756.4 million (2011: €752.2 million) and intangible assets at €214.4 million (2011: €248.2 million) accounted for the largest portion, which resulted primarily from past corporate acquisitions. In fiscal 2012 Software AG acquired technology provider my-Channels based in London. Cash and cash and cash equivalents again rose last year, by €99.2 million, to €315.7 million. Due to positive cash flow Software AG's net liquidity went up from €-60.9 million at the end of 2011 to €49.6 million on December 31, 2012.

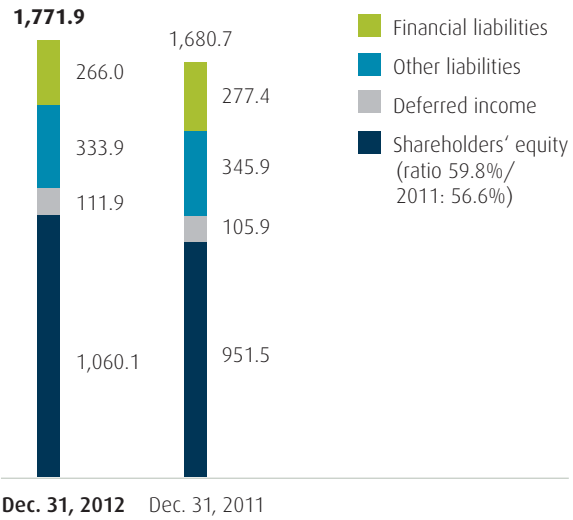
On the liabilities side, financial liabilities decreased by €11.4 million. Net debt at the end of 2011, primarily a result of acquisitions, was repaid on schedule. Shareholders' equity also performed well, increasing by some €108.6 million and thereby surpassing one billion euros in 2012. This resulted in an equity ratio of 59.8 percent (2011: 56.6 percent).

CONSOLIDATED BALANCE SHEET

Assets in € millions



Liabilities in € millions



FINANCIAL STATEMENTS OF SOFTWARE AG (PARENT COMPANY)

Software AG's financial statements were prepared pursuant to the provisions of the German Commercial Code (HGB).

Financial performance of Software AG

The key items of the income statement are as follows:

in € millions	**2012**	2011	Change in %
Licenses	57.5	55.8	3.1
Maintenance	104.8	102.3	2.4
Services	98.6	93.1	5.9
Total revenue	260.9	251.2	3.9
Operating income and expenses	-210.9	-203.7	3.5
Income from investments and profit transfer	82.6	113.7	-27.4
EBIT	132.6	161.2	-17.7
Net financial income/ expense	-10.3	-15.2	32.2
Earnings before taxes	122.3	146.0	-16.2
Taxes	-17.2	-38.0	54.7
Net income/loss for the year	105.1	108.0	-2.7

- "Licenses" include primarily proceeds from royalties from the subsidiaries' sale of licenses, ARIS licensing revenue and licensing revenue from third-party products. The increase in license revenue corresponds to the increase in Group license revenue.
- "Maintenance" includes maintenance-related royalties from subsidiaries, ARIS maintenance revenue and maintenance revenue from third-party products. The increase compared to 2011 reflects the increase in Group maintenance revenue.
- "Services" include management fees from the subsidiaries, services rendered by central support and cross-charged to national subsidiaries and cross-charged research and development costs. The rise resulted primarily from increased research and development costs that were cross-charged to individual national subsidiaries.
- "Operating income and expenses" includes changes in inventories of finished goods and work in progress, other operating income and expenses, expenses for purchased goods and services, personnel expenses, and depreciation, amortization and impairment on intangible and tangible fixed assets. The rise results from the balance of personnel costs which increased by €28.1 million,

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other operating income which decreased by €8.3 million, other operating expense which decreased by €35.3 million, and expenses for purchased services which increased by €5.8 million. The rise in personnel costs results from the one-time effect in the amount of €17.5 million in 2011 relating to hedging activities for the Management Incentive Plan III. The reduction in other operating expense results primarily from expenses arising from the impairment of receivables from subsidiaries which fell by €9.6 million compared to 2011.

- "Income from investments and profit transfer" includes dividends from subsidiaries, income and expenses arising from profit transfer agreements and impairment of financial assets and securities held as current assets. This item decreased due to lower internal profit distributions.
- "Net financial income/expense" is the result of offsetting other interest and similar income against interest and similar expenses. The improvement of €4.9 million over last year is due to the significant increase in cash and cash equivalents.
- Due to the lower earnings before taxes and one-time effects, taxes decreased from €38.0 million at a tax rate of 26.0 percent in 2011 to €17.2 million at a tax rate of 14.1 percent in 2012.

Financial position and cash flows of Software AG

Software AG's total assets increased by a total of €67.9 million, from €930.5 million on December 31, 2011 to €998.4 million on December 31, 2012.

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

in € millions	**Dec. 31, 2012**	Dec. 31, 2011	Change
Intangible assets	6.1	5.1	1.0
Property, plant and equipment	12.0	11.9	0.1
Financial assets	784.0	781.1	2.9
Inventories	0.1	0.1	0.0
Receivables and other assets	96.2	104.8	-8.6
Cash and cash equivalents and short-term securities	96.5	24.0	72.5
Prepaid expenses/other	3.5	3.5	0.0
Total assets	998.4	930.5	67.9
Equity	525.1	452.9	72.2
Provisions	83.3	73.2	10.1
Liabilities	389.8	403.6	13.8
Deferred income	0.2	0.8	-0.6
Total equity and liabilities	998.4	930.5	67.9

- "Receivables and other assets" on December 31, 2012 decreased due to the repayment of receivables from affiliated companies as part of the Group's cash pool.
- "Cash and cash equivalents" increased by €72.5 million from €24.0 million to €96.5 million. Software AG predominantly generates liquidity based on royalties, dividends, Group financing and management fees from the subsidiaries. For this reason, the cash flows of Software AG depend to a great extent on decisions regarding the dividend payouts of subsidiaries and financing arrangements between the parent company and the subsidiaries. A cash flow statement for Software AG alone would therefore have little meaning, for which reason we do not prepare such a statement.
- "Equity" of Software AG increased by €72.2 million, from €452.9 million on December 31, 2011 to €525.1 million on December 31, 2012. This increase resulted mainly from the balance of €105.1 million in net income for the year and €39.6 million in dividends paid out in 2012
- "Provisions" increased year on year by €10.1 million, from €73.2 million to €83.3 million. The increase is mainly due to the recognition of an acquisition-related provision for a purchase price the amount of which has not yet been finalized and to the rise in provisions for earnings-based remuneration components.
- "Liabilities" fell mainly due to the partial repayment on a promissory note loan in the amount of €12.2 million.

Outlook

The future financial performance of Software AG depends upon the financial standing of the Software AG Group. Please refer to the Outlook in the Group Management Report.

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RESEARCH AND DEVELOPMENT

Drastic change in business requirements

Today's business world is changing at an unprecedented rate. Driven by technological innovations, market requirements are always evolving. Innovation cycles are constantly shrinking, pressure from competitors around the world is intensifying, and companies and users are being inundated with information from the Internet and social networks. Through mobile devices and new cloud applications, users expect around-the-clock access to information from social media—regardless of their location. Companies are facing the challenge of efficiently processing and distributing these huge amounts of data, analyzing it, and quickly making business decisions based on it.

No matter their industry or size, all enterprises are affected by this dramatic change to some degree. To remain agile and competitive, managers must ensure that they can implement necessary changes to the business model and related processes rapidly. The challenges companies face today are very complex and inspire equivalent demands on IT. It is crucial to represent these changes in application systems and the IT landscape flexibly in real time. Ultimately, information technology gives enterprises adaptability in achieving their business goals.

Today's companies are often dominated by overgrown, heterogeneous, and highly complex IT landscapes and rigid application systems. Regardless of whether proprietary legacy systems or standard software such as ERP systems are involved, this organizational inertia and inflexible IT infrastructure often prevent necessary changes from being made.

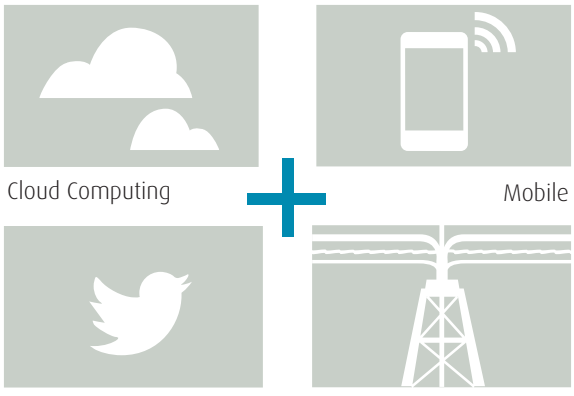
This situation places high pressure on corporate IT to adapt while providing great business potential for Software AG, which is positioning itself in these growth markets. We offer the software tools needed to adapt IT and its processes—for cost-effective implementation and a high level of investment protection. Our process-oriented approach does not require replacing the existing IT infrastructure; rather, we connect it with modern applications. We aim to get added value out of organizations' existing IT landscapes by digitizing workflows throughout and making them more flexible.

When developing our software solutions, we focus on creating a bridge between enterprise processes, business units and the IT department through an agility layer (middleware). This creates the necessary agility and transparency between the IT silos and the customers' business models, because different speeds prevail in these two layers. Our solutions

for process optimization, integration, big data and transactions quickly make the measures needed for efficient business processes transparent so that they can be transferred to the IT layer smoothly. This opens up a modern, flexible and cost-effective way to continuously and successfully adapt organizations to dynamic markets.

The power of the four megatrends

Analysts around the world are evaluating the latest technological changes that are upending the market and rating their potential. Well-known U.S. analyst Gartner has defined these IT trends as the nexus of forces:



Everyone can feel the dramatic transformation heralded by the megatrends. Each and every one of these trends by itself is a powerful force for change. Together, they are starting a revolution in the working world and our modern living environment, known by the technical term "disruptive change." These disruptive technologies like big data or cloud computing provide a huge boost for innovation.

We at Software AG are convinced that we must find the boldness to transform these innovative technologies into tangible solutions. We are doing this with our multifaceted research and development activities and close cooperation with partners and research institutions. The pressure to change will grow for businesses worldwide, making Software AG's agility layer more important. Also, the new trend technologies are integrated into the development of our BPE products. Building on our many years of practical experience, we are developing the products further in order to expand our leading market position and open up new user groups in the existing customer base.

Software AG's brand promise is this: Companies that need agile processes, better decision-making, and software with high availability need Software AG's solutions. We help customers fully implement the four megatrends—social, mobile, cloud, and big data—so that their Digital Enterprise can act faster in the changing markets.

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Expenditures for research and development

In today's globalized world, where one technology trend displaces another ever more quickly and the pace of change is intensified exponentially by the four megatrends, software companies must launch product innovations regularly in order to continue to grow profitably. As an innovation leader with strong market orientation, we seek to steadily improve and expand our product offerings for customers. That is why research and development (R&D) is a key part of our business and growth strategy at Software AG.

In 2012, we steadily invested in transforming the Company and thus in our new growth phase, focusing the majority of our investment on research and development (R&D). The continued development of innovative products is a key growth driver for our expanding BPE business line—already the strongest one—which will contribute an ever larger share of the Group revenue and earnings in the future. In addition, we will maintain our cost-optimizing R&D activities for the high-margin ETS department to ensure that traditional data management software remains a solid cornerstone of our business. This is the foundation on which we can extend our technological lead in the market.

Software AG significantly expanded our R&D expenditures in fiscal year 2012: They rose by 15 percent to €101.1 million (2011: €88.0 million).

A total of 887 R&D employees work for the Software AG Group in 13 locations worldwide. This requires a great degree of global coordination, communication and interaction. The use of collaboration tools makes it easier for employees around the world to interact directly with each other electronically. The R&D department benefits from the inspiration and varied impressions of customer segments in other countries. This global distribution helps us exploit greater cost benefits and individual expertise internationally, because each location can focus on certain products or product groups.

As part of the U.S. initiative introduced in 2012, we have greatly expanded our presence in Silicon Valley and combined forces in the R&D department. This helps us identify technology trends even earlier and put them into action promptly. Because not only is the United States still the largest IT market, but also Silicon Valley sets trends and drives innovation for the entire industry.

BPE business line—R&D overview

We want to be the innovation leader in all segments in which our Company operates. On this basis, we are pursuing long-term technology and market leadership in several areas of enterprise software—an essential component of our long-term growth strategy. We are relying on a mix of targeted customer-centric development of existing Business Process Excellence (BPE) solutions, development of technological product innovations and detection of new market trends, in particular through our greater presence in California.

Furthermore, we are selectively complementing our offerings by acquiring new companies to integrate their technologies into our BPE process and integration software portfolio and then further develop them. We also gain valuable inspiration from our close cooperation with colleges and technology partners.

The influence of the four technological megatrends manifests itself primarily in BPE with the ARIS, webMethods and Terracotta product families. Development of future business potential is determined largely by the interplay of the four trends: social, mobile, cloud and big data. When we develop market-driven integration and process innovations based on these drivers, we help our custoemers achieve their business results faster. We give them the tools they need to process huge amounts of data in real time and retrieve and distribute it from anywhere, as well as implementing processes that had been impossible in the past.

Influence of the four megatrends on BPE developments

Increasing digitization and the spread of new technologies are making enterprises more and more efficient while accelerating processes and making them more complex. In the future, innovations will be pursued in organizations across networks in a globalized world, rather than within individual companies. In this participatory world, speed is the key success factor. In the long term, only those companies that can quickly adapt to new technologies will be successful.

At CeBIT 2012, Software AG demonstrated examples from our R&D lab and presented solutions for the rapid, efficient implementation of new technologies, from cloud and collaboration to mobility. As an enterprise that focuses on innovation, we monitor market developments very closely and seize the opportunities that new technologies present for customer-oriented development of our portfolio. In 2012, we again introduced many new products and transformed relevant trends into practical solutions. Our activities always focus on the customer: Only innovations that provide an obvious business benefit for the customer are successful in the market.

Software AG is supporting the trend toward **cloud computing** with our Cloud Ready strategy for cloud-based solutions, which we debuted in 2012 at the leading ICT fair. A bottom-up, integrated cloud and social networking strategy makes organizations more agile and competitive. At the same time, it paves the way to the completely digital—and efficient—enterprise. Cloud computing is the delivery of customized IT resources from a network.

In line with CeBIT's 2012 keynote theme of managing trust, our first objective is to strengthen trust and security in the digital world, ensuring progress and growth for organizations worldwide. Within this framework, Software AG is developing a secure range of products for cloud computing, in which various webMethods products are bundled with solutions from American producer Layer 7 Technologies. Depending on customers' security needs, they can combine different cloud models—such as public cloud, private cloud, and hybrid cloud—and procure IT services as cloud services. The flexibility achieved here allows the appropriate use of new and existing cloud products and meets the wide-ranging security needs of industry and public administration.

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Collaboration is playing an increasingly important role—and not only in the private sphere. In the business world, too, employees across organizations want to communicate with each other in real time, interact efficiently and respond quickly to events. At CeBIT, Software AG presented a new application that meets this demand and offers various options for fast, interactive communication—a kind of Twitter for companies. Unlike Twitter, communication is not limited to a specific number of characters. Any kind of data can be reproduced and communicated. Thus, even complex message types can be used, as is necessary in practice for companies. This innovation brings together people as well as systems, processes and applications. It offers integration par excellence. The solution will be available for iPhone, iPad, Android devices, BlackBerry and Windows phones, as well as for the cloud and for use on corporate servers. It takes advantage of the communications options presented by social media to give companies a heretofore unheard of overview of current activities.

Mobile devices such as smartphones and tablets are now standard equipment for most knowledge workers. This fact alone dramatically changes the communication and work culture. And then there is the rapid development of cloud applications and social media tools, which have become as natural for so-called digital natives as the telephone and email are for the previous generation. The diversity of mobile devices makes integrating them into business processes costly and time-consuming. Companies can use the **webMethods Mobile Designer** solution to develop a single version of their application, which they can then use on any mobile device—whether iPad, Android or Blackberry—without additional development.

R&D services for the ARIS product family

The ARIS product family handles the analysis, optimization and monitoring of business processes for enterprises across all sectors. Millions of users count on ARIS to design, publish, analyze and improve their processes. At CeBIT 2012, Software AG demonstrated how customers from various sectors are implementing excellent business processes and achieving their business goals faster. The latest product developments and numerous case studies showed visitors how important rapid responses are in the digital business world of the future.

ARIS 9.0 integrates social, mobile, cloud and big data

Over the course of 2012, Software AG put the focus on technology developments that radically change the business world—social, mobile, cloud and big data. Software AG is staying abreast of these technological changes with the introduction of version 9.0 of webMethods and ARIS, presented in September at our ProcessWorld international customer event in the United States. Both new product versions take advantage of current technological developments, which offer companies greater transparency for their business processes as well as more agility and higher performance. Together, they help enterprises respond quickly to technological changes. They are based on an IT infrastructure that is modular, extensible, adaptable and scalable to support agile and automated business processes. The new versions were developed in close collaboration with key customers and released for sale in the first quarter of 2013.

ARIS 9.0 combines the four technology trends—social, mobile, cloud and analytics—to accelerate process improvements by incorporating more expertise and experience from the company into designing and testing processes. In addition, modern analysis capabilities allow the visual representation of individually selected pieces of business information and KPIs. And it can be used on any mobile device, interactively. Improved, cross-product operational analysis and intelligence contribute to further accelerated process improvements.

Social networks have profoundly changed the manner in which people connect, communicate and collaborate with each other. Our new ARIS Connect product helps companies use social collaboration to bring about process improvement at the departmental and IT level. ARIS Connect works with a new HTML5-based client technology that provides additional access via smartphones and tablets, so users can collaborate with each other from anywhere at any time.

Social collaboration brings together many different stakeholders involved in a project—all with different roles, skills, expectations and requirements. ARIS 9.0 addresses this role-specific expertise and the individual requirements by providing each stakeholder with the right tool environment, product view and user interface, as well as the correct information and data. The tool can be adapted to project-specific requirements at all levels—from the metamodel to the configuration of the user interface. To achieve access to a larger ARIS user group within a company, ARIS Connect can be used in public, private and hybrid cloud infrastructures. This simplifies the introduction of the system and enhances user acceptance.

Thanks to a browser-based "look and feel" user interface, this new version of ARIS is easier to learn and use than previous versions. Its intuitive usability via toolbars shortens the paths between the individual functions, saving users valuable time. It is also much more flexible than previous versions.

When business processes are modeled, each activity must be coordinated with the company's focus and vision and communicated so that the company can always respond with flexibility to changed requirements. ARIS 9.0 delivers results that are relevant to the day-to-day operations of all parties involved, including state-of-the-art analytical functionality, dashboard technologies and spreadsheet and simulation functionality. Best practices and PRIME Methodology ensure rapid value creation. Software AG's ARIS 9.0 makes a very tangible contribution to knowledge-based companies.

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Other R&D services in the ARIS environment

The **ARIS Community** reached more than 200,000 members—an unrivaled number in the industry. The community is the world's largest BPM user group and allows individuals, organizations and universities to analyze, visualize and discuss business information. More and more, companies are seeing that collecting intellectual capital for use by the entire company provides competitive advantages.

Not only do the members, who hail from over 40 countries, have extensive opportunities to exchange information with each other, but they can also obtain free modeling software. Post modeling, the process models can be implemented in our webMethods suite so that the entire value chain is covered (model to execute).

The R&D efforts of the ARIS developer team will continue to focus on expanding the ARIS product range, enhancing user friendliness and broadening the use of ARIS within the company. Addressing Internet users and community members will also play an increased role.

Over the course of 2012, developers labored to convert the entire product line to a cloud architecture. It is distinguished by the following characteristics:

- Multitenancy architecture (a single instance can support several clients with unlimited users) and single-instance storage (a comprehensive IT strategy for preventing duplication through one-time storage of data)
- Scalability and elasticity, resulting in a lower TCO (total cost of ownership)
- Against the backdrop of the rapid spread of mobile devices, preparations began to integrate mobile applications and user interfaces to result in concrete solutions in the new year.
- As a response to the megatrend of increased integration through social media, the development team worked on integrating social media functions, such as ARIS Align, which is essentially Facebook for BPM.

At CeBIT in March 2012, Software AG announced the certification of its Software AG Cloud Ready portfolio for another leading platform, cCell Services from HP, one of the largest providers of infrastructure and data center services. Software AG Cloud Ready offers solutions for modeling, process management, service-oriented architecture and cloud integration, allowing faster and more cost-effective optimization of business processes. With it, HP customers who run Software AG products in their own data centers can seamlessly switch to HP's cloud platform—and get a high degree of flexibility and new forms of collaborative value creation.

This gives Software AG customers even more options for deploying their software solutions. They can choose whether they want obtain their cloud services through their own data centers, a regional IT partner or HP. Thus, they can put new environments in the cloud on an on-demand basis much more quickly using their existing Software AG licenses, thereby reducing long-term costs and expenses for hardware and hosting. Along with HP, we are among the first companies with a mature cloud platform, so we can offer our customers the next logical step in the transition to a completely cloud-based business infrastructure.

R&D for the webMethods product family

With webMethods, the full potential of new, open architectures and existing infrastructures can be fully exhausted, because the software products support closer collaboration between the IT group and other departments. This reduces the time and money spent on process optimization and system integration while increasing productivity. In this area as well, R&D expenditures in fiscal year 2012 focused on the new megatrends in the ICT industry.

WebMethods 9.0 reaches milestone in cloud and big data strategy

Parallel to ARIS 9.0, we introduced **webMethods version 9.0** at ProcessWorld. The expansion of the independent webMethods integration layer places the focus of the new version on consolidating the management of large amounts of data from any data source with automated business processes and applications, which are provided in various environments—in the cloud, on mobile devices and internally. Combining in-memory, cloud, mobile and social collaboration technologies gives companies access to huge amounts of data in microseconds and allows the distribution of information to any end device. Thus, companies can respond quickly and productively to new business opportunities. The efficient management of big data creates unique business potential for companies that they can exploit only if they respond quickly enough. Software AG has taken an important step with webMethods 9.0 to help companies generate real competitive advantages and exploit this potential fully.

Version 9.0 is now tightly integrated with our Terracotta technology, a leading in-memory technology for processing big data; webMethods customers benefit from the technology's unique scalability. The local or distributed data caching in webMethods 9.0 offers even higher computing power and fault tolerance. In addition, the new version can process very large XML documents directly in-memory, which increases performance and reduces the complexity of the programming. The market demands access to data in real time as offered by in-memory solutions. Given the rapid increase in business data, companies around the world from all industries are facing the challenge of scaling up their data infrastructure to use the data. The Aberdeen Group's research into big data has shown that not only were companies with in-memory processing capable of analyzing vast amounts of data in less time than their competitors, but they were also literally orders of magnitude faster.

Software AG's new product **webMethods CloudStreams** extends our independent and vendor-neutral integration layer, allowing enterprises to easily and efficiently link SaaS applications like Salesforce.com and Openair with their in-house applications or other SaaS applications, continuously guiding the integration. This extends the scope of webMethods' operation toward public cloud solutions.

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The new **webMethods Mobile Suite** provides a high level of security for interactive mobile applications. Enterprises can quickly build and distribute mobile applications and, most notably, allow only authorized users and devices into their networks, thereby avoiding dangerous security threats. Employees, customers and partners can access the enterprise's IT systems from anywhere in a secure distributed environment. In addition to integrating the Terracotta BigMemory solution into the webMethods suite during 2012, both R&D teams began integrating the webMethods complex event processing engine with Terracotta, allowing real-time data analysis.

Other new features of webMethods 9.0

Social collaboration is continuing to grow due to the need to respond more quickly to new business situations. Using **webMethods Pulse**, companies can now exploit the potential of social networks to provide all stakeholders information and event streams in real time. The timely notification of any transactions immediately makes collaborative work efficient, regardless of the location or the device used. This is the basis for supporting social processes within our business process suite.

To simplify administration, our new **webMethods Command Central** product not only centralizes monitoring and operation for existing customers, but it also allows operation in the cloud. The solution provides transparency and control over the entire webMethods landscape and is part of a long-term program to reduce the total cost of ownership (TCO) and modularize webMethods architecture. Users can configure environments with a single tool and obtain views of each product landscape, enabling comparison of the configurations and versions of the products over the entire webMethods landscape. Enterprises can provide and manage functionality, with which they can efficiently design different operating models in hybrid cloud environments. With these new product features, Software AG is pursuing our cloud strategy and reinforcing our role as a leading provider of innovative solutions that allow internal applications to interact with applications in the cloud.

WebMethods Active Transfer simplifies the setup process and management of file transfers with partners. All file transfers are processed centrally, supporting fast, reliable and scalable file exchange regardless of size and volume of the files. The enterprises also benefit from it in adherence to their service level agreements (SLAs) for file transfer; expanded security and access-control mechanisms ensure security and protection of business-critical data.

R&D for Terracotta

Terracotta products address the challenges of the major megatrend big data—the explosively growing volumes of data from various data sources. Thanks to Software AG's acquisition of in-memory technology provider Terracotta Inc. in fiscal year 2011, our customers now benefit from the new technology. Terracotta is already being used by over two million developers; in total, there are over a million installations.

At CeBIT, Software AG presented our strategy for next-generation big-data management along with our latest product developments. Growing volumes of unstructured mass data present enterprises with enormous challenges. They also offer a great opportunity to extract and distribute basic business information in real time. Direct access to large amounts of data and real-time analysis of the data increase transparency and enable quick decision-making and rapid response times. Therefore, high speed and scalability in evaluating data and providing the results to thousands of clients are critical success factors for enterprises. Enterprises need a comprehensive, universal approach to achieve cost-effectiveness and scalability.

Terracotta BigMemory is the industry-leading in-memory data management solution for big data—a simple, highly scalable solution that easily integrates into existing IT environments and thus offers immediate benefits. In-memory technology can make access times for vast amounts of unstructured data from disparate sources up to 1,000 times faster than with conventional technologies. This allows customers real-time access to business information and significantly accelerates their decision-making processes. The transparency generated for real-time operational activities promotes new, innovative and highly flexible business processes. The heart of this strategy is a platform through which huge amounts of low-latency data can be retrieved from various data sources.

Behind all of this is a platform that provides access to data in the multi-terabyte range—in any format and from all types of sources—using Terracotta BigMemory technology. The platform integrates technology for processing event streams, generating maximum business intelligence in real time from the immense amounts of data.

