

# Corporate Governance Report

All information contained in this statement on corporate governance reflects the situation as of February 10, 2015.

## Basic understanding

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

## The Management and Supervisory Boards

### Management Board

The Management Board leads the Company with the goal of sustainable value creation. The members of the 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 currently consists of four members. The Management Board members are Karl-Heinz Streibich, Arnd Zinnhardt, Dr. Wolfram Jost and Eric Duffaut.

#### Karl-Heinz Streibich

Born in 1952, degree in communications engineering, Chairman of the Management Board/Chief Executive Officer of Software AG since September 2003. His term is in effect until 2018. He is responsible for the following corporate functions: Corporate Communications, Global Legal, Global Audit, Processes & Quality, Corporate Office, Global Information Services, Corporate University and Top Management Development.

Mr. Streibich is a member of the supervisory board of Deutsche Telekom AG, Dürr AG and Deutsche Messe AG (not publicly listed). He serves on a volunteer basis on the steer-

ing committee of the German BITKOM IT association. He also co-chairs the German Chancellor's National IT Summit's working group 3, "Innovative State IT Offerings." Mr. Streibich is also a co-founder of the German cluster of excellence for software and a member of the Council of the Economy and Future of the Hessian state government.

#### Arnd Zinnhardt

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

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba). He is also a member of the Investment Committee of MainIncubator GmbH, Frankfurt.

#### Dr. rer. nat. Wolfram Jost

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

#### Eric Duffaut

Born in 1962, member of the Management Board since October 2014. Mr. Duffaut is responsible for Global Sales, Consulting Services and Marketing. His term is in effect until 2019.

### Supervisory Board

The Supervisory Board appoints, monitors and advises the Management Board. The Management Board reports to the Supervisory Board regularly, in a timely manner and comprehensively on the Company's performance, strategy, planning, the risk situation, risk management and compliance. The Supervisory Board determines the remuneration of the members of the Management Board in accordance with the proposal of the Committee for Compensation and Succession Issues, decides on the Management Board's remuneration system and reviews it regularly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, leads its meetings and maintains contact with the Chairman

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

In fiscal year 2014, the following were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, production director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (representative of Software AG Foundation), Hermann Requardt (member of the management board of Siemens AG, CEO of Healthcare, director of Corporate Technology), Anke Schäferkordt (member of the management board of Bertelsmann AG; CEO, RTL Group) and Alf Henryk Wulf (chairman of the board of Alstom Deutschland AG).

The employees of Software AG and its subsidiaries in Germany elected their representatives to the Supervisory Board on August 27, 2010. In the year under review, the following were employee representative members to the Supervisory Board: Maria Breuing (appointed by court as of June 26, 2014), Peter Gallner (trade union secretary of Vereinte Dienstleistungsgewerkschaft VERDI), Dietlind Hartenstein (employee of Software AG), Monika Neumann (Dep. Chairwoman of the Supervisory Board, employee of SAG Deutschland GmbH and Chairwoman of the Software AG General Works Council), Roland Schley (employee of Software AG) (left on May 31, 2014), Martin Sperber-Tertsunen (trade union secretary of IG Metall) and Karl Wagner (employee of Software AG).

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

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

In the past fiscal year, the Committee for Compensation and Succession Issues met six times and the Audit Committee twice. The Nominating Committee and the Strategy Committee did not convene in 2014. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

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

For more detailed information on the Supervisory Board's work and resolutions, please refer to the most recent Report of the Supervisory Board, which can be found on pp. 48 of this Annual Report. For more detailed information, including curricula vitae, on the members of the Supervisory Board and their committee membership, please visit [www.softwareag.com/corporate/company/people/svb](http://www.softwareag.com/corporate/company/people/svb).

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

associated with the two-tier governance structure of German Stock Corporation Law. The composition of the Supervisory Board reflects these goals.

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

At all times during fiscal year 2014, the Supervisory Board consisted of six independent members, which is the number determined by the Supervisory Board in accordance with point 5.4.2 of the German Corporate Governance Code.

