

CORPORATE GOVERNANCE REPORT

STATEMENT ON CORPORATE GOVERNANCE

All information contained in this Statement on Corporate Governance reflects the situation as of February 3, 2017.

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 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. The focus is on values such as sustainability, transparency and value orientation.

Corporate Bodies 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 stipulated 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 Supervisory Board resolved that members of the Management Board are not permitted to be older than 65. In the year under review, the Supervisory Board appointed a fifth member effective as of April 1, 2017. When this report was approved, the Management Board members were 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. Mr. Streibich is responsible for the following corporate functions: Global Human Resources, Global Legal, Global Information Services (IT), Corporate PR, Processes, Audits & Quality and Corporate Office. Due to the change in responsibility assignments resulting from the appointment of the new member of the Management Board, Mr. Streibich will be responsible for environmental, social and governance topics.

He is a member of the supervisory board of Deutsche Telekom AG, Dürr AG and Deutsche Messe AG. He serves on a volunteer basis on the steering committee of the German BITKOM IT association. He also co-chairs the German Chancellor's National IT Summit platform, "Digital Government and Public IT." Furthermore, Mr. Streibich is co-founder of the German Cluster of Software Excellence.

Arnd Zinnhardt Born in 1962, degree in business administration, member of the Software AG Management Board since May 2002. As Chief Financial Officer, Mr. Zinnhardt oversees Global Finance & Controlling, Corporate Investor Relations, Treasury, Global Procurement, Mergers & Acquisitions, Taxes and Business Operations. His term is in effect until 2021.

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba). He was also a member of the Investment Committee of Main Incubator GmbH, Frankfurt in the year under review.

Dr. rer. nat. Wolfram Jost Born in 1962, degree in business administration, member of the Software AG Management Board since August 2010. As Chief Technology Officer, Dr. Jost is responsible for Research & Development (until March 31, 2017), Product Management and Product Marketing. Due to the change in responsibility assignments, Dr. Jost will be in charge of the technological preparation of Mergers & Acquisitions, management of global CTO and the Sales Engineering Community, strategic customer projects and technology acquisitions. His term is in effect until 2018.

Eric Duffaut Born in 1962, member of the Software AG Management Board since October 2014. As Chief Customer Officer, Mr. Duffaut oversees all customer-facing operations including Sales, Partner Channel Development (as of April 1, 2017: Global Alliance & Channel), Marketing and Services (including Support). His term is in effect until 2019.

Dr. Stefan Sigg, born in 1965 with a degree in mathematics, will join the Management Board as of April 1, 2017. As Chief R&D Officer, he will be responsible for Research & Development.

Target Percentages for Women

In its meeting on July 30, 2015 the Supervisory Board established 0 percent as the target percentage for female members on the Management Board in accordance with section 111, paragraph 5 of the German Stock Corporation Act (AktG). The deadline by which this target must be reached is June 30, 2017; the current composition of the Management Board corresponds to this target.

In its meeting on July 2, 2015 the Management Board established targets for the percentage of women in the two management levels below the Management Board as well as corresponding deadlines for the fulfillment of these targets in accordance with the provisions of section 76 IV of AktG. The percentage of women in the first level of management directly below the Management Board must be 10 percent and in the second level 15 percent. The percentage of women in the first level of management was 12.5 percent at the end of the year under review. The percentage of women in the second level of management was 13.25 percent at the end of 2016. The deadline for meeting the aforementioned targets is June 30, 2017.

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.

Composition

The Supervisory Board of Software AG is composed in accordance with the regulations of the **One-Third Participation Act**. Representatives elected to the Supervisory Board on January 2, 2015 by the employees of the Software AG Group entitled to vote are Guido Falkenberg (Deputy Chairman, employee of Software AG) and Christian Zimmermann (employee of Software AG). Their term began upon conclusion of the Annual Shareholders' Meeting on May 13, 2015. Dr. Andreas Bereczky (CEO, production director at ZDF), Eun-Kyung Park (CEO, SevenOne AdFactory GmbH), Alf Henryk Wulf (CEO, GE Power AG) and Markus Ziener (Director, asset management, Software AG Foundation, Darmstadt) were elected as shareholder representatives to the Supervisory Board during the Annual Shareholders' Meeting on May 13, 2015. The term of the shareholder representatives began on May 27, 2015 upon entry of the amendment to the Articles of Incorporation in the Commercial Register regarding the composition of the Supervisory Board pursuant to the One-Third Participation Act.

Committees

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. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

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

The **Committee for Compensation and Succession Issues** prepares personnel-related decisions made by the Supervisory Board when they affect the remuneration, appointment, reappointment or dismissal of the members of the Management Board. The Committee for Compensation and Succession Issues has three members, one of which is an employee representative. In the past fiscal year, the Committee for Compensation and Succession Issues met three times.

The **Audit Committee** deals with issues related to financial reporting standards, financial auditing, risk management and compliance. The Audit Committee has three members, one of which is an employee representative. The Audit Committee met twice in fiscal year 2016.

The **Nominating Committee** nominates qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. It consists of three shareholder representatives. The Nominating Committee did not meet in 2016.

The members of the Supervisory Board evaluate the efficiency of their work annually. Each individual member completes 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 on p. 22 of this Annual Report. For more detailed information, including curricula vitae, on the members of the Supervisory Board and their committee membership, please visit SoftwareAG.com/svb.



The Supervisory Board defined the following targets for its membership composition: Members should be actively engaged in their careers when appointed 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, 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 limit on the terms of Supervisory Board members (for members elected in the future) is 15 years. In its meeting on January 28, 2016, the Supervisory Board determined the number of independent Supervisory Board members as defined in point 5.4.2 of the German Corporate Governance Code to be three, which still corresponds to 50 percent of the Supervisory Board members. The composition of the Supervisory Board reflects this target.

