WIN TOGETHER IN THE DIGITAL WORLD

2016 ANNUAL REPORT

KEY FIGURES

in € millions (unless otherwise stated)	**2016**	**2015**	**Δ as %**	**Δ as % acc***	**Q4 2016**	**Q4 2015**	**Δ as %**	**Δ as % acc***
Revenue	**871.8**	**873.1**	**0%**	**1%**	**263.9**	**257.5**	**3%**	**2%**
Licenses	263.0	271.9	–3%	–3%	107.5	103.0	4%	2%
Maintenance	412.2	406.9	1%	3%	106.2	102.6	4%	3%
DBP business line	441.4	431.5	2%	3%	144.4	137.6	5%	4%
A&N business line	234.6	248.0	–5%	–4%	69.5	68.2	2%	0%
Operating EBITA (non-IFRS)	**272.0**	**259.1**	**5%**		**90.2**	**92.2**	**–2%**	
as % of revenue	31.2%	29.7%			34.2%	35.8%		
DBP segment earnings	147.8	125.2	18%	20%	59.4	60.8	–2%	–3%
Segment margin	33.5%	29.0%			41.1%	44.2%		
A&N segment earnings	162.4	173.6	–6%	–5%	46.4	44.2	5%	3%
Segment margin	69.2%	70.0%			66.8%	64.9%		
Net income (non-IFRS)	**180.4**	**173.9**	**4%**		**61.1**	**64.8**	**–6%**	
Earnings per share (non-IFRS)**	**2.37**	**2.22**	**7%**		**0.80**	**0.84**	**–5%**	
Free cash flow	**187.0**	**170.0**	**10%**		**41.6**	**41.2**	**1%**	
CapEx***	16.7	15.4	8%		4.9	4.3	14%	
Balance sheet	**Dec. 31, 2016**	**Dec. 31, 2015**						
Total assets	**1,957.2**	**1,814.8**						
Cash and cash equivalents	374.6	300.6						
Net liquid assets/ (net debt) as per IFRS	73.1	–25.7						
Employees (FTE)	**4,471**	**4,337**						

* acc = at constant currency
** Based on weighted average shares outstanding (basic) Q4 2016: 76.2 mn / Q4 2015: €77.3 mn / FY 2016: €76.2 mn / FY 2015: €78.4 mn
*** Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

TABLE OF CONTENTS

For more information on Software AG, its offerings, its global organization and its employees, please refer to the Image and Strategy Brochure, a supplement to this Annual Report.

Reference to other sections of the Annual Report

Reference to information on the Internet

Reference to the Image and Strategy Brochure

LETTER FROM THE MANAGEMENT BOARD

STANDING | **KARL-HEINZ STREIBICH** Chief Executive Officer (CEO) Chairman of the Management Board

ERIC DUFFAUT Chief Customer Officer (CCO)

SITTING | **ARND ZINNHARDT** Chief Financial Officer (CFO)

DR. WOLFRAM JOST Chief Technology Officer (CTO)

Software AG focuses on innovation and profitable growth to strengthen its technology leadership.

Dear Ladies and Gentlemen,

Dear Shareholders,

2016 was a successful year for Software AG. We achieved key strategic milestones and expanded our digital business. Overall, our company grew in terms of both profitability and relevance. Our product portfolio enabled us to claim and strengthen our technology leadership. New strategic partnerships with global market leaders show that Software AG is a highly sought-after partner for digital transformation. Furthermore, the positive results of our 2016 customer survey confirm an extraordinary degree of customer loyalty. Our excellent earnings in 2016 are the tangible results of our value-oriented management, focused on profitable growth and financial discipline. We are committed to innovation in forward-looking fields like the Internet of Things (IoT) and Industry 4.0 in order to secure our market-leading position with our multiple-award-winning product portfolio.

Our largest business line, Digital Business Platform (DBP), unites our enterprise digitalization products: integration software, process optimization solutions and analytics tools for big data and the IoT. The DBP segment is the foundation of our profitable growth. It broke yet a new Software AG record in 2016. Key software markets are undergoing a period of upheaval. Traditional standard software is reaching its final phase as a mass-produced good in the cloud. As a result, organizations must transform, modernize and differentiate their business models with the help of digital business platforms and cutting-edge software solutions. As companies of all sizes and in all industries increasingly adopt these platforms and solutions, the current moderate growth rates are expected to rise dramatically over the next five years.

