software AG

Annual Report | 2013

Transforming Excellence into Future

Key Figures

in € millions (unless otherwise stated)

	2013	2012
Revenue	**972.7**	**1,047.3**
By type:		
• Licenses	330.1	318.9
• Maintenance	375.6	393.3
• Services and other revenue	267.0	335.1
By business line:		
• Business Process Excellence	422.9	384.7
• Enterprise Transaction Systems	274.5	310.5
• Consulting	275.4	352.1
EBIT*	**205.5**	**248.3**
• as % of revenue	21.1%	23.7%
Net income	**134.0**	**164.7**
• as % of revenue	13.8%	15.7%
Earnings per share (€, basic)	1.60	1.90
Earnings per share (€, diluted)	1.60	1.89
Free cash flow	159.1	170.7
Employees (full-time equivalents)	**5,238**	**5,419**
• of which in Germany	1,711	1,768
• of which in R&D	998	887
Balance sheet	**Dec. 31, 2013**	**Dec. 31, 2012**
Total assets	1,996.9	1,771.9
Cash and cash equivalents	450.0	315.6
Net debt/net cash	163.4	– 49.6
Shareholders' equity	965.6	1,060.1
• as % of total assets	48.4%	59.8%

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

Transforming Excellence into Future

Software AG is a leading global provider of process and integration software and guides its customers in their transformation to a Digital Enterprise.

We help organizations design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing business needs. This flexibility and agility are key for companies to be competitive. It is an ongoing necessity to adjust to IT's short innovation cycles and the advancing digitization of our society.

In doing this, organizations build on existing IT landscapes that have evolved gradually over time. At some point these complex IT landscapes can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient and automated support for business processes.

So a transformation becomes unavoidable: IT systems must be harmonized and modernized. It usually isn't just a matter of rebuilding the IT architecture, but rather an extensive overhaul of all processes in the organization. This creates a cycle.

New technologies enable business processes to be designed differently and more efficiently. But by the same token, meeting new requirements associated with how business is done necessitates more modern IT systems. Thanks to its products and services, Software AG's considers itself to be an engine of this transformation cycle—and therefore of the digitization of enterprises.

We embrace the opportunities of the digital age with expertise and foresight.

Contents

The Company

06 _ Letter from the Management Board

10 _ Highlights 2013

18 _ About Software AG

32 _ Software AG Share

39 _ Corporate Governance

48 _ Report of the Supervisory Board

Group Management Report

63 _ Business and General Conditions
63 _ Corporate structure and business activities
68 _ Corporate control, objectives and strategy
70 _ Research and development (R&D)
73 _ Economic Report
73 _ Summary of business development
76 _ Financial performance
85 _ Financial position
87 _ Assets
97 _ Overall statement on financial position
98 _ Events after the Balance Sheet Date
98 _ Disclosure of changes of particular significance
98 _ Risk and Opportunity Report
98 _ Risk management system
101 _ Specific risks
106 _ Opportunities
107 _ General statement on the Group's risk situation

108 _ Remuneration Report
121 _ Forecast
121 _ Economic conditions in the next two fiscal years
121 _ The Group's focus
122 _ Expected financial performance
123 _ Anticipated financial position
125 _ Takeover-Related Disclosures
126 _ Statement on Corporate Governance

Consolidated Financial Statements

128 _ Consolidated Income Statement
129 _ Statement of Comprehensive Income
130 _ Consolidated Balance Sheet
132 _ Consolidated Statement of Cash Flows
134 _ Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

137 _ General
151 _ Notes to the Consolidated Income Statement
154 _ Notes to the Consolidated Balance Sheet
174 _ Other Disclosures
203 _ Responsibility statement
204 _ Auditors´ report

Additional Information

205 _ Glossary
208 _ Five-year summary
209 _ Financial calendar 2014
Publication credits

Letter from the Management Board

DR. WOLFRAM JOST
Chief Technology Officer (CTO)

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

ARND ZINNHARDT
Chief Financial Officer (CFO) and Labor Director

Dear Ladies and Gentlemen, Dear Shareholders,

Software AG is on course. Our growth strategy is taking hold.

Double-digit growth in the BPE business line, record-level Company-wide license revenues, ongoing expansion of our technology leadership and the dynamic drive toward higher order volumes—fiscal year 2013 showed that our investments are yielding results and that we have charted the right course for successful long-term business development to evolve into a whole new dimension.

We once again clearly outperformed the market in the future-oriented Business Process Excellence (BPE) field, our biggest and most important business line. Product revenue increased by more than 15 percent at constant currency, making our growth more than twice as strong as the competition. The growth rate for license revenues even reached 18 percent, providing clear evidence that we are winning new business on a grand scale and significantly increasing our market share. 2013 was also a successful year for Software AG's two other business lines. Enterprise Transaction Systems (ETS), the traditional database segment, performed better than expected. At the same time, the newly established Consulting business also achieved a positive segment contribution, confirming its successful operational turnaround.

Group-wide license revenue reached €330 million in the year under review—a new record for Software AG. License revenues are a significant gauge of success in the software industry. They are considered a key indicator for future growth, because license sales are followed by long-term maintenance revenue. Therefore, it is all the more important that we show strong performance on the license side.

A good two-thirds of total license revenue was generated by the Business Process Excellence business line, further strengthening its position as the primary revenue driver. Two developments are particularly gratifying here. First, license revenue increased mainly in the second half of 2013. This indicates that investments in organic business growth are taking hold and yielding increasingly positive effects. Second, the average order size rose significantly, moving Software AG into a whole new order of magnitude in the double-digit millions range—driven by BPE projects. Sales of our new big data products in the BPE business line have been especially satisfying. After quadrupling revenue in the year 2012, our big data business almost doubled last year. This development underscores how important it was to enter the growing big data market early on.

In total, this progress reflects the direction of our growth strategy: We are gaining market share. To achieve this, last year we invested substantially in expanding our innovative product portfolio as well as sales and marketing. We invested more than €50 million in strengthening the global sales team and accelerating marketing activities. Part of these investments focused on the USA, where we are now tapping into potential in the public sector more than ever before through new marketing units and our subsidiary, *Software AG Government Solutions*.

To expand Software AG's highly innovative BPE suite, we made five acquisitions totaling over €110 million. Each acquisition was a targeted purchase of new, innovative products with enormous growth potential that further strengthen our technology leadership. Integrating new entities is a key success factor and one of Software AG's strengths. We broaden and accelerate our own innovative capability. We built our successful BPE business and drove it to the top this way.

Our goal for 2014 is to increase BPE product sales by 12 to 18 percent at constant currency. We would like to maintain our rapid growth rate and continue to outperform the market. Accordingly, our strategy will continue to focus on future-oriented innovation and proactive sales. Both of these will contribute to the continued growth of our business and market leadership.

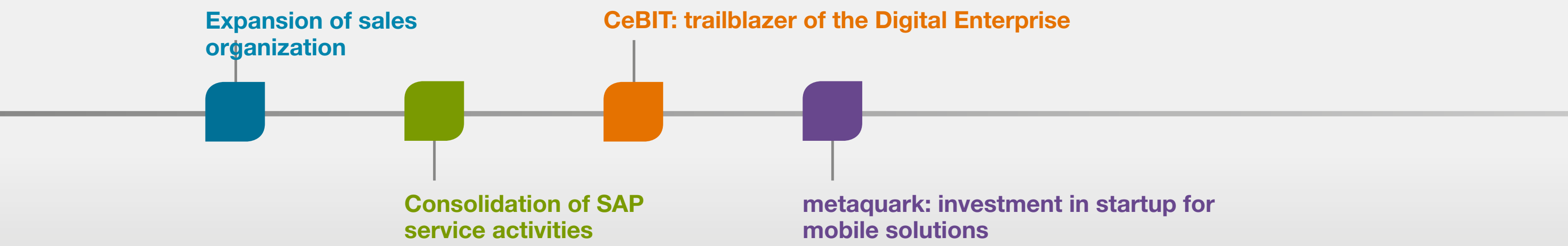
The Business Process Excellence business line's current product spectrum already covers the entire bandwidth of the technology megatrends—big data, cloud, mobile and social. Our product suite is unique and addresses growth markets. These are ideal prerequisites for dynamic expansion. Add to that the lightning speed of digitization that will also drive Software AG's growth, because every company needs to become digital—regardless of size or industry. And we are extremely well-positioned here: We make the Digital Enterprise a reality for our customers and see ourselves as a trailblazer in helping them reach their goal faster and more efficiently—because the future belongs to the Digital Enterprise.

On behalf of the entire Management Board, I would like to express my gratitude to the employees of Software AG for their commitment and dedication—our successful business growth relies on them. We would like to thank our shareholders for their trust and decision to join Software AG on the road to a promising future. The Management Board and Supervisory Board will propose a dividend of €0.46 per share at the 2014 Annual Shareholders Meeting.

Yours sincerely,

KARL-HEINZ STREIBICH
Chief Executive Officer

First quarter



Highlights 2013

Expanding the sales organization

After announcing its new growth strategy, Software AG embarked on the practical side of implementing it. To do this, the Company invested heavily in organic growth for its Business Process Excellence (BPE) business line. Around 200 new Sales and Marketing employees were hired by the end of the year. Record-level investments in excess of €50 million led to dynamic growth in BPE revenues.

Consolidation of SAP service activities

In January, Software AG separated itself from its SAP service operations in Canada and the USA; the sale of the SAP consulting business in Eastern Europe followed a few months later. With these transactions, the Company consistently pursued its strategy of focusing its consulting business on SAP process consulting in German-speaking countries.

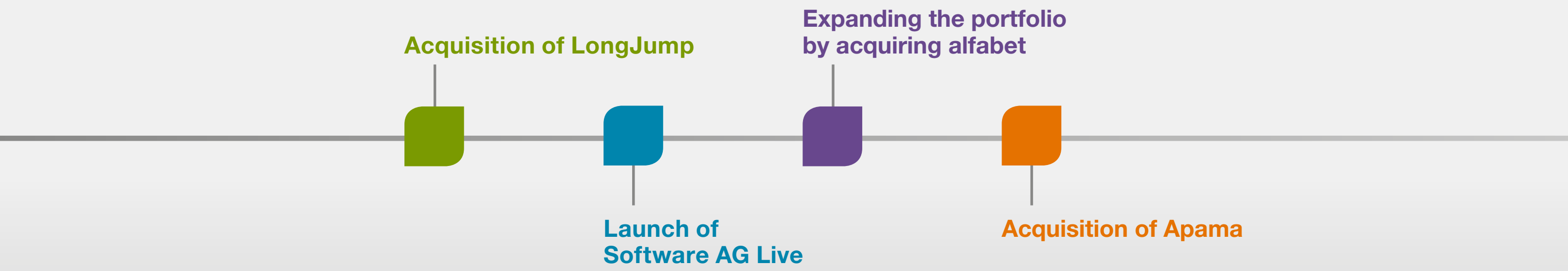
CeBIT: trailblazer of the Digital Enterprise

Software AG presented how Digital Enterprises can leverage the four forces of technology—big data, cloud, mobile and social—at CeBIT 2013 in Hannover, Germany. At the same time, the Company presented many new products including the launch of blockbuster products Aris 9.0 and webMethods 9.0.

metaquark: investment in startup for mobile solutions

The first of five acquisitions in the fiscal year: Software AG invested in metaquark, a Berlin-based company specializing in mobile solutions. Mobile software is one of the key technologies that enable Digital Enterprises to respond flexibly to business information in real time.

Second quarter



Highlights 2013

Acquisition of LongJump

Acquisition number two: Software AG took over LongJump, a U.S.-based cloud platform provider with headquarters in Santa Clara, California. The digital platform enables end users to develop applications independently and without IT department support.

Launch of Software AG Live

Software AG launched its new cloud-based platform as part of its campaign to enter the cloud business. The Company expanded its portfolio with this step, offering its customers tailored on-premise solutions as well as the opportunity to use its products in the cloud "as a service." Thanks to Software AG Live, individual departments and IT experts within an organization are able to develop applications themselves and integrate them easily into existing systems.

Expanding the portfolio by acquiring alfabet

Software AG continued pursuing its growth strategy by completing a third acquisition: It further expanded its market position by acquiring alfabet AG, the leading provider of Enterprise Architecture Management and IT portfolio management with locations in Berlin, Cambridge (Massachusetts) and Singapore.

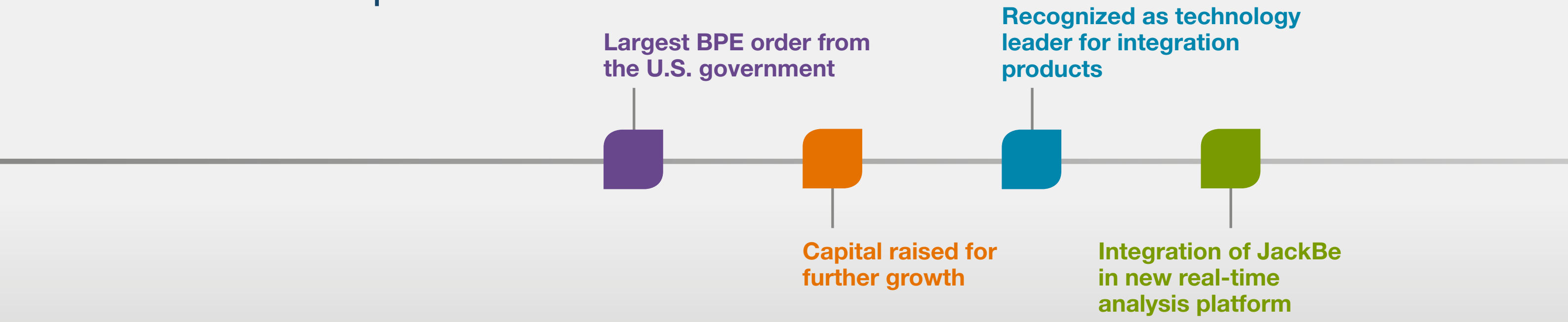
alfabet

Acquisition of Apama

With the purchase of the Apama division of Progress Inc., Software AG completed its fourth acquisition of the year. This added a market-leading platform for Complex Event Processing (CEP), which enables companies to correlate and analyze their business activities in real time across different data streams and make immediate business decisions. This is crucial for stock trading, fraud detection and Industry 4.0.

APAMA

Third quarter



Highlights 2013

Largest BPE order from the U.S. government

The expansion of the public sector portfolio in the USA yielded its first successes: The newly founded the U.S. subsidiary focusing on government agencies, Software AG Government Solutions, achieved its biggest success yet with an order from the U.S. Defense Department's transportation unit, USTRANSCOM, topping $17 million.

Successfully raising capital for further growth

Software AG took out a promissory note loan in the amount of €300 million. High investor interest resulted in a clear oversubscription. The issue is already the third promissory note placement since 2009 and gives the Company greater leeway for financing its growth.

Recognized as technology leader for integration products

Leading market research firms gave Software AG top grades for its product portfolio. Analyst firm Gartner positioned Software AG as a "leader" in the application integration market.

Leading market position in the big data market

New BPE quarterly record through a second major order

Integration of JackBe in new real-time analysis platform

The purchase of JackBe with headquarters in Chevy Chase, Maryland was Software AG's fifth acquisition in this fiscal year. The software products of the recently acquired company will be integrated into the new webMethods Intelligent Business Operations platform (IBO). IBO offers data analysis including simple visualization options, thereby enabling real-time insight into running processes—one of JackBe's core competencies.

Leading market position in the big data market

The Experton Group, an analyst and consulting firm, named Software AG the "2013 Big Data Leader," successfully positioning the Company as a strategic pacesetter and thought leader in the big data market.

BIG DATA LEADER 2013
experton GROUP

+31%
BPE license revenue

+100%
revenue from big data products

New BPE quarterly record through a second major order

Software AG'S strategic transformation continued to develop positive effects: The BPE business line won the second major eight-figure order in Company history. With a 31-percent increase in license revenue and around 20-percent growth in maintenance revenue, the Business Process Excellence business line achieved an all-time high in the third quarter of 2013. Business with big data products also increased by over 100 percent, indicating very dynamic growth.

Highlights 2013

A new attendance record for Innovation World 2013

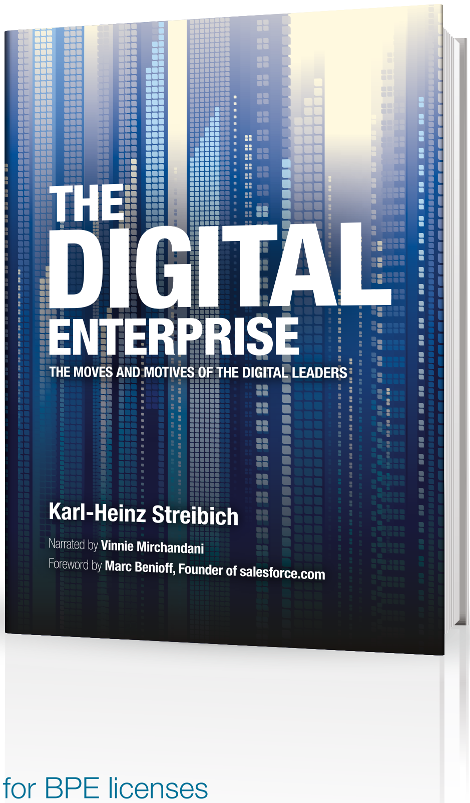
Software AG presented innovative products for the transformation to the Digital Enterprise at its international customer event in San Francisco, which saw over 1,000 participants from 35 countries. The event's keynote theme was Digital Enterprise Assessment showcasing new products that support customers in planning their digital strategy and incorporating the technological megatrends—big data, cloud, mobile and social.

Recognition for excellent product portfolio

Gartner positioned Software AG as a "leader" in the enterprise architecture market. Software AG and its product portfolio were ranked as a leader in a total of 14 different market sectors by market researchers Gartner and Forrester.

Industry thought leadership

Software AG presented the book, “The Digital Enterprise—The Moves and Motives of the Digital Leaders,” in December. In the book, CEO Karl-Heinz Streibich explains the future of digitization and Industry 4.0. Twenty-two real-world examples compiled by well-respected guest authors from the technology industry describe for readers the advantages and benefits of a digital transformation in an easy-to-understand and practical way. The book makes clear that many companies are well on their way to becoming a Digital Enterprise.



19%
growth in BPE business line

New record for BPE licenses

A very strong fourth quarter in 2013 wrapped up a year of positive business growth for BPE, the largest business line, and confirmed Software AG’s leading position with increasing market shares. The record levels from the previous quarter were exceeded yet again. Software AG pushed the BPE record revenues to a new historic high thanks to a sequential increase of 19 percent over the third quarter.

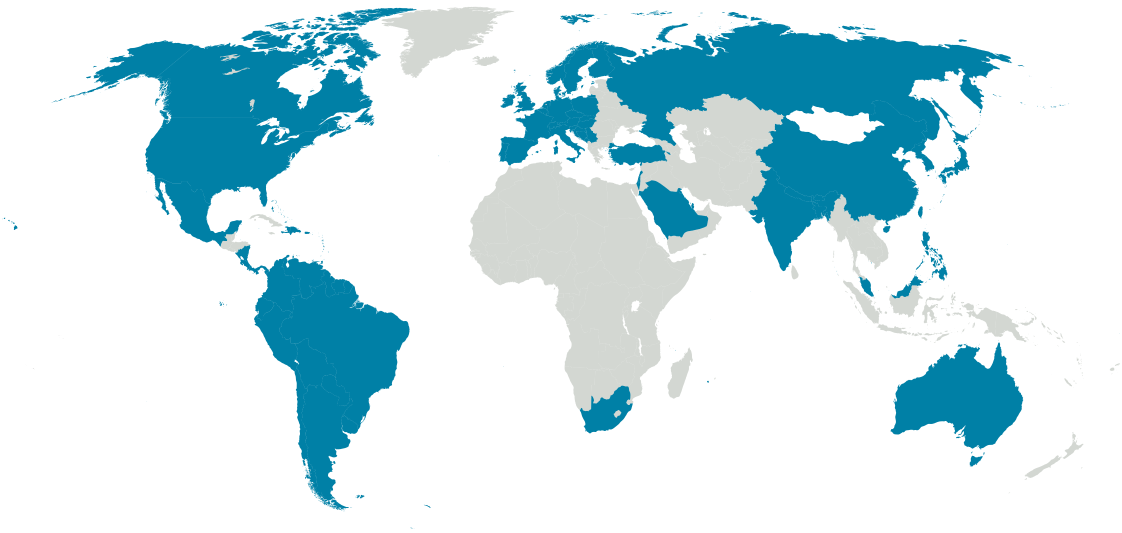
About Software AG

Pioneering the future

As a technology leader in growth markets, Software AG uses its strengths to drive the rapid expansion of its market share. Our goal: global market leadership.

Software AG products are key elements in the IT systems of businesses, organizations and government agencies worldwide. More than 5,200 employees work in more than 70 countries to enable our customers' success. Our mission is to leverage the growth potential of digital business models for our customers. The Digital Enterprise and Digital Agency are our potential and our greatest strength.

Software AG's global presence



Transforming Excellence into Future.
We embrace the opportunities of the digital age with expertise and foresight.

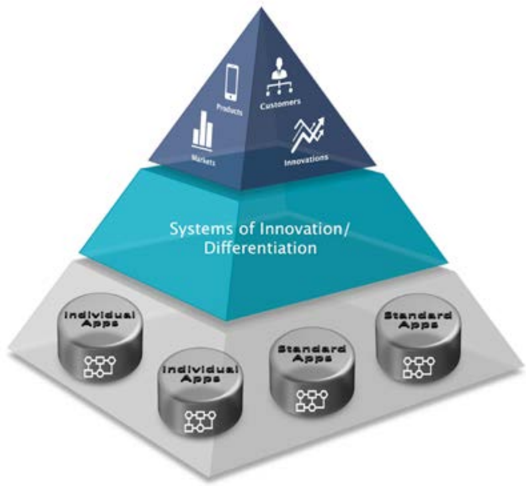
Business lines: Growth based on a stable foundation

Software AG's products and services are designed to generate value for customers quickly. We protect their previous IT investments by building on existing IT systems. Our business activities are divided into three business lines: Business Process Excellence, Enterprise Transaction Systems and Consulting.

The business lines

Business Process Excellence (BPE)

Business Process Excellence is Software AG's largest business line and its dynamic growth driver at the same time. It focuses on future-oriented software solutions for designing optimal business processes. Our BPE suite is one of the most comprehensive and innovative of its kind. With software solutions for integration, process management and big data, it already covers all of the major trends in IT. For our customers, this means they can take full advantage of digitization and its potential, making them faster, more efficient and above all more successful.



Enterprise Transaction Systems (ETS)

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

Consulting

The Consulting business line supports implementations of Software AG's own BPE and ETS products as well as the optimization of strategic business and technology investments. We also provide product-neutral consulting services in German-speaking countries that are increasingly focused on process consulting for IT systems in SAP environments.

The individual product families are separated into five product lines using a clearly structured brand architecture.

Products for the Digital Enterprise

Software AG's portfolio combines data, integration and process platforms. The individual product families are separated into five product lines using a clearly structured brand architecture: Collaborative Process Analysis, Portfolio Management, Process Automation and Integration, Intelligent Business Operations and Big Data as well as Transactions. Four of these product lines are part of Business Process Excellence. The fifth, Transactions, comprises the database business.

Collaborative Process Analysis: ARIS products perfect business processes—from strategy and analysis to design and controlling.

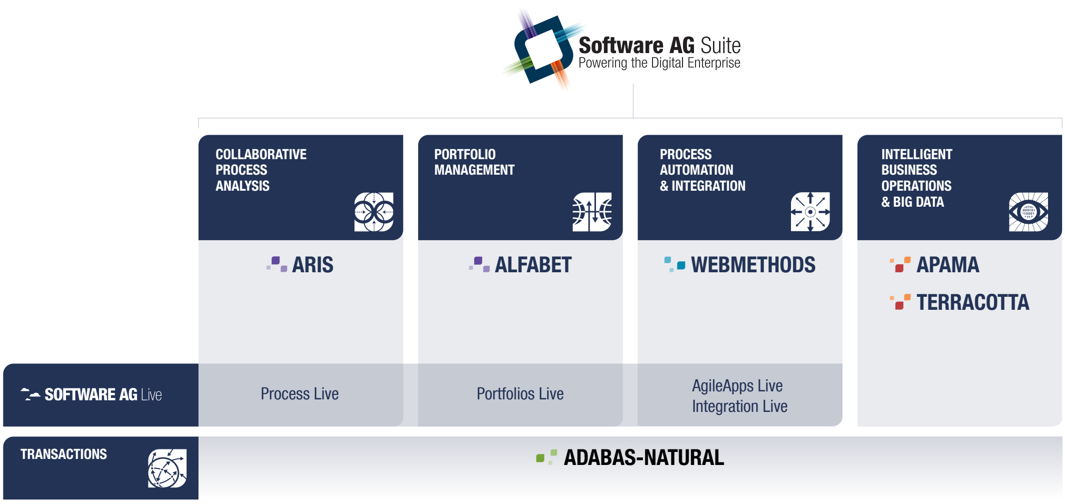
Portfolio Management: alfabet streamlines the transformation of business processes closely and comprehensively with the resulting adaptations of IT systems.

Process Automation and Integration: webMethods integrates data from existing systems with cutting-edge business processes.

Intelligent Business Operations and Big Data: Apama supports the real-time analysis of huge data volumes. Terracotta enables ideal usability of even the largest volumes of data through in-memory technology. Both facilitate fast reaction times and sound decision-making.

Transactions: Adabas-Natural delivers high-performance data management and modernization of mainframe-based IT systems.

Software AG's brand architecture and product lines



We are positioned as a leader in 14 market sectors.

Leadership position in growth markets

Software AG has established itself as a global technology leader in the integration, business processes and big data market segments—core areas of the Business Process Excellence business line. According to Forrester and Gartner, we are positioned as a leader in 14 market sectors with our products.

From technology leader to market leader

We are expanding Software AG's position as a technology leader to one of global market leadership with a strategy that will significantly accelerate our business growth. Our BPE business is at the strategy's core—and is already achieving double-digit growth rates, proactively gaining market share and significantly outperforming the competition. To build on this strength even further, we are investing in trailblazing innovations and intensive global sales activities.

Recognized by leading market research firms

		software AG	IBM	Microsoft	ORACLE	TIBCO
Gartner	Application Integration Suites	●	●	●	●	●
	Application Services Governance	●	●			
	Business Process Analysis Tools	●	●	●		
	Business Process Management Suites	●	●		●	
	Enterprise Architecture Tools	●	●			
	Governance. Risk and Compliance	●	●			
	Integrated IT Portfolio Analysis Apps	●				
Forrester	Complex Event Processing Platforms	●	●			●
	Comprehensive Integration Solutions	●	●	●	●	●
	EA Management Suites	●				
	Elastic Caching Platforms	●	●		●	
	ESB	●	●		●	●
	Integrated SOA Governance	●	●			
	SOA Service Life-Cycle Management	●				

Our product portfolio for Business Process Excellence leads the market.

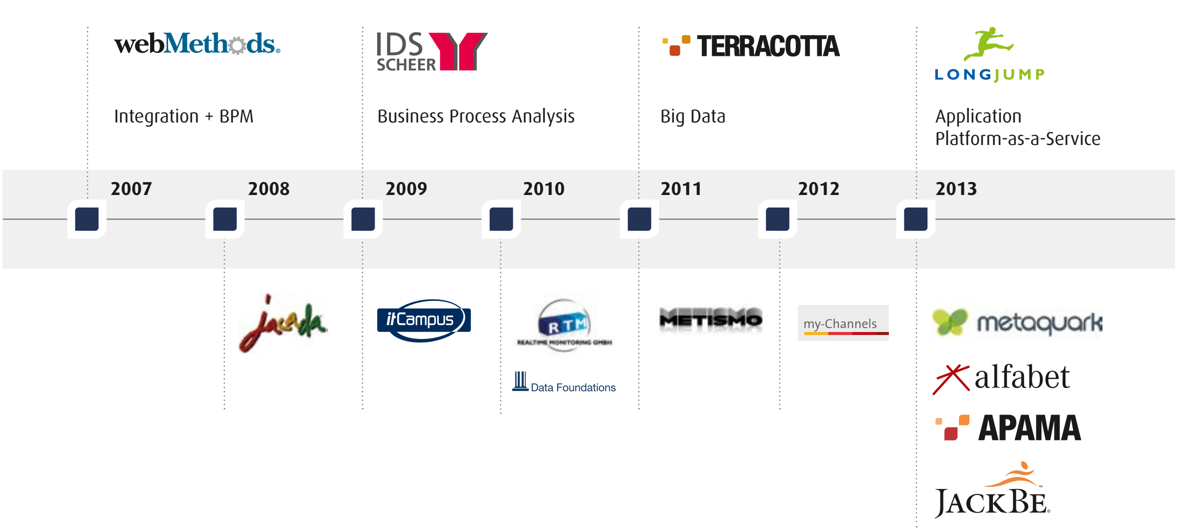
Integrated portfolio suite—investments in supplementing our strength

Innovation is a key success factor in the software industry, and our software solutions have helped shape the market in many ways. Our product portfolio for Business Process Excellence leads the market—an advantage that we will expand further with new in-house development as well as acquisitions that boost our innovative power. Without exception, Software AG's acquisitions are technology procurements. They give us additional expertise that we integrate into our product portfolio. Developing a technology from scratch takes four or five years until a stable product is market ready. By acquiring the suitable technology at the right time, we save time and reduce our risk. And that is important, because innovation cycles are extremely short in the software industry: Get There Faster applies not only to our customers, but to us as well.

Multi-channel ecosystem—partner network multiplies sales channels

The second key building block for growing our market share is intensifying sales and marketing activities. With this direction of our growth strategy, we are converting progress in our product portfolio into business success—and harvesting the crop that was sown with innovation and acquisitions. In addition to our own sales, we are also building up a partner ecosystem that duplicates Software AG's market reach and sales channels. This global network includes system integrators, service providers and, in the future, OEM partners. Our focus on innovation is also paying off in partner management, because our technology leadership makes collaboration with Software AG especially appealing.

Acquisitions at a glance



The Software AG Live platform marks our entrance into this promising field, which we see as a long-term growth area.

Future through progress

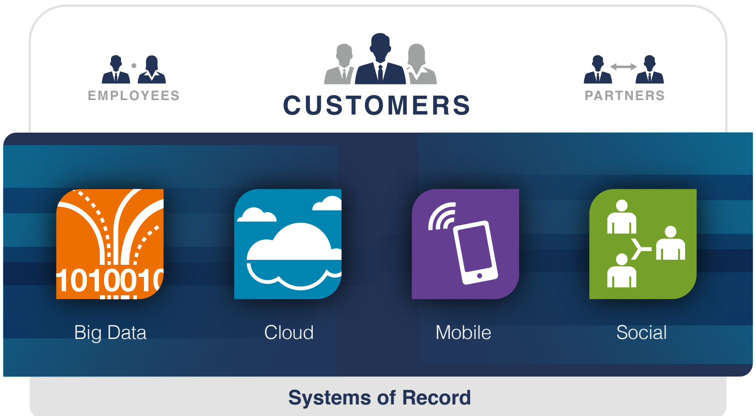
Our innovations aim for continuous success and sustainable growth. Recognizing and concentrating on future opportunities and markets come with the territory. For that reason, Software AG focuses on technology fields that can turn into powerful growth drivers later on. As such, we are investing heavily in our big data portfolio and positioning Software AG in a market that is still in its infancy. Big data will become one of our strongest growth drivers in the medium term. We have therefore developed a focused product line with Intelligent Business Operations and Big Data that will also specifically integrate analytics and visualization functionalities in 2014. In addition, we are working hard on expanding our cloud-based solutions. The Software AG Live platform marks our entrance into this promising field, which we see as a long-term growth area.

Positioned for long-term growth

We have demonstrated in many ways that Software AG is successfully implementing growth strategies consistently and quickly. Add to that our tried-and-tested business model that ideally combines our strengths and powerful trump cards:

- Business Process Excellence: a unique portfolio that leverages existing potential and opens up tomorrow's consistent growth drivers.
- Enterprise Transaction Systems: a highly profitable basis that opens up sales opportunities for new products among the existing customer base.
- Consulting: a business line that bundles our consulting services and accompanies customers every step of the way in transformation projects.

IT megatrends: the focal point of customers



Employees

Top Employer
2011, 2012, 2013

Powerfully innovative and solution-oriented, responsible and enthusiastic about technology, uncompromising on quality and customer service—Software AG employees stand for these values. We promote growth and innovation, and strengthen our corporate culture by offering our employees of diverse cultural backgrounds customized development opportunities and international perspectives.

As one of the largest software companies in Europe, Software AG is a major player in the IT industry and is well aware of its role as a software pioneer as well as its responsibilities as an employer. Software AG faces the greatest challenges, breaks new ground and writes software history. This is only possible thanks to our excellent employees, whose expertise, abilities and commitment have made Software AG what it is today. We expect top performance from our employees. In return, we support them systematically in developing their potential. We offer attractive career opportunities and comprehensive professional training options, performance-based compensation and family-friendly conditions as well as a range of social benefits.

Targeted staff development is increasingly important as our world is constantly changing. Dealing with these changes, actively shaping them and seizing change as an opportunity—that is what makes us strong. The digital revolution and the speed of change require the greatest flexibility and innovative power, which is why Software AG needs employees who actively drive and shape this change—people who enjoy change and see it as an opportunity for personal development. Ultimately our goal is to support customers in the optimization of their complex business processes and transformation to the Digital Enterprise. Our customers expect comprehensive consulting with precisely the right solution. Honoring these expectations is our aspiration and our obligation—all over the world. That is why ongoing professional development, independent thinking and action as well as diversity, proactive initiative and commitment among employees are the principles guiding our employee and management culture.

"Living responsibility—lifelong learning:" Our *Corporate University* embodies this principle with its broad range of training offerings in both technical subjects as well as social and interpersonal skills. We impart key qualifications and promote excellent performance through close interaction, standardized learning programs worldwide and cutting-edge training methods. We create the conditions for constructive collaboration in a spirit of partnership among a diverse array of personalities from different generations.

The challenge lies in integrating individual teams so as to seize the opportunities that arise from the digital revolution.

As part of our Career4U talent management platform, not only do we take the diversity of personalities and skills into account, we foster and promote them specifically. Recruiting new talent from within our own ranks is an important incentive for our employees. But we want to be even better. To this end, we regularly conduct global surveys to determine employee satisfaction and potential for improvement. We take the results very seriously, because we know that only motivated employees who identify with their company's goals deliver the top performance that we need to stay successful.

New technologies develop incredibly quickly in our industry, so quickly that we cannot develop them all ourselves. This is why we regularly acquire innovative companies in key future fields. Our Company changes with every acquisition. The challenge lies in integrating the individual teams with their history, know-how and products into Software AG and developing a powerful team.

We place great value on welcoming these new colleagues openly, learning from one another, sharing best practices and working together to drive and actively shape the opportunities that arise from the digital revolution. Heterogeneous teams with different experiences increase the wealth of ideas and the innovative power of our Company.

In order to secure long-term growth, companies need to take a profitable business and drive the change for the next business phase early on. This means always seeing change as an opportunity and constantly reinventing ourselves as a Company. Because one thing is certain: Change will continue to be the only constant in the software industry.

Certified as Top Employer

In 2013, Software AG was once again recognized as a "Top Employer" by international HR research institutes: Trendence and CRF as well as the Human Excellence Awards.

Corporate Social Responsibility

Ethical principles and business success are often considered irreconcilable. Especially in a world that is increasingly shaped by rapid change and complex challenges, growing integration, digitization of business processes and globalization lead to enormous progress in productivity with more efficient processes. The flip side of the coin: Uncertainty rises in a networked world, triggered by climate change, financial crises and data theft. For companies, this means transformation through continuous realignment with market changes.

It is not only the responsibility of governments to face these challenges; businesses are obligated to do so as well. That is why sustainability and responsible action are guiding principles for our Company. For the sake of future generations, it is important for us to handle resources responsibly to achieve sustainable economic, environmental and social progress. We are convinced that moral principles and financial gain not only go hand-in-hand, they actually belong together. Only companies that do business sustainably while conserving resources and taking guidance from values will be successful over the long term.

One prerequisite for that is conscious respect. Values like trust, respect, open communication and tolerance shape our work and increasingly our global operations. The goal is to merge heterogeneous employee cultures and keep motivation at a high level. This is especially important for integrating employees from acquired companies. For that reason, Software AG implemented guidelines in every area that ensure positive, responsible corporate governance. In addition to complying with the German Corporate Governance Codex, Software AG instituted a *Code of Business Conduct and Ethics* in 2011. This voluntary commitment defines the ethical and legal conditions for our business activities and the relationships of our employees, customers, business partners, shareholders and competitors.

Soccer practice with physically and developmentally disabled athletes “Under the Sign of the Lily.”

About 60 running enthusiasts from Software AG took part in the Darmstadt half-marathon.

Sustainability and responsibility form the foundation of our business.

Rain didn't dampen the spirits of numerous Software AG employees who ran in the Frankfurt marathon.

As a socially responsible software company, we are particularly committed to education and innovation. Examples include Software AG's active participation in the annual German IT Summit and the BITKOM industry association. "A big tree needs strong roots": This is the guiding principle of our regional software cluster, a network of partners from the worlds of science, business and government. The network offers access to research findings, expert professionals and industry colleagues while promoting rising talent as well as Germany's role as a center of business. We establish partnerships through our *University Relations program* and foster direct contact and exchange with the next generation of talent.

We offer our employees leeway for creative, innovative work and support for social engagement worldwide. We are proud that so many of our colleagues participate in numerous civic projects, and we support their volunteer activities. For example, the "Move Your Feet to Give a Hand" campaign has combined Company sports, team spirit and social involvement for six years now. For every kilometer run by Software AG employees at official races, our Company donates a fixed amount to the Software AG Foundation. As part of the "Under the Sign of the Lily" social campaign, Software AG has joined forces with Special Olympics Hesse and the SV 98 Darmstadt soccer team to organize a soccer training session with physically and developmentally disabled athletes.