Software AG's BigMemory technology is already in use at many large-scale enterprises that must keep many terabytes of data accessible in-memory. The planned functional enhancements to BigMemory include the in-flight processing of event streams, as well as services for profiling and aggregating data for real-time data analysis. In addition, Software AG will make it possible to process data from all data environments (transactional systems, analytical systems, relational/non-relational databases, Hadoop/NoSQL and social network environments) in a common in-memory repository.

Our vision is to build an in-memory platform for data management that acts as a bridge between the requirements of transactional systems and analytical systems. Our integrative approach makes it possible to retrieve huge volumes of data from enterprise applications as well as analytical systems with low latency. In addition, the platform offers interfaces to a wide range of new and old data systems and analytical tools, creating a connection between the current IT landscape and the data world of tomorrow.

my-Channels enhances big data strategy

Acquiring smaller technology providers is part of our portfolio strategy to expand our position as a technology leader. In the context of this strategy, Software AG took over British technology provider my-Channels in April 2012, an important component of our portfolio for in-memory management

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of big data. This acquisition complements our existing integration technology with high-speed messaging software—the universal messaging middleware platform—which plays a major role in the rapid integration of a more and more pronounced unlimited application landscape. Enterprises that must share information with their various stakeholders in real time and with ultra-high levels of data security need a high-performing integrated transmission layer.

my-Channels provides Software AG's customers with a unique, universal layer for message transfer, which they can use to fully integrate their enterprise applications, cloud-based applications and mobile devices into their data exchange system. They can transfer huge amounts of business-critical data streams to their employees, customers and partners—in real time and regardless of the location, channel and device.

Nirvana by my-Channels is a message-oriented middleware technology for bidirectional transmission of data streams between any combination of internal and external systems/clients. Within microseconds, it transports hundreds of thousands of pieces of information to several thousand devices in continuous data streams. It guarantees the provision of real-time data between different platforms and different levels—within the company, via the Internet and the cloud and to mobile users. As an enterprise-class platform, the solution is currently used primarily in the financial sector, where it transports data streams to clients and partners. The software is characterized by low latency, which means that it enables high data throughput with a low delay time.

The technology is also increasingly used in other areas where real-time data must be transmitted via a growing number of channels, application frameworks and devices, and flexibility and scalability play a crucial role. The spectrum ranges from e-commerce enterprises to the public sector. Thus, various messaging options are available to customers as part of their webMethods integration platform implementation.

BigMemory was selected as the top innovator in the field of big data technology at DataWeek 2013—held in San Francisco, California in September. DataWeek is the biggest data management event in the U.S. According to DataWeek's CEO, data is the new capital in an information economy. Enterprises are discovering the value of their terabytes of data, authorities are sharing their databases for public use and thousands of data startups are building on the data feeds resulting from social networks. By becoming part of this new ecosystem of data feeds, data infrastructure, data technologies and data markets, we are contributing to economic, technological and social success.

This award confirms BigMemory's industry-leading position as a significant improvement in big-data management. By offering high performance in the terabyte range, our innovations create real business opportunities for our customers—today and in the future. Our integrated portfolio introduced in 2012 perfectly meets the needs of today's user.

ETS business line—R&D overview

The traditional ETS (enterprise transaction systems) business line includes solutions for managing mainframe computers. Its core products—ADABAS, the first high-performance database, and Natural—offer companies a platform for developing and operating business-critical applications. For a large customer base made up chiefly of large-scale enterprises, ETS still represents a key technology; it is often business-critical and virtually irreplaceable—from a technological perspective, as well as for efficiency reasons.

This business line remains a reliable sales and earnings driver for Software AG and supplies an important and highly profitable foundation for the dynamic, creative development of BPE solutions. It is therefore only logical to continue to develop our ADABAS-Natural database products as customizable solutions rather than replacing them with other technologies. We are constantly striving to maintain the ETS products' leadership role in terms of performance and to integrate ETS with the latest relevant technology trends and developments.

In fiscal year 2012, we focused on consistently expanding **NaturalONE**, the next generation of the Natural development environment. It allows customers to maintain existing applications with high productivity, modernize them with little effort, and easily implement new modern Web and SOA applications. A number of customers around the world have already successfully implemented NaturalONE. New NaturalONE functions such as automated testing, integration of Web-based dashboards, integrated code quality analysis and support for mainframe tools allow users to implement customer-specific application functionality more quickly.

The existing functionality that makes it possible to run Natural applications on multiple system platforms (for example, mainframe, Linux, UNIX and Windows) has been improved so that customers can port their applications to other platforms without any changes. In addition to portability, Natural supports the latest IBM mainframe technologies, such as zIIP processors. Our new product zIIP Enabler for Natural helps optimize IT operating costs and was successfully implemented in business-critical customer environments in 2012. We have further improved the integration of Natural applications into webMethods. This makes it even easier to integrate transactional business logic based on Natural into webMethods SOA and BPM solution scenarios and to monitor them centrally with the advanced software webMethods Optimize for Infrastructure. Customers benefit from implementing new business processes on the basis of existing applications more quickly. Many customers upgraded their Natural applications in 2012, thereby increasing the sustainability and relevance of their business applications.

ADABAS developments focused on the areas of performance, availability, data security and data integration. New administrative tools (DBA tools) allow dynamic adjustment of database parameters and augmentation of the database structures and data containers in operation. In this way, customers can ensure smooth database operation and respond more quickly to new market or customer requirements. ADABAS' data integration and data replication capabilities were further expanded so that business data stored in ADABAS can be integrated easily into relational databases (such as Oracle and DB2) and data warehouse or webMethods environments.

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Data masking for ADABAS

At the international user conference in Berlin in May 2012, Software AG unveiled our new Data Masking for ADABAS product. With this solution, ADABAS customers can use current production data in amended form to design and test applications, ensuring that confidential information is protected. In developing applications that access ADABAS, real-world data is needed to test and optimize the applications in test or quality-assurance environments. This data can include such confidential elements as customer names, credit card numbers or details from medical records. To protect such data, companies can extract a snapshot of the corporate data from ADABAS and manually replace the confidential items with different values or text. This method is, however, time-consuming, labor-intensive and error-prone. Data Masking for ADABAS automates this change process and ensures that potentially sensitive data remains anonymous and protected in various ADABAS database environments. In this process, the solution leaves the original environment untouched and gives developers data similar to that used in production to work with.

ADABAS data is automatically masked for privacy purposes. With Data Masking for ADABAS, organizations provide their developers with the necessary real-world data quickly and easily while ensuring an uncompromising privacy policy. This enables organizations to comply with legal requirements and the demands of the market while saving time and money when developing applications. The new solution benefits organizations that must comply with legal regulations such as the European Union's Data Protection Regulation. It protects them from damage to their image that could result from accidentally disclosing sensitive data due to faulty design or testing errors.

Other security mechanisms, such as the automatic logging of ADABAS System Fields, allow granular auditing of database changes.

ETS planning for 2013

The integration of Natural applications and ADABAS data into new big data, in-memory and mobile app solution scenarios will be one of our priorities, so we can offer customers additional options for re-use. In addition, NaturalONE will be expanded to meet key customer requirements, for example in the areas of security, code profiling and Web-browser interactivity. Along with supporting new mainframe functions, ADABAS is being expanded more for high-end server-platforms (Linux, UNIX and Windows) so that highly scalable and extremely high-performing applications can be served even better.

Other R&D measures and cooperations

Software AG announced in May 2012 that we have developed new customized solutions for different business scenarios. These **Business Solutions** are more than just technology products; they also include PRIME (process improvement methodology), which is needed for rapid

implementation of initiatives to optimize business processes of any size. Business solutions further develop the proven process frameworks from Industry.PerformanceREADY for particular industries and vertical applications, enabling customers to add value more quickly via industry-specific process templates and KPIs.

They help us address the following topics within the framework of IT transformation projects: business process management (BPM), business process analysis (BPA), application integration, service-oriented architecture (SOA), master data management (MDM), B2B integration, process intelligence (PI), enterprise architecture management (EA), governance, risk and compliance (GRC) and application modernization. For example, the solution for BPM offers different case studies for accounts receivable management, order management and lean production processes. The BPA solution gives customers best practices for transformation projects, for example in the field of power supply or supply chain management, and the GRC solution offers predefined packages for regulations such as SOX, Basel II and Solvency II.

Partnership with CASED, an IT security think tank

Software AG and the Center for Advanced Security Research Darmstadt (CASED), represented by the Fraunhofer Institute for Secure Information Technology (Fraunhofer SIT), reached a deal on a strategic partnership in mid-2012. This partnership gives Software AG the benefits of an agile, cutting-edge research institute, allowing us to incorporate its findings into our software development process. It further strengthens the region, as well as the collaboration between two partners in the software cluster. Their joint activities focus on construction of a new CASED laboratory for secure software development (secure engineering) to increase IT security. The goal is to transfer knowledge to each other and strengthen Germany's position within the framework of the software cluster. The new partnership focuses on the theme of IT security and is meant to serve in the long term as a transferable example of cooperation between industry and research organizations.

Innovations emerge from creative ideas that are developed into a practical solution. To promote creativity and exchange with research institutes, in mid-2012 Software AG again invited students to participate in our idea contest to create a showcase project for the next CeBIT (see University Relations section).

Transformation to a Digital Enterprise

Innovation leaders in the global ICT market must always stay on top of the latest trends and launch innovative products at the right time. A software company must therefore evolve constantly, further developing in response to changing requirements. The keynote theme for CeBIT 2013 is social collaboration and the "shareconomy"—moving away from a rigidly hierarchical organization and toward networked thinking and collaboration or information sharing. We at Software AG have completed a successful year of transformation ourselves.

We set ourselves the task of turning our own organization into a Digital Enterprise so that we would be competent to guide our clients through their digital transformations. A core element on this path is the Cloud Ready strategy. In the long term, only those companies that can quickly adapt to new technologies will be successful. We therefore strive to engender a creative working atmosphere and promote our employees' ability to innovate with a climate in which drive, inspiration and ideas flourish and are incorporated into product development and customer projects.

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Our high degree of networking across divisions and companies helps us promote a spirit of research. We ensure an ongoing, creative exchange with universities, research institutes and think tanks, with standardization committees, trade associations and partner networks, so that we can seize on the latest technology trends in good time. Furthermore, it is important to us to always analyze customer needs and incorporate a practical approach into research and development. This combination guarantees that our ongoing R&D efforts produce innovative solutions that meet the needs of businesses and consumers at the right time. And that we develop our competitive advantage in technology over the long term.

CUSTOMERS AND SALES

Every industry is facing the effects of the profound changes taking place in today's work environment and driven by four technology megatrends: cloud, mobile, social and big data. From large-scale manufacturing enterprises and public administrations to smaller companies in the services market, everyone must confront the new challenges and adapt their business models and processes accordingly. Software AG recognized these trends early on and is constantly working to translate them into customer-oriented solutions. Our innovative products and services are aimed at companies of all sizes from all industries. They help decision-makers and professional users around the world respond more quickly, flexibly and efficiently to changes in the market, thereby engendering competitive advantages. Software AG has continued in 2012 to focus its investments on sales and marketing, further aligning our own organization with the needs of the customers. In doing so, we concentrated on acquiring new customers and strengthening existing customer relationships.

Our multitude of sales-support measures and services are helping us introduce the latest technologies and services from our portfolio as well as inspire customers to use our products more. Our account managers and consultants use their industry experience and best-practice examples to show how the solutions help add value within the enterprise and contribute to achieving business goals. This helps us become an important strategic partner for our customers, leading to greater customer loyalty and more intensive collaboration.

Sales and marketing initiatives

As part of the sales and marketing initiative—announced in early 2012—to improve our competitive position in the BPE business environment, we are focusing our investments specifically on markets where strong sales opportunities are emerging. To this end, we have expanded our distribution channels in North America, further developed our sales team in DACH (the German-speaking region consisting of Germany, Austria and Switzerland), and significantly strengthened our presence in Silicon Valley. We combined our forces in California by relocating our Mergers and Acquisitions team and our chief marketing officer there. These measures were intended to put us even closer to the heart of the action in the IT sector, to achieve greater networking with innovative startup companies and to anticipate and exploit future market potential and product innovations.

Our U.S. subsidiary Terracotta helps us cater even more to the rapidly growing big-data market and expand our process and integration software business (ARIS and webMethods) in North America. In addition to the changes in the United States, we have made a sweeping increase in our staff numbers in the Asia-Pacific region and we are well-positioned in terms of staffing and portfolio in the key markets of North America, EMEA, Asia-Pacific, and DACH. This increased presence in core markets allows us to make attractive acquisitions even more quickly in order to capture a leadership position in technology and support our organic growth.

Expansion of our customer base

In 2012 we won promising new major customer projects, which speaks in favor of Software AG's attractiveness in our highly competitive markets. At the same time we built on our existing customer relationships with new projects in the seven-figure range—a testament to the quality of our business relationships and the innovative strength of our products. Two successful customer projects in 2012 laid the foundation for our inclusion in SAP Germany's Validated Expertise program: We successfully harmonized the overall IT architecture for a regional energy supplier in Frankfurt as part of a business optimization project, and we systematically adapted process and IT landscapes for a utility company from Düsseldorf to organize a broad grid network.

In addition, Software AG delivered advanced technology for a hospital of the future for Nemours, an internationally recognized healthcare facility for children. The new Nemours Children's Hospital (NCH) was opened in October 2012 in Orlando, Florida. It is outfitted with ultramodern clinical, facility management, maintenance, and other systems, all of which are connected via Software AG technology and mesh seamlessly. The webMethods Integration Server and the webMethods Business Process Management Suite created a "smart building" that helps Nemours provide better patient care—from both a medical and personal point of view.

In 2012, Austria's Process Management Association presented its process award in the category of supportive processes to Hypo Group Alpe Adria for a project that was implemented with ARIS. Not only does ARIS BPE software help improve process efficiency, but it also supports the implementation of compliance-related requirements in enterprises. The process award is given to the year's best processes and honors companies that develop their organizations with the help of process management.

At numerous national and international trade shows, forums, and other events, Software AG seeks direct contact with industry experts, customers and prospects. As the IT industry's most important trade fair, with more than 300,000 visitors annually, CeBIT receives a good deal of coverage by the business and trade press and enhances awareness among key stakeholders.

At CeBIT 2012, Software AG demonstrated how enterprises from various sectors are implementing excellent business processes and achieving their business goals faster. Engaging IT projects and numerous case studies showed visitors how rapid responses are becoming more and more important in the digital business world. One example is a new reference project to speed up heavy transport between Germany and Austria, which illustrates how authorities can benefit from digital administrative processes. At our booth,

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representatives of PDG S.A.—Brazil's largest construction and real estate company—demonstrated how they succeeded in lowering the time required for a credit check process from weeks to hours. Software AG upheld CeBIT's main theme for 2012, "managing trust," with the presentation of its Cloud Ready strategy for cloud-based IT solutions. The flexibility achieved here allows the appropriate use of new and existing cloud products and meets the diverse security needs of industry and public administration.

In Fall 2012, we held our ProcessWorld international customer event in Orlando, Florida, again. This symposium aimed at IT managers is already well-established in the industry and attracts several hundred international participants annually from the worlds of business and administration. Held from October 15 to 17, it offered more than 40 lectures and workshops in which selected reference customers—including Coca Cola Enterprises, Estée Lauder, Heineken and Nielsen—presented best-practice case studies. The topics ranged from process strategy, integration, and SOA to current trends such as data management and cloud computing. This event is an excellent platform for customers to discuss their experiences and exchange information about new approaches in the field of BPE. Every year at ProcessWorld, Software AG focuses on new products and solutions, which in these times of increasing competition help enterprises achieve their business goals faster and increase their value.

Software AG also showed the 250 attendees at Process Forum—held on June 13, 2012 in Darmstadt, Germany—what business process excellence means in practice and how excellent business processes contribute to a company's success. True to the event's slogan of "meet the experts," Software AG made numerous experts available to talk to others about their experiences. Reference customers, including the Frankfurt airport (Fraport AG), the German stock exchange (Deutsche Börse), Merck kGaA (chemical and pharmaceutical company) and Swisscom IT Services AG, reported on their experiences with optimized business management, the use of ARIS for different applications, the implementation of a service-oriented architecture, and the modernization of operational applications. The numerous one-on-one discussions at such trade shows and forums give us valuable feedback from the market that flows directly into our product strategy. We have published more information about customer references on our website at www.softwareag.com/corporate/customers/default.asp.

We conduct customized events and present first-hand product and market information in our on-site Customer Briefing Center, which is outfitted with the latest in technology. As part of our customer success program, companies can present the best practices that they have developed using our technology at our briefing center. In addition, we present our Customer Innovation Award, which features a number of different categories. This award recognizes customers who have developed particularly innovative solutions using our technology.

Along with the numerous customer events and training sessions we organize, we also support online business communities and provide a great deal of information about our technologies and application options on our Website at www.softwareag.com/corporate/community/default.asp.

Software AG regularly conducts customer surveys to identify technology trends and the resulting customer needs at an early stage and match them in product development. The surveys help us keep an ear to the ground in the market and maintain close contact with our customers. The survey of attendees at ProcessWorld Orlando 2012 showed that broad-based use of new technologies in the areas of big data, mobile, social and business process management will increase. These results confirm that Software AG has taken the right path of offering customers an innovative and practical product and service portfolio to meet their specific industry requirements in response to the issues raised by the four megatrends.

PARTNER NETWORK

Expanding our portfolio to create an enterprise digital platform increases the importance of having a large, innovative partner ecosystem. Our global network of partners improves our market coverage, allowing us to provide comprehensive consulting as well as long-term support. The network helps us offer our customers complete solutions from the Software AG platform while accelerating the pace of innovation and providing our wide range of services all over the world using local sources.

Therefore, the rapid expansion of our partner network and our business involving partners are crucial components of Software AG's corporate and growth strategies in our business model.

Expanding our partner network in 2012

Our worldwide partner network consists of about a dozen leading, globally operating service partners, about 300 locally-focused systems integrators and distributors (value added resellers), independent software vendors, OEM partners, education partners and consulting companies. In fiscal year 2012 they once again played a major role in our Company's success by promoting business in growth areas, especially with the BPE product line.

The licensing revenues generated by our partners came from projects with new and existing customers. Our sales and solution partners address specific market segments. Our partner network is distinguished by its vertical market expertise and knowledge of industry requirements and customer processes, and it plays a strong role in our business and project success. Our partners' industry expertise covers nearly every major sector of the economy—varying by region and including everything from public administration and healthcare to banks and insurance companies, telecommunications, trade, logistics and manufacturing.

We support our partners through our partner program, which is under continuous development to create additional economic incentives for our partners, strengthen quality assurance in partner education through improved training and enable our partners to differentiate themselves more in the market.

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Strengthening the organizational structure

To accommodate the growing importance of the partner business while promoting worldwide sales activities, the organizational structures to support and expand our partner network were significantly strengthened in 2012. For example, responsibilities have been defined clearly for all sales regions worldwide.

To that end, Software AG has placed even greater emphasis on partner sales and put them under new leadership with the goal of developing existing business relationships and gaining new partners. The partner business and the associated creation of an ecosystem for our products and technologies should have a substantial influence on Software AG's growth and success in the coming years.

Strategic partnership highlights in 2012

In addition to our established BPE product portfolio, which includes ARIS and webMethods, Terracotta's in-memory technology has been especially well-received by our existing partners. Our American subsidiary Terracotta introduced an independent software vendor partner program for their new product BigMemory Go in November 2012. This program offers independent software vendors an innovative way to immediately provide their customers with a solution for real-time access to vast amounts of data. Ultrafast and highly scalable, BigMemory in-memory software opens up considerable customer potential for our partners.

Another item on the agenda in 2012 was the expansion of our activities with global systems integrators. Software AG supplies the software solutions, while the systems integrators contribute business content and case studies. By combining our efforts in this way, we create clear-cut added value for our customers' business. At the same time, we further expanded our collaborations with our largest partners worldwide while implementing regional initiatives with key partners. The focused measures, along with Software AG's increased visibility in major markets (such as the United States) garnered us some 70 additional partners in all partner categories in 2012.

The importance of our partner network is manifested in all the major events and trade shows that Software AG participates in or organizes independently. For example, at CeBIT two partners were fully integrated into Software AG's presence: Deloitte and Trillium. ProcessWorld Orlando was sponsored by 17 key partners, including Accenture, Cognizant, Deloitte, HCL, IBM Rational, KPMG, ProSoft and Trillium.

Implementing product development and programs with key technology partners is an essential element of our product strategy. In September 2012, SAP Germany accepted our subsidiary IDS Scheer Consulting GmbH into the Validated Expertise program in the SAP for Utilities category in Germany. This designation is given to SAP Services Partners who have in-depth knowledge of and special expertise in SAP solutions and can demonstrate successful completion of customer projects in certain industries.

As part of the global SAP service partnership, IDS Scheer Consulting established a Center of Excellence (CoE) for SAP HANA. The CoE links industry and technological expertise regarding Software AG's solutions, products and services to the SAP HANA platform. Software AG and IDS Scheer Consulting are long-standing partners of SAP and are part of the SAP HANA early access program for partners, which allows early access to the SAP HANA expertise pool.

Outlook for 2013

In 2013, Software AG will continue to expand our business and work with international partners on vertical process templates and solutions to give customers the tools they need to embrace with major revolutionary technology trends. Specific plans for 2013 that are part of our partner growth strategy include the following:

- Recruiting new service and sales partners in all sales regions
- Improving local support for service, sales and OEM partners by adding more local partner managers
- Expanding education programs for partners through the addition of technology and sales training sessions—with a special focus on sales training and Terracotta product training
- Substantially increasing incremental sales to customers who are accessed and served primarily by partners

EMPLOYEES

The IT industry is faster paced than many other market segments. Growing global competition and revolutionary technology trends like cloud computing, social media, the lightening-speed proliferation of mobile devices and big data are accelerating the ongoing and dramatic transformation of the working world. While pressures associated with change mount for organizations, demands on their employees and managers increase all the same. The situation is compounded by the long-term shortage of skilled labor in countries like Germany.

In light of this situation, Software AG pursues a human resources (HR) strategy aimed at recruiting new, qualified employees while also developing existing members of staff and their talents. We use a holistic development approach that includes all employees—from junior professionals to executive managers. In addition to HR development activities we offer international career opportunities and a work/life balance. We are continually working to improve our established position as an attractive employer and to create an innovative, performance-based work environment with a wide variety of programs and initiatives. This is how we will keep attracting the best and the brightest professionals.

Workforce

At the end of 2012 Software AG had a total of 5,419 employees (full-time equivalents) worldwide, in contrast to the 5,535 employees in 2011. In line with our Group's global operations, these employees' jobs are spread out over our locations in 70 countries. In the past fiscal year 1,768 people were employed at Software AG in Germany, where our headquarters are located.

Our employees are distributed according to functions and regions as follows:

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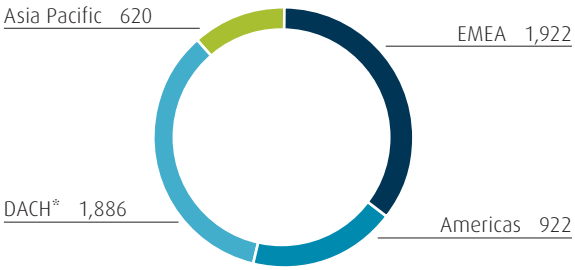
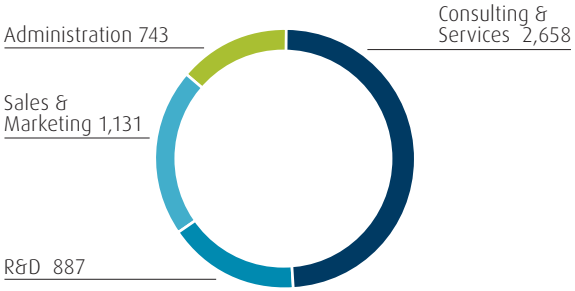
HEADCOUNT BY REGION 2012



*Germany, Austria & Switzerland

HEADCOUNT BY FUNCTION 2012



Focal points of human resources activities in 2012

Software AG's HR strategy is derived directly from the corporate strategy. Our objective is to provide employees with a comprehensive, market-oriented package of services as well as a a cooperative and productive work environment. Software AG reorganized HR at the end of 2011. The international HR team developed a global HR strategy for the period from 2012 to 2014. It was discussed with and approved by the Management Board and Supervisory Board. This strategy focuses on aligning HR processes and strategies with Company objectives. In order to guarantee further enterprise growth, both organically and through acquisitions, global HR processes must be scalable, so that they can grow alongside the organization. As a pioneer in Digital Enterprises and to be an important partner for our customers, Software AG also takes this role to heart internally. All global HR processes are digital from end to end.

Other key elements of our global HR strategy are global talent management, international leadership development, integrated performance management and the standardization of remuneration structures and incentive tools. HR management places particular emphasis on further promoting interaction and collaboration across departmental and national boundaries. To this end Software AG set up an internal talent management platform known as Career4U, which allows employees and their managers to agree on individual development plans. Goals can be defined and evaluated. Results from annual review meetings are documented, and follow-up plans are made. These individual employee profiles promote a global exchange of talent and development options.

Software AG hired a total of almost 1,000 new staff members during 2012. Our new, internally developed onboarding process tool provides the structure for consistent new-hire orientation and training. Due to the high number of new hires, our hire processes were further harmonized and optimized. Software AG continued to work on the integration of IDS Scheer in the past fiscal year. Over the course of the year, all relevant employer/works council agreements were extended to encompass the new employees. Aspects such as stock option plans, pension plans, working hours,

long-term time accounts and travel policies have all been standardized within Germany. Likewise, our HR managers concluded the technical integration of the new employees; for example, they were added to our global SAP HR database and our global SAP HR master system. In this way, Software AG has created a global organization management system containing consistently defined reporting lines and responsibilities. Key strategically relevant processes and tools are linked to the global HR system.

Special attention will be directed toward the systematic integration of staff members who join Software AG through future acquisitions. Just as our work with customer projects requires, teams will be merged under the Software AG brand via a structured integration plan and closely connected technology links. Special workshops and training sessions provide employees with the opportunity to exchange expertise on the merging portfolios as well as receive information on corporate processes and cultures.

Personnel development

Demographic change, but also the changing life plans and expectations of our workforce have made the subjects of flexible working hours and a work/life balance a focus of our human resources strategy. Currently about 20 percent of Software AG's management positions are held by women. We will continue to strongly support the employment, retention and promotion of qualified women in the future.

