

ANNUAL REPORT

2020

Key Figures

in € millions (unless otherwise stated)	2020	2019	+/- as %	+/- as % acc ¹
Revenue	834.8	890.6	-6	-4
Digital Business Platform (DBP, incl. Cloud & IoT)	448.5	474.5	-5	-3
of which DBP (excl. Cloud & IoT)	397.5	432.2	-8	-6
of which DBP (Cloud & IoT)	51.0	42.3	21	22
Adabas & Natural (A&N)	222.8	228.9	-3	1
Licenses	217.2	245.1	-11	-8
Maintenance	422.6	435.0	-3	0
Software as a Service (SaaS)	31.3	22.7	38	41
Percentage of recurring revenue in DBP (incl. Cloud & IoT)	90.2%	79.2%		
Bookings in DBP (incl. Cloud & IoT) ²	360.7	307.0	17	21
of which in DBP (excl. Cloud & IoT) ²	261.5	241.1	8	13
of which in DBP (Cloud & IoT) ²	99.2	65.9	50	53
Bookings in A&N ²	129.0	100.8	28	33
Operating EBITA (non-IFRS)	177.0	260.3	-32	
as % of revenue	21.2%	29.2%		
DBP segment earnings	68.9	130.6	-47	
Segment margin as %	15.4%	27.5%		
A&N segment earnings	148.7	159.8	-7	
Segment margin as %	66.7%	69.8%		
Net income (non-IFRS)	125.4	188.1	-33	
Earnings per share (non-IFRS)³ (in €)	1.69	2.54	-33	
Net cash flow from operating activities	112.5	172.0	-35	
CapEx ⁴	-9.3	-10.0	-7	
Repayment of lease liabilities	-15.6	-16.2	-4	
Free cash flow	87.6	145.8	-40	
Balance sheet	Dec. 31, 2020	Dec. 31, 2019		
Total assets	2,039.9	2,116.1	-4	
Cash and cash equivalents	480.0	513.6	-7	
Net cash	220.1	217.0	1	
Employees (full-time equivalents)	4,700⁵	4,948	-5	

¹ At constant currency

² Bookings in accordance with new definition as of 2020

³ Based on weighted average shares outstanding (basic) FY 2020: 74.0 mn / FY 2019: 74.0 mn

⁴ Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

⁵ Not including 438 FTE from sold Professional Services unit in Spain

Due to rounding, some numbers may not add up exactly to the totals given and percentages may not exactly reflect the absolute figures.

Our Story: Living Connections

We began our journey in 1969, the year that technology helped put a person on the moon and the software industry was born. Ever since—and always mindful of the positive impact we must have on the future—we’ve worked ceaselessly to be independent, inclusive and inventive.

Fair and flexible to work with, we’re committed to sustainable progress in making a world of living connections.

By providing the fluid flow of data, we give businesses the power to instantly see, decide and act. We make sure an app-ordered coffee is waiting on the counter to go, a drug company has the life-science instruments to develop new treatments at lightning speed, and wind turbines keep the power supply for communities constant.

The connected customer experience, digital business excellence and the ecosystem-driven economy are the ultimate promises delivered by the truly connected enterprise. The proof that software has become the ultimate value driver. From edge, to core, to the cloud and beyond.

For 50 years and counting, Software AG has been the innovative, independent force for more than 10,000 companies to start their journey to becoming truly connected. We promise to continue being that spark.

2020 at a Glance

2020 was a year of building momentum in Software AG’s transformation and in our business model shift to subscription.

Total DBP Bookings

€360.7 mn

(2019: €307.0 mn)

Total A&N Bookings

€129.0 mn

(2019: €100.8 mn)

Annual Recurring Revenue

€508.1 mn

(2019: €491.3 mn)

Total Revenue

€834.8 mn

(2019: €890.6 mn)

Operating Profit Margin

+21.2%

(2019: 29.2%)

Total Number of Employees

4,700

(2019: 4,948)

Table of Contents

For Our Shareholders

Building Momentum

Letter from the Management Board

Software AG's Share

Statement on Corporate Governance

Report of the Supervisory Board

Combined Management Report

Fundamental Aspects of the Group

Organization and Group Structure

Business Activities

Strategy and Goals

Internal Corporate Control System

Research and Development

Economic Report

Business Summary

The Group's Financial Performance

The Group's Financial Position

Software AG's Financial Position and Performance

Combined Non-Financial Statement

Fundamental Aspects

Leadership and Governance

Employees

Customers and Technology

Society

Environment

Forecast

Economic Conditions in Upcoming Fiscal Years

Expected Financial Performance

Anticipated Financial Position

Opportunity and Risk Report

Opportunity and Risk Management

General Statement on the Group's Risk Situation

Software AG's Rating

Remuneration Report

Allocation

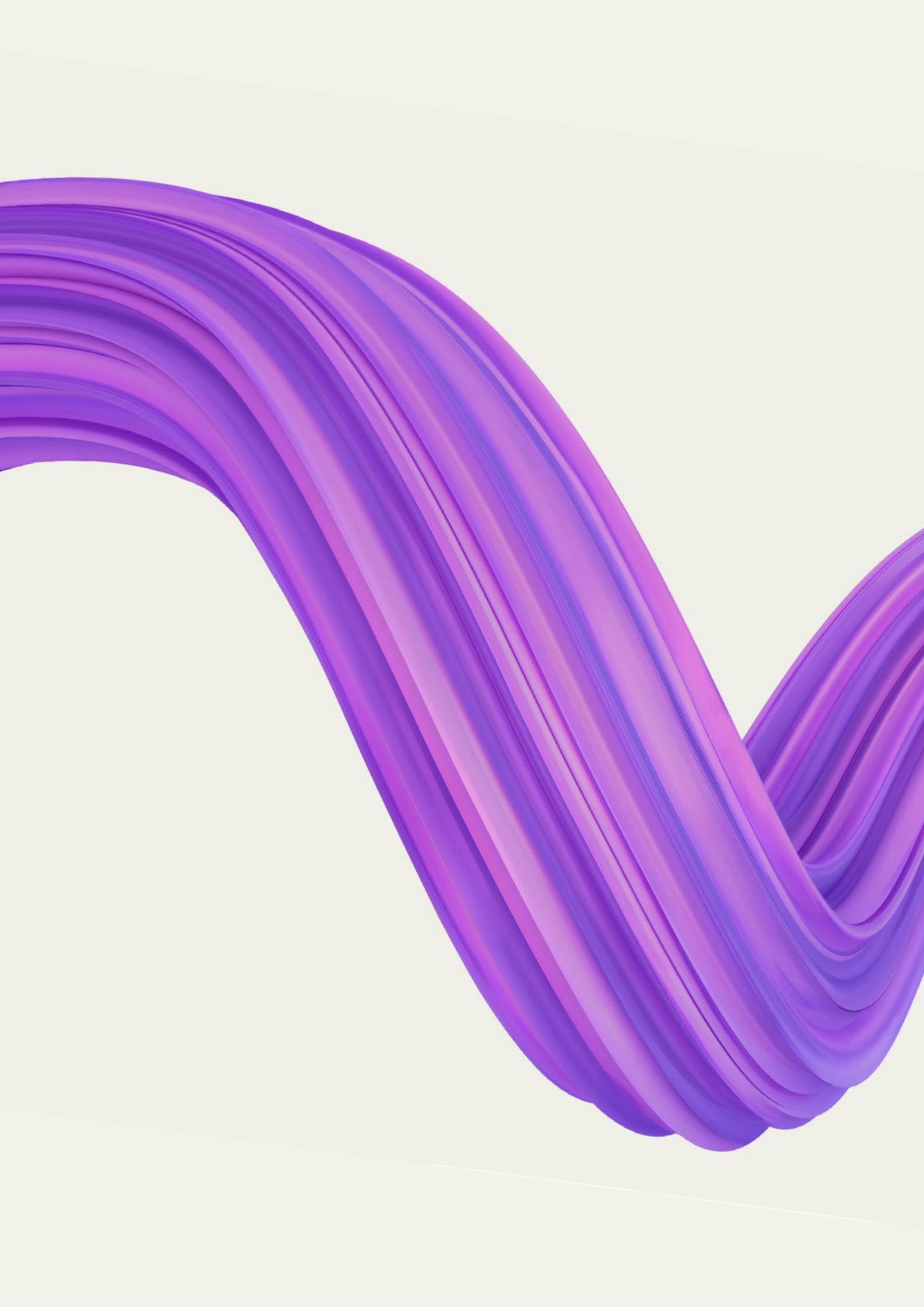
Benefits Granted

One-Year Variable Remuneration

Multi-Year Variable Remuneration

7	Remuneration of the Management Board in 2019	153
8	Supervisory Board Remuneration	155
10	Takeover-Related Disclosures	156
14	Subscribed Capital and Voting Rights	156
19	Conditional Capital	156
28	Authorized Capital	156
	Share Buyback	156
33	Significant Shareholders	156
34	Appointment/Dismissal of Management Board	
34	Members and Changes in the	
35	Articles of Association	156
45	Change of Control	156
48	Statement on Corporate Governance	157
58	Consolidated Financial Statements	159
	Consolidated Income Statement	160
	Statement of Comprehensive Income	161
	Consolidated Balance Sheet	162
	Consolidated Statement of Cash Flows	164
	Consolidated Statement of Changes in Equity	166
	Notes to the Consolidated Financial Statements	169
	General	170
	[1] Basis of Presentation	170
	[2] Scope of Consolidation	170
	[3] Accounting Policies	173
	[4] Discontinued Operations/Disposal Groups	183
	Notes to the Consolidated Income Statement	184
	[5] Total Revenue	184
	[6] Cost of Sales	184
	[7] Sales, Marketing and Distribution Expenses	184
	[8] General and Administrative Expenses	184
	[9] Other Income	184
	[10] Other Expenses	185
	[11] Net Financial Income/Expense	185
	[12] Income Taxes	185
	[13] Other Taxes	186
	[14] Personnel Expenses	186
	[15] Earnings per Share	186

Notes to the Consolidated Balance Sheet	187	Additional Information	235
[16] Other Financial Assets	187	Responsibility Statement	236
[17] Trade Receivables, Contract Assets and Other Receivables	187	Independent Auditor's Report	237
[18] Other Non-Financial Assets	188	Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report	237
[19] Income Tax Receivables	188	Other Legal and Regulatory Requirements	244
[20] Intangible Assets and Goodwill	189	German Public Auditor Responsible for the Engagement	245
[21] Property, Plant and Equipment/ Investment Property	192	Independent Practitioner's Report	246
[22] Deferred Taxes	194	Independent Practitioner's Report on a Limited Assurance Engagement on Non-Financial Reporting Statement	246
[23] Financial Liabilities	195	Financial Calendar	248
[24] Trade Payables and Other Liabilities	198	Publication Credits	248
[25] Other Non-Financial Liabilities	198	Five-Year Summary	249
[26] Other Provisions	199		
[27] Income Tax Liabilities	199		
[28] Provisions for Pensions and Similar Obligations	200		
[29] Equity	203		
Other Disclosures	205		
[30] Notes to the Statement of Cash Flows	205		
[31] Segment Reporting	205		
[32] Additional Information on Financial Instruments and Risk Management	211		
[33] Disclosures on Leases	220		
[34] Contingent Liabilities	222		
[35] Seasonal Influences	222		
[36] Litigation	223		
[37] Stock Option Plans	224		
[38] Corporate Bodies	230		
[39] Related Party Transactions	232		
[40] Auditor Fees	233		
[41] Events After the Balance Sheet Date	234		
[42] Statement on Corporate Governance	234		
[43] Exemption for Domestic Group Companies Pursuant to Section 264 (3) of the German Commercial Code (HGB)	234		



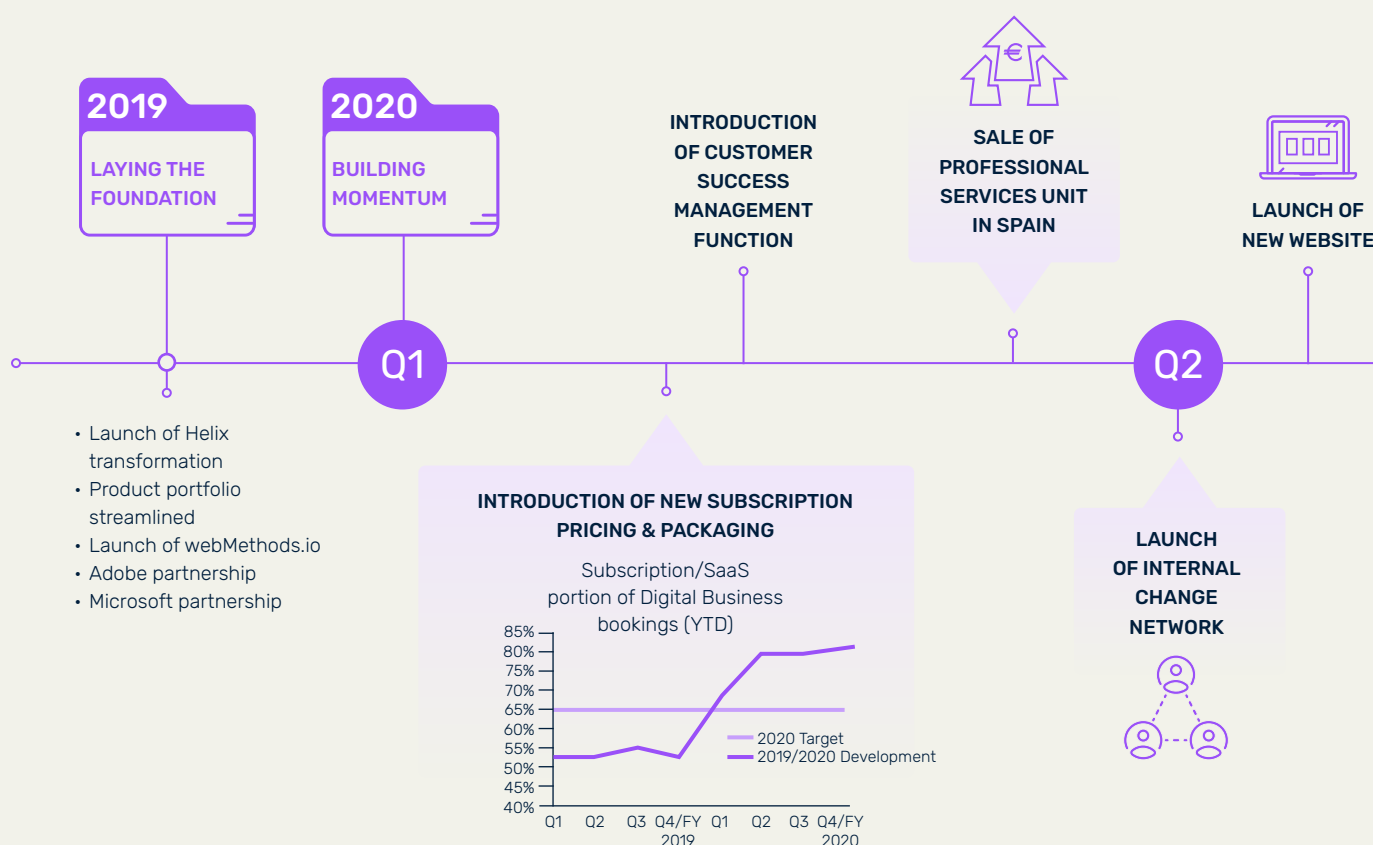
For Our Shareholders

Building Momentum	8
Letter from the Management Board	10
Software AG's Share	14
Statement on Corporate Governance	19
Report of the Supervisory Board	28

Due to rounding, some numbers may not exactly add up to the totals provided and percentages may not exactly reflect the absolute figures.

Building Momentum

Executing Software AG's transformation is a journey. After laying the foundations for growth last year, 2020 has been about creating momentum in all pillars of the Helix strategy: focus, team and execution. Despite the current economic macroclimate, Software AG made significant progress in its transformation by maturing the transition to subscriptions. Based on this momentum, Software AG is committed to the Helix strategy and accelerating growth further in 2021.



Recognized by analysts and customers as:

A LEADER:

Gartner
"Magic Quadrant for Enterprise Architecture Tools"

Gartner, Inc., Magic Quadrant for Enterprise Architecture Tools, December 14, 2020, Derek Miers, Akshay Jhawar, see disclaimer page 38.

A VISIONARY:

Gartner
"Magic Quadrant for Industrial IoT Platforms (IIoT)"

Gartner, Inc., Magic Quadrant for Industrial IoT Platforms, October 19, 2020, Eric Goodness, Alfonso Velosa, Ted Friedman et al., see disclaimer page 38.

A LEADER:

Gartner
"Magic Quadrant for Full Life Cycle API Management"

Gartner, Inc., Magic Quadrant for Full Life Cycle API Management, September 22, 2020, Paolo Malinverno, Kimihiko Iijima, Mark O'Neill, et al., see disclaimer page 38.

A LEADER:

Forrester
"API Management Solutions"

Forrester Research, Inc., The Forrester Wave™: API Management Solutions, Q3 2020, August 4, 2020, Randy Heffner.

NET PROMOTER SCORE

FY 2020

54

FY 2019

40

2023

MID-TERM GOALS:

SUSTAINABLE, PROFITABLE GROWTH

- €1 bn+ GROUP REVENUE
- 25–30% OPERATING MARGIN (EBITA, NON-IFRS)
- 85–90% RECURRING PRODUCT REVENUE
- ~15% DIGITAL BUSINESS CAGR

THORSTEN HERRMANN,
Managing Director
at Microsoft
Deutschland GmbH:

“The combination of our industry-leading Azure cloud platform with Software AG’s integration expertise and technologies helps ensure that customers will be able to drive a faster return on their cloud investments.”



9.5%

FY 2019: 7.3%

PARTNER BOOKINGS

portion of Digital
Business bookings

JASON DIETZ,
Head of Global Process
Architecture at Tesco:

“We had to understand how to digitize it [the business model and processes], which is how we came to Software AG and ARIS.”

ConXion

DIGITAL EVENT
DEEPENS ENGAGEMENT
AND SHOWCASES
CUSTOMER SUCCESS

2021+

ACCELERATING
GROWTH

Q3

Q4



WEBMETHODS.IO
AVAILABLE
FOR MICROSOFT AZURE



LAUNCH OF
CLOUD RESELL
PROGRAM FOR
PARTNERS

EMPLOYEE
ENGAGEMENT
SCORE 2020

3.9

FY 2019
3.63



NEW
CUSTOMERS
239

- Keeping the accelerated pace of Software AG’s subscription growth engine
- Driving product innovation
- Propelling internal simplification efforts to drive systemic productivity gains
- Progressing people and culture plans
- Taking a more proactive stance towards mergers & acquisitions

Technology trends underpinning growth outlook:

- Edge and 5G, increasing distributed computing for IoT and other applications—aiming to deliver optimal digital experiences
- Cloud data integration, to ensure (inter)operability of multi-cloud environments
- Operationalizing AI, making AI models manageable and applicable to distributed, hybrid cloud architectures

Total Adressable Market (TAM)

2024
Combined TAM
Integration & API +
IoT & Analytics

>\$23 bn

2024
TAM Integration &
API

>\$13.5 bn

2024
TAM IoT &
Analytics

>\$9.8 bn

Evolved from: Gartner, Inc., Forecast: Enterprise IoT Platforms, Worldwide, 2018–2024, March 18, 2020, Peter Middleton, et al.; Gartner, Inc., Forecast: Enterprise Infrastructure Software, Worldwide, 2018–2024, 4Q20 Update, December 22, 2020, Vanitha Dsilva, et al.

Letter from the Management Board

Software AG delivered full-year bookings performance ahead of our guidance while meeting our profitability ambitions. Our Helix transformation is now accelerating us towards and beyond our mid-term ambitions.

*Dear Ladies and Gentlemen,
Dear Shareholders,*

On behalf of the Management Board, I am pleased to present our 2020 Annual Report. We closed the second year of our transformation program with real momentum, delivering a fourth consecutive quarter of bookings growth powered by our accelerating shift to subscription. Despite challenges, not least the significant upheaval and personal impact of the pandemic as well as the cyber incident, our global team has remained strong, productive and committed to our customers. Thank you, team.

Another year of transformation progress

During 2020 we delivered excellent financial performance despite a challenging external environment, with bookings growth ahead of our guidance in each of our product lines. Bookings in our Digital Business grew 21.4 percent to €360.7 million, of which €261.5 million came from DBP (excl. Cloud & IoT) and €99.2 million from DBP Cloud & IoT. This represented growth of 12.9 percent and 52.8 percent respectively. Our Adabas & Natural business also performed strongly, with bookings growth of 33 percent year-on-year to €129.0 million. While Group revenue for the year was €834.8 million, reflecting the impact of our subscription shift on revenue recognition, the recurring portion of our product revenue was above 85 percent. This progress brings this important metric into the range of our 2023 ambition and reflects the increasing predictability and quality of our revenue stream.

We also made excellent progress with our other key performance indicators during 2020. Our annual recurring revenue (ARR) was €508.1 million at the end of 2020, representing 10 percent growth year-on-year. ARR in our Digital Business delivered double-digit growth for the sixth consecutive quarter, up 11 percent year-on-year to €358.8 million. The proportion of subscription and Software as a Service bookings within our Digital Business in 2020 also grew to 81 percent. This key indicator for the progress of our subscription shift was up from 51 percent in 2019 and 27 percent in 2018, prior to the start of the Helix transformation program.

Despite our ongoing investment in Helix, we also kept our commitment to profitability in 2020, delivering an operating profit (EBITA, non-IFRS) of €177 million at a margin of 21.2 percent, in the middle of our guidance range. As expected, net income (non-IFRS) was €125.4 million, or €1.69 per share for the year.

This strong performance reflects our Helix program, continuing under our **Focus, Execution and Team** pillars, with a direct impact on our results. Our focus on the right products and right markets continues to pay dividends, with product innovation in our key Hybrid Innovation and IoT & Analytics areas driving product NPS to +54 in the year and supporting double-digit growth in North America, DACH and EMEA. We also continued to win against the competition, delivering 239 new logos in 2020 and an expansion in the contribution from our hyperscaler ecosystem, which included 16 contract wins with Microsoft. The cultural transformation driving our success also continues to push forward, with our employee engagement score advancing 8 percent year-on-year to 3.9 out of 5, reflecting our increased focus on mental and physical wellbeing, support for remote working and leadership enablement.

Our expanding market opportunity

Helix has helped place Software AG at the heart of a global market trend towards digital transformation. The dispersal of workforces due to the COVID-19 pandemic has accentuated the need for what we call the “truly connected enterprise.” Our mission-critical software is helping organizations all over the world—particularly in sectors like banking and financial services, retail, supply chain and logistics, med-tech and manufacturing—make the transition from the old world to the new.

One of our strongest market differentiators is the independence of our platform. Organizations everywhere are facing the need to embrace digital transformation as an important step in ensuring the security, resilience and longevity of their operations. At the same time, however, they must grapple with the complexities of a “digital iron curtain,” where geopolitical events and regulations can alter, sometimes rapidly, the technological options available. In such an environment, the importance of a thin, independent integration layer cannot be underestimated.

Our positioning relative to these trends gives us access to a significant target addressable market (TAM) which will help power our future growth. In fact, recent updated analysis from Gartner points to a combined TAM for our key Integration & API and IoT & Analytics markets of around \$23 billion by 2024. Within that, the global market for Integration & API is forecast to grow at a CAGR of 10 percent to a TAM of \$13.4 billion by 2024, and the global IoT & Analytics market is expected to grow at a CAGR of 26 percent to a TAM of \$9.8 billion over the same period.

Accelerating our Helix transformation strategy

As we start 2021, we are fortunate that the success we've had to-date gives us an opportunity to bring forward some of the benefits of our transformation. Our strategy remains the same: to accelerate our subscription growth engine, drive product innovation, improve productivity, continue our cultural transformation and think proactively about where M&A can supplement our organic growth. To achieve these ambitions and capture the opportunity ahead of us, particularly the one presented by the increased volume of subscription deals we are now winning, we will bring forward a certain amount of planned spending and make this coming year the peak of our investment in Helix. Part of this investment also relates to technology improvements we plan to make following the malware attack we experienced in the third quarter of 2020.

The decision to invest sooner than expected in these areas reflects our growing confidence that our transformation is ready to accelerate towards our mid-term ambitions. We remain committed to these goals, expecting to deliver €1 billion in Group revenue, a 25 percent to 30 percent operating profit margin (EBITA, non-IFRS), 85 percent to 90 percent recurring share of product revenue and roughly 15 percent CAGR within our Digital Business in 2023.

The Management Board and I look forward to driving Software AG towards these ambitions in 2021, and continuing to build our business towards sustainable, profitable long-term growth.

Yours Sincerely,


Sanjay Brahmawar
Chief Executive Officer



Sanjay Brahmawar
Chief Executive Officer (CEO)



Dr. Elke Frank
Chief Human Resources Officer (CHRO)



Dr. Matthias Heiden
Chief Financial Officer (CFO)



Dr. Stefan Sigg
Chief Product Officer (CPO)

For more information on the members of the Management Board, please refer to [Note \[38\]](#) in the Notes to the Consolidated Financial Statements.

Software AG's Share

The Year on the Stock Market

Indexes defy the COVID-19 pandemic

The spread of the coronavirus throughout the world had a major impact on global stock markets in 2020. After hitting historic lows in March, some indexes were able to recover as the year progressed. On the whole, the year turned out to be fairly balanced for stock markets. Germany's DAX® benchmark index started off the year at 13,386 points and closed on December 30, 2020 at 13,719 points. This reflects a 2.5 gain over the course of the year. The year before, the German benchmark index had delivered 25 percent growth over 2018, its worst year since the global financial crisis of 2008.

The DAX® peaked for 2020 on December 28, 2020 at 13,790 points, just before the year ended. It bottomed out for the year on March 18, 2020 at 8,442 points, marking a drop of 5,347 points relative to February 19, 2020.

The MDAX®, in which Software AG is listed, followed a similar trajectory. After beginning the year at 28,608 points, it plummeted to its low point for the year of 17,909 points on March 18, 2020. The index peaked at 30,912 points on December 29, 2020 and closed at 30,796 on the last day of trading. This represents 8 percent annual growth.

Germany's high-tech TecDAX® index, in which Software AG is also listed, likewise managed to make up for massive losses suffered between February and March by year-end. After starting the year at 3,063 points, this index peaked on February 19, 2020 at 3,296 points. On March 18, 2020, the TecDAX® hit its low for the year at 2,202 points, but was able to recover by year-end to about 3,213 points. Altogether, this reflects a nearly 5 percent gain for the year.

Stock Index Performance Comparison Jan. 2, 2020–Dec. 30, 2020 (indexed)

as %



Transformation makes its mark on Software AG shares

After kicking off the year at €31.33 on January 2, 2020, Software AG shares initially followed a moderate upward trend. They then suffered a setback with the release of the Company's preliminary fourth-quarter results on January 29, 2020, but recovered nicely in February following Software AG's Capital Markets Day and the presentation of transformation successes. This came to a halt with the overall slump associated with global uncertainties due to the COVID-19 pandemic. The shares reached their low on March 19, 2020 at €22.60. But Software AG's solid balance sheet, coupled with its strong customer base and

high percentage of recurring revenue, revived investor confidence. This led to an upward climb for shares which peaked on September 9, 2020 at €44.26. After a downward trend until early November, shares saw a renewed uptick late in the year and closed on December 30, 2020 at €33.34. This is 6.4 percent higher than at the beginning of the year.

Software AG's market capitalization was €2.48 billion at the end of the 2020 fiscal year.

Software AG again exceeded the German stock market's prime standard liquidity requirement in 2020 with an Xetra average daily trading volume of approximately 221,000.

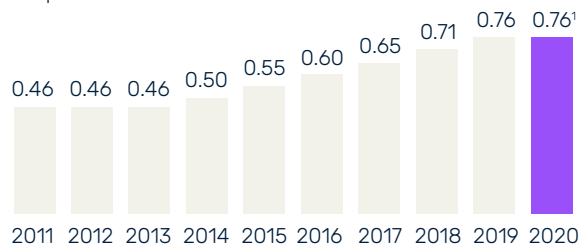
Software AG Share Price Performance Compared to Peer Group Jan. 2, 2020-Dec.31, 2020 (indexed)

as %



Dividend Development Since 2011

in € per share



¹ Dividend proposal, subject to shareholder approval in May 2021

Key Figures

	2020	2019
Closing price in €	33.34	31.10
Year high in €	44.26	34.20
Year low in €	22.60	23.51
Total number of shares at year-end	73,979,889	73,979,889
Treasury shares held by Software AG	20,111	20,111
Market capitalization at year-end in € millions	2,467.2	2,301.4
Free float as %	66.27	66.27

Consistent dividend policy

Software AG's Annual Shareholders' Meeting was originally scheduled to be held as an in-person event on May 20, 2020. But due to the COVID-19 pandemic and legal restrictions on gatherings to contain the spread, it was postponed until June 26, 2020 and was held virtually. This was in accordance with new options provided by Germany's legislation on mitigating the effects of the COVID-19 pandemic in civil, insolvency and criminal proceedings from March 27, 2020 (COVID-19 Act).

With approximately 75 percent of voting shares represented, attendance of the online meeting was higher than that of the in-person event in the previous year (65 percent of voting shares). All agenda items proposed by management were met with approval.

A further increase was approved for a record-level dividend of €0.76 per dividend-bearing share for fiscal 2019. The Company's total dividend disbursement increased to a record-breaking €56.2 million (2019: €52.5 million). Based on the closing share price on December 30, 2019 (€31.10), this corresponds to a dividend yield of 2.44 percent (2019: 2.24 percent).

Software AG will be able to continue its value-driven dividend policy for the concluded 2020 fiscal year. The Management Board and Supervisory Board will propose a dividend of €0.76 at the Annual Shareholders' Meeting. The treasury shares held by Software AG are not entitled to a dividend.

Treasury shares

Unchanged from the previous year, Software AG continued to hold 20,111 treasury shares—representing 0.03 percent of its share capital—at the end of the 2020 fiscal year.

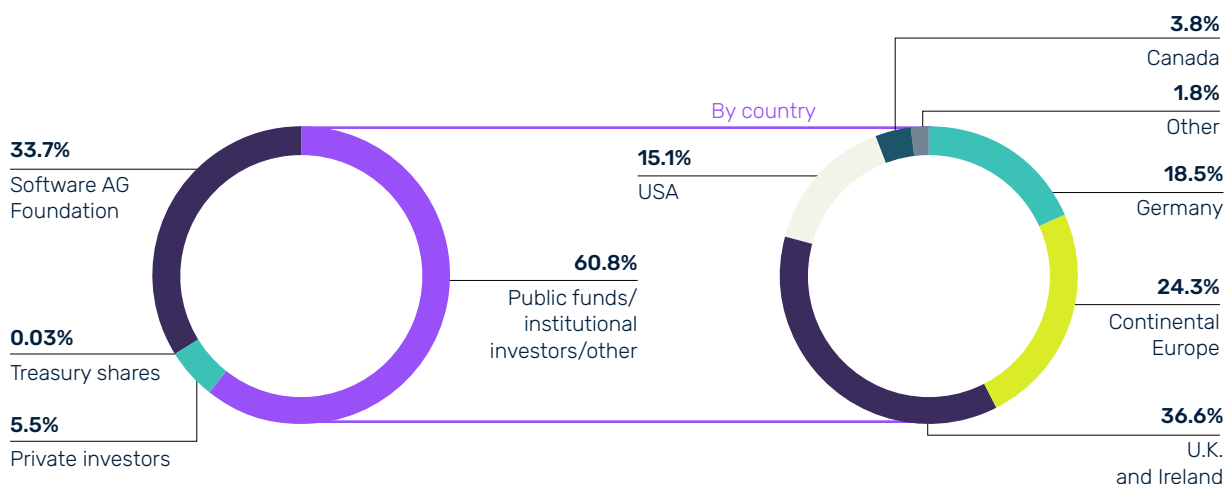
Shareholder structure

The Software AG Foundation remains Software AG's largest shareholder and thus its key anchor investor with 33.7 percent of its share capital. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects in support of education, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental activities.

After deducting the balance held by the Software AG Foundation and shares held by the Company itself, Software AG's free float is about 66 percent. This is calculated as defined by the Deutsche Börse as the percentage of a stock corporation's shares that are not held by long-term investors and can thus be traded freely on the stock market.

A geographic analysis of the identified free float shows that around 37 percent is held in the U.K., 19 percent in Germany, 15 in the USA, and 4 percent in Canada. A further 24 percent of the Company's total capital is managed in continental Europe.

Shareholder Structure



Source: BD Corporate - IHS Markit, December 2020

Ongoing dialogue with investors

In addition to engaging in an ongoing dialogue with existing shareholders, active investor relations work also involves adapting the investor base in targeted ways. Addressing specific potential investors is a challenging aspect of investor relations work and requires the precise analysis of financial markets. Reflecting Software AG's new growth strategy, interest and communications with investors shifted to capital geared toward long-term growth. Especially investors in the United States, experienced in the transformation of software companies, showed heightened interest.

Software AG's Investor Relations team conducted numerous meetings with investors and analysts in 2020. Software AG participated in a total of 18 capital market conferences in Germany and abroad. Beginning in March 2020, most events took place virtually due to the spread of the COVID-19 pandemic.

Software AG's investor relations activities centered around virtual appointments with analysts in Germany, the U.K., France, Spain and the United States as well as digital meetings with investors.

Software AG enjoyed a high degree of interest from financial analysts in the fiscal year under review. This was reflected in the high number of well-known securities brokerage firms in Germany and abroad that trade Software AG's share. Furthermore, Software AG's Capital Markets Day was held in London, the financial hub of Europe, on February 5, 2020. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland took advantage of the opportunity to gain insight on the progress of the Company's transformation.

Analysts from 18 investment banks currently cover Software AG and regularly publish study results. Software AG's stock received a positive or neutral rating from 16 of them at the end of 2020. Analysts' overall average price target was €37.72.

Top Investors (After Threshold)¹

Disclosure of voting share changes pursuant to section 26(1) of WpHG	Voting share as %	Date threshold met
Software AG Foundation	32.67	April 30, 2015
BlackRock, Inc.	2.99	Feb. 5, 2020
Allianz Global Investors GmbH	2.98	March 4, 2020
Schroders plc	5.06	July 17, 2020
Fidelity Funds SICAV	3.01	May 6, 2020
FIL Limited	5.03	June 24, 2020
Schroder International Selection Fund	3.03	Aug. 24, 2020
ODDO BHF Asset Management SAS	3.00	Dec. 10, 2020

¹ Balance as of Dec. 31, 2020**Professional investor relations work**

Software AG's Investor Relations team continued its commitment to comprehensive and prompt communication with all capital market participants in fiscal 2020. These high standards require that all investors have access to the same information simultaneously to ensure that they fully understand the Helix transformation and the Company's financial profile. Embracing feedback from target audiences for ongoing optimization of communication continues to be a priority.

A wide array of events, meetings, telephone conferences, the Annual Shareholders' Meeting and the IR website are all essential elements of Software AG's communication with investors. Software AG provides all members of the capital market with key up-to-date information on the Investor Relations website at: investors.softwareag.com/en

Selected Indexes

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

Key Share Data

ISIN	DE 000A2GS401
WKN	A2GS40
Symbol	SOW
LEI	529900M1LI00SLOBAS50
Reuters	SOWGn.DE
Bloomberg	SOW:GR
Listed on	Frankfurt stock exchange
Market segment	Prime Standard
Index	MDAX, TecDAX
IPO on	April 26, 1999
IPO on April 26, 1999	€10 ¹

¹ 3-for-1 split in May 2011

Statement on Corporate Governance

Basic Understanding

Good corporate governance is a core component of management at Software AG. The Management Board and the Supervisory Board are bound to it, and all business lines are guided by it. Responsible, qualified and transparent corporate governance focuses on a company's long-term success. It includes both compliance with the law and extensively following generally accepted standards and recommendations. Values such as sustainability, transparency and value orientation are its focus. The Statement on Corporate Governance in accordance with sections 289f(1) p. 2 and 315d of the German Commercial Code (HGB) is the central instrument of corporate governance reporting.

Compliance with the German Corporate Governance Code

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

On January 26, 2021, the Management Board and Supervisory Board declared that, since submitting their last Declaration of Compliance on January 28 / January 31, 2020, all recommendations of the government commission's German Corporate Governance Code from February 7, 2017 (GCGC 2017), as published by the German Ministry of Justice and Consumer Protection in the official section of the electronic version of the Federal Gazette, have been followed, with the following exceptions:

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

(b) In deviation of point 4.2.3(4) p. 1, 3 and paragraph 5 of the GCGC, the annual target salary in all Management Board members' contracts is the basis for calculating severance caps (including severance caps in the event of a change in control), so as to provide a straightforward basis for calculation in the event someone leaves the Company mid-year.

(c) In deviation of point 7.1.2 sentence 3 of the GCGC 2017, the quarterly statement for the third quarter of 2020 (balance sheet date: Sept. 30, 2020) was not released within the recommended 45 days from the end of a reporting period. In the wake of a malware attack on Software AG's IT infrastructure, its systems had to be restored under secure conditions. Some of the affected systems were relevant to financial reporting. The one-time deviation from this recommendation was necessary to ensure accurate financial reporting for the third quarter of 2020.

Software AG follows all recommendations of the government commission's German Corporate Governance Code from December 16, 2019 (effective as of March 20, 2020, GCGC 2019), as published by the German Ministry of Justice and Consumer Protection in the official section of the electronic version of the Federal Gazette, and will continue to follow them in the future.

The Declaration of Compliance is published on Software AG's website at investors.softwareag.com/en/corporate-governance/compliance-declaration. Declarations of Compliance from the last five years are also available there.

The Corporate Website

The Management Board's remuneration system, which was approved by the Supervisory Board and effective as of January 1, 2021, is published together with the invitation to the 2021 Annual Shareholders' Meeting on Software AG's website. Neither a Remuneration Report on the last fiscal year nor the Independent Auditor's Report pursuant to section 162 of AktG, nor a remuneration determination pursuant to section 113(3) of AktG have yet been submitted in accordance with the transitional provisions stated in section 26j(1, 2) of the the Introductory Act to the Stock Corporation Act (EGAktG). The Management Board members' remuneration is described pursuant to sections 289a(2), 285 no. 9 of HGB of the applicable version pursuant to art. 83(1) of EGHGB at investors.softwareag.com/en/corporate-governance/remuneration-report.

Key Principles and Practices of Corporate Governance

Compliance management system

Software AG's compliance management system is based on its risk situation and serves as part of the Software AG Global Code of Business Conduct and Ethics. The Compliance Board reports to the CEO. It initiates and orchestrates measures to ensure strict compliance management at Software AG.

Code of Business Conduct and Ethics

Software AG established a Code of Business Conduct and Ethics. It includes ethical standards applicable to the Company worldwide and is available on Software AG's website at investors.softwareag.com/en/corporate-governance/csr. The code includes specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. All employees are required to read and understand the

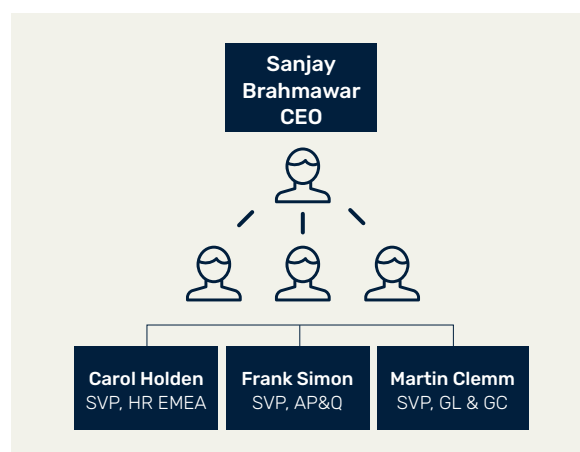
contents of the Code of Conduct. To this end, all new staff members attend mandatory, Web-based training sessions and receive certification upon completion. The Code of Conduct is currently available in eight languages. In addition, the Company has other specific guidelines for conduct with partners and suppliers.

Compliance Board

The Compliance Board can be contacted (anonymously if desired) on all issues. Software AG has set up an email-based reporting system at complianceboard@SoftwareAG.com for reporting incidents.

In total, 52 (2019: 36) inquiries were filed with the Compliance Board in 2020 by employees of Software AG. The Compliance Board was comprised of the following members in the year under review:

- Carol Holden (Senior Vice President, Human Resources EMEA)
- Frank Simon (Senior Vice President, Audit, Processes & Quality)
- Martin Clemm (Senior Vice President, Global Legal & General Counsel)



For more information on the Code of Business Conduct and Ethics, the Code of Conduct for Partners and Suppliers and the Compliance Board, please refer to the Combined Non-Financial Statement.

Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. The Company participated in numerous investor conferences, road shows and other capital market events in fiscal year 2020. Due to precautions taken for the COVID-19 pandemic, many of these events took place virtually.

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

All ad hoc disclosures, press releases, as well as presentations held at press and analyst conferences and road shows are published promptly to the Investor Relations section of Software AG's website. Planned publication dates can be found in the [Financial Calendar](#), which is also published on the corporate website at: investors.softwareag.com/en/events/financial-calendar

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive its financial communication. Critique and suggestions are an incentive for further improvement. The result of the most recent study, conducted in October 2020, showed improvement, with a good overall rating of 2.11 (2019: 2.35).

Composition and Working Methods of the Management Board

The Management Board is autonomously responsible for leading the Company with the goal of sustainable value creation. The members of the Board share responsibility for management of the Company. Guidelines for the work of Software AG's Management Board are elaborated in the **Rules of Procedure of the Management Board**. Above all, they define the members' individual responsibilities, the tasks assigned to the Board as a whole, adoption of resolutions and the rights and obligations of the Chief Executive Officer. The Management Board of Software AG consisted of five members in the 2020 fiscal year:

Sanjay Brahmawar, born in 1970 (nationality: Belgian), holds an MBA in finance and marketing from the University of Leeds (U.K.) and a Bachelor's degree in civil engineering from Delhi College of Engineering (India) and has been CEO of Software AG since August 1, 2018. His term is in effect until 2023.

Dr. Elke Frank, born in 1971 (nationality: German), holds a doctoral degree in law (Dr. jur.) from Julius-Maximilians University in Würzburg (Germany), and has been a member of Software AG's Management Board since August 2019. She oversees Global Human Resources, Talent Management and Transformation, Global Legal and Global Information Services. Her term is in effect until 2024.

Dr. Matthias Heiden, born in 1972 (nationality: German), holds a Higher National Diploma in business and finance from the European College of Business and Management, Suffolk College (U.K.), a degree (Diplom) in business administration and a PhD (Dr. rer. oec.) in business administration, both from the University of Saarland (Germany). He was appointed Chief Financial Officer as of July 1, 2020. In this function, he oversees Global Finance & Controlling, Corporate Investor Relations, Treasury, Global Procurement, Mergers & Acquisitions, Taxes and Business Operations. His term is in effect until 2023.

Dr. Stefan Sigg, born in 1965 (nationality: German), holds a degree (Diplom) and a PhD (Dr. rer. nat.) in mathematics and has been a member of Software AG's Management Board since April 2017. As Chief Product Officer, he oversees Product Management, Research & Development and Global Support. His term is in effect until 2022.

John Schweitzer, born in 1968 (nationality: American), holds a Bachelor of Science in economics and finance from Northern Arizona University (USA) and was a member of Software AG's Management Board from November 2018; as Chief Revenue Officer, he oversaw Global Sales and Consulting Services. His appointment to the Management Board ended prematurely on January 13, 2021.

Arnd Zinnhardt, born in 1962 (nationality: German), holds a degree (Diplom) in business administration and was a member of Software AG's Management Board from May 2002 until March 31, 2020 in the role of Chief Financial Officer. His appointment to the Management Board ended prematurely on March 31, 2020.

Composition and Working Methods of the Supervisory Board and its Committees

The Supervisory Board appoints, monitors and advises the Management Board. The Supervisory Board is informed in a timely and comprehensive fashion by the Management Board of all issues relevant to the Company, particularly regarding strategy, planning, business performance, the risk situation, risk management and compliance. Pursuant to recommendations made by the Personnel Committee, the Supervisory Board determines a clear and understandable system for Management Board remuneration, which it evaluates regularly. On that basis, it determines the specific remuneration for each Management Board member. The remuneration structure is geared toward Software AG's sustainable and long-term development and helps support its business strategy. The chair of the Supervisory Board coordinates the work of the Supervisory Board, leads its meetings and maintains contact with the CEO between Supervisory Board meetings to discuss strategy, business performance, the risk situation, risk management and compliance. The CEO informs the chair without delay of any key events that are relevant to the assessment of the Company's position and performance or to the leadership of Software AG. The Supervisory Board chair then reports to the Supervisory Board and, if necessary, convenes a special meeting of the Supervisory Board. Transactions that require the approval of the Supervisory Board are listed in the Rules of Procedure of the Management Board. The Supervisory Board also meets on a regular basis without the Management Board.

Composition

The Supervisory Board of Software AG is composed in accordance with the regulations of the One-Third Participation Act. The scheduled election of two employee representatives to the Supervisory Board in 2020 could not take place due to the COVID-19 pandemic. At the request of the Management Board in accordance with section 104(2) sentence 2 of AktG, the Darmstadt District Court appointed Guido Falkenberg (deputy chair, employee of Software AG) and Christian Zimmermann (employee of SAG Deutschland GmbH) as members of the Supervisory Board as of June 26, 2020. Both individuals had previously served as employee representatives on the Supervisory Board of Software AG. Their first term began upon conclusion of the Annual Shareholders' Meeting on May 13, 2015.

Until the end of Software AG's Annual Shareholders' Meeting on June 26, 2020, members of the Supervisory Board elected by shareholders at the Annual Shareholders' Meeting on May 13, 2015 were: Dr. Andreas Bereczky (CEO, ZDF, until December 2018, production director), Eun-Kyung Park (since January 2020, Senior Vice President & General Manager, Media, The Walt Disney Company Germany GmbH), Alf Henryk Wulf (until December 2018, CEO, GE Power AG) and Markus Ziener (Managing Director, Assets and Financial Management, Software AG Foundation). The term of the shareholder representatives began on May 27, 2015 upon entry of the amendment to the Articles of Association in the Commercial Register regarding the composition of the Supervisory Board pursuant to the One-Third Participation Act.

Karl-Heinz Streibich (chair) (President, acatech, German Academy of Science and Engineering), Ursula Soritsch-Renier (Chief Operating Officer, RELE.AI AG), Ralf Dieter (CEO, Dürr AG) and Markus Ziener (Managing Director, Asset and Financial Management, Software AG Foundation) were elected as shareholder representatives to the Supervisory Board during Software AG's Annual Shareholders' Meeting on June 26, 2020.

Committees

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 chair of the Supervisory Board, they define the structure of meetings, the adoption of resolutions, and the formation of committees. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

The Supervisory Board established three committees to efficiently carry out its duties: the Audit Committee, the Personnel Committee and the Nominating Committee.

The **Personnel Committee** prepares personnel-related decisions made by the Supervisory Board when they affect the remuneration, appointment, reappointment or dismissal of members of the Management Board. The Personnel Committee has three members: Karl-Heinz Streibich (chair, shareholder representative), Guido Falkenberg (employee representative) and Markus Ziener (shareholder representative). Until Software AG's Annual Shareholders' Meeting on June 26, 2020, the Personnel Committee consisted of Guido Falkenberg, Dr. Andreas Bereczky (chair, shareholder representative) and Alf Henryk Wulf (shareholder representative).

The **Audit Committee** handles issues related to monitoring the financial reporting process, risk management, half-year and quarterly reports, financial statement audits, particularly the independence of the auditor, the internal audit and compliance. The Audit Committee has three members: Ralf Dieter (chair, shareholder representative), Ursula Soritsch-Renier (shareholder representative) and Christian Zimmermann (employee representative). Until Software AG's Annual Shareholders' Meeting on June 26, 2020, the Audit Committee consisted of Christian Zimmermann, Eun-Kyung Park (chair, shareholder representative) and Markus Ziener (shareholder representative).

The **Nominating Committee** nominates qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. It consists of shareholder representatives only: Karl-Heinz Streibich (chair), Markus Ziener and Ralf Dieter. Until Software AG's Annual Shareholders' Meeting on June 26, 2020, the Nominating Committee consisted of Dr. Andreas Bereczky (chair), Alf Henryk Wulf and Markus Ziener.

Self-assessment

Members of the Supervisory Board evaluate annually how effectively the Supervisory Board as a whole and its committees fulfill their duties (self-assessment). Each member completes a questionnaire to assess all areas of the Supervisory Board's work. The questionnaire contains 35 questions. The key aspects of the self-assessment are the composition of the Supervisory Board, the availability of information, preparation and follow-up of meetings, committee responsibilities as well as training activities and succession planning. The Supervisory Board discusses the results of the annual self-assessment extensively and, if necessary, agrees on measures to increase its effectiveness. The Supervisory Board's self-assessment was initiated in the December 2020 meeting, and the results were evaluated in its meeting on February 5, 2021.

Training opportunities

Supervisory Board members are responsible for completing any training necessary to perform their duties. Such topics may include regulatory changes or new and innovative technologies. The Company supports them in these activities. In the case of regulatory changes that are of particular relevance to the Supervisory Board or the Company, training is provided by internal and external experts. Internal information sessions are offered for the purpose of training in specific topics.

Software AG supported and supports members of the Supervisory Board during their onboarding process. This includes a series of workshops on strategy, the roles on the Management Board, KPIs and the business units. In addition, each new member of the Supervisory Board meets individually with each member of the Management Board to discuss general and current topics specific to each role on the Management Board and to the Company. Moreover, the Finance department held an onboarding workshop with the chair of the Audit Committee. Workshops were also given on the amendments to legal requirements for Management Board remuneration and the new Corporate Governance Code.

For more details on the Supervisory Board's work and its committees, please refer to the Report of the Supervisory Board. For more details on the current members of the Supervisory Board, including their curricula vitae and committee membership, please visit softwareag.com/en_corporate/company/leadership.html. The CVs are updated regularly—at least once per year.

Target Percentages for Women Pursuant to Sections 76(4) and 111(5) of AktG

In its meeting on May 17, 2017, the Supervisory Board established 16.67 percent as the target percentage for female members of the Supervisory Board and 0 percent of the Management Board. The deadline for meeting this target is April 30, 2022. The Supervisory Board currently meets this target. The Management Board's composition exceeded its target by 20 percentage points as of December 31, 2020.

Pursuant to section 76 IV of the German Stock Corporation Act (AktG), the Management Board defined targets for the quota of first and second-tier female managers below the Management Board in its meeting on July 20, 2017: 12 percent female managers in the first tier and 15 percent in the second tier below the Management Board. The deadline for meeting this target is June 30, 2022. The first level of management below the Management Board consisted of 26.5 percent (2018:11.9 percent) women and the second consisted of 21.3 percent (2018:15.5 percent) women as of December 31, 2020. Both percentages thus exceeded the respective targets.

Diversity Concept, Composition Targets and Competency Profile

The Supervisory Board is certain that diversity is critical to Software AG's successful development. Promoting diversity in the Company, specifically when appointing members of the Supervisory and Management Boards, is an important factor in ensuring Software AG's sustainable success. The concept covers age and term caps, gender quotas (as described in Target Percentages for Women) and the explicit need to establish a sensible and broad mix of backgrounds with respect to education and experience (professional experience) as well as international experience/cultures on the boards.

Management Board

The Supervisory Board established an age cap of 65 as well as a percentage of female members (see Target Percentages for Women) on the Management Board. The Supervisory Board does not see a reason to define a rigid diversity concept for the Management Board. The Personnel Committee regularly evaluates the composition of the Management Board and compares the skills and experiences represented on the the Management Board with its current requirements. It is the judgment of the Personnel Committee of the Supervisory Board as to how the results of this comparison are handled. The objective of the process is to achieve the best possible skill and experience representation in the Management Board based on the current and future business situation. The Management Board's age cap and female percentage targets were met and/or exceeded.

Succession planning

The Supervisory Board, in cooperation with the Management Board and with the assistance of the Personnel Committee, is responsible for succession planning on the Management Board. When a successor is needed, the Personnel Committee considers quality and mandate requirements as well as composition targets, before creating an ideal candidate profile. Available candidates are shortlisted based on this profile. If necessary, the Supervisory Board or the Personnel Committee may employ the services of external consultants in creating a requirements profile and selecting candidates. Structured interviews are conducted with candidates before a recommendation is submitted to the Supervisory Board for a vote. The chair of the Supervisory Board, who also chairs the Personnel Committee, regularly discusses suitable candidates with the Management Board. Reports on talent management and leadership development on the first tier below the Management Board are also provided regularly.

Supervisory Board

The Supervisory Board is composed in such a way that, together, its members possess the knowledge, skills and professional experience necessary to properly perform their duties. Software AG's Supervisory Board defined diversity-related targets for its members and created a competency profile for the body as a whole.

Unless there are sound reasons warranting otherwise, members of Software AG's Supervisory Board are not to be older than 70 years of age, or 65 years of age upon election (target age cap, see section 9(3) of the Articles of Association). Pursuant to the recommendation of the Nominating Committee, the Supervisory Board made a justified exception to the age cap in nominating Karl-Heinz Streibich, who was 67 when elected at the 2020 Annual Shareholders' Meeting. As part of its decision to nominate Mr. Streibich, the Supervisory Board determined that Mr. Streibich's expertise and experience in the IT sector generally and with Software AG specifically clearly outweighed the deviation from the age cap rule associated with an election Mr. Streibich. Through his career in the technology sector and as president of acatech, the German Academy of Science and Engineering, Mr. Streibich's IT industry expertise are of enormous value in overseeing the Company and supporting its growth strategy. His pioneering role in the field of digitalization and industrial IoT are particular assets as well as his knowledge of Software AG from having served as CEO from 2003 to 2018. The Supervisory Board considers these benefits to clearly outweigh the intended goals of the age cap.

Nominations of candidates to be elected to the Supervisory Board should take into consideration a maximum term of 15 years. One member of the Supervisory Board should have specialized knowledge and experience in applying accounting principles and internal control procedures as well as familiarity with financial audits. The Supervisory Board set itself the target of women constituting 16.67 percent of the Supervisory Board (see Target Percentages for Women).

Supervisory Board members as a whole must be familiar with sector in which the Company operates (enterprise software). The Supervisory Board considers the following competencies and skills to be essential to the fulfillment of its mandate (competency profile):

1. Members' professional backgrounds should be in one or more of the following fields:
 - a) ICT, mechanical engineering with use of IoT, similar fields
 - b) Direct or indirect experience with enterprise IT and/or understanding of digitalization and enterprise software solutions
 - c) CEO, CTO or CRDO of a technology company
 - d) Knowledge of the demands of a medium-sized company
 - e) In-depth expertise in accounting, financial controlling and reporting
 - f) Experience dealing with investors/analysts and shareholders of listed companies
2. Members of the Supervisory Board should be familiar with the requirements and duties associated with the two-tier governance structure pursuant to German stock corporation law and the requirements of the German Corporate Governance Code.
3. International experience, especially at a global company, and in dealing with customers and in various markets

The aim of the combined diversity concept, competency profile and composition targets is to cover the widest possible spectrum of backgrounds in the composition of the committees so that they can use their diversity to form opinions and make the best possible decisions for Software AG given the current business and strategic priorities.

With the justification of the exemption described above, the Supervisory Board considers its diversity and competency profile as well as its specific composition targets to be met.

Independence

The Supervisory Board deems three independent members representing shareholders to be appropriate. In the estimation of the Supervisory Board, all shareholder representatives are currently independent, consisting of the chair, Karl-Heinz Streibich, and members Ralf Dieter, Ursula Soritsch-Renier and Markus Ziener. Based on attendance numbers from the last three Annual Shareholders' Meetings, the Supervisory Board determined that Software AG does not have a controlling shareholder with a sustainable Annual Shareholders' Meeting majority. The Supervisory Board does not consider Mr. Ziener's employment with the Software AG Foundation to be a dependency. Mr. Streibich had been a member of the Management Board of the Company nearly two years prior to his election to the Supervisory Board. The two-year cooling-off period, however, was almost complete with 36 days until the election. Additional factors reflecting no dependencies are that all seats on the Management Board have been filled with new members since April 2017, and Software AG does not maintain direct or indirect business relationships with any members of the Supervisory Board. Ralf Dieter is CEO of Dürr AG. Dürr AG Group companies are Software AG customers. Software AG and the Dürr Group, as well as other companies, cofounded ADAMOS GmbH. All partners in ADAMOS GmbH have a 12.5 percent share in the company. Ralf Dieter chairs the advisory board of ADAMOS GmbH. The Supervisory Board considers both the scope of customer relationships and Software AG's share in ADAMOS GmbH to be immaterial business relationships. Furthermore, no mutual consulting agreements or other contracts for work or services exist.

Additional Information on Corporate Governance

Shareholders and the Annual Shareholders' Meeting

The **Annual Shareholders' Meeting** is one of Software AG's main corporate bodies through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including ratification of the actions of the Management and Supervisory Boards, election of shareholder representatives and external auditors, amendments to the Articles of Association and measures regarding the Company's capital, intercompany agreements and conversions. Furthermore, shareholders decide on the appropriation of profits. They decide—advisory in nature—on the approval of the Supervisory Board's proposal for the Management Board remuneration system and on the Supervisory Board's specific remuneration. And, they decide—recommendatory in nature—on the approval of the Remuneration Report for the last fiscal year. As provided in the financial calendar, shareholders are informed regularly of Software AG's business developments, financial performance, assets and financial position four times per year.

The Annual Shareholders' Meeting originally scheduled for May 20, 2020 was postponed and took place virtually on June 26, 2020 due to restrictions associated with the COVID-19 pandemic in accordance with legislation on mitigating the effects of the COVID-19 pandemic in civil, insolvency and criminal proceedings from March 27, 2020 (COVID-19 Act). Approximately 75 percent of voting shares were present on June 26, 2020, which is higher than attendance of the in-person event the previous year (64.8 percent of voting shares). The next regular Annual Shareholders' Meeting is scheduled for May 12, 2021.

Pursuant to the recommendations of the Corporate Governance Code, Software AG conducts the Annual Shareholders' Meeting in an expedient manner, preferably within a time frame of four hours. All duly submitted questions were addressed and answered at the regular Annual Shareholders' Meeting held in the year under review. The CEO's presentation was published on the corporate website in advance to help shareholders submit relevant questions. Shareholders had the option of voting by mail (including email) and by way of Company-appointed proxies bound by shareholder instructions. The invitation to the Annual Shareholders' Meeting is made available on Software AG's website (investors.softwareag.com/en/events/annual-general-meeting) as well as voting results and presentations from past Annual Shareholders' Meetings.

Financial reporting and auditing

The 2020 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg, Germany (hereinafter referred to as BDO AG), as **company auditor**.

Non-audit services subject to approval may only be rendered by BDO AG if and to the extent they have been approved by the Audit Committee in accordance with the legally binding approval process. No business, financial, personal or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO AG, 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 chair of the Audit Committee, appointed the auditor and agreed on the fee. In connection with the awarding of the contract, the chair of the Audit Committee also agreed with the auditor to comply with the reporting duties pursuant to the German Corporate Governance Code. BDO AG 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 AG's independence before it commissioned the firm.

Managers' Transactions (Pursuant to Art. 19 of MAR)

Personal share transactions conducted by persons discharging managerial responsibilities and by those related to them (natural or legal) are disclosed on the corporate website at investors.softwareag.com/en/financial-news/managers-transactions. Four transactions subject to mandatory disclosure were reported in the 2020 calendar year.

Shareholdings

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

Shareholdings of the members of the Management Board and Supervisory Board as of December 31, 2020:

Management Board

Members of the Management Board	Number of shares
Sanjay Brahmawar	1,600
Dr. Elke Frank	0
Dr. Matthias Heiden	0
John Schweitzer	1,475
Dr. Stefan Sigg	1,700

Supervisory Board

Members of the Supervisory Board	Number of shares
Karl-Heinz Streibich	5,250
Ralf Dieter	0
Ursula Soritsch-Renier	0
Markus Ziener	0
Guido Falkenberg	0
Christian Zimmermann	0

Report of the Supervisory Board

*Dear Ladies and Gentlemen,
Dear Shareholders,*

Aside from the challenges associated with the COVID-19 pandemic, for Software AG, the 2020 fiscal year was marked by the dedicated implementation of its corporate strategy and continued transformation (Helix), which the Supervisory Board supported actively, prudently and with constructive criticism. Milestones and progress were closely tracked and discussed during the year.



Karl-Heinz Streibich,
Chair of the Supervisory Board

Collaboration between the Management Board and Supervisory Board

In the 2020 fiscal year, the Supervisory Board performed all duties required of it by law and by the Company's Articles of Association. It advised the Management Board in running the Company and supervised its leadership. In doing so, the Supervisory Board was directly involved in all decisions of key relevance to Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly of all important aspects of the new strategy, the status of strategy implementation, planning, business development, the risk situation and risk management, as well as compliance, and was available to the Supervisory Board in meetings for questions and discussions. Deviations from planned business developments were explained in detail. The Supervisory Board also received regular updates outside of meetings on the effects of the COVID-19 pandemic and the cyber incident on the Company.

The Supervisory Board chair maintained regular contact with the CEO. They consulted regularly on Software AG's strategy, planning, business development, risk situation, risk management and compliance. The CEO informed him immediately of important occurrences. The relationship between the Management Board and Supervisory Board was based on close, trusting cooperation and an open, constructive dialogue.

Supervisory Board discussions ranged in topic from the rollout of the Company's strategic transformation, personnel changes on the Supervisory Board and on the Management Board, financing agreements, the review and update of the Management Board's remuneration system, as well as risk-management measures and the impact of COVID-19 and the cyber incident. 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 Association or applicable legislation were reviewed and voted on accordingly. Documents relevant to decisions were provided to the Supervisory Board in due time before the corresponding meeting. The Supervisory Board voted on resolutions following extensive evaluation and consideration and based on decision papers and conversations. After careful monitoring of the Management Board's leadership, the Supervisory Board confirms that it acted lawfully, appropriately and economically in every respect.

Supervisory Board meetings

The Supervisory Board met 14 times in the year under review. If a member of the Supervisory Board was unable to attend a meeting, he or she had the option of participating via telephone or casting a ballot in writing. This was only necessary for two members who were excused from attending specific meetings. Apart from that, all members of the Supervisory Board attended the meetings of the Supervisory Board and its committees during the year under review. The Supervisory Board met regularly without the Management Board. Starting in March, most meetings were held as audio or video conferences as a precaution for COVID-19. Four resolutions were adopted outside of Supervisory Board meetings with regard to particular matters.

The table below illustrates the attendance of members at Supervisory Board meetings held in fiscal 2020.

In its **first four meetings** of the 2020 fiscal year, held in **January and February 2020**, the Supervisory Board authorized primarily the sale of the Spanish Professional Services business and the 2020 budget. It approved the Declaration of Compliance with the Corporate Governance Code, the Corporate Governance Report and the Statement on Corporate Governance; and it resolved to carry out the self-assessment on the effectiveness of how the Supervisory Board and its committees perform their duties. The Supervisory Board also discussed objectives for the members of the Management Board in fiscal 2020.

At the accounts meeting on **March 20, 2020**, in the presence of financial auditors, the 2019 financial statements and consolidated financial statements were discussed in depth and subsequently approved by the Supervisory Board at the recommendation of the Audit Committee and following its own thorough review. At this meeting, the Supervisory Board also informed itself of the status of the implementation of the new strategy and approved the proposed resolutions for the Annual Shareholders' Meeting agenda. With regard to Management Board issues, the Supervisory Board determined the Management Board members' achieved variable remuneration for fiscal 2019 after the financial auditors' verification of the accuracy of the calculations.

On **two occasions, in May and June 2020**, the Supervisory Board convened to thoroughly discuss the progress of the transformation and shift to digital marketing, the first-quarter financial results and the outlook for the first half of the year, as well as the effects of and measures for COVID-19, including preparation of the virtual Annual Shareholders' Meeting. Furthermore, the change of CFO, which had been initiated in the previous year, moved forward.

Immediately after the Annual Shareholders' Meeting on **June 26, 2020**, the Supervisory Board met for the first time in its new composition. At this meeting, the new chair and deputy chair as well as committee members and chairs were elected.

