Annual Report
2023

Key Figures

in € millions (unless otherwise stated)	2023	2022	+/– as %	+/– as % acc [1]
Group revenue[5]	**1,000.3**	**973.6**	**3**	**6**
Product revenue[5]	843.7	811.0	4	7
thereof Digital Business[5]	597.1	559.9	7	9
thereof Adabas & Natural (A&N)[5]	246.6	251.1	-2	3
thereof Licenses[5]	361.6	329.9	10	14
thereof Maintenance[5]	383.7	405.3	-5	-2
thereof Software as a Service (SaaS)[5]	98.4	75.8	30	33
Group ARR[2] (Dec. 31)	**755.7**	**700.2**	**8**	**10**
thereof Digital Business ARR[2]	557.7	516.4	8	10
thereof A&N ARR[2]	198.0	183.8	8	11
Operating EBITA (non-IFRS)[5]	**196.3**	**193.9**	**1**	
Operating margin (EBITA, non-IFRS)[5] as %	19.6	19.9		
Digital Business segment earnings[5]	73.5	48.4	52	
Segment margin[5] as %	12.3	8.6		
A&N segment earnings[5]	183.5	174.3	5	
Segment margin[5] as %	74.4	69.4		
EBIT[5]	**74.8**	**93.5**	**-20**	
Operating net income (non-IFRS)[5]	**-26.4**	**64.4**		
Operating earnings per share (non-IFRS)[3,5] in €	**-0.36**	**0.87**		
Operating cash flow	**-1.3**	**18.4**		
CapEx[4]	-1.7	-7.5	-77	
Repayment of lease liabilities	-10.0	-12.0	-17	
Free cash flow	**-13.1**	**-1.1**		
Free cash flow per share in €	**-0.18**	**-0.01**		
Balance sheet	**Dec. 31, 2023**	**Dec. 31, 2022**		
Total assets	**2,364.6**	**2,690.9**	**-12**	
Cash and cash equivalents	130.0	427.1	-70	
Net cash position	-302.8	-240.0	26	
Employees (FTE)	**4,707**	**4,996**	**-6**	

1 At constant currency.
2 Annual recurring revenue.
3 Based on weighted average shares outstanding (basic) FY 2023: 74.0 mn / FY 2022: 74.0 mn.
4 Cash flow from investing activities adjusted for acquisitions and investments in debt instruments.
5 In 2023, the Group changed its revenue recognition policy on determining significant financing components and no longer accounts for significant financing components in on-premises subscription agreements. The change in accounting policy was adopted retrospectively and comparative information is presented on a restated basis.

Because the figures in this report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact.

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This publication is a translation of the German version of Software AG’s 2023 Annual Report. The binding version is the German version.

The content of the audit-relevant sections of this Annual Report is consistent with the digital (German) version submitted to the German Federal Gazette (Bundesanzeiger). The electronic document referred to in the Independent Auditor's Report is the basis of the audit.

CORPORATE GOVERNANCE AND REPORT OF THE SUPERVISORY BOARD

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CORPORATE GOVERNANCE STATEMENT

BASIC UNDERSTANDING

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

COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

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

On January 30, 2023, the Management Board and Supervisory Board of Software AG last submitted a Declaration of Compliance pursuant to section 161 of AktG.

On December 18, 2023, Silver Lake, a leading global technology investment firm, and Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake ("Silver Lake"), announced their decision to launch a delisting offer for all outstanding Software AG shares. Once the delisting takes effect, Software AG is no longer required to issue a Declaration of Compliance pursuant to section 161 of AktG nor to declare compliance with the recommendations of the German Corporate Governance Code.

In light of this, the Management Board and the Supervisory Board updated the Declaration of Compliance from January 30, 2023, as follows:

The Management Board and Supervisory Board declare that, since issuing the last Declaration of Compliance on January 30, 2023, Software AG has complied with and will, as long as it is subject to the requirement to issue the Declaration of Compliance, comply with all recommendations of the government commission's German Corporate Governance Code published by the German Ministry of Justice in the official section of the Federal Gazette, in the version dated April 28, 2022 (published in the Federal Gazette on June 27, 2022), with the following exception:

According to recommendation C.5 GCGC, a member of the Management Board of a listed company should not hold more than two supervisory board mandates in non-group listed companies or comparable functions. In October 2023, James M. Whitehurst started as interim CEO and President of Unity Technologies Inc., a listed stock corporation based in San Francisco, California. In addition, he holds a total of four Supervisory Board mandates or comparable functions within the meaning of recommendation C.5, including his Supervisory Board activities at Software AG. James Whitehurst's positions outside Software AG have at no time affected the fulfillment of his duties as a member of the Supervisory Board of Software AG; this is also expected to be the case in the future.

The Management Board and the Supervisory Board would like to highlight that the Supervisory Board adopted a new remuneration system for the Management Board in January 2021, which was further evolved in 2022 and 2023 and fully complies with the recommendations of the GCGC. Software AG's Annual Shareholders' Meeting last approved the revised remuneration system on May 17, 2023. The policies of the adjusted remuneration system shall be applicable when service agreements are signed with new Management Board members or current members' contracts are amended. One current Management Board contract was adjusted on August 1, 2023, to reflect the new remuneration system.

Please visit Software AG’s corporate website to view the Declaration of Compliance. Declarations of Compliance from the last five years are also available there.

REMUNERATION SYSTEM AND REMUNERATION REPORT

The Management Board’s remuneration system, which was adopted by the Supervisory Board and effective as of May 17, 2023, was approved by the Annual Shareholders' Meeting on May 17, 2023, by a 79.14 percent majority of valid votes cast. Please visit Software AG’s corporate website to view this most recent remuneration resolution in accordance with section 113(3) of AktG and the current remuneration system at Remuneration Systems and Report.

KEY PRINCIPLES AND PRACTICES OF CORPORATE GOVERNANCE

Compliance management system

Software AG’s compliance management system is based on its risk situation and serves as part of the Software AG Global Code of Business Conduct and Ethics. In 2023, Software AG established a Chief Compliance Officer who is responsible for maintaining, updating, and monitoring the Compliance Program; the Chief Compliance Officer’s work is further supported by the Compliance Board. Software AG’s Compliance Office helps ensure that all employees behave in accordance with the law and adhere to internal rules and procedures. Employees with any relevant inquiries can consult the Compliance Office or the Legal department overseeing their respective region. In cases of suspected compliance violations, the Compliance Office has the authority to initiate audits.

Global Code of Business Conduct and Ethics

Software AG established a Code of Business Conduct and Ethics. It contains ethical standards applicable to the Company worldwide and is available on Software AG's corporate website at ESG Environment | Social | Governance. The code was updated and revised to meet compliance requirements in 2022. The code is binding for all employees of Software AG and its subsidiaries. All employees are required to familiarize themselves with the contents of the Code of Conduct. To this end, all new staff members attend mandatory, Web-based training sessions and receive certification upon completion. The revised version of the Code of Conduct is available in seven languages. In addition, Software AG has published guidelines for conduct with partners and suppliers as well as a commitment to upholding human rights and anti-corruption guidelines.

Compliance Board

The Compliance Board can be contacted (anonymously if desired) about general issues as well as with information about compliance incidents. To this end, Software AG set up a system for whistleblowers at https://softwareag.integrityline.com/.

A total of 13 (2022: 7) inquiries related to possible compliance violations were filed with the Compliance Board in 2023 by employees of Software AG. The Compliance Board was comprised of the following members in the year under review:

- Jeanette Carney (Director, HR EMEA West)
- Frank Simon (Senior Vice President, Audit & Compliance, Chief Compliance Officer)
- Martin Clemm (Senior Vice President, Global Legal & General Counsel)

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

Open and transparent communication

Software AG communicates openly, transparently, comprehensively, and in a timely manner with all market participants.

All ad hoc disclosures, press releases, as well as presentations held at press and analyst conferences and road shows are published promptly to the Investor Relations section of Software AG’s website. Planned publication dates can be found in the Financial Calendar, which is also published on the corporate website.

COMPOSITION AND PROCEDURES OF THE MANAGEMENT BOARD

The Management Board is autonomously responsible for leading the Company with the goal of sustainable value creation. The members of the Management Board share responsibility for management of the Company. The guidelines for the work of Software AG's Management Board are elaborated in the Rules of Procedure of the Management Board. Above all, they define the members' individual responsibilities, the tasks assigned to the Board as a whole, adoption of resolutions, and the rights and obligations of the Chief Executive Officer. The Management Board of Software AG consisted of five members in the 2023 fiscal year:

Sanjay Brahmawar, born in 1970 (nationality: Belgian), holds an MBA in finance and marketing from the University of Leeds (England) and a Bachelor's degree in civil engineering from Delhi College of Engineering (India), and has been Chief Executive Officer (CEO) of Software AG since August 1, 2018. He oversees Strategy & Corporate Development, Corporate Communications, Legal & Corporate Office, Stream Sets, and Human Resources. His term is in effect until July 31, 2026.

Daniela Bünger, born in 1974 (nationality: German), holds a Bachelor's degree (Hons) from Brunel University in London (England) and a a Master's degree from the University of Reutlingen. Further, she is a Chartered Global Management Accountant (Chartered Institute of Management Accountants), and assumed the position of Chief Financial Officer (CFO) on January 1, 2023. She oversees Finance & Controlling, Corporate IR, Treasury, General Services, Global Taxes, Post-Merger Integration, CSR including ESG, and serves as Export Control Officer. Her term is in effect until December 31, 2025.

Joshua Husk, born in 1974 (nationality: USA), holds a Bachelor's degree in business management from Franklin Pierce College (USA) and an MBA in global management from the Thunderbird School of Global Management (USA), and has been a member of Software AG's Management Board since August 1, 2022. As Chief Revenue Officer (CRO), he oversees Sales, Alliances & Channels, Customer Success & Renewals, Marketing, Solution Management, as well as Commercial and Business Operations. His term is in effect until July 31, 2025; as part of the sale of the webMethods and StreamSets business to IBM, Joshua Husk is envisaged to move to IBM.

Dr. Benno Quade, born in 1977 (nationality: German), holds a PhD (Dr. jur.) from Ludwig-Maximilians University of Munich (Germany), and has been a member of Software AG's Management Board since August 1, 2022. As Chief Operating Officer (COO), he oversees Global Support, Professional Services, IT, Information Security & Data Protection, Audit & Compliance, Transformation Office, Pricing, as well as Software AG's TrendMiner and Alfabet Competence Center. His term is in effect until July 31, 2025.

Dr. Stefan Sigg, born in 1965 (nationality: German), holds both a Master's degree (Diplom) and a PhD (Dr. rer. Nat.) in mathematics from the University of Bonn (Germany), and has been a member of Software AG's Management Board since April 2017. As Chief Product Officer (CPO), he oversees Research & Development, Product Management, CTO Office, Cloud Operations, and the iPaaS, Process Mining, and IoT Competence Center. His term is in effect until March 31, 2027.

COMPOSITION AND PROCEDURES OF THE SUPERVISORY BOARD AND ITS COMMITTEES

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

Composition
The Supervisory Board of Software AG is composed in accordance with the regulations of the One-Third Participation Act. Bettina Schraudolf (substitute member: Jörg Anton) and Madlen Ehrlich were elected to the Supervisory Board in the Supervisory Board election for employee representatives held on October 28, 2021, in accordance with the provisions of the One-Third Participation Act. They have been in office since the outcome was announced by the main election committee on November 4, 2021. Madlen Ehrlich was elected deputy chair of the Supervisory Board until January 31, 2024; Bettina Schraudolf succeeds her as deputy chair as of February 1, 2024.

On May 17, 2022, the Annual Shareholders' Meeting elected Christian Lucas and Oliver Collmann as members of the Supervisory Board, as well as James M. Whitehurst as member of the Supervisory Board to go into effect as of January 1, 2023. A further member of the Supervisory Board is Ursula Soritsch-Renier, who was elected to the Supervisory Board at the 2020 Annual Shareholders' Meeting.

Committees
Guidelines for the work of the Supervisory Board of Software AG are described in the Rules of Procedure of the Supervisory Board. In addition to the tasks and powers of the chair of the Supervisory Board, they define the structure of meetings, the adoption of resolutions, and the formation of committees. The Management Board, Supervisory Board, and committees work together closely with the objective of sustainably enhancing Software AG's value.

The Supervisory Board established two permanent committees to efficiently carry out its tasks: the Audit Committee and the Nominating Committee. Given the importance of personnel-related topics, these are discussed by the full Supervisory Board. For this reason, the Personnel Committee was dissolved at the Supervisory Board meeting on January 30, 2023.

Furthermore, the Supervisory Board formed a temporary **Takeover Committee** by way of a resolution dated April 18, 2023. To avoid conflicts of interest with regard to tasks assigned to the Takeover Committee, the Takeover Committee consisted exclusively of members independent of Silver Lake. The Supervisory Board delegated to the Takeover Committee the adoption of measures relating to the public tender offer by Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake. Oliver Collmann chaired the Takeover Committee. Further members were Madlen Ehrlich (employee representative) and Ursula Soritsch-Renier (shareholder representative).

The **Audit Committee** handles issues related to accounting as well as the supervision of accounting processes, the effectiveness of the internal control system, the risk management system, the internal audit system, and compliance. The Audit Committee also handles the audit of the financial statements, in particular the selection and independence of the auditor, the quality of the audit, and the additional services provided by the auditor. The Audit Committee has three members. Oliver Collmann has chaired it since April 2022. Further members are Madlen Ehrlich (employee representative) and Christian Lucas (shareholder representative).

The **Nominating Committee** names suitable candidates to the Supervisory Board for its proposals to the Annual Shareholders' Meeting. It consists of shareholder representatives only. The chair of the Supervisory Board also chairs the Nominating Committee. Further members are Ursula Soritsch-Renier and Oliver Collmann.

Self-Assessment
Members of the Supervisory Board evaluate at regular intervals how effectively the Supervisory Board as a whole and its committees fulfill their duties (self-assessment). Each member completes a questionnaire to assess all areas of the Supervisory Board's work. The questionnaire contains more than 30 questions. Key aspects of the self-assessment are composition of the Supervisory Board, availability of information, preparation and follow-up of meetings, committee responsibilities, as well as training activities and succession planning. The Supervisory Board discusses the results of the regular annual self-assessment extensively and, if necessary, agrees on measures to increase its effectiveness. The Supervisory Board's self-assessment was initiated in the December meeting of 2022, and the results were evaluated in its meeting on March 14, 2023. The overall assessment of the Supervisory Board's activities and work was good, particularly regarding the Supervisory Board's composition, its information, and frequency of its meetings. Measures discussed by the Supervisory Board were implemented in the 2023 fiscal year.

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

Furthermore, information on changed governance requirements was provided during meetings.

For more information on the Supervisory Board's work and its committees, please refer to the Report of the Supervisory Board. For more information on the current members of the Supervisory Board, including their curricula vitae and committee membership, please visit the corporate website at Software AG Leadership and Corporate Governance. The CVs are updated regularly at least once per year.

TARGET PERCENTAGES FOR WOMEN PURSUANT TO SECTIONS 76(4) AND 111(5) OF AKTG

In its meeting on February 28, 2022, the Supervisory Board stipulated 33.33 percent as the target percentage for female members of the Supervisory Board (two of six Supervisory Board members as of the resolution adoption) and 25 percent of the Management Board (one of four Management Board members as of the resolution adoption). The deadline for meeting this target is the end of May 2025. The Supervisory Board's composition exceeded its target by 16.67 percentage points (three of six members) as of December 31, 2023. The Management Board's composition did not meet its target as of December 31, 2023.

Pursuant to section 76 IV of AktG, the Management Board defined targets for the percentage of women in the first and second tiers below the Management Board in its meeting on January 14, 2022: 22.7 percent in the first tier below the Management Board (five of 22 people as of the resolution adoption) and 24.1 percent in the second tier below the Management Board (14 of 58 people as of the resolution adoption).[1] The deadline for meeting this target is the end of May 2025. As of December 31, 2023, the share of women in the first tier of management below the Management Board was 10.5 percent (two of 19 people) and 15.9 percent in the second tier below the Management Board (seven of 44 people).

DIVERSITY CONCEPT, COMPOSITION TARGETS, AND SKILLS AND EXPERTISE PROFILE

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

Management Board
The Supervisory Board established an age cap of 65 as well as a percentage of female members (see Target Percentages for Women) for the Management Board. The Supervisory Board does not see a reason to define a rigid diversity concept for the Management Board. The Supervisory Board regularly evaluates the composition of the Management Board and compares the skills and experiences represented in the Management Board with its current requirements. The objective of the process is to achieve the best possible skill and experience representation in the Management Board based on the current and future business situation.

Succession planning
The Supervisory Board, in cooperation with the Management Board, is responsible for succession planning in the Management Board. When a successor is needed, the Supervisory Board considers quality and mandate requirements as well as composition targets, before creating an ideal candidate profile. Available internal and external candidates are shortlisted based on this profile. If necessary, the Supervisory Board may employ the services of external consultants in creating a requirements profile and selecting candidates. Structured interviews are conducted with candidates. The chair of the Supervisory Board regularly discusses suitable candidates with the Management Board.

[1] The relevant employees are those of Software AG (not of the Group).

Supervisory Board
The composition of the Supervisory Board has to ensure that its members collectively possess the knowledge, skills, and professional expertise required to properly perform their duties. Software AG's Supervisory Board defined diversity-related targets for its members and created a skills and expertise profile for the body as a whole.

Unless there are sound reasons warranting otherwise, members of Software AG's Supervisory Board shall be appointed only for terms of office ending no later than the end of the Annual Shareholders' Meeting following the 75th birthday of the Supervisory Board member (target age cap, see section 9(3) of the Articles of Association).

Nominations of candidates to be elected to the Supervisory Board should take into consideration a maximum term of 15 years.

At least one member of the Audit Committee must have expertise in the field of accounting and at least one other member of the Audit Committee must have expertise in the field of auditing (financial experts). The expertise in the field of accounting shall consist of special knowledge and experience in the application of accounting principles and internal control and risk management systems; and the expertise in the field of auditing shall consist of special knowledge and experience in the auditing of financial statements. Accounting and auditing also include sustainability reporting and its audit and assurance. The chair of the Audit Committee shall have appropriate expertise in at least one of the two areas.

The Supervisory Board deems one independent member who represents shareholders to be appropriate.

The Supervisory Board set itself the target of women constituting 33.33 percent of the Supervisory Board (see Target Percentages for Women).

Supervisory Board members as a whole must be familiar with the sector in which the Company operates (enterprise software). The Supervisory Board considers the following competencies and skills to be essential to the fulfillment of its mandate (skills and expertise profile):
1 Members' professional backgrounds shall be in one or more of the following fields:
- a) Sector familiarity: ICT, similar fields, direct or indirect experience with enterprise IT and/or understanding of digitalization and enterprise software solutions
- b) Management experience: current or former CEO, CTO, or CRDO of a technology company
- c) Knowledge of the economic and technical demands of a medium-sized company
- d) Human resources: knowledge and experience in human resources management
- e) CSR/ESG: expertise regarding sustainability issues relevant to the enterprise
- f) Investor relations: experience dealing with investors, analysts, and shareholders of listed companies

2 International experience, especially at a global company, and in dealing with customers and in various markets

The goal of this interplay between the diversity concept, skills and expertise profile, and composition targets is to ensure that the composition of the Supervisory Board—always taking into account current business and strategic priorities—is as broadly based as possible in terms of experience so that the Supervisory Board members, in forming their opinions from their diversity, can make the best possible decisions for Software AG when monitoring and advising the Management Board.

Qualification Matrix

	Christian Yannick Lucas	Oliver Collmann	Madlen Ehrlich	Bettina Schraudolf	Ursula Soritsch-Renier	James M. Whitehurst
Member since	**2022**	**2022**	**2021**	**2021**	**2020**	**2023**
Diversity						
Gender	male	male	female	female	female	male
Year of birth	1969	1979	1981	1960	1967	1967
Nationality	French	German	German	German	Austrian	USA
Education	Master of business administration	Business administration (Diplom)	International business administration	Business information systems (Diplom)	Master of philosophy, minor in informatics	Master of business administration
Independence	-	+	Employee representative	Employee representative	+	+
Professional competence						
Financial expert	+	+				+
Sector familiarity	+		+	+	+	+
Management experience	+				+	+
Demands of medium-sized companies	+	+	+	+	+	+
Human resources	+		+	+		+
Sustainability	+	+	+	+	+	+
Investor relations	+					+
International experience	+	+			+	+

Implementation status/qualification matrix
The Supervisory Board considers its diversity concept and skills and expertise profile as well as its specific composition targets to be met.

Independence: According to C.6 GCGC, the Supervisory Board shall include what it considers to be an appropriate number of independent members from the group of shareholder representatives, thereby taking into account the shareholder structure. Within the meaning of this recommendation, a Supervisory Board member is considered independent if he/she is independent from the company and its Management Board, and from any controlling shareholder. According to recommendation C.7 GCGC, if a Supervisory Board comprises six members or less, at least one shareholder representative shall be independent from the controlling shareholder.

Taking into account Software AG’s ownership structure, the shareholder representatives consider one shareholder representative to be an appropriate number of independent members. In the opinion of the shareholder representatives, the independence targets and recommendation C.7 GCGC are currently met. The shareholder representatives consider the following members to be independent from the company and its Management Board as well as independent from the controlling shareholder: Ursula Soritsch-Renier and Oliver Collmann.

C.9 GCGC recommends that more than half of shareholder representatives shall be independent from the company and from the Management Board. In the opinion of the Supervisory Board, all members of the Supervisory Board are currently independent from the company and from its Management Board. Recommendation C.10 GCGC, which states that the chair of the Supervisory Board and the chair of the Audit Committee shall be independent from the company and from the Management Board, and the chair of the Audit Committee shall also be independent from the controlling shareholder, is also met.

Financial experts: Supervisory Board members Oliver Collmann, Christian Lucas, and Jim Whitehurst have expertise in the field of accounting and in the field of auditing due to their respective professional experience. After having worked as a strategy consultant, Christian Lucas worked as an investment banker. Since joining Silver Lake in 2010, he has held numerous positions on comparable foreign supervisory bodies, also deepening the knowledge of accounting and auditing acquired during his studies and professional activities. Oliver Collmann has in-depth knowledge in the field of accounting and auditing due to his education and many years of professional activity in auditing companies. The experience James M. Whitehurst brings from his leadership positions also includes extensive financial expertise. During his time at Delta Air Lines, he oversaw the company's recovery and led it out of bankruptcy, deepening his expertise in accounting and auditing.

Sustainability: Software AG identified the sustainability issues that are significant for the Company in five action areas and first reported on them for fiscal year 2021 in the Combined Non-Financial Statement (Sustainability Report).

1 Leadership with a focus on sustainable economic growth, information security, and data protection.
2 Employees with a focus on corporate culture, diversity, and employer attractiveness.
3 Customers and Technology with a focus on sustainability, quality of products and services, innovative solutions to problems, and other effects of products on customers.
4 Value for Society through Tech for Good with a focus on increasing digital skills in society and collaborative research projects that contribute to social, environmental, or economic improvements.
5 Impact on Environment with a focus on energy, a relevant topic for Software AG, and the associated reduction of CO_2 emissions.

Each member of the Supervisory Board contributes specific expertise on sustainability issues of importance to Software AG. The Supervisory Board as a whole has the skills and expertise to advise and oversee the Management Board in the key five action areas and to monitor how environmental and social sustainability is reflected in strategic direction and corporate planning.

ADDITIONAL INFORMATION ON CORPORATE GOVERNANCE

Shareholders and the Annual Shareholders' Meeting

The **Annual Shareholders' Meeting** is one of Software AG's main corporate bodies. Shareholders can exercise their rights and their voting rights at the Annual Shareholders' Meeting. 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 and election of shareholder representatives and the external auditor, as well as amendments to the Articles of Association, capital measures, intercompany agreements, and transformations. Furthermore, shareholders decide on the appropriation of profits. They decide, in an advisory capacity, on the approval of the Management Board remuneration system presented by the Supervisory Board, on the Supervisory Board's specific remuneration, and, in a recommendatory capacity, on the approval of the Remuneration Report for the preceding fiscal year. In accordance with a binding financial calendar, shareholders were informed regularly (four times per year) in 2023 of Software AG's business development, financial performance, assets, and financial position.

The Annual Shareholders' Meeting took place in the darmstadtium on May 17, 2023. Approximately 63 percent of voting shares were present.

All duly submitted questions were addressed and answered at the Annual Shareholders' Meeting held in the year under review. Shareholders had the option of voting by mail (including email) and by way of Company-appointed proxies bound by shareholder instructions. The invitation to the Annual Shareholders' Meeting is published on Software AG's website at Annual Shareholders' Meetings as well as voting results and presentations from past Annual Shareholders' Meetings.

Financial reporting and auditing

The 2023 Annual Shareholders' Meeting elected Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich (hereinafter: Deloitte GmbH), as **Software AG auditor**.

Non-audit services subject to approval may only be rendered by the auditor if and to the extent they have been approved by the Audit Committee in accordance with the legally binding approval process. No business, financial, personal, or other relationships that could cast doubt on the independence of the audit firm have existed at any time.

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, represented by the chair of the Audit Committee, appointed the auditor and agreed on the fee. In connection with the awarding of the contract, the chair of the Audit Committee also agreed with the auditor to comply with the reporting duties pursuant to the GCGC. The auditor participates in meetings of the Supervisory Board's Audit Committee concerning the financial statements and Consolidated Financial Statements and reports on key audit findings.

MANAGERS’ TRANSACTIONS PURSUANT TO ART. 19 OF THE MARKET ABUSE REGULATION (MAR)

Personal share transactions conducted by persons discharging managerial responsibilities and by those related to them (natural or legal) are disclosed on the corporate website at Managers’ Transactions. Sixteen transactions subject to mandatory disclosure were reported in the 2023 calendar year.

REPORT OF THE SUPERVISORY BOARD

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

Fiscal year 2023 was an exciting and successful year for the company. Two major events set the path forward for the company of which both were closely accompanied by the Supervisory Board:

In April 2023, Silver Lake announced a voluntary public takeover offer which settled in September 2023 with Silver Lake becoming the new majority shareholder of Software AG. In the context of the takeover offer, the Supervisory Board formed a Takeover Committee without Silver Lake representatives and the Takeover Committee independently took all decisions related to the takeover process.

A second big milestone in Software AG's history was the announcement of the sale of the Super iPaaS business to IBM. The pending transaction is a strong testament to the innovation drive and commercial excellence that Software AG's employees deliver across the group.

The Supervisory Board continues to actively support Software AG's business strategy in its revised form that aims to simplify and refocus Software AG.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In the 2023 fiscal year, the Supervisory Board performed its duties as required by law and by the Company's Articles of Association. It advised and supervised the Management Board in leading the Company. In doing so, the Supervisory Board and its committees were directly involved in all decisions of fundamental importance to Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly and comprehensively, without delay, about all issues relevant to strategy, business development, risk management topics, and compliance, and was available to the Supervisory Board in meetings for questions and discussions. Deviations in the current business development from existing financial projections were addressed in detail. The Supervisory Board also received regular reports outside of meetings on financial KPI development, staff development, corporate governance, and the sustainability strategy.

The Supervisory Board chair maintained regular contact with the CEO. They consulted regularly on Software AG's strategy, planning, business development, risk situation, risk management, and compliance. The CEO informed him without delay of major events, except for matters concerning the public takeover offer which had been delegated to the Takeover Committee of which the chairman was not a member. The relationship between the Management Board and Supervisory Board was characterized by close, trusting cooperation, and an open, constructive dialogue.

The Supervisory Board's discussions covered topics such as the voluntary public takeover process (delegated to the Takeover Committee and conducted fully independent from any conflicted or potentially conflicted Supervisory Board members) and the sale of Super iPaaS to IBM. Together, the Supervisory Board and the Management Board thoroughly analyzed ongoing business developments. Any transactions requiring Supervisory Board approval in accordance with legal regulations or the Articles of Association were reviewed and voted on accordingly. Documents relevant to decisions were provided to the Supervisory Board in due time before the relevant meeting. The Supervisory Board voted on resolutions following extensive evaluation and consideration and based on decision papers and conversations. After having carefully monitored the Management Board's leadership, the Supervisory Board confirms that it acted lawfully, appropriately, and economically in every respect.

SUPERVISORY BOARD MEETINGS

The Supervisory Board met four times in the fiscal year 2023. If a member of the Supervisory Board was unable to attend a Supervisory Board or committee meeting, he or she had the option to participate via telephone or cast a vote in writing. The Supervisory Board met regularly without the Management Board. When the external auditors were invited to meetings to provide insights into the audit and control processes, the Management Board only attended when the Supervisory Board or the audit committee considered its attendance necessary.

In its **first meeting** of the fiscal year, held in **January 2023**, the Supervisory Board discussed 2022 results, 2023 budget, Management Board target achievement during fiscal year 2022 and Corporate Governance topics. The latter included changing the Rules of Procedure for the Supervisory Board, the Audit Committee and the Management Board as well as resolving on the Supervisory Board skills and expertise profile/qualification matrix and approving the Declaration of Compliance with the German Corporate Governance Code (GCGC). Given the importance of personnel-related topics, the Supervisory Board concluded that these are to be discussed in the full Supervisory Board. For this reason, the Personnel Committee was dissolved, and its competences were re-transferred to the full board, in the January meeting.

At the accounts meeting on **March 14, 2023**, in the presence of external auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (referred to hereinafter as Deloitte), the 2022 financial statements and consolidated financial statements were discussed in detail and subsequently, at the recommendation of the Audit Committee, approved by the Supervisory Board following its own thorough review. Furthermore, beneath discussing personnel matters, the Supervisory Board conducted the self-assessment on the effectiveness of the Supervisory Board's and committees' fulfillment of their tasks; it approved the Report of the Supervisory Board as well as resolution proposals for the Annual Shareholders' Meeting agenda.

As outlined further below, the Supervisory Board decided in **April 2023** to form a Takeover Committee to which all measures relating to the voluntary public takeover offer by Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake, were delegated. Thus, the Takeover Committee took over the tasks of the Supervisory Board in the context of the public takeover offer between **April and June 2023**. Within that period, the Takeover Committee met five times and passed several resolutions in connection with the takeover process by other means of communication.

In its meeting in **October 2023**, the Supervisory Board looked at the Company strategy, Management Board targets and the capital structure arrangements of the Company.

The main topic of the **December 2023** meeting was the sale of the Company's Super iPaaS business to IBM. Furthermore, the Supervisory Board discussed succession planning and assessed the independence of its members. In addition, current business development and financial results were discussed.

COMMITTEES

In order to efficiently perform its duties, the Supervisory Board established an Audit Committee, a Nominating Committee and a temporary Takeover Committee, whereas the Personnel Committee was dissolved during the January meeting (cf.above). The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers are transferred to the committees to the extent permissible. The respective committee chairs report to the Supervisory Board on the results of the respective committee meetings. For more information on the composition and procedures of the Supervisory Board and its committees, please refer to the Corporate Governance Statement which is published on Software AG's website.

The **Audit Committee** deals with issues related to monitoring the financial reporting process, the effectiveness of the internal control system, the risk management system, internal audit and compliance, the financial statement audit — particularly the selection and independence of the auditor — as well as the quality of the audit and any additional services rendered by the auditor. The Audit Committee also prepares the Supervisory Board’s discussions and resolutions to approve the annual and consolidated financial statements. The Audit Committee met three times in the 2023 fiscal year. In a meeting on March 14, 2023, and in the presence of the auditor (Deloitte), it discussed the annual and consolidated financial statements, the combined management report (including the non-financial statement), the Management Board’s proposal on the appropriation of profits, the selection and independence of the auditor for fiscal 2023, and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. It also dealt with the quality of the audit. The Audit Committee also informed itself of the internal audit and of compliance matters at this meeting. The Audit Committee’s other meetings in 2023 focused on important audit topics, non-audit services, and the independence of the auditor, as well as compliance. In addition, information on ESG developments was provided and the risk report was submitted. The auditor attended meetings to discuss relevant issues.

The Supervisory Board formed a temporary **Takeover Committee** in April 2023. To avoid potential conflicts of interest with regard to tasks assigned to the Takeover Committee, the Takeover Committee consisted exclusively of members independent of Silver Lake. The Supervisory Board delegated to the Takeover Committee the adoption of all measures relating to the public takeover offer by Mosel Bidco SE. The Takeover Committee met five times in 2023. During those meetings, the Takeover Committee discussed the Investment Agreement between Silver Lake and the company and the respective amendment thereto. Furthermore, it extensively discussed the other non-binding expression of interest received. Finally, it resolved on the joint Reasoned Statement and the supplementary joint Reasoned Statement.

The task of the **Nominating Committee** is to propose suitable candidates to the Supervisory Board for its proposals to the Annual Shareholders' Meeting. The Nominating Committee held no meeting in the 2023 fiscal year.

AUDIT OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board awarded the audit contract for Software AG’s financial statements and consolidated financial statements for fiscal year 2023 to Deloitte, in accordance with the previous corresponding election at the Annual Shareholders’ Meeting. Deloitte audited Software AG for the second time in 2023.

Deloitte audited the financial statements and consolidated financial statements for the year ended December 31, 2023, as well as the combined management report, including accounting books and records. The auditor issued unqualified audit opinions. For the second time, the signatories of the audit opinions were Kirsten Gräbner-Vogel, who is responsible for the audit, together with Dr. Steffen Umlauf (financial statements) and Sebastian Zandt (consolidated financial statements); in each case, the combined management report was included.

The financial statements and consolidated financial statements, the combined management report (including the combined non-financial statement), and the auditor’s reports were submitted to the Supervisory Board and explained personally to the Audit Committee and the entire Supervisory Board by the Management Board and the auditor responsible for conducting the audit. Deloitte’s report on the appropriation of profits was communicated to all Supervisory Board members. The Audit Committee and Supervisory Board reviewed the financial statements, the combined management report, and the audit reports in their meetings in March, 2024. In both meetings, the auditor reported on the scope, the focus, and the key results of the audit, emphasizing the particularly important audit matters and audit actions taken. The auditor was available to answer questions and provide additional information. No reservations were raised at the conclusion of the Supervisory Board’s review. The Supervisory Board confirmed the results of the audit, concurred with the Management Board’s judgment regarding the assessment of the Group’s and parent Company’s position, and approved the financial statements and consolidated financial statements as of December 31, 2023. This constituted formal approval and acceptance of the 2023 annual financial statements. The Supervisory Board supported the Management Board’s recommendation on the appropriation of profits.

AUDIT OF THE DEPENDENT COMPANY REPORT

The Management Board submitted its report on relations with affiliated companies (Dependent Company Report) for fiscal year 2023 to the Supervisory Board and also the Audit Committee in due time.

The Dependent Company Report was also audited by Deloitte. The following opinion was awarded in this respect:

"Following our audit and judgment performed in keeping our professional duties, we confirm that
1 the facts in the report are stated accurately,
2 the consideration given by the Company for the legal transactions set out in the report was not excessive or the disadvantages have been compensated,
3 no circumstances regarding the measures set out in the report give rise to an opinion materially different from that of the executive board."

Deloitte submitted its audit report to the Audit Committee and the Supervisory Board. The Audit Committee and the Supervisory Board, respectively, reviewed the Dependent Company Report and the audit report, and both were subject of discussion during the March 2024 meeting. Deloitte attended the meetings and reported on their audit of the Dependent Company Report and their main audit results, explained their audit report, and answered questions. Following its own examination of the Dependent Company Report, the Supervisory Board concurred with the audit report and did not raise any objections regarding the Management Board's declaration at the end of the Dependent Company Report.

CORPORATE GOVERNANCE

The Supervisory Board addressed the subject of corporate governance and the GCGC in the 2023 fiscal year.

As described above, the Takeover Committee consisted exclusively of members independent of Silver Lake to avoid conflicts of interest with regard to tasks assigned to the Takeover Committee.

A detailed report by the Management Board and the Supervisory Board on implementation of the GCGC can be found in the Corporate Governance Statement. The Declaration of Compliance is published on the Company's website.

CHANGES TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As of January 1, 2023, Daniela Buenger succeeded Dr. Matthias Heiden as CFO. On May 17, 2022, the Annual Shareholders' Meeting elected James M. Whitehurst as member of the Supervisory Board with effect as of January 1, 2023. Apart from that, there were no changes in the Management Board or the Supervisory Board.

For more information on the composition of the Management Board and Supervisory Board, please refer to the Corporate Governance Statement on the Software AG's website.

The Supervisory Board would like to thank Software AG's Management Board and employees for their high degree of commitment and excellent work during fiscal year 2023.

Darmstadt, March 22, 2024

The Supervisory Board

Best regards,

Christian Lucas

Christian Lucas
Chair of the Supervisory Board

For more information on the members of the Supervisory Board, please refer to Note [34] in the Notes to the Consolidated Financial Statements or visit Software AG's website at Management.

COMBINED MANAGEMENT REPORT

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FUNDAMENTAL ASPECTS OF THE GROUP

ORGANIZATION AND GROUP STRUCTURE

LEGAL CORPORATE STRUCTURE

The Software AG Group is managed globally by the parent Company, Software Aktiengesellschaft (for short: Software AG), in its role as a holding company. The financial position of Software AG is shaped by the financial position of the Group. For this reason, the Management Board of Software AG prepares one Combined Management Report for the Group and for Software AG. Unless otherwise stated, "Software AG" will hereinafter refer to the Software AG Group.

Software AG has control and profit transfer agreements with its four German subsidiaries: SAG Deutschland GmbH, SAG Consulting Services GmbH, Cumulocity GmbH, and SAG LVG mbH. Otherwise, the Group is structured as a matrix organization reflected in its reporting lines, global policies, and committees. The Software AG Group currently consists of 73 affiliated companies. Software AG's scope of consolidation is outlined in Note [3] of the Notes to the Consolidated Financial Statements.

On April 21, 2023, parent company Software AG entered into an investment agreement with Mosel Bidco SE ("investor"), a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C. ("Silver Lake"). In this context, the investor announced its intention to launch a voluntary public tender offer at an offer price of €32.00 in cash per share for all outstanding shares of Software AG which was completed on September 28, 2023. As of December 31, 2023, the investor held 93.33 percent of Software AG shares. Since the acquisition by Mosel Bidco SE, Software AG has been included in the consolidated financial statements of Mosel Topco S.à.r.l, Luxembourg (largest scope of consolidation), which is an indirect parent company of Mosel Bidco SE for the period ended December 31, 2023.

Furthermore, Mosel Bidco SE notified the Management Board of Software AG on January 19, 2024, of the formal request to carry out the procedure for the transfer of shares held by Software AG's minority shareholders against payment of an appropriate cash compensation in connection with a merger of Software AG with Mosel Bidco by way of absorption (merger squeeze-out). On December 18, 2023, Mosel Bidco SE announced a public delisting tender offer, which was completed on February 23, 2024.

MAJOR LOCATIONS

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

As of December 31, 2023, Software AG employed 4,707 (2022: 4,995) full-time equivalents around the world, which represents a decrease of 6 percent compared to the previous year. The employees are separated into four business areas: Research & Development (R&D), Support and Services, Sales and Marketing, and Administration. Software AG's global staff was distributed according to country and function as follows:

Headcount by Country and Function

Full-time equivalents	Dec. 31, 2023	Dec. 31, 2022	+/– as %
Total	**4,707**	**4,995**	**-6**
Germany	1,182	1,306	-10
India	1,077	1,103	-2
USA	661	796	-17
Other countries	1,787	1,790	–
Research & Development	1,507	1,584	-5
Support and Services	1,386	1,477	-6
Sales and Marketing	1,066	1,159	-8
Administration	748	775	-4

BUSINESS ACTIVITIES

BUSINESS MODEL

Software AG uses its technological expertise to connect people, systems, and devices, enabling customers and partners—and the Company itself—to have a positive impact on people's lives. That applies to delivering better product offerings in the present as well as embracing co-innovation toward a smarter, more connected, and sustainable future.

For more than 50 years, Software AG has provided its customers with products and services that expand existing IT architectures through innovation and allow integration of new functions and technologies. Software AG uses its industry expertise to support companies with data integration, regardless of its source, and with process management. The Company's digital business solutions are intended to enable customers to develop new business models and robust solutions that meet the needs of their end users.

Customers are also at the center of Software AG's flexible licensing options. And, in line with Software AG's transformation, the Company's focus on shifting its licensing model toward subscriptions including usage-based licenses (Software as a Service, SaaS) aligns with its customers' preference for subscriptions over traditional licensing models.

SEGMENTS, BUSINESS LINES AND PRODUCTS

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

- Digital Business
- Adabas & Natural (A&N)
- Professional Services (PS)

The **Digital Business segment** comprises the Alfabet, ARIS, Cumulocity IoT, TrendMiner, and the webMethods product families, as well as the StreamSets DataOps platform since its acquisition in April 2022. Adabas and Natural as well as CONNX form the product offering of the A&N business line. Using a clearly structured brand architecture, the individual brands in the Digital Business have been separated into three market segments, which represent the core themes of digital enterprise transformation:

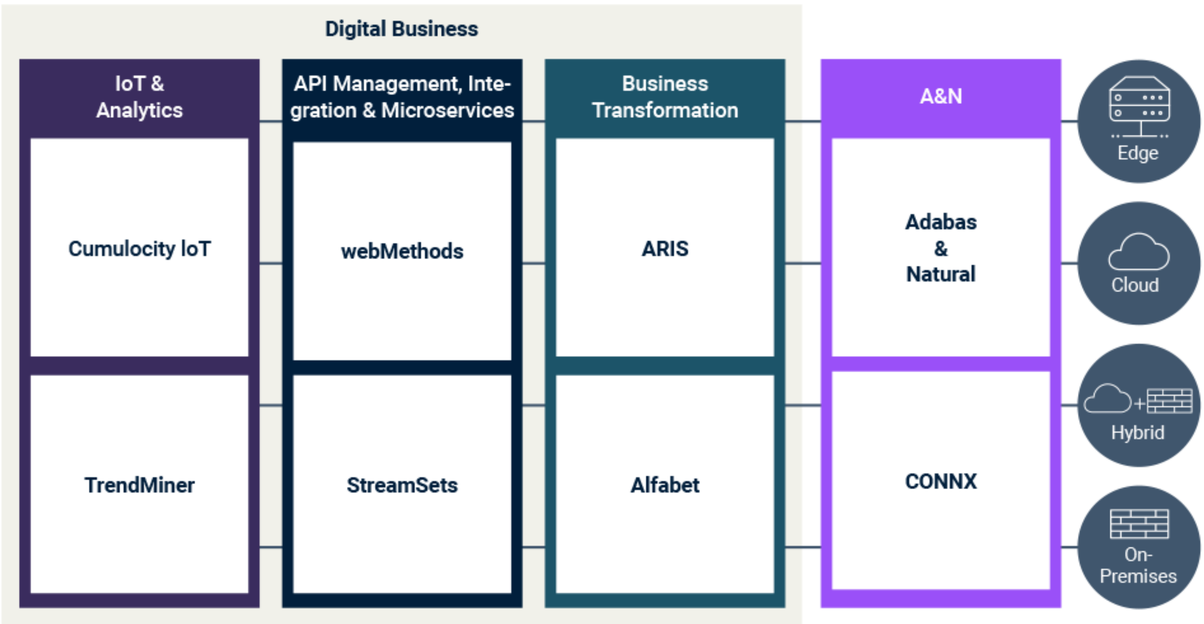
- **IoT & Analytics**: With **Cumulocity IoT**, Software AG's customers can integrate digital equipment and sensors through an IoT device management and application-enablement platform in the IoT and make data further processable and usable with dashboards and control systems. Moreover, this platform includes streaming analytics for big data analytics in real time and solutions for predictive analytics, artificial intelligence (AI), and machine learning. **TrendMiner** offers an intuitive Web-based analytics platform for flexible visualization of industrial processes and process data.

- **API Management, Integration & Microservices**: **webMethods** is a multifunctional integration Platform as a Service that integrates systems, applications, and processes via APIs or direct connections and orchestrates them in the form of microservices. With these microservices, users can introduce independent tasks in processes and infrastructures with flexibility, manage them, and replace them if necessary. Integration solutions for large business-to-business infrastructures and data transfers (managed file transfers) round out the webMethods portfolio. **StreamSets** enables the data-driven enterprise through seamless data integration (i.e., connecting different data sources and sinks, data formatting and monitoring, scaling when data volume changes, etc. transparently and in a central system), even in complex hybrid or multi-cloud environments. The platform implements multi-step dataflows (data pipelines) in a controlled, resilient, and repeatable way. This cuts costs and risks associated with data management and maximizes the benefits derived from data, e.g., better decisions can be made based on real-time data.
- **Business Transformation**: **ARIS** enables companies to improve their process management with business process analysis and process mining. With ARIS, they can model, document, and optimize business processes—from defining strategies to analysis, design, and control. Additionally, **Alfabet** enables companies to design their IT landscape to optimally support their strategic business goals and make decisions about IT investments. This includes the planning and management of IT as well as ongoing optimization of the system portfolio.

The **A&N segment** delivers a high-performance database management system for all platforms with **Adabas**. **Natural** is the accompanying development environment and the basis of numerous software applications that support companies across many industries. Furthermore, the **CONNX** products provide data integration, virtualization, and replication so businesses can access and utilize their data wherever it is stored.

Software AG's portfolio is available for customers in the cloud, on premises, hybrid (mix of local and cloud-based), or as an edge solution.

Product portfolio



NEW PRODUCT LAUNCH IN 2023 AND SALE OF INTEGRATION BUSINESS

On October 17, 2023, Software AG launched its new product platform, **Super iPaaS**. It represents a new category of integration solutions aimed at meeting an increasingly complex set of customer needs that cannot be met by traditional iPaaS platforms. Super iPaaS united application, data, API, and B2B integrations within the same platform, in hybrid and multi-cloud environments. The new platform set the stage for Software AG's strategic evolution into a business squarely focused on innovation in integration, customer success, and operational excellence.

After the successful launch of the Super iPaaS platform, the parent company announced on December 18, 2023, that it had entered into an agreement to sell its Integration business to IBM. The Integration business consists of the webMethods and StreamSets product families as well as the Super iPaaS product, a cornerstone of the Integration business, as well as the Professional Services to the extent the services relate to these product families. The transaction is subject to regulatory approval and expected to close in the second quarter of 2024.

Following the agreement to sell the webMethods and StreamSets businesses to IBM, the parent company continues to support Software AG's business strategy in its revised form that aims to simplify and refocus Software AG's business, including, following a strategic review, potential divestments and acquisitions, which would benefit Software AG, its shareholders, employees, customers, and other stakeholders.

