

# Corporate Governance Report

## Statement on Corporate Governance

All information contained in this statement on corporate governance reflects the situation as of January 31, 2020.

### 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.

### Software AG's 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 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 five members. The Supervisory Board resolved that members of the Management Board are not permitted to be older than 65. As of the release date of this report, the members of the Management Board were Sanjay Brahmawar, Dr. Elke Frank (since August 1, 2019), John Schweitzer, Dr. Stefan Sigg and Arnd Zinnhardt (until March 31, 2020).

**Sanjay Brahmawar**, born in 1970 (nationality: Belgian), holds an MBA in finance and marketing from the University of Leeds (U.K.) and a Bachelor's degree in civil engineering from Delhi College of Engineering (India) and has been CEO of Software AG since August 1, 2018. His term is in effect until 2023.

**Dr. Elke Frank**, born in 1971 (nationality: German), holds a doctoral degree in law (Dr. jur.) from Julius-Maximilians University in Würzburg, Germany, and has been a member of Software AG's Management Board since August 2019. She oversees Global Human Resources, Talent Management and Transformation, Global Legal and Global Information Services. Her term is in effect until 2024.

**John Schweitzer**, born in 1968 (nationality: USA), holds a Bachelor of Science in economics and finance from Northern Arizona University and has been a member of Software AG's Management Board since November 2018; as Chief Revenue Officer, he oversees Global Sales and Professional Services. His term is in effect until 2023.

**Dr. Stefan Sigg**, born in 1965 (nationality: German), holds a degree (Diplom and Dr. rer. nat.) in mathematics and has been a member of Software AG's Management Board since April 2017; as Chief Product Officer, he oversees Product Management, Research & Development and Global Support. His term is in effect until 2022.

**Arnd Zinnhardt**, born in 1962, holds a degree in business administration and has been a member of Software AG's Management Board since May 2002; as Chief Financial Officer, he oversees Global Finance & Controlling, Corporate Investor Relations, Treasury, Global Procurement, Mergers & Acquisitions, Taxes and Business Operations. His appointment to the Management Board will end prematurely on March 31, 2020.

Mr. Zinnhardt is a member of the advisory board of the Hessian Landesbank (Helaba) and of the supervisory board of Warth & Klein Grant Thornton AG (since October 7, 2019).

**Dr. Matthias Heiden**, born in 1972, holds a Higher National Diploma (BTEC) in business and finance from the European College of Business and Management, Suffolk College, U.K., a degree (Diplom) in business administration and a PhD (Dr. rer. Oec.) in business administration, both from the University of Saarland. As Chief Financial Officer, he will assume Mr. Zinnhardt's areas of responsibility.

## Diversity concept for the Supervisory Board and Management Board

In its meeting on December 19, 2019, the Supervisory Board reviewed the diversity concept for the Supervisory Board and Management Board, which was created in 2017. The Supervisory Board is certain that diversity is critical to Software AG's successful development. And, 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 below 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/cultures on the boards.

The Supervisory Board determined the following targets for caps on age and term length and the percentage of women:

Objective	Supervisory Board	Management Board
Age cap	70, 65 when elected	65
Maximum term	For all members elected after July 30, 2015: 15 For all other members: 20	unlimited
Target female percentage	16.70%	0%

<sup>1</sup> As per resolution from May 17, 2017 (refer to Target percentages for women)

Moreover, the Supervisory Board established targets for its member composition, which, supplemented by the following requirements that: a) a member of the Supervisory Board must have knowledge of financial reporting or financial auditing; b) the members as a whole must be informed on the sector to which the Company pertains (enterprise software), form a skill profile for the Supervisory Board and represent a component of the diversity concept for the Supervisory Board:

1. Members' professional backgrounds should be in one or more of the following fields:
  - a. ICT + media
  - b. Direct or indirect experience with enterprise IT and/or understanding of digitalization and enterprise software solutions
  - c. CTO or CR&DO of a large high-tech company
  - d. Knowledge of the demands of a medium-sized company
  - e. In-depth expertise in financial reporting or financial auditing
2. 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.
3. International experience

In summary, based on ongoing consideration of current business and strategic priorities, the Supervisory Board strives to achieve the widest possible spectrum of backgrounds in the composition of its boards so that they can use their diversity to form opinions and make the best possible decisions for Software AG. The Supervisory Board considers its skill profile and concrete targets for its composition to be met.

The Supervisory Board sees no reason to define a rigid skill profile for the Management Board. The Committee for Compensation and Succession Issues regularly evaluates the composition of the Management Board and compares the skills and experiences represented on the the Management Board with its current requirements. It is the judgment of the Committee for Compensation and Succession Issues of the Supervisory Board as to how the results of this comparison are handled. In selecting Dr. Elke Frank and Dr. Matthias Heiden as new members of the Management Board, the Committee for Compensation and Succession Issues also made sure that, based on current and future business development, an optimal range of skills and experiences is represented by the Management Board as a whole. Moreover, the Management Board targets for age limit and female percentage (for more details, continue reading) were met and/or exceeded.