Supervisory Board Meetings in 2020

	Jan. 14	Jan. 28	Feb. 6	Feb. 28	March 20	May 8	June 24	June 26	July 23	Sept. 26	Oct. 22	Oct. 30	Nov. 6	Dec. 8
Bereczky ¹	x	x	x	x	x	x	x							
Streibich ²								x	x	x	x	x	x	x
Falkenberg	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Park ¹	x	e	e	x	e	x	x							
Soritsch-Renier ²								x	x	x	x	x	x	x
Wulf ¹	x	x	x	x	x	x	x							
Dieter ²								x	x	x	x	x	x	x
Ziener	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Zimmermann	x	x	x	e	x	x	x	x	x	x	x	x	x	e

¹ Member of the Supervisory Board until conclusion of the Annual Shareholders' Meeting on June 26, 2020

² Member of the Supervisory Board as of conclusion of the Annual Shareholders' Meeting on June 26, 2020

e = Excused

On **July 23, 2020**, topics discussed by the Supervisory Board included results from the second quarter of 2020, the outlook for the second half of 2020 and collaboration and working methods in the Supervisory Board. Furthermore, the review and update of the Management Board's remuneration system were discussed. An external independent remuneration consultant was brought in to assist the Supervisory Board with this task.

On **September 26, 2020**, the Supervisory Board held a strategy meeting in which the Management Board provided in-depth information on the strategic outlook for the transformation (including talent recruiting and development), the technology vision, the product portfolio, the go-to-market strategy and the new customer acceptance and customer success model. A discussion with the Management Board followed. This meeting also included a presentation and discussion of the 2021 budget process and mid-term planning.

In three **meetings in October and November**, the Supervisory Board dealt extensively with the analysis and review of the remuneration system and the suitability of the Management Board's remuneration. In accordance with new legal regulations, the recommendations of the Corporate Governance Code and investor resonance and, with the assistance of the external independent remuneration consultant, a new remuneration system for the Management Board was developed, which was ultimately approved on January 26, 2021.

The Supervisory Board's meeting on **December 8, 2020** dealt extensively with the background, impact and processing of the cyber incident. Furthermore, third-quarter results, the fourth-quarter outlook and the 2021 budget were discussed. In addition, the Supervisory Board again addressed the new Corporate Governance Code.

Committees

In order to efficiently perform its duties, the Supervisory Board established a Personnel Committee, an Audit Committee and a Nominating Committee. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers are transferred to the committees to the extent allowable. The respective

committee chairs report to the Supervisory Board plenum about the results of the respective committee meetings. For more information on the composition and working methods of the Supervisory Board and its committees, please refer to the [Statement on Corporate Governance](#), which is available on Software AG's website. All members of the Supervisory Board attended all meetings of the committees on which they served during the reporting year.

The **Personnel Committee** prepares personnel-related decisions made by the Supervisory Board, provided they affect remuneration policies for the members of the Management Board or appointment decisions. The Personnel Committee met six times in fiscal year 2020. It handled personnel-related matters on the Management Board and prepared decisions to be made by the Supervisory Board, particularly regarding Management Board members' objectives as well as the review and update of the Management Board's remuneration system. The Personnel Committee also prepared Arnd Zinnhardt's exit and Dr. Matthias Heiden's appointment as the new Chief Financial Officer. The Personnel Committee was actively and closely involved in staff-related changes on the Management Board.

The following table shows meeting attendance of the members of the Personnel Committee in the 2020 fiscal year:

Personnel Committee 2020

	Feb. 6	Feb. 27	March 16	April 24	July 23	Oct. 14
Bereczky ¹	x	x	x	x		
Streibich ²					x	x
Falkenberg	x	x	x	x	x	x
Wulf ¹	x	x	x	x		
Ziener ²					x	x

¹ Member of the Personnel Committee until conclusion of the Annual Shareholders' Meeting on June 26, 2020

² Member of the Personnel Committee as of conclusion of the Annual Shareholders' Meeting on June 26, 2020

The **Audit Committee** deals with issues related to monitoring the financial reporting process, risk management, the effectiveness of the internal control system, half-year and quarterly reports, financial statement audits—particularly the selection and

independence of the auditor—the internal audit and compliance. The Audit Committee also prepares the Supervisory Board's discussion and vote to approve the annual and consolidated financial statements. The Audit Committee met five times in fiscal year 2020. In a meeting on March 20, 2020, and in the presence of auditors, it discussed the annual financial statements and the Management Report, the consolidated financial statements and Group Management report, the Management Board's proposal on the appropriation of profits, the selection and independence of the financial auditor for fiscal 2020 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. The Audit Committee also informed itself of the internal audit and of compliance matters at this meeting. The other Audit Committee meetings in fiscal 2020 focused primarily on key audit points, non-audit services and the independence of the financial auditor, as well as the call for bids for the financial audit of the 2022 fiscal year. In addition, information on key lawsuits was provided and the risk report was submitted.

The following table shows meeting attendance of the members of the Audit Committee in the 2020 fiscal year:

Audit Committee 2020

	March 20	July 23	Oct. 22	Nov. 17	Dec. 7
Park ¹	x				
Soritsch-Renier ²		x	x	x	x
Dieter ²		x	x	x	x
Ziener ¹	x				
Zimmermann	x	x	x	x	x

¹ Member of the Audit Committee until conclusion of the Annual Shareholders' Meeting on June 26, 2020

² Member of the Audit Committee as of conclusion of the Annual Shareholders' Meeting on June 26, 2020

The task of the **Nominating Committee** is to nominate qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. The Nominating Committee met twice in 2020 to assess suitable candidate nominations for the Annual Shareholders' Meeting and make recommendations to the Supervisory Board.

The following table shows meeting attendance of the members of the Nominating Committee in the 2020 fiscal year:

Nominating Committee 2020

	Feb. 6	March 2
Bereczky ¹	x	x
Wulf ¹	x	x
Ziener	x	x

¹ Member of the Nominating Committee until conclusion of the Annual Shareholders' Meeting on June 26, 2020

Financial Statements and Consolidated Financial Statements

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg (referred to hereinafter as BDO AG), to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2020. BDO AG has been Software AG's financial auditor since 1997. For fiscal year 2022, Software AG issued a call for bids to contractors for the external audit of its financial statements, consolidated financial statements and its Combined Management Report.

BDO AG examined the financial statements and consolidated financial statements for the year ended December 31, 2020, as well as the Combined Management Report and the accounting books and records. The auditor issued unqualified audit opinions. Ralf Pfeiffer and Klaus Eckmann are the signers of the auditor's certificate and responsible for the audit at BDO AG. Klaus Eckmann was responsible for the audit for the fourth time; Ralf Pfeiffer participated for the first time in the audit of the 2015 financial statements. In accordance with section 111(2) sentence 4 of AktG, the Supervisory Board commissioned BDO AG to also conduct a voluntary external content review of the Combined Non-Financial Statement to attain a limited level of assurance.

The financial statements and consolidated financial statements, the Combined Management Report (including the Combined Non-Financial Statement) and the financial auditor's audit reports were submitted to the Supervisory Board and explained personally to

the Audit Committee and the entire Supervisory Board by the Management Board and the auditor responsible for conducting the audit. BDO AG's report on the limited assurance review of the Combined Non-Financial Statement and the Management Board's proposal on the appropriation of profits were also submitted to all Supervisory Board members. The Audit Committee and Supervisory Board reviewed the financial statements, the Combined Management Report and the audit reports in their meetings on March 15, 2021. In both meetings, the financial auditor reported on the scope, the focus and the key results of his audit. He focused on the particularly important audit matters and audit actions taken. He was available to answer questions and provide additional information. No reservations were raised at the conclusion of the Supervisory Board's review. The Supervisory Board confirmed the results of the audit, concurred with the Management Board's judgment regarding the assessment of the Group's and parent company's position, and approved the financial statements and consolidated financial statements as of December 31, 2020. This constitutes formal approval and acceptance of the annual financial statements. The Supervisory Board supports the Management Board's recommendation on the appropriation of profits.

Corporate Governance

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code (GCGC) again in fiscal year 2020. In its meeting on January 28, 2020, the Supervisory Board approved the annual Declaration of Compliance (GCGC).

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

Detailed reports from the Management Board and the Supervisory Board about the implementation of the GCGC can be found in the Statement on Corporate Governance. The Declaration of Compliance is published on the corporate website at investors.softwareag.com/en/corporate-governance/compliance-declaration

Changes to the Management Board and Supervisory Board

Arnd Zinnhardt's term as Chief Financial Officer ended on March 31, 2020. Dr. Matthias Heiden became a member of the Management Board in the capacity of Chief Financial Officer as of July 1, 2020.

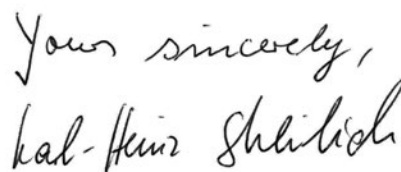
The term of the Supervisory Board members elected by shareholders, Dr. Andreas Bereczky, Eun-Kyung Park and Alf Henryk Wulf, ended upon conclusion of the Annual Shareholders' Meeting on June 26, 2020, at which members Karl-Heinz Streibich, Ralf Dieter and Ursula Soritsch-Renier were elected and Markus Ziener was reelected to the Supervisory Board. Supervisory Board members were appropriately supported during their introductory period and provided with education and training. In particular, a series of workshops on strategy, the roles on the Management Board, KPIs and the business units was offered as part of their onboarding process. In addition, each new member of the Supervisory Board met individually with each member of the Management Board to discuss general and current topics specific to each role on the Management Board and to the Company. Moreover, the Finance department held an onboarding workshop with the chair of the Audit Committee. Workshops were held on changes in legal requirements for Management Board remuneration and on the new Corporate Governance Code.

For more information on the composition of the Management Board and Supervisory Board, as well as on training options for members of the Supervisory Board, please refer to the [Statement on Corporate Governance](#) which is available on Software AG's website under Statement on Corporate Governance—Software AG.

The Supervisory Board would like to thank Software AG's Management Board and employees for their high degree of commitment and excellent work during fiscal year 2020.

Darmstadt, March 15, 2021

The Supervisory Board



Karl-Heinz Streibich

Chair of the Supervisory Board

For more information on the members of the Supervisory Board, please refer to [Note \[38\]](#) in the Notes to the Consolidated Financial Statements or visit Software AG's website at softwareag.com/en/corporate/company/leadership.html.

Combined Management Report

Fundamental Aspects of the Group	34	Opportunity and Risk Report	116
Organization and Group Structure	34	Opportunity and Risk Management	116
Business Activities	35	General Statement on the Group's Risk Situation	136
Strategy and Goals	45	Software AG's Rating	137
Internal Corporate Control System	48	Remuneration Report	138
Research and Development	53	Allocation	139
Economic Report	58	Benefits Granted	148
Business Summary	58	One-Year Variable Remuneration	148
The Group's Financial Performance	65	Multi-Year Variable Remuneration	148
The Group's Financial Position	76	Remuneration of the Management Board in 2020	153
Software AG's Financial Position and Performance	82	Supervisory Board Remuneration	155
Combined Non-Financial Statement	84	Takeover-Related Disclosures	156
Fundamental Aspects	84	Subscribed Capital and Voting Rights	156
Leadership and Governance	90	Conditional Capital	156
Employees	94	Authorized Capital	156
Customers and Technology	99	Share Buyback	156
Society	102	Significant Shareholders	156
Environment	105	Appointment/Dismissal of Management Board Members and Changes in the Articles of Association	156
Forecast	109	Change of Control	156
Economic Conditions in Upcoming Fiscal Years	109	Statement on Corporate Governance	157
Expected Financial Performance	112		
Anticipated Financial Position	115		

Fundamental Aspects of the Group

Organization and Group Structure

Legal corporate structure

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

Software AG was founded on May 30, 1969 in Darmstadt, Germany. It has been listed on the Frankfurt Stock Exchange since April 26, 1999.

Software AG has control and profit transfer agreements with its three German subsidiaries: SAG Deutschland GmbH, SAG Consulting Services GmbH and SAG LVG mbH. Otherwise, the Group is structured as a matrix organization reflected in its reporting lines, global policies and committees. The family of Software AG companies currently consists of 75 affiliated companies, ten of which are domestic entities, while the remainder are distributed worldwide. Software AG's [Scope of Consolidation](#) is outlined in Note [2] in the Notes to the Consolidated Financial Statements.

Major locations

A global company with a far-reaching sales and partner network, Software AG strives to maintain proximity to its customers by serving customers in more than 70 locations in all continents worldwide. The Company's corporate headquarters are located in Darmstadt, Germany. Its largest locations outside of Germany are in India, the USA, Israel, Bulgaria, the United Kingdom and Malaysia. Software AG is positioning itself both in established as well as in emerging and high-potential regions as part of its global geographic strategy.

Employees

As of December 31, 2020, Software AG employed 4,700 (2019: 4,948) full-time equivalents around the world, which represents a decline of 5 percent compared to the previous year. This decline is due primarily to the sale of the Professional Services organization in Spain. The employees can be separated in four business areas: Consulting and Services, Research and Development (R&D), Sales and Marketing, and Administration. Software AG's global staff was distributed according to function and country as follows:

Headcount by Function and Country

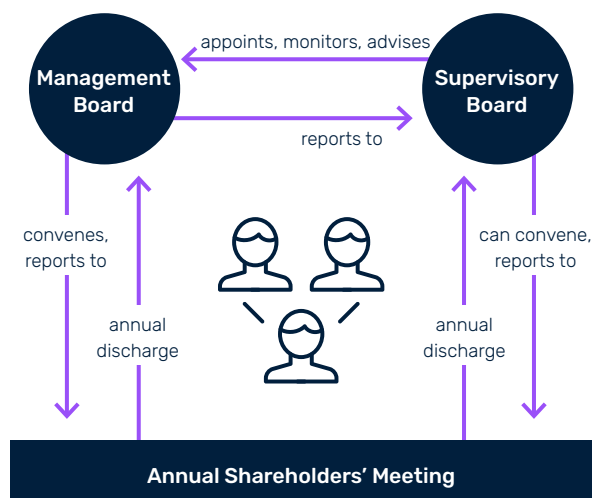
Full-time employees	Dec. 31, 2020	Dec. 31, 2019	+/- as %
Total	4,700	4,948	-5
Consulting and Services	1,490	1,915	-22
Research and Development	1,494	1,419	5
Sales and Marketing	1,027	961	7
Administration	689	653	6
Germany	1,314	1,278	3
India	1,043	1,004	4
USA	629	584	8
Other countries	1,714	2,082	-18

The decrease in central Consulting and Services includes the 438 employees affected by the sale of the Professional Services organization in Spain. The number of employees in the key area of R&D rose by 5 percent (2019: 8 percent), with the new R&D employees primarily deployed in ongoing new product development. Employee growth in the USA reflects the Company's increased focus on the North American market. An increase in administrative employees supports the Helix transformation.

Management and control

Software AG's Management Board consists of the Chief Executive Officer (CEO) Sanjay Brahmawar, the Chief Financial Officer (CFO) Dr. Matthias Heiden (since July 1, 2020; until March 31, 2020: Arnd Zinnhardt), the Chief Human Resources Officer (CHRO) Dr. Elke Frank, the Chief Revenue Officer (CRO) John Schweitzer (until January 13, 2021) and the Chief Product Officer (CPO) Dr. Stefan Sigg. All Board members as well as the personnel changes in fiscal year 2020 are presented in the Notes to the Consolidated Financial Statements in [Note \[38\]](#). The Management Board is appointed, supervised and advised by the Supervisory Board.

Corporate Governance Structure



The Supervisory Board of Software AG is composed in accordance with the stipulations of the One-Third Participation Act. It was comprised of six members in fiscal 2020: four shareholder representatives and two representatives of the employees of Software AG. For more information about the members of the Supervisory Board, please refer to [Note \[38\]](#) in the Notes to the Consolidated Financial Statements.

Business Activities

Business model

Fundamental to the long-term success of Software AG's business model is delivering continuous value to its customers. For more than fifty years, Software AG has focused on delivering products and services that provide customers with a competitive edge, through the latest innovative software developments that can be fully integrated with their existing IT architectures.

Simultaneously protecting past IT investments while providing customers with the tools to build state-of-the-art applications has ensured a level of customer value, and therefore loyalty, that enables long-term planning, continuous product innovation and dynamic and timely technology acquisitions.

Add to this a culture of complete technology "openness," a vendor-neutral approach to integrating the best software solutions available anywhere. Software AG preserves customer choice, the ability to use whatever applications they need and the agility to react to rapidly changing markets and economic conditions.

As a global technology provider, Software AG has a special connection to customer and employee concerns. Responsible conduct and integrity are of key social importance in a highly competitive market environment, where the use of Software AG's innovative technologies can also help its customers conserve resources.

As a result, Software AG can bring its more than 50 years of technology development, customer relationship experience, complete vendor neutrality and industrial domain knowledge to guide enterprises through today's transformation to a digital economy through the Internet of Things (IoT) or Industry 4.0.

Finally, Software AG offers a flexible approach to licensing: subscriptions, term-limited, perpetual and annual maintenance. And, in line with Software AG's transformation, the Company is focused on shifting its licensing model towards subscriptions.

While remaining focused on providing continuous business value, Software AG's business model has adapted to changing market conditions for half a century and is optimal for addressing the challenges of the global digital transformation.

For more information on Software AG's strategy, please refer to the [Strategy and Goals](#) section.

Business lines

Software AG operates three complementary business lines to address differing customer requirements and business objectives:

- Digital Business Platform (DBP, incl. Cloud & IoT)
- Adabas & Natural (A&N)
- Professional Services

The first two business lines, A&N and the DBP (incl. Cloud & IoT), represent Software AG's wide product portfolio and are the primary revenue drivers through license and maintenance fees. License fees for Software AG's product portfolio can be perpetual, term-limited or subscription. Maintenance agreements apply to perpetual licenses and give customers access to support services and product enhancement updates.

The third business line, Professional Services, provides software development services and expertise in business organization. This accelerates customer deployment of Software AG's products and significantly shortens the time to providing real business value.

Together, the business lines allow enterprises to successfully master the digital transformation from any starting point and in whatever direction they choose to go.

A summary of the respective business lines' performance can be found in [Segment Reporting](#) in the Group's Financial Performance in the Economic Report.

Digital Business Platform

The DBP (incl. Cloud & IoT) business line groups multiple technologies that support key aspects of the digital transformation and new digital business models. To create greater accountability and sharpen the focus on how Software AG develops and markets its product portfolio, the internal setup of the DBP (incl. Cloud & IoT) business line was internally reorganized in 2019 into three product lines: Business Transformation; API, Integration & Microservices; and IoT & Analytics.

Due to the openness and ease-of-use of these technologies, Cumulocity, webMethods and webMethods.io are extensively used as white-label software in original equipment manufacturer (OEM) contracts globally.

Adabas & Natural

Adabas (database) and Natural (a fourth-generation software development language, 4GL) were Software AG's first product releases (1971 and 1979 respectively). They power financial institutions globally (more than 30 countries) and national and state governments around the world (over half the 50 states in the USA use A&N). Adabas & Natural applications run airlines, railways, freight services, manage warehouse and logistics networks. They are in use anywhere that mission-critical, high-transaction, industrial-strength applications with extremely high levels of performance, availability and security are needed.

In 2016, Software AG launched its A&N 2050+ program, a roadmap of technology updates, support services and maintenance initiatives that will ensure that customers can rely on their installations beyond the next 30 years.

The first major impact of A&N 2050+ is the roadmap to full integration with the Internet of Things including:

- Hosting A&N apps in the cloud
- Availability of A&N applications as standard APIs
- Mainframe cost optimization through offloading workload to IBM's low-cost specialty engine z Systems® Integrated Information Processors (zIIP) with Adabas & Natural for zIIP

Professional Services

Crucial to rapid and successful implementation in digital transformation are Software AG's Professional Services that support customers in all stages of the planning, design, development and deployment of digital applications. This applies not just to technology but also to the new business models opened up by ongoing digitalization.

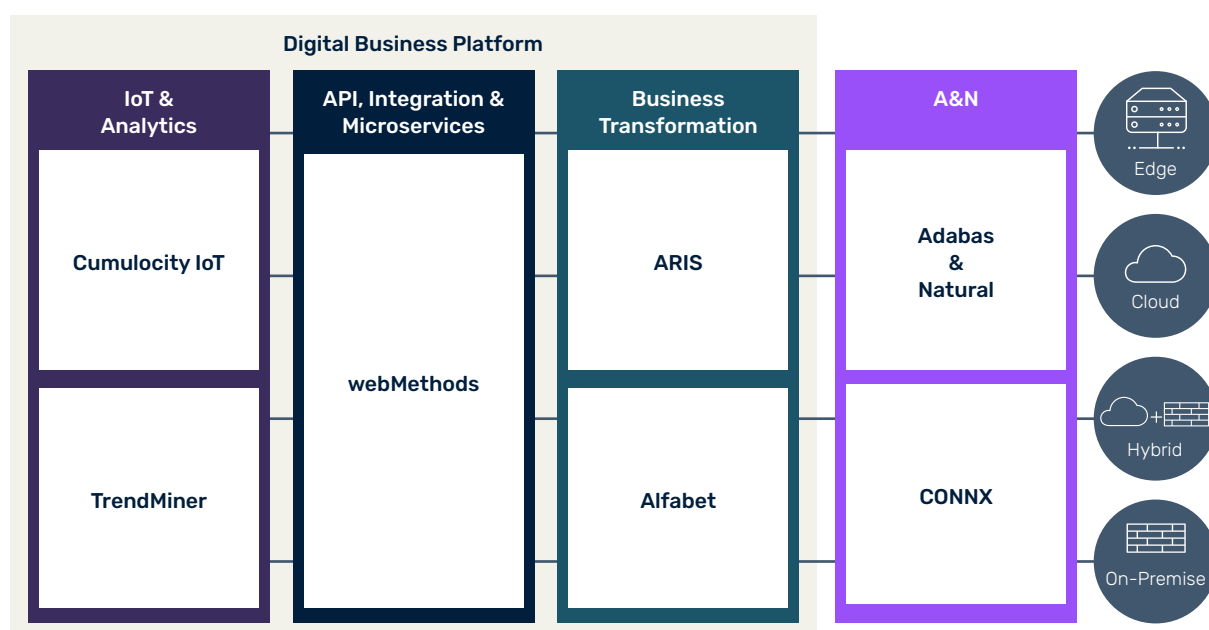
Professional Services support both the DBP and A&N business lines in ensuring that customers get the maximum benefit from their software investments as quickly as possible.

Product and brand portfolio

The Alfabet, ARIS, Cumulocity IoT, TrendMiner, and webMethods product families form the DBP business line, and all of the portfolio's cloud contracts are reported separately in the Cloud & IoT subsegment. Adabas and Natural and CONNX form the product offering of the A&N business line. The entire product portfolio is designed to comprehensively support customers as they transform to a digital enterprise. Using a clearly structured brand architecture, the individual brands have been separated into four market segments, which represent the core themes of digital enterprise transformation:

- **IoT & Analytics:** Cumulocity IoT empowers Software AG's customers to integrate digital equipment and sensors through an IoT device management and application enablement platform in the IoT and makes data further processable and usable with dashboards and control systems. Moreover, this platform includes streaming analytics for big data analytics in real time and solutions for predictive analytics, artificial intelligence (AI) and machine learning. TrendMiner offers an intuitive Web-based analytics platform for flexible visualization of industrial processes and process data.
- **API, Integration & Microservices:** The product families in the webMethods brand integrate systems, applications and processes via application programming interfaces (APIs) or direct connections and orchestrate them in the form of microservices. These microservices enable users to introduce independent tasks in processes and infrastructures with flexibility, to manage them and replace them if necessary. Integration solutions for large business-to-business (B2B) infrastructures and data transfers (managed file transfers) round out the webMethods portfolio.

Product Portfolio



- **Business Transformation** For over 25 years, the ARIS brand has been known documenting and optimizing business processes—from strategy and analytics to design and controlling. In addition, Alfabet enables the close integration of business processes at all levels of the IT system landscape, from planning, budgeting and projecting to implementation and monitoring.
- **A&N:** Software AG's products for transaction processing are based on Adabas & Natural. With Adabas & Natural, digital enterprises can harness new ways to use their core systems and enable the fast development, modernization and reliable operation of business-critical applications. A&N functions for high-performance data processing allow companies to easily integrate their existing systems into new environments. Furthermore, the CONNX products provide data integration along with data virtualization and replication of more than 150 databases and platforms. With CONNX, businesses can access their data wherever it is stored.

Software AG's portfolio is available for its customers in the cloud, on-premise, as a hybrid and an edge solution. In addition, the Company operates an open cloud platform—SoftwareAG.Cloud—that businesses can use to create, test, implement and manage apps ranging from very simple to highly complex cloud-capable enterprise and IoT applications.

Industry recognition

Software AG considers the recognition of independent research firms as confirmation of its strategy and quality of products and services. For years, the Company portfolio has received leading positions in market analyst evaluations. Software AG was recognized in 2020 as follows:

A Leader

The following **Gartner**¹ research recognized Software AG as a Leader:

- "Magic Quadrant for Full Life Cycle API Management"²
- "Magic Quadrant for Enterprise Architecture Tools"³

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

- "The Forrester Wave™: API Management Solutions, Q3 2020"⁴

Zinnov Zones Hyper Intelligent Automation report recognized Software AG's ARIS Robotic Process Automation solution as a Leader:

- "Zinnov Zones Hyper Intelligent Automation"⁵

The **Everest Group's** PEAK Matrix® evaluation of Process Mining technology vendors recognized Software AG's ARIS Process Mining solution as a Leader:

- "Everest Group PEAK Matrix® for process mining technology Vendors 2020"⁶

¹ Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

² Gartner "Magic Quadrant for Full Life Cycle API Management," Paolo Malinverno, Mark O'Neill, Kimihiko Iijima, John Santoro, Shameen Pillai, Akash Jain, September 22, 2020

³ Gartner "Magic Quadrant for Enterprise Architecture Tools," Derek Miers and Akshay Jhawar, December 14, 2020

⁴ The Forrester Wave™: API Management Solutions, Q3 2020, Forrester Research, Inc., 4. August 2020

⁵ Zinnov Zones: 2020 Hyper Intelligent Automation, 2020

⁶ Everest Group: PEAK Matrix® for Process Mining Technology Vendors, March 2020

IoT testing and benchmarking firm **MachNation** recognized Cumulocity IoT from Software AG as a Leader in the following international rankings:

- MachNation's "2020 IoT Application Enablement Scorecard"⁷
- MachNation's "2020 IoT Edge Scorecard"⁸
- MachNation's "2020 IoT Device Management Scorecard"⁹

A Visionary

Gartner named Software AG a Visionary in the following research:

- "Magic Quadrant for Industrial IoT Platforms"¹⁰

Market positioning

Sales markets

Software AG has global market coverage. Its sales markets are divided into the following five regions:

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

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

In addition to the geographic perspective, target markets can also be separated by industry. Thanks to a continuously expanding, extremely loyal customer base including many leading companies, Software AG is exceedingly well established in the public, financial and IT service sectors (including outsourcing). The manufacturing, services, transport and logistics and telecommunication and media industries are also key market segments for Software AG. For more information on Product Revenue by Region in 2020, please refer to the Group's Financial Performance in the Economic Report.

Competitive situation

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

Numerous **analysts** confirm that Software AG has established itself as one of the world's leading providers of digital transformation capabilities under these dynamic conditions. The combination of its software and service portfolio for digitalization, automation and integration of business processes as well as for machines and devices is unique in the global market at this level of specialization. Software AG can provide its customers with comprehensive support for their companywide digital transformation like no other company—from planning and integration to evaluation, analysis and automated decision-making.

⁷ MachNation: 2020 IoT Application Enablement ScoreCard, February 2020

⁸ MachNation: 2020 IoT Edge ScoreCard, February 2020

⁹ MachNation: 2020 IoT Device Management ScoreCard, July 2020

¹⁰ Gartner "Magic Quadrant Industrial IoT Platforms," Eric Goodness, Alfonso Velosa, Ted Friedman, Emil Berthelsen, Scot Kim, Peter Havart-Simkin, Katell Thielemann, October 19, 2020

The Company clearly sets itself apart from the competition through its independent position, giving it an excellent competitive position in a tough software market. Its key **differentiators** can be summarized as follows:

Software AG's Unique Selling Points

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

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

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

Industry environment and influencing factors

Software AG's growth is influenced by a variety of factors. Key external influencing variables include the global economy, particularly in the major markets of Europe and North America, as well as developments in the international IT market. How these factors impacted Software AG's business during the 2020 reporting year is presented in the [Business Summary](#) section of the Economic Report.

In addition, macroeconomic uncertainty and exchange rate fluctuations affect Software AG's global business, as they do all players in the free economy. For more information on the impact of exchange rate fluctuations on the Group, please refer to [Financial Operating Risks](#) in the Opportunity and Risk Report.

Uncertainties resulting from external shock events, like the global coronavirus pandemic, can have both positive as well as negative effects on investment decisions in the area of digitalization. In 2020, the effects varied widely between industrial sectors and industries.

Sales

Overall, Software AG is a trusted advisor for integration, digital transformation and Internet of Things (IoT), creating real customer value and long-term success with more than 2,500 employees in Sales and Professional Services. In 2019, the Company laid the foundation for a truly customer-centric, value-driven sales approach and a global partner network, and it continued pursuing this strategy in fiscal 2020.

Past attempts to modernize the go-to-market were ambitious, but did not have the expected impact. With Software AG's new strategic clarity and focus as well as the continuation of restructuring introduced as part of the Helix program in 2019, it established an initial foundation for a sustainable and fundamental modernization and reshaping of its go-to-market model based on customer success. Among other things, the updated go-to-market model with its new sales approach (Engage²) and the new opportunity management system enabled more targeted management of sales results in 2020.

Furthermore, the new customer success management function was expanded to support the business model's transition to subscriptions. Many of these updates were rolled out at Software AG's Sales Kick-Off in January 2020.

Sales and marketing activities also encompass numerous tradeshows and customer events. Software AG takes advantage of these opportunities to present its innovative product portfolio and engage with customers, prospects, partners and industry experts. Due to the global COVID-19 pandemic and the government measures implemented to contain its spread, many of these industry conferences were held as virtual events during the reporting year.

- The annual **International User Groups** conference held on June 15–19 offered users of Software AG products a framework for demos, panel discussions, presentations and networking. The virtual event enabled more people to attend than any other in-person conference in the past.
- Software AG was represented with a prominent keynote at the **Hannover Messe Digital Days** on July 14–15. Furthermore, Software AG experts gave presentations in live chats on Cumulocity IoT, Cumulocity Edge as well as the Company's products for hybrid integration.
- On August 11–13, companies that play a leading role in the adoption of IoT introduced themselves at the **IoT World Virtual** in Santa Clara, USA. The key public topics were: How to successfully get started in this new era and how can companies become more resilient with the help of software? Software AG was represented virtually with four exclusive presentations as (main) sponsor.
- With a discussion on the topic "Leading beyond the digital paradox: Insights from the German Mittelstand," Software AG opened a **discussion series** on November 2 that focuses on the leaders of German small and midsize enterprises (SMEs). Sanjay Brahmawar and Adel Al-Saleh, CEO of T-Systems International GmbH, led the conversation.
- Software AG's first **customer event** since Innovation World, which targets the American market, took place on November 3–5. The name of the event, **conXion**, draws on the "Truly connected world" brand narrative and the Company's positioning. The three-day virtual event (recorded, live simulation) was available on-demand online for four weeks after the event and generated valuable data on user behavior.
- From November 30 through December 18, Amazon Web Services invited the international cloud computing community to **AWS re:Invent**. The online event focused on the tech-interested public with presentations, product announcements and a wide variety of sessions. Software AG took part in the three-week event with its own page with product videos, use cases and demos.
- Die **Gulf Information Technology Exhibition (GITEX)** was held in Dubai from December 6–10 as an in-person event and was attended by 1,200 companies, government agencies and startups from more than 60 countries. Software AG had its own stand (105 m²) where visitors had the opportunity to network, have discussions and set new deals in motion in a secure environment.
- Software AG's **IoT Digital Summit** on December 15 had more than 300 participants and delivered a successful launch for the "Re-connect your business" campaign, which will continue in 2021 in the German-speaking world with more digital summits on different topics. The two-hour virtual event all about IoT trends and strategies gave leaders and decision-makers in the IT and business communities answers for typical issues based on practical insights into successful projects at real companies.

Customers

Successfully serving customers as a trusted partner with innovative technologies to enable transformation to an agile digital enterprise is Software AG's primary objective. The Company therefore leverages the concept of co-innovation: collaborating with users to continue developing solutions. Multiple **analyst** awards confirmed the innovative power of Software AG's product portfolio in 2020.

User groups serve as one of the most valuable instruments for strengthening customer relationships. These groups bring the users of Software AG's primary product lines together on a regular basis to share

experiences at regional level. Customers discuss how products can evolve with representatives of Software AG. The international user groups comprise almost 2,500 members from more than 1,150 companies and 74 countries. Due to the global COVID-19 pandemic and the resulting restrictions, the annual meeting of the international user groups was held as a virtual event on June 15–19 and attended by 1,200 external participants from 68 countries.

Software AG's relevance as a global player of digital transformation is reflected in its ever-expanding international customer base and long-term customer relationships. The customer base continued to grow in fiscal 2020. Software AG was able to win 239 new

Software AG's Target Markets



logos during the reporting period (2019: 306). In light of the global COVID-19 pandemic and the associated restrictions, the number of new customers reflected the adjusted expectations. Since growing the customer base is key to achieving its growth objectives, the Company will concentrate on winning new logos in all regional markets in fiscal 2021.

02 SOUTH AMERICA



03 MIDDLE EAST



04 AFRICA



05 EUROPE



06 ASIA-PACIFIC



Partners

Expanding the partner network

Software AG continued to successfully expand its sales collaboration with many partners all over the world in 2020 so that partner bookings for DBP Cloud & IoT rose by 28 percent over the previous year. At the same time, this means that a partner was involved in more than one-third of all Software AG deals (39 percent).

The growth in the DACH region, where partner revenue nearly doubled, is especially gratifying. Targeted collaboration with partners in the Internet of Things sector helped make this success happen. In the USA, partner revenues—excluding government agencies—nearly tripled, in part because the partnership agreement with TechData as a distributor first began to bear fruit in early 2020.

Another significant increase (approximately 25 percent) in partner bookings in EMEA excluding the DACH region, and the incremental partner bookings in APJ (approximately 70 percent) rounded out 2020 as a successful year for partnerships.

A further reason for the positive revenue development with partners is the increased collaboration with hyperscalers like Microsoft, Adobe, Amazon Web Services (AWS) and Dell. Here, too, partner bookings in the double-digit millions were generated in the first year of collaboration alone. This was driven primarily by the partnership with Microsoft, which yielded 16 closed deals and many new customers for Software AG.

In addition to the collaboration with hyperscalers, Software AG selectively targeted partnerships with global system integrators including Tata Consulting Services, Wipro, Cognizant, Accenture and Capgemini. Establishing a special field-enablement team allowed global system integrators to get support early on in the customer acquisition process. This led to double-digit growth in partner bookings (co-sell and resell) generated together with GSI (global system integrators).

Creating a cloud reseller program was another focal point over the last year, and as part of the Helix transformation, it aimed to make selling Software AG's SaaS products easier for partners. The program was launched in May 2020, and partner bookings more than doubled (169 percent) year-on-year within the first six months of the program. During the same period, an SaaS pipeline in the mid double-digit millions has been filled for the year 2021, the bulk of which (59 percent) represents partner-generated incremental business for Software AG.

The partner training program was supplemented with numerous self-learning elements that focused primarily on sales topics for the individual Software AG product lines during the reporting year. These include new standard product demos that are available through Software AG's partner portal.

Strategy and Goals

Vision and business strategy

Software AG's purpose is to connect technology and people for a smarter tomorrow. With this in mind, Software AG set its long-term vision to unlock the power of data to shape a better future. Software AG does this by focusing on a mission to empower customers to turn data into value as the leading hybrid-integration and IoT platform that reimagines the integration of cloud, applications, devices and data.

At the start of 2019, Software AG announced multi-year transformation, Helix, its strategy to target sustainable profitable growth by 2023. Throughout 2020, Software AG continued to focus on the three strategic pillars to build momentum in the execution of Helix and drive results:

Focus

- **The right products:** After reconfiguring the Digital Business Platform (DBP) in 2019, cloud versions of Software AG's DPB core products were launched in 2020, providing Platform as a Service (PaaS) and Software as a Service (SaaS) offerings. Furthermore, the product portfolio was strengthened by the launch of new solutions like webMethods AppMesh and ARIS Process Mining. Products from all three DBP product lines have been recognized by independent industry analyst firms in their respective markets.

- **The right markets & resources:** Software AG's concentration of transformation efforts in high-growth markets, especially North America, showed consistent results throughout 2020. Market segmentation into three tiers—corporate (SMEs), enterprise and strategic customers—was successfully implemented and complemented with a specialist sales model. Furthermore, the Company disposed of its Spanish Professional Services business to advance its transformation from a general technology consulting business to a focused professional services business that is an enabler for product growth.

Team

- **People and culture:** Software AG is harnessing its most valuable asset, its people, to deliver on its transformation. As such, the Company placed continuous focus on developing and cultivating talented employees from within as well as attracting new talent, resulting in more than 650 employees joining Software AG despite the COVID-19 pandemic. This also included strengthening the Management Board, appointing Dr. Matthias Heiden as CFO, and the Executive Leadership Team (ELT) with appointments in Alliance & Channels, Corporate Communications and IT functions. In addition, Software AG fostered its cultural shift through initiatives such as ELT "go to gemba," which provides field insights and better understanding of the employees' day-to-day work, through the introduction of management by objectives (MBO) for strategic, operational and people aspects as well as enrolling 200 managers in the Company's leadership learning journey program.

Software AG's Transformation at a Glance



- **Scaling through partners:** In 2020, Software AG also extended its partner ecosystem to scale its go-to-market and significantly grow partner revenue, for example, through new relationships with Tech Mahindra, ifm electronic and Swift Labs. Software AG's hyperscaler partnerships with Microsoft, Dell, Adobe and AWS collectively contributed double-digit millions to digital business bookings, with the majority of the contribution evenly split across the IoT and core Integration product lines. The Microsoft partnership alone led to 16 new deals in 2020.

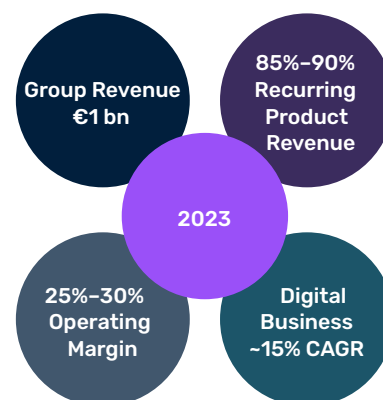
Execution

- **Shift to subscription:** To meet the changing needs of its customers, Software AG continued to transform its business model towards subscription-based offerings. To support the evolution of its business towards subscription-based offers, the Company reshaped the bundling of its products according to the new business model thereby providing customers with more flexibility and less complexity in dealing with Software AG. Furthermore, transaction-based pricing was introduced and received well by customers. Overall, Software AG saw an acceleration in subscription business as more customers selected or migrated to the flexibility of this model. Subscriptions and SaaS bookings accounted for 81 percent of total DBP bookings in 2020.
- **Simpler, sharper go-to-market:** Complementary to focusing on market segmentation and specialization, Software AG energized its marketing strategy to support pipeline expansion. To distinguish itself from competition, the Company refreshed its branding along with launching a new website in English and German. By introducing free trials early in interactions with customers, focus is now on customer experience and lead generation. This modernization was recognized as a clean, easy-to-navigate improvement to the Company's online presence by both analysts and customers.
- **Improved operating model and accountability:** Originally introduced in 2019, Software AG's customer success organization was reinforced in 2020 through the introduction of new monitoring tools that help streamline engagement efforts and ensure successful adoption of Software AG's technology.

Strategic objectives

As part of its transformation, Software AG has introduced a number of new key performance indicators (KPIs) that provide medium-term goals for the Company's external and internal stakeholders in relation to the progress and impact of the transformation. These external KPIs were shared originally at Software AG's Capital Markets Day on February 5, 2020. While Software AG has already made good progress on the execution of its Helix strategy, the strategic objectives remain unchanged and are outlined below.

Accelerated growth, higher quality and higher visibility of revenues, good margin and cash flow



In addition to these external KPIs, Software AG introduced an internal transformation scorecard which combines the above with a set of more qualitative measurements to help track the transformation's progress.

Financial objectives

Based on its business model, Software AG is aiming to reach €1 billion in revenue by 2023 and anticipates a high operating margin (EBITA, non-IFRS) between 25 and 30 percent. Continued high margins on average are expected with stable revenue growth for the A&N segment. In the Digital Business segment, the Company is targeting an average of 15 percent annual revenue growth over the medium term, which will be driven by continued acceleration in marketing activities for the Integration and Business Transformation areas, and especially in the IoT segment, where dynamic growth is anticipated. Over the medium-term, the Digital Business margin will be supported in particular by steady growth in recurring product revenue from subscriptions, Software as a Service (SaaS) and maintenance, which should increase to 85 to 90 percent of total revenue. Furthermore, productivity improvements in sales and a growing partner network will further support the margin. Revenue growth in the low single digits with a stable to slightly increasing margin is expected in the Professional Services segment over the medium term.

Non-financial objectives

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

Strategic direction of the business lines

Digital Business Platform (DBP)

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

Internet of Things (IoT)

IoT is the ultimate game-changer. Software AG's IoT solution (Cumulocity IoT) gives customers the freedom to integrate any "thing" in any way and anywhere. As a leader in integration and IoT, Software AG makes it easy to connect products in a matter of minutes and accelerate time to value. There's no limit to what customers can connect to optimize operations to the edge, improve their customer experience or launch new business models. Cumulocity IoT is ranked as a leader by industry analysts and is open to white labeling so customers and partners can develop their own IoT product offering.

Adabas & Natural (A&N)

The A&N business line provides a solid, highly profitable base for enabling flexible, strategic investments in innovative emerging fields. Moreover, Software AG can rely on an established customer base that offers promising sales potential for DBP products. The **Adabas & Natural 2050+** agenda provides the strategic roadmap for the A&N segment, which entails continuing to develop and support the A&N product portfolio through the year 2050 and beyond. The underlying reason for this Company decision was the outcome of a survey conducted in 2016, which showed that 98 percent of A&N customers employ the high-performance platform to render strategic, mission-critical enterprise applications. By pursuing this long-term agenda, the Company also aims to support its customers through the generational shift that is facing the entire software industry and enable them to secure and expand the expertise built up during decades of development work on enterprise applications. The goal is to provide customers with a single, integrated platform for digitalization that they can use to develop the next generation of future-proof business applications.

Professional Services

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

Equity interests

Mergers & acquisitions (M&A) strategy

Corporate acquisitions and participating interests are a strategic instrument at Software AG for opening up new innovative markets while growing market shares. Throughout more than 50 years of history, Software AG has succeeded in reinventing itself and transforming time and again—a key prerequisite for staying successful in today's IT world with its changes at breakneck speed and shrinking innovation cycles. With its technology acquisitions in recent years, Software AG has picked up new impetus and expertise and integrated it. The Company acquired 21 companies between

2007 in 2019 to grow and develop its product portfolio. The M&A strategy, as defined in the Helix strategic restructuring, was continued in fiscal 2020. Targeted takeovers and acquisitions are an additional focus, and should supplement and accelerate organic growth, especially in markets with substantial growth potential. No acquisitions were made in fiscal year 2020, but Software AG sold its Professional Services business in Spain as part of outsourcing to a local partner. This transaction enabled Software AG to concentrate its portfolio more heavily on developing and marketing software products. The sale of the Spanish Professional Services business was concluded on June 30, 2020.

Software AG's M&A department is based in Darmstadt, Germany at corporate headquarters and is in constant contact with the Management Board. The M&A department operates in an international, heavily networked ecosystem consisting of numerous investment banks, M&A boutiques, financial investors and partner companies as well as leading IT companies and startups. Furthermore, the Company maintains regular contact with startups in Silicon Valley along with global IT industry giants. Software AG utilizes this ecosystem and constant market and competitor analyses to recognize future IT trends early on, to test, harness and develop them. Whether in Europe, Silicon Valley or other promising locations, Software AG will continue to keep a close eye on the technology development market in order to enhance its product portfolio and market penetration through targeted acquisitions and expand its global presence.

Internal Corporate Control System

Performance indicators and monitoring

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

For target values that were not reached or just barely reached during the year, Software AG will readjust in the following period. To do so, the Company has established a standard process between the local Commercial teams and Controlling. The foundation and starting point of this process is a regular analysis of bookings forecasts and the resulting revenues for the respective periods in the customer relationship management (CRM) system. These are linked with the internal management information system (MIS) and enable a well-founded analysis of the underlying profit and loss statement on a regular basis. Continuous updates to the predicted profit and loss results are discussed in regularly held coordination and synchronization meetings at the Management Board level, which are preceded by intensive discussions between the Finance and Sales departments.

Targets Met in 2020 vs. Forecast

as %	Bottom range	Top range	2020 actual
Digital Business Platform (excl. Cloud & IoT) bookings ^{1,2}	+3	+10	+13
DBP Cloud & IoT bookings ^{1,3}	+30	+50	+53
Adabas & Natural bookings ^{1,4}	+5	+15	+33
Operating profit margin (non-IFRS) ⁵	20.0	22.0	21.2

¹ At constant currency

² Original forecast of +10% to +15% was reduced to 0% to +10% in April 2020 and changed to +3% to +10% in November 2020.

³ Original forecast of +40% to +60% was reduced to +20% to +40% in April 2020 and changed to +30% to +50% in November 2020.

⁴ Original forecast of -3% to +3% was increased to +5% to +15% in November 2020.

⁵ Before adjusting for non-operating factors (see non-IFRS results)

Group financial indicators

DBP (excl. Cloud & IoT) revenue at constant currency, DBP Cloud & IoT revenue, A&N product revenue as well as operating profit margin (non-IFRS) are key strategic indicators for managing the Company. With the rollout of the Helix strategy and the shift from perpetual licenses to subscriptions, the bookings metric assumed a key role in the product business. In addition, the operating profit margin (non-IFRS) is the focus of internal controlling. These performance indicators are calculated as follows:

Operating margin (EBITA, non-IFRS)

Earnings before interest and taxes (EBIT)

- + Acquisition-related amortization of intangible assets
- + Acquisition-related reductions in product revenue due to purchase price allocations
- +/- Other acquisition-related effects on earnings
- +/- Income/expense resulting from share price-based remuneration
- + Restructuring/severance/litigation/costs for malware attack

= EBITA (non-IFRS)

- ÷ By Group revenue adjusted for acquisition-related product revenue decreases.

= Operating margin (EBITA, non-IFRS)

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

Software AG also reports operating earnings per share (non-IFRS) to account for tax-related factors and net financial income/expense. They are calculated as follows:

Operating earnings per share (non-IFRS)

Earnings before income taxes

- + Other taxes
- +/- Net financial income/expense

Earnings before interest and taxes (EBIT)

- + Acquisition-related amortization of intangible assets
- + Acquisition-related reductions in product revenue due to purchase price allocations
- +/- Other acquisition-related effects on earnings
- +/- Income/expense resulting from share price-based remuneration
- + Restructuring/severance/litigation/costs for malware attack

EBITA (non-IFRS)

- +/- Net financial income/expense
- Other taxes

Earnings before income taxes

- Income tax based on Group's income tax rates in accordance with IFRS

Net income (non-IFRS)

- ÷ By the average number of shares outstanding

= Operating earnings per share (non-IFRS)

Segment performance indicators

The key performance indicators for the product business are those reflecting sales efficiency. Efficiency is portrayed through the **cost of sales ratio**, which reflects the sales and marketing expenses of a product in relation to the associated product revenue. Because the share of recurring revenue is on the rise, monitoring sales performance solely on the basis of revenue is no longer sufficient. For this reason, sales success is also considered in relation to the bookings (normalized

new orders) metric, because these are normalized independent of the recognized revenue from the different types of licensing agreements. The factors influencing optimization of the cost of sales ratio are determined using additional efficiency indicators such as revenue performance or bookings per Sales employee and average deal size trends.

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

Monitoring types of revenue

Software AG reports the revenue types: licenses, maintenance, Software as a Service (SaaS/usage-based) and services, whereby the **license revenue** represents the key growth driver for maintenance and service revenue. Due to the focus on term-limited, rental and usage-based license models (subscription/SaaS), the percentage of this revenue type is growing within total revenue.

Bookings

The bookings metric captures the sales performance in a reporting period based on new orders. To make the new orders comparable across the different license models, they are normalized for three years and calculated as follows:

Perpetual licenses	Total contract value
Maintenance services on new perpetual licenses	3-year maintenance service contracts
Subscription contracts ¹	Contract volumes divided by the contractual period multiplied by 3 years
Software as a Service (SaaS) ¹	Contract volumes divided by the contractual period multiplied by 3 years
Usage-based license models incl. maintenance	The contract value corresponds to the booked revenue based on the measured usage in the respective quarter

¹ Contracts with a term of less than 90 days are not counted as bookings. Furthermore, contracts with a term of less than 360 days are included in the calculation of bookings using their contract volume.

Annual recurring revenue (ARR)

This metric shows the annualized contract value¹ of active contracts with recurring revenue at the end of the reporting period. Thus, ARR is an indicator of expected annual recurring cash flows with continuation of the active contracts of the following contract types:

- Limited licenses/subscription licenses
- Maintenance from limited and unlimited licenses
- SaaS licenses
- Usage-based licenses²

Software AG also employs a multidimensional matrix structure to continuously monitor **changes in EBITA** for every profit and cost center. The matrix is broken down further according to business lines and revenue types and, within the business, by region. Furthermore, Software AG constantly observes the operating income of its service business with respect to specific projects, from the time a quote is prepared through to project conclusion. One of the most important goals is the constant improvement of **sales efficiency**. Software AG achieves this through its customer-centric go-to-market model. A cross-regional sales and service structure and steady expansion of the partner network offer additional potential for market coverage and growth.

Cost and cash flow management

All cost items in the Group are subject to stringent budget control and are assigned to clearly defined controlling areas depending upon their business segment (R&D, Sales, Management). On a monthly basis, the individual profit and cost centers are reviewed to determine whether budgets were adhered to, how forecast costs evolved, and how cost growth compares to revenue growth. Software AG uses a **dynamic budget model**, ensuring that key components of the cost budget remain flexible in relation to sales growth. The cost budget is adjusted as needed throughout the year in order to achieve or surpass profit targets. During the malware attack in October 2020, budget restrictions were relaxed in the area of IT costs to be able to respond adequately and reduce the damage caused by the attack.

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

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

Non-financial performance indicators

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

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

¹ Value of all active contracts at period end (without one-time effects) divided by the contract length in months multiplied by 12

² Realized monthly revenue of usage-based license agreements at period end multiplied by 12

Company-specific early warning indicators

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

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

In fiscal 2020, the bookings metric was added as an indicator for future performance. It represents the normalized bookings for all licensing models (perpetual, subscription and Software as a Service) in the product business. The different financial reporting standards per IFRS guidelines for those licensing models are not taken into consideration in this metric and therefore enable transparent monitoring of the actual sales performance within a period.

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

Another department-specific early warning indicator is the **maintenance agreement termination rate**. Due to contractually defined cancellation periods, terminations received during the course of the year combined with anticipated licensing revenues allow the Company to draw conclusions about maintenance revenue growth for the subsequent reporting periods.

Integrated management system

The integrated management system implemented in 2016 is a supplemental control system that currently includes the areas of **Quality Management, Business Continuity Management, Information Security Management (cloud), and Data Protection Management**. It was initiated to provide an adequate answer to the growing compliance requirements on the customer side.

By defining internal quality goals and continuously monitoring compliance with them through management reviews and monitoring key quality indicators, Software AG is creating a corporate culture that is committed to maintaining high quality standards. Its successful **certification to ISO 9001:2015** again in 2020 is evidence of this commitment.

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

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

Research and Development

Strategic focus

Software AG's primary mission is to enable companies to turn their data into value with its products and services.

The Company's innovative power and operational excellence continue to be the cornerstones of a tradition of successful research and development spanning over 50 years. Targeted technology acquisitions and the resulting innovations support that excellence.

Ongoing portfolio development, partnerships and co-innovation projects with customers as well as joint research projects with academia, research centers and startups ensure that Software AG is always able to address the practical needs of customers based on the latest trends in technology.

The goal of R&D activities is to continually develop the Company's product portfolio while considering customer requirements as well as business concerns. The IoT, data insights and analytics, machine learning mega trends are of particular focus.

Innovation and security expertise

Software AG believes in both organic and acquired innovation. Many Software AG products are visionary market leaders. As part of Software AG's **co-innovation strategy**, its R&D unit collaborates closely with customers and strategic partners including Siemens and Microsoft. Software AG contributes to various standards bodies and open-source projects, participates in various **research programs** and established a **Scientific Advisory Board** in 2017. Software AG also encourages and sponsors grassroot-level innovations from employees via various internal initiatives and events designed to foster innovation.

Innovative **technology acquisitions** are another key component for gaining expertise. For more information on Software AG's [Corporate Structure](#) and [M&A Strategy](#), please refer to Fundamental Aspects of the Group.

In addition, Software AG legally protects its knowledge and expertise with **patents**. Details on Software AG's patent practices are covered under [Legal Risks](#) in the Key Individual Risks and Opportunities section of the Opportunity and Risk Report.

Security

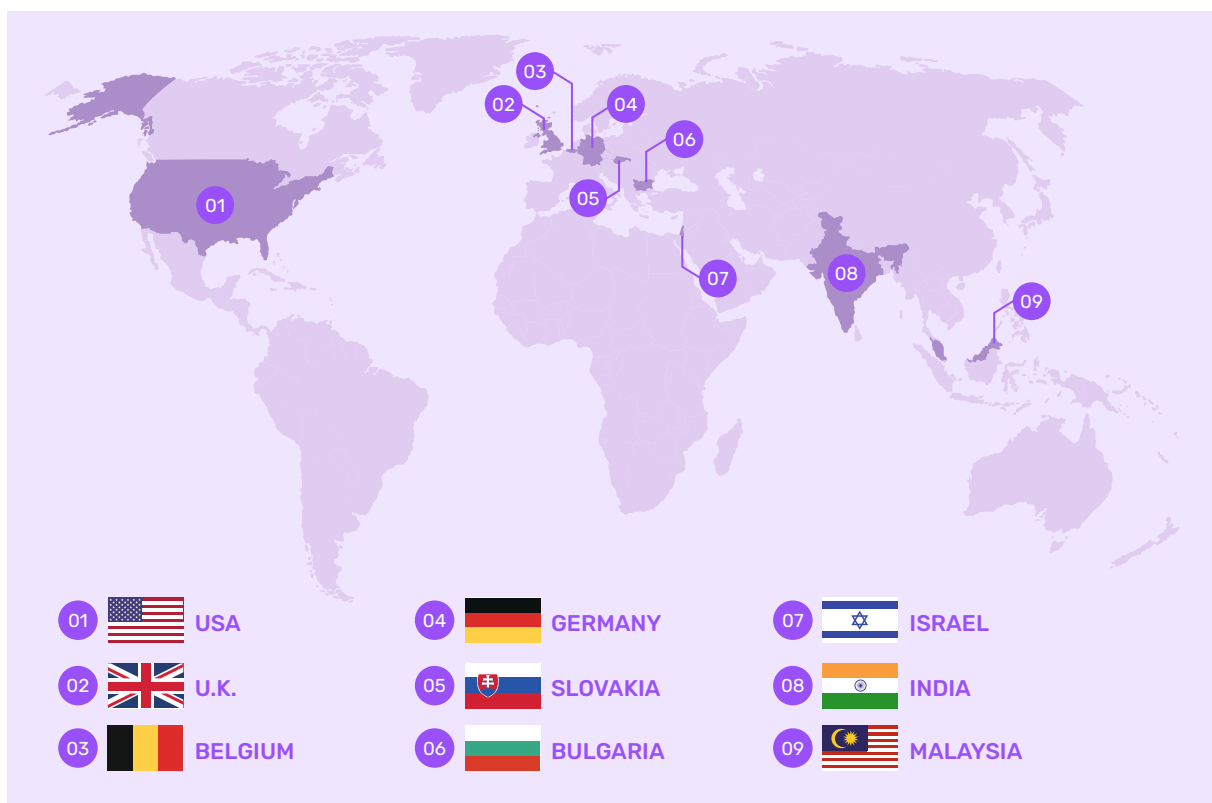
A security system based on OpenSamm ensures the security of software development. The Software Assurance Maturity Model (Samm) is an open framework that enables organizations to formulate and implement software security strategies tailored to their specific risks. Maintaining common security processes even during development is a guarantee for robust software security. Furthermore, the Company contracts with external security consultants to perform vulnerability analysis and research to improve security posture of the product/platform offerings. In Germany, R&D also collaborates with the Fraunhofer Institute for Secure Information Technology (SIT) on processes for secure software development.

Employees and locations

Software AG works constantly on developing its product portfolio and has always been a pioneer and innovation leader in the software industry thanks to its intensive R&D activities. In 2020, Software AG released comprehensive product updates and focused intently on IoT, a substantial growth area.

Considering the strategic importance of R&D for the Group, the number of employees in this area has been growing accordingly since 2014 and reached a record high of 1,494 employees in 2020 (2019: 1,419). Software AG has R&D centers in 17 countries, with the main locations displayed in the following graphic:

R&D Locations



Ongoing product portfolio development

In 2020, R&D worked primarily on customer-centric development, with a particular focus on a complementary product portfolio, integration of new partners' and acquired companies' technologies into the DBP and A&N product lines as well as implementing the co-innovation strategy. Key R&D topics in the DBP line were the digital enterprise (cloud, analytics, data integration and API management) and IoT (platform services, device management and data streaming and analytics). A&N focused primarily on rehosting and hardware optimization. Approaches such as scrum, design thinking and test automation are employed in the innovation process.

Partnerships and co-innovation

Ongoing development and expanding partnerships once again played a prominent role in 2020. The Company strengthened its partnership with Microsoft to build and deliver new and combined solutions for cloud infrastructure. In turn, the Microsoft ecosystem gives Software AG access to new markets. Within this partnership, Software AG's IoT solution, Cumulocity IoT, benefits from Microsoft's infrastructure Azure as well as Microsoft's data and analytical services like Azure Data Lake, Power BI and Azure Machine Learning. For Software AG's integration & API products (webMethods), this means that the Company can now safeguard and accelerate cloud migrations.

The strategic partnership formed with Adobe in 2019 aims to help companies transform their customer experience management by bringing together customer data from across multiple enterprise systems into a centralized and actionable real-time customer profile. The technical integration continued in 2020 and the resulting products were successfully launched on the market.

R&D expenses and internal strategy

R&D expenses rose by 9.6 percent in 2020 to €143.9 million (2019: €131.3 million). Accordingly, R&D expenses as a percentage of product revenue (licenses, maintenance and SaaS) increased from 18.7 percent in 2019 to 21.4 percent in the year under review. This rise is mainly due to higher R&D investments totaling €113.1 million (2019: €105.1 million) in the high-growth DBP line. To strengthen its position as an innovation leader, Software AG is committed to digital products and markets—as a long-term investment in the future. Software AG is dedicated to evaluating and developing technologies for the digital enterprise and thus to a sustainable and customer-centric investment strategy.

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

Due to these factors, the number of employees (full-time equivalents) working in R&D rose to 1,495 (2019: 1,419) as of December 31, 2020. This is a 5.4 percent increase year-on-year and reflects the Company's sustainable long-term strategy. R&D specialists were distributed across 19 countries, with the majority based in Germany, India, Bulgaria and the U.S. in the year under review.

Multi-Period Summary for R&D

in € millions	2020	+/- as %	2019	2018	2017	2016
R&D expenditures for A&N	30.9	18	26.2	23.8	23.8	22.5
R&D expenditures for DBP	113.1	8	105.1	100.6	96.9	89.9
Total	143.9	10	131.3	124.4	120.6	112.4
as % of product revenue	21.4	–	18.7	18.2	17.8	16.7
as % of total revenue	17.2	–	14.7	14.4	13.7	12.9
R&D headcount (FTE)	1,494	5	1,419	1,310	1,176	1,110

Collaboration with science and research

Software AG's Scientific Advisory Board once again contributed important ideas on technology trends in 2020. This strengthens the development of the product portfolio and makes a key contribution to maintaining Software AG's technology leadership, which, in turn, brings customers significant benefits. The task of the Scientific Advisory Board is to identify new technology trends early on, evaluate them and discuss their implications for the Company with Software AG's leadership. It serves in an advisory function and does not act as a corporate monitoring organization. Members of the board determine what its areas of focus will be at least once per year. In addition to Software AG executives, the board consists of top experts from the scientific and research communities who are appointed for a term of at least three years.

Software AG participated in collaborative research projects with universities, research institutes and other companies as part of many publicly funded research projects in fiscal 2020. Sharing knowledge with partners from science and research leads to early identification of market and technology trends, as well as important knowledge for product development. Software AG employs these unique insights to offer customers a broad range of best-in-class innovations. The following is a selection of current research projects:

- The **REIF** project aims to use artificial intelligence (AI) to significantly reduce food waste in Germany. Every year, nearly 18 million tons of food is wasted or thrown away in Germany, with up to 11 million tons of that amount lost during production. The cause: the enormous planning complexity within the value chain in combination with the natural limited shelf life of raw materials and intermediate products. The slightest friction along the value chain such as late deliveries or production delays can lead to food not being sold, if nothing else to ensure food safety. REIF wants to address the shortcomings by converting the food industry value chain into a learning, self-improving AI ecosystem. REIF is sponsored by the Federal Ministry for Economic Affairs and Energy.
- The **SAUBER** project is developing an information platform for sustainable urban and regional development. SAUBER will not only deliver an overview of current air pollution conditions, it will use artificial intelligence to provide air quality forecasts and simulations of future air quality to be able to predict dangerous situations in time. An estimated 40,000 people die every year in Germany due to particulate matter. If a critical threshold is going to be exceeded, heavy pollution can be reduced or even avoided through forward-looking planning or counter-measures. Pollutants such as sulfur dioxide and particulate matter can now be identified from orbit with unprecedented quality and precision. By using satellite data, SAUBER achieves areawide coverage far beyond the interval data collecting done by stationary weather stations. SAUBER is sponsored by the Federal Ministry of Transport and Digital Infrastructure.

- Industrial companies account for approximately 45 percent of Germany's energy consumption. The **SynErgie** project enables them to align their energy demand flexibly with the fluctuating renewable energy supply. Thanks to this dynamic power management, companies can increase their consumption when the availability rises and reduce it when availability declines. Not only does this save on electricity costs, it also stabilizes the heavily loaded power grid during the green energy transition. Moreover, companies can receive credits for the stabilization as a system service. During the second project phase, the initially developed concepts will undergo practical testing in the pilot region of Augsburg, among others. The market platform and company platform, both of which are based on Software AG technology, are central to the project. SynErgie is being funded by the Federal Ministry for Education and Research.
- The **SENATOR** project is developing a way to drive dynamic planning and operational optimization in urban logistics. Service recipients, transport, logistics and infrastructure in an urban area are integrated in an innovative new logistics model. It aims to improve the interaction and synergy between all stakeholders in urban logistics to promote sustainable services while at the same time securing a dialogue with city planners. SENATOR is sponsored by the European Commission as part of the Horizon 2020 program.

Due to the global COVID-19 pandemic, there were fewer in-person meetings for the projects and for other in-person events in 2020. However, sharing and exchanging information continued largely with the help of electronic media. These media quickly became established in everyday project work so that contacts and projects could be extensively pursued without in-person events.

Other R&D activities

Software AG is active in many German and European committees, associations and organizations. This involvement enables the Company to react quickly to new challenges, set standards and positively influence digital transformation and its impact on society. The Industry 4.0 Platform is an example of Software AG's involvement. This platform grapples with not only the technological aspects, but also the social and legal aspects, of Industry 4.0. Software AG is represented on the platform's steering committee, collaborates in several workgroups and provides the co-chair of the research advisory committee.

