Non-IFRS Financial Key Figures of Software AG

Background on using non-IFRS financial key figures

In the context of its standard and mandatory reporting, Software AG employs Alternative Performance Measures (APMs), which are not defined within the IFRS framework and which are published as non-IFRS financial key figures.

On the one hand, Software AG uses these non-IFRS financial key figures as major performance indicators for internal group controlling as well as for variable management compensation. On the other hand, these financial figures aim at increasing comparability with other companies.

Non-IFRS financial key figures serve as additional information as presented in the consolidated financial statement in accordance with IFRS financial figures. The APMs used will be described and explained in the following section:

Definition of non-IFRS financial key figures applied

Constant currency key figures

The revenue development is of paramount interest. However, for non-EUR countries the change of revenue over the previous year comprises a quantity component and a foreign exchange component. The foreign exchange component results from the conversion of revenue generated in foreign currencies into Euros. Year-on-year currency adjustments lead to a translation effect which changes the euro revenue figures, but yet has no bearing on the operating activities of the respective distribution region. Accordingly, the foreign exchange rate adjustment of the revenue figures allows for greater transparency in determining commercial success in the context of both internal and external reporting

In addition, Software AG publishes information on individual earnings figures.

Currency adjusted revenue and result figures are calculated by converting revenue and result numbers using the respective average exchange rate of the comparative period instead of applying the exchange rate of the current reporting period.

Revenue (non-IFRS)

In accordance with IFRS, contracts obtained in an acquisition are accounted at fair value as of the acquisition date. In subsequent periods, the respective revenue will not be shown in full and does not correspond to the revenues the acquired company would have reported if it had not been taken over by Software AG.

Accordingly, the IFRS revenue figures will be adjusted by acquisition-related reductions of product revenues.

EBIT (before all taxes)

Software AG defines EBIT (before all taxes) as follows:

Net income
\+ Income taxes
\+ Other taxes
\+ Net financial income / expense
= **EBIT (before all taxes)**

EBITA (non-IFRS) Margin

The focus of intragroup controlling is on operating margin EBITA (non-IFRS).

The operating margin EBITA (non-IFRS) is calculated as follows:

EBITA (non-IFRS)
÷ Group revenue (non-IFRS)
= **EBITA (non-IFRS) margin**

The **Operating result EBITA (non-IFRS)** is calculated as follows:

Earnings before all taxes and financial result (EBIT (before all taxes))
\+ Amortization of acquisition-related intangible assets
\+ Acquisition-related decreases in product revenue due to purchase price allocation
+/- Other acquisition-related effects on earnings
+/- Income/expenses resulting from share-price-based remuneration
\+ Expenses from restructuring and severance expense
+/- Extraordinary litigation/other one-time effects
= **Operating EBITA (non-IFRS)**

Net Income (non-IFRS)

The net income (non-IFRS) is calculated as follows:

EBITA (non-IFRS)
+/- Net financial income (IFRS)
+/- Other taxes (IFRS)
+/- Imputed income tax rate based on effective income tax rate
= **Net income (non-IFRS)**

<u>Earnings per share (non-IFRS)</u>

The earnings per share (non-IFRS) are calculated as follows:

Net income (non-IFRS)

÷ Weighted average shares outstanding (undiluted)

= **Earnings per share (Non-IFRS)**

<u>Free Cash Flow</u>

Software AG defines free cash flow as follows:

Net cash provided by operating activities

- Net cash used in investing activities

+ Payments for investments in current financial assets

- Proceeds from sale of current financial assets

- Proceeds from the sale of property, plant and equipment/intangible assets

+ Payment for acquisitions, net

= **Free cash flow**

<u>Net liquid assets, respectively net debt</u>

Software defines net cash position or rather net debt as follows:

Cash and cash equivalents

- Current financial liabilities

- Non-current financial liabilities

= **Net liquid assets / net debt**

<u>Indicators of the segment report</u>

Software AG reports on the following three company segments:

- **Digital Business Platform** (DBP: Integration, Business Process Management and Big Data, essentially with product families webMethods, ARIS, Alfabet, Apama, Terracotta, Zementis and Cumulocity)
- **Adabas & Natural** (A&N: Data Management with product families Adabas-Natural)
- **Consulting** (Implementation of Software AG products)

Expenses pertaining to amortization on acquisition-related intangible assets are not included in the segment contributions. They are separately shown in a cumulated transition column. Research and development expenses are distributed on the basis of allocable expense components and quota bearing overheads across the segments.

The indicators of segment reporting are calculated as follows:

Licenses
+ Maintenance
= **Product revenue** (from product segments DBP and A&N only)
+ Services
+ Other
= **Total revenue**
- Cost of sales
= **Gross profit**
- Sales, marketing and distribution expenses
= **Segment contribution**
- Research and development expenses
= **Segment earnings**

The calculation of the Services segment starts with the Services revenue row because this segment generates neither license nor maintenance revenues.

The respective **segment margin** is calculated as the ratio of the segment earnings to the total revenue of the respective segment.

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