INTERNAL CORPORATE CONTROL SYSTEM

PERFORMANCE INDICATORS AND MONITORING

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

Key financial performance indicators

Product revenue

Segment and Group product revenue comprises sales revenue that was directly earned with Software AG's software products. The specific legal form in which these revenues were earned is insignificant. Thus, this metric reflects gross earnings from software products. This indicator consists of the following:

	License revenue from term and perpetual license agreements with regard to software product offerings
+	Maintenance revenue from term and perpetual licenses
+	SaaS sales revenue[1]
=	Product sales revenue

1 SaaS sales revenue resulting from term contracts with customers in which the customers are offered online usage of software that is hosted by Software AG or third parties on its behalf.

Professional Services Revenue (Service Revenue)

Professional Service Revenue (also referred to as Service Revenue) comprises revenue that was generated from services related to the implementation of products and solutions. In prior years, the Company only reported product revenue as key financial performance indicator. As the segment Professional Services is contributing a more than insignificant part of the total revenue and because service revenue is part of total revenue (see subsequent indicator), it was decided to add this metric to the key financial performance indicators and to provide a guidance for it.

Total revenue

Due to the intended sale of the integration business and the restructuring of the product portfolio, it was decided to simplify the performance indicators. As a result, the ARR was replaced by total revenue as key financial performance indicator. Adding the total revenue to the key financial performance indicators results in revenue indicators which are all based on reported IFRS figures that are reconcilable to the profit and loss statement. The total revenue metric also has a stronger focus on the current performance of the Company which allows a better steering in times of changing product portfolios. In addition to the product revenue, total revenue also comprises service and other revenues. Therefore, this indicator consists of the following:

	Product sales revenue
+	Services
+	Other
=	Total revenue

As the product revenue is influenced by large deals, the success of individual segments can fluctuate. While the other performance indicators measure the success of individual segments, total revenue measures the development of all segments.

Operating margin (non-IFRS)

Software AG also employs a multidimensional matrix structure to continuously monitor **changes in EBITA**[1] for every profit and cost center. The matrix is broken down further according to business lines and revenue types and, within the business lines, by region. Furthermore, Software AG constantly observes the operating income of its service business with respect to specific projects, from the time a quote is prepared through to project conclusion. One of the most important goals is the constant improvement of sales efficiency. Software AG pursues this through its customer-centric go-to-market model. The key performance indicator **operating margin (non-IFRS)** is calculated as follows:

Earnings before interest and taxes (EBIT[2])	
+	Acquisition-related amortization of intangible assets
+	Acquisition-related reductions in product revenue due to purchase price allocations
+/–	Other acquisition-related effects on earnings
+/–	Income/expenses resulting from share price-based remuneration
+	Restructuring/severance/litigation
= EBITA (non-IFRS)	
÷	by Group revenue adjusted for acquisition-related product revenue reductions
= Operating margin (EBITA, non-IFRS)	

Further financial performance indicators

Annual recurring revenue (ARR)

While the Company has shifted its targets towards product revenue, service revenue and total revenue, it continues to monitor its ARR. This metric shows the annualized contract value[3] of active contracts with recurring revenue at the end of the reporting period. Thus, ARR is an indicator of expected annual recurring revenue and cash flows with continuation of the active contracts of the following contract types:

- Term licenses/subscription licenses
- Maintenance from term and perpetual licenses
- SaaS licenses
- Usage-based licenses

Unlevered pre-tax free cash flow (UPTFCF)

Software AG also focuses on sustainable cash flows through its **unlevered pre-tax free cash flow (UPTFCF)** metric. Currently, it is measured for the half and full year. This indicator is calculated as follows:

Operating margin (EBITA, non-IFRS)	
+	Depreciation
–	Capital expenditure
–	Change in working capital
= Unlevered pre-tax free cash flow (UPTFCF)	

[1] Earnings before interest, taxes, and amortization.
[2] Earnings before interest and all taxes.
[3] Value of all active contracts at period end (without one-time effects) divided by the contract length in days, multiplied by the number of days in the respective year.

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

EBITA (non-IFRS)	
+/–	Net financial income/expenses
–	Other taxes
= Operating earnings before income taxes (non-IFRS)	
–	Income tax based on Group's income tax rates
= Net income (non-IFRS)	
÷	by average number of shares outstanding
= Operating earnings per share (non-IFRS)	

Net retention rate (NRR)

NRR is an indicator for measuring and evaluating recurring product revenue in existing customer business (subscriptions, SaaS, and maintenance in connection with perpetual licenses) and shows how well the Company succeeds in not only renewing its existing customer agreements with recurring revenue streams, but also in generating additional recurring income from those customers. Consequently, NRR excludes all new customer business for the respective fiscal period.

NRR is defined as the annualized contract value of all existing customer agreements at a defined calendar date (target date = January 1) compared to the same customer group at the end of the year (target date = December 31). The initial baseline value for customer agreements at the beginning of the year is set at 100. The development in this existing customer group is calculated by adding contract upgrades (through up-selling, cross-selling, and capacity and price increases) and subtracting contract terminations and reductions in scope.

100	Annualized existing contracts of all recurring product sales agreements (subscriptions/SaaS/maintenance)	As of January 1
+	Contract upgrades (up-sells/capacity and price increases)	
-	Terminations and reductions in scope	
=	Net retention rate of annualized contract value of all recurring product sales agreements (subscriptions/SaaS/maintenance)	As of December 31

Additional segment performance indicators

In addition to the revenues of the segments, the key performance indicators for the product business are those reflecting sales efficiency. Efficiency is portrayed through the **cost of sales ratio**, which reflects the sales and marketing expenses of a product in relation to the associated product revenue. Because the share of recurring revenue is on the rise, monitoring sales performance solely on the basis of revenue is no longer sufficient. The factors influencing optimization of the cost of sales ratio are determined using additional efficiency indicators such as revenue performance or annual recurring revenue per Sales employee and average deal size trends.

The **segment margin** (revenue less cost of service and sales, marketing, and distribution expenses in relation to revenue) is reported in the Segment Report and is an especially important performance indicator for the Professional Services line. It is influenced primarily by the capacity utilization of employees in Professional Services, sales, marketing, and distribution expenses, and the cost per employee.

Non-financial performance indicators

Software AG's enterprise value is defined not only by financial indicators, but also by non-financial performance indicators. Software AG strongly believes that these are an element of long-term business success and are meaningful for understanding the Company's business growth as well as business impact. Software AG's non-financial performance indicators comprise the aspects of leadership and governance, employee concerns, customer concerns, and environmental matters. They are presented in detail in the Combined Non-Financial Statement.

RESEARCH & DEVELOPMENT (R&D)

Software AG works continuously on developing its product portfolio through intensive R&D activities. Considering the strategic importance of R&D for the Group, the number of employees in this area grew accordingly during the fiscal year. There was an increase in the number of employees over the previous year to 1,507 (2022: 1,584). In total, Software AG has R&D centers in 25 countries. India is the largest R&D location with 627 employees (2022: 613), followed by Germany with 445 employees (2022: 429), Bulgaria with 163 employees (2022: 136), and the USA with 163 employees (2022: 178).

R&D EXPENSES AND INTERNAL STRATEGY

R&D expenses rose by 8 percent in 2023 to €196.2 million (2022: €181.4 million). Accordingly, R&D expenses as a percentage of product revenue (licenses, maintenance, and SaaS) increased from 22.8 percent in 2022 to 23.5 percent in the year under review. This rise is mainly due to higher R&D investments totaling €167.9 million (2022: €149.5 million) in the high-growth Digital Business line. The main focus of R&D activities in 2023 was maintenance of the code base for existing products as well as expansion, testing, and implementation of new functionality, such as the launch of Super iPaaS, a unified platform bringing together application, data, API, and B2B integrations, in hybrid and multi-cloud environments.

Software AG embraces a strategy of efficient distribution of R&D spending, whereby R&D capacities in various countries are taken into consideration. Over time, the Company has established R&D centers in India, in the cities of Bangalore, Chennai, Hyderabad, and Virar. Software AG's location strategy is based on global availability of outstanding talent and distributes product responsibility accordingly across R&D locations.

Multi-Period Summary for R&D

in € millions	2023	+/– as %	2022	2021	2020	2019
R&D expenses for A&N	28.3	-11	31.9	31.1	30.9	26.2
R&D expenses for Digital Business	167.9	12	149.5	120.1	113.1	105.1
Total	**196.2**	**8**	**181.4**	**151.2**	**143.9**	**131.3**
as % of product revenue	23.5	3	22.8	22.1	21.4	18.7
as % of total revenue	19.8	5	18.9	18.1	17.2	14.7
R&D headcount (FTE)	**1,507**	**-5**	**1,584**	**1,477**	**1,494**	**1,419**

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Although economic expansion was moderate, the global economy held up better than expected in 2023 in the face of the high inflation and massive tightening of monetary policy. Inflation is now falling rapidly and interest rates are expected to be cut in the first half of 2024. However, there are currently scant signs that the global outlook will meaningfully improve in the near term. In advanced economies, widespread political uncertainty is weighing on growth while fiscal policy stimuli are waning. Overall, the Institute for the World Economy (IfW) in Kiel, Germany, expects global production—measured on a purchasing power parity basis—to increase by 2.9 percent in 2024, following 3.1 percent in 2023. For 2025, the IfW expects global growth to pick up to 3.2 percent. Although unemployment in advanced economies will increase slightly going forward, it will remain historically low. Inflation will continue to fall and generally approach target levels again by 2025.

Global production expanded at an average rate of 0.8 percent in the first three quarters of the current year, close to the trend recorded before the coronavirus crisis. The IfW now expects growth of 3.1 percent for 2023, significantly higher than forecast at the beginning of this year (2.5 percent in their spring forecast). However, there is no sign that the moderate pace of global growth will accelerate any time soon; the global economic sentiment indicator calculated by the IfW on the basis of sentiment indicators from 42 countries even signals a slowdown in economic momentum for the fourth quarter.

Industrial production and global trade continue to be sluggish. In September 2023, global industrial production was barely higher than at the start of 2022, despite a slight upturn during the summer. The low level of purchasing managers' indexes in manufacturing suggests that momentum remains low for the time being. Global trade was noticeably lower than in 2022. There are no clear signs of a recovery here either: the Kiel Trade Indicator, which estimates global trade activity based on real-time data from container shipping, has recently weakened again.

The economic outlook in the eurozone has recently become more clouded. After a meager expansion of economic output in the first half of 2023, leading indicators increasingly paint a gloomy picture. Although consumer confidence has continued to recover, companies have recently become far less so than a few months ago, particularly in the manufacturing sector. However, these negative trends in economic sentiment are unlikely to persist. With energy prices largely back to normal, rising real incomes, and increasing support from the global economy, the euro area is expected to gain traction. Nevertheless, economic momentum will likely remain subdued as easing of monetary policy will be rather cautious. Overall, gross domestic product (GDP) is expected to increase by 0.6 percent in 2023, followed by 1.4 percent (2024) and 1.7 percent (2025). Inflation, which remained high as of recently, will continue to ease. Consumer prices are likely to have increased by an average of 5.6 percent in 2023, but looking ahead, inflation should be significantly lower at 2.6 percent (2024) and 2.2 percent (2025). The unemployment rate will remain low.

According to the IfW's latest forecast, the outlook for the German economy has clouded over. GDP is expected to shrink by 0.5 percent in 2023, implying a slight revision to the summer forecast (-0.3 percent), owing mainly to weak industrial activity and consumer spending as well as the crisis in the construction sector.

SECTOR-SPECIFIC CONDITIONS

The US-based market research firm Gartner forecasts that worldwide IT spending will total $4.7 trillion in 2023, an increase of 4.3 percent from 2022. As CIOs continue to compete unsuccessfully for IT talent, they are shifting spending to technologies that enable automation and efficiency to drive growth at scale with fewer employees. Contrary to this trend, computing data center systems (-1.5 percent) and hardware devices (-8.6 percent) were declining. Strong growth was achieved by software (+13.7 percent) and IT services (+8.8 percent). According to Gartner, the growth in the software segment was driven by organizations increasing utilization and reallocating spending to core applications and platforms that support efficiency gains, such as enterprise resource planning (ERP) and customer relationship management (CRM) applications. Vendor price increases also continued to bolster software spending through the year.

In Germany as well, the sector performed robustly. At the start of 2023, the Bitkom digital association expected a sales increase of 3.8 percent for IT, telecommunications, and consumer electronics companies. Moreover, the association anticipated sales to exceed €200 billion for the first time at €203.4 billion and the number of employees to increase by 3.4 percent to 1.352 million for 2023.

MANAGEMENT'S GENERAL STATEMENT ON BUSINESS PERFORMANCE AND FINANCIAL POSITION / KEY EVENTS AFFECTING BUSINESS PERFORMANCE

Overall, Group revenue and annual recurring revenue (ARR) were in line with expectations and guidance for fiscal 2023. ARR, a headline guidance metric for the business, was €755.7 million at the end of the fourth quarter, representing 8 percent growth, or 10 percent at constant currency (acc), year-on-year.

Total revenue was €1,000.3 million for the full 2023 fiscal year, representing growth of 3 percent (acc: 6 percent), with A&N product revenue down 2 percent (acc: up 3 percent) at €246.6 million and Digital Business revenue up 6.6 percent (acc: 9.4 percent) at €597.1 million.

Net income and cash flow were adversely impacted by several one-off effects related to the takeover process which caused an increase in consulting and legal fees as well as extraordinary interest expenses due to the early redemption of loan agreements.

After adjusting for these extraordinary effects, we saw continued robust organic profit exceeding expectations in 2023, delivering an operating margin (EBITA, non-IFRS) of 19.1 percent in the fourth quarter and 19.6 percent for the full year.

COMPARISON OF ACTUAL PERFORMANCE WITH PREVIOUSLY ISSUED FORECASTS

Software AG communicated the following forecast for fiscal 2023 on January 31, 2023:

- ARR growth in the Digital Business line of 10 to 15 percent year-on-year
- ARR growth in the A&N business line of -2 to +2 percent year-on-year
- Growth in product revenue of 6 to 10 percent year-on-year
- Operating profit margin (EBITA, non-IFRS) between 16 and 18 percent

The growth forecasts for ARR and product revenue indicators were at constant currency.

Software AG posted the following results for the 2023 fiscal year:

- The Digital Business line reported ARR in the amount of €557.7 million (2022: €516.4 million) as of December 31, 2023, representing 10 percent growth year-on-year at constant currency. This result was at the lower end of the stated guidance range of 10 to 15 percent for the year.
- The A&N business line reported ARR in the amount of €198.0 million (2022: €183.8 million) as of December 31, 2023, reflecting a 11 percent increase year-on-year at constant currency. This result exceeds the stated guidance range of -2 to 2 percent. A&N thus developed significantly better than forecast. The reason for the better performance was less churn and more migrations to subscription licenses.
- Product revenue increased 7 percent at constant currency totaling €843.7 million (2022: €773.4 million). This result is at the lower end of the guidance range that had been forecast since the start of the year.
- Software AG's operating profit (EBITA, non-IFRS) was €196.3 million (2022: €193.9 million) in 2023. This reflected an operating profit margin (EBITA, non-IFRS) of 19.6 percent, thus exceeding the guidance range of 16 to 18 percent.

Outlook for Fiscal Year 2023

	FY 2023 in € mn	Outlook FY 2023 as of Jan. 31, 2023 as %	Actual change in comparison to the previous year as %
Digital Business ARR	557.7	+10 to +15[1]	+10[1]
A&N ARR	198.0	-2 to +2[1]	+11[1]
Product revenue	843.7	+6 to +10[1]	+7[1]
Operating profit margin (EBITA, non-IFRS)[2] as %	19.6	16 to 18	-1,5

[1] At constant currency.

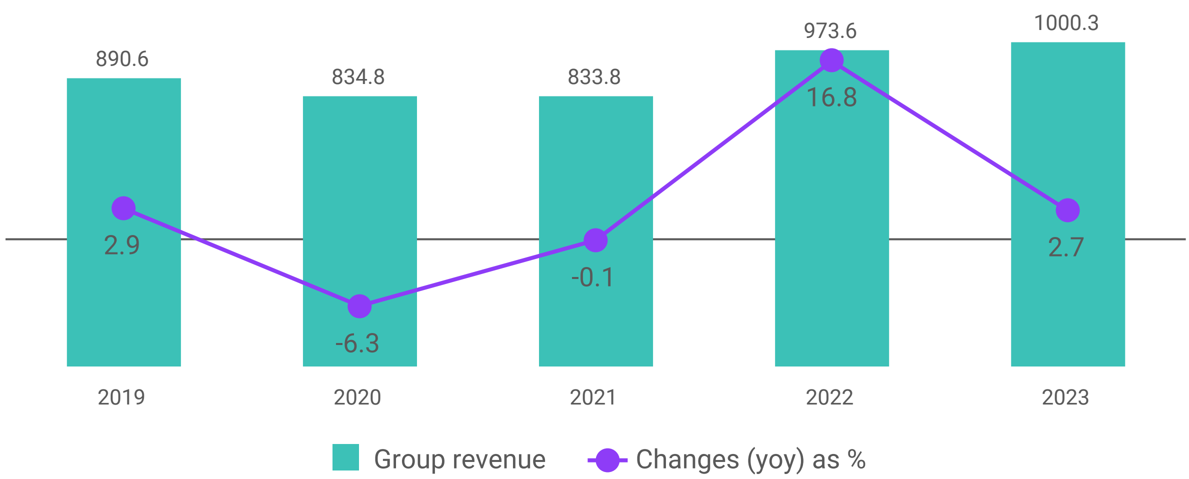
[2] Before adjusting for non-operating factors (see non-IFRS definition of earnings) in Key Financial Performance Indicators.

FINANCIAL PERFORMANCE FOR SOFTWARE AG GROUP

REVENUE

Group revenue totaled €1,000.3 million (2022: €973.6 million) in 2023, representing a 2.7 percent increase, or a 6.3 percent increase at constant currency (further referred to as "acc").

Five-Year Revenue Performance in € Millions



Digital Business revenue increased by 6.6 percent (acc: 9.4 percent) to €597.1 million (2022: €559.9 million), which reflects the intensified focus on subscription and SaaS business. The **Adabas & Natural (A&N)** business line generated revenue of €246.6 million (2022: €251.1 million), a decrease of 1.8 percent year-on-year, or an increase of 3.2 percent at constant currency. At the end of fiscal 2023, ARR[1] came to €755.7 million (2022: €700.2 million). ARR in the Digital Business line rose by 8.0 percent (acc: 9.9 percent) year-on-year.

CURRENCY IMPACT ON REVENUE

Currency translation had a negative impact of €34.4 million (-3 percent) on revenue in fiscal 2023, after having had a positive impact on revenue in the previous year. The main driver was the stronger average euro compared to important currencies like the US dollar and pound sterling (with the euro accounting for the second largest share among currencies in the Group). The largest percentage of Software AG's total revenue was generated in US dollars (USD) at 34 percent (2022: 32 percent), followed by the euro (EUR) at 26 percent (2022: 28 percent), the pound sterling (GBP) at 6 percent (2022: 6 percent), and Israeli shekel (ILS) at 5 percent (2022: 6 percent). Other currencies accounted for the remaining 29 percent (2022: 28 percent). The broad distribution of currencies reflects Software AG's highly global focus. Currency effects had a negative impact on all business lines, with subscription models and perpetual licenses experiencing an impact of -3 percent and -4 percent, respectively. In the cloud and services businesses, currency effects came to -2 percent.

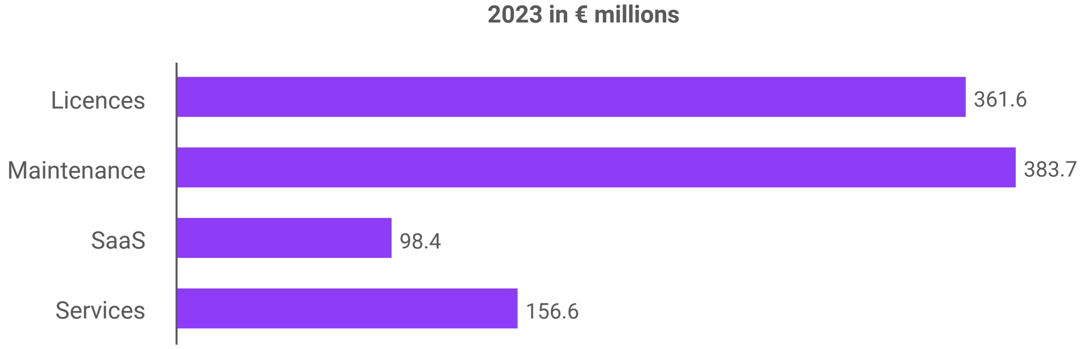
Currency Impact on Revenue

in € millions	2023	as %
Subscription	-14.0	-3
SaaS	-2.3	-2
Perpetual	-11.5	-4
Support and Services	-6.6	-4
Total	**-34.4**	**-3**

[1] Value of all active contracts at period end (without one-time effects) divided by the contract length in days, multiplied by the number of days in the respective year.

TYPES OF REVENUE

Software AG's Group revenue is made up of product revenue—consisting of license, maintenance, and SaaS sales—and services revenue. In 2023, total product revenue rose to €843.7 million (2022: €811.0 million) in 2023, representing a 4.0 percent increase, or a 7.5 percent increase at constant currency.



As a percentage of total revenue, product revenue was slightly above the previous year's level at 84 percent (2022: 83 percent). License revenue from Digital Business and A&N products, at €361.6 million (2022: €329.9 million), increased by 9.6 percent, or 13.8 percent at constant currency, compared to the previous year. The positive year-on-year performance is attributable to the steady growth in subscriptions in the Digital Business and A&N segments. Maintenance revenue in these two business lines decreased during the reporting period to €383.7 million (2022: €405.3 million). This represents a decline of 5.3 percent, or 2.4 percent at constant currency. At 38.4 percent (2022: 41.6 percent), the share of maintenance in total revenue was 3.2 percentage points lower than in fiscal 2022. SaaS revenue rose 29.8 percent, or 32.8 percent at constant currency, to €98.4 million (2022: €75.8 million). The revenue increase in SaaS and decrease in maintenance revenue is due to the strategic focus and the associated steady growth in the SaaS customer base. Revenue in the Professional Services segment, focusing on high-value projects associated with Software AG's own products, decreased by 3.7 percent in the year under review; at constant currency, it increased by 0.4 percent, to €156.6 million (2022: €162.6 million).

PRODUCT REVENUE BY REGION

Americas (North America and Latin America) generated revenue of €369.0 million (2022: €342.5 million) in 2023 and thus accounted for 44 percent (2022: 42 percent) of product revenue. Broken down by country, the USA accounted for the largest share of revenue, as expected, followed by Brazil and Canada. North America (NAM) generated total revenue of €327.4 million (2022: €300.1 million) and Latin America (LATAM) €41.6 million (2022: €42.4 million).

EMEA (Europe including Germany, Austria, and Switzerland, Middle East and Africa) posted revenue of €401.7 million (2022: €402.0 million) in 2023 and thus accounted for 48 percent (2022: 50 percent) of global product revenue. By revenue, the most important single markets in this region were Germany, the United Kingdom, France, and Spain.

APJ posted product revenue of €73.0 million (2022: €66.6 million), thus accounting for 9 percent (2022: 8 percent) of Group product revenue. The largest single market in this region was Australia, followed by Japan.

PERFORMANCE OF KEY ITEMS ON THE INCOME STATEMENT AND COST STRUCTURE

Software AG's **cost of sales** remained mostly flat in 2023 while the Company achieved revenue growth. Accordingly, **gross profit** increased by 3.5 percent, or 7.3 percent at constant currency, to €759.6 million (2022: €733.7 million). The gross profit margin as a percentage of Group revenue, at 75.9 percent (2022: 75.4 percent), increased by 0.5 percentage points and was thus slightly above last year's high level. This continued profitability is primarily due to the large share generated by the product business.

To further secure Software AG's technology competence in the dynamic digital market, **expenses for research and development (R&D)** increased 8.2 percent to €196.2 million (2022: €181.4 million). R&D expenses as a percentage of product revenue (licenses, maintenance, and SaaS) increased compared to the previous year, from 22.4 percent to 23.3 percent.

Cost-saving measures led to year-on-year decreases in both sales, marketing, and distribution expenses as well as in general and administrative expenses. **Sales, marketing, and distribution expenses** decreased by 4.8 percent year-on-year to €325.7 million (2022: €342.0 million) for fiscal year 2023 as a whole. These expenses as a percentage of total revenue thus decreased to 32.6 percent (2022: 35.1 percent). **General and administrative expenses** decreased by 7.9 percent to €86.9 million (2022: €94.3 million). General and administrative expenses as a percentage of total revenue were thus lower, at 8.7 percent (2022: 9.7 percent).

2023 Income Statement

in € millions	2023	2022	+/– as %	+/– as % acc[1]
Licenses	361.6	329.9	9.6	13.8
Maintenance	383.7	405.3	-5.3	-2.4
SaaS	98.4	75.8	29.8	32.8
Product revenue	843.7	811.0	4.0	7.5
Services	156.6	162.6	-3.7	0.4
Total revenue[2]	**1,000.3**	**973.6**	**2.7**	**6.3**
Cost of sales	-240.7	-239.9	0.3	3.1
Gross profit	**759.6**	**733.7**	**3.5**	**7.3**
R&D expenses	-196.2	-181.4	8.2	
Sales, marketing, and distribution expenses	-325.7	-342.0	-4.8	
General and administrative expenses	-86.9	-94.3	-7.8	
Other income/expenses, net	-76.0	-22.5	237.8	
Other taxes	-9.1	-2.5	264.0	
Operating income	**65.7**	**91.0**	**-27.8**	
Financial income/expenses, net	-35.6	-14.0	154.3	
Earnings before income taxes	**30.1**	**77.1**	**-61.0**	
Income taxes	-35.3	-49.1	-28.1	
Net income	**-5.2**	**28.0**	**-118.6**	
thereof attributable to shareholders of Software AG	-5.2	19.0	-127.4	
thereof attributable to non-controlling interests	0.0	0.3	-100.0	
Earnings per share in € (basic)	-0.07	0.38	100.0	
Earnings per share in € (diluted)	-0.07	0.38	100.0	
Weighted average number of shares outstanding (basic)	73,984,958	73,979,889		
Weighted average number of shares outstanding (diluted)	73,984,958	73,979,889		

[1] At constant currency.

[2] The comparative information for revenues is presented on a restated basis.

EARNINGS PERFORMANCE

Software AG's **operating income** declined in the year under review to €65.7 million (2022: €91.0 million). The operating margin, at 6.6 percent (2022: 9.3 percent), was below the previous year's level. This is mainly due to increased R&D expenses and higher other expenses which predominantly resulted from legal and consulting fees in connection with the takeover process. This also had a direct impact on **earnings before interest and taxes (EBIT)** (net income plus income taxes plus other taxes plus net financial income/expenses), which amounted to €74.8 million (2022: €93.5 million). The increase in other expenses due to the one-off costs was partially offset by an increase in revenue and the 4.8 percent drop in sales, marketing, and distribution expenses, as well as a decrease in general and administrative expenses by 7.8 percent to €86.9 million (2022: €94.3 million).

Net financial income declined in the year under review, to -€35.6 million (2022: -€14.0 million). The difference compared to the previous year was attributable primarily to extraordinary financing expenses in connection with the refinancing of loan agreements at higher interest rates and the early redemption of the convertible bond.

As a result of these effects, **net income**, at -€5.2 million (2022: €28.0 million), was down 118.7 percent year-on-year in the reporting period.

2023 Earnings

in € millions	2023	2022	+/– as %
Total revenue	**1,000.3**	**973.6**	**3**
Cost of sales	-240.7	-239.9	0
Gross profit	**759.6**	**733.7**	**4**
Margin as %	75.9	75.4	1
R&D expenses	-196.2	-181.4	8
Sales, marketing, and distribution expenses	-325.7	-342.0	-5
General and administrative expenses	-86.9	-94.3	-8
Other income/expenses (net)	-76.0	-22.5	238
EBIT	**74.8**	**93.5**	**-20**
Margin as %	7.5	9.6	

1 The comparative information for revenues is presented on a restated basis.

APPROPRIATION OF PROFITS

For fiscal year 2023, the Management Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €962,637 thousand reported by Software AG in fiscal 2023, as follows: to appropriate €3,700 thousand for dividends and to carry forward €958,937 thousand. This corresponds to a dividend of €0.05 per share (2022: €0.05 per share).

ADDITIONAL PERFORMANCE INDICATORS

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

Operating Earnings per Share (non-IFRS)

in € millions	2023	2022
Net income	-5.2	28.0
Income taxes	35.3	49.1
As % of earnings before income taxes	117.4	63.7
Earnings before income taxes	**30.1**	**77.1**
Other taxes	9.1	2.5
Financing income	-29.1	-11.4
Financing expenses	64.7	25.4
Financial income/expenses, net	**35.6**	**14.0**
EBIT (before all taxes)	**74.8**	**93.5**
+ Acquisition-related amortization of intangible assets	33.2	59.6
+ Acquisition-related reductions in product revenue due to purchase price allocations	0.2	1.3
+/– Other non-operating expenses and acquisition-related effects on earnings	51.5	14.1
+/– Income/expenses resulting from share price-based remuneration	13.7	11.7
+ Restructuring/severance/litigation	22.9	13.6
Operating EBITA (non-IFRS)[1]	**196.3**	**193.9**
Operating margin (EBITA, non-IFRS) as %	**19.6**	**19.9**
Financial income/expenses, net	-35.6	-14.0
Other taxes	-9.1	-2.5
Earnings before income taxes (non-IFRS)	151.6	177.4
Income taxes (non-IFRS) (FY 2023: 117.4%; FY 2022: 63.7%)[1]	-177.9	-113.0
Net income (non-IFRS)	-26.4	64.4
Earnings per share (non-IFRS)[2] in €	**-0.36**	**0.87**
Average number of shares outstanding (no.)	74.0	74.0

1 Income tax rates shown are equal to the actual rates for fiscal 2023 and 2022.
2 Earnings per share (non-IFRS) are calculated by dividing operating net income (non-IFRS) by the average number of shares outstanding.

Operating profit margin (EBITA, non-IFRS) is Software AG's key performance indicator for monitoring profitability. EBITA (non-IFRS) rose by 1.2 percent to €196.3 million (2022: €193.9 million) in fiscal 2023 year-on-year. EBIT was down 20.1 percent to €74.8 million (2022: €93.5 million). The reported EBITA was adjusted to exclude extraordinary effects and non-operating expenses.

Compared to the prior year's adjustments, expenses for amortization on acquisition-related intangible assets decreased by €26.4 million to €33.2 million (2022: €59.6 million). This year-on-year decrease was largely due to the one-off effect of goodwill impairments in the Professional Services segment in fiscal 2022. Amortization therefore returned to a normal level in 2023.

By contrast, expenses for stock option plans increased by 17.1 percent to €13.7 million (2022: €11.7 million). This was mainly driven by the share price gain following the announcement of the public offer. Other non-operating expenses and acquisition-related effects on earnings increased by €37.4 million to €51.5 million mainly due to strategy-related legal and consultancy fees in connection with the takeover process. Furthermore, expenses for restructuring, severance, and litigation increased by €9.3 million to €22.9 million (2022: €13.6 million) due to the launch of early retirement programs.

After adjusting for these extraordinary effects, Software AG's operating profit margin (EBITA, non-IFRS) based on total revenue was 19.6 percent, which is roughly equal to the previous year's level (2022: 19.9 percent).

SEGMENT REPORTING

Total revenue for 2023 was distributed among Software AG's three segments, Digital Business, A&N, and Professional Services, as follows:

Revenue Split in 2023

in € millions	2023	as %
Total revenue	**1,000.3**	**100**
Digital Business	**597.1**	**59.7**
A&N	**246.6**	**24.7**
Professional Services	**156.6**	**15.7**

Digital Business

The Digital Business segment generated revenue of €597.1 million (2022: €559.9 million) in 2023, reflecting a 6.6 percent increase over the previous year. Digital Business segment earnings were €73.5 million (2022: €48.4 million). Accordingly, the segment margin increased to 12.3 percent (2022: 8.6 percent) in the year under review.

2023 Segment Report for Digital Business

in € millions	2023	2022	+/– as %	+/– as % acc[1]
Subscription	326.4	272.5	20	23
SaaS	98.4	75.8	30	33
Maintenance from perpetual licenses	149.8	181.3	-17	-15
Total recurring revenue	**574.6**	**529.6**	**8**	**11**
Perpetual licenses	22.5	30.3	-26	-22
Total product revenue	**597.1**	**559.9**	**7**	**9**
Cost of sales	-76.3	-77.8	-2	-1
Gross profit	**520.8**	**482.1**	**8**	**11**
Sales, marketing, and distribution expenses	-279.5	-284.3	-2	1
R&D expenses	-167.9	-149.5	12	14
Segment earnings	**73.5**	**48.4**	**52**	**64**
Margin as %	**12.3**	**8.6**	**–**	**–**

[1] At constant currency.
[2] The comparative information for revenues is presented on a restated basis.

Adabas & Natural (A&N)

The mainframe database segment (A&N) generated €246.6 million (2022: €251.1 million) in revenue in fiscal 2023, representing a 1.8 percent decline, or a 3.2 percent increase at constant currency. In generally, the market for traditional database software for mainframes is in decline due to its maturity and saturation. Nevertheless, Software AG has in recent years maintained a low churn rate in this segment. This success was fueled by shifting existing customers from perpetual to subscription licenses, especially larger contracts which were up for renewal, as well as "rehosting to the cloud" initiatives. As a result, A&N subscription revenue rose by 13.0 percent, or 18.3 percent at constant currency, to €119.6 million (2022: €105.8 million) in 2023. Maintenance revenue from perpetual licenses in this segment came to €101.1 million (2022: €121.1 million), representing a decline of 16.5 percent, or 12.8 percent at constant currency. The combination of effects resulted in an increase in A&N segment earnings to €183.5 million (2022: €174.3 million) and an A&N segment margin of 74.4 percent (2022: 69.4 percent).

2023 Segment Report for Adabas & Natural (A&N)

in € millions	2023	2022	+/– as %	+/– as % acc[1]
Subscription	119.6	105.8	13	18
Maintenance from perpetual licenses	101.1	121.1	-17	-13
Total recurring revenue	**220.7**	**226.8**	**-3**	**2**
Perpetual licenses	25.9	24.3	-11	17
Total product revenue	**246.6**	**251.1**	**-2**	**3**
Cost of sales	-7.1	-8.5	-16	-12
Gross profit	**239.5**	**242.6**	**-1**	**4**
Sales, marketing, and distribution expenses	-27.7	-36.4	-24	-21
R&D expenses	-28.3	-31.9	-11	-11
Segment earnings	**183.5**	**174.3**	**5**	**12**
Margin as %	**74.4**	**69.4**	–	–

[1] At constant currency.
[2] The comparative information for revenues is presented on a restated basis.

Professional Services

The Professional Services segment is focused on sustainable profitability and high service quality rather than rapid growth. As part of its strategy and partnerships, the segment concentrates on high-value projects associated with Software AG's own products. In fiscal 2023, the Professional Services segment generated revenue of €156.6 million (2022: €162.6 million), representing a 3.7 percent decrease (acc: 0.4 percent increase). Segment earnings declined by 36.4 percent, or 32.6 percent at constant currency, to €13.9 million (2022: €21.9 million). At the same time the cost of sales, which accounts for the largest share of expenses in this segment, slightly increased by 2.6 percent, or 6.8 percent at constant currency, to €131.1 million (2022: €127.9 million). Sales, marketing, and distribution expenses dropped by 10.5 percent, or 7.7 percent at constant currency, to €11.5 million (2022: €12.9 million). The segment margin was 8.9 percent (2022: 13.4 percent).

2023 Segment Report for Professional Services

in € millions	2023	2022	+/– as %	+/– as % acc[1]
Total revenue	**156.6**	**162.6**	**-4**	**0**
Cost of sales	-131.1	-127.9	3	7
Gross profit	**25.4**	**34.7**	**-27**	**-23**
Sales, marketing, and distribution expenses	-11.5	-12.9	-11	-8
Segment earnings	**13.9**	**21.9**	**-37**	**-33**
Margin as %	**8.9**	**13.4**	–	–

[1] At constant currency.
[2] The comparative information for revenues is presented on a restated basis.

THE GROUP’S FINANCIAL POSITION

GENERAL PRINCIPLES AND OBJECTIVES OF SOFTWARE AG’S FINANCIAL MANAGEMENT

The primary objective of Software AG's financial management is to support the Group's profitable growth and ongoing optimization of its portfolio through an appropriate financing structure—regardless of short-term fluctuations to capital market conditions. Software AG ensures the solvency of all subsidiaries in the Group through central **liquidity management**.

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

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

STRATEGIC FINANCING MEASURES

As a result of the change of control dated September 28, 2023, the respective clauses contained in the financing contracts took effect whereby the lending banks and bond subscribers were entitled to extraordinary termination rights. This resulted in the early redemption of convertible bonds on October 4, 2023, and all other third-party loans on October 10, 2023. The redemption of the convertible bonds consisted of the bonds’ total face value of €344,300 thousand plus accrued interest.

In return, the parent entity Mosel Bidco SE entered into a term loan B agreement with J.P. Morgan SE, Frankfurt am Main, as facility agent. The term loan consists of a EUR tranche of €640 million and a USD tranche of $405 million. The loan has a maturity of 84 months repayable in full upon maturity. The applicable interest rate for the euro-denominated loan is a floating interest based on EURIBOR plus a margin of 4.75 percent p.a. which is subject to an adjustment in accordance with the actual senior secured net leverage ratio. The applicable interest rate for the US dollar-denominated loan is a floating interest based on Adjusted Term SOFR plus a margin of 3.75 percent p.a. which is also subject to an adjustment in accordance with the actual senior secured net leverage ratio.

On October 2, 2023, Software AG received sufficient cash inflows from its parent entity Mosel Bidco SE to secure the long-term financing of the Group. The terms and conditions of the parent loan are congruent to the head loan agreement between Mosel Bidco SE and J.P. Morgan SE. This resulted in cash inflows of €417,620 thousand, consisting of a euro-denominated amount of €264,177 thousand and a US dollar-denominated amount of $167,175 thousand. Furthermore, Software AG is a guarantor under the head loan agreement, whereby each guarantor unconditionally jointly and severally guarantees the performance by each obligor.

Following the successful refinancing process, Software AG had firmly committed credit lines with banks of approximately €128,933 thousand which were fully unused as of December 31, 2023. With cash and cash equivalents, Software AG had freely disposable liquidity of around €268,941 thousand as of December 31, 2023.

While the refinancing provided the parent company with sufficient liquidity for its operating activities, this had a significant impact on its cash flows and asset structure in the fiscal year.

ANALYSIS OF THE FINANCIAL POSITION

In addition to the refinancing, the agreement to sell its Integration business to IBM had a significant influence on individual financial positions. While the transaction is subject to regulatory approval and expected to close in the second quarter of 2024, any assets and liabilities which are subject to the transfer have been classified as assets held for sale and are presented as current assets in the balance sheet as of December 31, 2023. This resulted in the reclassification of €1,168 million to assets held for sale, which are presented as current assets. The majority was reclassified from goodwill (€759.5 million) and trade receivables, contract assets, and other receivables (€246.9 million). Furthermore, liabilities in the amount of €143.3 million were reclassified to liabilities held for sale with the majority coming from contract liabilities (€72.6 million). As a result,there is limited comparability among most of the financial positions.

Software AG's **net cash position** (cash and cash equivalents less financial liabilities) as of December 31, 2023, was -€302.8 million (2022: -€240.0 million). This year-on-year decline resulted mainly from the described refinancing transaction which resulted in both an increase in non-current financial liabilities and a decrease in cash and cash equivalents.

Multi-Period Financial Position Summary

in € millions	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019
Cash and cash equivalents	130.0	427.1	585.8	480.0	513.6
Current financial liabilities	7.3	31.9	84.8	16.4	96.4
Non-current financial liabilities	425.6	635.2	223.8	243.5	200.2
Net liquidity	-302.8	-240.0	277.2	220.1	217.0
Equity	1,456.7	1,521.5	1,438.2	1,312.5	1,357.5
Equity ratio as %	62	57	65	64	64
Total assets	**2,364.6**	**2,690.9**	**2,221.4**	**2,039.9**	**2,116.1**

The refinancing of the loan agreements also had a significant impact on cash flows in the fiscal year. In particular, it resulted in cash flow from financing activities of -€266.5 million (2022: €316.7 million), the main cause for the decrease in cash and cash equivalents from €427.1 million to €140.0 million of which €10.0 million were classified as held for sale assets. The decrease in cash and cash equivalents was also the main driver for the decrease in total assets which on the other hand led to an increase of the equity ratio from 56% to 62%.

Statement of Cash Flows in 2023

in € millions	2023	2022
Net cash from operating activities	**-1.3**	**18.4**
Net cash from investing activities	0.7	-513.2
Net cash from financing activities	-266.5	316.7
Change in cash and cash equivalents from currency translation	-20.0	19.3
Net change in cash and cash equivalents	-287.1	-158.7
Cash and cash equivalents at end of period	140.0	427.1
Free cash flow	**-13.1**	**-1.1**

Free cash flow—defined by Software AG as cash flow from operating activities minus cash flow from investing activities without inflows and outflows directly related to current financial assets and M&A activities and repayment of lease liabilities—was -€13.1 million in 2023, compared to -€1.1 million in 2022. This performance was largely due to the described change in cash flow from operating activities which was adversely impacted by the extraordinary effects in 2023 and resulted in net income of -€5.2 million compared to €28.0 million in 2022.

Calculation of 2023 Free Cash Flow

in € millions	2023	2022
Net cash from operating activities	**-1.3**	**18.4**
Proceeds from the sale of property, plant, and equipment/intangible assets	8.8	3.1
Purchase of property, plant, and equipment/ intangible assets	-9.6	-13.5
Proceeds from the sale of non-current financial assets	0.8	4.9
Purchase of non-current financial assets	-1.6	-2.0
Repayment of lease liabilities	-10.0	-12.0
Free cash flow	**-13.1**	**-1.1**

Shareholders' equity was €1,456.7 million (2022: €1,521.5 million) at the end of the year under review, representing a decrease of €64.8 million year-on-year as a result of total comprehensive income of -€61.0 million and the dividend distribution of €3.7 million in 2023.

OFF-BALANCE SHEET ASSETS

In addition to the assets reported in the Consolidated Balance Sheet, Software AG has significant off-balance sheet assets. These include the Software AG brand and internally developed software products. Employees, their skills, and their dedication are also critical to Software AG's success.

SOFTWARE AG'S (PARENT COMPANY) FINANCIAL POSITION AND PERFORMANCE

THE PARENT COMPANY'S ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Software AG (parent company) were prepared pursuant to the provisions of the German Commercial Code.

Financial position of Software AG

Software AG's **total assets** rose by €679.6 million from €1,323.1 million to €2,002.7 as of December 31, 2023. The following table depicts the primary changes compared with the prior year:

in € millions	2023	2022	+/–
Intangible assets	7.1	20.1	-13.0
Property, plant, and equipment	32.3	38.2	-5.9
Financial assets	1,778.0	1,027.6	750.4
Inventories	0.0	0.1	-0.1
Receivables and other assets	108.2	114.9	-6.7
Cash and cash equivalents and short-term securities	58.4	77.6	-19.2
Prepaid expenses	17.9	44.5	-26.6
Difference in assets arising from offsetting	0.7	0.1	0.6
Assets	**2,002.7**	**1,323.1**	**679.6**
Equity	1,180.0	265.5	914.5
Provisions	128.9	114.0	14.9
Convertible bonds	0.0	344.3	-344.3
Liabilities to banks	0.0	328.7	-328.7
Remaining liabilities	693.7	270.5	423.2
Deferred income	0.0	0.1	-0.1
Equity and liabilities	**2,002.7**	**1,323.1**	**679.6**

- **Intangible assets** decreased by €13.0 million, due primarily to amortization and transferring intellectual property to a subsidiary.
- **Financial assets** increased by €750.4 million. This was mainly due to a non-cash contribution at fair value to a subsidiary, which resulted in a gain of €596.7 million.
- **Cash and cash equivalents** went down by €19.2 million predominantly because of loan refinancing in fiscal 2023.
- Software AG’s **equity** increased by €914.5 million year-on-year. This rise resulted from gains in 2023.
- **Liabilities to banks and the convertible bonds** were replaced by a new loan agreement from Mosel Bidco SE which is presented in **remaining liabilities**.

Software AG's financial performance

The key items of the income statement are as follows:

in € millions	2023	2022	+/− as %
Licenses	78.2	73.4	6.5
Maintenance	99.0	103.3	-4.2
Software as a Service	17.5	8.9	96.6
Services	164.3	150.5	9.2
Total revenue	**359.0**	**336.1**	6.8
Operating income and expenses	-442.2	-397.2	11.3
Income from financial assets and profit transfers	1,066.1	122.2	772.4
Operating earnings before interest and taxes	**982.9**	**61.1**	1,508.7
Net financial income/expenses	-52.3	-17.5	198.9
Earnings before taxes	930.6	43.6	2,034.4
Taxes	-13.0	-4.1	217.1
Net income for the year	**917.6**	**39.5**	2,223.0

- **Licenses** resulted from license-related royalties from subsidiaries and from Software AG's own license sales, primarily in Germany.
- **Maintenance** includes primarily maintenance-related royalties from subsidiaries.
- **SaaS** revenue resulted from SaaS-related royalties from subsidiaries and from Software AG's own SaaS sales in Germany.
- **Services** include management fees crossed-charged to the subsidiaries as well as services rendered by central support and cross-charged research and development costs.
- **Operating income and expenses** include other operating income and expenses, expenses for purchased goods and services, personnel expenses, and write-downs on intangible fixed assets as well as on property, plant, and equipment. The rise resulted mainly from higher expenses for legal and consulting services.
- **Income from financial assets and profit transfers** includes dividends from subsidiaries, income from long-term loans to affiliated companies, income and expenses arising from profit transfer agreements, and write-downs of financial assets and marketable securities. Compared with the previous year, the balance went up mainly due to higher profit transfers and distributions from operational companies, whereby the majority of the income resulted from a non-cash contribution to a subsidiary at fair value that resulted in a fair value step-up and a distribution of retained earnings from the US subsidiary.
- **Net financial income/expenses** is the result of offsetting other interest and similar income against interest and similar expenses. The year-on-year change resulted primarily from refinancing loan agreements.
- As the majority of income was generated from dividends and gains which were either non-taxable or taxed at a lower tax rate, **tax expenses** only increased from €4.1 million to €13.0 million.

COMBINED NON-FINANCIAL STATEMENT

FUNDAMENTAL ASPECTS

REPORTING SYSTEM

Software AG's Combined Non-Financial Statement (hereinafter referred to as the Non-Financial Statement) relates to the fiscal year from January 1 to December 31, 2023.