Network Memberships and Political Involvement (Selection)

Organization	Additional information
BDI—National Association of German Industry	bdi.eu
BDVA—Big Data Value Association	bdva.eu
Bitkom—Germany's Digital Association	bitkom.org
DKFI—German Research Center for Artificial Intelligence	dfki.de
GI—Society of Computer Science	gi.de
House of IT e. V./House of Digital Transformation e. V.	house-of-it.eu
ITEA 3	itea3.org
Industry 4.0 Platform	plattform-i40.de
Learning Systems Platform	plattform-lernende-systeme.de
NESSI—The Networked European Software and Services Initiative	nessi-europe.com
Software Campus	softwarecampus.de

Economic Report

Business Summary

General economic conditions

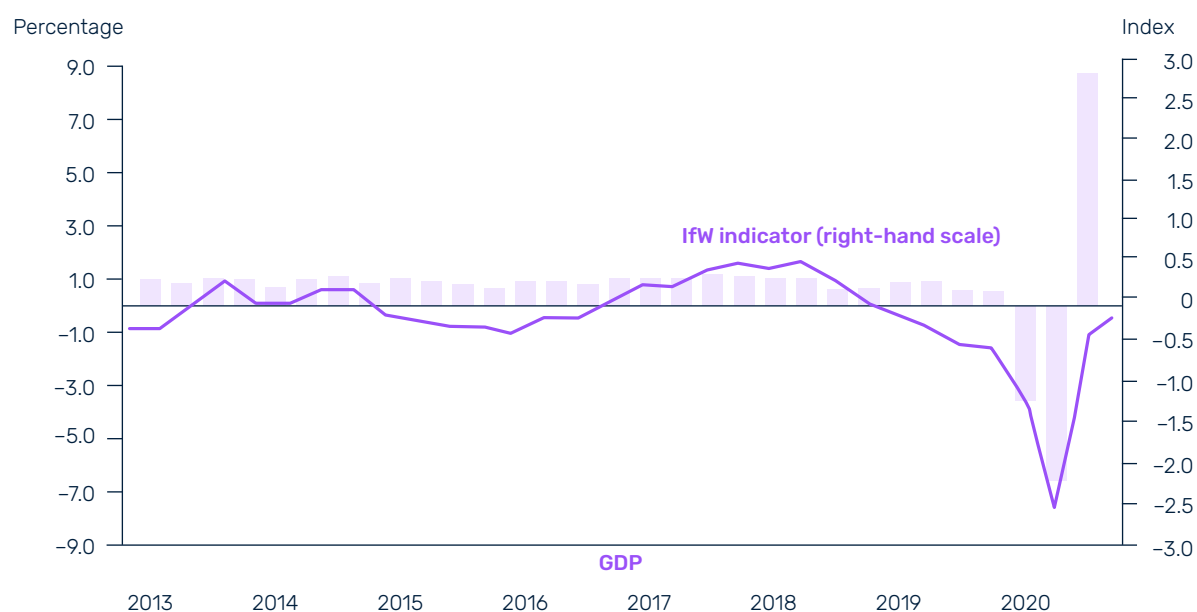
The world and thus the economy were dominated by the COVID-19 pandemic in 2020. Its impact led to a global recession of historic proportions in the first six months of the year. The recovery, which began in the summer, was strong until the fall, but had slacked off again by the end of the year. During the upswing in the third quarter of 2020, global economic production grew by almost 9 percent and thus largely offset the previous steep drop. The Institute for the World Economy in Kiel, Germany (IfW) forecast an upward trend for the fourth quarter as well. However, the mood at many companies once again declined significantly in November, after a strong increase in infection rates led to renewed restrictions on social and economic life, affecting primarily the advanced economies, especially Europe. In the emerging economies, the course of recovery remained uneven through the end of the year. China has been back on a growth path since the end of the third quarter, with growth rates of 7 percent. Worldwide, in contrast to

the spring, the pandemic did not appear to have a serious impact on production in the manufacturing sector, on international trade or on commodity prices towards the end of the year.

For 2020 as a whole, the IfW forecasts a decline in global production of 3.8 percent, the strongest drop in 70 years. To compare, 2019 saw growth of 3.0 percent.

In the USA, after an economic downturn in the second half of 2020, recovery is expected to continue over the next two years. Gross domestic product (GDP) grew by 7.4 percent in the third quarter, but private consumption subsequently weakened as a growth driver due to rising coronavirus case numbers. In November, the unemployment rate was still more than 3 percent higher than in the previous year, and in December 2020, retail sales experienced an unexpected sharp decline. With the change of administration after the presidential elections in November, an improvement in trade relations, especially with the European Union, can be expected. For 2020 as a whole, the IfW anticipates a decline in U.S. GDP of 3.6 percent. In 2019, in contrast, GDP had grown by 2.2 percent.

Global Economic Activity 2013–2020



Quarterly data; seasonally adjusted; indicator calculated based on sentiment index in 42 countries
 GDP: adjusted for price, change re. previous quarter, 46 countries, weighted by purchasing power parity
 Source: OECD, Main Economic Indicators (MEI); national sources; calculations by IfW, Kiel, Germany

The eurozone also experienced an unprecedented decline in overall economic production of 15 percent in the first half of 2020. The strong recovery associated with the subsequent reopening of the economy was reflected in 12.7 percent growth in GDP in the third quarter. Due to the fall wave of coronavirus infections, a decline in economic growth was once again expected for the fourth quarter. Accordingly, a decline in GDP of 7.2 percent was forecast for the year as a whole. The previous year saw growth of 1.2 percent.

Germany was also impacted by the coronavirus-related upswings and downturns in 2020. A second wave of the pandemic starting in the fall and winter, with renewed shutdown measures, interrupted the recovery in GDP which had already been underway, with a historic growth rate of 8.5 percent in the third quarter. A renewed decline in economic performance was thus expected for the fourth quarter. But thanks to solid foreign trade and continued industrial activity, the decline should be relatively mild. Overall, the IfW forecasts a decline of 5.2 percent for 2020, after growth of 0.5 percent in 2019.

Sector environment and influencing factors

Software AG's business is closely linked to the growing digitalization of the economy and of society. Software is the fundamental raw material and driver of Industry 4.0 and the Internet of Things (IoT)—both of which are growing trends in numerous sectors. Economic competitiveness will depend to a significant extent on the ability to create software-based products and services at the highest level of quality. Software expertise will also be a prerequisite if Germany is to maintain its position as a leader in engineering and consolidate its position as a leading export nation. A dynamic and successful German software industry gives a strong impetus to all economic sectors, and thus to the competitiveness of the German economy as a whole. Innovative products and services are no longer conceivable without software. The COVID-19

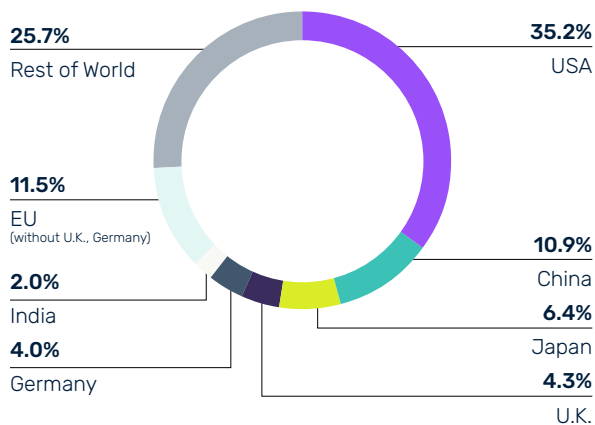
pandemic in fiscal 2020 did not change any of these assumptions. It still remains the case that the software industry must be able to rely on a stable, secure, high-performance infrastructure. In addition to clear legal conditions, for example in regard to the security of cloud services, this calls for the expansion and development of fast broadband networks with sufficient capacity. Regulatory and political changes and uncertainties in the countries and markets in which Software AG operates are thus further important factors that can have an impact on business performance. The opportunities and risks that arise in this connection are described in the Opportunity and Risk Report in [Key Individual Risks and Opportunities](#).

Sector-specific conditions

The COVID-19 pandemic further accelerated the trend towards digitalization already underway at many companies. Numerous business processes that were formerly based on personal contact now took place online. This only served to further strengthen users' expectations of being able to access data from anywhere, at any time, at a consistent level of quality. The pandemic not only created increased demand for applications supporting remote work, virtual meetings and online teamwork, however; it also led occasionally to a very high degree of uncertainty and to greater spending discipline at companies. The U.S.-based market research firm Gartner thus forecasts that global IT expenditures declined by 3.2 percent in the year under review, to around \$3.69 trillion (2019: \$3.82 trillion). The decline was especially strong for end user devices, which declined 8.2 percent, to \$653.2 billion. In the enterprise software segment, a decline of 2.4 percent, to \$465.0 billion, is expected. However, a shift in investments towards mission-critical applications is taking place, which benefits Software AG. Gartner expects spending to rise again in 2021. Global IT expenditures are then expected to rise to \$3.93 quadrillion, and, with 6.2 percent growth, to exceed 2019 levels.

Worldwide sales in information and communication technology (ICT) products and services also declined in fiscal 2020. According to forecasts of the European Information Technology Observatory (EITO), they fell by 2.5 percent to €3.5 trillion (2019: €3.6 trillion). In Germany as well, ICT expenditures declined in the year under review due to the COVID-19 pandemic. However, according to the ICT market figures for January 2021, which the EITO compiled together with the German Association of Information, Telecommunications and New Media (Bitkom), the decline was slight. According to these figures, the ICT market volume decreased by 0.5 percent to €161.3 billion (2019: €162.1 billion). For information technology, sales are expected to total €94.6 billion (2019: €95.3 billion), reflecting a slightly higher decline of 0.7 percent.

The ICT Market: 2020 Revenue Shares by Country/Region



Note: ICT revenue does not include consumer electronics, business consulting or BPO.
Source: EITO, IDC; as of June 2020

Key events affecting business performance

Software AG's Helix transformation that began in 2019 was continued in the year under review. One key focus was a shift to subscription models, which generate a stable, secure revenue stream over a long period of time and thus allow solid growth planning.

Dr. Matthias Heiden joined Software AG's Management Board as of July 1, 2020. As the new Chief Financial Officer (CFO), he heads finance and is driving the Company's ongoing transformation program.

Dr. Heiden previously served as Chief Financial Officer (CFO) and member of executive management at SAF-HOLLAND Group, where he was responsible for Finance, Accounting and Controlling, IT, Legal and Compliance, Internal Audit, Human Resources as well as Investor Relations and Corporate Social Responsibility.

Before joining SAF-HOLLAND, Dr. Heiden spent twelve years with SAP SE in a range of senior leadership roles, including CFO SAP Deutschland and SAP Head of Global Treasury. His final role with SAP was that of Regional CFO for Middle and Eastern Europe, where he was a member of both SAP's Global and European Leadership teams overseeing significant revenue streams across all lines of business. While at SAP, he was a key player in its transformation to a subscription and cloud-based business model and was co-sponsor of SAP's own finance transformation program, "Finance, Run Better Together."

Software AG's business activities did not escape the impact of the global COVID-19 pandemic. The effects were felt in terms of internal organization on the one hand, and in the considerable uncertainty in the market environment on the other. Software AG's employees quickly transitioned to remote working and established new processes for online collaboration. Under the lockdowns and during school closings, the management gave the employees considerable autonomy to enable them to reconcile their personal and professional duties and activities. In all, the Company experienced a high degree of solidarity and sense of team spirit,

both of which were on display when a malware attack on Software AG's IT infrastructure took place on October 3, 2020. To prevent possible damage, all affected systems were largely isolated, shut down or cleaned up. The Company successfully contained the attack, and was able to restart and recalibrate its internal systems. Internal Windows-based systems and the Global Customer Helpdesk were primarily affected. Software AG's cloud services were not affected by the incident. There were no threats or problems in Software AG's cloud environment in connection with the incident.

In the course of the attack, several hundred gigabytes of data were downloaded from Software AG's IT systems. Software AG conducted a thorough review of the data together with external security companies and an analysis team specialized in this area. Pursuant to art. 34 GDPR, data subjects are notified immediately with regard to any potentially sensitive data. The same will apply to affected companies if, and as soon as, relevant findings from the investigation are available. The full review of data had not yet been completed as of the reporting date.

Software AG notified the responsible data protection authorities of the incident, in accordance with local requirements, and is cooperating closely with criminal and cyber security authorities. In addition, the Company shared indicators of compromise (IOC) with the German Federal Office for Information Security (BSI) and with interested security teams working for customer organizations, partners and suppliers.

Software AG takes the greatest possible care to avoid or minimize risks to its customers, employees, partners and suppliers. For further information on this topic, please refer to Information Security in the Combined Non-Financial Statement.

Management's general statement on business performance and financial position

2020 was a year of strategic momentum for Software AG. Our global team proved resilient in the face of significant COVID-19 challenges, and we made excellent progress with our transformation program. We now have clear evidence that this program is positively impacting our financial performance.

At a Group level, in 2020 we delivered four consecutive quarters of Group bookings growth—equating to 24 percent growth at constant currency for the year. We met a key mid-term transformation target ahead of plan, with 85 percent of the year's total product revenue recurring in nature. This compares to a figure of 69 percent before our transformation program began.

From a business line perspective, within our overall Digital Business, bookings in **DBP (excl. Cloud & IoT)** grew ahead of consensus in 2020 at 13 percent at constant currency. Bookings in **DBP (incl. Cloud & IoT)** increased by 21 percent at constant currency in 2020, thanks to strong bookings growth in **Cloud & IoT** of 53 percent at constant currency. **Adabas & Natural** (A&N) performed extremely well in 2020, owing to a number of large deals, with bookings growth above expectations at 33 percent at constant currency.

Our strategic momentum was achieved through a careful balance of cost management and investment. Our 2020 operating profit margin (EBITA, non-IFRS) met guidance at 21.2 percent and operating profit (EBITA, non-IFRS) stood at €177.0 million for the year.

Software AG is positioned at the heart of a major shift toward digital transformation in the global economy. The strategic and financial momentum we have achieved in 2020 gives us confidence that we can now accelerate our progress in the year ahead. Accordingly, we are bringing forward certain planned strategic investments to 2021, in order to realize the benefit of our transformation sooner than anticipated.

For more information on guidance for 2021, please refer to the [Forecast](#).

Comparison of actual performance with previously issued forecasts

Please note that revenue forecasts are at constant currency. Earnings targets are adjusted for stock option plans, acquisition or restructuring-related expenses and short-term effects that arise during the course of the year, all of which are unforeseeable.

Software AG communicated the following forecast for fiscal 2020 with the release of its 2019 consolidated results on January 29, 2020:

- Bookings growth in the DBP business (excl. Cloud & IoT) in the range of 10 to 15 percent year-on-year
- Anticipated bookings growth in the Cloud and IoT business in the range of 40 to 60 percent year-on-year
- In the A&N business line, bookings at –3 percent to +3 percent year-on-year
- EBITA margin (non-IFRS) between 20.0 and 22.0 percent

After the outbreak of the COVID-19 pandemic, its impact on business performance in 2020 was not yet entirely calculable and the Management Board adjusted the Company's guidance for fiscal 2020 on April 23, 2020. Slower bookings growth was expected for revenue in the Digital Business (DBP and Cloud & IoT), while guidance for the robust A&N business and for the operating profit margin (EBITA, non-IFRS) remained unchanged. The adjusted guidance anticipated growth in bookings of 0 to 10 percent year-on-year for the DBP business (excl. Cloud & IoT). For Cloud & IoT, 20 to 40 percent growth in bookings was expected year-on-year.

Following the end of the third quarter, Software AG was able to raise its guidance for fiscal 2020. On November 18, 2020, the Company issued narrower guidance for the DBP business (excl. Cloud & IoT). Bookings growth was now expected to be between 3 and 10 percent year-on-year. Accordingly, bookings in DBP Cloud & IoT were expected to increase by 30 to 50 percent year-on-year. Due to the major increase in sales of new A&N technologies and the growing shift to subscriptions in the A&N business line, the Management Board anticipated an increase in bookings of between 5 percent and 15 percent over the course of the year. Expectations for the operating profit margin (EBITA, non-IFRS) were unchanged, at 20.0 to 22.0 percent.

Outlook for Fiscal Year 2020

	Earnings FY 2019 (as of Dec. 31, 2019) in € millions	Outlook FY 2020 (as of Jan. 29, 2020) as %	Outlook FY 2020 (as of Apr. 23, 2020) as %	Outlook FY 2020 (as of Nov. 18, 2020) as %	Actual change year-on-year ¹ as %
DBP bookings					
DBP excl. Cloud & IoT ¹	241.1	10 to 15	0 to 10	3 to 10	13
DBP Cloud & IoT ¹	65.9	40 to 60	20 to 40	30 to 50	53
A&N bookings ¹	100.8	–3 to +3	–3 to +3	5 to 15	33
Operating profit margin (EBITA, non-IFRS) ²	29.2%	20.0 to 22.0	20.0 to 22.0	20.0 to 22.0	21.2

¹ At constant currency

² Before adjusting for non-operating factors (see non-IFRS definition of earnings)

Software AG posted the following results for the 2020 fiscal year:

- The DBP business line (excl. Cloud & IoT) posted €261.5 million (2019: €241.1 million) in bookings, representing 13 percent growth year-on-year at constant currency. These results exceeded the latest stated guidance range of 3 to 10 percent for the year and were in the originally stated range for fiscal 2020.
- The Cloud & IoT business achieved bookings at a volume of €99.2 million (2019: €65.9 million) in 2020, representing 53 percent growth year-on-year at constant currency. These results exceeded the latest stated guidance range and were in the originally stated range for fiscal 2020.
- The A&N business line generated bookings in the amount of €129.0 million (2019: €100.8 million), reflecting a 33 percent increase at constant currency and year-on-year. This strong performance exceeded the raised guidance of 5 to 15 percent announced in November 2020 and was the result of the renewal of high-volume contracts, the shift to subscriptions as well as unexpected record sales of new A&N technologies. A&N thus significantly exceeded expectations from the beginning of the year.
- Software AG's absolute operating profit (EBITA, non-IFRS) was €177.0 million (2019: €260.3 million) in 2020. Nevertheless, the operating profit margin (EBITA, non-IFRS), at 21.2 percent (2019: 29.2 percent), was in the forecast range of 20.0 to 22.0 percent. The margin adjustment, which was foreseeable in light of the transformation of the business, was in line with management's expectations.

Performance of secondary key performance indicators that do not serve as a basis of Group management

For Group revenue, excluding the planned sale of the Spanish Professional Services business, a stable level of revenue at constant currency was expected in 2020 in comparison to 2019 revenue.

In connection with the adjusted guidance for the fiscal year issued on April 23, 2020, the new forecast assumed a decline in Group revenue in the low-single-digit range at constant currency.

The anticipated decline in Professional Services revenue and the raised guidance for DBP and A&N bookings did not change the expectation for total revenue of a low-single-digit decline year-on-year at constant currency.

Actual Group revenue in fiscal 2020 came to €834.8 million (2019: €890.6 million), reflecting a decline of 6 percent, or 4 percent at constant currency. Group revenue was thus slightly below the range of the modified guidance of April 23, 2020, and somewhat further below the original expectations of stable revenue development. If the original stable revenue forecast is adjusted to exclude the approximately €18 million decline in revenue attributable to the sale of the Spanish Professional Services business, which was not included in the forecast, and the offsetting currency effects on total revenue in the amount of -€22.2 million are taken into account, then total revenue for the fiscal year is slightly below the previous year's level and roughly corresponds to the original forecast of stable revenue in comparison to fiscal 2019.

- For revenue from DBP (excl. Cloud & IoT) at constant currency, the Management Board anticipated a decline in the low single-digit range. Actual revenue declined by €34.7 million, from €432.2 million to €397.5 million, representing a decline of 8 percent, or 6 percent at constant currency. The actual revenue decline in the mid single-digit range thus came in slightly below the original forecast.
- For the Cloud & IoT business, growth in revenue of 40 to 60 percent was originally anticipated. Growth of €8.7 million was achieved, from €42.3 million to €51.0 million. This reflects growth of 21 percent, or 22 percent at constant currency, and was thus significantly below original expectations. However, in comparison to the reduced bookings guidance announced on April 23, 2020, which also implied lower revenue expectations, the deviation was much smaller than expected. In comparison to the raised bookings guidance of 30 to 50 percent growth announced on November 18, 2020, which in turn implied a raise, the deviation was again somewhat higher. This deviation was influenced by the effects of the COVID-19 pandemic and the ongoing shift to the subscription business, which proceeded faster than expected.
- In the Adabas & Natural (A&N) business, largely flat to slightly declining revenue development at constant currency was expected compared to 2019. A&N revenue actually declined by €6.1 million, from €228.9 million to €222.8 million, year-on-year, reflecting a decline of 3 percent, or 1 percent growth at constant currency. Revenue in this segment thus exceeded expectations.
- For revenue from Professional Services, a high single-digit decline at constant currency was anticipated year-on-year, taking into account the expected sale of the Spanish Professional Services business. Professional Services revenue came to €163.6 million (2019: €187.2 million) in fiscal 2020, representing a decline of €23.6 million, or 13 percent, and a decline of 12 percent at constant currency. Taking into account the impact of the COVID-19 pandemic, expectations were thus nearly achieved.
- In last year's Forecast, Software AG's Management Board anticipated that, assuming stable conditions (precluding unforeseeable special effects), IFRS net income for the Group would decline by 20 to 30 percent. IFRS net income for the Group in fiscal 2020 came to €96.1 million (2019: €155.3 million), a decline of 38 percent. IFRS net income for the Group was thus slightly below expectations, in light of the impact of the COVID-19 pandemic and expenses related to the malware attack in October 2020.
- For the DBP segment (incl. Cloud and IoT), the Management Board anticipated a decline in the segment margin of 20 to 30 percent year-on-year. The actual segment margin was 15.4 percent (2019: 27.5 percent), representing a decline of 44 percent, which was below expectations. This performance was largely due to lower-than-expected revenue, which was primarily attributable to a higher share of subscription and SaaS bookings, meaning that revenue originally planned for 2020 will be recognized in the future.
- In the A&N segment, a 10 percent decline in the margin was expected. A margin of 66.7 percent (2019: 69.8 percent) was achieved, a decline of 4.4 percent, which considerably exceeded expectations and reflects the higher-than-expected revenue in this segment.
- In the Professional Services segment, a roughly 20 percent decline in the segment margin was expected. A segment margin of 10.8 percent (2019: 12.1 percent) was achieved, reflecting a decline in the margin of 10.7 percent. This business segment thus clearly exceeded expectations, by 9.2 percent. In this area, the drop in revenue in connection with the COVID-19 pandemic was more than offset by active cost management in fiscal 2020.

The Group's Financial Performance

Revenue

Group revenue totaled €834.8 million (2019: €890.6 million) in fiscal 2020, representing a decline of 6 percent, or a decline of 4 percent at constant currency.

The future-oriented Digital Business Platform (DBP) business line posted a slight decline in revenue, which is in line with the new Helix strategy and the resulting intensified focus on the subscription and SaaS business: Revenue in the DBP business line (incl. Cloud & IoT) was down 5 percent, or 3 percent at constant currency, to €448.5 million (2019: €474.5 million). The Adabas & Natural (A&N) business line generated revenue of €222.8 million (2019: €228.9 million), reflecting a decline of 3 percent year-on-year, or 1 percent growth at constant currency.

Annual recurring revenue (ARR) in the DBP business line (incl. Cloud & IoT) increased by 6 percent in the year under review, or by 11 percent at constant currency. ARR is a good indicator of future cash flows generated by past activities. ARR in the amount of €358.8 million (2019: €340.0 million) consists of all future recurring revenue, on a standardized 12-month basis, from deals closed through December 31, 2020, together with future SaaS/usage-based revenues from deals closed through the end of the fourth quarter of 2020.

Currency impact on revenue

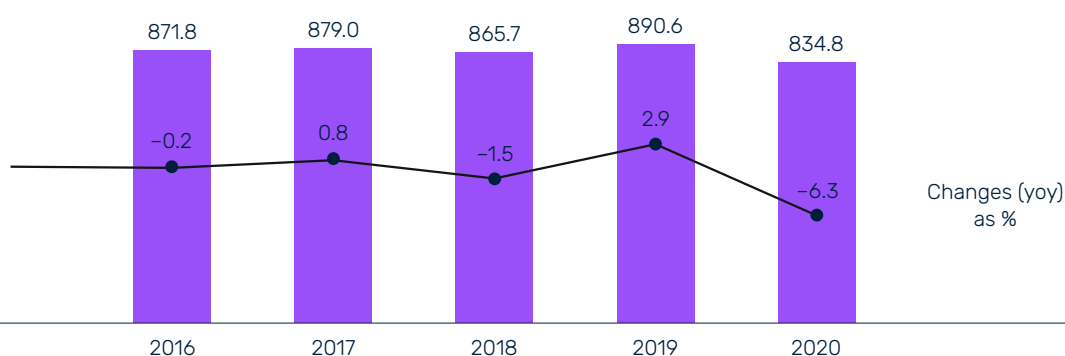
Currency translation had a negative impact on revenue in fiscal 2020, after having had a positive impact on revenue in the previous year. Currency effects came to a total of –€22.2 million (–3 percent). The main driver was the weakened U.S. dollar (with the U.S. dollar accounting for the largest share among foreign currencies in the Group).

The largest percentage of Software AG's total revenue was again generated in euros (EUR), at 34 percent (2019: 33 percent). The U.S. dollar (USD) is the main foreign currency, with a share of 30 percent (2019: 31 percent). It is followed by the British pound (GBP) at 6 percent (2019: 5 percent) and the Israeli shekel (ILS) at 5 percent (2019: 6 percent). Other currencies account for the remaining 25 percent (2019: 25 percent) of revenue. The broad distribution of currency shares reflects Software AG's highly global focus.

Currency effects had a negative impact on revenue from license and maintenance sales, at –3 percent each, followed by –2 percent in SaaS and –1 percent in services. Maintenance revenue experienced the strongest impact, at –€12 million in absolute terms. The currency-related impact on license revenue amounted to –€7.7 million, on services including other revenue to –€2.0 million and on SaaS revenue to –€0.6 million.

Five-Year Revenue Performance

in € millions



Quarterly Revenue

in € millions	Q1		Q2		Q3		Q4	
	2020	2019	2020	2019	2020	2019	2020	2019
Group revenue	207.0	201.4	204.6	210.0	185.4	224.2	237.8	255.0
as % of total annual revenue	25	23	25	23	22	25	28	29

Currency Impact on Revenue

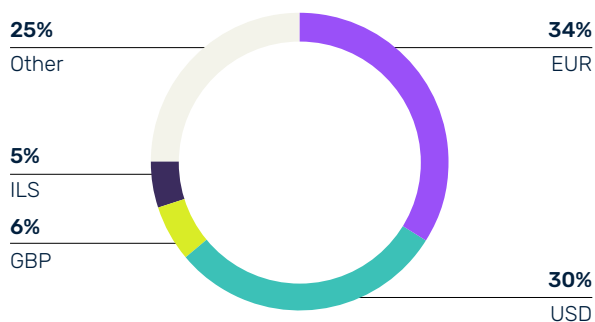
in € millions	2020	as %
Licenses	-7.7	-3
Maintenance	-12.0	-3
SaaS	-0.6	-2
Services and other	-2.0	-1
Total	-22.2	-3

revenue. SaaS revenue rose 38 percent in 2020, or 41 percent at constant currency, to €31.3 million (2019: 22.7 million). Professional Services revenue, which refers solely to projects associated with Software AG's own products, declined in the year under review by 13 percent, or 12 percent at constant currency, to €163.6 million (2019: €187.2 million) (not including other income). The decline in revenue is mainly attributable to the sale of the Spanish Professional Services business.

2020 Currency Split

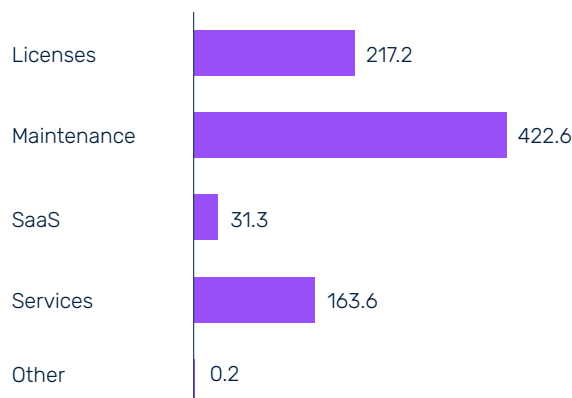
34% revenue in euros

66% revenue in foreign currency



Types of Revenue in 2020

in € millions



Types of revenue

Software AG's Group revenue is made up of product revenue—consisting of license, maintenance and SaaS sales—and services and other revenue. Product revenue declined in fiscal 2020, to €671.1 million (2019: €702.7 million). This reflected a drop of 5 percent, or 2 percent at constant currency. As a percentage of total revenue, product revenue remained at roughly the same level year-on-year, at 80.4 percent (2019: 78.9 percent). License revenue from Software AG's DBP and A&N products amounted to €217.2 million (2019: €245.1 million), an 11 percent decline year-on-year. At constant currency, this represents a decline of just 8 percent. Maintenance revenue in the two product lines decreased to €422.6 million (2019: €435.0 million) in the period under review, representing a 3 percent decline; at constant currency, maintenance revenue remained stable, changing by 0 percent. At 50.6 percent (2019: 48.8 percent), the share of maintenance in total revenue was slightly higher than in 2019. This is a result of Software AG's dedicated focus on recurring high-margin and profitable

Product revenue by region

Software AG's global product revenue is allocated to five regions:

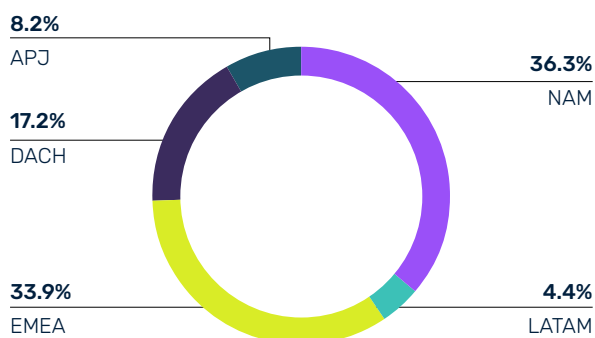
The **Americas (NAM and LATAM)** generated €273.2 million (2019: €298.5 million) in 2020, which translates to 41 percent (2019: 42 percent) of product revenue. Broken down by country, the USA accounted for the largest share of revenue, as expected, followed by Canada and Brazil. NAM generated total revenue of €243.6 million (2019: 263.4 million). LATAM generated total revenue of €29.5 million (2019: €35.1 million).

EMEA (Europe, Middle East and Africa without DACH) posted revenue of €227.5 million (2019: €239.0 million) and thus accounted for an unchanged share in global product revenue of 34 percent (2019: 34 percent). The most important single markets in this region are the United Kingdom, France, Israel, Scandinavia and Spain.

Economic Report

DACH (Germany, Austria and Switzerland) posted revenue of €115.6 million (2019: €103.8 million) and thus accounted for a share in global product revenue of 17 percent (2019: 15 percent). Germany alone accounted for €97.1 million (2019: €89.2 million), or 14 percent (2019: 13 percent) of product revenue.

Asia-Pacific (Australia, Japan, Asia and China, **APJ**) posted product revenue of €54.8 million (2019: €61.2 million), and thus accounted for 8 percent (2019: 9 percent) of product revenue. The largest single market in this region was Australia, followed by Japan.

Product Revenue by Region¹

¹ Based on product revenue in 2020 by management approach (contracts can be distributed across multiple countries/regions).

Bookings

As described in Fundamental Aspects of the Group, order backlog in the Professional Services business line is an especially important company-specific early warning indicator. Software AG's order backlog as of December 31, 2020 continued its stable development and will thus support the expected stable growth in fiscal 2021. At the end of 2020, as in the previous year, the forward order book (order backlog/revenue * 365 days) was more than six months.

With the introduction of the Helix strategy and the shift from perpetual licenses to subscription business, bookings became a leading indicator in product business. This indicator shows sales performance in a given reporting period on the basis of normalized new orders. To ensure that incoming orders are comparable across the different license models, they are normalized on a three-year basis. Three years is the

average contract period for a Software AG subscription contract. In fiscal 2020, bookings in the product business amounted to €489.7 million (2019: €407.8 million), representing 20 percent growth year-on-year, or 24 percent at constant currency. With a bookings volume of €360.7 million (2019: €307 million), the DBP business line accounts for a 74 percent (2019: 75 percent) share of bookings. The share of bookings accounted for by conversion of existing maintenance agreements into subscription contracts was 38 percent in 2020. If converted maintenance contracts are excluded from total bookings in the amount of €489.7 million, the bookings volume comes to €375.3 million. Including the converted maintenance contracts, the volume of bookings is the same as in the previous year, with 4 percent growth at constant currency. This purely mathematical calculation does not reflect the positive future revenue and cash flow effects of the conversion to the subscription sales model in connection with contract renewals, or the additional business opportunities arising when contracts are renewed, which form an important part of the growth strategy of the Group.

Annual recurring revenue (ARR) shows active contracts as of the end of the reporting period, together with their recurring revenue. ARR is thus an indicator of the recurring annualized product revenue and cash flows, standardized on a 12-month basis, that can be expected for active contracts that are continued. In fiscal 2020, ARR came to a total of €508.1 million (2019: €491.3 million). ARR in the DBP business line grew by 11 percent on a currency-adjusted basis year-on-year.

Performance of key items
on the income statement and
cost structure

Software AG's **cost of sales** declined slightly, proportionately to revenue, in fiscal 2020, coming to €197.2 million (2019: €203.1 million). **Gross profit** declined by 7.3 percent to €637.6 million (2019: €687.5 million). The gross profit margin as a percentage of Group revenue, at 76.4 percent, remained close to last year's high level of 77.2 percent. This continued high profitability is due primarily to the high share of the product business, supported by the sale of the Spanish Professional Services business, and, in addition, active management of the contribution margin of Professional Services orders.

To further secure Software AG's technology leadership in the dynamic digital market, **expenses for research and development (R&D)** increased 10 percent, to €143.9 million (2019: €131.3 million). R&D expenses as a percentage of product revenue (licenses, maintenance and SaaS) again increased compared to the previous year, from 18.7 percent to 21.4 percent.

Sales, marketing and distribution expenses increased 3 percent compared to the previous year, coming to €272.6 million (2019: €265.0 million) for 2020 as a whole, and thus accounted for 32.7 percent (2019: 29.8 percent) of total revenue. This increase

reflects the investments in sales and marketing measures as part of the Helix project, which are aimed at strengthening and increasing the Company's presence in key regions. Sales efficiency remains a key operating performance indicator for the management of Software AG.

General and administrative expenses did not increase proportionately to bookings growth, rising 3 percent to €76.8 million (2019: €74.8 million). General and administrative expenses as a percentage of total revenue rose to 9.2 percent (2019: 8.4 percent).

2020 Consolidated Income Statement

in € millions	2020	2019	+/- as %	+/- as % acc ¹
Licenses	217.2	245.1	-11.4%	-8.2%
Maintenance	422.6	435.0	-2.9%	-0.1%
SaaS	31.3	22.7	37.9%	40.6%
Services	163.6	187.2	-12.6%	-11.6%
Other	0.1	0.6	-83.3%	-69.1%
Total revenue	834.8	890.6	-6.3%	-3.8%
Cost of sales	-197.2	-203.1	-2.9%	-1.9%
Gross profit	637.6	687.5	-7.3%	-4.3%
R&D expenses	-143.9	-131.3	9.6%	10.1%
Sales, marketing and distribution expenses	-272.6	-265.0	2.9%	5.4%
General and administrative expenses	-76.8	-74.8	2.7%	4.3%
Other income/expense, net	-7.9	-1.6	393.8%	
Other taxes	-5.9	-6.8	-13.2%	
Operating income	130.5	208.0	37.3%	
Financial income/expense, net	3.1	7.1	-56.3%	
Earnings before income taxes	133.6	215.1	-37.9%	
Income taxes	-37.5	-59.8	-37.3%	
Net income	96.1	155.3	-38.1%	
thereof attributable to shareholders of Software AG	95.7	155.0	-38.2%	
thereof attributable to non-controlling interests	0.4	0.3	33.3%	
Earnings per share in € (basic)	1.29	2.09	-38.3%	
Earnings per share in € (diluted)	1.29	2.09	-38.3%	
Weighted average number of shares outstanding (basic)	73,979,889	73,979,889	—	
Weighted average number of shares outstanding (diluted)	73,979,889	73,979,889	—	

¹ acc = At constant currency

Earnings performance

Software AG's **operating income** (IFRS) declined in the year under review to €130.5 million (2019: €208.0 million). The operating margin, at 15.6 percent (2019: 23.3 percent), was below the previous year's high level. This is mainly due to increased R&D and sales, marketing and distribution expenses in connection with the Helix program. This was offset by the high-margin product revenue, accounting for 80.4 percent (2019: 78.9 percent) of total revenue, and the ongoing strength of the very profitable A&N business.

EBIT (net income plus income taxes plus other taxes plus net financial income/expense), at €136.4 million (2019: €214.8 million), was down 37 percent year-on-year, or 31 percent at constant currency. This decline was the net result of the following effects: Revenue declined by €55.8 million to €834.8 million (2019: €890.6 million). Cost of sales declined by 3 percent, or €5.9 million, to €197.2 million (2019: €203.1 million). R&D expenses increased by 10 percent, or €12.6 million, to €143.9 million (2019: €131.3 million).

Other net income came to –€7.9 million (2019: –€1.6 million) in fiscal 2020, mainly due to currency translation losses, costs of the malware attack, and divestment expenses.

Net financial income declined again in the year under review, to €3.1 million (2019: €7.1 million). The difference compared to the previous year was attributable primarily to lower interest income due to the lower USD interest rate.

Earnings before income taxes declined by 38 percent to €133.6 million (2019: €215.1 million). Income taxes went down 37 percent to €37.5 million (2019: €59.8 million). Software AG has been experiencing positive effects since 2018 due to the changes in tax legislation in the USA. The Group's effective income tax rate thus increased slightly to 28.1 percent (2019: 27.8 percent).

Net income, at €96.1 million (2019: €155.3 million), was down 38 percent year-on-year in the reporting period. Accordingly, **earnings per share** (basic) were €1.29 (2019: €2.09), with the average number of shares outstanding (basic) at 73,979,889 (2019: 73,979,889). The significant decline in earnings is largely due to the Helix-related higher expenditures for the Company's future development and to lower total revenue in fiscal 2020. Taking the COVID-19 pandemic and the malware attack into account, earnings were just slightly below expectations.

2020 Earnings

in € millions	2020	2019	+/- as %
Total revenue	834.8	890.6	–6
Cost of sales	–197.2	–203.1	–3
Gross profit	637.6	687.5	–7
Margin as %	76.4	77.2	–
R&D expenses	–143.9	–131.3	10
Sales, marketing and distribution expenses	–272.6	–265.0	3
General and administrative expenses	–76.8	–74.8	3
Other income/expense (net)	–7.9	–1.6	–
EBIT	136.4	214.8	–37
Margin as %	16.3	24.1	–

Appropriation of profits

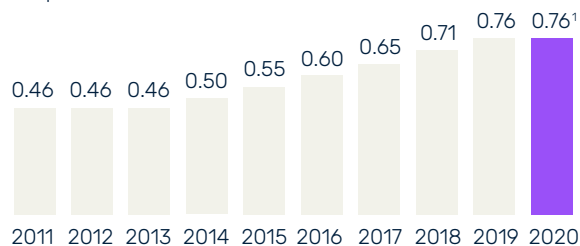
Software AG adheres to a sustainable dividend policy, which is geared toward long-term, value-oriented development of the Company. This strategy will be pursued further in the interest of solid shareholder relations. The Management Board and Supervisory Board will therefore propose a dividend in the amount of €0.76 per share at the Annual Shareholders' Meeting on May 12, 2021 for fiscal year 2020. The dividend was also €0.76 per share in the previous year. The dividend thus remains stable despite significantly lower net income and free cash flow. Subject to the approval of the Annual Shareholders' Meeting and assuming 74.0 million (2019: 74.0 million) dividend-bearing shares outstanding, this would be a total payout sum of €56.2 million (2019: €56.2 million). Based on the closing share price in 2020 (Xetra closing price on Dec. 30, 2020: €33.34 [2019: €31.10]), this proposal is equal to a dividend yield of 2.28 percent (2019: 2.44 percent).

In 2020, Software AG's Management Board and the Supervisory Board resolved to exceed the previous maximum payout range of 30 to 40 percent of averaged Group net income and free cash flow, since both indicators have been diluted by the high investments in strategic realignment (under the Helix program) towards recurring revenue such as subscriptions and SaaS. The goal is to ensure a consistent dividend policy and to allow shareholders to participate today in the future earnings of the Company. Based on averaged free cash flow (€87.6 million/2019: €145.8 million) and net income (€95.7 million/2019: €155.0 million), the dividend ratio would equal 61.3 percent (2019: 37.4 percent).

This consistent dividend policy stands for the Company's unequivocal commitment to stability and value and will be continued in upcoming years. Therefore, the high dividend payout of the previous year was retained for the exceptional 2020 fiscal year.

Dividend Development Since 2011

in € per share



¹ Dividend proposal, subject to shareholder approval in May 2021

Additional performance indicators

In order to improve the comparability of Software AG with competitors (primarily in the U.S.) which do not use IFRS accounting standards, Software AG also reports non-IFRS performance indicators. (For more information, please refer to Internal Corporate Control System in this Management Report). These performance indicators are as follows:

Operating Earnings per Share (non-IFRS)

in € millions	2020	2019
Net income (IFRS)	96.1	155.3
Income taxes (IFRS)	37.5	59.8
as % of earnings before income taxes	28.1%	27.8%
Earnings before income taxes	133.6	215.1
Other taxes	5.9	6.8
Financing income	-8.4	-13.3
Financing expenses	5.3	6.2
Financial income/expense, net	-3.1	-7.1
EBIT (before all taxes)	136.4	214.8
+ Acquisition-related amortization of intangible assets	14.2	21.9
+ Acquisition-related deductions in product revenue due to purchase price allocations	0.0	0.0
+/- Other non-operating expenses and acquisition-related effects on earnings	8.3	3.2
+/- Income/expense resulting from share price-based remuneration	10.6	11.3
+ Restructuring/severance/litigation	7.6	9.0
EBITA (non-IFRS)¹	177.0	260.3
as % of revenue (non-IFRS)	21.2	29.2
Financial income/expense, net	3.1	7.1
Other taxes	-5.9	-6.8
Earnings before income taxes	174.2	260.6
Income taxes (FY 2020: 28.1%; FY 2019: 27.8%) ¹	-48.9	-72.5
Net income (non-IFRS)	125.4	188.1
Earnings per share (non-IFRS)²	€1.69	€2.54
Average number of shares outstanding (No.)	74.0 mn	74.0 mn

¹ Income tax rates shown are equal to the actual rates for fiscal 2020 and 2019.

² Earnings per share (non-IFRS) are calculated by dividing net income (non-IFRS) by the average number of shares outstanding.

The operating profit margin (EBITA, non-IFRS) is Software AG's key performance indicator for monitoring profitability. EBITA (non-IFRS) declined by 32 percent to €177.0 million (2019: €260.3 million) in fiscal 2020. EBIT was down 37 percent to €136.4 million (2019: €214.8 million). Amortization on acquisition-related intangible assets declined by 35 percent to €14.2 million (2019: €21.9 million). This decline was primarily due to the expiration of amortization on the customer bases of the earlier acquisitions webMethods, Terracotta and it-Campus, whose customer bases have now been written off in full. In addition, there were currency effects due to the relatively weak U.S. dollar.

Another factor was the decreased expenses for stock option plans, which, due to the drop in the exchange rate caused by COVID-19, declined by 6 percent to €10.6 million (2019: €11.3 million). Restructuring, severance and litigation increased significantly by 16 percent to €7.6 million (2019: €9.0 million). In the previous year, this item included a severance package for a member of the Management Board.

Other non-operating expenses and acquisition-related effects on earnings increased by €5.1 million to €8.3 million. In the course of strategic transformation, the non-strategic Spanish consulting business was sold in 2020. This item contains the expenses related to this sale and other acquisition-related effects on earnings. In addition, it contains expenses related to the malware attack in the amount of €6.2 million.

Software AG's operating profit margin (EBITA, non-IFRS) based on Group revenue declined slightly to 21.2 percent (2019: 29.2 percent). The operating margin was thus slightly above the middle of the forecast range. At the same time, the Company continued as before to make targeted investments in products, the go-to-market strategy, marketing and the partner network. Furthermore, there is temporary pressure on the margin due to the shift in business model from perpetual to subscription licenses and SaaS. The profit margin continues to solidify the financial foundation for the Company's growth in 2021 and beyond.

Net income (non-IFRS) declined by 33 percent to €125.4 million (2019: €188.1 million). At the same time, EBITA (non-IFRS) dropped in 2020 by 32 percent, from €260.3 million in the previous year to €177.0 million.

The differing declines in net income—with non-IFRS net income declining from €188.1 million in 2019 by €62.7 million, or 33 percent, to €125.4 million in 2020, as compared to a decline in IFRS net income from €155.3 million by €59.2 million, or 38 percent, to €96.1 million—were largely the net result of offsetting effects as follows: Net financial income declined by €4 million, while acquisition-related amortization also declined, by €7.7 million. This was offset by other non-operating expenses and acquisition-related effects on earnings, which rose by €5.1 million. In addition, projected income taxes based on the lower earnings before taxes, at €48.9 million (2019: €72.5 million), declined by €23.6 million and were thus significantly lower than in the previous year.

The smaller decrease in net income (non-IFRS) compared to the decline in EBITA (non-IFRS) is primarily attributable to the decrease in operating income tax expenses, which declined by €23.6 million compared to the previous year, to €48.9 million (2019: €72.5 million). Earnings per share (non-IFRS), based on the average number of shares outstanding (basic) in the amount of 74.0 million (2019: 74.0 million), were €1.69 (2019: €2.54), representing a decline of 33 percent.

SaaS/usage-based revenue

Recognizing the increasing importance of new licensing models in the software industry, Software AG added the SaaS/usage-based revenue type to the DBP segment in fiscal 2018. With SaaS, customers acquire usage rights to the software, including operation of the software (hosting), for a limited period of

time. Customers do not own the software; rather, they can only use it online. SaaS/usage-based sales revenue came to a total of €31.3 million (2019: €22.7 million) in fiscal 2020 and was thus up 38 percent over the previous year.

Annual recurring revenue (ARR)

In light of the increasing share of licensing models with recurring revenue (in contrast to one-time recognition of license revenue in the case of a perpetual license), it is no longer sufficient to monitor sales performance solely on the basis of sales. Therefore, in fiscal 2018, Software AG introduced “annual recurring revenue (ARR)” as an additional metric for the Group. This indicator presents total annualized bookings under the following agreement types:

- Licenses of limited duration/subscription licenses
- Maintenance under limited-duration and perpetual licenses
- Software as a Service (SaaS)
- Usage-based licenses

In the case of usage-based licenses, the monthly revenue generated in the last month of a period is multiplied by 12 to obtain the annualized figure.

Annual recurring revenue (ARR) in the DBP business segment (incl. Cloud & IoT) came to a total of €358.8 million (2019: €340.0 million) in fiscal 2020 and was thus up 5.5 percent, or even 11.5 percent at constant currency. In the Cloud & IoT business, ARR came to €53.9 million (2019: €41.7 million) and thus increased by 29.1 percent, or 34.0 percent at constant currency, in the year under review. ARR in the A&N business segment declined by 1.1 percent to €149.3 million (2019: €151.3 million), but at constant currency, this translated to a 6.2 percent increase.

Multi-Period Earnings Summary

in € millions	2020	2019	2018	2017	2016
Total revenue	834.8	890.6	865.7	879.0	871.8
thereof product revenue	671.1	702.7	682.4	679.4	675.2
EBIT (before all taxes)	136.4	214.8	231.6	222.8	213.9
as % of total revenue	16.3	24.1	26.8	25.3	24.5
Net income	96.1	155.3	165.2	140.6	140.4
as % of total revenue	11.5	17.4	19.1	16.0	16.1

Segment reporting

Software AG's business operations are divided into three segments: DBP, A&N and Professional Services. The high-growth Cloud & IoT business is part of the DBP business segment.

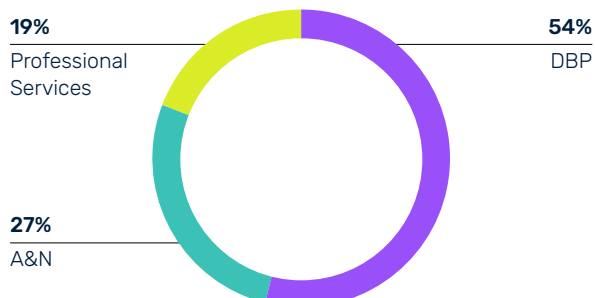
The DBP segment consists of a future-oriented product platform for customers' digital transformation. It accounted for more than half of total Group revenue, as in the previous year. DBP's share of revenue, at 54 percent (2019: 53 percent), remained approximately at the previous year's level. This confirms the business and market relevance of this future-oriented business line. In particular, revenue from the Cloud & IoT business, which is part of the DBP segment, increased significantly at constant currency, by 22 percent to €51 million (2019: €42 million). Growth in fiscal 2020 thus remained below expectations. This was, however, due in part to an increase in the share of bookings with recognition of revenue in later periods.

The traditional A&N segment grew 1 percent at constant currency, to €223 million (2019: €229 million). The segment thus generated 27 percent (2019: 26 percent) of Software AG's total revenue.

The Professional Services segment accounted for 19 percent (2019: 21 percent), with its share in revenue thus remaining at the previous year's level.

Revenue Split in 2020

2020	in € millions	as %
Total revenue	834.8	100
DBP	448.5	54
thereof DBP Cloud & IoT	51	11
A&N	222.8	27
Professional Services	163.6	19



Digital Business Platform (DBP)

All Software AG products for enterprise digital transformation, including the fast-growing Cloud & IoT business, are part of the DBP business segment. This segment generated revenue of €448.5 million (2019: €474.5 million) in 2020, reflecting a 5 percent decline year-on-year, or a 3 percent decline at constant currency. Annual recurring revenue (ARR) in the DBP business segment (incl. Cloud & IoT) came to a total of €358.8 million (2019: €340.0 million) in fiscal 2020.

Revenue in the **DBP segment (excl. Cloud & IoT)** declined 8 percent, or 6 percent at constant currency, to €397.5 million (2019: €432.2 million). Maintenance revenue declined 17 percent, or 14 percent at constant currency, to €124.9 million (2019: €151.3 million). This was offset by the significant increase in the share of annual recurring revenue due to the implementation of the Helix strategy. The share of subscription and SaaS revenue in total product revenue came to 27 percent (2019: 14 percent). Maintenance revenue declined 3 percent, or 1 percent at constant currency, year-on-year, to €272.6 million (2019: €280.9 million).

Meanwhile, revenue from the **Cloud & IoT business** increased 21 percent, or 22 percent at constant currency, to €51.0 million (2019: €42.3 million). ARR in Cloud & IoT came to €53.9 million (2019: €41.7 million) in the year under review, reflecting an increase of 29 percent, or 34 percent at constant currency.

DBP segment earnings came to €68.9 million (2019: €130.6 million); this year-on-year decline was due to the higher cost of sales and higher R&D and sales and marketing investments. Accordingly, the DBP segment margin was 15.4 percent (2019: 27.5 percent).

DBP Cloud & IoT

	2020	2019	+/- % acc ¹
Licenses	10.9	12.6	-14
Maintenance	8.8	7.0	26
SaaS/usage-based	31.3	22.7	41
Total revenue	51.0	42.3	22
Annual recurring revenue (ARR)	53.9	41.7	34

¹ acc = At constant currency

2020 Segment Report for the Digital Business Platform (DBP)

in € millions	2020	2019	+/- as %	+/- as % acc ¹
DBP (excl. Cloud & IoT)	397.5	432.2	-8	-6
thereof licenses	124.9	151.3	-17	-14
thereof maintenance	272.6	280.9	-3	-1
DBP Cloud & IoT	51.0	42.3	21	22
Total revenue	448.5	474.5	-5	-3
Cost of sales	-50.5	-40.6	24	26
Gross profit	398.0	433.9	-8	-6
Sales, marketing and distribution expenses	-216.0	-198.2	9	12
R&D expenses	-113.1	-105.1	8	8
Segment earnings	68.9	130.6	-47	-43
Margin as %	15.4	27.5	-	-

¹ acc = At constant currency

Adabas & Natural (A&N)

The mainframe database segment (A&N) generated €222.8 million (2019: €228.9 million) in revenue in fiscal 2020. This represents a 3 percent decline, or a 1 percent increase at constant currency. The whole market for traditional database software for mainframes is in decline due to its maturity and saturation. So for some years, Software AG's expectations have been a moderate decrease in this business. The fact that the decline in this traditional business slowed reflects the loyalty of the A&N customer base, which continues to rely on Software AG's dependable technology to run their business-critical applications. A key factor in the increased confidence was Software AG's announcement in late 2016 that it would continue development and support for the A&N portfolio beyond the year 2050. The Adabas & Natural 2050+ innovation program has had a positive impact since its introduction and will trigger new impetus for this segment in the medium term.

A&N licensing revenue rose 0 percent, or 4 percent at constant currency, to €81.4 million (2019: €81.2 million) in the year under review. Maintenance revenue in this segment came to €141.2 million (2019: €147.0 million), representing a decline of 4 percent, or 0 percent at constant currency.

A&N segment earnings went down accordingly to €148.7 million (2019: €159.8 million). The cost of sales increased at a strongly disproportionate rate to revenue in this segment, and R&D and sales and marketing expenses increased at a higher rate than revenue as well. This was due to measures to ensure that this segment will remain future-proof in the medium term. A&N's segment margin was slightly below the previous year, reaching 66.7 percent (2019: 69.8 percent).

2020 Segment Report for Adabas & Natural (A&N)

in € millions	2020	2019	+/- as %	+/- as % acc ¹
Licenses	81.4	81.2	0	4
Maintenance	141.2	147.0	-4	0
Product revenue	222.6	228.2	-2	2
Other	0.2	0.7		
Total revenue	222.8	228.9	-3	1
Cost of sales	-8.3	-8.1	3	6
Gross profit	214.5	220.9	-3	1
Sales, marketing and distribution expenses	-35.0	-34.9	0	4
R&D expenses	-30.9	-26.2	18	18
Segment earnings	148.7	159.8	-7	-2
Margin as %	66.7	69.8		

¹ acc = At constant currency**Professional Services**

This segment was realigned in 2019 with a focus on the implementation of solutions in cooperation with customers and partners. Professional Services generated revenue of €163.6 million (2019: €187.2 million) in fiscal 2020. This represents a 13 percent decline, or a 12 percent decline at constant currency. The decline in revenue is mainly due to the sale of the Professional Services business in Spain. Segment earnings declined by 22 percent, or 20 percent at constant currency, to €17.7 million (2019: €22.7 million). The cost of sales, which accounts for the largest share of expenses in this segment by far, declined by 11 percent, or 10 percent at constant currency, to €130.5 million (2019:

€146.2 million). Sales and marketing expenses declined 16 percent, or 14 percent at constant currency, to €15.4 million (2019: €18.2 million). Despite the COVID-19 pandemic and the malware attack, the segment margin was 10.8 percent (2019: 12.1 percent) for 2020 as a whole.

Software AG's strategic consulting services remained highly relevant for customers in fiscal 2020. The Company has set sustainable profitability and high service quality as its objectives—not rapid growth. The Professional Services business line was again able to support the sustainable success of the other two product-driven business lines.

2020 Segment Report for Professional Services

in € millions	2020	2019	+/- as %	+/- as % acc ¹
Total revenue	163.6	187.2	-13	-12
Cost of sales	-130.5	-146.2	-11	-10
Gross profit	33.1	41.0	-19	-17
Sales, marketing and distribution expenses	-15.4	-18.2	-16	-14
Segment earnings	17.7	22.7	-22	-20
Margin as %	10.8	12.1	-	-

¹ acc = At constant currency

The Group's Financial Position

General principles and objectives of Software AG's financial management

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

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

Furthermore, Software AG's corporate Finance department also monitors the currency risks for all Group companies, controls internal allocation of currency positions and minimizes remaining balances using derivative financial instruments. In doing so, only existing balance sheet items or expected cash flows are hedged.

Financing analysis

Software AG's net liquidity (cash and cash equivalents minus financial liabilities) as of December 31, 2020 was €220.1 million (2019: €217.0 million). The increase compared to the previous year resulted primarily from the balance of positive operating cash flow in the amount of €112.4 million, the (typically) negative net cash from investment activities of €10.3 million, and the negative cash flow from financing activities of €99.8 million, of which €56.6 million was accounted for by dividend payments, €52.8 million by repayments on short-term financing and €15.6 million by repayments on lease liabilities. In addition, long-term financial liabilities in the amount of €25.1 million were recognized. That amount comprises €50.1 million in new loans and €25.0 million in repayments.

Free cash flow declined by 40 percent in comparison to the previous year, to €87.6 million (2019: €145.8 million). This decline was primarily due to the reduction in net cash flow from operating activities by €59.6 million compared to the previous year due to lower revenue, higher expenses for R&D, and further increased expenses for sales and marketing. Cash flows from revenue declined in part due to the increased shift from perpetual license contracts to subscription and SaaS customer contracts. With the latter, customers make regular payments over the contract period, rather than—as is usually the case with perpetual license contracts—paying an up-front lump-sum license fee. This linearization of payment inflows places a significant burden on cash flows during the transitional period. After the conversion period has ended, cash flows will climb significantly once again, as the cash flows postponed to the future begin to come in.

Multi-Period Financial Position Summary

in € millions	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	480.0	513.6	462.4	365.8	374.6
Current financial liabilities	16.4	96.4	111.9	210.3	101.5
Non-current financial liabilities	243.5	200.2	201.4	100.3	200.0
Net liquidity	220.1	217.0	149.0	55.2	73.1
Equity	1,312.5	1,357.5	1,239.1	1,118.3	1,196.8
Equity ratio as %	64	64	62	59	61
Total assets	2,039.9	2,116.1	2,007.9	1,907.5	1,957.2

Economic Report

Based on the positive operating cash flow, net loan repayments in the amount of €24.7 million (2019: €49.4 million) were carried out. Payments included €56.6 million (2019: €52.8 million) for dividends.

Shareholders' equity was €1,312.5 million (2019: €1,357.5 million) at the end of fiscal 2020, representing a 3 percent decrease year-on-year. The decline in shareholders' equity resulted primarily from the balance of negative other reserves, up by –€84.5 million, and the increase in retained earnings, which rose €39.5 million to €1,341.7 million (2019: €1,302.2 million). Retained earnings increased due to the balance of net income of €96.1 million less dividend payments of €56.6 million. Other reserves came to –€125.8 million (2019: –€41.3 million).

This negative change in other reserves in the amount of –€84.5 million is due to currency exchange differences of foreign operations in the amount of –€78.1 million and the adjustment in the measurement of pension provisions, at –€6.4 million. The significant impact of currency exchange differences of foreign operations is a consequence of the appreciation of the euro relative to a number of foreign currencies, particularly the U.S. dollar. Capital reserves remained at last year's level of €22.6 million (2019: €22.6 million).

Software AG's equity-to-assets ratio remained stable compared to the previous year, at 64.3 percent (2019: 64.2 percent). Software AG's share capital, at 74,000,000 shares as of December 31, 2020, was unchanged compared to the previous year.

Financing instruments

Software AG's financing is based largely on continued strong free cash flow. In addition, bank loans, promissory note loans, factoring and finance leasing models are used for any additional financing needs. A primary financing risk arises from the possibility that the Company would not be able to satisfy existing financial liabilities, which include loan agreements, lease agreements and trade accounts payable. Active working capital management and Group-wide liquidity control limit this risk. Financial obligations can be balanced by available cash and bilateral lines of credit. The loans used are predominantly at variable interest rates and have remaining terms to maturity of no more than nine years. Variable interest payments are based on the prevailing interest rate on the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2020.

Strategic financing measures

Software AG's strong free cash flow is the backbone of its financing strategy. In combination with a high equity ratio, it offers financial flexibility for organic and inorganic growth. Financial investments are generally oriented toward the short term to ensure near-money market interest rates on the Group's funds. The Company broadly diversifies its investments and uses stringent criteria in selecting transaction partners. As a further source of financing, a revolving and syndicated line of credit in the amount of €300 million was established at the end of November 2020. It expires in 2023 and can be renewed up to two times, by one year per renewal. In addition, the credit agreement includes an option to increase the credit volume by a maximum of €100 million. This line of credit can be used for general business purposes, including mergers and acquisitions. Combined with a comfortable liquidity position and available liquidity lines, this results in a financing structure that is independent of short-term capital market conditions, thereby ensuring the solvency of all subsidiaries and allowing scope for strategic development.

Investment analysis

Capital expenditure for property, plant and equipment and for non-acquisition-related intangible assets included in recognized fixed assets generally play a minor role at software companies such as Software AG. In fiscal 2020, a total of €15.8 million (2019: €24.7 million) was invested in fixed assets, and no significant or large-scale investments in fixed assets were carried out.

Liquidity analysis

Cash flow declined significantly in fiscal 2020. **Net cash from operating activities** declined 35 percent, or €59.6 million, to €112.4 million (2019: €172.0 million). This decline results from the balance of net income which, at €59.2 million, had declined year-on-year, the negative impact of a decline in income tax expenses by €22.3 million, depreciation of fixed assets which was down by €7.5 million, and interest payment surplus which was down €4.4 million. This was offset by positive cash flow effects due to a decline of €25.4 million in receivables, and lower income tax payments, at €8.6 million.

Cash outflows from investing activities decreased 33 percent, by €4.9 million, from €15.2 million to €10.3 million. This decline was largely due to a reduction in net payments for acquisitions, which dropped by €5.1 million.

Cash outflows from financing activities decreased 16 percent, from €118.5 million in 2019 to €99.8 million in 2020. This decrease in financing cash outflows was largely attributable to the balance of new non-current financial liabilities, which were €25.1 million higher than in the previous year. In addition, cash outflows from financing activities were burdened by a €3.7 million increase in dividend payments, to a total of €56.6 million, after the dividend per share was raised from €0.71 in the previous year to €0.76 in fiscal 2019. This was offset by higher repayments (up by €3.4 million) of current financial liabilities.

Free cash flow in the year under review was €87.6 million (2019: €145.8 million), and was thus 40 percent below the previous year's level. This is 10.5 percent of total Group revenue, compared to 16.4 percent in 2019. The cash-conversion ratio (free cash flow to net income: €87.6/€96.1 million) was 91.1 percent (2019: 93.9 percent). Free cash flow per share declined by 40 percent, from €1.97 in 2019 to €1.18 in 2020.

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

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

Statement of Cash Flows for 2020

in € millions	2020	2019
Net cash from operating activities	112.4	172.0
Net cash from investing activities	-10.3	-15.2
Net cash from financing activities	-99.8	-118.5
Net change in cash and cash equivalents	-33.7	51.3
Cash and cash equivalents at end of period	480.0	513.6
Free cash flow	87.6	145.8

2020 Group Liquidity Development

in € millions

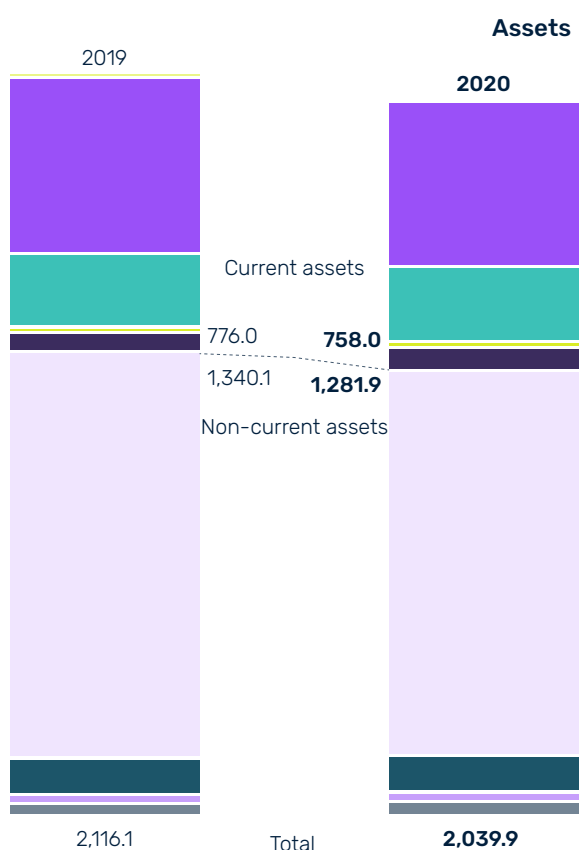
Group liquidity as of Dec. 31, 2019	513.6 (2019: 462.4)
Net cash from operating activities	112.4 (2019: 172.0)
Proceeds from outside capital	50.1 (2019: 0.0)
Repayments on outside capital	-77.7 (2019: 49.4)
Investments	-10.2 (2019: -10.2)
Payments for acquisitions, net	0.0 (2019: -5.1)
Dividend payments	-56.6 (2019: -52.8)
Repayments on lease liabilities	-15.6 (2019: -16.2)
Currency translation adjustment	-36.0 (2019: 12.9)
Group liquidity as of Dec. 31, 2020	480.0 (2019: 513.6)

Asset structure analysis

Software AG continued to have a strong balance sheet. Assets as of December 31, 2020 declined slightly to €2,039.9 million, compared to €2,116.1 million the year before.