## Target percentages for women

In its meeting on May 17, 2017, the Supervisory Board established 0 percent as the target percentage for female members on the Management Board. The deadline for meeting this target is April 30, 2022. The current composition of the Management Board exceeds this target by 20 percentage points.

Pursuant to section 76 IV of the German Stock Corporation Act (AktG), the Management Board defined targets for the quota of first and second-tier female managers below the Management Board in its meeting on July 20, 2017: 12 percent female managers in the first tier and 15 percent in the second tier below the Management Board. The deadline for meeting this target is June 30, 2022. The first level of management below the Management Board consisted of 11.9 percent (2018: 9.4 percent) women and the second consisted of 15.5 percent (2018: 16.9 percent) women as December 31, 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 chairperson of the Supervisory Board coordinates the work of the Supervisory Board, leads its meetings and maintains contact with the CEO between Supervisory Board meetings to discuss strategy, planning, business performance, the risk situation, risk management and compliance. The CEO informs him/her 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 by the employees of the Software AG Group entitled to vote on January 2, 2015 are Guido Falkenberg (Deputy Chair, employee of Software AG) and Christian Zimmermann (employee of Software AG). Their term began upon con-

clusion of the Annual Shareholders' Meeting on May 13, 2015. Of the shareholder representatives, Dr. Andreas Bereczky (CEO, ZDF, until December 2018, production director), Eun-Kyung Park (as of January 2020 SVP & General Manager, Media, The Walt Disney Company Germany GmbH), Alf Henryk Wulf (until December 2018 CEO, GE Power AG) and Markus Ziener (Director, asset management, Software AG Foundation, Darmstadt) were elected 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.

The Supervisory Board held a total of six regular meetings during the year under review. At least one session took place each quarter. In addition, the Supervisory Board held four extraordinary meetings. For three of them the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to hold meetings by telephone. The Supervisory Board also employed the circulation procedure to pass resolutions twice.

### 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 chairperson 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: Dr. Andreas Bereczky (chair) Guido Falkenberg (employee representative) and Alf Henryk Wulf (shareholder representative). The Committee for Compensation and Succession Issues convened for four ordinary and five extraordinary meetings in 2019. The Committee for Compensation and Succession Issues employed the circulation procedure to pass resolutions once.

The **Audit Committee** handles issues related to monitoring the financial reporting process, risk management, half-



year and quarterly reports, financial statement audits—particularly the independence of the auditor, the internal audit and compliance. The Audit Committee has three members: Eun-Kyung Park (chair), Christian Zimmermann (employee representative) and Markus Ziener (shareholder representative). The Audit Committee met twice in fiscal year 2019 and employed the circulation procedure to pass resolutions three times.

The **Nominating Committee** nominates qualified candidates for election to the Supervisory Board at the Annual Shareholders' Meeting. It consists of three shareholder representatives: Dr. Andreas Berezky (chair), Markus Ziener and Alf Henryk Wulf. The Nominating Committee met five times in the year under review.

The members of the Supervisory Board review the efficiency of their work (self-evaluation) 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 its committees, please refer to the Report of the Supervisory Board. For more detailed information on the current members of the Supervisory Board, including their curricula vitae and committee membership, please visit [www.softwareag.com/in/company/management/svb/default.html](http://www.softwareag.com/in/company/management/svb/default.html). The CVs are updated regularly—at least once per year.

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 was 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 was met within the allotted period of time. The Supervisory Board renewed 16.67 percent at its target in its meeting on May 17, 2017. The deadline for meeting this target is April 30, 2022.

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 December 19, 2019, the Supervisory Board assessed the independence of the shareholder representatives. Based on attendance numbers from the last three Annual Shareholders' Meetings,

the Supervisory Board determined that Software AG does not have a controlling shareholder with a sustainable Annual Shareholders' Meeting majority. The Supervisory Board does not consider Mr. Ziener's employment with the Software AG Foundation to be a dependency. The Supervisory Board also considers Dr. Berezky, Ms. Park and Mr. Wulf to be independent. The Supervisory Board does not consider the length of service to the Supervisory Board of Dr. Berezky or Mr. Wulf alone as decisive in any sort of dependency. Additional factors speaking against a dependency is that all seats on the Management Board have been filled with new members since April 2017, and that—except for employment contracts with employee representatives—Software AG does not maintain direct or indirect business relationships with any members of the Supervisory Board. 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. In accordance with a binding financial calendar, shareholders are informed regularly of Software AG's business developments, financial performance, assets and financial position four times per year. The most recent Annual Shareholders' Meeting was held on May 30, 2019 in Darmstadt. Approximately 64.8 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 20, 2020 in Darmstadt.