We saw a notable rise in the market relevance of our DBP products in 2016 resulting from the spread of digitalization around the world. This was illustrated by the ground-breaking co-innovation partnerships and projects we drove with industry leaders all over the globe and a further increase in our average deal size. As planned, we were able to significantly improve our number of large-scale deals as well as further increase our sales productivity. A very strong project pipeline at the beginning of 2017 confirms our momentum for growth.

Our Adabas & Natural (A&N) database business continued to prove its stability. Earnings in this segment beat market expectations and were in the middle of our target range, which had already been raised during the course of 2016. This positive trend is also a result of our new customer-centric and innovation-driven program, Adabas & Natural 2050+, which guarantees A&N customers support and innovation through the year 2050 and beyond. Our customers' positive feedback was reflected in the early contract renewals and new deals in the first half of 2016. We kept our promise in 2016 to future-proof our customers' business-critical applications as part of new projects. This innovation program will help customers protect their long-term investment and modernize their IT infrastructure.

Software AG's Consulting organization carries out an important support function in product sales by delivering value to customers through implementation and co-innovation services. It contributes significantly to our profitable growth as well as customer satisfaction. 2016 illustrated that our strategic consulting services are gaining in relevance among customers. The combination of leading software solutions and our consultants' implementation expertise help organizations create value quickly, resulting in greater satisfaction among Software AG customers.

At Software AG, customer success is our ultimate goal. We therefore put customers at the center of everything we do and consider today which software architectures will enable them to unleash their digital vision without compromise tomorrow. Software AG's takeover of Zementis, a U.S. software Company in the field of artificial intelligence, is a good example of how our acquisition strategy enables us to gain access to critical technology components and innovation to further evolve our solutions portfolio. As of April 1, 2017, we will welcome a new member to the Management Board. As Chief Research & Development Officer, Dr. Stefan Sigg will further strengthen Software AG's innovative power. A highly-qualified software development expert, he will fuel product innovation particularly in the fields of IoT, real-time analytics, process and interface management as well as data integration.

During the past 24 months, we have continued driving our sales transformation, achieved significant progress in sales efficiency and increased our market relevance. We achieved our biggest success in 2016 in the USA, the world's most competitive and early adopter market. Our global relevance for digital transformation is reflected in our growing international customer base as well as the strategic partnerships that we entered in 2016. In general, manufacturing companies are increasingly seeking partnerships in the software sector and specifically with Software AG. For example, Bosch, Dell, OCTO Telematics and Cumolocity chose Software AG as their partner in 2016 to collaborate on the development of new IoT digital services and solutions. We have made significant progress in our goal of assuming a lasting leadership role in digital transformation and permanently anchoring our products in customers' existing IT infrastructures and in the cloud.

In 2017, we will maintain our focus and further accelerate profitable growth. We anticipate between 5 and 10 percent organic growth in our DBP segment. In light of our A&N business line's impressive demonstration of continued relevance among customers, we expect just a slight decline for the segment. According to our full-year forecast, operating profit margin (non-IFRS) in fiscal 2017 should be between 30.5 and 31.5 percent. This puts us right on track to meet our long-term operating profit margin (non-IFRS) target between 32 and 35 percent in the year 2020. As a sign of our sustainable economic success and our value orientation, the Management Board and Supervisory Board will increase Software AG's dividend to €0.60 per share. Share buyback programs also remain a component of our strategy.

On behalf of the entire Management Board, I would like to thank all Software AG employees for their unwavering commitment to our customers' success and our valued shareholders for their loyalty and trust.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

HIGHLIGHTS OF 2016

CeBIT 2016

From March 14 to 18, 2016, Software AG presented innovative technologies, services and solutions for digital transformation at CeBIT in Hannover. Even Germany's chancellor, Dr. Angela Merkel, visited Software AG's booth. While there, she emphasized: "We are happy to have such a leading software company in Germany."

Software AG's CeBIT presence focused on the Digital Business Platform. In contrast to static, off-the-shelf application systems, this dynamic platform provides organizations with a real-time digital 360-degree view of their business activities. It facilitates agility and innovation and enables them to differentiate themselves from the competition.