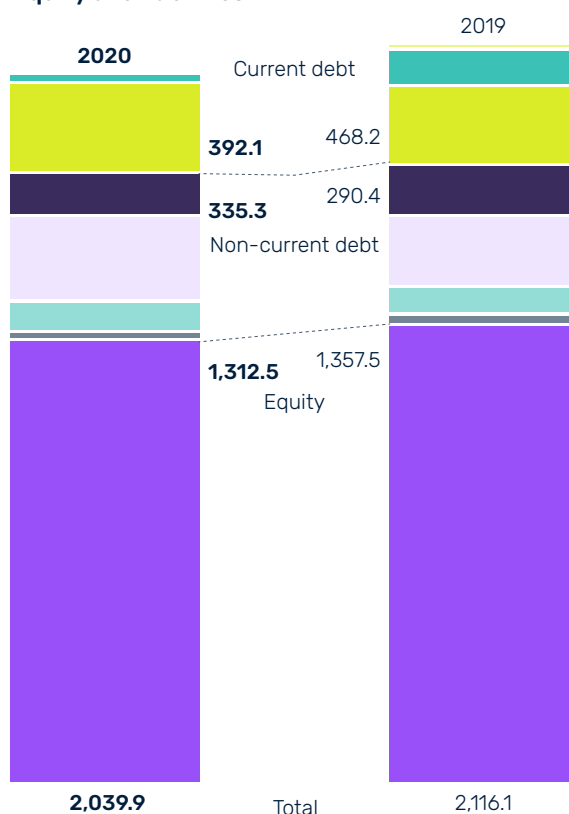
Balance Sheet Structure

in € millions



0.0	(4.8)	Assets held for sale
480.0	(513.6)	Cash and cash equivalents
211.8	(206.6)	Trade receivables and other receivables
7.4	(5.7)	Other financial assets
58.9	(45.3)	Other non-financial assets
1,135.9	(1,200.7)	Fixed assets (Goodwill 947.4/980.1)
95.5	(96.5)	Trade receivables and other receivables
17.7	(17.1)	Other financial assets
32.7	(25.8)	Other non-financial assets

Equity and liabilities



0.0	(5.1)	Liabilities directly related to assets held for sale
16.4	(96.4)	Financial liabilities
257.3	(225.8)	Other current liabilities
118.3	(140.9)	Deferred income
243.5	(200.2)	Financial liabilities
78.0	(70.0)	Other non-current liabilities
13.8	(20.2)	Contract liabilities/deferred income
1,312.5	(1,357.5)	Equity

On the **assets** side, current assets declined to €758.0 million (2019: €776.0 million); cash and cash equivalents had declined since the start of 2020. This change resulted primarily from the balance of currency translation adjustment of cash and cash equivalents in the amount of –€36.0 million, offset by the change in cash and cash equivalents, which increased by €2.4 million.

Assets held for sale in the amount of €4.8 million, which had been reported in the balance sheet for the first time in the previous year, were due to the planned sale of the Spanish consulting business. This item was eliminated once the sale of this business was carried out on June 30, 2020.

Trade receivables, contract assets, and other receivables increased by €5.2 million to €211.8 million (2019: €206.6 million). This increase has to do in part with the malware attack in October 2020, which led to a delay in the issuance of invoices in the fourth quarter, and to a delay in the receipt of payment accordingly.

Income tax refund receivables, which rose €11.3 million to €30.2 million (2019: €18.9 million), reflect the lower earnings before taxes, which did not lead to a corresponding decline in income tax prepayments. These excess tax prepayments will lead to higher tax refunds from the tax authorities in the subsequent year, 2021, particularly in Germany and the USA.

Non-current assets declined by €58.2 million to €1,281.9 million (2019: €1,340.1 million). This decline resulted from the drop in intangible assets by €17.3 million, from €116.6 million in the previous year to €99.3 million as of December 31, 2020, of which –€15.8 million was attributable to amortization and –€3.7 million to currency effects. The remaining changes related to net investments in software used for operations, in the amount of €2.2 million. In addition, there was a currency-related decline in goodwill by €32.7 million, from €980.1 million in the previous year to €947.4 million as of December 31, 2020. A large portion of this item is denominated in U.S. dollars, which depreciated against the euro, from 1.12 USD/EUR as of December 31, 2019 to 1.23 USD/EUR on December 31, 2020. Property, plant and equipment also declined, by €21.7 million, from €104.0 million as of December 31, 2019 to €82.3 million as of December 31, 2020, primarily due to write-downs and to a lesser extent to currency effects. In addition, an amount of €6.9 million was reclassified from this item as of

December 31, 2020 and was reported instead as part of investment property. This reclassification was carried out in accordance with IAS 40 and was mainly due to the sale of the Spanish Professional Services business. As a result of the sale, a large portion of the administration building belonging to Software AG España is now rented to the buyer of the Professional Services business. On the other hand, non-current other non-financial assets increased by €4.1 million, from €3.0 million in the previous year to €7.1 million as of December 31, 2020, due almost exclusively to an increase in recognized sales commissions.

On the **liabilities** side, current debt declined by 16 percent as of December 31, 2020, to €392.1 million (2019: €468.2 million). Liabilities directly related to assets held for sale, which were reported in the balance sheet for the first time in the previous year, amounted to €5.1 million and were due to the planned sale of the Spanish consulting business. This item was eliminated once the sale of this business was carried out on June 30, 2020. Current financial liabilities, in particular, declined by €80.0 million to €16.4 million (2019: €96.4 million), primarily due to repayment of financial liabilities. In addition, contract liabilities/deferred income decreased by €22.6 million to €118.3 million (2019: €140.9 million). Of this decline, €20.4 million was attributable to a decrease in maintenance revenue, which was mainly due to the conversion to subscription business. In addition, the strength of the euro in comparison to all other major foreign currencies, especially the U.S. dollar, led to a further decline in this item by €8.6 million. In contrast, trade accounts payable increased by €11.3 million to €47.1 million (2019: €35.8 million). This change also reflects an increase in accounts payable in the framework of higher costs due to increased investments in connection with the Helix strategy. Other non-financial liabilities also increased, by €21.8 million to €138.2 million (2019: €116.4 million). This rise was primarily due to increased liabilities to employees for sales commissions, which was due to the strong growth in bookings.

Non-current debt increased by 15 percent, or €44.9 million, to €335.3 million (2019: €290.4 million). This increase was due primarily to the increase in financial liabilities, which rose from €200.2 million in the previous year by €43.3 million to €243.5 million in 2020. In fiscal 2020, €50.1 million in non-current financial liabilities was recognized and €25.0 million was paid back. Provisions for pensions and similar obligations also increased, by €7.5 million to €55.4 million

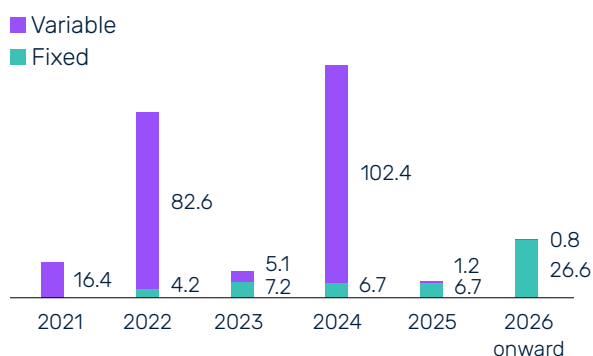
(2019: €48.0 million). Non-current contract liabilities/deferred income declined, in contrast, by €6.4 million to €13.8 million (2019: €20.2 million). This development was in line with the development of current contract liabilities/deferred income as described above.

At the end of fiscal 2020, net liquidity was €220.1 million (2019: €217.0 million), while shareholders' equity declined by €45.0 million to €1,312.5 million (2019: €1,357.5 million), and was thus down 3 percent year-on-year. The reasons for this decline were described in Financing Analysis above. Software AG's equity-to-assets ratio was 64.3 percent, compared to 64.2 percent as of December 31, 2019.

Off-balance sheet assets

In addition to the assets reported in the Consolidated Balance Sheet, Software AG recognizes off-balance sheet assets as well. Off-balance sheet assets include the Software AG brand and internally developed software products, which are important intangible assets. Employees, their skills and their dedication are also critical to Software AG's success.

Maturity Profile of Financial Liabilities



Multi-Period Assets Summary

in € millions	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Assets					
Current assets	758.0	776.0	724.9	650.3	642.0
Non-current assets	1,281.9	1,340.1	1,283.0	1,257.2	1,315.2
	2,039.9	2,116.1	2,007.9	1,907.5	1,957.2
Equity and liabilities					
Current liabilities	392.1	468.2	488.4	582.6	467.6
Non-current liabilities	335.3	290.4	280.4	206.6	292.8
Equity	1,312.5	1,357.5	1,239.1	1,118.3	1,196.8
	2,039.9	2,116.1	2,007.9	1,907.5	1,957.2

Software AG's Financial Position and Performance

Separate statement for the parent company

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

Software AG's financial performance

The key items of the **income statement** are as follows:

in € millions	2020	2019	+/- as %
Licenses	49.2	48.2	2.1
Maintenance	103.6	105.8	-2.1
Software as a Service	7.5	5.5	36.4
Services	98.8	108.4	-8.9
Total revenue	259.1	267.9	-3.3
Operating income and expenses	-306.1	-256.5	19.3
Income from investments and profit transfers	93.0	101.4	-8.3
Operating earnings before interest and taxes	46.0	112.8	-59.2
Net financial income/expense	-2.2	-1.3	69.2
Earnings before taxes	43.8	111.5	-60.7
Taxes	-2.3	-16.0	-85.6
Net income/loss for the year	41.5	95.5	-56.5

- **Licenses** resulted from license-related royalties from subsidiaries and from Software AG's own license sales in Germany.
- **Maintenance** includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products.

- **Software as a Service (SaaS)** revenue resulted from SaaS-related royalties from subsidiaries and from Software AG's own SaaS sales in Germany.
- **Services** include management fees cross-charged to the subsidiaries as well as services rendered by central support and cross-charged research and development costs.
- **Operating income and expenses** include changes in inventories of work in progress, other operating income and expenses, expenses for purchased goods and services, personnel expenses and write-downs on intangible and tangible fixed assets. The rise resulted primarily from higher currency translation losses, higher write-downs on receivables from subsidiaries and expenses in connection with the malware attack.
- **Income from investments and profit transfers** includes dividends from subsidiaries, income and expenses arising from profit transfer agreements and write-downs of financial assets and marketable securities. The net result remained nearly unchanged year-on-year.
- **Net financial income/expense** is the result of offsetting other interest and similar income against interest and similar expenses. The year-on-year increase resulted primarily from lower earnings on interest for loans to subsidiaries.

Software AG's financial position

Software AG's **total assets** increased by a total of €144.0 million, from €850.6 million on December 31, 2019 to €994.6 million on December 31, 2020.

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

in € millions	2020	2019	+/-
Intangible assets	27.0	10.1	16.9
Property, plant and equipment	37.9	39.7	-1.8
Financial assets	700.3	698.2	2.1
Inventories	0.1	0.1	0.0
Receivables and other assets	76.8	76.7	0.1
Cash and cash equivalents and short-term securities	143.1	15.8	127.3
Prepaid expenses	9.4	10.0	-0.6
Assets	994.6	850.6	144.0
Equity	296.7	311.4	-14.7
Provisions	108.1	101.3	6.8
Liabilities to banks	235.3	258.9	-23.6
Remaining liabilities	354.4	178.8	175.6
Deferred income	0.1	0.2	-0.1
Equity and liabilities	994.6	850.6	144.0

- **Intangible assets** went up by €16.9 million. This resulted mainly from the purchase of software rights and the brand name from Cumulocity GmbH in the amount of €18.2 million.

- **Cash and cash equivalents** went up by €127.3 million. Software AG predominantly generates liquidity based on royalties, dividend disbursements, 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 disbursements 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 it does not prepare such a statement.

- Software AG's **equity** decreased by €14.7 million year-on-year. This decline resulted mainly from the balance of €41.5 million in net income and €56.2 million in dividends paid out to Software AG shareholders in fiscal 2020.

- **Provisions** remained nearly unchanged from the previous year.

- **Liabilities to banks** went down by €23.6 million. This is primarily in connection with the net decline in investment loans.

- **Remaining liabilities** rose by €175.6 million. This change is due mainly to the rise in loan liabilities to affiliated companies.

Outlook

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

Combined Non-Financial Statement

Fundamental Aspects

Reporting system

Software AG's Combined Non-Financial Statement relates to the fiscal year from January 1 to December 31, 2020. The report has been published in this format as part of the Combined Management Report since fiscal 2017.

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

The contents of the Combined Non-Financial Statement relate to Software AG and the Group. The Software AG Group's non-financial indicators are based on data that generally correspond to the scope of consolidated financial reporting. Any deviations are explained accordingly. The measures presented for the individual aspects are ongoing, unless stated otherwise.

External audit of the Combined Non-Financial Statement

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

Explanation of the business model

For more information on Software AG's business operations and [business model](#), please refer to Fundamental Aspects of the Group in the Combined Management Report. The [materiality analysis](#) is presented in the Key Topics section.

Corporate social responsibility and sustainability

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

Software AG's nonfinancial reporting encompasses the aspects listed in section 289c (2) of the HGB: combating corruption and bribery, respect of human rights, employee concerns, social matters and environmental matters. In addition, the aspect of customer concerns is also taken into consideration.

Software AG ensures its accountability by assigning non-financial matters to the roles and responsibilities of its Management Board members accordingly. The topics of environment, social and governance (ESG; including combating corruption and bribery) are assigned to the CEO and therefore have the highest level of priority. For more information on the responsibilities of the members of the Management Board, please refer to [Note \[38\]](#) in the Notes to the Consolidated Financial Statements.

To Software AG, responsible conduct means:

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

The Management Board of Software AG believes that diversity and inclusion contribute significantly to an open and innovative corporate culture, and are a key factor for business success. Values such as trust, respect, open-mindedness and transparency shape Software AG's global operations. Software AG is a multinational corporation with operations in more than 70 countries. This means many different cultures and legal systems converge. The Company therefore instituted a global Code of Conduct in 2011, which is updated on a regular basis. It describes the values shared by all employees worldwide that form the basis for Software AG's conduct as a company—with customers, partners and employees alike.

Stakeholders

Software AG has internal and external stakeholders. The internal stakeholder groups comprise the employees, the Management Board, the Supervisory Board, the Compliance Board and the Works Council. The external stakeholder groups include the customers, investors, partner network, suppliers and service providers, graduates and (potential) future employees, universities and research institutions, social actors in local communities, government and associations, non-governmental organizations (NGOs) and key multipliers such as analysts and the media.

Key topics

Materiality analysis

Software AG began conducting a materiality analysis involving its internal and external stakeholders in order to identify the non-financial issues that were of relevance to the Company in fiscal year 2017. In February 2019, Software AG announced a new medium-term strategy—Helix—to accelerate revenue growth. In order to reflect the resulting changes, Software AG updated the materiality analysis again in fiscal 2020.

To update the materiality analysis, Software AG worked with an external consulting company from Frankfurt, Germany, which specializes in implementing sustainable concepts.

A materiality analysis was conducted in two steps to identify key issues for the Non-Financial Statement. During the first step, selected internal stakeholders from sustainability-relevant areas at Software AG participated in qualitative interviews. Furthermore, external stakeholders were also surveyed regarding Software AG's sustainability challenges. The second step was a preliminary materiality analysis at Software AG. This preliminary analysis included an evaluation per the GRI's sustainability reporting standards, the industry recommendations for software companies from the SASB, and the non-financial statements from other companies in the industry. The potentially relevant topics identified in this process were summarized into 26 important concerns taking into account the key issues from the 2019 Non-Financial Statement. During a joint workshop, Software AG's leaders validated the already identified issues and evaluated them regarding their materiality. A stakeholder survey is planned for 2021 to validate and prioritize these results like the one conducted online in 2018.

List of key topics

As part of the materiality analysis conducted in fiscal year 2020 per GRI, Software AG identified the topics

listed in the table as highly relevant. The 26 key topics are categorized into five areas defined by Software AG: Leadership and Governance, Employees, Customers and Technology, Society and Environment.

Key Topics	Reporting Standard	Minimum Content (According to HGB) and Other Aspects Deemed to be Material	Page
Leadership and Governance area of action			
Information security	SASB TC-SI-230a	Customer concerns	91, 92
Compliance, ethical conduct and competitive behavior	GRI 205/206, SASB TC-SI-520a	Combating corruption and bribery (section 289c (2) no. 5)	91, 93
Business performance and growth	n/a	Not a key topic pursuant to HGB, because there is no impact relevance in the sense of section 289c (3) HGB	–
Intellectual property protection	n/a	Combating corruption and bribery (section 289c (2) no. 5)	91, 93
Sustainable supply chains and human rights	GRI 412/414	Respect of human rights (section 289c (2) no. 4)	91, 93
Brand visibility and reputation	n/a	Not a key topic pursuant to HGB, because there is no impact relevance in the sense of section 289c (3) HGB	–
Employees area of action			
Employee satisfaction	GRI 401, SASB TC-SI-330a	Employee concerns (section 289c (2) no. 2)	94, 95
Transparent and trusting corporate culture	GRI 401, SASB TC-SI-330a	Employee concerns (section 289c (2) no. 2)	94, 95
Diversity and inclusion	GRI 405	Employee concerns (section 289c (2) no. 2)	94, 96
Work/life balance	n/a	Employee concerns (section 289c (2) no. 2)	94, 97
Occupational health	GRI 403	Employee concerns (section 289c (2) no. 2)	94, 97
Recruiting global, diverse and qualified teams	n/a	Employee concerns (section 289c (2) no. 2)	95, 98
Personal and professional development	GRI 404	Employee concerns (section 289c (2) no. 2)	95, 98
Employer-employee relations	GRI 402	Employee concerns (section 289c (2) no. 2)	95, 98
Customers and Technology area of action			
Protection of customer data	GRI 418, SASB TC-SI-220a	Customer concerns	99, 101
Innovation	n/a	Customer concerns	99, 101
Customer satisfaction and loyalty	n/a	Customer concerns	99, 101
Product and service quality	n/a	Customer concerns	99, 101
Adding value for customers	n/a	Customer concerns	100, 101
Product support	SASB TC-SI-550a	Customer concerns	100, 101
Tech for good	n/a	Customer concerns, social matters (section 289c (2) no. 3)	100, 101
Society area of action			
Employee engagement and local communities	GRI 413	Social matters (section 289c (2) no. 3)	102, 103
Value for society	n/a	Social matters (section 289c (2) no. 3)	102
Government relations and stakeholder dialogue	n/a	Social matters (section 289c (2) no. 3)	102, 103
Environment area of action			
CO ₂ footprint	GRI 302/305, SASB TC-SI-130a	Environmental matters (section 289c (2) no. 1)	105, 106
Resource efficiency	GRI 301/306, SASB TC-SI-130a	Environmental matters (section 289c (2) no. 1)	105, 108

Moreover, the topics were assigned to the aspects listed in section 289c (2) of the HGB: respect of human rights, combating corruption and bribery, employee concerns, social matters and environmental matters. In addition, the aspect of customer concerns is also taken into consideration.

Prioritization of key topics

The impact risk map visualizes how Software AG's management prioritizes the issues listed under the key topics. For Software AG, topics that the Company's business activities have a significant positive or negative economic, environmental or social impact

on (prioritization illustrated in the impact risk map on the Impacts axis) are considered key along with topics that have a significant impact on the understanding of business development, business performance or the Company's position (prioritization illustrated in the impact risk map on the Risks axis).

The issues of purely economic relevance, economic performance and growth, as well as brand visibility and reputation are considered by stakeholders to be key, but are not included in the previously mentioned aspects and do not have a relevant impact in accordance with section 289c(3) of HGB.

Assessment of Key Topics: Impact-Risk Map



General Aspects

At a minimum, the Non-Financial Reporting Statement must refer to the aspects environmental matters, employee concerns, social matters, respect of human rights, and combatting corruption and bribery according to section 289c (2) of the HGB. Software AG has established concepts for all of the aspects defined in the HGB, and these are covered in the Company's specified areas of action. respect of human rights and combating corruption and bribery are addressed in the area Leadership and Governance. The aspects environmental matters, employee concerns, and social matters are covered in the areas Environment, Customers and Technology, and Society areas. In addition to the aspects stated in the HGB, Software AG has also defined Customers and Technology as well as Leadership and Governance as key areas of action.

Code of Conduct and Conventions and Recommendations of International Organizations

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

Global Code of Business Conduct and Ethics

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

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

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

Compliance with the Code of Conduct

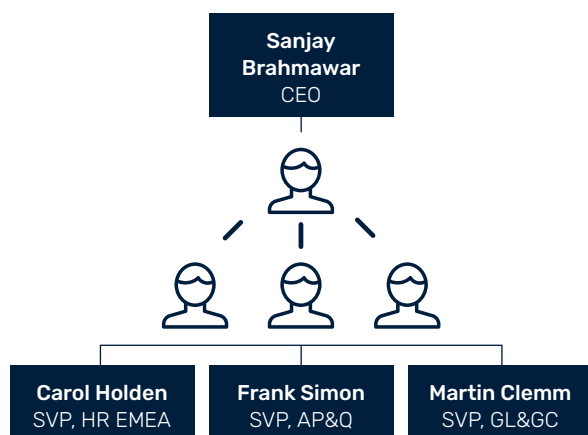
Software AG has introduced various mechanisms to help its employees comply with the Code of Conduct. For example,

- All new employees must complete an online training program, which integrates hands-on examples, to familiarize them with the different aspects of Software AG's Code of Conduct.
- The online training is offered through Software AG's learning management system, which checks that employees complete the training. The duration of the training program varies, depending on the employee's individual speed, and is therefore not documented.
- At the end of the online training program, they complete a multiple-choice test; after passing the test, they are issued a certificate.
- The Compliance Board can be contacted (also anonymously) regarding all questions and approvals. Software AG has set up an email-based reporting system at complianceboard@SoftwareAG.com for reporting incidents.

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

The Compliance Board reports directly to the CEO and consists of the following members:

Compliance Board



During the reporting year, the Compliance Board was comprised of:

- Through May 2020: Stefan Langolf (Senior Director, Human Resources), starting June 1, 2020: Carol Holden (Senior Vice President, HR EMEA excl. DACH)
- Frank Simon (Senior Vice President, Audit, Processes & Quality)
- Martin Clemm (Senior Vice President, Global Legal & General Counsel)

The essential duties and responsibilities of the Compliance Board include:

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

In reporting year 2020, the Compliance Board received a total of 52 (2019: 36) inquiries from Software AG employees.

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

Scope

The Code of Conduct applies to Software AG world-wide, including but not limited to, employees and agents acting on behalf of Software AG.

Partner Code of Conduct

Software AG's business relationships with its partners are regulated by its Partner Code of Conduct, which includes a compliance self-assessment. It requires partners to provide information and commit in writing to comply with Software AG's Code of Conduct. The Compliance Board plays a regulatory and auditing role.

Supplier Code of Conduct

There are also conduct guidelines for suppliers: Software AG's binding Supplier Code of Conduct must be confirmed in writing by all suppliers of the Software AG Group. An enforcement guideline regulates the process for existing and new suppliers. The Compliance Board reviews compliance on a regular basis.

Conventions and recommendations of international organizations

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

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

Protection of data

The protection of personal data is a fundamental right of all individuals. Article 8 of the Charter of Fundamental Rights of the European Union (EU) defines the protection of personal data as a fundamental right; the protection of personal data is also part of the EU data protection laws in accordance with the EU Data Protection Regulation (GDPR). Software AG respects the privacy of its customers' and their customers' personal data and therefore takes appropriate measures.

Software AG has appointed a Data Protection Officer and formed a data protection team to advise the business lines on data protection. The Data Protection Officer as well as the data protection team participate in regular training regarding the latest regulations, court rulings and the reasonable and customary implementation of data protection. An integrated data protection management system (DMS) was implemented in accordance with the requirements of the GDPR. The system documents, monitors and, if necessary, adapts the data protection aspects. The general processes for handling data protection incidents and violations are integral components of the DMS, and thus include incidents and violations that affect data from Software AG customers or other business partners. Software AG has implemented this DMS with its own products ARIS, ARIS Risk & Compliance Manager, Alfabet and webMethods AgileApps.

The effectiveness of the data protection processes is reviewed within the scope of the ISO 9001 and ISO-27018 (for cloud) audits. The results and findings are documented, and progress is measured in a central audit system. Management is regularly informed in relevant meetings.

Since the third quarter of 2020, Software AG has been focusing comprehensively on implementing the new data protection requirements resulting from the Schrems II decision handed down by the Court of Justice of the European Union. According to the decision, the personal data of EU citizens can only be transferred to third countries outside the European Economic Area if this country provides protection essentially equivalent to that of the EU. Third-country transfers of personal data can be performed with respective additional measures in compliance with data protection regulations after a legal analysis and risk/benefit analysis.

Data protection (SASB TC-SI-230a)

Due to the cyber incident in October 2020, Software AG informed a total of 78 affected parties in accordance with article 33 of the GDPR by December 31, 2020. The investigation into the incident will be continued in 2021, especially with regard to inspecting the published documents. It can be assumed that further notifications will be required per article 33 of the GDPR, which will be sent out directly in relation to the discovery of relevant content. The Company aims to have the investigation concluded in the first half of 2021.

Leadership and Governance

The Leadership and Governance area of action encompasses the key topics of information security (includes the customer concerns aspect deemed to be material in addition to the HGB), compliance, ethical conduct and competitive behavior, intellectual property protection (including the aspect combating corruption and bribery per section 289c (2) no. 5 HGB), as well as sustainable supply chains and human rights (includes the aspect respect of human rights per 289c (2) no. 4 HGB).

Concepts and due diligence processes

Information security

With its comprehensive information security management program, including various information security management systems (ISMS), Software AG aims to manage information resources in a holistic way so they are secure and protected. The ISMS for cloud services is certified for compliance with ISO/IEC 27001, 27017 and 27018. The independent audit by third-party auditors confirms compliance with the standard and certifies that the Software AG Cloud ISMS is comprehensive and reflects best practices in the industry. In addition, the independent external investigation reports on service organization (SOC) audits give Software AG customers detailed information about which controls have been defined for the safety and availability of cloud services from third-party providers.

Compliance, ethical conduct and competitive behavior

Software AG aims to ensure that all employees act with integrity and in a responsible, ethically correct manner as well as in accordance with legal regulations—especially with regard to competition and antitrust laws. The relevant principles are defined in Software AG's Code of Conduct. The topics covered by the Code of Conduct can be found in the Fundamental Aspects of the Non-Financial Statement. The goal is for all employees to know the Code of Conduct and follow it in their day-to-day work. To further improve the effectiveness of Code of Conduct training, a new training concept will be rolled out at every location worldwide in 2021.

Likewise, the Compliance Board, which is responsible for reviewing and assessing all compliance issues within Software AG, helps ensure that employees behave in compliance with the law and follow internal rules and procedures as well. Employees with questions about competition and antitrust can consult the Legal department responsible for the region or the Compliance Board. If potential compliance violations are suspected, the Compliance Board can commission internal audits. These are approved by the CEO and carried out by Internal Audit. The results of the audit and the resulting corrective measures are reported to, reviewed and evaluated by the Compliance Board and the CEO.

Software AG's Senior Vice President for Audit, Processes and Quality regularly reports to the Supervisory Board's Audit Committee on the results of internal audits as well as audits requested by the Compliance Board, and about the ongoing improvement of compliance instruments and the effectiveness of internal controls.

Intellectual property protection

Software AG regularly files patent applications to protect innovations arising from its research and development and currently holds a broad collection of intellectual property (IP) rights, including patents and design patents in Europe, the United States and China as well as trademarks in various countries of the world where Software AG does business. Copyrights are established by the products per se. To avoid litigation, a defined intellectual property process monitors infringement of product features by any third party. Trademarks are also monitored to protect their uniqueness in the market.

Although Software AG believes the ownership of such intellectual property rights is an important factor in its business and its success, the Company relies primarily on the innovative skills, technical competence and marketing abilities of its employees. No single intellectual property right is solely responsible for protecting the Company's products.

Sustainable supply chains and human rights

Software AG is an international company with locations, suppliers and partners all over the world. To ensure that the supply chain respects and protects human rights, Software AG introduced a Code of Conduct for both suppliers and partners. All of Software AG's business partners are required to sign Software AG's Supplier Code of Conduct. The Compliance Board assesses and rules upon exceptions to this rule. Software AG's comprehensive Code of Conduct ensures that its business partners adhere to ethical principles of conduct that go beyond the legislation of the respective countries.

Every new supplier is obligated to accept the conditions of the Supplier Code of Conduct before any orders are placed. There is a guideline that defines how it should be applied with a checklist to ensure compliance with all requirements. As a comprehensive management approach, the Code of Conduct refers to major international agreements and recommendations of international organizations, and defines the following points:

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

Software AG and its subsidiaries buy goods and services necessary for internal processes from a large number of suppliers in different countries according to clearly defined guidelines. Operational purchasing is handled locally by the relevant subsidiary. The cen-

tral Purchasing department analyzes all procurements in the Group and verifies compliance with the defined guidelines such as having all new suppliers sign the Supplier Code of Conduct. In turn, internal audits review the effectiveness of this governance process. The goal is to ensure that all procurements are preceded by a corresponding approval. The ethical and economic aspects are evaluated equally for the approval.

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

Global Sourcing Process

Request	Approval	Purchase	Reporting + Evaluation
Request For goods and services needed by a department	Approval Matrix • Role • Cost type • Commodity group • Limit	Investment and Expenditure policy • Selection of supplier • Order/contract • Purchase principles Supplier Code of Conduct	Report Generation • Purchase value • Relative savings • Absolute savings • Supplier evaluation • Order processing times

Results of the applied concepts and performance indicators

Information security (SASB TC-SI-230a)

For Software AG, implementing a comprehensive security strategy means proactively ensuring the security of business-critical data and important information resources. As a provider of maintenance and support, cloud services, Professional Services as well as product delivery, Software AG works with confidential customer data and thus acts as a processor. Software AG also manages sensitive information about his own business, employees and customers, prospective customers, partners and suppliers and is responsible for that data in this role. A variety of security measures are utilized throughout the entire Company. These include training employees on IT security, phishing and data protection.

In October 2020, Software AG was the target of a malware attack. The Company has defined further measures to additionally minimize the risk of such events.

- External audits of critical IT systems based on the investigation results for the event and the recommendations derived from them
- Involving external specialists in ongoing monitoring of the IT landscape
- Review of the security architecture and network security at Software AG
- Implementation of additional tools, measures and employee training to increase IT security and raise awareness about information security
- Review of the process that is activated for security incidents
- Reevaluation and continuous improvement of readiness during a security incident

Some of these measures have already been implemented, and the rest are primarily scheduled for fiscal 2021.

Compliance, ethical conduct and competitive behavior (GRI 205/206, SASB TC-SI-520a)

Completed training on the Code of Conduct

The clear rules of the Code of Conduct and mandatory training promote integrity and fair business practices at Software AG. In fiscal 2020, a total of 622 (2019: 670) new Software AG employees completed the training on the Code of Conduct and received the required certification. Software AG completely revised the training concept during the reporting year and added interactive elements such as role-play. Training conducted according to the new concept starting in 2021 should provide even better support for employees to conduct themselves with integrity and in accordance with laws and internal guidelines—even in difficult situations.

The Internal Audit department's auditing program was developed further in 2020. The program was supplemented with additional auditing content for countries that exceed a certain value in Transparency International's Corruption Perceptions Index (CPI), the world's most well-known corruption indicator. This identifies and prevents corruption and fraud in countries with high corruption risk even more effectively.

No significant violations of competition law were found in 2020.

Intellectual property protection

The number of new patent filings rose slightly in fiscal 2020 in line with the trend in recent years.

Sustainable supply chains and human rights (GRI 412/414)

Software AG employs targeted methods to rule out human rights violations and child labor. Software AG mitigates the risks arising from working with partners and suppliers by requiring them to commit to excluding child labor and respecting human rights in the Partner Code of Conduct and Supplier Code of Conduct, respectively.

Software AG is not aware of any cases in the reporting year or previous years where products or product components have been linked to human rights viola-

tions or child labor. For this reason, Software AG has not implemented any additional internal procedures or control indicators to exclude human rights violations and child labor other than those set forth in the Code of Conduct and the procedures implemented in the purchasing process and partner business.

Significant risks

The number of cyberattacks against companies in Germany reached an all-time high in 2020 according to the Federal Office for Information Security (BSI). While, at the same time, complex and targeted attacks on critical IT infrastructures called "advanced persistent threats" are able to circumvent many conventional security mechanisms. The measures described above reduce the risk. Information on legal risks in the [information security](#) area can be found in the Opportunity and Risk Report.

Risks from corruption and anti-competitive behavior arise in international business activities due to differences in understanding regarding ethical and moral business practices from one country to the next. This risk is curbed through the measures described above. In addition, adherence to compliance provisions is ensured through the activities of the Compliance Board as well as the Internal Audit department. Information on legal risks in the area of [compliance](#) (includes the aspect combating corruption and bribery per section 289c (2) no. 5 HGB) can be found in the Opportunity and Risk Report.

Information on risks for Software AG in the [intellectual property protection](#) area can be found in the Opportunity and Risk Report.

Software AG believes that its worldwide operations do not pose a significant risk of its activities having a serious negative impact on human rights. Since its business partners are obligated through the comprehensive Code of Conduct, Software AG believes that the risk of its business partners violating human rights and infringing on the rights of children and young people is very low. An academic background or several years of training are an absolute prerequisite for people working in the IT industry and in turn, for the vast majority of Software AG employees. The Company therefore sees no risk of child labor within its own business operations or in connection with the use of Software AG's products and services.

Employees

The Employees area of action includes the key topics of employee satisfaction, transparent trusting corporate culture, diversity and inclusion, work/life balance, occupational health, recruiting global, diverse and qualified teams, personal and professional development, and employer-employee relations. The area of action corresponds to the employee concerns aspect per section 289c (2) no. 2 HGB.

Concepts and due diligence processes

Transparent and trusting corporate culture

Software AG attaches great importance to fostering a transparent, respectful and trusting corporate culture. Since corporate culture, employee satisfaction and engagement are mutually supporting, Software AG has implemented a variety of initiatives to better understand the correlations and to positively impact the Company's culture. Ultimately, corporate culture plays a decisive role in the implementation of the Helix transformation growth strategy.

The #MyVoice employee survey evaluates employee satisfaction and engagement. A defined set of questions serves to update the index on an annual basis on topics including corporate culture, respect and staff development. In addition, current topics in 2020 such as the COVID-19 pandemic and the resulting internal regulations and measures are addressed. The survey results are communicated internally and taken into consideration in companywide activities in the People & Culture area. Managers are responsible for discussing the results in their teams and implementing measures for improvement.

Diversity and inclusion

The Management Board considers diversity and inclusion to be a fundamental component of an open and innovative corporate culture and strives to maintain a work environment that encourages employees to contribute their different perspectives. Every employee should contribute to the Company's success with their individual personality and strengths, and in so doing develop their full potential.

As a comprehensive management approach, the Code of Conduct sets out what Software AG considers to be ethically correct conduct in its day-to-day business, and addresses the topics of equal treatment and anti-discrimination among others.

Another of Software AG's objectives is hiring women and promoting their professional development. Software AG participates in diverse projects as a certified "MINT-Minded Company" to boost women's interest in IT professions and their appeal as a career. Likewise, Software AG supports its female employees in Germany by participating in the Women into Leadership Initiative. Software AG India developed the SoftwareAGain program specifically for women who have temporarily left the workforce—for personal reasons, for example. The initiative aims to support women in computer science and software engineers with a phased return to the professional world. With these initiatives, internal networks were created in 2020 specifically for women to share their experiences in India and the DACH region. These initiatives are slated to be continued in fiscal 2021.

Work/life balance and occupational health

Employee health is a top priority for Software AG. For that reason, the Company is implementing measures to promote employee health in Germany that aim to motivate employees to adopt a healthy lifestyle and strengthen their personal responsibility in health issues. A successful company health management program improves the health of employees, reduces physical and mental strain from work, prevents disease, enables a smooth reentry for employees previously unable to work, reduces the duration and cost of health-related absences and increases employee satisfaction and commitment. Moreover, it increases Software AG's appeal as an employer to existing and potential employees.

To achieve the goals of its Company health promotion program and allow its effectiveness to be assessed by experts, Software AG is working together with public health insurance companies in Germany. Sick leave at Software AG in Germany is evaluated based on regular reports and comparisons with data published by health insurance companies. The department collaborates with the Management Board to determine the necessary individual and collective measures.

For instance, health management measures at Software AG in Germany include the Company physician, ergonomic workspace design, and vocational rehabilitation management along with a wide range of health initiatives like COVID-19 tests, flu shots, massage, company sports groups, health checkups and counseling.

For many employees, having the opportunity to balance personal life, family and work is a crucial aspect in assessing physical and mental strain from work. The need for flexible working hours and models varies from one Software AG location to the next. Software AG offers employees in Germany flexible work hours, diverse part-time models, and a 50-plus initiative with special offerings for employees over the age of 50. Flexible work hours and work models are also a competitive factor for recruiting the best talent. Software AG works to continually adapt its programs to meet its employees needs and improve the high ratings it receives on employer evaluation platforms like Glassdoor and Kununu.

Recruiting global, diverse and qualified teams

The expertise and personal skills of Software AG employees are a crucial factor in customers', investors' and business partners' decision to choose Software AG—and thus a key factor for the Company's success.

The Talent Sourcing department introduced a new active sourcing concept in mid-2020 to identify qualified external candidates and proactively approach them about open positions.

Furthermore, Software AG provides targeted promotional and educational measures for students in high school and university as well as for future talent to support young people in their development early on. In Germany, the Company offers a variety of educational and training programs in the areas of office management and computer science as well as dual studies degree programs.

Personal and professional development

For Software AG, regular performance reviews and career development meetings are a key tool for employee motivation and loyalty. In these reviews, employees and their supervisors find out together how they can further their professional and personal development.

Software AG's Global Corporate University supports employees and managers in developing both their personal and professional expertise through numerous online and in-person training offerings that cover topics ranging from soft skills to leadership and technical/product skills.

The new Leadership Learning Journey format was developed in 2020 for Software AG's managers to help them continue to develop on an individual basis and network throughout the Company. In the Future Talents Program that was developed specifically for rising talent at the Company, participants receive training in areas such as change management or influencing skills and share their experiences with other participants.

Employer-employee relations

Flat hierarchies, codetermination and an open relationship between corporate leadership and employee representatives characterize the corporate culture at Software AG. In Germany, the main bodies for codetermination are the Supervisory Board, which has two elected employee representatives, and the local Works Councils, General Works Councils, the Economic Committee and a variety of technical committees.

Results of the applied concepts and performance indicators

Employee satisfaction and transparent and trusting corporate culture (SASB TC-SI-330a)

In 2020, 82 percent of employees took part in #MyVoice, the Company's global employee survey. The Q12 Engagement Score, which measures employee commitment based on 12 standardized questions, improved over the previous year by 0.29 points to a value of 3.92 (2019: 3.63). The Accountability Index is an indicator for the future development of commitment and was surveyed for the first time in 2020. The value for 2020 came in at 3.71 points.

In 2020, in addition to the global employee survey, different departments at Software AG conducted approximately 20 (2019: 30) other surveys related to topics including employee and customer satisfaction. The number of topic-related surveys came in lower than the previous year due to the effort involved in pandemic-related adjustments and the internal system outage after the malware attack.

Software AG achieved a score of 3.9 (2019: 4.2) on the global employer rating platform Glassdoor on a scale from 0.0 (very dissatisfied) to 5.0 (very satisfied). On Kununu, Germany's rating platform, Software AG achieved a score of 3.74 (2019: 3.84) on a scale from satisfactory (1–2) to very good (4–5). Software AG India took part in the "Great Place To Work" survey in 2020 and was recognized as one of the top 75 IT-industry companies in the area of "IT & IT-BPM, 2020."

To ensure that corporate culture, talent management and continuing education and training are driven strategically and across teams, a global Competence Center for Human Resources was implemented at the beginning of 2020. Furthermore, Software AG found a circle of employees with its Change Network who act as multipliers within the Company to support and strengthen the cultural transition at all of its locations around the world.

Staff turnover¹ (GRI 401)

Staff turnover rate is a key metric for measuring employee satisfaction and Software AG's appeal for young talent and trained professionals. For that reason, it is analyzed regularly for different departments and regions in order to implement appropriate countermeasures in case of high numbers.

The attrition rate at Software AG in 2020 was 10.1 percent, which corresponds to a decrease of 1.5 percentage points compared to the previous year. The attrition rate is calculated as the number of leavers in the past fiscal year in relation to the average number of employees. The number of voluntary and non-voluntary employee leavers is also analyzed. Software AG's aim is to minimize the negative impact of leavers on its business.

Diversity and inclusion

An initiative to promote diversity, equity and inclusion was introduced at the end of 2020. Over 200 employees shared their ideas, experiences and suggestions in global workshops. The results from these workshops will be considered in the drafting and implementation of global and regional diversity concepts and activities.

In 2020, Software AG joined The Valuable 500 initiative, an organization that places inclusion for people with disabilities on the daily agenda of company managers. The Company has been a member of the Initiative for Women into Leadership (IWIL), a nonprofit organization that facilitates long-term promotion of women at the top level, since 2019. Software AG received an excellent rating as a "Great Place to Work for Women" in 2020 and ranks in the top 50 employers for women in India.

Management Board, Supervisory Board and employees by gender and age group (GRI 405)

The numbers are based on data from Software AG's (workday) personnel information system as of December 31, 2020, and data from its SAP system (information about dormant employee contracts):

Supervisory Board by Gender and Age Group

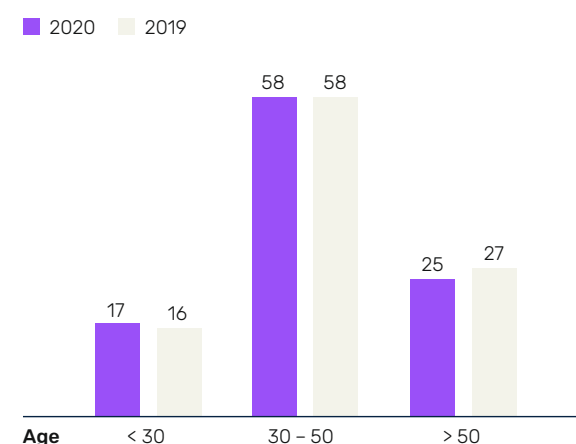
as %, as of Dec. 31, 2020	<30	30–50	>50	Total
male	0.0	0.0	83.3	83.3
female	0.0	0.0	16.7	16.7
diverse	0.0	0.0	0.0	0.0
Total	0.0	0.0	100.0	100.0

Management Board by Gender and Age Group

as %, as of Dec. 31, 2020	<30	30–50	>50	Total
male	0.0	40.0	40.0	80.0
female	0.0	20.0	0.0	20.0
diverse	0.0	0.0	0.0	0.0
Total	0.0	60.0	40.0	100.0

¹ Most significant performance indicator (see Non-Financial Performance Indicators in the Combined Management Report)

Age Group Trend

Employees¹ by Gender and Age Group

as %, as of Dec. 31, 2020	<30	30–50	>50	Total
male	10.6	41.1	19.0	70.7
female	6.1	16.7	6.4	29.2
diverse	0.0	0.0	0.0	0.0
Total	16.7	57.8	25.5	100.0

Total number of employees by gender, region and employment type (GRI 405)

Total Number of Employees¹ by Gender

Full-time employees	Dec. 31, 2020	Dec. 31, 2019	+/- as %
male	3,273	3,422	-4
female	1,354	1,429	-5
diverse	1	2	-50
Total	4,628	4,853	-5

Total Number of Employees¹ by Region

Full-time employees	Dec. 31, 2020	Dec. 31, 2019	+/- as %
EMEA	1,271	1,645	-23
DACH	1,314	1,268	4
thereof at HQ (Darmstadt)	881	862	2
thereof in DACH, excluding HQ	433	406	7
APJ	1,282	1,230	4
NAM	643	601	7
LATAM	118	109	8
Total	4,628	4,853	-5

Total Number of Employees¹ by Employment Type and Gender

	Dec. 31, 2020	Dec. 31, 2019	+/- as %
Full-time	4,390	4,544	-3
thereof male	3,202	3,327	-4
thereof female	1,187	1,215	-2
thereof diverse	1	2	-50
Part-time	238	309	-23
thereof male	71	95	-25
thereof female	167	214	-22
thereof diverse	0	0	0
Total employees	4,628	4,853	-5

Work/life balance and occupational health
(GRI 403)

Employees gave Software AG a very high score of 4.55 on work/life balance in the #MyVoice global employee survey for 2020.

Software AG has a management system for workplace safety and health protection that covers all employees of the Company and its subsidiaries in Germany. A vocational rehabilitation management program that aims to help employees overcome incapacitation as much as possible and prevent renewed incapacitation is a firm component of the Company's health management program. Software AG's number of days absent due to illness is below the average for German companies. The Workplace Safety Committee meets on a regular basis. The Workplace Safety Officer is the con-

¹ FTEs, adjusted for dormant employment contracts. Not including employees of FACT AG. There were no significant changes or seasonal fluctuations in the number of employees during the year.

tact for employees about any issues on workplace safety and health protection, and advises departments accordingly. Moreover, the departments receive advice on ergonomic workspace design. The Workplace Safety Officer conducts regular risk evaluations of workspaces.

Since the start of the COVID-19 pandemic, all employees who can do their job from home have had the opportunity to work remotely part-time or full-time if the laws at their location allow it. In addition, there is a COVID-19 task force to enable the Company to react immediately to global developments, establish necessary safety measures and inform employees.

During this challenging time of limited contact due to the pandemic, Software AG prioritized protecting its employees' health and work/life balance as well as helping them make working from home as pleasant as possible. For instance, the Company introduced "Meeting-Free Mondays" worldwide along with a meditation and mindfulness app for employees. The goal is to support employees in handling mental burdens and stress. In addition, Software AG offered employee assistance programs (EAPs) in some countries free of charge, in which employees could receive psychological support or professional advising on caring for children and family members.

Recruiting global, diverse and qualified teams

Software AG hired 653¹ new employees in 2020. As a reaction to the COVID-19 pandemic, the Company changed the application process on short notice to holding job interviews online.

Software AG has been expanding the dual-studies computer science degree program and launched the new Adabas & Natural Academy in winter semester 2020. In that program, students spend four semesters at the Darmstadt University of Applied Sciences and three practical semesters in different departments at Software AG. During 2020, Software AG's German locations had 65 trainees and dual-studies students (2019: 55), 51 interns and degree candidates (2019: 36) and 51 student employees (2019: 41).

Personal and professional development (GRI 404)

The process for employee development meetings was completely revised in 2020, so starting in 2021 there will be a new, standardized global format for annual employee development meetings. Data collection on regular performance evaluations and feedback will begin in fiscal 2021 to provide reporting on this key indicator.

The Corporate University continuously monitors the satisfaction of course participants, which involves evaluating the training offered and adapting it as needed. In 2020, the Company offered approximately 1,700 courses (2019: 1,800), mostly as e-learning courses. Employees can schedule online training for themselves and complete it at any time. Average satisfaction with the courses was 86.6 percent in 2020.

Since 2019, Software AG also measures the indicator "growth days," which is defined as the time that employees invest in their continuing education. The objective is to promote employees taking the initiative to further their training, especially in topics that go beyond their current job requirements. All topics are relevant that are of interest to employees and promote their personal growth at Software AG. Accepted learning formats include external seminars, offerings from recognized learning platforms, attending conferences, utilizing mentoring and coaching, and reading specialized literature. Employees have the opportunity to enter the time they spent in their iLearn learning account.

Growth Days

Year	Registrations	Learning Time (hours, net)	Learning Time/EMPL (hours, net)
2020	59,000	175,000	38.1
2019	45,000	147,000	30.5

Employer-employee relations (GRI 402)

The cooperation between employee committees and Software AG is close and based on trust. In fiscal 2020, their collaboration concentrated foremost on measures needed because of the COVID-19 pandemic. The Company was able to respond very quickly to the constantly changing risk level in close consultation with the committees.

As in previous years, another focal point of the committee's work in Germany was the implementation of new IT systems. Negotiations on these topics were concluded as planned and the respective systems were implemented.

Significant risks

The commitment shown by Software AG's employees paired with their professional and personal skills all contribute decisively to the Company's success.

¹ FTEs: not including temps, dual studies participants, trainees, student employees, interns or degree candidates.

Therefore, ignoring employee concerns poses a fundamental risk of—generally indirect—negative impacts on business performance. Examples of this include when low employee satisfaction leads to high turnover and a loss of company-specific expertise, when a lack of diversity in the corporate culture leads to weak innovation, when employees get sick and miss work due to a lack of exercise or psychological stress, when succession planning is neglected and unappealing for rising talents and qualified professionals, or when the Company neglects continuing education and training for employees in a competitive market. Employee recruiting is a crucial aspect of securing Software AG's business activities. Promoting young talent and hiring innovative employees are also criteria that lead investors and business partners to choose the Company.

For this reason, Software AG takes appropriate measures to promote internal talent and win external talent. The Company seizes the opportunities that lie in high employee satisfaction, and innovative and diverse corporate culture, attractive working conditions and employee development.

Software AG could not identify any significant risks with regard to the Employees area of action (corresponds to the employee concerns aspect per section 289c (2) no. 2 HGB). For more information on [personnel risks and opportunities](#), please refer to the Opportunity and Risk Report.

Customers and Technology

The Customers and Technology area of action includes the key topics of protection of customer data, innovation, customer satisfaction and loyalty, product and service quality, adding value for customers, product support and tech for good. In addition to the aspects stated in section 289c HGB, Software AG has also defined the customer concerns aspect as key in the Customers and Technology area of action.

Concepts and due diligence processes

Protection of customer data (SASB TC-SI-220a)

The protection of customer data falls under the areas of [data protection](#) and [information security](#). The Company uses an integrated management system (including DMS & ISMS) to implement appropriate measures for data protection and information security. This includes the protection of customer data.

The quality and effectiveness of data protection and information security processes are reviewed during audits of the integrated management system. Audit results, findings and progress are documented in a central audit system. Management is informed regularly on this topic. For more information, please refer to the [Fundamental Aspects](#) section.

Innovation

Software AG's technological innovations are expanding its customer portfolio and improving efficiency for itself and its customers. Extremely fast innovation cycles are the norm in the software industry. It is essential to recognize customer needs and market trends early on, to explore new directions and technological possibilities and offer relevant, innovative solutions. For that reason, Software AG monitors its competitors and disruptive trends. For more information on market trends and monitoring as well as Software AG's unique selling propositions, please refer to the [Competitive Situation](#) in the Fundamental Aspects of the Group section of the Combined Management Report.

Customer satisfaction and loyalty

Good working partnerships are based on trust, commitment and shared exchange. The three focal points of Software AG's Customer Satisfaction Program are communication, collaboration and co-innovation. To improve processes, products and services and increase customer satisfaction, Software AG surveys and reviews satisfaction and other feedback from customers on a regular basis.

Software AG collaborates closely within its own organization, within its partner network and with its customers. Customers are closely involved in the cycle, starting from the idea through to the product. The Company expects and encourages employees to suggest customer-centric solutions. For that reason, Software AG employees modern tools like the design thinking method in research and development.

Product and service quality

A key objective of Software AG is to promote innovation and competitive differentiation among its customers and to support their successful digital transformation—and thereby make a key contribution to their success. The high quality of Software AG products is a crucial driver here. Clearly documented processes and performance indicators (for example, quality goals, routine quality management reviews) coupled with a quality-oriented corporate culture and certification of management systems ensure

Software AG's high quality standards. Regular software releases, updates and improvements and enhance the Company's operational efficiency and excellence.

Software AG's most important management systems are certified according to ISO standards and centralized in an integrated management system (IMS):

- Software AG secures its first-rate support services and software solutions with its **ISO 9001**-certified QMS. Customer feedback is systematically captured in the QMS. Thus, the QMS serves as the basis for an ongoing improvement process and high customer satisfaction.
- Software AG's **ISO 22301**-certified business continuity management system assures the Company's excellent support services. The system ensures—through important infrastructure redundancies, for instance—that systems and services needed by customers are also available in crisis situations.
- The **ISO 27001**-certified cloud information security management system includes comprehensive, holistic security management for Software AG's cloud services that provides a suite of information security measures—for example, protection from unauthorized access and identification of security risks. Software AG is certified for compliance with ISO/IEC 27001:2013, ISO/IEC 27017:2015, and ISO/IEC 27018:2014.

Adding value for customers

Software AG's products support their customers in making decisions based on data that can lead to more efficient use of financial or natural resources. Using data integration, data analysis, device connectivity and process data analyses, customers can make smart, data-driven decisions that contribute to better process results and enable competitive advantages.

Within the Software AG sales methodology, Engage², each sale generates a value proposition for each customer that lays the foundation for setting a fair price.

Product support (SASB TC-SI-550a)

Software AG provides global 24/7 support to ensure the continuity of its customers' core business systems. The Company's global support is certified according to ISO 9001, which ensures high quality.

With the Enterprise Active Support model, Software AG provides fast, agile and proactive customer support for all of its products. Customers benefit from industry-leading performance and fast response times in any time zone. For more information about Enterprise Active Support services, please refer to the fact sheet at resources.softwareag.com/services/enterprise-active-support-fact-sheet. Depending on business criticality, other support models with fewer services can be selected (standard support), especially regarding regional coverage and response times.

Every customer that uses global support is asked to provide feedback on the service and on Software AG in general. The feedback is used to improve customer service and is incorporated in product development.

Tech for good

Digitalization is a comprehensive economic and social topic, and a central field for action in the German government's digital agenda for education. Since 2007, Software AG has had its own **University Relations program** to develop digital competencies by providing its software free of charge for students in elementary and secondary schools, university students, professors and university employees.

Moreover, Software AG is a founding member of Software Campus. Launched in 2011, the program is supported by ten industry partners and eleven research partners, and funded by the German Federal Ministry of Education and Research. It focuses on outstanding students in computer science and related fields and qualifies them through mentoring and seminars for leadership positions in the IT industry. By participating in the program, Software AG hopes to counter the shortage of IT experts and managers in Germany. For more information about Software AG's engagement in research projects, please refer to the Research and Development section in Fundamental Aspects of the Group in the Combined Management Report.

Results of the applied concepts and performance indicators

Protection of customer data (GRI 418)

Despite comprehensive security measures, Software AG was the target of a malware attack in October 2020. The attackers encrypted different systems at Software AG and were further able to download several hundred gigabytes of data and subsequently make them available on the darknet. This data primarily concerned the Company's email communication; the precise content is currently still being analyzed and systematized. The appropriate data protection authorities and law enforcement agencies were notified about the incident immediately, as were customers, suppliers, partners and employees who were actually affected, and those who could potentially be affected. Any consequences of the incident for customers and other affected parties will be evaluated once the analysis has been fully completed. There were no other incidents in which customer data was violated or lost in 2020. No further incidents were detected in accordance with the provisions of the applicable data protection laws.

Innovation

Software AG evaluates the success of its innovations based on revenue growth and the number of new customers. In 2020, the Company was able to grow its market share. Global revenue from products and services saw positive growth in fiscal 2020. Independent market research firms once again confirmed Software AG's innovative power, market success and quality of products and services in 2020. For more information about their assessments, please refer to the Industry Recognition section in Fundamental Aspects of the Group in the Combined Management Report. For more information on R&D expenditures, please refer to the Research & Development section in the Combined Management Report.

Customer satisfaction and loyalty

Net Promoter Score¹

Software AG measures customer satisfaction in support cases based on the Net Promoter Score (NPS). For Software AG, the NPS represents a strategic performance indicator, which is broken down into business lines. With an NPS² of 54 it reached an all-time

high value in 2020 (2019: 40; 2018: 36). Since 2020, Software AG has also been measuring NPS in the sales process and product usage by end users. This process was still in the initial stages at the end of 2020, so the first results to be evaluated will be available in 2021.

Product and service quality

The different aspects of product and service quality are measured and tracked with the help of performance indicators using an internal management reporting system. Using the performance indicators—which measure the number of support notifications per customer or test coverage, for example—it is possible to identify internal problems early on and resolve them.

Adding value for customers

The Company does not internally evaluate Sales employees or consultants on achieving these goals and there are neither explicit indicators nor a process for ascertainment, except that every customer ideally should be won as a reference customer.

Product support

Software AG measures customer satisfaction with the support process (KPI: satisfaction with handling of support incidents). This KPI reached a record high in 2020 at 78 percent (2019: 69 percent). This value describes how many "5-star" ratings were given on a scale of 1 to 5.

Tech for good

Software AG provides software free of charge for teaching and research purposes to more than 1,700 universities in over 80 countries through its University Relations Program. The offering covers the needs of more than 1,700 educators and is integrated into curriculum on a recurring basis. Since the program began in 2007, more than 25,000 students have benefited from it. Software AG has been offering students free online certifications as part of the University Relations Program since 2017. More than 2,000 young experts can document their knowledge with this certificate when applying for jobs. The University Relations YouTube channel has more than 100 videos available, and has had more than 250,000 views.

¹ Most significant performance indicator (see Non-Financial Performance Indicators in the Combined Management Report)

² The NPS score for 2020 only includes the months of January through September because the numbers could not yet be evaluated for Q4 2020.

The University Relations Program fulfills an important aspect for addressing one of Software AG's key target groups: the next generation of talent. It stimulates a steady stream of applications, especially for jobs for graduates in technology fields. According to an internal study, half of the Company's recent graduate hires in Germany can be traced back to a previous contact via the University Relations Program. Finding graduates in the job market with Software AG skills is also very important for Software AG's partners and customers.

Significant risks

Software AG could not identify any significant risks with regard to the Customers and Technology area of action. For more information about the product portfolio and innovation risks, please refer to the Opportunity and Risk Report in the Combined Management Report.

Society

The Society area of action corresponds to the employee concerns aspect per section 289c (2) no. 3 HGB and includes the key topics of employee engagement and local communities, government relations and stakeholder dialogue, and value for society.

Concepts and due diligence processes

Value for society

Software AG addresses the Society area of action primarily at the regional level. Across the entire Group, Software AG pursues the goal of networking with the communities where it operates and contributing to their well-being as a good corporate citizen. Regional corporate governance works to develop measures for local issues. In addition, the Company supports local associations and initiatives through donations and sponsorships.

Employee engagement and local communities

Software AG's social commitment is reflected above all in its employees' high level of commitment in many local projects at its locations around the world. With its two large global programs, "Give back to the world" and "Move your feet to give a hand," Software AG has created a Group-wide framework for corporate volunteering.

Social engagement has been a cornerstone of Software AG's corporate culture since it was founded by Dr. h.c. Peter Schnell. In the 1990s, Schnell established the Software AG Foundation with his shares in the Company. With a shareholding of 33 percent, the foundation is still Software AG's major shareholder and operates as an independent foundation using the earnings from its assets to promote ongoing human and social development.

Government relations and stakeholder dialogue

Software AG creates opportunities for sharing and exchange with its stakeholders and incorporates their knowledge in various expert and political committees. In so doing, the Company is pursuing the objective of strengthening Germany as a digital hub, boosting the potential of digitalization and shaping it according to the principle of digital sovereignty for the benefit of all.

Results of the applied concepts and performance indicators

Value for society

As an employer and taxpayer, the Company makes significant economic contributions to the locations where it operates. Software AG is one of the largest employers in Darmstadt with 881 employees. The Company employs 4,628 people worldwide.

Monetary Donations and Donations in Kind

in €	2020	2019
Monetary donations in India ¹	96,385	30,120
Monetary donations and donations in kind in other countries ²	160,363	202,478

¹ Mandatory CSR tax, recorded after the actual donation payment date.

² Recorded for: Australia, Bahrain, Belgium, Denmark, Germany, Finland, France, United Kingdom, Ireland, Israel, Italy, Japan, Canada, Luxembourg, Netherlands, Norway, Austria, Portugal, Saudi Arabia, Sweden, Switzerland, Singapore, Spain, South Africa, USA, United Arab Emirates.

Sport sponsorship

In December 2019, Software AG extended its jersey sponsorship agreement with the SV Darmstadt 98 soccer club (the Lilies) through 2024. Software AG has sponsored the Lilies since the 2008/2009 season and is involved with the club's youth rising talent center as well as its social campaign "Under the Sign of the Lily" to support people with developmental or physical disabilities. In addition, Software AG

has supported the club's e-sports activities as an e-partner for the 2019/2020 e-football season. At the end of 2020, Software AG expanded its engagement and will support the following season as the e-main-sponsor.

Employee engagement and local communities (GRI 413)

Give back to the world

As part of the "Give Back to the World Day" program, Software AG employees can take one work day per year for volunteering. Furthermore, they can submit requests through the program for materials that will be used for the charitable projects. In this age of the COVID-19 pandemic, it is especially important for the Company to continue its social engagement and support society in recovering from the consequences of the pandemic. For that reason, the program's motto in the reporting year was "Software AG cares—connect and restore."

In 2020, 94 (2019: 500) employees in five countries (2019: nine countries) participated in eight projects (2019: 20). The result is lower than the previous year's level since many projects were not implemented and supported as planned because of contact restrictions due to the COVID-19 pandemic and the malware attack in Q4.

Furthermore, Software AG employees in India donated to local COVID-19 aid projects in 2020. 250 employees collected approximately €3,100 to buy protective equipment, ventilators and school bags. In addition, 365 employees in India donated the equivalent of €16,125 to the country's COVID-19 relief fund.

For the German locations, Software AG donated €10,000 to the "Auf Augenhöhe" refugee aid fund to support integration projects in Germany. This funding was carried forward from the 2020 Give Back to the World budget.

Move your feet to give a hand

Software AG is building a bridge with its worldwide "Move your feet to give a hand" campaign between Company sports, team spirit, and charitable and athletic commitment. Software AG, the employee representatives on the Supervisory Board and the Software AG Foundation donate a fixed amount of money for every kilometer run by Software AG employees at official running competitions. In 2020,

staff members covered a distance of 4,341 kilometers (2019: 10,208) and raised a donation of €22,500 (2019: €43,500). Employees can make suggestions on which non-profit organizations the money should go to, so the donations are distributed to those organizations in the following year. A total of €43,500 in donations from the year 2019 went to the following organizations:

- €15,000 to the Black Knights Dreieich power chair hockey team (Germany)
- €10,000 to ARQUE e.V. (Association for Paraplegics with Spina bifida) (Germany)
- €10,000 to ASTHA, an organization that promotes inclusivity for people with disabilities (India)
- €8,500 to Asociación de Amigos del Pueblo Saharaui de Tres Cantos (Spain)

Since the campaign began 13 years ago, Software AG's employees have covered 109,959 kilometers in total, well over two times around the world.

Government relations and stakeholder dialogue

Public affairs

Once again in 2020, Software AG participated in political dialogue and was engaged in a variety of government committees and initiatives. In addition to its work with Germany's Digital Association (Bitkom) and the National Association of German Industry (BDI), the Industry 4.0 Platform and Learning Systems Platform should also be highlighted for 2020. The Industry 4.0 Platform aims to drive the digital transformation in Germany in the dialogue between business, science and unions, while keeping social upheaval to a minimum. The goal of the Learning Systems Platform is to exploit the potential of artificial intelligence for business and society as well as to identify technical, legal and social challenges in an early stage. Political recommendations for action will be drafted based on the findings.

In addition to its ongoing involvement in committees, Software AG concentrated its political work in 2020 primarily on the topic of regulating the digital economy. Software AG champions the creation of framework conditions for platforms and AI that enable innovation while ensuring fair competitive conditions and above all protecting the fundamental values and norms of our society. The Company has engaged in relevant consultations with the EU Commission and submitted comprehensive statements on this topic.