The Non-Financial Statement contains the information required by section 289c of the German Commercial Code (HGB) to enable readers to understand the Company's business development, financial results, situation, and the effects of its activities at a minimum on the aspects stated in section 289c(2) of HGB. Per section 289d of HGB, Software AG prepared the Non-Financial Statement with reference to the Global Reporting Initiative (GRI), as well as the industry standards of the USA's Sustainability Accounting Standards Board (SASB).

The contents of the Non-Financial Statement relate to Software AG and the Software AG Group. The Group's non-financial indicators are based on data that generally corresponds to the scope of consolidated financial reporting. Any deviations are explained accordingly. The measures presented for the individual aspects are ongoing unless stated otherwise. For more information, please refer to the Combined Management Report and the Notes to the Consolidated Financial Statements.

No information in the following report has been omitted due to being part of intellectual property, know-how, or the results of innovation. No information has been omitted due to impeding developments or matters in the course of negotiations. There were no changes in the preparation and presentation of sustainability information compared to previous reporting periods. Some figures from prior reporting periods have been restated due to minor inaccuracies that were discovered during consolidation of the current report.

EXPLANATION OF THE BUSINESS MODEL

As a global technology provider, Software AG delivers software solutions and services to its customers. The Company's founders laid the groundwork for Software AG's value-oriented actions, ultimately forming its corporate culture. To this day, Software AG is the innovative, independent force guiding some of the world's best brands on their digitalization journey. For more information on Software AG's business operations and business model, please refer to Fundamental Aspects of the Group in the Combined Management Report.

DISCLOSURE REQUIREMENTS PER THE EU TAXONOMY REGULATION

The EU Taxonomy Regulation was adopted as part of the European Green Deal and its main objective is to establish a classification system that defines which economic activities are environmentally sustainable. Software AG is required to provide information about non-financial interests per regulations set forth in sections 289b et seq./sections 315b et seq. of HGB that are based on Directive 2013/34/EU. In this context, the Company must explain in its Non-Financial Statement in accordance with Article 8 of Regulation (EU) 2020/852 from June 18, 2020 (Taxonomy Regulation), how and to what extent it carries out economic activities that could be characterized as environmentally sustainable in the sense of the Taxonomy Regulation.

An economic activity is defined as taxonomy-eligible if it is listed in the Taxonomy Regulation or in one of the delegated legislative acts and contributes on its merits after realization to at least one of the following environmental objectives:[1]

[1] The Climate Delegated Act, which was formally adopted in June 2021, establishes technical screening criteria for the first two of the six environmental objectives and serves to define and identify sustainable activities. The technical screening criteria for objectives three through six were adopted in 2023. Subsequently, for fiscal year 2023 all six objectives apply for eligibility reporting.

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

An economic activity is considered taxonomy-aligned if it meets the technical screening criteria, meaning that it contributes substantially to one of the environmental objectives and does no significant harm (DNSH) to any of the other environmental objectives. Furthermore, compliance with the Minimum Safeguards[2] must be observed to ensure taxonomy alignment concerning adherence with frameworks for respecting human rights as well as social and labor standards.

The Taxonomy Regulation defines the three performance indicators required to be reported by non-financial organizations—revenue, capital expenditure (CapEx), and operating expenditure (OpEx)—that demonstrate the degree to which economic activities are classified as environmentally sustainable in the sense of the Taxonomy Regulation.

The European Commission established the Delegated Regulation (EU) 2021/2139 (Climate Delegated Act) to define the screening criteria for taxonomy eligibility and alignment for the first two of the six environmental objectives.

In June 2023, the Commission published amendments to the Climate Delegated Act, including:

- The addition of new economic activities relevant for the climate change mitigation and adaptation objectives
- The addition of new technical screening criteria for the new activities or amending the current technical screening criteria, mainly improving them based on the received feedback
- Amendments to the Disclosures Delegated Act

Furthermore, the Commission published the Environmental Delegated Act (supplementing Regulation (EU) 2020/852), which includes the economic activities and technical screening criteria for the rest of the objectives and amendments in Delegated Regulation (EU) 2021/2178 concerning the applicable disclosure requirements. In November 2023, the amendments to the Climate Delegated Act and the Environmental Delegated Act were published in the official journal of the EU.

The new requirements entered into force in January 2024. Thus, for the current reporting year, Software AG will report eligibility for the newly added and amended economic activities under both Delegated Acts. Furthermore, Software AG will continue to monitor and report its activities with regard to the Climate Delegated Act's objectives and report on both eligibility and alignment.

The Company will report for the first time on the eligibility of economic activities relating to the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. Overall, the economic activities included in additional objectives are not part of Software AG's core business, and the results of the initial screening show that only one activity is relevant for the Company.

Determining taxonomy-eligible economic activities

To collect the mandatory information for reporting, Software AG initiated an EU taxonomy project in 2022 that involved the participation of the relevant internal units and an external service provider. In 2023, the same overall approach was followed for EU Taxonomy reporting. However, eligibility of revenue-generating economic activities was reviewed and reassessed. The Company performed the initial eligibility screening for the additional economic activities published under the objectives: climate change mitigation, climate change adaptation, water, circular economy, pollution prevention, and biodiversity. The approach for assessing eligibility was updated to encompass

[2] Compliance with the Minimum Safeguards is understood as due diligence and remedy procedures implemented by a company to ensure alignment with the OECD's Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the ILO's principles and rights, and the International Bill of Human Rights.

the expanded scope of knowledge about the EU Taxonomy Regulation, supported by documents issued by the Commission regarding frequently asked questions. Furthermore, Software AG improved its understanding of specific customer use cases.

The screening results for the activities in the Climate Delegated Act showed that there were no revenue-relevant economic activities that were fundamentally taxonomy-eligible. However, the screening of the activities covered by the Environmental Delegated Act resulted in one revenue-generating taxonomy-eligible activity listed under the circular economy objective. This assessment is based on the following supplemental considerations:

- With regard to the first environmental objective, climate change mitigation, classification of activity 8.1. "Data processing, hosting, and related activities" by Software AG as taxonomy-eligible is precluded for the same reasons as last year: Although Software AG operates its own data center at its headquarters in Darmstadt, Germany, this center as well as backup servers at other locations are used exclusively to provide internal services. Generating external revenue with these data centers and servers is not part of Software AG's business model. Rather, the provision of cloud infrastructure services is subcontracted with the sale of Software as a Service (SaaS). It is imminent that the provision of SaaS is a case of single performance obligations in the sense of IFRS 15, meaning that a potential third-party hosting component is not separable from the software provided for use as well as supplemental services (e.g., maintenance and support).

- Regarding the first environmental objective, climate change mitigation, classification of activity 8.2 "Data-driven solutions for GHG emissions reductions" by Software AG as taxonomy-eligible is precluded for the following reasons: Software AG provides software solutions and services for its customers, who then utilize the products and services accordingly for their own business activities. Software AG's products distinguish themselves by enabling companies to integrate IT systems and data, optimize business processes, and make better decisions in order to operate more efficiently and save resources. However, whether Software AG's activities in detail are in fact taxonomy-eligible is measured by how the Company's customers use its products and services, which is not in Software AG's scope of responsibility, influence, or knowledge.

- The eligibility assessment of activity 4.1 "Provision of IT/OT data-driven solutions," which is listed under the circular economy objective, was performed and the activity is deemed relevant for the Company. This interpretation was further supported by the additional guidance published by the Commission and the increased knowledge about the interpretation of the regulation. According to the frequently asked questions[3] made publicly available, the definition of a taxonomy-eligible activity is "an activity that is described in the delegated acts adopted under the Taxonomy Regulation. More specifically, according to Article 1(5) of the Disclosures Delegated Act, an economic activity is eligible irrespective of whether it meets any or all of the technical screening criteria laid down in the Climate Delegated Act (and future delegated acts). Therefore, the fact that an economic activity is taxonomy-eligible does not give any indication of the environmental performance and sustainability of that activity." Based on this interpretation, the description of the activity is the leading criteria for defining whether the economic activity is eligible or not, while the performance (or what it is used for) is more relevant to assess the alignment. Thus, activity 4.1 "Provision of IT/OT data-driven solutions" and its description correspond to Software AG's products, which provide data and analytics through IoT and AI. Software AG considers specific parts of its business activities that generate revenue as eligible.

Software AG performed eligibility screening for the newly added activities under the Climate Delegated Act, however none of those were identified as potentially eligible. Like last year, there are potentially existing CapEx and OpEx in specific economic activities which are fundamentally taxonomy-eligible with regard to the environmental objective of climate change mitigation (Annex I of the Climate Delegated Act). Subsequently, Software AG reports activities relating to the purchase of output from taxonomy-eligible economic activities as follows:

- 6.5. Transport by motorbikes, passenger cars, and light commercial vehicles
- 7.7. Acquisition and ownership of buildings

The taxonomy-eligible CapEx concerns additions to the Group's vehicle fleet and buildings. The taxonomy-eligible OpEx includes spending for short-term leases as well as servicing and maintenance for the vehicle fleet and buildings. Software AG does not generate any revenue from economic activities 6.5. and 7.7. Rather, they cover the purchase of products or investments in economic activities that are taxonomy-eligible or aligned.

[3] Commission Notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets (2022/C 385/01).

The taxonomy-eligible CapEx and OpEx for activity 4.1 are not available as separate figures and have been allocated on a pro-rated basis, relative to revenue.

With regard to the second environmental objective, climate change adaptation, Software AG's economic activities cannot be subsumed under any of the economic activities in Annex II of the Climate Delegated Act. The reason for this is that Software AG's products and services do not implement physical solutions, for instance, that can be used to significantly reduce the most important climate risks. Furthermore, there are no expenditures (CapEx or OpEx) in fiscal 2023 to be reported as business activities with regard to climate risks.

Assessing the alignment of economic activities
Next, Software AG reviewed the previously identified taxonomy-eligible economic activities within the scope of consolidation. The goal of this review was to determine the type and extent of relevant economic activities as well as the CapEx and OpEx regarding taxonomy-eligible economic activities for each company in the consolidated Group.

Per the Taxonomy Regulation, the technical screening criteria, the do-no-significant-harm (DNSH) criteria, as well as compliance with the minimum safeguards must be reviewed to assess taxonomy alignment for each of Software AG's economic activities that were determined to be taxonomy-eligible. The obligation to assess alignment applies only for the two economic activities that are part of the Climate Delegated Act, “Transport by motorbikes, passenger cars, and light commercial vehicles” and “Acquisition and ownership of buildings.”

In the next step, the economic activities were assessed with regard to meeting the do-no-significant-harm criteria. Like last year, Software AG was not able to obtain sufficient information from external parties to prove that the activities meet DNSH criteria. For this reason, Software AG’s CapEx and OpEx are simply categorized as taxonomy-eligible.

Reviewing the Minimum Safeguards
As the final step, taxonomy alignment must be reviewed with regard to compliance with the Minimum Safeguards. Compliance with the Minimum Safeguards could not be verified for fiscal 2023 regarding Software AG's upstream supply chain due to a lack of relevant statements by the suppliers. Company-wide compliance with the Minimum Safeguards in the sense of the Taxonomy Regulation is currently undergoing a broad review at Software AG. Actions to enhance due diligence and remedy procedures include establishing complaint mechanisms and further updating procedures on human rights due diligence. Currently, no non-compliance cases have been brought forward. Completion of the internal review will be followed by a corresponding revision of Software AG’s Codes of Conduct for Suppliers and Partners in 2024. There were no violations in the form of final judgments regarding the Minimum Safeguards during the reporting period. There were no incidents in the areas of human and labor rights, bribery, corruption, taxation, or fair competition.

Calculating taxonomy-eligible and taxonomy-aligned percentages
Based on the process steps conducted and knowledge gleaned, no taxonomy-aligned amounts were determined for CapEx and OpEx of Software AG's identified taxonomy-eligible economic activities. For this reason, the calculation of the quotients is limited to determining the denominators. All key performance indicators are found in the reporting sheet, as an appendix to the Non-Financial Statement.

SUSTAINABILITY MISSION STATEMENT

Software AG developed a sustainability strategy in 2021 and adopted the following mission statement:

Sustainability and responsible action are guiding principles that are central to our mission at Software AG. We are certain that moral principles and economic success belong together. To protect future generations and our planet, we are committed to creating not only economic, but also ecological and social value.

Software AG’s current action areas and targets remain unchanged. However, for the next fiscal year, the Company is planning an extensive revision of its sustainability strategy, complete with an update of its objectives and quantitative targets. This revision will aim to align the Company’s Non-Financial Statement with the requirements of the Corporate Sustainability Reporting Directive.

Our Sustainability Program 2025 guides us in achieving our ambitions in five key action areas.

Leadership and Governance	Our Employees	Customers and Technology	Value for Society	Impact on Environment
We are committed to anchoring sustainability as an integral part of our business activities and delivering on our environmental, social, and governance (ESG) commitments. Through responsible corporate management and governance, we target long-term goals geared towards growth and best-in-class external ESG recognition. As a software company, we commit to the highest level of information security and data protection—entirely in the interests of our customers and partners. We firmly believe that our employees are the key to our success as a sustainable company.	We aspire to promote and role-model a corporate culture based on people, passion, and products, and the core values of inclusion, integrity, and innovation. We continue to focus on attracting and retaining the best talent for Software AG, nurtured through employee engagement and an inclusive and equitable working environment in which all employees can thrive and unleash their potential.	We are committed to being a reliable partner for our customers in providing high-quality and individually adjustable software solutions. Our services support digital transformation. Digital transformation can help to mitigate or even reverse the consequences of climate change. We want to play an active part in this with our solutions, enabling and helping our customers to operate sustainably.	We aspire to effectively assist people in building expertise in the area of modern technologies. Our focused involvement in universities and schools is aimed at supporting the IT experts of the future. We offer new learning opportunities and meaningful development prospects for students and young professionals. Since technological advancement plays a crucial role in developing a sustainable world, we participate in collaborative research projects that promote the global sustainable development goals (SDGs).	We are working to keep our environmental footprint as small as possible. To reduce the impact of our business activities on the planet, we are preparing to become climate neutral as quickly as possible. With the help of our technology and our solutions, we will join forces with our customers and partners to tackle significant environmental challenges and help shape a more sustainable future.

MANAGING SUSTAINABILITY AND TRANSPARENCY

Sustainability is an integral part of Software AG's DNA. Its sustainability strategy is sponsored by the Chief Executive Officer (CEO) and anchored with the Chief Financial Officer (CFO). Software AG's internal Sustainability Steering Committee (SSC) guides, monitors, and advises the Company on implementing the sustainability strategy. The strategy and SSC are led by the Finance department under the CFO. The ultimate objective of this arrangement is transparency and accountability throughout the entire company structure. It allows Software AG to ensure that all relevant stakeholders are proactively, continuously, and efficiently informed about, and involved in, the topic of sustainability and the goals and progress thereof.

STAKEHOLDERS

Software AG has internal and external stakeholders. The internal stakeholder groups comprise the employees, the Management Board, the Supervisory Board, the Compliance Office, and the Works Council. The external stakeholder groups include the customers, investors, partner network, suppliers and service providers, graduates and (potential) future employees, universities and research institutions, social actors in local communities, governments and associations, non-governmental organizations (NGOs), and key multipliers such as analysts and the media. The Company is striving towards including all stakeholders in the decision-making process related to sustainability, and keeping them well-informed regarding all relevant matters.

MATERIAL NON-FINANCIAL TOPICS

Determining material non-financial topics

Software AG comprehensively updated its materiality analysis most recently in fiscal year 2021. The result was a clearer focus on topics that have the strongest effects on the economy, environment, and society as well as the highest business relevance for the Company. There was no need to conduct a reevaluation in fiscal 2022 since no new or divergent topics were identified as material. In 2023, a revision of the materiality analysis was initiated in order to further advance compliance with the CSRD.

A multi-phase process was conducted in fiscal years 2020 and 2021 to identify material non-financial topics and issues for the Non-Financial Statement. During the first step, selected internal stakeholders from sustainability-relevant areas at Software AG participated in qualitative interviews. Furthermore, external stakeholders were also surveyed regarding Software AG's sustainability challenges. In a second step, a preliminary analysis was performed that included an evaluation per the GRI sustainability reporting standards, the industry recommendations for software companies from the SASB, and the non-financial statements from other companies in the industry. During a joint workshop, Software AG's leaders subsequently validated and evaluated the identified issues.

Results of the materiality analysis

The materiality analysis conducted in fiscal year 2021 identified eight topics as material for Software AG, listed under the column entitled “Current topics” in the table below. They are divided among the five key action areas and are being used to structurally divide the content of the Non-Financial Statement up to and including fiscal year 2023.

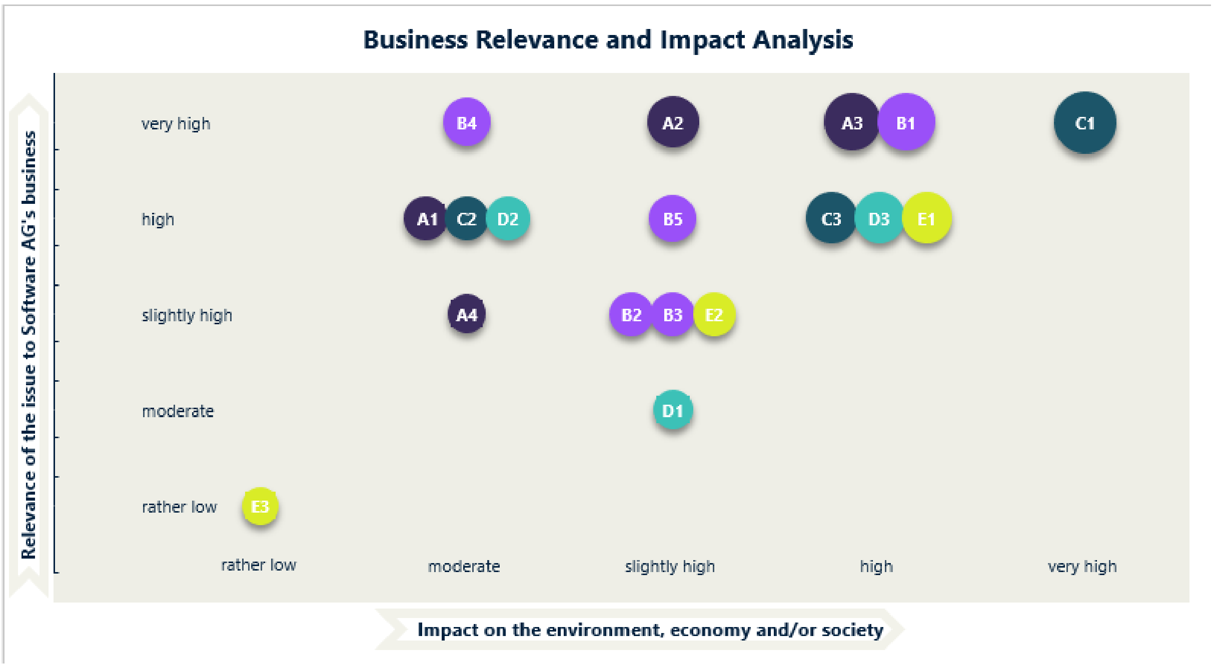
In 2023, together with an external advisory company, Software AG conducted a revision of the materiality assessment, implementing some of the requirements of the CSRD with regard to double materiality. This led to certain amendments of the previously identified topics aimed at refining their wording and aligning content with the directive. The column entitled “Future topics” in the table below sets out a preliminary list of the new topics considered material for Software AG. This list is subject to revision once Software AG conducts the complete double-materiality analysis. It will be used as the basis in preparing the Company’s future sustainability statements.

In addition to the eight material topics (identified in 2021 and still in use for the current statement), Software AG reports on two additional topics—respect of human rights and combating corruption and bribery, which result from the requirements in section 289c of HGB. Topics that are classified as not relevant for Software AG in the context of the materiality analysis are not addressed in this Non-Financial Statement. However, the Non-Financial Statement Index and the Non-Financial Key Indicators provide a full overview of sustainability metrics, including selected topics not considered material, as well as key indicators relevant for some stakeholder groups.

Action area	Current topics	Future topics
Leadership and Governance	• Sustainable economic growth • Information security and data protection	• Business conduct • Information security and data protection
Our Employees	• Corporate culture and diversity • Employer attractiveness	• Labor-management relations • Diversity, equality, and inclusion • Employer attractiveness
Customers and Technology	• Product and service quality • Innovation and impact of our products	• High product and service quality • Innovation and product impact • Customer satisfaction and loyalty
Value for Society	• Tech for good	• Affected communities
Impact on Environment	• Energy and CO_2 emissions	• CO_2 emissions • Energy • Circular economy

Minimum aspects (according to HGB) and other aspects deemed to be material

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



Leadership and Governance

A1. Business ethics and corporate digital responsibility
A2. Sustainable economic growth
A3. Information security and data protection
A4. Sustainable supply chains and human rights

Our Employees

B1. Corporate culture and diversity
B2. Occupational health and safety
B3. Work-life balance
B4. Employer attractiveness
B5. Employee promotion and development

Customers and Technology

C1. Product and service quality
C2. Customer satisfaction and loyalty
C3. Innovation and the impact of our products

Value for Society

D1. Support of local communities
D2. Stakeholder dialogue and government relations
D3. Tech for Good

Impact on Environment

E1. Energy and CO2 emissions
E2. Natural resources and circularity
E3. Use of water

NON-FINANCIAL STATEMENT INDEX

The following Non-Financial Statement (NFS) Index highlights Software AG's eight material topics by color. All other topics were classified as non-material and are reported voluntarily.

Material topics and other topics	Summarized significance of topic content for Software AG	Aspects per HGB (section 289c(2))	Assignment to reporting standards (GRI & SASB)
Leadership and Governance action area			
Sustainable economic growth	Business performance and growth, brand visibility and reputation, management of non-financial risks and opportunities	n/a	n/a
Information security and data protection	Information and data security, protection of employee and customer data, privacy, prevention of malware attacks	Employee concerns (section 289c(2), no. 2), customer concerns	SASB TC-SI-230a
Business ethics and digital responsibility	Responsible, moral, ethical, fair, and sustainable behavior, compliance, combating corruption and anti-competitive behavior, protection of intellectual property	Combating corruption and bribery (section 289c(2), no. 5)	GRI 205, GRI 206, SASB TC-SI-520a
Sustainable supply chains and human rights	Respect and protection of human rights (human rights due diligence), environmental laws/standards/policies, Code of Conduct, global sourcing process, supplier assessment	Respect of human rights (section 289c(2), no. 4)	GRI 412
Our Employees action area			
Corporate culture and diversity	Transparent, respectful, trusting corporate culture, diversity, equity, and inclusion, combating discrimination, support of women, flat hierarchies, codetermination, freedom of association and collective bargaining	Employee concerns (section 289c(2), no. 2)	GRI 405, SASB TC-SI-330a
Employer attractiveness	Recruiting global, diverse, and qualified teams, active sourcing concept, war for talent	Employee concerns (section 289c(2), no. 2)	GRI 401
Additional topics in the NFS key indicator table	Work-life balance, employee promotion and development, staff attrition	Employee concerns (section 289c(2), no. 2)	GRI 404
Customers and Technology action area			
Product and service quality	Certified management systems; regular software releases, updates and improvements, adding value for customers (efficient use of resources, better process results, competitive advantages)	Customer concerns	n/a
Innovation and the impact of our products	Monitoring of competitors and disruptive trends, innovation capacity, research & development, impact of products on society, environment, and businesses	Customer concerns	n/a
Value for Society action area			
Tech for good	Develop digital competencies, mentoring/seminars for students and future IT managers, engagement in research projects, foster education	Customer concerns, social matters (section 289c(2), no. 3)	n/a
Additional topics in the NFS key indicator table	Employee engagement and support of local communities	Social matters (section 289c(2), no. 3)	n/a
Impact on Environment action area			
Energy and CO_2 emissions	Energy management, energy efficiency, CO_2 emissions, expansion of renewable energies, carbon footprint, climate strategy	Environmental matters (section 289c(2), no. 1)	GRI 302, GRI 305, SASB TC-SI-130a
Additional topics in the NFS key indicator table	Natural resources and circularity	Environmental matters (section 289c(2), no. 1)	GRI 306

CODE OF CONDUCT AND INTERNATIONAL CONVENTIONS AND GUIDELINES

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

Code of Conduct

Software AG's Global Code of Conduct contains policies for sound and responsible corporate governance. It sets out what Software AG considers to be ethically correct conduct in its day-to-day business. The relationships of Software AG employees with colleagues, customers, partners, and competitors follow these guidelines. All employees must read and understand the contents of the Global Code of Conduct. To this end, all new employees attend mandatory online training programs and receive certification upon completion. The Global Code of Conduct is currently available in seven languages and is updated on a regular basis.

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

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

Compliance with the Code of Conduct, the Compliance Office, and the Compliance Board

In 2023, Software AG established a Compliance Officer who is responsible for maintaining, updating, and monitoring the Compliance Program; this role is further supported by the Compliance Board. Together, they review and assess compliance concerns and strive to ensure that employees act in accordance with the law, that internal rules and processes are followed, and that employee behavior conforms with Software AG's Code of Conduct. Software AG has introduced various mechanisms to help its employees adhere to the Code of Conduct. From 2023 onward, all Software AG employees must complete an online training program every two years. During the year under review, 2,964 employees completed the Code of Conduct training. The program integrates hands-on examples, familiarizing employees with different aspects of the Code, including its voluntary commitment to respecting human rights. The online training is offered through the Company's learning management portal, which checks attendance and completion. At the end of the training program, employees are required to complete a multiple-choice test, and a certificate is issued upon successful completion

Other mechanisms to ensure adherence to the Global Code of Conduct are imposed via the functions of the Compliance Office. The office can be contacted by employees and other stakeholders for questions and reports with regard to the Code. In 2023, Software AG implemented a new compliance reporting system available at https://softwareag.integrityline.com. Relevant parties are encouraged to report violations of the Code via this platform. Reports are treated with utmost confidentiality, and the Company guarantees no retaliation against employees who have reported a violation in good faith.

Other essential duties and responsibilities of the Compliance Office include:

- Refining, regularly reviewing, and updating the Code of Conduct
- Monitoring implementation and application of the Code of Conduct
- Conducting training programs and advising employees on compliance issues
- Investigating compliance reports and making recommendations for corrective action in response to violations
- In the event of non-compliance, examining whether compliance rules (including the Code of Conduct), procedures, training, and organizational framework conditions need to be adjusted

In fiscal 2023, Software AG's Compliance Office received a total of 13 (2022: 7) reports of potential compliance violations. For more information on Compliance, please refer to the Statement on Corporate Governance.

Scope

The Global Code of Conduct applies to Software AG worldwide, including, but not limited to, employees, external staff and agents acting on behalf of Software AG. Violations can be sanctioned by disciplinary measures, in addition to possible legal penalties.

Partner Code of Conduct
Software AG's business relationships with its partners are regulated by its Partner Code of Conduct, which includes a compliance self-assessment. It requires business and sales partners to provide information and commit in writing their compliance with the Code. In this context, the Compliance Office plays a regulatory and auditing role.

Supplier Code of Conduct
There are also conduct guidelines for suppliers. Software AG's binding Supplier Code of Conduct must be confirmed in writing by all suppliers of the Software AG Group. An enforcement guideline regulates the process for existing and new suppliers. The Compliance Office reviews compliance with the Supplier Code of Conduct on a regular basis. Violations may lead to termination of contractual relationships with suppliers.

International conventions and guidelines
In addition to internal regulations and laws applicable in the countries where Software AG operates, there are several conventions and recommendations by international organizations, primarily addressed to the respective member states and not directly to individual companies. However, they provide important guidelines for the conduct of a multinational company and its employees. Software AG therefore recognizes the significance of complying with these guidelines worldwide. The essential agreements of this kind are listed below:
- Universal Declaration of Human Rights of the United Nations, 1948
- European Convention for the Protection of Human Rights and Fundamental Freedoms, 1950
- Tripartite Declaration of Principles of the ILO (International Labor Organization) on Multinational Enterprises and Social Policy, 1977
- ILO Declaration on Fundamental Principles and Rights at Work, 1998 (especially regarding the following topics: elimination of child labor, abolition of forced labor, prohibition of discrimination, freedom of association, and right to collective bargaining)
- Convention of the Organization for Economic Cooperation and Development (OECD) on Combating Bribery of Foreign Officials in International Business Transactions, 1997
- OECD Guidelines for Multinational Enterprises, 2000

LEADERSHIP AND GOVERNANCE
The Leadership and Governance action area comprises the material topics **Sustainable economic growth** and **Information security and data protection**. In addition, this area also covers the aspects Combating corruption and bribery (required aspect per section 289c(2), no. 5 HGB) and Respect of human rights (minimum aspect per 289c(2), no. 4 HGB). These latter aspects were not defined as material in the context of the Software AG materiality analysis; reporting on these topics is supplementary.

Software AG aims to anchor sustainability as an integral component in its business activities and to meet its obligations in the ESG (environmental, social, and governance) areas. With its responsible management approach, the Company is pursuing long-term goals that target growth and external recognition for first-class ESG achievements. As a software company, it is committed to information security and data protection at the highest level.

SUSTAINABLE ECONOMIC GROWTH

Basic understanding
Sustainable economic growth is of key significance to Software AG's business since it contributes to the Company's long-term stability and positive impact on employees, investors, and customers. Software AG's leadership is convinced that having a sustainable business strategy not only promotes economic growth, but is also essential in order to live up to the Company's own requirements pertaining to ESG matters.

Targets and management
Software AG controls long-term economic growth with its corporate strategy. As part of its transformation, the Company realigned its corporate strategy in 2023.

Software AG’s ESG strategy is a cornerstone of its sustainable economic growth. Based on feedback from its shareholders, the Company has identified the ESG ratings from MSCI and ISS as most relevant for investors and has set itself the following targets:

- Achieve an ISS ESG Rating of C by 2023 and B by 2025
- Achieve an MSCI Rating of AA or better by 2025

Progress and actions

The changes in the Supervisory Board, particularly the election of an independent Supervisory Board chair in 2022, were assessed as a significant improvement by MSCI in its ESG Rating update in October 2022. MSCI’s ratings are heavily weighted towards corporate governance and social issues. Additionally, Software AG’s cleantech product range, employee engagement strategy, and solid data protection and data security initiatives continued to earn strong scores. As a result, Software AG’s rating was raised to the top score of AAA (2022: AAA). The target rating for 2025 was therefore already met in 2022. The rating was perpetuated in 2023—and the Company was able to maintain this level as long as it was stock-listed.

Sustainability initiatives in 2022 also had a positive impact on Software AG’s ISS Corporate ESG Rating, and the Company’s score improved from C- to C (max. A+) in 2023 after the regular update at the end of the first quarter. The approach used for the ISS Corporate ESG Rating is strongly based on emissions data compiled by the Carbon Disclosure Project (CDP). Software AG assessed its corporate carbon footprint for 2021 for the first time (CCF) and submitted its data to the CDP survey in July 2022. This enabled the CCF data to be factored into the 2023 ISS ESG Rating. As a result, the rating reached a solid C with which Software AG achieved prime standard.

As part of its strategic risk and opportunity management, Software AG started reporting on strategic ESG risks separately in the 2022 fiscal year. The corresponding opportunities and risks are thus assessed on a semi-annual basis. The risks comprise potential negative impacts such as the loss of or inability to acquire employees and customer orders, increased costs of capital, decreased market value, and penalty fees for not meeting legal requirements. In 2023, the ESG risks and opportunities were reassessed according to the methodology of the Task Force for Climate-related Disclosures (TCFD). For more information, please refer to the Opportunity and Risk Report.

Software AG has continued to enrich its ESG portal, providing investors and other interested parties with up-to-date information related to sustainability. In addition to reports on the Company's social engagement, the ESG website presents sustainable IT solutions that were realized using Software AG products. It also showcases research projects that are aligned with the United Nations’ Sustainable Development Goals (SDG). Furthermore, visitors to the site will find Software AG’s Human Rights Commitment Statement, its Code of Conduct, and articles on health programs and initiatives for greater diversity, equality, and inclusion at corporate level.

INFORMATION SECURITY AND DATA PROTECTION

Basic understanding

A high level of data protection and information security is of utmost significance for Software AG in order to be compliant with the requirements of its customers and partners. With its comprehensive information security management program, including various information security management systems (ISMS), Software AG aims to manage information resources in a holistic way, so as to ensure a high level of security.

Information assets are subject to risks due to to the globally increasing number of threats which will continue to grow over time. At the same time, regulators are trying to improve information security by implementing additional policies and expanding information security regulations for Software AG’s customers as well as Software AG itself. To best protect itself from the severe effects of various cyber threats, Software AG assesses the existing risks for the Company itself, its customers and other relevant stakeholders, and conducts relevant risk minimization. For more information on risks associated with information security, please refer to the Opportunity and Risk report.

Targets and management

A variety of security measures are utilized throughout the entire Company. Software AG's security awareness program addresses issues such as IT security, phishing, security incident training, and data protection. The program includes an annual employee training on information security and a biannual training on data protection.

The Company has defined the following objectives for the near future:
- At least 85 percent of employees trained on information security
- At least 85 percent of employees trained on data protection

For Software AG, implementing a comprehensive security strategy means proactively ensuring the security of business-critical data and important information resources. As a provider of maintenance and support, customer cloud services, professional services, and product delivery, Software AG processes large amounts of customer data. In the role of data controller, the Company processes personal data, particularly regarding employees, customers, prospective customers, partners, suppliers, and other stakeholders.

Software AG has a designated Data Protection Officer and has additionally established a Data Protection team to provide guidance to the business units on matters related to data protection. The Management Board is kept up to date via the comprehensive information provided in the annual data protection report. The Data Protection Officer and the Data Protection team actively engage in regular training sessions covering the latest regulations and court rulings and the practical implementation of data protection measures.

An integrated data protection management system (DPMS) was implemented in accordance with the requirements of the GDPR. The system records, observes and, if necessary, adjusts the data protection aspects as needed. The general processes for handling data protection incidents and violations are integral components of the DPMS, and also include those processing undertakings that affect the personal data of Software AG customers or other business partners. Software AG implemented the DPMS using its own products ARIS, Alfabet, and webMethods AgileApps.

The effectiveness and documentation of the data protection processes undergo regular evaluation as part of the external audit process for ISO 9001 and ISO 27018 certifications. The outcomes and observations are documented, and progress is measured in a central audit system. Management is regularly informed on developments in this subject area in relevant meetings.

Progress and actions
In fiscal year 2023, the employee training rate for information security reached 93 percent (2022: 88.5 percent). The employee training rate for data protection reached 75 percent (2022: 80 percent).

Software AG implemented suitable measures to reduce the likelihood of security incidents and further enhance its ability to react:
- An outside assessment of IT security is an integral component of the security program.
- Internal organizational and technical measures for security monitoring were continually improved by the Security Operation Center.
- Software AG's IT strategy enhanced the focus on IT security as the top priority, with the core "Security by Design" approach reflected in both daily operations as well as in future projects and services.
- The Company-wide security awareness program was supplemented with target audience-focused training sessions based on results of regular anti-phishing campaigns.
- The information security strategy program was revised to improve automation and effectiveness.

The Information Security Management System (ISMS) for customer cloud services is externally certified by an independent third-party auditor for compliance with ISO/IEC 27001, 27017 and 27018, to reflect best practices in the industry. In addition, the independent audit reports on service organization audits (e.g. SOC 2 and C5) give Software AG customers detailed information about how the Company monitors the security and availability of the cloud services, as well as regulatory compliance. Relevant certifications and in-depth information about cloud security can be found on the corporate website.

On June 4, 2021, the European Commission released updated standard contractual clauses (SCCs) for data transfers from companies or contractors responsible for processing data that are located in the EU/EEA to others located in third countries that do not offer an appropriate level of data protection. These updated SCCs replace the three SCCs passed under Data Protection Directive 95/46. For that reason, Software AG changed its processes and contract agreements to align with the new SCCs. In accordance with the deadlines defined by the European Commission, Software AG uses the new SCCs as a mechanism for transferring personal data to third countries that do not provide a suitable level of data protection.

COMBATING CORRUPTION AND BRIBERY

Basic understanding
Software AG strives to ensure that all employees act with integrity and in a responsible, ethically correct manner while adhering strictly to legal regulations—especially with regard to competition and antitrust law.

The relevant principles are defined in Software AG's Global Code of Conduct. The topics covered by the Code of Conduct can be found in Fundamental Aspects of the Non-Financial Statement. Every employee must be familiar with the Code and adhere to the guidelines established therein in their day-to-day work.

The Combating corruption and bribery aspect was identified as a relevant topic in the Business ethics and digital responsibility area as part of Software AG's materiality analysis, but is not defined as material in direct comparison with other topics in the business relevance and impact analysis.

In international business activities, the potential of risks from corruption and anti-competitive behavior emerge due to variations in interpretation of ethical and moral business practices across different countries. This risk is monitored and mitigated through the measures described below and is therefore not considered material.

Furthermore, compliance provisions are reviewed and their effectiveness is monitored through the activities of the Compliance Office as well as the Internal Audit department. For more information on legal risks associated with compliance, please refer to the Opportunity and Risk Report.

Governance
Software AG’s Compliance Office helps ensure that all employees behave in accordance with the law and adhere to internal rules and procedures. Employees with any relevant inquiries can consult the office or the Legal department overseeing their respective region. In cases of suspected compliance violations, the Compliance Office has the authority to initiate audits. These are approved by the COO, as the responsible Management Board member for compliance or, depending on the subject, by the entire Management Board, and are subsequently carried out by Internal Audit. External resources are consulted depending on the focus of the audit. The findings of the audit and the resulting corrective measures are reported to, reviewed, and evaluated by the Compliance Office and the COO or the full Management Board.

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

Progress and actions
The clear rules of the Code of Conduct and the mandatory training of employees anchor integrity and fair business practices at Software AG. In fiscal 2023, all employees were asked to participate in the updated Code of Conduct training. A total of 713 (2022: 712) completed it and received the required certification.

No significant violations of competition law were identified in 2023.

RESPECT OF HUMAN RIGHTS

Basic understanding
Software AG is a global software company operating across a number of countries and cultures. Earning the trust of customers, partners, and shareholders is of key importance to Software AG's work. This can only be achieved through a collective commitment to handling that trust responsibly. Software AG acknowledges the significant responsibility it bears to uphold human rights collaboratively with and for its employees, customers, business partners, suppliers, and the community.

The Company’s values of inclusion, integrity, and innovation emphasize Software AG's clear affirmation of protecting human rights in accordance with international human rights standards, such as the International Bill of Human Rights of the United Nations and the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work. In 2022, Software AG also signed the United Nations Global Compact, to further affirm its commitment to respecting human rights.

To ensure that the supply chain respects and protects human rights, Software AG has included relevant provisions in its Codes of Conduct for suppliers and partners.

Based on an initial risk assessment, the aspect Respect of human rights was identified as a relevant topic in Software AG's materiality analysis, but not defined as material in direct comparison with other topics in the business relevance and impact analysis. Software AG believes that its worldwide operations cannot and do not pose a significant risk, nor that its activities have a serious negative impact on human rights. Since both its suppliers and business partners are committed through the respective Codes of Conduct, Software AG believes the risk of human rights violations such as infringements on the rights of children and young people is insignificant. To add further confidence to this statement, Software AG began implementing a third-party risk management (TPRM) program in 2023, which will enable the Company to comprehensively monitor, mitigate, and remediate this risk.

Governance

All of Software AG’s suppliers are required to sign the Company's Supplier Code of Conduct, or, in exceptional cases, they may provide evidence of possessing their own equivalent and comparable code of conduct. The Compliance Office assesses and decides on any exceptions to this rule on a case-by-case basis. A corresponding guideline defines the application and a checklist serves to ensure compliance with all requirements. This enables Software AG to ensure that its suppliers adhere to ethical principles of conduct that go beyond the binding legislation of their respective countries of operation.

In the context of a comprehensive management approach, the Supplier Code of Conduct refers to major international agreements and recommendations of international organizations, and encompasses the following topics:

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

Software AG and its subsidiaries purchase goods and services necessary for internal processes from numerous suppliers across various countries, following well-established guidelines. Operational purchasing is handled locally by the relevant subsidiary. The central Purchasing department conducts a comprehensive analysis of all Group procurements and verifies compliance with the defined guidelines, including the requirement for new suppliers to sign the Supplier Code of Conduct. In turn, Internal Audit reviews the effectiveness of this process. The goal is to ensure that all procurements are preceded by a corresponding approval. Ethical and economic aspects are evaluated equally for the approval.

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

Global Sourcing Process

Progress and actions

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

Software AG is not aware of any cases in the reporting year or previous years where products or product components were linked to human rights violations.

In 2022, Software AG began preparing for the requirements of the German Supply Chain Act (LkSG), compliance with which became mandatory for the Company on January 1, 2024.

As part of preparations in 2023, the Company started defining and implementing the measures and actions required to meet its due diligence obligations as of the next fiscal year. The proactive approach involved a comprehensive examination of various elements within the supply chain to ensure compliance, sustainability, and efficiency. Software AG updated and further developed the internal Risk Management structure, introduced a complaint mechanism, and appointed a Human Rights Officer. In 2024, a comprehensive risk analysis will be performed, its main aim being the identification and handling of potential risks within the Company's own business, supply chain, and partner network. As part of that, updates to the current policies and procedures will be implemented as well as establishing preventive and corrective actions to address the identified risks.

OUR EMPLOYEES

The action area Our Employees consists of the following material topics: **Corporate culture and diversity** and **Employer attractiveness**. The action area corresponds to the employee concerns aspect per section 289c (2), no. 2 of HGB.

Software AG's leadership aspires to promote and role-model a corporate culture based on people, passion, and products, and the core values of inclusion, integrity, and innovation. The Company strives to attract and retain the best talent nurtured through employee engagement and an inclusive and equitable working environment in which all employees can thrive and unleash their potential.

CORPORATE CULTURE AND DIVERSITY

Basic understanding

A company's corporate culture, encompassing its values and norms, serves as the glue that holds it together. This culture not only influences employee performance, but also facilitates the achievement of business objectives. It is supported by a framework that outlines the expectations for individual behavior, beliefs, actions, and decisions. In March 2022, Software AG introduced its Culture Framework, which is focused around three core Ps: people, passion, and products, serving as the backbone of Software AG's operations. The Culture Framework establishes inclusion, integrity, and innovation as the fundamental values guiding leadership practices. These values unite the Company and offer practical guidance on communication, interaction, and decision-making. Diversity, equity, and inclusion (DE&I) are an integral part of Software AG's Culture Framework. Recognizing the interconnectedness of corporate culture, employee satisfaction, and engagement, Software AG has implemented a variety of initiatives to better understand these principles and positively influence its corporate culture.

The dedication shown by Software AG's employees, coupled with their professional and personal abilities, decisively contributes to the Company's success. Overlooking employee concerns poses a fundamental risk of (generally indirect) negative impacts on business performance. Examples of this include situations when low employee satisfaction leads to attrition and a loss of company-specific expertise, or when a lack of diversity in the corporate environment hampers innovation. For this reason, Software AG deploys a variety of initiatives aimed at fostering high employee satisfaction and nurturing an innovative and diverse corporate culture while actively monitoring employee engagement. For more information on personnel risks and opportunities, please refer to the Opportunity and Risk Report.

Targets and management

The Management Board considers DE&I to be a fundamental component of an open and innovative corporate culture and strives to maintain a work environment that encourages employees' contributions by embracing their different experiences and perspectives.

Since 2020, Software AG has been a member of The Valuable 500, a global business collective of companies dedicated to innovation in disability inclusion. In Germany, Software AG is a signatory to the Charta der Vielfalt (Charter of Diversity) affirming its commitment to promote the recognition, appreciation, and integration of diversity into Germany’s business culture.

Another objective of Software AG in this context is the recruitment of women and promoting their professional development. The Company is a member of the Initiative Women into Leadership (IWiL), a non-profit association that facilitates long-term mentoring and promotion of women at the top level, and regularly nominates participants for the program.

Software AG has established the following targets:
- Maintain or improve the Q12 Engagement Score in its annual employee survey compared to the previous year
- Maintain or improve results from the question on DE&I in the annual employee survey
- Promote DE&I awareness throughout the Company: 85[1] percent of employees should complete a global DE&I training program by 2025

Software AG conducts an annual employee survey (MyVoice) to evaluate employee engagement and satisfaction. It uses a standardized set of questions to assess corporate culture, employee engagement, accountability, and staff development. The Gallup Q12 Engagement Score consists of a questionnaire that is evaluated annually, allowing Software AG to compare its results with those of its industry peers. For the Company, the Q12 Engagement Score is a strategic KPI that is reflected in the Management Board’s targets and at business-unit level. Additionally, currently trending topics can be addressed and included in the annual employee survey, e.g., DE&I, leadership, well-being, and sustainability.

The survey results are communicated internally and factored into company-wide activities within the People & Culture area. Managers are responsible for discussing the outcomes with their teams and implementing measures for improvement.

All employees should be able to contribute to the Company's success with their individual personalities and strengths, and in doing so, develop their full potential. The Change Network further supports leaders in their work and anchors the cultural shift in all locations worldwide. This volunteer network was established in 2020 and consists of a diverse team of employees across different regions and functions. It is aimed at promoting employee engagement and reinforcing change management and the Culture Framework.

In the context of a comprehensive management approach, the Global Code of Conduct defines what Software AG considers to be ethically correct conduct in its daily business operations. It covers a variety of topics, including equal treatment and anti-discrimination. The Code is complemented by the Human Rights Commitment Statement and the Culture Framework, which emphasize Software AG’s three core principles (people, passion, and products) and values (inclusion, integrity, and innovation).

With the Company's Engagement Model, the Human Resources department has committed to supporting and handling strategic and operational personnel matters and concerns as effectively as possible. Managers receive consultation and support on issues regarding the development of individual employees as well as the organization as a whole. HR programs, processes, and initiatives are being developed and revised to address and drive a range of local and global topics. Establishing a relationship with employees and managers based on trust is a priority targeted by these efforts.

Progress and actions
In 2023, 81 percent (2022: 86 percent) of employees took part in the annual global MyVoice survey. The Q12 Engagement Score, which measures employee engagement based on twelve standardized questions, weakened compared to the previous year by 0.16 points to 4.05 (2022: 4.21). Employee satisfaction decreased compared to the previous year.

Software AG continues to foster a DE&I Ambassador Network, orchestrated and managed by a global DE&I contact person for the continued success of the Company’s global DE&I strategy. In 2023, the focus was on continuing to increase awareness with campaigns that highlight and promote the various facets of diversity and inclusion. Key themes for 2023 included International Women’s Day, Cultural Diversity, Language Diversity, Pride Month, International Day of Persons with Disabilities, and more. For employees and managers, targeted DE&I training is scheduled to be rolled out in 2024.

[1] The 85 percent target accounts for expected attrition through hires and leavers as well as long-term absences.

The outcome from DE&I questions in the annual employee survey decreased by 0.08 compared to the previous year, resulting in a DE&I score of 4.48 (2022: 4.56).