Awards

Thanks to its portfolio combining digitalization, automation and integration of business models, Software AG is leading the global market. It received multiple awards and recognitions from well-known analysts and market research and consulting firms in 2016. For more information, please refer to **Market Survey Recognition** on p. 34.

Research

Software AG is providing key elements of its Digital Business Platform and other solutions for the RADAR-CNS research program to assess wearable devices in the prevention and treatment of depression, multiple sclerosis and epilepsy. The program aims to improve patients' quality of life and medical treatment. For more information, please refer to **Research and Development** on p. 62.

Industry 4.0

From April 25 to 29, 2016, the spotlight was on the digitalized world and connected manufacturing at the Hannover Industrial Fair. In cooperation with technology partners, Software AG introduced a new solution known as Overall Equipment Effectiveness. It guarantees optimized interconnectivity of manufacturing processes as well as smart monitoring and maintenance.

Dividend Increase

Shareholders at the Annual Shareholders' Meeting on May 31, 2016 voted in favor of a divided of € 0.55 (2015: € 0.50) per share for fiscal 2015, which marks a 10 percent increase. This is the highest dividend in the history of Software AG. For more information, please refer to **Software AG's Share** on p. 10.

Adabas & Natural 2050+

Software AG will continue developing its A&N product portfolio through the year 2050 and beyond. This unprecedented commitment is a reaction to the fact that 98 percent of A&N customers run business-critical applications on the high-performance platform. An expanded service portfolio is intended to help customers master the current generational changeover successfully.

Co-Innovation

Close collaboration with customers and partners as part of strategic partnerships plays a pivotal role for Software AG. In 2016, partnerships were formed with Bosch (IoT), Dell (real-time analytics), Sopra Steria Consulting (process automation), Cumulocity (IoT) and Detego (real-time analytics). For more information, please refer to **Customers, Sales and Partners** on p. 63.

Artificial Intelligence

In 2016, Software AG announced its acquisition of Zementis Inc., an American company based in San Diego, CA. Zementis develops deep learning software, a core function of machine learning and a fundamental technology for artificial intelligence. For more information, please refer to the **Statement on Corporate Acquisitions** on p. 60.

Integration

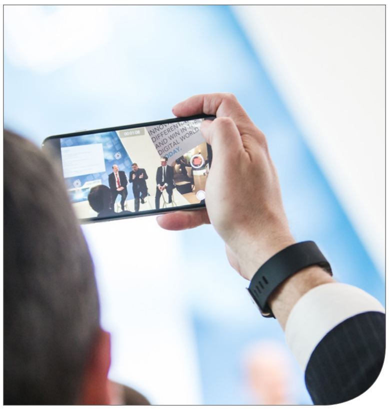
Taking responsibility and giving hope: Software AG participates in a relief fund known as "At Eye Level." It is an initiative of the Software AG Foundation to provide financial support to charitable civic organizations volunteering to facilitate the integration of refugees in Germany. For more information, please refer to **Sustainability** on p. 64.

Digital Education

For years, Software AG has been sponsoring digital education and training for college and vocational students worldwide. Because digitalization is an interdisciplinary topic which impacts both business and society, it requires a broad basic digital education. For more information, please refer to **University Relations** on p. 61.

Finance 4.0

Software AG expanded its long-year partnership with Commerzbank. The bank relies on Software AG technology for digitalization and to keep up with the radical changes in the finance sector. The sector's most disruptive trends include cross-channel banking, cloud integration and more rigorous requirements by financial regulatory authorities.



SOFTWARE AG'S SHARE

Uncertainty and concerns about growth—mainly politically driven—were key influential factors on stock markets in 2016. The European Central Bank's ongoing relaxed interest rate policy, Brexit and the U.S. presidential elections were the most important political topics of 2016 and led to insecurities in German and international markets.

Geopolitical Upheaval Impacts Capital Markets

Weak economic data from China overshadowed capital markets in the first half of 2016. The British pound fell to its lowest point since the 1980s following the vote in favor of Brexit mid-year. That and the surprising election of business entrepreneur Donald Trump as the United States of America's 45th president were disconcerting signals for the global economy. Software AG operates in more than 70 countries and generates the majority of its revenue in the U.S. and the core European countries. Exchange rate fluctuations, political events and other activities in those regions can influence business at country level. Software AG's customers are diversified across many industries. Its software is firmly anchored in customers' systems. And a large percentage of sales are recurring maintenance revenues. Thanks to these factors, Software AG's business model and share price are relatively resistant to macroeconomic effects.