Software AG maintains no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist.

The Management Board of Software AG is of the opinion that the Supervisory Board is not composed in accordance with the applicable legal regulations. Pursuant to section 7, paragraph 1, item 1 of the Codetermination Act and section 9, paragraph 1 of the Articles of Incorporation, the Supervisory Board currently consists of 12 members, of whom—pursuant to the Codetermination Act—six members are elected by shareholders and six by employees respectively. Software AG normally employs more than 500 people, though no more than 2,000 as defined by section 1, paragraph 1 of the One-Third Participation Act and section 1, paragraph 1 of the Codetermination Act. Therefore the One-Third Participation Act applies, not the Codetermination Act.

Accordingly, the Management Board is of the opinion that the Supervisory Board must be composed of two-thirds shareholder representatives and one-third employee representatives pursuant to section 1, paragraph 1, item 1 and section 4, paragraph 1 of the One-Third Participation Act in conjunction with sections 95, 96, paragraph 1 and section 101, paragraph 1 of the German Stock Corporation Act. The Management Board therefore initiated status proceedings pursuant to section 97 of the German Stock Corporation Act (AktG). This was communicated on January 2, 2015 in the

Federal Gazette and via notices in all corporate offices and affiliated companies. To the knowledge of the Management Board, the competent court in accordance with section 98, paragraph 1 of AktG was not called within the one-month period stipulated by section 97, paragraph 2 of AktG. Therefore, the new Supervisory Board must be composed in accordance with the provisions of the One-Third Participation Act. Section 9, paragraph 1, first-half sentence of Software AG's Articles of Incorporation stipulates that the Supervisory Board must consist of 12 members. As part of the required changes related to the transition to the One-Third Participation Act, the Management Board intends to propose to the Annual Shareholders' Meeting that the Supervisory Board be reduced to six members, of whom two must be employee representatives in accordance with section 4, paragraph 1 of the One-Third Participation Act.

The reelection of shareholder Supervisory Board members is scheduled for the Annual Shareholders' Meeting on May 13, 2015.

### Shareholders and Annual Shareholders' Meeting

The Annual Shareholders' Meeting is one of Software AG's main corporate bodies, through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including ratification of the actions of the Management and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation and measures that change the Company's capital. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business developments, financial performance, and assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 16, 2014 in Darmstadt. Approximately 95.94 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 13, 2015 in Darmstadt. As in past years, Software AG makes the invitation to the Annual Shareholders' Meeting, the legally mandatory reports and documents as well as the agenda available in a timely manner on its website at [www.softwareag.com/corporate/inv\\_rel/annualgenmeeting](http://www.softwareag.com/corporate/inv_rel/annualgenmeeting).

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

### Code of business conduct and ethics

Software AG established a code of business conduct and ethics in fiscal year 2011. It includes ethical standards applicable to the Company worldwide and is available on Software AG's website at [www.softwareag.com/corporate/inv\\_rel/csr/code\\_of\\_conduct](http://www.softwareag.com/corporate/inv_rel/csr/code_of_conduct). The code includes specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. In the year under review, 72 employees received certificates of successful completion of a course on the subject of the code. The Compliance Board meets monthly and makes decisions about questionable cases. In total, Software AG employees addressed the Compliance Board with 18 inquiries in 2014. The Compliance Board consisted of Ms. Christine Schwab (General Counsel), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Mr. Hanjörg Beger (Senior Vice President, Human Resources) in the year under review.

### Financial reporting standards and auditing

The 2014 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO), as Company auditor.

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

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

### Primary auditors' fees and services

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €794 thousand (2013: €921 thousand). Of this amount, €680 thousand (2013: €844 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €46 thousand (2013: €6 thousand) to tax advisory services, €68 thousand (2013: €71 thousand) to other testation services.

### Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. We participated in numerous investor conferences, road shows and other capital market events in fiscal year 2014.

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

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

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

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

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

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. Our performance in the most recent study, conducted in November 2014, received an overall rating of 2.6.