Software AG participated in various projects to boost the interests of women and young talent in the IT industry and its appeal as a potential career path. The Company once again hosted Girls' and Boys' Day events in 2023. In addition, Software AG India continued with the SoftwareAGain program that specifically supports women who wish to return to the IT industry after an extended absence. This program was awarded DEI Initiative of the Year 2023 in the Women in IT Asia Awards. Internal women's networks in India and the DACH region continued to support communities in the areas of inclusion and advancement of female talent. In 2023, two additional women's networks were established, one in the USA and one in Asia.

The Motheo Innovation Centre in South Africa, a collaboration between Software AG and the State Information Technology Agency (SITA), was launched in June 2023. This center provides a unique opportunity to empower youth and equip them with the skills needed to thrive in the digital era.

Software AG's own Give Back to the World initiative engaged in three additional projects in 2023. In Bracknell (UK), employees worked together to refurbish a local refuge for women escaping domestic violence. In March, employees in Germany participated in a tree planting campaign to commemorate International Day of Forests and help remediate deforestation in the Darmstadt forests. Additionally, a fundraising campaign was initiated to further facilitate afforestation in Germany. The goal is to plant trees for each of the 51 European Championship games held in 2024 in Germany. With this campaign, the project partners are sending a strong signal for sustainability and the unifying power of sports.

The 1,000 trees that were planted by Software AG employees in the Darmstadt forests (Germany) in 2019, were further maintained in 2023 through environmental and forestry protection programs. The Software AG Forest in Budapest (Hungary) was established in 2023 with 260 trees planted thanks to the efforts of employees. Tree planting and nurturing projects were also undertaken in various other locations including India and Australia, further reflecting a strong commitment to the environment.

Software AG's MoveYourFeet campaign is building a bridge between Company sports, team spirit, and charitable and athletic commitment. The Company, the employee representatives of the Supervisory Board, and the Software AG Foundation donate a fixed amount of money for each kilometer completed by employees at official competitions. In 2023, staff members covered a total distance of 7,028 kilometers (2022: 6,865) and raised a total donation of €28,200 (2022: €28,500).

EMPLOYER ATTRACTIVENESS

Basic understanding

The expertise and personal skills of Software AG's employees are a key factor in the Company's success. For that reason, the Company always seeks to attract and retain the best talent. In the contemporary business landscape, competition for skilled individuals has emerged as one of the biggest challenges for companies globally—an obstacle that Software AG is continuously facing. Risks emerge when succession planning is overlooked, making the Company less appealing to rising talent and qualified professionals. Furthermore, neglecting ongoing education and training needs of employees in a competitive market may pose additional challenges. Employee recruiting and retention are therefore crucial aspects of securing Software AG's business activities and success. The proactive promotion of young talent and hiring innovative employees serve as key factors that lead investors and business partners to choose Software AG. Ultimately, employer attractiveness and branding play an important role in retaining talent, even more so since today's applicants take a holistic view of a company and its perspectives when it comes to deciding whether to join an organization. For more information on personnel risks and opportunities, please refer to the Opportunity and Risk Report.

Targets and management

Software AG seeks to attract and retain the best talent over the long term. For that reason, the Company has set the following target:

- By the year 2025, achieve an average global minimum rating of 4.3 out of 5 points on the international Glassdoor platform

In addition to outside evaluations, Software AG monitors and evaluates further internal key indicators including employee satisfaction, attrition, and tenure to implement measures where necessary. The attrition rate is a crucial metric for measuring employee satisfaction and Software AG's appeal for young talent and trained professionals. It is calculated as the number of leavers in the past fiscal year in relation to the average number of employees. It is regularly analyzed and provides information regarding the different departments and regions as well as a breakdown of voluntary and non-voluntary employee departures.

The Talent Acquisition department has used its own active sourcing concept since mid-2020 to manage activities for identifying qualified external candidates and approaching them about open positions.

As a founding member of the Allianz der Chancen (Alliance for Opportunities), Software AG champions a transformation in the labor market and sustainable employment prospects to counter the shortage of trained professionals. Furthermore, the Company provides targeted promotional and educational measures for high-school and university students as well as for rising talent to support young people early in their professional development. In Germany, a variety of educational and training programs are offered in the areas of office management and computer science, as well as cooperative study programs in computer science and business administration.

Progress and actions

Software AG works to continuously adjust its programs to meet the evolving needs of its employees and improve the high ratings it receives on employer evaluation platforms like Glassdoor and Kununu. In the year under review, Software AG achieved a score of 4.0 (2022: 4.2) on Glassdoor, a global employer rating platform, on a scale from 0.0 (very dissatisfied) to 5.0 (very satisfied). On Kununu, Germany's rating platform, Software AG achieved a score of 3.7 (2022: 3.8) on a scale from satisfactory (1–2) to very good (4–5).

The total attrition rate at Software AG in fiscal 2023 was 16 percent (2022: 16 percent). While this number is still below the industry benchmark of 20 percent, it is also a result of the “great resignation,” which has hit many companies globally, presenting them with an urgency to attract and retain good talent. Software AG addressed this challenge with various targeted initiatives. Additionally, the Company is also managing involuntary attrition, which may be beneficial to the organization as it provides the opportunity to introduce new talent.

Software AG continued to offer its Employee Assistance Program (EAP), which provides employees with around-the-clock professional counseling free of charge. To further support employee well-being and to ensure maximum flexibility, the hybrid work model is still in place, empowering all staff members to make the best use of time and location. The 2023 MyVoice work-life balance score went down by 0.68 and reached 4.02 (2022: 4.70).

CUSTOMERS AND TECHNOLOGY

The action area Customers and Technology includes the material topics: **Product and service quality** and **Innovation and the impact of our products**. Software AG has defined the customer concerns aspect as material beyond the aspects specified in section 289c of HGB.

Software AG aims to be a reliable partner by delivering high-value, individually customizable software solutions to its customers. The Company supports the digital transformation with its services that may help mitigate or even reverse the consequences of climate change. Software AG is committed to actively aid both people and the planet through its solutions, which empower customers establish conditions of doing business sustainably. The Company strives to deploy its technologies in the most resource-efficient manner possible, thus further helping its customers to become more sustainable, and supporting circularity.

PRODUCT AND SERVICE QUALITY

Basic understanding

A key objective of Software AG is to promote innovation and competitive differentiation among its customers. The Company’s target is to further support their successful digital transformation—thereby making a significant contribution to their overall success. Since Software AG’s products are primarily built-in solutions that design, inform, analyze, or manage business-critical processes, the high quality of its products and services is essential. Therefore, alongside innovative capability, product and service quality are crucial in the development and delivery processes.

For Software AG's customers, the seamless functioning of products is the key prerequisite for successful execution of business operations. Software is becoming increasingly important in the context of digitalization and is indispensable in the day-to-day work of businesses; nearly all operational processes are managed by software solutions. For this reason, the secure, flawless operation of solutions without downtime is of the utmost importance. Every downtime event has an immediate impact on the processes of Software AG’s customers or their customers, depending on the scenario in which Software AG’s solutions have been deployed.

Targets and management
Software AG has been using the net retention rate (NRR) metric since 2021. This key indicator is helpful in the subscription and Software as a Service (SaaS) business model because it expresses whether the annual recurring revenue (ARR) within the same customer group has increased or decreased over a specified twelve-month period. Additionally, NRR is an indicator of the successful implementation of solutions purchased by customers. The implementation and adoption process is closely monitored by a Customer Success Manager (CSM) to ensure that customers can reap the anticipated benefit and value from the delivered software. Fast execution and implementation can significantly improve a solution's success. To this end, the Professional Services team has developed 50 fast-track services that customers can access upon their CSM's recommendation by using success credits they have purchased.

Software AG has set the following target:
- Achieve an NRR of at least 105 percent by the year 2025

Additionally, Software AG measures customer satisfaction in support cases based on the Net Promoter Score (NPS). For the Company, NPS represents a strategic performance indicator, which is reflected in the Management Board’s targets and broken down into business units.

Furthermore, clearly documented processes and performance indicators (for example, quality goals, routine quality management reviews), coupled with a quality-oriented corporate culture and certification of management systems, ensure Software AG's high quality standards. The entire development process is monitored through product standards. These include qualitative requirements for the products and services being developed, which are also used as a basis for release decisions. Whether these requirements have been met is reviewed as part of quality gates and serves as the foundation for the release process.

Software AG's most important management systems are certified according to ISO standards and centralized in an integrated management system (IMS):
- Software AG secures its first-rate support services and software solutions with its ISO 9001-certified quality management system (QMS). Customer feedback is systematically captured and processed in the QMS, which is the basis for an ongoing improvement process and high customer satisfaction.
- Software AG's ISO 22301-certified business continuity management system enables the Company’s excellent support services. The continuity management system ensures the availability of systems and services needed by customers in situations of crisis, for instance through important infrastructure redundancies.
- The ISO 27001-certified cloud ISMS includes comprehensive, holistic security management for Software AG's cloud services and provides a suite of information security measures—for example, protection from unauthorized access and identification of security risks. Software AG is certified for compliance with ISO/IEC 27001:2013, ISO/IEC 27018:2014, and ISO/IEC 27017:2015.

Software AG provides global 24/7 support to ensure the continuity of its customers’ core business systems. The Company's global support is also certified according to ISO 9001, ensuring high service quality. With the Enterprise Active Support model, Software AG provides fast, agile, and proactive customer support for all of its products. Customers benefit from industry-leading performance and fast response times across all time zones. Depending on business criticality, other support models with fewer services can be selected (standard support), which differ regarding regional coverage and response times. Every customer who uses global support is asked to provide feedback on the service and on Software AG in general. The feedback is used to improve customer service and is incorporated in the product development process.

In addition to Global Support, there are other teams (New Product Introduction teams) that specialize in supporting customers. Their specific focus is on introducing new products and reporting feedback gathered during the product introduction process to the development department.

The different aspects of product and service quality are measured and tracked with the help of performance indicators by means of an internal management reporting system. Using the performance indicators—which measure the number of support notifications per customer or processing time, for example—it is possible to identify and resolve internal problems early . Software AG has established an Escalation Management team to ensure that targeted solutions are developed as quickly as possible in critical customer situations. This team intervenes temporarily to identify all kinds of challenges and provide appropriate solutions.

Progress and actions
NRR was first introduced as a key indicator in fiscal 2021 to measure the extent to which Software AG's products are deployed by customers over the long term and deliver the anticipated optimization contributions. Software AG achieved an NRR of 107 percent in 2023 (2022: 104). Software AG had set an NPS goal of 60 for 2023. With an NPS of 65 (2022: 61), the Company reached an all-time high in 2023. For years, the NPS has been determined after closing a support incident.

Meanwhile, Software AG has also been measuring the NPS at other points during the product life cycle. NPS surveys are now conducted and followed up on during product usage directly from end users as well. These results are captured and reported as separate values.

Customer satisfaction is extremely important to Software AG. For this reason, the Company implements a number of actions to ensure continuous improvement. For one, relevant employees are regularly trained on the products offered, as well as regarding their technical and analytical skills. There are also special cross-unit initiatives being organized, for example between Support and Research & Development regarding end-to-end cloud support. Continuous feedback is provided by Support to the Product Organization team to ensure customer needs are being accounted for.

Software AG is defining a roadmap for incorporating AI into Support processes. AI will be employed to deliver efficient and personalized support. The solution will automate tasks, provide real-time assistance, and automatically generate documentation (such as knowledge-based articles). By embracing AI, Software AG will be providing seamless and personalized support, thereby improving customer satisfaction. Initially, these new capabilities will be rolled out internally. Subsequently, they will be directly available to customers from the Empower Support Portal. The tentative rollout date for this project is 2024.

INNOVATION AND IMPACT OF OUR PRODUCTS

Basic understanding
Software AG's goal is to support its customers with innovative products that help them solve long-term problems and achieve their objectives. Extremely fast innovation cycles are the norm in the software industry because the realities of life in diverse national economies continue posing new challenges for companies. For that reason, it is essential to recognize customer needs—meaning the business problems and challenges Software AG's customers are facing—to then be able to offer technological solutions that will resolve them. To that end, the Company monitors current developments and disruptive trends in different industries. For more information on market trends and their monitoring as well as on Software AG's differentiators, please refer to the Competitive Situation section in the section Fundamental Aspects of the Group of the Combined Management Report.

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

Software AG believes that technological innovations are a key means of solving the social challenges of our time. Real-time data provision and analysis are essential to optimize resource usage, detect process errors, and quickly realize improvements. If Software AG’s customers are not successful in improving their resource usage, they are exposed to both competitive and environmental risks. Consistent use of existing and new data is the only way to learn efficiently and make the best possible decisions for the benefit of society. Software AG could not identify any significant risks with regard to the Customers and Technology action area. For more information on the product portfolio and innovation risks, please refer to the Opportunity and Risk Report in the Combined Management Report.

Targets and management
As a software company, Software AG believes innovation is key to attracting new customers. Furthermore, the Company wants its solutions to help its customers establish more efficient and sustainable business processes. To make certain this happens, Software AG has set the following targets:
- The percentage of R&D investments will remain at least 15 percent of total revenue through 2025.
- Software AG will set its sales focus on new customers and successively gather information about the impact of the solutions customers implement with its technology on sustainability. By 2025, the Company aims to know what the long-term impact of its technology is with regard to efficiency improvements and resource savings for at least 50 percent of new customers.

Progress and actions
Over the past year, Software AG was able to exceed even further its goal of R&D investments of at least 15 percent of total revenue with 19.4 percent (2022: 18.9 percent). For more information on R&D expenditures, please refer to the Research & Development section in the Combined Management Report.

Software AG's technological innovations are expanding its customer portfolio and improving efficiency both internally and for its customers. The Company is maintaining a high number of deals closed annually through better sales management and programmatic qualification of business opportunities. In 2023, independent market research firms once again confirmed Software AG's innovative power, market success, as well as product and service quality.

As an initial step to better understand the long-term impact of Software AG's technology on its customers, a sustainability data gathering roadmap was developed and launched by the Global Customer Success Management (CSM) community in 2022 and continued in 2023, with a focus on primary research methodologies. It follows a five-step approach:
1. Within the CSM team, develop knowledge on what sustainability is and how to start sustainability discussions with customers.
2. With customers, identify from secondary research what the customer is doing for sustainability.
3. Identify individuals and/or teams at customers with a sustainability focus.
4. With digital tools, assess and record customers who are using Software AG services to measure or improve their sustainability goals.
5. Analyze and record feedback from customers on a quarterly basis.

The Customer Success Management Team continues to observe the upward trend of customers showing greater interest in sustainability credentials. In 2023, several customers requested Software AG's SaaS services to be delivered via the path with the lowest carbon footprint; one particularly focused customer requested their IoT service to be delivered via the Nordics due to the Company's lower CO2 emissions in the region.

The team has also developed a sustainability questionnaire that is being distributed to key customers. Currently, it is receiving a relatively low response rate, but that is steadily improving. It will be conducted on a bi-annual basis. Some customers are already noting the Company's push toward sustainability in its products and look forward to gleaning the respective value and improvements from those products.

VALUE FOR SOCIETY
The Value for Society action area corresponds to the social concerns aspect per section 289c(2), no. 3 of HGB and includes the material topic **Tech for good**.

Software AG aspires to effectively assist people in building expertise in the area of modern technologies. The Company's targeted involvement in universities and schools focuses on the IT experts of the future. It opens up new learning opportunities and meaningful development prospects for students and young professionals. Since technological progress plays a key role in developing a sustainable world, Software AG participates in collaborative research projects that promote the UN's global Sustainable Development Goals and contribute to a more sustainable future.

TECH FOR GOOD

Basic understanding
Digitalization is a comprehensive economic and social topic, and a central field of action in the German government's education agenda. Software AG addresses Tech for good primarily at a regional level. Across the entire Group, the Company pursues the goals of networking with different communities at the locations where it operates and contributing to their well-being as corporate citizens.

Software AG aims to counter the shortage of IT professionals and managers in Germany. For that reason, the Company fosters digital expertise at universities and educational institutions at both the national and international levels.

Software AG is aware of the transformative power and positive impact of technologies and therefore contributes to achieving the UN SDGs through participation in collaborative research projects. The Company is involved in projects that contribute to innovation and to social, environmental, or economic improvements, mainly focusing on Germany and Europe.

Software AG has not identified any significant risks with regard to the Value for Society action area. Rather, the Company sees the opportunity to live up to its corporate social responsibility and make a positive economic and social value contribution—especially to the local communities of its operations.

Targets and management
For many years, participating in publicly funded joint research projects has been a matter of course for Software AG. In the past, the technological direction and level of innovation regarding Software AG's business lines was the deciding factor for project selection. In the future, the focus on research projects and their contribution to fulfilling the SDGs will be another key criterion.

Software AG has set the following targets in the Tech for good area:
- At least 80 percent of the Company's research projects to support accomplishing the SDGs by 2025
- Expand its University Relations Program worldwide and increase its reach to 250,000 students by 2025

The University Relations Program promotes the development of digital competencies by providing software and teaching materials free of charge. The program provides education packages, including the opportunity to earn free certification for the knowledge gained.

The University Relations Program fulfills an important aspect for addressing one of Software AG's key target groups: the next generation of talent. It stimulates a steady stream of applications, especially for positions sought after by graduates of technology fields. According to an internal study from 2016, half of the Company's graduate hires in Germany can be traced back to a previous contact via the University Relations Program. Finding graduates in the job market with Software AG skills is also vital for Software AG's partners and customers.

By the same token, Software AG is a founding member of Software Campus. Launched in 2011, the program is supported by ten industry partners and eleven research partners and funded by the German Federal Ministry of Education and Research. It focuses on outstanding students in computer science and related fields and qualifies them through mentoring and seminars for leadership positions in the IT industry. By participating in the program, Software AG hopes to counter the shortage of IT experts and managers in Germany.

In addition, the Company is driving further social initiatives—such as the SoftwareAGain program in India—at its international locations. Moreover, the Company supports local associations and initiatives through donations and sponsorships.

Progress and actions
In 2023, 14 out of 21 research projects contributed to the SDGs, which corresponds to 67 percent (2022: 59 percent). KLIPS (AI-based information platform for the localization and simulation of heat islands for innovative urban and transport planning) is one example of Software AG's participation in such a project. The number of heat-related deaths is increasing every year, which is why it is important to prevent spots in cities that become particularly hot (heat islands). An AI-based information platform is being used to predict the effects of planned construction measures on heat islands and minimize them by making proactive adjustments. Thus, the project addresses SDG 3 "Good health and well-being" and SGD 13 "Climate action." For more information on Software AG's engagement in research projects, please refer to the Research & Development section in Fundamental Aspects of the Group in the Combined Management Report.

Since 2007, Software AG has provided software free of charge for teaching and research purposes to more than 2,200 universities in 104 (2022: 104) countries through its University Relations Program. The offering covers the needs of more than 2,000 educators and is integrated into curricula on a recurring basis. Since the program began in 2007, more than 270,898 (2022: 247,682) students have benefited from it, the majority with free licenses. Software AG has been offering students free online certification as part of the University Relations Program since 2017. More than 8,000 young experts can document their knowledge with this certificate when applying for jobs.

IMPACT ON ENVIRONMENT

The Impact on Environment action area includes the material topic of **Energy and CO_2 emissions**, and corresponds to the environmental matters aspect per section 289c(2), no. 1 of HGB.

Software AG is actively striving to reduce its environmental footprint. To mitigate the effects of its business activities on the planet, the Company is working toward a plan to become climate-neutral as quickly as possible and has set targets in the environmental area. With the help of its technology and solutions, Software AG will join forces with its customers and partners to tackle the most significant environmental challenges of the modern world and help shape a more sustainable future.

ENERGY AND CO_2 EMISSIONS

Basic understanding
The Impact on Environment action area focuses mainly on reducing CO_2 emissions. This is due to the fact that emissions represent the most significant environmental impact for a company with Software AG's business model.

Since 2022, CO_2 emission calculations and monitoring have been conducted in accordance with the Greenhouse Gas Protocol. This standard divides emissions into the following three scopes:
- Scope 1: direct emissions a company causes by operating facilities and equipment that it owns or controls
- Scope 2: indirect emissions from the generation of purchased energy, i.e. purchased electricity, steam, heating and cooling for its own use
- Scope 3: all indirect emissions (not already included in Scope 2) that occur in the value chain of the reporting company, both upstream and downstream, spanning over 15 different categories

Software AG takes responsibility for the environmental impact of its own business operations and is determined to gradually reduce its footprint with an aim to achieve carbon neutrality in the long term.

The majority of Software AG's CO_2 emissions are generated through energy consumption of buildings, operating data centers, employee mobility, purchased goods and services, and the use of sold products. Software AG's goal is to mitigate the adverse impacts on the environment and to further promote resource and energy efficiency.

Targets and management
Software AG had set the following target for itself in the energy and CO_2 emissions area:
- Development of a reduction path to net zero CO_2 emissions by the end of 2022

Software AG takes a holistic approach to the aspects of energy management, demand, and procurement for all its operations while working toward reducing its carbon footprint by using more renewable energies. To reduce power consumption at all its locations, Software AG continually implements energy-saving measures and initiatives, such as retrofitting lighting systems, replacing motors, upgrading building technology, and monitoring the consumption of heating, ventilation and air conditioning to further control and promote energy efficiency. When planning the construction of new buildings, the Company pays close attention to making use of natural light, installing shading systems, and state-of-the-art building technology. Software AG is also looking for ways to improve the energy efficiency and performance of its data centers and to reduce their energy consumption through innovative technologies. As part of its IT strategy, Software AG has adopted the two strategic goals, Move to Cloud and Application Harmonization. Both objectives contribute to optimized use of resources through standardizing applications and improving usage efficiency in the cloud.

Progress and actions

Electricity is the predominant source of energy for the Company in its own operations. Therefore, Software AG contributes significantly to reducing its own emissions by using electricity from renewable sources. Locations in Germany are supplied with 100 percent green electricity. In addition, waste heat from the servers at the corporate headquarters in Darmstadt is used to heat the building.

All in all, Software AG reduced its energy consumption at the locations under review from last year to 7,545,717 kWh (2022: 7,662,965 kWh). Energy consumption per employee (EMP) was 2,240 kWh/EMP (2022: 1,969 kWh/EMP). Energy consumption per square meter of floor space was 93 kWh/m2 (2022: 90 kWh/m2). During 2022 and 2023, several locations changed from leased office space to need-based external office solutions (serviced offices) and thus were no longer recorded. The change led to a decrease in area (m2) and headcount within the scope of reporting. In the reporting year, Software AG sold the building it owned in Spain and moved to an external office, which also affected the figures reported.

Software AG implements several internal initiatives in the area of employee commuting and mobility aimed at reducing transportation emissions. For instance, employees in Darmstadt are offered a public transportation pass, as well as leasing opportunities for bikes and e-bikes. The Darmstadt office also has charging stations for electric and hybrid vehicles.

In Sofia, Bulgaria, the Company holds the annual Sagathlon—an office-wide competition encouraging employees to commute on foot and by bike, allowing them to collect points and win prizes for their efforts. The initiative has led to significant reductions in greenhouse gas emissions from employee commuting.

For the future, Software AG is planning to create a roadmap of actions aimed at reducing emissions from suppliers and products, with a focus on the areas with the biggest environmental impact on its greenhouse gas inventory. In the IT industry, 70 to 90 percent of value chain emissions usually stem from suppliers and products. Thus, the focus for the future will be on evaluating them and improving data quality to be able to assess their actual impact.

To move closer to the goal of net zero CO_2 emissions, a project team was launched at the end of 2021 and compiled the Company's global carbon footprint for 2021 in collaboration with an external partner. These results were disclosed in July 2022 as part of the report submitted to the CDP (Carbon Disclosure Project). However, due to non-accessible customer data, the Scope 3 emissions from the category “Use of sold products” could not be calculated, so the planned development of a reduction path to net zero emissions had to be postponed.

This delay extended into 2023 and Software AG was not able to meet the environmental target of developing a net zero reduction path. Still, the main challenge remains the evaluation of robust Scope 3 emissions and the refinement of those calculations, which would be the basis for future targets. Thus, finalizing the greenhouse gas inventory and using it as a foundation to set environmental targets are the key actions that will be performed in upcoming months. In 2024, the Company will re-evaluate and reformulate its environmental targets to align them with the upcoming CSRD and ESRS requirements. Furthermore, Software AG will look into different calculation methodologies for the evaluation of Scope 3 emissions. With the help of an external party, a first evaluation of the category “Use of sold products” was performed. It resulted in a rough estimate for fiscal 2022. The calculation needs to be further refined to improve data quality and accuracy. Once the quality of data for Scope 3 improves, the results of calculations will also be disclosed in the Company’s future reports.

Software AG consistently pursued its IT strategy during the reporting year. This included measures for consolidating its data centers, reducing the on-premises footprint, and a smart transition of the workload to the cloud while taking efficiency into consideration.

Software AG considers its biggest impact on the environment to be the result of its carbon handprint, i.e. the positive value the Company’s products create for its customers. There are several customer cases whereby greenhouse gas emissions were reduced using Software AG’s products as part of the solution. Helping its customers become more sustainable is part of the Company’s long-term strategy. Software AG’s future focus and efforts will center around increasing positive value and supporting customers in their own sustainability journeys.

NON-FINANCIAL INDICATORS

LEADERSHIP AND GOVERNANCE

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Sustainable economic growth				**SDG 8**
ESG ratings				
MSCI (target: at least AA by 2025)	AAA	AAA	AA	
ISS ESG (target: at least C by 2023, at least B by 2025)	C	C-	D+	
Information security and data protection				
Information security training rate				
Number of employees who participated in information security training*	4,585	4,521	4,458	
Percentage of employees trained on information security[1] (target: at least 85%)*	93	89	86	
Data protection training rate				
Number of employees who participated in data protection training	3,685	4,099	2,743	SASB TC-SI-230a.2
Percentage of employees trained on data protection[1] (target: at least 85%)	75	80	53	
Data protection				
Number of data breaches[2]	0	0	0	SASB TC-SI-230a.1
Number of data breaches[3] involving personally identifiable information	0	0	0	
Percentage of data breaches involving personally identifiable information	0	0	0	
Number of users affected[3]	0	0	0	
Business ethics and corporate digital responsibility, sustainable supply chains and human rights				**SDG 8, 16**
Code of Conduct				
Number of (new) employees trained on the Code of Conduct	713	712	790	GRI 205-2, GRI 412-2
Percentage of new employees trained[4]	95	102	112	
Number of available languages	7	8	8	
Year of last update*	2023	2015	2015	
Competitive behavior and corruption				
Total number (and nature) of confirmed incidents of corruption	0	0	0	GRI 205-3
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption	0	0	0	
Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption	0	0	0	
Number of pending or concluded litigation cases for anti-competitive behavior and violations of antitrust and anti-monopoly law in which the Company was identified as a participant during the year under review[5]	1	1	1	GRI 206-1, SASB TC-SI-520a.1

* Corresponding figures for 2022 have been properly restated.
1 Target calculated based on number of employees (worldwide) figure.
2 As per Article 33 GDPR.
3 As per Article 34 GDPR.
4 The total number of confirmed training courses includes repeats from the previous year as well as courses completed voluntarily.
5 Software AG Spain appealed the decision by the Spanish Antitrust Authority (Comisión Nacional de los Mercados y la Competencia, CNMC) from July 31, 2018. The case has been ongoing since 2018.

OUR EMPLOYEES

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Corporate culture and diversity				SDG 5, 8, 10
Number of employees (worldwide)	4,923	5,107	5,158	
Number of FTE (worldwide)[1]	**4,707**	**4,674**	**4,806**	
Nationalities (worldwide)	86	89	88	
MyVoice Annual Employee Survey				
Participation (as %)	81	86	82	
Q12 Engagement Score (target: maintain or improve compared to the previous year)	4.05	4.21	4.14	
Q12 Engagement Score (as %)*	81	84	83	SASB TC-SI-330a.2
DE&I score (target: maintain or improve compared to the previous year)	4.48	4.56	4.53	
Accountability index	4.03	4.25	4.10	
Employees by gender				
Male employees	3,308	3,265	3,341	GRI 405-1
Female employees	1,399	1,410	1,464	
Diverse employees	0	0	1	
Employees by region				
NAM	675	600	614	GRI 405-1
LATAM	110	103	110	
DACH	1,235	1,353	1,417	
thereof in Germany	1,187	1,304	1,366	
thereof in Darmstadt	647	734	787	
EMEA	1,344	1,274	1,303	
APJ	1,343	1,345	1,362	
Employees by employment type and gender				
Full-time employees	**4,482**	**4,437**	**4,553**	GRI 405-1
Male employees	3,243	3,195	3,268	
Female employees	1,239	1,242	1,284	
Diverse employees	0	0	1	
Part-time employees	**225**	**238**	**253**	
Male employees	65	70	73	
Female employees	160	168	180	
Diverse employees	0	0	0	

* Corresponding figures for 2021 have been properly restated.
[1] 2022 FTE number has been adjusted for dormant employment contracts. The numbers do not include employees of FACT AG and StreamSets. There were no significant changes or seasonal fluctuations in the number of employees during that year.

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Gender distribution of employees				
Percentage of women in leadership positions (worldwide)	**22**	**22**	**21**	SASB TC-SI-330a.3
Percentage of women in leadership positions in the second tier of management (worldwide)	27	14	28	
Percentage of women in leadership positions in the third tier of management (worldwide)	22	18	21	
Percentage of women out of total number of employees (worldwide)	**30**	**30**	**31**	
Supervisory Board by gender and age group (as %)				
Male	**50**	**40**	**50**	GRI 405-1
<30	0	0	0	
30-50	17	20	0	
>50	33	20	50	
Female	**50**	**60**	**50**	
<30	0	0	0	
30-50	17	20	17	
>50	33	40	33	
Diverse	**0**	**0**	**0**	
Management Board by gender and age group (as %)				
Male	**80**	**100**	**75**	GRI 405-1
<30	0	0	0	
30-50	40	60	25	
>50	40	40	50	
Female	**20**	**0**	**25**	
<30	0	0	0	
30-50	20	0	25	
>50	0	0	0	
Diverse	**0**	**0**	**0**	
Employees by gender and age group (as %)				
Male	**70**	**70**	**70**	GRI 405-1
<30	11	10	10	
30-50	40	40	40	
>50	20	20	19	
Female	**30**	**30**	**31**	
<30	6	6	7	
30-50	17	17	17	
>50	7	7	7	
Diverse	**0**	**0**	**0**	
Age group trend (as %)				
<30	17	17	17	GRI 405-1
30-50	57	57	58	
>50	26	26	26	

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Employer attractiveness				
Number of new hires	749	698	707	GRI 401-1
Attrition rate (as %)	16	16	14	
External ratings				
Glassdoor (target: 4.2 by 2023 and 4.3 by 2025)	4.0	4.2	4.1	
Kununu	3.7	3.8	3.8	
New hires by region				
NAM	254	107	106	GRI 401-1
LATAM	24	7	12	
DACH	47	105	122	
EMEA	250	184	198	
APJ	174	296	269	
New hires by region (as %)				
NAM	34	15	15	GRI 401-1
LATAM	3	1	2	
DACH	6	15	17	
EMEA	34	26	28	
APJ	23	42	38	
Next generation of talent				
Trainees and coop program students	71	79	79	
Interns and degree candidates (Bachelor's and Master's)	66	97	79	
Student employees	60	61	68	
Work-life balance				**SDG 3**
Work-life balance score	4.02	4.70	4.62	
Employee promotion and development				**SDG 5**
Growth Days				
Total number of training courses (iLearn)	1,472	2,040	1,800	
Satisfaction (average) with training courses[1] (iLearn)	89.0	90.6	90.1	GRI 404-1
Growth Days registrations	41,332	59,421	76,500	
Growth Days learning time (hours/net)	80,842	276,354	253,500	
Growth Days learning time/employee (hours, net)[2]	17.2	59.1	52.7	
Employee development discussions (EDD)[3]				
Total EDDs	4,274	4,230	4,226	GRI 404-3
Concluded EDDs	2,805	3,458	3,390	
Completion rate (as %)	66	82	80	

1 Average satisfaction is rated on a scale from 0 (completely dissatisfied) to 100 (completely satisfied).
2 Employees who left the Company are not taken into account in the calculation of this metric.
3 EDD forms were automatically rolled out to all employees in February. Exceptions include: a) Employees on maternity or parental leave, those on extended sick leave and semi-retired employees b) Student interns and trainees c) Consultants working for Software AG in Israel and for Software AG Government Solutions America who invoice their services.

CUSTOMERS AND TECHNOLOGY

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Product and service quality				
Starting 2022: net retention rate (as %) (target: 105% by 2025)*	107	104	n/a	
Net Promoter Score in support cases[1]	65	61	56	
Satisfaction with handling of support incidents (number of 5-star ratings on a scale of 1 to 5)	80.2	77.6	76.0	
Innovation and the impact of our products				**SDG 9, 12**
Ratio of R&D investments to total revenue (as %) (target: at least 17% by 2025)	19	19	18	

* The NRR figure for 2022 is restated due to a redefined calculation.
[1] The NPS for 2021 includes the months of March through December.

VALUE FOR SOCIETY

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Tech for good				**SDG 4, 9**
University Relations Program				
Number of universities, colleges, and vocational schools worldwide	2,178	2,126	2,026	
Number of countries	104	104	101	
Number of students reached in universities, colleges, and vocational schools worldwide (target: 250,000 students by 2025)	270,898	247,682	225,349	
Research projects				
Percentage of research projects that align with the SDGs (target: at least 80% by 2025)	67	59	52	
Employee engagement and support of local communities				
Distance in kilometers through “MoveYourFeet”	7,028	6,865	10,177	
Donations raised through “MoveYourFeet” (in €)	28,200	28,500	22,000	
Donation funds				
Monetary donations in India[1] (in €)	137,970	55,000	233,000	
Monetary donations and donations in kind in other countries[2] (in €)	147,844	697,603	216,016	

[1] Mandatory CSR levy, recorded after the actual donation payment date.
[2] Recorded for: Bulgaria, Denmark, Germany, United Kingdom, Israel, Netherlands, Sweden, Spain, South Africa.

IMPACT ON ENVIRONMENT

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Energy and CO_2 emissions				SDG 12
Key indicators of energy consumption[1]				
Total number of employees	3,369	3,892	3,672	GRI 302-1
Floor area in m²	81,458	84,920	86,838	
Energy consumption in kWh/year[2]	7,545,717	7,662,965	7,827,925	
kWh/m²/year	93	90	90	
kWh/EMPL/year	2,240	1,969	2,132	
Environmental footprint of the hardware infrastructure: energy				
Total energy consumption (gigajoules)	27,165	27,587	28,181	SASB TC-SI-130a.1
Purchased electricity (gigajoules)	13,101	13,506	14,099	
Percentage of electricity	48	49	50	
Consumption of renewable energy (gigajoules)	14,063	14,080	14,081	
Percentage of renewable energy	52	51	50	
Scope 1 emissions				
Software AG's direct CO_2 emissions[3] through heating buildings with gas for Darmstadt HQ				
Number of employees	647	734	787	GRI 305-1
Gas consumption in m³/year	79,362	88,465	117,009	
m³/EMPL/year	122.6	120.5	149.8	
t CO_2/year	162	178	234	
t CO_2/EMPL/year	0.3	0.2	0.3	
Scope 2 emissions				
Indirect energy-related CO_2 emissions[3] from energy consumption from Company-owned buildings[1], including energy consumption for Company-owned data centers (scope 2)				
Number of employees	3,369	3,892	3,672	GRI 305-2
Floor area in m²	81,458	84,920	86,838	
t CO_2/year	1,989	2,111	1,527	
t CO_2/EMPL/year	0.6	0.5	0.4	

1 Locations for which no separate account data is available are not included. The data collected represents about 90 percent of Software AG's total floor area.
2 Energy consumption for around 2% of the offices in scope has been estimated based on previous year's data, as the information was not available on time. During 2023, several locations were moved to serviced office models and their electricity consumption is no longer recorded. The locations were in Australia, Mexico and Chile.
3 Conversion to tons of CO_2 using the IEA electricity emission factors 2023.

	2023	2022	2021	Assignment to reporting standards (GRI, SASB) and the UN SDGs
Scope 3 emissions				
CO_2 emissions from business travel[1] (scope 3)				
Air travel (t CO_2)	557	532	52	GRI 305-3
Train[2] (t CO_2)	0	0	0	
Rental car (t CO_2)	6	4	16	
Average number of leased vehicles	227	218	239	
Kilometers driven	4,250,000	4,100,000	n/a	
Total emissions for leased vehicles in t CO_2	665	809	711	
Energy consumption and energy-related CO_2 emissions at external data centers				
Total number of external data centers	2	2	2	
Total energy consumption of external data centers in kWh[3]	584,266	609,010	614,274	
Total emissions for external data centers[4] in t CO_2	216	235	14	
Natural resources and circularity				**SDG 12**
Hardware waste[5] in Germany				
Number of old devices	1,487	2,015	670	GRI 306-3
Refurbishment rate as %	85	n/a	69	
Recycling rate as %	15	n/a	31	
Savings through remarketing in t CO_2	306	n/a	111	

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

2 Since Jan. 1, 2020, all local and long-distance train travel utilizes 100 percent green energy (zero CO_2 emissions).

3 Consumption was provided for only one out of the two data centers.

4 For the 2021 financial year, there is proof from the provider that the data center in question was operated with green electricity. This proof was not provided for the 2023 and 2022 fiscal years.

5 Hardware waste disposal in Germany is handled entirely by certified waste management companies. They are responsible for lawful, audit-compliant and certified deletion of data and destruction of data carriers in compliance with all data protection and security aspects. The process is monitored seamlessly up to recycling or refurbishment. Software AG did not receive the waste management company's environmental report for 2022, but received the data for 2023.

Rounding could lead to deviations in a few cases.

Proportion of Turnover from Products or Services Associated with Taxonomy-Aligned Economic Activities–Disclosure for 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria									
Economic activities	Code	Turnover	Proportion of turnover	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Minimum Safeguards	Proportion of taxonomy-aligned (A.1.) or eligible (A.2.) turnover, year 2022	Category enabling activity	Category transitional activity
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (taxonomy-aligned)																			
Provision of IT/OT data-driven solutions	4.1	0	0%					Y		Y	Y	Y	Y	Y	Y	Y	0%	E	
Turnover of environmentally sustainable activities (taxonomy-aligned) (A.1)		0	0%							Y	Y	Y	Y	Y	Y	Y	0%		
Of which enabling		—	—							Y	Y	Y	Y	Y	Y	Y	—	E	
Of which transitional		—	—							Y	Y	Y	Y	Y	Y	Y	—		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
Provision of IT/OT data-driven solutions	4.1	33,443	3.3%					Y									0%		
Turnover of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		33,443	3.3%														0%		
A. Turnover of taxonomy-eligible activities (A.1+A.2)		33,443	3.3%														0%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of taxonomy-non-eligible activities		966,847	96.7%																
TOTAL		1,000,290	100%																

Proportion of CapEx from Products or Services Associated with Taxonomy-Aligned Economic Activities–Disclosure for 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria									
Economic activities	Code	CapEx	Proportion of CapEx	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Minimum Safeguards	Proportion of taxonomy-aligned (A.1.) or eligible (A.2.) CapEx, year 2022	Category enabling activity	Category transitional activity
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (taxonomy-aligned)																			
Transport by motorbikes, passenger cars, and light commercial vehicles	6.5	0	0%	Y						Y	Y	Y	Y	Y	Y	Y	0%		T
Acquisition and ownership of buildings	7.7	0	0%	Y						Y	Y	Y	Y	Y	Y	Y	0%		
Provision of IT/OT data-driven solutions	4.1	0	0%					Y		Y	Y	Y	Y	Y	Y	Y	0%	E	
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		0	0%							Y	Y	Y	Y	Y	Y	Y	0%		
Of which enabling		—	—							Y	Y	Y	Y	Y	Y	Y	—	E	
Of which transitional		—	—							Y	Y	Y	Y	Y	Y	Y	—		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
Transport by motorbikes, passenger cars, and light commercial vehicles	6.5	2,205	15%	Y													1.8%		
Acquisition and ownership of buildings	7.7	4,122	28.1%	Y													4.2%		
Provision of IT/OT data-driven solutions	4.1	484	3.3%					Y									0%		
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		6,811	46.4%														6%		
A. CapEx of taxonomy-eligible activities (A.1+A.2)*		6,811	46.4%														6%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of taxonomy-non-eligible activities		7,870	53.6%																
TOTAL		14,681	100%																

* CapEx for 2023 is not directly comparable to 2022 due to StreamSets acquisition which impacted the total CapEx for 2022. Figures for 2023 represent the regular CapEx amounts.

Proportion of OpEx from Products or Services Associated with Taxonomy-Aligned Economic Activities–Disclosure for 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria									
Economic activities	Code	OpEx	Proportion of OpEx	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Minimum Safeguards	Proportion of taxonomy-aligned (A.1.) or eligible (A.2.) OpEx, year 2022	Category enabling activity	Category transitional activity
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (taxonomy-aligned)																			
Transport by motorbikes, passenger cars, and light commercial vehicles	6.5	0	0%	Y						Y	Y	Y	Y	Y	Y	Y	0%		T
Acquisition and ownership of buildings	7.7	0	0%	Y						Y	Y	Y	Y	Y	Y	Y	0%		
Provision of IT/OT data-driven solutions	4.1	0	0%					Y		Y	Y	Y	Y	Y	Y	Y	0%	E	
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		0	0%							Y	Y	Y	Y	Y	Y	Y	0%		
Of which enabling		—	—							Y	Y	Y	Y	Y	Y	Y	—	E	
Of which transitional		—	—							Y	Y	Y	Y	Y	Y	Y	—		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
Transport by motorbikes, passenger cars, and light commercial vehicles	6.5	1,343	0.6%	Y													0.8%		
Acquisition and ownership of buildings	7.7	6,279	3%	Y													2.9%		
Provision of IT/OT data-driven solutions	4.1	6,819	3.3%					Y									0%		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		14,441	7%														3.7%		
A. OpEx of taxonomy-eligible activities (A.1+A.2)		14,441	7%														3.7%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of taxonomy-non-eligible activities		192,207	93%																
TOTAL		206,648	100%																

Rounding could lead to deviations in a few cases.

FORECAST

ECONOMIC CONDITIONS IN UPCOMING FISCAL YEARS

FUTURE MACROECONOMIC SITUATION

In the course of 2023, most of the disruptive factors that hindered recovery after the Covid crisis in the previous year subsided. Commodity prices, especially energy, decreased significantly, and inflation went down accordingly. Real wages are on the rise again thanks to easing inflation and healthier remuneration. Furthermore, supply bottlenecks are back to normal. However, according to experts at the Kiel Institute for the World Economy (IfW), uncertainty among companies and consumers remains high. On one hand, this is geopolitical in nature due to ongoing or new military conflicts (Ukraine, Gaza/Israel) as well as economic disputes (United States/China). On the other hand, the reserved sentiment is attributable to unclear and inconsistent economic policy (Europe) as well as domestic political uncertainties (United States). All of this is likely to weigh on investments and consumer spending. Monetary policy continues to be restrictive for the time being; the impact of the sharp interest rate hikes has probably not yet fully worked through to the real economy. Finally, fiscal policy will not stimulate the economy as in the past years.

The **US economy** is achieving a soft landing. According to the IfW, after the increase in GDP of 1.3 percent in the third quarter of 2023, economic momentum in the US is expected to weaken significantly. Indications of a slowdown include the subdued sentiment in the business sector and a sluggish labor market. Positive momentum has, nevertheless, been generated by a significant increase in construction investments on the back of extensive government incentive packages. Above all, private consumption is expected to continue to grow noticeably as real wages rise significantly and substantial savings from the COVID-19 crisis is utilized. The restrictive effect of monetary policy has so far been mainly evident in housing construction. For the coming year, IfW expects an end to the housing recession, partly because mortgage rates seem to have peaked. For 2024 and 2025, IfW expects GDP growth of 1.5 percent and 2.0 percent, respectively. The unemployment rate will rise slightly to 4.4 percent during the forecast period. The inflation rate should continue to decline, partly due to the increasingly sluggish development of shelter-related costs. Over the forecast horizon, inflation is expected to gradually approach the central bank's target.

Growth in the **euro area** is expected to gradually pick up in the course of the coming year. After a strong recovery following the pandemic, the euro area economy is currently in a lull. The combination of a sharp rise in living costs, which dampened private consumption, deteriorating financing conditions in the wake of rapid monetary policy tightening, and little support from external demand led to economic stagnation. Thus far, it has lasted for a year and is likely to continue for the time being, as indicated by weak business confidence particularly in industry. In the course of the coming year, the European economy is expected to gradually gain momentum. On the one hand, real wages are rising again due to accelerating wages and decelerating inflation, which favors a revival of private consumption. On the other hand, financing conditions are likely to improve with the expected monetary easing. In addition, the external economic environment should also improve. However, the increase in GDP in 2024 will likely be quite weak again at 0.8 percent, following 0.5 percent in 2023. Not until 2025 is it expected to accelerate to a rate of 1.5 percent. Inflation is expected to fall from 5.4 percent on average in 2023 to 2.2 percent (2024) and 1.9 percent (2025), thus approximating the European Central Bank’s inflation target.

The **German economy** is struggling to recover from stagnation. GDP is likely to increase again in 2024, but economic momentum will remain slow. Robust growth in real disposable income will boost private consumption. However, interest rate increases continue to weigh on construction investment and there are no signs of substantial impetus from the global economy ahead. Moreover, the fiscal consolidation in response to the Federal Constitutional Court's judgement on the supplementary budget will slow economic expansion. There is uncertainty about how the spending cuts will be structured as well as their economic impact. In the forecast, the budget cuts will reduce growth in GDP by around 0.3 percentage points in 2024. Overall, IfW expects GDP to increase by 0.9 percent in the coming year and thus at a slower pace than in the IfW's autumn forecast (1.3 percent). In 2025, economic output is likely to increase by 1.2 percent (autumn forecast: 1.5 percent). The 0.3 percent decline in 2023 is slightly lower than expected in the autumn forecast (-0.5 percent). Inflation has fallen significantly. For the next two years, IfW expects rates of 2.3 percent (2024) and 1.8 percent (2025), after 5.9 percent in the current year. The slow economic momentum is leaving its mark on the labor market. However, demographic change and the associated shortage of skilled labor are counteracting this to some extent. The government's financing deficit is expected to drop from 2.5 percent relative to GDP in 2022 to 0.7 percent in 2025. The debt level will fall from 66.1 percent to 62.4 percent in the same period.