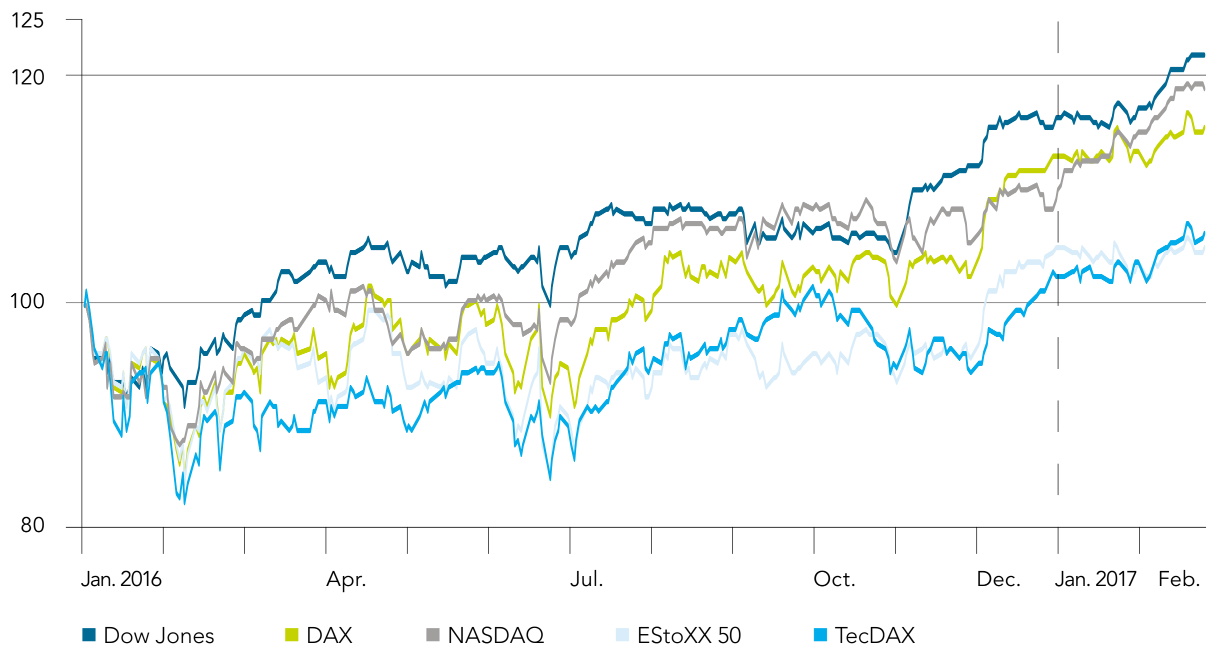
Investors Opt for Traditional Companies

The DAX started out the year at 10,283 points and reached its year high at 11,481 points at the close of 2016. This shows a 11.6 percent gain for the year.

The Dow Jones Industrial Average made up for losses in 2015 by gaining 15.2 percent in 2016.

Companies in the digital sector performed well on the stock market. The NASDAQ–100, the benchmark index for

Stock Index Performance Comparison January 4, 2016–February 28, 2017 (indexed)



digital companies, performed well with 8.1 percent growth for the year.

The TecDax, Germany's technology barometer and where Software AG's shares are listed, opened the year at 1,793 points. Unable to match the performance of the year before, it closed just 1.0 percent higher at 1,812 points.