We will set uniform standards and conditions with the introduction of a global function and salary matrix in 2013. This will promote international exchange, developmental opportunities and fair compensation structures. Our performance and qualification-based salary system is structured according to individual company functions, individual performance, general market conditions and Software AG's business success. All HR measures take place regardless of culture, gender or nationality. Individual recognition and a wide range of social and additional benefits are how we reflect the value of our employees. As an innovative software company, we also offer programs and initiatives for employees to achieve a work/life balance. These include part-time employment, working from home, time accounts, sabbaticals, employee assistance plans and a whole range of sports, health and occupational reintegration options.

In order to successfully withstand the global competition, we not only have to find the best young professionals, but keep, motivate and develop then as well. We rely on systematic manager development as well as regular, structured annual reviews and assessments by supervisors and HR professionals to identify young talent with strong leadership skills within Software AG. This serves as an incentive for every employee.

Our international High Potential program, in existence since 2005, nurtures those who have distinguished themselves through their outstanding performance. The program's objectives are to develop employees in an individual and

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targeted manner and to promote their loyalty to Software AG. The program prepares suitable employees for taking on greater responsibility and facilitates the internal recruitment of resources for vacant management positions. It provides a forum for exchanging best-practice knowledge, networking internationally and conveying our corporate values throughout the Group. The High Potential program focuses on such subjects as leadership and strategy, as well as innovation and change management.

Talent management rather than HR administration

Software AG is a leader in Business Process Excellence. In order to offer our customers tailored products, solutions and services for the management of their business products, we rely on skilled staff members. Particularly in the competitive IT sector where there is a shortage of skilled labor, well trained employees are a key competitive advantage. This is because our specialists need a variety of skills to be able to develop precisely the right customer solutions to meet the ever changing business needs of companies today. In addition to extensive technical and industry expertise, social and interpersonal skills are increasingly in demand. They include, for example, strong communication, public speaking and negotiation skills as well as flexibility. Only employees with strong qualifications and interpersonal skills are able to develop and implement the best possible solutions for our customers. They are therefore a critical success factor in an IT market that is so strongly driven by innovation and competition.

Based on the approach, "living responsibility–lifelong learning," our Corporate University offers our staff a comprehensive range of training options in both technical subjects and social and interpersonal skills. The Corporate University promotes employee excellence in every department and in every country through continuous learning and close interaction. In addition to educating in a traditional classroom setting, we also support contemporary IT-based methods and formats, which are more easily integrated into the normal work day. Online platforms such as e-learning, virtual classrooms and collaborative social media-based learning represent the largest percentage of the chosen forms of training at Software AG.

Furthermore, we introduced a management cockpit in 2012 that provides extensive training KPIs and enables us to continually optimize and enhance the efficiency and effectiveness of our course offerings. We have also improved the level of user-friendliness of our learning management system and restructured our course offering portfolio. Now it is even easier for our employees to develop and expand their knowledge and skills with the help of the Corporate University.

Our learning management system tallied more than 13,000 completed training units from an offering of about 2,200 courses given in e-learning, virtual and live formats. This is a five-percent increase over last year. As in past years, more than two-thirds of the consumed content pertained to technology training. This confirms the determination of our staff to drive the technology leadership and innovative power of Software AG. The number of employees who became certified or recertified for at least one Software AG product in 2012 rose 19 percent to 330 over 2011.

The introduction of our New Hire Sales Boot Camps was a further milestone in the expansion of sales. This intensive training is designed specifically for Software AG to help recently hired sales staff achieve faster success with customers. It is an important element of our onboarding process and will therefore be continued and enhanced in 2013.

University Relations

A good education is the foundation of innovation. In order to stay successful for the long term, companies in the IT industry depend on creative and skilled employees who can guide customers through their complex business processes. In our search for the best people, we have a simple formula for success: Giving today's creative, innovative students the best possible education will pay off in the future. Software AG therefore launched its University Relations program in 2007.

Through this program, Software AG maintains close contact with colleges and universities worldwide and provides them with software products for teaching and research free of charge. The facts speak clearly for its success: 664 schools have taken part in the University Relations program to date. We completely reorganized our University Relations strategy into three solid pillars in 2012:

- High-value projects
- The high-volume program
- Recruiting

High-value projects

Building on the success of past years, Software AG continued to foster the concept of turning ideas into innovations in 2012—from institutions of higher learning to the market. Based on this approach, we transform research findings into market success through our extended university program known as high-value projects. Through this program, Software AG helps students and academic institutions develop their ideas and research findings in a practice-oriented manner. Software AG considers partnerships the best way to provide students with a variety of options for collaboration and entrance to the workforce. Setting up a virtual economy on campus gives students the opportunity to gain valuable practical experience at no cost. To promote the best, most creative ideas and solutions, we support students with their theses both through subject-related and financial assistance. When we recognize enough potential, we provide seed capital—including founding startup companies. One hundred and ninety-eight projects worldwide have already resulted in more than 50 bachelor's and master's theses. The extended University Relations program is currently running in 48 countries.

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The high-volume program

The high-volume program was all new in 2012. In response to the ongoing high demand for free ARIS products for teaching and research purposes, Software AG established a self-service Web portal for students and faculty. Since CeBIT 2012, young scholars and professors can download full versions of ARIS software, extensive teaching materials, such as e-learning sessions, video tutorials and documentation, to campus and personal computers for a term of six to twelve months at www.ariscommunity.com. The platform has been enormously successful and is monitored by Software AG's own ARIS MashZone:

There are already partnerships in more or less every part of Germany—where ARIS originated. We are seeing a sharp increase in the number of partnerships with universities in the U.S., which is a very important market for Software AG. We were able to triple the number of colleges/universities worldwide that use Software AG products for teaching and research since March 2012.

Recruiting

Recruiting is the third pillar of our University Relations strategy. Close collaboration with students and faculty opens the door to whole new and valuable employee recruiting opportunities. In close cooperation with our HR department, we take dedicated measures to stay in constant contact with well-trained college graduates and young scholars as potential Software AG employees, especially in times when there is a shortage of skilled labor.

After more than five years since the program was instituted, Software AG drew some positive interim conclusions at the end of 2012: More than 15,000 students have gone through the program acquiring specialized knowledge in service-oriented architectures (SOA) and business process management (BPM). Because of its success, the University Relations program will be further rolled out globally in the coming years. In the future, our goal will be to place even greater emphasis on educating core skills to startup entrepreneurs and future managers. In familiarizing future managers with the latest business process optimization technologies, Software AG is taking action on the need to completely synchronize business and IT strategy. We are also expanding our social media activities step by step. In the future, we want to place an even greater emphasis on teaching startup entrepreneurs and future managers core skills.

Along with the House of IT (HIT), founded in Darmstadt in 2011, the expansion of the University Relations program is an important step toward promoting and strengthening the European software industry. The Hessian state government and partners from science and industry, including Software AG, jointly founded the House of IT. Software AG is therefore a founding member and sponsor of HIT. It is intended to be a setting for the partners to collaborate closely and interact in an atmosphere of trust to create innovation and jobs. As an IT platform for the internationally prominent Frankfurt-Rhine-Main metropolitan area, HIT combines IT activities for the region from the private and public sector while providing a platform for research and development, interdisciplinary education and training, and startup activities. Especially for small and medium-sized IT companies, HIT is intended to become an indispensable starting point for collaborative research, training and consulting.

In 2012 Software AG initiated its second idea competition at universities in Germany and abroad for CeBIT 2013. We again called on faculty and students in Germany and abroad to submit innovative exhibit entries that illustrate Software AG technology at work in the field of business process management. The contest objectives were to present the benefits that customers reap from our portfolio visibly, tangibly, clearly and in a catchy way. It was an obvious success at CeBIT 2012. One model for the construction industry demonstrated how, using intelligent software, building parts and materials could be transported to the correct location at exactly the right time to be put together to make a section of a building. The idea competition offers prize money totaling €10,000. It honors creative ideas that clearly depict a topic using our software and that also relate to Poland, which is the CeBIT 2013 partner country.

Software AG won the trendence Employer Branding Award 2012 for its commitment to the academic sector through its University Relations program. With our innovative personnel marketing concept, we received second place in the University Marketing category.

SOCIAL RESPONSIBILITY

Never before has the world been as globally connected as it is today. Globalization and digitization have led to enormous leaps in productivity. New products and services have emerged. Many processes have gotten faster and more efficient. New providers and consumers have improved prosperity in many places. But, at the same time, uncertainties and threats have also increased worldwide as a result of the financial crisis, climate change and terrorism. Moreover, market conditions in the IT industry are undergoing a major transformation. The simultaneous convergence of four IT megatrends is causing groundbreaking changes in the working world—a digital revolution that will have a varying degree of impact on every modern person in every industry, every business and every region of the world.

The challenges are daunting and complex. They require joint responsible action from governments, industry and every individual. As a multinational company and technology leader, Software AG takes its social, ecological and political responsibility very seriously. Corporate responsibility is the guiding principle of our business conduct with customers, partners, investors and all other external stakeholders as well as of our internal communication and processes.

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Responsibility for customers, employees and society

Those who act responsibly convey and earn respect. Respect is the prerequisite for long-term employee loyalty, lasting customer relationships and a credible public image. Our understanding of sustainability is not just from an environmental point of view; rather, we see it as creating long-term values in a wider sense. Our customer relationships, technology, partnerships and investments in our Company and the knowledge capital of our employees are assets that endure for many years and truly constitute sustainability.

Our mission reflects our social involvement. We support our customers in the strategic transformation of their organization by harmonizing their business with their IT using common, attainable goals. The possibilities for improving processes with Software AG's help are basically limitless:

- Improve standard of living through greater efficiency of our customers' organizations.
- Control global warming through intelligent solutions for the utilities sector and optimized mobility.
- Optimize processes in the healthcare sector by linking patient data with hospital systems and those of medical product/service providers.
- More stable banking systems through greater transparency.
- Customer-friendly public agencies through more efficient services.

Responsible, sustainable action is directly related to business success. To Software AG, success means:

- Long-term success of our customers worldwide
- Sustainable development of our employees with the Company
- Research and development of our own future-proof solutions
- Standardization and development of patents
- Open and reliable partnerships with all stakeholders
- Growth and profitability
- Business conduct guided by exemplary values and social standards
- Support of education and innovation at all our locations worldwide
- Creation of value for society

We want to be the best in every segment in which we operate. With our leading enterprise software offering we can help customers optimize their business processes to become a Digital Enterprise. By boosting productivity and optimizing the efficiency of processes, we are making a contribution to economic sustainability.

Social responsibility

Software AG is especially committed to strengthening the role of the software industry as an engine of growth and as a key sector in the creation and retention of highly qualified jobs. We engage in close collaboration with other institutions

and organizations to leverage synergies, exchange knowledge and promote innovation. One way we do this is by working with strong, regional partners—in clusters—to secure long-term competitive advantages and economic growth.

Software AG makes an ongoing social contribution with its regular involvement in economic-policy committees and forums. The seventh German National IT Summit took place in November 2012 in Essen, Germany. It has been organized each year by the Ministry of Economics and Technology since 2006. Representatives from politics and industry—including Software AG—worked in a variety of working groups around the theme "digitize, network, build" to develop ideas for strengthening Germany as a center of IT.

The southwest of Germany is home to a software cluster spanning the cities of Darmstadt, Kaiserslautern, Karlsruhe, Saarbrücken and Walldorf. It is Europe's most powerful network of training and research centers and companies such as Software AG. The international jury for the German government's competition for the best cluster issued a recommendation for the second stage of sponsorship in Summer 2012. This means that the cluster partners can resume projects, which will provide the foundation for the enterprise software of tomorrow and position the German software cluster as one of the best in the world for the long term. Software AG takes its sociopolitical responsibility to heart and plays an active role in making Germany remain a top center of software.

The impact of IT megatrends on society

The role of IT is growing when it comes to responding to future economic and social challenges. The industry is facing a tremendous upheaval. The simultaneous convergence of four megatrends is extremely unusual. In unison they lead to trailblazing changes that can be compared to a digital revolution. They are already having an impact on all companies and customers in all industries and regions. It will also affect the lives of people in areas that before now could not participate in digital progress—large parts of Africa and Asia—because they had no modern infrastructure. Mobile devices and social media combined with cloud and big data technologies are becoming powerful instruments in countries that can now use them for the first time ever to reinforce or even initiate broad social movements and even revolutions.

Data and information will become the most important raw material in all areas of the business world. According to Gartner analysts, "Data is the new oil." In contrast to other raw materials, there is a surplus of big data. Its volume is expanding each day. Innovation and growth in every company around the world will therefore depend on the quality and analysis of an enormous amount of data. Software AG is in the unique position to be able to offer the entire range of solutions for shaping progress—from in-memory technology and automated flexible business processes to forward-looking cloud-to-cloud integration software.

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Employee involvement and individual responsibility

We aim to foster social responsibility of each individual with a variety of projects and activities. As part of our long-standing "Move Your Feet to Give a Hand" campaign, Software AG, the employee representatives on the Supervisory Board of Software AG and the Software AG Foundation donate some €40,000 each year to social projects. By doing this, they are building a bridge between sports and social involvement. For every kilometer run by Software AG employees at official races anywhere in the world, €3.50 is donated to charitable cause. With money raised in 2011, the campaign was able to sponsor three social projects in 2012: a self-help group in the Frankfurt metropolitan area, the Kinderhospizdienst Saar (children's hospice for the German state of Saarland) and a children's and youth center in São Paulo, Brazil.

Software AG runners worldwide deposited a total of 10,317 kilometers into the kilometer account in 2012 and with it "ran up" a five-digit figure. More than 70 enthusiastic employees and family members took part in the Darmstadt marathon. Furthermore, our athletes totaled some 1,400 kilometers at just the Frankfurt marathon alone in October 2012. Our Darmstadt-based beginning joggers trained with a triathlete for eight weeks to prepare for the 5.6-kilometer J.P. Morgan Corporate Challenge. U.S. coworkers took part in the American Cancer Society's 19th Relay for Life in Virginia. Likewise, Software AG employees in Spain participated in numerous running events, for example to raise money for the disabled. Running fever also spread to our offices in Brazil and Venezuela in 2012.

There are countless other examples that testify to the social involvement of our employees worldwide. Software AG supported the country-wide "Your Day for Africa" campaign again on June 19. "Every day counts" was the theme that motivated a group of school students to work in our Company for this good cause. The proceeds went toward educational projects in Africa. On Darmstadt Health Day, a large number of employees took advantage of the opportunity to potentially help leukemia patients through stem-cell donations by participating in the corporate blood-type screening drive.

Software AG coworkers in Spain collected more than 500 kilograms of groceries as part of the "Free Food for Europe's Poor" initiative. In Denver, staff members aim to improve children's chances for a healthy life by regularly donating blood to a local children's hospital.

Sponsorships and social/political employee initiatives

Software AG again participated in Girls Day 2012 in Germany to encourage girls to pursue technical professions. Forty-nine school girls explored Software AG and its departments at their own pace while on a scavenger hunt through the Company. It gave them the chance to see that female specialists and managers are in demand in IT.

The Software Campus initiative is a program that promotes the education of IT managers. In cooperation with 17 partners from industry and research, Software AG addresses excellent masters and PHD candidates in the IT field. "Your idea. Your project. Your future." is the theme of the program,

which builds a bridge between cutting-edge research and the hands-on market. Software AG advised 13 students through the program in 2012. Ten more will join at the beginning of 2013. Butterfly Camp in Bangalore, India gave employees the chance to take their children work for a day and let them experience a bit of their working environment. Software AG's support of athletics, for example in the area local to our headquarters, is a confirmation of its commitment to Darmstadt and to an important aspect of life in the region. As its primary sponsor, we have been supporting the triathlon department of Darmstadt's Swim and Water Sport Club since 2011. For the first time in 15 years, Darmstadt hosted the first-division triathlon in June 2012. This was a major athletic event bringing people to Darmstadt in honor of the club's one-hundredth anniversary. In addition, we renewed our cooperation agreement with third-division soccer team SV Darmstadt 98 until the summer of 2015. Our support is not just for professional soccer, but is also intended to provide financial backing for the sport as a popular recreational activity and youth programs.

The Software AG Foundation

After more than two decades of extraordinarily successful development work, the Software AG Foundation is currently one of the largest foundations in Germany and Software AG's biggest stockholder. Based on the approach "helping people to help themselves," the foundation offers funding and support to non-profit organizations to ensure the sustainability and expandability of financed projects. Since its creation, the foundation has financed more than 3,100 projects with a total value of €265 million, thereby promoting self-help initiative in Europe and Brazil.

The Software AG Foundation wanted to include others in the area in the experience of getting to know diverse living situations and human concerns through activism for its 20th anniversary. So 20 donors in the city of Darmstadt and the neighboring district were invited to make a financial donation in support of non-profit activities, which the foundation would match. Within six weeks the initiative achieved a success rate of 20 for 20 with a total of €225,000 in funds to benefit charitable projects in the city and its surroundings.

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TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

Software AG's share capital totaled €86,917,445 before deducting treasury shares and is divided into 86,917,445 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.

Authorized capital and share repurchase

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

Furthermore, the Company is authorized to purchase treasury shares having a notional interest in the share capital of no more than 10 percent of the share capital in issue at the time of the resolution on or before May 20, 2015 in order to realize benefits associated with the acquisition of treasury shares in the interest of the Company and its shareholders. The treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.

Please refer to the Notes and Events after the Balance Sheet Date for additional information on the conditional capital, authorized capital and the acquisition of treasury stock.

Significant shareholders

The Software AG Foundation, Darmstadt, holds 29 percent of the outstanding shares in Software AG. The foundation is a separate non-profit legal entity and is devoted worldwide to the themes of therapeutic pedagogy, social therapy, education, services to youth and senior citizens, environment and research. No other shareholder holds 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 €200.0 million (2011: €219.6 million) could become due, in full or in part, in the case of a change of control on the part of the creditors. A member of the Management Board who leaves following a change of control within twelve months of such change and without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration.

In case of resignation, the above mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control. Other takeover-related disclosures not mentioned in this section do not apply to Software AG.

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REMUNERATION REPORT

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code and contains the information required by the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS). It is part of the Group Management Report. The Remuneration Report was prepared pursuant to the provisions of the German financial reporting standard in its revised 2011 version no. 17 (DRS 17).

The Remuneration Report provides details on remuneration amounts and the structure of the remuneration system for the Management and Supervisory Boards. Remuneration of Board members is presented in total amounts, while stating the proportion of the individual remuneration components to one another, and the total figure is broken down into fixed payments, performance-related components, and long-term incentive components.

Remuneration of the Management Board pursuant to Section 314 (1), no. 6a of the German Commercial Code (HGB)

Short-term remuneration of active Management Board members for fiscal 2012 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	697,642.92	3,080,930.15	19,738.69	3,798,311.76
Dr. Wolfram Jost	313,333.31	459,956.15	25,690.87	798,980.33
Arnd Zinnhardt	441,715.32	1,948,996.40	29,471.27	2,420,182.99

Variable remuneration/bonuses

Individual Management Board members receive a performance-based bonus whose amount depends on the achievement of specific goals including the Group's revenue and earnings targets that are communicated to the capital market. In addition, a variety of quantitative and qualitative targets have been agreed on depending on area of responsibility. The bonuses are calculated based on the extent to which targets are achieved.

Medium and long-term remuneration components

a) Phantom share plan

A portion of the variable remuneration is paid as a long-term component on the basis of a phantom share plan. The portion accruing for fiscal year 2012 is converted into virtual (phantom) shares on the basis of the average share price of Software AG stock for the month of February at the end of February 2013 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 2014 to 2016, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and is then paid to the members of the Management Board. The TecDax adjustment for this out- or underperformance is limited to 50 percent. The members of the Management Board receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche. Members of the Management Board may elect to let the Company dispose of the amounts that have become due after the waiting period for an unlimited period of time and thus continue to participate in the success of the Company. Accounting procedures correspond with those of phantom shares that have not yet become due. This plan led to personnel expenses for members of the Management Board of €3,618 thousand (2011: €6,105 thousand) in fiscal year 2012, which are mainly included in long-term remuneration components.

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

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and officers was launched. A total of 3,150,000 (1,050,000 prior to the stock split in 2011) ownership rights were issued to members of the Management Board in past years. If performance targets are reached by June 30, 2016, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price of €24.12 (€72.36 prior to the stock split). The defined performance target involves reaching €1,000,000 thousand 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 can be paid an annual bonus for unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year.

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Stock option awards from Management Incentive Plan III

MIP III 2007 – 2011 (Table 1)	Balance on Jan. 1, 2012	Base price	Value of option at time of grant	Remaining term on Jan. 1, 2012	Granted options in 2012
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	900,000	24.12	6.80	4.5	0
Arnd Zinnhardt	450,000	24.12	6.80	4.5	0

Stock option awards from Management Incentive Plan III

MIP III 2007 – 2011 (Table 2) No. of options	Forfeited options 2012	Exercised options 2012	Expired options in 2012
Karl-Heinz Streibich (Chief Executive Officer)	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan III

MIP III 2007 – 2011 (Table 3)	Balance on Dec. 31, 2012	Remaining term on Dec. 31, 2012	Remaining term on Dec. 31, 2012	Accounting expenses from MIP III stock options in 2012
	No. of options		Years	in €
Karl-Heinz Streibich (Chief Executive Officer)	900,000	900,000	3.5	0
Arnd Zinnhardt	450,000	450,000	3.5	0

c) Management Incentive Plan IV 2011–2016 (MIP IV)

After Software AG had met the secondary conditions of MIP III (2007–2011) in 2010, it was necessary to launch a new long-term success-based incentive plan. Accordingly, a share-based incentive plan for members of the Management Board and managers was launched in the second quarter of 2011. A total of 1,610,000 ownership rights have been issued to members of the Management Board to date. If performance targets are reached by fiscal year 2015, the holders of these ownership rights are entitled to a payment of the value by which Software AG stock surpasses the base price. This entitlement is valid until June 30, 2021. The base price for ownership rights issued thus far is €41.34. The defined long-term performance target involves doubling Group revenue for new products and net income compared to fiscal year 2010 by no later than 2015. "New products" as defined for the revenue performance target are mainly all products outside of the ADABAS-Natural and EntireX product portfolios. The plan includes a medium-term performance target that requires that the long-term doubling of new product revenue and net income must be achieved along a linear progression of at least 15 percent per year. If annual growth in revenue from new products or net income is less than 10 percent during one year, the total ownership right award will be reduced on a pro rata basis by 0.5 percent for every percentage point under 10 percent. The reduction can be recovered with growth greater than 15 percent annually in the following years. But the original award cannot be increased. The rights can be exercised for the first time four years after they were allotted. An additional condition for exercising rights was defined whereby Software AG's stock price must be at least €60 on one of the five trading days before rights are exercised.

In November 2012 the Management Incentive Plan IV was adjusted to reflect the new strategy of the Company, which requires substantial investments in growth and an intensified focus on the cloud market. The megatrend of cloud computing was therefore taken into account in the calculation of relevant revenues. Pro rata cloud revenue generated on a subscription basis is determined using a multiple factor. IFRS revenue from new products must however total at least €450 million in fiscal year 2015. Instead of doubling net income, it was determined that the Software AG Group's publicized non-IFRS EBIT margin must be at least 10 percent respectively by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by an appropriate outperformance of the revenue performance target. In accordance with the adjustment of long-term performance targets, only a linear increase of new product revenue will be included in the medium-term performance target. Furthermore, participants of MIP IV can be paid an annual bonus on exercisable but unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year.

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Stock option awards from Management Incentive Plan IV

MIP IV 2011 – 2016 (Table 1)	Balance on Jan. 1, 2012 No. of options	Base price in €	Value of option at time of award in €	Remaining term on Jan. 1, 2012 Years	Granted options in 2012 No. of options	Base price in €	Value of option at time of award in 2012
Karl-Heinz Streibich (Chief Executive Officer)	810,000	41.34	11.49	9.5	30,000	41.34	7.38
Dr. Wolfram Jost	270,000	41.34	11.74	9.5	80,000	41.34	6.27
Arnd Zinnhardt	405,000	41.34	11.49	9.5	15,000	41.34	7.38

Stock option awards from Management Incentive Plan IV

MIP IV 2011 – 2016 (Table 2) No. of options	Forfeited options 2012	Exercised options 2012	Expired options in 2012
Karl-Heinz Streibich (Chief Executive Officer)	0	0	0
Dr. Wolfram Jost	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan IV

MIP IV 2011 – 2016 (Table 3)	Balance on Dec. 31, 2012 No. of options	Thereof exercisable on Dec. 31, 2012	Remaining term on Dec. 31, 2012 Years	Accounting expenses from MIP IV stock options in 2012 in €
Karl-Heinz Streibich (Chief Executive Officer)	840,000	0	8.5	1,127,250.45
Dr. Wolfram Jost	350,000	0	8.5	260,402.69
Arnd Zinnhardt	420,000	0	8.5	634,430.23

Summary in €	Performance Phantom Shares	Total short-term remuneration	Total remuneration excluding MIP IV	MIP IV from 2012 to 2016	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	1,751,444.15	3,798,311.76	5,549,755.91	221,400.00	5,771,155.91
Dr. Wolfram Jost	443,680.13	798,980.33	1,242,660.46	501,600.00	1,744,260.46
Arnd Zinnhardt	1,468,626.60	2,420,182.99	3,888,809.59	110,700.00	3,999,509.59

	Performance phantom shares No. of options	Expenses from performance phantom shares* in €
Karl-Heinz Streibich (Chief Executive Officer)	55,205	1,592,801.97
Dr. Wolfram Jost	14,732	500,592.87
Arnd Zinnhardt	47,926	1,525,382.49

* The expenses attributable to the fair value at the time of award in the amount of €29.47 (2011: €27.43) per phantom share are included in long-term remuneration components. These expenses were decreased by €1,611 thousand (2011: increased by €428 thousand in hedging expenses) in hedging income.

For further information on total remuneration of the Management Board, on the remuneration of former members of the Management Board and pension provisions for former members of the Management Board, please refer to the Notes to the Consolidated Financial Statements.

Other remuneration components

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

In the event of illness, three 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

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member in the amount of €158 thousand. Another member will receive severance payment equal to the member's total fixed salary for the remainder of the contract period, but not to exceed six months. The third Management Board member will receive no severance pay in such a case. From the time of their departure until completion of their 62nd year of age, the members of the Management Board will receive a disability pension of €13.1 thousand (2011: €13.0 thousand) per month, and the CEO will receive €19.7 thousand (2011: €19.5 thousand) per month. The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year.