Social engagement is a firmly ingrained assumption at our Company, and part of Software AG's history: The *Software AG Foundation* was launched more than 20 years ago by one of our Company's co-founders, Peter Schnell. In so doing, he laid the foundation for sustainability and responsibility and anchored these principles as a central component of our corporate culture. As Software AG's main shareholder, the foundation is an important anchor investor providing the Company with long-term independence and its employees with job security.

Customers

More than
40 years'
experience with customer-driven innovation

The digitization of society is an irreversible trend. The speed at which it is happening is a major challenge for everyone. Companies, in particular, must continually adapt themselves and their processes accordingly. After all, nothing runs smoothly in the private or public sector without information technology. It serves an interdisciplinary purpose and has become deeply anchored and indispensable in nearly every industry.

African Bank

The African Bank, a South African financial services provider, was facing the challenge of developing and implementing a new IT strategy. It needed to modernize its systems and processes to enable planned growth and transform the bank from a product-centered service provider to a customer-centric organization. For this project, the bank selected Business Process Management (BPM) and a service-oriented architecture based on the webMethods BPMS product suite. Within nine months, Software AG's solution helped the bank win 320,000 new customers and reactivate 133,000 inactive existing customers. The speed, comfort and user friendliness of its new "inseconds" online channel resulted in 2.4 million customer contacts through self-service. 40 percent of customers coming in through the online channel are new. Prior to that, business in the existing bank branches only brought in 20 to 30 percent of new customers per month. The next step will fully develop the mobile banking business using Software AG's Mobile Enterprise Application Platform (MEAP) and big data products from Terracotta.

"The uptake for inseconds has been fantastic—16 percent of 1.5 billion rand that we disperse monthly is generated by the leads coming through this channel."

Vishal Maharaj, Head of Digital Channels, African Bank

Coca-Cola Refreshments

Minutes instead of hours

Coca-Cola Refreshments, a subsidiary of the soft drink producer, owns and operates tens of thousands of refrigerated display cases in American and Canadian supermarkets. Maintaining an overview of the equipment's life cycle and maintenance history is a major challenge. In the past, the cases were manually recorded when they were received at the repair center—a time-consuming and error-prone process that could record data from 30 to 40 cases in an eight-hour period. Meanwhile the company has automated the process using webMethods Business Process Management Suite. The display cases are documented with a wireless scanner that can capture up to 60 units at one time, after which the data is processed electronically. This ensures transparency and provides data for further improvements.

Within nine months, the solution helped us win **320,000 new customers** and reactivate 133,000 inactive existing customers.

CosmosDirekt

The CosmosDirekt Insurance Group is constantly optimizing its business processes to remain successful in cutthroat competition and maintain its market position. The company selected ARIS Process Performance Manager for this effort. With this product, they can derive relevant goals, recognize weak points in existing processes and visualize them for further analysis. The result: Processing times and error rates for insurance applications were significantly reduced. Process efficiency was demonstrably improved and process costs reduced by 20 percent. Shorter wait times and greater customer satisfaction enabled the company to conclude more new contracts. In addition, the number of contracts that were completed without requiring additional queries increased by 28 percent, while the complaint rate declined by 60 percent.

"After we saw the cost savings potential in the first few projects using ARIS PPM, we also implemented the solution for monitoring and analyzing our core processes. We were able to successfully optimize processes from advisory services to quotes, applications, contracts and claims."

Jörg Junges, Process Optimization Specialist, CosmosDirekt

Process costs down

20%

DB Netz

DB Netz AG is Europe's largest operator of railway infrastructure. Its customers include 390 railway transportation firms in Germany that expect innovative IT solutions to support daily business processes. To accelerate the pace of innovation, Software AG supported DB Netz AG in transforming its IT and business infrastructure: Departmental IT projects become company-wide business projects. Initially the company's business goals serve as a basis for modeling the necessary processes, which are then transferred to technical implementation. Using this approach, DB Netz ensures that the provided solutions meet the internal customers' requirements precisely. By sticking to the "develop once, deploy everywhere" method based on a modular principle and reusing IT services and components, the company can realize significant cost savings for development and maintenance while clearly shortening the duration of projects.

"A business process-oriented approach for our IT development— that was the vital spark. We are transitioning our network to a digital infrastructure to be able to plan seamless process solutions."

Holger Ewald, CIO, Deutsche Bahn Netz AG

Customers in more than
70 countries,
comprising more than 70 percent of the global top 1,000 companies

More than
2.5 million
individual users

Royal Dirkzwager

Royal Dirkzwager is a Dutch maritime information provider. It supplies an ever growing amount of data on ships and their positions to its customers in virtually all segments of the maritime-logistics market. They depend on a constant flow of this information. Knowing exactly when a ship comes in optimizes their resource utilization and saves time and money. Royal Dirkzwager receives position data on more than 120,000 vessels per day every two seconds. It collects, interprets and validates this data for its customers. With the Apama platform, Royal Dirkzwager employs a scalable solution which, after an implementation time of just a few weeks, is already delivering impressive results. The company is now able to handle 1,500 messages per second in real time—a 300-percent increase. In addition, Royal Dirkzwager has discovered other ways to benefit from Apama such as developing and marketing new logistics services.

"The ability to respond quickly to client requests and roll out completely new service offerings in two months gives us a huge strategic advantage."

Paul Wieland, CIO, Royal Dirkzwager

Statoil

Statoil, an oil and gas company headquartered in Norway, has a management system that ensures its business runs efficiently, securely and reliably, and that both internal and external obligations as well as regulatory requirements are met. All business processes in its plants and production locations are modeled with ARIS software. In May 2012, the company merged documents and processes from three different programs. One year later in May 2013, more than 1,400 business processes and nearly 8,000 activities were

A selection of Softare AG's reference customers

2,200 seasoned consultants

serving more than 4,000 customers worldwide

mapped in ARIS, supported by over 15,000 functional, operational and technical requirements across the entire organization. 36,000 employees and business partners are now registered users.

"An important lesson that we have learned is that leadership is the most efficient and effective tool for improving and simplifying. Surveys show that teams find it easier to conform to the necessary work processes when managers work extensively with the management system to understand and implement it. This management approach enables our employees to work more securely and efficiently."

Magne Frantsen, Vice President, Corporate Management System, Statoil ASA

Vodafone

When telecommunications service provider Vodafone Iceland replaced its accounting system, it took the opportunity to redefine the order process for mobile communications customers. All too often, customers received error messages or were uncertain whether orders were actually placed when they selected additional options for their existing contracts online through the Internet portal or by phone through the customer service center. The solution was to decouple the error-prone integration of the front-end and back-end systems. Thanks to webMethods, customers receive a reliable confirmation immediately, error rates were reduced and customer satisfaction increased. In addition, the company can now present new offerings significantly faster.

"By using business processes, we have reduced the error rate in our order process to 1.5 percent."

Pálmi Símonarson, Software Architect, Vodafone Iceland

Software AG Share

Stock markets highly attractive

In a climate of record low interest rates and central banks supporting expansive monetary policies, participation of investors in stock markets was high in 2013. This was fueled primarily by the lack of high-yield investment alternatives along with the first indications of a global economy recovery, especially in the second half of the year.

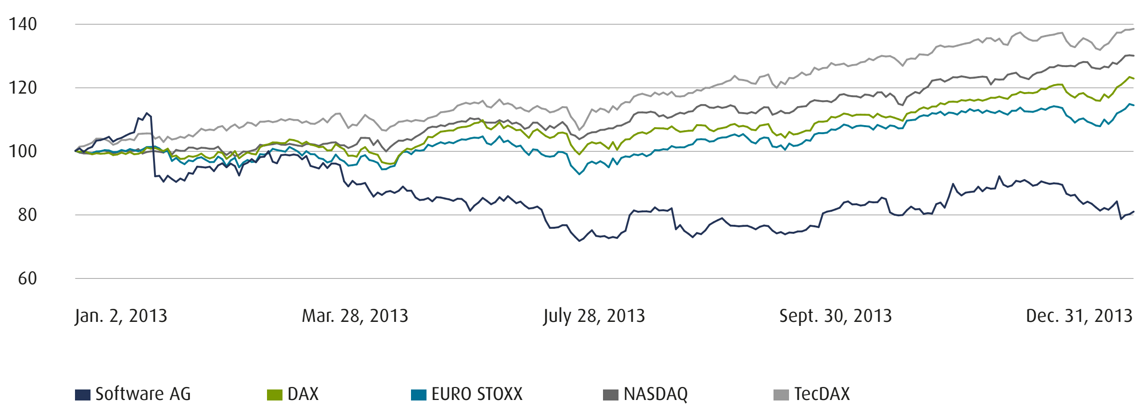
Because of the robust economy, investors showed a preference for the German stock market over others in the eurozone. And, for the first time, the DAX surpassed 9,500 points in 2013, closing out the year with a gain of about 26 percent.

Compared to other key global exchanges, the Japanese and U.S. stock markets performed even better. Japan's benchmark Nikkei index, which lists the country's 225 most important companies, jumped about 57 percent; the S&P 500, which tracks the 500 largest publicly traded companies in the U.S., gained 29 percent. The high-tech sector rewarded the Nasdaq Composite, which covers more than 3,000 high-tech shares, with nearly a 38-percent increase; and the TecDAX technology barometer climbed about 41 percent to 1,166 points—fueled primarily by the telecommunications sector.

Eurozone markets also saw an excellent year in stock trading. European shares on the Euro Stoxx 50 gained almost 18 percent—starting out below average, but picking up speed mid-year. The tenacious period of recession finally subsided, and the debt crisis eased. Additionally, the capital market viability of southern European peripheral countries—primarily Spain—improved.

The hope for increased corporate earnings was left unfulfilled during the year, so a liquidity-driven price rally led to a massive leap in valuation ratios. A debate about the possibility of a bubble and a stock market crash surfaced at the end of 2013.

Share price development (indexed)



Our dividend policy is based on long-term development of the Company.

Share price determined by short-term investors

2013's bull market offered only short-term benefits for Software AG's share price. After hitting €31.41 in Xetra trading at the beginning of the year, gains of almost 12 percent were tracked in the weeks to follow, thanks to positive market sentiment. The stock hit its year high on January 25, 2013 at €35.14.

Software AG stock came under pressure on January 29, 2013 with the release of the Company's Q4 2012 results and outlook for 2013. The long-term growth strategy and accompanying investments in marketing and sales in fiscal 2013 did not meet the capital market's expectation for a short-term profit margin increase. The impact on profit margin in the high-growth Business Process Excellence (BPE) business and the anticipated revenue decline in the profitable, but mature, Enterprise Transaction Systems (ETS) business led to stock shifts and profit takes among short-term investors. Software AG's share price closed at €28.90 on January 29, 2013 and continued to recede in the second quarter. Not even the stable dividend of €0.46 per share, the Q1 2013 results or the Company's acquisition of cloud platform provider LongJump were able to trigger a sustainable share price increase.

The share price recovered to €28.90 in November 2013, driven by the results of the second and third quarters of 2013, operational improvements regarding SAP services and the share buyback program announced in October. Software AG's share ended the trading year at €25.40.

Software AG maintained its good position in Deutsche Börse AG's TecDAX ranking at third place in trading volume and seventh in market capitalization. The stock's average daily trading volume was around €9.2 million and 338,400 units traded. Software AG was the only large software stock in the TecDAX to be significantly affected by the performance of telecommunication sector stocks. The same occurred with solar companies in the past. The TecDax is therefore not a performance benchmark for Software AG stock.

Further share capital increase

In the period under review, Software AG staff members and executives exercised 26,500 stock options, which resulted in an increase of shares outstanding to 86,943,945. Software AG's share capital therefore went up to €86.9 million; market capitalization at the end of the year was approximately €2.2 billion.

Stable dividend despite additional investments

In accordance with a resolution passed at the Annual Shareholders' Meeting on May 3, 2013, Software AG again paid out the record-level dividend of €0.46 per dividend-bearing share for fiscal 2012. This equates to a total payout sum of €39.2 million or a payout ratio of 24 percent (2011: 22 percent) of consolidated net income.

Software AG's dividend policy is based on long-term development of the Company. The dividend is calculated according to the Company's reported Group earnings and free cash flow on one hand and the necessary financial requirements for further growth on the other.

The focus of Software AG's strategy shifted to growth in the BPE business line in fiscal 2012. Despite the Company's investments in long-term growth, which led to declined earnings in fiscal 2013, and the share buyback program implemented in 2013, the Management Board and Supervisory Board of Software AG proposed that, like last year, a dividend of €0.46 be paid for fiscal 2013. Software AG's strategic goal for the use of cash flow is not only to invest in growth, but also to share its profitability with shareholders through a stable dividend again this year.

Netfederation awarded **first place** in the TecDAX to Software AG's Internet presence.

Share buyback program continued

On October 25, 2013, Software AG announced a new program for the buyback of treasury shares up to a total volume of €110 million with a term ending on May 16, 2014. The maximum limit for the repurchase of treasury shares was 10 percent of the existing share capital as of May 3, 2013 less treasury shares that Software AG had already purchased or were attributable to it as part of an existing buyback plan. On February 26, 2014, this share buyback was completed. A total of 4,117,283 shares were purchased for a total amount of €109.9 million. This corresponds to an average purchase price of €26.72 per share.
Taking into account all share buyback programs, Software AG now owns a total of 8,084,101 shares, corresponding to 9.3 percent of the share capital of Software AG. For more details please visit: www.softwareag.com/corporate/inv_rel/stockinfo/share_buy.

Shareholder structure still solid

Software AG's primary shareholder is the Software AG Foundation, which continues to own around 29 percent of the voting capital. The Software AG Foundation is an independent, non-profit organization under civil law and is based in Darmstadt, Germany. In addition, some 37 percent of Software AG's outstanding shares are known to be held by institutional investors. Software AG holds about 9 percent of its own shares. The remaining 25 percent is spread across unidentifiable private and institutional investors around the world.

Key share data

	2013	2012
Closing price in €	25.40	32.11
Year high in €	35.14	33.24
Year low in €	22.50	22.03
Total number of shares at year end	86,943,945	86,917,445
Market capitalization at year end in € millions	2,208.40	2,790.90
Free float in %	62.0	71.2

* Source: XETRA closing prices.

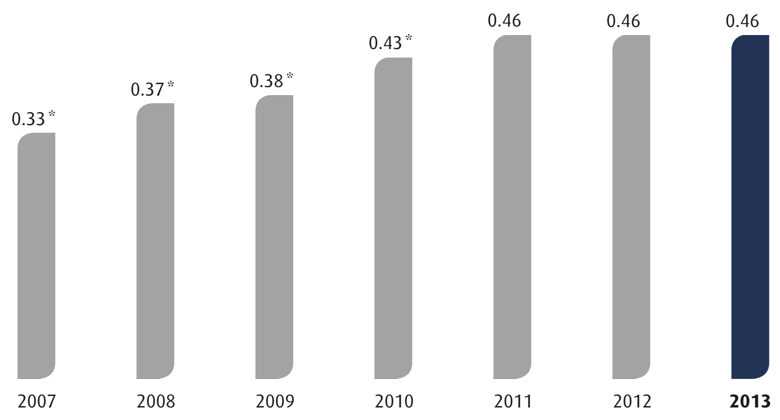
The Software AG Foundation is an important anchor investor holding **29 percent** of Software AG's stock.

Free float is defined as the percentage of a stock corporation's shares that can be traded freely on the stock market because they are not being held in larger volumes by long-term investors. As per this definition, Software AG's free float—less Software AG Foundation's shares and Software AG's treasury shares—was about 62 percent at the end of January 2014.

In terms of the geographical distribution of the identified free float, a total of about 30 percent is known to be held in Germany, 23 percent in the USA, 14 percent in the U.K., 8 percent in Scandinavia, followed by 7 percent in France and 6 percent in Benelux. Other regions account for a total of 12 percent.

Pursuant to disclosures required by stock corporation law, in addition to the Software AG Foundation, Fidelity FMR LLC and Software AG held more than 3 percent and 5 percent of the Company's voting shares at the end of 2013.

Dividend development since 2007



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

Broad coverage through international broker firms

Software AG maintains close, ongoing interaction with stock market analysts, whose assessments provide a key foundation for investment decisions among all types of investors. Twenty-six investment banks were reporting on Software AG at the end of January 2014. Their investment appraisals were largely positive, with 14 recommendations to buy, seven neutral recommendations and five recommendations to sell. Their average target share price was €30.

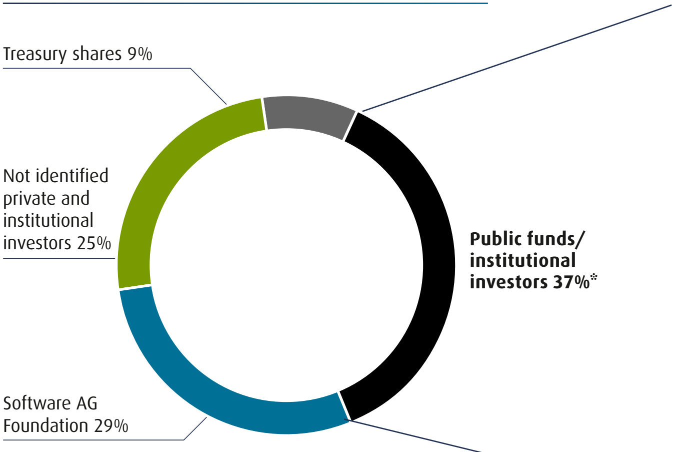
Expansion of target-specific investor communication

Software AG's investor relations activities not only focus on continuously raising awareness about Software AG as an attractive investment. Consistently counteracting misunderstandings in the capital market, embracing feedback from target groups and pursuing innovative means of communication are also components of investor relations at Software AG.

Each year Software AG's Investor Relations team commissions an external service provider to survey a representative cross section of at least 40 active analysts and investors using a wide variety of questions on the quality of the Company's investor relations work.

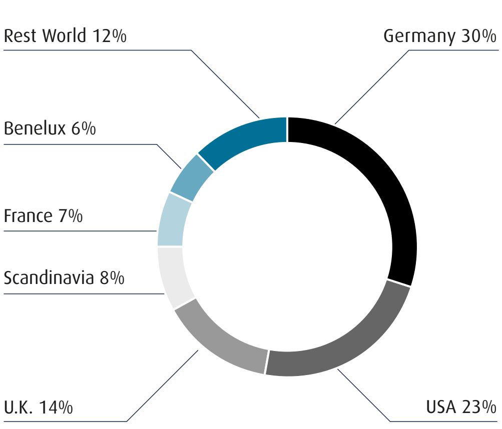
The most recent survey, conducted in October 2013, confirmed the quality of interaction with the Investor Relations department. It will step up information on the Company's

Shareholder structure by investor group



* Source: ThomsonOne, January 2014.

Shareholder structure by region



We value a quality relationship with investors and are continuously enhancing our IR activities.

strategic focus, products and competitive environment in the future. Furthermore, to ensure better comparability with U.S. competitors, Software AG will embrace a suggestion to report EBIT adjusted for special effects, such as acquisitions, as of fiscal 2014.

In the age of digitization and rapid dissemination of capital market information, Software AG has opted not to print its Annual Report for the past two years. Other companies have already followed in adopting this innovative step as well.

Instead, the Company invested more time and money to expand its up-to-date online reporting offering (Refer to: www.softwareag.com/Investor Relations).

This effort was recognized in the year under review. Netfederation awarded first place in the TecDAX to Software AG's Internet presence. In addition, Software AG was the only TecDAX stock to place among the TOP 20 of Germany's 100 largest publicly traded companies.

Active investor relations work

As part of Software AG's ongoing communication with the capital market, we utiliize events such as analyst and investor conferences and the Annual Shareholders' Meeting as a means for personal exchange between the Company's management and capital market participants. Due to the global character of Software AG's investor base, teleconferences are another important means of communication.

In fiscal 2013, Software AG participated in 20 investor conferences in Germany, the U.K., France and the USA, some spanning multiple days. Twenty-two road shows were held in European and North American financial hubs. Furthermore,

Top 5 investors

	in %
Software AG Foundation	28.99
Fidelity Manangement & Research	3.50
Templeton Investment Counsel LLC	3.00
Alken Asset Management LLP	2.96
Deka Investment GmbH	2.87

* Source: ThomsonOne, January 2014.

investors visited Software AG's corporate headquarters. In total, the Company held more than 350 conversations with investors during the year.
At the annual Investor Day in Darmstadt, investors and analysts alike learned about the current situation at Software AG. The main topics of interest were the Digital Enterprise, Terracotta, product positioning, market entry and the Company's strategic focus. Attendees were also able to meet with senior members of management and discuss their in-depth questions.
CeBIT in Hannover, Germany and Process World in San Francisco, USA offered ideal platforms for exchange between Software AG investors, management and customers.

Software AG considers target-specific, up-to-date, transparent and comprehensive communication with all capital market participants to be of utmost importance. Its standard remains: Providing all investors with the same comprehensive level of information and ongoing optimization of communication.

Key data

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

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

Indices

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

Corporate Governance

Statement on Corporate Governance/ Corporate Governance Report

All information contained in this Statement on Corporate Governance reflects the situation as of February 12, 2014.

Basic understanding

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

The Management Board and Supervisory Board

Management Board

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

Karl-Heinz Streibich

Born in 1952, degree in communications engineering, Chairman of the Management Board/Chief Executive Officer of Software AG since September 2003. His term is in effect until 2018. In addition to chairing the Group Executive Board, his corporate responsibilities include: Corporate Communications, Global Legal, Global Audit, Processes&Quality, Global Partner Management, Corporate Office and Top Management Development.

He is a member of the supervisory board of Deutsche Telekom AG, Dürr AG, Deutsche Messe AG and MANN+HUMMEL GMBH (until April 1, 2014). He serves on a volunteer basis on the steering committee of the German BITKOM IT association. He also co-chairs the German Chancellor's National IT Summit's working group 3, "Innovative State IT Offerings." Mr. Streibich is also a co-founder of the German cluster of excellence for software and a member of the Council of the Economy and Future of the Hessian state government.

Arnd Zinnhardt

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

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba) and serves on a volunteer basis as vice president of the Darmstadt Chamber of Industry and Commerce (IHK).

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

Group Executive Board

The Group Executive Board is an extension of management and enables the Management Board to implement the corporate strategy throughout the entire Company by direct or collaborative channels. The following people left the extended management team in fiscal year 2013: Tönnies-Hilmar von Donop on March 31, 2013, Mark Edwards on April 30, 2013, Robin Gilthorpe on October 24, 2013 and Darren Roos on December 31, 2013. New members were Arno Theiß as of April 1, 2013 and Dr. John Bates as of October 15, 2013. As of the end of the year under review, the Group Executive Board consisted of seven people: the members of the Management Board plus Dr. John Bates, John (Jay) Johnson, Arno Theiß and Ivo Totev.
For more detailed information on the members of the Group Executive Board and their specific areas of responsibility, please visit: www.softwareag.com/de/company/people/geb/

Supervisory Board

The Supervisory Board appoints, monitors and advises the Management Board. The Management Board reports to the Supervisory Board regularly, in a timely manner and comprehensively on the Company's performance, strategy, planning, risk situation, risk management and compliance. The Supervisory Board determines the remuneration of the members of the Management Board in accordance with the proposal of the Committee for Compensation and Succession Issues, decides on the Management Board's remuneration system and reviews it regularly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, leads its meetings and maintains contact with the Chairman of the Management Board between Supervisory Board meetings to discuss strategy, planning, business performance, the risk situation, risk management and compliance. The Chairman of the Management Board informs him without delay of any important events, which are relevant to the assessment of the Company's position and performance and to the leadership of Software AG. Transactions that require the approval of the Supervisory Board are listed in the Rules of Procedure of the Management Board. If necessary, the Supervisory Board meets without the Management Board.
In fiscal year 2013, the following were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (Director of asset management at Software AG Foundation), Hermann Requardt (member of the management board of Siemens AG, CEO of Healthcare, director of Corporate Technology), Anke Schäferkordt (member of the management board of Bertelsmann AG; CEO, RTL Group) and Alf Henryk Wulf (independant consultant).
The employees of Software AG and its subsidiaries in Germany elected their representatives to the Supervisory Board on August 27, 2010. In the year under review, the following were employee representative members to the Supervisory Board: Peter Gallner (trade union secretary of Vereinte Dienstleistungsgewerkschaft VERDI), Dietlind Hartenstein (employee of Software AG), Monika Neumann (Dep. Chairwoman of the Superisory Board, employee of SAG Deutschland GmbH and Chairwoman of the Software AG General Works

Council), Roland Schley (employee of Software AG), Martin Sperber-Tertsunen (trade union secretary of IG Metall) and Karl Wagner (employee of Software AG).

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

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

In the past fiscal year, the Committee for Compensation and Succession Issues met three times, the Audit Committee twice and the Strategy Committee once. The Nominating Committee did not convene in 2013. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

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

For more detailed information on the Supervisory Board's work and resolutions, please refer to the most recent Report of the Supervisory Board. For more detailed information, including curricula vitae, on the members of the Supervisory Board and their committee membership, please visit www.softwareag.com/uk/company/people/svb/.

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

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

Our voluntary commitment to the code of business conduct and ethics provides ethical and legal guidelines for our business activities.

At all times during fiscal year 2013, the Supervisory Board consisted of six independent members, which is the number determined by the Supervisory Board in accordance with point 5.4.2 of the German Corporate Governance Code. Software AG maintains no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist.

Shareholders and Annual Shareholders' Meeting

The Annual Shareholders' Meeting is one of our main corporate bodies, through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including ratification of the actions of the Management and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation and measures that change the Company's capital. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business developments, financial performance and assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 3, 2013 in Darmstadt. Approximately 71.05 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 16, 2014 in Darmstadt. As in past years, Software AG posts the invitation to the Annual Shareholders' Meeting, the legally mandatory reports and documents as well as the agenda well in advance to its website at www.softwareag.com/uk/inv_rel/annualgenmeeting/. Pursuant to the recommendations of the Corporate Governance Code, we conduct the Annual Shareholders' Meeting in an expedient manner, preferably within a time frame of four hours. To conduct the Annual Shareholders' Meeting efficiently, the chairperson has the option to cut short speakers who stray from the topic at hand and to refer to detailed information already published on the website. Shareholders who do not wish to exercise their voting rights may authorize a member of the Company to vote by proxy in accordance with the shareholder's instructions. Portions of the Annual Shareholders' Meeting are also be broadcast via the Internet. The invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda are published on the Software AG website along with the date of the Meeting. The resolutions adopted by previous shareholders' meetings as well as the quarterly reports of preceding fiscal years can also be found there.

Code of business conduct and ethics

Software AG established a code of business conduct and ethics in fiscal year 2011. It includes ethical standards applicable to the Company worldwide and is available on Software AG's website at www.softwareag.com/uk/inv_rel/csr/code_of_conduct/. The code includes specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. In the year under review, 297 employees received certificates of successful completion of a course on the subject of the code. The Compliance Board meets monthly and makes decisions about questionable cases. In total, Software AG employees addressed the Compliance Board with 24 inquiries in 2013. The Compliance Board consisted of Ms. Christine Schwab (General Counsel), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Mr. Hanjörg Beger (Senior Vice President, Human Resources) in the year under review.

Financial reporting standards and auditing

The 2013 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO), as Company auditor.

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

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

Primary auditors' fees and services

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €921 thousand (2012: €822 thousand). Of this amount, €844 thousand (2012: €714 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €6 thousand (2012: €7 thousand) to tax advisory services, €71 thousand (2012: €76 thousand) to other testation services and €0 thousand (2012: €25 thousand) to other services.

Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. We participated in numerous investor conferences, road shows and other capital market events in fiscal year 2013.

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

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

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

We also fully comply with the Act on Electronic Commercial Registers, Registers of Cooperatives, and Business Registers (EHUG), which came into force on January 1, 2007, by sending the operator of the electronic version of the Federal Gazette all documents requiring publication in electronic form as prescribed by the Act.
All ad hoc disclosures, press releases, as well as presentations given at press and analysts' conferences and road shows are published promptly to the Investor Relations section on the website of Software AG (www.softwareag.com/corporate/inv_rel/). The corresponding dates can be found in our financial calendar, which is also published on our website.
Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. The most recent study, conducted in October 2013, resulted in a good overall rating.

Opportunities and risks

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

Changing voting shares (Disclosure pursuant to Section 26 (1) of the Securities Trading Act [WpHG])

For information on Software AG's shareholder structure, please refer to the section on the Software AG share. Disclosures on changes to voting shares in fiscal 2013 pursuant to Section 26 (1) of the Securities Trading Act (WpHG) are published on the Software AG website (www.softwareag.com/corporate/inv_rel/stockinfo/wphg/).

Our business practices are shaped by open and transparent communication.

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

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

No transactions subject to mandatory disclosure were announced in the 2013 calendar year.

Stock option plans

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

Shareholdings of the members of the Management Board and Supervisory Board

Management Board

Members of the Management Board:	Number of shares
Karl-Heinz Streibich	5,250
Arnd Zinnhardt	25,353
Dr. Wolfram Jost	0

Supervisory Board

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

Compliance with the German Corporate Governance Code

2013 declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board hereby declare that in fiscal year 2013 (January 1 to December 31, 2013), all recommendations of the government commission's German Corporate Governance Code dated May 15, 2012 were followed during the period from January 1, 2013 to June 9, 2013, and during the period from June 10, 2013 to December 31, 2013, the code dated May 13, 2013 was followed, with the exceptions described below. The Management Board and Supervisory Board would like to add the following:

The code contains a new recommendation under point 4.2.2, paragraph 2, sentence 3 that when total remuneration for members of the Management Board is being determined, "the Supervisory Board should consider the overall correlation between the remuneration of the senior most managers and that of staff members including progression over time. For the comparison, the Supervisory Board must also define where the line between senior managers and relevant staff members is."

The Supervisory Board defines the members of the Group Executive Board of Software AG as relevant senior management; relevant staff members are employees in Germany. The Supervisory Board's next review of the Management Board's remuneration, which will be in summer 2014 because the latest comparative figures from 2013 will not be available until then, will compare remuneration of these groups of people and its progression over time, so as to be able to declare compliance with this recommendation.

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

Current Management Board members' contracts stipulate for short-term variable remuneration a maximum percentage of the respective target amounts, based on which a maximum amount can be calculated. Their long-term share-based remuneration (PPS and MIP) is not subject to a maximum limit. Current Management Board contracts therefore do not stipulate a maximum limit for total remuneration.

A retroactive change to these contracts would be inappropriate due to the principle of contract fidelity and not feasible for the Company. The Management Board and Supervisory Board agree that the code does not require amendments to existing contracts. They intend to apply the code's recommendation accordingly to new Management Board members' contracts.

A further new recommendation of the code stipulates under point 4.2.3, paragraph 3 that, "With respect to pension commitments, the Supervisory Board should determine the relevant target pension level—even after service to the board has ended—and consider the annual and long-term expense incurred to the Company."

The target level of pension in the pension commitments stipulated in the current Management Board contracts

Software AG's policies ensure sound and responsible management in all areas of the Company.

depends upon the length of service on the Management Board. The Supervisory Board will consider the annual and long-term expense incurred to the Company when making future pension commitments so as to be able to declare compliance with this recommendation.

The new code recommends under point 4.2.5, paragraph 3, sentence 2 that remuneration reports from fiscal years beginning after December 31, 2013 should provide additional information through the use of prescribed table templates. The Management Board and Supervisory Board agreed that this will be adopted for fiscal year 2014 so that compliance can be declared.

Darmstadt, January 30, 2014

Software AG

The Management Board The Supervisory Board

Report of the Supervisory Board

DR. ING. ANDREAS BERECZKY
Chairman of the Supervisory Board

Dear Ladies and Gentlemen, Dear Shareholders,

Software AG consistently drove its strategic realignment in fiscal 2013. Its five technology acquisitions (three corporate acquisitions, one minority interest with an acquisition option and one corporate division acquisition) significantly expanded the Business Process Excellence (BPE), Intelligent Business Operations and Big Data product portfolios. Furthermore, core components of Software AG's BPE portfolio are now available from the cloud (Software AG Live). In 2013 Software AG invested an additional €50 million in sales and marketing in order to establish the conditions that will allow it to leverage its technology leadership for gaining additional market share. The Supervisory Board was closely involved with the Management Board's and Group Executive Board's (GEB) strategy implementation. We are positive that the realignment will secure the Company's future and increase its market value accordingly.

Collaboration between the Management Board and Supervisory Board

In fiscal year 2013, the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Management Board in running the Company and supervised its management. In doing so, the Supervisory Board was directly involved in all key decisions about Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly about all important aspects of strategy, planning, business development, the risk situation, and risk management, as well as compliance, and was available to the Supervisory Board in meetings for questions and discussions. Deviations from planned business developments were explained in detail.

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

Deliberations of the Supervisory Board addressed the Company's strategic direction and measures for strategy implementation, financing activities, the repurchase of treasury stock and risk management. The M&A projects were discussed in depth by the responsible Strategy Committee. Based on the committee's recommendations, the Supervisory Board also deliberated and then approved the acquisitions.

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

Supervisory Board meetings

The Supervisory Board held seven ordinary meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held two extraordinary meetings. For one of them the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to hold meetings by telephone. If a member of the Supervisory Board was unable to attend a session, he or she had the option of participating via telephone or cast ballots in writing. On two occasions the Supervisory Board and on one occasion the Strategy Committee took advantage of the option permitted by the Articles of Incorporation to cast a vote in writing by means of circulation procedure. No member of the Supervisory Board attended fewer than half the Supervisory Board meetings.

The following table illustrates the attendance of members at Supervisory Board meetings held in 2013:

Supervisory Board 2013	2/7	3/18	4/22	5/3	5/3	7/26	8/26	10/25	12/6
Bereczky	x	x	x***	x	x	x	x	X	x
Berchtold	x	x	x	x	x	x	e	x	x
Gallner	x	x	x	x	x	x	x	x	x
Geidt	x	x	x	x	x	x	x	x	x
Hartenstein	x	x	x	x	x	x	x	x	x
Neumann	x	x	x	x	x	x	x	x	x
Requardt	X	e*	e*	x	x	x	x	x	x
Schäferkordt	e	x	x	x	x	e	x	x	x
Schley	x	x	x	x	x	x	x	x	x
Sperber-Tertsunen	x	x	x	x	x	x	x	x	x
Wagner	x	x	x	x	x	x	x	x	x
Wulf	x	x	x	x	x	x	e	x	x**

e = Excused
* Ballot cast in writing.
** Partially
*** Partially, due to conflict of interest.

At the first meeting of the year on February 7, 2013 the Supervisory Board examined, among other things, the effects of a buyback of treasury shares and approved the Management Board's decision to take advantage of its authorization to acquire treasury shares worth up to €180 million granted by the Annual Shareholders' Meeting on May 21, 2010. At this meeting the Supervisory Board also redefined the goals of its membership composition, according to which, Supervisory Board members: a) should be actively engaged in their careers and not exceed the age of 65, b) must have experience in a specific area of expertise, c) should have female representation of 25-percent, d) should be familiar with the requirements and duties associated with the two-tier governance structure of German Stock Corporation Law. In addition, the Supervisory Board determined that at least six independent members as defined by point 5.4.2 of the Corporate Governance Code must be on the Supervisory Board. Furthermore, the Chairman of the Supervisory Board presented the results of the annual efficiency audit, which was discussed in depth at this first meeting.

At the accounts meeting on March 18, 2013, in the presence of financial auditors, the 2012 financial statements and consolidated financial statements were discussed in depth and, following the Audit Committee's own thorough audit and recommendation, approved by the Supervisory Board. At this meeting the Supervisory Board also approved the proposed resolutions for the Annual Shareholders' Meeting agenda. With regard to Management Board issues, the Supervisory Board determined the Management Board members' achieved variable remuneration for fiscal 2012 after the financial auditors' verification of the accuracy of its calculations. The Supervisory Board also decided that members of the Management Board may serve in a maximum of five external supervisory board positions and must continue to submit each individual appointment to the Supervisory Board for approval.

The agenda for the extraordinary telephone meeting of the Supervisory Board on April 22, 2013 included the discussion of and decision regarding various acquisition options. The last item on the agenda for this meeting was to vote on the acquisition of all shares of alfabet AG. At the beginning of the meeting, the Chairman of the Supervisory Board communicated the following conflict of interest: "I am deputy chairman of the supervisory board of the potential target company [alfabet AG] and hold 4,399 virtual options from two of this company's stock option plans." For this reason, the Chairman of the Supervisory Board proposed that, to address the conflict of interest, he would not take part in the discussion of the project [acquisition of all shares of alfabet AG] and, above all, would not participate in the vote on this project. Dr. Bereczky proposed that Ms. Neumann, Deputy Chair of the Supervisory Board, assume leadership of the meeting during the discussion of the project. The Supervisory Board unanimously approved the proposed manner of handling the Chairman's conflict of interest described above. Later in the meeting, based on the recommendation of the Strategy Committee and its own exhaustive discussion, the Supervisory Board decided in favor of the acquisition of all shares of Relational Networks Inc. (LongJump), the acquisition of the Apama division of Progress (asset deal), the acquisition of all shares of JackBe Inc. and—in the absence of Dr. Bereczky and under the chairmanship of Ms. Neumann—the acquisition of all shares of alfabet AG.

Two meetings took place on May 3, 2013, the day of the Annual Shareholders' Meeting. In the first meeting prior to the Annual Shareholders' Meeting, business development in the first quarter of 2013 was the topic at hand. After the Annual Shareholders' Meeting, another meeting took place in which the various M&A projects were reviewed. And, following an exhaustive discussion, the resolution was passed to a) issue a promissory note worth a total volume of €150 million and b) enter an agreement with the European Investment Bank for a loan of €100 million.