Software AG's Share Price Gains 31 Percent

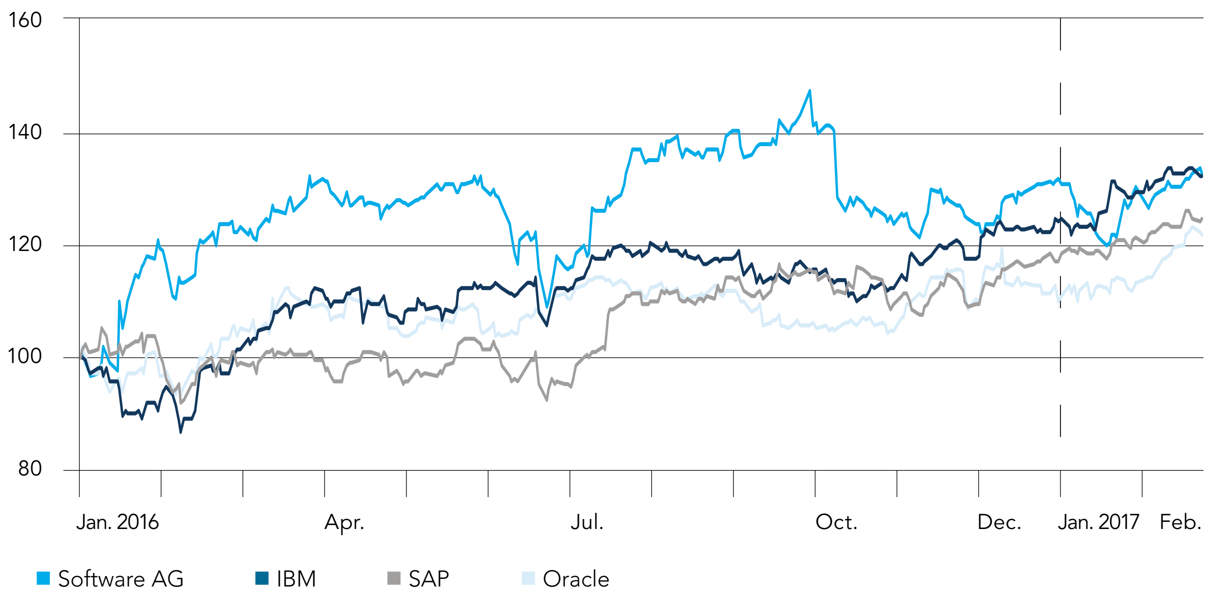
Opening the year at €26.36 on January 4, 2016, Software AG soon bottomed out on January 8, 2016 at €25.41. It went on to follow a positive trajectory for the rest of the year. With a healthy gain of 15.9 percent on June 30, 2016, Software AG's share had a strong first half of the year.

Software AG's earnings and revenue growth beat market expectations in the first and second quarters, which the capital market rewarded with a significant jump in share price. The share peaked for the year on October 4, 2016 at € 38.88.

Due to the unexpected postponement of some key strategic business deals from the third quarter to the first few days of the fourth, the performance of Software AG's stock reversed in October 2016. One quarter, however, does not reflect a general trend. And the capital market recognized that. Investors focusing on sustainable business growth bought shares. As a result, Software AG's stock was able to recover, ending trading for 2016 at € 34.49—a 30.8 percent gain over the beginning of the year.

Software AG exceeded the stock market's liquidity requirement in 2016 with an XETRA average daily trading volume of 228,106. This is of particular note considering that a large percentage of Software AG shares have moved to off-exchange trading venues.

Software AG Share Price Performance Compared to Peer Group January 4, 2016 – February 28, 2017 (indexed)

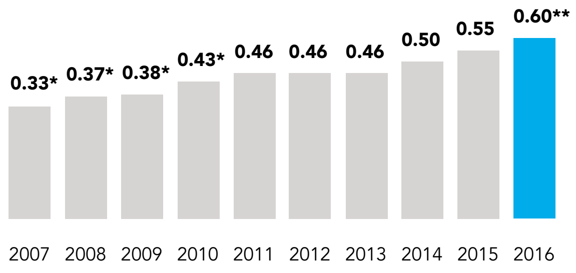


The stock market began 2017 on an optimistic note. The German DAX benchmark index gained 3.6 percent by the end of February. And Software AG's stock made a moderate climb of 1.5 percent in the first two months of the year. With the release of Software AG's preliminary Q4 results at the end of January 2017, a record-breaking fourth quarter was confirmed for fiscal 2016.

Software AG was ranked number ten on the Deutsche Börse AG's list of top-ten TecDax companies based on market capitalization when this report went to press at the end of February 2017.