Pursuant to the recommendations of the Corporate Governance Code, Software AG conducts 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, the Annual Report and other legally mandatory reports and documents, such as the agenda, are readily available on



the Software AG website as of the date of the invitation (<https://investors.softwareag.com/en/events/annual-general-meeting>). The resolutions adopted by previous shareholders' meetings as well as the quarterly reports of preceding fiscal years can also be found there.

### Compliance management system

Software AG has an effective and efficient compliance management system that serves as part of Software AG's Global Code of Business Conduct and Ethics. The Compliance Board reports to the CEO. It initiates and orchestrates measures to ensure strict compliance management at Software AG.

### 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 <https://investors.softwareag.com/en/corporate-governance/csr>. The code includes specific regional aspects. The code is binding for all employees of Software AG and its subsidiaries. In the year under review, 670 (2018: 605) new 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.

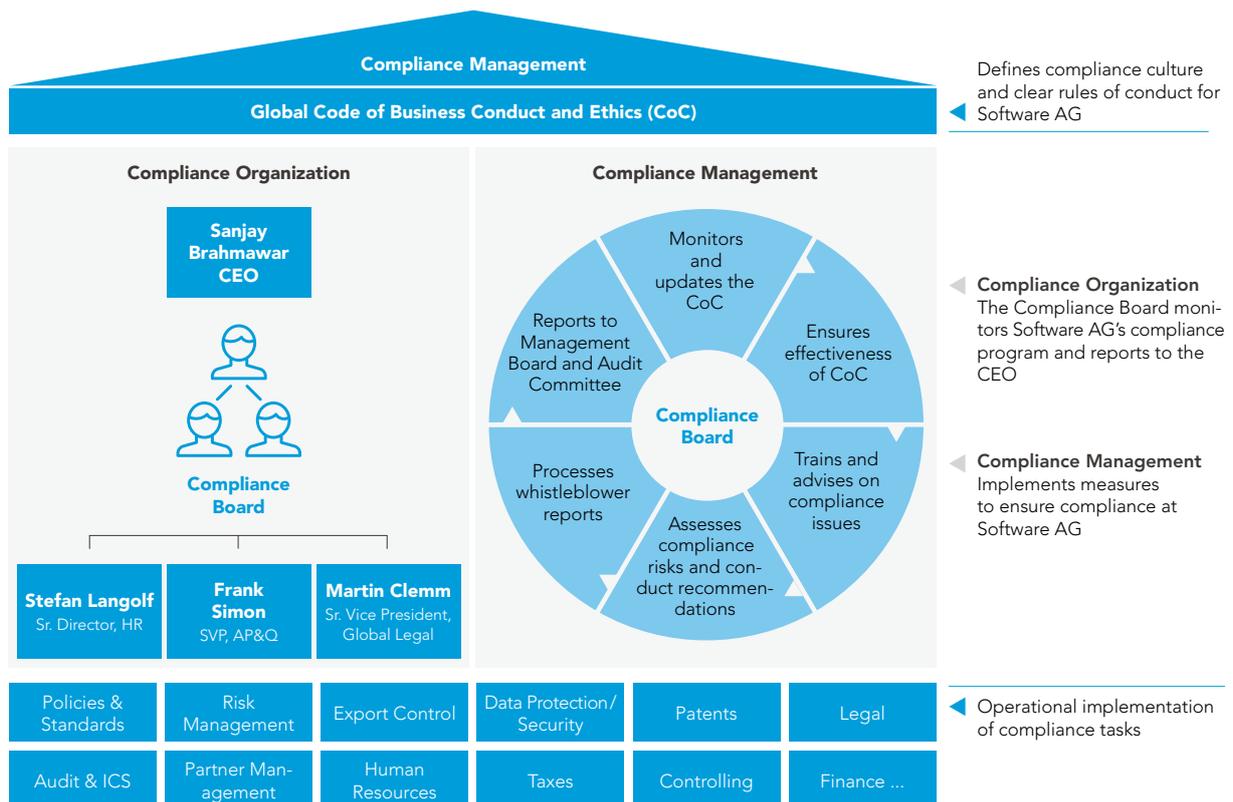
### Compliance Board

In total, employees of Software AG filed 36 (2018: 68) inquiries and external parties filed one inquiry with the Compliance Board in 2019. In the year under review, the Compliance Board consisted of:

- Christine Schwab (until August 2019); as of September 2019, Stefan Langolf (Senior Director, HR)
- Frank Simon (Senior Vice President, Audit, Processes and Quality)
- Dr. Benno Quade (until Mai 2019); as of June 2019, Martin Clemm (Senior Vice President, Global Legal & General Counsel)

There is an email address on the Software AG Intranet and Internet for anyone who wishes to send an (anonymous) message to the Compliance Board. Both internal and external parties made use of this option during the year under review.