Key Data on Germany's Economic Development

2022 to 2025[1]	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
GDP, price-adjusted	1.8	-0.3	0.9	1.2
GDP, deflator	5.3	6.7	1.7	1.5
Consumer prices	6.9	5.9	2.3	1.8
Labor productivity (hourly concept)	0.5	-1.0	0.3	1.0
Employed domestically (1,000 people)	45,596	45,950	45,963	45,900
Unemployment rate as %	5.3	5.7	5.8	5.6

1 Gross domestic product, consumer prices, labor productivity: changes compared with the previous year in percent; unemployment rate: determined by the German Federal Employment Agency.
Source: Institute for the World Economy (IfW), Economic Reports, German Economy in Winter 2023 No. 110 (2023 | Q4), Dec. 14, 2023.

GDP and Consumer Prices in Advanced Economies (selection)[1]

	GDP			Consumer Prices		
	2023 Forecast	2024 Forecast	2025 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
European Union	0.5	0.9	1.6	6.3	2.4	2.1
Eurozone	0.5	0.8	1.5	5.4	2.2	1.9
United Kingdom	0.6	0.8	1.5	7.2	3.6	2.7
Switzerland	0.7	1.0	1.4	2.1	1.5	1.0
USA	2.4	1.5	2.0	4.2	2.7	2.3
Canada	1.0	0.7	2.1	3.9	2.7	2.3
Japan	2.0	0.7	1.2	3.0	2.2	1.8
South Korea	1.3	2.6	2.9	3.8	2.8	2.1
Australia	3.8	2.1	2.0	5.7	3.8	3.0

1 GDP: price-adjusted, change year-on-year; consumer prices: year-on-year change.
Source: Institute for the World Economy (IfW), Economic Reports, Global Economy in Winter 2023 No. 110 (2023 | Q4), Dec. 12, 2023.

Forecast of Global IT Spending

in $ billions	2023 Spending	2023 Growth as %	2024 Spending	2024 Growth as %
Software	913	12.4	1,029	12.7
IT services	1,382	5.8	1,501	8.7
Total IT	4,679	3.3	4,998	6.8

Source: Gartner Forecasts Worldwide IT Spending to Grow 6.8% in 2024. www.gartner.com/en/newsroom (January 17, 2024).

Sector development

Gartner analysts expect worldwide IT spending to total $5 trillion in 2024, an increase of 6.8 percent from 2023. This is down from the previous quarter's forecast of 8 percent growth. While generative AI (GenAI) experienced significant hype in 2023, it will not significantly change the growth of IT spending in the near term. IT services will continue to see an increase in growth in 2024, becoming the largest segment of IT spending for the first time. Spending on IT services is expected to grow 8.7 percent in 2024, reaching $1.5 trillion. This is largely due to enterprises investing in organizational efficiency and optimization projects.

According to the Bitkom forecast, global IT and telecommunications sales will increase by 5.6 percent to €4.91 trillion in 2024. India recorded the greatest growth with an increase of 7.9 percent, followed by the USA (6.3 percent), China (5.7 percent), Great Britain (5.6 percent), and Japan (3.5 percent). The EU without Germany achieved growth of 5.9 percent.

EXPECTED FINANCIAL PERFORMANCE

OUTLOOK FOR SOFTWARE AG (THE PARENT COMPANY'S FINANCIAL STATEMENTS)

The business development of Software AG, the parent company, primarily reflects service relationships with the subsidiaries, earnings from domestic subsidiaries, as well as other investment income. Thus, the opportunities and challenges of our subsidiaries and their operating results directly influence the development of Software AG's results. The dividend amounts from fiscal year 2022 onward were based on legal minimum requirements. We expect a retained profit for the 2024 fiscal year that will allow the distribution of a dividend in the same amount.

OUTLOOK FOR SOFTWARE AG GROUP (THE GROUP'S FINANCIAL STATEMENTS)

Based on the Company's operating plan for 2024, Software AG's Management Board provides the following outlook, including the integration business, (at constant currency):

Outlook for Fiscal Year 2024

	FY 2023 in € millions	Outlook FY 2024 as of Feb. 5, 2024 as %
Digital Business Product Revenues	597.1	+2 to +4[1]
A&N Product Revenue	246.6	-2 to +0[1]
Professional Services Revenue	156.6	-3 to -1[1]
Total Revenue	1,000.3	+0 to +2[1]
Operating margin (EBITA, non-IFRS)[2] as %	20	20 to 21

1 At constant currency.
2 Before adjusting for non-operating factors (see non-IFRS definition of earnings in Key Financial Performance Indicators).

If the integration business were transferred to IBM at the end of the second quarter of 2024, we assume that total revenue for fiscal year 2024 would be approximately 25 to 30 percent below that of fiscal year 2023. Due to the fact that certain administrative functions supporting the divested business areas will remain at Software AG, we expect a significant decrease in the operating profit margin (EBITA, non-IFRS) compared to 2023. Upon transaction closing, Digital Business product revenue and Professional Service revenue will be reduced by the total share comprised of by the integration products and services related to these products. As a result, Digital Business product revenue and Professional Service revenue will decrease significantly compared to the level as of December 31, 2023.

MANAGEMENT'S GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT AND POSITION OF THE GROUP

The Management Board expects the trend toward subscriptions and SaaS to continue into fiscal 2024 and help deliver the targeted product revenue growth in Digital Business. Growth is expected between 2 percent and 4 percent year-on-year and may potentially suffer a temporary negative impact from the sale of webMethods and StreamSets. In the Adabas & Natural (A&N) segment, product revenue growth is expected between -2 percent and 0 percent year-on-year following significant growth in 2023 attributable to a lower churn rate and more migrations to subscription licenses. In the Professional Service segment, revenues are expected to slightly decrease by -3 to -1 percent. Mainly driven by the growth in the Digital Business segment, total revenue is expected to increase by 0 to 2 percent, resulting in a similar operating margin as in 2023.

OPPORTUNITY AND RISK REPORT

GOALS

Software AG's primary goal is to generate sustainable profitable growth and thereby increase enterprise value. To that end, the Company combines established business activities with an involvement in promising new market segments and regions. Its sales models were and continue to be adapted successively from one-time sales revenue recognition at the beginning of a contract to annual revenue recognition (subscriptions and Software as a Service, SaaS). The shift is associated with a temporary decrease in operating margin (EBITA, non-IFRS); but in the medium and long term, higher overall earnings will result from successful customer relationships. In the interest of long-term sustainable development, Software AG forgoes short-term earnings growth and the potentially resulting short-lived positive effects on share price. In addition, Software AG is seeking strategic partnerships that will help meet the goal of sustainable profitable growth and strengthen its extremely important ecosystem. With a strategy that is based on sustainable long-term success, the Company strives for a balance between opportunities and risks and takes on risks only if the business activities associated with them have a relatively high probability of enhancing the value of Software AG. It is always a prerequisite that Software AG can evaluate risks and that they remain manageable and controllable. Furthermore, risks and opportunities associated with ongoing operations are systematically monitored, for example, through constant oversight of product and service quality and management of exchange rate developments.

ORGANIZATION

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

This includes operational risks, e.g. risks associated with cyber incidents, 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 to monitor the identified risks on an ongoing basis; these relate to the development of the Company as a whole and to department-specific issues. The Management Board receives continuous updates on current and future risks and opportunities as well as the aggregated risk and opportunity situation via established reporting channels.

Risks and opportunities throughout the world are managed and controlled by teams at corporate headquarters responsible for pursuing opportunities and preventing risks for Software AG. Corporate headquarters compiles risk and opportunity reports, initiates further development of the risk management system, and elaborates risk-mitigating guidelines for the entire Group. It reviews the system’s performance and reliability as well as its reporting functionality on an ongoing basis.

STRUCTURE

Controlling

The Controlling department—which is under uniform global leadership—monitors risks arising from business operations in a timely manner. In addition, both operational and strategic risks are analyzed by means of a structured reporting system. It shows developments in all relevant departments using KPIs and reports them continuously, monthly, and quarterly (depending on KPI) to the Management and Supervisory Boards. Furthermore, if exceptional circumstances relating to potential business opportunities or risks arise, ad hoc analyses are conducted and reported to the Management Board.

Finance
The Finance department is responsible for establishing all guidelines for financial reporting in accordance with International Financial Reporting Standards (IFRS) and for Software AG's annual financial statements in accordance with the German Commercial Code (HGB). 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 Group.

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

General Services
Another component to opportunity and risk management is the transfer of operating risks to insurance carriers. This is coordinated globally by the General Services department at corporate headquarters.

Internal Audit
Software AG’s Internal Audit is an active component of the Company's risk management. Through a systematic and targeted approach, this team ensures the effectiveness of risk management along with the evaluation and continual improvement of the internal control systems (ICS) and the management and supervision processes. It is also geared to the creation of added value for Software AG by rating the efficacy and efficiency of business processes. Internal Audit reports to Software AG’s Chief Information Security Officer on a disciplinary basis, but has additional reporting lines to the CEO and the chair of the Audit Committee of the Supervisory Board. This department operates globally.

INTERNAL CONTROL SYSTEM

Software AG’s ICS is based on policies, guidelines, and measures introduced by the Management Board to support the organizational implementation of the Management Board’s decisions. Together with the risk and opportunity management (ROM) system, the ICS comprises management of risks and opportunities relating to the achievement of business targets, the validity and reliability of internal and external financial reporting, and compliance with standard legal policies and regulations including the continuously evolving requirements in the area of non-financial reporting. The ICS also includes a compliance management system (CMS) geared to the Company’s risk situation.

Software AG's ICS is an established component of internal controlling and monitoring processes. It consists of internal policies on business practices as well as Group guidelines on effective internal controls. These policies regulate internal procedures and areas of responsibility at global and local levels. They are designed to provide information to leadership and to monitor the operating business risks of the Software AG Group. In order to enhance transparency, these policies are approved, published, and managed centrally. Compliance with them is assessed on an ongoing basis by Internal Audit as part of a risk-oriented review plan. Individual key Group business processes are managed centrally using software applications based primarily on Software AG technology and monitored using preventative automated control mechanisms.

With respect to the accounting process, the ICS focuses on ensuring that Software AG’s accounting as well as the financial data reported on that basis are correct, appropriate, and effective. In particular, the aim is to minimize the risk of false statements in Group accounting and other external reporting and to prepare compliant consolidated and annual financial statements. The following processes and control mechanisms were implemented to that end:

- Detailed Group accounting, valuation, and account allocation policies are in place which are continuously updated and complied with; these include an IFRS-based accounting guideline as well as a separate revenue recognition guideline. There are also guidelines on bookings, annual recurring revenue (ARR), and net retention rate. Application is mandatory.
- Compliance with these guidelines is ensured and monitored by Corporate Finance as well as locally and regionally responsible Finance, Controlling, and Administration (FC&A) managers and audited by Internal Audit.

- The national subsidiaries report their figures monthly to Corporate Accounting within the Corporate Finance department using the management information system (MIS). The figures from the national subsidiaries are consolidated using the SAP BCS software tool and fed back into the MIS. Corporate Controlling and the Corporate Finance team then analyze these monthly reporting results. Any deviations that may arise are communicated monthly to the national subsidiaries and/or Corporate Accounting and corrected via the most efficient channel.
- Worldwide separation of the functions of generating and reviewing accounting figures is guaranteed by segregation into two areas: Corporate Finance and Corporate Controlling. The two departments are led by different managers who report independently of each other to the CFO.
- All internal Group supplier and service relationships are centrally coordinated and legally regulated through cooperation agreements. Central departments within Corporate Finance and Corporate Controlling handle internal service allocation. In addition, an intercompany transactions policy standardizes internal Group approval processes throughout the world.
- The revenue calculation process is rigorously monitored by means of globally managed approval processes as of the commencement of contract negotiations. The Global Deal Desk is a preventative internal control system and is employed worldwide. All quotes associated with the intent to close a sale with a customer go through this approval process in which the Legal department as well as Corporate Finance, Corporate Controlling, the CFO, and the CRO are also involved.
- Internal Audit continually reviews all key customer contracts worldwide with a view to compliance with the approval process and correct representation in accounting.
- Access rules for the local and central accounting programs are uniformly regulated and monitored by the Corporate IT department.
- Only employees of Corporate Accounting have access to data stored in SAP BCS.
- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual-control principle.
- Software AG regularly commissions external experts to evaluate complex matters such as stock option plans, pension provisions, legal risks, and purchase price allocations.

RISK AND OPPORTUNITY MANAGEMENT

ROM is composed of a central interdisciplinary core team of directors from Information Security, Internal Audit, and Legal who report to the COO in this function. A manager from the relevant field of expertise serves as risk advisor and is responsible for Group-wide assessment, monitoring, and management of the identified risks. The risk advisors are recommended by the core team and chosen by the responsible member of the Management Board. The risk advisors conduct biannual risk evaluations with the Enterprise Risk Manager, who then presents the findings to the core team.

Risks are evaluated according to a uniform valuation system. The system determines the risk category based on the potential impact on Group EBIT for the next three years. The calculation of this impact takes into account the risk-mitigating measures taken by Software AG's leadership.

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

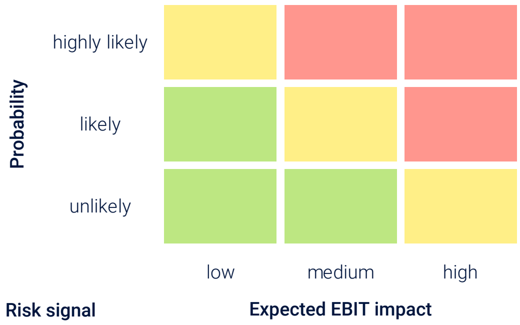
The impact on EBIT over the next three years is divided into three categories. An impact of up to €50 million on Group EBIT in the next three years is categorized as low risk. An impact on EBIT between €50 and €200 million is categorized as medium risk. And, risks affecting EBIT by more than €200 million in the next three years are categorized as high risk. In a separate step, these impacts on EBIT in the next three years are categorized according to the risk advisors' estimated probability into three risk levels.

Probability	Risk level
0% to 33%	unlikely
34% to 66%	likely
>66%	highly likely

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

Risk signal	Risk relevance
green	insignificant
yellow	medium
red	significant

This results in the following risk matrix according to which all risks are uniformly assessed:



All Software AG managers must report newly identified risks and opportunities to the core team at corporate headquarters. The team then informs the Management Board to discuss possible areas. The core team reports to the Management Board regularly about the ongoing development of the identified risks and opportunities. The Management Board regularly presents the ROM to the Audit Committee of the Supervisory Board and discusses with it the level of the identified risks and opportunities as well as appropriate measures for managing the risks and opportunities.

Based on the risk advisors' submitted EBIT impact for the next three years as well as their probability of occurring, the expectation values are calculated taking into account risk-mitigating measures for the individual risks, but without offsetting risks and opportunities. The overall interdependency between individual strategic risks is then evaluated and aggregated with the sum of expectation values for all strategic risks. The result is the total expectation value for all risks. This value is compared against Software AG Group's determined risk-bearing capacity; risk reserves are also calculated. This ensures the effectiveness of the ROM and the ICS.

Internal Audit regularly reviews the effectiveness of the ICS. When necessary, suggestions for improvement are prepared and implemented. This is monitored centrally. Corporate Finance and Corporate Controlling regularly conduct internal reviews of accounting-relevant control processes and modifies them for new developments.

POSITION TAKEN BY THE MANAGEMENT BOARD IN ACCORDANCE WITH THE 2022 GERMAN CORPORATE GOVERNANCE CODE[1]

In accordance with recommendation A.5 of the 2022 German Corporate Governance Code (GCGC), the Management Board examined the appropriateness and effectiveness of the ROM and ICS. Based on that, the Management Board has no indication that the ROM and ICS were not appropriate or effective in their respective entirety as of December 31, 2023.

KEY INDIVIDUAL RISKS AND OPPORTUNITIES

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

[1] Not reviewed as part of the external audit of the Management Report since, pursuant to the recommendations of the GCGC, this information is above and beyond that which is legally required of the Management Report.

Corporate strategy risks and opportunities

Product innovation and portfolio

The software sector is subject to very fast innovation cycles with respect to new products as well as go-to-market models, such as usage-based models (pay per use) in the IoT and cloud markets. These are based on constantly changing customer, market, and integration requirements. Software AG is rapidly converting its customer contracts to subscriptions and, increasingly, SaaS models as well. In the last quarter of 2023, Software AG began a process of realigning its product portfolio in order to focus on the Company's strategic goals. This included selling certain products such as webMethods and StreamSets. New innovation trends are very difficult to predict and are sometimes identified too late. Due to the uncertainty of future developments in the software market, Software AG considers itself exposed to risks and the associated impacts when it comes to the following points, among others:

- New innovation trends are not recognized or are recognized too late
- Company resources such as R&D, Product Marketing, Marketing, and Sales are not allocated or not in the appropriate scope to the right products
- Insufficient focus on future growth-relevant products
- Key competitors' large financial resources can have a negative impact on business success
- Lack of balance between fast product innovation on the one hand and product quality on the other

Software AG's product portfolio consists primarily of software tools and platforms whose value for customers is maximized through customized solutions. This translation of platform technology to customized solutions is the Company's key success factor. Software AG took measures to counter the described risks:

- Organization of the product business in market-defined business units that are clearly geared to competition and customers
- Regularly scheduled innovation competitions (TechInterrupts) to promote ideas and identify possible applications for new tech trends
- Ongoing exchange with leading experts from the field of (business) information technology in the context of a Scientific Advisory Board
- Ongoing exchange with specific customers in Customer Advisory Boards
- Regularly scheduled in-depth discussions with leading industry analysts such as Gartner and Forrester
- With the goal of shortening time-to-market, Software AG's products are also augmented by acquisitions when it comes to newer development trends
- Because the IoT products are still relatively new, a considerable amount of resources have been and will be dedicated to quality assurance

Software AG also ensures product quality through implementation of product standards, the Chief Quality Officer, and the ISO 9001 certified quality management system. Product quality and user-friendliness as well as customer support are monitored using these mechanisms on an ongoing basis.

Growing the SaaS business (cloud business) is extremely challenging and cost-intensive. In this context, Software AG is exposed to risks and impacts when it comes to the following points, among others:

- Insufficient scaling in the cloud business and the associated inadequate margin growth
- Technical and legal risks regarding data protection and data security
- Competitive advantages of new startups without a long history in the on-premises business

Software AG took measures to counter these risks, for example:

- Monitoring through a dedicated, externally ISO 27001-certified information security management system and cross-departmental response teams for failures in data protection and information security
- Expanded work with external IT forensic specialists
- Ongoing monitoring and optimization of cloud infrastructure usage

In particular, the expansion of the IoT business and the recognition achieved in the Digital Business line by distinguished technology analysts like Gartner and Forrester are generating major market opportunities for Software AG. As digitalization continues to advance—fueled by the COVID-19 pandemic—in companies' administrative units and production (IoT) activities as well as in government organizations, Software AG can influence the development of markets and drive its own growth.

The product portfolio and innovation risks described above were rated at risk signal yellow at the end of 2023 (2022: yellow).

Growth in API Management, Integration and Web Services

Following the agreement to sell the webMethods and StreamSets businesses to IBM, the parent company continues to support Software AG's business strategy in its revised form that aims to simplify and refocus Software AG's business, including, following a strategic review, potential divestments and acquisitions, which would benefit Software AG, its shareholders, employees, customers, and other stakeholders. While the API Management, Integration & Microservices product lines in the Digital Business segment generate a significant volume of business, the divestment eliminates the strategic risks in this product line.

Due to this mixture of risks and opportunities, the risk assessment changed to yellow at the end of 2023 (2022: green).

Development of Business Transformation

The Business Transformation product line in the Digital Business segment consists primarily of the ARIS and Alfabet products. This market is characterized by intense innovative competition. To keep up with this competition, Software AG delivered new functionality for its process mining products in the previous year and is continuously introducing product innovations.

Like all major Software AG products at present, the products in this product line are cloud-ready. To accelerate this product line's growth and transition to the cloud business, Software AG introduced the option for customers to purchase standard software packages online. In addition, specialist consulting teams and the Customer Success Management organization are being built on an ongoing basis; their task is to expand customer relationships and the respective business volume as well as to support the Sales organization in growing this field of business. Furthermore, customer support during the term of cloud agreements serves to increase customer satisfaction and minimize the risk of termination.

The Business Transformation products are particularly well suited as entry products for Software AG technology. Because average deal sizes tend to be smaller than in other Software AG product lines, efficiency is also lower in direct sales. Software AG's sales focus for these products is aimed more at other channels such as partner and direct online sales.

Expansion of the partner ecosystem is necessary to boost the success of this product line. A higher number of implementation partners is needed to support customers in the implementation of these software products. These were not and are not yet available to Software AG to the extent necessary and are currently being increased, e.g. through the strategic partnership formed with Persistent in 2022. Competition for human resources has also intensified considerably in this product line. Software AG enhanced its recruitment and staff development programs to address potential fluctuation in this area.

These risks were given a green risk signal at the end of 2023 (2022: green).

Ongoing development of IoT & Analytics

Business in the IoT & Analytics product line within the Digital Business segment (cloud & IoT business) is growing faster than the rest of Software AG. IoT is a rapidly growing market subject to intense competition. The market is being driven by hyperscalers (computing networks to achieve major scaling in cloud computing and big data), systems integrators, and industrial companies that are developing their own IoT system landscapes. In this context, Software AG is exposed to risks and impacts when it comes to the following points, among others:

- Inconsistencies in product quality due to the proportionally low level of product maturity and to high speed of development
- Insufficient attention to technical challenges and necessary product enhancements
- Underestimation of challenges regarding customer growth and economic relevance
- Attempts by competitors to poach highly qualified employees
- Insufficient sales and consulting capacities in smaller regions
- Because the products in this line are increasingly sold as SaaS offerings, there is a growing risk that service level agreements will not consistently be met.

Any of these circumstances could have a negative impact on business operations in this segment. Software AG therefore took measures to counter these risks, for example:

- Introduction of the Continuous Integration and Continuous Delivery concept in the R&D process
- Amplified training options in modern cloud technologies
- Strengthening and automation in Cloud Operations to enable better scalability of cloud solution operations
- Introduction of modern team-building and management methods
- Intensification of partnerships with consulting firms and hyperscalers
- Expansion of proactive support and de-escalation measures

The risks associated with the IoT business were rated at risk signal red at the end of 2023 (2022: yellow).

Market risks and opportunities in the Adabas & Natural business

Software AG's traditional Adabas & Natural (A&N) products are currently in an advanced stage of the product life cycle. The age structure of A&N employees—in R&D, Presales, Sales, and Professional Services—poses a challenge for Software AG and its customers. The necessary generational shift across all customer-oriented functions must be well organized. Otherwise, there is a risk of losing customer contacts and expertise with the corresponding negative effects on sales opportunities.

There is hardly any new customer business in this segment. The product portfolio is based on existing customers. Growing cost pressure on customers has the effect of more migration of mainframes to open system platforms. But resources are tight when it comes to supporting customers with this migration. There is also the risk of customers changing to new competitor products, which would have negative effects on revenue and profit margin. It would also reduce the cross-selling potential of other Software AG products. Software AG's strategy is based in part on extending customers' existing A&N license rights and/or selling add-on products. The potential offered by renewing licenses continued to drop compared to past years. Software AG's A&N customers have nevertheless been very loyal up to now. In Software AG's view, this is because A&N products are highly valued for their:

- High availability
- Low operating costs
- Strategic relevance for operation of customer applications running on A&N
- Future guarantee

This presents the opportunity to attract customers with positive Software AG experiences to long-term maintenance and modernization of their IT infrastructure while keeping A&N technology. Software AG is the best partner for that. Retaining and acquiring product expertise make this possible. Ongoing innovation and R&D activities lead to significantly better prospects for the A&N business line. Software AG began communicating its Adabas & Natural 2050+ program in 2015 and is fundamentally willing to continue developing A&N and providing A&N customers installation support through the year 2050 and beyond. This initiative resonated extremely well with customers and increased the level of loyalty among the customer base. The transition to subscriptions in the A&N segment also opens up additional revenue potential. Software AG is countering the described risks with the following additional measures:

- The Adabas & Natural 2050+ program can significantly delay the anticipated long-term revenue decline
- Ongoing development of hosting and private cloud availability for A&N products can lead to new business
- Through the sale of new products, the Freedom for Legacy initiative can lead to incremental revenue and enable existing A&N customers to integrate their legacy applications with modern software environments
- Customer support for migration of mainframes to Linux platforms with the help of A&N technology (re-hosting) to cut hardware costs for customers and prolong maintenance periods
- Expansion of A&N service capacities to support local partners and their re-hosting activities
- Generation change training programs for young A&N staff in R&D and Presales working for Software AG and customers
- Extended application support to serve customers
- Expansion of offshore R&D and support centers
- Focus on key operating system platforms like z/OS®, Linux®, and Windows®
- A&N modernization to extend the product life cycle, e.g. enhancement and sale of Adabas encryption and auditing products as well as zIIP™ functionality for online transactions and Adabas for zIIP
- Regular customer satisfaction surveys
- Increased marketing budget

These measures can significantly slow the downward trend of A&N sales while providing opportunities for generating additional sources of revenue. Customer evaluations show that the majority of all A&N installations are business-critical for customers. This means that many customers' economic livelihood depends on the performance and availability of their A&N installations. After having invested heavily over the past decades, these customers cannot and will not forgo this technology. There is thus an opportunity that this business line will continue generating high revenue in the future.

There are significant opportunities associated with product innovation and A&N modernization/digitalization packages; this type of offering can make the need for large, cost-intensive projects to replace A&N technology superfluous. In this way, A&N remains a future-proof technology, which can make a positive impact on A&N customers' investment decisions. The macroeconomic environment as described also had barely any negative effects on business performance in this segment. In times of crisis, customers rely on proven technology and do not undertake activities to try out new technologies.

These risks were assigned risk signal green at the end of 2023 (2022: yellow).

Acquisitions (Pre-acquisition phase)

To mitigate the risk associated with the selection of potential target companies, the Mergers & Acquisitions (M&A) department is continuously observing and evaluating the relevant market segments. Software AG expanded and optimized its process for identifying investment areas, target companies, and potential divestitures. In this context, potential companies are identified using a sophisticated screening process and assessed based on acquisition criteria. To reduce risks associated with due diligence processes, Software AG conducts a critical business model and business plan analysis of all potential target companies. Its current due diligence process identifies problems, rejection criteria, and uncontrollable risks early, as well as validates the opportunities associated with the acquisition. In-depth due diligence is carried out with respect to technological, sales, staff, strategic, and operational integration. Prior to a takeover, an intensive review is conducted to ascertain whether the technologies of the target company in question efficiently strengthen and/or supplement Software AG's product portfolio, how market access and market penetration will improve, and what potential synergies can be realized. Every acquisition is preceded by a detailed analysis of the target company’s economic fitness as well as a validation of the combined business plan and synergy potential with the help of experienced due diligence teams. These teams consist of a core team and experienced specialists from the relevant business units as well as external consultants. They assess whether the target company’s corporate culture can be harmonized with that of Software AG. In order to ensure consistent integration coordination regarding business plan implementation, staff members who will be responsible for integration later are included in due-diligence processes at an early point in time.

As in the previous year, the risks associated with the pre-acquisition phase were given a green risk signal at the end of 2023.

Environment, social, governance

As part of its strategic risk and opportunity management, Software AG reported separately on the strategic risks associated with environment, social, and governance (ESG) aspects for the first time in 2022. In 2023, Software AG continued to report on ESG risks and opportunities, with a focus on climate-related risks and opportunities as well as the other risks presented in the report. The risks climate change poses to businesses are real and already present. It is more important than ever for businesses to lead in understanding and responding to these risks—and seizing opportunities to build a stronger, more resilient, and sustainable global economy. For many organizations, the most significant effects of climate change are likely to emerge over the medium to long term, but their exact timing and magnitude are not easy to predict. This uncertainty presents challenges for organizations when it comes understanding the potential effects of climate change on their businesses, strategies, and financial performance.

Furthermore, Software AG is subject to additional ESG risks that go beyond the climate-related/environmental risks described in detail below. In the social domain, these include supply chain risks regarding human rights, labor rights, consumer matters, as well as health and safety. An evaluation of these risks concluded that their probability is low and impact is minor since Software AG does not have complex supply chains or manufacturing processes that would pose such risks to employees or supply chain partners.

From a governance point of view, risks such as the lack of specific procedures, policies, and internal control mechanisms and an inadequate code of conduct as well as other internal policies may pose a threat to the Company's reputation. The evaluation of such risks resulted in a low probability and minor impact due to the processes and procedures in place that govern these matters and which are regularly updated and reviewed by the Company. Additional risks identified for Software AG are information security and protection and product and service quality. These risks are not currently evaluated with regard to financial impact.

To establish a comprehensive foundation for its climate-related risk management process, Software AG opted to follow the recommendations provided by the Task Force on Climate-Related Financial Disclosures (TCFD). Complying with this framework will also prepare the Company for the future requirements of the Corporate Sustainability Reporting Directive (CSRD) and other regulations on climate-related risk and opportunity reporting. The TCFD framework divides climate-related risks into transitional and physical risks, further detailing the specifics of climate-related risks compared to other more traditionally assessed risks within companies. In accordance with the TCFD framework, Software AG performed a risk assessment of transitional risks (policy and legal, technology, market and reputational) and physical risks (acute and chronic).

The risk assessment determined that within the transitional category, market, policy, legal, and reputational risks scored the highest. In the physical category, chronic risks were assessed as having a higher score than acute risks, due to the nature of Software AG's operations and absence of traditional manufacturing facilities in areas prone to high physical risks. Further efforts will be dedicated to assessing physical risks and conducting scenario analysis.

The market risks under consideration relate to changing customer behavior resulting in the potential loss of customers and market share, as well as revenue decline, due to the inability to respond to the market's requirements on ESG matters or offering sustainable/low-emission products and the corresponding proof of product sustainability.

Policy and legal risks relate to the challenges of ensuring compliance with emerging regulatory requirements, such as the potential rise in operating expenses to meet future requirements under CSRD and the monetary penalties for not meeting them. These risks also encompass the financial impact of carbon pricing, emission trading, and asset write-offs, repair, and retirement. Moreover, there also exists a risk of increased regulations applicable to Software AG products.

Reputational risks represent the potential risk of losing brand value and employer attractiveness if ESG matters are not addressed in a timely manner. Sustainability has become an increasingly relevant factor for different stakeholders including current and future employees and customers.

When it comes to technology risks, technological advancements in emission reduction and renewable technologies do not play a major role for Software AG. However, there is a risk of falling behind competitors that offer low-emission technologies. Furthermore, given the unpredictability of the software market, recognizing trends late or allocating resources to potentially unsuccessful technologies poses a risk for the Company.

Software AG will conduct a more thorough analysis of physical risks—which are divided into acute and chronic—in the year to come. The results of the initial assessment show that the majority of regions in which Software AG currently conducts operations do not experience significant extreme weather events. The growing frequency of such occurrences worldwide could, however, extend the geographical scope of these regions. By contrast, chronic physical risks were deemed more relevant to the Company in the long term and they will thus be thoroughly evaluated in the year to come.

Opportunities are categorized into five areas: resource efficiency, energy sources, products and services, markets, and resilience. Given the relatively low relevance of resource efficiency and energy sources in the software sector, the primary opportunities to be identified are in products and services, markets, and resilience. A significant opportunity exists for Software AG regarding its products and services because its products can help customers become more sustainable. This is considered to be the greatest opportunity for the Company and is expected to result in market share growth and increased resilience, thereby improving Software AG's competitiveness edge over other software companies. Through its products, Software AG stands to create long-term value for customers and the planet, underscoring the vital role of sustainability in the Company's business strategy.

The ESG risks were assessed for the second time and given a yellow risk signal at the end of 2023.

Competitive and macroeconomic environment

The business of a globally operating company like Software AG depends heavily on economic developments worldwide. A global economic downturn—especially in the markets Software AG serves—can result in failure to meet revenue and earnings guidance. Furthermore, risks could arise from political and societal changes, particularly in countries where Software AG markets its products.

Geopolitical risks increased significantly in the 2023 fiscal year, primarily due to the war in Ukraine and the Israel/Palestine conflict, which drastically worsened the predictability of economic developments. The war in Ukraine is causing risks and limitations that impact Software AG both directly (e.g., higher energy costs) and indirectly, through changes in customers' purchasing behavior. In addition, the sanctions against Russia represent a challenge for Software AG, just as for all companies with global operations and cross-border projects in Eastern Europe.

Rising inflation and interest rates can also result in a considerable decline in consumption and increased operating and financing expenses. Regardless of the scenarios and possible responses assessed by Software AG in this complex risk area, these developments could negatively impact the business, the assets, and the financial performance and position of the Company.

Further, the technological evolution of different sectors of the IT industry can impact the business potential of the individual business lines positively or negatively. Following the agreement to sell the webMethods and StreamSets businesses to IBM, the parent company continues to support Software AG's business strategy in its revised form that aims to simplify and refocus Software AG's business, including, following a strategic review, potential divestments and acquisitions.

The competitive and macroeconomic risks were assessed for the first time and given a red risk signal at the end of 2023.

Product distribution risks and opportunities

Sales efficiency and sales risks and opportunities

The complexity of Software AG's products together with the complexity of the requirements of its customers alike require a well-trained and highly specialized sales force and lead to relatively long sales cycles. Because sales expenses are the largest single item in Software AG's consolidated income statements, profitability targets can only be met if the sales organization is as efficient and effective as possible.

An ineffective sales organization can be an indication of an inadequate sales approach, inadequate capabilities, uncompetitive prices or products, or unscalable product solutions. A sales model has to increase efficiency and remove inefficiency. One approach is to drive sales of standard, repeatable product solutions. This can also shorten sales cycles. In this context, Software AG's land-and-expand sales strategy must be further refined and developed.

In addition, the sales organization must be more streamlined into one unit that generates new deals with annual recurring revenue and another unit that carries out efficient renewal of existing recurring customer contracts. If Software AG does not decisively optimize its sales efficiency and approach in key markets, its growth and profitability targets will be difficult to meet. Software AG's shift to the subscription model from the previous sales model based predominantly on perpetual licenses could mean that customers terminate agreements more quickly when products do not fully address their wishes. Higher average deal size and better scalability can improve sales efficiency. A sales focus on the expansion of relationships with strategic customers as well as signing new logos is essential. However, business with large customers increases the dependency of license revenue on a smaller number of large customer contracts.

Insufficient average deal sizes closed by the Direct Sales organization with full administrative support from Legal and Finance and insufficient use of standard agreements and processes have a negative impact on sales efficiency and profitability. Some of the smaller country subsidiaries have too few technology consultants (Presales staff) and skills to provide customers with technical consulting on the entire Digital Business product portfolio. Not enough standard contracts are used—even for small-scale deals—due to the "customer-first" approach in place. The impact of COVID-19 and the macroeconomic environment caused customers to delay their purchasing behavior.

Software AG intends to continually increase sales efficiency and thereby further accelerate deal-size growth in the Digital Business segment through the following measures:

- Accelerate the transition to recurring license models such as subscriptions, usage-based licenses, and SaaS in all product lines with better scalability and forecast accuracy
- Further develop the Customer Success organization to provide ongoing care and consulting to customers in areas such as the renewal and expansion of existing contracts
- Handling of customer contract renewals based on subscriptions and SaaS by specialized teams, while the Direct Sales organization concentrates on generating new recurring customer contracts
- Further reduce complexity of product offerings and pricing with simpler product bundles
- Further simplify administrative processes to increase sales efficiency

As in the previous year, these risks were rated with a green risk signal at the end of 2023 (2022: green).

Partnership risks and opportunities

Software AG’s growth strategy is also anchored in the expansion of its partner ecosystem to broaden vertical and regional market reach. The partner ecosystem must be further expanded to generate additional growth in markets that have not yet been addressed.

Global systems integrators and consulting firms play a key role in the strategic transformation projects in Software AG's customer target groups. Their expertise and assessment of Software AG products have a significant impact on Software AG’s sales success. For this reason, close collaboration with globally operating systems integrators and consulting firms is of strategic importance. Close collaboration with leading cloud providers like Amazon Web Services (AWS) and Microsoft Azure is also essential as customers are increasingly moving their applications to the cloud and relying on the strategic support of cloud providers.

Sales channel conflicts between direct and indirect sales or inadequate remuneration and incentive structures for partners can be an obstacle to a successful partner business. Successful partner sales require the establishment of a partner-friendly culture in the organization. This will work if, for example, the right targets are set for Software AG Sales, the technology consultants (Presales), the Professional Services organization, as well as Sales leadership.

It should be noted that Software AG products are not yet sufficiently ready for business with original equipment manufacturers (OEMs). Therefore, too many adjustments still need to be made to products and specific product support provided when it comes to OEM partner contracts, which has a negative impact on profitability in this area.

The implementation of a global partner strategy, standardized partner business processes, collaboration between Direct and Indirect sales as well as the necessary compensation structures with a focus on incremental rather than existing business remain a focal point. The following measures were introduced to grow the success of the partner business:

- Optimize the Global Partner Management team with a focus on evolving strategy and expanding relationships with strategically key partners and with the ecosystem network in general
- Establish suitable incentives for collaboration between Direct and Indirect sales
- Simplify partner-related processes and systems on all levels
- Allocate a dedicated marketing budget to accelerate generation of new partner business
- OEM-enable products and introduce standard processes for certification of OEM solutions by R&D
- Sharpen focus on signing new customers

The risks associated with partnerships were rated at risk signal yellow at the end of 2023 (2022: yellow).

Personnel risks and opportunities

Employer appeal

Software AG’s most valuable asset are its people along with their knowledge, personal skills, and enthusiasm for their work. In an increasingly competitive environment and employee market in which every organization is trying to attract the best talent for itself, one of Software AG’s main challenges is to attract, foster, and retain talent. The Company must ensure that a sufficient number of appropriately qualified, highly motivated employees is available at all relevant locations at all times. Uncertainty about Software AG's future success could have a negative impact on its image as an employer both among prospective and existing talent. For example, uncertainty associated with the sale of webMethods and StreamSets could cause employees to leave the Company thereby increasing the risk of attrition. Attracting and fostering talent are therefore decisive factors and key to ensuring Software AG's business success.

Software AG stayed on course during the COVID-19 pandemic. However, other macroeconomic topics and an ever-changing work reality (hybrid work) require additional energy, patience, and a new mindset to overcome these challenges. The Company's internal transformation is taking place at the same time as a global social and economic transformation that is also affecting every individual. Despite the changes of recent years, Software AG was able to steadily improve employee satisfaction.

Furthermore, the demographic trend in some countries and markets could result in a decline in growth potential due to a shortage of qualified young talent. Succession management and well organized knowledge transfer are key success factors in minimizing the impact of this risk.

The age structure in the A&N business line could lead to a loss in expertise. Software AG is taking the following measures to counter this risk:

- Measure, monitor, track, and assess internal and external key indicators such as external rating platforms, attrition rates, employee satisfaction, etc.
- Ongoing evaluation of market-oriented remuneration and target salaries based on global benchmarks
- Foster an education culture through comprehensive learning and growth programs, mentoring, courses, and workshops for employees and leaders
- Support leaders to deepen and strengthen their capabilities and competencies
- Globally optimize employee development reviews and establish options for personal and professional advancement
- Promote physical and mental health
- Improve employee engagement and satisfaction with annual employee surveys and apply improvement where weaknesses are identified
- Specific offerings to foster and educate high school and college students early in their development
- Strengthen Software AG's presence externally in the labor market and social media as well as promote the Software AG image as an attractive employer
- Improve talent acquisition by adapting the hiring process to reflect the changing talent market
- Continue activities for direct recruitment of new employees and training of existing staff

Software AG assumes that these measures provide a sound basis for ensuring its long-term success and hence, personnel-related topics were rated with the green risk signal at the end of 2023 (2022: yellow).

Legal risks

Intellectual property
This strategic risk mainly consists of the two subcategories described below.

Infringement proceedings
Especially in the USA, a generous number of software patents are granted. This, along with the particularities of US procedural law, facilitates patent disputes. Aside from potential lawsuits from other tech companies, this situation is also exploited by non-practicing entities (sometimes referred to as "patent trolls") which are often financed by hedge funds to file patent infringement proceedings against primarily software companies. This is also relevant to Software AG. Patent disputes in the USA entail the risk of high legal costs incurred in defending against claims, which are not reimbursed according to American procedural law. The risk associated with non-practicing entities has been mitigated in recent years through a new legal ruling by US courts and legislation providing protection against non-practicing entities in some states.

Furthermore, a large number of well-known tech companies have joined forces to form the License-on-Transfer (LOT) Network. The LOT Network is a non-profit community established to combat the non-practicing entity business model. To strengthen its own position, Software AG joined the network in 2020. Members of the LOT Network grant each other licenses in the event that patents are transferred to non-practicing entities.

The last patent infringement proceedings brought against Software AG by a non-practicing entity ended in a settlement in the 2019 fiscal year. Since this case, which lasted multiple years, there have been no further attacks by non-practicing entities in recent years. Nevertheless, there is a risk of being sued by competitor tech companies for patent infringement. Software AG has an Intellectual Property (IP) Rights team to counter patent lawsuits. In addition to tasks associated with IP law protection, the team handles Software AG's own patent portfolio and coordinates its defense against patent infringement lawsuits. Having a patent portfolio is the best protection against claims from other market participants because it offers opportunities for cross-licensing agreements. There was room for improvement regarding Software AG's patenting activities in recent years. IP leadership therefore launched an initiative which included workshops held at all relevant R&D locations to examine the option of new patent registrations. In addition, Software AG's recently updated and highly attractive inventor remuneration system provides a heightened incentive for employees to develop patentable innovations and engage in the patenting process.

Software AG owns a significant number of patents, which can be used to protect its business and defend against patent infringement suits. There are, however, various inherent risks to dealing with inventions. For example, inventions may not be incorporated into products and thus published before having been registered with the patent office because they are otherwise no longer protected. Furthermore, patents can be weakened if the underlying technology is built into open-source software that is subject to a permissive free license.

To defend itself against patent infringement lawsuits, all relevant source code files and other technical as well as marketing documentation were and are stored centrally so that all required documents are available quickly in the event of a lawsuit. This documentation process is employed for newly acquired companies as well. All new products are evaluated for potential patent infringements before publication. R&D and Product Marketing employees receive training on the subject of inventions and patents.

In principle, there is also a risk of trademark infringement. Trademark research is conducted to carefully review new product and brand names against previously existing identical or similar trademarks that could be infringed upon.

Implemented measures and processes reduce this risk considerably for Software AG. It is currently unforeseeable to what extent future patent infringement suits will be fueled by the increasingly protectionist tendencies worldwide.

Protection of Software AG partners' IP rights

Because Software AG licenses third-party products, it is required to defend rights granted to customers such as rights of use for specific resources. Unauthorized undetected use by customers can result in liability risks relating to lost license fees owed to software distributors. To mitigate this risk, audit rights have been included in all customer contracts which entitle Software AG to monitor customers' use of products in accordance with contractual stipulations. All third-party software sales agreements are reviewed for unfavorable terms and modified as needed by a central department. In addition, Software AG continued developing and optimizing its procurement process.

Like last year, the risk associated with the protection of IP rights was rated at a green risk signal as of December 31, 2023. (2022: green)

Risks from cloud contracts

The overall buying behavior of enterprise customers in the software market has changed radically. Customers increasingly request term-based, self-installable software products and hosted cloud products. Unlimited self-installable software products are less and less in demand. The demand for subscription and SaaS offerings is therefore rising continuously. Software AG's Management Board therefore defined a "subscription-first" approach as part of the new strategy, whereby all Software AG products have been offered primarily as subscriptions since 2020. Software AG is also continuously expanding its cloud offering. Nearly all Software AG products are now available as cloud solutions. This satisfies the increasing customer demand for pay per use and subscription options and, regardless of the deployment model, provides access to the advantages of this form of consumption.

The risk associated with information security and data protection is significantly higher in the cloud business than in on-premises business because Software AG acts as a processor. This transfers the risk to Software AG as the cloud provider, resulting in an increased legal risk associated with cloud agreements. To minimize this risk, an information security management system (ISMS) in accordance with ISO 27001 was implemented and externally certified.

The assessment of risks associated with cloud contracts is included in the two following risks regarding data protection and information security. A separate assessment therefore did not take place.

Data protection

As a provider of maintenance, cloud, and consulting services, Software AG works with personal customer data and thus acts as a processor. Software AG also processes personal data about its employees, customers, prospective customers, partners, and suppliers in the role of controller. The Company is legally required to treat this data in accordance with the applicable data protection laws and protect it against unauthorized access, alteration, or deletion. Software AG must ensure personal data is treated confidentially, but available at all times for the required application without loss of integrity. Due to the increasing number of cyberattacks, guaranteeing compliance with data protection is becoming more challenging. Software AG's order processing agreements with customers require compliance with data protection laws, particularly with the European Union's general data protection regulation (GDPR). At the same time, growing IT complexity increases the attack surface for cyberattacks. According to the GDPR, penalties of up to 4 percent of Software AG's consolidated annual revenue can be issued in the event of infringement of data protection laws. Furthermore, additional costs for external consultants may be incurred, process productivity may decline, and significant reputational losses detrimental to sales may result. Sizable investments are necessary on an ongoing basis to take these security measures and comply with regulations.

Software AG counteracts these risks by improving its data protection management system (DPMS) on an ongoing basis. This DPMS defines processes that help ensure data protection such as internal data protection policies and standardized processes that are constantly being adapted accordingly. In addition, the following measures were taken to reduce the risk associated with data protection:

- Software AG's data processing agreements (DPA) with customers minimize the risks it assumes to the legally admissible extent
- Implementation of a data protection policy that is binding for the whole Group as well as binding corporate rules (BCRs) for international data transfer to ensure a uniform level of data protection throughout the Software AG Group (current project)
- The DPMS is monitored and optimized on an ongoing basis
- Mandatory data protection training for all employees to raise awareness for the requirements of data protection
- As a result of the malware attack in October 2020, Software AG acquired a great deal of experience in processing personal (including sensitive) data and drew the necessary security-related conclusions. With the help of investments and measures now concluded, Software AG significantly improved its level of data protection. However, 100 percent security cannot be guaranteed as attacks are getting ever more intelligent.

The Schrems II ruling (Judgment of the European Court of Justice on Transfers of Personal Data to Third-Party Countries) strengthens data protection for EU citizens. The ruling also creates compliance issues that can, however, be mitigated through the use of EU standard contractual clauses (SCCs). The ruling stipulates, among other things, that necessary data transfer to an "unsafe third country" can be legally safeguarded through the use of EU SCCs. Under certain circumstances, using an SCC can help provide the legal security necessary to transfer personal data to a data processor based in an unsafe third country. The main prerequisite for using an SCC is that a data processor can guarantee an equivalent level of data protection as that in the EU. To minimize the risk of unauthorized data processing in an unsafe third country, Software AG concludes SCCs with the relevant data processors. In addition, supplementary and technical security measures were taken, e.g. encryption, to ensure compliance with the rules associated with the Schrems II ruling.