The Company maintains life 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.

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 €16.7 thousand (2011: €16.5 thousand) per month; the CEO's pension amounts to €21.0 thousand (2011: €20.7 thousand) per month. 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.

in €	Change in present value (DBO) from pension commitments 2012	Present value of pension commitments Dec. 31, 2012
Karl-Heinz Streibich (Chief Executive Officer)	2,077,204.00	5,404,658.00
Dr. Wolfram Jost	216,806.00	590,724.00
Arnd Zinnhardt	752,332.00	1,747,961.00

In addition, 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 2011

Short-term remuneration of Management Board members for fiscal 2011 was composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	697,642.92	3,038,223.74	23,884.23	3,759,750.89
David Broadbent (until July 18, 2011)	129,938.30	107,057.37	29,516.28	266,511.95
Dr. Wolfram Jost	279,999.96	509,636.59	26,423.56	816,060.11
Arnd Zinnhardt	441,715.32	1,921,980.32	27,717.85	2,391,413.49

Stock option awards from Management Incentive Plan IV

MIP IV 2011 – 2016 (Table 1)	Balance on Jan. 1, 2011 No. of options	Granted options 2011	Base price in €	Value of option at time of grant 2011
Karl-Heinz Streibich (Chief Executive Officer)	0	810,000	41.34	11.49
Dr. Wolfram Jost	0	270,000	41.34	11.74
Arnd Zinnhardt	0	405,000	41.34	11.49

Stock option awards from Management Incentive Plan IV

MMIP IV 2011 – 2016 (Table 2) No. of options	Forfeited options 2011	Exercised options 2011	Expired options 2011
Karl-Heinz Streibich (Chief Executive Officer)	0	0	0
Dr. Wolfram Jost	0	0	0
Arnd Zinnhardt	0	0	0

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Stock option awards from Management Incentive Plan III

MIP IV 2011 – 2016 (Table 3)	Balance on Dec. 31, 2011 No. of options	Thereof exercisable on Dec. 31, 2011	Remaining term on Dec. 31, 2011 Years	Accounting expenses from MIP IV stock options in 2011 in €
Karl-Heinz Streibich (Chief Executive Officer)	810,000	0	9.5	566,916.16
Dr. Wolfram Jost	270,000	0	9.5	140,992.05
Arnd Zinnhardt	405,000	0	9.5	283,458.08

Stock option awards from Management Incentive Plan III

MIP III 2007 – 2011 (Table 1)	Balance on Jan. 1, 2011 No. of options	Base price in €	Value of option at time of grant in €	Remaining term Years	Granted options in 2011 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	900,000	24.12	6.80	5.5	0
David Broadbent (until July 18, 2011)	450,000	24.12	6.80	5.5	0
Arnd Zinnhardt	450,000	24.12	6.80	5.5	0

Stock option awards from Management Incentive Plan III

MIP III 2007 – 2011 (Table 2)	Forfeited options in 2011 No. of options	Exercised options in 2011	Weighted average price on day exercised in €	Expired options in 2011 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	0	–	0
David Broadbent (until July 18, 2011)	0	450,000	38.49	0
Arnd Zinnhardt	0	0	–	0

MIP III 2007 – 2011 (Table 3)	Balance on Dec. 31, 2011 No. of options	Thereof exercisable on Dec. 31, 2011	Remaining term on Dec. 31, 2011 Years	Accounting income from MIP III options in 2011[1) 2)] in €
Karl-Heinz Streibich (Chief Executive Officer)	900,000	900,000	4.5	700,524.23
David Broadbent (until July 18, 2011)	0	0	–	504,977.81
Arnd Zinnhardt	450,000	450,000	4.5	350,262.12

1) This income totaling €1,556 thousand (2011: €-4,486 thousand in expenses) was increased by €680 thousand (2011: decreased by €13,637 thousand) in hedging earnings.

2) Irrelevant to optionees.

Summary in €	Performance phantom shares	Total short-term remuneration	Total remuneration excluding MIP IV	MIP IV from 2012 to 2016	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	1,676,133.51	3,759,750.89	5,435,884.40	9,307,800.00	14,743,684.40
David Broadbent (until July 18, 2011)	–	266,511.95	266,511.95	–	266,511.95
Dr. Wolfram Jost	479,092.48	816,060.11	1,295,152.59	3,169,800.00	4,464,952.59
Arnd Zinnhardt	1,409,516.62	2,391,413.49	3,800,930.11	4,653,900.00	8,454,830.11

	Performance phantom shares No. of options	Expenses from performance phantom shares* in €
Karl-Heinz Streibich (Chief Executive Officer)	57,711	3,301,850.27
Dr. Wolfram Jost	17,407	478,382.08
Arnd Zinnhardt	50,223	2,325,133.80

* The expenses attributable to the fair value at the time of award in the amount of €27.43 (2011: adjusted = €38.68) per phantom share are included in the long-term remuneration components. These expenses were increased by €428 thousand (2011: reduced by €3,635 thousand in hedging income) in hedging expenses.

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in €	Change in present value (DBO) from pension commitments 2011	Present value of pension commitments Dec. 31, 2011
Karl-Heinz Streibich (Chief Executive Officer)	329,879.00	3,327,454.00
David Broadbent (until July 18, 2011)	118,659.00	563,714.00
Dr. Wolfram Jost	273,833.00	373,918.00
Arnd Zinnhardt	57,158.00	995,629.00

Supervisory Board remuneration

Remuneration for Supervisory Board members is made up of fixed and performance-related components. Members receive additional remuneration for their work on the Committees (Committee for Compensation and Succession Issues, Audit Committee, Strategy Committee, Mediation Committee and Nominating Committee). Their remuneration was restructured by a resolution passed at the Annual Shareholders' Meeting on May 4, 2012. The changes affect mainly the amount of remuneration and the calculation of performance-related components.

The fixed annual compensation of Supervisory Board members is €50,000 (2011: €40,000). In addition, members of the Supervisory Board receive performance-based annual compensation in the amount of €500 for every started percentage point by which Group earnings per share (basic) increase in comparison to Group earnings per share (basic) averaged over the defined period of time for comparison. The period of time used for comparison is the two prior fiscal years.

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

Remuneration of the Chairman/Deputy Chairman

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

Other arrangements

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

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

Remuneration of Supervisory Board members for fiscal year 2012 is composed as follows:

in €	Fixed remuneration	Variable remuneration	Remuneration for committee work	**Total**
Dr. Andreas Bereczky (Chairman)	100,000.00	0	10,000.00	110,000.00
Prof. Willi Berchtold	50,000.00	0	5,000.00	55,000.00
Peter Gallner	50,000.00	0	3,000.00	53,000.00
Heinz Otto Geidt	50,000.00	0	3,000.00	53,000.00
Dietlind Hartenstein	50,000.00	0	6,000.00	56,000.00
Monika Neumann (Dep. Chairwoman)	75,000.00	0	6,000.00	81,000.00
Prof. Dr. Hermann Requardt	50,000.00	0	1,500.00	51,500.00
Anke Schäferkordt	50,000.00	0	1,500.00	51,500.00
Roland Schley	50,000.00	0	4,500.00	54,500.00
Martin Sperber-Tertsunen	50,000.00	0	3,000.00	53,000.00
Karl Wagner	50,000.00	0	3,000.00	53,000.00
Alf Henryk Wulf	50,000.00	0	6,000.00	56,000.00

Total remuneration of the Supervisory Board is included in the Notes to the Consolidated Financial Statements.

Remuneration of Supervisory Board members for fiscal year 2011 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work	**Total**
Dr. Andreas Bereczky (Chairman)	80,000.00	0	1,200.00	12,500.00	93,700.00
Prof. Willi Berchtold	40,000.00	0	600.00	5,000.00	45,600.00
Peter Gallner	40,000.00	0	600.00	3,000.00	43,600.00
Heinz Otto Geidt	40,000.00	0	600.00	3,000.00	43,600.00
Dietlind Hartenstein	40,000.00	0	600.00	7,500.00	48,100.00
Monika Neumann (Dep. Chairwoman)	60,000.00	0	900.00	4,500.00	65,400.00
Manfred Otto (until Nov. 3, 2011)	33,551.91	0	503.28	1,500.00	35,555.19
Prof. Dr. Hermann Requardt	40,000.00	0	600.00	3,000.00	43,600.00
Anke Schäferkordt	40,000.00	0	600.00	3,000.00	43,600.00
Roland Schley	40,000.00	0	600.00	6,000.00	46,600.00
Martin Sperber-Tertsunen	40,000.00	0	600.00	3,000.00	43,600.00
Karl Wagner (since Nov. 3, 2011)	6,448.09	0	96.72	1,500.00	8,044.81
Alf Henryk Wulf	40,000.00	0	600.00	7,500.00	48,100.00

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RISK REPORT

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

Objectives of the risk management system

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

Organization of the risk management system

Fundamental organization of the global risk and opportunity management system

Close collaboration between our sales force and the Research and Development team (R&D) makes it possible for the development of new products to be market-driven and also market-relevant. 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, including a system of key performance indicators that are relevant for managing the Company. The Management Board receives ongoing information as to current and future risks and opportunities as well as the aggregated risk and opportunity situation via established channels. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Central responsibility for Group-wide processes

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

Structure of the risk management system

Controlling

Controlling—which is under unified global leadership—monitors operating business risks in real time and reports management-relevant figures monthly to the Management Board. In addition, both operational and strategic risks are analyzed by means of a key performance indicator system and reported quarterly to the Management Board.

Finance

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

Treasury

The Corporate Treasury team creates daily cash and weekly hedging transaction reports for the Management Board. All high-risk foreign-currency and hedging transactions may be conducted only by the Corporate Treasury team, which is directly below the CFO. The national subsidiaries are forbidden by a global treasury policy from engaging in any high-risk transactions with derivatives. Regular internal audits monitor compliance with this policy.

Internal Audit

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

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Risk management in the financial reporting standards process

The risk of financial reporting errors is largely eliminated by 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, the Corporate Controlling consolidates the countries' profit and loss statements using Office Plus (management information system). Finally, the two consolidated Group profit and loss statements are compared with each other, any deviations are investigated, and any discrepancies that arise are corrected.
- Worldwide separation of the functions of generating and reviewing accounting figures is guaranteed by segregation into two areas: Corporate Finance and Corporate Controlling. Both of them, with different managers, report to the CFO separately.
- As part of monthly report generation, the Corporate Finance and Corporate Controlling departments analyze and review the figures from all reporting entities. Any differences that arise are corrected on a monthly basis.
- All internal Group supplier and service relationships are centrally coordinated and legally regulated through cooperation agreements. Central departments within Corporate Finance and Corporate Controlling handle internal service allocation. In addition, an intercompany transactions policy standardizes internal Group approval processes throughout the world. The revenue calculation process is rigorously monitored by means of globally managed approval processes as of the commencement of contract negotiations. The Global Deal Desk system is implemented worldwide to monitor the contract process. All customer contracts go through this approval process, in which the Legal department as well as Corporate Finance and Corporate Controlling are also involved.
- Contracts with a volume of more than €0.1 million are subject to an additional review at the corporate level for revenue recognition.
- After completing the quarterly reporting, Internal Audit continually reviews all key customer contracts worldwide with a view to their correct representation in accounting.
- Global policies regulate access rules for the local and central accounting programs, which are monitored by the General Information Services (GIS) department.
- Only employees of Corporate Accounting have access to the data from the SAP/BCS consolidation program.
- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual-control principle.
- External experts are commissioned on a regular basis to evaluate such complex matters as stock option plans, pension provisions, legal risks and purchase-price assignments within the framework of acquisitions.

Strategic risk management (RCM)

The strategic risk management system is composed of a central, interdisciplinary Group team that reports to the CFO and the employees responsible for risk (risk advisors). A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring and managing identified strategic risks. Risks are evaluated according to a uniform valuation system. The system takes into account the expected value of risk effects to Group EBIT. The possible amount of effects to EBIT is applied for the next three years. The resulting risk matrix consists of nine valuation levels. All strategic risks are assigned points based on this uniform valuation. All Group managers are responsible for reporting newly identified strategic risks to the central corporate team. The team then informs the Management Board for advice on possible strategies for handling them. The corporate team reports to the Management Board regularly about the ongoing development of the identified risks.

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

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

PRESENTATION OF KEY INDIVIDUAL RISKS

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

Environment and sector risks

Market risks

Among other things, market risks are related to the different economic developments in individual countries or regions. The technological evolution of the individual sectors of the IT industry can adversely impact the business potential of the individual business lines. However, the balanced revenue mix at Software AG reduces dependence on a single geographical or professional IT submarket. Software AG markets technologies that are not specific to certain industries, ruling out a concentration on individual customers. Thanks to our technological innovations and growing range of integration products, including the integration of mainframe-based applications, we facilitate the flexibility of existing IT infrastructures and thus significantly lower costs. This, in turn, secures our broad customer base over the long term. Our customers' return-on-investment times are typically 12 to 24 months and thus extremely short. Hence, our new products are a logical way to cope with market-related cost pressures even in weak economic periods. The overwhelming majority of our customers use our software for business-critical applications that are difficult to be replaced. Therefore, our revenue flow is stable, especially from maintenance services. Innovative products and new technology trends in our product portfolio will ensure further growth. The Company expects to see additional product revenue growth in the future on the basis of the opportunities discussed here.

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National debt crisis

The debt crisis in individual eurozone countries that has been escalating since 2010 has had only a limited impact on Software AG's primary business. Software AG earned only 3.7 percent (2011: 4.6 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Portugal, Italy, Ireland, Greece and Spain) in fiscal year 2012.

Corporate strategy risks

Product risks

As a high-tech industry, the software sector in general is particularly susceptible to being negatively affected by the innovation risk of new competitor products. Ongoing R&D investments and acquisitions are therefore necessary to stay on top of the technological state of the art. Trends such as cloud, collaboration, big data and mobile require constant enhancements as well as acquired technology add ons and a new go-to market model. Close collaboration between sales, product marketing, management, and research and development (R&D) makes it possible for the development of new products to be market-driven and thus market-relevant. One of the greatest challenges of our industry is to optimally allocate R&D resources. We reduce this risk by implementing our functional triangle (sales-marketing-R&D) and by close contact with customers in all industries and countries. Moreover, we maintain close contact with technology analysts so as to be continuously informed of new market and product developments. With newer development trends, Software AG's products are also augmented by acquisitions. For this and other reasons, the acquisition of myChannels (PCB Systems Limited, Derby, U.K.) among others was carried out in the year under review. This acquisition complements the existing integration technology with its extremely fast (low latency) universal messaging middleware platform. It is an important component to Software AG technology because it strengthens and expands its in-memory management of big data. As technological leaders—a fact confirmed by independent analysts—in the BPE product areas in particular we are often operating in technologically uncharted waters. This carries the risk of problems arising from the implementation of products that are not completely technologically mature, which can then damage customer relationships. We manage this risk with a digital product innovation process entitled Entire Readiness of Software AG for new technology/release, which was introduced in 2009. It prepares the whole Software AG Group optimally for launching new products. Furthermore, the successful project launches are monitored through key performance indicators based on region and country.

The Company's Research and Development division uses a minimal amount of open-source code for product development. In doing so, the in-house-developed source code must function absolutely separately from the open-source code components. In order to guarantee this, Software AG implemented R&D internal approval processes in 1998. Furthermore, we introduced measures to conduct a controlling analysis for using open-source elements by reviewing the program code's software technology. There is a risk that these processes could fail in isolated cases and the Company would not be able to impose any licensing fees for products contaminated with open-source code rights.

ETS product line

Our traditional ETS product line is in an advanced stage of the product life cycle, which presents the risk of weakening revenue in this product area. Our stabilization strategy for this business is based in part on the option to extend customers' existing licensing rights to generate new sales revenues. This option cannot be repeated arbitrarily after contracts have been adjusted. This raises the risk that ETS license revenues in certain core countries could decrease rapidly. The steady trend of customers switching from mainframes to the less-expensive open systems platforms also increases the risk of weakening maintenance revenues.

Software AG is countering these risks with the following measures:

- Process improvements through the BPE product portfolio support ETS modernization, thereby increasing the product line's life cycle.
- New sources of revenue are being tapped by the steady expansion of the ETS product portfolio through add-on products.
- A global maintenance and support business unit was established in 2012. This unit is responsible for global coordination of all measures necessary to stabilize maintenance revenue from the ETS business.

The measures taken are likely to have a stabilizing effect on revenues for this product line, so only a moderate slowdown in sales in the single-digit range is expected.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. The uncertainty of future market and technology trends means that there is a risk associated with determining the right target companies. In order to be closer to emerging technological developments, our chief marketing officer and the head of the M&A department were moved from Darmstadt to San Francisco, California. Due to the high number of globally leading IT companies and the prevalent startup culture in that region, Software AG is actively involved in quickly identifying and exploiting future trends in the IT sector. Furthermore, there is a risk that the companies acquired will not be integrated successfully. The associated challenges include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. In order to successfully integrate the acquired companies, we have defined safeguarding processes for the time prior to and after acquisition.

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. Moreover, the question of whether its corporate culture is compatible with ours is explored.

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Post-acquisition phase:

We identify potential problem areas as quickly as possible using established control mechanisms with central responsibility for integration. We look at all key areas of the acquired company, including finance, legal affairs, human resources, research and development, sales, marketing and internal communication.

Operating risks

Sales risks

The complexity of our products requires a high level of experience and expertise on the part of our sales force. In addition, the advanced technology of our products necessitates the provision of a considerable amount of information when selling them. The development and implementation of a platform strategy in 2011 serves to improve understanding of our products, both for sales and customers. The platforms provide the appropriate solutions at various communication levels. Individual products are also summarized by technology platforms that address specific subject areas. The establishment of user groups in connection with intensive training of our sales employees and of our customers significantly facilitates the sale of these products. Successfully selling the services offered also depends on the professionalism, good reputation and skills of the respective consultants.

Partnership risks

Due to the complexity of our products, undertaking sales via partnerships is a challenge. To ensure indirect sales success, we continued existing measures and took the following new ones in fiscal year 2012.

- Development of standardized partner programs and uniform contracts
- Investments in the establishment of a global and local partner sales organization
- Global rollout of the partner code of conduct

In addition, investments were initiated in partner ecosystems, technology training for partner organizations, partner-relations management systems, OEM and reseller partnerships, in particular for the ARIS product range.

Service risks

Price is often a key factor in winning projects in the area of project services. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed budgeted costs.

The Group-wide standardized and automated approval process (Global Deal Desk) and Software AG's project controlling guarantee that adequate risk-adjusted profit margins are taken into account and continuously monitored.

Too few specialists are available in specific submarkets for our multitude of complex products. To reduce this risk, specialist teams are being established for entire regions. Smaller country subsidiaries are focusing on specific sections of our

product portfolio, and market positioning in the various submarkets is being realigned depending on the size of the country subsidiaries. We do not yet have enough offshore and nearshore resources for presenting efficient cost structures. We are currently developing them rapidly to increase our pool of available specialists around the world as well as to optimize cost structures. Our Professional Services management team was significantly expanded in fiscal year 2012. All service activities worldwide were moved under common leadership.

Personnel risks

Employees are the most important asset for an innovative company like Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. Software AG's growth strategy is based on the broadening our staff coverage in Sales. The demographic trend in some countries is resulting in a reduction in potential growth due to a shortage of qualified human resources. We reduce this risk by enhancing our personnel development programs and our remuneration systems as well as through high-potential programs for the targeted further development of managers. In addition, we are working on balancing high and low-cost locations.

Financial risks

Exchange rate risks

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

Risks from financial instruments

Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure existing balance sheet items or highly likely cash flows. Based on the financial instruments open on the balance sheet date, an increase in the market interest rate level by 100 basis points would have increased Group net income in 2012 by €2.4 million (2011: €1.6 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, 2012 would have caused Group net income in 2012 to increase by €1.2 million (2011: €1.2 million) and the remaining reserves in equity to remain unchanged

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(2011: decrease by €1.2 million). Constantly monitoring the creditworthiness of the affected banks helps us minimize the risk of losing our business partners with whom we conclude derivative financial instruments.

Other financial risks

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

Legal risks

Patent infringements

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

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

The Company has an Intellectual Property Rights team to counter patent law suits. In addition to tasks associated with patent law protection, the team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against competitors' claims, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio. Software AG owns 102 (2011: 94) patents from 68 (2011: 49) patent families. In addition, 229 (2011: 214) applications from 125 (2011: 110) patent families are pending. Of a total of 26 (2011: 24) filings in 2012, 26 (2011: 22) were for new inventions. These patents could contribute in the future to generating additional licensing revenues.

Patent law suits

In February 2010, a software company in Virginia (USA) sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. The proceedings were suspended for Software AG and additional defendants by order of the court. The proceedings are continuing against only one of the defendants. The verdict of these proceedings will determine if the proceedings against Software AG will be resumed. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. The plaintiff brought further legal action. The proceedings against the other defendants are still pending.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed similar parallel lawsuits against three other defendants. The NPE withdrew its lawsuit against Software AG in January 2013. The NPE also filed a new lawsuit for the alleged violation of two of its software patents in January 2013.

Other litigation

A number of legal actions have been have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. The proceedings were combined into one. The first hearing took place on February 29, 2012 and had no tangible outcome. A new date has not yet been rescheduled.

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. The proceedings were combined into one. The first hearing took place on November 23, 2012 and also had no tangible outcome. A new date has not yet been rescheduled.

In connection with the termination of David Broadbent's Management Board membership, Mr. Broadbent filed suit with the Regional Court of Darmstadt, which the Company considers to be unfounded. After an extensive exchange of briefs, evidence was taken in May and September. The court ruled against the Company's arguments and found in favor of Mr. Broadbent on December 21, 2012. Software AG filed an appeal against the ruling.

Furthermore, a small number of judicial proceedings arise concerning issues related to distribution or the scope of rights of use; generally, however, the number of other legal disputes is very low.

GENERAL STATEMENT ON THE GROUP'S RISK SITUATION

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

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The further development of the patent proceedings in Delaware in the year 2013 is described in the Risk Report under the section on patent law suits.

Software AG sold its SAP services activities based in Canada and the USA to itelligence on January 16, 2013. With the sale, Software AG is continuing its strategy to concentrate its SAP consulting business on process consulting in German-speaking regions (Germany, Austria and Switzerland). This will not affect the further expansion of Software AG's U.S.-based sales and marketing activities in the dynamically growing integration and process software (Business Process Excellence + Terracotta) market. The transaction covered all Software AG services related to SAP products that were coordinated in Toronto for Canada and in Reston, Virginia for the U.S. Moreover, itelligence acquired the majority of the approximately 80 employees as of January 16, 2013. itelligence is a leading full-service IT provider for the SAP market. With headquarters in Bielefeld, Germany, it has about 2,700 employees in 21 countries.

Due to the Company's good liquidity position, Software AG's Management Board made use of the authorization granted it by the Annual Shareholders' Meeting on May 21, 2010 and, with the consent of the Supervisory Board, passed a resolution on February 7, 2013 to repurchase treasury shares with a total maximum value of €180 million (excluding transaction costs) during the period until and including December 31, 2013. This represents a volume of approximately 6.175 million shares based on the Xetra closing price (on February 11, 2013). The authorization defines the maximum limit for the repurchase of treasury shares at 10 percent of the existing share capital as of May 21, 2010 (equal to 8,613,744 shares). As of February 7, 2013 Software AG held 42,377 treasury shares, which Software AG acquired through a past authorization.

The Management Board considered the share price of Software AG's stock to be unexpectedly low and interesting from a buying point of view at the time of the aforementioned decision. Moreover it did not see any other viable alternatives for short-term investments.

The repurchase has been underway since February 12, 2013 with the involvement of a bank that determines the time of the acquisition of shares independently and uninfluenced of Software AG. It takes place solely on the stock exchange. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation law and by the aforementioned authorization: i. to service warrants and convertible bonds; ii. to sell to third parties for the purpose of acquiring companies, parts of companies and/or interests in companies or as part of a corporate merger; iii. to cancel shares with or without lowering the share capital.

Software AG had acquired 777,078 shares at an average price of €29.75 as of February 27, 2013. Software AG thus held a total of 819,455 shares as of February 27, 2013 for a consideration paid of €24,273 thousand (excluding transaction costs). The treasury shares held on February 27, 2013 represent €819,455, or 0.9 percent, of the Company's share capital.

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OVERALL ECONOMIC OUTLOOK

The global economic slowdown seems to have reached its low point at the end of 2012/beginning of 2013. But according to the Institute for the Word Economy (IfW) of the University of Kiel, the global economy will continue to be weak in the foreseeable future. IfW market analysts anticipate moderate global economic growth of 3.4 percent for the current fiscal year and 3.9 percent next year.

The cautious outlook is primarily a result of the yet unstable economic situation in Europe. It is burdened by high national debts, the urgent need for consolidation of public budgets and limited investments by companies. An end to this uncertainty is currently not foreseeable, even if measures taken by governments are likely to help the situation improve rather than worsen. The IfW expects economic productivity in the eurozone to drop 0.2 percent in 2013 and not expand again until 2014 with moderate 0.9-percent growth. The German economy may grow by 0.3 percent in 2013 and 1.4 percent in 2014.

Economic development in the USA is also extremely sluggish. Although Congress avoided the automatic spending cuts and tax hikes, known as the "fiscal cliff," from taking effect at the start of the current year, no long-term political measures have been passed yet that would stop the U.S. government from exceeding its debt ceiling again. In addition, economic data from the fourth quarter of 2012 put a damper on expectations. According to the U.S. Department of Commerce, the economy shrank for the first time in three-and-a-half years.

ANTICIPATED SECTOR TREND

The outlook for the IT sector is more positive than the general economic climate. Market analyst firm Gartner anticipates that global IT spending will rise 4.2 percent to total approximately $3.7 trillion in 2013. The enterprise software market segment is likely to grow 6.4 percent to $296 billion; and the IT services segment 5.2 percent to $927 billion.

In Europe spending for information and telecommunications technology is expected to have risen 1.4 percent in 2013 according to the European Information Technology Observatory (EITO).