Political Committees in which Software AG is Active (Selection)

Organization	Committee	Role
German National Academy of Science and Engineering (acatech)	HR working group on the Future of Work	Member
National Association of German Industry (BDI)	Committee for research, innovation and technology policy	Member
	National research and innovation policy workgroup	Member
	European research and innovation policy workgroup	Member
	Artificial intelligence workgroup	Member
Germany's Digital Association (Bitkom)	Artificial intelligence workgroup	Member
	Industry 4.0 market and strategy workgroup	Deputy Chair
	Research and innovation workgroup	Chair (starting Q4 2020)
	Platforms workgroup	Deputy Chair (until Q2 2020)
	Economic and innovation policy steering committee	Member
Industry 4.0 Platform	Steering committee	Member
	Industry 4.0 platform research advisory committee	Co-chair
	Digital business models for Industry 4.0 workgroup	Member
Learning Systems Platform	Technology pioneers and data science workgroup	Member
	Business model innovations workgroup	Member

Likewise, Software AG is participating in various [research and innovation projects](#) as a business partner. An overview of Software AG's research projects' contribution to the sustainable development goals (SDGs) of the United Nations can be found online at www.softwareag.com/sustainability. The ongoing digitalization of education has also become a central field for action in the German government's digital agenda—in classrooms, lecture halls, vocational schools and companies. Since 2007, Software AG's [University Relations Program](#) has contributed to developing digital competencies at universities and colleges worldwide.

Stakeholder dialogue

Software AG attaches great importance to fostering an ongoing dialogue with its [stakeholders](#). This is also reflected by the Company's structure, which incorporates numerous departments dedicated to maintaining a dialogue with the most important stakeholder groups. These include Sales, Customer Support, Human Resources, Corporate Communications, Marketing, University Relations and Investor Relations. The main stakeholder groups have a direct voice in the Company, for example through the international user groups, employee representatives, the Supervisory Board, the Annual Shareholders' Meeting and the Scientific Advisory Board. The following table shows a sample selection of the committees.

Significant risks

Software AG could not identify any significant risks with regard to the Society area of action (corresponds to the social matters aspect per section 289c (2) no. 3 HGB). Rather, the Company sees the opportunity here to live up to its corporate social responsibility and make an economic and social contribution—especially to the local communities of its operations.

Committees for Stakeholder Dialogue (Selection)

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

Environment

The Environment area of action includes the key topics of carbon footprint and resource efficiency, and corresponds to the environmental matters aspect per section 289c (2) no. 1 HGB.

Concepts and due diligence processes

CO₂ footprint

The Environment area of action focuses on reducing CO₂ emissions since these represent Software AG's most significant environmental impact. Software AG takes responsibility for the environmental impact of its own business operations. In Software AG's industry, CO₂ emissions are generated in particular through the energy consumption of buildings, operating data centers and employee mobility. Software AG takes a holistic approach to all aspects of energy management, demand and procurement for all its operations and is working toward reducing its carbon footprint by using more renewable energies. To control power consumption for all its locations, Software AG continually implements energy-saving measures, such as retrofitting lighting systems, replacing motors and upgrading building technology. When planning the construction of new buildings, the Company pays close attention to making use of natural light, installing shading systems and state-of-the-art building technology. Software AG is also looking for ways to improve the energy efficiency and performance of its

data centers and to reduce energy consumption through innovative technologies. In early 2020, Software AG and its subsidiaries in Germany underwent an energy audit per EN 16247-1/ISO 50002. The audit's objective was to identify short-term and medium-term areas for potential energy savings and introduce high-priority measures to reduce CO₂ emissions and have a positive impact on reaching the EU's climate protection goals.

In the area of mobility, Software AG offers its employees at its Darmstadt location a job ticket as well as leasing opportunities for bikes and e-bikes. Likewise, it also has charging stations for electric and hybrid vehicles.

Resource efficiency

Beyond reducing its carbon footprint, Software AG also values conserving natural resources. The Company needs furniture, IT equipment, paper and other materials for its office locations. Moreover, waste is created—especially outdated IT hardware from its offices—that needs to be recycled.

The cafeteria offers the staff at Software AG's headquarters in Darmstadt a wide range of organic meals made with locally sourced products. The Company is deliberately emphasizing the importance of providing employees with healthy, sustainable food.

Software AG technology helps its customers use their resources efficiently and sustainably as well as improve their energy and CO₂ footprint.

Results of the applied concepts and performance indicators

CO₂ footprint

Energy consumption (GRI 302, SASB TC-SI-130a)

Electricity is the most important source of energy. Software AG contributes significantly to reducing its own emissions by using electricity from renewable sources. The 1,314 employees in Germany are supplied with 100 percent green electricity. In addition, the waste heat from the servers at corporate headquarters in Darmstadt is used to heat the building. All in all, the

Company achieved a reduction in energy consumption at the locations under review from last year. In 2020, energy consumption was reduced per square meter of floor space by 27 percent from 128 kWh/m² to 94 kWh/m² and by 19 percent per employee from 2,843 kWh/EMP to 2,317 kWh/EMP. These reductions were due primarily to the fact that employees worked from home more frequently because of the COVID-19 pandemic as well as the continuous upgrades in building technology, additional insulation and more energy-efficient systems, retrofitting lighting systems with LEDs, modern window shades and air conditioning systems, and more efficient IT components and servers.

Energy Consumption

Key indicators of energy consumption¹ (performance indicators pursuant to GRI 302)

Year	Employee (EMPL)	m ²	kWh/year	kWh/m ² /year	kWh/EMPL/year
2018	3,704	81,468	10,721,426	120	2,895
2019 ²	3,611	80,167	10,265,223	128	2,843
2020 ³	3,584	88,145	8,303,691	94	2,317

¹ Locations for which no separate account data is available are not included. The data collected represents about 90 percent of Software AG's total floor area.

² Because the office in Bracknell, U.K. relocated in 2019, only a limited comparison to the previous year is possible.

³ Due to the limitations imposed by the COVID-19 pandemic in fiscal 2020, the data provided here is comparable only to a limited extent.

Scope 1 CO₂ emissions (GRI 305)

CO₂ Emissions through Gas Consumption at Darmstadt Headquarters

Key indicators of gas consumption: Software AG's direct greenhouse gas emissions¹ through heating buildings with gas (scope 1)

Year	Employee (EMPL)	m ³ /year	m ³ /EMPL/year	t CO ₂ /year	t CO ₂ /EMPL/year
2018	844	104,472	123.8	209	0.2
2019	862	111,400	129.2	223	0.3
2020 ²	881	92,532	105.0	185	0.2

¹ Calculation of gas/m³ in tons of CO₂ (using the CO₂ calculator from klimaneutral-handeln.de)

² Due to the limitations imposed by the COVID-19 pandemic in fiscal 2020, the data provided here is comparable only to a limited extent.

Scope 2 CO₂ emissions (GRI 305)

CO₂ Emissions through Electricity Consumption

Key indicators of energy consumption: Software AG's indirect energy-related CO₂ emissions¹ from energy consumption for Company-owned buildings², including energy consumption for Company-owned data centers (scope 2)

Year	Employee (EMPL)	m ²	t CO ₂ /year	t CO ₂ /EMPL/year
2018	3,704	81,468	2,363	0.6
2019 ³	3,611	80,167	2,204	0.6
2020 ⁴	3,584	88,145	1,622	0.5

¹ Calculation of kW/h in tons of CO₂ (using the CO₂ calculator from klimaneutral-handeln.de)

² Locations for which no separate account data is available are not included. The data collected represents about 90 percent of Software AG's total floor area.

³ Because the office in Bracknell, U.K. relocated in 2019, only a limited comparison to the previous year is possible.

⁴ Due to the limitations imposed by the COVID-19 pandemic, the data provided here for reporting year 2020 is not representative of Software AG's energy consumption.

Scope 3 CO₂ emissions (GRI 305)

Software AG operates three external data centers in Germany, Singapore and the USA. In fiscal 2020, the total energy consumption at these data centers was 575,357 kWh¹, which corresponds to approximately 231 tons of CO₂².

The average fleet of leased vehicles at around 240 vehicles had estimated emissions of approximately 605 tons of CO₂ based on kilometers driven in 2020. Company cars can also be used for personal travel.

CO₂ Emissions from Business Travel

Key indicators by means of transportation¹: Software AG's other indirect CO₂ emissions² through business travel

Year	Air travel (t CO ₂)	Train (t CO ₂)	Rental car (t CO ₂)
2018	1,243	5	84
2019	1,471	6	76
2020 ³	155 ³	0 ^{3,4}	22 ³

¹ Key indicators are based on means of transportation booked by all employees in Germany.

² Key indicator pursuant to GHGP (Green House Gas Protocol).

The factors and calculations used for this calculation are defined for global data (<http://ghgprotocol.org/about-ghgp>).

³ Due to the significant limitations on business travel imposed by the COVID-19 pandemic, the data provided here for reporting year 2020 is not representative of Software AG's CO₂ emissions.

⁴ Since January 1, 2020, all local and long-distance train travel utilizes 100 percent green energy (no CO₂).

¹ Power consumption for Germany and Singapore estimated based on the performance data from individual components.

² Calculation of kW/m³ in tons of CO₂ (using the CO₂ calculator from klimaneutral-handeln.de)

Resource efficiency

Software AG's largest opportunity in the Environment area of action lies in reducing its CO₂ emissions. Beyond reducing its carbon footprint, Software AG also values conserving natural resources. The Company needs furniture, IT equipment, paper and other materials for its office locations. For that reason, outdated IT hardware from its offices is recycled to recover the raw materials that it contains. Software AG is closing the circle here with longer usage life, refurbishing and complete recycling. Household-type waste does not play a significant role in office operations.

At the end of 2018, Software AG introduced a digital workflow for documents that also enables all orders to be processed electronically, for example. From the time it was launched through January 2021, the Company was able to save 5,207 kg of wood, 127,956 liters of water, 12,223 kg of CO₂, and 846 kg of waste. There are also smaller measures that Software AG can also take to promote environmental protection and motivate both customers and employees to save resources and promote sustainability.

Gas consumption

Gas Consumption at Darmstadt Headquarters

Year	Employee (EMPL)	m ³ /year	m ³ /EMPL/year
2018	844	104,472	123.8
2019	862	111,400	129.2
2020 ¹	881	92,532	105.0

¹ Due to the limitations imposed by the COVID-19 pandemic in fiscal 2020, the data provided here is comparable only to a limited extent.

Water consumption (SASB TC-SI-130a)

Water Consumption at Darmstadt Headquarters

Year	Employee (EMPL)	m ³ /year	m ³ /EMPL/year
2018	844	8,609	10.2
2019	862	9,784	11.4
2020 ¹	881	7,948	9.0

¹ Due to the limitations imposed by the COVID-19 pandemic in fiscal 2020, the data provided here is comparable only to a limited extent.

Paper consumption (GRI 301)

Paper Consumption in Germany

Year	Employee (EMPL)	Sheets black	Sheets color	Sheets total	Total sheets/EMPL
2018	1,247	744,724	829,152	1,573,876	1,262
2019	1,268	662,239	776,566	1,438,805	1,135
2020 ¹	1,314	220,950	352,279	573,229	436

¹ Due to the limitations imposed by the COVID-19 pandemic in fiscal 2020, the data provided here is comparable only to a limited extent.

Hardware waste (GRI 306)

Due to regulatory requirements and data protection reasons, outdated hardware was once again collected at the Company's German-speaking locations (DACH region) in 2020 and turned over in its entirety to an IT remarketer and certified waste management company. These companies ensure the audit-proof, certified deletion of data in accordance with legal requirements as well as the destruction of data storage media taking into consideration every aspect of data protection and data security. This process is monitored seamlessly through recycling or refurbishment. In this way, Software AG supports a closed substance waste cycle and saving resources by extending the life cycles of hardware products.

Significant risks

On the whole, Software AG's business model incurs only a very low risk of negatively impacting the environment. The Company also sees the Environment area of action (corresponds to the environmental concerns aspect per section 289c HGB) as risk-neutral with regard to further consideration of its supply chain, products and services.

Forecast

Economic Conditions in Upcoming Fiscal Years

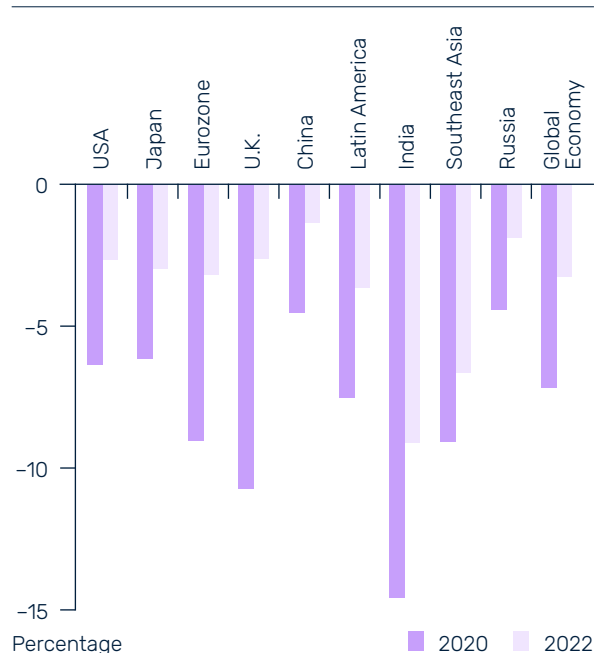
Future overall economic situation

The global COVID-19 pandemic had a highly negative impact on economic development in many regions of the world in the year under review. Its effects on economic growth will continue to be felt in the current year. Overall, though, the global economy continues on a clear path to recovery, which began in 2020. And the second wave of the pandemic is only likely to disrupt the upward trend in a few European countries. The positive momentum in the manufacturing sector should persevere, and the negative impact on overall economic activity is not expected to be as great as that of last Spring. Based on these assumptions, the IfW forecasts that the global gross domestic product (GDP) will grow by a hardy 6.1 percent in 2021, following the historic collapse of 2020. Expected growth of 4.5 percent in 2022 should also outpace the mid-term trend. Despite these encouraging prospects, the longer-term effects of the pandemic are considerable. The loss of income, decline in sales and deferral of investments are expected to keep global production significantly below the level forecast by the IfW in the fall of 2019 for some time to come.

Economic expansion in the USA already started slowing down in the final weeks of 2020 due to increasing infection and death rates. The new administration's economic relief packages should, however, have a positive impact on the economy in 2021. The IfW anticipates a total volume of \$1,000 billion in aid. Wider availability of vaccines and an end to pandemic-related restrictions in the second half of the year could provide additional economic impetus. In sum, IfW expects GDP growth of 3.7 percent in 2021 and 3.5 percent in 2022.

Economic development in the eurozone will strongly depend on the progression of the pandemic. Increasing availability of vaccines and warmer spring weather should make it easier to control infection rates and lift restrictions. Such a scenario would likely lead to a rapid revival of the EU's economy after its forced shutdown. If that is the case, the IfW foresees GDP growth of almost 5 percent in 2021 and about 4 percent in 2022. Recovery of the German economy has been significantly hampered by a new round of closures put into effect in November 2020. A further decline in GDP already started taking shape in the first quarter of 2021. It will not, however, be as significant as in spring 2020. Exports will benefit from the comparably robust global economy, and industry

Change in Gross Domestic Product Relative to IfW Fall 2019 Forecast



Source: Institute for the World Economy (IfW), Economic Reports, Global Economy in Winter 2020 No. 73 (2020|Q4), Dec. 16, 2020

Key Data on Germany's Economic Development

2019 to 2022 ¹	2019	2020 Forecast	2021 Forecast	2022 Forecast
GDP, price-adjusted	0.6	-5.2	3.1	4.5
GDP, deflator	2.2	1.6	1.3	1.5
Consumer prices	1.4	0.5	2.6	1.7
Labor productivity (hourly concept)	0.0	-1.2	1.3	1.8
Employed domestically (1,000 people)	45,269	44,815	44,690	45,327
Unemployment rate as %	5.0	5.9	6.1	5.5

¹ Gross domestic product, consumer prices, labor productivity: year-on-year change as percentage;

unemployment rate: determined by the German Federal Employment Office

Source: Institute for the World Economy (IfW), Economic Reports, Global Economy in Winter 2020 No. 74 (2020|Q4), Dec. 16, 2020

should remain largely unscathed by the second wave of the pandemic. Nevertheless, the IfW's expected 3.1 percent growth rate for 2021 is still considerably lower than its fall 2020 forecast of 4.8 percent. If the pandemic can be sustainably suppressed during the course of this year, the robust recovery of the economy will enable substantial GDP growth of 4.5 percent in 2022.

In China, most sectors of the economy normalized in 2020. According to surveys, though, it may be some time before the effects of the pandemic are no longer evident in the labor market. Overall, economic growth should be 9.2 percent in 2021. This rate of economic expansion is, however, expected to decelerate somewhat in 2022, to 5.7 percent. The pandemic-related economic slump and speed of recovery vary widely among other emerging nations. As a result, these countries' outlooks also differ largely.

GDP in Specific Countries and Regions

GDP ¹	2020 Forecast	2021 Forecast	2022 Forecast
USA	-3.6	3.7	3.5
Japan	-5.2	3.7	2.0
Eurozone	-7.2	4.9	4.0
United Kingdom	-11.3	6.5	4.0
China	1.8	9.2	5.9
Latin America	-7.6	4.4	3.4
India	-7.9	11.6	8.8
Southeast Asia	-4.4	6.5	5.6
Russia	-3.0	4.2	1.8
Global economy, total	-3.8	6.1	4.5

¹ Change year-on-year as percentage

Source: Institute for the World Economy (IfW), Economic Reports, Global Economy in Winter 2020 No. 73 (2020|Q4), Dec. 16, 2020

Sector development

The impact of the COVID-19 pandemic has led to a reserved willingness to spend among companies. But the acceleration of digitalization—due in part to the pandemic—is lessening these negative effects on the global IT sector. U.S.-based market research firm Gartner sees corporate CIOs in 2021 caught in a balance act between cutting costs and investing in future-proofing their IT. Gartner therefore expects a 6.2 percent rise in IT spending to total \$3.9 trillion in 2021. The original forecast that revenue would surpass \$4 trillion in 2021 was pushed back to 2022,

when IT spending is expected to increase by 4.6 percent to \$4.1 trillion. Those segments in which Software AG operates are anticipated to develop extremely well in 2021 and 2022. Because the need for remote work will continue, enterprise software will see the strongest recovery this year with 8.8 percent growth to \$506 billion. That rate is projected to be even stronger in 2022, at 10.2 percent growth and a total of \$557 billion. Gartner expects IT services to see an increase of 6.0 percent to reach \$1.07 trillion in 2021 and of 6.3 percent to total \$1.14 trillion in 2022. EITO and Bitkom assume that Germany's ICT market will grow 2.7 percent to €174.4 billion in 2021.

Forecast of Global IT Spending

in \$ billions	2021 Spending	2021 Growth (as %)	2022 Spending	2022 Growth (as %)
Enterprise software	505,724	8.8	557,406	10.2
IT services	1,072,581	6.0	1,140,057	6.3
Total IT	3,922,833	6.2	4,104,906	4.6

Source: Gartner Forecasts Worldwide IT Spending to Grow 6.2% in 2021
www.gartner.com/en/newsroom (January 25, 2021)

The Group's focus

Two years into its transformation, Software AG's 2020 performance reflects solid execution against the Helix strategy. This multi-year transformation is based on Software AG's core strengths and heritage while driving change within the business to better meet changing market and customer demand and capitalize on growth opportunities. In 2020, Software AG continued to concentrate on the three pillars of its Helix transformation—focus, team and execution—to build the right momentum towards higher predictability and scale of its global business.

In 2021, the Company will concentrate on building on the progress that has already been made, keeping up the pace gathered and accelerating towards its goal of €1 billion in revenue as well as product leadership in its relevant technology sectors. Hence, the Company will continue to invest in the three pillars of its transformation.

Focus

Software AG focuses on growth markets and products, concentrating investments on the areas of its product portfolio and the market segments it operates in that offer the best growth opportunity. After reconfiguring the Digital Business Platform (DBP) in 2019 and providing all 15 core products as true cloud offerings in 2020, Software AG will continue evolving product innovation, especially in the areas of IoT & Analytics and Integration & API. Additionally, the Company is looking into mergers and acquisitions as a lever for growth.

Regional focus will remain on the Company's major markets—North America, Germany, the U.K., France—and other select geographies.

Team

Software AG is a people business. As such, it continues to focus on developing and cultivating talented employees from within as well as attracting new talent. Together with the Management Board and Executive Leadership Team (ELT), it is Software AG's people, especially the Change Network established in 2020, who will drive the transformation and evolve Software AG's culture to create an environment where employees can thrive. Against the backdrop of Software AG's learnings from its COVID-19 response, creating a modern workplace also includes adapting the employee experience to cater to hybrid working in the future.

The team also extends beyond Software AG, with its partner ecosystem. Hence, Software AG will continue to foster strong partnerships that will complement the execution of Helix and allow a pivot towards maximizing them to bring strong incremental revenue from the partner stream.

Execution

In 2020, Software AG built the momentum to accelerate the pace of its shift from a classic licensing model to a business model geared toward subscription-based sales in 2021. To do so, the Company will expand its go-to-market organization to support sustained subscription growth through customer adoption, success and renewal. This also includes aligning all functions to the go-to-market operations covering license sales, marketing and partner business in particular. Furthermore, Software AG will advance its Professional Services transformation from services success to product success as an enabler for product growth and in support of the wider business model shift to subscription.

Expected Financial Performance

Anticipated revenue and earnings

The expected financial performance as follows is based on the the assumption of generally stable conditions and a recovery of the global economy from the COVID-19 pandemic starting in 2021.

At the beginning of 2021, the Management Board made the decision to consolidate revenue recognition in the DBP segment, previously reported separately as DBP (excl. Cloud & IoT) and DBP Cloud & IoT. The previous separation of DBP revenue excluding Cloud & IoT and revenue from the Cloud & IoT business was to better reflect growth momentum in Cloud & IoT revenue. Revenue in both the Cloud & IoT business and in the core digital business are now showing steady growth, and customers are increasingly combining the technologies. Therefore, the two sources of revenue will be consolidated and reported as a single segment called Digital Business. The content of the existing DBP segment remains unchanged and will continue under the new name of Digital Business.

Based on the assumptions that bookings develop in line with the guidance provided to the capital markets and subscription-based licenses continue to increase, Software AG's Management Board assumes that the full-year segment margin in Digital Business will decline by 10 to 20 percent and in Adabas & Natural (A&N) by 5 to 10 percent. The margin in Professional Services is expected to remain stable relative to the previous year. The decreased margins in all product business lines are the result of further investments in the Helix strategy project to drive Software AG's medium-term growth. Furthermore, the lower margins in A&N, and especially in Digital Business, are due to a new contract structure, geared toward more subscription and SaaS and a significantly lower share of perpetual licenses. As a result, license revenue, which is to be recognized on the date of an agreement, will tend to be lower than with perpetual licenses due to the limited term of subscriptions. The recurring nature of subscription agreements will, in the future, compensate for the initially lower revenue. Revenue associated with SaaS agreements is recognized on a pro rata basis over time.

Forecast

Assuming stable conditions apply, Software AG's Management Board therefore anticipates that the Company's IFRS net income will drop by around 20 to 30 percent. This corresponds largely to the operating EBITA margin (non-IFRS), which is expected to be 16 to 18 percent in 2021. IFRS net income is not a relevant indicator for Software AG's management, because overall it mixes absolute revenue and costs and the respective currency effects from different businesses and is thus of little informational value.

The Board prioritized five strategic areas for 2021 to accelerate growth momentum: shifting to subscriptions, improving productivity, driving product innovation, people and culture and M&A.

Software AG's total guidance—including expected performance in Digital Business and A&N bookings and revenue, as well as Professional Services revenue and operating EBITA margin—was approved by the Management Board and Supervisory Board. It is based on the national subsidiaries' individual guidance. Factors used by the subsidiaries in planning are anticipated economic developments in the specific regions, current order levels, existing pipelines, anticipated renewal rates for recurring revenue (maintenance and subscription) and expected utilization of consulting resources in the Professional Services business.

Based on bookings, as communicated in the Outlook (see the following table), Software AG's Management Board expects revenue performance for the 2021 fiscal year as follows. The Management Board expects revenue growth in the Digital Business line between 8 and 12 percent year-on-year. The expectation for A&N revenue growth is between –3 and –7 percent year-on-year. Provided the current Group structure remains largely stable despite the Helix project, Software AG anticipates a decline in Professional Services revenue between 10 and 15 percent, due primarily to the sale of the Spanish Professional Services business. In total, Software AG expects to deliver a Group revenue growth rate in the low to mid single-digit range. This guidance is based on the prevailing exchange rates in 2020. The positive impact of the strategic Helix project is especially reflected in the guidance for increased bookings. By contrast, the operating profit margin (non-IFRS) will foreseeably continue to be negatively affected by investments in the 2021 fiscal year.

Software AG's EBITA margin (non-IFRS) target is between 16 and 18 percent. The table below shows the full forecast for the 2021 fiscal year:

Outlook for Fiscal Year 2021

	FY 2020 in € millions	Outlook FY 2021 as of Jan. 27, 2021 as %
Digital Business bookings	360.7	+15 to +25 ¹
Adabas & Natural bookings	129.0	–30 to –20 ¹
Product revenue, total product revenue	671.1	0 to +5 ¹
Operating margin (EBITA, non-IFRS) ²	21.2	16 to 18

¹ At constant currency, not including hosting services

² Before adjusting for non-operating factors (see non-IFRS definition of earnings in Group Financial Indicators)

Medium-term business performance

Software AG seeks to achieve profitable growth in the medium-term. An increase in the percentage of recurring revenue should result from the adoption of new license models. The Company also aims to maintain a strong level of operating free cash flow.

Outlook for the Software AG parent company (separate financial statements)

The financial performance of the Software AG parent company depends upon the financial standing of the Software AG Group and is determined by profit transfers and decisions regarding the payout of Group-internal dividends. For more information, please refer to the expected financial performance of the Software AG Group.

Anticipated performance of key items in the income statement

The cost of sales, largely consisting of personnel costs for Professional Services and costs associated with the expansion of the cloud infrastructure, will foreseeably decrease by a low single-digit rate year-on-year. This is primarily due to the sale of the Spanish Professional Services business. R&D expenses are likely to see a year-on-year increase between 10 and 12 percent, particularly for the purpose of fueling innovation in the Digital Business line. Sales and marketing expenses are expected to increase by 14 percent due to measures to boost growth in the Digital Business line and continue the high level of service in the A&N customer base. Operating administrative expenses will also rise by 10 to 17 percent to provide administrative and process-related support for growth. These investments will also reflect, in particular, the importance of staff development through the HR department.

Anticipated dividend development

Consistent dividend policy

Software AG pursues a sustainable dividend policy, which is geared toward long-term development of its enterprise value. This continuity is in the interest of reliable shareholder relationships and appreciation of shareholders. The Management and Supervisory Boards will therefore propose a **dividend** in the amount of €0.76 per share for the 2020 fiscal year at the Annual Shareholders' Meeting on May 12, 2021. The dividend for the previous year was also €0.76 per share. Subject to the approval of the Annual Shareholders' Meeting and assuming 74.0 million (2019: 74.0 million) dividend-bearing shares, this would amount to a total disbursement sum of €56.2 million (2019: €52.5 million). Based on the closing share price in 2020 (Xetra closing price on Dec. 30, 2020: €33.34/2019: €31.10), this proposal is equal to a dividend yield of 2.28 percent (2019: 2.44 percent). This is an attractive yield relative to the current capital market climate.

Software AG's Management Board resolved in fiscal 2020 to increase the dividend ratio range (previously between 30 and 40 percent max.) to a maximum of 62 percent of the average net income (attributable to shareholders of Software AG) and free cash flow. Based on the average of free cash flow (€87.6 million/2019: €145.8 million) and net income (€95.7 million/2019: €155.0 million), the dividend ratio would equal 61.4 percent (2019: 37.4 percent). The high dividend ratio for fiscal 2020 resulted from investments in the strategic transformation (Helix) and is intended to enable shareholders to play a part in future earnings of the Company today.

Anticipated Financial Position

Planned financing activities

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

Planned investments

Software AG is always prepared to take advantage of opportunities that arise for acquisitions in support of its Helix transformation and growth strategy. Software AG has access to attractive financing options thanks to its high and stable cash flow. Given favorable circumstances, larger strategic acquisitions could therefore occur.

Anticipated liquidity

Based on Software AG's positive outlook for revenue and earnings, the Company expects a continued strong free cash flow.

As in past years, free cash flow should develop in line with net income for the year.

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

We further invested in the identified areas of growth in the second year of our transformation. We expect to continue successfully implementing our goal of building momentum toward sustainable, profitable growth in 2021.

- To propel growth and maximize current market opportunities, Software AG will increase key investments our sales resources, our shift to subscription, our partner ecosystem and our people and culture
- Software AG recognizes two distinct market opportunities with the potential to increase market share: hybrid integration and IoT
- With these planned investments, Software AG aims to surpass €1 billion in total revenue by 2023.

Opportunity and Risk Report

Opportunity and Risk Management

Goals

Software AG's primary goal is to generate long-term, continuous growth and thereby increase enterprise value. To that end, the Company combines established business activities with an involvement in high-potential new market segments and regions. Its sales models were and continue to be adapted successively from one-time sales revenue recognition at the beginning of a contract to annual revenue recognition. The Company knowingly accepts a temporary dilution of its non-IFRS EBITA margin during the transition period. In order to ensure long-term, sustainable development, Software AG forgoes short-term opportunistic earnings increases and the potentially resulting short-lived positive effects on share price. With a strategy that is based on sustainable, long-term success, the Company strives for balance between opportunities and risks and takes 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 Software AG can evaluate risks and that they remain manageable and controllable. Furthermore, risks and opportunities associated with ongoing operations are systematically monitored, for example, through constant observation of product and service quality and management of exchange rate developments.

Organization

A Group-wide opportunities and risk management system enables Software AG to identify potential risks early to accurately assess and minimize them to the greatest extent possible. Risks are to be understood as deviations from planned values. Strictly speaking and in accordance with customary spoken language, risks are defined as negative deviations and opportunities as positive deviations from planned values. By continuously monitoring risks, Software AG can always evaluate the overall status systematically and in a timely manner and better assess the effectiveness of appropriate countermeasures. This includes operational, financial, economic, legal and

market risks as well as cyberattack risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas. Software AG uses various controlling tools for ongoing monitoring of the risk areas identified, which address the development of the entire Company as well as department-specific issues. The Management Board receives ongoing updates on current and future risks and opportunities as well as the aggregated risk and opportunity situation via established reporting channels. Due to the malware attack on Software AG in October 2020, a security taskforce comprising internal and external experts was set up. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Responsibility

Risks and opportunities throughout the world are managed and controlled by 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 the risk management system and elaborates risk-mitigating guidelines for the entire Group. It constantly reviews the functioning and reliability of the system as well as the reporting. Software AG's internal control system (ICS) operationalizes business risks. It consists of internal business policies and practices, as well as Group-wide specification of effective internal controls, compliance with which is continually monitored. These policies regulate internal procedures and areas of responsibility at global and local levels. They are designed to provide information for management and to monitor the operating business risks of the Software AG Group. In order to enhance transparency, administration, communication and compliance assessment of the policies are carried out centrally on an ongoing basis. Group business processes are managed and monitored centrally using software applications based primarily on Software AG technology. Another component of risk and opportunity management is the transfer of operating risks to insurance carriers. This is coordinated globally by the General Services department at corporate headquarters.

Structure of the opportunity and risk management system

Controlling

Controlling—which is under unified global leadership—monitors operating business risks, such as those relating to Professional Services, in real time and submits management-relevant KPIs continuously to the Management Board. In addition, both operational and strategic risks are analyzed by means of a structured reporting system. It shows developments in all relevant departments using KPIs and reports them continuously, monthly and quarterly (depending on KPI) to the Management Board. Furthermore, if exceptional circumstances relating to potential business opportunities or risks arise, ad hoc analyses are conducted and reported to the Management Board.

Finance

The Finance department is responsible for establishing all guidelines for financial reporting in accordance with International Financial Reporting Standards (IFRS). All accounting decisions relevant to the Company's financial statements as well as the revenue calculation process are monitored and/or executed by the global Corporate Finance department. This ensures compliance with IFRS accounting regulations throughout the Company.

Treasury

Software AG's Corporate Treasury team generates a daily finance status report, weekly assessments of foreign currency transactions as well as weekly summaries of derivatives outstanding. The European Monetary Infrastructure Regulations Report (EMIR) is generated once per month. The CFO receives weekly reports on the Software AG Group's finance status and a summary of credit default swaps for all banks with which the Software AG Group engages in transactions, especially cash investments. The CFO also receives a monthly summary of short and long-term financing. All high-risk foreign-currency and hedging transactions may be conducted only by the Corporate Treasury team, which is directly below the CFO. A global treasury policy prohibits the national subsidiaries from engaging in any high-risk transactions with derivatives. Internal Audit evaluates compliance with this policy on a regular basis. The global process of receivables management is monitored centrally by the Treasury department.

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

Risk management in the financial reporting process

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

- Detailed, global IFRS-compliant accounting standards must be used. Compliance with these standards is monitored by Corporate Finance and verified by Internal Audit.
- The national subsidiaries' accounting departments are monitored by the local Finance, Controlling & Administration (FC&A) managers, who are in turn supervised by regional FC&A managers. 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. The two departments are led by different managers who report independently of each other to the CFO.
- 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 (GDD) is a preventative internal control system and is employed worldwide. All quotes associated with the intent to close a sale with a customer go through this approval process, in which the Legal department as well as Corporate Finance, Corporate Controlling, the CFO and the CRO are also involved.
- Internal Audit continually reviews all key customer contracts worldwide with a view to compliance with the approval process and correct representation in accounting.
- A global policy regulates access rules for the local and central accounting programs, which are monitored by the General Information Services (GIS) department.
- Only employees of Corporate Accounting have access to the data from the SAP/BCS consolidation program.
- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual-control principle.
- External experts are commissioned on a regular basis to evaluate such complex matters as stock option plans, pension provisions, legal risks and purchase-price assignments within the framework of acquisitions.

Strategic risk and opportunity management

The strategic risk and opportunity management (ROM) system is composed of a central interdisciplinary core team of directors from Corporate Finance, Internal Audit and Legal who report to the CFO in this function. A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring, assessing and managing identified strategic risks. The risk advisors are recommended by the core team and chosen by the responsible member of the Management Board. Risks are evaluated according to a uniform valuation system. The system determines the risk category based on the potential impact on Group EBIT for the next three years. This impact is calculated taking into account the risk-mitigating measures taken by management.

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

The impact on EBIT over the next three years is divided into three categories. An impact of up to €50 million on Group EBIT in the next three years is categorized as low risk. An impact on EBIT between €50 and €200 million is categorized as medium risk. And, risks affecting EBIT by more than €200 million in the next three years are categorized as high risk.

In a separate step, these impacts on EBIT in the next three years are categorized according to probability into three risk levels.

Probability	Risk level
0% – 33%	unlikely
34% – 66%	likely
> 66%	highly likely

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

Risk signal	Risk relevance
green	insignificant
yellow	medium
red	significant

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

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

Internal Audit regularly reviews the effectiveness of the ROM system and the ICS. When necessary, suggestions for improvement are prepared and implemented. This is monitored centrally. Corporate Finance and Corporate Controlling regularly conduct internal reviews of accounting-relevant control processes and modifies them for new developments.

Key individual risks and opportunities

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

Environment and sector risks/opportunities

Market risks

Market risks are related, among other things, to the varying economic developments in individual countries or regions. The technological evolution of the individual sectors of the IT industry can impact the business potential of the individual business lines positively or negatively. Software AG's balanced revenue mix reduces dependence on a single geographical or professional IT submarket. Software AG markets technologies that are not specific to certain industries, ruling out a dependence on individual industries or customers. Thanks to its technological innovations, ongoing R&D investments and procurement of new technologies as part of technology-driven acquisitions, the Company significantly expanded its product portfolio and will continue to do so in the future. That enables greater flexibility for customers' existing IT infrastructures and, in turn, significant cost savings. And, it ensures a long-term broad customer base for Software AG. The ROI is relatively fast for Software AG customers. Hence, new products are a logical way to cope with market-related cost pressures even in weak economic periods. An overwhelming majority of Software AG customers use their software for business-critical applications for years, or often decades, when running satisfactorily. This results in a stable flow of revenue in this business line.

Market opportunities

Software AG sees itself as a technology leader in the enablement of enterprise digitalization. The strong trend in the IoT segment is a big opportunity for Software AG's future development. Software AG anticipates strong, dynamic growth in upcoming years in the IoT market in particular. Software AG's new strategic focus, which incorporates the results of a comprehensive strategy project, will enable the Company to further intensify its focus on technological and regional growth markets. Furthermore, Software AG will continue its Adabas & Natural 2050+ program.

And, because of the significance of its ecosystems in successful software sales, it will also enhance its partner model. These measures generate better-than-average opportunities for Software AG to grow and claim market share in core markets.

Brexit

In light of the U.K.'s exit from the European Union (EU) and the end of the interim period on December 31, 2020, uncertainties arose with respect not only to the future of Britain's economy but of Europe's as well. After concluding negotiations on the terms of their future economic relationship at the end of 2020, the EU and the U.K. signed a trade and cooperation agreement on December 24, 2020, which determined the details of future cooperation. This agreement on exact departure terms will have a major impact on economic relations and the future development of both economic areas.

An assessment of the impact of Brexit on the Software AG Group showed that no major effects on economic development are expected. The British market is one of Software AG's most important markets. But Software AG has a long track record of successful operations in many non-EU countries such as the USA, Brazil, India and others. Based on this experience, Software AG does not anticipate that Brexit will have a material impact on its future business growth in the U.K. Furthermore, the fact that Software AG operates in all key financial centers of the EU should have a risk-mitigating effect. Any financial companies that leave the U.K. to resettle in another EU country such as Germany, France or Ireland can be served by Software AG subsidiaries in the relevant region.

USA

The USA is Software AG's most important market. Software AG operates its own sales organization in the USA. It also runs significant portions of corporate departments like Marketing and R&D there, with key local intellectual property rights, which result in considerable royalties for the Company in the USA. A large percentage of Group profits is generated and taxed in the USA. Because key parts of the Software AG Group are based in the USA, it did not, as a German company, suffer any material disadvantages from the former administration's "America First" strategy. Software AG expects an improved political climate between the USA and Germany due to the election of the new president in November 2020, who took office on January 20, 2021. It therefore does not currently

foresee any substantial risks to its global business resulting from the USA's global trade policy either. The extent of the negative impact of ongoing trade conflicts, which are likely to persist under the new administration, between the USA and China and the USA and the EU on the Software AG Group's global development is not yet clear. Growth of the U.S. economy depends on a variety of factors. Nevertheless, future market opportunities should outweigh risks.

Coronavirus pandemic

The COVID-19 pandemic has had a tight hold on the global economy for one year. Multiple lockdowns in most countries of the world had a negative impact on the global economy. Many companies froze, postponed or extended investment activities. In addition, nearly all organizations placed extensive restrictions on business travel. These circumstances make contract negotiations with customers difficult because almost all meetings can only be conducted online. The absence of customer events and meetings poses a significant challenge in generating new project opportunities. Product training for Software AG customers is only possible online, which results in delayed installation and rollout and thus impedes new business for Software AG. Travel and investment freezes at a portion of Software AG customers could have a negative effect Software AG's revenue in 2021. The effects on business operations were minor in 2020. Software AG is generally not affected by disruptions in supply chains thanks to its business model. Software AG's business could, however, be negatively affected in the event of a prolonged global economic recession. The pandemic also had a negative impact on product development because collaboration in local R&D teams and their creativity were impeded. The fact that the pandemic has forced a large share of companies' and government agencies' administrative work to be carried out in employees' homes has shed light on the existing weaknesses in digital business processes. The crisis is therefore becoming a driver of digitalization. This is resulting in new business opportunities for Software AG, particularly in the Digital Business segment, which could compensate, or even overcompensate, for the negative effects of a global economic recession.

Corporate strategy risks and opportunities

Product innovation and portfolio

The software sector is subject to very fast innovation cycles with respect to new products as well as go-to-market models, such as usage-based models (pay per use) in the IoT and cloud markets. These are based on constantly changing customer, market and integration requirements. Software AG is quickly shifting all sales agreements with customers to a subscription model. New innovation trends are very difficult to predict and are sometimes identified too late. The risk of not being able to identify new innovation trends or identifying them too late exists due to the uncertain nature of future developments in the software market. A key challenge, typical of this industry, associated with the innovation risk is allocating Company resources such as R&D, Product Marketing, Marketing, Sales and M&A to those products with future revenue potential. This can lead to an insufficient focus on growth-relevant products. If the product portfolio does not address customer needs, revenue potential will decrease. Large competitors have greater financial resources for innovation and ongoing development of their product portfolios. Software AG's business development is thus susceptible to being negatively affected by new competitor products. Furthermore, the focus on Software AG's existing markets can also not be impaired. To better address customer needs in product development, R&D in the Digital Business Platform (DBP) business line was segmented in 2019 based on a matrix structure into the product lines: Integration & Application Programming Interfaces (API), Business Transformation (ARIS & Alfabet) and IoT & Analytics. In 2021, the focus of the Professional Services segment will also be sharpened to reflect these product lines.

Assessment of future market development is conducted through continuous cooperation with leading technology analysts such as Gartner and Forrester.

Rapid product innovation is critical. But striking a balance between fast product innovation on one hand and high product quality on the other is of utmost importance. Considerable reputational risks will arise if the delivered quality of products does

not live up to the quality Software AG promises its customers. Due to the newness of the IoT products, a considerable volume of resources was/is utilized for quality assurance and is consequently not available for innovation. Software AG's competitors have grasped the differentiation with respect to their product portfolios and are constantly augmenting competitive pressure in this market segment. Product quality investments were also increased significantly in webMethods.io (integration Platform-as-a-Service solution). These investments allow product defects to be corrected as early as possible. Software AG also ensures product quality through implementation of product standards, the Chief Quality Officer and the ISO 9001: 2015 certified quality management system. Product quality and user-friendliness as well as customer support are monitored using these mechanisms on an ongoing basis.

To minimize this innovation risk, substantial investments in the product product portfolio enhancement remain necessary.

Building a cloud business is extremely challenging and cost-intensive. Technological and legal risks are notably higher in the cloud business than in the still prevalent on-premise business due to data protection and security. New startups, without a long history in on-premise business, can employ the cloud business model from the beginning, which gives them a head-start in developing and implementing this model. Software AG is accounting for the increased risk associated with the cloud business with a dedicated, externally ISO 27001-certified information security management monitoring system and cross-departmental response teams for arising data protection and information security failures. Software AG also expanded its work with contracted digital forensic specialists.

Software AG's delivery of new software releases was delayed in 2020 due to the malware attack, which jeopardized its position as an innovation leader.

With the intent of shortening time-to-market, Software AG's products are also augmented by acquisitions when it comes to newer development trends.

Expansion of the IoT business and the Digital Business product line's technology leadership—confirmed repeatedly by distinguished technology analysts like Gartner and Forrester—are generating major market opportunities for Software AG. As digitalization continues to advance in companies, both in administration and in production (IoT), as well as in government agencies (also fueled by the COVID-19 pandemic), Software AG can influence the development of markets and drive its own growth in its position as an innovation leader.

The product portfolio and innovation risks described here were rated at risk signal yellow (2019: yellow) at the end of 2020.

Market risks and opportunities for the Digital Business Platform

In 2019, a segmentation of the complex DBP business resulted in more streamlined and coherent product offerings, based on the following lines, Integration & API, Business Transformation (ARIS & Alfabet) and IoT & Analytics, while maintaining the technical interoperability of the DBP components. This ensures the right roadmap prioritization of customer and market requirements for product development. This improved the opportunity for further expanding the competitive advantages of Software AG products and receiving excellent ratings by the relevant technology studies. A stronger R&D focus can also improve customer satisfaction and business success. It also reduces product development-related risk of not adequately addressing customer requirements. In addition, product line general managers monitor individual product revenue so as to identify negative developments early and trigger and execute management activities accordingly. One of the primary risks associated with this business is that it represents Software AG's largest segment, so Software AG's growth depends largely on expansion in this business. Additional risks exist due to Software AG's low visibility in the USA, its largest single market. Significant marketing investments were made to generate pipeline and market visibility in order to reduce this risk. Furthermore, an insufficient volume of products in this business line is offered to customers in the cloud due, in part, to the need to improve cloud availability. The Company plans to address this issue by allocating more R&D spending

for product cloud availability. Revenue performance is also still too dependent on single large-scale deals. To reduce this dependency, there will also be a major push in the transition to the subscription model in this business line, which should lead to a constant revenue stream in the medium term.

These efforts are intended to reduce sales complexities and shift the focus to the strength of the individual product offerings. The Management Board sees opportunities in raising the visibility of products with existing and target customers, sharpening Software AG's identity and significantly improving customer satisfaction and success. In the Management Board's estimation, this will all contribute to significantly increasing the Company's share in the high-growth Integration & API, Business Transformation and IoT & Analytics markets. The complete DBP business line offers major opportunities for Software AG's future business development, especially due to its technology lead and fast development of the IoT market, as well as the rapidly growing enterprise digitalization trend.

Growth in the Integration & API business

The Integration & API product line in the DBP segment generates the largest volume of business of all Software AG product lines. Software AG's growth depends on the growth of this product line. In 2020, revenue in this product line declined despite increased bookings due to the transition of the sales model from perpetual licenses to subscriptions. The intensity level of competition is very high in this business. Due to the necessity of fast innovation cycles, there is a high risk associated with correctly balancing the speed of development and the required product quality. Any quality issues that arise must be resolved quickly. Because the focus of Software AG's marketing last year was on the IoT & Analytics product line, marketing resources available to that product line were amplified in 2020.

The following measures were taken to manage the strategic risks in this product line:

- Market observation and trend tracking, including collaboration with leading tech analysts, Gartner and Forrester
- Marketing campaigns, especially in key markets, to increase Software AG's visibility and simplify the contract negotiation process
- Proactive measures to improve the pipeline for new customer contracts
- Accelerated shift to a subscription sales model
- Training and staff development in the R&D and Cloud Operation teams for the continued successful management of customers' software environments and fulfillment of SLAs
- Increased cloud availability of source codes and software environments
- Allocated more R&D resources to cloud products
- Stronger collaboration with customers on developing new products and solutions (customer-centric innovation)
- Closer collaboration with the first customers of new products for early recognition and resolution of quality issues
- Ongoing improvement of product quality monitoring
- Cloud-oriented sales strategy in direct and partner channels

It is anticipated that, due to the COVID-19 pandemic, digitalization of enterprise processes and administration—including the public sector—will drive development of the Integration & API product line. This product line offers major opportunities for Software AG's future business development, especially because of its technology lead and the previously stated rapidly growing trend of enterprise digitalization.

Because of the measures described above, including the intensified digitalization trend in connection with the COVID-19 pandemic, the risk rating improved to yellow as of the the end of 2020 (2019: red).

Development of the Business Transformation business

The Business Transformation product line in the DBP segment consists primarily of the ARIS and Alfabet products. This market is characterized by intense innovative competition. To keep up with this level of competition, Software AG launched its new ARIS process mining software in 2020. The partner ecosystem must be expanded to guarantee the success of this new software. The products of this line are suited for cloud operations. But competitors have a significantly higher share of cloud revenue than Software AG in the field of process mining software. To accelerate growth and the shift to cloud business in this product line, entry project consultant teams are necessary and need to be set up, especially for the new ARIS Elements cloud-entry solution. Furthermore, Customer Success managers must provide customer service for the duration of a cloud agreement to improve customer satisfaction and minimize the risk of termination. A Customer Success organization is currently being set up for this purpose. In total, the Business Transformation product line has the second-highest bookings growth rate in Software AG's DBP segment, after the IoT product line. These products are particularly well suited as entry products for Software AG technology. But because the average deal size in this product line is the second-lowest of all product lines, the sales efficiency in direct sales channels is lower. Software AG's sales focus for these products is directed more toward other channels such as partners and online sales. A higher number of implementation partners is needed to support customers in the implementation of these software products. These, however, were not and are not yet available to Software AG to the extent necessary and are currently being increased.

These risks were given a green risk signal (2019: green) at the end of 2020.

Dynamic growth in the IoT business

Software AG's strategy foresees business in the IoT & Analytics product line in the DBP (Cloud & IoT business) segment as a key future growth driver. IoT is a fast-growing market subject to intense competition. The market is being driven by hyperscalers (computing networks to achieve major scaling in cloud computing and big data), system integrators as well as vendors that are developing their own IoT system landscapes. Software AG's competition includes large IT corporations such as Microsoft and PTC. Because IoT products are based on new software that is enhanced at a rapid pace, there are still inherent differences in

product quality. Large R&D investments are necessary to resolve open technical issues and ensure the enhancements required by customers. These challenges grow with the number of customers and revenue in this product line. Software AG offers an IoT platform and implementation services. But customers often want an end-to-end IoT solution.

The malware attack in October 2020 led to a significant additional burden in R&D as well as delayed deliveries of new releases. The COVID-19 pandemic also impeded the generation of new projects because face-to-face communication with new customers was not possible. The availability of qualified sales and technology consultants is insufficient in many smaller national subsidiaries. Because these products are increasingly sold as part of Software as a Service offerings, there is a growing risk that service level agreements will not consistently be met. Software AG's overall brand strength still has room to grow.

To lead this product line to dynamic growth, the following measures were taken:

- Ongoing monitoring of IoT markets and focused innovative development of products to ensure technological USPs
- Focused investments in R&D support and operations to ensure the IoT platform's quality, stability and availability
- Expansion of innovation capacities in R&D, Product Management & Marketing, co-innovation with customers and corporate acquisitions to complete the product portfolio
- Increased investments in IT security and processes to defend against cyberattacks
- Risks associated with COVID-19 are being mitigated through investments in home-office equipment and collaboration platforms as well as closer collaboration with partners
- Improved sales activities—managed centrally, but integrated in regional IoT business development teams

- Monitored sales activities to track customer expectations
- Stepped up investments in dedicated IoT partner teams to expand the IoT partner ecosystem
- Established a business plan to reflect business requirements of the focus countries (USA, U.K., France and Germany)
- Expanded the IoT partner business for non-focus countries
- Further expanded marketing activities to increase market awareness for Software AG's IoT offering and improve sales opportunities

The overall buying behavior of enterprise customers in the software market has changed. This has led to a steady increase in demand for subscriptions and Software as a Service (SaaS) offerings. Software AG's Management Board therefore defined a "subscription-first" approach as part of the new strategy, whereby all Software AG products have been offered primarily as subscriptions since 2020. Customer demand as well as acceptance of this option continued to grow. This satisfies the increasing customer demand for pay per use and subscription options and, regardless of the deployment model, provides access to the advantages of this form of consumption. Software AG will continue delivering a hybrid product offering—on-premise and cloud/SaaS.

The risk associated with information security and data protection is significantly higher in the cloud business than in the previous on-premise business because Software AG presents itself as a data processing company. This transfers the risk to Software AG as the cloud provider. This transformation results in an increased legal risk associated with cloud agreements. To minimize this risk, an information security management system (ISMS) in accordance with ISO 27001 was implemented and externally certified.

The risks associated with the Cloud & IoT business, which is currently under development, were rated at risk signal yellow (2019: yellow).

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

Software AG's traditional A&N product family is currently in an advanced stage of the product life cycle. The age structure of A&N employees poses a challenge for Software AG and its customers. The necessary generational shift across all customer-oriented functions must be well organized. Otherwise, there is a risk of losing customer contacts and expertise with the corresponding negative effects on sales opportunities. There is hardly any new customer business in this segment. The product portfolio is based on existing customers. Growing cost pressure on customers has the effect of more migration of mainframes to open system platforms. But resources are tight when it comes to supporting customers with this migration. There is also the risk of customers changing to new competitor products, which would have negative effects on revenue and profit margin. It would also reduce the cross-sell potential of other Software AG products. Software AG's strategy is based in part on extending customers' existing A&N license rights and/or selling add-on products. The potential offered by renewing licenses is lower compared to past years. Nevertheless, A&N product customers continue to be extremely loyal to Software AG. This is because A&N products are highly valued for their:

- High availability
- Low operating costs
- Strategic relevance for operation of customer applications running on A&N
- Future guarantee

This presents the opportunity to attract customers with positive Software AG experiences to long-term maintenance and modernization of their IT infrastructure while keeping A&N technology. Software AG is the best partner for that. Retaining and acquiring product expertise make this possible. Ongoing innovation and R&D activities lead to significantly better prospects for the A&N business line. Software AG began communicating its Adabas & Natural 2050+ program in 2015 and is fundamentally willing to continue developing A&N and providing A&N customers installation support through the year 2050 and beyond. This initiative resonated extremely well with

customers and increased the level of loyalty among the customers base. The transition to subscriptions in the A&N segment also opens up additional revenue potential.

Software AG is countering the described risks with the following measures:

- The Adabas & Natural 2050+ program can significantly delay the anticipated long-term revenue decline
- Ongoing development of hosting and private cloud availability for A&N products generates new business
- Customer support for migration of mainframes to open system platforms on A&N technology (re-hosting) to cut hardware costs for customers and prolong maintenance periods
- Expansion of A&N service capacities to support local partners and their re-hosting activities
- Generation change training programs for young A&N staff in R&D and pre-sales working at Software AG and at customers
- Extended application support to serve customers with current A&N staff
- Expansion of offshore R&D and support centers
- Focus on key operating system platforms like z/OS®, Linux® and Windows®
- A&N modernization to extend the product life cycle, e.g. enhancement and sale of zIIP functionality for online transactions and Adabas for zIIP™
- Regular customer satisfaction surveys

These measures can significantly slow the downward trend of A&N sales while providing opportunities for generating additional sources of revenue. For these reasons, A&N revenue decreased by only 3 percent in 2020. This drop was, however, due solely to the weakness of foreign currencies against the euro. At constant currency, revenue rose 1 percent. Bookings increased by 28 percent (33 percent at constant currency), clearly exceeding guidance, which had raised been during the year to 5 to 15 percent.

Due to the high number of large deals in the A&N segment in 2020, which will not recur at that scale in 2021, a 30 to 20 percent decline in bookings is expected in the A&N segment in 2021. This corresponds roughly to business performance in 2019. Software AG also foresees a stabilization of A&N bookings in the years thereafter. Customer evaluations show that the overwhelming majority of all A&N installations are business-critical for customers. This means that many customers' economic livelihood depends on the performance and availability of their A&N installations. After having invested heavily over the past decades, these customers cannot and will not forgo this technology. There is thus an opportunity that this business line will continue generating high revenues in the future.

There are significant opportunities associated with product innovation and modernization/digitization packages in the A&N product line; this type of offering can make the need for large, cost-intensive projects to replace A&N technology superfluous. In this way, A&N remains a future-proof technology, which can make a positive impact on A&N customers' investment decisions. The COVID-19 pandemic also had barely any negative effects on business performance in this segment. In times of crisis, customers rely on proven technology and do not undertake activities to try out new technologies.

These risks were given risk signal yellow (2019: yellow) at the end of 2020.

Acquisitions

Software AG expands its technology offering and its global presence through targeted acquisitions. Acquisitions present the opportunity to participate in waves of innovation, to expand the product portfolio and increase relevance in the market and with prospective customers. Acquisitions can help shorten time-to-market significantly for new products that address the latest trends. The uncertainty of future market and technology trends poses a risk associated with determining the right target companies that are well matched to the Company's future strategic focus. Selection of an unsuitable target company leads to management resources and investment funds being tied up without sufficient return on investment. This can result in risks associated with possible impairments, the unnecessary use of Software AG's cash and a decrease of its growth potential.

The long-lasting period of low interest rates caused prices of potential target companies to rise and the profitability to drop. Potential target companies are therefore rare, too highly priced and often not the right size. Companies with groundbreaking technology are rarely put up for sale and have a high price. This market situation poses a considerable obstacle in Software AG's acquisition of new technologies and limits its non-organic growth. A risk therefore exists of acquiring unsuccessful business models or suboptimal products.

As of January 1, 2021, Software AG established a new area of responsibility under the CFO, known as Corporate Development, which will drive the Company's strategic development, including acquisitions. The existing Mergers & Acquisitions (M&A) department was incorporated into the new unit to maximize M&A value creation. Furthermore, a new Post-Merger Integration (PMI) team was also established within this organization which is responsible for integration of past and future acquisitions.

The following risk-mitigating processes were defined for the time prior to and after acquisitions:

Pre-acquisition phase

To mitigate the selection risk, the new department described above is continuously observing and evaluating the market for technology developments. Potential companies are identified using a sophisticated screening process. To reduce risks associated with due diligence processes, Software AG conducts a critical business model analysis of all potential target companies. Its current due diligence process identifies problems, rejection criteria and uncontrollable risks early. In-depth due diligence is carried out with respect to technological, strategic and operational integration. Prior to a takeover, an intensive review is conducted to ascertain whether the technologies of the target company in question effectively supplement Software AG's product portfolio, how market access and market penetration will change, and what synergy potential can be realized. Every acquisition is preceded by a precise analysis of the financial fitness of the target company by experienced due diligence teams. These teams consist of a core team and experienced specialists from the relevant business units. They assess whether the target company's corporate culture can be harmonized with that of Software AG. In order to ensure consistent integration planning, staff members who will be responsible for integration later are included in due-diligence processes at an early point in time.

As in 2019, the risks associated with the pre-acquisition phase were given a green risk signal at the end of 2020.

Post-acquisition phase

There is also a risk that acquired companies will not integrate successfully. A new PMI manager was therefore appointed as of January 1, 2021, who works as part of the team responsible for Software AG's corporate development. Insufficient integration could result in growth and profitability issues as well as failure to achieve combined business plan targets. It would become difficult to quickly exploit revenue and cost synergies. There is an additional potential risk associated with the loss of key specialists when not enough attractive positions are created quickly. Especially smaller-scale acquisitions pose the challenge that managers who have worked as generalists must transition to the role of specialist in a larger organization following an acquisition. The main challenges include the integration of the product portfolio, the processes, the organization, the people, and the different corporate cultures.

Through established control mechanisms, any possible integration risks or opportunities are identified during the due-diligence stage. The implemented integration processes are coordinated centrally to ensure integration of all departments and to quickly create revenue and cost synergies. Possible areas of employment for future staff are assessed at the beginning as well as ways for ensuring knowledge transfer. The acquired company's budget is detailed for the post-acquisition period in order to guarantee continued business operations. Specific KPIs are identified and monitored for each integration. A key component of these activities is the integration of sales. It entails dovetailing the new sales models and product offerings with the Software AG sales organization and leveraging revenue synergies. This enables the sale of newly acquired products to customers (upsell) and sales of existing products to new customers (cross sell). The acquired sales organization can act as an overlay function for the existing sales organization.

Opportunities and risks associated with integration in the post-acquisition phase were rather low at the end of 2020 due to two small-scale acquisitions in fiscal year 2016, one small-scale acquisition in fiscal year 2017, two small-scale acquisitions in fiscal year 2018 and none in 2019 or 2020.

Because an intensification of acquisition activities is planned in the near term, the integration risk was assigned a yellow risk signal (2019: yellow).

Risks and opportunities associated with the strategic transformation (Helix)

While the opportunities associated with the strategic transformation were already discussed in the relevant sections, Software AG's Management Board is also aware that it represents a substantial multi-year change project for the Company. Such a change/transformation process can lead to considerable risks when guidance and management of the process is not clearly structured. The greatest risk is that the organization could become structurally overwhelmed by too many simultaneous initiatives and the existing governance structures hamper change and/or become ineffective due to imprecise or uncoordinated change. The Management Board is combating the considerable risk inherent to any such major change project with the following measures:

- A central Transformation Office, under the leadership of an experienced Senior Vice President for Strategy and Transformation, was established and appointed seven employees. Four change managers design and support concrete initiatives based on the defined strategic priorities. Three program managers coordinate operational project inquiries; provide transparency on interdependencies; and ensure the use of standard tools for project management and application/process documentation. The Transformation Office reports to the Chief Human Resources Officer.
- A detailed execution plan with all change workstreams was created to coordinate scheduling of initiatives and measures, monitor progress of the transformation, provide complete transparency of the change/transformation program and manage dependencies.

- Responsibility for transformation initiatives was largely handed over to the relevant departments. Workstream leads in the relevant departments ensure execution of their respective parts of the overall execution plan. Organizational and content-related coordination between workstreams is managed by the Transformation Office as well as in regularly scheduled result-to-action (RTA) meetings. Here all workstreams present their progress, KPIs and any points in need of clarification. Because intense collaboration is vital to the change process, this forum provides a way to manage all change processes across departments.
- Quarterly business reviews were established to assess and drive regional adaptation to the transformation process. They provide a comprehensive summary of the regions and units with respect to business performance and transformation. Measures are defined based on results.
- The existing governance structures incorporate transformation/change components ensuring that all deviations from the execution plan are identified early and escalated to the right people if necessary. A change/impact analysis, for example, is generated on a regular basis to identify the main risks and define measures to counter them.
- External consulting and guidance of the change and transformation process, primarily in the areas of people & culture and subscriptions, will ensure that change/transformation management and plan execution meet Software AG's high level of quality standards.

The success of Software AG's transformation depends on its corporate culture and its adaptation to the new strategy. For that reason, particular attention is given to the following measures: Employees are actively included and trained in the change process, and communication is geared to the specific target audience. Talent is fostered, Feedback sessions and round tables are held. Employee surveys are conducted. And, behaviors that may hinder the change process are identified and addressed. This is driven through a company-wide simplification initiative which adapts processes to be able to present the transformation to employees quickly, directly and tangibly.

This risk was rated at red in the first years of implementation. But the opportunities associated with the strategic realignment far outweigh the risk. Because these risks are included in the other strategic risks, they were not separately rated in the 2020 fiscal year.

Product distribution risks and opportunities

Sales efficiency and sales risks and opportunities

The complexity of Software AG's products coupled with the complexity of the requirements of its customers require a high level of experience and expertise on the part of the Sales force. This leads to relatively long sales cycles. Product-related sales and marketing expenses continued to rise in 2020. They represented 116 percent of license revenue as compared to 95 percent in the previous year. This metric was also influenced by the shift to subscription sales which typically leads to decreasing license sales. A more meaningful metric is the ratio of these product-related sales and marketing expenses relative to bookings. This was 51 percent (2019: 57 percent) in fiscal 2020, marking a year-on-year improvement in

sales efficiency. An ineffective sales organization can be an indication of an inadequate sales approach or uncompetitive products regarding capability, price or possible applications. Software AG's shift to the subscription model from the existing sales model based predominantly on perpetual licenses could mean that customers terminate agreements more quickly when products do not fully address their wishes. Higher average deal size and better scalability can improve sales efficiency. To achieve that, a sales focus on large key customers is essential. This increases the dependence of license revenue on a smaller number of large customers though. Software AG's complex product portfolio and long sales cycles cause annual license revenue to accumulate heavily in the fourth quarter. Insufficient average deal sizes closed by the direct sales organization with full administrative support from Legal and Finance and insufficient use of standard agreements and processes lead to a reduction in sales efficiency and profitability. Some of the smaller country subsidiaries have too few technology consultants (pre-sales staff) and skills to provide customers with technical consulting on the entire platform. Not enough standard contracts are used—even for small-scale deals—due to the "customer first" approach in place. The COVID-19 pandemic is causing slower procurement cycles when customers lack adequate digital collaboration infrastructure.

Software AG intends to continually increase sales efficiency and thereby further accelerate DBP deal size growth through the following measures:

- Accelerate the transition to recurring license models such as subscriptions, usage-based licenses and SaaS in all product lines with better scalability and forecast accuracy
- Reduce complexity of product offerings and pricing with simpler product bundles
- Introduce improved sales methods and expand success management to increase sales efficiency
- Develop a global go-to-market model (blue prints) such as customer segmentation and specialization, especially in the DACH and Americas regions

- Global rollout of Altify, a salesforce opportunity management tool, to implement a new and consistent sales process from quote to payment
- Set up sales, development and representative teams in all regions; introduce global tools and binding processes
- Implement global sales planning, calendar and coordination processes with mandatory meeting days in all regions
- Establish demand-generating committees to coordinate sales processes and improve approval discipline
- Introduce a new forecast dashboard
- Simplify administrative processes to increase sales efficiency
- Set up a Customer Success manager organization for ongoing customer care and consulting
- Improve internal communication on corporate vision
- Further expand sales and product training with mandatory final exams

Due to improved sales efficiency achieved in the 2020 fiscal year as compared to 2019, the risk rating at risk signal green compared to red in the previous year improved considerably.