The risks associated with data protection were rated at risk signal yellow at the end of 2023 (2022: green).

Information security

All data and IT service functions for internal purposes and customer services globally are subject to an upward threat potential curve because of the fact that malware attacks are getting increasingly smarter. Furthermore, government regulations on data protection and IT security are getting ever stricter. The growing complexity of IT increases the vulnerable attack surface of Software AG's sensitive data and IT systems to hackers and poses a constant threat to its tangible and intangible assets. This risk, however, is not specific to Software AG. It affects nearly every company worldwide. To mitigate these risks, Software AG introduced and implemented the following measures:

- The SecureBiz program was introduced at the beginning of 2021. This program primarily comprises improvement of the following points:
  - Continuous tracking of the IT landscape for weak points as well as security monitoring
  - Information protection and management
  - Network redesign including network segmentation, real-time data flow, and irregularity monitoring
  - Hardened active directory and Azure active directory
  - Admin rights only issued upon request
  - End-device management
- An ISO 27001-certified information security management system (ISMS) is in place for cloud business customers
- Employee training on information security was introduced and will be expanded continuously
- To increase transparency of IT security, internal control mechanisms are monitored and optimized to reach a state-of-the-art level
- Management and monitoring of overall information security was separated from IT security operations
- Software AG's IT security strategy and the corresponding management program are aligned with the global corporate and IT strategies
- The IT Security department ensures the ongoing development of processes, workflows, and tools and monitors the extent to which they are correctly installed and employed so as to prevent potential malware attacks
- Risk evaluations are optimized and rolled out uniformly on all security-relevant IT systems

All these measures, however, cannot and will not provide a 100 percent guarantee of IT security. The systems have become too complex, and potential attackers too well trained and equipped, sometimes by foreign governments with extensive resources. Software AG therefore can and must do everything in its power to achieve the maximum level of security.

The risk associated with information security was given a yellow risk signal at the end of 2023 (2022: yellow).

Financial Operating Risks

Exchange rate risks

Software AG is exposed to exchange rate risks through its global business activities. Software AG's sales organizations operate in the currency of the countries in which the sales are transacted. This can result in currency risks and opportunities for Group revenue. Further information on currency impact on revenue is provided in the Financial Performance of the Group section of the Economic Report.

The sales-related expenses are in the same currency as the sales themselves, however. This natural hedging relationship is strengthened in the USA due to the fact that components of Software AG's R&D and global Marketing are based there. Software AG further utilizes derivative financial instruments for hedging currency risks and monitors all exchange rate risks centrally.

Based on the monetary financial instruments available as of the balance sheet date, a devaluation of the euro by 10 percent against the US dollar would have decreased earnings by €851 thousand (2022: increased by €1,061 thousand) and other reserves by €0 thousand (2022: €0 thousand). This amount only represents a theoretical risk for Software AG as these instruments are hedges of balance sheet transactions, rather than open trading positions.

Interest rate and liquidity risks

The Company is subject to interest rate fluctuations that affect both assets and liabilities on the balance sheet. On the assets side, income from investing available cash and cash equivalents and future interest income resulting from discounting non-current receivables and contract assets 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 risks. The sensitivity analysis required by IFRS 7 relates to interest rate risks 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 improve financial income/expenses by €476 thousand (2022: €967 thousand).

A liquidity risk arises from the possibility that Group entities may not be able to satisfy their existing financial liabilities, for example, arising from loan agreements, lease agreements, or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit. Under credit agreements having a total volume of €415.5 million (2022: €326.7 million), Software AG is not permitted to exceed a net leverage ratio of 7.0 or fall below a fixed charge coverage ratio of 1.75. Furthermore, unused credit lines are available to Software AG with a volume of €119.0 million (2022: €300.0 million); if Software AG draws on them, it is required to meet financial KPIs. As of the end of 2023, the Company's net leverage ratio was significantly lower than this limit and the fixed charge coverage ratio was significantly higher.

Other financial risks

Other financial risks include predominantly the risk of bad debt losses. However, no cluster risks exist due to Software AG's diversified markets and customer structure. Default risks in the long-term average are quite marginal as a result of the generally high level of creditworthiness on the part of its customers. To reduce the impact of these risks, Software AG uses an automated approval process for customer contracts, known as the Global Deal Desk, based on its own technology. To protect cash holdings, Software AG constantly monitors partner banks' creditworthiness and adjusts investment decisions accordingly.

GENERAL STATEMENT ON THE GROUP'S RISK SITUATION

While the assessment of individual risks has changed compared to the previous year, the Software AG Group's overall consolidated risk situation shows an essentially constant risk situation year-on-year.

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

Risk Summary

	Impact on EBIT in the next 3 years	Probability	Risk signal
Corporate strategy risks and opportunities			
Product innovation and portfolio	medium	medium	yellow
Growth in API Management, Integration and Web Services	medium	medium	yellow
Development of Business Transformation	low	medium	green
Ongoing development of IoT & Analytics	medium	highly likely	red
Market risks and opportunities in the Adabas & Natural business	low	medium	green
Acquisitions: pre-acquisition phase (selection)	medium	unlikely	green
ESG	medium	likely	yellow
Competitive and macroeconomic environment	medium	highly likely	red
Product distribution risks and opportunities			
Sales efficiency and sales risks and opportunities	low	medium	green
Partnership risks and opportunities	medium	medium	yellow
Personnel risks and opportunities			
Employer appeal	low	unlikely	green
Legal risks			
Intellectual property (IP) right protection	low	unlikely	green
Data protection	low	likely	yellow
Information security	medium	likely	yellow

TAKEOVER-RELATED DISCLOSURES

Pursuant to sections 289a and 315a of the German Commercial Code (HGB) and explanatory report

COMPOSITION OF SUBSCRIBED CAPITAL AND LIMITATIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

As of December 31, 2023, Software AG’s share capital totaled €74,000 thousand and was divided into 74,000,000 registered shares. Each no-par value share arithmetically represents €1.00 of the Company's share capital. In accordance with the provisions of the German Stock Corporation Act (section 67, AktG), only those entered as such in the share register are deemed to be shareholders in relation to the Company. Shareholders can exercise their rights at the Annual Shareholders’ Meeting when they exercise their voting rights in accordance with legal stipulations and the Company's Articles of Association. Each share entitles its holder to one vote. The exception to this are treasury shares held by the Company, which do not confer any rights to the Company. The voting rights associated with the shares concerned are nullified by law in those cases to which section 136 of AktG applies. As per the balance sheet date, the Company did not hold any treasury shares.

CAPITAL INTEREST EXCEEDING 10 PERCENT OF VOTING RIGHTS

Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C. (“Silver Lake”), holds, following a takeover offer and separate acquisition of shares as notified by Mosel Bidco SE, approximately 93.33 percent of Software AG’s outstanding shares as of December 31, 2023. There are no other shareholders with an interest in Software AG’s share capital exceeding 10 percent of voting rights.

PROVISIONS ON THE APPOINTMENT/DISMISSAL OF MANAGEMENT BOARD MEMBERS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Management Board members are appointed and dismissed in accordance with section 84 et seqq. of AktG. The Management Board consists of multiple members in accordance with section 7(1) of the Articles of Association; the number of Management Board members is determined by the Supervisory Board. All amendments to the Articles of Association are to be adopted at the Annual Shareholders’ Meeting by at least a three-fourths majority of the share capital represented at the time of the resolution in accordance with section 179 of AktG unless the Articles of Association stipulate otherwise. Section 19(1) of the Articles of Association stipulates that resolutions of the Annual Shareholders’ Meeting can generally be adopted through a simple majority of votes cast; if, aside from the majority of votes, a capital majority is required by law, resolutions can be adopted through a simple majority of votes cast and a simple majority of the share capital represented at the time of the resolution. Section 12(2) of the Articles of Association confers the power to make amendments relating to the wording only of the Articles of Association to the Supervisory Board. Furthermore, the Supervisory Board is authorized by way of Annual Shareholders’ Meeting resolutions, to amend section 5 of the Articles of Association based on the respective utilization of authorized and conditional capital and after expiration of the respective authorization or utilization period.

THE MANAGEMENT BOARD’S POWERS TO ISSUE OR REPURCHASE SHARES

Pursuant to the resolution of the Annual Shareholders’ Meeting on May 12, 2021, the Management Board is authorized, subject to the consent of the Supervisory Board, to issue bearer and/or registered warrant and/or convertible bonds or combinations of these instruments (bonds) up to a total value of €750,000,000 with or without a specified maturity date and to grant bond owners or holders the right to convert the bonds to new no-par value registered shares in the Company representing up to a proportional amount of the share capital of €14,800,000, which are secured by the corresponding conditional capital in section 5(3) of the Articles of Association. This authorization may be exercised until May 11, 2026.

Pursuant to a resolution from December 13, 2021, and with the consent of the Supervisory Board on the same date, the Management Board utilized its authorization to issue convertible bonds, excluding subscription rights, to the Silver Lake Group with a nominal value of €344.3 million. These bonds entitle the holders to convert them to a maximum of 7.4 million Software AG shares. The corresponding subscription agreement was signed on February 3, 2022, and the transaction was closed on February 15, 2022. Following the takeover offer by Mosel Bidco SE, these convertible bonds were redeemed in October 2023.

Pursuant to section 5(2) of the Articles of Association, the Management Board is 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 11, 2026, up to a total of €14,800,000, by issuing new no-par value registered shares against cash contributions or contributions in kind (authorized capital). In doing so, the number of shares must increase in proportion to the share capital. For more information on the authorized capital and conditional capital described above, please refer to section 5 of Software AG's Articles of Association.

Furthermore, in accordance with the resolution passed at the Annual Shareholders' Meeting on May 12, 2021, the Management Board is authorized to purchase treasury shares on or before May 11, 2026, representing a proportional amount of the share capital of up to 10 percent of the existing share capital at the time of the resolution. The treasury shares are to be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company or a public invitation to submit an offer to sell. 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 AktG, may not account for more than 10 percent of the respective share capital at any time. As per the balance sheet date, the Company does not hold any treasury shares.

The complete version of the described authorizations and of the Management Board's explanation can be found in the agenda for the Annual Shareholders' Meeting on May 12, 2021, at Annual Shareholders' Meeting on the corporate website, and Software AG's Articles of Association at Statutes.

For more information on conditional capital, authorized capital, and the purchase of treasury shares, please refer to Note [27] in the Notes to the Consolidated Financial Statements and to the Notes to the Balance Sheet under Shareholders' Equity in the Notes to the Annual Financial Statements.

SIGNIFICANT AGREEMENTS CONTINGENT UPON A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID AND COMPENSATION AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Software AG has acceded as (additional) borrower and guarantor to the €640,000,000 and $405,000,000 term and €100,00,000 revolving credit facilities agreement ("Senior Facilities Agreement"). Mosel BidCo SE as original borrower under that facilities agreement has fully utilized the term facilities and on-lent part of proceeds from the term facilities to Software AG in an amount of €264,177,345.93 and $167,174,726.72 ("Proceeds Loan").

The lenders of the Senior Facilities Agreement are entitled—provided they are not replaced—to decline any new withdrawals under the €100,000,000 revolving facilities and require repayment of the outstanding amounts under the Senior Facilities Agreement if one or more persons acting in concert (except Silver Lake, its members or companies controlled by them, or certain management investors) obtain more than 50 percent of the voting share capital of Mosel BidCo SE. The relevant lenders are entitled to call any amounts already borrowed (plus interest accrued and any other amounts due) and terminate the Senior Facilities Agreement.

Mosel BidCo SE may at any time terminate the Proceeds Loan for the purpose of making repayments under the Senior Facilities Agreement, including any (p)repayment which may be triggered by a change of control at the level of Mosel BidCo SE or Software AG. Further, Software AG has given a guarantee (subject to customary limitations) for due repayment obligations under the Senior Facilities Agreement.

In the event of a change of control, any stock appreciation rights granted by the Company under Management Incentive Plan 2019, must be paid out at fair value to the relevant plan participants within the term of the rights.
Other takeover-related disclosures not mentioned in this section do not apply to Software AG in accordance with sections 289a, 315a of HGB.

CORPORATE GOVERNANCE STATEMENT

Software AG submitted its Corporate Governance Statement/Consolidated Corporate Governance Statement on February 13, 2024, and published it on its website.

This statement includes the Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 of AktG, which was submitted separately and published on the corporate website on February 13, 2024.

DEPENDENCY REPORT

The Management Board declares that Software AG has received appropriate consideration for the transactions and measures listed in this report on the relationships with affiliated companies according to section 312 German Stock Corporation Act (Aktiengesetz, AktG) based on the circumstances known to the Management Board at the time the respective transaction was carried out or the respective measure was taken or omitted, and that Software AG has not been disadvantaged by the fact that the measures described were taken or omitted, or that any disadvantages have been fully compensated.

Darmstadt, March 12, 2024
Software AG

S. Brahmawar D. Bünger J. Husk Dr. B. Quade Dr. S. Sigg

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

For fiscal years 2023 and 2022

in € thousands	Note	2023	2022 Restated[1]
Licenses		361,624	329,900
Maintenance		383,682	405,264
SaaS		98,415	75,844
Product revenue		843,721	811,008
Services		156,460	162,568
Other		109	7
Total revenue	**[5]**	**1,000,290**	**973,583**
Cost of sales		-240,736	-239,894
Gross profit		**759,554**	**733,689**
Research and development expenses		-196,191	-181,387
Sales, marketing, and distribution expenses		-325,709	-341,976
General and administrative expenses		-86,920	-94,343
Other income	[6]	29,959	58,877
Other expenses	[7]	-105,922	-81,333
Other taxes	[10]	-9,094	-2,483
Operating income		**65,677**	**91,044**
Financing income	[8]	29,081	11,408
Financing expenses	[8]	-64,697	-25,402
Net financial income/expenses		**-35,616**	**-13,994**
Earnings before income taxes		**30,061**	**77,051**
Income taxes	[9]	-35,288	-49,065
Net income		**-5,227**	**27,986**
thereof attributable to shareholders of Software AG		-5,227	27,723
thereof attributable to non-controlling interests		0	263
Earnings per share (basic) in €	[12]	-0.07	0.38
Earnings per share (diluted) in €	[12]	-0.07	0.38
Weighted average number of shares outstanding (basic)		73,984,958	73,979,889
Weighted average number of shares outstanding (diluted)		73,984,958	73,979,889

[1] The Group changed its revenue recognition policy on determining significant financing components in 2023. The comparative information is presented on a restated basis. See Note 2b for details.

STATEMENT OF COMPREHENSIVE INCOME

For fiscal years 2023 and 2022

in € thousands	Note	2023	2022 Restated[1]
Net income		**-5,227**	**27,986**
Currency translation differences from foreign operations		-37,649	30,750
Net gain/(loss) from cash flow hedges	[27]	932	26
Currency translation gain/loss from net investments in foreign operations		-12,184	6,295
Items to be reclassified to the income statement if certain conditions are met		**-48,901**	**37,071**
Net gain/(loss) from equity instruments designated to measurement at fair value through other comprehensive income	[29]	-365	-679
Net actuarial gain/loss from remeasurement of post-employment benefit obligations	[26]	-6,513	41,444
Items not to be reclassified to the income statement		**-6,878**	**40,765**
Gain/loss recognized in equity	**[27]**	**-55,779**	**77,836**
Total comprehensive income		**-61,006**	**105,822**
thereof attributable to shareholders of Software AG		-61,006	105,559
thereof attributable to non-controlling interests		0	263

[1] The Group changed its revenue recognition policy on determining significant financing components in 2023. The comparative information is presented on a restated basis. See Note 2b for details.

CONSOLIDATED BALANCE SHEET

ASSETS

in € thousands	Note	Dec. 31, 2023	Dec. 31, 2022 Restated[1]
Current assets			
Cash and cash equivalents		130,007	427,105
Other financial assets	[13]	7,028	2,551
Trade receivables, contract assets, and other receivables	[14]	129,347	265,343
Other non-financial assets	[15]	53,615	51,987
Income tax receivables	[16]	25,520	36,505
Assets held for sale	[2c]	1,167,727	0
		1,513,244	**783,491**
Non-current assets			
Intangible assets	[17]	36,532	221,702
Goodwill	[17]	590,847	1,381,828
Property, plant, and equipment	[18]	58,113	76,005
Investment property	[19]	2,800	5,635
Other financial assets	[13]	9,957	9,823
Trade receivables, contract assets, and other receivables	[14]	98,539	135,848
Other non-financial assets	[15]	48,211	52,812
Income tax receivables	[16]	66	15,748
Deferred tax receivables	[20]	6,337	8,001
		851,402	**1,907,402**
Total assets		**2,364,646**	**2,690,893**

[1] The Group changed its revenue recognition policy on determining significant financing components in 2023. The comparative information is presented on a restated basis. See Note 2b for details.

EQUITY AND LIABILITIES

in € thousands	Note	Dec. 31, 2023	Dec. 31, 2022 Restated[1]
Current liabilities			
Financial liabilities	[21]	7,285	31,888
Trade and other payables	[22]	68,241	57,350
Other non-financial liabilities	[23]	106,595	138,037
Other provisions	[24]	44,972	59,529
Income tax liabilities	[25]	22,913	32,822
Contract liabilities	[5]	51,733	137,168
Liabilities directly associated with assets classified as held for sale	[2c]	143,240	0
		444,979	**456,794**
Non-current liabilities			
Financial liabilities	[21]	425,563	635,217
Trade and other payables	[22]	8	130
Other non-financial liabilities	[23]	3,022	866
Other provisions	[24]	13,051	5,504
Provisions for pensions and similar obligations	[26]	18,818	11,750
Income tax liabilities	[25]	0	911
Deferred tax liabilities	[20]	1,028	42,671
Contract liabilities	[5]	1,436	15,559
		462,926	**712,608**
Equity	**[27]**		
Subscribed capital		74,000	74,000
Capital reserves		55,415	55,737
Retained earnings		1,333,067	1,342,473
Other reserves		-5,741	50,038
Treasury shares		0	-757
		1,456,741	**1,521,491**
Total equity and liabilities		**2,364,646**	**2,690,893**

[1] In 2023 the Group changed its revenue recognition policy on determining significant financing components. The comparative information is presented on a restated basis. See Note 2b for details.

CONSOLIDATED STATEMENT OF CASH FLOWS

For fiscal years 2023 and 2022

in € thousands	2023	2022 Restated[1]
Net income	-5,227	27,986
Income taxes	35,288	49,065
Net financial income/expenses	35,616	13,994
Amortization/depreciation of non-current assets	59,254	83,222
Other non-cash income/expenses	5,283	-12,094
Changes in receivables and other assets	-71,414	-130,479
Changes in payables and other liabilities	3,887	34,557
Income taxes paid	-47,692	-39,604
Interest paid	-37,457	-19,695
Interest received	21,119	11,447
Cash flow from operating activities	**-1,343**	**18,399**
Proceeds from the sale of property, plant, and equipment/intangible assets	8,820	3,055
Purchase of property, plant, and equipment/intangible assets	-9,646	-13,465
Proceeds from the sale of non-current financial assets	772	4,902
Purchase of non-current financial assets	-1,647	-2,011
Proceeds from the sale of current financial assets	2,712	23,268
Purchase of current financial assets	-298	-2,381
Proceeds from the sale of an affiliated entity	0	10,776
Payments for acquisitions, net	0	-537,317
Cash flow from investing activities	**713**	**-513,173**
Dividends paid	-3,699	-56,699
Sale of treasury shares	644	0
Proceeds/payments for current financial liabilities	-57	-583
Repayment of lease liabilities	-10,022	-11,968
New non-current financial liabilities	417,620	464,300
Repayment of non-current financial liabilities	-670,966	-78,333
Cash flow from financing activities	**-266,480**	**316,717**
Change in cash and cash equivalents from cash in/outflows	-267,110	-178,057
Change in cash and cash equivalents from currency translation	-19,988	19,318
Change in cash and cash equivalents	**-287,098**	**-158,739**
Cash and cash equivalents at beginning of period	427,105	585,844
Cash and cash equivalents at end of period[2]	**140,007**	**427,105**

[1] In 2023 the Group changed its revenue recognition policy on determining significant financing components. The comparative information is presented on a restated basis. See Note 2b for details.
[2] A total of €10,000 thousand was reclassified from cash and cash equivalents as of December 31, 2023, to assets held for sale.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For fiscal years 2023 and 2022

in € thousands	Subscribed capital	Capital reserves	Retained earnings	Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
				Currency translation differences from foreign operations	Net gain/loss on remeasuring financial assets	Gain/loss from remeasure-ment of post-employment benefit obligations	Currency translation gain/loss from net investments in foreign operations				
Equity as of Jan. 1, 2022	**74,000**	**22,580**	**1,369,375**	**10,252**	**-7,898**	**-37,076**	**6,924**	**-757**	**1,437,400**	**814**	**1,438,214**
Total comprehensive income[1]			**27,723**	**30,750**	**-653**	**41,444**	**6,295**		**105,559**	**263**	**105,822**
Transactions with shareholders											
Change in accounting policy			1,600						1,600		1,600
Dividend payment			-56,225						-56,225	-474	-56,699
Issue of convertible bonds		33,157							33,157		33,157
Change in scope of consolidated entities										-603	-603
Equity as of Dec. 31, 2022	**74,000**	**55,737**	**1,342,473**	**41,002**	**-8,551**	**4,368**	**13,219**	**-757**	**1,521,491**	**0**	**1,521,491**
Equity as of Jan. 1, 2023	**74,000**	**55,737**	**1,342,473**	**41,002**	**-8,551**	**4,368**	**13,219**	**-757**	**1,521,491**	**0**	**1,521,491**
Total comprehensive income			**-5,227**	**-37,649**	**567**	**-6,513**	**-12,184**		**-61,006**		**-61,006**
Transactions with shareholders											
Dividend payment			-3,699						-3,699		-3,699
Share-based payments		-209							-209		-209
Sale of treasury shares		-113						757	644		644
Other changes			-480						-480		-480
Equity as of Dec. 31, 2023	**74,000**	**55,415**	**1,333,067**	**3,353**	**-7,984**	**-2,145**	**1,035**	**0**	**1,456,741**	**0**	**1,456,741**

[1] Total comprehensive income includes net income of -€5,227 thousand (2022: €27,986 thousand) which was allocated in full to retained earnings.

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GENERAL

[1] BASIS OF PRESENTATION

Software AG's Consolidated Financial Statements are prepared in accordance with the International Accounting Standards Board (IASB), International Financial Reporting Standards (IFRS) as applicable in the European Union (EU), and in accordance with the additional provisions required under German commercial law as set forth in section 315e(1) of the German Commercial Code (HGB). The IFRS and interpretations applicable as of December 31, 2023, were observed.

Software AG is a registered stock corporation under German law with registered offices in Darmstadt (Uhlandstraße 12, 64297 Darmstadt, Germany). It is listed in the commercial register of the Darmstadt District Court under number HRB 1562. Software AG was the final parent company of the Group until the end of September 2023, and was therefore not included in any other consolidated financial statements. Since September 28, 2023, Mosel Bidco SE, Munich, a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C., Menlo Park ("Silver Lake"), has been the majority shareholder of Software AG. Since the acquisition by Mosel Bidco SE, Software AG has been included in the consolidated financial statements of Mosel Topco S.à.r.l, Luxembourg, which is an indirect parent company of Mosel Bidco SE (largest scope of consolidation) for the period ended December 31, 2023.

On December 18, 2023, Mosel Bidco SE announced a public delisting tender offer, which was completed on February 23, 2024. However, as Software AG’s equity securities were actively traded on the capital market as of December 31, 2023, and because Software AG is a parent company within the meaning of section 290 of the German Commercial Code (HGB), the Consolidated Financial Statements of the Company were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU pursuant to section 315e(1) HGB in conjunction with Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council from July 19, 2002. Software AG's Management Board prepared the Consolidated Financial Statements on March 12, 2024. The Audit Committee of Software AG intends to discuss the Consolidated Financial Statements in its meeting scheduled for March 14, 2024 and the Supervisory Board plans to approve it on the same date.

Software AG is globally active in the fields of software development, licensing and maintenance, as well as IT services. Unless otherwise stated, the Consolidated Financial Statements are expressed in thousands of euros; the functional currency of Software AG is the euro. The figures presented in the report were rounded according to customary business practice. In some cases, rounding could mean that values in this report do not add up to the exact sum given or percentages do not equal the values presented.

The separate financial statements of the companies of the consolidated Group were prepared on the date of the Consolidated Financial Statements.

The mandatory statements on the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG) have been submitted and made available to shareholders on the corporate website.

[2a] 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, accounting for business combinations, subsequent measurement of goodwill and other intangible assets, accounting of share-based remuneration, assessment of legal risks, valuation of pension obligations, valuation of trade receivables, determining assets and liabilities classified as held for sale, as well as accounting of income and deferred taxes.

Software AG operates in an increasingly uncertain macroeconomic and geopolitical environment, particularly due to increased interest rates, volatile foreign currencies, slowed economic growth, and the war in Ukraine as well as the conflict in Israel-Gaza/Middle East. Software AG is continuously addressing these challenges and has accounted for them in the Consolidated Financial Statements, e.g., in determining the recoverability of goodwill and measuring provisions and financial instruments.

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 date of the Consolidated Financial Statements (December 31, 2023). The initial consolidation method applied to business combinations was based on the relevant founding date in the case of companies founded by Software AG and the date of acquisition in the case of acquired companies.

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

BUSINESS COMBINATIONS

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

CURRENCY TRANSLATION

Financial statements of foreign subsidiaries are translated in accordance with the functional currency concept using the modified closing rate as per IAS 21. Since the subsidiaries operate independently from an organizational, financial, and business standpoint, the respective local currency is usually 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 on the balance sheet date, and the respective equity of the subsidiaries is translated at historical rates into euros. Currency translation differences arising from equity consolidation are offset against equity and reported in a separate column in the Consolidated Statement of Changes in Equity.

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

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

Software AG considers Venezuela, Argentina, and Turkey as hyperinflationary economies as defined by IAS 29. This had no material impact on the Consolidated Financial Statements.

The exchange rates used for the translation of the most important currencies changed as follows compared to the previous year:

Closing Rate

€1	Dec. 31, 2023	Dec. 31, 2022	Change as %
US dollar	1.1050	1.0666	-3.6
Brazilian real	5.3618	5.6386	4.9
Pound sterling	0.8691	0.8869	2.0
Australian dollar	1.6263	1.5693	-3.6
Israeli shekel	3.9993	3.7554	-6.5
South African rand	20.3477	18.0986	-12.4
Canadian dollar	1.4642	1.4440	-1.4

Average Rate

€1	2023	2022	Change as %
US dollar	1.0816	1.0539	-2.6
Brazilian real	5.4018	5.4433	0.8
Pound sterling	0.8699	0.8526	-2.0
Australian dollar	1.6285	1.5174	-7.3
Israeli shekel	3.9874	3.5360	-12.8
South African rand	19.9548	17.2094	-16.0
Canadian dollar	1.4596	1.3703	-6.5

TOTAL REVENUE

The following accounting policies for recognition of revenue (in accordance with IFRS 15) apply:

CATEGORIES OF SALES REVENUE

Software AG sales revenue consists primarily of revenue from granting term or perpetual software licenses, revenue from Software as a Service (SaaS) offerings, maintenance revenue, and revenue from services. These categories of sales revenue also reflect the impact of economic factors on type, amount, date, and uncertainty of revenue and cash flows.

Conversion from perpetual to term software licenses (subscription resets) is possible under certain conditions. These conditions include the irrevocable surrender of perpetual software licenses, the acquisition of new software licenses, and complete transparency of the software license agreement’s price structure. Consequently, upon effectiveness of an agreement, the perpetual rights of use are terminated and the associated maintenance agreement ends; a contract granting term-based rights of use together with the associated maintenance services (subscription) begins. The license and maintenance shares are separated in accordance with the approach described in Division of Transaction Price; and the license and maintenance revenues are recognized as described in Recognition of Sales Revenue.

IDENTIFICATION OF THE CONTRACT

A contract is an agreement between two or more parties that establishes enforceable rights and obligations and determines that enforceability is a question of law. Software AG enters written agreements only. Agreements must be signed by both parties within a reporting period to be able to recognize revenue in that period. Revenue resulting from an agreement signed at a later point in time is recognized in the period in which the agreement was signed.

Revenue from an agreement which grants the customer the right to terminate with no resulting materially disadvantageous payments, is only recognized in the period that is not subject to the termination right.

With respect to business with resellers, a contract exists only if the existence of an agreement between the reseller and an end user (end-user agreement) can be verified and all other criteria for revenue recognition are met.

IDENTIFICATION OF PERFORMANCE OBLIGATIONS

Software AG’s contracts with customers often include various products and services. The products and services described in the section, Categories of Sales Revenue, are usually to be treated as separate contractual performance obligations. The relevant portion of the contractual price is recognized separately. The determination as to whether a product or a service is treated as a separate contractual performance obligation nevertheless requires judgment to be exercised.

When customers purchase products or services, Software AG sometimes offers them options for buying additional products or services. Software AG exercises its own judgment when determining whether such options give the customer a substantive right that it would not have without signing this agreement. In making this determination, the Company considers whether the options entitle the customer to a discount that is greater than the discount provided with the relevant products or services sold with the option.

DETERMINATION OF TRANSACTION PRICE

Software AG also exercises judgment when determining the consideration it expects to receive in exchange for the transfer of products or services to a customer. This includes estimations as to whether and to what extent the customer is entitled to subsequent concessions or payments and whether the customer will pay the contractually agreed consideration as expected. In this exercise of judgment, primarily previous experiences with a specific or a comparable customer are considered. These estimates are reviewed every balance sheet date. Software AG's contracts generally do not contain variable considerations. There may, however, be individual cases when retrospective adjustments are made to the transaction price, which must be recognized as revenue corrections on the date they were made.

In the past, Software AG recognized financing elements when the period of time between the transfer of purchased products to the customer and payment of these products by the customer was at least one year. For on-premises subscription contracts, Software AG changed its policy in 2023 (see Note [2b]).

DIVISION OF TRANSACTION PRICE

The transaction price is generally divided between the individual contractual performance obligations based on the individual sales prices. Reliable individual sales prices result when comparable services were sold to other customers at comparable prices, in particular when it comes to maintenance services.

Perpetual 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 performance obligations of the transaction. Because it is impossible to calculate reliable individual sale prices for software licenses, revenue is divided between the different revenue types using the residual method. Under the residual method, all determinable individual sale prices are deducted from the total transaction value, and the residual amount is distributed among the software licenses using list prices.

Term software licenses are often sold in combination with maintenance services (subscriptions). The Company exercises its own judgment in dividing the transaction price between performance obligations. Valuation of the maintenance portion is based on the valuation of maintenance services sold together with perpetual software licenses. The average term of these subscription agreements is currently two years. If term software licenses are sold in combination with services, the transaction price to be allocated to the term software licenses is determined according to the residual method, i.e. the price of the individual services is deducted from the total contract value.

RECOGNITION OF SALES REVENUE

Software AG accounts for revenue from SaaS based on time elapsed during the period in which the relevant services are rendered.

Software AG recognizes revenue for on-premises licenses as of the date on which the customer receives access to and thus control over the software. When deciding whether software offerings grant customers the right to use Software AG's intellectual property and not the right to access its intellectual property, the usefulness of its software for customers—without subsequent updates—is considered.

Maintenance revenue is recognized proportionately over the term of the maintenance contract period.
Revenue resulting from services invoiced on the basis of hours performed is recognized according to services rendered by a Software AG entity. Revenues and expenses from fixed-price service contracts are recognized over time by measuring the progress toward complete satisfaction if Software AG's service generates an asset that does not provide Software AG with any alternative options for use and Software AG is legally entitled to payment for services already rendered. Should Software AG's service from a fixed-price contract generate or improve an asset and should the customer have control over the asset, the PoC method is also used for revenue recognition. The percentage of completion of a contract is calculated on the basis of the percentage of total estimated

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

Software AG's contracts generally do not contain withdrawal, reimbursement, or other similar obligations.

INCREMENTAL COSTS WHEN ACQUIRING NEW ORDERS

The assets that Software AG capitalizes as costs associated with acquiring a new customer order consist primarily of sales commissions. The assets are amortized over the expected contract term using the straight-line method. The amortization period is two years. The amortization of capitalized costs for the acquisition of new orders is included in sales, marketing, and distribution expenses.

Software AG recognizes incremental costs for acquiring new orders as expenses as of the date on which they are incurred when the amortization period is not assumed to be longer than one year.

COST OF SALES

The cost of sales comprises primarily personnel expenses, amortization of acquired intangible assets, and costs for services from third-party hosting providers.

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 phase leading up to technological feasibility, research and development processes are closely linked. Therefore, the capitalization criteria for internally generated intangible assets are not considered to be met and expenses are recognized as research and development expenses when incurred.

SALES, MARKETING, AND DISTRIBUTION EXPENSES

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

GENERAL AND ADMINISTRATIVE EXPENSES

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

GOVERNMENT GRANTS

Government grants are not recognized until there is reasonable assurance that the conditions 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 IFRS 9, and the payments received. The interest-rate advantage is reported under other income, as soon as all conditions for receiving government grants have been met.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of the asset. Other borrowing costs are recognized as an expense for the period in which they were incurred. No borrowing costs were capitalized in fiscal 2023 or 2022.

SHARE-BASED COMPENSATION

In accordance with IFRS 2, share-based payment transactions are generally divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at their fair value as of the grant date. The value is then recognized over the vesting period as remuneration expenses. Rights granted under cash-settled share-based payment transactions are remeasured at fair value on each reporting date until settlement. Fair values of the respective awards are calculated based on an option price model that factors in model-influencing option price parameters.

NON-DERIVATIVE FINANCIAL ASSETS

Software AG recognizes non-derivative financial assets as of the date it acquires the contractual right to receive cash or other financial assets from another entity. Standard purchases and sales are measured at fair value as of the value date.

Subsequent measurement is carried out based on the following categories of financial assets:
a) amortized cost (AC)
b) fair value through profit or loss (FVPL)
c) fair value through other comprehensive income (FVOCI)

Software AG classified its balance of equity securities at fair value through other comprehensive income. Software AG generally uses the option that allows it to classify each new equity security individually as fair value through other comprehensive income or fair value through profit or loss.

TRADE RECEIVABLES AND CONTRACT ASSETS

A contract asset is to be recognized if revenue has been recognized as a result of the fulfillment of a contractual performance obligation before the customer has made a payment or before the conditions for invoicing and thus for recognizing a receivable are present.

Trade receivables are classified based on the business model (hold-to-collect versus hold-to-sell). Receivables which are not intended for sale are measured at amortized cost. In general, receivables categorized as hold to collect and sell are recognized at fair value through other comprehensive income. However, if the deviations are immaterial, receivables categorized as hold to collect and sell can be also measured at amortized cost.

Software AG applies a simplified impairment model based on an impairment matrix. This impairment matrix is based primarily on historical data on credit losses and current data on receivables overdue. Furthermore, outstanding receivables are monitored on an ongoing basis at local and central levels to determine if the relevant receivables show any objective indications of jeopardized creditworthiness. If, using this approach, Software AG arrives at the assumption that realization of a receivable is improbable, the receivables above the values in the impairment matrix are written down in part or in whole.

DERIVATIVE FINANCIAL INSTRUMENTS

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

If the criteria for hedge accounting in accordance with IFRS 9 are met, the derivative financial instrument is designated as a hedging instrument and accounted for in accordance with the hedge accounting provisions of IFRS 9. Accordingly, in the case of cash flow hedges, the effective portion of changes in the fair value of derivatives is recognized directly in equity. The ineffective portion is recognized directly in profit or loss. Cumulative amounts previously recognized in equity are reclassified to the income statement for the fiscal years in which the hedged item affects profit or loss. The Company did not recognize any fair value hedges.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (including trade receivables) is derecognized if any of the following criteria is met:
- The contractual rights to receive cash flows from the financial asset have expired.
- Software AG has transferred its contractual rights to receive cash flows from the financial asset to a third party or has assumed a contractual obligation to pay the cash flows immediately to a third party in connection with a "pass-through arrangement." Here, essentially all opportunities and risks related to ownership of the financial asset or the power of control over the asset must be transferred.

If Software AG transfers its contractual rights to receiving cash flows from the asset or enters a pass-through arrangement, Software AG evaluates if and to what extent it retains the opportunities and risks related to ownership. As part of the transfer or sale of trade receivables, the assessment of the related opportunities and risks primarily focuses on the credit risk associated with the receivables. If Software AG does not fully transfer or retain the opportunities and risks associated with ownership of this asset, Software AG continues to recognize the transferred asset according to the scope of its continuing involvement. In this case, Software AG also recognizes an associated liability. The transferred asset and the associated liability are recognized in such a way that accounts for the rights and obligations retained by Software AG. There were no agreements that led to Software AG's continuing involvement as of December 31, 2023.

NON-DERIVATIVE FINANCIAL LIABILITIES

In accordance with IFRS 9, Software AG classifies non-derivative financial liabilities at amortized cost or at fair value through profit or loss. Subsequent measurement of financial liabilities classified at amortized cost is carried out using the effective interest method. Financial liabilities are derecognized when the contractual obligation has been settled, canceled, or has expired.

CASH AND CASH EQUIVALENTS

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

INTANGIBLE ASSETS

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

	Amortization period in years	Method of amortization
Acquired software	5 to 12.5	straight line
Acquired customer base	5 to 17	straight line
Acquired brand name	10	straight line

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 an intangible asset might be impaired, an impairment test is carried out.

ASSETS HELD FOR SALE

Non-current assets or disposal groups that are classified as held for sale are not depreciated. Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

GOODWILL

Goodwill resulting from a business combination is recognized as an asset as of the acquisition date. Goodwill is not amortized. Instead, it is tested for impairment at least once per year (as of December 31) and written down to its recoverable amount in case of impairment. Or, as soon as there is any indication that goodwill might be impaired, an impairment test is carried out. Any impairment losses are reported directly in the income statement and cannot be recovered in the following period.

PROPERTY, PLANT, AND EQUIPMENT

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

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

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

	In years
Buildings	25 to 50
Improvements to buildings/leasehold	5 to 15
Operating and office equipment	3 to 13
Computer hardware and accessories	1 to 7

Right-of-use assets are written down either over the term of useful economic life or the term of the lease—whichever is shorter. The terms of useful economic life and methods of depreciation are reviewed on a regular basis to ensure that they are in accordance with the expected pattern of economic benefits of the asset in question.

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

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT, AND EQUIPMENT

As soon as there is any indication that an intangible asset with a finite useful life or an item of property, plant, and equipment might be impaired, an impairment test is carried out and, if an impairment loss is ascertained, the carrying amount of the asset is written down to its lower recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. The value in use is the present value of estimated future cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment losses are reversed provided the reasons for a previously scheduled impairment no longer exist. Impairment losses are reported under costs of the relevant functional area or under other expenses.

INVESTMENT PROPERTY

Property is recognized under investment property when it is for the purpose of generating rent income and/or value appreciation. Like property, plant, and equipment, investment property is measured in accordance with the cost model: at cost or cost of sales, less depreciation and, if relevant, the necessary impairments. The owned investment property is generally depreciated—like other property, plant, and equipment—on a straight-line basis over 25 to 50 years.

LEASES

Leases are agreements whereby the lessor transfers the right to use an identified asset to the lessee for a defined period of time and in exchange for payment of a fee. Software AG as lessee recognizes right-of-use assets for leased objects and liabilities for the assumed payment obligations in the amount of the present value of future lease payments. As of the beginning of use, Software AG recognizes all leases as right-of-use assets and lease liabilities in the balance sheet in the amount of the present value of the future lease payments.

Lease payments are all fixed payments less future incentive payments by the lessor.
The following additional types of payments are recognized:

- Variable payments that are coupled to a rate or index
- Expected payments from residual value guarantees
- Payments to exercise sufficiently secure options to buy or terminate
- Contractual penalty payments for termination of a lease if the assumed lease term provides for the exercise of a termination option

The series of payments is discounted at an incremental borrowing rate appropriate to the lease, since the implicit interest rate of the lease is not usually known. When determining lease length, consideration is given to any facts and circumstances that offer an economic incentive to exercising existing options. The assumed term thus includes periods covered by extension options if sufficient certainty exists that the option will be exercised. A change to the term is considered if the sufficient certainty of exercise or non-exercise of an existing option changes.

DEFERRED TAXES

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

Deferred taxes are calculated on the basis of tax rates anticipated to apply in the relevant countries in accordance with the legal situation prevailing at the time of realization (reversal of tax deferrals). Deferred tax assets and liabilities are not discounted. The carrying amounts of the recognized assets and liabilities are regularly examined and adjusted if necessary.

OTHER PROVISIONS

Other provisions are reported when the Company has a current legal or constructive obligation towards a third party due to a past event that is likely to result in a future outflow of resources and for which the amount of the obligation can be reliably estimated. Estimates are regularly reviewed and adjusted. If the effect of discounting is significant, the provision is recognized in the amount of the present value of the expected future cash flows.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The present value of pension obligations for defined benefit plans and the associated expenses are determined using actuarial principles in accordance with the projected unit credit method set out in IAS 19. This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

The pension provisions are reported at the full present value of the defined obligation, less the fair value of the reinsurance cover taken out for life insurance policies—provided they are pledged and thus protected from access by other creditors—or less the fair value of the plan assets accumulated to cover pension entitlements. Net assets to be recognized are reported separately as pension assets under non-financial assets. The interest from the interest cost on the claims is reported in net financial income/expenses. The result of the recalculated net obligation is recognized as other comprehensive income in the Statement of Comprehensive Income. It is comprised of actuarial gains and losses, the return on plan assets, and changes in the effects of the asset cap less amounts previously recognized as net interest. Payments for defined contribution pension plans are recognized as expenses in profit or loss for the period provided the employee has met the stated performance target.

CONTRACT LIABILITIES

Contract liabilities consist of advance payments received and due from customers for services to be rendered in future periods, particularly in connection with maintenance and SaaS agreements. The reversal in profit or loss takes place in the period in which the service is rendered.

TREASURY SHARES

The amount paid for treasury shares, including directly attributable costs, is deducted from shareholders' equity. Treasury shares are reported as a separate item in the equity statement.

COMPOUND FINANCIAL INSTRUMENTS

The compound financial instruments issued in the past relate to convertible bonds denominated in euros that were convertible to new no-par value registered Software AG shares by the holder at a fixed price. They were divided into a debt component (financial liability) and an equity component (capital reserves).
The debt component was measured when issued at the fair value of an otherwise comparable financial liability without conversion rights. Subsequent measurement was carried out using the effective interest method. The resulting interest expense was recognized in net financial income/expenses.

The value of the equity component was derived as the difference between the fair value of the total compound financial instrument and the debt component.

Directly attributable transaction costs were divided proportionately between the two components. To the extent they were attributable to the debt component, they were factored into the effective interest method. The portion attributable to the equity component was deducted from equity.

NEW ACCOUNTING RULES TO BE APPLIED STARTING IN THE FISCAL YEAR

Software AG applied the amendments to IAS 1, IAS 8, and IAS 12 for the first time as of January 1, 2023. None of these changes led to a significant impact on the Consolidated Financial Statements.

PUBLISHED BUT NOT YET APPLICABLE ACCOUNTING RULES

The IASB has published various standards, interpretations, and amendments to standards that are not yet required to be applied and with regard to which Software AG has not opted for early application to the Consolidated Financial Statements for the year ended December 31, 2023. However, Software AG does not expect these future changes to have a significant impact on its Consolidated Financial Statements.

[2b] CHANGES IN ACCOUNTING POLICIES (IAS 8)

According to Software AG's existing policy, financing components used to be recognized whenever the period of time between the transfer of purchased products to the customer and payment by the customer was at least one year. This policy applied to all transactions in previous fiscal years.

Software AG reviewed this policy for on-premises subscription contracts given its practice of receiving payment for on-premises subscription contracts in regular (mostly annual) installments. Since license rights are transferred upon signing an agreement, the related license revenue is generally recognized as soon as a contract exists and the customer has been given access to the related license rights; the related payments are made over the term of the contract in regular (mostly annual) installments. Software AG reviewed this practice and concluded that installment payments are industry standard for on-premises subscription contracts, and thus payments being made after purchased products have been transferred is due to reasons other than the provision of financing. Furthermore, Software AG reviewed published accounting policies across its industry and concluded that interpreting regular installment payments in on-premises subscription contracts as having been agreed for reasons other than the provision of financing is common practice and results in more relevant and reliable information.

Based on past experience and industry best practices, Software AG changed its accounting policy related to significant financing components in on-premises subscription contracts to no longer deem a significant financing component to exist if payments for products are received later than the products are transferred to the customer. Software AG continues to identify significant financing components in perpetual license arrangements in which the period between the transfer of purchased products to the customer and payment of these products by the customer is more than one year.

The change in accounting policy was implemented retrospectively by restating each of the affected financial statement line items for the prior period as follows:

CONSOLIDATED INCOME STATEMENT

in € thousands	2022 Reported	Restatements	2022 Restated
Licenses	314,497	15,403	329,900
Product revenue	795,605	15,403	811,008
Total revenue	**958,180**	**15,403**	**973,583**
Gross profit	**718,286**	**15,403**	**733,689**
Operating income	**75,641**	**15,403**	**91,044**
Financing income	14,868	-3,460	11,408
Net financial income/expenses	**-10,534**	**-3,460**	**-13,994**
Earnings before income taxes	**65,107**	**11,944**	**77,051**
Income taxes	-45,860	-3,205	-49,065
Net income	**19,247**	**8,739**	**27,986**
thereof attributable to shareholders of Software AG	18,984	8,739	27,723
thereof attributable to non-controlling interests	263		263
Earnings per share (basic) in €	0.26	0.12	0.38
Earnings per share (diluted) in €	0.26	0.12	0.38

CONSOLIDATED BALANCE SHEET

ASSETS

in € thousands	Dec. 31, 2022 Reported	Restatements	Dec. 31, 2022 Restated
Trade receivables, contract assets, and other receivables	251,799	13,544	265,343
Deferred tax receivables	9,057	-1,056	8,001
Total assets	**2,678,405**	**12,488**	**2,690,893**

EQUITY AND LIABILITIES

in € thousands	Dec. 31, 2022 Reported	Restatements	Dec. 31, 2022 Restated
Income tax liabilities	30,673	2,149	32,822
Equity			
Retained earnings	1,332,134	10,339	1,342,473
Attributable to shareholders of Software AG	**1,511,152**	**10,339**	**1,521,491**
Total equity and liabilities	**2,678,405**	**12,488**	**2,690,893**

[2c] ASSETS HELD FOR SALE

DESCRIPTION

On December 18, 2023, the Company announced that it had entered into an agreement to sell its assets and liabilities relating to its Integration products to IBM. The Integration products consist mainly of the webMethods and StreamSets product families, which to date are reported under the Digital Business segment, as well as the Professional Services segment to the extent the services relate to these product families. The transaction is subject to regulatory approval and expected to close in the second quarter of 2024.