Dividend Development Since 2007

in € per share



* Adjusted for 3:1 stock split, rounded
** Dividend proposal, subject to shareholder approval in May 2017

Key Share Data

	2016	2015
Closing price in €	34.49	26.42
Year high in €	38.88	28.00
Year low in €	25.41	20.02
Total number of shares at year end	79.000.000	79.000.000
Treasury shares held by Software AG	2,768,369	2,768,369
Market capitalization at year end in € millions	2,724.71	2,087.18
Free float as %	64.90 %	64.90 %

Consistent Dividend Policy

Software AG's Annual Shareholders' Meeting took place on May 31, 2016 in Darmstadt, Germany. The Management Board and Supervisory Board shared their confidence in a positive future outlook with attendees. All items on the agenda were approved by strong approval rates between 95 and 100 percent. Those shareholders in attendance accounted for 71.1 percent of total voting rights.

An increase to the record-level dividend for fiscal 2015 of €0.55 per dividend-bearing share was approved at the meeting. This is a total payout of €41.9 million. Based on the 2015 closing share price (as of December 30, 2015: €26.42), this corresponds to a dividend yield of 2.1 percent (2014: 2.5 percent).

Software AG aims to continue its value-driven dividend policy in fiscal 2016. The dividend is payed from Software AG's earnings and cash flow. The dividend ratio is usually between one-third and one-fourth of the Company's averaged earnings and free cash flow. The Management Board and Supervisory Board will propose a dividend in the amount of €0.60 for fiscal 2016 to the Annual Shareholders' Meeting on May 17, 2017. This sets a new record in the history of Software AG's dividends. The treasury shares held by Software AG are not entitled to a dividend.

Share Buyback Plans

Software AG has carried out three share buyback plans in the past few years and now holds 2,768,369 treasury shares, which represents 3.5 percent of its share capital. No shares were repurchased in fiscal 2016. The current authorization granted at the Annual Shareholders' Meeting can still however be exercised for other share buyback plans.