Partnership risks and opportunities

Software AG's growth strategy is anchored in the expansion of its partner ecosystem to broaden vertical and regional market reach. The partner ecosystem must be further expanded to generate additional license growth in markets that have not yet been addressed. Software AG's recent collaboration with global system integrators like Wipro, Tata Consulting Services, Capgemini, etc. was heavily geared to sales collaboration and only played a minor role in transformation projects. Software AG has not generated sufficient additional revenue or bookings through newly acquired partners for many years. The focus

was too heavily geared to joint sales. There are profitability and growth weaknesses associated with the OEM business. One reason is that the products are not adequately prepared for OEM business. Partnering with Microsoft and Amazon Web Services, which are the biggest cloud providers in the market, is mainly important because of customer referrals from these huge organizations. Channel conflicts between direct sales organizations and partner sales as well as less-than-ideal compensation models limit the success of Software AG's partner business. Potentially insufficient partner governance could result in legal and reputational risks, including damage claims against Software AG, and jeopardize the success of Software AG's partner business. The longer the COVID-19 pandemic lasts, the more the partner business will be impeded through an increased coordination effort.

To grow the success of its partner business, Software AG introduced the following measures:

- Set up a global partner management team to grow the partner strategy, expand partner relationships and establish networks on all levels
- Update the sales compensation model to increase incentive for collaboration between direct sales organizations and sales, cloud and OEM partners
- Define objectives for partner-related revenue at regional and national levels
- Stronger obligation placed on software sales organizations to incorporate global system integrators into strategic key account relationships
- Clear definition of new account business (white space) to be managed by partners
- Offer more attractive, foreseeable margins to win value-added resellers
- Implement a partner program to fuel partner recruitment
- Simplify Software AG'S pricing and creat more flexible price structures in the OEM partner business

- Improve partner business reporting
- Simplify partner-related processes and systems on all levels
- Set up a marketing fund for partners to accelerate the generation of partner business
- OEM-enable products and introduce standard processes for certification of OEM solutions by R&D
- Sharper focus on signing new customers
- Install a global team focused on commercial cloud alliances
- Systematically develop and expand an effective and scalable partner-enablement and qualification program to improve service capacity and quality
- Further enhance and develop specific partner channel compliance instruments, consistent use of standard partner power-up contracts and partner training on Software AG's business model
- Partner support in coping with challenges of the COVID-19 pandemic

Part of the Company's strategic transformation is to maximize the considerable opportunities presented in the partner business by pursuing a consistent and comprehensive concept to build a global partner ecosystem. It can be assumed that establishing a new performance matrix and focusing on high-potential partnership models in the different product groups can generate mid-term revenue growth through the partner ecosystem.

The risks associated with partnerships were given the yellow risk signal (2019: yellow) at the end of 2020.

Personnel risks and opportunities

Employer appeal

Software AG is a people business. Therefore, one of the central challenges is having a sufficient number of highly qualified and motivated employees at all relevant sites at all times. The ability of an employer to hire and, above all, retain qualified and motivated employees is key to success. Software AG is currently in a phase of transformation, in the midst of the global COVID-19 pandemic, and in the highly competitive cloud & IoT market. Uncertainty about Software AG's future success in these new markets could have a negative impact on its image as an employer both among highly qualified applicants and existing specialists. The demographic trend in some countries and markets could also result in a reduction in potential growth due to a shortage of qualified young talent. The advancing age structure in the A&N business line could lead to a loss in expertise. How Software AG copes with the challenges of the COVID-19 pandemic in comparison with other companies and continues leading its transformation are key factors in recruiting new talent and retaining high-caliber employees.

Software AG is taking the following measures to counter this risk:

- Further improve employer image and appeal of Software AG as an employer, especially during the COVID-19 pandemic
- Ongoing evaluation of market-oriented remuneration and target salaries based on global benchmarks
- Development programs for high-potential employees and future managers
- Due to consistent implementation of improvement measures resulting from the employee survey, the new employee survey led to significantly better results in 2020. Employee surveys will be continued regularly.
- Continue social media activities to recruit qualified people

- Continue direct recruitment of new employees and training of existing staff
- Rollout of the A&N Academy in 2020 to introduce college graduates to A&N technology and recruit them as prospective employees of the A&N segment
- Staff development programs for all staff worldwide
- Optimized distribution of employees at high and low-cost locations

Software AG assumes that these measures build a sound basis for ensuring long-term success.

The war for talent will get fiercer in the IT sector; Software AG's strategic transformation and the employee value proposition (b⁵) created as part of Helix will help boost Software AG's image as a growing software company.

Due to the implemented measures to address the intense competition among employers for talent, personnel-related topics were given a green risk signal (2019: green) at the end of 2020.

Legal risks

Intellectual property (IP) right protection

This strategic risk mainly consists of the two subcategories described below.

Protection of Software AG partners' intellectual property rights

Because Software AG licenses third-party products, it is required to defend rights granted to customers, such as the right to use specific resources. Unauthorized undetected use by customers can result in liability risks relating to past license fees owed to software distributors. To mitigate this risk, audit rights have been included in all customer contracts which entitle Software AG to monitor customers' use of products in accordance with contractual stipulations. All third-party software sales agreements are reviewed for unfavorable terms and modified as needed by a central department. In addition, Software AG continued developing and optimizing its procurement process.

Patent litigation

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. Aside from potential lawsuits from other software companies, patent holders are also exploited by non-practicing entities (patent trolls), which are often financed by hedge funds to file patent lawsuits against software companies. This also affects Software AG. Patent litigation in the U.S. entails the risk of higher procedural costs to defend against claims without provision for reimbursement in American procedural law. The risk associated with patent trolls has lessened in recent years due to a new legal ruling by U.S. courts. According to the decision, non-practicing entities are required to own a relevant business in order to sue for infringements against their own patents. Furthermore, large U.S.-based software companies have joined forces to form the License-on-Transfer (LOT) Network. The LOT Network is a non-profit community established to enable patent licensing among members and combat patent trolling. To strengthen its own position, Software AG joined the network in 2020. Members of the LOT Network commit to not sue each other for patent infringements. The last patent troll lawsuit ended in a settlement in fiscal 2019. Since this case, spanning multiple years, there have been no further attacks by patent trolls in recent years. There is also a risk of being sued for patent infringements by competitor software companies provided they are not members of the LOT Network. Software AG has an IP Rights team to counter patent law suits. In addition to tasks associated with patent law protection, the team handles Software AG's own patent applications and coordinates its defense against patent suits. The Company's portfolio of patents is the best protection against claims from other market participants, because it offers opportunities for cross-licensing agreements. For these reasons, Software AG will drive expansion of its patent base. As part of a Software AG initiative in 2020, workshops were held at all relevant R&D locations to examine the option of new patent registrations. Product management evaluates Software AG's closest competitors' technology on a regular basis to identify overlapping technologies and develop patent ideas.

But entering patenting processes also leads to risks. For example, IP rights can be lost in such processes due to conditions by the patent issuing organization. These rights can also be lost when built into open-source software. Software AG owns a large number of patents, which can be used to protect its business and defend it against patent suits. These patents could also contribute to generating additional licensing revenues in the future.

To defend itself against future patent-related lawsuits, all relevant technical and marketing documentation was systematically stored in a central location, which makes the necessary documents available quickly in the event of a legal suit. This documentation process is employed for newly acquired companies as well. All new products are evaluated internally for potential patent infringements before public publication. R&D and Product Marketing employees receive training on the subject of patent protection laws. Implemented measures and processes reduce this risk considerably for Software AG. No new patent suits have been filed against Software AG since 2012. It is currently unforeseeable to what extent future patent suits will be fueled by the increasingly nationalistic tendencies worldwide.

Like last year, the risk associated with the protection of IP rights was rated at a green risk signal as of December 31, 2020.

Information security and data protection

As a provider of maintenance, cloud and consulting services, Software AG works with sensitive customer data and thus acts as a processor. Software AG also manages sensitive information about its own business, employees and customers, prospective customers, partners and suppliers and is responsible for that data in this role. The Company is legally required to protect this data as the number of external cyberattacks is constantly rising. The number of malware attacks rose worldwide by 715 percent in 2020 as compared to 2019. The spread of cloud computing also increases vulnerability to data hacking. In data processing agreements (DPAs) with customers, Software AG guarantees compliance with data protection laws, particularly with the EU's General Data

Protection Regulation (GDPR). Significant investments are necessary for ensuring the necessary level of data protection. Penalties of up to 4 percent of Software AG's total annual revenue can be issued in the event of infringements of these laws. Sizable investments are necessary on an ongoing basis to take these security measures and comply with regulations. In accordance with the Schrems II ruling of the European Court of Justice (Judgment of the European Court of Justice on Transfers of Personal Data to Third-Party Countries, Schrems II), the privacy shield on transfers of data to the USA is no longer valid. This situation is causing compliance issues that must be resolved.

Software AG counteracts these risks by implementing a data protection management systems (DPMS), which was enhanced and reinforced particularly after the malware attack in October 2020. This DPMS contains defined processes that ensure information security and data protection. Internal data security guidelines and standard processes, a data security committee and an IT security organization were established to monitor internal Software AG IT data security and develop data security measures as well as guidelines on an ongoing basis.

Risk-mitigating security measures are undergoing constant improvement as follows:

- After experiencing a malware attack in October 2020, Software AG is heightening its internal network security through network segmentation, real-time dataflow and irregularity monitoring
- Ongoing monitoring and optimization to reach a state-of-the-art level of data protection with a systematic data security strategy/information security management system (ISMS)
- Implementation of early detection systems for data breaches
- Disciplined execution of defined emergency measures in the event of an attack or system failure

- An ISO 27001 certified information security management system (ISMS) was instituted for cloud business customers
- Continuation and maintenance of the security operation center, through Deutsche Telekom, since the malware attack in October 2020, to increase network security
- When Software AG enters DPAs with customers, the risks it assumes are minimized to the legally admissible extent

The Schrems II ruling (Judgment of the European Court of Justice on Transfers of Personal Data to Third-Party Countries, Schrems II) strengthens data protection for EU citizens and stipulates, among other things, that necessary data transfer to a foreign country can be legally secured through the use of EU standard contractual clauses (SCCs). Under certain conditions, these SCCs can provide the necessary legal security in foreign countries equal to the EU's level of data protection. The main conditions of the SCCs are that the foreign jurisdiction allows data to be encrypted, anonymous, and pseudonymized and ensures this takes place.

The malware attack in October 2020 provided Software AG with the opportunity to immediately initiate and execute a number of measures that had been planned for the medium term as well as to significantly step up the Company's data protection. Thanks to these activities, the Company is now better safeguarded against cyberattacks than ever before.

Due primarily to the malware attack in October 2020, the risk associated with information security and data protection was elevated from a yellow risk signal in 2019 to red as of December 31, 2020.

Other legal risks

Regulatory, compliance and litigation risks

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

A multinational software company like the Software AG Group is subject to global risks associated with legal disputes and government and official processes. Software AG cannot rule out that litigation and proceedings will have negative effects on the earnings of the Company; as a rule, the Group's financial position can even be negatively affected when law suits are won, given the high cost of defense attorneys and other defense services needed to thwart accusations, for example in the United States. Despite detailed risk assessment and forward-looking risk provisions, there is a risk that the actual cost of litigation is higher than the assumed risk value.

For information on specific legal disputes, please refer to [Note 36](#) in the Notes to the Consolidated Financial Statements and Other Provisions in the Separate Annual Financial Statements of Software AG (Parent Company).

Financial operating risks

Exchange rate risks

Software AG is exposed to exchange rate risks through its global business activities. Software AG's sales organizations operate in the currency of the country in which a sale is transacted. This can result in currency risks and opportunities for Group revenue. For more information on [Currency Split](#), please refer to the graphic in the section, the Group's Financial Performance in the Economic Report.

Exchange rate fluctuation impact on Group revenue in 2020:

Currency fluctuation in 2020	Change in exchange rates volume-weighted 2020 vs. 2019	Impact on revenue in 2020 in € millions
U.S. dollar 30.5% of revenue	-2.1%	-5.5
Pound sterling 5.6% of revenue	-2.3%	-1.1
Israeli shekel 5.3% of revenue	+1.1%	+0.5
Australian dollar 3.4% of revenue	-2.7%	-0.8
South African rand 3.1% of revenue	-12.4%	-3.6
Brazilian real 2.4% of revenue	-24.4%	-6.6
Canadian dollar 2.4% of revenue	-3.1%	-0.6
Other currencies 13.2% of revenue	-3.9%	-4.5
Currency effects on total revenue	-2.6%	-22.2

The sales-related expenses are in the same currency as the sales themselves, however. This natural hedging relationship is strengthened in the U.S. due to the fact that components of Software AG's R&D and global Marketing are based in the U.S. Software AG further utilizes derivative financial instruments for hedging. This mitigates the effects of exchange rate fluctuations on Group results. Furthermore, portions of the Company's liquid assets are held in the USA. Its 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 Software AG secures only existing balance sheet items or highly likely cash flows. Based on the financial instruments open on the balance sheet date, an increase in the market interest rate level by 100 basis points would have increased Group net income in 2020 by €2.1 million (2019: €2.0 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, 2020 would have caused Group net income in 2020 to increase by €2.1 million (2019: €1.9 million). Constant monitoring of the relevant banks' creditworthiness helps Software AG minimize the risk of losing business partners with whom derivative financial instruments are concluded.

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. Over the long term, default risks are quite marginal as due to the generally high level of creditworthiness on the part of its customers. Financial provisions were set up in 2020 due to the increased default risk associated with the COVID-19 pandemic. To reduce the impact of this risk, Software AG uses an automated approval process for customer contracts, the GDD, based on in-house technology. To protect cash holdings, Software AG constantly monitors partner banks' creditworthiness and adjusts investment decisions accordingly.

General Statement on the Group's Risk Situation

The Software AG Group's overall consolidated risk situation is somewhat favorable in comparison with the previous year. In 2020, 41.7 percent (2019: 30.8 percent) of Software AG's strategic risks were categorized as risk signal green, 50.0 percent (2019: 46.1 percent) as yellow, and 8.3 percent (2019: 23.1 percent) as red.

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

Risk Summary

	Impact on EBIT in the next 3 years	Probability	Risk signal	Trend
Corporate strategy risks and opportunities				
Product innovation and portfolio	medium	likely	yellow	constant
Growth in the Integration & API business	medium	likely	yellow	declining
Development of the Business Transformation business	low	likely	green	constant
Dynamic growth in the IoT & Analytics business	medium	likely	yellow	increasing
Market risks and opportunities: A&N product line	medium	likely	yellow	constant
Acquisitions pre-acquisition phase (selection)	medium	unlikely	green	constant
Acquisitions post-acquisition phase (integration)	medium	likely	yellow	constant
Product distribution risks and opportunities				
Sales efficiency and sales risks and opportunities	medium	unlikely	green	declining
Partnership risks and opportunities	medium	likely	yellow	increasing
Personnel risks and opportunities				
Employer appeal	low	unlikely	green	constant
Legal risks				
Intellectual property (IP) right protection	low	unlikely	green	constant
Information security and data protection	medium	highly likely	red	constant

Software AG's Rating

The necessity for an external rating did not arise because of Software AG's solid financial structure and employed financing instruments. There is currently no official external rating of Software AG. Nevertheless, there are some facts that shed light on Software AG's external rating.

Based on the financial statements from December 31, 2019, as in previous years, Software AG was given central bank eligibility by the German Central Bank (Deutsche Bundesbank). This means that lending banks can use credit claims with Software AG as collateral for refinancing with the Deutsche Bundesbank.

Software AG's own banks classified its creditworthiness at the upper end of the investment-grade range at the end of 2020.

Remuneration Report

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code from February 7, 2017 (hereinafter referred to as GCGC) and the provisions of the German financial reporting standard in its revised 2017 version no. 17 (DRS 17). It contains the information required and/or recommended by the German Commercial Code (HGB), the GCGC and International Financial Reporting Standards (IFRS). The Remuneration Report is part of the Combined Management Report and provides details on the compensation

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

Allocation (1)

			Sanjay Brahmawar Chief Executive Officer Joined Aug. 1, 2018	
in €			2019	2020
Non-perfor- mance-based components	Fixed compensation (base salary)		999,999.96	999,999.96
	Additional benefits ¹		59,086.27	9,675.13
	Total		1,059,086.23	1,009,675.09
Performance-based components	One-year variable remuneration		1,003,333.33	1,178,956.67
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS ²	11,544.60	25,155.24
		Management Incentive Plan 2019 – (MIP 2019)	0.00	0.00
		Management Incentive Plan 2020 – (MIP 2020)	0.00	0.00
Total allocation		2,073,964.16	2,213,787.00	
Service cost		555,192.12	707,037.37	
Total allocation (GCGC)		2,629,156.28	2,920,824.37	

¹ Additional benefits include provision of a company car, family home travel, voluntary social security and accident insurance premiums, rent reimbursements and severance payments. Mr. Brahmawar's additional benefits included €3 thousand in family home travel.

² The allocations from the PPS plan refer to payments on Management Board members' PPS balance as of the Annual Shareholders' Meeting equal to the approved dividend per share for each PPS and partial exercise of existing PPS balances. Payments made to Dr. Sigg in the amount of €18 thousand were dividends on his balance (as shown above) and in the amount of €282 thousand was the scheduled payment under that plan. Payments to Mr. Zinnhardt resulted from €46 thousand in dividends on his balance (as shown above) and a consideration corresponding to 38,313 PPS valued at €1,275 thousand.

Dr. Wolfram Jost was a member of Software AG's Management Board until January 8, 2019. Allocations and benefits granted in 2019 equaled zero because he received payment for all outstanding remuneration in his contract in 2018. A table depicting allocations and benefits granted was therefore not necessary.

Allocation

The following tables show the allocation of fixed remuneration, additional benefits and one-year variable remuneration for and in the year under review and the partially prolonged amounts of multi-year variable remuneration with long-term share-based incentive paid during fiscal 2020.

		Dr. Elke Frank Chief Human Resources Officer Joined Aug. 1, 2019	Dr. Matthias Heiden Chief Financial Officer Joined July 1, 2020
	2019	2020	2020
	208,333.35	500,000.04	300,000.00
	504,704.33	16,706.19	12,226.40
	713,037.68	516,706.23	312,226.40
	167,222.24	471,582.67	235,791.33
	0.00	1,070.08	0.00
	0.00	0.00	0.00
	0.00	0.00	0.00
	880,259.92	989,358.98	548,017.73
	211,996.67	301,810.53	233,421.00
	1,092,256.59	1,291,169.51	781,438.73

Allocation (2)

			John Schweitzer Chief Revenue Officer Joined Nov. 1, 2018	
in €			2019	2020
Non-perfor- mance-based components	Fixed compensation (base salary)		625,324.64	614,293.79
	Additional benefits ¹		88,596.13	53,738.55
	Total		713,920.77	668,032.34
Performance-based components	One-year variable remuneration		839,422.49	1,687,995.68
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS ²	5,261.37	20,525.17
		Management Incentive Plan 2016 – (MIP 2016)	0.00	0.00
		Management Incentive Plan 2019 – (MIP 2019)	0.00	0.00
		Management Incentive Plan 2020 – (MIP 2020)	0.00	0.00
Total allocation		1,558,604.63	2,376,553.19	
Service cost		0.00	0.00	
Total allocation (GCGC)		1,558,604.63	2,376,553.19	

¹ Additional benefits include provision of a company car, family home travel, voluntary social security and accident insurance premiums, rent reimbursements and severance payments. Mr. Brahmawar's additional benefits included €3 thousand in family home travel.

² The allocations from the PPS plan refer to payments on Management Board members' PPS balance as of the Annual Shareholders' Meeting equal to the approved dividend per share for each PPS and partial exercise of existing PPS balances. Payments made to Dr. Sigg in the amount of €18 thousand were dividends on his balance (as shown above) and in the amount of €282 thousand was the scheduled payment under that plan. Payments to Mr. Zinnhardt resulted from €46 thousand in dividends on his balance (as shown above) and a consideration corresponding to 38,313 PPS valued at €1,275 thousand.

Dr. Stefan Sigg
Chief Product Officer
Joined April 1, 2017

Arnd Zinnhardt
Chief Financial Officer
Joined May 1, 2002
Resigned March 31, 2020
Employment contract ended Sept. 30, 2020

	2019	2020	2019	2020
	558,333.35	699,999.96	441,715.32	110,428.83
	33,449.71	29,194.79	37,905.67	12,679.04
	591,783.06	729,194.75	479,620.99	123,107.87
	309,361.09	412,634.83	1,351,251.61	808,968.83
	103,355.12	300,297.08	1,277,947.37	1,321,321.55
	0.00	0.00	1,161,303.78	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	1,004,499.27	1,442,126.66	4,270,123.75	2,253,398.25
	474,290.82	591,862.02	214,541.70	275,633.04
	1,478,790.09	2,033,988.68	4,484,665.45	2,529,031.29

Benefits Granted (1)

		Sanjay Brahmawar Chief Executive Officer Joined Aug. 1, 2018			
in €		2019	2020	2020 (min.)	2020 (max.)
Non-performance-based components	Fixed compensation (base salary)	999,999.96	999,999.96	999,999.96	999,999.96
	Additional benefits ¹	59,086.27	9,675.13	9,675.13	9,675.13
	Total	1,059,086.23	1,009,675.09	1,009,675.09	1,009,675.09
Performance-based components	One-year variable remuneration ²	1,003,333.33	1,178,956.67	0.00	1,666,666.67
	Multi-year variable remuneration				
	with long-term share-based incentive	Performance Phantom Shares – PPS ³	829,261.72	25,155.24	2,993,730.46
		Management Incentive Plan 2019 – (MIP 2019) ⁴	0.00	0.00	3,600,000.00
		Management Incentive Plan 2020 – (MIP 2020) ⁵	1,668,522.54	0.00	3,600,000.00
	Total (DRS 17)	3,850,894.13	4,686,416.02	1,034,830.33	12,870,072.22
Service cost		555,192.12	707,037.37	707,037.37	707,037.37
Total (GCGC)		4,406,086.25	5,393,453.39	1,741,867.70	13,577,109.59

¹ Additional benefits include provision of a company car, family home travel, voluntary social security and accident insurance premiums, rent reimbursements and severance payments. Mr. Brahmawar's additional benefits included €3 thousand in family home travel.

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

³ Members of the Management Board invest a portion of their variable compensation in phantom shares, which have a vesting period of one, two and three years for each third of the phantom shares respectively. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and of individual strategic, qualitative or quantitative objectives, specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by one-third of the outperformance amount of the one-year variable remuneration, which is not paid out but invested in phantom shares. Conversion to PPS is based on the average price of Software AG's share in February of the following year less 10 percent. When the vesting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time.

Remuneration Report

Dr. Elke Frank
Chief Human Resources Officer
Joined Aug. 1, 2019

	2019	2020	2020 (min.)	2020 (max.)
	208,333.35	500,000.04	500,000.04	500,000.04
	504,704.33	16,706.19	16,706.19	16,706.19
	713,037.68	516,706.23	516,706.23	516,706.23
	167,222.24	471,582.67	0.00	666,666.67
	46,836.44	181,775.45	1,070.08	749,839.08
	253,481.63	0.00	0.00	750,000.00
	0.00	834,277.19	0.00	1,800,000.00
	1,180,577.99	2,004,341.54	517,776.31	4,483,211.98
	211,996.67	301,810.53	301,810.53	301,810.53
	1,392,574.66	2,306,152.07	819,586.84	4,785,022.51

⁴ MIP 2019 was launched in March 2019. The first allocation of rights under MIP 2019 to members of the Management Board occurred in June 2019. The plan differentiates between two types of stock appreciation rights (SARs): retention shares (RSARs) and performance shares (PSARs). Provided specific conditions are met, both types grant entitlement to payment of a monetary amount equal to the volume weighted share price on the 20 trading days up to and including March 24, 2023. The number of RSARs allocated was determined as part of the award. The number of PSARs relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The Nasdaq 100 was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as [(the difference between the volume weighted average settlement price and the base price of €31.14) divided by the base price] minus [(the final reference index price minus the original reference index price) divided by the original reference index price of \$7,539.286]. Both the original and final reference index prices were and are calculated as the arithmetic mean of the daily closing prices during the periods of 20 trading days from February 27, 2019 and March 24, 2019 and on the 20 trading days up to and including March 24, 2023. Dividend payments are not taken into account when calculating the performance factor. The value at the time of award was calculated by an external auditor using the Monte Carlo method.

⁵ The first allocation of rights under the new MIP 2020 to members of the Management Board, executives and employees in key positions occurred in June 2020. The plan differentiates between three types of stock appreciation rights (SARs): two types of performance shares, PSARs (1) and PSARs (2), and retention shares (RSARs). The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The MDAX was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as follows: [(Average settlement price for PSARs (1), minus base price) divided by base price] minus [(final reference index price minus beginning reference index price) divided by beginning reference index price]. Dividend payments are not taken into account when calculating the performance factor. The value on the date of award was calculated by an external auditor using the Monte Carlo method.

Benefits Granted (2)

		Dr. Matthias Heiden Chief Financial Officer Joined July 1, 2020		
in €		2020	2020 (min.)	2020 (max.)
Non-performance-based components	Fixed compensation (base salary)	300,000.00	300,000.00	300,000.00
	Additional benefits ¹	12,226.40	12,226.40	12,226.40
	Total	312,226.40	312,226.40	312,226.40
Performance-based components	One-year variable remuneration ²	235,791.33	0.00	333,333.33
	Multi-year variable remuneration			
	Performance Phantom Shares – PPS ³	196,055.61	0.00	714,679.64
	with long-term share-based incentive			
	Management Incentive Plan 2019 – (MIP 2019) ⁴	0.00	0.00	0.00
	Management Incentive Plan 2020 – (MIP 2020) ⁵	417,140.69	0.00	900,000.00
Total (DRS 17)		1,161,214.03	312,226.40	2,260,239.37
Service cost		233,421.00	233,421.00	233,421.00
Total (GCGC)		1,394,635.03	545,647.40	2,493,660.37

¹ Additional benefits include provision of a company car, family home travel, voluntary social security and accident insurance premiums, rent reimbursements and severance payments. Mr. Brahmawar's additional benefits included €3 thousand in family home travel.

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

³ Members of the Management Board invest a portion of their variable compensation in phantom shares, which have a vesting period of one, two and three years for each third of the phantom shares respectively. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and of individual strategic, qualitative or quantitative objectives, specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by one-third of the outperformance amount of the one-year variable remuneration, which is not paid out but invested in phantom shares. Conversion to PPS is based on the average price of Software AG's share in February of the following year less 10 percent. When the vesting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time.

John Schweitzer
Chief Revenue Officer
Joined Nov. 1, 2018

	2019	2020	2020 (min.)	2020 (max.)
	625,324.64	614,293.79	614,293.79	614,293.79
	88,596.13	53,738.55	53,738.55	53,738.55
	713,920.77	668,032.34	668,032.34	668,032.34
	839,422.49	1,687,995.68	0.00	2,701,491.32
	659,812.82	20,525.17	20,525.17	20,525.17
	540,162.32	0.00	0.00	1,466,873.12
	0.00	834,277.19	0.00	1,800,000.00
	2,753,318.40	3,210,830.38	688,557.51	6,656,921.95
	0.00	0.00	0.00	0.00
	2,753,318.40	3,210,830.38	688,557.51	6,656,921.95

⁴ MIP 2019 was launched in March 2019. The first allocation of rights under MIP 2019 to members of the Management Board occurred in June 2019. The plan differentiates between two types of stock appreciation rights (SARs): retention shares (RSARs) and performance shares (PSARs). Provided specific conditions are met, both types grant entitlement to payment of a monetary amount equal to the volume weighted share price on the 20 trading days up to and including March 24, 2023. The number of RSARs allocated was determined as part of the award. The number of PSARs relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The Nasdaq 100 was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as [(the difference between the volume weighted average settlement price and the base price of €31.14) divided by the base price] minus [(the final reference index price minus the original reference index price) divided by the original reference index price of \$7,539.286]. Both the original and final reference index prices were and are calculated as the arithmetic mean of the daily closing prices during the periods of 20 trading days from February 27, 2019 and March 24, 2019 and on the 20 trading days up to and including March 24, 2023. Dividend payments are not taken into account when calculating the performance factor. The value on the date of award was calculated by an external auditor using the Monte Carlo method.

⁵ The first allocation of rights under the new MIP 2020 to members of the Management Board, executives and employees in key positions occurred in June 2020. The plan differentiates between three types of stock appreciation rights (SARs): two types of performance shares, PSARs (1) and PSARs (2), and retention shares (RSARs). The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The MDAX was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as follows: [(Average settlement price for PSARs (1), minus base price) divided by base price] minus [(final reference index price minus beginning reference index price) divided by beginning reference index price]. Dividend payments are not taken into account when calculating the performance factor. The value on the date of award was calculated by an external auditor using the Monte Carlo method.

Benefits Granted (3)

			Dr. Stefan Sigg Chief Product Officer Joined April 1, 2017			
in €			2019	2020	2020 (min.)	2020 (max.)
Non-perfor- mance-based components	Fixed compensation (base salary)		558,335.35	699,999.96	699,999.96	699,999.96
	Additional benefits¹		33,449.71	29,194.79	29,194.79	29,194.79
	Total		591,783.06	729,194.75	729,194.75	729,194.75
Performance-based components	One-year variable remuneration²		309,361.09	412,634.83	0.00	583,333.33
	Multi-year variable remuneration					
	with long-term share-based incentive	Performance Phantom Shares – PPS³	360,994.94	546,777.21	18,699.80	1,836,463.70
		Management Incentive Plan 2019 – (MIP 2019)⁴	608,384.16	0.00	0.00	1,800,000.00
		Management Incentive Plan 2020 – (MIP 2020)⁵	0.00	834,277.19	0.00	1,800,000.00
Total (DRS 17)			1,870,523.25	2,522,883.98	747,894.55	6,748,991.78
Service cost			474,290.82	591,862.02	591,862.02	591,862.02
Total (GCGC)			2,344,814.07	3,114,746.00	1,339,756.57	7,340,853.80

¹ Additional benefits include provision of a company car, family home travel, voluntary social security and accident insurance premiums, rent reimbursements and severance payments. Mr. Brahmawar's additional benefits included €3 thousand in family home travel.

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

³ Members of the Management Board invest a portion of their variable compensation in phantom shares, which have a vesting period of one, two and three years for each third of the phantom shares respectively. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and of individual strategic, qualitative or quantitative objectives, specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by one-third of the outperformance amount of the one-year variable remuneration, which is not paid out but invested in phantom shares. Conversion to PPS is based on the average price of Software AG's share in February of the following year less 10 percent. When the vesting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time.

Arnd Zinnhardt
Chief Financial Officer
Joined May 1, 2002
Resigned March 31, 2020
Employment contract ended Sept. 30, 2020

	2019	2020	2020 (min.)	2020 (max.)
	441,715.32	110,428.83	110,428.83	110,428.83
	2,582,647.83	12,679.04	12,679.04	12,679.04
	3,024,363.15	123,107.87	123,107.87	123,107.87
	1,351,251.61	808,968.83	0.00	963,631.73
	707,613.17	46,648.04	46,648.04	46,648.04
	608,384.16	0.00	0.00	900,000.00
	0.00	0.00	0.00	0.00
	5,691,612.09	978,724.74	169,755.91	2,033,387.64
	214,541.70	275,633.04	275,633.04	275,633.04
	5,906,153.79	1,254,357.78	445,388.95	2,309,020.68

⁴ MIP 2019 was launched in March 2019. The first allocation of rights under MIP 2019 to members of the Management Board occurred in June 2019. The plan differentiates between two types of stock appreciation rights (SARs): retention shares (RSARs) and performance shares (PSARs). Provided specific conditions are met, both types grant entitlement to payment of a monetary amount equal to the volume weighted share price on the 20 trading days up to and including March 24, 2023. The number of RSARs allocated was determined as part of the award. The number of PSARs relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The Nasdaq 100 was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as [(the difference between the volume weighted average settlement price and the base price of €31.14) divided by the base price] minus [(the final reference index price minus the original reference index price) divided by the original reference index price of \$7,539.286]. Both the original and final reference index prices were and are calculated as the arithmetic mean of the daily closing prices during the periods of 20 trading days from February 27, 2019 and March 24, 2019 and on the 20 trading days up to and including March 24, 2023. Dividend payments are not taken into account when calculating the performance factor. The value on the date of award was calculated by an external auditor using the Monte Carlo method.

⁵ The first allocation of rights under the new MIP 2020 to members of the Management Board, executives and employees in key positions occurred in June 2020. The plan differentiates between three types of stock appreciation rights (SARs): two types of performance shares, PSARs (1) and PSARs (2), and retention shares (RSARs). The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The MDAX was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as follows: [(Average settlement price for PSARs (1), minus base price) divided by base price] minus [(final reference index price minus beginning reference index price) divided by beginning reference index price]. Dividend payments are not taken into account when calculating the performance factor. The value on the date of award was calculated by an external auditor using the Monte Carlo method.

Benefits Granted

Fixed compensation

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

Additional benefits

Additional benefits consist of the provision of an appropriate company car, voluntary social security benefits, accident insurance premiums, rent reimbursements, family home travel and severance payments.

One-Year Variable Remuneration

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

Multi-Year Variable Remuneration

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

Performance Phantom Share (PPS) plan

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a PPS plan. As in the previous year, the portion accruing for fiscal year 2020 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2021, less 10 percent (reference share price). The resulting number of shares will become due in three identical tranches with terms of one, two and three years. On the due dates in March 2022 to 2024, the number of PPS will be multiplied by the then-applicable share price for February. The remuneration cap recommended by the then-applicable GCGC was first instituted in 2014. Pursuant to this cap policy, neither old PPS balances nor newly issued PPS will be fully included in future share price increases, but only up to a maximum of twice the reference price at issue of the corresponding PPS tranche. This payment cap is determined annually for the balance of PPS allocated to the members of the Management Board based on the average award price.

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

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

Remuneration Report

The respective disbursement amount is determined on the date of disbursement using the disbursement price per share, multiplied by the number of phantom shares due to be converted. For tranches that aren't renewed, the disbursement share price is equal to the average closing price of Software AG's share in Xetra trading on the Frankfurt stock exchange on trading days during the month of February before phantom share disbursement. For tranches that are disbursed within the extension period, the disbursement share price is equal to the average closing price for Software AG's share in Xetra trading on the sixth to tenth trading days after the decision to exercise the phantom shares. The decision to exercise options can be made during the period from the date of publication of the financial results until the following fifth trading day. This plan led to expenses relating to the members of the Management Board in the amount of €1,827 thousand (2019: €2,358 thousand) in fiscal year 2020. The following table illustrates the PPS to be issued based on the average share price in February 2021 and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2020:

PPS

	PPS granted in 2020 No.	Expense from PPS ¹ granted in 2020 in €
Sanjay Brahmawar (CEO)	22,004	830,902.10
Dr. Elke Frank	4,945	181,839.96
Dr. Matthias Heiden (since July 1, 2020)	5,365	196,055.61
John Schweitzer (until Jan. 13, 2021)	0	21,817.71
Dr. Stefan Sigg	14,450	548,140.55
Arnd Zinnhardt (until Sept. 30, 2020)	0	47,896.01

¹ This expense is due to allocation for fiscal 2020 at a price of €36.54 (2019: €33.27) per PPS at the time of award, disbursement of dividends on the PPS balance in the amount of €112 thousand, and interest expenses for hedging the price of PPS balances amounting to €6 thousand.

Stock option plans

1. Management Incentive Plan 2018 (MIP 2018)

The share-based MIP 2018 was launched in December 2017, whereby members of the Management Board were awarded stock options in four tranches with an average term of 3.3 years ending on August 27, 2021. The base price of these stock options was €45.27, which corresponded to the volume weighted average price (VWAP) of Software AG's share on the 20 trading days from November 15, 2017 onward. A quarter of these stock options became/will become exercisable at the respective average share price on the first 20 trading days in November 2020, in February 2021, in May 2021 and in August 2021. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €45.27 by 20 percent on ten consecutive trading days in the period from December 1, 2019 to November 30, 2020. These performance targets were not achieved at the end of November 30, 2020. The relevant MIP 2018 stock options therefore expired, and expenses presented for this plan to date were reversed. For that reason, negative expense figures are shown in the following table. The maximum possible compensation under this program was set at €1,313 thousand for Mr. Brahmawar (CEO), due to having joined the Company on August 1, 2018, and at €2,095 thousand for the other entitled members of the Management Board.

The average fair value on the date of Mr. Brahmawar's award equaled €4.20 and for the other Board members €6.72 per stock option.

The following stock appreciation rights were allocated and expenses incurred under MIP 2018 in 2017 and 2018:

MIP 2018

	Committed MIP 2018 stock appreciation rights in 2019 No.	Balance on Dec. 31, 2020 MIP 2018 stock appreciation rights No.	Expense ¹ from MIP 2018 stock appreciation rights in €
Sanjay Brahmawar (CEO)	70,228	0	-20,023.01
Dr. Elke Frank	0	0	0.00
Dr. Matthias Heiden (since July 1, 2020)	0	0	0.00
John Schweitzer (until Jan. 13, 2021)	0	0	0.00
Dr. Stefan Sigg	100,988	0	-33,621.33
Arnd Zinnhardt (until Sept. 30, 2020)	100,988	0	-50,885.51

¹ The negative expenses result from the expiration of this stock option plan due to non-achievement of the performance target as described above.

2. Management Incentive Plan 2019 (MIP 2019)

MIP 2019 was launched in March 2019. The rights under MIP 2019 were allocated to members of the Management Board in June 2019. The plan differentiates between two types of stock appreciation rights (SARs): retention shares (RSARs) and performance shares (PSARs). Provided specific conditions are met, both types grant entitlement to payment of a monetary amount equal to the VWAP on the 20 trading days before and including March 24, 2023. The number of RSARs allocated was determined as part of the award. The number of PSARs relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The NASDAQ-100 was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as $[(\text{the difference between the VWAP and the base price of €31.14}) \div (\text{the final reference index price minus the original reference index price})]$ divided by the original reference index price of \$7,539.286]. The original and reference index price and the final reference index price were and are calculated as the arithmetic mean of the daily closing prices of the 20 trading days between February 27, 2019 and March 24, 2019, and of the 20 trading days before and including March 24, 2023. Dividend payments are not taken into account when calculating the performance factor.

MIP 2019

	Allocation (balance) on Dec. 31, 2020 MIP 2019 RSARs No.	Allocation (balance) on Dec. 31, 2020 MIP 2019 PSARs No.	Allocation (total balance) on Dec. 31, 2020 MIP 2019 No.	Total expense from MIP 2019 stock appreciation rights in €
Sanjay Brahmawar (CEO)	19,512	29,267	48,779	153,630.31
Dr. Elke Frank	4,065	6,097	10,162	31,059.68
Dr. Matthias Heiden (since July 1, 2020)	0	0	0	0.00
John Schweitzer (until Jan. 13, 2021)	8,662	12,993	21,655	68,201.34
Dr. Stefan Sigg	9,756	14,634	24,390	76,815.09
Arnd Zinnhardt ¹ (until Sept. 30, 2020)	4,878	7,317	12,195	33,392.20

¹ Mr. Zinnhardt's resignation from the Management Board of Software AG as of March 31, 2020 led to a 50 percent reduction in the number of MIP 2019 stock options in his original award in accordance with the resignation policy under this plan. Expenses under this plan relating to Mr. Zinnhardt were spread over time until the expiration of his Management Board contract.

3. Management Incentive Plan 2020 (MIP 2020)

The first allocation of rights under the new MIP 2020 to members of the Management Board, executives and employees in key positions occurred in June 2020. The plan differentiates between three types of stock appreciation rights (SARs): two types of performance shares, PSARs (1) and PSARs (2), and retention shares (RSARs). The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The MDAX was defined as the benchmark index. The resulting factor can be between zero and two. Outperformance is calculated as follows: [(Average settlement price for PSARs (1), minus base price €33.96) divided by base price] minus [(final reference index price minus beginning reference index price) divided by beginning reference index price]. Dividend payments are not taken into account when calculating the performance factor. The settlement price is equal to to the VWAP of Software AG's share on the 20 trading days before and including June 8, 2023. The base

price is equal to to the VWAP of Software AG's share on the 20 trading days before and including June 8, 2020 in the amount of €33.96.

PSARs (2) provide the right to payment of the settlement price less the base price, multiplied by the number of PSARs. These PSARs (2) also require meeting a performance target whereby the knock-in barrier of €32.72 must be exceeded by Software AG's share price on ten consecutive trading days between May 10, 2022 and May 10, 2023 for the shares to be paid out.

Retention shares (RSARs) will be paid out in June 2023 based on the settlement price multiplied by the number of RSARs. Aside from remaining with Software AG, no other exercise thresholds were defined for this part of MIP 2020.

The maximum total exercise amount is capped at three-times the respective value of the instruments on the date of award.

MIP 2020

	Allocation (balance) on Dec. 31, 2020 MIP 2020 RSARs No.	Allocation (balance) on Dec. 31, 2020 MIP 2020 PSARs (1) No.	Allocation (balance) on Dec. 31, 2020 MIP 2020 PSARs (2) No.	Allocation (total balance) on Dec. 31, 2020 MIP 2020 No.	Total expense from MIP 2020 stock appreciation rights in €
Sanjay Brahmawar (CEO)	42,403	53,004	14,134	109,541	328,207.66
Dr. Elke Frank	21,202	26,502	7,067	54,771	164,106.94
Dr. Matthias Heiden (since July 1, 2020)	10,601	13,251	3,534	27,386	75,046.46
John Schweitzer (until Jan. 13, 2021)	21,202	26,502	7,067	54,771	164,106.94
Dr. Stefan Sigg	21,202	26,502	7,067	54,771	164,106.94
Arnd Zinnhardt ¹ (until Sept. 30, 2020)	0	0	0	0	0

¹ No MIP 2020 stock options were awarded to Mr. Zinnhardt due to his resignation from the Management Board of Software AG as of March 31, 2020.

Software AG did not grant any advances or loans to Management Board members in fiscal 2020 or in fiscal 2019. It also did not enter any contingent liabilities for these individuals. For further information on total remuneration of the Management Board, remuneration of former members of the Management Board, and pension provisions for former members of the Management Board, please refer to the Notes to the Consolidated Financial Statements and the Notes to the Financial Statements for Software AG (parent company).

Other remuneration components

A member of the Management Board whose employment is terminated within 12 months of a change of control without good cause will receive a severance payment equal to 1.5 annual salaries based on the most recently agreed annual target remuneration (in four Management Board members' contracts), capped at the amount of the target remuneration for the remaining term of the contract. In case of resignation by a member of the Management Board, the above mentioned policy is not applicable if the posi-

tion of the Management Board member has only been altered marginally with the change of control. When an employment contract is terminated prematurely but not by the member of the Management Board, the severance payment is limited to the target compensation for one year, but no more than the remaining term of the contract.

One Management Board member's employment contract contains a post-contractual non-competition clause valid for a period of 12 months from the end of the contract. This Board member shall receive monthly compensation in the amount of the monthly total target remuneration (not including additional benefits) for the duration of the post-contractual non-competition period. The total severance payment by Software AG as described above—consisting of total target remuneration (not including long-term incentive plans, pension benefits or additional benefits) and non-competition compensation—does not therefore exceed the severance cap of two years' annual remuneration as recommended by the GCGC.

In the event of illness, the members of the Management Board will receive full pay based on their annual target remuneration for a period of six (in four Management Board members' contracts) and 12 months (in one Management Board member's contract). Thereafter, 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 third month in which the permanent disability was determined. When in doubt, permanent disability is determined by an expert assessment. In the case of four Management Board members' contracts, a permanent disability is deemed to be present when the Board member has been unable to work for 12 consecutive months. From the time of departure until completion of their 62nd year of age, two members of the Management Board receive a monthly disability pension of €13.2 thousand (2019: €13.0 thousand/€0), one member €13.6 thousand (2019: €13.4 thousand), one member €15.0 thousand (2019: €14.7 thousand), and the CEO receives €20.1 thousand (2019: €19.8 thousand). The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year.

The Company maintains accident insurance policies for the Management Board members with an insured amount equaling €1,500 thousand in the event of death and €3,000 thousand in the event of disability. Furthermore, Software AG carries director and officer (D&O) insurance which covers members of the Management Board; the deductible is currently 10 percent of the damages but no more than 1.5-times the fixed annual salary of the Management Board member.

Members of the Management Board who reside in Germany receive pensions for life after completing their 62nd year of age, regardless of their age when they join the Company.

The monthly pension for two members of the Management Board is €13.2 thousand (2019: €13 thousand/€0), for one member €13.6 thousand (2019: €13.4 thousand), for one member €15.0 thousand (2018: €14.7 thousand), and for the CEO €20.1 thousand (2019: €19.8 thousand). Claims from the American member of the Management Board to pension or disability are served by the applicable social security system for U.S.-based employees, which stipulates that payments be made to an external insurance carrier. No pension provisions are therefore necessary for this member of the Management Board.

Pensions are 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 obligation also includes a survivor 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, the benefit entitlement is retained, but is reduced on a pro-rated basis for two members of the Management Board. 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, the benefit entitlement is retained in full. As part of increased flexibility of pension benefit policies (in Germany) in fiscal 2015, members of the Management Board (at the time) were granted the option to receive pension benefits as a one-time lump sum instead of pension benefit payments. The amount of the one-time lump sum payment is calculated based on the surrender value of the Company's life insurance policies taken out and pledged to members of the Management Board as reinsurance cover for pension entitlements. Beneficiaries must declare their choice to exercise the option of a one-time lump sum payment no later than three months and one week

before the regularly scheduled beginning of their pension.

The change in present value of pension commitments (IFRS) in 2020 and the present value of defined benefit obligations (DBO) as of December 31, 2020 is as follows:

Pension Commitments

in €	Change in present value (DBO) from pension commitments in 2020	Present value of pension commitments as of Dec. 31, 2020
Sanjay Brahmarwar (CEO)	558,204.00	1,615,745.00
Dr. Elke Frank	368,579.00	624,259.00
Dr. Matthias Heiden (since July 1, 2020)	234,426.00	234,426.00
John Schweitzer (until Jan. 13, 2021)	0.00	0.00
Dr. Stefan Sigg	524,672.00	2,212,211.00
Arnd Zinnhardt (until Sept. 30, 2020)	680,686.00	5,600,757.00

In addition, a German Management Board member who has 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 Management Board members are entitled to be provided with a suitable company car or car allowance.

No commitments beyond those outlined above have been made regarding severance pay in the event an employment contract is not extended or a shareholder change occurs, nor regarding continuation of salary payments in the event of early termination of employment or severance annuities. There are also no entitlements to payments based on customary practice.

Remuneration of the Management Board in 2019

The specific components of the Management Board's compensation in 2019 are contained in the complete tables in accordance with the GCGC. These components will therefore not be repeated here. Accordingly, this portion of the Remuneration Report will deal solely with the development of compensation relating to stock options and pension commitments in 2019.

PPS

	PPS granted in 2019 No.	Expense from PPS ¹ granted in 2019 in €
Sanjay Brahmarwar (CEO)	16,839	573,037.52
Dr. Elke Frank (since Aug. 1, 2019)	1,408	46,836.44
John Schweitzer	20,689	660,333.02
Dr. Stefan Sigg	10,367	362,906.91
Arnd Zinnhardt	19,561	714,814.51

¹ This expense is due to allocation for fiscal 2019 at a price of €33.27 (2019: €32.43) per PPS at the time of award, disbursement of dividends on the PPS balance in the amount of €90 thousand, and interest expenses for hedging the PPS balances amounting to €11 thousand.

No further expenses were incurred under MIP 2016 fiscal 2019.

The following expenses were incurred under MIP 2017 in fiscal 2019:

MIP 2017

	Balance on Dec. 31, 2019 MIP 2017 stock appreciation rights No.	Income from MIP 2017 stock appreciation rights in €
Sanjay Brahmarwar (CEO)	0	0.00
Dr. Elke Frank (since Aug. 1, 2019)	0	0.00
John Schweitzer	0	0.00
Dr. Stefan Sigg	0	-148,800.10
Arnd Zinnhardt	0	-208,023.45

The following MIP 2018 stock appreciation rights were allocated and expenses incurred under MIP 2018 in fiscal years 2017 and 2018:

MIP 2018

	Committed MIP 2018 stock appreciation rights in 2017 and 2018 No.	Balance on Dec. 31, 2019 MIP 2018 stock appreciation rights No.	Expense from MIP 2018 appreciation rights in €
Sanjay Brahmawar (CEO)	70,228	70,228	3,231.97
Dr. Elke Frank (since Aug. 1, 2019)	0	0	0.00
John Schweitzer	0	0	0.00
Dr. Stefan Sigg ¹	100,988	100,988	-11,731.16
Arnd Zinnhardt ²	100,988	100,988	5,533.02

¹ The negative expense for Dr. Sigg resulted from the lower fair values of the stock options due to the decrease in share prices.

² Expenses under this plan relating to Mr. Zinnhardt were spread over time until the expiration of his Management Board contract.

MIP 2019

	Allocation (balance) on Dec. 31, 2019 MIP 2019 RSARs No.	Allocation (balance) on Dec. 31, 2019 MIP 2019 PSARs No.	Allocation (total balance) on Dec. 31, 2019 MIP 2019 No.	Total expense from MIP 2019 stock appreciation rights in €
Sanjay Brahmawar (CEO)	19,512	29,267	48,779	213,076.23
Dr. Elke Frank (since Aug. 1, 2019)	4,065	6,097	10,162	44,389.87
John Schweitzer	8,662	12,993	21,655	94,592.89
Dr. Stefan Sigg	9,756	14,634	24,390	106,539.85
Arnd Zinnhardt ¹	9,756	14,634	24,390	188,361.68

¹ Expenses under this plan relating to Mr. Zinnhardt were spread over time until the expiration of his Management Board contract.

The change in present value from pension commitments (IFRS) in 2019 and the present value of pension commitments as of December 31, 2019 is as follows:

Present Value from Pension Commitments

in €	Change in present value (DBO) from pension commitments in 2019	Present value of pension commitments Dec. 31, 2019
Sanjay Brahmawar (CEO)	783,038.00	1,057,541.00
Dr. Elke Frank (since Aug. 1, 2019)	255,680.00	255,680.00
John Schweitzer	0.00	0.00
Dr. Stefan Sigg	818,516.00	1,687,539.00
Arnd Zinnhardt	1,335,691.00	4,920,071.00

Supervisory Board Remuneration

Remuneration for Supervisory Board members consists of fixed short-term compensation. Members receive additional remuneration for their work on the Committees (Personnel Committee, Audit Committee, Strategy Committee, Mediation Committee and Nominating Committee).

The fixed annual compensation per Supervisory Board member was €66,000 (2019: €66,000).

For committee work, members of the Supervisory Board receive €2,000 each time they attend a meeting of one of their committees in person. Attendance compensation is paid only once for multiple committee sessions occurring on the same day or for a session that takes place over consecutive days. The attendance compensation is €4,000 for the committee chairs. This policy took effect on January 1, 2017.

Performance-based or share-based remuneration components are not granted. Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2020 or in fiscal 2019. It also did not enter any contingent liabilities for these individuals.

Total remuneration paid to the members of the Supervisory Board in fiscal year 2020 was €606 thousand (2019: €618 thousand). Supervisory Board remuneration is commensurate with the Supervisory Board's duties and the Company's position.

Remuneration of the chair/ deputy chair

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

Other arrangements

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 2020 was as follows:

Supervisory Board Remuneration

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (chair) (until June 26, 2020)	70,423.98	20,000.00	90,423.98
Karl-Heinz Streibich (chair) (since June 26, 2020)	74,776.02	8,000.00	82,776.02
Guido Falkenberg (deputy chair)	99,000.00	12,000.00	111,000.00
Ralf Dieter (since June 26, 2020)	33,989.10	16,000.00	49,989.10
Eun-Kyung Park (until June 26, 2020)	32,010.90	4,000.00	36,010.90
Ursula Soritsch-Renier (since June 26, 2020)	33,989.10	8,000.00	41,989.10
Alf Henryk Wulf (until June 26, 2020)	32,010.90	10,000.00	42,010.90
Markus Ziener	66,000.00	10,000.00	76,000.00
Christian Zimmermann	66,000.00	10,000.00	76,000.00

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

Remuneration of Supervisory Board members for fiscal year 2019 was as follows:

Prior-Year Supervisory Board Remuneration

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (chair)	145,200.00	44,000.00	189,200.00
Guido Falkenberg (deputy chair)	99,000.00	18,000.00	117,000.00
Eun-Kyung Park	66,000.00	8,000.00	74,000.00
Alf Henryk Wulf	66,000.00	22,000.00	88,000.00
Markus Ziener	66,000.00	14,000.00	80,000.00
Christian Zimmermann	66,000.00	4,000.00	70,000.00

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

Takeover-Related Disclosures

Subscribed Capital and Voting Rights

Software AG's share capital totaled €74,000,000 before deducting treasury shares and is divided into 74,000,000 bearer shares. Each share represents €1.00 of the Company's share capital. Each share entitles its holder to one vote. Shareholders can exercise their rights at the Annual Shareholders' Meeting, when they exercise their voting rights in accordance with legal stipulations and the Company's Articles of Association.

Conditional Capital

There was no conditional capital to report.

Authorized Capital

In accordance with the resolution passed at the Annual Shareholders' Meeting on May 31, 2016, there is authorized capital to report. The Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions until and including May 30, 2021 up to a total of €39,500,000 by issuing up to 39,500,000 new bearer shares against cash contributions or contributions in kind (authorized capital).

Share Buyback

Furthermore, the Company is authorized to purchase treasury shares until and including May 30, 2021, representing up to 10 percent of the existing share capital at the time of the resolution, in order to realize benefits associated with the acquisition of treasury shares in the interest of the Company and its shareholders. Treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.

For more information on conditional capital, authorized capital and the acquisition of treasury shares, please refer to [Note \[29\]](#) in the Notes to the Consolidated Financial Statements and to the section on Equity in the Notes to the Balance Sheet in the Notes to the Annual Financial Statements.

Significant Shareholders

The Software AG Foundation, Darmstadt, Germany, holds 32.67 percent of the outstanding shares in Software AG. The foundation is a separate non-profit legal entity and is devoted worldwide to the fields of therapeutic pedagogy, social therapy, education, services to youth and senior citizens, the environment and research. No other shareholders hold more than 10 percent of Software AG's share capital.

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

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 Association are voted on at the Annual Shareholders' Meeting by at least a three-fourths majority 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

The lenders of Software AG's syndicated credit line in the maximum amount of €300 million are entitled—provided they are not replaced—to decline any new withdrawals if one or more persons acting in concert (except Software AG Foundation, its members or companies controlled by them) obtain more than 50 percent of voting or dividend rights or the right to appoint more than half the members of the Supervisory Board. The relevant lenders are entitled to call any amounts already borrowed (plus interest accrued and any other amounts due) and terminate the credit facility.

With respect to loan agreements with the European Investment Bank in the original amount of €330 million, of which €225 million had been drawn as of December 31, 2020, the bank is entitled to terminate the unused portion of the loan if one or more persons acting in concert obtain more than 50 percent of voting or dividend rights, the right to appoint more than half the members of the Supervisory Board, or

any other comparable controlling influence. Any amounts already borrowed (plus interest accrued and any other amounts due) can also be called prematurely and the credit facility terminated.

A member of the Management Board whose employment is terminated within 12 months of a change of control without good cause will receive a severance payment equal to 1.5 annual salaries based on the most recently agreed annual target remuneration (in four Management Board members' contracts), capped at the amount of the target remuneration for the remaining term of the contract. In case of resig-

nation by a member of the Management Board, the above mentioned policy is not applicable if the position of the Management Board member has only been altered marginally with the change of control.

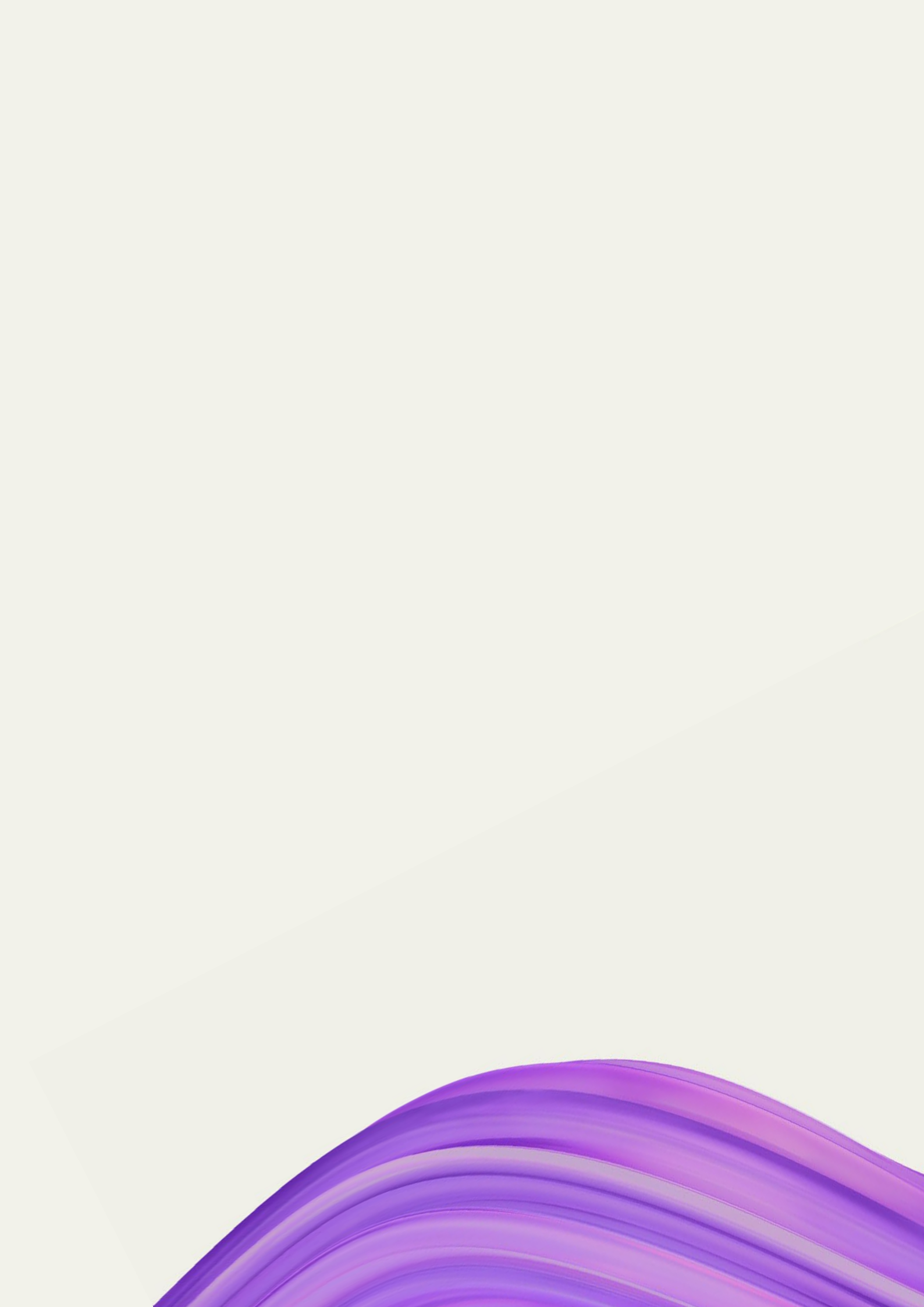
In the event of a change of control, any stock appreciation rights granted by the Company under Management Incentive Plans 2018 and 2019 must be paid out at fair value to the relevant plan participants within the term of the rights.

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

Statement on Corporate Governance

Software AG submitted its Statement on Corporate Governance/Consolidated Statement on Corporate Governance on February 26, 2021 and published it at investors.softwareag.com/en/corporate-governance/governance-statement.

This statement includes the Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was submitted separately on January 26, 2021, and published at investors.softwareag.com/en/corporate-governance/compliance-declaration.



Consolidated Financial Statements

Consolidated Income Statement	160
Statement of Comprehensive Income	161
Consolidated Balance Sheet	162
Consolidated Statement of Cash Flows	164
Consolidated Statement of Changes in Equity	166

Due to rounding, some numbers may not exactly add up to the totals provided and percentages may not exactly reflect the absolute figures.