The next meeting took place on July 26, 2013. This meeting dealt primarily with the presentation of strategically relevant projects as well as the sale of all shares in Software AG subsidiaries located in the Czech Republic, Hungary and Slovakia—primarily SAP consulting operations—to the itelligence group. With regard to Management Board issues, on the recommendation of the Committee for Compensation and Succession Issues, the early reappointment of CEO Mr. Karl-Heinz Streibich and a relevant pension commitment adjustment were discussed—in the absence of all members of the Management Board. In light of the resulting continuity during a period of strategy transition and Company transformation, the decision was made to reappoint Mr. Streibich as member and Chairman of the Management Board for a term of five years from August 1, 2013 to July 31, 2018 and to adjust his pension commitment accordingly.

On August 26, 2013 in an extraordinary telephone meeting, the Supervisory Board stated its agreement with Mr. Streibich's nomination for a court appointment to the supervisory board of Deutsche Telekom AG thereby approving Mr. Streibich's acceptance of an appointment to the supervisory board of Deutsche Telekom AG.

In a meeting on October 25, 2013 the Supervisory Board discussed measures for strategy implementation in 2014 and their effects using the strategic plan for 2014, which aids in preparing the 2014 budget. A second topic discussed at this meeting was the decision of the Management Board to take advantage of its authorization to acquire treasury shares granted by the Annual Shareholders' Meeting on May 3, 2013 in order to buy treasury shares on the stock market up to a volume of €110 million until the 2014 Annual Shareholders' Meeting using a bank independent of the execution of the buyback. The Supervisory Board approved this decision unanimously.

In the last meeting of the year on December 6, 2013 the Supervisory Board discussed, among other topics, the preliminary budget for 2014 without making a decision. The Chairman of the Audit Committee also gave a detailed report on the meeting of the Audit Committee on the same day.

Committees

To fulfill its duties efficiently in 2013, the Supervisory Board established the Committee for Compensation and Succession Issues, the Audit Committee, the Nominating Committee, the Strategy Committee and, pursuant to section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairs reported to the Supervisory Board plenum about the results of the respective committee meetings.

The Mediation Committee has the number of members required by law (four) and is constituted based on parity. It was chaired by Andreas Bereczky. The Mediation Committee did not convene in 2013.

The Committee for Compensation and Succession Issues prepares staff-related decisions made by the Supervisory Board to the extent that they affect the remuneration policy of the members of the Management Board. It has four members and is constituted based on parity. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met three times in fiscal year 2013. It dealt with personnel matters related to the Management Board, particularly the Management Board members' defined targets for fiscal 2013, preparation of the Supervisory Board's decision regarding their achievement of these targets and the resulting determination of their achieved variable remuneration for fiscal 2012, and the early reappointment of Mr. Karl-Heinz Streibich as member and Chairman of the Management Board.

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

Committee for Compensation and Succession Issues 2013	2/7	3/18	7/26
Bereczky	x	x	x
Neumann	x	x	x
Hartenstein	x	x	x
Wulf	x	x	x

The Audit Committee deals with issues related to monitoring the financial reporting process, half-year and quarterly reports, financial statement audits—particularly the independence of the auditor as well as the efficacy of risk management. It has six members and is constituted based on parity. The Audit Committee was chaired by Willi Berchtold. The Audit Committee met twice in fiscal year 2013. In a meeting on March 18, 2013, and in the presence of auditors, it dealt with the annual financial statements and the management report, the consolidated financial statements and Group management report, the Management Board's proposal on the appropriation of profits, the selection of the financial auditor for fiscal 2013 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. On December 6, 2013 the Audit Committee examined the internal controlling and audit system of Software AG, the risk report, the results of the preliminary audit and the focal points of the final audit for 2013.

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

Audit Committee 2013	3/18	12/6
Berchtold	x	x
Gallner	x	x
Geidt	x	x
Schäferkordt	x	x
Schley	x	x
Wagner	x	x

The Strategy Committee has six members. It is constituted based on parity. This committee deals primarily with the preparation of and success monitoring of strategic partnerships, acquisitions and joint ventures. It was chaired by Andreas Bereczky. The Strategy Committee met once in 2013. At the beginning of the meeting the Chairman of the Supervisory Board communicated the conflict of interest relating to the acquisition of alfabet AG, which was described in the account of the Supervisory Board's telephone meeting on April 22, 2013, to the Strategy Committee and proposed that he not participate in the Strategy Committee's discussion on the project [acquisition of all shares of alfabet AG] or, above all, in the vote on this project. Dr. Bereczky proposed that Mr. Schley, Deputy Chair of the Strategy Committee, assume leadership of the meeting during the discussion of the project. The Strategy Committee unanimously approved the proposed manner of handling the Chairman's described conflict of interest. Later in the meeting the Strategy Committee drafted and approved its recommendations concerning the M&A projects. The alfabet AG project was the last item on the agenda to be discussed—in the absence of Dr. Bereczky and led by Mr. Schley.

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

Strategy Committee 2013	4/17
Bereczky	t**
Schley	x
Hartenstein	e
Requardt	x[t]
Sperber-Tertsunen	x
Wulf	x

e = Excused
t Attended via phone
** Partially due to conflict of interest

The Nominating Committee was chaired by Andreas Bereczky. It did not convene in fiscal year 2013.

Annual audit

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2013.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, examined the financial statements and consolidated financial statements for the year ended December 31, 2013, as well as the management report, and the accounting books and records. The auditor issued an unqualified audit option.

The audit reports were presented to the Supervisory Board, and the head of the audit team explained the results in person to the Audit Committee, the Supervisory Board as a whole and the Management Board. The Audit Committee and the Supervisory Board thoroughly reviewed the audit reports in their meetings on March 17, 2014. The Supervisory Board concurred with the results of the audit and approved the financial statements and consolidated financial statements. This constitutes formal approval and acceptance of the annual financial statements. We, the Supervisory Board, uphold the recommendation of the Management Board with respect to the appropriation of profits.

German Corporate Governance Code

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code again in fiscal year 2013. At its meeting on February 7, 2013 the Supervisory Board defined the objective that at least six independent Supervisory Board members as defined by point 5.4.2 of the Corporate Governance Code (dated May 15, 2012) must be on the Supervisory Board. At all times during fiscal year 2013 at least six independent members as defined by point 5.4.2 of the German Corporate Governance Code were on the Supervisory Board.

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2013 (For further information, refer to the Remuneration Report. The remuneration system for the members of the Management Board did not change in 2013.

No conflicts of interest on the part of members of the Supervisory Board other than that of Dr. Bereczky relating to the acquisition of all shares of alfabet AG as described above arose. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Management Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report. The declaration of compliance has been made public on the Company's website at: www.softwareag.com/uk/inv_rel/corpgovernance/compliance/.

Changes to the Management Board and Supervisory Board

There were no personnel changes on the Management Board or Supervisory Board of Software AG in 2013.

The Supervisory Board would like to thank the Management Board and all employees for their great dedication and excellent work during fiscal year 2013.

Darmstadt, March 17, 2014

The Supervisory Board
DR. ING. ANDREAS BERECZKY
Chairman

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

Group Management Report

63 _ Business and General Conditions
63 _ Corporate structure and business activities
68 _ Corporate control, objectives and strategy
70 _ Research and development (R&D)
73 _ Economic Report
73 _ Summary of business development
76 _ Financial performance
85 _ Financial position
87 _ Assets
97 _ Overall statement on financial position
98 _ Events After the Balance Sheet Date
98 _ Disclosure of changes of particular significance
98 _ Risk and Opportunity Report
98 _ Risk management system
101 _ Specific risks
106 _ Opportunities
107 _ General statement on the Group's risk situation
108 _ Remuneration Report
121 _ Forecast
121 _ Economic conditions in the next two fiscal years
121 _ The Group's focus
122 _ Expected financial performance
123 _ Anticipated financial position
125 _ Takeover-Related Disclosures
125 _ Subscribed capital and voting rights
125 _ Conditional capital
125 _ Authorized capital
125 _ Share buyback
125 _ Significant shareholders
126 _ Appointment/dismissal of Management Board members and changes in the Articles of Incorporation
126 _ Change of control
126 _ Statement on Corporate Governance

Business and General Conditions

Corporate structure and business activities

Legal corporate structure

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

Business lines and organizational structure

Software AG is a leading provider of process and integration software and guides its customers in their transformation to a Digital Enterprise. We help them design IT infrastructures that are so flexible that they can be adapted quickly and easily to ever changing business needs. This flexibility and agility are key for companies to be competitive. It is an ongoing necessity to adjust to IT's short innovation cycles and the advancing digitization of our society.

Software AG solutions build on existing IT landscapes that have evolved gradually over years, often becoming extremely heterogeneous. At some point these complex IT infrastructures can no longer keep up with state-of-the-art technology. They drive maintenance costs up and stop meeting their actual purpose—namely to provide efficient and automated mapping and support of business processes.

This is when transformation becomes unavoidable: IT systems must be harmonized and modernized. It usually isn't just a matter of rebuilding the IT architecture, but rather an extensive and continuous overhaul of all processes in the organization. This creates a cycle. New technologies enable business processes to be modified and designed more efficiently. At the same time, meeting new requirements associated with how business is done necessitates more modern IT systems. Thanks to its products and services, Software AG considers itself to be an engine of this transformation cycle affecting all organizations.

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

The **Business Process Excellence (BPE)** segment consists of software products for completely integrated solutions in the field of Business Process Management for organizations of all industries and sizes. These products and services enable automated analysis, development, control and optimization of data. Our offering covers the entire value-creation chain: from analysis, consulting and planning to development, implementation and even monitoring of processes across the entire organization.

The webMethods and ARIS (process software) product families as well as the Terracotta products, a subsidiary acquired in 2011, make up the key components of this segment. We enhanced our BPE product portfolio with five technology acquisitions during the year under review: Apama, the leading Complex Event Processing (CEP) technology, Alfabet, a leading provider of Enterprise Architecture Management and IT portfolio management, metaquark, a mobile solutions company, LongJump, a cloud platform provider, and JackBe, a leading provider of real-time data visualization and analysis. For further information on Software AG's acquisitions in fiscal year 2013, please refer to the section on Assets of this Management Report.

Since Software AG was started, the **Enterprise Transaction Systems (ETS)** segment has offered database solutions for mainframes and the development and modernization of mainframe-based IT systems. With this segment we provide our customers long-term investment protection. Our high-performance Adabas database and the Adabas-Natural development environment have been playing an important role in the IT landscapes of large companies and government agencies for four decades. Our goal is to to open the traditional software applications, which form the technological backbone of their core processes, to new platforms and technologies such as the Internet and megatrends in IT.

The **Consulting** segment was realigned in the year under review, and, since the beginning of 2013, has encompassed all consulting and services pertaining to the BPE, ETS and IDS Scheer Consulting (IDSC) business lines. The goal was to combine all consulting activities and achieve a better profit contribution. Furthermore, we decided to focus our SAP consulting activities on process consulting and on German-speaking countries. As part of this, Software AG sold its Canadian and U.S. SAP service operations in the first quarter of 2013, followed by those in the Czech Republic, Hungary and Slovakia in the third quarter. In addition, we withdrew from unprofitable markets. This segment includes not only SAP consulting, but services for our BPE and ETS products as well. Separating consulting services from the product business allows Software AG to position itself more strongly as product-independent, vendor-neutral consulting partner and provide comprehensive support to organizations in their transformation projects. The operational consolidation resulted in changes to the segmentation of our reporting structure.

Major locations

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

Software AG has been working to strengthen its presence in the North American market since 2012. As the world's largest IT market, it holds great potential and will become a major driver of our business over the next ten years. We therefore moved some strategic functions, such as M&A, to the Silicon Valley. The region south of San Francisco, the home of our Terracotta subsidiary, is a renown hub of innovative, forward-looking startups, which are worthwhile investments. It is not only where technology trends are born, but by being there, we can identify marketing opportunities early and network closely with potential partners.

We expanded our sales network in North America in order to boost our process and integration software business. For example, in February 2013, we established **Software AG Government Solutions**, a U.S. subsidiary in Reston, Virginia. This unit improves our chances as a non-American company when bidding on contracts from the U.S. government for winning large deals with new customers from the public sector. When it comes to major projects with the public sector, customers prefer that topics of national security stay within domestic borders.

With this combination of measures we hope to assert ourselves more successfully against our major U.S. competitors in their home market. Our strategy produced a success already in the third quarter when the new subsidiary signed our largest deal to date with a customer in the U.S.

Management and control

Software AG is managed by a Management Board consisting of three members, who are appointed, monitored and advised by the twelve members of the Supervisory Board. Moreover, the seven-member Group Executive Board manages the Company's operational areas and geographic markets. For more detailed information on Software AG management, please refer to the Corporate Governance Report found in the Annual Report.

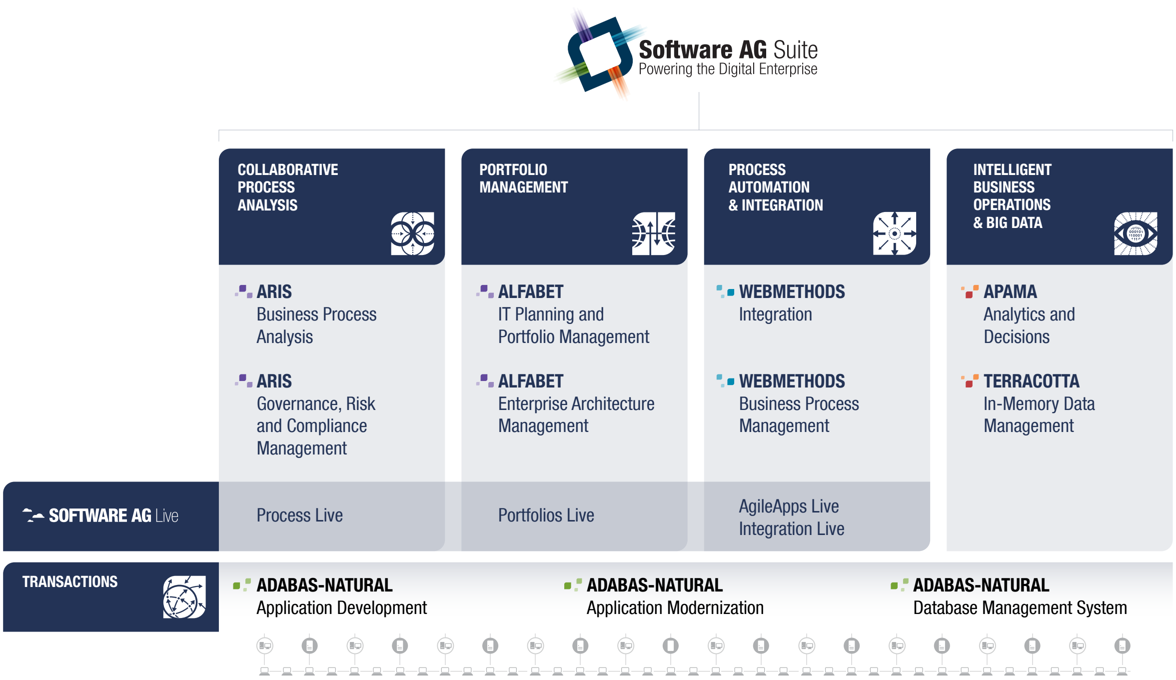
Key products, services and business processes

Software AG generates license and maintenance revenue from products in the BPE and ETS segments. All consulting services were merged under the Consulting segment in January 1, 2013.

Product and brand portfolio

Our entire product portfolio was brought together to form the Software AG Suite. It comprises data, integration and process platforms of established product brands with standardized, harmonized software products that complement each other. The software platforms are designed to support our customers transform to a Digital Enterprise. Specifically, the suite includes the five areas of BPE—Collaborative Process Analysis, Portfolio Management, Process Automation and Integration, Intelligent Business Operations and Big Data—as well as Software AG Live. The ETS field, known as Transactions, completes the product portfolio.

Software AG's brand architecture and product lines



Collaborative process analysis

- ARIS originally began as the first model to describe an enterprise information system 20 years ago. It has evolved into a technological platform for process excellence that enables companies to plan, visualize and evaluate processes, applications, technologies, data and organizational structures. It offers a central repository that ensures seamless integration of all information. It allows elements for planning, design and development solution scenarios to be reused across an organization. The platform provides all process stakeholders in an organization with target-specific information specifically relevant to their daily work. The new version of the platform was unveiled at the end of 2012 and for the first time incorporates the four technology trends—big data, cloud, mobile and social. The goal is to improve processes faster by applying more know-how and expertise from inside an organization to the design and testing of processes.

Portfolio management

- alfabet features technology platforms for planning and optimizing IT infrastructures. With them, organizations have a complete summary of their current IT portfolio allowing them to manage it and design a new, future-oriented architecture. IT environments are mapped in detail displaying everything from requirements, applications and technologies to projects, finances and risks.

Process automation and integration

- webMethods bridges a service-oriented architecture (SOA) with process automation/optimization and real-time monitoring and control of applications. With the help of this platform, organizations can use data from their existing systems to develop and operate automated, flexible and efficient business processes. This is achieved with Web-based programs, known as Web services, that form an independent integratiion layer over existing systems. Web services are unique because they can be reused in their entirety and partially to create new processes quickly.

Intelligent business operations and big data

- Apama is a flexible, high-performance platform for real-time development of event-driven applications. These include specific solutions for investment banks, funds and other institutional traders, for example, automated algorithm-based platforms for security and currency trading or market monitoring and surveillance applications.
- Terracotta manages enormous amounts of data (big data) using in-memory technology to search it and retrieve results in microseconds. This product family improves the performance and scalability of applications that work with large volumes of data.

Software AG Live

- Software AG Live is a cloud-based Platform-as-a-Service (PaaS) suite that enables organizations to meet their business needs more quickly. It facilitates collaboration in social networks and via mobile devices and can be integrated with existing systems in hybrid cloud environments. Software AG Live consists of:
  - Process Live: A collaborative process optimization application that enables cross-department/location collaboration for improving requirements management and business processes.
  - Portfolios Live: A cloud-based service for immediate, intuitive IT portfolio management.
  - AgileAppsLive: Allows non-IT business units to achieve process-driven, situation-specific visual modeling without the need for programmers.

Transactions

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

The ARIS, Alfabet, webMethods, Apama, Terracotta and Software AG Live product families belong to the BPE business line. Adabas and Natural form the product offering of the ETS business line.
The sale of our software products generally results in subsequent consulting, maintenance and service business. After all, technologies have to be integrated with our customers' specific IT environments and later expanded, modified and modernized. We have a global team to develop the maintenance business across countries and business lines, which promotes customer focus and loyalty. We are certain that this will have a positive impact on long-term profitability.

Key sales markets and competitive position

Software AG established itself as one of the world's leading providers of Business Process Excellence (BPE). The combination of our software and service portfolio for digitization, automation and integration of business processes is, according to numerous market studies, unique to the global market. It therefore gives us an excellent competitive position in a software market marked by rapid consolidation. Software AG's market reach improved considerably by achieving a critical mass, particularly in Europe's core markets. These unique selling points allow us to meet the growing needs of customers to improve their processes and to position ourselves in high-growth markets. Harmonization and integration of IT processes while becoming a Digital Enterprise is the key to long-term success for companies that compete globally. Here, our cross-industry portfolio delivers vendor-neutral solutions, covering the entire process life cycle. Supporting the value creation chain from end to end generates ongoing process innovations.

Adaptable IT strategies for greater agility

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

Market survey recognition

Numerous studies carried out by independent industry analysts confirm the strategy and quality of Software AG's product and service offering. Relevant industry analysts have been acknowledging Software AG's portfolio for years with top-ranked positions. Again in fiscal year 2013 numerous positive analyst ratings confirmed Software AG's product strategy. We were positioned as a leader in 14 market sectors by Forrester and Gartner. Software AG received the following distinctions in 2013:

- Forrester Research gave top scores for product strategy with ARIS 9 in the second quarter. The platform was put in the "leader" category by the "Forrester Wave for Enterprise Architecture Management Suites."
- Gartner positioned Software AG as a "leader" in its "Magic Quadrant for On-Premises Application Integration Suites" for webMethods Suite 9.0.
- We also qualified as a "leader" in Gartner's new "Magic Quadrant for Application Services Governance."
- Software AG was chosen over 68 other German vendors for its Terracotta in-memory and big data analytics solutions as "Big Data Leader 2013" in Experton Group's benchmark comparison.
- ARIS Risk & Compliance Manager was named a "leader" in Gartner's "Magic Quadrants for Enterprise Governance, Risk and Compliance (GRC) Platforms."
- Gartner's "Magic Quadrant for Enterprise Architecture Tools 2013" rated Software AG's platform suite as a "leader."
- And finally, we were able to secure a leadership ranking in Gartner's "Magic Quadrant for Integrated IT Portfolio Analysis Applications 2013" at the end of the year.

Legal and economic factors

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

Exchange rates have a notable economic effect on Software AG's globally oriented business.

Corporate control, objectives and strategy

Internal corporate control system

In order to increase our enterprise value for the long term, we want to continue growing profitably and increasing the financial strength of our Group. We use an internal information system to achieve these strategic goals. Above all, we regard BPE and ETS product revenue based on IFRS reporting as well as operating income (non-IFRS) as relevant performance indicators. Software AG defines operating income as follows:

Earnings before all taxes and interest
+ acquisition-related depreciation of intangible assets
+ acquisition-related decreases in product revenue by purchase price allocations
+ other acquisition-related effects on earnings
+ expenses resulting from share price-based remuneration
+ restructuring/severance expenses
= operating income (non-IFRS)

[For more information, refer to Earnings Development]

Operating income (non-IFRS) will be the focus of internal corporate management as of 2014. Earnings per share was the relevant KPI in the past fiscal year.

As with most companies in the software industry, capital-oriented financial indicators play a minor role for us. This is due to the fact that our business model's commitment of capital is low, and personnel expenses make up the largest expense block in our business.

Revenue and earnings monitoring

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

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

Cost management

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

Management of research and development

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

Cash flow management

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

Financial objectives

Following a year of transformation during which we proved our ability to adapt and innovate, we announced our next major milestone at the beginning of 2013. By 2018 we want our process and integration business together with big data solutions to account for 80 percent of total product revenue. This means annual growth between 10 and 20 percent—in just the BPE segment alone.

Non-financial objectives

We will focus on the opportunities that a Digital Enterprise offers customers in the upcoming years through the interplay between the four mega trends, big data, cloud, mobile and social. These trends will be the critical engines of growth in the software sector. The five acquisitions from the year under review are a key component of this strategy. Our long-term vision is to evolve into a global market leader in infrastructure software. We will propel this growth with our own efforts, but will not limit ourselves to that. We are prepared to make additional selective investments in innovation-driven businesses that will strengthen our technology leadership and boost our market share. Our ETS business line provides us with a highly profitable base and the flexibility to invest in visionary markets of the future. Furthermore, this segment gives us access to an established customer base that holds promising sales potential for new products.

Strategy

Software AG's strategy is aimed at sustainable profitable growth. We strive to continuously increase our enterprise value. We have achieved this during the past 10 years. Following our strategic realignment phase from 2003 to 2006, we were able to significantly accelerate our profitable growth in the period until 2009. The forces behind this growth were innovation, geographic expansion and accessing new customer groups via partners and strategic acquisitions.

Our long-term portfolio strategy is focused on the intensive expansion of our profitable, future-oriented BPE business. This segment has become our primary revenue generator over the past few years, most recently accounting for more than 43 percent of Group revenue. Each of the other two business lines contributed 28 percent to global revenue in the year under review.

Our targeted expansion of the high-growth BPE business included considerable investments in sales and marketing as well as in R&D in fiscal 2013. Additionally, we assigned the key North American IT market with a central position for our sales activities. This investment strategy is already paying off: The recently established Software AG Government Solutions unit in the U.S. reported its first large deals with the public sector in 2013. Furthermore, we have noted an increase in average deal size. A growing team of R&D specialists is continuously working to develop our product portfolio from both an innovation and requirement point of view. We give customers planning security by releasing two new product versions each year—in spring and fall.

In addition, Software AG made five technology acquisitions in 2013 in order to accelerate BPE growth, enhance its own innovative capacity and integrate new technological trends earlier. A forward-looking example is the acquisition of LongJump, a cloud platform provider, which paves the way to the high-growth cloud computing market for us.

A steady revenue decline is expected in the traditional ETS database business due to overall market saturation. But it will remain a pillar of stability and source of profitability for Software AG for a long time to come, because the ETS products continue to be key technologies for the core processes of large organizations. It is our priority to retain the broad established customer base to leverage for new BPE solutions. In the year under review we were able to keep the customer base relatively stable and profit margin at a high level though stringent cost management.

We completed a successful turnaround in the Consulting segment: Global Consulting Services was put under new leadership, and a new uniform implementation methodology was rolled out worldwide to ensure effective and efficient processing of orders. In addition, the focus of our SAP service operations was shifted to process-oriented SAP consulting in Germany, Austria and Switzerland by exiting unprofitable markets and selling the North American and Eastern European business units. The realignment of Consulting led to a decline in revenue but also to a positive segment contribution. It had no impact on services related to Software AG products.

As a product company, Software AG's strategy is to optimize its revenue mix and achieve disproportionately strong growth in the high-margin license and service revenue from the BPE business line. The reason is this segment's significant potential for growth and higher earnings compared to Services. License sales in the software sector are considered to be a key indicator of future growth because they typically lead to long-term, recurrent maintenance revenue that is characterized by a particularly high profit margin.

Research and development (R&D)

The focus of R&D activities

The IT industry is facing a radical transformation, fuelled by the convergence of four mega trends: big data, cloud, mobile and social. These technologies are changing the way in which companies interact with customers, partners and employees. Every company needs a digital strategy to survive this new era. Competitive advantages will be created by using market data in real time, making fast decisions and with the help of agile business processes. Organizations must become Digital Enterprises if they want to be able to react quickly and flexibly to customer needs despite growing, highly complex IT landscapes.

R&D expenditures and investments

In a globalized, extremely dynamic world, a software company can only grow sustainably with ongoing innovation. As a market-leading company, Software AG must therefore continually enhance and develop its portfolio. That is why R&D plays a key role in Software AG's business and growth strategy.

In 2013 Software AG's R&D strategy combined customer-centric development of existing solutions, product innovations and integration of newly acquired technologies. Joint research projects with colleges and universities, technology partners and users provided valuable insight as well. This R&D mix is the foundation of Software AG's sustainable technology lead. Our focus is always on our customers because only those innovations that offer a clear added value are successful in the market.

With that in mind, Software AG increased R&D expenses in fiscal 2013 by 7 percent to €107.9 million (2012: €101.1 million).

R&D employees

As of December 31, 2013, 998 (2012: 887) Software AG employees (average number of employees, i.e., part-time employees are taken into account on a pro-rata basis only) worked in R&D in 13 countries worldwide. This is a 13-percent rise year on year. The majority of R&D employees are based in Germany, India and the United States of America.

R&D earnings in 2013

Software AG focused its R&D activities primarily on the intensive and innovative expansion of the product suites in its high-growth BPE business line. In order to turn innovations over to the market quickly, to secure interoperability of the product lines and to give customers planning security, Software AG will unveil the new versions of its products twice a year, at CeBIT in spring and at Innovation World in fall. ARIS 9.5 and webMethods 9.5 were released in fall 2013 according to the new schedule.

The planning and implementation of IT landscapes plays a major role in the field of Enterprise Architecture Management (EAM), which is part of BPE. Software AG enhanced its EAM portfolio in 2013 with the acquisition of the leading EAM provider, Alfabet AG. Integrating ARIS, the market-leading process modeling and analysis platform, with the Alfabet products, enables customers to better coordinate and comprehensively optimize the transformation of their processes and the necessary adaptation of their IT landscapes.

With the new ARIS Connect, crowdsourcing (the interactive collaboration and mutual generation of ideas among multiple users via the Internet and social media) can now be employed for improving processes via a cloud-based tool.

Companies need universal solutions such as those offered by Software AG's Intelligent Business Operations platform (IBO), introduced in 2013, to derive the desired cost efficiency and scalability from the explosive growth of data from heterogeneous sources (big data). This platform enables decision makers to recognize business-relevant events in real time and address them with automated processes. This increases organizations' agility and improves their results. In addition to Software AG messaging software, the IBO platform comprises Terracotta BigMemory, the leading in-memory data management solution for big data. It also includes integration, analytics and visualization functionality from JackBe technologies, acquired in 2013, and Apama complex event processing software, also bought in 2013. It allows companies to make immediate business decisions thanks to the ability to conduct real-time unified analysis of all business activities across all data streams.

With the LongJump cloud platform, acquired in 2013, end users can develop their own applications without the help of an IT department. With this addition, Software AG has expanded its offering to address smaller companies' and individual departments' IT projects. Decentralized application development plays a key role in the digitization of companies, because it frees up IT department resources. Software AG introduced its new Software AG Live cloud-based Platform-as-a-Service at Innovation World 2013. The platform is comprised of Process Live, Portfolios Live and Agile-AppsLive, with more to come in 2014.

Events and networks

Software AG presented its innovations at CeBIT 2013. One focus was the topic of Industrie 4.0, which, as a project endorsed by the German government, is currently receiving a great deal of attention in Germany. A model of an intelligent factory demonstrated how a manual production station could be transformed to a flexible software-driven work environment. The ARIS platform is employed to manage the individual stages of production and to visualize key indicators. Software AG participated in the Hannover Trade Fair with technology for Industrie 4.0. As part of the acatech Industrie 4.0 working group, Software AG co-authored implementation recommendations, which were presented to the German chancellor at the fair.

In order to embrace new trends early, Software AG promotes close collaboration between departments and companies and engages in creative exchange with representatives of academia, research, standards committees, associations and partner networks.

In this context, Software AG is an active member of several state-funded research projects in cooperation with partners from science and business. We continued our success of the past years with new research projects in 2013. Software AG and CASED (Center for Advanced Security Research Darmstadt) are strategic partners in the field of IT security. Furthermore, to foster interdisciplinary knowledge transfer and to strengthen Germany as an IT hub, we are an active member of the software cluster (refer to Corporate Responsibility) one of Europe's most influential networks of companies and educational and research institutions in southwestern Germany. It has been described as "Europe's Silicon Valley" by analysts. We continuously assess customer needs in order to ensure the marketability of our R&D activities. The combination of innovation and market-oriented thinking guarantees the creation of cutting-edge solutions that meet the needs of companies and users.

Outlook

Software AG will contunue its R&D strategy of guiding companies through the transformation to becoming a Digital Enterprise with innovative software solutions and services. To this end we promote the innovative strength of our global team, most recently by stepping up management in the Silicon Valley in 2013. Key trends for the IT sector worldwide will continue to originate there. Because innovation cycles are getting ever shorter and new technologies are constantly emerging, we will continue making targeted acquisitions in order to build on our product suites. Cloud computing will be one of our focal points, and the foundation has been laid with the acquired LongJump platform. Software AG's R&D road map considers the seamless integration of new products into the existing portfolio to be an essential task. The theme of our CeBIT 2014 presence was "The Road to the Digital Enterprise." Using four subject areas—Agility, Transformation, Alignment and Visibility—we illustrated how the goal of a Digital Enterprise can be achieved from any starting point.

Multi-period R&D summary

in € millions	2013	Change in %	2012	Change in %	2011
ETS	-25.3	-3.0	-26.1	-1.0	-26.4
BPE	-82.6	10.0	-75.0	22.0	-61.6
Total	**-107.9**	**7.0**	**-101.1**	**15.0**	**-88.0**
Total R&D expenses as % of product revenue	15.3%		14.2%		13.1%
Total R&D expenses as % of total revenue	11.1%		9.7%		8.0%
R&D headcount					
Total	**998**	**13.0**	**887**	**0.0**	**887**

Economic report

Summary of business development

General economic conditions

The global economy slowly began to regain momentum in 2013, sluggish at the beginning but picking up considerably during the course of the year. Global economic growth was higher in the third quarter than it had been since the end of 2010. Following 2.7-percent growth in 2012, the Institute for the World Economy (IfW) at the University of Kiel forecast 2.9 percent for 2013. Economists believe this positive trend will accelerate to 3.7 percent in 2014 and even 4 percent in 2015.

The primary factors negatively effecting the global economy during the past two years seem to have lessened in severity. Consolidation of the U.S. private sector progressed in such a way that economic growth could accelerate despite financial policy head winds. Structural changes in the eurozone slowly began bearing fruit, which led to a slight improvement of the overall economic situation. But the need for austerity in government spending continued to stifle confidence among businesses and private households. As a result, investments and consumption were down.

Worldwide IT spending forecast (in $ billions)

	2013 Spending	2013 Growth in %	2014 Spending	2014 Growth in %
Devices	669	-1.2	697	4.3
Data center systems	140	-0.3	143	2.6
Enterprise software	300	5.2	320	6.8
IT services	922	1.8	963	4.5
Telecom services	1,633	-0.5	1,653	1.2
Overall IT	**3,663**	**0.4**	**3,777**	**3.1**

Source: Gartner (Jan. 2014).

Sector-specific conditions

According to the U.S. market research firm, Gartner, growth in the IT market was predominantly flat in 2013. Gartner therefore lowered its projection for global IT spending growth in the year under review to a moderate 0.4 percent or a total of $3.7 trillion. The market segments in which Software AG operates did comparatively well: Spending for enterprise software was up 5.2 percent (2012: 4.3 percent) to $300 billion; the IT services market segment grew 1.8 percent (2012: 2.3 percent) to $922 billion.

The European Information Technology Observatory (EITO) expects stronger growth rates, estimating worldwide sales in IT and telecommunications products and services to be €2.84 trillion in 2013, which is 3.8 percent above the previous year. The software (+5.5 percent to €302 billion) and IT services (+3.4 percent to €510 billion) market segments had the highest growth. According to EITO, digitization is an important trigger of growth and employment, especially in emerging economies.

According to the German Association of Information, Telecommunications and New Media (BITKOM), EITO expected stable growth at a record level in Germany. Sales in the ICT sector were stable in 2013 at €152 billion (+0.1 percent). Spending on software rose to €18.1 billion, or 4.9 percent year on year. IT services such as outsourcing and maintenance were up 2.4 percent to €35.7 billion.

Key events affecting business performance

With a total of five acquisitions, Software AG broadened the foundation of its growth strategy and enhanced its product portfolio with future-oriented technologies. The investments already began producing results in the year under review. Software AG reported strong growth in the BPE line and, to the disadvantage of competitors, gained market share in this future-oriented space. Investments in sales and marketing as well as R&D also had effects. License revenue in particular reached a record-breaking level in 2013.

Share performance

(Refer to Software AG Share)

Management’s general statement on business performance

From the point of view of the Management Board, Software AG’s business performance in the period under review was very positive. Our investment and growth strategy is taking effect: Double-digit growth rates in the important Business Process Excellence (BPE) line, expanded technology leadership, an initial indication of larger deal sizes and record Group license revenue. Fiscal 2013 confirmed Software AG’s direction (refer to the overall statement on financial position).

Comparison of actual performance with last year's forecast

	2012	Outlook 2013 (as of Jan. 29, 2013)	**2013**
BPE product revenue in € millions	385	16% to 22%*	15%
ETS product revenue in € millions	310	-9% to -4%*	-7%
Earnings per share in EUR	1.9	1.70 to 1.80**	1.70**

Confirming the update given with Q2 results on July 27. 2013:
Based on year-to-date business development, the target ranges for product revenue and EPS are expected to be reached, though likely at the lower end.
* Revenue growth or decline at constant currency (currency impact on reported 9m 2013 results: -4 percentage points).
** Reported EPS before effects of share buyback. Restructuring and acquisition-related charges in 2013.

Software AG released a forecast for the past fiscal year in January 2013, which was periodically confirmed and elaborated during the year by the Management Board. Forecasts are calculated assuming unchanging currency rates and without accounting for acquisition and restructuring-related expenses.

Accordingly, growth in the **BPE** business line was expected to be considerably greater than in 2012. BPE product revenue in 2013 was expected to grow between 16 and 22 percent (at constant currency) compared to 2012. But at €423 million (2012: €385 million), BPE revenue actually increased 15 percent (at constant currency) year on year.

Furthermore, the **ETS** business line's share of revenue was forecast to shrink, with product revenue decreasing at constant currency between 4 and 9 percent. Revenue for fiscal 2013 in this business line was €274 million (2012: €311 million), a decrease of 7 percent (at constant currency) year on year. In total, ETS accounted for 39 percent (2012: 43 percent) of Group product revenue in fiscal 2013. This development is on target with the Management Board's projection, which was based on the assumption that the traditional database software market in general is in decline because of its maturity and saturation.

The Management Board expected improved segment earnings in the **Consulting** business line. This target was exceeded thanks to the sustainable turnaround accomplished by withdrawing from unprofitable markets and the realignment and focus of the Consulting line. Following €-1.7 million in 2012, the Consulting segment generated a positive segment contribution with €9.3 million in the year under review.

The Management Board anticipated a moderate increase in total revenue over fiscal 2012. Software AG's actual total revenue for 2013 was €972.7 million as a result of lower revenue in the Consulting business. Exchange rates had an exceptionally negative effect (totaling about €37.8 million) on Group revenue, which, given stable currencies, would have exceeded one billion euros.

Taking into account the additional investments for the expansion of sales and marketing, the Management Board assumed that earnings per share would be between €1.70 and €1.80 in 2013. When the the Q2 2013 financial figures were released, Software AG specified that results would probably be at the lower end of the target range. It referred to the increasingly difficult market climate and the impact that could have on the whole software sector including possible postponements of large-volume license agreements.

Earnings per share in fiscal 2013 were €1.60 (non-IFRS €2.07). Adjusted for net effects of acquisition-related expenses and of the share buyback in 2013, earnings per share were €1.70. It is important to note that the earnings forecast was calculated without accounting for currency exchange effects, expenses for new acquisitions, restructuring costs or the effects of the 2013 share buyback program.