For Germany, analysts at EITO and the German German Association of Information, Telecommunications and New Media (BITKOM) predict a total market volume of €141.6 billion in 2013, which would reflect 1.8-percent growth. They foresee above-average growth in investments for software (+5.1 percent to €17.8 billion) and IT services (+3.0 percent to €35.9 billion). A BITKOM economic survey from early February 2013 is also optimistic: Software companies and IT service providers expect sales to increase.

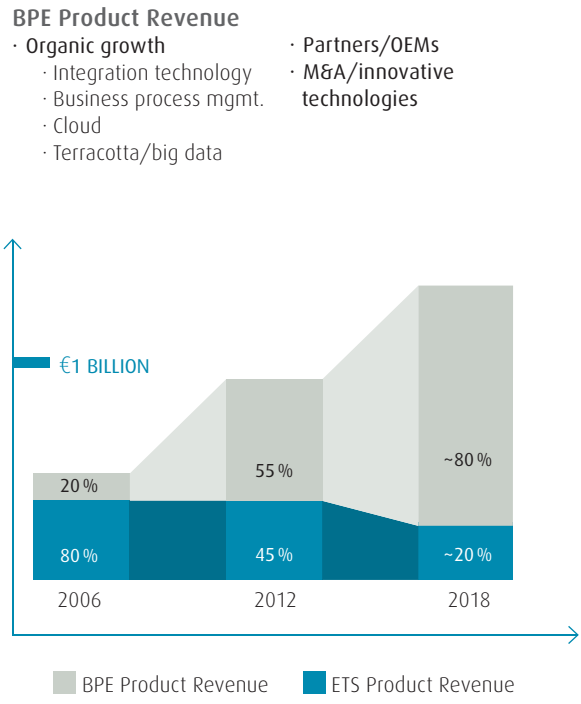
CORPORATE STRATEGY OPPORTUNITIES

Software AG assumes that it will reap above-average profits from this positive market trend. Our long-term growth strategy reflects this, which we communicated at the beginning of 2013.

- It is clearly focused on the promising BPE business line including Terracotta in-memory/big data.
- We want to achieve one billion euros in product revenue with this segment by 2018. It would then account for some 80 percent of the Group's total product revenue.
- Our traditional ETS business will contribute about 20 percent of product sales.

TRANSFORMATION OF PRODUCT REVENUE DRIVERS

Revenue distribution as % of total sales (medium term)



In light of this strategy, we will restructure our segment reporting in the upcoming quarter. Consulting services are offered in all three segments: BPE, ETS and IDSC. In the past year the decision was made to merge the consulting activities from all three reporting segments under the same direction. It took effect as of January 1, 2013. This change

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results in a new reporting structure and thus a new segmentation. As of the first quarter of 2013 consulting services for all business lines will be merged and reported as a new segment called "Consulting." Separating consulting services from the product business—which consists of license and maintenance revenue—will allow us to position Software AG more strongly as product-independent, vendor-neutral consulting partner and provide more comprehensive support to organizations in their transformation projects.

In order to achieve our objectives, we will guide our customers to a Digital Enterprise in the upcoming years. Software such as that which our Company offers is the key technology for that. The four technology megatrends—mobile, big data, social collaboration and cloud—have emerged as a huge opportunity and engine for this development. They express that the way we work is undergoing a radical change. Therefore we can expect an increase in license revenue for our BPE products of more than 20 percent per year, which is 10 percent, and therefore significantly, above market average.

This sort of growth requires an initial investment, mainly in the expansion of sales and marketing. This investment will strengthen our operational foundation and enable us to unleash future market potential. This is necessary to achieve above-average growth and win market share in upcoming years. It will lead to increased product sales and most likely to additional sales in maintenance in foreseeable future. Our profitability will increase at the same time. Our investments will probably reduce our earnings by €15 to €30 million in 2013.

GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

We expect considerably greater growth in the BPE business line for the current fiscal year.

- BPE product revenue will increase between 16 and 22 percent at constant currency compared to 2012.
- The ETS business line's contribution to revenue will continue to shrink. Here we expect a decline in product revenue between 4 and 9 percent.
- Taking into account the additional investments for the expansion of sales and marketing, earnings per share will be between €1.70 and €1.80 in 2013. Furthermore, the share repurchase that began in February 2013 could result in a maximum increase of €0.13 if the option to buy back shares valuing €180 million is exercised in full.
- We want to continue our constant dividend policy with a payout between 20 and 25 percent of our net earnings, while also taking the economic climate and the Company's liquidity requirements into account.

Outlook for Fiscal Year 2013

	FY 2012 (in € millions)	Outlook FY 2013 (as of Jan. 29, 2013)
Product revenue BPE	384	+16% to +22%
Product revenue ETS	310	-9% to -4%
Earnings per share	1.90	€1.70 to €1.80

The primary objective of our consulting business is to implement Software AG products. As a result, the performance of the consulting line depends mainly on product sales. The main driver here is license revenue in the Business Process Excellence business line. The strategic objectives of this business line include a higher degree of integration of individual BPE projects and the intensified expansion of a partner network, which would boost sales activities. Both strategic goals for this business line will lead to decreased consulting expenses and a greater proportion of product revenue in the revenue mix.

The IDS Scheer Consulting business is also focusing on the tasks associated with process optimization and automation. For this reason, IDS Scheer Consulting activities in North America were sold in January 2013. This concentration will result in a targeted reduction of business in market segments that do not generate revenue synergies with BPE products.

We expect improved segment earnings in our consulting business line.

We anticipate a moderate increase in total revenue for the Software AG Group compared to fiscal year 2012.

Two-year forecast:

- **BPE product revenue**
  We will continue to target a two-digit growth rate for BPE product revenue in 2014.
- **ETS product revenue**
  The forecast ETS product revenue performance for 2013 will continue in 2014 as well.
- **Consulting**
  Further improvement in fiscal 2013 will continue in 2014 as well.

Software AG has positioned itself for the future by taking operational and strategic measures in the fiscal year under review. The Company is in a solid financial position and well equipped for further profitable growth. The Group achieved this by consolidating unprofitable areas of business and investing in high-growth markets. We have adequate financial flexibility to make future investments in line with our growth strategy. As a technology leader we are ideally prepared for the current technology megatrends. Our innovative solutions provide answers to the challenges organizations encounter on the road to becoming a Digital Enterprise. Software AG's Management Board considers the Company to be ideally positioned to continue its ambitious course of growth and claim a stake in a strongly competitive business.

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CONSOLIDATED INCOME STATEMENT

for fiscal years 2012 and 2011

in € thousands	Note	**2012**	2011
Licenses		318,940	295,234
Maintenance		393,252	378,678
Services		333,278	419,783
Other		1,864	4,639
Total revenue	**[5]**	**1,047,334**	**1,098,334**
Cost of sales		−378,394	−442,147
Gross profit		**668,940**	**656,187**
Research and development expenses		−101,084	−88,038
Sales, marketing and distribution expenses		−246,942	−230,227
General and administrative expenses		−75,845	−75,110
Other taxes		−8,022	−10,975
Operating result		**237,047**	**251,837**
Other income	[6]	24,602	30,901
Other expenses	[7]	−21,373	−24,517
Net financial income/expense	[8]	−8,779	−9,902
Earnings before income taxes		**231,497**	**248,319**
Income taxes	[9]	−66,820	−71,110
Net income for the year		**164,677**	**177,209**
Thereof attributable to shareholders of Software AG		164,510	176,960
Thereof attributable to non-controlling interests		167	249
Earnings per share in € (basic)	[12]	1.90	2.05
Earnings per share in € (diluted)	[12]	1.89	2.03
Weighted average number of shares outstanding (basic)		86,784,793	86,195,814
Weighted average number of shares outstanding (diluted)		86,990,204	87,249,051

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STATEMENT OF COMPREHENSIVE INCOME

for fiscal years 2012 and 2011

in € thousands	Note	**2012**	2011
Net income for the year		**164,677**	**177,209**
Currency translation differences		−11,837	4,546
Net gain/loss on remeasuring financial assets	[29]	−492	−3,657
Net gain/loss arising from translating net investments in foreign operations		−687	4,185
Net actuarial gain/loss on pension obligations	[25]	−10,135	2,518
Other comprehensive income	**[26]**	**−23,151**	**7,592**
Total comprehensive income		**141,526**	**184,801**
Thereof attributable to shareholders of Software AG		141,359	184,552
Thereof attributable to non-controlling interests		167	249

CONSOLIDATED BALANCE SHEET

as of December 31, 2012 and 2011

in € thousands	Note	**2012**	2011
ASSETS			
Current assets			
Assets held for sale	[13]	6,092	0
Cash and cash equivalents		315,637	216,479
Inventories		111	505
Trade receivables	[14]	306,600	304,736
Other receivables and other assets	[15]	24,429	35,749
Income tax receivables	[16]	22,959	16,816
		675,828	**574,285**
Non-current assets			
Intangible assets	[17]	214,393	248,202
Goodwill	[17]	756,372	752,223
Property, plant and equipment	[18]	64,014	65,365
Financial assets		4,252	3,446
Trade receivables	[14]	34,674	13,197
Other receivables and other assets	[15]	3,895	3,751
Income tax receivables		1,769	1,495
Deferred taxes	[19]	16,662	18,731
		1,096,031	**1,106,410**
Total assets		**1,771,859**	**1,680,695**

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in € thousands	Note	2012	2011
EQUITY AND LIABILITIES			
Current liabilities			
Liabilities from assets held for sale	[13]	3,307	0
Financial liabilities	[20]	52,572	26,088
Trade payables	[21]	47,833	58,066
Other liabilities	[22]	66,721	88,656
Other provisions	[23]	90,319	83,315
Income tax liabilities	[24]	30,688	20,171
Deferred income		110,397	105,269
		401,837	**381,565**
Non-current liabilities			
Financial liabilities	[20]	213,440	251,278
Trade payables	[21]	220	453
Other liabilities	[22]	7,237	8,798
Provisions for pensions	[25]	50,194	38,200
Other provisions	[23]	10,504	11,495
Deferred taxes	[19]	26,829	36,745
Deferred income		1,532	679
		309,956	**347,648**
Equity	[26]		
Share capital		86,917	86,828
Capital reserve		42,124	35,716
Retained earnings		991,651	867,053
Other reserves		−60,246	−37,095
Treasury shares		−1,157	−1,675
Share attributable to Software AG shareholders		**1,059,289**	**950,827**
Non-controlling interests		**777**	**655**
		1,060,066	**951,482**
Total equity and liabilities		**1,771,859**	**1,680,695**

CONSOLIDATED STATEMENT OF CASH FLOWS [27]

for fiscal years 2012 and 2011

in € thousands	**2012**	2011
Net income for the year	164,677	177,209
Income taxes	66,820	71,110
Net financial income/expense	8,779	9,902
Amortization/depreciation of non-current assets	50,989	46,276
Other non-cash income/expense	3,387	6,475
Operating cash flow before changes in working capital	**294,652**	**310,972**
Changes in inventories, receivables and other assets	−14,697	80,071
Changes in payables and other liabilities	−15,201	−63,676
Income taxes paid	−72,357	−120,334
Interest paid	−15,730	−15,709
Interest received	7,822	7,320
Net cash provided by operating activities	**184,489**	**198,644**
Proceeds from the sale of property, plant and equipment/intangible assets	645	1,985
Purchase of property, plant and equipment/intangible assets	−13,288	−14,435
Proceeds from the sale of financial assets	260	2,886
Purchase of financial assets	−924	−1,383
Income/expense from current financial assets	−433	0
Payments for acquisitions, net	−17,963	−59,210
Net cash used in investing activities	**−31,703**	**−70,157**

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in € thousands	**2012**	2011
Proceeds from issue of share capital	2,626	34,628
Repurchase of treasury shares (including option premiums paid)	0	−19,900
Dividends paid	−40,100	−37,160
Additions to financial liabilities	11,820	200,000
Repayments of financial liabilities	−23,496	−193,449
Net cash provided by/used in financing activities	**−49,150**	**−15,881**
Change in cash and cash equivalents from cash-relevant transactions	103,636	112,606
Currency translation adjustment	−4,478	1,406
Net change in cash and cash equivalents	**99,158**	**114,012**
Cash and cash equivalents at beginning of period	216,479	102,467
Cash and cash equivalents at end of period	**315,637**	**216,479**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [26]

for fiscal years 2012 and 2011

in € thousands	Common shares outstanding (no.)	Share capital	Capital reserve	Retained earnings
Equity as of Jan. 1, 2011	**85,330,806**	**86,148**	**22,512**	**727,070**
Total comprehensive income				176,960
Dividend payment				−36,977
New shares issued	679,662	680	15,714	
Stock options			19,793	
Issue and use of treasury shares	756,000		−2,403	
Option premiums paid for acquisition of treasury shares			−19,900	
Equity as of Dec. 31, 2011	**86,766,468**	**86,828**	**35,716**	**867,053**
Equity as of Jan. 1, 2012	**86,766,468**	**86,828**	**35,716**	**867,053**
Total comprehensive income				164,510
Dividend payment				−39,913
New shares issued	89,600	89	2,071	
Stock options			4,389	
Issue and use of treasury shares	19,000		−52	
Other changes				1
Equity as of Dec. 31, 2012	**86,875,068**	**86,917**	**42,124**	**991,651**

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Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	**Total**
Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains/losses and asset caps from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
−31,440	**603**	**−13,850**	**0**	**−22,313**	**768,730**	**589**	**769,319**
4,546	−3,657	2,518	4,185		184,552	249	184,801
					−36,977	−183	−37,160
					16,394		16,394
					19,793		19,793
				20,638	18,235		18,235
					−19,900		−19,900
−26,894	**−3,054**	**−11,332**	**4,185**	**−1,675**	**950,827**	**655**	**951,482**
−26,894	**−3,054**	**−11,332**	**4,185**	**−1,675**	**950,827**	**655**	**951,482**
−11,837	−492	−10,135	−687		141,359	167	141,526
					−39,913	−187	−40,100
					2,160		2,160
					4,389		4,389
				518	466		466
					1	142	143
−38,731	**−3,546**	**−21,467**	**3,498**	**−1,157**	**1,059,289**	**777**	**1,060,066**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

[1] Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) and as applicable in the EU and in accordance with the additional provisions required under German commercial law as set forth in Section 315a (1) of the German Commercial Code (HGB). The IFRSs applicable as of December 31, 2012 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC–formerly SIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. It is the parent company of a Group that is globally active in the fields of software development, licensing and maintenance as well as IT services. The functional currency of Software AG is the euro.

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

[2] Scope of consolidation

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

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

a) Domestic entities	Ownership interest in %
Software Financial Holding GmbH, Darmstadt	100
IDS Scheer Consulting GmbH, Darmstadt	100
SAG Deutschland GmbH, Darmstadt	100
SAG Consulting Services GmbH, Darmstadt	100
IDS Scheer EMEA GmbH, Saarbrücken	100
RTM Realtime Monitoring GmbH, Marburg/Lahn	100
FACT Unternehmensberatung GmbH, Frankfurt/Main and its subsidiaries	65
· FACT Informationssysteme und Consulting AG, Neuss	55
· FACT Unternehmensberatung Schweiz AG, Zurich/Switzerland (sold as of April 30, 2012)	90
itCampus Software und Systemhaus GmbH, Leipzig and its foreign subsidiary	100
· itCampus Schweiz AG, Sursee/Switzerland	80

b) Foreign entities	Ownership interest in %
Software A.G. Argentina S.R.L., Buenos Aires/Argentina	95
in which SAG Deutschland GmbH also has a direct stake	5
IDS Scheer Australia–New Zealand, North Sydney/Australia	100
Software GmbH Österreich, Vienna/Austria and its subsidiary	100
· IDS Scheer GesmbH, Vienna/Austria	100
Software AG (Gulf)S.P.C., Manama/Kingdom of Bahrain	100
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100
IDS Scheer Canada, Inc., Montreal, Canada	100 inactive
Software AG China Ltd., Shanghai/China (formerly IDS Scheer China Ltd.)	100
Software AG (Hong Kong) Limited, Hong Kong/China (PRC)	100
Software AG s.r.o., Prague/Czech Republic	100

b) Foreign entities	Ownership interest in %
Software AG Nordic A/S, Hvidovre/Denmark and its subsidiaries	100
· Software AG Norge A/S, Oslo/Norway	100
· Software AG Nordic AB (Aktiebolag), Kista/Sweden (liquidated as of July 5, 2012)	100
Software AG Finland OY, Helsinki/Finland	100
Software AG France S.A.S, Courbevoie Cedex/France and its subsidiary	100
· Expert Consulting S.A., Brussels/Belgium (in liquidation)	100
IDS Scheer Hungaria Kft., Budapest/Hungary	100
Software AG India Sales Private Ltd, Mumbai/India (formerly IDS Scheer India PVT.LTD.)	100
Software AG (India) Private Limited,Maharashtra/India	100
S.P.L. Software Ltd, Or-Yehuda/Israel and its subsidiaries	100
· SPL Systems (1986) Ltd, Or-Yehuda/Israel	100
· Software A.G. (Israel) Ltd, Or-Yehuda/Israel and its subsidiary	100
· Sabratec Technologies, Inc., Or-Yehuda/Israel	100
· Text Systems International Inc, Washington D.C./USA	100
· SPL Holding B.V., Or-Yehuda/Israel (liquidated as of June 11, 2012) and its subsidiary	100
· SPL Systems B.V., Or-Yehuda/Israel (liquidated as of June 11, 2012)	100
Software AG Italia S.p.A, Segrate (MI)/Italy	100
IDS Scheer s.r.l (Headquarters), Rome/Italy (merged with Software AG Italia S.p.A, as of Jan. 1, 2013)	100
IDS Scheer Luxemburg S.A., Capellen/Luxembourg	100
IDS Scheer Central and Eastern Europe S.A., Capellen/Luxembourg and its subsidiaries	100
· IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100
· IDS Scheer, d.o.o., Ljubljana/Slovenia	100
Software AG (M) Sdn. Bhd., Kuala Lumpur/Malaysia	100
IDS Scheer Malaysia SDN BHD, Kuala Lumpur/Malaysia	100
Software AG Nederland B.V., Amsterdam/Netherlands	100
Software AG (Philippines), Inc., Pasig City/Philippines	100
Software AG Polska Sp. z o.o., Warsaw/Poland	100
Software AG (RUS),Moscow/Russia	74.6
in which IDS Scheer CEE S.A. also has a direct stake	25.4

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b) Foreign entities	Ownership interest in %
SAG Systems RUS Limited Liability Company, Moscow/Russia (merged with Software AG (RUS) as of Dec. 21, 2012)	100
IDS Scheer Saudi Arabia LLC., Riyadh/Saudi Arabia	95
in which SAG Software Systems AG also has a direct stake	5
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia	95
in which IDS Scheer Consulting GmbH also has a direct stake	5
Software AG (Singapore) Pte Ltd, Singapore and its subsidiary	100
· Software AG (Asia Pacific) Support Centre Pte Ltd, Singapore	100
IDS Scheer Singapore Pte. Ltd., Singapore/Singapore (merged with Software AG (Singapore) Pte Ltd as of Aug. 1, 2012)	100
IDS Scheer Slovakia, s.r.o., Bratislava/Slovakia	100
Software AG Development Centre Slovakia s.r.o.	100
Kosice/Slovakia (formerly IDS Scheer SDC s.r.o.)	100
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100
Software AG España, S.A. Unipersonal, Tres Cantos, (Madrid)/Spain and its subsidiaries	100
· A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela	100
· Software AG Factoria S.A., Santiago/Chile	100
· Software AG Brasil Informática e Serviços Ltda, São Paulo/Brazil	100
· Software AG de Panamà, S.A., Clayton/Panama and its subsidiaries	100
· Software AG de Costa Rica, S.A., San José/Costa Rica	100
· Sinsa Móvil, S.A., Clayton/Panama (liquidated as of Jan. 31, 2012)	100
· Software AG De Puerto Rico, Inc., San Juan/Puerto Rico	100
· Software AG Portugal, Alta Tecnologia Informática, Lda., Lisbon/Portugal	100
· Software AG Venezuela, C.A., Chacao Caracas/Venezuela	100
Software AG Sweden AB, Bromma/Sweden	100
SAG Software Systems AG, Zurich/Switzerland	100
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100
Software AG Development Center, Lviv City/Ukraine	100
IDS Scheer UK Ltd., Birmingham/UK	100
Software AG (UK) Limited, Derby/UK and its subsidiaries	100
· Entire Business Solutions Limited, Derby/UK	100
· Entire Software Limited, Derby/UK	100
· Natural Software Limited, Derby/UK	100

b) Foreign entities	Ownership interest in %
· Software AG Belgium S.A., Brussels/Belgium,	76
in which Software AG also has a direct stake	24
· PCB Systems Limited, Derby/UK	100
Metismo Ltd. UK, Derby/UK (in liquidation)	100
SGML Technologies Limited, Derby/UK	100
Software AG, Inc., Reston, VA/USA and its subsidiaries	100
· Software AG (Canada) Inc., Ontario/Canada	100
· Software AG Government Solutions, Inc., Reston, VA/USA	100
· Software AG, S.A. de C.V. (Mexico), Distrito Federal / Mexico	100
· Software AG International, Inc., Reston, VA/USA and its subsidiary	100
· Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100
· Software AG Australia (Holdings) Pty Ltd., North Sydney/Australia and its subsidiary	100
· Software AG Australia Pty Ltd., North Sydney/Australia	100
· Software AG Bangalore Technologies Private Ltd., Bangalore/India	100
· Software AG Chennai Development Center India Pvt Ltd, Chennai/India	100
· Software AG Korea, Ltd., Seoul/Korea	100
· Software AG Ltd. Japan, Tokyo/Japan	100
· Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100
· Terracotta Inc., USA, San Francisco, CA/USA and its subsidiaries	100
· Terracotta Software Limited UK, Bristol/UK	100
· Terracotta Software India Private Limited, New Delhi/India	100
· webMethods Australia Pty Ltd., North Sydney/Australia	100
· webMethods Germany GmbH, Darmstadt/Germany	100
· webMethods Software Development (Beijing) Co. Ltd., Beijing/China (PRC)	100
· DFI Software Private Limited, Cochin/India (formerly Data Foundation, India)	100
· webMethods UK Limited, Derby/UK (liquidated as of Sept. 18, 2012)	100

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Changes in the consolidated group

The number of consolidated entities changed as compared with December 31, 2011 as follows:

in € thousands	Germany	Foreign	**Total**
Dec. 31, 2011	**10**	**94**	**104**
Additions	0	2	2
Disposals (including mergers)	0	11	11
Dec. 31, 2012	**10**	**85**	**96**

The additions resulted from the acquisition of PCB Systems Limited, Derby/U.K. (my-Channels) and the opening of IDS Scheer GmbH, Vienna/Austria as described in Note [4]. The disposals resulted from the merger and liquidation of consolidated enterprises.

[3] Accounting policies

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions are made for certain items that have an impact on the recognition and measurement of recognized assets, liabilities, income, expenses and contingent liabilities. These estimates and assumptions are based on experience 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, measurement of trade receivables, acquisition accounting, subsequent accounting of goodwill and other intangible assets, and accounting for income taxes and deferred taxes.

Principles of consolidation

The separate financial statements of the entities included in the consolidated financial statements were prepared in accordance with uniform accounting policies pursuant to IFRS as of the balance sheet date for the consolidated financial statements (December 31, 2012).

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. For acquired companies, the date of acquisition was taken as the consolidation date.

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

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

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

Currency translation

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

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

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

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

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

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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, 2012**	Dec. 31, 2011	Change in %
U.S. dollar	1.3194	1.2932	-2.0
Brazilian real	2.7036	2.4137	-12.0
Canadian dollar	1.3137	1.3192	0.4
Australian dollar	1.2712	1.2714	0.0
South African rand	11.173	10.476	-6.7

Average rate

(1 €)	**2012**	2011	Change in %
U.S. dollar	1.2857	1.3920	7.6
Brazilian real	2.5100	2.3263	-7.9
Canadian dollar	1.2848	1.3758	6.6
Australian dollar	1.2414	1.3485	7.9
South African rand	10.557	10.093	-4.6

For the Venezuelan bolivar, the rate at which the amounts are actually translated is used. Moreover, 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. Accordingly, revenue is attributed to the individual elements on the basis of their respective market values. If reliable market values cannot be determined for all elements, revenue recognition is based on the residual method. Under the residual method, all determinable market values are deducted from the total transaction value. The residual amount is then attributed to the elements for which no reliable market values can be determined, using list prices.

Revenue from maintenance business is recognized proportionately over the period of service provision.

Revenue resulting from contracts for services, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by SAG 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

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costs incurred for work performed as of the balance sheet date to the estimated total contract costs. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

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

Cost of sales

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

Government grants

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

Research and development expenses

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

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

Sales, marketing and distribution expenses

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

General and administrative expenses

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

Borrowing costs

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

Share-based payment

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

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

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

Cash and cash equivalents

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

Trade receivables

The carrying amount of trade receivables corresponds to their respective invoiced amount, less sales deductions and valuation allowances. If there is objective evidence that the receivables may be impaired, we recognize specific valuation allowances. In addition, certain classes of receivables are subject to portfolio-based valuation allowances based on past experience, taking into account the age of receivables. Non-interest bearing receivables with maturities of more than one year are discounted using an adequate interest rate.

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This item also includes services performed under fixed-price contracts that have not yet been invoiced and that are recognized in accordance with the percentage-of-completion method. Furthermore, it includes receivables from the sale of software licenses whereby the service has already been rendered but not yet invoiced.

Other receivables and other assets

Other receivables and other assets are measured at cost and written down to the relevant market price, if applicable.

Intangible assets

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

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

Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Goodwill

Goodwill is not amortized. Instead, it is tested for impairment at least once per year (as of December 31) and written down to its recoverable amount in case of impairment. Moreover, goodwill is tested for impairmant whenever there is an indication that an impariment has occurred.

Property, plant and equipment

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

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

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

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

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.

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Impairment of intangible assets and property, plant and equipment

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

Impairments losses are reported under costs of the relevant functional area or under other operating expenses.

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.

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 highly 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.

Liabilities

Liabilities are recorded at amortized cost, except for financial liabilities at fair value through profit or loss. Amortized cost is determined using the effective interest rate. Financial liabilities at fair value through profit or loss only include negative fair values from derivatives, insofar as these were not recognized in hedge accounting.

Provisions

Provisions are reported when the Company has a current legal or constructive obligation towards a third party due to a past event that is likely to result in a future outflow of resources and for which the amount of the obligation can be reliably estimated. Estimates are regularly reviewed and adjusted.