Consolidated Income Statement

For fiscal years 2020 and 2019

in € thousands	Note	2020	2019
Licenses		217,217	245,100
Maintenance		422,552	434,959
SaaS		31,300	22,651
Services		163,561	187,196
Other		216	701
Total revenue	[5]	834,846	890,607
Cost of sales	[6]	-197,221	-203,095
Gross profit		637,625	687,512
Research and development expenses		-143,926	-131,269
Sales, marketing and distribution expenses	[7]	-272,600	-265,012
General and administrative expenses	[8]	-76,794	-74,767
Other income	[9]	30,805	15,100
Other expenses	[10]	-38,732	-16,721
Other taxes	[13]	-5,932	-6,805
Operating income		130,446	208,038
Financing income	[11]	8,401	13,299
Financing expenses	[11]	-5,263	-6,218
Net financial income/expenses		3,138	7,081
Earnings before income taxes		133,584	215,119
Income taxes	[12]	-37,479	-59,802
Net income		96,105	155,317
thereof attributable to shareholders of Software AG		95,706	154,974
thereof attributable to non-controlling interests		399	343
Earnings per share in € (basic)	[15]	1.29	2.09
Earnings per share in € (diluted)	[15]	1.29	2.09
Weighted average number of shares outstanding (basic)		73,979,889	73,979,889
Weighted average number of shares outstanding (diluted)		73,979,889	73,979,889

Statement of Comprehensive Income

For fiscal years 2020 and 2019

in € thousands	Note	2020	2019
Net income		96,105	155,317
Currency translation differences from foreign operations		-78,113	32,494
Net gain/(loss) from cash flow hedges		-125	1,258
Currency translation gain/loss from net investments in foreign operations		1	-1,736
Items to be reclassified to the income statement if certain conditions are met		-78,237	32,016
Net gain/(loss) from equity instruments designated to measurement at fair value through other comprehensive income		217	-1,514
Net actuarial gain/loss on pension obligations	[28]	-6,448	-12,668
Items not to be reclassified to the income statement		-6,231	-14,182
Gain/loss recognized in equity	[29]	-84,468	17,834
Total comprehensive income		11,637	173,151
thereof attributable to shareholders of Software AG		11,238	172,808
thereof attributable to non-controlling interests		399	343

Consolidated Balance Sheet

As of December 31, 2020 and 2019

Assets

in € thousands	Note	2020	2019
Current assets			
Assets held for sale	[4]	0	4,795
Cash and cash equivalents		479,982	513,632
Other financial assets	[16]	7,368	5,720
Trade receivables, contract assets and other receivables	[17]	211,790	206,596
Other non-financial assets	[18]	28,692	26,299
Income tax receivables	[19]	30,207	18,943
		758,039	775,985
Non-current assets			
Intangible assets	[20]	99,282	116,601
Goodwill	[20]	947,370	980,088
Property, plant and equipment	[21]	82,349	103,977
Investment property	[21]	6,917	0
Other financial assets	[16]	17,742	17,078
Trade receivables, contract assets and other receivables	[17]	95,500	96,544
Other non-financial assets	[18]	7,136	3,024
Income tax receivables	[19]	11,114	10,835
Deferred tax receivables	[22]	14,458	11,955
		1,281,868	1,340,102
Total Assets		2,039,907	2,116,087

Equity and liabilities

in € thousands	Note	2020	2019
Current liabilities			
Liabilities from assets held for sale	[4]	0	5,092
Financial liabilities	[23]	16,415	96,389
Trade and other payables	[24]	47,050	35,793
Other non-financial liabilities	[25]	138,172	116,367
Other provisions	[26]	38,825	38,099
Income tax liabilities	[27]	33,293	35,569
Contractual obligations/deferred income		118,295	140,893
		392,050	468,202
Non-current liabilities			
Financial liabilities	[23]	243,519	200,225
Trade and other payables	[24]	139	90
Other non-financial liabilities	[25]	1,209	1,343
Other provisions	[26]	11,077	7,360
Provisions for pensions and similar obligations	[28]	55,439	47,963
Income tax liabilities	[27]	2,135	2,643
Deferred tax liabilities	[22]	8,049	10,594
Contractual obligations/deferred income		13,765	20,212
		335,332	290,430
Equity	[29]		
Share capital		74,000	74,000
Capital reserves		22,580	22,580
Retained earnings		1,341,738	1,302,257
Other reserves		-125,772	-41,304
Treasury shares		-757	-757
Attributable to shareholders of Software AG		1,311,789	1,356,776
Non-controlling interests		736	679
		1,312,525	1,357,455
Total Equity and Liabilities		2,039,907	2,116,087

Consolidated Statement of Cash Flows [30]

For fiscal years 2020 and 2019

in € thousands	2020	2019
Net income	96,105	155,317
Income taxes	37,479	59,802
Net financial income/expense	-3,138	-7,081
Amortization/depreciation of non-current assets	39,927	47,451
Payments for optional cash-settled claims to share-based compensation	0	-32
Other non-cash income/expense	235	5,304
Changes in receivables and other assets	-5,689	-31,092
Changes in payables and other liabilities	1,864	973
Income taxes paid	-57,056	-65,685
Interest paid	-5,698	-6,220
Interest received	8,419	13,299
Net cash flow from operating activities	112,448	172,036
Proceeds from the sale of property, plant and equipment/intangible assets	1,361	1,624
Purchase of property, plant and equipment/intangible assets	-9,475	-11,634
Proceeds from the sale of non-current financial assets	2,643	2,060
Purchase of non-current financial assets	-3,828	-1,989
Proceeds from the sale of current financial assets	403	809
Purchase of current financial assets	-630	-953
Net payments from disposals of assets held for sale	-738	0
Net payments for acquisitions	0	-5,135
Net cash flow from investing activities	-10,264	-15,218

Consolidated Statement
of Cash flows

in € thousands	2020	2019
Dividends paid	-56,567	-52,846
Proceeds/payments for current financial liabilities	-52,776	-49,353
Repayment of lease liabilities	-15,572	-16,249
New non-current financial liabilities	50,096	0
Repayment of non-current financial liabilities	-25,004	-5
Net cash flow from financing activities	-99,823	-118,453
Change in cash and cash equivalents	2,361	38,365
Change in cash and cash equivalents from currency translation	-36,011	12,905
Net change in cash and cash equivalents	-33,650	51,270
Cash and cash equivalents at beginning of period	513,632	462,362
Cash and cash equivalents at end of period	479,982	513,632

Consolidated Statement of Changes in Equity [29]

For fiscal years 2020 and 2019

in € thousands	Subscribed capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Jan. 1, 2019	73,979,889	74,000	22,612	1,201,689
Application of IFRS 16				-1,881
Equity as of Jan. 1, 2019	73,979,889	74,000	22,612	1,199,808
Total comprehensive income				154,974
Transactions with shareholders				
Dividend payment				-52,526
Other changes			-32	1
Transactions between shareholders				
Equity as of Dec. 31, 2019	73,979,889	74,000	22,580	1,302,257
Equity as of Jan. 1, 2020	73,979,889	74,000	22,580	1,302,257
Total comprehensive income				95,706
Transactions with shareholders				
Dividend payment				-56,225
Transactions between shareholders				
Equity as of Dec. 31, 2020	73,979,889	74,000	22,580	1,341,738

Consolidated Statement
of Changes in Equity

Other reserves					Treasury shares	Attributable to shareholders of Software AG	Non- controlling interests	Total
Currency translation differences from foreign operations	Net gain/loss on remeasuring financial assets	Net actuarial gain/loss on pension obligations	Currency translation gain/loss from net investments in foreign operations					
-27,776	-8,176	-31,845	8,659		-757	1,238,406	656	1,239,062
						-1,881		-1,881
-27,776	-8,176	-31,845	8,659		-757	1,236,525	656	1,237,181
32,494	-256	-12,668	-1,736			172,808	343	173,151
						-52,526	-320	-52,846
						-31		-31
4,718	-8,432	-44,513	6,923		-757	1,356,776	679	1,357,455
4,718	-8,432	-44,513	6,923		-757	1,356,776	679	1,357,455
-78,113	92	-6,448	1			11,238	399	11,637
						-56,225	-342	-56,567
-73,395	-8,340	-50,961	6,924		-757	1,311,789	736	1,312,525



Notes to the Consolidated Financial Statements

General	170	[23] Financial Liabilities	195
[1] Basis of Presentation	170	[24] Trade Payables and Other Liabilities	198
[2] Scope of Consolidation	170	[25] Other Non-Financial Liabilities	198
[3] Accounting Policies	173	[26] Other Provisions	199
[4] Discontinued Operations/Disposal Groups	183	[27] Income Tax Liabilities	199
Notes to the Consolidated Income Statement	184	[28] Provisions for Pensions and Similar Obligations	200
[5] Total Revenue	184	[29] Equity	203
[6] Cost of Sales	184	Other Disclosures	205
[7] Sales, Marketing and Distribution Expenses	184	[30] Notes to the Statement of Cash Flows	205
[8] General and Administrative Expenses	184	[31] Segment Reporting	205
[9] Other Income	184	[32] Additional Information on Financial Instruments and Risk Management	211
[10] Other Expenses	185	[33] Disclosures on Leases	220
[11] Net Financial Income/Expense	185	[34] Contingent Liabilities	222
[12] Income Taxes	185	[35] Seasonal Influences	222
[13] Other Taxes	186	[36] Litigation	223
[14] Personnel Expenses	186	[37] Stock Option Plans	224
[15] Earnings per Share	186	[38] Corporate Bodies	230
Notes to the Consolidated Balance Sheet	187	[39] Related Party Transactions	232
[16] Other Financial Assets	187	[40] Auditor Fees	233
[17] Trade Receivables, Contract Assets and other Receivables	187	[41] Events After the Balance Sheet Date	234
[18] Other Non-Financial Assets	188	[42] Statement on Corporate Governance	234
[19] Income Tax Receivables	188	[43] Exemption for Domestic Group Companies Pursuant to Section 264 (3) of the German Commercial Code (HGB)	234
[20] Intangible Assets and Goodwill	189		
[21] Property, Plant and Equipment/ Investment Property	192		
[22] Deferred Taxes	194		

Due to rounding, some numbers may not exactly add up to the totals provided and percentages may not exactly reflect the absolute figures.

General

[1] Basis of Presentation

Software AG's consolidated financial statements are prepared in accordance with the International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and in accordance with the additional provisions required under German commercial law as set forth in section 315e (1) of the German Commercial Code (HGB). The IFRS applicable as of December 31, 2020 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt (Uhlandstraße 12, 64297 Darmstadt, Germany). It is listed in the commercial register of the Darmstadt District Court under number HRB 1562. It is the principal parent company of a Group that is globally active in the fields of software development, licensing and maintenance as well as IT services. The functional currency of Software AG is the euro.

Software AG's Management Board prepared the consolidated financial statements on March 5, 2021. Software AG's Audit Committee will discuss the consolidated financial statements in its meeting on

March 15, 2021. The Supervisory Board will approve the consolidated financial statements in its meeting on March 15, 2021.

The consolidated financial statements of Software AG are expressed in thousands of euros unless otherwise stated. The figures presented in the report were rounded according to customary business practice. In some cases, rounding could mean that values in this report do not add up to the exact sum given or percentages do not equal the values presented.

The separate financial statements of the companies of the consolidated Group were prepared on the date of the consolidated financial statements.

[2] Scope of Consolidation

The consolidated financial statements include Software AG and all of the entities it controls. Control exists when Software AG can exercise power of control over the entity, is impacted by fluctuating returns on its share in the entity and can influence the amount of the returns.

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

a) Domestic entities	Ownership interest %	Equity ¹ Dec. 31, 2020 in € thousands	Earnings ¹ 2020 in € thousands
SAG Deutschland GmbH, Darmstadt, Germany and its foreign subsidiaries	100	41,350	19,029
• Alfabet Saudi Arabia LLC, Riyadh, Saudi Arabia	95	-918	-798
in which Software AG (Gulf) S.P.C. also has a direct stake	5		
SAG Consulting Services GmbH, Darmstadt, Germany	100	94	158
SAG LVG mbh, Darmstadt, Germany	100	959	0
FACT Unternehmensberatung GmbH, Darmstadt, Germany and its subsidiary	100	940	387
• FACT Informationssysteme und Consulting AG, Neuss, Germany	55	1,637	888
itCampus Software- und Systemhaus GmbH, Leipzig, Germany	100	429	374
SAG Cloud GmbH, Darmstadt, Germany and its subsidiaries	100	388	23
• Software AG Cloud Americas, Inc., Wilmington (New Castle), USA	100	294	60
• Software AG CLOUD APJ PTY LTD, North Sydney, Australia	100	13	0
Cumulocity GmbH, Düsseldorf, Germany	100	11,158	7,504

	Ownership interest %	Equity ¹ Dec. 31, 2020 in € thousands	Earnings ¹ 2020 in € thousands
b) Foreign entities			
Software A.G. Argentina S.R.L., Buenos Aires, Argentina	95	3,849	1,625
in which SAG Deutschland GmbH also has a direct stake	5		
Software AG Sydney PTY LTD, North Sydney, Australia	100 inactive	0	0
Software AG (Gulf) S.P.C., Manama, Bahrain and its subsidiary	100	5,924	-719
• Software AG International FZ-LLC, Dubai, United Arab Emirates	100	4,076	1,631
TrendMiner NV, Hasselt, Belgium and its subsidiaries	100	-1,631	-1,332
• TrendMiner B.V., BL Breda, Netherlands	100	-1,745	-856
• TrendMiner GmbH, Cologne, Germany	100	-168	-391
• TrendMiner Inc., Houston, Texas, USA	100	-3,316	-1,402
IDS Scheer Sistemas de Processamento de Dados, São Paulo, Brazil	100	36	0
Software AG Development Center Bulgaria EOOD, Sofia, Bulgaria	100	2,488	413
Software AG China Ltd., Shanghai, China	100	-6,089	-673
Software AG (Hong Kong) Limited, Hong Kong, China	100	-3,194	-554
Software AG Denmark A/S, Hvidovre, Denmark and its subsidiary	100	6,514	777
• Software AG Nordic A/S, Oslo, Norway	100 inactive	17	-4
Software AG Finland Oy, Helsinki, Finland	100	1,726	213
Software AG France S.A.S, Paris La Défense Cedex, France	100	26,182	4,179
Software AG (U.K.) Limited, Derby, U.K. and its subsidiaries	100	35,916	17,424
• Software AG Belgium S.A., Watermael-Boitsfort, Belgium	76	6,927	523
in which Software AG also has a direct stake	24		
• PCB Systems Limited, Derby, U.K.	100 inactive	2,011	0
• SAG SALES CENTRE IRELAND LIMITED, Dublin, Ireland	100	443	31
SGML Technologies Limited, Derby, U.K.	100 inactive	1,957	0
Software AG India Sales Private Ltd, Bangalore, Karnataka, India	100	3,482	501
Software AG (India) Private Limited, Bangalore, India	100	13	0
PT SoftwareAG Indonesia Operations, Jakarta, Indonesia	99	1,627	523
in which SAG Deutschland GmbH also has a direct stake	1		
S.P.L. Software Ltd, OR-Yehuda, Israel and its subsidiary	100	62,902	5,369
• Software A.G. (Israel) Ltd, OR-Yehuda, Israel	100	22,729	826
Software AG Italia S.p.A, Milan, Italy	100	463	-2,698
SAG Software AG Luxembourg S.A., Capellen, Luxembourg	100	687	187
Software AG Nederland B.V., Den Haag, Netherlands	100	15,511	2,846
Software GmbH Österreich, Vienna, Austria	100	9,529	2,712
Software AG (Philippines), Inc., Makati City, Philippines	100	782	140
Software AG Polska Sp. z o.o., Warsaw, Poland	100	5,104	1,999
Limited Liability Company Software AG (RUS), Moscow, Russia	100	1,681	236
Software AG Sweden AB, Kista, Sweden	100	938	-2,035
SAG Software Systems AG, Zurich, Switzerland	100	2,937	1,860

¹ The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

b) Foreign entities	Ownership interest %	Equity ¹ Dec. 31, 2020 in € thousands	Earnings ¹ 2020 in € thousands
Software AG (Singapore) Pte LTD, Singapore	100	8,369	331
Software AG Development Centre Slovakia s.r.o., Košice, Slovakia	100	579	126
Software AG España, S.A. Unipersonal, Tres Cantos, Madrid, Spain and its subsidiaries	100	69,829	4,671
• Software AG España Consulting SL, Tres Cantos, Madrid, Spain (sold on June 30, 2020)	100	N/A	N/A
• Software AG Brasil Informática e Serviços Ltda, São Paulo, SP, Brazil	100	10,398	-180
• Software AG Factoria S.A., Santiago de Chile, Chile	100	-1	-1
• Software AG De Panamá, S.A., Corregimiento de Pueblo nuevo, Panama and its subsidiary	100	-715	-52
• Software AG de Costa Rica, S.A., San José, Costa Rica (liquidated on January 22, 2020)	100	N/A	N/A
• Software AG (Portugal) Alta Tecnologia Informática, Ltd., Lisbon, Portugal	97	1,937	331
in which Software AG also has a direct stake	3		
• Software AG De Puerto Rico, Inc., San Juan, Puerto Rico	100	1,019	169
• A. Zancani & Asociados, C.A., Chacao Caracas, Venezuela	100 inactive	0	0
• Software AG Venezuela, C.A., Caracas, Venezuela	100	1	0
Software AG South Africa (Pty) Ltd, Bryanston, South Africa	100	12,240	6,460
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul, Turkey	100	648	-434
Software AG, Inc., Reston, VA, USA and subsidiaries	100	366,944	34,907
• Software AG (Canada) Inc., Kitchener, Ontario, Canada	100	21,694	6,346
• Software AG, S.A. de C.V. (Mexico), Distrito Federal, Mexico	100	2,561	87
• Operadora JackBe, S. de R.L. de C.V., Mexico City, Mexico	100	428	13
• Software AG USA, Inc., Reston, VA, USA and subsidiaries	100	577,549	81,377
• Software AG Australia (Holdings) Pty. Ltd., North Sydney, Australia and its subsidiary	100	-18,454	13,613
• Software AG Australia Pty. Ltd., North Sydney, Australia	100	58,721	4,312
• Software AG Bangalore Technologies Private Ltd., Derarabisanahalli Bangalore, India	100	13,739	4,845
• Software AG Chennai Development Center India Pvt Ltd, Chennai, India	100	2,403	412
• Terracotta Software India Pvt. Ltd., Bangalore, Karnataka, India	100 inactive	117	2
• Software AG Kochi Pvt. Ltd., Bangalore, Karnataka, India	98	257	8
in which Software AG, Inc. also has a direct stake	2		
• Software AG Ltd. Japan, Minato-ku, Tokyo, Japan	100	3,016	24
• Software AG Operations Malaysia Sdn Bhd., Selango, Malaysia	100	1,966	-84
• Software AG Korea, Ltd., Seoul, South Korea	100	1,363	-385
• Software AG Distribution LLC, Reston, VA, USA	100	5,283	46,600
• Software AG Government Solutions, Inc., Herndon, VA, USA	100	32,608	3,972

¹ The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

Changes in the consolidated Group

The scope of consolidation changed as compared to December 31, 2019 as follows:

	Germany	Foreign	Total
Dec. 31, 2019	10	67	77
Additions	0	0	0
Disposals (including mergers)	0	-2	-2
Dec. 31, 2020	10	65	75

The disposals resulted from the liquidation of a company in Costa Rica and from the sale of a company in Spain. The change to the scope of consolidation had no significant effect on comparability to last year.

[3] Accounting Policies

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions are made for certain items that have an impact on the recognition and measurement of recognized assets, liabilities, income, expenses and contingent liabilities. These estimates and assumptions are based on historical data and are reviewed on an ongoing basis. Actual amounts may differ from the estimates made. The primary areas of application for estimates and assumptions are revenue recognition, subsequent accounting of goodwill and other intangible assets, accounting of share-based remuneration, assessment of legal risks, measurement of pension obligations, measurement of trade receivables, accounting of income tax and deferred tax.

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, 2020). 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.

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

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

Mergers

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

Currency translation

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

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

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

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

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

Software AG considers Venezuela and, since 2018, Argentina as hyperinflationary economies as defined by IAS 29. This had no material impact on the consolidated financial statements.

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, 2020	Dec. 31, 2019	Change as %
U.S. dollar	1.2271	1.1234	-9.2
Brazilian real	6.3735	4.5157	-41.1
Pound sterling	0.8990	0.8508	-5.7
Australian dollar	1.5896	1.5995	0.6
Israeli shekel	3.9447	3.8845	-1.5
South African rand	18.0219	15.7773	-14.2
Canadian dollar	1.5633	1.4598	-7.1

Average Rate

€1	Dec. 31, 2020	Dec. 31, 2019	Change as %
U.S. dollar	1.1412	1.1196	-1.9
Brazilian real	5.8898	4.4135	-33.4
Pound sterling	0.8892	0.8773	-1.4
Australian dollar	1.6554	1.6106	-2.8
Israeli shekel	3.9237	3.9908	1.7
South African rand	18.7689	16.1731	-16.1
Canadian dollar	1.5294	1.4857	-2.9

Total revenue

The following accounting policies for recognition of revenue apply:

Categories of sales revenue

Software AG sales revenues consist primarily of revenue from granting software licenses of temporary or indefinite duration, revenue from Software as a Service (SaaS) offerings, maintenance revenue and revenue from services. With respect to SaaS offerings, a customer is not entitled to terminate a hosting agreement or take the software into its own possession, either to operate in its own IT infrastructure or to engage an entity other than Software AG to provide software hosting or management services. These categories of sales revenue also reflect the impact of economic factors on type, amount, date and uncertainty of revenue and cash flows.

The shift from licenses of indefinite duration to time-limited software licenses (subscription resets) is possible, subject to certain conditions. These conditions include the irrevocable surrender of software licenses of indefinite duration, the acquisition of new software licenses and complete transparency of the software license agreement's price structure.

Identification of the contract

A contract is an agreement between two or more parties that establishes enforceable rights and obligations and determines that enforceability is a question of law. Software AG enters written agreements only. An agreement must be signed by both parties within a reporting period to be able to recognize revenue in that period. Revenue resulting from an agreement signed at a later point in time is recognized in the period in which the agreement was signed.

Revenue from an agreement which grants the customer the right to terminate with no resulting materially disadvantageous payments, is only recognized in the period that is not subject to the termination right.

With respect to business with resellers, a contract exists only if the existence of an agreement between the reseller and an end user (end-user agreement) can be verified and all other criteria for revenue recognition are met.

Identification of contractual obligations

Software AG's contracts with customers often include various products and services. The products and services described in the last section, Categories of Sales Revenue, are usually to be treated as separate contractual performance obligations. The relevant portion of the contractual price is recognized separately. The determination as to whether a product or a service is treated as a separate contractual performance obligation nevertheless requires judgment to be exercised.

When customers purchase products or services, Software AG sometimes offers them options for buying additional products or services. Software AG exercises its own judgment when determining whether such options give the customer a substantive right that it wouldn't have without signing this agreement. In making this determination, the Company considers whether the options entitle the customer to a discount that is greater than the discount provided with the relevant products or services sold with the option.

Determination of transaction price

Software AG also exercises judgment when determining the consideration that it expects to receive in exchange for the transfer of products or services to a customer. This includes estimations as to whether and to what extent the customer is entitled to subsequent concessions or payments and whether the customer will pay the contractually agreed consideration as expected. In this exercise of judgment, primarily previous experiences with a specific or a comparable customer are considered. These estimates are reviewed every balance sheet date. Software AG's contracts generally do not contain variable considerations. There may, however, be individual cases when retrospective adjustments are made to the transaction price, which must be recognized as revenue corrections on the date they were made.

Some agreements include significant financing elements. Software AG recognizes financing elements when the period of time between the transfer of purchased products or services to the customer and payment of these products or services by the customer is at least one year.

Division of transaction price

The transaction price is generally divided between the individual contractual performance obligations based on the individual sales prices. Software licenses of indefinite duration 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 performance obligations of the transaction.

Because it is impossible to calculate reliable individual sale prices for software licenses, revenue is divided between the different revenue types using the residual method. Under the residual method, all determinable individual sale prices are deducted from the total transaction value, and the residual amount is distributed among the software licenses using list prices.

Temporary software licenses are often sold in combination with maintenance services. The two performance obligations are usually inextricably linked (subscriptions). The Company exercises its own judgment in dividing up the transaction price. The transaction price for software licenses of indefinite duration is used as the basis for dividing the transaction price. The average term of these subscription agreements is estimated and is currently three years. If time-limited software licenses are sold in combination with services, the transaction price to be allocated to the time-limited software licenses is determined according to the residual method, i.e. the price of the individual services is deducted from the total transaction value.

Recognition of sales revenue

Software AG accounts for revenue from SaaS based on time elapsed during the period in which the relevant services are rendered.

Software license revenues are recognized as of the date on which the customer is granted access to the software and the license period begins when access is granted. Software AG recognizes revenues for these on-premise licenses as of the date on which the customer receives access to and thus control over the software. When deciding whether software offerings grant customers the right to use Software AG's intellectual property and not the right to access its intellectual property, the usefulness of its software for customers—without subsequent updates—is considered.

Maintenance revenues are recognized proportionately over the term of the maintenance contract period.

Revenue resulting from services invoiced on the basis of hours performed is recognized according to services rendered by a Software AG entity. Revenues and

General

expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if Software AG's service generates an asset that does not provide Software AG with any alternative options for use and Software AG is legally entitled to payment for services already rendered. Should Software AG's service from a fixed-price contract generate or improve an asset and should the customer have control over the asset, the PoC method is also used for revenue recognition. The stage of completion of a contract is calculated on the basis of the proportion of contract costs incurred for work performed as of the balance sheet date to the estimated total contract costs. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

Software AG's contracts generally do not contain withdrawal, reimbursement or other similar obligations.

Incremental costs when acquiring new orders

The assets that Software AG capitalizes as costs associated with acquiring a new customer order consist primarily of Sales employee commissions. The assets are amortized over the expected contract term using the straight-line method. Amortization periods range from 2.5 to 4.5 years. The amortization of capitalized costs for the acquisition of new orders is included in sales and marketing expenses.

Software AG recognizes incremental costs for acquiring new orders as expenses as of the date on which they are incurred when the amortization period is not assumed to be longer than one year.

Cost of sales

Cost of sales includes all production-related full costs based on normal capacity utilization. In particular, the cost of sales includes the individual unit costs that can be directly allocated to orders as well as fixed and variable overheads.

Research 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, write-downs allocated to the sales cost center and marketing and advertising costs.

General and administrative expenses

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

Government grants

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

If loans from the government are granted at an interest rate below the market rate, the interest-rate advantage is valued as the difference between the original carrying amount of loan, calculated in accordance with IRFS 9, and the payments received. The interest-rate advantage is reported under other income, as soon as all conditions for receiving government grants have been met.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of the asset. Other borrowing costs are recognized as an expense for the period in which they were incurred. No borrowing costs were capitalized in fiscal 2020 or 2019.

Share-based payment

In accordance with IFRS 2, share-based payment transactions are generally divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at their fair value as of the grant date. The value is then recognized over the vesting period as remuneration expenses. Rights granted under cash-settled share-based payment transactions are remeasured at fair value on each reporting date until settlement. There are currently no rights with the option of equity settlement.

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

Non-derivative financial assets

Software AG recognizes non-derivative financial assets as of the date it acquires the contractual right to receive cash or other financial assets from another entity. Standard purchases and sales are measured at fair value as of the value date.

Subsequent measurement is carried out based on the following categories of financial assets:

- a) amortized cost (AC)
- b) fair value through profit or loss (FVPL)
- c) fair value through other comprehensive income (FVOCI)

Software AG classified its balance of equity securities at fair value through other comprehensive income. Software AG generally uses the option that allows it to classify each new equity security individually as fair value through comprehensive income or fair value through profit or loss.

Trade receivables

Trade receivables are classified based on the business model (hold-to-collect versus hold-to-sell). Receivables which are not intended for sale and/or sale is not an option are measured at amortized cost. Receivables categorized as hold to collect and sell are recognized at fair value through other comprehensive income provided deviations from recognition at amortized cost are material. If the deviations are immaterial, receivables categorized as hold to collect and sell are also allocated to financial assets measured at amortized cost.

Software AG applies a simplified impairment model based on an impairment matrix. This impairment matrix is based primarily on historical data on credit losses and current data on receivables overdue.

Furthermore, outstanding receivables are monitored on an ongoing basis at local and central levels to determine if the relevant receivables show any objective indications of jeopardized creditworthiness. If, using this approach, Software AG arrives at the assumption that realization of a receivable is improbable, the receivables above the values in the impairment matrix are written down in part or in whole.

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 fair value through profit or loss. Changes in the fair value of the instruments are recognized directly in profit or loss.

If the criteria for hedge accounting in accordance with IFRS 9 are met, the derivative financial instrument is designated as a hedging instrument and accounted for pursuant to the hedge accounting provisions of IFRS 9.

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 recognize any fair value hedges.

Derecognition of financial assets

A financial asset (including trade receivables) is derecognized if any of the following criteria is met:

- The contractual rights to receive cash flows from the financial asset have expired.
- Software AG has transferred its contractual rights to receive cash flows from the financial asset to a third party or has assumed a contractual obligation to pay the cash flows immediately to a third party in connection with a "pass-through arrangement." Here, essentially all opportunities and risks related to ownership of the financial asset or the power of control over the asset must be transferred.

If Software AG transfers its contractual rights to receiving cash flows from the asset or enters a pass-through arrangement, Software AG evaluates if and to what extent it retains the opportunities and risks related to ownership. As part of the transfer or sale of trade receivables, the assessment of the related opportunities and risks primarily focuses on the credit risk associated with the receivables. If Software AG does not transfer or retain essentially all opportunities and risks associated with ownership of this asset, and does not transfer the power of control over the asset, Software AG continues to recognize the transferred asset according to the scope of its continuing involvement. In this case, Software AG also recognizes an associated liability. The transferred asset and the associated liability are recognized in such a way that accounts for the rights and obligations retained by Software AG.

Non-derivative financial liabilities

In accordance with IFRS 9, Software AG classifies non-derivative financial liabilities at amortized cost or at fair value through profit or loss.

Subsequent measurement of financial liabilities classified as at amortized cost is carried out using the effective interest rate.

Financial liabilities are derecognized when the contractual obligation has been settled, canceled or has expired.

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.

Intangible assets

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

	Amortization period in years	Amortization method
Acquired software	5 – 12.5	straight line
Acquired customer base	5 – 17	straight line
Acquired order portfolio	–	in accordance with order completion

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

Goodwill

Goodwill resulting from mergers is recognized at cost. Goodwill is not amortized. Instead, it is tested for impairment at least once per year (as of December 31) and written down to its recoverable amount in case of impairment. Or, as soon as there is any indication that goodwill might be impaired, an impairment test is carried out. Any impairment losses are reported directly in the income statement and cannot be recovered in the following period.

Property, plant and equipment

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

The cost of items of property, plant and equipment consists of the purchase price, including any import duties and non-refundable purchase taxes and any directly attributable costs required to prepare the asset for operation in its intended use. Any subsequent expenditure, such as service or maintenance charges

arising once the asset has been put into operation, is recognized as an expense in the period in which it is incurred. Subsequent expenditures relating to an item of property, plant and equipment are only capitalized if the expenditure improves the condition of the asset beyond its originally assessed standard of performance.

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

	Years
Buildings	25 – 50 years
Improvements to buildings/leasehold	5 – 15 years
Operating and office equipment	3 – 13 years
Computer hardware and accessories	1 – 7 years

Right-of-use assets are written down either over the term of useful economic life or the term of the lease—whichever is shorter. The terms of useful economic life and methods of depreciation are reviewed on a regular basis to ensure that they are in accordance with the expected pattern of economic benefits of the asset in question.

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

Impairment of intangible assets and property, plant and equipment

As soon as there is any indication that an intangible asset with an indefinite useful life or an item of property, plant and equipment might be impaired, an impairment test is carried out and, if an impairment loss is ascertained, the carrying amount of the asset is written down to its lower recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment losses are reversed provided the reasons for a previously scheduled impairment no longer exist.

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

Investment property

Property is recognized as an investment property when it is for the purpose of generating rent income and/or value appreciation. Like property, plant and equipment, investment property is measured in accordance with the cost model: at cost or cost of sales, less depreciation and, if relevant, the necessary impairments. The owned investment property is generally depreciated—like other property, plant and equipment—on a straight-line basis over 25 to 50 years.

Leases

Leases are agreements whereby the lessor transfers the right to use an identified asset to the lessee for a defined period of time and in exchange for payment of a fee.

As of January 1, 2019, Software AG as lessee began recognizing right-of-use assets for leased objects and liabilities for the assumed payment obligations in the amount of the present value of future lease payments.

As of the beginning of use, Software AG recognizes all leases as right-of-use assets and lease liabilities in the balance sheet in the amount of the present value of the future lease payments.

Lease payments are all fixed payments less future incentive payments by the lessor.

The following additional types of payments are recognized:

- variable payments that are coupled to a rate or index
- expected payments from residual value guarantees
- payments to exercise secure buy or terminate options
- contractual penalty payments for termination of a lease if the assumed lease term provides for the exercise of a termination option

The series of payments is discounted at an incremental borrowing rate appropriate to the lease, since the implicit interest rate of the lease is not usually known. All other variable payments are recognized as expenses.

When determining lease length, consideration is given to any facts and circumstances that offer an economic incentive to exercising existing options. The assumed term thus includes periods covered by extension options if sufficient certainty exists that the option will be exercised. A change to the term is considered if the sufficient certainty of exercise or non-exercise of an existing option changes.

Deferred taxes

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

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

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

Other provisions

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

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

Provisions for pensions and similar obligations

The present value of pension obligations for defined benefit plans and the associated expenses are determined using actuarial principles in accordance with the projected unit credit method set out in IAS 19 (revised in 2011, IAS 19R). This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

Pension provisions are reported at the full present value of the defined obligation, less the fair value of the reinsurance cover taken out for life insurance policies—provided they are pledged and thus protected from access by other creditors—or less the fair value of the plan assets accumulated to cover pension entitlements. The result of the recalculated net obligation are recognized as other comprehensive income in the Statement of Comprehensive Income. It is comprised of actuarial gains and losses, the return on plan assets and changes in the effects of the asset cap less amounts previously recognized as net interest.

Payments for defined contribution pension plans are recognized as expenses in profit or loss for the period provided the employee has met the stated performance target.

Contractual obligations/deferred income

Deferred income consists of advance payments received from customers for maintenance and Software as a Service (SaaS) services to be rendered in future periods. The deferred item is reversed in profit or loss in the period in which the service is rendered.

Treasury shares

The amount paid for treasury shares, including directly attributable costs, is deducted from shareholders' equity. Treasury shares are reported as a separate item in the equity statement.

New accounting rules to be applied starting in the fiscal year

Software AG applied the amendments to IFRS 3 (Definition of a Business) and to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) for the first time as of January 1, 2020. There were also a number of other new standards to be applied for the first time as of January 1, 2020. However, no amendment to a standard to be applied for the first time led to a material impact on Software AG's consolidated financial statements.

Published but not yet applicable accounting rules

The IASB has published various standards, interpretations and amendments to standards that are not yet required to be applied and with regard to which Software AG did not opt for early application to the consolidated financial statements for the year ended December 31, 2020. However, Software AG does not expect these future changes to have a significant impact on its consolidated financial statements.

[4] Discontinued Operations/ Disposal Groups

Groups of assets and liabilities held to sell

Software AG and Babel Tenedora de Participaciones, S.L announced on January 14, 2020 the signing of a merger agreement of Software AG's Software AG España service operations under Babel's direction. Because the sale of Software AG España's service operations was already assumed to be highly probable in December 2019, the assets and liabilities to be sold were reclassified to a disposal group as of December 31, 2019. The corresponding assets and liabilities were measured as of December 31, 2019 in accordance with IFRS 5, not at their carrying amount but at fair value less costs to sell.

The following table shows the disposal group's values as of December 31, 2019:

in € thousands	Carrying amount prior to remeasurement
Trade receivables, contract assets and other receivables	9,362
Other financial assets	64
Other non-financial assets	30
Property, plant and equipment	376
Deferred tax receivables	128
Disposal group assets	9,960
Financial liabilities	101
Trade and other payables	2,178
Other non-financial liabilities	2,807
Other provisions	6
Disposal group liabilities	5,092
Total disposal group assets less liabilities	4,868
Gain/loss from measurement at fair value less costs to sell	-5,165
Disposal group's fair value less costs to sell	-297

The transfer of Software AG España's service operations to Babel occurred in summer 2020. Expenses arising from the measurement of the disposal group amounted to €667 thousand (2019: €5,165 thousand) in fiscal 2020, thus totaling €5,832 thousand. These expenses were reported in other expenses (see Note [10]), as in the previous year. All relevant disposal group assets and liabilities were allocated to the Professional Services segment.

Because the fair value (less costs to sell) of the disposal group is immaterial relative to the recoverable amount of the Professional Services segment (smallest cash-generating unit), proportional goodwill was not accounted for in connection with the derecognition of the disposal group.

The following table illustrates the impact of the disposal group on the carrying amount of the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows in fiscal 2020:

in € thousands	Carrying amount	Cash portion in 2020
Total disposal group assets less liabilities upon disposal	7,578	941
Total consideration received less severance to be paid in connection to the disposal	2,335	203
Gain/loss from the disposal before disposal transactions costs	-5,243	-738
Disposal transaction costs	589	589
Gain/loss from the disposal including disposal transactions costs	-5,832	-1,327
of which recognized in fiscal 2019	-5,165	
of which recognized in fiscal 2020	-667	

Net sale price receivables outstanding as of December 31, 2020 were reported in the amount of €2,132 thousand in other financial assets and were paid in full in January 2021.

Notes to the Consolidated Income Statement

[5] Total Revenue

Revenue by segment and region is presented in the segment report in [Note \[31\]](#). All revenue presented resulted solely from customer contracts. Revenue in fiscal 2020 included €139,581 thousand (2019: €131,962 thousand) in revenue that was recognized in the balance of contractual obligations, reported as deferred income, at the beginning of the period. The transaction price allocated to the remaining obligations as of December 31, 2020 was €559,919 thousand (2019: €559,303 thousand).

Software AG anticipates recognition of the corresponding revenue over the following periods of time:

in € thousands	2021	2022	2023–2026
Anticipated revenue to be recognized	300,114	138,369	121,435

[6] Cost of Sales

The cost of sales in fiscal years 2020 and 2019 was as follows:

in € thousands	2020	2019
Personnel expenses	146,115	156,637
Other costs of sales	43,151	38,235
Amortization of intangible assets	7,955	8,223
	197,221	203,095

[7] Sales, Marketing and Distribution Expenses

Sales, marketing and distribution expenses in fiscal years 2020 and 2019 were as follows:

in € thousands	2020	2019
Personnel expenses	220,821	207,025
Other sales and distribution expenses	24,313	23,818
Other marketing expenses	21,233	20,492
Amortization of intangible assets	6,233	13,677
	272,600	265,012

[8] General and Administrative Expenses

General and administrative expenses in fiscal years 2020 and 2019 were as follows:

in € thousands	2020	2019
Personnel expenses	73,630	72,851
Other general and administrative expenses	3,164	1,916
	76,794	74,767

[9] Other Income

Other income includes the following items:

in € thousands	2020	2019
Foreign exchange gains	28,016	9,980
Government grants in the form of low-interest-rate loans	1,187	1,639
Earnings from retrospective adjustment of the purchase price allocation of TrendMiner N.V.	0	2,609
Miscellaneous other income	1,602	872
	30,805	15,100

[10] Other Expenses

Other expenses consist of the following items:

in € thousands	2020	2019
Foreign exchange losses	31,826	8,449
Expenses arising from the malware attack	6,239	0
Expenses due to impairment losses on the disposal group	667	5,165
Expenses relating to legal disputes	0	2,900
Miscellaneous other expenses	0	207
	38,732	16,721

[11] Net Financial Income/ Expense

Financial income includes interest on financial assets in the amount of €7,185 thousand (2019: €11,484 thousand). Financial expense includes interest expenses for financial liabilities in the amount of €3,136 thousand (2019: €3,219 thousand).

[12] Income Taxes

Software AG's income taxes can be broken down by origin as follows:

in € thousands	2020	2019
Current domestic taxes	-3,795	-12,699
Current foreign taxes	-37,266	-46,547
	-41,061	-59,246
Deferred domestic taxes	3,083	-2,517
Deferred foreign taxes	500	1,961
	3,582	-556
	-37,479	-59,802

In Germany, a uniform corporate income tax of 15 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for German entities will be 31.84 percent (2019: 31.83 percent) in 2020. Tax rates abroad range between 10 and 37.5 percent (2019: between 10 and 37.5 percent).

Income from deferred taxes totaled €3,582 thousand and consisted of €8,600 thousand (2019: €989 thousand in income) in tax expenses relating to temporary differences that arose.

The income tax expense of €37,479 thousand for fiscal year 2020 (2019: €59,802 thousand) is €5,054 thousand lower than the expected income tax expense of €42,533 thousand (2019: €68,472 thousand) that resulted from applying the domestic tax rate of 31.84 percent currently applicable (2019: 31.83 percent) at Group level. The Group's effective income tax rate is 28.06 percent (2019: 27.80 percent).

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

in € thousands	2020	2019
Earnings before income taxes	133,584	215,119
Expected income tax (31.84%; 2019: 31.83%)	-42,533	-68,473
Difference vs. foreign tax rates and changes in tax rates	10,685	13,652
Aperiodic income tax effects	4,531	2,854
Tax increases due to tax-exempt income or nondeductible expenses	-456	-7,838
Adjustment of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	-5,203	110
Nondeductible foreign and withholding taxes	-4,511	-104
Other adjustments	8	-3
Reported income tax expense	-37,479	-59,802

Aperiodic tax effects amounted to €4,531 thousand (2019: €2,854 thousand) and included aperiodic deferred income tax effects of €1,431 thousand (2019: €1,845 thousand).

The changed income tax rates led to a total positive effect of €802 thousand (2019: €653 thousand) in fiscal 2020, primarily in the United Kingdom and the USA.

The expense from deferred taxes fell by €477 thousand (2019: €738 thousand) and the current tax expense by €10 thousand (2019: €446 thousand) as a result of the reversal of loss carryforwards in 2020.

[13] Other Taxes

Other taxes decreased by €873 thousand to €5,932 thousand (2019: €6,805 thousand) and included royalty-related indirect taxes in Brazil, property taxes, vehicle taxes and other indirect taxes.

[14] Personnel Expenses

Personnel expenses in fiscal years 2020 and 2019 were as follows:

in € thousands	2020	2019
Wages and salaries	445,734	417,885
Social benefits	60,600	61,431
Pension expenses	12,523	10,936
	518,857	490,252

In fiscal 2020, the average number of employees (part-time employees are taken into account on a pro rata basis only) by area of activity was as follows:

in € thousands	2020	2019
Maintenance and Services	1,604	1,869
R&D	1,467	1,374
Sales and Marketing	1,005	951
Administration	671	633
	4,747	4,827

The decline in the number of employees in Maintenance and Services is primarily due to the sale of the Professional Service unit in Spain (disposal affected 438 employees). In absolute terms (part-time employees are counted in full), the Group employed 4,867 (2019: 5,119) people as of December 31, 2020.

[15] Earnings per Share

Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2020, the average weighted number of shares was 73,979,889 (2019: 73,979,889).

A total of 0 (2019: 5,750) stock options were exercised in 2020. In order to service stock options, 0 (2019: 0) treasury shares were used. Accordingly, the number of shares outstanding did not increase (2019: 0). No treasury shares were repurchased (2019: 0) and no treasury shares were redeemed (2019: 0) in fiscal 2020. The number of treasury shares therefore did not change year-on-year and remained at 20,111 (2019: 20,111). The treasury shares are not expected to see a dilution effect, since they can be sold at market prices.

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Net income	96,105	155,317
Less earnings attributable to non-controlling interests	-399	-343
Net income attributable to shareholders of Software AG	95,706	154,974
Weighted average number of shares outstanding	73,979,889	73,979,889
Weighted average number of shares outstanding (diluted)	73,979,889	73,979,889
Earnings per share in € (basic)	1.29	2.09
Earnings per share in € (diluted)	1.29	2.09

Notes to the Consolidated Balance Sheet

[16] Other Financial Assets

Other financial assets as of December 31 were as follows:

in € thousands	Dec. 31, 2020			Dec. 31, 2019		
	Current	Non-current	Total	Current	Non-current	Total
Equity securities	0	4,293	4,293	0	3,377	3,377
Investment funds	2,407	1,120	3,527	2,275	1,534	3,809
Loans and other financial receivables	4,218	9,178	13,396	2,009	9,175	11,184
Derivatives	743	3,151	3,895	1,436	2,992	4,428
Total	7,368	17,743	25,111	5,720	17,078	22,798

For more information on the valuation of financial assets, please refer to [Note \[32\]](#).

[17] Trade Receivables, Contract Assets and other Receivables

Trade receivables, contract assets and other receivables as of December 31 were as follows:

in € thousands	Dec. 31, 2020			Dec. 31, 2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	139,331	10,491	149,822	135,155	12,156	147,311
Not yet settled or invoiced services (contract assets)	72,029	84,313	156,342	70,882	83,614	154,496
Other receivables	430	696	1,126	559	774	1,333
Total	211,790	95,500	307,290	206,596	96,544	303,140
of which pertaining to the hold-to-collect business model			232,975			238,569
of which pertaining to the hold-to-collect-and-sell business model			74,315			64,571

Contract assets represent payments due from customers for underlying services that have been rendered by Software AG but, due to contractual provisions, will be invoiced later. They are reclassified to trade receivables when the invoice is issued.

Gross receivables and impairments for expected credit losses were as follows:

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Trade receivables, contract assets before impairments	308,301	303,070
Impairments for expected credit losses	2,137	1,263
Carrying amount	306,164	301,807

Total write-downs on trade receivables and contract assets were less than €500 thousand in fiscal 2020.

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

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Carrying amount	149,822	147,311
of which neither impaired nor past due as of the balance sheet date	111,573	109,270
of which past due in the following time periods as of the balance sheet date		
1 to 3 months	33,323	30,903
4 to 6 months	3,473	5,630
7 to 12 months	1,453	1,005
>12 months	0	503

[18] Other Non-Financial Assets

Other non-financial assets can be broken down as follows:

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Prepaid expenses	18,923	19,351
Capitalized costs from acquisition of new customer orders (sales commission)	12,668	5,740
Receivables from finance authorities	2,150	1,674
Other	2,087	2,558
	35,828	29,323

[19] Income Tax Receivables

Tax receivables in the amount of €41,321 thousand (2019: €29,778 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

[20] Intangible Assets and Goodwill

Changes in intangible assets and goodwill as of December 31, 2020

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2020	981,988	531,893	1,513,881
Currency translation differences	-32,718	-25,661	-58,379
Additions	0	2,602	2,602
Disposals	0	-975	-975
Balance as of Dec. 31, 2020	949,270	507,859	1,457,129
Accumulated amortization			
Balance as of Jan. 1, 2020	-1,900	-415,292	-417,192
Currency translation differences	0	21,971	21,971
Additions	0	-15,849	-15,849
Disposals	0	593	593
Balance as of Dec. 31, 2020	1,900	-408,577	-410,477
Residual carrying amount as of Jan. 1, 2020	980,088	116,601	1,096,689
Residual carrying amount as of Dec. 31, 2020	947,370	99,282	1,046,652

Changes in intangible assets and goodwill as of December 31, 2019

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2019	966,277	522,229	1,488,506
Currency translation differences	15,711	9,075	24,786
Additions	0	1,027	1,027
Disposals	0	-438	-438
Balance as of Dec. 31, 2019	981,988	531,893	1,513,881
Accumulated amortization			
Balance as of Jan. 1, 2019	-1,900	-385,257	-387,157
Currency translation differences	0	-7,192	-7,192
Additions	0	-23,242	-23,242
Disposals	0	399	399
Balance as of Dec. 31, 2019	-1,900	-415,292	-417,192
Residual carrying amount as of Jan. 1, 2019	964,377	136,972	1,101,349
Residual carrying amount as of Dec. 31, 2019	980,088	116,601	1,096,689

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

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

in € thousands	Carrying amount as of Dec. 31, 2020	Carrying amount as of Dec. 31, 2019	Remaining amortization period in years
Software obtained through Zementis acquisition	6,173	7,545	8.5
Software obtained through TrendMiner acquisition	5,987	7,515	4.0
Software obtained through Cumulocity acquisition	5,440	7,418	2.8
Software obtained through Built.io acquisition	4,800	6,641	3.8

In addition, the following important intangible assets with indefinite useful lives existed as of December 31, 2020:

in € thousands	Carrying amount as of Dec. 31, 2020	Carrying amount as of Dec. 31, 2019	Reason for assuming indefinite useful life
Brand names (ARIS & others) obtained through IDS Scheer AG acquisition	22,300	22,300	Use and future expansion of the brand name is planned for an indefinite period of time.
Brand name (webMethods) obtained through webMethods acquisition	20,374	22,253	Use and future expansion of the brand name is planned for an indefinite period of time.

Brand names are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amounts of goodwill were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Adabas & Natural (A&N)	328,208	329,918
Digital Business Platform (DBP)	595,852	626,137
Professional Services	23,310	24,033
Goodwill	947,370	980,088
of which from acquisition of SAG Inc. USA 2001	174,591	174,591
of which from acquisition of webMethods Inc. USA 2007	221,517	242,936
of which from acquisition of IDS Scheer AG 2009	240,759	240,759

The carrying amounts of intangible assets with indefinite useful lives were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Adabas & Natural (A&N)	0	0
Digital Business Platform (DBP)	41,244	43,445
Professional Services	5,426	5,476
Intangible assets with indefinite useful lives	46,670	48,921

The segments represent the smallest cash-generating units in the Group. They represent the smallest identifiable group of cash inflow-generating assets which are largely independent of inflows from other assets.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year. Additionally, the Company performed an impairment test of the recoverable amount for the cash-generating Professional Services unit on June 30, 2020 because its margin performance for the 2020 fiscal year was trending significantly below guidance from the beginning of the year. The test showed that the recoverable amount for the cash-generating unit was slightly higher than its carrying amount, so no value adjustment was necessary.

The annual impairment test is conducted by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to fair value less costs to sell.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a period of four (2019: four) years. Budget planning for 2021 was largely carried out as in previous years. As in the previous year, bookings were prioritized for planning (refer to the Management Report) and not revenue, as in the past, because of the Helix strategy project's (refer to the Management Report) focus on growth. Future revenue was calculated indirectly based on bookings, rather than directly as in past years. Segment planning includes the derived revenue, as described above, for each segment as well as the

directly attributable costs for each segment. The non-directly attributable costs are coded to the segments. Planning for the years 2021 to 2024 reflects the Company's realignment developed as part of the Helix strategy project. This medium-term plan prioritizes consideration of overall development given the transition from perpetual licenses to temporary licenses—primarily transfer of use in nature (rental licenses and subscriptions).

Planning is based on past experience, insights derived from current operating results, and management estimates of future developments. Revenue trends at country level, for instance, are one element of management estimates of future developments that is particularly prone to uncertainty. This approach is rated as level 3 of the valuation hierarchy in accordance with IFRS 13.

The forecasts take into account historical values and estimates of future developments. Costs to sell are assumed to amount to 2 percent (2019: 2 percent) of the relevant fair value.

The expected cash flows for the A&N segment were calculated as described above and discounted using a post-tax weighted average cost of capital (WACC) of 6.8 percent (2019: 6.5 percent). The sustainable growth rate was assumed to be 0 percent (2019: 0 percent). A flat to slightly increasing revenue level is assumed for the period of detailed planning. A discount of 20 percent (2019: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even using a discount of 90 percent on the last year of detailed planning, the fair value less costs to sell would exceed the carrying amount.

A sustainable growth rate of 1 percent (2019: 1 percent) and a weighted average cost of capital (WACC) after tax of 7.3 percent (2019: 6.0 percent) were used in calculations for the Digital Business Platform (DBP) segment. An average annual revenue growth rate of approximately 16 percent (2019: 15 percent) was assumed in the period of detailed planning. Furthermore, an increase in the EBITA margin to about 20 percent is expected by 2024 following a 0 percent reduction in the EBITA margin in the 2021 budget plan as compared to fiscal 2020. However, even given a revenue decline of 50 percent with a 25 percent reduction in margin (EBITA margin) compared to the budget for the period of detailed planning, fair value less costs to sell would be higher than the carrying amount.

Software AG assumed a weighted average cost of capital (WACC) after tax of 8.4 percent (HY 2020: 6.9 percent/2019: 6.4 percent) and a sustainable growth rate of 1 percent (HY 2020: 1 percent/2019: 1 percent) for perpetual annuity for the Professional Services segment. Based on revenue adjusted for the sale of the Spanish service operations in 2020, average annual revenue growth of around 2 percent (HY 2020: 3.5 percent/2019: 2 percent) is assumed for the period of detailed planning. Based on that, fair value less costs to sell was slightly higher than the

corresponding carrying amount. An increase in margin in the period of detailed planning of 3 percentage points (HY 2020: 3.5) compared to fiscal year 2020 was assumed. This expected margin increase represents a critical assumption with respect to impairment testing. If the margin assumed for the last year of the detailed planning period and thus for perpetual annuity were 0.5 percentage points lower, the fair value less costs to sell would be about €5 million below the corresponding carrying amount.

[21] Property, Plant and Equipment/Investment Property

Changes in property, plant and equipment as of December 31, 2020

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2020	147,897	50,020	197,917
Currency translation differences	-3,312	-2,733	-6,045
Additions	4,798	8,376	13,174
Disposals	-5,150	-5,647	-10,797
Reclassification	-10,233	0	-10,233
Balance as of Dec. 31, 2020	134,000	50,016	184,016
Accumulated depreciation			
Balance as of Jan. 1, 2020	-66,806	-27,134	-93,940
Currency translation differences	2,319	2,125	4,444
Additions	-13,501	-10,576	-24,077
Disposals	3,481	5,109	8,590
Reclassification	3,316	0	3,316
Balance as of Dec. 31, 2020	-71,191	-30,476	-101,667
Residual carrying amount as of Jan. 1, 2020	81,091	22,886	103,977
Residual carrying amount as of Dec. 31, 2020	62,809	19,540	82,349

Property with a net carrying amount of €6,917 thousand was reclassified from property, plant and equipment to investment property. This refers to portions of property at locations in Madrid, Spain and Saarbrücken, Germany. The reclassification to investment property occurred because significant portions of property will no longer be utilized by Software AG in the foreseeable future, but is likely to be rented, due in part to the sale of the Spanish service operations and increased remote working. A measurement or determination of fair value was not conducted by an independent expert. Rent income for these properties was around €1,200 thousand in fiscal 2020. This rent

income is not fully representative because significant portions of the property only became available for rental by external parties during the course of the year. On an annualized basis, rent income amounted to €1.6 million. Accordingly, annualized directly attributable operating expenses (excluding depreciation) amounted to some €0.7 million. Based on a simplified multiples approach, Software AG assumes the property's fair value is €14 million max. and thus twice the current carrying amount. Aside from the fact that significant portions of the property are used for Software AG's own operations, there are no limitations with respect to a possible disposal of the property.

Changes in property, plant and equipment as of December 31, 2019

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2019	89,627	35,188	124,815
Right-of-use asset from first-time application of IFRS 16	55,225	9,866	65,091
Adjusted balance as of Jan. 1, 2019	144,852	45,054	189,906
Currency translation differences	1,047	771	1,818
Reclassification of disposal group	-1	-375	-376
Additions	9,948	13,745	23,693
Disposals	-7,949	-9,175	-17,124
Balance as of Dec. 31, 2019	147,897	50,020	197,917
Accumulated depreciation			
Right-of-use asset from first-time application of IFRS 16	-24,727	-3,904	-28,631
Adjusted balance as of Jan. 1, 2019	-57,768	-24,655	-82,423
Currency translation differences	-434	-521	-955
Additions	-14,014	-10,195	-24,209
Disposals	5,410	8,237	13,647
Balance as of Dec. 31, 2019	-66,806	-27,134	-93,940
Residual carrying amount as of Jan. 1, 2019 (prior to initial application of IFRS 16)	56,586	14,437	71,023
Residual carrying amount as of Dec. 31, 2019	81,091	22,886	103,977

Most of the land and buildings are owned by the parent company and the Spanish subsidiary. The properties pertain mainly to the central administrative buildings of these entities.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €8,376 thousand (2019: €13,745 thousand) primarily relates to expenses for the initial purchase of computer equipment. Property, plant and equipment totaling €82,349 thousand (2019: €103,977 thousand) includes right-of-use assets in the amount of €24,021 thousand (2019: €33,267 thousand).

[22] 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, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	4,899	1,706	24,544	30,115
Property, plant and equipment	786	747	8,454	11,900
Receivables and financial assets	4,213	5,472	18,634	8,890
Prepaid expenses		0	398	247
Other obligations	15,451	19,753	7,364	2,686
Provisions for pensions and similar obligations	14,973	12,663	0	0
Deferred income	3,718	2,335	290	164
Tax loss carryforwards	22,053	12,686	0	0
Total	66,093	55,362	59,684	54,002
Amount offset	-51,635	-43,407	-51,635	-43,407
Amount recognized in the balance sheet	14,458	11,955	8,049	10,595

Deferred tax assets on tax loss carryforwards rose from the prior year by €9,367 thousand. The change is due to the emergence and ongoing consumption due to taxable income.

As of December 31, 2020, the consolidated Group had unutilized tax loss carryforwards in the amount of €30,713 thousand (2019: €12,030 thousand) for which no deferred tax assets were recognized. Of the losses carried forward for which no deferred taxes were recognized, €10,543 thousand will expire in the period from 2021 to 2029, €2,106 thousand in the period from 2030 to 2039, and €18,064 thousand can be utilized indefinitely.

As of year-end, deferred tax assets were recognized in the consolidated financial statements in the amount of €1,544 thousand (2019: €143 thousand), which were attributable to companies that suffered losses in the current or previous period. Recognition of deferred tax assets depends solely on recognition of future taxable earnings that exceed the earnings effects from the reversal of existing taxable temporary differences. It is assumed that a tax advantage will be recognized due to planned future positive taxable earnings.

As of the balance sheet, taxable temporary differences associated with investments in subsidiaries existed in the amount of €14,896 thousand (2019: €16,563 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor profit distributions are planned in the near future.

In fiscal year 2020, deferred taxes totaling €15,684 thousand (2019: €14,746 thousand) were offset against 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.

The current taxes that were offset against equity totaled €2,581 thousand (2019: €2,581) in 2020. The amounts resulted from recognition of translation currency effects in equity from loans to foreign operations.

[23] Financial Liabilities

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Current financial liabilities		
Liabilities to banks	4,080	80,326
Other current financial liabilities	11,327	14,819
Derivatives	1,008	1,244
	16,415	96,389
Non-current financial liabilities		
Liabilities to banks	226,541	175,047
Other non-current financial liabilities	16,978	24,556
Derivatives	0	622
	243,519	200,225

Financial liabilities changed as follows:

in € thousands		Liabilities to banks	Financial liabilities	Lease liabilities (IFRS 16)	Derivatives	Total
	Dec. 31, 2019	255,374	1,432	37,942	1,866	296,614
	Proceeds					
	New non-current financial liabilities, net	50,096				50,096
	Payments					
	Repayment of current and non-current financial liabilities, net	-77,469				-77,469
	MIP hedge premium	-448				-448
	Capital increase ADAMOS		-1,000			-1,000
	Guarantees in connection with Sunshine		90			90
	Liabilities in connection with the PrestoCloud EU project		-401			-401
	Lease liabilities			-15,572		-15,572
	Financial purchase of assets					
	Capital increase ADAMOS		936			936
	Disposal of lease liabilities (USA)			-1,217		-1,217
	Additions lease liabilities			6,573		6,573
	Financial purchase of derivatives					
	MIP hedge premium	2,738				2,738
	Measurement					
	Interest adjustment for government loans	413				413
	Accrued interest on leases			1,354		1,354
	Other adjustments	-83	96	-1,928	-858 ¹	-2,733
	Dec. 31, 2020	230,621	1,153	27,152	1,008	259,934
	Total change +/-	-24,753	-279	-10,790	-858	-36,680
				Thereof current financial liabilities		16,415
				Thereof non-current financial liabilities		243,519

¹ Changes in cash and cash equivalents are factored into the measurement

in € thousands		Liabilities to banks	Financial liabilities	Lease liabilities (IFRS 16)	Derivatives	Total
	Dec. 31, 2018	304,071	6,066	0	3,183	313,320
	Application of IFRS 16			41,062		41,062
	Jan. 1, 2019	304,071	6,066	41,062	3,183	354,382
	Payments					
Change in cash and cash equivalents	Repayment of current and non-current financial liabilities, net	-49,358	-498			-49,856
	Open purchase price payables		-5,135			-5,135
	Lease liabilities			-16,249		-16,249
	Financial purchase of assets					
	Capital increase ADAMOS		1,000			1,000
	Additions lease liabilities			10,349		10,349
	Measurement					
Non-cash changes	Interest adjustment for government loans	160				160
	Accrued interest on leases			1,717		1,717
	Other adjustments	501	-1	1,063	-1,317	246
	Dec. 31, 2019	255,374	1,432	37,942	1,866	296,614
	Total change +/-	48,697	4,634	-37,942	1,317	16,706
				Thereof current financial liabilities		96,389
				Thereof non-current financial liabilities		200,225

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

in € thousands	Up to 1 year	>1 year
Loans with variable interest rates	4,080	176,541
Loans with fixed interest rates	0	50,000

The fair values of the liabilities to banks with variable interest rates are equal to their carrying amounts. The fair values of the liabilities with fixed interest rates amounted to €50,299 thousand (2019: €29,154 thousand). The fair values were calculated by discounting the future cash flows using current market rates.

[24] Trade Payables and Other Liabilities

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

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Payables to suppliers	35,161	27,972
Payments received on account of orders	11,418	7,053
Other liabilities	610	858
	47,189	35,883

[25] Other Non-Financial Liabilities

Other non-financial liabilities relate to the following items:

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Liabilities due to employees	104,102	84,626
Tax liabilities	20,501	20,846
Liabilities for social security	7,063	6,545
Remaining other current liabilities	7,715	5,693
	139,381	117,710

[26] Other Provisions

Other provisions changed as follows:

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2020	31,866	13,593	45,459
Currency translation differences	-75	-79	-154
Additions	9,318	6,237	15,555
Utilization	-7,467	-589	-8,056
Reversal	-491	-2,411	-2,902
Balance as of Dec. 31, 2020	33,150	16,752	49,902
of which with a remaining term of more than 1 year	11,047	30	11,077
Balance as of Jan. 1, 2019	23,526	17,424	40,950
Currency translation differences	18	38	56
Additions	11,816	3,986	15,802
Utilization	-3,392	-7,301	-10,693
Reversal	-102	-554	-656
Balance as of Dec. 31, 2019	31,866	13,593	45,459
of which with a remaining term of more than 1 year	7,316	44	7,360

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2020	Dec. 31, 2019
Litigation	12,141	11,976
Provisions arising from the malware attack	3,150	0
Asset retirement obligations	973	890
Anticipated losses related to Professional Services projects	34	11
Other onerous contracts	0	297
Other provisions	454	419
	16,752	13,593

[27] Income Tax Liabilities

in € thousands	2020	2019
Balance as of Jan. 1	38,212	40,851
Currency translation differences	-2,257	-110
Additions	8,537	11,552
Utilization	-8,087	-12,172
Reversal	-977	-1,909
Balance as of Dec. 31	35,428	38,212
of which with a remaining term of more than 1 year	2,135	2,643

For further information on litigation, please refer to [Note \[36\]](#).

[28] Provisions for Pensions and Similar Obligations

Defined benefit plans

	Defined benefit obligation (DBO)		Fair value of plan assets		Effects of asset caps		Net defined benefit balance	
in € thousands	2020	2019	2020	2019	2020	2019	2020	2019
Germany	57,485	53,088	25,212	22,740	0	0	32,273	30,348
U.K.	103,584	96,486	86,697	84,168	0	0	16,887	12,318
Switzerland	8,726	6,957	5,538	4,324	0	0	3,188	2,632
Other insignificant pension plans and similar plans							3,091	2,665
							55,439	47,963

Pension benefits in Germany consist of fixed commitments to a specific group of people. They are partially covered by life reinsurance policies. There are no minimum funding requirements or laws in Germany.

Pension benefits in the United Kingdom relate to commitments made by Software AG (UK) Limited. They comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period.

The commitments in Switzerland result from legal requirements of the BVG (law on occupational, survivor and disability planning). The law stipulates that every employer must grant entitled employees benefits after termination of their employment.

The defined benefit commitments result in risks to the Company due to possible fluctuations in obligations from defined benefit plans and fluctuations in plan assets. Fluctuations in defined benefit obligations result primarily from changes to financial assumptions such as discount interest rates and changed demographic assumptions (changing life expectancies). Possible changes in expected long-term wage and salary increases have no significant impact on the obligations due to the structure of the commitments. The fair value of plan assets and the fluctuation thereof depend mainly on the situation of the capital markets. Software AG seeks to account for this by controlling its asset investments.

	Defined benefit obligation (DBO)		Fair value of plan assets		Net defined benefit balance	
in € thousands	2020	2019	2020	2019	2020	2019
Balance as of Jan. 1	156,531	128,497	-111,233	-96,037	45,298	32,460
Current service cost	4,097	3,154			4,097	3,154
Net interest income/expense	2,459	3,238	-1,953	-2,595	506	643
	6,556	6,392	-1,953	-2,595	4,603	3,797
Income/expense resulting from adjustments						
Return on plan assets less income recognized as net interest income/expense	0	0	-2,276	-6,171	-2,276	-6,171
Expectation adjustment	225	1,548	0	0	225	1,548
Net actuarial gains/losses from changes to demographic assumptions	-465	-2,780	0	0	-465	-2,780
Net actuarial gains/losses from changes to financial assumptions	13,823	22,252	0	0	13,823	22,252
	13,583	21,020	-2,276	-6,171	11,307	14,848
Employer contributions	965	671	-7,184	-5,562	-6,219	-4,891
Employee contributions	394	366	-394	-366	0	0
Plan-related payments	-1,132	-1,489	1,132	1,489	0	0
Settlement payments	-820	-1,566	820	1,566	0	0
	-593	-2,018	-5,626	-2,873	-6,219	-4,891
Currency-related changes	-6,282	2,640	3,641	-3,556	-2,641	-916
Balance as of Dec. 31	169,795	156,531	-117,447	-111,233	52,348	45,298

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

as %	2020	2019
Discount rate		
Germany	0.75	1.00
U.K.	1.50	2.00
Switzerland	0.00	0.00
Salary trend		
Germany	2.00	2.00
U.K.	4.25	4.50
Switzerland	1.50	1.50
Pension trend		
Germany	1.75	1.75
U.K.	2.75	2.75
Switzerland	0.00	0.00

A change in the above assumptions by a half of a percentage point would have the following impact on the respective DBOs:

in € thousands	Change in DBO		
	Germany	U.K.	Switzerland
Discount rate (–0.5%)	5,709	14,502	948
Discount rate (+0.5%)	–4,988	–14,502	–818
Salary trend (–0.5%)	–235	–3,108	–118
Salary trend (+0.5%)	246	3,108	125
Pension trend (–0.5%)	–4,273	6,216	N/A ¹
Pension trend (+0.5%)	4,780	–6,216	560

¹ Pension trend was assumed at 0 percent for Switzerland (see above)

Sensitivities were calculated by varying the respective parameter with otherwise constant assumptions.

The plan assets can be broken down as follows:

in € thousands	Fair value	
	2020	2019
Equities	59,431	63,555
Life insurance policies	30,751	27,065
Cash and cash equivalents	24,483	15,588
Fixed-interest securities	2,783	5,025
	117,447	111,233

There was a market price quote in an active market for every component of the plan assets except for the life insurance policies.

Contributions from the Software AG Group to defined benefit plans for fiscal year 2021 are expected to amount to €8,389 thousand.