Financial performance

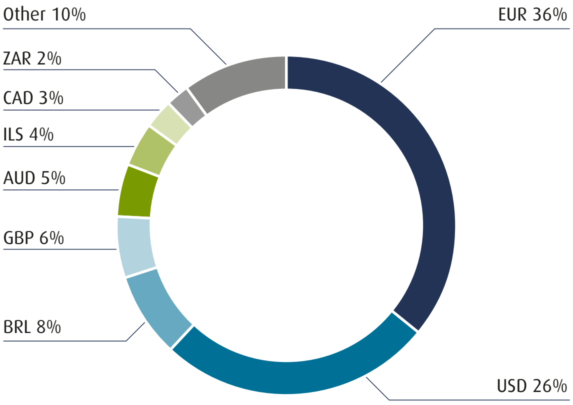
Revenue

Software AG's consolidated revenue in fiscal 2013 was €972.7 million (2012: €1,047.3 million). One reason for the decline was the consolidation of the Consulting business line. Here, in addition to exiting unprofitable markets, Software AG also sold its SAP service operations in North America and Eastern Europe and shifted its focus to process-oriented consulting in the Geman-speaking region. Secondly, the traditional Enterprise Transactions Systems (ETS) database line saw a loss, as expected. In contrast, the high-growth Business Process Excellence (BPE) business line returned double-digit revenue growth.

Exchange rates had an exceptionally strong impact on Software AG's business in fiscal 2013. Because the euro steadily gained strength over all relevant currencies during the year, exchange rate fluctuations negatively affected Group revenue by about €38 million. Maintenance and license revenue suffered the most, and the impact was about the same for both types of revenue.

Software AG generated approximately 36 percent of its global revenue in the common European currency, which equals last year. The U.S. dollar (USD) accounted for the largest percentage of revenue in foreign currency, which, like last year, was 26 percent. The revenue share in Brazilian real (BRL) increased by 2 percentage points to 8 percent. Other important foreign currencies in which Software AG completed

Comparison of currency effects on revenue in 2013



Currency impact	in € millions	in %
Licenses	-16.9	-5
Maintenance	-16.4	-4
Consulting & other	-4.5	-2
Total	**-37.8**	**-4**

business transactions were: the pound sterling (GBP) with 6 percent, the Australian dollar (AUD) with 5 percent, the Israeli shekel with 4 percent (ILS), the Canadian dollar (CAD) with 3 percent and the South African rand (ZAR) with 2 percent. Software AG's subsidiaries in the U.K. and Brazil reported particularly strong business performance, which boosted the significance of their currencies.

Sales by revenue type

Fuelled by successful business performance, particularly in the Business Process Excellence business line, in the second half of 2013, Group-wide license revenue for the fiscal year rose to the record level of €330.1 million (2012: €318.9 million). This represents a 4-percent increase.

Maintenance revenue was down 4 percent year on year due to reduced ETS and third-party product revenue at €375.6 million (2012: € 393.3 million). Total product revenue—consisting of licenses and maintenance—in fiscal 2013 was €705.7 million (2012: €712.2 million), 1 percent down from last year.

As a percentage of total revenue, product revenue increased considerably to 73 percent (2012: 68 percent), which, as planned, further improved Software AG's revenue mix towards the high-margin license and maintenance revenues. This confirms that the Company moved a major step forward in its transformation to becoming an innovative product provider.

Consulting revenue posted a loss of 20 percent to €266.0 million (2012: €333.3) due to the focus on process consulting and of SAP consulting in German-speaking countries.

Product revenue by region

Geographically speaking, Software AG's revenue is divided into four regions. The Americas contributed the largest percentage of total Group product revenue in 2013 with 48 percent (2012: 48 percent). The most important sales markets of the region were the USA followed by Brazil.

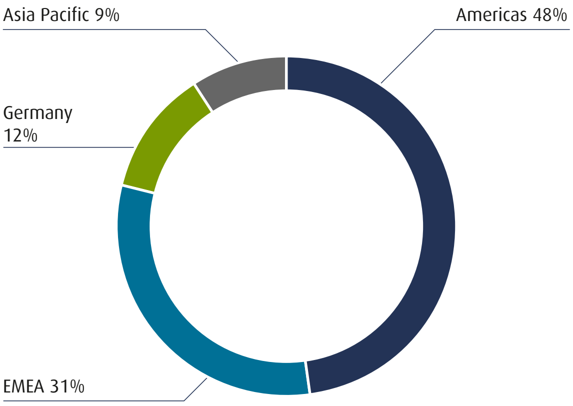
Software AG's EMEA (Europe [excluding Germany], Middle East and Africa) region generated 31 percent (2012: 44 percent) of product revenue. Here, the key single markets were the U.K. and France. Software AG's home market, Germany, accounted for 12 percent (2012: 15 percent) alone. The Asia Pacific region contributed 9 percent (2012: 8 percent) of product revenue. Here Australia and Japan were the top performers.

As a percentage of license revenue, the Americas and EMEA accounted for the largest shares with 49 percent and approximately 29 percent respectively. Germany generated 12 percent and Asia Pacific 10 percent of Group license revenue. Maintenance revenue was similarly represented: Americas (47 percent), EMEA (31 percent), Germany (13 percent) and Asia Pacific (8 percent). The refocus of SAP consulting activities also had an effect on regional distribution. Fifty-one percent of service revenue was generated in the EMEA region, followed by 29 percent in Germany. The Americas region accounted for about 13 percent and Asia Pacific for 6 percent.

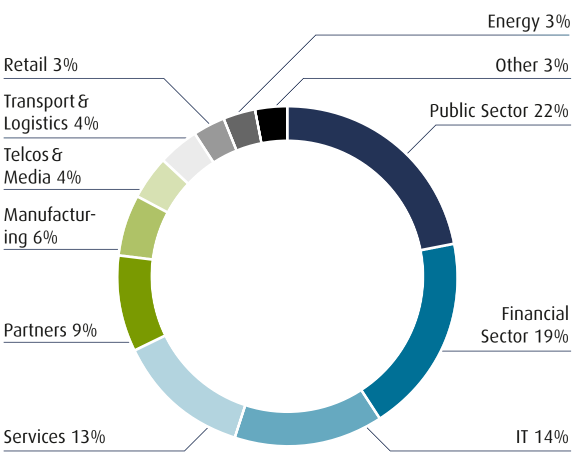
Product revenue by industry

Our products and services are relevant for companies and organizations in all industries. Our broad revenue distribution across different sectors is an essential element of our business model and our growth in that we are largely independent of economic fluctuations in any specific industry. The revenue share of individual sectors illustrates that Software AG is especially well established in the public and financial sectors. Together, they accounted for about 41 percent (2012: 40 percent) of revenue. We help public agencies, for example, to digitally map and accelerate their processes. In addition, some of our key customers are companies in the IT and services industries.

Product revenue by region in 2013



Product revenue by industry in 2013



Performance of key items on the income statement and cost structure

The cost of sales was reduced by 22 percent to €294.6 million (2012: €378.4 million) year on year. The decrease is primarily due to the €87.4 million reduction in the cost of sales for the realigned Consulting business line and for the shrinking ETS line. The simultaneous growth in BPE product revenue led to a more favorable revenue mix and thus to a substantially improved gross profit margin, which rose to 69.7 percent (2012: 63.9 percent) with respect to Group revenue. Gross profit went up slightly to €678.1 million (2012: €668.9 million).

in € millions	**2013**	2012	Change in %
Licenses	330,1	318,9	4
Maintenance	375,6	393,3	-5
Services	266,0	333,3	-20
Other	1.0	1,8	-44
Total revenue	**972,7**	**1,047,3**	**-7**
Costs of sales	-294,6	-378,4	-22
Gross profit	**678,1**	**668,9**	**1**
Research and development expenses	-107,9	-101,1	7
Sales, marketing and distribution expenses	-300,1	-246,9	22
General and administrative expenses	-73,2	-75,8	-3
Other taxes	-7,1	-8,0	-11
Operating result	**189,8**	**237,1**	**-20**
Other income	44,1	24,6	79
Other expenses	-35,5	-21,4	66
Financial expense, net	-8,4	-8,8	-5
Earnings before income taxes	**190,0**	**231,5**	**-18**
Income taxes	-56,0	-66,8	-16
Net income	**134,0**	**164,7**	**-19**
Thereof attributable to shareholders of Software AG	133,8	164,5	-19
Thereof attributable to non-controlling interest	0.2	0.2	
Earnings per share (€, basic)	1.60	1.90	-16
Earnings per share (€, diluted)	1.60	1.89	-15
Weighted average number of shares outstanding (basic)	83,702,176	86,784,793	–
Weighted average number of shares outstanding (diluted)	83,714,983	86,990,204	–

The expense of research and development (R&D) for new and existing products rose by €6.8 million to €107.9 million (2012: €101.1 million), which is a 7-percent increase. As a percentage of product revenue (licenses and maintenance), R&D expenses increased from 14.2 percent to 15.3 percent. Sales, marketing and distribution expenses climbed 22 percent to total €300.1 million (2012: €246.9 million), which is €53.1 million in additional spending. Their proportion to total revenue increased from 23.6 percent to 30.8 percent. The increase in expenses for R&D and sales, marketing and distribution reflects the Company's strategy of intensifying investments in new future-oriented products and markets in the BPE business line. Pursuing this investment strategy, Software AG made consistent progress in the evaluation and development of new technologies and products. General and administrative expenses were decreased slightly to €73.2 million (2012: €75.8 million) year on year. Other taxes were also just below last year at €7.1 million (2012: €8.0 million). Software AG's operating result was thus down to €189.8 million (2012: €237.0 million) because of additional expenses for the expansion of sales and marketing as well as R&D.

Other income was up from €24.6 million in 2012 to €44.1 million in 2013 due to income from the sale of SAP service operations in the USA and Canada and the positive effects of low-interest loans. Other expenses increased to €35.5 million (2012: €21.4 million) due to currency exchange losses. Net financial income/expense was on par with last year at €-8.4 million (2012: €-8.8 million). Software AG's earnings before tax went down 18 percent to €190.0 million (2012: €231.5 million). Accordingly, income tax was 16 percent lower at €56.0 million (2012: €66.8 million). The Group's effective income tax rate in 2013 was 29.5 percent (2012: 28.9 percent). Software AG's Group net income was €134.0 million (2012: €164.7 million). Accordingly, earnings per share (basic) were €1.60 (2012: €1.90). The decrease in earnings per share is attributable to Software AG's extensive investments in the 2013 fiscal year. The average number of shares outstanding (basic) in the year under review amounted to 83,702,176 (2012: 86,784,793).

Appropriation of profits

Software AG will continue its consistent dividend policy. The Management Board and Supervisory Board will propose a dividend of €0.46 per share at the Annual Shareholders' Meeting. Subject to the approval of the Annual Shareholders' Meeting and assuming 78.9 million shares outstanding, this would be a total payout sum of €36.3 million (2012: €38.2 million).

Earnings performance

The increased investments in the expansion of sales and marketing and in R&D led to a planned decrease in earnings in fiscal 2013. EBIT (earnings before interest and taxes) in fiscal 2013 was €205.5 million and therefore 17 percent down from last year's €248.3 million. Accordingly, the EBIT margin was 21.1 percent (2012: 23.7 percent). Net income was €134.0 million (2012: €164.7 million).

Earnings

in € millions	2013	2012	Change in %
Total revenue	**972.7**	**1,047.30**	**-7**
Cost of sales	-294.6	-378.4	-22
Gross profit	**678.1**	**668.9**	**1**
Margin as %	69.7%	63.9%	
R&D	-107.9	-101.1	7
Sales & marketing	-300.1	-246.9	22
Administration	-73.2	-75.8	-3
Other income/expense	8.6	3.2	–
EBIT	**205.5**	**248.3**	**-17**
Margin as %	21.1%	23.7%	

Additional performance indicators

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

Non-IFRS earnings (operating result) 2013-2012

in € millions	2013	2012
EBIT (before all taxes)	205.5	248.3
Amortization on acquisition-related intangible assets	40.4	38.1
Reduction of acquisition-related product revenue by purchase price allocation	1.2	1
Other acquisition-related effects	1.7	0.6
Share-based payment	-0.7	7.9
Restructuring/severance	12.6	3
EBIT (non-IFRS)	260.7	298.9
as % of revenue (non-IFRS)	26.80%	28.50%
Net income (non-IFRS)	172.9	200.7
EPS (non-IFRS)*	**2.07**	**2.31**
Net income (IFRS)	134.0	164.7

* Based on average shares outstanding: Q4 2013: 82.2mn/Q4 2012: 86.8mn/2013: 83.7mn/2012: 86.8mn.

EBIT (non-IFRS) for fiscal 2013 was €260.7 million (2012: €298.9 million). The operating profit margin (non-IFRS) was 26.8 percent (2012: 28.5 percent) and just 1.7 percentage points down year on year. Net income (non-IFRS) was 172.9 million (2012: €200.7 million). Accordingly, earnings per share (non-IFRS) based on the average number of shares outstanding of 83.7 million (86.8 million) were €2.07 (2012: €2.31).

Multi-period earnings summary

in € millions	2013	2012	2011
Total revenue	**972.7**	**1,047.3**	**1,098.3**
thereof product revenue	707.5	712.2	673.9
EBIT	**205.5**	**248.3**	**296.2**
as % of total revenue	21.1%	23.7%	24.5%
Net income	**134.0**	**164.7**	**177.2**
as % of total revenue	13.8%	15.7%	16.1%

Business lines and segment reports

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

Business Process Excellence (BPE)

The high-growth BPE business line generated €422.9 million (2012: €384.7 million) in revenue with integration and process software as well as big data solutions, which is 10 percent growth year on year (+15 percent at constant currency). Within the BPE line, the big data products performed best, nearly doubling revenue from last year at €36.8 million (2012: €20.4 million).

Software AG decided at the end of 2012 to expand sales significantly and intensify investments in marketing. After having achieved a technology leadership position, the goal was to accelerate growth in this future market as well as increase the Company's market share. The strategic initiatives and investments had an especially positive impact on BPE license revenue, which rose 13 percent to €220.1 million (2012: €194.7 million). License sales in the software sector are considered a key performance indicator of future profitability as they produce long-term maintenance revenue. The new U.S. subsidiary, Software AG Government Solutions, which focuses on customers in the public sector, made a positive contribution to BPE performance by securing some large deals in the past fiscal year.

Maintenance revenue in 2013 was €202.8 million (2012: €190.0 million), which reflects a 7-percent increase year on year. This growth is a result of BPE license agreements that were concluded in past years.

The high-growth BPE segment accounted for about 60 percent (2012: 54 percent) of Group product revenue (licenses + maintenance) and therefore continued to strengthen its role as Software AG's largest business line. This growth was accelerated due to the first effects of the expansion of sales, particularly in the second half of 2013.

Due to substantially higher investments in sales and marketing totaling €201.5 million (2012: €137.3 million) and in research and development totaling €82.5 million (2012: €74.9 million), BPE segment earnings suffered a disproportionate loss at €116.5 million (2012: €153.7 million).

Segment report BPE 2013-2012

in € millions	**2013**	2012	Change in %
Licenses	220.1	194.7	13
Maintenance	202.8	190.0	7
Total revenue	**422.9**	**384.7**	**10**
Cost of sales	-22.4	-18.8	19
Gross profit	**400.5**	**365.9**	**9**
Sales & marketing	-201.5	-137.3	47
R&D	-82.5	-74.9	10
Segment earnings	**116.5**	**153.7**	**-24**

Enterprise Transaction Systems (ETS)

As expected, the traditional ETS database business reported a decline in fiscal 2013 with total revenue at €274.5 million (2012: €310.5 million). This is a 12-percent decrease year on year (-7 percent at constant currency).

Because the demand for capacity upgrades is in decline, ETS license revenue was down 11 percent at €107.4 million. Maintenance revenue was €166.4 million (2012: €188.3 million). In total ETS accounted for approximately 39 percent of Group product revenue in fiscal 2013. Segment earnings for this business line decreased year on year by 11 percent to total €184.7 million (2012: €207.1 million). The segment's margin was, however, slightly improved. ETS again accounted for the largest portion of Software AG's total earnings with 70 percent.

The traditional database software market is shrinking due to its maturity and saturation. Given this overall trend, the decline in ETS was to be expected. Our strategy in the ETS business line is to maintain a stable customer base, to achieve a segment margin above 60 percent and to leverage cross-selling potential with our BPE products. ETS remains an essential mainstay, delivering high profit margins for Software AG.

Segment report ETS 2013-2012

in € millions	**2013**	2012	Change in %
Licenses	107.4	121.3	-11
Maintenance	166.4	188.3	-12
Product revenue	**273.8**	**309.6**	**-12**
Other	0.7	0.9	-
Total revenue	**274.5**	**310.5**	**-12**
Cost of sales	-14.1	-15.6	-10
Gross profit	**260.4**	**294.9**	**-12**
Sales & marketing	-50.4	-61.7	-18
R&D	-25.3	-26.1	-3
Segment earnings	**184.7**	**207.1**	**-11**

Consulting

The Consulting business line was realigned in the year under review. Since the beginning of 2013 it has encompassed all consulting and services pertaining to the BPE, ETS and IDS Scheer Consulting (IDSC) business lines. Simultaneously, the strategic focus of the Company's SAP-related activities was redefined to concentrate on process consulting in the German-speaking region, including Germany, Austria and Switzerland. As part of that, Software AG sold its SAP service operations in Canada and the USA in the first quarter of 2013. Disposals followed in the Czech Republic, Hungary and Slovakia in the third quarter, while Software AG was withdrawing this business line from unprofitable markets. As a result, revenue from this new segment fell to €275.4 million (2012: €352.1 million).

External product revenue (sales of third-party software products) also decreased to €9.1 million (2012: €17.9 million) as a result of the realignment. License revenue was €2.6 million (2012: €2.9 million) and maintenance revenue €6.5 million (2012: €15.0 million). The refocus of the business line and the resulting lower cost of sales (primarily personnel-related expenses) at €232.6 million (2012: €320.0 million) enabled Software AG to successfully execute an operational turnaround in Consulting. Gross profit climbed to €42.8 million (2012: €32.1 million), and the business line achieved a positive earnings contribution of €9.3 million (2012: €-1.7 million) in fiscal 2013.

Segment report Consulting 2013-2012

in € millions	**2013**	2012	Change in %
Licenses	2.6	2.9	-10
Maintenance	6.5	15.0	-57
Product revenue	**9.1**	**17.9**	**-49**
Services & other	266.3	334.2	-20
Total revenue	**275.4**	**352.1**	**-22**
Cost of sales	-232.6	-320.0	-27
Gross profit	**42.8**	**32.1**	**33**
Sales & marketing	-33.5	-33.8	-1
Segment earnings	**9.3**	**-1.7**	**>100**

Financial position

General principles and objectives of Software AG's financial management

The primarily objective of Software AG's financial management is to support the sustainable growth of the Group and the ongoing portfolio optimization through an adequate financing structure—regardless of short-term capital market conditions. Furthermore, the solvency of all Group companies must be ensured at all times. To do this we have sufficient liquid assets from net cash provided by operations and through credit agreements. A high equity ratio and strong free cash flow provide the financial flexibility for further organic growth and targeted acquisitions.

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

We consistently minimize default risk through broadly diversified investments and using stringent criteria in selecting transaction partners. Our central Finance department also monitors the currency risks for all Group companies and minimizes them using derivative financial instruments. In doing so, we only hedge existing balance sheet items or expected cash flows.

Financing analysis

Software AG's financial liabilities in 2013 increased to €613.4 million (2012: €266.0 million) due to new promissory note loans worth a total value of €300 million and an innovation loan from the European Investment Bank in the amount of €100.0 million. Cash and cash equivalents as of December 31, 2013 were up significantly at €450.0 million (2012: €315.6 million). Shareholders' equity fell to €965.6 million (2012: €1,060.1 million) year on year. This decrease was due primarily to the repurchase of treasury shares worth €154.4 million in total. Accordingly, the equity ratio was down to 48 percent (2012: 60 percent).

Financing instruments

Software AG's financing is based on strong free cash flow. In addition, we use bank loans, promissory note loans and finance leasing for any additional financing needs. The primary financing risk arises from the possibility that the Company would not be able to satisfy existing financial liabilities, for example, from loan agreements, lease agreements or trade accounts payable. Active working capital management and Group-wide liquidity control limit this risk. In this manner, financial obligations can be balanced by available cash and bilateral lines of credit. The loans used are predominantly at fixed interest rates and have terms of no more than five years. Fixed-interest rates were secured for some of the loans using interest rate swaps. Variable interest payments are based on the prevailing interest rate on the reporting date. We calculated liabilities in foreign currency at the exchange rate as of December 31, 2013.

Investment analysis

Capital expenditure for property, plant and equipment and intangible assets plays a minor role at IT companies such as Software AG. At €13.8 million in 2013, these investments were nearly equal to the year before at €13.3 million and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken. Net expenditure for acquisitions rose considerably due to the takeovers of five companies during the fiscal year to €113.2 million (2012: €17.9 million). Moreover, in order to optimize liquidity, Software AG invested €56.5 million in securities with terms greater than three months.

Liquidity analysis

Total cash flow was down in fiscal 2013. Operating cash flow dropped 7 percent from €184.4 million in 2012 to €171.8 million in the year under review. This is mainly due to the decreased net income.

Cash outflows from investing activities in 2013 were €175.6 million (2012: €31.7 million), because of the high expenditure for acquisitions. While in 2012 net expenditure for acquisitions was just €17.9 million, in 2013, this figure was €113.2 million. Investments in securities totaled €56.5 million (2012: 0), all puttable fixed-interest investments with terms greater than three months. All investments have investment-grade credit ratings. Cash outflows from financing activities increased from €49.2 million in 2012 to €160.9 million in 2013. This was impacted by financial liabilities amounting to €401.9 million compared with €11.8 million the past year. Software AG successfully placed a promissory note loan with a total value of €300 million in July. It was offered at terms of two, three and four years and at fixed or variable interest rates. The average interest rate on the fixed interest portion was 1.8 percent. Furthermore, Software AG took out a low-interest loan with the European Investment Bank in the amount of €100.0 million with a term of five years. The new financing instruments were employed for the planned repayment of financial liabilities totaling €47.0 million, including a loan from the Software AG Foundation in the amount of €45.0 million. As part of a share buyback program in 2013, Software AG also invested €154.4 million (2012: 0) in the purchase of approximately 5.4 million shares.

On par with operating cash flow, which fell 7 percent, free cash flow also went down 7 percent, from €170.7 million to €159.1 million. This is 16.4 percent of total revenue.

Cash flow 2013-2012

in € millions	**2013**	2012	Change in %
Operating cash flow	**171.8**	**184.4**	**-7.0**
./. CapEx*	-12.7	-13.7	
Free cash flow	**159.1**	**170.7**	**-7.0**
as % of revenue	16.4%	16.3%	
Free cash flow per share**	**1.90**	**1.97**	**-4.0**

* Cash flow from investing activities excluding acquisitions and investments in debt instruments.
** Based on average shares outstanding: Q4 2013: 82.2mn/Q4 2012: 86.8mn/2013: 83.7mn/2012: 86.8mn.

Multi-period financial position summary

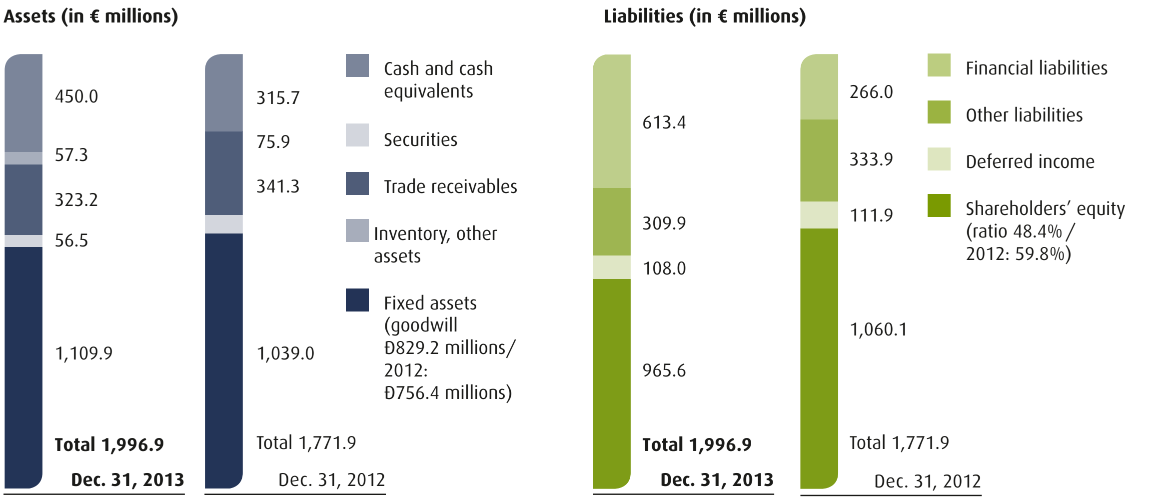
in € millions	**Dec. 31, 2013**	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	450.0	315.6	216.5
Current financial liabilities	202.9	52.6	26.1
Non-current financial liabilities	410.5	213.4	251.3
Net debt	163.4	-49.6	60.9
Shareholders' equity	965.6	1,060.1	951.5
Equity ratio	48%	60%	57%
Total assets	**1,996.9**	**1,771.9**	**1,680.7**

Assets

Balance sheet structure analysis

Software AG's total assets increased from €1,771.9 million on December 31, 2012 to €1,996.9 million on December 31, 2013.

Consolidated balance sheet 2013-2012



On the assets side, current assets increased to €769.5 million (2012: €675.8 million). Cash, cash equivalents and short-term securities were up at €190.9 million. The change resulted mainly from the balance of €171.8 million in positive operating cash flow, €300.0 million in proceeds from the issuance of a promissory note loan, €100.0 million from a new loan from the European Investment Bank, €154.4 million for the repurchase of treasury shares, €113.2 million in net expenses for acquisitions, €48.9 million for the repayment of financial liabilities and paid dividends in the amount of €38.3 million.

Current trade receivables decreased by €79.9 million year on year.

Non-current assets rose to €1,227.3 million (2012: €1,096.0 million). One factor contributing to the change was the increase of €72.8 million in goodwill. €83.1 million in increases was attributable to acquisitions in 2013. This was offset by the decrease due to exchange rate fluctuations totaling €10.3 million. Non-current receivables were up by €61.7 million as a result of the conclusion of multiple long-term agreements with customers.

On the liabilities side, current liabilities increased to €533.1 million (2012: €401.8 million). This increase was largely influenced by recognition of the promissory note loan—previously shown under non-current—in the amount of €200.0 million, which will be paid back on schedule in June 2014. Non-current liabilities rose to €498.2 million (2012: €310.0 million). The increase resulted from the balance of a new promissory note loan in the amount of €300.0 million, a loan from the European Investment Bank in the amount of €100.0 million and the reduction resulting from the reclassification of the promissory note loan of €200.0 million to current liabilities.

Shareholders' equity decreased to €965.6 million (2012: €1,060.1 million). This is a result of the following transactions: The share buyback in the amount of €154.4 million, the dividend payout of €38.4 million and negative exchange rate fluctuations of €38.3 million. This was offset by the increased Group net income totaling €134.0 million.

Off-balance sheet assets

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

Multi-period assets summary

in € millions	**Dec. 31, 2013**	Dec. 31, 2012	Dec. 31, 2011
Assets			
Current assets	769.5	675.8	574.3
Non-current assets	1,227.4	1,096.1	1,106.4
	1,996.9	**1,771.9**	**1,680.7**
Equity and Liabilities			
Current liabilities	533.1	401.8	381.6
Non-current liabilities	498.2	310.0	347.7
Shareholders' equity	965.6	1,060.1	951.5
	1,996.9	**1,771.9**	**1,680.7**

Separate financial statements of Software AG (parent company)

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

Financial performance of Software AG

The key items of the income statement are as follows:

in € millions	**2013**	2012	Change in %
Licenses	9.5	57.5	-83.5
Maintenance	93.2	104.8	-11.1
Services	102.5	98.6	4.0
Total revenue	205.2	260.9	-21.3
Operating income and expenses	-221.6	-210.9	5.1
Income/expense from investments	56.0	82.6	-32.2
EBIT	39.6	132.6	-70.1
Extraordinary expenses	-6.8	0.0	100.0
Net financial income/expense	-7.6	-10.3	-26.2
Earnings before taxes	25.2	122.3	-79.4
Taxes	-4.8	-17.2	-72.1
Net income/loss for the year	**20.4**	**105.1**	**-80.6**

- Software AG granted the rights of use for its software products in foreign countries to its German subsidiary EMEA GmbH in fiscal 2013. As a result, license revenue decreased by €48.0 million to €9.5 million.
- "Maintenance" includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products. The decrease compared to 2012 reflects the decrease of the subsidiaries' maintenance revenue, particularly in the Enterprise Transaction Systems (ETS) line.
- "Services" include management fees crossed-charged to the subsidiaries as well as services rendered by central support and cross-charged research and development costs. The increase is a result primarily of cross-charged costs associated with the newly established global partner business.
- "Operating income and expenses" include changes in inventories of finished goods and work in progress, other operating income and expenses, expenses for purchased goods and services, personnel expenses and depreciation, amortization and impairment on intangible and tangible fixed assets. The rise is a result of offsetting other operating expenses, which increased by €13.4 million, and expenses for purchased services, which increased by €5.4 million against other operating income, which increased by €5.8 million due to currency effects, and personnel expenses, which decreased by €4.1 million. The reduction in personnel expenses resulted primarily from the balance of share price-based compensation, which decreased by €7.4 million, and severance expenses, which increased by €4.2 million. The increase in other operating expenses resulted primarily from exchange rate losses, which increased by €5.8 million, and impairment on receivables from subsidiaries, which increased by €5.2 million.
- "Income/expense from investments" includes dividends from subsidiaries, income and expenses arising from profit transfer agreements and impairment of financial assets and marketable securities. The reduction of this item resulted primarily from increased impairment of financial assets and from losses resulting from the internal sale of a subsidiary.
- "Extraordinary expenses" resulted from the merger of RTM Realtime Monitoring GmbH and Software AG.
- "Net financial income/expense" is the result of offsetting other interest and similar income against interest and similar expenses. The €2.7 million year-on-year improvement is mainly a result of interest-hedging income, changes to the financing structure with nominally reduced interest rates and lower inner-Group interest expenses.
- Due to the lower earnings before taxes, "taxes" decreased from €17.2 million in 2012 to €4.8 million in fiscal 2013.

Balance sheet and financial position of Software AG

Total assets of Software AG increased by a total of €262.0 million, from €998.4 million on December 31, 2012 to €1,260.4 million on December 31, 2013.

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

Assets and financial position of the parent company

in € millions	Dec. 31, 2013	Dec. 31, 2012	Change
Intangible assets	31.1	6.1	25.0
Property, plant and equipment	11.5	12.0	-0.5
Financial assets	793.5	784.0	9.5
Inventories	0.1	0.1	0.0
Receivables and other assets	184.7	96.2	88.5
Cash and cash equivalents and short-term securities	235.4	96.5	138.9
Prepaid expenses/other	4.1	3.5	0.6
Total assets	**1,260.4**	**998.4**	**262.0**
Equity	357.1	525.1	-168.0
Provisions	67.5	83.3	-15.8
Liabilities to banks	602.5	217.8	384.7
Liabilities	232.2	172.0	60.2
Deferred income	1.1	0.2	0.9
Total equity and liabilities	**1,260.4**	**998.4**	**262.0**

- "Intangible assets" increased year on year to €18.6 million due to the acquisition of the Apama division. The transaction was an asset deal. Software AG also acquired the rights of use for alfabet products for €6.6 million.
- "Receivables and other assets" as of December 31, 2013 rose due to increased financing of subsidiaries.
- "Cash and cash equivalents" increased from €96.5 million by €138.9 million to total €235.4 million as a result of new financial liabilities. Software AG predominantly generates liquidity based on royalties, dividends, Group financing and management fees from the subsidiaries. For this reason, the cash flows of Software AG depend to a great extent on decisions regarding the dividend payouts of subsidiaries and financing arrangements between the parent company and the subsidiaries. A cash flow statement for Software AG alone would therefore have little meaning, for which reason we do not prepare such a statement.
- "Equity" of Software AG decreased by €168.0 million, from €525.1 million on December 31, 2012 to €357.1 million on December 31, 2013. This decrease resulted mainly from the balance of €154.4 million for the repurchase of treasury shares, €20.4 million in annual net income and €38.2 million for the dividend payout in fiscal 2013.
- "Provisions" decreased by €15.8 million, from €83.3 million in 2012 to €67.5 million on December 31, 2013. This change was mainly the result of the reduction in provisions for share-based remuneration components.
- "Liabilities to banks" increased by €384.7 million from €217.8 million to total €602.5 million. This increase resulted primarily from the balance of €290.0 million for the issuance of promissory notes with credit institutions in fiscal 2013, €100.0 million for an investment loan with the European Investment Bank and €5.3 million in repayments on liabilities to banks.
- "Liabilities" increased year on year by €60.2 million to total €232.2 million. This resulted primarily from the balance of servicing a promissory note from the Software AG Foundation in the amount of €45.0 million, new promissory notes with non-banks in the amount of €10.0 million and a rise in liabilities to affiliate companies for Group-internal financing of Software AG in the amount of €93.5 million.

Statement on corporate acquisitions

Software AG made five acquisitions for a total sum of €113.2 million in fiscal 2013. The Company's goal was to enhance its product portfolio with additional innovative technologies and accelerate BPE growth.

In the first quarter of the year Software AG invested in **metaquark**, a Berlin-based company specializing in mobile solutions. Mobile software, together with big data, cloud and social, is one of the four megatrends that plays a key role in Software AG's strategy of transformation to the Digital Enterprise. This key technology allows companies to react to business information in real time regardless of time and place. Software AG has already integrated metaquark mobile technologies and will continue to develop the Software AG-webMethods Mobile Suite in collaboration with metaquark specialists.

Software AG also acquired **LongJump**, a U.S. cloud platform provider, in fiscal 2013. This digital platform gives end users a flexible, independent way to create process-driven applications that are geared toward specific business events without the assistance of an IT department. Thanks to LongJump's Platform-as-a-Service (PaaS) functionality, applications can be employed in public or private clouds, on-premise and on any mobile device. LongJump technology is a major enhancement to Software AG's process automation and integration platform.

Software AG's acquisition of **alfabet**, the leading provider of Enterprise Architecture Management (EAM) and IT portfolio management, was a further step in its growth strategy in the second quarter of 2013. With alfabet products companies can plan and manage IT landscapes and ensure that their heterogeneous and complex environments, that have evolved over time, are modernized professionally and economically. The company was founded in 1997 and employs a staff of about 90 in Berlin and at other locations in Cambridge, Massachusetts (USA) and Singapore. Its customer base includes 70 global companies such as Daimler, Volkswagen, BMW, Credit Suisse and UBS.

Software AG's fourth acquisition in the year under review was of **Apama**, the leading Complex-Event-Processing (CEP) platform by Progress Software. CEP is a technology that enables organizations to conduct event-driven analysis of large data streams in real time and connect heterogeneous data sources with each other. This means companies can make immediate business decisions, for instance, to detect fraud or in stock trading. Apama supports Software AG's big data strategy, which is based on the Terracotta in-memory platform.

Software AG's takeover of **JackBe** Corporation, a leading software provider for real-time visualization and data analysis, was the fifth acquisition of 2013. Software AG acquired JackBe's Maryland (USA) location, its R&D center in the Silicon Valley (California) and its Latin American headquarters in Mexico. The company was started in 2003. It has a large customer base in the public and finance sectors as well as in the manufacturing industry. It has 70 employees. Software AG is integrating the JackBe portfolio with its webMethods Suite as part of the new Intelligent Business Operations (IBO) platform. IBO offers simple visualization options for data analysis and provides a real-time view of dynamic business processes.

Employees

Excellent employees and remarkable dedication are essential to our success. Promoting employee dedication, leadership strength and expertise among an ever more diverse staff is therefore a high priority across the entire Software AG Group. The focal points of our HR activities were staff development, recruiting and talent management again in 2013. In this way, we can guide our customers along the road to the Digital Enterprise with expertise, ideas and collaboration.

Workforce

As of December 31, 2013, Software AG employed 5,238 (2012: 5,419) people worldwide (full-time equivalents). In line with our global business operations, our employees were working to serve customers at offices in 70 countries. In Germany, where corporate headquarters are situated, the number of employees was 1,711 (2012: 1,768). Our employees are distributed according to functions and regions as follows:

Headcount by functional areas* and geography

in FTE	Dec. 31, 2013	Dec. 31, 2012	Change in %
Total	**5,238**	**5,419**	**-3**
Consulting & services	2,347	2,658	-12
R&D	998	887	13
Sales & marketing	1,180	1,131	4
Administration	713	743	-4
USA	778	758	3
Germany	1,711	1,768	-3
Rest of world	2,749	2,893	-5

* According to P+L structure.

The enormous pressure to change caused by the Digital Revolution, the massive investments in sales, marketing and partner management as well as the acquisition of five technology companies all influenced Software AG's human resources strategy in fiscal 2013. The employees and managers in our Human Resources (HR) department face ever growing demands due to the constantly changing work place. Flexibility and innovative thinking are required, while a balance between defined structures and creative freedom must be achieved.

Software AG's global HR strategy therefore focuses on continuously aligning HR processes and activities with the Company's goals. As a trailblazer for the Digital Enterprise and to be an important partner for our customers, Software AG also takes this role to heart internally. All global HR processes are digital and scalable from end to end.

Talent management, leadership development, integrated performance management, educational offerings through the Corporate University and consistency in remuneration structures and incentive mechanisms are the core elements of Softare AG's global HR strategy. Software AG created an internal talent management platform to support collaboration across departments and countries, called Career4U. It allows employees and their managers to agree on customized development road maps, define and evaluate objectives, document the results of annual reviews and elaborate follow-up plans.

Recruiting and integration

New employees were integrated and trained with the help of internally developed onboarding process tools. In addition, our hiring processes were further harmonized and optimized.