If the effect of discounting is significant, the provision is recognized in the amount of the present value of the expected future cash flows.

Provisions for pensions and similar obligations

Defined benefit plans and defined contribution plans exist with respect to company pensions. The pension provisions are calculated using actuarial principles in accordance with the projected unit credit method set out in IAS 19. This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

Employees do not receive illness-related allowances either in Germany or abroad.

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

Software AG does not incur any obligations for defined contribution plans other than premium payments on life insurance policies and statutory pension plans and contributions to special-purpose funds. These payments are recognized in profit or loss for the period.

Deferred income

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

Changes to accounting and valuation methods

To better identify relevant information relating to the effects of business transactions, recognition of other taxes was adjusted within the Consolidated Income Statement. Other taxes are reported as part of the operating result in the Consolidated Income Statement for 2012. They were previously reported under "earnings before taxes." In accordance with IAS 8 the corresponding figures were adjusted accordingly in these financial statements. The adjustments had no impact on Group earnings or shareholders' equity for 2012 or past reporting periods.

First-time application of accounting rules

The following amended accounting rules were applied for the first time in 2012, but had no or no significant impact:

- Amendment of IFRS 7 *"Financial Instruments: Disclosures"–Transfer of financial assets*
- Amendment of IAS 12 *"Income Taxes"–Deferred taxes–Recognition of underlying assets*

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

The IASB has published the following standards, interpretations and amendments to standards that are not yet required to be applied and with regard to which Software AG has not opted for early application to the consolidated financial statements for the year ended December 31, 2012. The application of these IFRSs requires (except the amendments of IAS 19 that have already been endorsed by the EU for European law) that they be adopted by the EU as part of the IFRS endorsement process.

In November 2009, the IASB issued IFRS 9 *"Financial Instruments."* IFRS 9 changes the recognition and measurement criteria for financial assets, including various types of hybrid contracts. The new standard is intended to replace IAS 39 and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. As Software AG currently does not hold any assets available for sale, we do not expect any impact from this change. IFRS 9 also requires a single impairment method to be used. Based on current expectations, this will not have any impact for Software AG. The effective date for mandatory adoption of IFRS 9 is January 1, 2013. Early adoption is permitted.

The IASB published IAS 19 *"Employee Benefits"* (revised version) in June 2011. It requires companies to recognize actuarial gains and losses in "other comprehensive income." The corridor approach is thus no longer permitted. Because Software AG does not use the corridor approach and its actuarial gains and losses are already recognized in other comprehensive income, this amendment does not affect Software AG. Due to Software AG's insignificant volume of pension obligations, the additional amendments, e.g. the application of a uniform interest rate for the expected return on plan assets and the interest expenses on pension obligations, are not expected to have a 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, 2012. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

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[4] Business combinations

Software AG acquired a 100-percent interest in U.K.-based technology provider my-Channels (PCB Systems Limited, Derby/U.K.). The acquisition complements and extends Software AG's existing integration technology with an extremely fast (low latency) messaging software. The consideration due for this acquisition amounted to €16,284 thousand.

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	977	0	977
Intangible assets	0	7,052	7,052
Goodwill	0	9,667	9,667
Other assets	909	0	909
Total assets	**1,886**	**16,719**	**18,605**
Liabilities and provisions	207	0	207
Deferred tax liabilities	23	1,789	1,812
Deferred income	405	-103	302
Total equity and liabilities	**635**	**1,686**	**2,321**
Acquired assets and assumed liabilities, net	**1,251**	**15,033**	**16,284**
Acquisition cost, gross			**16,284**
Cash and cash equivalents acquired			977
Net cost of the business combination			**15,307**

The full amount of goodwill resulting from the purchase price allocation was assigned to the Business Process Excellence segment.

The recognition of goodwill resulted 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 tax deductible.

It is not possible to compute the exact amount of the Group revenue and net income of Software AG attributable to this acquisition since the date of acquisition. However, such amount is not of material significance for the financial position, cash flows or profit or loss of the Group as a whole.

A performance-based retrospective purchase price (approximately €4 million) was agreed on with former owners (presently Software AG employees) relating to the acquisition of my-Channels. Pursuant to IFRS 3 it consists of remuneration for future service. Accordingly this future performance-based consideration will not increase the above-listed price. It will be reported as part of personnel expenses over the vesting period.

In addition to the consideration paid for my-Channels in the amount of €15,307 thousand (net), considerations not yet paid from previous acquisitions in the amount of €2,656 thousand were paid in fiscal 2012.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

[5] Total revenue

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

Services revenue

Services revenue includes sales of €40,083 thousand (2011: €64,125 thousand), recognized in accordance with the percentage-of-completion method. The status of uncompleted projects recognized under the percentage-of-completion method as of December 31, 2012 was as follows:

in € thousands	**2012**	2011
Costs accumulated over the term of a (multi-year) project and not yet invoiced	87,179	97,990
Recognized profit (+)/loss (–)	5,904	5,422
Advance payments received	73,149	75,330
Retentions	0	0

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As of December 31, 2012, the net amount due from customers for unfinished project work was €10,186 thousand (2011: €21,694 thousand), and the net amount due to customers from running projects was €2,482 thousand (2011: €1,011 thousand).

The net balance of a project consists of costs incurred, plus the gains reported less the total amount of reported losses and progress billings.

[6] Other income

Other income includes the following items:

in € thousands	**2012**	2011
Foreign exchange gains	16,143	19,496
Income from the reversal of provisions and deferred liabilities	8,459	11,405
	24,602	**30,901**

[7] Other expenses

Other expenses consist of the following items:

in € thousands	**2012**	2011
Foreign exchange losses	19,705	20,436
Other expenses	1,668	4,081
	21,373	**24,517**

[8] Net financial income/expense

Financial income includes interest on financial assets in the amount of €7,324 thousand (2011: €4,341 thousand). Financial expense includes interest expenses for financial liabilities in the amount of €12,612 thousand (2011: €17,109 thousand).

[9] Income taxes

Taxes on income are broken down into the following categories:

in € thousands	**2012**	2011
Current domestic taxes	-17,440	-34,097
Current foreign taxes	-55,948	-47,851
	-73,388	**-81,948**
Deferred domestic taxes	6,524	7,834
Deferred foreign taxes	44	3,004
	6,568	**10,838**
	-66,820	**-71,110**

In Germany, a uniform corporate income tax of 15 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for domestic companies was 31.22 percent starting in 2012 (2011: 31.21 percent). Tax rates abroad range between 10 and 39 percent (2011: between 10 and 39 percent).

The tax expense in fiscal 2012 was 6 percent less than in the previous year.

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The income tax expense of €66,820 thousand for fiscal year 2012 (2011: €71,110 thousand) is €5,543 thousand lower than the expected income tax expense of €72,273 thousand (2011: €77,500 thousand) that resulted from applying the domestic tax rate of 31.22 percent currently applicable (2011: 31.21 percent) at Group level. The effective tax rate for the Group is 28.86 percent (2011: 28.64 percent). The difference between the expected and actual tax expense can be attributed to the following:

in € thousands	**2012**	2011
Earnings before income tax	231,497	248,319
Expected income tax (31.22%; 31.21%)	**-72,273**	**-77,500**
Difference vs. foreign tax rates and changes in tax rates	-3,705	-7,682
Income tax income/expense from other periods	8,314	6,544
Tax increases (-) due to tax-exempt income or non-tax deductible expenses	1,161	-3,016
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	1,288	10,153
Non-deductible foreign and withholding taxes	-939	0
Other adjustments	-666	391
Reported income tax expense	**-66,820**	**-71,110**

[10] Other taxes

Other taxes decreased by €2,953 thousand to €8,022 thousand (2011: €10,975 thousand) and included royalty-related indirect taxes in Brazil, property taxes, vehicle taxes and other indirect taxes.

[11] Personnel expenses

Personnel expenses in fiscal years 2012 and 2011 were as follows:

in € thousands	**2012**	2011
Wages and salaries	467,740	445,102
Social security contributions	55,328	57,404
Pension expenses	10,002	9,681
	533,070	**512,187**

In fiscal 2012, the average number of employees (i.e., part-time employees are taken into account on a pro rata basis only) by area of activity was as follows:

	2012	2011
Maintenance and Services	2,758	2,901
Sales and Marketing	1,069	1,029
Research and Development	890	845
Administration	737	732
	5,454	**5,507**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 5,586 (2011: 5,695) people as of December 31, 2012.

[12] Earnings per share

Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2012, the average weighted number of shares was 86,784,793 (2011: 86,195,814).

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A total of 108,600 (2011: 1,435,662) stock options were exercised in 2012. In order to fulfill stock options, 19,000 (2011: 756,000) treasury shares were used and an additional 89, 600 (2011: 679,662) shares were generated by way of a capital increase. The number of shares increased accordingly by 108,600 (2011: 1,435,662). The remaining 42,377 (2011: 61,377) treasury shares are not expected to see a dilution effect since they can be sold at market prices.

Another 1,852,800 (2011: 1,961,400) stock options from the third stock option plan may be exercised. The dilutive effect on earnings per share was calculated using the treasury stock method.

in € thousands	**2012**	2011
Net income for the year	164,677	177,209
less earnings attributable to non-controlling interests	-167	-249
Net income for the year attributable to shareholders of Software AG	**164,510**	**176,960**
Weighted average number of shares in issue	86,784,793	86,195,814
Effect of dilutive share-based payment	205,411	1,053,237
Weighted average number of shares in issue (diluted)	86,990,204	87,249,051
Earnings per share in € (basic)	1.90	2.05
Earnings per share in € (diluted)	1.89	2.03

NOTES TO THE CONSOLIDATED BALANCE SHEET

[13] Disposal group

Software AG signed an agreement with itelligence AG, Bielefeld/Germany on January 8, 2013 to sell its SAP-related service activities in Canada and the United States. The conversion took place on January 16, 2013.

The transaction covered all Software AG services related to SAP products that were coordinated in Toronto for Canada and in Reston, Virginia for the USA.

Because the criteria for reporting a disposal group held for sale were already met as of December 31, 2012 pursuant to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations), the lower of the carrying amount and the fair value less costs to sell was recognized and presented separately in the Balance Sheet as assets and liabilities held for sale as of December 31, 2012.

Because the sale price was higher than the carrying amounts, there were no depreciation and impairment losses in 2012. Earnings of around €2 million are anticipated to result from the transaction in the first quarter of 2013.

The assets held for sale and liabilities directly related to assets held for sale are as follows:

in € thousands	
Current assets	
Cash and cash equivalents	1,876
Other receivables and other assets	1,440
Non-current assets	
Intangible assets	1,481
Goodwill	1,295
Assets held for sale	6,092
Current liabilities	
Trade payables	1,431
Deferred income	1,876
Liabilities related to assets held for sale	3,307

All assets and liabilities were assigned to the IDS Scheer Consulting segment.

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[14] Trade receivables

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

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Carrying amount	**341,274**	**317,933**
of which neither impaired nor past due as of the balance sheet date	285,079	252,542
of which past due in the following time bands as of the balance sheet date		
1 to 3 months	41,854	49,893
4 to 6 months	10,446	6,465
7 to 12 months	3,243	7,039
> 12 months	652	1,994

In a number of countries, bad debt allowances are deducted directly from the trade receivables.

[15] Other receivables and other assets

Other receivables and other assets mainly consist of receivables due from tax authorities in the amount of €6,371 thousand (2011: €13,644 thousand) and prepaid expenses in the amount of €8,873 thousand (2011: €9,912 thousand).

[16] Income tax receivables

Tax receivables in the amount of €22,959 thousand (2011: €16,816 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

[17] Intangible assets and goodwill

Changes in intangible assets and goodwill in fiscal year 2012:

in € thousands	Goodwill	Intangible assets	**Total**
Cost			
Balance as of Jan. 1, 2012	**754,123**	**386,256**	**1,140,379**
Currency translation differences	-4,451	-4,105	-8,556
Additions from acquisitions	9,895	7,219	17,114
Additions	0	3,667	3,667
Disposals	0	-2,129	-2,129
Reallocations	-1,295	-3,649	-4,944
Balance as of Dec. 31, 2012	**758,272**	**387,259**	**1,145,531**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2012	**-1,900**	**-138,054**	**-139,954**
Currency translation differences	0	2,098	2,098
Additions	0	-41,066	-41,066
Disposals	0	1,988	1,988
Reallocations	0	2,168	2,168
Balance as of Dec. 31, 2012	**-1,900**	**-172,866**	**-174,766**
Residual carrying amount as of Jan. 1, 2012	752,223	248,202	1,000,425
Residual carrying amount as of Dec. 31, 2012	756,372	214,393	970,765

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Changes in intangible assets and goodwill in fiscal year 2011

in € thousands	Goodwill	Intangible assets	**Total**
Cost			
Balance as of Jan. 1, 2011	**719,197**	**332,701**	**1,051,898**
Currency translation differences	7,208	8,903	15,959
Additions from acquisitions	27,718	43,307	71,177
Additions	0	4,099	4,099
Disposals	0	-2,754	-2,754
Balance as of Dec. 31, 2011	**754,123**	**386,256**	**1,140,379**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2011	**-1,900**	**-100,070**	**-101,970**
Currency translation differences	0	-3,176	-3,176
Additions	0	-36,275	-36,275
Disposals	0	1,467	1,467
Balance as of Dec. 31, 2011	**-1,900**	**-138,054**	**-139,954**
Residual carrying amount as of Jan. 1, 2011	717,297	232,631	949,928
Residual carrying amount as of Dec. 31, 2011	752,223	248,202	1,000,425

Intangible assets mainly include software, customer bases and brand names obtained in connection with acquisitions.

The following intangible assets with limited useful lives are of particular significance for the financial statements:

in € thousands	**Carrying amount as of Dec. 31, 2012**	Carrying amount as of Dec. 31, 2011	Remaining amortization period in years
Customer base obtained through webMethods acquisition	35,899	41,859	7.0
Software (rights and licenses) obtained through IDS acquisition	20,353	28,070	2.7
Software (rights and licenses) obtained through Terracotta acquisition	19,186	23,447	5.0
Customer base obtained through IDS acquisition	13,486	18,229	4.7
Software (rights and licenses) obtained through webMethods acquisition	10,781	18,766	1.4

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2012:

in € thousands	**Carrying amount as of Dec. 31, 2012**	Carrying amount as of Dec. 31, 2011	Reason for assuming indefinite useful life
Brand name ("webMethods") obtained through webMethods acquisition	18,949	19,333	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name ("ARIS") obtained through IDS acquisition	17,900	17,900	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name ("IDS Scheer") obtained through IDS acquisition	8,800	8,800	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.

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The brand names indicated above are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

Pursuant to the applicable composition of reportable segments as of December 31, the carrying amounts of goodwill and of intangible assets with indefinite useful lives were allocated as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Segment		
ETS	320,771	320,590
Business Process Excellence	426,914	421,651
IDS Consulting	8,687	9,982
Goodwill	**756,372**	**752,223**
ETS	0	0
Business Process Excellence	36,849	37,233
IDS Consulting	8,800	8,800
Intangible assets with indefinite useful lives	**45,649**	**46,033**

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 for the BPE and ETS segments is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a four-year period.

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.

The forecasts take into account historical values and estimates of future developments. Costs to sell are assumed to amount to 2 percent of the relevant fair value.

The estimated future cash flows for the ETS segment were discounted using a post-tax weighted average cost of capital (WACC) before taxes of 6.5 percent (2011: 6.5 percent). The sustainable growth rate was assumed to be 0 percent (2011: 0 percent). A discount of 20 percent (2011: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even if a discount of 50 percent was used on the last year of detailed planning, the fair value less costs to sell would exceed the carrying amount.

We assumed a sustainable growth rate of 1 percent (2011: 1 percent) and a weighted average cost of capital (WACC) after tax of 7.4 percent (2011: 7.4 percent) for the Business Process Excellence segment.

For the IDS Consulting segment, the the fair value less costs to sell was derived based on the sale of SAP service activities in Canada and the USA described in Note [13] to offset the carrying amount of the IDS Scheer Consulting segment. Based on this approach, we could verify that the recoverable amount exceeded the segment's carrying amount.

Pursuant to the new (applicable as of the beginning of fiscal year 2013) composition of reportable segments (refer to Note [28] for notes on the changes to reportable segments), the carrying amounts of goodwill and intangible assets with indefinite useful lives would have been allocated as follows:

in € thousands	Dec. 31, 2012
Segment	
ETS	310,089
BPE	415,472
Consulting	30,811
Goodwill	**756,372**
ETS	0
BPE	35,861
Consulting	9,788
Intangible assets with indefinite useful lives	**45,649**

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[18] Property, plant and equipment

Changes in property, plant and equipment in fiscal 2012:

in € thousands	Land and buildings	Operating and office equipment	**Total**
Cost			
Balance as of Jan. 1, 2012	**73,330**	**44,999**	**118,329**
Currency translation differences	-196	-508	-704
Additions	2,846	6,964	9,810
Disposals	-867	-7,599	-8,466
Balance as of Dec. 31, 2012	**75,113**	**43,856**	**118,969**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2012	**-24,515**	**-28,449**	**-52,964**
Currency translation differences	131	434	565
Additions	-3,466	-6,918	-10,384
Disposals	835	6,993	7,828
Balance as of Dec. 31, 2012	**-27,015**	**-27,940**	**-54,955**
Residual carrying amount as of Jan. 1, 2012	**48,815**	**16,550**	**65,365**
Residual carrying amount as of Dec. 31, 2012	**48,098**	**15,916**	**64,014**

Changes in property, plant and equipment in fiscal 2011:

in € thousands	Land and buildings	Operating and office equipment	**Total**
Cost			
Balance as of Jan. 1, 2011	**71,336**	**43,168**	**114,504**
Currency translation differences	240	-7	233
Additions	2,912	8,300	11,212
Disposals	-1,158	-6,462	-7,620
Balance as of Dec. 31, 2011	**73,330**	**44,999**	**118,329**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2011	**-22,503**	**-25,645**	**-48,148**
Currency translation differences	-138	-197	-335
Additions	-2,871	-7,130	-10,001
Disposals	997	4,523	5,520
Balance as of Dec. 31, 2011	**-24,515**	**-28,449**	**-52,964**
Residual carrying amount as of Jan. 1, 2011	**48,833**	**17,523**	**66,356**
Residual carrying amount as of Dec. 31, 2011	**48,815**	**16,550**	**65,365**

Most of the land and buildings are owned by the parent company, IDS Scheer Consulting GmbH and the Spanish subsidiary. The properties pertain to the central administrative buildings of these entities.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €6,964 thousand (2011: €8,149 thousand) primarily relates to expenses for the replacement of computer equipment.

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[19] Deferred taxes

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

in € thousands	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2012	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011
Intangible assets	6,696	8,520	63,853	76,378
Other obligations	10,269	11,811	4,405	5,732
Receivables and financial assets	6,358	4,318	7,119	8,169
Property, plant and equipment	391	414	4,635	4,685
Pension commitments	9,125	6,257	0	0
Prepaid expenses/deferred income	4,581	1,790	20	485
Tax loss carryforwards	32,445	44,324	–	–
Total	**69,865**	**77,434**	**80,032**	**95,449**
Amount offset	-53,203	-58,703	-53,203	-58,703
Amount recognized in the balance sheet	**16,662**	**18,731**	**26,829**	**36,746**

Deferred tax assets on tax loss carryforwards fell from the prior year by €11,879 thousand. The increase resulted from ongoing consumption of the loss carryforwards as they are offset against taxable income and the appropriate subsequent capitalization based on future income expectations.

As of December 31, 2012, the consolidated Group had unutilized tax loss carryforwards in the amount of €63,505 thousand (2011: €88,532 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €13,914 thousand will expire in the period from 2013 to 2021, €29,768 thousand in the period from 2022 to 2031, and €19,823 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €4,753 thousand (2011: €6,637 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor future profit distributions are planned.

In fiscal year 2012, deferred taxes totaling €8,893 thousand (2011: €5,705 thousand) were recognized directly in equity. These amounts mainly resulted from actuarial gains/losses recognized directly in equity based on changes in the measurement of pension obligations as well as from financial instruments also recognized directly in equity.

[20] Financial liabilities

Financial liabilities can be broken down as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Current financial liabilities		
Other financial liabilities	46,182	4,457
Liabilities to banks	6,008	21,166
Bills payable	378	448
Liabilities from finance leases	4	7
Other current financial liabilities	0	10
	52,572	**26,088**
Non-current financial liabilities		
Liabilities to banks	210,310	203,181
Other financial liabilities	3,000	48,000
Liabilities from finance leases	130	97
	213,440	**251,278**

Liabilities to banks and other loans had the following maturities as of the reporting date:

in € thousands	**Up to 1 year**	More than 1 year
Loans with variable interest rates	5,186	73,432
Loans with fixed interest rates	47,004	139,878
	52,190	**213,310**

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 €191,223 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

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[21] Trade payables

Trade payables can be broken down as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Current liabilities		
Payables to suppliers	40,663	52,400
Payments received on account of orders	7,170	5,666
	47,833	**58,066**
Non-current liabilities		
Payables to suppliers	220	447
Payments received on account of orders	0	6
	220	**453**

[22] Other liabilities

Other liabilities relate to the following items:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Other current liabilities		
Tax liabilities	24,741	37,536
Liabilities due to employees	20,886	26,159
Interest rate swap evaluation	5,370	4,182
Liabilities for social security	4,671	6,399
Deferred lease payments	1,723	2,263
Liabilities due to a former Management Board member	0	7,018
Remaining miscellaneous other provisions	9,330	5,100
	66,721	**88,657**
Other non-current liabilities		
Liabilities due to employees	3,576	905
Outstanding consideration (acquisitions)	2,903	7,850
Liabilities for social security	15	43
Remaining miscellaneous other provisions	743	0
	7,237	**8,798**

[23] Other provisions

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2012	**47,036**	**47,774**	**94,810**
Currency translation	-521	-192	-713
Additions	38,708	18,932	57,640
Utilization	-27,580	-16,993	-44,573
Reversal	-3,734	-2,607	-6,341
Balance as of Dec. 31, 2012	**53,909**	**46,914**	**100,823**
of which with a remaining term of more than 1 year	49	10,455	10,504

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Bonuses	29,730	24,179
Other taxes	3,726	3,202
Lease payment obligations	3,291	3,717
Litigation	2,709	2,488
Impending losses for consulting projects	1,672	3,419
Asset retirement obligations	839	982
Remaining miscellaneous other provisions	4,947	9,787
	46,914	**47,774**

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[24] Income tax liabilities

in € thousands	**2012**	2011
Balance as of January 1	**20,171**	**53,113**
Currency translation	-584	-400
Additions	21,451	7,377
Utilization	-7,454	-32,748
Reversal	-2,896	-7,171
Balance as of December 31	**30,688**	**20,171**

[25] Provisions for pensions

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Provisions for pensions (domestic)	24,076	15,783
Provisions for pensions (foreign)	23,077	16,331
Provisions for insignificant pension obligations from defined benefit plans and similar obligations	3,041	2,022
Provisions due to existing minimum funding obligations	0	4,064
	50,194	**38,200**

The Consolidated Balance Sheet included the following items relating to significant defined benefit plans as of December 31, 2012 and December 31, 2011:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011
Benefit obligation, fully funded	1,637	6,160
Benefit obligation, partially funded	92,659	67,887
Benefit obligation, unfunded	2,592	1,932
	96,888	**75,979**
Present value of plan assets	-49,735	-43,966
Net carrying amounts	**47,153**	**32,013**
of which provisions for pensions	47,153	32,166
of which plan assets	0	155

Pension commitments in Germany consist of fixed commitments to a select group of people. These commitments are partially covered by life reinsurance policies.

The major part of the foreign pension commitments result from a defined benefit plan of Software AG (U.K.) Limited, United Kingdom. The commitments comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period. Both the pension commitments from the plan of Software AG (U.K.) Limited and the pension commitments of the other foreign subsidiaries are partially funded through plan assets.

The actuarial calculations of the defined benefit obligations are based on the following assumptions (weighted averages):

Actuarial assumptions in %	Domestic pension plans		Foreign pension plans	
	2012	2011	**2012**	2011
Discount rate	3.3	5.0	4.0	4.3
Expected salary increases	0.0	0.0	4.3	4.0
Expected pension increases	2.0	2.0	2.1	1.9
Expected return on plan assets	3.3	4.0	4.7	4.3

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The discount rates used have been derived from the interest rates of high-quality bonds with comparable maturities.

Pension commitments in foreign countries are calculated in accordance with country-specific calculation principles and parameters.

The changes in the defined benefit obligations and plan assets are as follows:

in € thousands	Domestic pensions plans		Foreign pensions plans	
	2012	2011	**2012**	2011
Change in defined benefit obligations (DBO)				
DBO as of January 1	19,140	19,937	56,839	62,920
Service cost	1,085	1,483	2,402	2,570
Interest expense	942	932	2,601	2,563
Employee contributions	0	0	263	301
Actuarial gains (+)/losses (-)	6,999	-2,621	9,579	-7,117
Pension payments	-598	-591	-1,908	-5,773
Plan curtailments	0	0	-1,573	0
Exchange differences	0	0	1,117	1,375
DBO as of December 31	**27,568**	**19,140**	**69,320**	**56,839**
Change in plan assets				
Fair value of plan assets as of January 1	3,356	3,151	40,610	40,505
Expected return on plan assets	135	134	1,862	1,910
Employer contributions	604	627	4,639	5,359
Employee contributions	0	0	263	301
Settlements	0	0	-1,573	-70
Actuarial gains (+)/losses (-)	-46	-3	507	-2,536
Pension payments	-557	-553	-1,908	-5,767
Exchange differences	0	0	1,843	908
Fair value of plan assets as of December 31	**3,492**	**3,356**	**46,243**	**40,610**

Net periodic pension cost can be broken down as follows:

in € thousands	**2012**	2011
Interest expense	3,544	3,495
Service cost	3,487	4,051
Expected return on plan assets	-1,998	-1,975
Net periodic pension cost	**5,033**	**5,571**

Service cost, repayment of expenses from retroactive plan amendments (past service cost), and losses from plan termination and plan curtailments were recognized as personnel expenses under operating expenses. Interest expense, less the expected return on plan assets, was included in net financial income/expense.