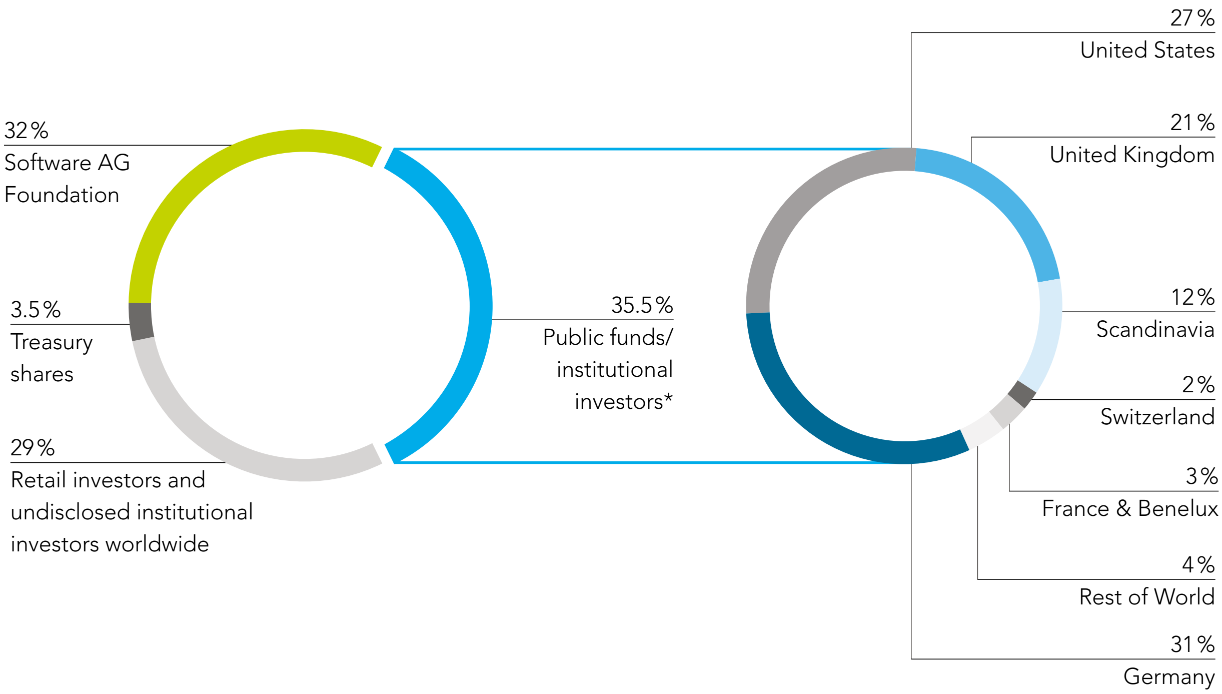
Changing Shareholder Structure

Software AG's positioning as a value investment is increasingly reflected in its investor structure. Its profitable growth is convincing numerous new investors. Continually rising dividends over the course of years, value increases through share buybacks and Software AG's promising technology leadership in the digitalization segment are the sustainable value drivers of its share price. The Software AG Foundation is still Software AG's largest shareholder and its key anchor investor with 31.59 percent of its shares. The Software AG Foundation is an independent, non-profit organization under civil law based in Darmstadt, Germany. It is committed to projects in support of education, training, children, the disabled and the elderly. The foundation also sponsors a wide variety of scientific and environmental fields.

Software AG's free float—based on the stock positions of the balance held by Software AG Foundation and the Company's treasury shares—is about 65 percent. This is calculated as defined by the Deutsche Börse as the percentage of a stock corporation's shares that can be traded freely on the stock market because they are not held by long-term investors.

A regional analysis of the identified free float shows that 31 percent is held in Germany, 27 percent in the USA, 21 percent in the U.K. and 12 percent in Scandinavia. Additionally, 2 percent of Software AG's investors are in Switzerland and 3 percent in France and Benelux. This illustrates the increased internationalization of Software AG's shareholder structure as compared to 2015.

Shareholder Structure **Shareholder Structure by Country**



* Source: IPREO, December 2016

Ongoing Dialog with Investors

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves targeted expansion of that base. Addressing potential investors directly is a challenging aspect of investor relations work and requires the precise analysis of financial markets. Software AG's Investor Relations team conducted numerous meetings with investors and analysts in 2016. Software AG participated in a total of 13 capital market conferences in Germany and abroad. In addition, roadshows and analyst visits in Germany, the U.K., Ireland, Switzerland, France, the U.S. and Canada were also an important medium for engaging the investor community. The planned change from bearer shares to registered shares will drastically improve Software AG's ability to communicate directly with investors.

Software AG continued to enjoy a high level of attention from financial analysts in the fiscal year under review. This was reflected in the high number and standing of the securities brokerage firms in Germany and abroad. Furthermore, this year's Capital Market Day was held on February 10, 2016 at corporate headquarters in Darmstadt, Germany. Numerous investors and financial analysts from Germany, the U.K., France and Switzerland learned about Software AG's strategy and key trends in digitization.

Analysts from 22 investment banks currently cover Software AG, regularly publishing study results. Software AG's stock received a positive or neutral rating from 16 of them at the end of February 2017. The analysts' average price target was €34.08.

Top Investors

Disclosure of Voting Share Changes Pursuant to Section 26 (1) of WpHG	Voting Share	Date Threshold Met
Software AG Foundation	31.59%	4/30/2015
Deutsche Asset Investment GmbH	5.01%	7/5/2016
Software AG (treasury shares)	3.50%	12/4/15*

* Disclosure pursuant to article 4 (4) of Regulation (EC) No. 2273/2003

Professional Investor Relations Work

Software AG's Investor Relations team continued its commitment to comprehensive and prompt communication with all capital market participants in 2016. Software AG's high standards require that all investors are provided with the same level of information and that any misunderstandings are quickly dispelled. This includes embracing feedback from target audiences to continuously optimize communication.

A wide array of events, meetings, telephone conferences, the Annual Shareholders' Meeting and the IR website are all essential elements forming the foundation of Software AG's communication with investors. We provide all members of the capital market with key up-to-date information on the Investor Relations website (SoftwareAG.com/investors).

Indices

TecDAX
Prime All Share
LTecDAX
Technology All Share
HDAX
CDAX
EURO STOXX
TecDAX Kursindex
DAXglobal Sarasin Sustainability Germany Index EUR
DAXglobal Sarasin Sustainability Germany

Key Share Data

ISIN	DE 0003304002
WKN	330400
Symbol	SOW
Reuters	SOWG.DE
Bloomberg	SOW GY
Stock exchange	Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO on	April 26, 1999
Issue price	€ 30*
Stock split	1:3 (2011)

* Before 3-for-1 stock split (May 2011)

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 Bereczky	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	The Supervisory Board
Karl-Heinz Streibich Chief Executive Officer	**Dr. Andreas Bereczky** Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