In its meeting on July 30, 2015, the Supervisory Board established 16.67 percent as the target percentage for female members on the Supervisory Board in accordance with section 111 (5) of the German Stock Corporation Act (AktG). The deadline for meeting this target is June 30, 2017. Through the election of Supervisory Board members, including Eun-Kyung Park, at the Annual Shareholders' Meeting on May 13, 2015, one woman was elected to the Supervisory Board, and thus the target of 1/6 has been met within the allotted period of time.

Aside from agreements related to employment contracts with the employee representatives, Software AG maintains no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist.

Shareholders and Annual Shareholders' Meeting

The **Annual Shareholders' Meeting** is one of 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, shareholders are informed of Software AG's business developments, financial performance, assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 31, 2016 in Darmstadt. Approximately 71.05 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 17, 2017 in Darmstadt.

Pursuant to the recommendations of the Corporate Governance Code, we conduct the Annual Shareholders' Meeting in an expedient manner, preferably within a time frame of four hours. To conduct the Annual Shareholders' Meeting efficiently, the chairperson has the option to cut short speakers who stray from the topic at hand and to refer to detailed information already published on the website. Shareholders who do not wish to exercise their voting rights may authorize a member of the Company to vote by proxy in accordance with the shareholder's instructions. Portions of the Annual Shareholders' Meeting are also broadcast via the Internet. The invitation to the Annual Shareholders' Meeting, the Annual Report and reports and documents required by law are published along with the agenda and the date of the Meeting on the Software AG website SoftwareAG.com/agm. 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 SoftwareAG.com/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, 578 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 61 inquiries in 2016. The Compliance Board consisted of Ms. Christine Schwab (Senior Vice President, Global HR), Mr. Frank Simon (Senior Vice President, Audit, Processes and Quality) and Dr. Benno Quade (Senior Vice President, Global Legal) in the year under review.



Reporting and Capital Market Communication

Financial Reporting and Auditing

The 2016 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. Non-audit services subject to approval may only be rendered by

BDO after January 1, 2017 if and provided they have been approved by the Audit Committee in accordance with the legally binding approval process. No business, financial, personal or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO, 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 totaling €845 thousand (2015: €701 thousand). Of this amount, €691 thousand (2015: €604 thousand) related to the audit of the Financial Statements of the domestic entities and the Group, €109 thousand (2015: €71 thousand) to other testation services and €45 thousand (2015: €26 thousand) to tax advisory 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 2016.

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, Software AG maintains electronic registries of persons with insider information who have been informed of their corresponding legal obligations by the Company.

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

Software AG is also in full compliance of the **Act on Electronic Commercial Registers, Registers of Cooperatives and Business Registers (EHUG)**, which came into force on January 1, 2007. As recommended, we send all documents requiring publication in electronic form to the operator of the electronic version of the Federal Gazette.

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 the financial calendar, which is also published on the Company's 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 October 2016, received a good overall rating of 2.14.

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 2016 pursuant to section 26 (1) of the Securities Trading Act (WpHG) are published on Software AG's website at SoftwareAG.com/votingrights.



Directors' Dealings (Pursuant to Article 19 of MAR)

Software AG also discloses personal business dealings conducted by any individuals who carry out management duties and by those closely related (natural or legal) to them, pursuant to the provisions of article 19 MAR (directors' dealings). These transactions can be viewed on our website within the legally required period of time.

No transactions subject to mandatory disclosure were declared in the 2016 calendar year. For more information, see SoftwareAG.com/director_dealings_en.



Opportunities and Risks

Software AG deals with opportunities and risks 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. Software AG's risk management system is presented in the "Opportunity and Risk Report" on p. 68 of 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.



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 p. 80.



Shareholdings of the Members of the Management Board and Supervisory Board

Management Board

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

Supervisory Board

Members of the Supervisory Board:	Number of shares
Dr. Ing. Andreas Berezcky	0
Alf Henryk Wulf	400
Eun-Kyung Park	0
Markus Ziener	400
Guido Falkenberg	0
Christian Zimmermann	0

Compliance with the German Corporate Governance Code

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

The Management Board and Supervisory Board hereby declare that in fiscal year 2015 (January 1, 2015 to December 31, 2015), all recommendations of the government commission's German Corporate Governance Code dated June 24, 2014 and May 5, 2015 were and are being followed with the exceptions described below. Please refer to the most recent Declaration of Compliance dated January 28/29, 2016 for the period from January 1, 2016 to January 28/29, 2016.

- (a) In deviation of point 4.2.3, paragraph 2, p. 6 of the German Corporate Governance Code, we have no caps in absolute terms on variable remuneration components, but rather caps are expressed as percentages, from which an absolute amount can be calculated. There is no explicit cap expressed as an absolute amount on total remuneration; for this reason, we are declaring a deviation from point 4.2.3, paragraph 2, p. 6 of the German Corporate Governance Code.
- (b) In deviation of point 4.2.3, paragraph 4, p. 1, p.3 and paragraph 5 of the German Corporate Governance, the severance payment in one Management Board member's contract is not limited to the remaining term of the contract; and the annual target salary in all Management Board members' contracts is the basis for calculating the severance caps (including severance caps in the event of a change in control), so as to provide a straightforward basis for calculation in the event someone leaves the Company mid-year.

Darmstadt, January 30/31, 2017

Software AG

The Management Board



Karl-Heinz Streibich
Chief Executive Officer

The Supervisory Board



Dr. Andreas Berezcky
Chairman of the
Supervisory Board