The New Hire Sales Boot Camps, which were established in 2012 to boost sales, led to tangible sales successes in 2013. Those who completed Sales Boot Camp scored significantly better in all areas evaluated than members of a comparison group of hired Sales staff who did not go through the training. In total, the trained group generated 27 percent more license revenue during the reference period consisting of seven consecutive quarters than their untrained counterparts. Not only did the quantity of deals rise significantly, but their average volume as well.

We are committed to fast and smooth integration of new employees, because that allows us to realize the targeted growth and earnings potential from acquisitions. All relevant processes and policies were adapted to embrace new employees in 2013. A well-structured integration plan allowed us to incorporate them into joint Software AG teams based on project and customer requirements. Special workshops provided employees with the opportunity to exchange expertise on the merging portfolios as well as receive information on corporate processes and cultures. The shorter the acquisition and integration cycles are, the more important successful post-merger integration becomes.

Staff development

Software AG pursues a holistic staff development approach that includes all employees regardless of position—from trainees to senior management. Demographic change and the constant transformations in the IT sector have made the subjects of flexible working hours and a work/life balance a focus of our human resources strategy. In addition to staff development activities, we offer international career opportunities and a work/life balance. All HR measures take place regardless of culture, gender or nationality. Individual recognition and a wide range of social and additional benefits are how we reflect the value of our employees. Diversity is part of our identity as a growing global company. We promote the hire and retention of qualified women; currently about 20 percent of managers at Software AG are female. Multifaceted employer-branding activities fortify our established position as an attractive employer and create an innovative, performance-oriented work atmosphere. We consider the top employer awards we received in 2013 as proof of that.

In order to strengthen our leading market position, we not only have to find the best young professionals, but keep, motivate and develop them as well. Our international High Potential program, in existence since 2005, is an endorsement opportunity for those who have distinguished themselves through outstanding performance. The goal of the program is to develop employees individually and train them in the areas of leadership, strategy, innovation and change management.

University Relations

In our search for the best young professionals outside the Company, we have a simple formula for success: Giving today’s creative students the best possible education will pay off in the future. Through the University Relations program, Software AG maintains close contact with colleges and universities and provides them with software products for teaching and research free of charge. 850 schools in 71 countries and more than 15,000 students have taken part to date. The University Relations strategy comprises three core components:

1) High-value projects: These are projects that transform ideas to innovations—from the classroom to the market, from research findings to market-ready solutions. Through this program, we help students and academic institutions develop their ideas and research findings in a practice-oriented manner.
2) The high-volume program: This second component was estabished in 2012 and addresses the long-term high demand for free ARIS products for teaching and research purposes. Young scholars and professors can download full versions of ARIS software here: www.ariscommunity.com.
3) Recruiting: The third component of the University Relations strategy are the valuable opportunities for staff recruiting offered by close collaboration with academic institutions. Especially in times when there is a shortage of skilled labor, we undertake dedicated measures to stay in constant contact with well-trained college graduates and young scholars as potential Software AG employees.

As part of the expansion of the University Relations program, the House of IT (HIT) was established in 2011 in Darmstadt and was an important step in strengthening the European software sector. The Hessian state government and partners

from science and industry—including Software AG—jointly founded HIT to promote close collaboration, drive innovation and create jobs.
Our multifaceted HR activities geared toward attracting and supporting young talent and specialists play a key role in securing Software AG's long-term competitive edge and success.

Other intangible assets

Customers and sales

Sales and marketing activities

Software AG's sales activities focused on four areas in the past year:

1) More frequent customer contact and improved quality when generating new sales opportunities
2) Intensified collaboration with customers in order to identify new areas of application for Software AG products
3) Development of solutions specific to our customers' business-critical issues
4) Intensified collaboration between sales and sales support staff to better serve customers with complex topics

Expansion of the customer base

In 2013 we won promising new major customer projects, which is a result of our intensified sales and marketing activities and speaks in favor of Software AG's competitiveness. At the same time we built on our existing customer relationships with new projects. Software AG established itself in business-critical solutions with customers—a testament to the quality of our business relationships and the innovative strength of our products.
Software AG seeks direct contact with customers, partners, industry experts and other interested parties at numerous national and international trade shows and events. These meetings provide us with valuable market feedback, which we apply directly to our product strategies.
At CeBIT 2013, Software AG demonstrated how enterprises from various sectors can utilize the megatrends in IT to realize efficient processes and achieve their business goals faster. Using a wide range of case studies and IT projects, Software AG presented itself as a trailblazer of the Digital Enterprise. One example was a reference project with CERN, the European Organization for Nuclear Research in Geneva. Thanks to Software AG's high-performance Terracotta in-memory solution, CERN technicians and engineers are kept abreast of the current status of their systems around the clock. This is possible because the solution collates and processes the reports of thousands of sensors in real time.
At our biggest sales event of the year, Innovation World, held from October 8-10, 2013 in San Francisco, customers learned first hand how a Digital Enterprise is created. More than 1,000 attendees from 35 countries were present. Our specialists discussed current trends, products and solutions in 125 individual meetings, and our customers reported on best practices in 45 presentations.
Innovation Day 2013, held in June in Darmstadt, focused on the exchange of best practices. Customers from various sectors showcased their ARIS, webMethods and Terracotta projects under the theme "Powering the Digital Enterprise." Swisscom, R+V Versicherung, CWS-boco and the municipal IT department for the German state of Baden-Württemberg were some of those who took part. We also held Innovation Days in Switzerland and Poland. ProcessForum offers customers in France, Hungary, the U.K. and Spain a platform for exchanging information.
After a three-year hiatus, ARIS UserDay took place again in 2013 in Darmstadt. More than 300 ARIS users from Germany, Austria and Switzerland discussed the further development of ARIS. Working closely with customers ensures that, after 20 years in the market, ARIS not only meets the needs of users, but embraces forward-looking innovations as well.
For further information on customer references, please visit:
www.softwareag.com/uk/customers/

Partner management

Partnerships and alliances are an integral component of Software AG's business model. The play an important role in the Company's success and, along with acquisitions, are a factor for the success of our growth strategy. Software AG's partnerships comprise a network that spans the globe with regional partner managers.

Expansion of the partner network in 2013

Software AG continued to drive the expansion of an active, innovative and powerful partner ecosystem in fiscal 2013. We currently have more than one hundred partners in our worldwide network. It includes about a dozen globally operating strategic partners, more than 20 OEM partners and 20 technology partners. These numbers are on the rise. In the past year alone our partner managers were able to win about 70 new sales and service parters in various countries around the world. Software AG developed a program in 2013, known as PowerUp, that offers highly attractive conditions for partners. We clearly defined responsibilities in all sales regions worldwide, improved operational processes and enhanced our offering by determining a range of partnership models.

Strategic partnerships

Joint product development and programs with key service and technology partners are essential to Software AG's product and corporate strategy.

Software AG entered into a long-term partnership with Bristlecone, a leading SAP system integrator for the fields of supply chain and manufacturing. This partnership combines our process-oriented SAP management approach with Bristlecone's comprehensive SAP know-how, in-depth Supply Chain Management (SCM) expertise and global deployment model. The cost-efficient business model offered by partnerships provides our customers in Europe with clearly more resources for projects. It also enables us to execute larger projects with customers and shorten delivery times.

Specific partnerships allow Software AG to address current developments in the field of IT security and privacy. For example, we entered a sales alliance with Deutsche Telekom in 2013 for the use of De-Mail, a service that caters to large corporate customers and the public sector. We bring many years of experience in business process optimization, automation and integration to the partnership.

The importance of our partner network is reflected at all the major events and trade shows. Innovation World in San Francisco with more than 1,000 attendees from 35 countries also serves to express our appreciation of our partners. Numerous partners were also involved with Innovation Day in Darmstadt, which was attended by 300 customers and interested visitors. nterra integration presented webMethods consulting, Trillium Software demonstrated Master Data Management and Bearing Point discussed the subject of process management.

In Asia we held our first Partner Summit in 2013 with more than 40 participants from all over Asia. The conference illustrated how our largest partners are taking advantage of the new opportunities presented by the IT megatrends to profit from the Digital Revolution.

Outlook

With partners Software AG can increase its sales volume compared to using only direct channels. The goal is therefore to expand sales activities with additional partners and to win new OEM and distribution partners. We also aim to provide more customer references through partners. We are developing further OEM partnerships with a focus on the North American market. We are seeking pilot partners for the acquired LongJump cloud offering. The integration of our acquired products into existing partners' portfolios is an important element of the current year. Ultimately we want to increase the percentage of partner-generated software license revenue significantly. Furthermore, Software AG plans to grow partners' contributions to innovation, for example, the development of mobile solutions, workflow apps and AgileApps Live as well as partner-developed software solutions based on Terracotta for previously unsolvable problems, such as optimization of the energy efficiency of wind parks.

Overall statement on financial position

Management's assessment of financial position

We significantly outperformed the overall market in our future-oriented BPE line in fiscal 2013. BPE product revenue went up more than 15 percent at constant currency, which is twice the growth of our competitors. License revenue even achieved 18 percent growth—a clear confirmation that we are gaining new business and market share.

2013 was also a successful year for Software AG's two other business lines. The traditional ETS database segment, which has to stake its claim in the shrinking mainframe market, performed well.

Because of a conscious refocus on profitable markets in the German-speaking region, the recently restructured Consulting business line generated less revenue, but more importantly a positive contribution to total Group net income again, which confirmed the operational turnaround.

Total Group license revenue, a key indicator, hit a new company record at €330.1 million. License revenue is a key indicator of future growth in the software sector, because it typically leads to long-term maintenance revenue through subsequent update and support agreements with customers. It also shows an improved revenue mix. The major growth in products shifted our revenue mix in favor of the growth-driving, high-profit license and maintenance revenue, particularly in BPE.

A good two-thirds of total license revenue was generated in the BPE business line. Two especially positive factors were involved. Firstly, license revenue made considerable gains in the second half of 2013. That is an indication that our investments in organic growth were effective and will lead to more positive effects. Secondly, our average deal size increased significantly—fuelled primarily by 8-digit BPE deals.

Overall this positive trend confirms our growth strategy and our goal to gain market share and evolve from technology leader to market leader. Furthermore, we drove expansion of our innovative product portfolio and of sales and marketing in the past year—above all in the USA, which is the software sector's most important market. Our new marketing units there already contributed to growth with large deals, primarily in the public sector.

We also maintained our operating profit margin at a very good level through stringent cost discipline in other parts of the Company. Our high cash reserves provide the flexibility we need for further growth.

In order to enhance our organic BPE growth and continue expanding Software AG's highly innovative product suite, we made five technology acquisitions worth a total of €113,2 million in 2013. The integration of new technology units is a unique strength of Software AG, as our successful acquisition track record proves. It allows us to broaden and accelerate our own ability to innovate. And in that way, were were able to build our successful BPE business and take it to the top of the market.

Software AG recognized the transformational power and potential of technological megetrends early. The BPE product range therefore addresses the entire spectrum of these converging trends now. Numerous studies and awards from respected market analysts in 2013 confirmed that our product families are unique and leading the market.

Our software and services provide the equipment that every organization needs to embrace the rapidly advancing digitization, regardless of industry and size. Software AG is excellently positioned to guide customers through the transformation to a Digital Enterprise and reach their goal quickly and efficiently.

Events After the Balance Sheet Date

Disclosure of changes of particular significance

Share buyback concluded

Software AG instituted a program for the repurchase of treasury shares up to a total value of €110 million beginning November 12, 2013. It was concluded on February 28, 2014. As part of this program 1,463,438 Software AG shares were purchased for a total price of €39,451,179.75 in the fourth quarter of 2013. An additional sum of 2,653,845 Software AG shares were acquired for a total price of €70,560,638.50 based on the value date of February 28, 2014. The Company's treasury shares as of February 28, 2014 totaled 8,084,101, which is 9.3 percent of the share capital.

Risk and Opportunity Report

Risk management system

Objectives of the risk management system

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

Organization of the risk management system

A Group-wide opportunity and risk management system enables us to identify potential risks and accurately assess and minimize them to the greatest extent possible. By continuously monitoring risks, we can constantly evaluate the overall status systematically and in a timely manner and assess the effectiveness of appropriate countermeasures. In doing so, we include operational risks as well as financial, economic, legal and market risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas. Software AG uses various controlling tools for ongoing monitoring of the risk areas identified, which address the development of the entire Company as well as department-specific issues. The Management Board receives ongoing information as to current and future risks and opportunities as well as the aggregated risk and opportunity situation via established channels. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Central responsibility for Group-wide processes

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

Structure of the risk management system

a) Controlling

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

b) Finance

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

c) Treasury

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

d) Internal Audit

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

Risk management in the financial reporting standards process

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

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

Strategic risk management (RCM)

The strategic risk management system is composed of a core interdisciplinary Group team of the directors of corporate Finance, Internal Audit and Legal who report to the CFO in this function, as well as risk advisors, who are responsible for identified risks. A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring and managing identified strategic risks. Risks are evaluated according to a uniform valuation system. The system takes into account the expected value of risk effects to Group EBIT for the next three years. The effects on EBIT are divided into three categories. A minimal effect, up to €50 million on Group EBIT, falls into risk category 1. Medium effects on EBIT are category 2 and have an impact on EBIT between €50 and €200 million. The greatest effects on EBIT over the next three years, with an impact above €200 million, are risk category 3. In a separate step, the probability of these effects on EBIT is also assigned one of three risk levels. Probability between 0 and 33 percent is risk level 1, between 34 and 66 percent is risk level 2 and above 66 percent is risk level 3. All strategic risks are assigned points based on this uniform risk matrix. All Group managers are responsible for reporting newly identified strategic risks to the central corporate team. The team then informs the Management Board for advice on possible strategies for handling them. The corporate team reports to the Management Board regularly about the ongoing development of the identified risks. The Management Board regularly presents the risk management system to the Audit Committee of the Supervisory Board and discusses with it the level of the identified risks.

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

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

Specific risks

In the following section we will describe key risk areas and individual risks discerned from the totality of risks identified through the risk and opportunity management system.

Environment and sector risks

Market risks

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

Debt crisis

The debt crisis in individual eurozone countries that has been escalating since 2010 has had only a limited impact on Software AG's primary business. Software AG earned only 3.9 percent (2012: 3.7 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Greece, Italy, Ireland, Portugal and Spain) in fiscal year 2013.

Business risks

Product risks

As a high-tech industry, the software sector in general is particularly susceptible to being negatively affected by the innovation risk of new competitor products. Ongoing investments in research and development are therefore necessary to stay on top of the technological state of the art. Current trends require constant enhancements as well as acquired technologies and new go-to market models. Competition intensified through the emergence of newcomers to the market, especially in the big data and cloud computing segments. Close collaboration between Sales, Product Marketing, Product Management and Research and Development (R&D) makes it possible for the development of new products to be market-driven and thus market-relevant. In fiscal 2013 we shortened our product-release cycle to six months. One of the greatest challenges of our industry is to optimally allocate R&D resources.

We reduce this risk by implementing our functional triangle (Sales-Marketing-Research and Development) and by close contact with customers in all industries and countries. Moreover, we maintain close contact with technology analysts so as to be continuously informed of new market and product developments. With newer development trends, Software AG's products are augmented by acquisitions. For these reasons, acquisitions of JackBe Corp., USA, Relational Networks Inc., USA (LongJump), alfabet AG, the Apama division of Progress Software Corporation and of a minority interest in metaquark GmbH were made in 2013. They strengthened our Business Process Excellence (BPE) technology, particularly for the new area of application Intelligent Business Operations (IBO). As a technological leader—a fact confirmed by independent analysts—in the BPE product area we are often operating in technological uncharted waters. This carries the risk of problems arising from the implementation of products that are not completely technologically mature, which can then damage customer relationships. We manage this risk with a digital product innovation process entitled Entire Readiness of Software AG for new technology/release, which coordinates all processes across the Group for new-product launches. Furthermore, project launches are monitored through key performance indicators based on region and country. In addition, Software AG made significant investments in proactive support teams in order to further improve customer satisfaction. The product risks described here were given risk category and risk level 2 at the end of 2013.

The Company's Research and Development division uses a minimal amount of open-source code for product development. We have numerous processes which ensure that no open-source components can employed that could contaminate Software AG products. There is a risk that in isolated cases these processes could fail and the Company would not be able to impose licensing fees for products contaminated with open-source code rights. This open-source code risk was risk category and risk level 1 on December 31, 2013.

Enterprise Transaction Systems (ETS) products

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

Software AG is countering these risks with the following measures:

- A global manager was put in charge of the ETS business for the first time in fiscal 2013.
- Process improvements through the BPE product portfolio support ETS modernization, thereby increasing the product line's life cycle.
- New sources of revenue are being tapped by the steady expansion of the ETS product portfolio through add-on products.
- To generate additional revenue, Software AG offers support for customers migrating from mainframe to open-systems platforms on ETS technology.

The measures taken can slow the declining trend in the ETS business, but not stop it. Software AG expects a decrease in ETS product revenue between -9 and -16 percent at constant currency in fiscal 2014. The Company anticipates a further drop in revenue in the following years as well. This strategic risk was rated risk category 2 and level 3 at the end of 2013.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. The uncertainty of future market and technology trends means that there is a risk associated with determining the right target target companies. At present, only relatively small target companies are available in the high-growth fields relevant to the four megatrends (big data, cloud, mobile and social). In order to identify emerging technological developments early, the M&A department is managed out of San Francisco, California. Due to the high number of globally leading IT companies and the prevalent start-up culture in that region, Software AG is actively involved in quickly identifying and exploiting future trends in the IT sector.

Furthermore, there is a risk that the companies acquired will not be integrated successfully. The associated challenges include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. In order to successfully integrate acquired companies, we instituted the position of global integration manager. The following risk-mitigating processes have been defined for the time prior to and after acquisitions:

Pre-acquisition phase

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

Post-acquisition phase

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

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

These processes enable us to quickly create revenue and cost synergies. The acquisition-related risks were rated at risk category 1 and risk level 3 as of December 31, 2013.

Product distribution risks

Sales risks

The complexity of our products together with the complexity of the requirements of our customers require a high level of experience and expertise on the part of our sales force. In addition, the sophisticated technology of our products necessitates a considerable amount of information when selling them. In order to lessen the complexity of selling our products, we categorized our products by sales platforms which serve to improve understanding of our products, both for sales staff and customers. The platforms provide appropriate solutions at various communication levels. Individual products are also summarized by technology platforms that address specific subject areas. There is a risk that an unsuitable platform or solution could be offered to solve a specific customer problem. In support of Sales, product R&D works continuously to complete the platform offering. In addition, global teams were set up as centers of excellence, and ad campaigns featuring software solutions for customer problems were run to futher improve understanding of Software AG products and sales efficiency. These strategic sales risks were rated at category and level 2 at the end of 2013.

Partnership risks

Software AG's dynamic growth strategy requires a substantial enlargement of indirect sales. Due to the complexity of our products, undertaking sales via partnerships is a challenge. In order to ensure the success of indirect sales, Software AG has been making considerable investments in partner distribution channels for the last two years. The following measures were implemented:

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

In addition, investments were made in partner ecosystems, technology training for partner organizations, IT-based process automation and OEM partnerships. The risks associated with partnerships were rated at risk category 1 and risk level 2 as of December 31, 2013.

Service risks

Price is often a key factor in winning projects in the area of project services. This results in the risk of accepting orders at prices below cost. Furthermore, the actual costs can exceed budgeted costs. Successful product implementation is a prerequisite for earning satisfied reference customers, which fuel Software AG's momentum for further business. Reference customers also build up our reputation as a provider of high-quality software.

The Group-wide standardized and automated approval process (Global Deal Desk) and Software AG's project controlling guarantee that adequate risk-adjusted profit margins are taken into account and continuously monitored. All projects are subject to an ongoing monitoring process that is amplified for projects greater than €250 thousand.

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

Too few specialists are available in specific submarkets for our multitude of complex products. To reduce this risk, specialist teams are being established for entire regions. Smaller country subsidiaries are focusing on specific sections of our product portfolio, and market positioning in the various submarkets is being realigned depending on the size of the country subsidiaries. The proportion of offshore/nearshore resources could be increased for presenting efficient cost structures. We are currently developing them to increase our pool of available specialists around the world as well as to optimize cost structures. All service activities continue to be led under uniform management. The risks associated with services were given risk category and risk level 2 at the end of 2013.

Personnel risks

Employees are the most important asset for an innovative company like Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. Software AG's growth strategy is based on broadening our staff coverage in sales. The demographic trend in some countries is resulting in a reduction in potential growth due to a shortage of qualified human resources.

This risk is reduced through expansion and enhancement of:

- Our positive image as a preferred employer
- Our presence in social media, such as Linkedin and Facebook
- Staff development
- Compensation systems
- High potential programs for the development of managers

In addition, we are working on balancing high and low-cost locations. All in all Software AG is in a position to recruit highly qualified and motivated employees at all locations. The strategic risks associated with personnel were rated at risk category 1 and risk level 2 as of December 31, 2013.

Financial risks

Exchange rate risks

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

Risks from financial instruments

Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure existing balance sheet items or highly likely cash flows. Based on the financial instruments open on the balance sheet date, an increase in the market interest rate level by 100 basis points would have increased Group net income in 2013 by €2.3 million (2012: €2.4 million). Provided conditions such as revenue structure and balance sheet relationships remained constant and no further hedging transactions took place, this approximate correlation could be applied to future fiscal years as well. Under these conditions, a 10-percent decrease in the euro's value against the U.S. dollar as of December 31, 2013 would have caused Group net income in 2013 to increase by €1.6 million (2012: €1.2 million). The remaining reserves in equity would have remained unchanged as in the past year. Constantly monitoring the creditworthiness of the affected banks helps us minimize the risk of losing our business partners with whom we conclude derivative financial instruments.

Other financial risks

Other financial risks include predominantly the risk of bad debt losses. No cluster risks exist due to Software AG's diversified markets and customer structure. Due to the long-range average, default risks are quite marginal as a result of the generally high level of creditworthiness on the part of our customers. To reduce the impacts of this risk, we are using an automated approval process for customer contracts, known as the Global Deal Desk, based on our own technology. To protect our cash holdings, we constantly monitor our partner banks' creditworthiness and adjust our investment decisions accordingly.
Due to the described risk-managing measures, financial risks have an overall risk category below 1 and a risk level 1 and are thus not a focus of Software AG's strategic risk management.

Legal risks

Patent infringements

Patent law, especially in the U.S. due to the large number of software patents granted combined with the peculiarities of U.S. procedural law, favors the bringing of patent lawsuits. This also affects Software AG.
Patent litigation in the U.S. entails the risk of higher procedural costs to defend ourselves against claims without provision for reimbursement in American procedural law.
The Company has an Intellectual Property Rights team to counter patent law suits. In addition to tasks associated with patent law protection, the team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against competitors' claims, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio. Software AG owns 170 (2012: 102) patents from 89 (2012: 68) patent families. In addition, 179 (2012: 229) applications from 136 (2012: 125) patent families are pending. Of a total of 28 (2012: 26) filings in 2013, 28 (2012: 26) were for new inventions. These patents could contribute in the future to generating additional licensing revenues. Risks associated with patent lawsuits were rated at risk category 1 and level 2 as of December 31, 2013.

Patent law suits

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. The proceedings against the other defendants are still pending. Software AG assumes that the proceedings will be reopened in the first half of 2014.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed similar parallel lawsuits against three other defendants. The NPE withdrew its lawsuit against Software AG in January 2013. The NPE also filed a new lawsuit for the alleged violation of two of its software patents in January 2013. The proceedings are in an early stage. Hearings are not scheduled to take place until mid-2015.

Other litigation

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In September 2013 the court issued an order to hear evidence and requested that Warth & Klein GmbH Wirtschafsprüfungsgesellschaft provide an opinion on questions concerning valuation in the capacity of expert auditor. Warth & Klein's expert opinion is still pending.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision and is currently waiting for the case to proceed. Provisions are set up based on the estimated probable actual resource outflow.

The lawsuit brought by Mr. Broadbent in connection with the termination of his Management Board appointment was settled by way of an agreement outside of court in May 2013. The settlement stipulated the termination of Mr. Broadbent's appointment to the Management Board as of July 18, 2011 and the termination of his employment contract as of August 31, 2011 in exchange for payment of 1.25 annual salaries and previously earned but not yet paid entitlements from the period prior to August 31, 2011.

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

Opportunities

Opportunities related to changes in general conditions

New opportunities for our business arise from the growth potential of the global economy and from the international IT market. Economists and market research institutes forecast accelerated growth in 2014 for the enterprise software and IT services market segments, which are those relevant to our Company. This expected trend substantiates our growth strategy. [Querverweis zu Lagebericht Kapitel Wirtschaftliche Rahmenbedingungen in den folgenden zwei Geschäftsjahren]

The simultaneous convergence of four IT megatrends—big data, cloud, mobile and social—lays the foundation for the Digital Revolution, which is causing groundbreaking changes in all aspects of life and opening the door to new business opportunites. Software AG shifted its focus to the transformational power and potential of these technological trends early. We deliver answers to the associated challenges primarily with our integrated BPE portfolio. It addresses all requirements for organizations improving business processes, harmonizing and continuously integrating IT landscapes and thus transforming to the Digital Enterprise. We enhanced our portfolio (refer to the statement on corporate acquisitions) in the year under review with innovative cloud solutions (LongJump), big data products (Apama) and mobile technologies (metaquark).

Business and operating risks

We are positioned in high-growth markets with the BPE segment. In the past few years we have succeeded in growing the BPE business line into our primary source of revenue. This laid the groundwork for exploiting the potential of megatrends and achieving profitable growth.

At the same time, our above-average growth in the product business offers the opportunity of a higher level of profitability. For this reason, we pursue a strategy of sustainably optimizing our revenue mix by raising the percentage of high-growth BPE product revenue significantly above 80 percent by the year 2018.

In order to always maintain a state-of-the-art product portfolio, R&D expenses will continue to be considerable. This ensures that our solutions meet the needs of customers and reach a broader market as well as broader user bases within organizations. Expanding our Sales and Marketing teams increases opportunities for realizing ever larger deal sizes, as occurred in fiscal 2013. In addition to our own sales force, we will continue to step up our partner network, which was expanded in 2013 in order to further raise the percentage of revenue and earnings through that channel.

Software AG's global position provides the opportunity of early participation in market and technology developments in various regions. Our goal here is to assume a market-leader position in the countries in which we are represented in order to increase the probability of securing orders. Our M&A management is based in the Silicon Valley because of the key importance of the U.S. IT market. That offers the opportunity for us to recognize trends early and leverage the innovative potential of this IT hub. Furthermore, our new U.S. subsidiary, Software AG Government Solutions, established in 2013, gives us access to large business contracts with the public sector.

Major opportunities are offered by the cross-selling potential of BPE products in the ETS business line.

After a year of intense investing, we seek to exploit further optimization potential, economies of scale and efficiency advantages in order to convert our investments into revenue and increase the Group's earnings. Thanks to its expanded innovative product portfolio, its ever more global position in high-growth markets and its highly qualified staff, Software AG has the opportunity to gain additional market share and evolve from technology leader to market leader as part of its focused growth strategy.

General statement on the Group's risk situation

Management's assessment of the Company's risk situation

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

Company rating

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

Based on the financial statements from December 31, 2012, Software AG was given central bank eligibility by the German Central Bank (Deutsche Bundesbank). This means that lending banks can use credit claims with Software AG as collateral for refinancing with the Deutsche Bundesbank.

Software AG's own banks classified its creditworthiness as investment-grade at the end of 2013.

A leading ratings agency arrived at a similar conclusion as part of an analysis of the financial and business risk profiles of a selection of German medium-sized companies.

Remuneration Report

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

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

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

Short-term remuneration of active Management Board members for fiscal 2013 was composed as follows:

in €	Fixed remuneration	Variable remunera-tion/bonuses	Other remunera-tion components	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	697,642.92	3,046,513.72	18,107.95	3,762,264.59
Dr. Wolfram Jost	360,000.00	462,563.46	37,605.04	860,168.50
Arnd Zinnhardt	441,715.32	1,927,224.56	31,328.02	2,400,267.90

Variable remuneration

The individual members of theManagement Board receive performance-based remuneration comprising a one-year variable component and various multi-year variable components.

Short-term variable remuneration

Fifty percent of the one-year variable bonus depends on achievement of the Group revenue and earnings targets that are communicated to the capital market. In addition, each member of the Management Board agrees to different quantitative and qualitative targets relevant to the respective area of responsibility, which are in the interest of the medium to long-term strategic development of the Company. The bonuses are calculated based on the extent to which targets are achieved. If the level of achievement is zero, no variable remuneration is paid. The maximum achievable level is 200 percent.

Medium and long-term variable remuneration

a) Phantom share plan

A portion of the variable remuneration is paid as a long-term component on the basis of a phantom share plan. The amount of this component depends on the achievement of the same targets and is subject to the same limits as was agreed for the one-year variable remuneration for fiscal year 2013.

The long-term remuneration component accruing for fiscal year 2013 is not paid out, but converted into virtual (phantom) shares on the basis of the average share price of Software AG stock for the month of February 2014 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 2015 to 2017, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and is then paid to the members of the Management Board. The TecDax adjustment for this out- or underperformance is limited to 50 percent.

Management Board members receive an amount per phantom share equal to the dividend resolved by the Annual Shareholders Meeting for the balance of all phantom shares held at the time of the Annual Shareholders' Meeting.

Members of the Management Board may elect to let the Company dispose of the amounts that have become due after the waiting period for an unlimited period of time and thus continue to participate in the success of the Company. Accounting procedures correspond with those of phantom shares that have not yet become due.

This plan led to income of €3,530 thousand (2012: personnel costs of €3,618 thousand) in fiscal year 2013, which are mainly included in "long-term remuneration." The income was a result of losses in share price during the year under review.

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

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and executive managers was launched. A total of 3,150,000 (1,050,000 prior to the stock split in 2011) ownership rights were issued to members of the Management Board in past years. If performance targets are reached by June 30, 2016, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price of €24.12 (€72.36 prior to the stock split). The defined performance target involved reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These conditions were met in fiscal year 2010. No member of the Management Board exercised options under MIP III in 2013.

Participants of MIP III can be paid an annual bonus for unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year. This bonus was not paid in fiscal 2013.

Stock option awards from Management Incentive Plan III

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

Stock option awards from Management Incentive Plan III

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

Stock option awards from Management Incentive Plan III

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

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

After Software AG had met the secondary conditions of MIP III (2007–2011) in 2010, it was necessary to launch a new long-term success-based incentive plan. Accordingly, a share-based incentive plan for members of the Management Board and executive managers was launched in the second quarter of 2011. A total of 1,655,000 ownership rights were issued to members of the Management Board as of December 31, 2013. If performance targets are reached by fiscal year 2015, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price. This entitlement is valid until June 30, 2021. The base price for ownership rights issued thus far is €41.34. The defined long-term performance target involves doubling Group revenue for new products and net income compared to fiscal year 2010 by no later than 2015. “New products” as defined for the revenue performance target are mainly all products outside of the Adabas, Natural and EntireX product portfolios. The plan includes a medium-term performance target that requires that the long-term doubling of new product revenue and net income must be achieved along a lineal progression of at least 15 percent per year. If annual growth in revenue from new products or net income is less than 10 percent during one year, the total ownership right award will be reduced on a pro rata basis by 0.5 percent for every percentage point under 10 percent. The reduction can be recovered with growth greater than 15 percent annually in the following years. But the original award cannot be increased. The rights can be exercised for the first time four years after they were allotted. An additional condition for exercising rights was defined whereby Software AG’s stock price must be at least €60 on one of the five trading days before rights are exercised.

In November 2012 Management Incentive Plan IV was adjusted to reflect changed strategic targets, which required major investments in growth and a stronger focus on the cloud business. The Company therefore took the cloud computing megatrend into account in its calculations of relevant revenue. This means that the cloud revenue that is generated on a pro rata subscription basis is recognized with a multiplying factor; IFRS revenue from new products must however be at least €450 million in fiscal year 2015. Instead of doubling net income, it was determined that the Software AG Group’s publicized non-IFRS EBIT margin must be at least 10 percent respectively by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by an appropriate outperformance of the revenue performance target. In accordance with the adjustment of long-term performance targets, only a lineal increase of new product revenue will be included in the medium-term performance target. Furthermore, participants of MIP IV can be paid an annual bonus on exercisable but unexercised options in the amount of the dividend approved at the respective Annual Shareholders’ Meeting. This must be reapproved every year.

Stock option awards from Management Incentive Plan IV

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

Stock option awards from Management Incentive Plan IV

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

Stock option awards from Management Incentive Plan IV

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

Summary

in €	Performance phantom shares	Total short-term remuneration	Total remuneration excluding MIP IV	MIP IV for period from 2013 to 2016	**Total**
Karl-Heinz Streibich (Chief Executive Officer)	1,739,431.77	3,762,264.59	5,501,696.36	175,200.00	5,676,896.36
Dr. Wolfram Jost	500,974.75	860,168.50	1,361,143.25	–	1,361,143.25
Arnd Zinnhardt	1,460,876.06	2,400,267.90	3,861,143.96	87,600.00	3,948,743.96
Total					**10,986,783.57**

The total amount of €10,987 thousand was offset by a decrease in assets in 2013 totaling €10,546 thousand, which results from the decline of Software AG's share price while the overall market was making gains.

The following table illustrates the phantom shares issued and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2013:

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

* The expenses attributable to the fair value at the time of award in the amount of €27.68 (2012: €29.47) per phantom share are included in long-term remuneration components. This income (expense in 2012) was decreased by €3,195 thousand in hedging expenses (2012: decreased by €1,611 thousand in hedging income).

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

Other remuneration components

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

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

In case of permanent disability, the employment contract of the Management Board member concerned will terminate at the end of the month in which the permanent disability was determined or at the end of the month in which the Management Board member has been incapacitated for work for an uninterrupted period of 12 months. In such a case, severance pay will be provided for one Management Board member in the amount of €158 thousand. Another member will receive severance payment equal to the member's total fixed salary for the remainder of the contract period, but not to exceed six months. The third Management Board member will receive no severance pay in such a case. From the time of their departure until completion of their 62nd year of age, the members of the Management Board will receive a disability pension of €13.8 thousand (2012: €13.1 thousand) per month, and the CEO will receive €27.5 thousand (2012: €19.7 thousand) per month. The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year.

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

Members of the Management Board receive pensions for life after completing their 62nd year of age, regardless of their age when they joined the company. For two members of the Management Board, the pension amounts to €16.7 thousand (2012: €16.7 thousand) per month; the CEO's pension amounts to €30.4 thousand (2012: €21.0 thousand) per month. As part of the renewal of the CEO's contract, his pension was adjusted beyond the age limit of 62 using a straight-line method. The pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year. This pension commitment also includes a widow's annuity of 60 percent of the Management Board member's pension. In the event that a Management Board member leaves the Company prior to the age of 62, and before reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to pension benefits, but they will be reduced on a pro-rated basis. In the event that a Management Board member leaves the Company prior to the age of 62, but after reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to full pension benefits. If the CEO leaves the Company prematurely, there is no pro-rated reduction.

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

in €	2013	Dec. 31, 2013
Karl-Heinz Streibich (Chief Executive Officer)	193,011.00	5,597,669.00
Dr. Wolfram Jost	245,143.00	835,867.00
Arnd Zinnhardt	182,968.00	1,930,929.00

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

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

No additional commitments have been made regarding severance pay in the event an employment contract is not extended or a shareholder change occurs, nor regarding supplementary state benefit paid to unemployed people who enter self-employment or found a new business, continuation of salary payments in the event of early termination of employment, or interest on severance payments. There are also no entitlements to payments based on customary practice.

Remuneration of the Management Board in 2012

Short-term remuneration of Management Board members for fiscal 2012 was as follows:

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

Stock option awards from Management Incentive Plan III

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

Stock option awards from Management Incentive Plan III

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

Stock option awards from Management Incentive Plan III

MIP III 2007–2011 (Table 3)	Balance on Dec. 31, 2012	Thereof exercisable on Dec. 31, 2012	Remaining term on Dec. 31, 2012	Accounting income from MIP III options in 2012
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chief Executive Officer)	900,000	900,000	3.5	0.00
Arnd Zinnhardt	450,000	450,000	3.5	0.00

Stock option awards from Management Incentive Plan IV

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

Stock option awards from Management Incentive Plan IV

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

Stock option awards from Management Incentive Plan IV

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

Summary

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

The following table illustrates the phantom shares issued and the expense attributable to the fair value at the time of award in the amount of €29.47 per phantom share in fiscal year 2012. This expense was decreased by €1,611 thousand in hedging income and is primarily included in long-term remuneration in the table above. This amount also consists of the balance of income and expenses from outperformance of the TecDAX as well as interest rate expenses relating to hedging transactions.

The change in present value from pension commitments in 2012 and the present value of pension commitments as of December 31, 2012 are as follows:

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

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

Supervisory Board remuneration

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

The fixed annual compensation of Supervisory Board members is €50,000 (2012: €50,000). In addition, members of of the Supervisory Board receive performance-based annual compensation in the amount of €500 for every started percentage point by which Group earnings per share (basic) increase in comparison to Group earnings per share (basic) averaged over the defined period of time for comparison. The period of time used for comparison is the two prior fiscal years.

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

Remuneration of the Chairman/Deputy Chairman

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

Other arrangements

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

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

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

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

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

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

in €	Fixed remuneration	Variable remuneration	Remuneration for committee work	**Total**
Dr. Andreas Bereczky (Chairman)	100,000.00	0.00	10,000.00	110,000.00
Prof. Willi Berchtold	50,000.00	0.00	5,000.00	55,000.00
Peter Gallner	50,000.00	0.00	3,000.00	53,000.00
Heinz Otto Geidt	50,000.00	0.00	3,000.00	53,000.00
Dietlind Hartenstein	50,000.00	0.00	6,000.00	56,000.00
Monika Neumann (Dep. Chairwoman)	75,000.00	0.00	6,000.00	81,000.00
Prof. Dr. Hermann Requardt	50,000.00	0.00	1,500.00	51,500.00
Anke Schäferkordt	50,000.00	0.00	1,500.00	51,500.00
Roland Schley	50,000.00	0.00	4,500.00	54,500.00
Martin Sperber-Tertsunen	50,000.00	0.00	3,000.00	53,000.00
Karl Wagner	50,000.00	0.00	3,000.00	53,000.00
Alf Henryk Wulf	50,000.00	0.00	6,000.00	56,000.00

Forecast

Economic conditions in the next two fiscal years

Future overall economic situation

The global economic outlook got brighter in late 2013/early 2014. Economists at the Institute for the World Economy (IfW) expect the global economy to grow by 3.7 percent in 2014, which is significantly higher than in 2013 (+2.9 percent). They predict that growth in 2015 will rise to 4 percent.