The following assets and liabilities were classified as held for sale as at December 31, 2023:

ASSETS CLASSIFIED AS HELD FOR SALE

in € thousands	Dec. 31, 2023
Cash and cash equivalents	10,000
Trade receivables, contract assets, and other receivables	246,876
Other non-financial assets	4,412
Intangible assets	144,925
Goodwill	759,454
Property, plant, and equipment	780
Deferred tax receivables	1,280
Assets held for sale	**1,167,727**

LIABILITIES CLASSIFIED AS HELD FOR SALE

in € thousands	Dec. 31, 2023
Financial liabilities	619
Trade and other payables	4,603
Other non-financial liabilities	52,386
Other provisions	49
Deferred tax liabilities	12,989
Contract liabilities	72,594
Liabilities directly associated with assets classified as held for sale	**143,240**

[3] SCOPE OF CONSOLIDATION AND INVESTMENTS

CHANGES IN THE SCOPE OF CONSOLIDATION

The scope of consolidation changed in fiscal years 2023 and 2022 as follows:

	Germany	Foreign	Total
Dec. 31, 2021	**9**	**64**	**73**
Additions	0	4	4
Disposals (including mergers)	-1	-4	-5
Dec. 31, 2022	**8**	**64**	**72**
Additions	3	3	6
Disposals (including mergers)	-2	-3	-5
Dec. 31, 2023	**9**	**64**	**73**

The disposals in 2023 resulted from the mergers and liquidation of subsidiaries. The additions resulted from the opening of new subsidiaries in Germany, the United States, and the United Kingdom.

The Consolidated Financial Statements include Software AG and all of the entities it controls. Control exists when Software AG can exercise power of control over the entity, is impacted by fluctuating returns on its share in the entity, and can influence the amount of the returns. The following affiliated entities were part of the Group of Software AG (parent company) during the fiscal year:

a) Domestic entities	Ownership interest as %	Equity[1] Dec. 31, 2023 in € thousands	Earnings[1] 2023 in € thousands
SAG Deutschland GmbH, Darmstadt[2]	100	81,517	14,071
Cumulocity GmbH, Düsseldorf[2]	100	17,964	-34
FACT Unternehmensberatung GmbH, Darmstadt	100	3,570	150
SAG Consulting Services GmbH, Darmstadt[2]	100	3,515	-48
SAG LVG mbh, Darmstadt[2]	100	959	0
Erlensee 59. V V GmbH, Bonn (since November 20, 2023)	100	62	37
SAG Integration GmbH, Darmstadt (since November 20, 2023)	100	40	15
SAG Alfabet GmbH, Berlin (since November 20, 2023)	100	35	10
SAG Cloud GmbH, Darmstadt (merged with SAG Consulting Services GmbH as of August 1, 2023)	100	0	0
itCampus Software- und Systemhaus GmbH, Leipzig (merged with SAG Consulting Services GmbH as of June 1, 2023)	100	0	0

1 The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

2 A profit transfer agreement exists for these companies; the earnings shown related to IFRS earnings after profit transfer.

b) Foreign entities	Ownership interest as %	Equity[1] Dec. 31, 2023 in € thousands	Earnings[1] 2023 in € thousands
Software AG, Inc., Reston, VA, USA	100	441,714	362,993
Software AG USA, Inc., Reston, VA, USA	100	430,403	66,639
Software AG (UK) Limited, Derby, United Kingdom	100	66,804	22,861
Software AG ESPAÑA, S.A. Unipersonal, Tres Cantos, Madrid, Spain	100	62,153	13,736
S.P.L. Software Ltd, OR-Yehuda, Israel	100	51,569	27,555
Software AG Australia Pty. Ltd., North Sydney, Australia	100	50,469	6,718
Software AG France S.A.S., Paris La Defense Cedex, France	100	32,433	6,234
Software AG Distribution LLC, Reston, VA, USA	100	31,993	46,319
Software AG Government Solutions, Inc., Herndon, VA, USA	100	26,037	6,127
Software AG Nederland B.V., Den Haag, Netherlands	100	17,064	2,334
Software AG Brasil Informática e Serviços Ltda, São Paulo, SP, Brazil	100	16,765	4,709
Software GmbH Österreich, Vienna, Austria	100	14,045	2,993
Software AG Belgium S.A., Watermael-Boitsfort, Belgium	100	10,251	1,649
Software AG Bangalore Technologies Private Ltd., Devarabisanahalli Bangalore, India	100	10,074	6,516
Software AG (Singapore) Pte LTD, Singapore	100	9,670	452
Software A.G. (Israel) Ltd., OR-Yehuda, Israel	100	9,526	822
SAG Software Systems AG, Zurich, Switzerland	100	9,152	68
Software AG for Information Technology LLC, Riyadh, Saudi Arabia (former: alfabet Saudi Arabia LLC)	100	8,917	7,064
Software AG South Africa (Pty) Ltd, Magaliessig Sandton, South Africa	100	7,842	6,235
Software AG (Canada) Inc., Kitchener, Ontario, Canada	100	7,044	11,468
Software A.G. Argentina S.R.L., Buenos Aires, Argentina	100	5,648	3,260
Software AG Polska Sp. z o.o., Warsaw, Poland	100	5,289	1,599
Software AG, S.A. de C.V. (Mexico), Mexico City, Mexico	100	4,622	1,270
PT SoftwareAG Indonesia Operations, Jakarta, Indonesia	100	4,576	2,628
Software AG (India) Sales Private Limited, Bangalore, Karnataka, India	100	3,647	116
Software AG Development Center Bulgaria EOOD, Sofia, Bulgaria	100	3,126	1,219
Software AG Denmark A/S, Hvidovre, Denmark	100	2,534	755
Software AG Sweden AB, Kista, Sweden	100	2,385	429
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul, Turkey	100	2,121	357
SGML Technologies Limited, Derby, United Kingdom	100 inactive	2,025	0
Software AG De Puerto Rico, Inc., San Juan, Puerto Rico	100	1,854	340
Software AG (Gulf) WLL, Manama, Bahrain	100	1,443	-1,485
SAG Software AG Luxembourg S.A., Luxembourg, Luxembourg	100	1,372	178
Software AG Finland Oy, Helsinki, Finland	100	1,355	371

[1] The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

b) Foreign entities	Ownership interest as %	Equity[1] Dec. 31, 2023 in € thousands	Earnings[1] 2023 in € thousands
Software AG Korea Co., Ltd., Seoul, South Korea	100	1,309	679
Software AG Italia S.p.A, Milan, Italy	100	1,095	451
Software AG Chennai Development Center India Pvt. Ltd, Chennai, India	100	1,076	441
Software AG Operations Malaysia Sdn Bhd., Selangor, Malaysia	100	1,013	257
Software AG (Philippines), Inc., Makati City, Philippines	100	1,002	229
Software A.G. (Portugal) - Alta Tecnologia Informática, Limitada, Lisbon, Portugal	100	924	161
Software AG Development Centre Slovakia s.r.o., Košice, Slovakia	100	727	145
Limited Liability Company Software AG (RUS), Moscow, Russia (in liquidation)	100	654	782
Operadora JackBe, S. de R.L. de C.V., Mexico City, Mexico	100	557	-11
SAG SALES CENTRE IRELAND LIMITED, Dublin, Ireland	100	546	42
Software AG Kochi Pvt. Ltd., Bangalore, Karnataka, India	100	271	9
Terracotta Software India Pvt. Ltd., Bangalore, Karnataka, India	100 inactive	121	2
IDS Scheer Sistemas de Processamento de Dados, São Paulo, Brazil (in liquidation)	100	40	1
Software AG (India) Private Limited, Bangalore, India	100	19	1
StreamSets Technologies Iberica, S.L.U., Barcelona, Spain (merged with Software AG ESPAÑA, S.A. Unipersonal as of September 1, 2023)	100	0	0
StreamSets UK Limited, Derby, UK (in liquidation)	100	0	0
Software AG Sydney PTY LTD, North Sydney, Australia	100 inactive	0	0
PCB Systems Limited, Derby, UK (liquidated as of January 17, 2023)	100 inactive	0	0
A. Zancani & Asociados, C.A., Chacao Caracas, Venezuela (in liquidation)	100 inactive	0	0
SAG Egypt for Information Technology, Cairo, Egypt	100	0	0
Software AG Factoria S.A., Santiago de Chile, Chile (liquidated as of April 26, 2023)	100	0	0
SAG Cumulocity [UK] LTD., Derby, UK (founded on November 27, 2023)	100	0	0
SAG US Parent LLC, Wilmington, USA (founded on December 22, 2023)	100	0	0
SAG Integration US LLC, Wilmington, USA (founded December 12, 2023)	100	0	0
Software AG Venezuela, C.A., Caracas, Venezuela	100	-3	0
Software AG Ltd. Japan, Minato-ku, Tokyo, Japan	100	-82	-491
Software AG International FZ-LLC, Dubai, United Arab Emirates	100	-576	-3,248
Software AG De Panamá, S.A., Corregimiento de Pueblo nuevo, Panama	100	-811	2
Software AG (Hong Kong) Limited, Hong Kong	100	-4,287	490
Software AG China Ltd., Shanghai, China	100	-9,771	-702
TrendMiner N.V., Hasselt, Belgium	100	-18,080	-4,227
Software AG Australia (Holdings) Pty. Ltd., North Sydney, Australia	100	-20,802	12,483
StreamSets, Inc., Wilmington, USA	100	-81,785	-44,429

[1] The figures specified are based on unconsolidated IFRS figures. Equity is translated into euros at the closing rate and earnings at the average exchange rate for the year.

[4] SEGMENT REPORTING

NOTES ON SEGMENT REPORTING

Segmentation is in accordance with the internal control of the Group. Internal control focuses primarily on product revenue at constant currency for the two product segments. Margins and earnings are controlled largely at Group level. Software AG therefore reports on the following three segments:

- Digital Business
- Adabas & Natural (A&N)
- Professional Services (implementation of solutions in cooperation with customers and partners)

The segment contribution does not include the amortization expense associated with the purchase of intangible assets through acquisitions. This expense is therefore shown separately under reconciliation. This presentation corresponds with internal control and reporting lines (management approach). The majority of sales, marketing, and distribution expenses is classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research and development expenses are assigned to the segments based on expense components directly attributable to the R&D department as well as the overhead coded to R&D. They have no direct impact on internal control.

The following table shows the segment data for the current and previous fiscal years:

Segment Report for Fiscal Years 2023 and 2022[2]

	Digital Business			A&N			Professional Services			Reconciliation		Total		
in € thousands	**2023 IFRS**	**2023 acc [1]**	**2022 IFRS**	**2023 IFRS**	**2023 acc[1]**	**2022 IFRS**	**2023 IFRS**	**2023 acc [1]**	**2022 IFRS**	**2023 IFRS**	**2022 IFRS**	**2023 IFRS**	**2023 acc [1]**	**2022 IFRS**
Licenses from subscriptions	223,025	228,895	189,086	90,196	94,710	86,316	0	0	0	0	0	313,221	323,605	275,402
Maintenance from subscriptions	103,377	105,892	83,415	29,379	30,443	19,470	0	0	0	0	0	132,756	136,335	102,885
Perpetual maintenance	149,798	153,462	181,326	101,128	105,598	121,053	0	0	0	0	0	250,926	259,060	302,379
SaaS	98,415	100,752	75,844	0	0	0	0	0	0	0	0	98,415	100,752	75,844
Recurring revenue	**574,615**	**589,001**	**529,671**	**220,703**	**230,751**	**226,839**	**0**	**0**	**0**	**0**	**0**	**795,318**	**819,752**	**756,510**
Perpetual licenses	22,512	23,479	30,225	25,891	28,324	24,273	0	0	0	0	0	48,403	51,803	54,498
Product revenue	**597,127**	**612,480**	**559,896**	**246,594**	**259,075**	**251,112**	**0**	**0**	**0**	**0**	**0**	**843,721**	**871,555**	**811,008**
Services	0	0	0	0	0	0	156,460	163,047	162,568	0	0	156,460	163,047	162,568
Other	0	0	7	0	0	0	109	114	0	0	0	109	114	7
Revenue	**597,127**	**612,480**	**559,903**	**246,594**	**259,075**	**251,112**	**156,569**	**163,161**	**162,568**	**0**	**0**	**1,000,290**	**1,034,716**	**973,583**
Cost of sales	-76,311	-77,270	-77,772	-7,088	-7,414	-8,465	-131,149	-136,556	-127,852	-26,188	-25,805	-240,736		-239,894
Gross profit	**520,816**	**535,210**	**482,131**	**239,506**	**251,661**	**242,647**	**25,420**	**26,605**	**34,716**	**-26,188**	**-25,805**	**759,554**		**733,689**
Sales, marketing, and distribution expenses	-279,476	-285,542	-284,259	-27,738	-28,730	-36,381	-11,513	-11,866	-12,861	-6,982	-8,475	-325,709		-341,976
Segment contribution	**241,340**	**249,668**	**197,872**	**211,768**	**222,931**	**206,266**	**13,907**	**14,739**	**21,855**	**-33,170**	**-34,280**	**433,845**		**391,713**
Research and development expenses	-167,889	-170,169	-149,470	-28,302	-28,377	-31,917	0	0	0	0	0	-196,191		-181,387
Segment earnings	**73,451**	**79,499**	**48,402**	**183,466**	**194,554**	**174,349**	**13,907**	**14,739**	**21,855**	**-33,170**	**-34,280**	**237,654**		**210,326**
General and administrative expenses												-86,920		-94,343
Other income												29,959		58,877
Other expenses												-105,922		-81,333
Other taxes												-9,094		-2,483
Operating income												**65,677**		**91,044**
Financing income												29,081		11,408
Financing expenses												-64,697		-25,402
Net financial income/expenses												**-35,616**		**-13,994**
Earnings before income taxes												**30,061**		**77,050**
Income taxes												-35,288		-49,065
Net income												**-5,227**		**27,985**

[1] Items presented at constant currency are translated using monthly average rates from the previous year. Currency translation effects on balance sheet items related to intra-Group transactions are not taken into account in expenses.
[2] The comparative information is presented on a restated basis. See Note 2b for details.

INFORMATION ON GEOGRAPHIC REGIONS

Revenue is distributed across geographic regions as follows (based on headquarters of the respective Group entity):

Geographic Distribution of Revenue

	2023			
in € thousands	**Germany**	**United States**	**Other countries**	**Software AG Group**
Licenses	39,780	117,554	204,290	361,624
Maintenance	42,304	143,860	197,518	383,682
SaaS	11,531	42,534	44,350	98,415
Services	23,155	34,632	98,673	156,460
Other	0	109	0	109
Total	**116,770**	**338,689**	**544,831**	**1,000,290**

	2022			
in € thousands	**Germany**	**United States**	**Other countries**	**Software AG Group**
Licenses[1]	58,510	95,662	175,728	329,900
Maintenance	48,005	146,352	210,906	405,263
SaaS	10,942	30,929	33,973	75,844
Services	27,912	38,968	95,689	162,569
Other	0	0	7	7
Total	**145,369**	**311,911**	**516,303**	**973,583**

[1] The comparative information is presented on a restated basis. See Note 2b for details.

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenue generated in the USA was reported separately as it was greater than 10 percent of Group revenue. This revenue is generated in US dollars, so when comparing consecutive periods, exchange rate fluctuations should be considered.

NON-CURRENT ASSETS

Non-current assets include intangible assets, property, plant, and equipment, as well as financial investment property.

in € thousands	2023	2022
United States	211,868	1,120,094
Germany	93,176	400,537
Other countries	383,248	164,539
Software AG Group	**688,292**	**1,685,170**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

[5] REVENUE

Revenue by segment and region is presented in the segment report in Note [4]. All revenue presented resulted solely from contracts with customers. Revenue in fiscal 2023 included €149,693 thousand (2022: €132,116 thousand) that was recognized as contract liabilities at the beginning of the period. Taking termination options into account, the transaction price allocated to the remaining performance obligations as of December 31, 2023, was €622,952 thousand (2022: €575,746 thousand).

Software AG anticipates recognition of the corresponding revenue over the following periods of time:

in € thousands	2024	2025	2026-2029
Anticipated revenue to be recognized	392,147	140,209	90,596

[6] OTHER INCOME

Other income predominantly results from foreign exchange gains in the amount of €27,449 thousand (2022: €42,596 thousand).

[7] OTHER EXPENSES

Other expenses consist of the following items:

in € thousands	2023	2022
Foreign exchange losses	36,661	37,183
Goodwill impairment losses	0	25,314
Restructuring	22,875	6,200
Legal and consulting fees	37,776	9,199
Miscellaneous	8,610	3,437
	105,922	**81,333**

Provisions for restructuring only include expenses directly attributable to restructuring measures. This relates primarily to expenses for severance payments to employees and compensation payments in connection with early retirement programs.

[8] NET FINANCIAL INCOME/EXPENSES

Financial income includes interest income on financial assets in the amount of €11,893 thousand (2022: €13,180 thousand). Financial expenses include interest expenses on financial liabilities in the amount of €63,766 thousand (2022: €18,684 thousand). This includes an extraordinary financial expense of €28,627 thousand from the early redemption of convertible bonds (see Note [21]).

[9] INCOME TAXES

Software AG’s income taxes can be broken down by origin as follows:

in € thousands	2023	2022
Current domestic taxes	-9,351	-3,954
Current foreign taxes	-53,029	-36,803
	-62,380	**-40,757**
Deferred domestic taxes	8,678	-13,128
Deferred foreign taxes	18,414	4,821
	27,092	**-8,307**
	-35,288	**-49,065**

In Germany, a uniform corporate income tax of 15 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for German entities was 31.8 percent (2022: 31.8 percent) in 2023. Tax rates abroad ranged between 10 and 37 percent (2022: between 10 and 34 percent).

Income from deferred taxes totaled €27,092 thousand and included €6,871 thousand (2022: tax expenses of €4,346 thousand) in tax income relating to temporary differences that arose.

The income tax expense of €35,288 thousand for 2023 (2022: €49.065 thousand) was €25,723 thousand higher than the expected income tax expense of €9,564 thousand (2022: €24,525 thousand) that resulted from applying the applicable domestic tax rate of 31.8 percent (2022: 31.8 percent) at Group level. The Group's effective income tax rate is 117.4 percent (2022: 63.7 percent).

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

in € thousands	2023	2022
Earnings before income taxes	**30,061**	**77,051**
Expected income tax (31.8 percent; 2022: 31.8 percent)	-9,564	-24,525
Difference vs. foreign tax rates and changes in tax rates	6,895	10,426
Nonperiodic income tax effects	9,234	-655
Tax increases/decreases due to tax-exempt income or nondeductible expenses	-13,658	-4,678
Adjustment of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	-19,648	-24,467
Nondeductible or applicable foreign and withholding taxes	-8,583	-5,166
Other adjustments	36	0
Reported income tax expenses	**-35,288**	**-49,065**

Nonperiodic tax effects amounted to €9,234 thousand (2022: -€655 thousand) and included nonperiodic deferred income tax income of €12,757 thousand (2022: €315 thousand).

Resulting from the change in income tax rates, a total positive effect of €1,607 thousand (2022: €241 thousand in negative effects) was included in difference vs. foreign tax rates and changes in tax rates in 2023. This relates primarily to Germany. Further adjustments to this item resulted from the difference between local tax rates applicable to Group entities (see above) and the Group tax rate of 31.8 percent (2022: 31.8 percent).

The item tax increases/decreases due to tax-exempt income or nondeductible expenses mainly includes the tax effect of intercompany dividends in 2023.

A portion of Group deferred tax assets on loss carryforwards was not recognized in 2023 because the conditions for capitalization were no longer considered to be met. These effects are reported in adjustment of tax loss carryforwards and changes in valuation adjustments to deferred tax assets.

Expenses from deferred taxes decreased by €1,010 thousand (2022: €4,299 thousand) and current tax expenses by €34 thousand (2022: €0 thousand) in 2023 as a result of the reversal of loss carryforwards.

The Software AG Group is headquartered in Germany, which has enacted new legislation to implement the global minimum top-up tax. The Software AG Group expects to be entitled to apply temporary safe harbor rules in most jurisdictions of its operations. The Software AG Group may be subject to the top-up tax only in jurisdictions with immaterial operations in relation to its full business operations. However, since the newly enacted tax legislation in Germany is only effective from January 1, 2024, there was no tax impact on the year ended December 31, 2023.

The Software AG Group has applied a temporary mandatory relief from deferred tax accounting for the effects of the top-up tax and will account for it as a current tax when it is incurred.

[10] OTHER TAXES

Other taxes in the amount of €9,094 thousand (2022: €2,483 thousand) increased year-on-year by €6,611 thousand and include property transfer taxes, property taxes, vehicle taxes, royalty-related indirect taxes in Brazil and other indirect taxes.

[11] PERSONNEL EXPENSES

Personnel expenses in the fiscal years 2023 and 2022 were as follows:

in € thousands	2023	2022
Wages and salaries	516,393	514,540
Social benefits	75,508	67,611
Pension expenses	9,143	20,662
	601,045	**602,813**

In fiscal 2023, the average number of employees (part-time employees are taken into account on a pro rata basis only) by operational area was as follows:

	2023	2022
Support and Services	1,414	1,501
R&D	1,534	1,531
Sales and Marketing	1,103	1,117
Administration	749	759
	4,800	**4,908**

In absolute terms (part-time employees are counted in full), the Group employed 4,923 (2022: 5,172) people as of December 31, 2023.

[12] EARNINGS PER SHARE

Earnings per share are calculated based on the net income attributable to shareholders and a weighted average of the number of shares outstanding. On October 2, 2023, Software AG sold all of its own shares which changed the average weighted number of shares outstanding in 2023 to 73,984,958. After the early redemption of convertible bonds in the fiscal year (see Note [21]), there were no instruments with a potential dilutive effect.

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Net income[1]	-5,227	27,986
Less earnings attributable to non-controlling interests	0	-263
Net income attributable to shareholders of Software AG	-5,227	27,723
Weighted average number of shares out- standing (basic)	73,984,958	73,979,889
Weighted average number of shares outstanding (diluted)	73,984,958	73,979,889
Earnings per share in € (basic)	-0.07	0.38
Earnings per share in € (diluted)	-0.07	0.38

[1] The comparative information is presented on a restated basis. See Note 2b for details.

NOTES TO THE CONSOLIDATED BALANCE SHEET

[13] OTHER FINANCIAL ASSETS

Other financial assets as of December 31 were as follows:

	Dec. 31, 2023			Dec. 31, 2022		
in € thousands	Current	Non-current	Total	Current	Non-current	Total
Equity securities	0	358	358	0	370	370
Securities	0	444	444	2,234	911	3,145
Loans and other financial receivables	5,902	9,155	15,057	271	7,893	8,164
Derivatives	1,126	0	1,126	46	650	695
Total	**7,028**	**9,957**	**16,985**	**2,551**	**9,823**	**12,374**

For more information on the valuation of financial assets, please refer to Note [29].

[14] TRADE RECEIVABLES, CONTRACT ASSETS, AND OTHER RECEIVABLES

Trade receivables, contract assets, and other receivables as of December 31 were as follows:

	Dec. 31, 2023			Dec. 31, 2022		
in € thousands	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	80,269	3,270	83,539	160,780	10,273	171,053
Not yet settled or invoiced services (contract assets)	48,759	95,104	143,863	103,901	125,038	228,939
Other receivables	319	165	484	662	537	1,199
Total	**129,347**	**98,539**	**227,886**	**265,343**	**135,848**	**401,191**

Contract assets represent payments due from customers for underlying services that have been rendered by Software AG but, due to contractual provisions, will be invoiced later. They are reclassified to trade receivables when the invoice is issued. Gross receivables and allowances for expected credit losses were as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Trade receivables, contract assets before impairments	232,110	402,740
Allowances for expected credit losses	4,708	2,748
Carrying amount	**227,402**	**399,992**

Write-downs of trade receivables and contract assets totaled €1,469 thousand in fiscal 2023 (2022: €578 thousand). The following trade receivables were not yet due or past due as of the balance sheet date:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Carrying amount	186,204	171,053
of which neither impaired nor past due as of the balance sheet date	142,289	129,336
of which past due in the following time periods as of the balance sheet date		
1 to 3 months	31,751	33,237
4 to 6 months	6,640	4,433
7 to 12 months	5,524	4,047
> 12 months	0	0

Of the reported trade receivables and contract assets, a total of €246,876 thousand was reclassified to the held-for-sale assets.

[15] OTHER NON-FINANCIAL ASSETS

Other non-financial assets can be broken down as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2023
Asset surplus from defined benefit plans	33,979	33,225
Capitalized advance payments in connection with support, license, and rental contracts	27,505	29,145
Capitalized costs from acquisition of new customer orders (sales commission)	26,127	28,243
Receivables from finance authorities	11,008	10,906
Other	3,207	3,280
	101,826	**104,799**

[16] INCOME TAX RECEIVABLES

Income tax receivables in the amount of €25,585 thousand (2022: €52,253 thousand) consist primarily of receivables due to refundable withholding taxes and advance payments made in relation to income taxes.

[17] INTANGIBLE ASSETS AND GOODWILL

Changes in Intangible Assets and Goodwill as of Dec. 31, 2023

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2023	**1,408,159**	**717,673**	**2,125,832**
Currency translation differences	-31,959	-17,782	-49,741
Additions	0	40	40
Disposals	0	-1,234	-1,234
Transfers to assets held for sale	-759,454	-202,693	-962,147
Balance as of Dec. 31, 2023	**616,746**	**496,004**	**1,112,750**
Accumulated amortization			0
Balance as of Jan. 1, 2023	**-26,331**	**-495,971**	**-522,302**
Currency translation differences	432	11,905	12,337
Additions	0	-34,408	-34,408
Disposals	0	1,234	1,234
Transfers to assets held for sale	0	57,768	57,768
Balance as of Dec. 31, 2023	**-25,899**	**-459,472**	**-485,371**
Residual carrying amount as of Jan. 1, 2023	1,381,828	221,702	1,603,530
Residual carrying amount as of Dec. 31, 2023	590,847	36,532	627,379

Changes in Intangible Assets and Goodwill as of Dec. 31, 2022

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2022	**988,036**	**536,620**	**1,524,656**
Currency translation differences	20,563	17,070	37,633
Additions from acquisitions	399,560	163,675	563,235
Additions	0	1,912	1,912
Disposals	0	-1,604	-1,604
Balance as of Dec. 31, 2022	**1,408,159**	**717,673**	**2,125,832**
Accumulated amortization			
Balance as of Jan. 1, 2022	**-1,900**	**-449,154**	**-451,054**
Currency translation differences	883	-12,560	-11,677
Additions	-25,314	-35,495	-60,809
Disposals	0	1,238	1,238
Balance as of Dec. 31, 2022	**-26,331**	**-495,971**	**-522,302**
Residual carrying amount as of Jan. 1, 2022	986,136	87,466	1,073,602
Residual carrying amount as of Dec. 31, 2022	1,381,828	221,702	1,603,530

Intangible assets mainly include software, customer bases, and brand names obtained in connection with acquisitions. The following significant intangible assets with indefinite useful lives existed as of December 31, 2023:

in € thousands	Carrying amount as of Dec. 31, 2023	Carrying amount as of Dec. 31, 2022	Reason for assuming indefinite useful life
Brand names (ARIS) obtained through IDS Scheer AG acquisition	17,900	17,900	Use and future expansion of the brand names is planned for an indefinite period of time.
Brand name (webMethods) obtained through webMethods acquisition	22,624	23,440	Use and future expansion of the brand name is planned for an indefinite period of time.

Brand names are not subject to amortization. They were allocated in full to the Digital Business segment as of December 31, 2023. The webMethods brand name was reclassified to assets held for sale due to the intended sale of the brand to IBM. Any changes in the carrying amounts result from currency translation effects.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year based on cash-generating units whereby the segments represent the smallest cash-generating units in the Group. The test consists of a comparison of the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. The carrying amounts of goodwill were allocated to the segments as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Adabas & Natural (A&N)	328,013	332,795
Digital Business	262,834	1,049,033
Professional Services	0	0
Goodwill	**590,847**	**1,381,828**

The decrease in the carrying amount of goodwill compared to the previous year is mainly attributable to the reclassification of €759,454 thousand to assets held for sale (see Note [2c]). Amortization charges for intangibles held for sale were ceased effective December 18th, 2023.

For the A&N segment, fair value less costs to sell was calculated consistently with previous years using discounted cash flows which were derived from the medium-term budget approved by the Management Board. The budget covers a period of five years (2022: five). Budget planning for 2023 was largely carried out as in previous years. Revenue by segment and costs directly attributable to the segments are based on segment budget planning. The non directly attributable costs are coded to the segments. Planning incorporates past experience, insights on current operating results, and management's estimates of future developments which are aligned with the assumptions market stakeholders would apply. Revenue trends at country level, for instance, is one element of management's estimates of future developments that is particularly prone to uncertainty. Costs to sell are assumed to amount to 2 percent (2022: 2 percent) of the relevant fair value. This approach is rated as level 3 of the valuation hierarchy in accordance with IFRS 13.

The expected cash flow for the A&N segment was calculated as described above and discounted using a post-tax WACC of 7.7 percent (2022: 8.5 percent). A nearly constant revenue level is assumed for the period of detailed planning. A perpetual annuity of -5.1 percent (2022: -5 percent) was used to determine sustainable cash flow. But even using an additional discount of 70 percent on the sustainable cash flow, the fair value less costs to sell would slightly exceed the carrying amount. Given a reduction in free cash flow growth by 50 percent, the fair value less costs to sell would significantly exceed the carrying amount. An increase in WACC after taxes of 2 percentage points would not result in the need for impairment either.

For the Digital Business segment, the medium-term budget was no longer considered to be an appropriate input factor as it does not reflect the planned carve-out of the Integration business. Instead, the fair value less costs to sell was calculated by applying a multiples valuation approach using a revenue multiple. An analysis of a suitable peer group resulted in an enterprise value revenue multiple of 3.65, which was applied to 2023 revenue for the remaining segment. Even a reduction of the multiple by 40 percent to 2.19 would not have resulted in an impairment. This approach is rated as level 2 of the valuation hierarchy in accordance with IFRS 13.

[18] PROPERTY, PLANT, AND EQUIPMENT

Changes in Property, Plant, and Equipment as of Dec. 31, 2023

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2023	**125,840**	**56,630**	**182,470**
Currency translation differences	-870	-993	-1,863
Additions	4,910	9,731	14,641
Disposals	-20,863	-10,865	-31,728
Transfers to assets held for sale	-465	-2,155	-2,620
Balance as of Dec. 31, 2023	**108,552**	**52,348**	**160,900**
Accumulated depreciation			
Balance as of Jan. 1, 2023	**-71,557**	**-34,908**	**-106,465**
Currency translation differences	723	785	1,508
Additions	-14,141	-10,550	-24,691
Disposals	15,196	9,825	25,021
Transfers to assets held for sale	428	1,412	1,840
Balance as of Dec. 31, 2023	**-69,351**	**-33,436**	**-102,787**
Residual carrying amount as of Jan. 1, 2023	54,283	21,722	76,005
Residual carrying amount as of Dec. 31, 2023	39,201	18,912	58,113

Changes in Property, Plant, and Equipment as of Dec. 31, 2022

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2022	**127,677**	**54,621**	**182,298**
Currency translation differences	1,422	276	1,698
Additions from acquisitions	617	331	948
Additions	7,360	15,054	22,414
Disposals	-11,236	-13,652	-24,888
Balance as of Dec. 31, 2022	**125,840**	**56,630**	**182,470**
Accumulated depreciation			
Balance as of Jan. 1, 2022	**-70,541**	**-34,880**	**-105,421**
Currency translation differences	-1,102	-327	-1,429
Additions	-10,740	-11,066	-21,806
Disposals	10,826	11,365	22,191
Balance as of Dec. 31, 2022	**-71,557**	**-34,908**	**-106,465**
Residual carrying amount as of Jan. 1, 2022	57,136	19,741	76,877
Residual carrying amount as of Dec. 31, 2022	54,283	21,722	76,005

Most of the land and buildings are owned by the parent company. The properties pertain mainly to the central administrative buildings of these entities.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €9,731 thousand (2022: €15,054 thousand) primarily relates to the initial purchase of computer equipment. Property, plant, and equipment totaling €58,113 thousand (2022: €76,005 thousand) includes right-of-use assets arising from leases in the amount of €15,142 thousand (2022: €19,116 thousand).

[19] INVESTMENT PROPERTY

Changes in investment property as of Dec. 31, 2023

in € thousands	Investment property
Cost	
Balance as of Jan. 1, 2023	**10,233**
Currency translation differences	0
Additions	0
Disposals	-5,946
Balance as of Dec. 31, 2023	**4,287**
Accumulated depreciation	
Balance as of Jan. 1, 2023	**-4,598**
Currency translation differences	0
Additions	-156
Disposals	3,267
Balance as of Dec. 31, 2023	**-1,487**
Residual carrying amount as of Jan. 1, 2023	5,635
Residual carrying amount as of Dec. 31, 2023	2,800

Changes in investment property as of Dec. 31, 2022

in € thousands	Investment property
Cost	
Balance as of Jan. 1, 2022	**10,233**
Currency translation differences	0
Additions	0
Disposals	0
Balance as of Dec. 31, 2022	**10,233**
Accumulated depreciation	
Balance as of Jan. 1, 2022	**-3,992**
Currency translation differences	0
Additions	-606
Disposals	0
Balance as of Dec. 31, 2022	**-4,598**
Residual carrying amount as of Jan. 1, 2022	6,241
Residual carrying amount as of Dec. 31, 2022	5,635

In September 2023, the investment property in Madrid was sold to a third party which resulted in a gain on disposal of €885 thousand.

Rental income of €981 thousand (2022: €1,486 thousand) was generated from sub-leasing the remaining property in 2023. Expenses arose in connection with this income (not including depreciation) in the amount of €292 thousand (2022: €554 thousand). The total fair value of the remaining investment property was €8 million (2021: €12 million) as of the balance sheet date.

[20] 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, 2023**	**Dec. 31, 2022**	**Dec. 31, 2023**	**Dec. 31, 2022**
Intangible assets	4,323	3,573	51,828	59,995
Property, plant, and equipment	1,279	1,487	5,174	5,699
Receivables and financial assets	3,501	4,929	26,614	25,365
Other non-financial assets	0	0	16,561	16,311
Other obligations	25,440	20,843	2,343	3,859
Provisions for pensions and similar obligations	5,110	4,250	0	0
Liabilities	2,116	2,407	5,035	2,664
Tax loss/interest/R&D carryforwards / tax credits	59,386	41,734	0	0
Total	**101,155**	**79,223**	**107,555**	**113,893**
Amount offset	-93,538	-71,222	-93,538	-71,222
Total	**7,617**	**8,001**	**14,017**	**42,671**
Thereof assets held for sale	-1,280	0	-12,989	0
Amount recognized in the balance sheet	6,337	8,001	1,028	42,671

As of December 31, 2023, unused tax loss/interest and R&D cost carryforwards existed in the Software AG Group in the amount of €201,770 thousand, of which €2,878 thousand in interest carryforwards, of which €26,542 thousand in R&D cost carryforwards (2022: €135,796 thousand, of which €2,878 thousand in interest carryforwards and €7,931 thousand in R&D cost carryforwards), for which no deferred tax assets were recognized. The increase is mainly due to the fact that capitalization conditions for deferred tax assets on losses carried forward were no longer considered to be met in 2023.

If the loss/interest and R&D cost carryforwards could have been utilized in full, additional deferred tax assets would theoretically have had to be recognized in the amount of €58,247 thousand (2022: €39,421 thousand).
Of the losses carried forward for which no deferred taxes were recognized, €11,161 thousand will expire in the period from 2024 to 2027, €3,356 thousand in the following years, and €157,804 thousand can be utilized indefinitely.

As of year-end, deferred tax assets were recognized in the Consolidated Financial Statements in the amount of €1,768 thousand (2022: €650 thousand), which were attributable to companies that suffered losses in the current or previous period. Recognition of deferred tax assets depends solely on recognition of future taxable earnings that exceed the earnings effects from the reversal of existing taxable temporary differences. It is assumed that a tax advantage will be recognized due to planned future positive taxable earnings.

As of the balance sheet date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €15,830 thousand (2022: €36,451 thousand), for which no deferred tax liabilities had been recognized.

Accumulated deferred taxes were offset against equity and resulted in income of €1,397 thousand (2022: €1,397 thousand). The amounts resulted from recognition of new accounting rules in equity which were applied for the first time.

Accumulated current taxes that were offset against equity resulted in expenses of €2,581 thousand (2022: €2,581 thousand) in 2023. The amounts resulted from recognition of translation currency effects in equity from loans to foreign operations.

[21] FINANCIAL LIABILITIES

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Current financial liabilities		
Liabilities to banks	0	14,558
Other current financial liabilities	6,648	8,641
Derivatives	637	8,689
	7,285	**31,888**
Non-current financial liabilities		
Convertible bonds	0	311,248
Liabilities to banks	0	309,827
Other non-current financial liabilities	425,563	13,379
Derivatives	0	763
	425,563	**635,217**

REFINANCING DUE TO CHANGE OF CONTROL

As a result of the change of control dated September 28, 2023, the respective clauses contained in the financing contracts took effect whereby the lending banks and bond subscribers were entitled to extraordinary termination rights. This resulted in the early redemption of convertible bonds on October 4, 2023, and all other third-party loans on October 10, 2023. The redemption of the convertible bonds consisted of the bonds' total face value of €344,300 thousand plus accrued interest which resulted in an extraordinary financial expense of €28,627 thousand.

In return, parent entity Mosel Bidco SE entered into a term loan B agreement with J.P. Morgan SE, Frankfurt am Main, as facility agent. The term loan consists of a EUR tranche of €640 million and a USD tranche of $405 million. The loan has a maturity of 84 months repayable in full upon maturity. The applicable interest rate for the euro-denominated loan is a floating interest based on EURIBOR plus a margin of 4.75 percent p.a. which is subject to an adjustment in accordance with the actual senior secured net leverage ratio. The applicable interest rate for the US dollar-denominated loan is a floating interest based on Adjusted Term SOFR plus a margin of 3.75 percent p.a. which is also subject to an adjustment in accordance with the actual senior secured net leverage ratio.

On October 2, 2023, Software AG received sufficient cash inflows from its parent entity Mosel Bidco SE to secure the long-term financing of the Group. The terms and conditions of the parent loan are congruent to the head loan agreement between Mosel Bidco SE and J.P. Morgan SE. This resulted in cash inflows of €417,620 thousand, consisting of a euro-denominated amount of €264,177 thousand and a US dollar-denominated amount of $167,175 thousand.

The following table provides a summary of the changes in financial liabilities:

in € thousands		Liabilities to banks	Financial liabilities	Loans from related parties	Lease liabilities (IFRS 16)	Derivatives	Total
	Balance as of Dec. 31, 2022	**324,385**	**311,372**	**0**	**21,896**	**9,452**	**667,105**
	Proceeds						
	New non-current financial liabilities, net			417,620			417,620
Changes in cash and cash equivalents	**Payments**						
	Repayment of current and non-current financial liabilities, net	-326,666	-344,300	-9,249			-680,215
	MIP hedge premium					-560	-560
	Repayment of lease liabilities				-10,022		-10,022
Changes in noncash items	**Changes from subsequent measurement**						
	Additions lease liabilities				5,663		5,663
	MIP hedge premium					-7,173	-7,173
	Accrued interest on leases				583		583
	Accrued interest	4,720	33,052	9,674			47,446
	Reclassification to liabilities associated with assets held for sale				-618		-618
	Other changes from measurement	-2,439	-124	-2,125	-1,211	-1,082	-6,981
	Balance as of Dec. 31, 2023	**0**	**0**	**415,920**	**16,291**	**637**	**432,848**
	Total change +/–	**324,385**	**311,372**	**-415,920**	**5,605**	**8,815**	**234,257**
		Thereof current financial liabilities					7,285
		Thereof non-current financial liabilities					425,563

Financial liabilities changed as follows in the previous fiscal year:

in € thousands		Liabilities to banks	Financial liabilities	Lease liabilities (IFRS 16)	Derivatives	Total
	Balance as of Dec. 31, 2021	**284,700**	**561**	**22,776**	**596**	**308,633**
	Proceeds					
	New non-current financial liabilities, net	120,000	310,475			430,475
Changes in cash and cash equivalents	**Payments**					
	Repayment of current and non-current financial liabilities, net	-78,480				-78,480
	MIP hedge premium	-1,355				-1,355
	Repayment of lease liabilities			-11,968		-11,968
Changes in noncash items	**Changes from subsequent measurement**					
	Additions lease liabilities			9,632		9,632
	MIP hedge premium				8,336	8,336
	Accrued interest on leases			716		716
	Accrued interest on convertible bonds		773			773
	Other changes from measurement	-480	-437	740	520	343
	Balance as of Dec. 31, 2022	**324,385**	**311,372**	**21,896**	**9,452**	**667,105**
	Total change +/–	**-39,685**	**-310,811**	**880**	**-8,856**	**-358,472**
		Thereof current financial liabilities				31,888
		Thereof non-current financial liabilities				635,217

1 Changes in cash and cash equivalents are factored into the measurement.

Financial liabilities had the following maturities as of the reporting date:

in € thousands	Up to 1 year	>1 year
Loans with variable interest rates	0	415,467
Loans with fixed interest rates	0	0

The fair values of the liabilities with variable interest rates are equal to their carrying amounts.

[22] TRADE PAYABLES AND OTHER LIABILITIES

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

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Payables to suppliers	63,859	46,955
Advance payments received on orders	4,337	9,354
Other liabilities	53	1,171
	68,249	**57,480**

[23] OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Liabilities due to employees	79,115	106,775
Tax liabilities	19,617	20,148
Liabilities for social security	3,346	6,086
Remaining other non-financial liabilities	7,540	5,894
	109,618	**138,903**

[24] OTHER PROVISIONS

Other provisions changed as follows:

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2023	**35,373**	**29,660**	**65,033**
Currency translation differences	-6	-293	-299
Additions	26,320	1,233	27,553
Utilization	-18,947	-13,991	-32,938
Reversal	-340	-937	-1,277
Transfers to liabilities held for sale	-49	0	-49
Balance as of Dec. 31, 2023	**42,351**	**15,672**	**58,023**
of which with a remaining term of more than 1 year	12,803	248	13,051
Balance as of Jan. 1, 2022	**37,060**	**18,988**	**56,048**
Currency translation differences	33	-196	-163
Additions	11,040	11,839	22,879
Utilization	-12,689	-762	-13,451
Reversal	-71	-209	-280
Balance as of Dec. 31, 2022	**35,373**	**29,660**	**65,033**
of which with a remaining term of more than 1 year	4,956	548	5,504

MISCELLANEOUS OTHER PROVISIONS

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2023	Dec. 31, 2022
Litigation	8,160	22,105
Provisions arising from malware attack	3,150	3,150
Anticipated losses related to Professional Services projects	3,000	3,029
Other provisions	1,362	1,376
	15,672	**29,660**

For further information on litigation, please refer to Note [32].

[25] INCOME TAX LIABILITIES

in € thousands	2023	2022
Balance as of Jan. 1	**33,733**	**36,609**
Currency translation differences	-1,151	-646
Additions	11,425	11,905
Utilization	-21,049	-12,639
Reversal	-45	-1,496
Balance as of Dec. 31	**22,913**	**33,733**
of which with a remaining term of more than 1 year	0	911

[26] PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Defined benefit plans

	Defined benefit obligation (DBO)		Fair value of plan assets		Effect of asset caps		Net defined benefit balance	
in € thousands	2023	2022	2023	2022	2023	2022	2023	2022
Germany	41,215	34,626	27,826	27,060	0	0	13,389	7,566
United Kingdom	57,432	55,335	91,410	88,561	0	0	-33,978	-33,226
Switzerland	9,479	8,115	7,650	6,800	0	0	1,829	1,315
Other insignificant pension plans and similar plans							3,600	2,869
Defined benefit plans with net debt							**18,818**	**11,750**
Defined benefit plans with asset surplus							**-33,978**	**-33,226**

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

Pension benefits in the United Kingdom relate to commitments made by Software AG (UK) Limited. They comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period. Consistent with the previous year, plan assets for the pension plan in the UK exceed the present value of the performance obligations resulting in an asset surplus, which is reported under non-financial assets (see Note [15]).

The commitments in Switzerland result from legal requirements of a Swiss federal law on occupational retirement, survivor, and disability pension plans. The law stipulates that every employer must grant entitled employees benefits after termination of their employment.

The defined benefit commitments result in risks to the Company due to possible fluctuations in obligations from defined benefit plans and fluctuations in plan assets. Fluctuations in defined benefit obligations result primarily from changes to financial assumptions such as discount interest rates and changed demographic assumptions (changing life expectancies).

Possible changes in expected long-term wage and salary increases have no significant impact on the obligations due to the structure of the commitments. The fair value of plan assets and the fluctuation thereof depends mainly on the situation of the capital markets. Software AG seeks to account for this by controlling its asset investments.

	Defined benefit obligation (DBO)		Fair value of plan assets		Net defined benefit balance	
in € thousands	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Balance as of Jan. 1	**98,074**	**163,360**	**-122,419**	**-131,093**	**-24,344**	**32,267**
Current service cost	1,443	3,818	0		1,443	3,818
Net interest income/expenses	4,350	2,480	-5,758	-2,128	-1,408	352
	5,793	**6,298**	**-5,758**	**-2,128**	**35**	**4,171**
Income/expenses resulting from adjustments						
Return on plan assets less income recognized as net interest	0	0	3,299	9,636	3,299	9,636
Expectation adjustment	1,737	3,648	0	0	1,737	3,648
Net actuarial gains/losses from changes to demographic assumptions	-1,310	-258	0	0	-1,310	-258
Net actuarial gains/losses from changes to financial assumptions	5,411	-65,817	0	0	5,411	-65,817
	5,838	**-62,427**	**3,299**	**9,636**	**9,137**	**-52,791**
Employer contributions	171	4,263	-2,380	-6,491	-2,209	-2,228
Employee contributions	-192	189	-192	-189	-384	0
Plan-related payments	2,731	-3,069	2,889	3,069	5,620	0
Settlement payments	0	0	0	0	0	0
	2,710	**1,383**	**317**	**-3,611**	**3,027**	**-2,228**
Currency-related changes	-4,290	-10,540	-2,325	4,777	-6,615	-5,763
Balance as of Dec. 31	**108,125**	**98,074**	**-126,886**	**-122,419**	**-18,761**	**-24,344**

The net defined benefit balance includes defined benefit plans with an asset surplus. Non-financial assets were therefore reported in the amount of €33,978 thousand as of December 31, 2023. The significant assumptions used for calculating the present value of the defined benefit obligations (DBO) are as follows:

as %	**2023**	**2022**
Discount rate		
Germany	3.50	4.25
United Kingdom	4.75	5.00
Switzerland	1.75	2.25
Salary trend		
Germany	3.00	2.00
United Kingdom	4.50	4.50
Switzerland	1.50	1.50
Pension trend		
Germany	2.50	2.25
United Kingdom	2.75	2.50
Switzerland	0.00	0.00

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

	Change in DBO		
in € thousands	**Germany**	**United Kingdom**	**Switzerland**
Discount rate (-0.5%)	3,100	5,025	586
Discount rate (+0.5%)	-2,770	-4,453	-526
Salary trend (-0.5%)	0	211	-90
Salary trend (+0.5%)	0	-207	95
Pension trend (-0,5%)	-2,737	-1,357	n/a[1]
Pension trend (+0.5%)	3,032	1,296	469

[1] Pension trend was assumed at 0 percent for Switzerland (see above).