### Software AG's Compliance Management System



## Financial Reporting and Auditing

The 2019 Annual Shareholders' Meeting again appointed BDO Wirtschaftsprüfungsgesellschaft, Hamburg (hereinafter referred to as BDO AG), as **company auditor**.

BDO AG also advises the company on individual tax matters in connection with tax returns and tax audits. As of January 1, 2017, non-audit services subject to approval may only be rendered by BDO AG 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 AG, 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 chairwoman of the Audit Committee, appointed the auditor and agreed on the fee. In connection with the awarding of the contract, the chairwoman of the Audit Committee has also agreed with the auditor to comply with the reporting duties pursuant to the German Corporate Governance Code. BDO AG 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 AG's independence before it commissioned the firm.

### Primary auditors' fees and services

#### Software AG Group

Software AG's general and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €958 thousand (2018: €923 thousand). Of this amount, €916 thousand (2018: €867 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €35 thousand (2018: €34 thousand) to other testation services, and €0 (2018: €31 thousand) to tax advisory services.

#### Separate financial statements of Software AG (parent company)

Total expenses for the financial auditors and Group financial auditors from BDO AG were €958 thousand (2018: €932 thousand) in fiscal 2019. These fees consist of €923 thousand (2018: €867 thousand) for the audit of the financial statements, €35 thousand (2018: €34 thousand) for miscellaneous testation services, and €0 (2018: €31 thousand) for tax advisory services. To ensure comparability, last year's figures were adjusted to the allocation requirements of the IDW HFA 36 (IDW = Institute of Public Auditors in Germany).

## Capital market communication

### Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner with all market participants. The Company participated in numerous investor conferences, road shows and other capital market events in fiscal year 2019.

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 it handles 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.

Software AG uses a suitable service provider for publicizing mandatory disclosures throughout Europe. All ad hoc releases are published 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. All documents requiring publication in electronic form are sent to the operator of the electronic version of the Federal Gazette, as required.

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 website <https://investors.softwareag.com/en/events/financial-calendar>.

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive its financial communication. Critique and suggestions provide motivation for further improvement. Its performance in the most recent study, conducted in October 2019, received a good overall rating of 2.35.

### Changing voting shares (pursuant to section 40, 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 2019 pursuant to section 40 (1) of the Securities Trading Act (WpHG) are published on the Software AG website at <https://investors.softwareag.com/en/financial-news>

### Directors' dealings (pursuant to art. 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 art. 19 MAR (directors' dealings). These transactions can be viewed on the Company website within the legally required period of time.

No reportable transactions were declared during the 2019 calendar year. For more information, please visit the Internet at <https://investors.softwareag.com/en/financial-news>

## 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. Opportunities that are strategic to the Company are described in the Outlook section of the Management Report. Please refer to the Notes to the Consolidated Financial Statements for information on the Group's consolidated financial reporting.

## Stock option plans

For details on Software AG's stock option plans and similar equity-based incentive programs, please refer to the complete Remuneration Report which is presented in the Management Report.

## Shareholdings of the members of the Management Board and Supervisory Board as of January 31, 2020

### Management Board

Members of the Management Board:	Number of shares
Sanjay Brahmawar	0
John Schweitzer	0
Dr. Stefan Sigg	0
Arnd Zinnhardt	25,353

### Supervisory Board

Members of the Supervisory Board:	Number of shares
Dr. Andreas Bereczky	0
Alf Henryk Wulf	400
Eun-Kyung Park	0
Markus Ziener	0
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 (GCGC)

The Management Board and Supervisory Board hereby declare that, since the last Declaration of Compliance was submitted on January 30/February 1, 2019, the recommendations of the government commission's GCGC dated February 7, 2017 were followed and the recommendations from the code dated February 7, 2017 will be followed in the future, with the following exceptions:

- (a) In deviation of point 4.2.3, paragraph 2, p. 6 of the GCGC, there are no caps in absolute terms on variable remuneration components in place, 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, Software AG is declaring a deviation from point 4.2.3, paragraph 2, p. 6 of the GCGC as a precautionary measure.
- (b) In deviation of point 4.2.3, paragraph 4, p. 1, p.3 and paragraph 5 of the GCGC, 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 28/February 1, 2020

Software AG

The Management Board



**Sanjay Brahmawar**  
Chief Executive Officer

The Supervisory Board



**Dr. Andreas Bereczky**  
Chairman of the  
Supervisory Board