The eurozone was predicted to grow comparatively slow, but restructuring measures are beginning to take hold. The measures are still putting a squeeze on domestic demand, especially in crisis-ridden countries. And in other countries as well, confidence among companies and private individuals is low. Market analysts assume that the economy is improving gradually—even in weak countries. According to the IfW, overall economic growth in the eurozone is expected to be 0.9 percent in 2014 and 1.6 percent in 2015.

The institute expects slower economic growth in emerging economies. Economists forecast that the GDP in countries such as China will continue to drop slightly in 2014 and 2015.

Our forecast depends on a number of factors, including U.S. monetary policy. If the gradual departure from the excess of liquidity is not successful, financial markets will experience turmoil. The dispute between institutions and politicians on the debt ceiling—and the potential insolvency of the U.S. government—is apparently settled for the time being. In mid-February 2014 the U.S. Senate imposed a credit limit on itself until March 2015. The high level of debt of individual countries in the eurozone could also be cause for alarm. The banking sector is still dealing with its own troubles. In the event of increased uncertainty, investing, and therefore also economic growth, would be negatively affected.

Future sector situation

The IT market is likely to experience faster growth in 2014. Market analyst firm Gartner anticipates that global IT spending will rise 3.1 percent to total approximately $3.8 trillion in 2013. According to their projection, the market segments in which Software AG operates should perform above average. The enterprise software market segment is expected to expand 6.8 percent to $320 billion; the IT services segment should see growth of 4.5 percent to $963 billion.

According to the German Association of Information, Telecommunications and New Media (BITKOM), in October 2013 EITO calculated that the German ICT market will grow 1.7 percent to total €143.0 billion in 2014. Of that amount, €19 billion will be for software (+5.1 percent) and €36.8 billion for IT services (+3.2 percent). BITKOM's economic index rose in early 2014 from 55 to 67 points; software and IT service companies in particular assume that growth will continue.

The Group's focus

Planned changes in business policy

Software AG will maintain its strategy of becoming the global market leader in the BPE field. To achieve that, the Company will continue selling innovative products that play a key role in customers leveraging their growth potential. Our core BPE markets of integration, Business Process Management, IT management and big data management as well as visualization are all high-growth markets that help our customers become Digital Enterprises faster and more efficiently. These are good preexisting conditions for dynamic expansion.

Software AG therefore expects the BPE business line to outperform global economic growth and the overall IT sector again in 2014. Thanks to our technology leadership, we are optimistic that we will achieve our targets for 2014 under the assumption that the global economy and the IT sector develop according to current expectations.

Acquisitions will continue to be a core component of our growth strategy. So in order to strengthen our technology leadership, we will stay prepared to invest selectively in innovation-driven companies. Furthermore, Software AG will concentrate on generating license revenue, because it is an important indicator of success and the key predictor of long-term maintenance revenue in the software sector. In addition to these growing business areas, our efforts will also be focused on increasing efficiency based on investments made in the BPE business line in 2013. The additional sales staff enabled us to better exploit existing market potential and expand our customer base. We also plan to further boost the number of large-scale product deals in the BPE line.

Future sales markets

Building our sales network remains a key component of our journey to becoming market leader, including OEMs (original equipment manufacturers), ISVs (independent software vendors) and IT system providers.

With its acquisition of LongJump, Software AG moved its cloud product offering a step further in 2013. An additional sales channel has been established here that will continue to gain in significance in the growing cloud market. More innovations in this field will follow.

Software AG will also continue operating globally in the future. Through the successful launch of the new U.S. subsidiary, Software AG Government Solutions, and expansion of sales with a focus on North America, this region will become increasingly important to the BPE business line. After the successful reorganization of the SAP consulting activities in the past year, its focus will be the German-speaking region.

New future technologies, products and services

In addition to the improved, customer-centric consolidation of the Company's products within the Software AG Suite, it sees the biggest growth opportunities in the dynamically expanding big-data market. Software AG is very well equipped to achieve mid-range double-digit growth rates in the BPE business line with the Terracotta and Apama technologies. Furthermore, Software AG began expanding its cloud business. In order to turn innovations over to the market quickly, Software AG will unveil new product releases twice a year—at CeBIT in spring and at Innovation World in fall.

Expected financial performance

Anticipated revenue and earnings

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

in € millions	2013	Outlook 2014 (as of Jan. 28, 2014)
Product Revenue BPE	422.9	+12% to 18%*
Product Revenue ETS	273.8	-9% to -16%*
Operating income (non-IFRS)**	**260.7**	**+4% to +10%**

* Revenue growth or decline at constant currency.
** Before adjustments for non-operating items (see non-IFRS earnings results).

We continue to aim for double-digit growth in our BPE segment and again outperform the market. For fiscal year 2014 Software AG expects BPE product revenue growth between 12 and 18 percent (at constant currency). Our BPE outlook is formulated under the assumption that the future markets of big data and intelligent business operations (IBO) will continue to expand at an above-average rate, the renewal rate of current contracts will stay constant and the acquisitions made in 2013 will provide a broader customer base through which we will be able to tap cross-selling potential.

Because the traditional database software market is shrinking due to its maturity and saturation, we anticipate a steady revenue decline in the ETS business. ETS revenue is expected to drop by 9 to 16 percent (at constant currency) in 2014. Future ETS business is based on historical data and the assumption that the renewal rate of maintenance agreements will stay at last year's level.

In Consulting, earnings—as opposed to revenue—is the focus of corporate management. Here, Software AG works to continually improve segment profitability.

Based on the described assumptions, operating income (non-IFRS) is likely to rise between 4 and 10 percent.

Forecast for Software AG parent company (separate financial statements)

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

Anticipated performance of key items on the income statement

Assuming Consulting revenue is stable, the cost of sales, which consists primarily of staffing costs for consulting projects, should be slightly down year on year due to optimized resource utilization and a reduction of external contractors.

R&D expenses will increase moderately in 2014 because of acquisitions of technologies and development teams in 2013.

Administrative costs (without accounting for share price-based remuneration components) will increase by low single digits. This is also a result of the full-year effects of acquisitions.

Anticipated dividends

Software AG has been paying dividends regularly for many years based on the average net income and free cash flow. Typically the payout is between 20 and 25 percent of the average of these two figures. The decision as to whether the dividend is closer to the upper or lower limit of this range is based on the Company's current financial needs for funding further corporate growth, for example, with acquisitions. Like last year, the Company expects to pay a dividend of €0.46 per share for fiscal 2013 (subject to the approval of the Annual Shareholders' Meeting). This reflects a total payout volume of €36.3 million and an average of about 24.8 percent of the 2013 net income and free cash flow attributable to shareholders of Software AG. This dividend calculation policy will in essence be applied in the future as well.

Anticipated financial position

Planned financing activities

Software AG's internal financing capability is higher than that which is necessary for normal business operations due to its high level of positive operating cash flow. External financing measures are taken almost exclusively for financing large acquisitions. Because the timing of such acquisitions is not exactly foreseeable, the necessary financing cannot be predicted in detail either. In the past, Software AG has therefore engaged in reserve financing activities when capital market conditions appeared favorable. But favorable capital market conditions are also external factors, which Software AG can only anticipate to a limited extent. For these reasons, Software AG is currently planning no financing activities for fiscal year 2014. Should a large acquisition arise or should the capital market offer excellent conditions for reserve financing, or should both occur simultaneously, Software AG could take financing measures at any time.

Planned investments

There are currently no concrete plans for major investments. Software AG is however always prepared to take advantage of opportunities that arise for technology-driven acquisitions. Large-scale strategic takeovers could also take place given favorable conditions. At present there are no extraordinarily high investments planned for 2014.

Anticipated liquidity

Free cash flow is expected to perform congruently to net income in fiscal 2014. The resulting positive free cash flow and the existing liquid assets at the beginning of the year cover the planned repayment of financial liabilities due during the 2014 calendar year amounting to €202.5 million.

General statement on the anticipated development of the Group

Software AG considers itself to be very well positioned for a successful year 2014. The corporate strategy is aimed at sustainable profitable growth. We strive to continuously increase our enterprise value. Our long-term portfolio strategy is clearly focused on the consistent expansion of our BPE business, which is growing in terms of revenue and earnings. This segment has become our primary source of revenue in the past few years. We will continue investing in organic and acquisition-based growth in order to drive the expansion of our future-oriented BPE business.

As a product provider, Software AG pursues the overall strategy of optimizing its revenue mix in favor of high-margin product revenue. License and maintenance revenue have great growth potential and fundamentally a significantly higher earnings capability than services.

In the long term, Software AG plans to:

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

To achieve these goals, we will concentrate on the opportunities that the transformation to a Digital Enterprise offers us and our customers in the upcoming years through the interplay between the four megatrends: big data, cloud, mobile and social. These trends will be the critical engines of growth in the software sector. Software AG's Intelligent Business Operations (IBO) platform—introduced at the end of 2013—offers customers a universal solution that enables them to manage dynamically multiplying data volumes from heterogeneous sources and recognize business-relevant events in real time.

In addition to technological enhancements, we will also continue investing in sales and marketing as well as expanding global partner activities.

Software AG recognized the transformational power and potential of technological megetrends early. The BPE product range therefore addresses the entire spectrum of these converging IT trends now. Numerous studies and awards from respected market analysts in 2013 confirmed that our product families are unique and leading the market. Our software and services provide the equipment that every organization needs to embrace the rapidly advancing digitization, regardless of industry and size. Software AG is ideally positioned to guide customers through the transformation to a Digital Enterprise quickly and efficiently.

Takeover-Related Disclosures

Subscribed capital and voting rights

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

Conditional capital

The following conditional capital exists:

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

Authorized capital

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

Share buyback

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

Significant shareholders

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

Appointment/dismissal of Management Board members and changes in the Articles of Incorporation

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

Change of control

Liabilities to banks in the amount of €597.1 million (2012: €200 million) could become due, in full or in part, in the case of a change of control on the part of the creditors. A member of the Management Board whose appointment is terminated due to a change of control within 12 months of such change and without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration. In case of resignation, the above mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control. Other takeover-related disclosures not mentioned in this section do not apply to Software AG.

Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on March 4, 2014. It will be published in March 2014 on our website at www.softwareag.com/uk/inv_rel/corpgovernance/statement/.
This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on our website at www.softwareag.com/uk/inv_rel/corpgovernance/compliance/ on January 30, 2014.

Consolidated Financial Statements

for the year ended December 31, 2013

128 _ Consolidated Income Statement
129 _ Statement of Comprehensive Income
130 _ Consolidated Balance Sheet
132 _ Consolidated Statement of Cash Flows
134 _ Consolidated Statement of Changes in Equity

Consolidated Income Statement

for fiscal years 2013 and 2012

in € thousands	Note	2013	2012
Licenses		330,138	318,940
Maintenance		375,566	393,252
Services		265,998	333,278
Other		990	1,864
Total revenue	**[5]**	**972,692**	**1,047,334**
Cost of sales		-294,610	-378,394
Gross profit		**678,082**	**668,940**
Research and development expenses		-107,924	-101,084
Sales, marketing and distribution expenses		-300,067	-246,942
General and administrative expenses		-73,151	-75,845
Other taxes		-7,091	-8,022
Operating result		**189,849**	**237,047**
Other income	[6]	44,076	24,602
Other expenses	[7]	-35,511	-21,373
Net financial income/expense	[8]	-8,402	-8,779
Earnings before income taxes		**190,012**	**231,497**
Income taxes	[9]	-56,001	-66,820
Net income for the year		**134,011**	**164,677**
Thereof attributable to shareholders of Software AG		133,835	164,510
Thereof attributable to non-controlling interests		176	167
Earnings per share in € (basic)	[12]	1.60	1.90
Earnings per share in € (diluted)	[12]	1.60	1.89
Weighted average number of shares outstanding (basic)		83,702,176	86,784,793
Weighted average number of shares outstanding (diluted)		83,714,983	86,990,204

Statement of Comprehensive Income

for fiscal years 2013 and 2012

in € thousands	Note	**2013**	2012
Net income for the year		**134,011**	**164,677**
Currency translation differences		-38,380	-11,837
Net gain/loss on remeasuring financial assets	[29]	1,491	-492
Net gain/loss arising from translating net investments in foreign operations		-1,467	-687
Items to be reclassified to the income statement if certain conditions are met		**-38,356**	**-13,016**
Net actuarial gain/loss on pension obligations	[25]	-1,478	-10,135
Items not to be reclassified to the income statement		**-1,478**	**-10,135**
Other comprehensive income	**[26]**	**-39,834**	**-23,151**
Total comprehensive income		**94,177**	**141,526**
Thereof attributable to shareholders of Software AG		94,001	141,359
Thereof attributable to non-controlling interests		176	167

Consolidated Balance Sheet

as of December 31, 2013 and 2012

Assets

in € thousands	Note	**Dec. 31, 2013**	Dec. 31, 2012
Current assets			
Assets held for sale	[13]	0	6,092
Cash and cash equivalents		449,984	315,637
Securities		56,514	0
Inventories		109	111
Trade receivables	[14]	226,739	306,600
Other receivables and other assets	[15]	25,881	24,429
Income tax receivables	[16]	10,291	22,959
		769,518	**675,828**
Non-current assets			
Intangible assets	[17]	211,771	214,393
Goodwill	[17]	829,173	756,372
Property, plant and equipment	[18]	64,460	64,014
Financial assets		4,519	4,252
Trade receivables	[14]	96,418	34,674
Other receivables and other assets	[15]	2,030	3,895
Income tax receivables		2,711	1,769
Deferred taxes	[19]	16,253	16,662
		1,227,335	**1,096,031**
Total assets		**1,996,853**	**1,771,859**

Equity and Liabilities

in € thousands	Note	**Dec. 31, 2013**	Dec. 31, 2012
Current liabilities			
Liabilities from assets held for sale	[13]	0	3,307
Financial liabilities	[20]	202,888	52,572
Trade payables	[21]	36,140	47,833
Other liabilities	[22]	66,289	66,721
Other provisions	[23]	83,598	90,319
Income tax liabilities	[24]	38,477	30,688
Deferred income		105,664	110,397
		533,056	**401,837**
Non-current liabilities			
Financial liabilities	[20]	410,486	213,440
Trade payables	[21]	0	220
Other liabilities	[22]	4,775	7,237
Provisions for pensions	[25]	50,707	50,194
Other provisions	[23]	7,291	10,504
Deferred taxes	[19]	22,577	26,829
Deferred income		2,366	1,532
		498,202	**309,956**
Equity	**[26]**		
Share capital		86,944	86,917
Capital reserve		46,144	42,124
Retained earnings		1,087,328	991,651
Other reserves		-100,080	-60,246
Treasury shares		-155,534	-1,157
Share attributable to shareholders of Software AG		**964,802**	**1,059,289**
Non-controlling interests		**793**	**777**
		965,595	**1,060,066**
Total equity and liabilities		**1,996,853**	**1,771,859**

Consolidated Statement of Cash Flows [27]

for fiscal years 2013 and 2012

in € thousands	2013	2012
Net income for the year	134,011	164,677
Income taxes	56,001	66,820
Net financial income/expense	8,402	8,779
Amortization/depreciation of non-current assets	53,297	50,989
Other non-cash income/expense	-6,414	3,387
Operating cash flow before changes in working capital	**245,297**	**294,652**
Changes in inventories, receivables and other assets	22,722	-14,697
Changes in payables and other liabilities	-43,749	-15,201
Income taxes paid	-45,357	-72,357
Interest paid	-16,151	-15,730
Interest received	9,021	7,822
Net cash provided by operating activities	**171,783**	**184,489**
Proceeds from the sale of property, plant and equipment/intangible assets	1,153	645
Purchase of property, plant and equipment/intangible assets	-13,833	-13,288
Proceeds from the sale of financial assets	597	260
Purchase of financial assets	-648	-924
Expense from current financial assets	0	-433
Purchase of securities	-56,514	0
Proceeds from the sale of disposal groups	6,830	0
Payments for acquisitions, net	-113,193	-17,963
Net cash used in investing activities	**-175,608**	**-31,703**

in € thousands	**2013**	2012
Proceeds from issue of share capital	639	2,626
Repurchase of treasury shares (including option premiums paid)	-154,378	0
Dividends paid	-38,317	-40,100
Additions to financial liabilities	401,875	11,820
Repayments of financial liabilities	-48,920	-23,496
Net cash provided by/used in financing activities	**160,899**	**-49,150**
Change in cash and cash equivalents from cash-relevant transactions	157,074	103,636
Currency translation adjustment	-22,727	-4,478
Net change in cash and cash equivalents	**134,347**	**99,158**
Cash and cash equivalents at beginning of period	315,637	216,479
Cash and cash equivalents at end of period	**449,984**	**315,637**

Consolidated Statement of Changes in Equity [26]

for fiscal years 2013 and 2012

	Share capital		Capital reserve	Retained earnings
	Common shares outstanding (no.)			
in € thousands				
Equity as of Jan. 1, 2012	**86,766,468**	**86,828**	**35,716**	**867,053**
Total comprehensive income				164,510
Transactions with shareholders				
Dividend payment				-39,913
New shares issued	89,600	89	2,071	
Stock options			4,389	
Issue and use of treasury shares	19,000		-52	
Other changes				1
Transactions between shareholders				
Equity as of Dec. 31, 2012	**86,875,068**	**86,917**	**42,124**	**991,651**
Equity as of Jan. 1, 2013	86,875,068	86,917	42,124	991,651
Total comprehensive income				133,835
Transactions with shareholders				
Dividend payment				-38,157
New shares issued	26,500	27	612	
Stock options			3,408	
Repurchase of treasury shares (including option premiums paid)	-5,387,879			
Other changes				-1
Transactions between shareholders				
Equity as of Dec. 31, 2013	**81,513,689**	**86,944**	**46,144**	**1,087,328**

Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	**Total**
Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains / losses and asset caps from defined benefit plans	Currency translation gains / losses from net investments in foreign operations				
-26,894	**-3,054**	**-11,332**	**4,185**	**-1,675**	**950,827**	**655**	**951,482**
-11,837	-492	-10,135	-687		141,359	167	141,526
					-39,913	-187	-40,100
					2,160		2,160
					4,389		4,389
				518	466		466
					1	142	143
-38,731	**-3,546**	**-21,467**	**3,498**	**-1,157**	**1,059,289**	**777**	**1,060,066**
-38,731	**-3,546**	**-21,467**	**3,498**	**-1,157**	**1,059,289**	**777**	**1,060,066**
-38,380	1,491	-1,478	-1,467		94,001	176	94,177
					-38,157	-160	-38,317
					639		639
					3,408		3,408
				-154,377	-154,377		-154,377
					-1		-1
-77,111	**-2,055**	**-22,945**	**2,031**	**-155,534**	**964,802**	**793**	**965,595**

Notes to the Consolidated Financial Statements

137 _ General
151 _ Notes to the Consolidated Income Statement
154 _ Notes to the Consolidated Balance Sheet
174 _ Other Disclosures
203 _ Responsibility Statement
204 _ Auditors´ Report

General

[1] Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with the International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and in accordance with the additional provisions required under German commercial law as set forth in Section 315a (1) of the German Commercial Code (HGB). The IFRSs applicable as of December 31, 2013 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

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

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

[2] Scope of consolidation

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

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

a) Domestic entities	Ownership interest %
Software Financial Holding GmbH, Darmstadt	100
IDS Scheer Consulting GmbH, Saarbrücken and its subsidiary	100
• IDS Scheer Schweiz AG, Zürich/Switzerland (formerly itCampus Schweiz AG)	100
SAG Deutschland GmbH, Darmstadt	100
SAG Consulting Services GmbH, Darmstadt	100
RTM Realtime Monitoring GmbH, Marburg/Lahn (merged with Software AG, Darmstadt, as of August 19, 2013)	100
IDS Scheer EMEA GmbH, Saarbrücken and its foreign subsidiaries	100
• Software Dutch License Company C.V., Den Haag/Netherlands	99
FACT Unternehmensberatung GmbH, Frankfurt/Main and its subsidiary	65
• FACT Informationssysteme und Consulting AG, Neuss	55
itCampus Software und Systemhaus GmbH, Leipzig	100
alfabet GmbH, Berlin and its subsidiary	100
• deepSTRUCTURE GmbH, Berlin	100
metaquark GmbH, Leipzig	16

b) Foreign entities	Ownership interest %	Country
Software A.G. Argentina S.R.L., Buenos Aires/Argentina	95	Argentina
in which SAG Deutschland GmbH also has a direct stake	5	
IDS Scheer Australia – New Zealand, North Sydney/Australia	100	Australia
Software GmbH Österreich, Vienna/Austria and its subsidiary	100	Austria
• IDS Scheer GesmbH, Vienna/Austria	100	Austria
Software AG (Gulf) S.P.C., Manama/Bahrain and its subsidiary	100	Bahrain
• Software AG International FZ LLC, Dubai/United Arab Emirates	100	United Arab Emirates
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	Brazil
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	Bulgaria
9162-3439 Quebec Inc., Toronto/Canada (formerly IDS Scheer Canada, Inc.)	100 inactive	Canada
Software AG China Ltd., Shanghai/China	100	China
Software AG (Hong Kong) Limited, Hong Kong/China	100	China
IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100	Croatia
Software AG s.r.o., Prague/Czech Republic (sold as of August 30, 2013)	100	Czech Republic
Software AG Denmark, Hvidovre/Denmark and its subsidiary	100	Denmark
• Software AG Norge A/S, Oslo/Norway	100	Norway
Software AG Finland OY, Helsinki/Finland	100	Finland
Software AG France S.A.S, Courbevoie Cedex/France and its subsidiary	100	France
• Expert Consulting S.A., Brussels/Belgium (liquidated as of December 26, 2013)	100	Belgium
IDS Scheer Hungaria Kft., Budapest/Hungary (sold as of August 30, 2013)	100	Hungary
Software AG India Sales Private Ltd, Mumbai/India	100	India
Software AG (India) Private Limited, Maharashtra/India	100	India
S.P.L. Software Ltd, Or-Yehuda/Israel and its subsidiaries	100	Israel
• SPL Systems (1986) Ltd, Or-Yehuda/Israel	100	Israel
• Software A.G. (Israel) Ltd, Or-Yehuda/Israel and its subsidiary	100	Israel
• Sabratec Technologies, Inc., Or-Yehuda/Israel	100	Israel
• Text Systems International Inc., Washington D.C./USA (merged with Software AG USA, Inc. as of September 9, 2013)	100	United States
Software AG Italia S.p.A, Segrate (MI)/Italy	100	Italy
IDS Scheer s.r.l. (Headquarters), Rome/Italy (merged with Software AG Italia S.p.A, as of January 1, 2013)	100	Italy
IDS Scheer Luxemburg S.A., Capellen/Luxembourg	100	Luxembourg
IDS Scheer Central and Eastern Europe S.A., Capellen/Luxembourg	100	Luxembourg
IDS Scheer Malaysia SDN BHD, Kuala Lumpur/Malaysia (liquidated as of August 4, 2013)	100	Malaysia
Software AG Nederland B.V., Amsterdam/Netherlands	100	Netherlands
Software AG (Philippines), Inc., Pasig City/Philippines	100	Philippines

b) Foreign entities	Ownership interest %	Country
Software AG Polska Sp. z o.o., Warsaw/Poland	100	Poland
OOO Software AG (RUS), Moscow/Russia	100	Russia
IDS Scheer Saudi Arabia LLC, Riyadh/Saudi Arabia	95	Saudi Arabia
in which SAG Software Systems AG also has a direct stake	5	
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia	95	Saudi Arabia
in which IDS Scheer Consulting GmbH also has a direct stake	5	
Software AG (Singapore) Pte Ltd, Singapore/Singapore and its subsidiaries	100	Singapore
• Software AG (Asia Pacific) Support Centre Pte Ltd, Singapore/Singapore	100	Singapore
• alfabet Pte Ltd, Singapore/Singapore	100	Singapore
IDS Scheer Slovakia, s.r.o., Bratislava/Slovakia (sold as of August 30, 2013)	100	Slovakia
Software AG Development Centre Slovakia s.r.o., Košice/Slovakia	100	Slovakia
IDS Scheer, d.o.o., Ljubljana/Slovenia	100	Slovenia
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100	South Africa
Software AG España, S.A. Unipersonal, Tres Cantos, Madrid/Spain and its subsidiaries	100	Spain
• A. Zancani&Asociados, C.A., Chacao Caracas/Venezuela	100	Venezuela
• Software AG Factoria S.A., Santiago/Chile	100	Chile
• Software AG Brasil Informática e Serviços Ltda, São Paulo/Brazil	100	Brazil
• Software AG de Panamà, S.A., Clayton/Panama and its subsidiary	100	Panama
• Software AG de Costa Rica, S.A., San José/Costa Rica	100	Costa Rica
• Software AG De Puerto Rico, Inc., San Juan/Puerto Rico	100	Puerto Rico
• Software AG Portugal, Alta Tecnologia Informática, Ltd., Lisbon/Portugal	100	Portugal
• Software AG Venezuela, C.A., Chacao Caracas/Venezuela	100	Venezuela
Software AG Sweden AB, Bromma/Sweden	100	Sweden
SAG Software Systems AG, Zurich/Switzerland	100	Switzerland
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	Turkey
Software AG Development Center Ukraine LLC, Lviv City/Ukraine	100	Ukraine
Software AG (UK) Limited, Derby/U.K. and its subsidiaries	100	United Kingdom
• Entire Business Solutions Limited, Derby/U.K. (liquidated as of June 25, 2013)	100	United Kingdom
• Entire Software Limited, Derby/U.K. (liquidated as of July 2, 2013)	100	United Kingdom
• Natural Software Limited, Derby/U.K. (liquidated as of July 2, 2013)	100	United Kingdom
• Software AG Belgium S.A., Brussels/Belgium,	76	Belgium
in which Software AG also has a direct stake	24	
• PCB Systems Limited, Derby/U.K.	100	United Kingdom
Metismo Ltd. U.K., Derby/U.K. (liquidated as of December 10, 2013)	100	United Kingdom
SGML Technologies Limited, Derby/U.K.	100	United Kingdom
Software AG, Inc., Reston, VA/USA and its subsidiaries	100	United States

b) Foreign entities	Ownership interest %	Country
• Software AG (Canada) Inc., Cambridge/Canada	100	Canada
• Software AG Government Solutions, Inc., Reston, VA/USA and its subsidiary	100	United States
• JackBe LLC, Reston, VA/USA and its subsidiary	100	United States
• JackBe Mexico, Mexico City/Mexico	100	Mexico
• Software AG, S.A. de C.V. (Mexico), Mexico City/Mexico	100	Mexico
• Software AG International, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG Australia (Holdings) Pty Ltd., North Sydney/Australia and its subsidiary	100	Australia
• Software AG Australia Pty Ltd., North Sydney/Australia	100	Australia
• Software AG Bangalore Technologies Private Ltd., Bangalore/India	100	India
• Software AG Chennai Development Center India Pvt Ltd, Chennai/India	100	India
• Software AG Korea, Ltd., Seoul/Korea	100	Korea
• Software AG Ltd. Japan, Tokyo/Japan	100	Japan
• Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100	Malaysia
• Terracotta Inc., USA, San Francisco, CA/USA and its subsidiaries	100	United States
• Terracotta Software Limited U.K., Bristol/U.K. (liquidated as of April 25, 2013)	100	United Kingdom
• Terracotta Software India Private Limited, New Delhi/India	100	India
• webMethods Australia Pty Ltd., North Sydney/Australia	100	Australia
• webMethods Germany GmbH, Darmstadt/Germany	100	Germany
• webMethods Software Development (Beijing) Co. Ltd., Beijing/China	100	China
• Software AG Kochi Pvt. Ltd., Pananpilly Nagar/India	98	India

Changes in the consolidated group

The number of consolidated entities changed as compared to December 31, 2012 as follows:

	Germany	Foreign	Total
Dec. 31, 2012	**10**	**85**	**95**
Additions	3	5	8
Disposals (including mergers)	1	13	14
Dec. 31, 2013	**12**	**77**	**89**

The additions resulted from the acquisitions and two new openings as described in Note [4]. The disposals resulted from the merger and liquidation of consolidated enterprises.

[3] Accounting Policies

Use of estimates

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

Principles of consolidation

The separate financial statements of the entities included in the consolidated financial statements were prepared in accordance with uniform accounting policies pursuant to IFRS as of the balance sheet date for the consolidated financial statements (December 31, 2013).

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

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

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

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

Currency translation

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

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

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

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

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

The exchange rates used for the translation of the most important currencies changed as follows:

Closing rate (€1)	**Dec. 31, 2013**	Dec. 31, 2012	Change in %
U.S. dollar	1.3791	1.3194	-4.5
Brazilian real	3.2576	2.7036	-20.5
Pound sterling	0.8337	0.8161	-2.2
Australian dollar	1.5423	1.2712	-21.3
Israeli shekel	4.7815	4.9266	2.9
South African rand	14.5660	11.1730	-30.4
Canadian dollar	1.4671	1.3137	-11.7

Average rate (€1)	**2013**	2012	Change in %
U.S. dollar	1.3281	1.2857	-3.3
Brazilian real	2.8669	2.5100	-14.2
Pound sterling	0.8493	0.8111	-4.7
Australian dollar	1.3770	1.2414	-10.9
Israeli shekel	4.7960	4.9565	3.2
South African rand	12.8308	10.5570	-21.5
Canadian dollar	1.3685	1.2848	-6.5

For the Venezuelan bolivar (VEF), the official exchange rate (6.3 VEF/USD as of Dec. 31, 2013) was applied. No transactions took place in fiscal 2013 (conversion of VEF to EUR) based on the parallel market rate (approximately 11 VEF/USD as of Dec. 31, 2013).

Since January 1, 2010 Software AG has counted Venezuela as a hyperinflationary economy as defined in IAS 29. However, this has had no material impact on the consolidated financial statements.

Total revenue

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

Revenue from granting temporary and perpetual licenses is only recognized once a legally binding contract exists, any rights to return have expired, the software has been delivered in accordance with the contract, a price has been agreed or can be established and there is sufficient probability that payment will be made. Revenue from granting temporary licenses is treated in accordance with the specific features of the license. If the transaction resembles a sale, i.e. involves immediate payment, and the other requirements mentioned above are fulfilled, the income is recognized immediately. However, if the transaction resembles a transfer of use, the income is recognized in installments during the period of use.

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

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

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

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

Cost of sales

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

Research and development expenses

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

Sales, marketing and distribution expenses

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

General and administrative expenses

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

Government grants

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

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

Borrowing costs

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

Share-based payment

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

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

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

Non-derivative financial assets

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

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

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

For Software AG, these include only the derivative financial assets being held for trading purposes, because Software AG does not designate any financial assets at fair value through profit or loss on initial recognition. Financial assets that are measured at fair value through profit or loss are measured at fair value, and the changes are recognized in profit or loss accordingly.

b) Financial investments held to maturity

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

c) Loans and receivables

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

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

- Cash and cash equivalents
  Cash and cash equivalents include cash on hand, bank balances and term deposits with maturities of up to three months as well as short-term, highly liquid securities classified as current assets that are readily convertible to known amounts of cash and are only subject to negligible risk of changes in value.
- Trade receivables
  The carrying amount of trade receivables corresponds to their respective invoiced amount, less sales deductions and valuation allowances. If there is objective evidence that the receivables may be impaired, we recognize specific valuation allowances. In addition, certain classes of receivables are subject to portfolio-based valuation allowances based on past experience, taking into account the age of receivables. Non-interest bearing receivables with maturities of more than one year are discounted using an adequate interest rate.
  This item also includes services performed under fixed-price contracts that have not yet been invoiced and that are recognized in accordance with the percentage-of-completion method. Furthermore, it includes receivables from the sale of software licenses whereby the service has already been fully rendered but not yet invoiced.

d) Financial assets available for sale

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

Derivative financial instruments

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

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

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

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

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

Intangible assets

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

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

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

Goodwill

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

Property, plant and equipment

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

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

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

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

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

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

Impairment of intangible assets and property, plant and equipment

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

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

Deferred taxes

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

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

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

Non-derivative financial liabilities

Software AG initially recognizes issued promissory note loans and subordinate loans as of the date they were incurred. All other financial liabilities are recognized as of the value date.

Financial liabilities are derecognized when the contractual obligation has been settled, cancelled or has expired.

Non-derivative financial liabilities are measured at fair value less directly attributable transaction costs on first recognition. Subsequently, they are measured at amortized cost using the effective interest rate.

Provisions

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

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

Provisions for pensions and similar obligations

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

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

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

Deferred income

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

First-time application of accounting rules

The following new or amended accounting rules were applied for the first time in 2013, but had no or no significant impact:

- Amendment of IAS 19 "Employee Benefits" (revised in 2011, IAS 19R)
- Amendment of IAS 36 "Impairment of Assets"
  Disclosure of the recoverable amount for non-financial assets (early application)
  A disclosure about the recoverable amount is not necessary for cash-generating units.
- IFRS 13 "Measurement of the Fair Value"

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

The IASB has published the following standards, interpretations and amendments to standards that are not yet required to be applied and with regard to which Software AG has not opted for early application to the consolidated financial statements for the year ended December 31, 2013.

In November 2009, the IASB issued IFRS 9 "Financial Instruments." IFRS 9 changes the recognition and measurement criteria for financial assets, including various types of hybrid contracts. The new standard is intended to replace IAS 39 and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. As Software AG currently does not hold any assets available for sale, we do not expect any impact from this change. IFRS 9 also requires a uniform impairment method to be used. As part of the project, "Classification and Measurement: Limited Amendments to IFRS 9," the IASB decided in July 2013 to further postpone the mandatory date of application. Based on current expectations, this will not have any significant impact for Software AG.

The IASB published three standards in May 2011 that define how a company is to report its investments in the consolidated financial statements. All three standards were adopted by the EU in December 2012.

IFRS 10 "Consolidated Financial Statements" replaces the regulations of IAS 27 "Consolidated and Separate Financial Statements," which define the reporting procedure for consolidated statements, and the regulations of SIC-12 "Consolidation—Special-Purpose Entities." IFRS 10 introduces a uniform consolidation model for all companies based on control. According to the new approach, control exists if the potential parent company has decision-making authority over the potential subsidiary through voting rights or other rights, it participates in positive and negative variable reflows from the subsidiary and can influence these reflows through its decision-making authority.

IFRS 11 "Joint Agreements" defines the reporting procedure of jointly run operations. These regulations replace the regulations of IAS 31 "Shares in a Joint Venture" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers."

IFRS 12 "Disclosure of Shares in Other Entities" defines the disclosure requirements with respect to other companies. Here existing points from various previously published standards are being combined under IFRS 12.

Software AG will apply the standards as of January 1, 2014, which is the mandatory adoption date for IFRS users in the EU. Software AG does not expect these new standards (IFRS 10, IFRS 11, IFRS 12) to have any significant impact on the consolidated financial statements.

The IASB published additions to IAS 32 “Financial Instruments” (description of balancing financial assets and financial liabilities) in December 2011. The additions specify requirements for balancing financial assets and financial liabilities. The additions are not expected to have a significant impact on Software AG.
In addition, the IASB and the IFRIC have issued a number of other pronouncements that were not yet required to be applied as of December 31, 2013. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

[4] Business combinations

In fiscal year 2013, Software AG achieved control over the following entities and their subsidiaries through the acquisition of equity interests:

Company/line of business	Ownership interest recognized on the balance sheet as of Dec. 31, 2013	Percentage of acquired shareholders’ equity with voting rights	Date of acquisition
metaquark GmbH, Leipzig (provider of mobile solutions)	100%	16%*	March 4, 2013
LongJump Inc., USA (cloud platform provider)	100%	100%	April 24, 2013
alfabet AG, Berlin (provider of enterprise architecture and IT portfolio management)	100%	100%	May 31, 2013
JackBe Corp, USA (software provider for real-time data visualization and analytics)	100%	100%	August 21, 2013

*) Due to a call option to purchase the remaining shares (84 percent), control as defined by IAS 27 can be assumed.

Software AG also acquired the Event-Processing-Platform Apama by Progress Software. Initial consolidation took place on the date Software AG gained control of Apama (July 16, 2013). Software AG assumed all assets and liabilities associated with these operations as well as the 105 employees working in this business division (asset deal). The Event-Processing-Platform Apama is an environment for the design and operation of Complex Event Processing (CEP) applications.

All acquisitions in fiscal 2013 were technology enhancements, or, in other words, extensions of our products in related, synergetic market segments.

The earnings of the companies and/or operations acquired have been included in the Consolidated Income Statement as of the respective date of acquisition.

The following table shows the allocation of the cost of the business combination to the net assets acquired.

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	6,095	0	6,095
Intangible assets*	119	43,314	43,433
Goodwill*	0	83,084	83,084
Receivables and other assets	5,830	-305	5,525
Deferred tax assets	0	5,099	5,099
Total assets	**12,044**	**131,192**	**143,236**
Liabilities and provisions	5,692	0	5,692
Deferred tax liabilities	19	10,115	10,134
Deferred income	7,894	-2,406	5,488
Total equity and liabilities	**13,605**	**7,709**	**21,314**
Acquired assets and assumed liabilities, net	**-1,561**	**123,483**	**121,922**
Consideration paid			116,922
Consideration not yet paid for call option			5,000
Acquisition cost, gross			**121,922**
Cash and cash equivalents acquired			6,095
Net cost of the business combination			**115,827**

*) First-time recognition of the acquisition of JackBe Corp. is preliminary due to the fact that measurement of intangible assets (preliminary measurement: €9,802 thousand), and therefore of goodwill (preliminary: €17,142 thousand), is not yet final.