### Opportunities and risks

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

### Changing voting shares (pursuant to section 26, paragraph 1 of the Securities Trading Act [WpHG])

For information on Software AG's shareholder structure, please refer to the section on Software AG's Share. Disclosures on changes to voting shares in fiscal 2014 pursuant to section 26 (1) of the Securities Trading Act (WpHG) are published on the Software AG website at: [www.softwareag.com/corporate/inv\\_rel/stockinfo/wphg](http://www.softwareag.com/corporate/inv_rel/stockinfo/wphg)

### Directors' dealings (pursuant to section 15a of WpHG)

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

One reportable transaction was declared during the 2014 calendar year. For more information, please visit the Internet at: [www.softwareag.com/corporate/inv\\_rel/corgovernance/direct\\_deal](http://www.softwareag.com/corporate/inv_rel/corgovernance/direct_deal)

### Stock option plans

For details on our stock option plans and similar equity-based incentive programs, please refer to the complete Remuneration Report in the Management Report on page 90.

### Shareholdings of the members of the Management Board and Supervisory Board

#### Members of the Management Board

	Number of shares
Karl-Heinz Streibich	5,250
Arnd Zinnhardt	25,353
Dr. Wolfram Jost	0
Eric Duffaut	0

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

#### Members of the Supervisory Board

	Number of shares
Dr. Ing. Andreas Berezky	0
Willi Berchtold	0
Maria Breuing Heinz Otto Geidt	1,600
Hermann Requardt	0
Anke Schäferkordt	0
Alf Henryk Wulf	400
Monika Neumann	708
Peter Gallner	0
Dietlind Hartenstein	0
Karl Wagner	183
Martin Sperber Tersunen	0
<b>Total</b>	<b>2,891</b>

## Compliance with the German Corporate Governance Code

### Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 of AktG submitted by the Management Board and Supervisory Board of Software AG, Darmstadt

The Management Board and Supervisory Board hereby declare that in fiscal year 2014 (January 1 to December 31, 2014), all recommendations of the government commission's German Corporate Governance Code dated May 13, 2013 and June 24, 2014 were and are being followed with the exceptions described below. The Management Board and Supervisory Board would like to add the following:

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

Caps on long-term share-based remuneration (PPS and MIP) were instituted. For PPS the cap is 200 percent of the average issue price; for options under MIP III it is €45.00 per participation right; and for options under MIP IV it is €55.00 per participation right. This required amendments to existing plans and Management Board contracts. That required concessions regarding the program structure since the participants would not have otherwise agreed to the contractual amendments. In exchange for the introduction of caps on all three components of share-based remuneration, the PPS TecDAX adjustment was removed—conditional upon the conclusion of the year 2016. The term of MIP III was extended by three years until June 30, 2019. And, the additional exercise threshold for MIP IV of €60.00 was removed—given the exercise price of €41.34 is unchanged. The Supervisory and Management Boards are of the opinion that, in the case of at least the last one, this is a matter of a subsequent amendment to one of the performance targets. Such subsequent amendments are, pursuant to the Code (point 4.2.3, paragraph 2, sentence 8), not permitted. The Supervisory Board therefore considered at length which deviation from Code recommendations was more severe. It concluded that the introduction of specifically calculated caps on the individual remuneration components and total remuneration were more important. Accordingly, there are now caps on total remuneration as well. But a deviation from point 4.2.3, paragraph 2, sentence 8 regarding the removal of the €60.00 exercise threshold for MIP IV must be declared.

The newly approved Management Incentive Plan (MIP V) has only one performance target, namely a 30-percent increase in the Company's share price within a period of three years, whereby this price must be reached on a minimum of 10 consecutive days in the third year. The Supervisory Board and Management Board are of the opinion that this performance target covers other operational company targets. However, as a precautionary measure, they declare a deviation from point 4.2.3, paragraph 2, sentence 7.

Darmstadt, February 2, 2015

Software AG

The Management Board      The Supervisory Board