Taking into account deferred taxes, actuarial gains and losses recognized in equity changed as follows:

in € thousands	**2012**	2011
Actuarial gains (+)/losses (-) recognized in the period	-11,067	4,681
Net actuarial gains (+)/losses (-) recognized in the period from insignificant plans and currency exchange effects	-2,081	850
Accumulated actuarial gains (+)/losses (-) recognized in the period as of December 31	-21,467	-8,319

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The effects of asset caps (after deferred taxes) recognized in equity changed as follows:

in € thousands	**2012**	2011
Effects of asset caps recognized in the period	3,013	-3,013
Accumulated effects of asset caps	0	-3,013

The plan assets used to fund the pension obligations can be broken down as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Equities	22,852	17,116	14,910	11,128	9,259
Bonds	11,245	7,543	6,318	13,882	7,996
Life insurance policies	13,462	14,956	18,385	11,525	6,386
Other	2,176	4,352	4,043	2,630	446
	49,735	**43,966**	**43,656**	**39,165**	**24,087**

The actual return on plan assets amounted to a loss of €2,460 thousand (2011: €563 thousand) in 2012.

Contributions from the Software AG Group to plan assets for fiscal year 2013 are expected to amount to €5,421 thousand.

The defined benefit obligations, present values of plan assets, net carrying amounts and experience adjustments for significant plans for the current and the four preceding reporting periods are as follows:

in € thousands	**Dec. 31, 2012**	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
DBO	96,888	75,979	82,858	67,561	39,927
Present value of plan assets	-49,735	-43,966	-43,656	-39,166	-24,087
Net carrying amounts	47,153	32,013	39,202	28,395	15,840
Experience adjustments to DBO in %	0.3	-3.4	3.2	1.5	-17.7
Experience adjustments to plan assets in %	1.8	-5.1	1.6	6.8	-36.0

Defined contribution plans

There is a minor volume of defined contribution pension commitments. Defined contributions are paid to external insurance companies or funds. Furthermore, Software AG makes contributions to the state and/or public pension fund primarily in Germany. Defined contribution pension commitments accounted for expenses of €16,524 thousand (2011: €14,730 thousand) in 2012.

[26] Equity

Share capital

As of December 31, 2012, Software AG's share capital totaled €86,917 thousand (2011: €86,828 thousand), divided into 86,917,445 (2011: 86,827,845) bearer shares. Each share entitles its holder to one vote.

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Conditional capital

The following conditional capital existed as of December 31, 2012:

1.) Up to €8,593 thousand divided into up to 8,593,184 bearer shares to service subscription rights under the third and fourth stock option plans (Management Incentive Plan III and IV, or MIP III and MIP IV) for members of the Management Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented in Note [34].

The Management Board's use of this authorization totaled €89 thousand, divided into 89,600 bearer shares, in 2012.

2.) Up to €18,000 thousand divided into a maximum of 18,000,000 bearer shares, each with a notional interest in the share capital of €1 for the purpose of granting option rights and agreeing on option obligations arising from warrant bonds or granting conversion rights to and agreeing on conversion obligations with bearers of warrant bonds or convertible bonds in an aggregate principal amount of up to €500,000 thousand and with or without a limited term in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 21, 2010.

Pursuant to this authorization, the Management Board may, subject to the consent of the Supervisory Board, resolve on or before May 20, 2015 that the rights described be issued by Software AG or a directly or indirectly held wholly owned affiliate of Software AG.

As of December 31, 2012, the Management Board had not made use of this authorization.

3.) Up to €55,000 thousand divided into a maximum of 55,000 bearer shares, each with a notional interest in the share capital of €1, for the purpose of granting bearer shares upon the exercise of conversion or option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005, such conversion or option rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with Section 23 of the German Reorganization and Transformation Act (UmwG).

The requirements of this plan and the status of allocations and options exercised are presented in Note [34].

The Management Board did not make use of this authorization in fiscal year 2012.

Authorized capital

As of December 31, 2012, the Management Board was also authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 4, 2016 by up to a total of €43,074 thousand by issuing up to 43,074,091 new bearer shares in return for cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Management Board is authorized to exclude fractional amounts from shareholders' subscription rights.

- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights in the event of capital increases in return for contributions in kind, provided the contribution in kind is for the purpose of acquiring companies, parts of companies and/or equity interests in companies or as part of corporate mergers.

- Subject to the consent of the Supervisory Board, the Management Board is authorized, in the event of capital increases, to exclude subscription rights in return for cash contribution to the extent necessary to grant the holders of option or conversion rights or those with obligations to exercise options or convert warrant bonds or convertible bonds, which were issued by Software AG or a wholly owned direct or indirect subsidiary of Software AG, or the holders of option or conversion rights, which Software AG—following the merger of IDS Scheer AG with Software AG—is obligated to recognize as a subscription right to new shares in the amount equivalent to that which they would be entitled as shareholders upon exercising their option or conversion rights or fulfilling their option or conversion obligations.

- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights of shareholders in the event of capital increases in return for cash contributions, provided the capital increases resolved on the basis of this authorization do not exceed 10 percent of the issued share capital at the time the resolution is passed at the Annual Shareholders' Meeting or, if lower, of the share capital in issue at the time the authorization is acted upon and provided the issue price is not significantly lower than the stock market price. The upper limit of 10 percent of the issued share capital will be reduced by the pro rata amount of the share capital attributable to those treasury shares of the Company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to Section 71 (1) No. 8, Sentence 5 and Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with

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option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act.

The Management Board did not make use of this authorization in fiscal year 2012.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 21, 2010, the Company is authorized to purchase on or before May 20, 2015:

a) Treasury shares having a notional interest in the share capital of up to 10 percent of the share capital in issue on the date 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 share capital at any time.

b) The treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company. If the shares are purchased via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five days preceding the purchase. The date of acquisition is the date upon which the transaction is concluded. If the shares are purchased via a public purchase offer, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five trading days prior to publication of the offer. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer. The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.

c) The Management Board is authorized to sell the Company shares purchased on the basis of the authorization pursuant to letter "a" above or an authorization granted at an earlier time via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally, such as through an offer addressed to all of the Company's shareholders.

d) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholder subscription rights, to sell the treasury shares purchased, provided the shares are sold for cash at a price that is not significantly lower than the listed prices of Company shares that have the same terms and features at the time of the sale. This authorization is limited to shares with a notional interest in the share capital of up to a total of 10 percent of the share capital in issue on the date of issue of the authorization or, if lower, the share capital in issue at the time the authorization is acted upon. The upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization as part of a capital increase subject to the exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act. The average listed price of the Company shares—the unweighted average closing price in Xetra trading on the Frankfurt stock exchange or a successor system—during the five trading days preceding the sale will be considered the applicable listed price within the meaning of this paragraph. The date of acquisition is the date upon which the transaction is concluded.

e) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders' subscription rights, to dispose of the treasury shares as follows:

(i) To sell the shares to third parties, provided such sale is for the purpose of acquiring companies, parts of companies, and/or equity interests in companies or within the context of business combinations;
(ii) In compliance with the terms and conditions of the bonds, the Management Board may deliver the shares to the holders of warrants or convertible bonds issued by the Company or by a wholly owned direct or indirect subsidiary of the Company;
(iii) In compliance with the terms and conditions of the options and bonds as well as the terms and conditions of the merger agreement between the Company and IDS Scheer AG, the Management Board may deliver the shares to the holders of option or conversion rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005.

In the event of a sale of treasury shares via an offer to all shareholders, the Management Board is furthermore authorized, subject to the consent of the Supervisory Board, to grant subscription rights to the holders of warrants or convertible bonds issued by the Company or by a wholly owned direct or

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indirect subsidiary of the Company equivalent to that to which the warrant holders or bondholders would be entitled upon exercising their option or conversion rights or fulfilling their option or conversion obligations and in the scope necessary to exclude shareholder subscription rights.

f) Furthermore, the Management Board is authorized to recall all or part of the treasury shares in one or several steps without any additional authorization from the Annual Shareholders' Meeting. The shares may also be recalled without a capital decrease by adjusting the pro rata amount in the Company's share capital of the remaining shares. In such case, the Management Board is authorized to adjust the specification of the number of shares in the Articles of Incorporation.

g) The authorization to purchase or use the Company's treasury shares may be exercised either in whole or in part, and in the latter case on more than one occasion. Treasury shares may be purchased for one or more of the aforementioned purposes.

At the beginning of the reporting period Software AG held 61,377 treasury shares representing an interest in the share capital of €61,377 (0.07 percent). Of these, the Management Board sold 19,000 shares representing an interest in the share capital of €19,000 (0.02 percent) to employees in accordance with the aforementioned authorization "d" on August 14, 2012 as part of the exercise of the MIP III. The off-exchange sale took place on August 14, 2012 at a price of €26.11 per share. Pursuant to the authorization described in section "d," the applicable stock market price was €26.25, just 0.5 percent above the sale price. Proceeds from the sale were used to service the Company's obligations resulting from the exercise of the MIP III. As of December 31, 2012 Software AG held 42,377 treasury shares representing an interest in the share capital of €42,377 (0.05 percent).

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. For this reason, net income for the year is the key indicator with regard to corporate management. Since software companies typically have a low level of capital expenditure for property, plant and equipment, equity is not a focus of corporate management. Dividends are calculated as the average of net income for the year and free cash flow. This resulted in total dividends of €39,605 thousand (2011: €39,913 thousand) and a payout ratio of 23.6 percent (2011: 21.9 percent).

Dividend payment

In accordance with the proposal of the Management Board and Supervisory Board, the Annual Shareholders' Meeting on May 4, 2012 resolved to distribute the net retained profits of €195,613 thousand from 2011 of Software AG, the controlling Group company, for the following: to transfer €1,965 thousand to retained earnings, to payout €39,913 thousand in dividends and to carry forward €153,735 thousand. This corresponded to a dividend of €0.46 per share.

Based on the shares outstanding as of February 27, 2013, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of 258,857 from 2012 of Software AG, the controlling Group company, for the following: to payout €39,605 thousand in dividends and to carry forward €219,252 thousand. This corresponds to a dividend of €0.46 per share.

Other reserves

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

	2012			2011		
in € thousands	**Pre-tax amount**	**Tax effect**	**Net amount**	Pre-tax amount	Tax effect	Net amount
Currency translation differences	-11,837	0	-11,837	4,546	0	4,546
Net gain/loss on remeasuring financial assets	-717	225	-492	-5,313	1,656	-3,657
Net gain/loss arising from translating net investments in foreign operations	-687	0	-687	4,185	0	4,185
Net actuarial gain/loss on pension obligations	-14,709	4,574	-10,135	6,688	-4,170	2,518
Other comprehensive income	-27,950	4,799	-23,151	10,106	-2,514	7,592

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2011, a net expense of €458 thousand (2011: net income of €874 thousand) was recognized in profit or loss in fiscal year 2012.

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OTHER DISCLOSURES

[27] Notes to the Statement of Cash Flows

Cash funds amounting to €315,637 thousand (2011: €216,479 thousand) comprise both cash and cash equivalents.

Cash funds include cash and cash equivalents amounting to €8,720 thousand which were held by the sales subsidiary in Venezuela. Due to current legal limitations relating to foreign currency transactions in Venezuela, Software AG has only limited access to these funds.

Dividends paid reported in the Statement of Cash Flows include dividend payments of €187 thousand to minority shareholders of subsidiaries.

Net payments for acquisitions amounted to €17,963 thousand in 2012 (2011: €59,210 thousand) and resulted from €18,940 thousand in consideration paid less €977 thousand in cash and cash equivalents received.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including net cash outflows for acquisitions. Accordingly, free cash flow amounted to €170,749 thousand (2011: €187,697 thousand).

[28] Segment reporting

NOTES ON SEGMENT REPORTING

The segment report is prepared in accordance with IFRS 8 Operating Segments. Segmentation is in accordance with internal control and reporting lines in the Group (management approach). Software AG therefore reports on the following three segments:

- Business Process Excellence (BPE: business process management)
  with the webMethods and ARIS product families
- Enterprise Transaction Systems (ETS: data management)
  with the ADABAS-Natural product families
- IDS Scheer Consulting
  with a focus on SAP consulting

Segment report

for fiscal years 2012 and 2011

in € thousands	Enterprise Transaction Systems (ETS)	
	2012	2011
Licenses	121,343	120,068
Maintenance	188,257	192,841
Product revenue	**309,600**	**312,909**
Services	64,733	67,346
Other	924	1,017
Total revenue	**375,257**	**381,272**
Cost of sales	-70,753	-72,304
Gross profit	**304,504**	**308,968**
Sales, marketing and distribution expenses	-64,830	-66,766
Segment contribution	**239,674**	**242,202**
Research and development expenses	-26,114	-26,445
Segment result	**213,560**	**215,757**
General and administrative expenses		
Other taxes		
Operating result		
Other operating income/expenses, net		
Net financial income/expenses		
Earnings before income tax		
Income taxes		
Net income for the year		

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Business Process Excellence (BPE)		IDS Scheer Consulting (IDSC)		Reconciliation		**Total**	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
194,724	168,643	2,873	6,523			318,940	295,234
189,952	169,144	15,043	16,693			393,252	378,678
384,676	**337,787**	**17,916**	**23,300**			**712,192**	**673,912**
161,504	188,267	107,041	164,170			333,278	419,783
798	1,810	142	1,812			1,864	4,639
546,978	**527,864**	**125,099**	**189,198**			**1,047,334**	**1,098,334**
-163,289	-187,090	-120,293	-162,310	-24,059	-20,443	-378,394	-442,147
383,689	**340,774**	**4,806**	**26,888**	**-24,059**	**-20,443**	**668,940**	**656,187**
-150,334	-125,281	-17,705	-25,714	-14,073	-12,466	-246,942	-230,227
233,355	**215,493**	**-12,899**	**1,174**	**-38,132**	**-32,909**	**421,998**	**425,960**
-74,970	-61,262	0	-331	0	0	-101,084	-88,038
158,385	**154,231**	**-12,899**	**843**	**-38,132**	**-32,909**	**320,914**	**337,922**
						-75,845	-75,110
						-8,022	-10,975
						237,047	**251,837**
						3,229	6,384
						-8,779	-9,902
						231,497	**248,319**
						-66,820	-71,110
						164,677	**177,209**

The business line contribution does not include the amortization expense associated with acquisitions of intangible assets. These charges are therefore shown separately under "reconciliation." This presentation corresponds with internal control and reporting lines (management approach). The business lines (segments) are managed on the basis of their segment contribution. Research and development costs are subsequently allocated to the business lines and have no impact on internal management.

Information on geographic regions

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

Geographic distribution of revenues

2012				
in € thousands	Germany	USA	Other countries	**Group total**
Licenses	44,307	105,446	169,187	318,940
Maintenance	54,059	128,557	210,636	393,252
Services	105,959	33,822	193,497	333,278
Other	894	70	900	1,864
Total	**205,219**	**267,895**	**574,220**	**1,047,334**

2011				
in € thousands	Germany	USA	Other countries	**Group total**
Licenses	46,047	89,180	160,007	295,234
Maintenance	52,246	118,635	207,797	378,678
Services	146,561	50,023	223,199	419,783
Other	2,010	16	2,613	4,639
Total	**246,864**	**257,854**	**593,616**	**1,098,334**

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenues in the U.S. contributed 10 percent or more to Group revenue and are therefore listed separately.

Non-current assets

Non-current assets are comprised of intangible assets, and property, plant and equipment.

in € thousands	**2012**	2011
USA	526,010	555,073
Other countries	152,105	141,123
Germany	356,664	369,594
Group total	1,034,779	1,065,790

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Beginning in fiscal year 2013 Management restructured the Company's internal reporting. Consulting services that have until now been incurred in both in the BPE segment and the ETS segment will in the future be consolidated with the IDSC consulting services and product business in a new segment called "Consulting." For further information on the adjustment to the internal reporting structure, please refer to the Forecast section of the Management Report.

The following table depicts how the segments in 2012 would have been presented if the new internal reporting structure had been applied in fiscal 2012:

in € thousands	ETS	BPE	Consulting	Reconciliation	**Total**
Licenses	121,343	194,724	2,873		318,940
Maintenance	188,257	189,952	15,043		393,252
Product revenue	309,600	384,676	17,916		712,192
Services	7	0	333,271		333,278
Other	924	30	910		1,864
Total revenue	**310,531**	**384,706**	**352,097**		**1,047,334**
Cost of sales	-15,612	-18,767	-319,956	-24,059	-378,394
Gross profit	**294,919**	**365,939**	**32,141**	**-24,059**	**668,940**
Sales, marketing and distribution expenses	-61,700	-137,296	-33,873	-14,073	-246,942
Segment contribution	**233,219**	**228,643**	**-1,732**	**-38,132**	**421,998**
Research and development expenses	-26,114	-74,970	0		-101,084
Segment result	**207,105**	**153,673**	**-1,732**	**-38,132**	**320,914**
General and administrative expenses					-75,845
Other taxes					-8,022
Operating result					**237,047**
Other income/expenses, net					3,229
Net financial income/expenses					-8,779
Earnings before income tax					**231,497**
Income taxes					-66,820
Net income for the year					**164,677**

[29] Additional information on financial instruments and risk management

The table below shows the carrying amounts and the fair values of loans and receivables, financial liabilities measured at amortized cost, and derivatives, with derivatives that are part of a hedging relationship shown separately from those that are not part of a hedging relationship.

The fair values of cash and cash equivalents, current receivables, trade payables, other current financial liabilities, and other 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, 2012 and December 31, 2011.

The fair values of exchange-listed securities were based on their quoted prices as of the reporting date.

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.

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in € thousands	**Dec. 31, 2012**		Dec. 31, 2011	
	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	315,637	315,637	216,479	216,479
Invoiced trade receivables and other receivables	177,945	177,945	228,627	228,627
Other non-derivative financial assets	2,945	2,945	2,138	2,138
Derivatives				
Derivatives without qualifying hedging relationship	1,780	1,780	1,542	1,542
Financial liabilities				
Financial liabilities measured at amortized cost				
Liabilities to banks and other financial liabilities	270,352	266,012	281,792	277,366
Trade payables	48,054	48,054	58,519	58,519
Other non-derivative financial liabilities	67,479	67,479	90,875	90,875
Derivatives				
Derivatives without qualifying hedging relationship	1,123	1,123	2,140	2,140
Derivatives with qualifying hedging relationship (cash flow hedge)	5,357	5,357	4,439	4,439

With the exception of the aforementioned derivatives, no financial assets or liabilities were measured at fair value through profit or loss in the reporting period, nor were any financial assets classified as available-for-sale financial assets or held-to-maturity investments.

The net gain/loss from loans and receivables was only affected significantly by currency translation effects. The net gain from derivatives without qualifying hedging relationships amounted to €3,101 thousand (2011: €5,987 thousand) in fiscal 2012. The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €1,345 thousand (2011: €178 thousand) in 2012.

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 €2,388 thousand (2011: €1,593 thousand).

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b) Exchange rate risk

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forward contracts. Foreign currency receivables and liabilities are offset if possible, and only the remaining net exposure is hedged. Estimated cash flows are also hedged in accordance with internal guidelines.

Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other assets or current liabilities. Changes in the fair value of derivative financial instruments designated as cash flow hedges are reported under other reserves until the hedged item is required to be recognized in income. The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments that do not meet the requirements of hedge accounting are recognized immediately in profit or loss for the year in which they are incurred.

The sensitivity analysis required by IFRS 7 relates to exchange rate risk arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings result only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.

Based on the monetary financial instruments available as of the reporting date, a devaluation of the euro in the amount of 10 percent against the U.S. dollar would have increased earnings by €1,213 (2011: €1,155 thousand) and left other reserves unchanged (2011: decreased by €1,160 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. All cash investments have terms of up to three months except those that relate to employee benefits (i.e. time credit and long-term time accounts). Major cash investments as well as derivative financial instruments are entered into with banks with credit ratings of at least investment grade and whose CDS rates are monitored continuously. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by management ensure that the credit risk from financial instruments is spread across various banks.

In the operating business, receivables are continuously monitored and default risk is taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2012, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. There is no concentration of credit risks with respect to single customers as a result of the size of our customer base or due to the distribution of our revenues across various sectors and countries. The theoretical maximum exposure to credit risk is reflected in the carrying amounts of the receivables, without taking any collateral into account.

e) Liquidity risk

A liquidity risk arises from the possibility that the Company may not be able to satisfy existing financial liabilities, for example, arising from loan agreements, lease agreements or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit.

Under credit agreements having a total volume of €5.4 million (2011: €9.1 million), the Company is required to limit net debt within the Group to a maximum of 3-times EBITDA. As of year-end 2012, the Company's figures were significantly below these limits.

The table below shows the contractually fixed payments arising from financial liabilities. The values listed here show the undiscounted liabilities. Variable interest payments are based on the level of interest at the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2012.

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2012				
in € thousands	Up to 1 year	1 to 5 years	> 5 years	**Total**
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
Repayment	52,190	213,310	0	265,500
Interest	8,207	5,212	0	13,255
Trade payables	47,833	220	0	48,054
Other financial liabilities	378	0	0	378
Finance lease liabilities	4	130	0	134
Other non-derivative liabilities	66,722	7,237	0	73,958
Derivative financial liabilities	**416**	**6,063**		**6,479**

2011				
in € thousands	Up to 1 year	1 to 5 years	> 5 years	Total
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
Repayment	25,623	250,642	539	276,804
Interest	9,787	14,123	5	23,915
Trade payables	58,066	453	0	58,519
Other financial liabilities	458	0	0	458
Finance lease liabilities	7	97	0	104
Other non-derivative liabilities	88,657	8,798	0	97,454
Derivative financial liabilities	**608**	**113**	**0**	**721**

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, 2012 and December 31, 2011. 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. Fair values are determined based on the second level of fair value hierarchy in accordance with IFRS 7.

in € thousands	**2012**			2011		
	Notional amount	Fair value	Carrying amountt	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	–	1,780	1,780	0	1,542	1,542
Forward currency contracts remaining term < 1 year	3,000	96	96	387	0	0
Forward currency contracts remaining term > 1 year	0	0	0	3,000	43	43
Stock options/equity forward contracts	10,040	1,684	1,684	4,420	1,498	1,498
Derivatives with negative fair value						
Forward currency contracts remaining term < 1 year	–	-1,123	-1,123	0	-2,140	-2,140
Forward currency contracts remaining term > 1 year	10,963	-190	-190	30,548	-195	-195
Stock options/equity forward contracts	5,495	-933	-933	7,437	-1,946	-1,946
Derivatives (cash flow hedges)	–	-5,357	-5,357	0	-4,439	-4,439
Forward currency contracts	0	0	0	11,599	-258	-258
Interest rate swaps	93,500	-5,357	-5,357	93,500	-4,182	-4,182

The derivative financial instruments are designated to hedge the fair value of recognized assets or liabilities. Changes in the fair value of the hedging instruments are recognized in profit or loss. In addition, the Company has entered into cash flow hedges for forecast transactions. Changes in the fair value of such financial instruments are reported under other reserves.

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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, the Company has entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency risk have remaining terms of less than one year, whereas the financial instruments for hedging interest rate risk have remaining terms of up to 5 years.

Cash investment policy

Software AG takes a very 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 monitoring process in order to monitor the creditworthiness of the banks with which we maintain relationships. Accordingly, the performance of the relevant credit default swaps (CDS) is monitored and investment decisions are made on a weekly basis. In fiscal 2012, the interest rates for term deposit investments were between 0.12 percent and 1.70 percent p.a. in Germany, whereas up to 10 percent p.a. was reached abroad.

[30] Disclosures on leases

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

in € thousands	Up to 1 year	1 to 5 years	> 5 years	**Total**
Contractually agreed payments	21,206	40,983	5,252	67,441
Estimated income from subleases	-2,441	-5,390	0	-7,831

[31] Contingent liabilities

There were no reportable contingent liabilities as of December 31, 2012 (2011: €1,477 thousand).

[32] Seasonal influences

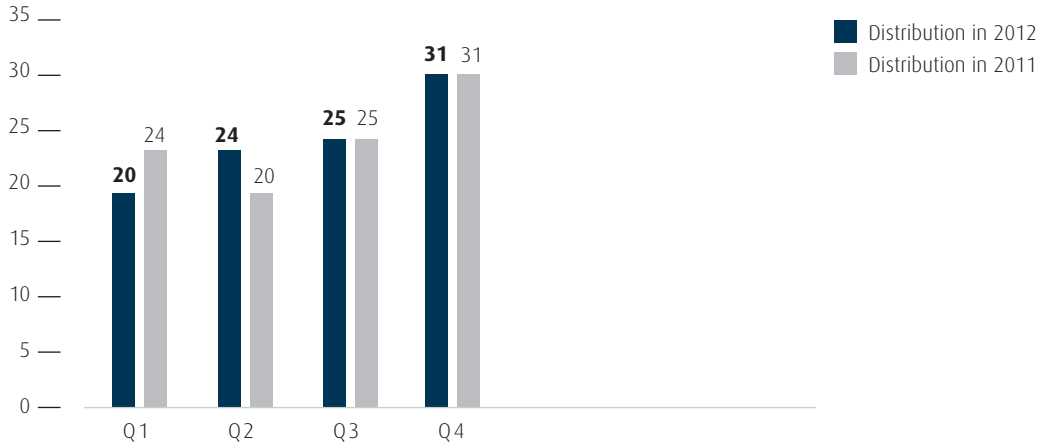
Revenues and pre-tax earnings were distributed over fiscal year 2012 as follows:

in € thousands	Q1 2012	Q2 2012	Q3 2012	Q4 2012	**2012**
License revenue	65,246	76,040	80,505	97,149	318,940
in % of license revenue for the year	20	24	25	31	100
Total revenue	254,554	258,645	257,424	276,711	1,047,334
in % of revenue for the year	24	25	25	26	100
Earnings before taxes	51,485	52,829	57,785	69,398	231,497
in % of net earnings for the year	22	23	25	30	100

Based on experience from past years, the revenue and earnings distribution in 2012 was not fully representative and is therefore useful only to a limited extent for calculating the expected distribution in 2013. The following graph illustrates the development of license revenues in 2012 und 2011.

The distribution of revenue and earnings is regularly affected by large individual contracts and is thus difficult to predict.

As % of total annual license revenue



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[33] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. The proceedings were suspended for Software AG and additional defendants by order of the court. The proceedings are continuing against only one of the defendants. The verdict of these proceedings will determine if the proceedings against Software AG will be resumed. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. The plaintiff brought further legal action. The proceedings against the other defendants are still pending.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed similar parallel lawsuits against three other defendants. The lawsuit against Software AG was withdrawn in January 2013. The NPE also filed a new lawsuit for the alleged violation of two of its software patents in January 2013.