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

The recognition of goodwill resulted from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. With the exception of goodwill resulting from the acquisition of Apama in the amount of €18,388 thousand, the goodwill arising from these acquisitions is not tax deductible.

The amount of Software AG Group revenue attributable to these acquisitions since the date of acquisition is approximately €13.8 million. It is not possible to compute the exact amount of Group net income attributable to these acquisitions due to the rapid integration into the Group as a whole.

Providing fictitious amounts for Group revenue and net income for the fiscal year calculated under the assumption that all corporate acquisitions in 2013 had taken place at the beginning of the year is not possible with the information available and due to the seasonality of the business. Providing revenues based on the assumption of a stand-alone assessment of the acquired companies is also impossible due to their immediate integration.

In addition to the considerations for these acquisitions in the amount of €110,827 thousand (net), considerations not yet paid from previous acquisitions in the amount of €2,366 thousand were paid in fiscal 2013.

Notes to the Consolidated Income Statement

[5] Total revenue

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

Services revenue

Service revenue includes sales of €39,575 thousand (2012: €40,083 thousand), recognized in accordance with the percentage-of-completion method. The status of uncompleted projects recognized under the percentage-of-completion method as of December 31, 2013 was as follows:

in € thousands	**2013**	2012
Costs accumulated over the term of a (multi-year) project and not yet invoiced	96,764	87,179
Recognized profit (+)/loss (-)	2,552	5,904
Advance payments received	1,991	3,161

As of December 31, 2013, the net amount due from customers for unfinished project work was €6,459 thousand (2012: €10,186 thousand), and the amount due to customers from running projects was €1,345 thousand (2012: €2,482 thousand).

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

[6] Other income

Other income includes the following items:

in € thousands	**2013**	2012
Foreign exchange gains	29,844	16,143
Income from the reversal of provisions and deferred liabilities	5,998	8,459
Government grants in the form of low-interest-rate loans	4,500	0
Income from the sale of SAP service operations in USA and Canada	3,075	0
Other income	659	0
	44,076	**24,602**

[7] Other expenses

Other expenses consist of the following items:

in € thousands	**2013**	2012
Foreign exchange losses	35,017	19,705
Other expenses	494	1,668
	35,511	**21,373**

[8] Net financial income/expense

Financial income includes interest on financial assets in the amount of €8,362 thousand (2012: €7,324 thousand). Financial expense includes interest expenses for financial liabilities in the amount of €15,858 thousand (2012: €12,612 thousand).

[9] Income taxes

Taxes on income are broken down into the following categories:

in € thousands	2013	2012
Current domestic taxes	−12,721	−17,440
Current foreign taxes	−53,989	−55,948
	−66,710	**−73,388**
Deferred domestic taxes	3,284	6,524
Deferred foreign taxes	7,425	44
	10,709	**6,568**
	-56,001	**-66,820**

In Germany, a uniform corporate income tax of 15 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for domestic companies will be 31.13 percent starting in 2013 (2012: 31.22 percent). Tax rates abroad range between 10 and 40 percent (2012: between 10 and 39 percent).

The income tax expense of €56,001 thousand (2012: €66,820 thousand) for fiscal year 2013 was €3,150 thousand lower than the expected income tax expense of €59,151 thousand (2012: €72,273 thousand) that resulted from applying the domestic tax rate of 31.13 percent (2012: 31.22 percent) currently applicable at Group level. The Group's effective tax rate was 29.47 percent (2012: 28.86 percent).

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

in € thousands	2013	2012
Earnings before income tax	190,012	231,497
Expected income tax (31.13%; 31.22%)	**-59,151**	**-72,273**
Difference vs. foreign tax rates and changes in tax rates	-921	-3,705
Aperiodic income tax effects	3,437	8,314
Tax increases due to tax-exempt income or non-tax deductible expenses	-2,347	1,161
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	6,507	1,288
Non-deductible foreign and withholding taxes	-3,415	-939
Other adjustments	-111	-666
Reported income tax expense	**-56,001**	**-66,820**

[10] Other taxes

Other taxes dropped €931 thousand to €7,091 thousand (2012: €8,022 thousand) and included royalty-related indirect taxes in Brazil, property taxes, vehicle taxes and other indirect taxes.

[11] Personnel expenses

Personnel expenses in fiscal years 2013 and 2012 were as follows:

in € thousands	**2013**	2012
Wages and salaries	463,214	467,740
Social security contributions	56,335	55,328
Pension expenses	11,704	10,002
	531,253	**533,070**

In fiscal 2013, 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	**2013**	2012
Maintenance and Services	2,416	2,758
Sales and Marketing	1,221	1,069
Research and Development	961	890
Administration	720	737
	5,318	**5,454**

In absolute terms (part-time employees are counted in full), the Group employed 5,428 (2012: 5,586) people as of December 31, 2013.

[12] Earnings per share

Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2013, the average weighted number of shares was 83,702,176 (2012: 86,784,793).

A total of 26,500 (2012: 108,600) stock options were exercised in 2013. In order to fulfill stock options, 0 (2012: 19,000) treasury shares were used and 26,500 (2012: 89,600) shares were generated by way of a capital increase. The number of shares increased accordingly by 26,500 (2012: 108,600). A total of 5,387,879 shares were repurchased as part of the share buyback program in 2013. The number of treasury shares therefore increased to 5,430,256 (2012: 42,377). The treasury shares are not expected see a dilution effect, since they can be sold at market prices.

Another 1,793,300 (2012: 1,852,800) stock options from the third stock option plan may be exercised. The dilutive effect on earnings per share was calculated using the treasury stock method.

in € thousands	**2013**	2012
Net income for the year	134,011	164,677
Less earnings attributable to non-controlling interests	-176	-167
Net income for the year attributable to shareholders of Software AG	**133,835**	**164,510**
Weighted average number of shares in issue	83,702,176	86,784,793
Effect of dilutive share-based payment	12,807	205,411
Weighted average number of shares in issue (diluted)	83,714,983	86,990,204
Earnings per share in € (basic)	1.60	1.90
Earnings per share in € (diluted)	1.60	1.89

Notes to the Consolidated Balance Sheet

[13] Disposal group

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

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

The transaction resulted in earnings of approximately €3 million. All assets and liabilities were assigned to the Consulting segment.

[14] Trade receivables

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

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Carrying amount	**323,157**	**341,274**
of which neither impaired nor past due as of the balance sheet date	285,539	285,079
of which past due in the following time bands as of the balance sheet date		
1 to 3 months	21,433	41,854
4 to 6 months	8,660	10,446
7 to 12 months	3,682	3,243
> 12 months	3,843	652

[15] Other receivables and other assets

Other receivables and other assets mainly consist of receivables due from tax authorities in the amount of €3,705 thousand (2012: €6,371 thousand) and prepaid expenses in the amount of €9,734 thousand (2012: €8,873 thousand).

[16] Income tax receivables

Tax receivables in the amount of €13,002 thousand (2012: €24,728 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

[17] Intangible assets and goodwill

Changes in intangible assets and goodwill as of December 31, 2013:

in € thousands	Goodwill	Intangible assets	**Total**
Cost			
Balance as of Jan. 1, 2013	**758,272**	**387,259**	**1,145,531**
Currency translation differences	-10,283	-9,734	-20,017
Additions from acquisitions	83,084	43,314	126,398
Additions	0	2,466	2,466
Disposals	0	-1,350	-1,350
Balance as of Dec. 31, 2013	**831,073**	**421,955**	**1,253,028**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2013	**-1,900**	**-172,866**	**-174,766**
Currency translation differences	0	5,013	5,013
Additions	0	-43,365	-43,365
Disposals	0	1,034	1,034
Balance as of Dec. 31, 2013	**-1,900**	**-210,184**	**-212,084**
Residual carrying amount as of Jan. 1, 2013	756,372	214,393	970,765
Residual carrying amount as of Dec. 31, 2013	829,173	211,771	1,040,944

Changes in intangible assets and goodwill
as of December 31, 2012:

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

Intangible assets mainly include software, customer bases and brand names obtained in connection with acquisitions.
The following intangible assets with limited useful lives are of particular significance for the financial statements:

in € thousands	**Carrying amount as of Dec. 31, 2013**	Carrying amount as of Dec. 31, 2012	Remaining amortization period in years
Customer base obtained through webMethods acquisition	29,390	35,899	6.0
Software (rights and licenses) obtained through IDS acquisition	12,636	20,353	1.7
Software (rights and licenses) obtained through Terracotta acquisition	14,697	19,186	4.0
Customer base obtained through IDS acquisition	10,578	13,486	3.7

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2013:

in € thousands	**Carrying amount as of Dec. 31, 2013**	Carrying amount as of Dec. 31, 2012	Reason for assuming indefinite useful life
Brand name (webMethods) obtained through webMethods acquisition	18,129	18,949	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name (ARIS) obtained through IDS acquisition	17,900	17,900	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name (IDS Scheer) obtained through IDS acquisition	8,800	8,800	We plan to continue using the brand name for an indefinite period of time.

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

The carrying amounts of goodwill and of intangible assets with indefinite useful lives were allocated to the segments as follows:

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Segment		
ETS	311,642	310,089
BPE	486,945	415,472
Consulting	30,586	30,811
Goodwill	**829,173**	**756,372**
ETS	0	0
BPE	35,063	35,861
Consulting	9,766	9,788
Intangible assets with indefinite useful lives	**44,829**	**45,649**

Last year's amounts were adjusted to reflect the new segment reporting structure. For further information on the changed segment reporting structure, please refer to Note 28, Segment Reporting.

The segments represent the smallest cash-generating units in the Group.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to fair value less costs to sell.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a period of three (2012: four) years. The budgets are designed on the basis of past experience, information derived from current operating results and management estimates of future developments. Revenue trends at country level, for instance, is one element of management estimates of future developments that is particularly prone to uncertainty. This approach is rated as level 3 of the valuation hierarchy in accordance with IFRS 13.

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

The estimated future cash flows for the Enterprise Transaction System (ETS) segment were discounted using a post-tax weighted average cost of capital (WACC) of 8.6 percent (2012: 6.5 percent). The sustainable growth rate was assumed to be 0 percent (2012: 0 percent). A discount of 20 percent (2012: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even using a discount of 50 percent on the last year of detailed planning, the fair value less costs to sell would exceed the carrying amount.

For the Business Process Excellence (BPE) segment we assumed a sustainable growth rate of 2 percent (2012: 1 percent) and a weighted average cost of capital (WACC) after tax of 8.7 percent (2012: 7.4 percent). However, given a sustainable growth rate of 0 percent and a 50-percent reduction in growth compared to the budget for the period of detailed planning, the fair value less costs to sell would still exceed the carrying amount.

Amounts from 2012 for the ETS and BPE segments are only comparable to a limited extent because the composition of the segments changed slightly year on year. For further information on the changed segment reporting structure, please refer to Segment Reporting in Note 28.

For the new Consulting segment we assumed a sustainable growth rate of 2 percent and a weighted average cost of capital (WACC) after tax of 7.1 percent. If a sustainable growth rate of 1 percent were used, the fair value less costs to sell would be approximately equal to the carrying amount. Disregarding the sustainable growth rate, the assumed margin improvement in the period of detailed planning is a significant assumption. If the margin does not improve as assumed from a current 3.4 percent (with respect to the segment result) to 10.6 percent by the end of the period of detailed planning, but only to 10.2 percent, the fair value less costs to sell will equal the segment's carrying amount.

For the IDS Consulting segment, which was reported for the last time in 2012, the fair value less costs to sell was calculated based on the sale of SAP service operations in Canada and the USA in 2012 to offset the segment's carrying amount. Based on this approach, we were able to verify that the recoverable amount exceeded the segment's carrying amount. The goodwill attributable to the sale of SAP service operations in Canada and the USA was already reclassified under "assets held for sale" in the Balance Sheet as of December 31, 2012.

[18] Property, plant and equipment

Changes in property, plant and equipment as of December 31, 2013:

in € thousands	Land and buildings	Operating and office equipment	**Total**
Cost			
Balance as of Jan. 1, 2013	**75,113**	**43,856**	**118,969**
Currency translation differences	-665	-1,720	-2,385
Additions	3,529	8,450	11,979
Disposals	-2,651	-8,363	-11,014
Balance as of Dec. 31, 2013	**75,326**	**42,223**	**117,549**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2013	**-27,015**	**-27,940**	**-54,955**
Currency translation differences	420	1,341	1,761
Additions	-3,141	-6,673	-9,814
Disposals	2,349	7,570	9,919
Balance as of Dec. 31, 2013	**-27,387**	**-25,702**	**-53,089**
Residual carrying amount as of Jan. 1, 2013	**48,098**	**15,916**	**64,014**
Residual carrying amount as of Dec. 31, 2013	**47,939**	**16,521**	**64,460**

Changes in property, plant and equipment as of December 31, 2012:

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

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

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €8,450 thousand (2012: €6,964 thousand) primarily relates to expenses for the initial purchase of computer equipment.

[19] Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities	
in € thousands	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012
Intangible assets	5,280	6,696	60,571	63,853
Property, plant and equipment	960	391	4,655	4,635
Receivables and financial assets	5,832	6,358	2,898	7,119
Other obligations	9,459	10,269	6,915	4,405
Pension commitments	9,300	9,125	0	0
Prepaid expenses/deferred income	6,716	4,581	273	20
Tax loss carryforwards	31,441	32,445	0	0
Total	**68,988**	**69,865**	**75,312**	**80,032**
Amount offset	-52,735	-53,203	-52,735	-53,203
Amount recognized in the balance sheet	**16,253**	**16,662**	**22,577**	**26,829**

Deferred tax assets on tax loss carryforwards fell from the prior year by €1,004 thousand. The increase resulted from ongoing consumption of the loss carryforwards as they are offset against taxable income and the appropriate subsequent capitalization based on future income expectations and changes in the consolidated Group.

As of December 31, 2013, the consolidated Group had unutilized tax loss carryforwards in the amount of €49,687 thousand (2012: €63,505 thousand) for which no deferred tax assets were recognized. Of the losses carried forward for which no deferred taxes were recognized, €4,760 thousand will expire in the period from 2014 to 2022, €22,512 thousand in the period from 2023 to 2032, and €22,415 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €7,193 thousand (2012: 4,753 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor future profit distributions are planned.

In fiscal year 2013, deferred taxes totaling €7,751 thousand (2012: €8,893 thousand) were recognized directly in equity. These amounts mainly resulted from actuarial gains/losses recognized directly in equity based on changes in the measurement of pension obligations as well as from financial instruments also recognized directly in equity.

[20] Financial liabilities

Financial liabilities can be broken down as follows:

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Current financial liabilities		
Other financial liabilities	3,128	46,182
Liabilities to banks	199,339	6,008
Bills payable	401	378
Liabilities from finance leases	20	4
	202,888	**52,572**
Non-current financial liabilities		
Liabilities to banks	400,328	210,310
Other financial liabilities	10,000	3,000
Liabilities from finance leases	158	130
	410,486	**213,440**

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

in € thousands	**Up to 1 year**	>1 year
Loans with variable interest rates	65,282	149,882
Loans with fixed interest rates	137,185	260,446
	202,467	**410,328**

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 €398,667 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

[21] Trade payables

Trade payables can be broken down as follows:

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Current liabilities		
Payables to suppliers	31,624	40,663
Payments received on account of orders	4,516	7,170
	36,140	**47,833**
Non-current liabilities		
Payables to suppliers	0	220
	0	**220**

[22] Other liabilities

Other liabilities relate to the following items:

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Other current liabilities		
Tax liabilities	22,286	24,741
Liabilities due to employees	19,554	20,886
Considerations outstanding	7,060	3,623
Liabilities for social security	5,591	4,671
Interest rate swap evaluation	3,035	5,370
Deferred lease payments	1,146	1,723
Remaining other current liabilities	7,617	5,707
	66,289	**66,721**
Other non-current liabilities		
Liabilities due to employees	3,644	3,576
Considerations outstanding (acquisitions)	0	2,903
Liabilities for social security	0	15
Remaining other non-current liabilities	1,131	743
	4,775	**7,237**

[23] Other provisions

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2013	**53,909**	**46,914**	**100,823**
Currency translation	-1,959	-606	-2,565
Additions	40,328	15,566	55,894
Utilization	-30,483	-26,855	-57,338
Reversal	-3,152	-2,773	-5,925
Balance as of Dec. 31, 2013	**58,643**	**32,246**	**90,889**
of which with a remaining term of more than 1 year	49	7,242	7,291

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	**Dec. 31, 2013**	Dec. 31, 2012
Bonuses	18,154	29,730
Other taxes	2,884	3,726
Lease payment obligations	2,785	3,291
Litigation	1,907	2,709
Impending losses for consulting projects	800	1,672
Asset retirement obligations	534	839
Remaining miscellaneous other provisions	5,182	4,947
	32,246	**46,914**

[24] Income tax liabilities

in € thousands	2013	2012
Balance as of Jan. 1	**30,688**	**20,171**
Currency translation	-2,542	-584
Additions	17,026	21,451
Utilization	-6,530	-7,454
Reversal	-165	-2,896
Balance as of Dec. 31	**38,477**	**30,688**

[25] Provisions for pensions

	Defined benefit obligation (DBO)		Fair value of plan assets		Effects of asset caps		Net defined benefit balance	
in € thousands	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Germany	28,820	27,568	3,632	3,492	0	–	25,188	24,076
U.K.	54,748	56,897	45,100	36,273	10,234	–	19,881	20,625
Switzerland	7,117	6,725	4,663	4,421	0	–	2,454	2,304
Other insignificant pension plans and similar plans							3,184	3,189
							50,707	**50,194**

Pension benefits in Germany consist of fixed commitments to a select group of people. These commitments are partially covered by life reinsurance policies. There are no minimum funding requirements or laws in Germany.

Pension benefits in the United Kingdom relate to commitments made by Software AG (U.K.) Limited. They comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period.
Pension benefit plans in Switzerland result from legal requirements of the BVG (national law on occupational retirement, survivors' and disability benefits). The law stipulates that every employer must grant entitled employees benefits after termination of their employment.

The defined benefit commitments result in risks to the Company due to possible fluctuations in obligations from defined benefit plans and fluctuations in plan assets. Fluctuations in defined benefit obligations result primarily from changes to financial assumptions such as discount interest rates and changed demographic assumptions (changing life expectancies). Possible changes in expected long-term wage and salary increases have no significant impact on the obligations due to the structure of the commitments. The fair value of plan assets and the fluctuation thereof depends

	Defined benefit obligation (DBO)		Fair value of plan assets		Net defined benefit balance (without effects of asset caps)	
in € thousands	**2013**	2012	**2013**	2012	**2013**	2012
Balance as of Jan. 1	91,190	70,846	44,186	38,733	47,005	32,114
Current service cost	2,455	2,005			2,455	2,004
Past service cost	181	0			181	0
Net interest income/expense	3,422	3,337	1,799	1,851	1,622	1,486
	6,058	**5,342**	**1,799**	**1,851**	**4,258**	**3,490**
Expense/income resulting from adjustments						
Return on plan assets net of income recognized as net interest income/expense	-1,886	52	4,018	401	-5,904	-349
Net actuarial gains/losses from changes to demographic assumptions	-1,566	0			-1,566	0
Net actuarial gains/losses from changes to financial assumptions	-1,274	16,358			-1,274	16,358
	-4,726	**16,410**	**4,018**	**401**	**-8,744**	**16,009**
Currency-related changes	-1,316	1,108	-809	749	-508	360
Employer contributions			4,086	4,254	-4,086	-4,254
Employee contributions	1,270	1,220	1,270	1,335	0	-116
Plan-related payments	-1,791	-2,168	-1,155	-1,569	-636	-598
Settlement payments	0	-1,568	0	-1,568	0	0
	-521	-2,516	**4,201**	**2,452**	**-4,722**	**-4,968**
Balance as of Dec. 31	**90,685**	**91,190**	**53,395**	**44,186**	**37,289**	**47,005**

mainly on the situation of the capital markets. Software AG seeks to account for this by controlling its asset investments. The significant assumptions used for calculating the present value of the defined benefit obligations (DBO) are as follows:

	2013	2012
Discount rate		
Germany	3.25%	3.25%
U.K.	4.50%	4.25%
Switzerland	2.00%	1.75%
Salary trend		
Germany	0.00%	0.00%
U.K.	5.00%	4.50%
Switzerland	1.50%	1.50%
Pension trend		
Germany	2.00%	2.00%
U.K.	3.50%	3.00%
Switzerland	0.00%	0.00%

A change in the above discount rates by a half of a percentage point would have the following impact on the respective DBOs:

	Change in DBO		
in € thousands	Germany	U.K.	Switzerland
Discount rate (-0.5%)	2,831	6,153	741
Discount rate (+0.5%)	-2,476	-7,149	-643

The plan assets can be broken down as follows:

	Fair value	
in € thousands	2013	2012
Equities	27,196	22,852
Fixed-interest securities	9,102	11,245
Cash and cash equivalents	8,803	2,176
Life insurance policies	8,294	7,913
	53,395	**44,186**

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 2014 are expected to amount to €5.991 thousand.

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

in € thousands	Expected benefit payments
2014	4,063
2015	2,906
2016	3,073
2017	2,828
2018	2,989
2019–2023	17,348

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 €17,597 thousand (2012: €16,524 thousand) in 2013.

[26] Equity

Share capital

As of December 31, 2013, Software AG's share capital totaled €86,944 thousand (2012: €86,917 thousand), divided into 86,943,945 (2012: 86,917,445) bearer shares. Each share entitles its holder to one vote.

Conditional capital

The following conditional capital existed as of December 31, 2013:

1.) Up to €8,567 thousand divided into up to 8,566,684 bearer shares to service subscription rights under the third and fourth stock option plans (Management Incentive Plan III and IV, or MIP III and MIP IV) for members of the Management Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented in Note[34].
The Management Board's use of this authorization totaled €27 thousand, divided into 26,500 bearer shares, in fiscal 2013.

2.) Up to €18,000 thousand divided into a maximum of 18,000,000 bearer shares, each with a notional interest in the share capital of €1.00, for the purpose of granting option rights and agreeing on option obligations arising from warrant bonds or granting conversion rights to and agreeing on conversion obligations with bearers of warrant bonds or convertible bonds in an aggregate principal amount of up to €500,000 thousand and with or without a limited term in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 21, 2010.
Pursuant to this authorization, the Management Board may, subject to the consent of the Supervisory Board, resolve on or before May 20, 2015 that the rights described be issued by Software AG or a directly or indirectly held wholly owned affiliate of Software AG.
As of December 31, 2013, the Management Board had not made use of this authorization.

3.) Up to €55 thousand divided into a maximum of 55,000 bearer shares, each with a notional interest in the share capital of €1.00, for the purpose of granting bearer shares upon the exercise of conversion or option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005, such conversion or option rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with Section 23 of the German Reorganization and Transformation Act (UmwG).
The requirements of this plan and the status of allocations and options exercised are presented in Note [34].
The Management Board did not make use of this authorization in fiscal year 2013.

Authorized capital

As of December 31, 2013, the Management Board was also authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 4, 2016 by up to a total of €43,074 thousand by issuing up to 43,074,091 new bearer shares in return for cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Management Board is authorized to exclude fractional amounts from shareholders' subscription rights.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights in the event of capital increases in return for contributions in kind, provided the contribution in kind is for the purpose of acquiring companies, parts of

companies and/or equity interests in companies or as part of corporate mergers.

- Subject to the consent of the Supervisory Board, the Management Board is authorized, in the event of capital increases, to exclude subscription rights in return for cash contribution to the extent necessary to grant the holders of option or conversion rights or those with obligations to exercise options or convert warrant bonds or convertible bonds, which were issued by Software AG or a wholly owned direct or indirect subsidiary of Software AG, or the holders of option or or conversion rights, which Software AG—following the merger of IDS Scheer AG with Software AG—is obligated to recognize as a subscription right to new shares in the amount equivalent to that which they would be entitled as shareholders upon exercising their option or conversion rights or fulfilling their option or conversion obligations.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights of shareholders in the event of capital increases in return for cash contributions, provided the capital increases resolved on the basis of this authorization do not exceed 10 percent of the issued share capital at the time the resolution is passed at the Annual Shareholders' Meeting or, if lower, of the share capital in issue at the time the authorization is acted upon and provided the issue price is not significantly lower than the stock market price.
- The upper limit of 10 percent of the issued share capital will be reduced by the pro rata amount of the share capital attributable to those treasury shares of the Company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to Section 71 (1) No. 8, Sentence 5 and Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act.

The Management Board did not make use of this authorization in fiscal year 2013.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 3, 2013, the Company is authorized to carry out the following on or before May 2, 2018:

a) Purchase treasury shares up to 10 percent of the existing share capital at the time of the resolution. The shares purchased, together with other treasury shares that the Company has already purchased and still holds or that are attributable to it in accordance with Sections 71d and 71e of the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

b) Depending on the decision of the Management Board, the treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.
If the shares are purchased via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five stock market trading days preceding the purchase. The date of purchase is the date upon which the transaction is concluded.
If the shares are purchased via a public purchase offer, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price—the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system—of the Company shares during the five trading days prior to publication of the offer. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer.

c) The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.

d) The Management Board is authorized to sell the treasury shares purchased on the basis of the authorization pursuant to letter “a” above or an authorization granted at an earlier time via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally, such as through an offer addressed to all of the Company’s shareholders.

e) The Management Board is also authorized, subject to the consent of the Supervisory Board and with the exclusion of shareholder subscription rights, to sell the treasury shares purchased based on the authorization according to letter “a” or a previously granted authorization, provided the shares are sold for cash at a price that is not significantly lower than the listed prices of Company shares that have the same terms and features at the time of the sale. This authorization is limited to shares with a notional interest in the share capital of up to a total of 10 percent of the Company’s share capital in issue on the date of issue of the authorization or, if lower, the share capital in issue at the time the authorization is acted upon. The upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization as part of a capital increase subject to the exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act. The average listed price of the Company shares—the unweighted average closing price in Xetra trading on the Frankfurt stock exchange or a successor system—during the five trading days preceding the sale will be considered the applicable listed price within the meaning of this paragraph. The date of sale is the date upon which the transaction is concluded.

f) The Management Board is also authorized to execute the following with treasury shares acquired on the basis of the authorization pursuant to letter “a” above or a previously granted authorization:

(i) to transfer them to employees and members of senior management of Software AG and its affiliates in the context of the Company’s stock option plan, which was resolved under item 7 a) of the agenda for the Annual Shareholders’ Meeting on April 29, 2008;

(ii) to offer them for purchase or commit or transfer them with a waiting/blackout period of no less than four years to employees and members of senior management of Software AG and its affiliates, whereby the work and/or entity relationship must exist at the time of the offer or commitment and the commitment or transfer must be dependent upon the achievement of at least one revenue-related target, which entails doubling revenue with new products at the latest by fiscal 2015 as compared to fiscal 2010. Annual revenue with new products must be at least €450 million in the year this target is achieved. “New products” are all products that do not pertain to the Adabas-Natural product family, including EntireX, and are not third-party products that are sold individually under distribution rights. Revenue generated from changed licensing models for the cloud business should be made comparable. The Management Board can define further details or additional success targets.
If success targets are achieved, the Management Board must make the offer or commitment and/or the transfer contingent upon whether Software AG’s share price reaches at least €60 in a specific period to be determined that is immediately following the

purchase and a maximum of five stock market trading days.
Furthermore, the purchase can only occur during exercise periods that are between the 3rd and 15th trading day (up to and including respectively) on the Frankfurt stock exchange after the last day of the Annual Shareholders' Meeting and after the release of the second or third-quarter results. The offer price is at least the unweighted average closing price of Software AG's share in XETRA trading on the five trading days in Frankfurt am Main immediately following the day the offer is made. Provided shares are transferred or offered for purchase to the members of the Management Board afterward, this authorization applies to the Supervisory Board.
Up to 3,000,000 treasury shares can be offered for purchase, committed or transferred respectively to members of the Management Board or of senior management of Software AG and affiliate companies as well as their employees;

(iii) to offer for purchase and transfer them to employees and members of senior management of Software AG and its affiliates in the context of the stock option plans resolved by the Annual Shareholders' Meeting in accordance with Section 193 (2) No. 4 of the German Stock Corporation Act in the future.

g) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders' subscription rights, to sell the treasury shares purchased on the basis of the authorization pursuant to letter "a" above or a previously granted authorization to third parties, provided this occurs for the purpose of acquiring companies, corporate divisions and/or interests in companies or as part of corporate mergers.

h) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders' subscription rights and in accordance with the terms and conditions of the bonds, to deliver the treasury shares purchased on the basis of the authorization pursuant to letter "a" above or a previously granted authorization to the holders of warrants or convertible bonds issued by the Company or by a wholly owned direct or indirect subsidiary of the Company.

i) The Management Board is also authorized to recall all or part of the treasury shares purchased on the basis of the authorization pursuant to letter "a" above or a previously granted authorization in one or several steps without any additional authorization by the Annual Shareholders' Meeting. The shares may also be recalled without a capital decrease by adjusting the pro rata amount in the Company's share capital of the remaining shares. In such case, the Management Board is authorized to adjust the specification of the number of shares in the Articles of Incorporation.

j) The authorizations for purchase and use of treasury shares can be exercised in full or partially and, in the case of the latter, multiple times, by the Company, its subsidiaries or for its or their account by third parties. Treasury shares may be purchased for one or more of the aforementioned purposes.

At the beginning of the reporting period Software AG held 42,377 treasury shares representing an interest in the share capital of €42,377 (0.05 percent).
With the consent of the Supervisory Board, the Management Board decided on February 7, 2013 to utilize its authorization from May 21, 2010 until December 31, 2013 up to a total volume of €180 million. During the period from February 12, 2013 to April 29, 2013, the Company repurchased a total of 3,924,441 shares at an average price (not including transaction fees) of €29.27 per share (€29.28 per share including transaction fees), for a total cost of €114,869 thousand (not including transaction fees) or €114,926 thousand (including transaction fees) as illustrated below. This represents 4.51 percent of Software AG's share capital. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation legislation and by the aforementioned authorization.

The following table illustrates the purchases in the first two quarters:

Period	Repurchased shares	Average price	Cost	Average price	Cost
	No. of options	(not including transaction fees) €		(including transaction fees) €	
Q1 2013	2,161,998	30.30	65,498,106	30.31	65,530,855
Q2 2013	1,762,443	28.01	49,370,850	28.03	49,395,535

This first share buyback program of the year 2013 was concluded on April 30, 3013 in consideration of the Annual Shareholders' Meeting on May 3, 2013.

With the consent of the Supervisory Board, the Management Board decided on October 25, 2013 to utilize its authorization from May 3, 2013 until May 16, 2014 up to a total volume of €110 million. During the period from November 12, 2013 to December 31, 2013, the Company repurchased 1,463,438 more shares at an average price of €26.95 per share (not including transaction fees) for a total cost of €39,451 thousand as illustrated below. This represents 1.68 percent of Software AG's share capital. The repurchased shares may be used for all purposes permissible by the provisions of stock corporation legislation and by the aforementioned authorization.

Period	Repurchased shares	Average price	Cost	Average price	Cost
	No. of options	(not including transaction fees) €		(including transaction fees) €	
Q4 2013	1,463,438	26.95	39,439,348	26.96	39,451,180

All amounts in the table are based on a value date. 1,523,738 shares were purchased based on a trade date in the fourth quarter.

As of December 31, 2013 Software AG held 5,430,256 treasury shares representing an interest in the share capital of €5,430,256 (6.25 percent).

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. Since software companies typically have a low level of capital expenditure for property, plant and equipment, equity is not a focus of corporate management. Dividends are calculated as the average of net income for the year and free cash flow. This results in a total dividend sum of €36,276 thousand (2012: €38,157 thousand) and a payout ratio of 24.8 percent (2012: 22.8 percent).

Dividend payment

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 3, 2013 to appropriate €38,157 thousand for a dividend payout and to carry forward €220,700 thousand of the net retained profits of €258,857 thousand reported by Software AG, the controlling Group company, in 2012. This corresponded to a dividend of €0.46 per share.

Based on the number of shares outstanding as of February 28, 2014, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €136,042 thousand reported by Software AG, the controlling Group company, in 2013, as follows: to appropriate €36,276 thousand for dividends and to carry forward €99,766 thousand. This corresponds to a dividend of €0.46 per share.

Other reserves

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

in € thousands	**2013**			2012		
	Pre-tax amount	**Tax effect**	**Net amount**	Pre-tax amount	Tax effect	Net amount
Currency translation differences	-38,380	0	-38,380	-11,837	0	-11,837
Net gain/loss on remeasuring financial assets	2,172	-681	1,491	-717	225	-492
Net gain/loss arising from translating net investments in foreign operations	-1,467	0	-1,467	-687	0	-687
Net actuarial gain/loss on pension obligations	-1,017	-461	-1,478	-14,709	4,574	-10,135
Other comprehensive income	-38,692	-1,142	-39,834	-27,950	4,799	-23,151

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2012, net expense of €0 thousand (2012: €458 thousand) was recognized in profit or loss in fiscal year 2013.

Other disclosures

[27] Notes to the Statement of Cash Flows

Cash funds amounting to €449,984 thousand (2012: €315,637 thousand) comprise both cash and cash equivalents.

Cash funds includes cash and cash equivalents amounting to €7,314 thousand (2012: €8,720 thousand) which were held by the sales subsidiary in Venezuela. Due to current legal limitations relating to foreign currency transactions in Venezuela, Software AG has only limited access to these funds.

Dividends paid reported in the Statement of Cash Flows include dividend payments of €160 thousand (2012: €187 thousand) to minority shareholders of subsidiaries.

Net payments for acquisitions in 2013 amounted to €113,193 thousand (2012: €17,963 thousand) and consist of €119,288 thousand (2012: €18,940 thousand) in consideration paid less €6,095 thousand (2012: €977 thousand) in cash and cash equivalents received.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including investments in securities or net cash outflows for acquisitions. Accordingly, free cash flow totaled €159,052 thousand (2012: €170,749 thousand).

[28] Segment reporting

Notes on segment reporting

Software AG's management restructured the Company's internal reporting as of fiscal year 2013. Consulting services that were associated with the BPE and ETS segments until and including 2012 have been consolidated with the IDS Scheer Consulting (IDSC) services and product business in a new segment called "Consulting."

Segmentation is in accordance with internal control and reporting lines in the Group (management approach). Software AG therefore reports on the following three segments:

- Business Process Excellence
  (BPE: business process management)
  with the webMethods and ARIS product families
- Enterprise Transaction Systems
  (ETS: data management)
  with the Adabas and Natural product families
- Consulting
  with a focus on implementations of Software AG products and SAP/other IT consulting

Last year's amounts were adjusted to reflect the new segment structure.

Segment report for fiscal years 2013 and 2012

	Enterprise Transaction Systems (ETS)	
in € thousands	**2013**	2012
Licenses	107,426	121,344
Maintenance	166,326	188,257
Product revenue	**273,752**	**309,601**
Services	0	8
Other	719	924
Total revenue	**274,471**	**310,533**
Cost of sales	-14,053	-15,613
Gross profit	**260,418**	**294,920**
Sales, marketing and distribution expenses	-50,427	-61,699
Segment contribution	**209,991**	**233,221**
Research and development expenses	-25,337	-26,114
Segment result	**184,654**	**207,107**
General and administrative expenses		
Other taxes		
Operating result		
Other operating income/expenses, net		
Net financial income/expenses		
Earnings before income taxes		
Income taxes		
Net income for the year		

	Business Process Excellence (BPE)		Consulting		Reconciliation		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	220,096	194,725	2,616	2,871			330,138	318,940
	202,758	189,952	6,482	15,043			375,566	393,252
	422,854	**384,677**	**9,098**	**17,914**			**705,704**	**712,192**
	1	0	265,997	333,270			265,998	333,278
	3	30	268	910			990	1,864
	422,858	**384,707**	**275,363**	**352,094**			**972,692**	**1,047,334**
	-22,346	-18,767	-232,549	-319,955	-25,662	-24,059	-294,610	-378,394
	400,512	**365,940**	**42,814**	**32,139**	**-25,662**	**-24,059**	**678,082**	**668,940**
	-201,460	-137,296	-33,470	-33,874	-14,710	-14,073	-300,067	-246,942
	199,052	**228,644**	**9,344**	**-1,735**	**-40,372**	**-38,132**	**378,015**	**421,998**
	-82,587	-74,970	0	0	0	0	-107,924	-101,084
	116,465	**153,674**	**9,344**	**-1,735**	**-40,372**	**-38,132**	**270,091**	**320,914**
							-73,151	-75,845
							-7,091	-8,022
							189,849	**237,047**
							8,565	3,229
							-8,402	-8,779
							190,012	**231,497**
							-56,001	-66,820
							134,011	**164,677**

The segment contribution does not include the amortization expense associated with acquisitions of intangible assets. These charges are therefore shown separately under "reconciliation."

This presentation corresponds with internal control and reporting lines (management approach). The business lines (segments) are managed on the basis of their segment contribution. Research and development costs are subsequently allocated to the business lines and have no impact on internal management.

Information on geographic regions

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

Geographic distribution of revenues

	2013			
in € thousands	Germany	USA	Other countries	**Group total**
Licenses	38,931	104,066	187,141	330,138
Maintenance	55,914	124,458	195,194	375,566
Services	81,126	23,653	161,219	265,998
Other	689	22	279	990
Total	**176,660**	**252,199**	**543,833**	**972,692**

	2012			
in € thousands	Germany	USA	Other countries	**Group total**
Licenses	44,307	105,446	169,187	318,940
Maintenance	54,059	128,557	210,636	393,252
Services	105,959	33,822	193,497	333,278
Other	894	70	900	1,864
Total	**205,219**	**267,895**	**574,220**	**1,047,334**

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenues in the U.S. contributed 10 percent or more to Group revenue and are therefore listed separately. These revenues are generated in U.S. dollars, so when comparing consecutive periods, exchange rate fluctuations should be considered.