Sensitivities were calculated by varying the respective parameter with otherwise constant assumptions.

The plan assets can be broken down as follows:

	Fair value	
in € thousands	**2023**	**2022**
Equities	27,726	46,576
Life insurance policies	27,826	33,859
Cash and cash equivalents	2,592	10,019
Fixed-interest securities	61,092	31,965
Other	7,650	0
	126,886	**122,420**

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 2024 are expected to amount to €2,713 thousand (2022: €7,694 thousand).

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

in € thousands	**Expected benefit payments**
2024	5,899
2025	4,159
2026	4,208
2027	4,141
2028	3,701
2029-2033	14,238

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 €19,856 thousand (2022: €25,932 thousand) in 2023.

[27] EQUITY

SUBSCRIBED CAPITAL

As of December 31, 2023, Software AG's subscribed capital totaled €74,000 thousand (2022: €74,000 thousand). Software AG’s share capital is fully paid in and divided into 74,000,000 (2022: 74,000,000) no-par value registered shares, each worth €1. Each share entitles its holder to one vote.

CONDITIONAL CAPITAL

Pursuant to the resolution of the Annual Shareholders’ Meeting on May 12, 2021, the Management Board is authorized, subject to the consent of the Supervisory Board, to issue bearer and/or registered warrant and/or convertible bonds or combinations of these instruments (bonds) up to a total value of €750,000,000 with or without a specified maturity date and to grant bond owners or holders the right to convert the bonds to new no-par value registered shares in the Company representing up to a proportional amount of the share capital of €14,800,000, which are secured by the corresponding conditional capital in section 5(3) of the Articles of Association. This authorization may be exercised until May 11, 2026.

Pursuant to a resolution from December 13, 2021, and with the consent of the Supervisory Board on the same date, the Management Board utilized its authorization to issue convertible bonds, excluding subscription rights, to Silver Lake with a nominal value of €344.3 million. These bonds entitle the holders to convert them to a maximum of 7.4 million Software AG shares. During the fiscal year, Software AG went through a refinancing process in which existing loans were settled and refinanced through a new long-term loan agreement that does not include any conversion rights (see Note [21]).

AUTHORIZED CAPITAL

As of December 31, 2023, the Management Board was authorized, subject to the consent of the Supervisory Board, to increase the Company’s share capital on one or more occasions on or before May 11, 2026, by up to a total of €14,800 thousand by issuing new no-par value registered shares in return for cash contributions and/or contributions in kind (authorized capital). In doing so, the number of shares must increase in proportion to the share capital. The Management Board did not make use of this authorization in fiscal year 2023.

TREASURY SHARES

Pursuant to the Annual Shareholders' Meeting resolution from May 12, 2021, Software AG is authorized until May 11, 2026, to purchase Software AG shares totaling a maximum of 10 percent of the share capital at the time of the resolution. The shares purchased, together with other treasury shares that the Company has already purchased and still holds or that are attributable to it in accordance with sections 71d and 71e of AktG, may not account for more than 10 percent of the respective share capital at any time. As of December 31, 2023, the Company no longer held any treasury shares.

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.

DIVIDEND

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders’ Meeting resolved on May 17, 2023, to appropriate €3,699 thousand (2022: €56,225 thousand) for a dividend payout from the net retained profits of €48,760 thousand (2022: €65,452 thousand) reported by Software AG, the controlling Group company, in the 2022 fiscal year. This corresponded to a dividend of €0.05 (2022: €0.76) per share. A total amount of €45,061 thousand (2022: €9,227 thousand) was carried forward. For fiscal year 2023, the Management Board will propose to the Annual Shareholders’ Meeting to distribute the net retained profits of €962,637 thousand reported by Software AG in fiscal 2023, as follows: to appropriate €3,700 thousand for dividends and to carry forward €958,937 thousand. This corresponds to a dividend of €0.05 per share.

OTHER RESERVES

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

	2023			2022		
in € thousands	Pre-tax amount	Tax effects	Net amount	Pre-tax amount	Tax effects	Net amount
Currency translation differences from foreign operations	-37,649	0	-37,649	30,750	0	30,750
Net actuarial gain/loss on pension obligations	-8,866	2,353	-6,513	55,884	-14,439	41,445
Net gain/loss on remeasuring financial assets	927	-360	567	-719	66	-653
Currency translation gain/loss from net investments in foreign operations	-12,184	0	-12,184	6,295	0	6,295
Gain/loss recognized in equity	**-57,772**	**1,993**	**-55,779**	**92,210**	**-14,373**	**77,837**

Cash flow hedges had the following effects on the income statement and other comprehensive income:

in € thousands	Total gain/ (loss) recognized in other comprehen-sive income from the hedges	Ineffective portion recognized in earnings	Items from the income statement	Costs recognized in other comprehen-sive income from hedges	Amount reclassified from other comprehen-sive income to the income statement	Items from the income statement
Fiscal year ending Dec. 31, 2023: expected payments relating to awards to members of the Management Board, managers, and employees	148	0	n/a	0	-1,367	Functional costs
Fiscal year ending Dec. 31, 2022: expected payments relating to awards to members of the Management Board, managers, and employees	894	0	n/a	0	-932	Functional costs

OTHER DISCLOSURES

[28] NOTES TO THE STATEMENT OF CASH FLOWS

During the fiscal year, Software AG underwent a refinancing process whereby existing loans were settled and refinanced through a new long-term loan agreement (see Note [21]). Following the successful refinancing process, Software AG has firmly committed credit lines with banks of approximately €128,933 thousand which were fully unused as of December 31, 2023. With cash and cash equivalents, Software AG had freely disposable liquidity of around €268,941 thousand as of December 31, 2023.

[29] ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following table shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair-value hierarchy. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Valuation techniques whereby the lowest level input that is significant to fair value measurement as a whole is directly or indirectly observable in the market.
Level 3: Inputs for the asset or liability that are not based on observable market data.

December 31, 2023

in € thousands	Category	Carrying amount by measurement category		Fair value by level			
		At amortized cost	At fair value	Level 1	Level 2	Level 3	Total
Assets							
Cash and cash equivalents	AC	130,007					
Trade receivables, contract assets, and other receivables	AC	227,886					
Other financial assets							
Financial assets available for sale							
Debt securities	FVTPL		0		0		0
Shareholders' equity	FVOCI		358			358	358
Securities	FVOCI		444	444			444
Loans and other financial receivables	AC	15,057					
Derivative financial instruments							
Designated as hedging instrument							
Stock options	–		0		0		0
Forward equity contracts	–		0		0		0
Not designated as hedging instrument							
Forward currency contracts	FVTPL		1,126		1,126		1,126
Forward equity contracts	FVTPL		0		0		0
Stock options	FVTPL		0		0		0
Liabilities							
Trade and other payables	AC	68,248					
Financial liabilities							
Non-derivative financial liabilities							
Loans[1]	AC	0			0		0
Other non-derivative financial liabilities[2]	AC	380,442			380,442		380,442
Derivative financial liabilities							
Designated as hedging instrument							
Forward equity contracts	–		0		0		0
Not designated as hedging instrument							
Forward currency contracts	FVTPL		637		637		637
Forward equity contracts	FVTPL		0		0		0

[1] Included convertible bonds in prior year.
[2] Includes a shareholder loan (see Note [21]).

December 31, 2022

in € thousands	Category	Carrying amount by measurement category		Fair value by level			
		At amortized cost	At fair value	Level 1	Level 2	Level 3	Total
Assets							
Cash and cash equivalents	AC	427,105					
Trade receivables, contract assets, and other receivables	AC	387,647					
Other financial assets							
Financial assets available for sale							
Debt securities	FVTPL		0		0		0
Shareholders' equity	FVOCI		370			370	370
Securities	FVOCI		3,145	3,145			3,145
Loans and other financial receivables	AC	8,164					
Derivative financial instruments							
Designated as hedging instrument							
Stock options	–		389		389		389
Forward equity contracts	–		0		0		0
Not designated as hedging instrument							
Forward currency contracts	FVTPL		33		33		33
Forward equity contracts	FVTPL		0		0		0
Stock options	FVTPL		273		273		273
Liabilities							
Trade and other payables	AC	57,480					
Financial liabilities							
Non-derivative financial liabilities							
Loans[1]	AC	635,633			584,021		584,021
Other non-derivative financial liabilities	AC	22,020			22,020		22,020
Derivative financial liabilities							
Designated as hedging instrument							
Forward equity contracts	–		3,752		3,752		3,752
Not designated as hedging instrument							
Forward currency contracts	FVTPL		40		40		40
Forward equity contracts	FVTPL		5,660		5,660		5,660

[1] Included convertible bonds in prior year.

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2023 or 2022. All equity instruments were measured at fair value through other comprehensive income (FVOCI), to reflect a more long-term investment intension in earnings.

The following table illustrates how the fair values of financial assets and liabilities are determined:

Financial assets/ financial liabilities	Hierarchy level	Valuation technique and key inputs	Significant unobservable inputs	Correlation between unobservable inputs at fair value
Interest rate swaps	2	Discounted cash flow approach; future cash flows are estimated based on forward interest rates (observable interest rate curves as of balance sheet date) and fixed interest rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties	n/a	n/a
Forward currency contracts	2	Discounted cash flow approach; future cash flows are estimated based on forward exchange rates (observable exchange rates as of balance sheet date) and fixed forward exchange rates, discounted at an interest rate that accounts for the credit risk associated with the counter parties	n/a	n/a
Stock options	2	option pricing factors (share price, exercise price of the option, share price volatility, dividends as dividend yield, interest rates, option's remaining term)	n/a	n/a
Forward equity contracts	2	The fair values are measured based on the intrinsic values of the forward equity contracts, which are calculated using the share prices from an active market	n/a	n/a
Securities	1	Prices quoted on active market	n/a	n/a
Shareholders' equity (currently non-listed securities only)	3	Comprehensive valuation approach based on multiple quantitative and qualitative factors such as current/planned earnings, liquidity, recently undertaken/planned transactions	n/a	n/a

The fair values of cash and cash equivalents, time deposits, current receivables, trade payables, and other current financial liabilities correspond approximately with their carrying amounts, primarily due to the short terms of these instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit ratings. Software AG calculates bad debt allowances to reflect expected defaults based on the measurement results. Accordingly, the carrying amounts of these receivables corresponded approximately with their fair values as of December 31, 2023, and December 31, 2022.

Software AG calculates the fair values of liabilities to banks and other financial liabilities as well as other non-current financial liabilities by discounting the estimated future cash flows using the interest rates applicable to similar financial liabilities with comparable maturities.

The net gain/loss from loans and receivables is only affected significantly by currency translation and interest effects. The net gain from derivatives without qualifying hedging relationships amounted to €5,528 thousand (2022: loss of €4,656 thousand) in fiscal 2023. The net gain from derivatives designated as cash flow hedges was included in the income statement and amounted to €718 thousand (2022: loss of €6,163 thousand) in fiscal 2023.

Equity instruments were written down in the amount of €206 thousand (2022: €513 thousand), which was recognized in other comprehensive income in fiscal 2023.

OBJECTIVES AND METHODS OF RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

As a result of its international operating activities as well as its investing and financing activities, Software AG is exposed to various financial risks. Management continuously monitors these risks. Derivative financial instruments are used in accordance with internal guidelines in order to reduce risks arising from changes in interest rates, exchange rates, cash flows, or the value of cash investments. Derivatives are generally entered into to hedge existing balance sheet exposures and highly probable forecast transactions.

a) Interest rate risk
The Company is subject to interest rate fluctuations that affect both assets and equity and liabilities on the balance sheet. On the assets side, income from investing available cash and cash equivalents and future interest income resulting from discounting non-current receivables and contract assets 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 improve financial income/expenses by €476 thousand (2022: €967 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 selectively. Estimated cash flows can also be hedged in accordance with internal guidelines. Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other financial assets or financial liabilities. Since hedging transactions are not normally designated as hedge accounting, changes in fair value are immediately recognized through profit or loss in the Consolidated Income Statement.

The sensitivity analysis required by IFRS 7 relates to exchange rate risk arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings (earnings before income taxes) result only from the relationship of the euro to the US 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 balance sheet date, a devaluation of the euro by 10 percent against the US dollar would have decreased earnings by €851 thousand (2022: increased by €1,061 thousand) and other reserves by €0 thousand (2022: €0 thousand). This amount only represents a theoretical risk for Software AG as these instruments are hedges of balance sheet transactions, rather than open trading positions.

c) Market risk
In line with Group policy, assets are controlled in terms of maturity, interest type, and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk
Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. Major cash investments as well as derivative financial instruments are entered into with banks with credit ratings of at least investment grade and whose credit default swap (CDS) rates are monitored continuously. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by management ensure that the credit risk from financial instruments is spread across various banks. Receivables are monitored as part of operations on an ongoing basis. The need for impairment is evaluated on every balance sheet date using an impairment matrix for determining expected credit loss. As of December 31, 2023, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. There is no concentration of credit risks with respect to single customers as a result of the size of the customer base or due to the distribution of the revenues across various sectors and countries. The theoretical maximum exposure to credit risk is reflected in the carrying amounts of the receivables, without taking any collateral into account.

e) Liquidity risk
A liquidity risk arises from the possibility that Group entities may not be able to satisfy their existing financial liabilities, for example, arising from loan agreements, lease agreements or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and is, if necessary, balanced by available cash and bilateral lines of credit.

Under credit agreements having a total volume of €415.5 million (2022: €326.7 million), Software AG is not permitted to exceed a net leverage ratio of 7.0 or fall below a fixed charge coverage ratio of 1.75. Furthermore, unused credit lines are available to Software AG with a volume of €119.0 million (2022: €300.0 million); if Software AG draws on them, it is required to meet financial KPIs. As of the end of 2023, the Company's net leverage ratio was significantly lower than this limit and the fixed charge coverage ratio was significantly higher. The table below shows the contractually fixed payments arising from financial liabilities. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2023.

2023

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (this item)	65,801	0	0	65,801
Financial non-derivative liabilities	453	0	415,467	415,920
Lease liabilities	6,462	10,447	0	16,909
Derivative financial liabilities	637	0	0	637

2022

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (this item)	48,085	40	0	48,125
Financial non-derivative liabilities	14,587	521,361	99,810	635,758
Lease liabilities	8,613	12,723	559	21,895
Derivative financial liabilities	8,689	763	0	9,452

USE 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 fair values of forward currency contracts are determined on the basis of forward foreign exchange rate which are included in a discounted cash flow model. Due to the takeover process and the intended delisting, Software AG ceased to use cash flow hedges in 2023. However, Software AG continues to enter forward currency contracts and currency options to hedge foreign exchange risks related to future cash flows. The financial instruments for hedging exchange risks have maximum terms to maturity of 0.4 years.

CASH INVESTMENT POLICY

Software AG takes a conservative approach with regard to its cash investments. The Company invests primarily in short-term time deposits and short-term fixed-income securities with a credit rating of at least "investment grade." Software AG introduced a process in order to monitor the creditworthiness of the banks with which it maintains relationships whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly.

[30] DISCLOSURES ON LEASES AS LESSEE

Software AG rents and leases office buildings and, to a minor extent, vehicles and hardware. Software AG also rents IT equipment with contract terms that are typically between one and three years. These lease agreements are either short-term or for an underlying object of low value. Software AG opted for the simplified option granted by IFRS 16 and does not recognize right-of-use assets or lease liabilities for these agreements.

Right-of-use assets associated with rented office buildings, vehicles, and hardware are presented under property, plant, and equipment (see Note [18]) and changed as follows:

2023

in € thousands	Land and buildings	Operating and office equipment	Total
Balance as of Jan. 1, 2023	**14,977**	**4,139**	**19,116**
Depreciation in the fiscal year	-6,461	-2,360	-8,821
Additions	4,081	2,019	6,100
Disposals	-1,141	-52	-1,193
Currency translation differences	-155	95	-60
Balance as of Dec. 31, 2023	**11,301**	**3,841**	**15,142**

2022

in € thousands	Land and buildings	Operating and office equipment	Total
Balance as of Jan. 1, 2022	**14,942**	**4,242**	**19,184**
Depreciation in the fiscal year	-7,027	-2,553	-9,580
Additions	5,864	2,307	8,171
Disposals	-375	-52	-427
Currency translation differences	1,573	195	1,768
Balance as of Dec. 31, 2022	**14,977**	**4,139**	**19,116**

Lease liabilities associated with rented office buildings, vehicles, and hardware are presented as financial liabilities and changed as follows:

2023

in € thousands	Lease liabilities
Balance as of Jan. 1, 2023	**21,896**
Changes in the fiscal year	-4,987
Balance as of Dec. 31, 2023	**16,909**
thereof current	6,462
thereof non-current	10,447

2022

in € thousands	Lease liabilities
Balance as of Jan. 1, 2022	**22,776**
Changes in the fiscal year	-880
Balance as of Dec. 31, 2022	**21,896**
thereof current	8,613
thereof non-current	13,283

The following amounts for leases were recognized in the income statement in accordance with IFRS 16:

in € thousands	2023	2022
Expenses from leases included in operating income		
Depreciation in the fiscal year	8,821	9,580
Expenses for short-term leases and leases for assets of low value	4,274	4,304
Expenses from leases included in net financial income/expenses		
Interest expenses for lease liabilities	583	716

AS LESSOR

Software AG leases out parts of its own office buildings or those rented, but only to a very minor extent.

[31] SEASONAL INFLUENCES

Based on historical data, revenues and earnings are not evenly distributed throughout the fiscal year. In particular, the distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict. Revenue and earnings before income taxes were distributed over fiscal year 2023 as follows:

in € thousands	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023
License revenue	50,374	91,691	69,242	150,317	361,624
as % of annual license revenue	14	25	19	42	100
Total revenue	210,583	248,421	228,666	312,620	1,000,290
as % of annual revenue	21	25	23	31	100
Earnings before income taxes	1,450	21,587	36,394	-29,370	30,061
as % of annual earnings	5	72	121	-98	100

[32] LITIGATION AND CONTINGENT LIABILITIES

Appraisal proceedings were filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG; the petitioners seek an increase in their cash settlements and annual compensation payments. Software AG does not consider the objections raised to be valid. The Regional Court of Saarbrücken ruled on June 6, 2018, to reject the petitioners' filings. Multiple petitioners filed complaints against this decision within the appeal period. The Saarland Higher Regional Court obtained an expert opinion. The appraisal by the court-appointed expert arrived at slightly higher amounts than the initial valuation with regard to individual valuation parameters. It is not foreseeable when the proceedings will be concluded.

In connection with the merger of IDS Scheer AG and Software AG, appraisal proceedings were filed with the Regional Court of Saarbrücken, Germany, in which the petitioners sought a judicial review of the set exchange ratio and correction through cash compensation. On April 3, 2023, the court ruled in favor of a settlement in the amount of €7.22 per share for all former shareholders of IDS Scheer AG which resulted in a payment obligation, including interest, of €11,730 thousand, plus the joint representative's and petitioners' court and legal fees. The decision is final and settlement occurred in the second quarter of 2023.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia, CNMC) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015, on the suspicion of an inadmissible anti-competitive agreement. On April 25, 2016, the CNMC published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies on October 19, 2017. CNMC accuses Software AG Spain of inadmissible price fixing and cover tenders. Following a hearing on June 12, 2018, the CNMC ruled on July 31, 2018, to impose a penalty on 11 companies, including Software AG Spain. The penalty for Software AG Spain was €6 million, which was paid by court order on January 28, 2019. Software AG appealed the agency's decision and submitted its concluding argument on May 23, 2019. On October 10, 2023, Software AG received a resolution whereby the court rejected Software AG's appeal and upheld the CNMC decision including Software AG's obligation to pay the state lawyer's fees. Software AG decided to further appeal before the Spanish Supreme Court. A decision on whether to accept the appeal is expected in the third quarter of 2024 by the Spanish Supreme Court.

Provisions for litigation totaled €8,160 thousand (2022: €22,105 thousand) as of December 31, 2023. In addition, contingent liabilities in the amount of €45,938 thousand existed (2022: €45,501 thousand). A resource outflow as of the balance sheet date was not probable enough to set up provisions. These relate to individual lawsuits and €39,420 thousand (2022: €35,841 thousand) for tax-related risks.

[33] SHARE-BASED REMUNERATION

Software AG has various share-based remuneration plans for members of the Management Board, managers, and other Group employees. Due to the upcoming delisting of Software AG, no new share-based remuneration plans were granted in 2023, except for the employee share purchase program. The employee share purchase program granted participants a matching share for purchased shares after a vesting period of one year. Due to the corporate event in 2023, the program was prematurely terminated in October 2023. The employee share purchase program resulted in a total expense of €478 thousand in the 2023 fiscal year. All other existing plans remained unmodified and were classified as cash settled. Share-based remuneration resulted in total expenses of €13,677 thousand (2022: €11,654 thousand) in fiscal 2023.

LONG-TERM INCENTIVE PLAN 2022 (MANAGEMENT BOARD)

Rights under Long Term Incentive Plan 2022 (LIP 2022) were allocated to members of the Management Board in December 2022, effective as of July 1, 2022.

The rights have a term of four years. LIP 2022 consists of two equally weighted components or virtual stock options: value right 1 (VR 1) and value right 2 (VR2). The number of rights and the performance factor of VR1 was subject to a decision by the Annual Shareholders' Meeting in 2023 whereby the target achievement factor for part 1 of LIP 2022 is based on the relative performance of a final reference share price against specific Software AG share price targets. The target achievement factor is a minimum of 0 when the final share reference price is €55 or below and 1 when the final share reference price is €75. It reaches a maximum of 2 when the final reference share price is €90. Between those values, linear interpolation is used to determine the achievement factor. The value per option for part 1 of the LIP 2022 is calculated as the difference between the final reference share price and the initial reference share price, multiplied by the target achievement factor. The disbursement for part 1 of the LIP 2022 is limited to 200 percent of the target amount.

The amount of disbursement for the VR 2 component is coupled to value growth of Software AG's share during the term and to a target achievement factor resulting from the average target achievement of revenue, profit margin, and annual recurring revenue (ARR) targets in 2025; it is also capped at twice the allocation.

	VR (1)	VR (2)
Term (disbursement date)	July 2026	July 2026
Outstanding as of Dec. 31, 2022	**84,159**	**187,985**
Allocation in 2023	**127,871**	**0**
expired in 2023	0	0
Outstanding as of Dec. 31, 2023	**212,030**	**187,985**
of which vested	0	0
Fair value as of Dec. 31, 2023 (in €)	1.03	2.95

A total expense of €188 thousand was incurred under this plan in fiscal 2023. Provisions totaled €225 thousand as of December 31, 2023.

LONG-TERM INCENTIVE PLAN 2022 (EMPLOYEES)

Rights under Long Term Incentive Plan 2022 (LTI 2022) were allocated to employees in July 2022.

The plan only consists of retention stock appreciation rights (RSARs) which were issued in three tranches of varying terms. The disbursement amount for RSARs is based solely on the Software AG share price during a reference period at the end of the relevant term and is capped at three-times the allocation with respect to the entire plan.

	RSARs	RSARs	RSARs
Term (disbursement date)	July 2023	July 2024	July 2025
Outstanding as of Dec. 31, 2022	**135,900**	**135,900**	**135,900**
expired in 2023	-5,795	-15,497	-15,497
disbursed in 2023	-130,105	0	0
Outstanding as of Dec. 31, 2023	**0**	**120,403**	**120,403**
of which vested	0	0	0
Fair value as of Dec. 31, 2023 (in €)	32.00	32.00	32.00

A total expense of €6,262 thousand was incurred under this plan in fiscal 2023. Provisions totaled €4,598 thousand as of December 31, 2023.

LONG-TERM INCENTIVE PLAN 2021 (MANAGEMENT BOARD)

Rights under Long Term Incentive Plan 2021 (LIP 2021) were allocated to members of the Management Board in May 2021.

The rights have a term of four years. LIP 2021 consists of two equally weighted components or virtual stock options: value right 1 (VR 1) and value right 2 (VR2). Shares under the first component are weighted with a performance factor dependent upon their performance relative to the MDAX, i.e., worse performance can result in a reduction to 0, and outperformance of more than 20 percent can result in a factor of 2. The target amount is equal to the share price on the grant date multiplied by the relative outperformance of Software AG shares and the performance factor. The amount of the VR 2 component is coupled to value growth of Software AG's share during the term and to a target achievement factor resulting from the average target achievement of revenue, profit margin, and ARR targets in 2024; it is also capped at twice the allocation.

	VR (1)	VR (2)
Term (disbursement date)	May 2025	May 2025
Outstanding as of Dec. 31, 2022	**98,799**	**199,338**
expired in 2023	0	-400
Outstanding as of Dec. 31, 2023	**98,799**	**198,938**
of which vested	0	0
Fair value at Dec. 31, 2023 (in €)	8.06	2.48

A total expense of €225 thousand was incurred under this plan in fiscal 2023. This figure is the balance of expenses of €419 thousand in original commitments plus income of €194 thousand from hedging the commitments until the Company ceased to utilize cash flow hedges. Provisions totaled €637 thousand as of December 31, 2023.

MANAGEMENT INCENTIVE PLAN 2021

Rights under Management Incentive Plan 2021 (MIP 2021) were allocated to employees in July 2021.

The plan consists solely of RSARs which were issued in three tranches of varying terms. The disbursement amount for the RSARs is based solely on the Software AG share price during a reference period at the end of the relevant term and is capped at three-times the allocation with respect to the entire plan.

	RSARs	RSARs	RSARs
Term (disbursement date)	July 2022	July 2023	July 2024
Outstanding as of Dec. 31, 2022	**0**	**64,139**	**64,139**
expired in 2023	0	-5,472	-7,919
disbursed in 2023	0	-58,667	0
Outstanding as of Dec. 31, 2023	**0**	**0**	**56,220**
of which vested	n/a	0	0
Fair value as of Dec. 31, 2023 (in €)	n/a	n/a	32.00

A total expense of €1,425 thousand was incurred under this plan in fiscal 2023. This figure is the balance of expenses of €1,597 thousand in original commitments plus income of €172 thousand from hedging the commitments until the Company ceased to utilize cash flow hedges. Provisions totaled €1,427 thousand as of December 31, 2023.

MANAGEMENT INCENTIVE PLAN 2020

Rights under Management Incentive Plan 2020 (MIP 2020) were allocated to Management Board members and employees in June 2020. The plan vested in June 2023, with no rights outstanding as of December 31, 2023.

A total expense of €560 thousand was incurred under this plan in fiscal 2023. This figure is the balance of an expense of €1,532 thousand in original commitments and income of €972 thousand from hedging the commitments until the Company ceased to utilize cash flow hedges.

MANAGEMENT INCENTIVE PLAN 2019

Rights under the Management Incentive Plan 2019 (MIP 2019) were allocated to members of the Management Board and employees in May and June 2019. The plan differentiates between PSARs and RSARs.

The number of PSARs (1) relevant to disbursement is based on the number of rights allocated times a factor which is the result of the performance of Software AG's share price relative to the the Nasdaq-100 price index. The resulting factor is a minimum of 0 in the case of outperformance of less than 0 percent and 1 in the case of outperformance between 0 and 2 percent. It reaches a maximum of 2 in the case of outperformance of at least 20 percent. Between those values, the target achievement factor grows by 0.1 per outperformance increase of 2 percentage points. Dividend payments are not taken into account when calculating the factor. The disbursement amount for PSARs (1) is determined based on reference prices at the beginning and end of the four-year term and is capped at three-times the allocation.

The number of RSARs allocated to the Management Board in a four-year term and to employees in four tranches of varying terms does not change during the term. The disbursement amount for RSARs is based solely on the Software AG share price during a reference period at the end of the relevant term and is capped at three-times the allocation with respect to the sum of the four RSAR tranches.

Disbursement of the first and second tranches of employee RSARs occurred in previous years. Disbursement of the third and final tranche of employee RSARs occurred in the second quarter of 2023 based on a reference price of €31.14.

Total income of €157 thousand was incurred under this plan in fiscal 2023. This figure is the balance of income of €580 thousand in original commitments and €423 thousand in expenses from hedging the commitments until the Company ceased to utilize cash flow hedges.

PERFORMANCE PHANTOM SHARE PLAN

A portion of the variable Management Board remuneration is paid out as a medium-term component on the basis of a PPS plan. As in the previous year, the portion accruing for fiscal year 2023 was converted into PPS on the basis of the average Software AG share price less 10 percent as of February 2023. At the end of the four-year term, the resulting number of shares is settled in cash based on the average Software AG share price in February at the end of the term.

Additionally, there are PPS for which the number of shares is divided into three equal tranches with terms of one, two, and three years. These PPS become due at the end of the respective term and are likewise multiplied by the average Software AG share price in the February at the end of the term. When PPS become due for the first time after the described vesting period, beneficiaries can reinvest them for up to six years and four months after leaving the Company to continue participating in its success. All PPS that have not yet been disbursed as of January 15 of the seventh year after having left the Company become due for disbursement no later than the trading day following the release of the preliminary first-quarter figures. At this point, or if exercised previously, the number of PPS is multiplied by the average Software AG share price on the sixth to tenth trading days. The decision regarding the possibility to exercise each quarter must be disclosed to the Company between the date of publication of the financial results and the following fifth trading day. Beneficiaries receive an amount per PPS equal to the dividends paid to Software AG shareholders prior to the disbursement date for these PPS. The disbursement amount is capped at twice the allocation for all PPS.

A total expense of €4,105 thousand (2022: €1,755 thousand) was incurred under this plan in fiscal 2023. This figure is the balance of expenses of €8,817 thousand (2022: income of €4,565 thousand) in original commitments plus income of €4,712 thousand (2022: expense of €6,320 thousand) from hedging transactions with banks for the commitments until the Company ceased to utilize cash flow hedges. Provisions for the rights outstanding under the PPS plan amounted to €7,455 thousand (2022: €15,661 thousand) as of December 31, 2023. The intrinsic value of the exercisable rights under the PPS plan as of December 31, 2023, amounted to €2,911 thousand (2022: €10,821 thousand) as of December 31, 2023.

[34] CORPORATE BODIES

MEMBERS OF THE SUPERVISORY BOARD:

Christian Yannick Lucas MBA, Harvard Business School Shareholder representative	Managing Partner, Silver Lake
Other supervisory board and similar seats:	• *Member of the advisory board of Global Blue Group Holding AG, Eysins, Switzerland* • *Member of the advisory board of Claudius France SAS, Lyon, France* • *Chair of the advisory board of Mistral Midco SAS, Paris, France* • *Member of the advisory board of Mirakl SAS, Paris, France* • *Chair of the advisory board of Tangerine Holdco SpA, Luxembourg*
Oliver Collmann Graduate in business administration Shareholder representative	Partner and CEO of AVEGA Fund Services S.a.r.l., Luxembourg
Other supervisory board seats:	*none*
Madlen Ehrlich Graduate in international business Employee representative Deputy chair (until January 31, 2024)	Senior Director, Bid Operations and Sales Programs Software AG, Berlin, Germany
Other supervisory board seats:	*none*
Bettina Schraudolf Graduate in business information systems Employee representative Deputy chair (since February 1, 2024)	Chair of the Works Council Software AG, Darmstadt, Germany
Other supervisory board seats:	*none*
Ursula Soritsch-Renier Graduate in philosophy with a minor in computer science Shareholder representative	Group Chief Digital and Information Officer Saint Gobain, La Défense, France
Other supervisory board seats:	*none*
James Moon Whitehurst MBA, Harvard Business School Bachelor's degree in economics and computer science Shareholder representative since January 1, 2023	Interim CEO, Unity Technologies, and consultant for Silver Lake
Other supervisory board and similar seats:	• *Non-executive director of the board of directors of United Airlines, Inc.* • *Non-executive director of the board of directors of Amplitude, Inc.* • *Non-executive director of the board of directors of Tanium Inc.* • *Member of the international advisory board of Banco Santander S.A.*

MEMBERS OF THE MANAGEMENT BOARD:

Sanjay Brahmawar MBA in finance and marketing and bachelor's degree in civil engineering Chair	Chief Executive Officer
Other supervisory board and similar seats:	• *Member of the foundation board of trustees of the Frankfurt School of Finance & Management, Frankfurt am Main, Germany* • *Member of the supervisory board of HERE Global B.V., Eindhoven, Netherlands (since January 1, 2023)* • *Member of the advisory board of ADAMOS GmbH, Darmstadt, Germany (until January 18, 2023)*
Daniela Bünger Master's degree in international marketing and bachelor's degree in international business studies Chartered Global Management Accountant (CGMA)	Chief Financial Officer
Other supervisory board and similar seats:	*none*
Joshua Husk MBA in global management and bachelor's degree in business management	Chief Revenue Officer
Other supervisory board and similar seats:	*none*
Dr. Benno Quade PhD in law	Chief Operating Officer
Other supervisory board and similar seats:	*none*
Dr. Stefan Sigg PhD in mathematics	Chief Product Officer
Other supervisory board and similar seats:	• *Member of the supervisory board of Deutsches Forschungszentrum für Künstliche Intelligenz GmbH (DFKI), Kaiserslautern, Germany* • *Member of the board of trustees of Fraunhofer Institute for Secure Information Technology SIT, Darmstadt, Germany* • *Member of the supervisory board of Fischer Information Technology AG, Radolfzell, Germany (until May 26, 2023)*

REMUNERATION OF THE MANAGEMENT BOARD PURSUANT TO SECTION 314(1), NO. 6 OF HGB

Total remuneration for the Management Board, including newly issued stock options, in fiscal 2023 was €9,335 thousand (2022: €11,576 thousand). For 2022, this included awards under the LIP 2022 stock option plan in the amount of €2,188 thousand. Management Board remuneration also includes the consideration for granted PPS totaling €2,416 thousand (2022: €1,128 thousand). Total remuneration under the PPS plan was €2,424 thousand (2022: €1,244 thousand) in fiscal 2023.

Remuneration for former Management Board members amounted to €1,214 thousand (2022: €1,404 thousand) in fiscal 2023. Pension provisions, offset against plan assets for this group of people, totaled €7,740 thousand (2022: €4,212 thousand). Pension obligations for former Management Board members amounted to €28,866 thousand (2022: €23,431 thousand). The increase resulted mainly from the changes in Management Board composition.

Software AG did not grant any advances or loans to Management Board members in fiscal 2023 or in fiscal 2022. Nor did it enter any contingent liabilities for these individuals.

REMUNERATION OF THE SUPERVISORY BOARD PURSUANT TO SECTION 314(1), NO. 6 OF HGB

Total remuneration for the Supervisory Board amounted to €353 thousand (2022: €360 thousand) in fiscal 2023. Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2023 or in fiscal 2022. Nor did it enter any contingent liabilities for these individuals.

[35] 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 its subsidiaries or is subject to control or significant influence by Software AG or its subsidiaries. In particular, this includes legal or natural persons holding a share in Software AG through which they have significant influence over Software AG, and the members of Software AG's corporate bodies, whose remuneration is specified in Note [34].

On April 21, 2023, Software AG entered into an investment agreement with Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C. Subsequently, the investor announced its intention to launch a voluntary public tender offer for all outstanding shares of Software AG. On September 28, 2023, Mosel Bidco SE successfully completed its voluntary public tender offer by transferring shareholders the offer price of €32.00 in return for each tendered share of Software AG. As of December 31, 2023, Mosel Bidco held 93.33 percent of all Software AG shares.

As a result of the change of control dated September 28, 2023, the respective change-of-control clauses contained in the financing contracts took effect whereby Silver Lake as bond subscriber was entitled to extraordinary termination rights of the convertible bonds. The early redemption of the convertible bonds consisted of the bonds' total face value of €344,300 thousand plus accrued interest, resulting in a total interest expense of €39,149 thousand under the convertible bond agreement in 2023.

In return, the Software AG received a parent loan from Mosel Bidco SE on October 2, 2023, to secure long-term financing for the Group. This resulted in a cash inflow of €417,620 thousand, consisting of a euro-denominated amount of €264,177 thousand and an US dollar-denominated amount of $167,175 thousand (see Note [21]). Total interest expenses under this new parent loan agreement amounted to €9,674 thousand in 2023. To compensate Software AG for the extraordinary interest expenses resulting from the refinancing transaction, the parent company also granted Software AG an interest credit note of €5,881 thousand which was recognized in other non-financial assets (see Note [15]).

Furthermore, under an advisory agreement concluded with Silver Lake dated December 13, 2021, Software AG incurred expenses of €1,607 thousand for out-of-pocket expenses in 2023.

DISCLOSURES ON REMUNERATION PAID TO RELATED PARTIES PURSUANT TO IAS 24

Parties related to Software AG also include the members of the Management Board and the Supervisory Board. Remuneration paid to the Management Board can be broken down as follows:

in € thousands	2023	2022
Short-term benefits	6,726	5,837
Termination of service benefits	0	1,000
Post-service benefits	185	1,308
Share-based remuneration	5,439	-933
	12,350	**7,212**

Net pension assets with respect to Management Board members amounted to €852 thousand (2022: €2,086 thousand). Gross pension obligations with respect to Management Board members amounted to €1,841 thousand (2022: €2,186 thousand). The decrease resulted mainly from the changes in Management Board composition.

Furthermore, obligations from share-based compensation plans, including bonuses converted to PPS at year-end, for members of the Management Board amounted to €7,653 thousand (2022: €6,770 thousand). Obligations from short-term variable remuneration components for members of the Management Board amounted to 2,973 thousand (2022: €1,738 thousand).

Remuneration to the members of the Supervisory Board in fiscal year 2023 totaled €353 thousand (2022: €360 thousand). This remuneration included a fixed short-term component and compensation for committee work.
Total remuneration for members of the Management Board and Supervisory Board amounted to €12,703 thousand (2022: €8,224 thousand).

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2023.

[36] AUDITOR FEES

On May 17, 2023, the shareholders of Software AG elected Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte) as auditor of the Consolidated Financial Statements for the 2023 fiscal year. General and administrative expenses include total fees to Deloitte in the amount of €1,152 thousand. Of this amount, €1,140 thousand relate to financial statement audit services and €12 thousand to other attestation services.

[37] EVENTS AFTER THE BALANCE SHEET DATE

On December 18, 2023, Mosel Bidco SE announced a public delisting tender offer which was completed on February 23, 2024.

Furthermore, Mosel Bidco SE notified the Management Board of Software AG on January 19, 2024, of the formal request pursuant to section 62(1 and 5), sentence 1 of the German Transformation Act (Umwandlungsgesetz–UmwG) in conjunction with sections 327a et seq. of the German Stock Corporation Act (Aktiengesetz – AktG), art. 9(1, lit. c) SE Regulation, to carry out the procedure for the transfer of the shares of Software AG's minority shareholders against payment of an appropriate cash compensation in connection with a merger of Software AG into Mosel Bidco by way of absorption (so-called merger squeeze-out) and, for this purpose, to have Software AG's Annual Shareholders' Meeting resolve the transfer of the shares of Software AG's minority shareholders within three months after conclusion of the merger agreement. The merger agreement will contain a declaration pursuant to section 62(5), sentence 2 UmwG, according to which Software AG's minority shareholders as the transferring legal entity are to be excluded in connection with the merger. Mosel Bidco will announce at a later date the amount of the appropriate cash consideration which Mosel Bidco will grant to the remaining shareholders of Software AG for the transfer of their shares.

[38] EXEMPTION FOR DOMESTIC GROUP COMPANIES PURSUANT TO SECTION 264(3) OF HGB

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, Germany; SAG Consulting Services GmbH, Darmstadt, Germany; Cumulocity GmbH, Düsseldorf, Germany; and SAG LVG mbH, Darmstadt, Germany, which are included in the Consolidated Financial Statements of Software AG, have been exempt from the duty to prepare and publish annual financial statements and a management report, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with section 264(3) of HGB.

DATE AND AUTHORIZATION OF ISSUE

Software AG's Management Board approved the Consolidated Financial Statements on March 12, 2024.

Darmstadt, March 12, 2024
Software AG

S. Brahmawar

D. Bünger

J. Husk

Dr. B. Quade

Dr. S. Sigg

AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT P. 156

INDEPENDENT AUDITOR'S REPORT

To Software Aktiengesellschaft, Darmstadt/Germany

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Software Aktiengesellschaft, Darmstadt/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at December 31, 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2023, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of Software Aktiengesellschaft, Darmstadt/Germany, for the financial year from January 1 to December 31, 2023. In accordance with German legal requirements, we have not audited the content of the combined non-financial statement pursuant to Sections 289b and 315b German Commercial Code (HGB) included in the section "Combined Non-Financial Statement" of the combined management report, nor have we audited the content of the combined corporate governance statement pursuant to Sections 289f and 315d HGB referred to in the section "Corporate Governance Statement" of the combined management report. In addition, we have not audited the content of the executive directors' assessment on the appropriateness and effectiveness of the entire internal controls and the risk and opportunity management system marked as unaudited and included in the section "Opportunity and Risk Report", subsection "Position Taken by the Management Board in Accordance with the German Corporate Governance Code" included in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2023 and of its financial performance for the financial year from January 1 to December 31, 2023, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the aforementioned combined statements nor does it cover the aforementioned statement of the executive directors on the appropriateness and effectiveness of entire internal controls and the risk and opportunity management system.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the combined non-financial statement pursuant to Sections 289b to 289e and 315b and 315c HGB, which is contained in the section "Combined Non-Financial Statement" of the combined management report,
- the combined corporate governance statement pursuant to Sections 289f and 315d HGB, which is referred to in the section "Corporate Governance Statement" of the combined management report,
- the executive directors' assessment on the appropriateness and effectiveness of the entire internal controls and the risk and opportunity management system marked as unaudited and included in the section "Opportunity and Risk Report", subsection "Position Taken by the Management Board in Accordance with the German Corporate Governance Code" included in the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. The executive directors and the supervisory board are responsible for the statement according to Section 161 German Stock Corporation Act (AktG) concerning the German Corporate Governance Code, which is part of the combined corporate governance statement. Otherwise, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and of the Combined Management Report Prepared for Publication Pursuant to Section 317 (3a) HGB

Audit Opinion
We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance whether the electronic reproductions of the consolidated financial statements and of the combined management report (hereinafter referred to as “ESEF documents”) prepared for publication, contained in the file, which has the SHA-256 value d63ad91fb3e748427b035a0696de7a17b4ac78c30cdc456dd3f188be8af42c08, meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB (“ESEF format”). In accordance with the German legal requirements, this audit only covers the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format, and therefore covers neither the information contained in these electronic reproductions nor any other information contained in the file identified above.

In our opinion, the electronic reproductions of the consolidated financial statements and of the combined management report prepared for publication contained in the file identified above meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from January 1 to December 31, 2023 contained in the “Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report” above, we do not express any assurance opinion on the information contained within these electronic reproductions or on any other information contained in the file identified above.

Basis for the Audit Opinion
We conducted our audit of the electronic reproductions of the consolidated financial statements and of the combined management report contained in the file identified above in accordance with Section 317 (3a) HGB and on the basis of the IDW Auditing Standard: Audit of the Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB (IDW AuS 410 (06.2022)). Our responsibilities in this context are further described in the “Group Auditor’s Responsibilities for the Audit of the ESEF Documents” section. Our audit firm has applied the requirements of the IDW Quality Management Standards.

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents
The executive directors of the parent are responsible for the preparation of the ESEF documents based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements for the electronic reporting format pursuant to Section 328 (1) HGB.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, on the technical specification for this electronic file.
- evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited combined management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as with the audited ESEF documents. The consolidated financial statements and the combined management report converted into the ESEF format – including the versions to be submitted for inclusion in the Company Register – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the audited ESEF documents made available in electronic form.

Frankfurt am Main/Germany, March 12, 2024

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:	Signed:
Kirsten Gräbner-Vogel	Sebastian Zandt)
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

ADDITIONAL INFORMATION

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group. The Combined Management Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal opportunities and risks associated with the expected development of the Company and Group.

Darmstadt, March 12, 2024
Software AG

S. Brahmawar	D. Bünger	J. Husk	Dr. B. Quade	Dr. S. Sigg

FIVE-YEAR SUMMARY

Key Group Figures

in € millions (unless otherwise stated)	2023	2022 Restated[2]	2021	2020	2019
Revenue	**1,000.3**	**973.6**	**833.8**	**834.8**	**890.6**
By type					
Product revenue	843.7	811.0	684.0	671.1	702.8
thereof licenses	361.6	329.9	240.5	217.2	245.1
thereof maintenance	383.7	405.3	399.4	422.6	435.0
thereof SaaS	98.4	75.8	44.1	31.3	22.7
Services and other revenue	156.5	162.6	149.8	163.7	187.8
By business line					
Digital Business	597.1	559.9	469.5	448.5	474.5
Adabas & Natural (A&N)	246.6	251.1	214.5	222.8	228.9
Professional Services	156.6	162.6	149.8	163.6	187.2
EBIT[1]	**74.8**	**93.5**	**122.1**	**136.4**	**214.8**
as % of revenue	7.5	9.6	14.6	16.3	24.1
Net income	**-5.2**	**28.0**	**84.3**	**96.1**	**155.3**
as % of revenue	-0.52	2.9	10.1	11.5	17.4
Employees (FTE)	**4,707**	**4,996**	**4,819**	**4,700**	**4,948**
in Germany	1,182	1,306	1,385	1,314	1,278
Balance sheet					
Total assets	**2,364.6**	**2,690.9**	**2,221.4**	**2,039.9**	**2,116.1**
Cash and cash equivalents	130.0	427.1	585.9	480.0	513.6
Net cash position	-302.8	-240.0	277.3	220.1	217.0
Equity	1,456.7	1,521.5	1,438.2	1,312.5	1,357.5
as % of total assets	61.6	56.5	64.7	64.3	64.2

1 EBIT: net income + income taxes + other taxes + net financial income/expenses.
2 The Group changed its revenue recognition policy on determining significant financing components in 2023. The comparative information is presented on a restated basis. See Note 2b for details.

Publication Credits

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