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

in € thousands	Expected benefit payments
2021	4,467
2022	3,578
2023	3,288
2024	4,541
2025	3,923
2026–2030	21,287

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 €16,533 thousand (2019: €15,564 thousand) in 2020.

[29] Equity

Share capital

As of December 31, 2020, Software AG's share capital totaled €74,000 thousand (2019: €74,000 thousand). Software AG's share capital is divided into 74,000,000 (2019: 74,000,000) registered shares. Each share entitles its holder to one vote.

Conditional capital

Like last year, there was no conditional capital as of December 31, 2020.

Authorized capital

As of December 31, 2020, the Management Board was authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 30, 2021 by up to a total of €39,500 thousand by issuing up to 39,500,000 new registered shares in return for cash contributions and/or contributions in kind (authorized capital).

The Management Board did not make use of this authorization in fiscal year 2020.

Acquisition of treasury shares

At the beginning of the reporting period Software AG held 20,111 treasury shares representing €20,111 or 0.03 percent of the share capital.

The balance of treasury shares remained unchanged year-on-year as of December 31, 2020. There were no transactions in fiscal 2020 or 2019.

Pursuant to the Annual Shareholders' Meeting resolution from May 31, 2016, Software AG is authorized until May 30, 2021 to purchase Software AG shares totaling a maximum of 10 percent of the share capital at the time of the resolution. The shares purchased, together with other treasury shares that the Company has already purchased and still holds or that are attributable to it in accordance with sections 71d and 71e of the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. Since software companies typically have a low level of capital expenditure for property, plant and equipment, equity is not a focus of corporate management. The dividend is based on Software AG's averaged net income (attributable to Software AG shareholders) and free cash flow. This resulted in a total dividend sum of €56,224 thousand (2019: €56,224 thousand) and a dividend ratio of 61.3 percent (2019: 37.4 percent).

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on June 26, 2020 to appropriate €56,224 thousand (2019: €52,526 thousand) for a dividend payout from the net retained profits of €128,479 thousand (2019: €85,520 thousand) reported by Software AG, the controlling Group company, in fiscal 2019. This corresponds to a dividend of €0.76 (2019: €0.71) per share. A total amount of €72,255 thousand (2019: €32,994 thousand) was carried forward.

Based on the number of shares outstanding as of March 5, 2021, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €113,764 thousand reported by Software AG in fiscal 2020, as follows: to appropriate €56,224 thousand for dividends and to carry forward €57,540 thousand. This corresponds to a dividend of €0.76 per share.

Other reserves

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

in € thousands	2020			2019		
	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences from foreign operations	-78,113	0	-78,113	32,494	0	32,494
Net actuarial gain/loss on pension obligations	-7,905	1,457	-6,448	-18,106	5,438	-12,668
Net gain/loss on remeasuring financial assets	611	-519	92	379	-635	-256
Currency translation gains/losses from net investments in foreign operations	1	0	1	844	-2,580	-1,736
Gain/loss recognized in equity	-85,406	938	-84,468	15,611	2,223	17,834

Cash flow hedges had the following effects on the income statement and other comprehensive income:

in € thousands	Total profit/(loss) recognized in other comprehensive income from hedges	Ineffective portion recognized in earnings	Items from the income statement	Costs recognized in other comprehensive income from hedges	Amount reclassified from other comprehensive income to the income statement	Items from the income statement
Fiscal year ending Dec. 31, 2020 Expected payments relating to awards to members of the Management Board, managers and employees	-1,451	0	N/A	0	-1,803	Functional costs
Fiscal year ending Dec. 31, 2019 Expected payments relating to awards to members of the Management Board, managers and employees	-433	0	N/A	0	-2,277	Functional costs

Other Disclosures

[30] Notes to the Statement of Cash Flows

Cash and cash equivalents include €4 thousand (2019: €13 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 €342 thousand (2019: €320 thousand) to minority shareholders of subsidiaries.

Operating cash inflows and outflows are managed centrally based on free cash flow. Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including cash outflows for investments in current financial assets, proceeds from the sale of current financial assets, proceeds from the sale of disposal groups or net cash outflows for acquisitions, less cash flows from the repayment of lease liabilities. Accordingly, free cash flow totaled €87,577 thousand (2019: €145,848 thousand) in fiscal 2020. Free cash flow is controlled at Group level, not based on the business segments. For this reason, no data is collected on cash flow in the segments.

Software AG has a credit line of about €801,000 thousand. Approximately €568,000 thousand of that was unused as of December 31, 2020.

[31] Segment Reporting

Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. Internal control focuses primarily on product revenue at constant currency for the two product segments. Margins and earnings are controlled largely at Group level. Of considerably less importance are the segments' contributions and earnings at secondary level of control. Software AG therefore reports on the following three segments:

- Digital Business Platform (DBP: integration, business process management and big data with the webMethods, ARIS, Alfabet, Apama and Terracotta product families)
- Adabas & Natural (A&N: data management with the Adabas and Natural product families)
- Professional Services (implementation of solutions in cooperation with customers and partners)

The segment contribution does not include the amortization expense associated with the purchase of intangible assets through acquisitions. These charges are therefore shown separately under reconciliation. This presentation corresponds with internal control and reporting lines (management approach). The majority of sales and marketing expenses are classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research and development expenses are assigned to the segments based on expense components directly attributable to the R&D department as well as the overhead coded to R&D. They have no direct impact on internal control.

The table below shows the segment data for the 2020 and 2019 fiscal years:

Segment report for fiscal years 2020 and 2019

in € thousands	Digital Business Platform (incl. Cloud & IoT) (DBP)			Adabas & Natural (A&N)		
	2020 IFRS	2020 acc ¹	2019 IFRS	2020 IFRS	2020 acc ¹	2019 IFRS
Licenses	135,810	140,371	163,893	81,407	84,570	81,207
Maintenance	281,372	287,426	287,926	141,180	147,097	147,033
SaaS	31,300	31,853	22,651	0	0	0
Product revenue	448,482	459,650	474,470	222,587	231,667	228,240
Services	0	0	0	0	0	0
Other	1	1	0	215	215	701
Total revenue	448,483	459,651	474,470	222,802	231,882	228,941
Cost of sales	-50,481	-51,006	-40,579	-8,279	-8,529	-8,069
Gross profit	398,002	408,645	433,891	214,523	223,353	220,872
Sales, marketing and distribution expenses	-215,980	-221,244	-198,226	-35,014	-36,141	-34,874
Segment contribution	182,022	187,401	235,665	179,509	187,212	185,998
Research and development expenses	-113,071	-113,004	-105,104	-30,855	-30,763	-26,165
Segment earnings	68,951	74,397	130,561	148,654	156,449	159,833
General and administrative expenses						
Other income						
Other expenses						
Other taxes						
Operating income						
Financing income						
Financing expenses						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

¹ Items presented at constant currency are translated using monthly average rates from the previous year. Currency translation effects on balance sheet items related to intra-Group transactions are not taken into account in expenses.

	Professional Services			Reconciliation		Total		
	2020 IFRS	2020 acc ¹	2019 IFRS	2020 IFRS	2019 IFRS	2020 IFRS	2020 acc ¹	2019 IFRS
	0	0	0	0	0	217,217	224,941	245,100
	0	0	0	0	0	422,552	434,523	434,959
	0	0	0	0	0	31,300	31,853	22,651
	0	0	0	0	0	671,069	691,317	702,710
	163,561	165,537	187,196	0	0	163,561	165,537	187,196
	0	0	0	0	0	216	216	701
	163,561	165,537	187,196	0	0	834,846	857,070	890,607
	-130,506	-131,679	-146,224	-7,955	-8,223	-197,221		-203,095
	33,055	33,858	40,972	-7,955	-8,223	637,625		687,512
	-15,373	-15,626	-18,235	-6,233	-13,677	-272,600		-265,012
	17,682	18,232	22,737	-14,188	-21,900	365,025		422,500
	0	0	0	0	0	-143,926		-131,269
	17,682	18,232	22,737	-14,188	-21,900	221,099		291,231
						-76,794		-74,767
						30,805		15,100
						-38,732		-16,721
						-5,932		-6,805
						130,446		208,038
						8,401		13,299
						-5,263		-6,218
						3,138		7,081
						133,584		215,119
						-37,479		-59,802
						96,105		155,317

DBP segment with revenue distribution for fiscal years 2020 and 2019

in € thousands	DBP (Cloud & IoT)			
	2020 IFRS	2020 acc ¹	2019 IFRS	
Licenses	10,942	10,866	12,624	
Maintenance	8,776	8,785	6,992	
SaaS	31,300	31,853	22,651	
Product revenue	51,018	51,504	42,267	
Services	0	0	0	
Other	0	0	0	
Total revenue	51,018	51,504	42,267	
Cost of sales				
Gross profit				
Sales, marketing and distribution expenses				
Segment contribution				
Research and development expenses				
Segment earnings				

¹ Items presented at constant currency are translated using monthly average rates from the previous year. Currency translation effects on balance sheet items related to intra-Group transactions are not taken into account in expenses.

	DBP (excl. Cloud & IoT)			DBP (incl. Cloud & IoT)		
	2020 IFRS	2020 acc ¹	2019 IFRS	2020 IFRS	2020 acc ¹	2019 IFRS
	124,868	129,505	151,269	135,810	140,371	163,893
	272,596	278,641	280,934	281,372	287,426	287,926
	0	0	0	31,300	31,853	22,651
	397,464	408,146	432,203	448,482	459,650	474,470
	0	0	0	0	0	0
	1	1	0	1	1	0
	397,465	408,147	432,203	448,483	459,651	474,470
				-50,481	-51,006	-40,579
				398,002	408,645	433,891
				-215,980	-221,244	-198,226
				182,022	187,401	235,665
				-113,071	-113,004	-105,104
				68,951	74,397	130,561

Information on geographic regions

Revenue is distributed across geographic regions as follows (based on headquarters of the respective Group entity):

Geographic distribution of revenues

2020				
in € thousands	Germany	USA	Other countries	Software AG Group
Licenses	36,214	69,028	111,975	217,217
Maintenance	61,330	146,116	215,106	422,552
SaaS	6,486	9,746	15,068	31,300
Services	32,618	28,302	102,641	163,561
Other	215	0	1	216
Total	136,863	253,192	444,791	834,846

2019				
in € thousands	Germany	USA	Other countries	Software AG Group
Licenses	28,197	85,241	131,662	245,100
Maintenance	62,513	150,899	221,547	434,959
SaaS	4,445	6,924	11,282	22,651
Services	32,808	28,039	126,349	187,196
Other	701	0	0	701
Total	128,664	271,103	490,840	890,607

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenue generated in the USA was reported separately as it was greater than 10 percent of Group revenue. These revenues are generated in U.S. dollars, so when comparing consecutive periods, exchange rate fluctuations should be considered.

Non-current assets

Non-current assets are comprised of intangible assets, property, plant and equipment as well as investment property.

in € thousands	2020	2019
USA	540,436	584,869
Germany	424,384	431,763
Other countries	171,098	184,034
Software AG Group	1,135,918	1,200,666

[32] Additional Information on Financial Instruments and Risk Management

The table below shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair-value hierarchy. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs for the quoted prices included within Level 1 but that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

December 31, 2020

in € thousands	Valuation category		Carrying amount	
	At amortized cost	At fair value	Other at FVPL (mandatory)	Fair value of hedging instruments
Assets				
Cash and cash equivalents	479,982			
Trade receivables, contract assets and other receivables	307,290			
Other financial assets				
Financial assets available for sale				
Shareholders' equity		4,293		
Investment funds		3,527		
Loans and other financial receivables	13,396			
Derivative financial instruments				
Designated as hedging instrument				
Stock options		3,005		3,005
Forward equity contracts		340		340
Not designated as hedging instrument				
Forward currency contracts		18	18	
Forward equity contracts		532	532	
Liabilities				
Trade and other payables	47,189			
Financial liabilities				
Non-derivative financial liabilities				
Loans	230,621			
Other non-derivative financial liabilities	28,305			
Derivative financial liabilities				
Not designated as hedging instrument				
Forward currency contracts		6	6	
Forward equity contracts		1,002	1,002	

				Fair value			
Financial assets at amortized cost	Equity instruments FVOCI	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
479,982			479,982				
307,290			307,290				
	4,293		4,293			4,293	4,293
	3,527		3,527	3,527			3,527
13,396			13,396				
			3,005		3,005		3,005
			340		340		340
			18		18		18
			532		532		532
			47,189				
		230,621	230,621		230,920		230,920
		28,305	28,305		28,305		28,305
			6		6		6
			1,002		1,002		1,002

December 31, 2019

in € thousands	Valuation category		Carrying amount	
	At amortized cost	At fair value	Other at FVPL (mandatory)	Fair value of hedging instruments
Assets				
Cash and cash equivalents	513,632			
Trade receivables, contract assets and other receivables	303,140			
Other financial assets				
Financial assets available for sale				
Shareholders' equity		3,377		
Investment funds		3,809		
Loans and other financial receivables	11,184			
Derivative financial instruments				
Designated as hedging instrument				
Stock options		3,581		3,581
Forward equity contracts		99		99
Not designated as hedging instrument				
Forward currency contracts		628	628	
Forward equity contracts		120	120	
Liabilities				
Trade and other payables	35,883			
Financial liabilities				
Non-derivative financial liabilities				
Loans	255,374			
Other non-derivative financial liabilities	39,375			
Derivative financial liabilities				
Not designated as hedging instrument				
Forward currency contracts		51	51	
Forward equity contracts		1,815	1,815	

				Fair value			
Financial assets at amortized cost	Equity instruments FVOCI	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
513,632			513,632				
303,140			303,140				
	3,377		3,377			3,377	3,377
	3,809		3,809	3,809			3,809
11,184			11,184				
			3,581		3,581		3,581
			99		99		99
			628		628		628
			120		120		120
			35,883				
		255,374	255,374		255,528		255,528
		39,375	39,375		39,375		39,375
			51		51		51
			1,815		1,815		1,815

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2019 or 2020. All equity instruments were designated to measurement at fair value through other comprehensive income (FVOCI), to reflect a more long-term investment intention in earnings.

The following table illustrates how the fair values of financial assets and liabilities are determined:

Financial assets/ financial liabilities	Hierarchy level	Valuation technique and key inputs	Significant unobservable inputs	Correlation between unobservable inputs and fair value
Interest rate swaps	2	Discounted cash flow approach; future cash flows are estimated based on forward interest rates (observable interest rate curves as of balance sheet date) and fixed interest rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties.	N/A	N/A
Forward currency contracts	2	Discounted cash flow approach; future cash flows are estimated based on forward exchange rates (observable exchange rates as of balance sheet date) and fixed forward exchange rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties.	N/A	N/A
Stock options	2	Option pricing model, which accounts for influential option pricing factors (share price, exercise price of the option, share price volatility, dividends as dividend yield, interest rates, option's remaining term).	N/A	N/A
Equity forward contracts	2	The fair values are measured based on the intrinsic values of the forward equity contracts, which are calculated using the share prices from an active market.	N/A	N/A
Investment funds	1	Prices quoted on active market.	N/A	N/A
Shareholders' equity (currently non-listed securities only)	3	Comprehensive valuation approach based on multiple quantitative and qualitative factors such as current/planned earnings, liquidity, recent/planned transactions.	N/A	N/A

The fair values of cash and cash equivalents, time deposits, current receivables, trade payables and other current financial liabilities correspond approximately with their carrying amounts, primarily due to the short terms of these instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit ratings. Software AG calculates bad debt allowances to reflect expected defaults based on the measurement results. Accordingly, the carrying amounts of these receivables corresponded approximately with their fair values as of December 31, 2020 and December 31, 2019.

Software AG calculates the fair values of liabilities to banks and other financial liabilities as well as other non-current financial liabilities by discounting the estimated future cash flows using the interest rates applicable to similar financial liabilities with comparable maturities.

The net gain/loss from loans and receivables is only affected significantly by currency translation and interest effects. The net gain from derivatives without qualifying hedging relationships amounted to -€2,190 thousand (2019: €2,284 thousand) in fiscal 2020. The net gain from derivatives designated as cash flow hedges was included in the income statement and amounted to €826 thousand (2019: €5,388 thousand) in fiscal 2020.

Equity instruments were written up in the amount of €127 thousand (2019: -€1,616 thousand), which was recognized in other comprehensive income in fiscal 2020.

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 available 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 €2,137 thousand (2019: €2,048 thousand).

b) Exchange rate risks

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forward contracts. Foreign currency receivables and liabilities are offset if possible, and only the remaining net exposure is hedged selectively. Estimated cash flows can also be hedged in accordance with internal guidelines.

Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other financial assets or financial liabilities. Since hedging transactions are not normally designated as hedge accounting, changes in fair value are immediately recognized through profit or loss in the Consolidated Income Statement.

The sensitivity analysis required by IFRS 7 relates to exchange rate risk arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings (earnings before income taxes) result only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.

Based on the monetary financial instruments available as of the reporting date, a devaluation of the euro by 10 percent against the U.S. dollar would have increased earnings by €2,083 thousand (2019: €1,935 thousand) and other reserves by €0 thousand (2019: €0 thousand). This amount only represents a theoretical risk for Software AG as these instruments are hedges of balance sheet transactions, rather than open trading positions.

c) Market risk

In line with Group policy, assets are controlled in terms of maturity, interest type, and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk

Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. Major cash investments as well as derivative financial instruments are entered into with banks with credit ratings of at least investment grade and whose credit default swap (CDS) rates are monitored continuously. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by management ensure that the credit risk from financial instruments is spread across various banks.

Receivables are monitored as part of operations on an ongoing basis. The need for impairment is evaluated on every balance sheet date using an impairment matrix for determining expected credit loss. As of December 31, 2020, 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 Group entities may not be able to satisfy their 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 €175.0 million (2019: €200.0 million), Software AG is required to limit net debt within the Group to a maximum of 3.25-times EBITDA and not fall below an interest coverage ratio of 4.25. Under credit agreements having a total volume of €50.0 million (2019: €0.0 million), Software AG is required to limit net debt within the Group to a maximum of 3.5-times EBITDA and not fall below an interest coverage ratio of 4.0. In addition, a unused credit line in the amount of €380.0 million is available to Software AG. If used, Software AG is required to adhere to financial covenants. As of year-end 2020, the Company's net debt in relation to EBITDA was significantly lower than this limit and the interest coverage ratio was significantly higher.

The table below shows the contractually fixed payments arising from financial liabilities. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2020.

2020

in € thousands	Up to 1 year	>1 to 5 years	>5 years	Total
Trade payables and other financial liabilities (of this item)	35,767	4	0	35,771
Financial non-derivative liabilities	5,134	199,973	26,667	231,774
Lease liabilities	10,273	16,085	794	27,152
Derivative financial liabilities	1,008	0	0	1,008

2019

in € thousands	Up to 1 year	>1 to 5 years	>5 years	Total
Trade payables and other financial liabilities (of this item)	28,812	18	0	28,830
Financial non-derivative liabilities	81,756	175,051	0	256,807
Lease liabilities	13,390	22,885	1,667	37,942
Derivative financial liabilities	1,244	622	0	1,866

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, 2020 and December 31, 2019. 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 MIP plans are based on market prices, which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date.

in € thousands	2020			2019		
	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)		550	550		749	749
Forward currency contracts remaining term < 1 year	14,521	18	18	11,897	628	628
Forward equity contracts	14,691	532	532	3,930	120	120
Derivatives (cash flow hedges)		3,345	3,345		3,680	3,680
Stock options/forward equity contracts	60,800	3,345	3,345	86,369	3,680	3,680
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)		-1,008	-1,008		-1,866	-1,866
Forward currency contracts remaining term < 1 year	776	-6	-6	4,275	-51	-51
Stock options/forward equity contracts	4,684	-1,002	-1,002	14,690	-1,815	-1,815

The derivative financial instruments are designated to hedge the fair value of recognized assets or liabilities. Changes in the value of hedging instruments were recognized through profit or loss in the Consolidated Income Statement.

Forward currency contracts and currency option transactions are entered into for the purpose of hedging foreign exchange risks related to future cash flows.

In order to hedge the risks arising from changes in value of the phantom share program and the MIPs, the Company has entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency and interest rate risk have maximum terms to maturity of 1.0 years. Hedging transactions on the phantom share and MIP plans have remaining maximum terms of 2.4 years.

Cash investment policy

Software AG takes a conservative approach with regard to its cash investments. The Company invests primarily in short-term time deposits and short-term fixed-income securities with a credit rating of at least "investment grade." Software AG has introduced a process in order to monitor the creditworthiness of the banks with which we maintain relationships whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly.

[33] Disclosures on Leases

As lessee

Software AG rents and leases office buildings and, to a minor extent, vehicles and hardware. Software AG also rents IT equipment with contract terms that are typically between one and three years. These lease agreements are either short-term or for an underlying

object of low value. Software AG opted for the simplified option granted by IFRS 16 and does not recognize right-of-use assets or lease liabilities for these agreements.

Right-of-use assets associated with rented office buildings, vehicles and hardware are presented under property, plant and equipment (see [Note \[21\]](#)) and changed as follows:

2020

in € thousands	Land and buildings	Operating and office equipment	Total
Balance as of Jan. 1, 2020	28,251	5,016	33,267
Depreciation in the fiscal year	-10,169	-3,024	-13,193
Additions	9,563	2,476	12,039
Disposals	-6,320	-65	-6,385
Currency translation differences	-1,701	-6	-1,707
Balance as of Dec. 31, 2020	19,624	4,397	24,021

2019

in € thousands	Land and buildings	Operating and office equipment	Total
Balance as of Jan. 1, 2019	30,498	5,962	36,460
Depreciation in the fiscal year	-10,344	-3,040	-13,384
Additions	8,256	2,093	10,349
Disposals	-1,104	-11	-1,115
Currency translation differences	945	12	957
Balance as of Dec. 31, 2019	28,251	5,016	33,267

Lease liabilities associated with rented office buildings, vehicles and hardware are presented as financial liabilities and changed as follows:

2020

in € thousands	Lease liabilities
Balance as of Jan. 1, 2020	37,942
Changes in the fiscal year (for more information, refer to Note [23])	-10,790
Balance as of Dec. 31, 2020	27,152
thereof current	10,273
thereof non-current	16,879

2019

in € thousands	Lease liabilities
Balance as of Jan. 1, 2019	41,062
Changes in fiscal year	-3,120
Balance as of Dec. 31, 2019	37,942
thereof current	13,390
thereof non-current	24,552

The following amounts for leases were recognized in the income statement in accordance with IFRS 16:

in € thousands	2020	2019
Expenses from leases included in operating income		
Depreciation in the fiscal year	13,193	13,384
Expenses for short-term leases and leases for assets of low value	1,489	1,235
Expenses from leases included in net financial income/expense		
Interest expenses for lease liabilities	1,354	1,717

As lessor

Software AG leases out parts of its own office buildings or those rented, but only to a very minor extent.

[34] Contingent Liabilities

For more information on reportable contingent liabilities, please refer to the section on Litigation in [Note \[36\]](#).

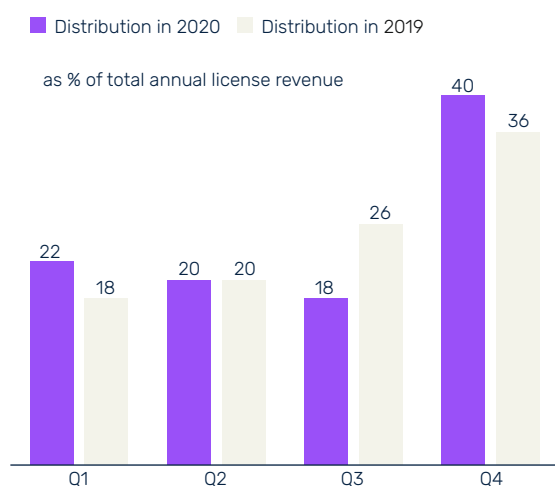
[35] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2020 as follows:

in € thousands	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020
License revenue	46,688	44,413	38,869	87,247	217,217
as % of license revenue for the year	22	20	18	40	100
Total revenue	207,046	204,609	185,358	237,833	834,846
as % of revenue for the year	25	25	22	28	100
Earnings before taxes	28,715	31,614	24,437	48,818	133,584
as % of earnings for the year	21	24	18	37	100

Based on historical data, the revenue and earnings distribution from 2020 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict.

The following graph illustrates the development of license revenues in 2020 and 2019:



[36] Litigation

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections to valuation to be groundless. The Regional Court of Saarbrücken ruled on June 6, 2018 to reject the plaintiff's appeal. Multiple plaintiffs filed complaints against the decision within the appeal period. There were no significant developments regarding this case in 2020.

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 to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 plus interest for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million plus interest. Software AG filed an appeal against this ruling. The court-ordered expert witness submitted a report in the third quarter of 2017. Software AG presented a detailed opinion on the report in the fourth quarter of 2017. The court resolved on January 12, 2018 that the expert witness must appear for a hearing to explain the report and make additions to it prior to the appointment. This has not yet occurred. The date has not yet been scheduled. Provisions are set up based on the estimated probable actual resource outflow.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia, CNMC) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 on the suspicion of an inadmissible anti-competitive agreement. On April 25, 2016, the CNMC published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies on October 19, 2017. CNMC is accusing Software AG Spain of inadmissible price fixing and covert tenders. Following a hearing on June 12, 2018, the CNMC ruled on July 31, 2018 to impose a penalty on 11 companies, including Software AG Spain. The penalty for Software AG Spain was €6 million, which was paid by court order on January 28, 2019. Software AG appealed the agency's decision and submitted its concluding argument on May 23, 2019. A decision is

not expected until 2021 due to COVID-19-related delays.

Regarding the contested license, maintenance and APM service agreements between Acciai Speciali and Software AG Italy from 2016, the presiding court in Milan ordered Software AG to pay a reimbursement in the amount of approximately €274,500, including value-added taxes, interest and procedural costs.

On June 5, 2020, customers of Software AG USF Holland LLC ("USF Holland") and YRC Worldwide Inc. ("YRC") filed a complaint to the U.S. District Court for the District of Kansas ("Kansas District Court") based on a claim of an unjustified threat by Software AG to terminate their Adabas and Natural Software support agreements with USF Holland and YRC. They pursued a court determination stating that they do not owe Software AG additional licensing fees from the relevant software license agreement. The parties agreed to transfer the case from the Kansas District Court to the U.S. District Court for the Eastern District of Virginia, Alexandria Division (Virginia District Court) in October 2020. The parties subsequently conducted mediation and settled the dispute confidentially with prior involvement by the Virginia District Court on November 30, 2020.

After a customer of Software AG in the USA, Shelby County, Tennessee, requested exemption from possible claims filed against the county and/or its employees by Software AG in 2017 and 2018, Software AG Cloud Americas, Inc. was added as a defendant in a class-action lawsuit in the U.S. District Court for the Western District of Tennessee ("Tennessee District Court") on January 18, 2019. The backdrop to this are various lawsuits against a customer of Software AG, Shelby County, Tennessee. Although the class-action suit has been pending since 2016, it has not yet been admitted by the courts and is still in the early discovery phase. Mediation between all parties took place in December 2020. The parties continue to work on the terms of a settlement which were neither finalized nor had received the required approval by the Tennessee District Court as of December 31, 2020.

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

Provisions for litigation totaled €12,141 thousand (2019: €11,976 thousand) as of December 31, 2020.

In addition, contingent liabilities in the amount of €46,939 thousand (2019: €20,818 thousand) existed. But since a resource outflow as of the balance sheet date was not probable, no provisions were set up.

Those relate to individual lawsuits and €24,400 (2019: €8,200 thousand) for tax-related risks. No amounts were recognized in contingent liabilities for potential assets or liabilities in connection with the malware attack, since any impact of the incident on customers, government agencies or other affected parties can only be fully determined after the analysis has been concluded.

There were no other changes with respect to the legal disputes reported as of December 31, 2019, nor were there any new legal disputes or other legal risks that could potentially have a significant effect on the Group's financial position, financial performance or cash flows.

[37] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees.

Share-based remuneration resulted in a total expense of €10,608 thousand (2019: €11,341 thousand) in fiscal 2020.

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

Management Incentive Plan 2020

In June 2020, the first rights under the new Management Incentive Plan 2020 were allocated to members of the Management Board, executives and employees in key positions.

The plan differentiates between three types of stock appreciation rights (SARs): two types of performance shares (PSARs (1) and PSARs (2)) and retention shares (RSARs).

The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The MDAX was defined as the benchmark index. The resulting factor can be between zero and two.

Outperformance is calculated as follows:

$$\frac{[(\text{average settlement price for PSARs (1), minus base price}) \div \text{base price}] - [(\text{final reference index price minus beginning reference index price}) \div \text{beginning reference index price}]}{1}$$

Dividend payments are not taken into account when calculating the performance factor.

The factor to use is calculated based on the out-performance achieved as follows:

Outperformance	Factor
≥ 20%	2
< 20% ≥ 18%	1.9
< 18% ≥ 16%	1.8
< 16% ≥ 14%	1.7
< 14% ≥ 12%	1.6
< 12% ≥ 10%	1.5
< 10% ≥ 8%	1.4
< 8% ≥ 6%	1.3
< 6% ≥ 4%	1.2
< 4% ≥ 2%	1.1
< 2% ≥ 0%	1.0
< 0%	0

	PSARs (1)	PSARs (2)	RSARs
Term of rights (disbursement date)	June 2023	June 2023	June 2023
Fair value on Dec. 31, 2020 (in €)	5.20	5.12	31.76
No. of rights allocated in 2020	184,382	230,474	241,776
No. of rights expired in 2020	-3,046	-3,808	-5,323
Rights outstanding on Dec. 31, 2020	181,336	226,666	236,453
Cap per right in €	25.47	20.37	101.88

The fair values of PSARs were derived from the prices of hedging transactions with a bank; the parameters of the transactions largely correspond to employee awards. The fair values of RSARs were calculated based on an option price model that factors in model-influencing option price parameters.

A total expense of €1,648 thousand was incurred under this plan in fiscal 2020. This figure is the balance of an expense of €1,395 thousand in original commitments plus €253 thousand in expenses from hedging the commitments as cash flow hedges.

Provisions totaled €1,395 thousand as of December 31, 2020.

Management Incentive Plan 2019

In May and June 2019, rights under the new Management Incentive Plan 2019 were allocated to members of the Management Board, executives and employees in key positions.

The plan differentiates between two types of stock appreciation rights (SARs): retention shares (RSARs) and performance shares (PSARs).

Provided specific conditions are met, both types grant entitlement to payment of a monetary amount equal to the average share price on 20 trading days up to the due date.

The number of PSARs relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to a benchmark index. The Nasdaq 100 was defined as the benchmark index. The resulting factor can be between zero and two.

Outperformance is calculated as follows:

$$\left[\frac{\text{average settlement price for PSARs} - \text{base price}}{\text{base price}} \right] - \left[\frac{\text{final reference index price} - \text{beginning reference index price}}{\text{beginning reference index price}} \right]$$

Dividend payments are not taken into account when calculating the performance factor.

The factor to use is calculated based on the out-performance achieved as follows:

Outperformance	Factor
≥ 20%	2
< 20% ≥ 18%	1.9
< 18% ≥ 16%	1.8
< 16% ≥ 14%	1.7
< 14% ≥ 12%	1.6
< 12% ≥ 10%	1.5
< 10% ≥ 8%	1.4
< 8% ≥ 6%	1.3
< 6% ≥ 4%	1.2
< 4% ≥ 2%	1.1
< 2% ≥ 0%	1.0
< 0%	0

	PSARs	RSARs 1st Tranche	RSARs 2nd Tranche	RSARs 3rd Tranche	RSARs 4th Tranche
Term of rights (disbursement date)	March 2023	March 2020	March 2021	March 2022	March 2023
Fair value on Dec. 31, 2019 (in €)	17.72	30.93	30.41	29.76	29.01
Fair value on Dec. 31, 2020 (in €)	8.08	26.63 ¹	33.20	32.56	31.86
Cap per right in €	73.80	73.80	73.80	73.80	73.80

¹ Corresponds to the actual payment value per right on date of disbursement.

Fair values of PSARs were calculated based on the prices of hedging transactions entered into with a bank; the parameters of the transactions generally correspond to the employees' awards. Fair values of RSARs were calculated based on an option price model that factors in model-influencing option price parameters.

The rights granted under Management Incentive Plan 2019 changed as follows in fiscal year 2020:

	PSARs	RSARs 1st Tranche	RSARs 2nd Tranche	RSARs 3rd Tranche	RSARs 4th Tranche
Balance as of Dec. 31, 2018	0	0	0	0	0
Granted	152,693	65,077	65,077	65,077	116,828
Expired	-10,565	-3,523	-3,523	-3,523	-8,401
Balance as of Dec. 31, 2019	142,128	61,554	61,554	61,554	108,427
Expired	-19,987	-4,240	-6,418	-8,225	-8,225
Exercised/disbursed	0	-57,314	0	0	0
Balance as of Dec. 31, 2020	122,141	0	55,136	53,329	100,202

A total expense of €3,367 thousand (2019: €5,028 thousand) was incurred under this plan in fiscal 2020. This figure is the balance of €2,580 thousand (2019: €4,988 thousand) in expenses from original commitments plus €787 thousand (2019: €39 thousand) in expenses from cash flow hedges on the commitments.

Provisions totaled €6,055 thousand (2019: €4,988 thousand) as of December 31, 2020.

Management Incentive Plan 2018

As in the previous year, a share-performance-based Management Incentive Plan 2018 for members of the Management Board, upper management and key members of staff was approved in December 2017. It consists of standard European call options to be settled in cash. Allocation took place in four tranches, differing only by terms. Gains on the exercise for members of the Management Board are paid contingent upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds a defined price on ten consecutive trading days during the relevant period of time. The relevant share price is equal to the exercise target (€54.32) less dividends received since the beginning of the plan. Because the threshold was not met in 2020, all rights of Management Board members expired and lost all value.

Allocation was based on the following parameters:

Reference price at issue/base price	€45.27
Term of rights	
Tranche 1	36 months
Tranche 2	39 months
Tranche 3	42 months
Tranche 4	45 months
Exercise target	€54.32
Relevant period for reaching the exercise threshold (only applies to members of the Management Board)	Dec. 1, 2019 to Nov. 30, 2020
Cap	€67.91

In December 2017, 1,464,122 rights were awarded under Management Incentive Plan 2018.

The rights granted under Management Incentive Plan 2018 changed as follows in fiscal year 2020:

Balance as of Dec. 31, 2018	1,374,808
Expired	-219,000
Balance as of Dec. 31, 2019	1,155,808
Expired	-323,595
Exercised	-284,764
Balance as of Dec. 31, 2020	547,449

Fair values were calculated based on the prices of hedging transactions entered into with a bank; the parameters of the transactions correspond to the employees' awards.

The fair values as of December 31, 2020 and December 31, 2019 were:

in €	2020	2019
Tranche 1	0.00 ¹	0.29
Tranche 2	0.00	0.50
Tranche 3	0.12	0.73
Tranche 4	0.30	0.88

¹ Corresponds to the actual payment value per right

A total expense of €1,832 thousand (2019: €2,268 thousand) was incurred under this plan in fiscal 2020. This figure is the balance of €291 thousand (2019: €194 thousand) in earnings from original commitments plus €2,123 thousand (2019: €2,462 thousand) in expenses from cash flow hedges on the commitments.

Provisions totaled €103 thousand (2019: €395 thousand) as of December 31, 2020.

Management Incentive Plan 2017

A share performance-based Management Incentive Plan 2017 for members of the Management Board, upper management and key members of staff was approved in December 2016. It consists of standard European call options to be settled in cash. Allocation took place in four tranches, differing only by terms.

Allocation was based on the following parameters:

Reference price at issue/base price	€33.18
Term of rights	
Tranche 1	36 months
Tranche 2	39 months
Tranche 3	42 months
Tranche 4	45 months
Exercise target	€39.82
Relevant period for reaching the exercise threshold (only applies to members of the Management Board)	Dec. 1, 2018 to Nov. 30, 2019
Cap	€49.77

Gains on the exercise for members of the Management Board are paid contingent upon an exercise threshold. The exercise threshold was €39.82 less dividends paid since the beginning of the plan. The exercise threshold would have been reached if Software AG's daily VWAP in Xetra trading had exceeded the defined price on ten consecutive trading days during the relevant period of time in 2019. Because the threshold was not met in 2019, all rights of Management Board members expired and lost all value.

In December 2016, 1,654,570 rights were awarded under Management Incentive Plan 2017.

The rights granted under Management Incentive Plan 2017 changed as follows in fiscal years 2020 and 2019:

Balance as of Dec. 31, 2018	1,703,101
Granted	0
Expired	-1,162,576
Balance as of Dec. 31, 2019	540,525
Expired	-198,525
Exercised/disbursed	-342,000
Balance as of Dec. 31, 2020	0

Fair values were calculated based on the prices of hedging transactions entered into with a bank; the parameters of the transactions correspond to the employees' awards.

The fair values and the final payment values per right as of December 31, 2020 and December 31, 2019 were:

in €	2020	2019
Tranche 1	0 ¹	0 ¹
Tranche 2	0 ¹	0.38
Tranche 3	0.47 ²	1.19
Tranche 4	7.97 ²	1.68

¹ Null and void

² Final payment value per right

A total expense of €126 thousand (2019: €539 thousand) was incurred under this plan in fiscal 2020. This figure is the balance of €827 thousand (2019: -€2,346 thousand) in expenses from original commitments plus €701 thousand (2019: -€2,885 thousand) in earnings from cash flow hedges on the commitments.

Provisions totaled €0 (2019: €504 thousand) as of December 31, 2020.

Performance Phantom Share Plan

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a performance phantom share (PPS) plan. As in the previous year, the portion accruing for fiscal year 2020 will be converted into PPS on the basis of the average share price of Software AG stock in February 2021, 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 2022 to 2024, the number of PPS will be multiplied by the then-applicable share price for February. The beneficiaries will receive an amount per PPS equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

Beneficiaries may elect to let Software AG dispose of any PPS that have become due after the defined vesting period for six years and four months after leaving the Company 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 the decision to exercise the relevant phantom shares. The decision to exercise options must be disclosed to the Company from the date of publication of the financial results until the following fifth trading day. Beneficiaries will receive an amount per PPS equal to the dividends paid to Software AG shareholders prior to the date of payment of the PPS.

This plan resulted in expenses of €3,635 thousand (2019: €3,383 thousand) in fiscal 2020. This figure is the balance of expenses of €4,709 thousand (2019: €2,725 thousand) in original commitments plus earnings of €1,074 thousand (2019: -€658 thousand) from hedging transactions on the commitments with banks.

Provisions for the rights outstanding under the PPS plan amounted to €18,906 thousand (2019: €17,210 thousand) as of December 31, 2020.

The intrinsic value of the rights exercisable under the performance phantom share plan as of December 31, 2020 amounted to €12,283 thousand (2019: €10,513 thousand) as of December 31, 2020.

[38] Corporate Bodies

Members of the Supervisory Board:

	Karl-Heinz Streibich Graduate in communications engineering Shareholder representative Chair since June 26, 2020	President, acatech—German Academy of Science and Engineering, Berlin, Germany <i>Other supervisory board seats:</i> • Member of the supervisory board of Deutsche Telekom AG, Bonn, Germany • Member of the supervisory board of Siemens Healthineers AG, Erlangen, Germany • Member of the supervisory board of Münchener Rück AG, Munich, Germany
	Dr. Andreas Bereczky Dr.-Ing. in mechanical engineering Shareholder representative Chair until June 26, 2020	<i>Other supervisory board seats:</i> • Member of the advisory board of GFT Technologies SE, Stuttgart, Germany • Member of the advisory board of Eurovision Services S.A., Geneva, Switzerland
	Ralf Dieter Graduate in economics Shareholder representative since June 26, 2020	CEO, Dürr AG, Stuttgart, Germany <i>Other supervisory board seats:</i> • Chair of the supervisory board of Körber AG, Hamburg, Germany • Chair of the supervisory board of HOMAG Group AG, Schopfloch, Germany (until December 31, 2020) • Other seats within the Dürr Group
	Guido Falkenberg Graduate in computer science Employee representative Deputy chair	Senior Vice President, Product Management, Software AG, Darmstadt, Germany <i>Other supervisory board seats:</i> none
	Eun-Kyung Park Graduate in business administration Shareholder representative until June 26, 2020	SVP & General Manager, Media GSA, The Walt Disney Company (Germany) GmbH, Munich, Germany <i>Other supervisory board seats:</i> none
	Ursula Soritsch-Renier Graduate in philosophy Shareholder representative since June 26, 2020	Chief Operating Officer, RELE.AI AG, Erlenbach, Switzerland <i>Other supervisory board seats:</i> none
	Alf Henryk Wulf Graduate in engineering Shareholder representative until June 26, 2020	<i>Other supervisory board and similar seats:</i> • Member of the supervisory board of 1NCE GmbH, Cologne, Germany • Member of the advisory board of VHV Versicherungs AG, Hannover



Markus Ziener
Graduate in economics
B.A. in business administration
Shareholder representative

Other supervisory board seats:

Managing Director, Asset and Financial Management, Software AG Foundation, Darmstadt, Germany

- Member of the supervisory board of GLS Bank eG, Bochum, Germany
- Member of the advisory board of Aceite de Oliva Valderrama S.L., Madrid, Spain



Christian Zimmermann
Graduate in business information systems
Employee representative

Other supervisory board seats:

Director, Marketing,
SAG Deutschland GmbH, Darmstadt, Germany

none

Members of the Management Board:



Sanjay Brahmarwar
M.B.A. in finance and marketing
Bachelor's degree in civil engineering

Supervisory board seats:

Chief Executive Officer
Marketing, Corporate Communications, CTO Office, Processes & Quality, Audit & Compliance, Corporate Office, Environment, Social & Governance (ESG)

- Member of the board of trustees of Frankfurt School of Finance & Management, Frankfurt am Main, Germany (since November 23, 2020)
- Member of the advisory board of ADAMOS GmbH, Darmstadt, Germany

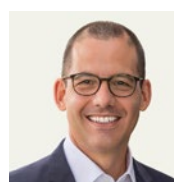


Dr. Elke Frank
Lawyer

Supervisory board seats:

Chief Human Resources Officer
Global Human Resources, Helix Transformation Office, Global Legal, Global Information Services (IT)

- Member of the supervisory Board, chair of the Remuneration Committee of Scout24 AG, Munich, Germany (since June 18, 2020)



Dr. Matthias Heiden
Graduate in business administration

Supervisory board and similar seats:

Chief Financial Officer (since July 1, 2020)
Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Global Procurement

- Member of the executive board and steering committee of the German-Swedish Chamber of Commerce (DSHK), Stockholm, Sweden
- Member of the advisory board of the IKB Deutsche Industriebank AG, Düsseldorf, Germany



John Schweitzer
B.S. in economics and finance

Supervisory board seats:

Chief Revenue Officer
(until January 13, 2021)
Global Sales, Professional Services, Alliances & Channels

none



Dr. Stefan Sigg
Graduate in mathematics

Supervisory board seats:

Chief Product Officer
Product Development and Delivery, Product Management, Research and University Alliances, Global Support, Product Design and Architecture, R&D Operations and Shared Services, Cloud Operations

- Member of the supervisory board of Deutsches Forschungszentrum für künstliche Intelligenz GmbH (DFKI), Kaiserslautern, Germany



Arnd Zinnhardt
Graduate in business administration

Supervisory board and similar seats:

Chief Financial Officer (until March 31, 2020)
Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Global Procurement

- Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, Germany
- Member of the supervisory board of Warth & Klein Grant Thornton AG, Düsseldorf, Germany

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

Total remuneration for members of the Management Board, including newly issued MIP 2020 (2019: MIP 2019) options, was €14,564 thousand (2019: €15,347 thousand) in fiscal 2020. This includes awards under the new MIP 2020 (2019: MIP2019) stock option plan in the amount of €4,588 thousand (2019: €3,227 thousand). This value was determined by an external auditor.

Remuneration of the Management Board also includes consideration paid for 46,764 (2019: 68,864) committed PPS totaling €1,709 thousand (2019: €2,291 thousand). The awarded phantom shares had a fair value as of the grant date of €36.54 (2019: €33.27) per PPS.

Remuneration under this plan totaled €1,821 thousand (2019: €2,347 thousand) in fiscal 2020.

Remuneration for former Management Board members totaled €1,172 thousand (2019: €1,743 thousand).

Pension provisions, offset against plan assets for former Management Board members, totaled €19,658 thousand (2019: €18,319 thousand). Pension obligations for former Management Board members amounted to €39,613 thousand (2019: €32,706 thousand). These amounts include provisions for periods of time in which two members of the Management Board were executive employees or members of the Group Executive Board.

Software AG did not grant any advances or loans to Management Board members in fiscal 2020 or in fiscal 2019. It also did not enter any contingent liabilities for these individuals.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the Consolidated Management Report.

Remuneration of the Supervisory Board pursuant to section 314 (1) no. 6a of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board amounted to €606 thousand (2019: €618 thousand) in fiscal 2020.

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2020 or in fiscal 2019. It also did not enter any contingent liabilities for these individuals.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the Consolidated Management Report.

[39] Related Party Transactions

A related party as defined by IAS 24 Related Party Disclosures is any legal or natural person able to exercise control over Software AG or a Software AG subsidiary, that is controlled by Software AG or a Software AG subsidiary, or in which Software AG or a Software AG subsidiary has an interest that gives it significant influence over such legal or natural person. This also includes any legal or natural person having an interest in Software AG that gives it significant influence over Software AG (Software AG Foundation, Darmstadt, Germany), 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 Consolidated Management Report.

Disclosures on remuneration paid to related parties pursuant to IAS 24

Parties related to Software AG consist of the members of the Management Board and the Supervisory Board.

Remuneration paid to the Management Board can be broken down as follows:

in € thousands	2020	2019
Short-term benefits	8,168	7,241
Post-service benefits ¹	2,126	4,014
Share-based remuneration ²	2,980	2,645
	13,274	13,900

¹ The service cost of pension obligations pursuant to IAS 19 and the employer share of statutory unemployment insurance as well as voluntary payments to pension insurance companies in the USA are shown here. Furthermore, this item includes severance payments for Mr. Zinnhardt in the amount of €3 thousand (2019: €2,545 thousand).

² Expenses incurred under the PPS plan, Management Incentive Plan 2018 (MIP 2018), Management Incentive Plan 2019 (MIP 2019) and Management Incentive Plan 2020 (MIP 2020) are shown here.

Net pension obligations for Management Board members amounted to €1,249 thousand (2019: €2,343 thousand). Gross pension obligations for Management Board members amounted to € 4,687 thousand (2019: €7,921 thousand).

Furthermore, obligations from share-based compensation plans, including bonuses converted to PPS at year-end, for members of the Management Board amounted to €6,491 thousand (2019: €6,725 thousand).

Obligations to members of the Management Board from short-term variable remuneration components amounted to €4,796 thousand (2019: €3,672 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2020 totaled €606 thousand (2019: €618 thousand). This remuneration included a fixed short-term component and compensation for committee work. Furthermore, Supervisory Board chair, Karl-Heinz Streibich, received compensation related to his former role as CEO of €454 thousand (2019: €0) in dividends from performance phantom shares, as well as his company pension.

Remuneration of the Management and Supervisory Boards is outlined in detail in the Remuneration Report. The Remuneration Report presents the structure and amount of the individual components. The Remuneration Report is included in the Consolidated Management Report.

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2020.

[40] Auditor Fees

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €985 thousand (2019: €958 thousand). Of this amount, €953 thousand (2019: €923 thousand) relates to the audit of the domestic entities' and the Group's financial statements and €32 thousand (2019: €35 thousand) to other testation services. Other testation services refer primarily to audits in the context of the Combined Non-Financial Statement and EMIR compliance.

[41] Events after the Balance Sheet Date

Software AG announced on January 15, 2021 that John Schweitzer, Chief Revenue Officer and member of the Management Board, would leave the Company. John Schweitzer resigned from his seat on the Management Board as of January 13, 2021. In addition to his previous responsibilities, Sanjay Brahmarwar assumed responsibility for the divisions under the CRO.

There were no further events that occurred between December 31, 2020 and the date of release of the consolidated financial statements that were of significance to the consolidated financial statements.

[42] Statement On Corporate Governance

Pursuance to section 315 d HGB and in conjunction with 289 et seq. HGB, Software AG submitted its Statement on Corporate Governance and published it at investors.softwareag.com/en/corporate-governance/governance-statement on February 26, 2021.

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 on January 26, 2021 and published at: investors.softwareag.com/en/corporate-governance/compliance-declaration

[43] Exemption for Domestic Group Companies Pursuant to Section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, Germany, SAG Consulting Services GmbH, Darmstadt, Germany, and SAG LVG mbH, Darmstadt, Germany, which are included in the consolidated financial statements of Software AG, have been exempt from the duty to prepare and publish annual financial statements and a management report, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the Consolidated Financial Statements on March 5, 2021.

Darmstadt, March 5, 2021

Software AG



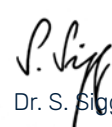
S. Brahmarwar



Dr. M. Heiden



Dr. E. Frank



Dr. S. Sigg



Additional Information

Responsibility Statement	236
Independent Auditor's Report	237
Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report	237
Other Legal and Regulatory Requirements	244
German Public Auditor Responsible for the Engagement	245
Independent Practitioner's Report	246
Independent Practitioner's Report on a Limited Assurance Engagement on Non-Financial Reporting Statement	246
Financial Calendar	248
Publication Credits	248
Five-Year Summary	249

In some cases, rounding could mean that values do not add up to the exact sum given or percentages do not equal the values presented.

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

Darmstadt, March 5, 2021

Software AG



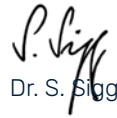
S. Brahmawar



Dr. E. Frank



Dr. Matthias Heiden



Dr. S. Sigg

Independent Auditor's Report

To the Software Aktiengesellschaft, Darmstadt

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of Software Aktiengesellschaft, Darmstadt, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated income statement, statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of the Group for the financial year from January 1, 2020 to December 31, 2020. In accordance with the German legal requirements we have not audited the content of those parts of the combined management report listed in "other information" section.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1, 2020 to December 31, 2020, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the combined management report listed in the "other information" section.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We have identified the following items as key audit matters:

1. Revenue recognition for software licenses
2. Impairment of goodwill
3. Recognition and measurement of income taxes

Revenue Recognition for Software Licenses

Facts and circumstances

In the consolidated financial statements of Software AG, revenue amounting to €834.8 million was disclosed in the consolidated income statement and was mainly generated by granting software licenses (€217.2 million), from maintenance (€422.6 million) and from services (€163.6 million). Frequently, the Company's customers are granted software licenses combined with maintenance and/or services in multiple element contracts. To ensure that revenue generated from these highly complex business transactions is uniformly and consistently recognized, Software AG has implemented detailed accounting policy guidelines in line with the applicable accounting standards, and has established uniform processes throughout the Group. Due to the size of individually large contracts, management decisions requiring significant judgment may materially affect the consolidated financial statements. These decisions by management may especially be necessary in identifying performance obligations of a contract, as well as determining and allocating the transaction price to those separate obligations.

The respective revenue disclosures presented by Software AG are to be found in the notes to the consolidated financial statements in sections "[3] Accounting Policies and Measurement Methods," "[5] Total Revenue" and "[31] Segment Reporting."

Audit response and findings

We examined whether the Software AG accounting policies complied with IFRS 15 Revenue from Contracts with Customers. We assessed the processes and controls for recognizing revenues generated by granting software licenses, especially in transactions involving multiple element contracts established by the Group, and examined their effectiveness. In particular, controls involving the proper identification of performance obligations, the determination and the allocation of the transaction price were thereby tested. By involving our IT specialists, we additionally assessed the related systems used in accounting for revenue. For all of the significant contracts and a selection of the remaining contracts for granting software licenses we performed substantial audit procedures and assessed management decisions with regards to the identification of performance obligations, determination of the transaction price and allocation of this price among the separate performance obligations. We examined the contracts to the extent required for assessing if they were presented in the consolidated financial statements in accordance with IFRS, and if the accounting policies of Software AG had been uniformly applied throughout the Group. By giving appropriate instructions to the component auditors and then performing an assessment of the reporting from their audit, we ensured that the audit procedures were performed uniformly throughout the Group. Furthermore we examined the disclosures required by IFRS 15 Revenue from Contracts with Customers as presented in the notes.

Based on the audit procedures we performed, we are of the opinion that the underlying assumptions and management's judgment used for revenue recognition, in particular in the area of identifying performance obligations, determining transaction prices and allocation of the transaction prices among separate obligations, were presented fairly, in all material respects.

Impairment of Goodwill

Facts and circumstances

In the consolidated financial statements of Software AG, goodwill as presented under non-current assets, amounts to €947.4 million, representing 46% of the balance sheet total. Goodwill was allocated to cash-generating units.

Cash-generating units with goodwill are subject to impairment tests (according to IAS 36) by the company at least once a year as well as to an additional impairment test if there are any indications of an impairment. In addition to the annual impairment test the company performed an impairment test as of June 30, 2020 for the cash generating unit Professional Services due to indications that it may be impaired. The valuation is thereby made by using the discounted cash flow method. If the carrying amount of a cash-generating unit is higher than its recoverable amount, the carrying amount is written down to the recoverable amount.

Assessing the recoverability of goodwill is complex and requires that management make numerous estimates and use significant judgment, especially with regard to revenue growth and the development of profit margins within a detailed four year budget period, a sustainable growth rate for cash flows expected for a forecast beyond the detailed budget period, and the discount rate to be used. This is a key audit matter due to the significance of the balance for goodwill in the consolidated financial statements of Software AG and because of considerable uncertainties associated with such a measurement.

Software AG's disclosures concerning goodwill are contained in sections "[3] Accounting Policies and Measurement Methods" and "[20] Intangible Assets and Goodwill" in the notes to the consolidated financial statements.

Audit response and findings

In the course of our audit we assessed the appropriateness of the material assumptions and the valuation parameters as well as the calculation methods used for impairment testing by involving our valuation specialists. We gained an understanding of the planning system and planning processes of management as well as of the significant assumptions they used. The budget for the subsequent year, as approved by the Supervisory Board, thereby constitutes the starting point for forecasting future cash flows within the detailed budget period. The basis for forecasting future cash flows of the cash generating unit Professional Services as of June 30, 2020 was the current forecast at that time. We examined the underlying budget assumptions and growth rates assumed for the expected cash flows beyond the detailed budget period by comparing past developments and current industry-specific market expectations. We reconciled the forecast of future cash flows in the first year of the detailed budget period with the budget approved by the Supervisory Board and determined reasonableness of the company's historical forecasting accuracy by means of an analysis of budget-to-actual variances. Furthermore, we critically analysed the discount rates used on the basis of the average costs of capital of a peer group. Our audit also encompassed sensitivity analyses made by Software AG. Regarding the effects of possible changes in costs of capital and the growth rates assumed, we additionally performed our own sensitivity analyses.

Overall, we were able to gain reasonable assurance that the assumptions made by management when performing impairment tests and the valuation parameters used were traceable and within an appropriate range.

Recognition and Measurement of Income Taxes

Facts and circumstances

In the consolidated financial statements of Software AG, income taxes reduced earnings before income taxes by 28.1%. This reduction comprised expenses for current taxes (30.7%) as well as income from deferred taxes (2.7%). Software AG conducts business in numerous jurisdictions and is consequently subject to many tax laws worldwide. The recognition and measurement of income tax liabilities and tax receivables, including estimating the probability and extent income tax-related issues result in payment obligations, require significant judgment, and demand a high degree of expertise. In addition, the assessment of the extent to which tax authorities will question tax-related facts is subject to a high amount of uncertainty. Along with current taxes, tax items also encompass deferred taxes that result from temporary differences and tax loss carryforwards that will be realized in future financial years. In particular, the assessment of recoverability for deferred tax assets, which result from deductible temporary differences and tax loss carryforwards, requires significant judgment by management.

Software AG's disclosures on income taxes and deferred taxes are contained in sections "[3] Accounting Policies and Measurement Methods," "[12] Income Taxes," "[19] Income Tax Receivables," "[22] Deferred Taxes" and "[27] Income Tax Liabilities" in the notes to the consolidated financial statements.

Audit response and findings

We involved internal specialists from our Tax Department, who worked closely with the audit team. With their support we assessed, amongst others, the methodical procedures for determining, measuring, and accounting for all tax items. We examined the calculations of income tax liabilities and of tax receivables according to IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments on the basis of our knowledge of the relevant tax regulations as well as their present application by government authorities and courts. In order to assess income tax risks, we furthermore read the correspondence with tax authorities as well as the transfer pricing documentation critically. The plausibility of the assumptions of the legal representatives about the future taxable income situation was assessed, as it serves as the basis for the recognition and measurement of deferred tax assets resulting from deductible temporary differences and tax loss carryforwards. Tax specialists in our international network supported us in assessing tax items as well as in estimating the tax risks of significant foreign entities and reported the results of their assessments to us. We had our tax specialists analyse these reports.

On the basis of the accounting procedures performed by us, we were, on the whole, able to gain reasonable assurance over the underlying assumptions held and the judgment used by management in accounting for and measuring current and deferred taxes.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the non-financial statement included in the section “combined non-financial statement” of the combined management report
- the separately published statement on corporate governance to which section „statement on corporate governance” of the combined management report refers
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
 - Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
 - Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
 - Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
 - Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in Accordance with § 317 (3b) HGB on the Electronic Reproduction of the Annual Financial Statements and the Management Report Prepared for Publication Purposes

Reasonable Assurance Opinion

We have performed assurance work in accordance with § 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the attached electronic file [Software_KA20_ESEF.zip: c873f1f83b089e329bc84f49cf3485c1bf7269446a3d958db35804acdc5d12a9] and prepared for publication purposes complies in all material respects with the requirements of § 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the combined management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying combined management report for the financial year from January 1, 2020 to December 31, 2020 contained in the „AUDITOR'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS AND ON THE COMBINED MANAGEMENT REPORT" above.

Basis for the Reasonable Assurance Opinion

We conducted our assurance work on the reproduction of the annual financial statements and the combined management report contained in the above-mentioned attached electronic file in accordance with § 317 (3b) HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Combined Management Reports Prepared for Publication Purposes (ED IDW AS 410). Accordingly, our responsibilities are further described below in the "AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS" section. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the combined management report in accordance with § 328 (1) sentence 4 no. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of § 328 (1) HGB for the electronic reporting format.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited combined management report as well as other documents to be published to the operator of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Work on the ESEF documents

Our objective is to obtain reasonable assurance that the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of § 328 (1) HGB. We exercise professional judgment and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of § 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinions.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documentation meets the requirements of the Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file applicable at the reporting date.
- Evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited annual financial statements and to the audited combined management report.

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 28, 2020. We were engaged by the supervisory board on August 14, 2020. We have been the group auditor of Software AG without interruption since the financial year 1997.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Ralf Pfeiffer.

Berlin, March 8, 2021

BDO AG
Wirtschaftsprüfungsgesellschaft



Klaus Eckmann
German Public Auditor



Ralf Pfeiffer
German Public Auditor

Independent Practitioner's Report

Independent Practitioner's Report on a Limited Assurance Engagement on Non-Financial Reporting Statement¹

To the Supervisory Board of Software AG, Darmstadt

We have performed a limited assurance engagement on the non-financial group statement of Software AG, Darmstadt, according to § 315b HGB ("Handels-gesetzbuch"; "German Commercial Code"), which is combined with the non-financial statement of the parent company according to § 289b HGB, consisting of the section "Combined Non-Financial Statement" in the combined management report as well as the section "Business model" being incorporated by reference for the period from January 1, 2020 to December 31, 2020.

Management's Responsibility

The legal representatives of the Company are responsible for the preparation of the combined non-financial statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the combined non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of the combined non-financial statement that is free from material misstatements, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the combined non-financial statement based on the assurance engagement we have performed.

We are independent from the entity in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements, in particular the Professional Code for German Public Auditors and German Chartered Accountants ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer - BS WP/vBP") as well as the Standard on Quality Control issued by the Institute of Public Auditors in Germany, Incorporated Association, ("Institut der Wirtschaftsprüfer in Deutschland e.V."; "IDW") Requirements for quality control in audit firms ("IDW Qualitätssicherungs-standard: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis"; "IDW QS 1").

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the combined non-financial statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's professional judgement.

¹ We have performed a limited assurance engagement on the German version of the combined non-financial statement and issued an Independent Practitioner's Report in German language, which is authoritative. The following text is a translation of the original German Independent Practitioner's Report.

Within the scope of our assurance engagement, which has been conducted in February and March 2021, we performed amongst others the following assurance and other procedures:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the combined non-financial statement regarding the preparation process, the systems of internal controls relating to this process and regarding disclosures in the combined non-financial statement
- Identification of likely risks of material misstatements in the combined non-financial statement
- Analytical evaluations of quantitative disclosures
- Evaluation of selected internal and external documents
- Evaluation of the presentation of the disclosures

Assurance Conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial statement of Software AG, Darmstadt, for the period from January 1, 2020 to December 31, 2020, has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Supervisory Board of the Company. The assurance engagement has been performed for purposes of the Supervisory Board of Software AG, Darmstadt, and the report is solely intended to inform this as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Our responsibility lies solely towards the Supervisory Board of Software AG, Darmstadt, and this is limited in accordance with the Special Terms and Conditions of BDO AG Wirtschaftsprüfungsgesellschaft as of January 1, 2020 and the General Engagement Terms issued by the IDW as of January 1, 2017 (www.bdo.de) as agreed with the Supervisory Board. We refer to the provisions contained there. We do not assume any responsibility or liability towards third parties.

Hamburg, March 8, 2021

BDO AG Wirtschaftsprüfungsgesellschaft



Ellen Simon-Heckroth
Wirtschaftsprüfer
(German Public Auditor)



Nils Borchering
Wirtschaftsprüfer
(German Public Auditor)

Financial Calendar

Highlights

2021

April 23	Q1/2021 financial results (IFRS, unaudited)
May 12	Annual Shareholders' Meeting ¹ Darmstadt, Germany
July 21	Q2/2021 financial results (IFRS, unaudited)
October 21	Q3/2021 financial results (IFRS, unaudited)

¹ The 2021 Annual Shareholders' Meeting will be held virtually due to the COVID-19 pandemic and the associated precautionary measures and restrictions on gatherings.

For the latest information on events and roadshows, please visit: investors.softwareag.com/en/events/financial-calendar.

Publication Credits

Publisher

Software AG
Investor Relations
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 6151 92-0
Fax +49 6151 92-1191

SAGPress@softwareag.com
www.softwareag.com

Concept and Layout

MPM Corporate Communication Solutions,
Mainz
www.mpm.de

Five-Year Summary

Key Group Figures

in € millions (unless otherwise stated)	2020	2019	2018	2017	2016
Revenue	834.8	890.6	865.7	879.0	871.8
By type					
Products					
thereof licenses	217.2	245.1	249.4	250.1	263.0
thereof maintenance	422.6	435.0	415.4	420.2	412.2
thereof SaaS ¹	31.3	22.7	17.6	9.1	–
Services and other revenue	163.7	187.8	183.3	199.6	196.6
By business line					
Digital Business Platform (DBP, incl. Cloud & IoT)	448.5	474.5	464.7	456.5	441.4
Adabas & Natural (A&N)	222.8	228.9	218.3	223.7	234.6
Consulting	163.6	187.2	182.6	198.8	195.8
EBIT²	136.4	214.8	231.6	222.8	213.9
as % of revenue	16.3	24.1	26.8	25.3	24.5
Net income	96.1	155.3	165.2	140.6	140.4
as % of revenue	11.5	17.4	19.3	16.0	16.1
Employees (full-time equivalents)	4,700	4,948	4,763	4,596	4,471
in Germany	1,314	1,278	1,243	1,155	1,148
Balance sheet					
Total assets	2,039.9	2,116.1	2,007.9	1,907.5	1,957.2
Cash and cash equivalents	480.0	513.6	462.3	365.8	374.6
Net debt/net cash	220.1	217.0	149.0	55.2	73.1
Equity	1,312.5	1,357.5	1,239.1	1,118.3	1,196.8
as % of total assets	64.3	64.2	61.7	58.6	61.1

¹ SaaS revenue was included in licenses or maintenance from 2009–2016.

(Comparability of years 2009–2016 with year 2017 onward is therefore limited).

² EBIT: net income + income taxes + other taxes + net financial income/expense

Contact

Software AG
Corporate Headquarters
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 6151 92-0
Fax +49 6151 92-1191
www.SoftwareAG.com