Non-current assets

Non-current assets are comprised of intangible assets and property, plant and equipment.

in € thousands	**2013**	2012
USA	540,570	526,010
Other countries	145,755	152,105
Germany	419,079	356,664
Group total	**1,105,404**	**1,034,779**

[29] Additional information on financial instruments and risk management

The following table shows the carrying amounts of financial assets and liabilities as well as their fair values in accordance with the levels of the fair-value hierarchy. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

December 31, 2013	Fair value			
in € thousands	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets measured at fair value				
Currency forward contracts		227		227
Corporate bonds	2,013			2,013
Shareholders' equity			2,038	2,038
Other financial assets				
Promissory notes/time deposits			–	
Trade receivables and other receivables			–	
Cash and cash equivalents			–	
Financial liabilities				
Financial liabilities measured at fair value				
Interest rate swaps		2,984		2,984
Currency forward contracts		51		51
Equity forward contracts		2,700		2,700
Other financial liabilities				
Liabilities to banks and other financial liabilities		614,409		614,409
Trade payables			–	
Other non-derivative liabilities			–	

	Carrying amount					
	Held for trading purposes	Hedging instruments	Loans and receivables	Available for sale	Other financial liabilities	**Total**
	227					227
				2,013		2,013
				2,038		2,038
			54,500			54,500
			115,298			115,298
			449,984			449,984
		2,984				2,984
	51					51
	2,700					2,700
					613,374	613,374
					36,140	36,140
					65,329	65,329

December 31, 2012	Fair value			
in € thousands	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets measured at fair value				
Currency forward contracts		96		96
Equity forward contracts		1,684		1,684
Shareholders' equity			1,307	1,307
Other financial assets				
Promissory notes/time deposits				
Trade receivables and other receivables				
Cash and cash equivalents				
Financial liabilities				
Financial liabilities measured at fair value				
Interest rate swaps		5,357		5,357
Currency forward contracts		190		190
Equity forward contracts		933		933
Other financial liabilities				
Liabilities to banks and other financial liabilities		270,352		270,352
Trade payables			–	
Other non-derivative liabilities			–	

	Carrying amount					
	Held for trading purposes	Hedging instruments	Loans and receivables	Available for sale	Other financial liabilities	**Total**
	96					96
	1,684					1,684
				1,307		1,307
			180,890			180,890
			315,637			315,637
		5,357				5,357
	190					190
	933					933
					266,012	266,012
					48,054	48,054
					67,479	67,479

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2012 or 2013.

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
Currency forward 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
Equity forward contracts	2	The fair values are measured based on the intrinsic values of the equity futures contracts, which are calculated using the share prices from an active market.	n/a	n/a
Corporate bonds	1	Prices quoted on active market.	n/a	n/a
Shareholders' equity	3*	Financial assets available for sale for which no market price is available and a fair value cannot be calculated reliably because of the absence of an active market are measured at cost less impairments. There were no indications of impairments in 2013 or 2012, so measurement was therefore based on cost.	n/a	n/a

*) Changes during the fiscal year resulted from additions only.

The fair values of cash and cash equivalents, time deposits, current receivables, trade payables and other current financial liabilities correspond approximately with their carrying amounts, primarily due to the short terms of these instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit ratings. Software AG calculates bad debt allowances to reflect expected defaults based on the measurement results.

Accordingly, the carrying amounts of these receivables corresponded approximately with their fair values as of December 31, 2013 and December 31, 2012.

Software AG calculates the fair values of liabilities to banks and other financial liabilities as well as other non-current financial liabilities by discounting the estimated future cash flows using the interest rates applicable to similar financial liabilities with comparable maturities.

The net gain/loss from loans and receivables was only affected significantly by currency translation effects. The net loss from derivatives without qualifying hedging relationships amounted to €3,806 thousand (2012: €3,101 thousand) in fiscal 2013. The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €2,267 thousand in 2013 (2012: €1,345 thousand).

Market risk and the use of derivative financial instruments

As a result of its international operating activities as well as its investing and financing activities, Software AG is exposed to various financial risks. Management continuously monitors these risks. Derivative financial instruments are used in accordance with internal guidelines in order to reduce risks arising from changes in interest rates, exchange rates, cash flows, or the value of cash investments. Derivatives are generally entered into to hedge existing balance sheet exposures and highly probable forecast transactions.

a) Interest rate risk

The Company is subject to interest rate fluctuations that affect both assets and equity and liabilities on the balance sheet.

On the assets side, income from investing cash and cash equivalents and future interest income resulting from discounting non-current receivables are particularly subject to interest rate risk. On the equity and liabilities side, interest expenses for current and non-current financial liabilities as well as pension provisions and other items related to long-term borrowings are especially exposed to interest rate risk.

The sensitivity analysis required by IFRS 7 relates to interest rate risk arising from monetary financial instruments bearing variable interest rates.

Based on the current structure of the interest-bearing financial instruments, a hypothetical increase in the market interest level of 100 basis points would raise earnings by €2,332 thousand (2012: €2,388 thousand).

b) Exchange rate risk

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forward contracts. Foreign currency receivables and liabilities are offset if possible, and only the remaining net exposure is hedged. Estimated cash flows are also hedged in accordance with internal guidelines.

Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other assets or current liabilities. Changes in the fair value of derivative financial instruments designated as cash flow hedges are reported under other reserves until the hedged item is required to be recognized in income. The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments that do not meet the requirements of hedge accounting are recognized immediately in profit or loss for the year in which they are incurred.

The sensitivity analysis required by IFRS 7 relates to the exchange rate risk arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings result fundamentally only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.
Based on the monetary financial instruments available as of the reporting date, a devaluation of the euro in amount of 10 percent against the U.S. dollar would have increased earnings by €1,565 thousand (2012: €1,213 thousand). Other reserves would have remained unchanged as in the past year. This amount only represents a theoretical risk for us as these instruments are hedges of recognized transactions, rather than open trading positions.

c) Market risk

In line with Group policy, assets are controlled in terms of maturity, interest type and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk

Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. Major cash investments as well as derivative financial instruments are entered into with banks with credit ratings of at least investment grade and whose CDS rates are monitored continuously. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by management ensure that the credit risk from financial instruments is spread across various banks.

In the operating business, receivables are continuously monitored and default risk is taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2013, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. There is no concentration of credit risks with respect to single customers as a result of the size of our customer base or due to the distribution of our revenues across various sectors and countries. The theoretical maximum exposure to credit risk is reflected in the carrying amounts of the receivables, without taking any collateral into account.

e) Liquidity risk

A liquidity risk arises from the possibility that the Company may not be able to satisfy existing financial liabilities, for example, arising from loan agreements, lease agreements or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit.
Under credit agreements having a total volume of €3.4 million (2012: €5.4 million), the Company is required to limit net debt within the Group to a maximum of 3-times EBITDA. Under additional credit agreements having a total volume of €100.0 million, the Company is required to limit net debt within the Group to a maximum of 3.25-times EBITDA and not fall below an interest coverage ratio of 4.25. As of year-end 2013, the Company's net debt in relation to EBITDA was significantly lower than this limit and the interest coverage ratio was significantly higher.
The following table shows the contractually fixed payments arising from financial liabilities. The following table show the undiscounted liabilities. Variable interest payments are based on the prevailing interest rate on the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2013.

2013

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	**Total**
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
– Repayment	202,467	410,328	0	612,795
– Interest	11,120	14,707	0	25,827
Trade payables	36,140	0	0	36,140
Other financial liabilities	401	0	0	401
Finance lease liabilities	20	158	0	178
Other non-derivative liabilities	63,985	1,344	0	65,329
Derivative financial liabilities	**2,304**	**3,431**	**0**	**5,735**

2012

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	**Total**
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
– Repayment	52,190	213,310	0	265,500
– Interest	8,207	5,212	0	13,255
Trade payables	47,833	220	0	48,054
Other financial liabilities	378	0	0	378
Finance lease liabilities	4	130	0	134
Other non-derivative liabilities	66,722	7,237	0	73,958
Derivative financial liabilities	**416**	**6,063**	**0**	**6,479**

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, 2013 and December 31, 2012. The fair values of currency forward contracts are determined on the basis of forward foreign exchange rates. The fair values of stock options and equity forward contracts used to hedge the performance phantom share plan as well as the fair values of interest rate hedges are based on market prices, which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date. Fair values are determined based on the second level of fair value hierarchy in accordance with IFRS 7.

in € thousands	**2013**			2012		
	Notional amount	**Fair value**	**Carrying amount**	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	0	227	227	0	1,780	1,780
Currency forward contracts remaining term < 1 year	14,502	116	116	3,000	96	96
Currency forward contracts remaining term > 1 year	14,502	111	111	0	0	0
Stock options / equity forward contracts	0	0	0	10,040	1,684	1,684
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	0	-5,735	-5,735	0	-1,123	-1,123
Currency forward contracts remaining term < 1 year	1,244	-51	-51	10,963	-190	-190
Stock options / equity forward contracts	16,886	-2,700	-2,700	5,495	-933	-933
Derivatives (cash flow hedges)	0	-2,984	-2,984	0	-5,357	-5,357
Interest rate swaps	93,500	-2,984	-2,984	93,500	-5,357	-5,357

The derivative financial instruments are designated to hedge the fair value of recognized assets or liabilities. Changes in the fair value of the hedging instruments are recognized in profit or loss. In addition, the Company has entered into cash flow hedges for forecast transactions. Changes in the fair value of such financial instruments are reported under other reserves.

Currency forward contracts and currency option transactions are entered into for the purpose of hedging foreign exchange risks related to future cash flows.

In order to hedge the risks arising from changes in value of the phantom share program, the Company has entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency risk have remaining terms of a maximum of two years, whereas the financial instruments for hedging interest rate risk have remaining terms of up to four years.

Cash investment policy

Software AG takes a conservative approach with regard to its cash investments. The Company invests primarily in short-term time deposits and short-term fixed-income securities with a credit rating of at least investment grade. Software AG has introduced a process in order to monitor the creditworthiness of the banks with which we maintain relationships whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly. In fiscal 2013, the interest rates for term deposit investments were between 0.02 percent and 1.20 percent p.a. in Germany, whereas up to 19.75 percent p.a. was reached abroad.

[30] Disclosures on leases

The Group's rental agreements and operating leases relate chiefly to office space, vehicles and IT equipment. Lease payments under operating leases are recognized as an expense over the term of the lease.

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	**Total**
Contractually agreed payments	20,661	40,679	11,251	72,591
Estimated income from subleases	-2,530	-2,819	0	-5,349

[31] Contingent liabilities

As in 2012, there were no reportable contingent liabilities as of December 31, 2013.

[32] Seasonal influences

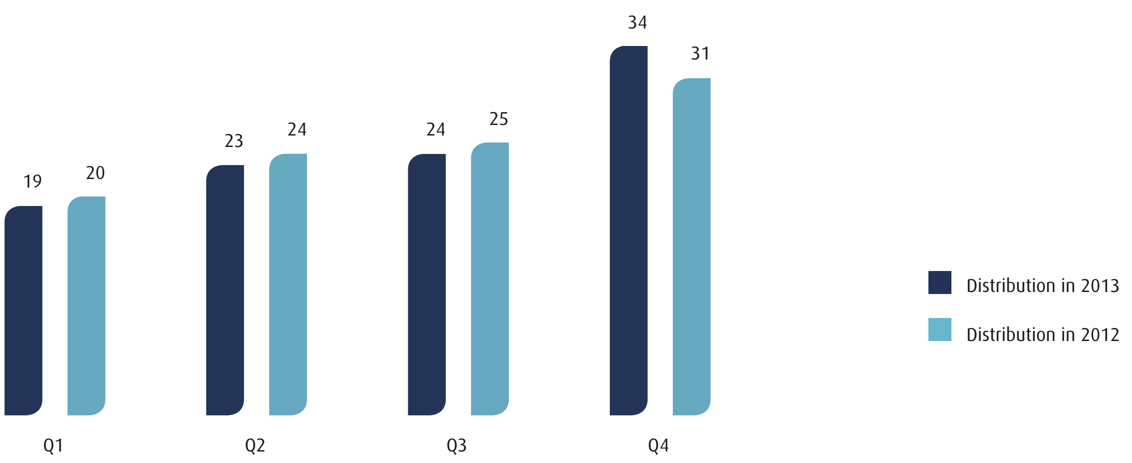
Revenues and pre-tax earnings were distributed over fiscal year 2013 as follows:

in € thousands	Q1 2013	Q2 2013	Q3 2013	Q4 2013	**2013**
License revenue	63,581	75,799	79,875	110,883	330,138
as % of license revenue for the year	19	23	24	34	100
Total revenue	224,911	237,748	238,500	271,533	972,692
as % of revenue for the year	23	24	25	28	100
Earnings before taxes	38,479	41,457	45,739	64,337	190,012
as % of earnings for the year	20	22	24	34	100

Based on historical data, the revenue and earnings distribution from 2013 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 distribution of license revenues in 2013 und 2012.

As % of total annual license revenue



[33] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the test case, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. The proceedings against the other defendants are still pending. Software AG assumes that the proceedings will be reopened in the first half of 2014.

In February 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the District Court of Delaware for violating one of its software patents. This NPE has filed three similar parallel lawsuits against other defendants. The NPE withdrew its lawsuit against Software AG in January 2013. The NPE also filed a new lawsuit for the alleged violation of two of its software patents in January 2013. The proceedings are in a very early stage. Hearings are not scheduled to take place until mid-2015.

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In September 2013 the court issued an order to hear evidence and requested that Warth & Klein GmbH Wirtschaftsprüfungsgesellschaft provide an opinion on questions concerning valuation in the capacity of expert auditor. Warth & Klein's expert opinion is still pending.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision and is currently waiting for the case to proceed. Provisions are set up based on the estimated probable actual resource outflow.

The lawsuit brought by Mr. Broadbent in connection with the termination of his Management Board appointment was settled by way of an agreement outside of court in May 2013. The settlement stipulated the termination of Mr. Broadbent's appointment to the Management Board as of July 18, 2011 and the termination of his employment contract as of August 31, 2011 in exchange for payment of 1.25 annual salaries and previously earned but not yet paid entitlements from the period prior to August 31, 2011.

There were no other changes with respect to the legal disputes reported as of December 31, 2012, nor were there any new legal disputes that could potentially have a significant effect on the company's financial position, financial performance or cash flows.

[34] Stock option plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. These involve equity-settled plans and plans where the Company has the choice of settling either in cash or by providing equity instruments.

The expense for share-based compensation in fiscal 2013 was as follows:

in € thousands	2013	2012
Income/expense from share-based compensation	**-922**	**7,871**
of which from share-based compensation that was accounted for as equity-settled plans pursuant to IFRS 2	3,408	4,389
of which from hedging activities relating to share-based compensation plans (PPS)	3,718	-1,288

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

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

A share-performance-based Management Incentive Plan (MIP IV) for members of the Management Board and upper management was developed in 2011. The program offers stock options (hereinafter referred to as "rights.") but the Company reserves the right to service these rights in cash or shares. The plan was officially approved by the Annual Shareholders' Meeting in May 2012. The first allocation tranche was based on the following parameters:

Base price	€41.34
Earliest exercise date	May 4, 2016
Term of rights	10 years

The option to exercise rights depends upon the achievement of defined targets for revenue and Group net income. The target is defined as the doubling of Group revenue for new products and simultaneous doubling of net income compared to fiscal year 2010 by fiscal year 2015 at the latest.

"New products" as defined for the revenue performance target are mainly all products outside of the Adabas, Natural and EntireX product portfolios. In November 2012 Management Incentive Plan IV was adjusted to reflect changed strategic targets, which require major investments in growth and a stronger focus on the cloud business. The Company therefore took the cloud computing megatrend into account in its calculations of relevant revenue. This means that the cloud revenue that is generated on a pro rata subscription basis is recognized with a multiplying factor; IFRS revenue from new products must however be at least €450 million in fiscal year 2015. Instead of doubling net income, it was determined that Software AG Group's non-IFRS EBIT margin (EBIT margin adjusted to reflect the following one-time effects: effects of purchase price allocations, amortization associated with acquired intangible assets through corporate acquisitions, expenses from share-based compensation and one-time effects of restructuring) must be at least 10 percent by 2015, whereby underperformance of the non-IFRS EBIT margin may be balanced out by the appropriate outperformance of the revenue performance target.

The condition that the share price must be €60.00 on at least one of the last five weekdays prior to exercise remained unchanged.

The rights granted under Management Incentive Plan 2011 (MIP IV) changed as follows in fiscal years 2013 and 2012:

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2012	**5,262,000**	**41.34**		
Granted	817,001	41.34		
Forfeited	-1,270,333	41.34		
Balance as of Dec. 31, 2013	4,808,668	41.34	7.5	0*
Thereof exercisable as of Dec. 31, 2013	**0**			

*) Based on the closing price on Dec. 30, 2013.

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2011	**5,596,667**			
Granted	675,333	41.34		
Forfeited	-1,010,000	41.34		
Balance as of Dec. 31, 2012	5,262,000	41.34	8.5	0*
Thereof exercisable as of Dec. 31, 2012	**0**			

*) Based on the closing price on Dec. 31, 2012.

Because there is no obligation to settle in cash, these rights are accounted for as an equity-settled stock option program pursuant to IFRS 2. Pursuant to IFRS 2, the date of the 2012 Annual Shareholders' Meeting was the date on which all rights awarded prior to May 2012 were granted, since rights can be serviced in shares, so final allocation requires the approval of the Annual Shareholders' Meeting. Accordingly, the expense of these rights is calculated based on the fair value of the rights on May 4, 2012. The expense is allocated to the period starting with the date they were awarded until the expected date the aforementioned performance targets are reached.

After the date of the Annual Shareholders' Meeting the fair value was determined based on a binomial model. For the measurement, the market condition that stipulates that the share price must be at least €60.00 on one of the last five weekdays prior to exercise was taken into account.

Valuation was based on the following parameters:

Software AG share price on May 4, 2012	€25.44
Strike price of rights	€41.34
Assumed average volatility	43.0%
Expected dividend yield	2.0%
Risk-free interest rate	1.1%
Expected average term until exercise of the rights	7.0 years

The expected volatility was derived by applying the implied volatility of stock options with comparable terms of maturity to Software AG shares.

This results in a fair value of €5.84 for all rights awarded prior to May 4, 2013 (6,515,500 rights) under the program. The fair values on the respective award dates for rights awarded after May 4, 2012 (1,204,501 rights) were between €5.00 and €7.50.

Expenses of €3,408 thousand (2012: €4,389 thousand) were incurred under this plan during fiscal year 2013.

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

In 2007, a share-based incentive plan for members of the Management Board and upper management was launched. A total of 7,342,500 (before stock split: 2,447,500) participation rights have been issued to Management Board members and managers under the plan.

As part of the plan, the defined performance target involved reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These performance targets were achieved at the end of fiscal year 2010. Accordingly, since May 19, 2011, participants are entitled to payment of the difference between the price of Software AG shares and the base price of €24.12. However, the Company is entitled to elect to issue shares in lieu of a cash payment at its discretion.

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal years 2013 and 2012:

	Number of rights outstanding	Weighted average exercise price per right	Weighted average remaining term	Aggregated intrinsic value
		(€)	(years)	(€ thousands)
Balance as of Dec. 31, 2012	**1,852,800**	**24.12**		
Forfeited	-33,000	24.12		
Exercised Nov. 14, 2013 (closing price €27.99)	-26,500	24.12		
Balance as of Dec. 31, 2013	1,793,300	24.12	2.5	2,295*
Thereof exercisable as of Dec. 31, 2013	**1,793,300**	**24.12**		

*) Based on the closing price on Dec. 30, 2013.

	Number of rights outstanding	Weighted average exercise price per right	Weighted average remaining term	Aggregated intrinsic value
		(€)	(years)	(€ thousands)
Balance as of Dec. 31, 2011	**1,961,400**	**24.12**		
Exercised Aug. 14, 2012 (closing price €26.25)	-10,000	24.12		
Exercised Aug. 15, 2012 (closing price €25.88)	-9,000	24.12		
Exercised Nov. 21, 2012 (closing price €31.59)	-89,600	24.12		
Balance as of Dec. 31, 2012	1,852,800	24.12	3.5	14,804*
Thereof exercisable as of Dec. 31, 2012	**1,852,800**			

*) Based on the closing price on Dec. 28, 2012.

All rights outstanding under MIP III as of December 31, 2013 were exercisable. Because there is no obligation to settle in cash, these rights are accounted for as an equity-settled stock option program pursuant to IFRS 2.
Expenses of €0 thousand (2012: €0 thousand) were incurred under this plan during fiscal year 2013.
Because all subscription rights were 100 percent vested as of December 31, 2013 and there is no obligation to settle in cash, no further expenses will be incurred under MIP III.

Performance Phantom Share Plan

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2013 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2014, 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 2015 to 2017, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount will be adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and then paid to the members of the Management Board and officers. The beneficiaries will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.
Company officers may elect to let the Company dispose of the compensation that has become due after the waiting period for an unlimited period of time and thus continue to participate in the success of the Company.
At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading days after publication of the financial results. Those entitled receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of the phantom shares.
This plan resulted in earnings of €4,330 thousand (2012: expenses of €3,482 thousand) in fiscal 2013.
The provision for the rights outstanding under the Phantom Share Plan amounted to €7,419 thousand (2012: €17,113 thousand) as of December 31, 2013.
The intrinsic value of the rights exercisable under the phantom share plan as of December 31, 2013 amounted to €4,048 thousand (2012: €7,623 thousand).

[35] Corporate bodies

Members of the Supervisory Board:

Dr. Andreas Bereczky

Dr.-Ing. graduate in mechanical engineering	Director of Production of ZDF, Mainz Resident of: Eschweiler
Shareholder representative	
Chairman	
Supervisory board seats:	• *Dep. chairman of the supervisory board of Alfabet AG, Berlin (until June 24, 2013)* • *Member of the supervisory board of GFT Technologies AG, Stuttgart*

Monika Neumann

State examination for secondary education	Employee of Software AG Deutschland GmbH, Chairwoman of the General Works Council of Software AG Deutschland GmbH, Darmstadt
Employee representative	Resident of: Schliersee
Deputy Chairwoman	
Supervisory board seats:	• *none*

Prof. Willi Berchtold

Graduate in economics	Managing partner of CUATROB GmbH, Überlingen
Shareholder representative	Resident of: Überlingen
Supervisory board seats:	• *Chairman of the supervisory board of Bundesdruckerei GmbH, Berlin* • *Member of the supervisory board of Lufthansa Systems AG, Kelsterbach* • *Member of the supervisory board of Tipp24 SE Hamburg (until June 28, 2013)* • *Chairman of the supervisory board of Lotto24 AG, Hamburg*

Peter Gallner

Employee representative	Trade union secretary of Vereinte Dienstleistungsgewerkschaft ver.di
Supervisory board seats:	Resident of: Koblenz • *Member of the supervisory board of Atos Information Technology GmbH, Essen*

Heinz Otto Geidt

Graduate in business administration	Director of asset management at Software AG Foundation, Darmstadt Resident of: Kelkheim/Taunus
Shareholder representative	
Supervisory Board seats:	• *Chairman of the supervisory board of Bingenheimer Saatgut AG, Echzell (until Nov. 22, 2013)* • *Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn*

Dietlind Hartenstein	
Bank business clerk	Employee of Software AG
Employee representative	Resident of: Zweibrücken
Supervisory board seats:	• *none*
Prof. Dr. Hermann Requardt	
Dr. phil. nat., graduate in physics	Member of the management board of Siemens AG, CEO, sector healthcare, Erlangen
Shareholder representative	Resident of: Erlangen
Supervisory Board seats:	• *Member of the supervisory board of Osram GmbH, Munich (until July 5, 2013)*
Anke Schäferkordt	
Graduate in business administration	Co-CEO of RTL Group SA, Luxembourg Member of the management board Bertelsmann SE & Co. KGaA, Gütersloh
Shareholder representative	Managing director of RTL Television and Mediengruppe RTL Deutschland GmbH, Cologne Resident of: Cologne
Supervisory Board seats:	• *Member of the supervisory board of BASF SE, Ludwigshafen*
Roland Schley	
Graduate in electrical engineering	Employee of IDS Scheer Consulting GmbH, Saarbrücken Resident of: Ottweiler
Employee representative	
Supervisory board seats:	• *none*
Martin Sperber-Tertsunen	
Graduate in administrative sciences	Trade union secretary IG Metall Resident of: Kelkheim
Employee representative	
Supervisory board seats:	• *none*
Karl Wagner	
Graduate in computer science	Employee of Software AG
Executive employee representative	Resident of: Riegelsberg
Supervisory board seats:	• *none*

Alf Henryk Wulf

Graduate in engineering	CEO of ALSTOM Deutschland AG, Mannheim
Shareholder representative	Resident of: Stuttgart
Supervisory Board seats:	• *Chairman of the supervisory board of ALSTOM Power GmbH, Mannheim* • *Chairman of the supervisory board of ALSTOM Transport Deutschland GmbH, Salzgitter* • *Member of the supervisory board of ALSTOM GmbH, Mannheim* • *Chairman of the supervisory board of ALSTOM GmbH, Mannheim (since April 26, 2013)* • *Member of the supervisory board of ALSTOM Boiler Deutschland GmbH, Stuttgart (since September 3, 2013)*

Members of the Management Board:

Karl-Heinz Streibich

Graduate in communications engineering	CEO and Chairman Global Partner Management, Corporate PR, Global Legal, Audit/Processes&Quality, Corporate Communications, Corporate Office, Top Management Development Resident of: Frankfurt am Main
Supervisory board seats:	• *Member of the supervisory board of Deutsche Telekom AG, Bonn (since Oct. 1, 2013)* • *Member of the supervisory board of Dürr AG, Bietigheim-Bissingen* • *Member of the supervisory board of Deutsche Messe AG, Hannover (since Jan. 1, 2013)* • *Member of the supervisory board of MANN+HUMMEL GmbH, Ludwigsburg (as of June 3, 2013 until April 1, 2014)** • *Member of the supervisory board of MANN+HUMMEL Holding GmbH, Ludwigsburg (as of June 3, 2013 until April 1, 2014)** *) comprised of same people and convene jointly

Dr. rer. nat. Wolfram Jost

Graduate in business administration	Management Board R&D and Product Management Resident of: Schmelz

Arnd Zinnhardt Graduate in business administration	Management Board Labor Director Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Human Resources, Global Procurement Resident of: Königstein
Supervisory board and other seats:	• *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main*

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

Remuneration for the Management Board in fiscal 2013 amounted to €10,987 thousand (2012: €11,515 thousand). The stock options issued under MIP IV were recognized with a value that was measured using the binomial model in the amount of €263 thousand (2012: €834 thousand).
The remuneration of the Management Board still includes the consideration paid for 125,153 (2012: 117,863) committed phantom shares totaling €3,464 thousand (2012: €3,473 thousand). The phantom shares had a fair value as of the grant date of €27.68 (2012: €29.47) per phantom share.
Remuneration for former Management Board members totaled €367 thousand (2012: €350 thousand).
Pension provisions for former Management Board members totaled €9,525 thousand (2012: €9,475 thousand). These amounts include provisions for periods of time in which two members of the Management Board were executive employees or members of the Group Executive Board Member and one former member of the Management Board still is.
Software AG did not grant any advances or loans to Management Board members in fiscal 2013 or in fiscal 2012.
Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the Management Report.

Remuneration of the Supervisory Board pursuant to Section 314 (1), No. 6 of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board in fiscal 2013 amounted to €723 thousand (2012: €728 thousand).
Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2013 or in fiscal 2012.
Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the Management Report.

[36] Related party transactions

A related party as defined by IAS 24 Related Party Disclosures is any legal or natural person able to exercise control over Software AG or a Software AG subsidiary, that is controlled by Software AG or a Software AG subsidiary, or in which Software AG or a Software AG subsidiary has an interest that gives it significant influence over such legal or natural person. This also includes any legal or natural person having an interest in Software AG that gives it significant influence over Software AG (Software AG Foundation), unconsolidated subsidiaries, and the members of Software AG's executive bodies, whose remuneration is specified in Note [38] as well as in the Remuneration Report contained in the Corporate Governance section of the Management Report.
The Software AG Foundation provided Software AG with funds in the amount of €45 million to finance the IDS Scheer acquisition in 2009. The funding was made available in the form of a subordinated promissory note loan from a special fund in which the Software AG Foundation has a 100-percent stake. The interest rate on the promissory note loan is in accordance with market rates. The promissory note loan is a bullet loan with a term running until August 2013. It was repaid on schedule in August.

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	**2013**	2012
Short-term benefits	7,023	7,017
Post-service benefits	621	3,046
Share-based compensation	-1,740	5,686
	5,904	**15,750**

Pension provisions for Management Board members amounted to €4,815 thousand (2012: €4,699 thousand). Gross pension liabilities for Management Board members amounted to €8,364 thousand (2012: €7,743 thousand).
Furthermore, liabilities from the Phantom Share Plan totaled €6,843 thousand (2012: €14,100 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2013 totaled €723 thousand (2012: €728 thousand). This remuneration included a fixed short-term component and compensation for committee work.
Remuneration of the Management and Supervisory Boards is outlined in detail in the Remuneration Report. The Remuneration Report presents the structure and amount of the individual components. It is part of the Management Report within this Annual Report.
No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2013.

[37] Auditors' fees

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €921 thousand (2012: €822 thousand). Of this amount, €844 thousand (2012: €714 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €6 thousand (2012: €7 thousand) to tax advisory services, €71 thousand (2012: €76 thousand) to other testation services, and €0 thousand (2012: €25 thousand) to other services.

[38] Events after the balance sheet date

Software AG instituted a program for the repurchase of treasury shares up to a total value of €110 million beginning November 12, 2013 and concluded on February 28, 2014. During the period from January 1, 2014 up to and including February 28, 2014 Software AG repurchased 2,653,845 additional treasury shares (based on a value date) at an average price of €26.59 per share—not including transaction fees (€26.60 including transaction fees)—for a total cost of €70,561 thousand, not including transaction fees (€70,582 thousand including transaction fees). As of February 28, 2014 Software AG held 8,084,101 treasury shares representing an interest in the share capital of €8,084,101 (9.3 percent).
There were no other events of material significance for the consolidated financial statements that occurred between the balance sheet date and the release of the consolidated financial statements for publication.

[39] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on March 4, 2014. It will be published on our website at: www.softwareag.com/uk/inv_rel/corpgovernance/compliance.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on January 30, 2014 at: www.softwareag.com/declaration.

[40] Exemption for domestic Group companies pursuant to Section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, IDS Scheer Consulting GmbH, Saarbrücken, SAG Consulting Services GmbH, Darmstadt and Software Financial Holding GmbH, Darmstadt, which are included in the consolidated financial statements of Software AG, have been exempted from the duty to prepare and publish annual financial statements and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with Section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on March 4, 2014.

Darmstadt, March 4, 2014

Software AG

K.-H. Streibich   Dr. W. Jost   A. Zinnhardt

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, March 4, 2014

Software AG

K.-H. Streibich | Dr. W. Jost | A. Zinnhardt

Auditors' Report

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, Darmstadt, comprising the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the notes to the consolidated financial statements together with the Management Report of the Group and Software Aktiengesellschaft for the fiscal year beginning January 1, 2013 and ending December 31, 2013. The preparation of the consolidated financial statements and the Management Report of the Group and Software Aktiengesellschaft in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to Section 315a, paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a sufficiently substantial basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB. The consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these requirements. The Management Report of the Group and Software Aktiengesellschaft is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 4, 2014

BDO AG Wirtschaftsprüfungsgesellschaft

Schulz	Sartori
Auditor	Auditor

Additional Information

Glossary

Adabas (Adapted DAtaBAse System)
Invented by Software AG founder, Peter Schnell, Adabas is the first high-performance transactional database that is so fast it can process more than 300,000 transactions per second. Since its market entry in 1971, Adabas—together with Natural—has formed the backbone of many large companies' and public institutions' IT.

ARIS (ARchitecture for Integrated Information Systems)
Developed by IDS Scheer AG founder, August-Wilhelm Scheer, this is a scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation and measurement.

B2B
"Business-to-business" describes electronic transactions between organizations. B2C (business-to-consumers), in contrast, refers to IT transactions between organizations and consumers.

big data
Big data is the universal term for ever-expanding vast amounts of data as a result of the Internet. Organizations can leverage the effective processing and analysis of this data to achieve competitive advantages.

business intelligence (BI)
A general term for computer-based analysis of business data.

Business Process Analysis (BPA)
With BPA processes are analyzed, documented and optimized. This provides more efficient business processes and increases the competitiveness of an organization leading to improved economic results.

Business Process Excellence (BPE)
Software AG defines BPE as the merging of business and technical approaches to Business Process Management (BPM) and, therefore, as the engine of the Digital Enterprise. BPE is much more than BPM in that it addresses the complete life cycle of a process, which comprises a business component (BPE life cycle) and a technical component (BPE platform). Software AG presented Enterprise BPM at CeBIT 2011 and in doing so has brought an integrated process and integration platform to the market that enables Digital Enterprises to achieve the highest level of process efficiency. BPE is also the name of the Software AG business line comprising the webMethods and ARIS products.

Business Process Management (BPM)
The methods, techniques and tools used to design, enact, control and analyze operational business processes involving people, systems, applications, data and organizations.

BPE platform
The technical component of BPE. The webMethods Suite supports the execution of processes including real-time monitoring and analysis.

cloud
The increasing shift of data and application storage to the Internet.

Complex Event Processing (CEP)

The concept of processing complex data streams. CEP enables the processing and correlating of a large number of events per time unit with low latency and therefore real-time reaction. Software AG's new CEP solution, webMethods Business Events, was presented at CeBIT 2011.

Digital Enterprise

The Digital Enterprise of the future plans, implements, controls, and monitors its business processes electronically and end to end. Software AG's independent process and integration platform for business process excellence enables the highest level of process efficiency, a prerequisite for the Digital Enterprise. With its cloud-enablement technology, Software AG accelerates innovation processes in Digital Enterprises.

Enterprise Architecture Management (EAM)

A complete management concept to optimize IT system landscapes. EAM includes the documentation of
the current landscape as well as the design and planning of an ideal IT landscape for the future.

Enterprise Transaction Systems (ETS)

Software AG business line comprised of the Adabas and Natural products. With them, Software AG has played an integral role in the IT landscapes of companies and public institutions worldwide for many years.

Intelligent Business Operations Platform (IBO)

Software for the analysis of large amounts of data that offers easy ways to visualize data on business operations in real time.

Master Data Management (MDM)

MDM gives organizations one consistent view of and access to core data, such as information on customers, products, suppliers and branch offices. This type of data is very often stored in heterogeneous applications throughout the organization. Software AG presented its new MDM solution, webMethods OneData, at CeBIT 2011.

middleware

Integration software in a complex IT infrastructure whose task is to simplify mechanisms for accessing underlying layers. Middleware such as Software AG's webMethods facilitates data exchange between legacy application silos.

mobile

The growing use of mobile communication and mobile Internet.

Natural

Software AG's fast and easy-to-use development and deployment environment designed to support enterprise-scale applications on the mainframe and open-systems platforms. Since it was brought to market in 1979, Natural—together with Adabas—has formed the backbone of many large companies' and public institutions' IT.

Service-Oriented Architecture (SOA)

A software architecture in which the desired system functionality is made available by way of interaction between loosely coupled, reusable functions (services).

social collaboration

Intensified interactive collaboration via social networks such as Facebook and Twitter.

Software AG Live

A cloud-based platform that enables business units and IT specialists to develop applications themselves and easily integrate them into existing systems.

webMethods Business Process Management Suite (BPMS)

Software AG's webMethods BPMS combines leading BPM and SOA functionality and offers a complete suite of fully integrated tools for process execution, real-time transaction monitoring, and the proactive identification of errors and warnings.

webMethods Platform

Software AG's fully integrated toolset for SOA governance, business process management, integration, B2B and application modernization.

Five-year summary

Key Group Figures

in € millions	**2013**	2012	2011	2010	2009
Revenue	**972.7**	**1,047.3**	**1,098.3**	**1,119.5**	**847.4**
By type:					
• Licenses	330.1	318.9	295.2	327.4	269.9
• Maintenance	375.6	393.3	378.7	369.4	310.6
• Services and other revenue	267.0	335.1	424.4	422.7	266.9
By business line*:					
• Business Process Excellence	422.9	384.7	339.6	321.5	247.2
• Enterprise Transaction Systems	274.5	310.5	313.9	355.4	328.5
• Consulting	275.4	352.1	444.8	442.6	271.7
EBIT**	**205.5**	**248.3**	**269.2**	**268.6**	**218.2**
• as % of revenue	21.1%	23.7%	24.5%	24.0%	25.8%
Net income	**134.0**	**164.7**	**177.2**	**175.6**	**140.8**
• as % of revenue	13.8%	15.7%	16.1%	15.7%	16.6%
Employees (full-time equivalents)	**5,238**	**5,419**	**5,535**	**5,644**	**6,013**
• of which in Germany	1,711	1,768	1,881	2,051	2,149
Balance sheet					
Total assets	1,996.9	1,771.9	1,680.7	1,599.6	1,654.9
Cash and cash equivalents	450.0	315.6	216.5	102.5	218.1
Net debt/net cash	163.4	-49.6	60.9	167.2	271.8
Shareholders' equity	965.6	1,060.1	951.5	769.3	647.2
• as % of total assets	48.4%	59.8%	56.6%	48.1%	39.1%

* 2009 to 2011: pro forma figures; change in segment reporting effective as of Jan 1, 2012
** EBIT: net income + Income taxes + other taxes + financial result.

Financial calendar 2014

May 2	Financial figures Q1 2014 (IFRS, unaudited)
May 16	Annual Shareholders' Meeting, Darmstadt, Germany
July 24	Financial figures Q2/H1 2014 (IFRS, unaudited)
October 29	Financial figures Q3/9M 2014 (IFRS, unaudited)

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