A number of legal actions have been have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. The proceedings were combined into one. The first hearing took place on February 29, 2012 and had no tangible outcome. A new date has not yet been rescheduled.

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. The proceedings were combined into one. The first hearing took place on November 23, 2012 and also had no tangible outcome. A new date has not yet been rescheduled.

In connection with the termination of David Broadbent's Management Board membership, Mr. Broadbent filed suit with the Regional Court of Darmstadt, which the Company considers to be unfounded. After an extensive exchange of briefs, evidence was taken in May and September. The court ruled against the Company's arguments and found in favor of Mr. Broadbent on December 21, 2012. Software AG filed an appeal against the ruling.

There were no other changes with respect to the legal disputes reported at the end of 2011, nor were there any new legal disputes that could potentially have a significant effect on the Company's financial position, cash flows or profit or loss.

[34] Stock option plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. These involve equity-settled plans and plans where the Company has the choice of settling either in cash or by providing equity instruments.

The total expense for share-based payment transactions amounted to €7,871 thousand in fiscal 2012 (2011: €1,491 thousand). There was a one-time effect in 2011 from hedging the commitments from the Management Incentive Plan 2007 that decreased the total expense in 2011 by €7,121 thousand.

Expenses for stock options accounted for as equity-settled plans pursuant to IFRS 2 amounted to €4,389 thousand in fiscal 2012 (2011: €5,857 thousand).

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

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

A share-performance-based Management Incentive Plan (MIP IV) for members of the Management Board and upper management was developed in 2011. The program offers stock options (hereinafter referred to as "rights"), but the Company reserves the right to service these rights in cash or shares. The plan was officially approved by the Annual Shareholders' Meeting in May 2012. The first allocation tranche is based on the following parameters:

Base price	€41.34
Earliest exercise date	May 4, 2016
Term of rights	10 years

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The option to exercise rights depends upon the achievement of defined targets for revenue and Group net income. The target is defined as the doubling of Group revenue for new products and simultaneous doubling of net income compared to fiscal year 2010 by fiscal year 2015 at the latest.

"New products" as defined for the revenue performance target are essentially all products outside of the ADABAS-Natural and EntireX product portfolios. In November 2012 Management Incentive Plan IV was adjusted to reflect the new strategy of the Company, which requires substantial investments in growth and an intensified focus on the cloud market. The megatrend of cloud computing was therefore taken into account in the calculation of relevant revenues. Pro rata cloud revenue generated on a subscription basis is determined using a multiple factor. IFRS revenue from new products must however total at least €450 million in fiscal year 2015. Instead of doubling net income, it was determined that Software AG Group's non-IFRS EBIT margin (EBIT margin adjusted to reflect the following one-time effects: effects of purchase price allocations, amortization associated with acquired intangible assets through corporate acquisitions, expenses from share-based remuneration and one-time effects of restructuring) must be at least 10 percent respectively by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by the appropriate outperformance of the revenue performance target.

The condition that the share price must be €60.00 on at least one of the last five weekdays prior to exercise remained unchanged.

The rights granted under Management Incentive Plan 2011 (MIP IV) changed as follows in fiscal years 2012 and 2011:

	Number of rights outstanding	Weighted average exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Dec. 31, 2011	**5,596,667**			
Granted	675,333	41.34		
Forfeited	-1,010,000	41.34		
Balance as of Dec. 31, 2012	5,262,000	41.34	8.5	0*
Thereof exercisable as of Dec. 31, 2012	**0**			

* Based on the closing price on December 31, 2012.

	Number of rights outstanding	Weighted average exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Dec. 31, 2010	**0**			
Granted	6,227,667	41.34		
Forfeited	-631,000	41.34		
Balance as of Dec. 31, 2011	5,596,667	41.34	9.5	0*
Thereof exercisable as of Dec. 31, 2011	**0**			

* Based on the closing price on December 31, 2011.

Because there is no obligation to settle in cash, these rights are accounted for as an equity-settled stock option program pursuant to IFRS 2. Pursuant to IFRS 2, the date of the 2012 Annual Shareholders' Meeting was the date on which all rights awarded prior to May 2012 were granted, since rights can be serviced in shares, so final allocation requires the approval of the Annual Shareholders' Meeting. The expense of these rights is calculated based on the fair value of the rights on May 4, 2012. The expense is allocated to the period starting with the date they were awarded until the expected date the aforementioned performance targets are reached. In order to calculate the expenses in 2011, the fair value at the assumed time of granting (May 2012) was estimated.

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After the date of the Annual Shareholders' Meeting the fair value was determined based on a binomial model. For the measurement, the market condition that stipulates that the share price must be at least €60 on one of the last five weekdays prior to exercise was taken into account.

Valuation was based on the following parameters:

Software AG share price on May 4, 2012	€25.44
Strike price of rights	€41.34
Assumed average volatility	43.0%
Expected dividend yield	2.0%
Risk-free interest rate	1.1%
Expected average term until exercise of the rights (in years)	7.0

The expected volatility was derived by applying the implied volatility of stock options with comparable terms of maturity to Software AG shares.

This results in a fair value of €5.84 for all rights awarded prior to May 4, 2012 (6,515,500 rights) under the program. The fair values on the respective award dates for rights awarded after May 4, 2012 (387,500 rights) were between €5.00 and €7.50.

Expenses of €4,389 thousand (2011: €3,020 thousand) were incurred under this plan during fiscal year 2012.

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

In 2007, a share-based incentive plan for members of the Management Board and upper management was launched. A total of 7,342,500 (before stock split: 2,447,500) participation rights have been issued to Management Board members and managers under the plan.

As part of the plan, the defined performance target involves reaching €1,000,000 thousand for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These performance targets were achieved at the end of fiscal year 2010. Accordingly, since May 19, 2011, participants are entitled to payment of the difference between the price of Software AG shares and the base price of €24.12. However, the Company is entitled to elect to issue shares in lieu of a cash payment at its discretion.

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal years 2012 and 2011:

	Number of rights outstanding	Weighted average exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Dec. 31, 2011	1,961,400	24.12	4.5	8,709*
Exercised Aug. 14, 2012 (closing price €26.25)	-10,000	24.12		
Exercised Aug. 15, 2012 (closing price €25.88)	-9,000	24.12		
Exercised Nov. 21, 2012 (closing price €31.59)	-89,600	24.12		
Balance as of Dec. 31, 2012	1,852,800	24.12	3.5	14,804*
Thereof exercisable as of Dec. 31, 2012	1,852,800			

* Based on the closing price on December 28, 2012.

	Number of rights outstanding	Weighted average exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Dec. 31, 2010	1,782,354	72.36	5.5	66,095
Effect of the stock split (3:1) on May 13, 2011	**1,782,354 x 3**	**72.36 /3**	**5.5**	
Balance as of May 13, 2011 (after stock split)	5,347,062	24.12		
Exercised May 19, 2011 (closing price €40.42)	-1,566,950	24.12		
Exercised May 26, 2011 (closing price €38.02)	-1,716,650	24.12		
Exercised Aug 19, 2011 (closing price €28.10)	-15,000	24.12		
Exercised Nov. 21, 2011 (closing price €26.98)	-57,062	24.12		
Forfeited/expired	-30,000	24.12		
Balance as of Dec. 31, 2011	**1,961,400**	**24.12**	**4.5**	**8,709***
Thereof exercisable as of Dec. 31, 2011	1,961,400			

* Based on the closing price on December 31, 2011.

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All rights outstanding under MIP III as of December 31, 2012 were exercisable. Because there is no obligation to settle in cash, these rights are accounted for as an equity-settled stock option program pursuant to IFRS 2.

Expenses of €0 thousand (2011: €5,268 thousand) were incurred under this plan during fiscal year 2012.

Because all subscription rights were 100 percent vested as of December 31, 2012 and there is no obligation to settle in cash, no further expenses will be incurred under MIP III.

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 2012 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2013, 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 2014 to 2016, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount will be adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and then paid to the members of the Management Board and officers. The beneficiaries will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

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

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

This plan led to personnel expenses of €3,482 thousand (2011: €324 thousand) in fiscal year 2012.

The provision for the rights outstanding under the phantom share plan amounted to €17,113 thousand (2011: €11,564 thousand) as of December 31, 2012.

The intrinsic value of the rights exercisable under the phantom share plan amounted to €15,965 thousand (2011: €4,146 thousand) as of December 31, 2012.

[35] Corporate bodies

Members of the Supervisory Board:

Dr. Andreas Bereczky Dr.-Ing. graduate in mechanical engineering Shareholder representative Chairman	Director of Production of ZDF, Mainz Resident of: Eschweiler
Supervisory board seats:	• *Dep. chairman of the supervisory board of Alfabet AG, Berlin* • *Member of the supervisory board of GFT Technologies AG, Stuttgart*
Monika Neumann State examination for secondary education Employee representative Deputy Chairwoman	Employee of SAG Deutschland GmbH, Chairwoman of the General Works Council of SAG Deutschland GmbH, Darmstadt wohnhaft: Schliersee
Supervisory board seats:	• *none*
Prof. Willi Berchtold Graduate in economics Shareholder representative	Managing partner of CUATROB GmbH, Überlingen Resident of: Überlingen
Supervisory board seats:	• *Chairman of the supervisory board of Bundesdruckerei GmbH, Berlin* • *Member of the supervisory board of Lufthansa Systems AG, Kelsterbach* • *Member of the supervisory board of Tipp24 SE, Hamburg* • *Chairman of the supervisory board of Lotto24 AG, Hamburg (since May 2, 2012)*
Peter Gallner Employee representative	Trade union secretary of Vereinte Dienstleistungsgewerkschaft ver.di Resident of: Koblenz
Supervisory board seats:	• *Member of the supervisory board of Atos Information Technology GmbH, Essen*

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Heinz Otto Geidt	Director of asset management at Software AG Foundation, Darmstadt
Graduate in business administration	Resident of: Kelkheim/Ts.
Shareholder representative	
Supervisory board seats:	• *Chairman of the supervisory board of Bingenheimer Saatgut AG, Echzell* • *Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn* • *Member of the supervisory board of KHD Humboldt Wedag International AG, Cologne (since Oct. 5, 2012)*
Dietlind Hartenstein	Employee of Software AG
Bank business clerk	Resident of: Zweibrücken
Employee representative	
Supervisory board seats:	• *none*
Prof. Dr. Hermann Requardt	Member of the management board of Siemens AG, Sector CEO Healthcare, Erlangen
Dr. phil. nat., graduate in physics	Resident of: Erlangen
Shareholder representative	
Supervisory board seats:	• *Member of the supervisory board of Osram GmbH, Munich*
Anke Schäferkordt	Co-CEO of RTL Group SA, Luxembourg (since April 18, 2012)
Graduate in business administration	Member of the management board of Bertelsmann SE & Co. KGaA (since April 18, 2012)
Shareholder representative	Managing director of RTL Television and Mediengruppe RTL Deutschland GmbH, Cologne Resident of: Cologne
Supervisory board seats:	• *Member of the supervisory board of BASF SE, Ludwigshafen*
Roland Schley	Employee of IDS Scheer Consulting GmbH, Saarbrücken
Graduate in electrical engineering	Resident of: Ottweiler
Employee representative	
Supervisory board seats:	• *none*

Martin Sperber-Tertsunen	Trade union secretary IG Metall
Graduate in administrative sciences	Resident of: Kelkheim
Employee representative	
Supervisory board seats:	• *none*
Karl Wagner	Employee of Software AG
Graduate in computer science	Resident of: Riegelsberg
Executive employee representative	
Supervisory board seats:	• *Member of the supervisory board of Deutsches Forschungszentrum für künstliche Intelligenz GmbH (DFKI GmbH), Kaiserslautern (until Nov. 9, 2012)*
Alf Henryk Wulf	Chief executive officer of Alcatel-Lucent Deutschland AG, Stuttgart (until Feb. 29, 2012)
Graduate in engineering	
Shareholder representative	Chief executive officer of ALSTOM Deutschland AG, Mannheim (since April 1, 2012)
	Resident of: Stuttgart
Supervisory board seats:	• *Chairman of the supervisory board of ALSTOM Power GmbH, Mannheim (since May 29, 2012)*
	• *Chairman of the supervisory board of ALSTOM Transport Deutschland GmbH, Salzgitter (since April 26, 2012)*
	• *Member of the supervisory board of ALSTOM GmbH, Mannheim (since April 26, 2012)*

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Members of the Management Board:

Karl-Heinz Streibich Graduate in communications engineering	Chairman of the Management Board Chief Executive Officer Global Partner Management, Corporate PR, Global Legal, Audit/ Processes & Quality, Corporate Communications, Corporate Office, Top Management Development Resident of: Frankfurt
Supervisory board seats:	• *Member of the supervisory board of Dürr AG, Bietigheim-Bissingen* • *Member of the supervisory board of Deutsche Messe AG, Hannover (as of Jan. 1, 2013)*
Dr. rer. nat. Wolfram Jost Graduate in business administration	Member of the Management Board Chief Technology Officer R&D, Product Management Resident of: Schmelz
Arnd Zinnhardt Graduate in business administration	Member of the Management Board Chief Financial Officer Labor Director Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Human Resources, Global Procurement Resident of: Königstein
Supervisory board and other seats:	• *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt*

Remuneration of the Management Board pursuant to Section 314 (1), no. 6 of the German Commercial Code (HGB)

Remuneration for the Management Board in fiscal 2012 amounted to €11,515 thousand (2011: €27,822 thousand).

The stock options issued under MIP IV were recognized with a value that was measured using the binomial model in the amount of €834 thousand (2011: €17,132 thousand). Future performance during the four-year period from 2012 to 2016 was annualized at €208 thousand (2011: in the 5-year period from 2011 to 2016 at €3,426 thousand) for this remuneration component.

The remuneration of the Management Board still includes the consideration paid for 117,863 phantom shares totaling €3,473 thousand.

The Management Board members received a total of 117,863 (2011: 125,341) phantom shares under the phantom share plan. The phantom shares awarded had a fair value as of the grant date of €29.47 (2011: €27.43) per phantom share.

Remuneration for former Management Board members totaled €350 thousand (2011: €350 thousand).

Pension provisions for former Management Board members amounted to €8,086 thousand (2011: €6,392 thousand).

Software AG did not grant any advances or loans to Management Board members in fiscal 2012 or in fiscal 2011.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the Management Report.

Remuneration of the Supervisory Board pursuant to Section 314 (1), no. 6 of the German Commercial Code (HGB)

Total remuneration paid to members of the Supervisory Board amounted to €726 thousand in the year under review (2011: €609 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2012 or in fiscal 2011.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the Management Report.

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[36] Related party transactions

A related party as defined by IAS 24 Related Party Disclosures is any legal or natural person able to exercise control over Software AG or a Software AG subsidiary, that is controlled by Software AG or a Software AG subsidiary, or in which Software AG or a Software AG subsidiary has an interest that gives it significant influence over such legal or natural person. This also includes any legal or natural person having an interest in Software AG that gives it significant influence over Software AG (Software AG Foundation), unconsolidated subsidiaries, and the members of Software AG's executive bodies, whose remuneration is specified in Note [38] as well as in the Remuneration Report contained in the Corporate Governance section of the Management Report.

The Software AG Foundation provided Software AG with funds in the amount of €45 million to finance the IDS Scheer acquisition. The funding was made available in the form of a subordinated promissory note loan from a special fund in which the Software AG Foundation has a 100-percent stake. The interest rate on the promissory note loan is in line with market rates. The promissory note loan is a bullet loan with a term running until August 2013.

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	**2012**	2011
Short-term benefits	7,017	7,234
Post-service benefits	3,046	542
Termination benefits	0	62
Share-based remuneration	5,686	5,541
Total	**15,750**	**13,378**

Pension provisions for Management Board members amounted to €4,699 thousand (2011: €2,509 thousand). Gross pension liabilities for Management Board members amounted to €7,743 thousand (2011: €4,697 thousand).

Furthermore, liabilities from the phantom share plan totaled €14,100 thousand (2011: €9,248 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2012 totaled €726 thousand. This remuneration included a fixed short-term component and compensation for committee work. In 2011 remuneration paid to the Supervisory Board totaled €609 thousand and consisted of a fixed short-term component, compensation for committee work and short-term revenue-based remuneration.

The general structure of the remuneration of the Management and Supervisory Boards is outlined in detail in the Remuneration Report. The Remuneration Report presents the structure and amount of individual remuneration components. It is part of the Management Report within this Annual Report.

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal years 2012 and 2011.

[37] Auditors' fees

General and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €822 thousand (2011: €729 thousand). Of this amount, €714 thousand (2011: €639 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €7 thousand (2011: €17 thousand) to tax advisory services, €76 thousand (2011: €72 thousand) to other testation services, and €25 thousand (2011: €1 thousand) to other services.

[38] Events after the balance sheet date

Software AG signed an agreement with itelligence AG, Bielefeld/Germany on January 8, 2013 to sell its SAP-related service activities in Canada and the USA. The transaction covered all Software AG services related to SAP products that were coordinated in Toronto for Canada and in Reston, Virginia for the United States. Further information can be found in Note [13].

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Due to the Company's good liquidity position from the Management Board's point of view, Software AG's Management Board made use of the authorization granted it by the Annual Shareholders' Meeting on May 21, 2010 and, with the consent of the Supervisory Board, passed a resolution on February 7, 2013 to repurchase treasury shares with a total maximum value of €180 million (excluding transaction costs) during the period until and including December 31, 2013. The maximum limit for the repurchase of treasury shares is 10 percent of the existing share capital as of May 21, 2010 (equal to 8,613,744 shares).

The Management Board considered the share price of Software AG's stock to be unexpectedly low and interesting from a buying point of view at the time of the aforementioned decision. Moreover, it did not see any other viable alternatives for short-term investments.

The repurchase has been underway since February 12, 2013 with the involvement of a bank whose decisions regarding when shares are bought cannot be influenced by Software AG. It takes place solely on the stock exchange. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation law and by the aforementioned authorization (to service warrants and convertible bonds, to sell to third parties for the purpose of acquiring companies, parts of companies and/or interests in companies or as part of a corporate merger, to cancel shares with or without lowering the share capital).

Software AG had acquired 777,078 shares at an average price of €29.75 as of February 27, 2013. Software AG thus held a total of 819,455 shares for a consideration paid of €24,273 thousand (excluding transaction costs). The treasury shares held on February 27, 2013 represent €819.455, or 0.9 percent, of the share capital.

No events of material significance for the consolidated financial statements occurred between the balance sheet date and the release for publication of the consolidated financial statements.

[39] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 28, 2013. It will be published in March 2013 on our website at www.softwareag.com/compliance.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on our website at www.softwareag.com/us/inv_rel/corpgovernance/statement/ on February 7, 2013.

[40] Exemption for domestic Group companies pursuant to Section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, IDS Scheer Consulting GmbH, Saarbrücken, SAG Consulting Services GmbH, Darmstadt and Software Financial Holding GmbH, Darmstadt, which are included in the consolidated financial statements of Software AG, have been exempted from the duty to prepare and publish annual financial statements, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with Section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on February 28, 2013.

Darmstadt, February 28, 2013

Software AG

K.-H. Streibich

Dr. W. Jost

A. Zinnhardt

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RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, February 28, 2013

Software AG

K.-H. Streibich | Dr. W. Jost | A. Zinnhardt

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, Darmstadt, comprising the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes to the consolidated financial statements together with the Management Report of the Group and Software Aktiengesellschaft for the fiscal year beginning January 1, 2012 and ending December 31, 2012. The preparation of the consolidated financial statements and the Management Report of the Group and Software Aktiengesellschaft in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to Section 315a, paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a sufficiently substantial basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB. The consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these requirements. The Management Report of the Group and Software Aktiengesellschaft is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 28, 2013

BDO AG Wirtschaftsprüfungsgesellschaft

Schulz
Wirtschaftsprüfer

Sartori
Wirtschaftsprüferin

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GLOSSARY

ADABAS (Adapted DAtaBAse System)

Invented by Software AG founder, Peter Schnell, ADABAS is the first high-performance transactional database that is so fast it can process more than 300,000 transactions per second. Since its market entry in 1971, ADABAS—together with Natural—has formed the backbone of many large companies' and public institutions' IT.

ARIS (ARchitecture for Integrated Information Systems)

Developed by IDS Scheer AG founder, August-Wilhelm Scheer, this is a scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation and measurement.

B2B

"Business-to-business" describes electronic transactions between organizations. B2C (business-to-consumers), in contrast, refers to IT transactions between organizations and consumers.

Big data

Big data is the universal term for ever-expanding vast amounts of data as a result of the Internet. Organizations can leverage the effective processing and analysis of this data to achieve competitive advantages.

Business intelligence (BI)

A general term for computer-based analysis of business data.

Business process analysis (BPA)

With BPA processes are analyzed, documented and optimized. This provides more efficient business processes and increases the competitiveness of an organization leading to improved economic results.

Business Process Excellence (BPE)

Software AG defines BPE as the merging of business and technical approaches to business process management (BPM) and, therefore, as the engine of the Digital Enterprise. BPE is much more than BPM in that it addresses the complete life cycle of a process, which comprises a business component (BPE life cycle) and a technical component (BPE platform). Software AG presented Enterprise BPM at CeBIT 2011 and in doing so has brought an integrated process and integration platform to the market that enables Digital Enterprises to achieve the highest level of process efficiency. BPE is also the name of the Software AG business line comprising the webMethods and ARIS products.

Business process management (BPM)
The methods, techniques and tools used to design, enact, control and analyze operational business processes involving people, systems, applications, data and organizations.

BPE platform
The technical component of BPE. The webMethods Suite supports the execution of processes including real-time monitoring and analysis.

Cloud
The increasing shift of data and application storage to the Internet.

Cloud computing
Over-the-Internet provision of IT resources and on-demand invoicing. Software AG will offer a comprehensive cloud-enabling technology. Software AG's cloud strategy focuses on business innovations made possible by cloud technologies and driven by the concept of "extreme collaboration."

Complex event processing (CEP)
The concept of processing complex data streams. CEP enables the processing and correlating of a large number of events per time unit with low latency and therefore real-time reaction. Software AG's new CEP solution, webMethods Business Events, was presented at CeBIT 2011.

Digital Enterprise
The Digital Enterprise of the future plans, implements, controls, and monitors its business processes electronically and end to end. Software AG's independent process and integration platform for business process excellence enables the highest level of process efficiency, a prerequisite for the Digital Enterprise. With its cloud-enablement technology, Software AG accelerates innovation processes in Digital Enterprises.

Enterprise architecture management (EAM)
A complete management concept to optimize IT system landscapes. EAM includes the documentation of the current landscape as well as the design and planning of an ideal IT landscape for the future.

Enterprise Transaction Systems (ETS)
Software AG business line comprised of the ADABAS and Natural products. With them, Software AG has played an integral role in the IT landscapes of companies and public institutions worldwide for many years.

ETS technologies
These include database management, application development and mainframe integration.

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Master data management (MDM)

MDM gives organizations one consistent view of and access to core data, such as information on customers, products, suppliers and branch offices. This type of data is very often stored in heterogeneous applications throughout the organization. Software AG presented its new MDM solution, webMethods OneData, at CeBIT 2011.

Middleware

Integration software in a complex IT infrastructure whose task is to simplify mechanisms for accessing underlying layers. Middleware such as Software AG's webMethods facilitates data exchange between legacy application silos.

Mobile

The growing use of mobile communication and mobile Internet.

Natural

Software AG's fast and easy-to-use development and deployment environment designed to support enterprise-scale applications on the mainframe and open-systems platforms. Since it was brought to market in 1979, Natural—together with ADABAS—has formed the backbone of many large companies' and public institutions' IT.

Service-oriented architecture (SOA)

A software architecture in which the desired system functionality is made available by way of interaction between loosely coupled, reusable functions (services).

Social collaboration

Intensified interactive collaboration via social networks such as Facebook and Twitter.

webMethods
Business Process Management Suite (BPMS)

Software AG's webMethods BPMS combines leading BPM and SOA functionality and offers a complete suite of fully integrated tools for process execution, real-time transaction monitoring, and the proactive identification of errors and warnings.

webMethods Platform

Software AG's fully integrated toolset for SOA governance, business process management, integration, B2B and application modernization.

FIVE-YEAR SUMMARY

Key Group Figures

in € millions	**2012**	2011	2010	2009	2008
Revenue	**1,047.3**	1,098.3	1,119.5	847.4	720.6
By type					
• Licenses	318.9	295.2	327.4	269.9	272.0
• Maintenance	393.3	378.7	369.4	310.6	267.1
• Services and other revenue	335.1	424.4	422.7	266.9	181.5
By business line					
• Business Process Excellence (BPE)	547.0	527.9	499.2	372.3	315.7
• Enterprise Transaction Systems (ETS)	375.2	381.3	420.0	396.1	404.9
• IDS Scheer Consulting (IDSC)	125.1	189.2	200.3	79.0	n/a
EBIT*	**248.3**	296.2	268.6	218.2	180.5
as % of revenue	23.7	24.5	24	26.0	25.0
Net income	**164.7**	177.2	175.6	140.8	115.9
as % of revenue	15.7	16.1	15.7	16.6	16.1
Employees (full-time equivalents)	**5,419**	5,535	5,644	6,013	3,526
of which in Germany	1,768	1,881	2,051	2,149	772
Balance Sheet					
Total assets	1,771.9	1,680.7	1,599.6	1,654.9	1,060.0
Cash and cash equivalents	315.6	216.5	102.5	218.1	96.9
Net debt**	-49.6	60.9	167.2	271.8	70.3
Shareholders' equity	1,060.1	951.5	769.3	647.2	549.1
as % of total assets	**59.8**	57.0	48.0	39.0	52.0

* Net income plus income tax, other tax and financial income/expense.
** Negative value = cash surplus.

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2013	
April 25, 2013	Preliminary Q1 2013 financial figures (IFRS, unaudited), Darmstadt, Germany
May 3, 2013	Annual Shareholders' Meeting, Darmstadt, Germany
July 25, 2013	Preliminary Q2/H1 2013 financial figures (IFRS, unaudited), Darmstadt, Germany
October 24, 2013	Preliminary Q3 2013 financial figures (IFRS, unaudited), Darmstadt, Germany

2014	
January 28, 2014	Preliminary Q4/FY 2013 financial figures (IFRS, unaudited), Darmstadt, Germany

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