DR. ANDREAS BERECZKY
Chairman of the Supervisory Board

Software AG continued its commitment to a growth strategy in the Digital Business Platform segment in the 2016 fiscal year. Some key strategic partnerships, e.g. with Bosch (Internet of Things), were signed. Software AG's acquisition of Zementis, an artificial intelligence software provider, broadened the technological basis for the employment of the Digital Business Platform in the field of the Internet of Things. Furthermore, the Adabas & Natural 2050+ initiative safeguards the long-term sustainability of the Adabas & Natural segment. The Supervisory Board was closely involved in the development and implementation of the strategy by the Management Board and is pleased to welcome Dr. Stefan Sigg, an experienced Chief R&D Officer, to the Management Board of Software AG. The Supervisory Board is certain that Software AG's technological and strategic focus, through innovation and a further optimized go-to-market approach, will accelerate the Company's profitable growth.

Collaboration between the Management Board and Supervisory Board

In fiscal year 2016, the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Management Board in running the Company and supervised its work. In doing so, the Supervisory Board was directly involved in all decisions of key relevance to Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly about all important aspects of strategy, the status of strategy implementation, planning, business development, the risk situation and risk management, as well as compliance, and was available to the Supervisory Board in meetings for questions and discussions. Deviations from planned business developments were explained in detail.

The Supervisory Board Chairman was in regular contact with the CEO and consulted with him about Software AG's strategy, planning, business development, risk situation, risk management and compliance. The CEO informed him immediately of important occurrences. **The work between the Management Board and Supervisory Board was based on close, trusting cooperation and an open, constructive dialog**.

The Supervisory Board's deliberations included the Company's strategic direction and measures for the implementation of strategies and risk management.

The Supervisory Board and the Management Board discussed the quarterly and half-year results and reports and analyzed ongoing business development in detail. Any transactions requiring Supervisory Board approval in accordance with the Articles of Incorporation or applicable legislation were reviewed and approved. Documents relevant for decisions were forwarded to the Supervisory Board in due time before the relevant meeting.

Supervisory Board Meetings

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 two extraordinary meetings. For both of them, the Supervisory Board exercised its right pursuant to the Articles of Incorporation to hold meetings by telephone. If a member of the Supervisory Board was unable to attend a session, he or she had the option of participating via telephone or casting ballots in writing. All Supervisory Board members attended at least half of the Supervisory Board meetings that took place during their term and the year under review.

The following table illustrates the **attendance of members at Supervisory Board meetings** held in 2016:

Supervisory Board Meetings 2016

	1/28/2016	3/10/2016	5/31/2016	6/23/2016	7/29/2016	10/27/2016	11/14/2016	12/7/2016
				via telephone			via telephone	
Bereczky	x	x	x	x (tel.)	x	x	x (tel.)	x
Falkenberg	x	x	x	x (tel.)	x	x	x (tel.)	x
Park	x	x	x	x*	x	x (vid.)	x (tel.)	x
Wulf	x	x	x	x (tel.)	x	x	x (tel.)	x
Ziener	x	x	x	x (tel.)	e	x	x (tel.)	e
Zimmermann	x	x	x	x (tel.)	x	x	x (tel.)	x

e = Excused * = Ballot cast in writing tel. = Attended via phone vid. = Attended via video conference

In its first meeting of fiscal 2016, held on **January 28**, the Supervisory Board discussed the 2015 preliminary financial results; it approved the 2016 budget and conducted its annual efficiency evaluation. The Committee for Compensation and Succession Issues prepared topics related to the Management Board and issued a recommendation on Management Board members' goals for fiscal 2016, which, among other things, the Supervisory Board then finalized.

At the accounts meeting on **March 10, 2016**, in the presence of financial auditors, the 2015 Financial Statements and Consolidated Financial Statements were discussed in depth and then approved by the Supervisory Board on the recommendation of the Audit Committee and following its own thorough audit. At this meeting, the Supervisory Board also approved the proposed resolutions for the Annual Shareholders' Meeting agenda. With regard to Management Board issues, the Supervisory Board determined the Management Board members' achieved variable remuneration for fiscal 2015 after the financial auditors' verification of the accuracy of the calculations.

On **May 31, 2016**, the day of the Annual Shareholders' Meeting, the Supervisory Board met twice to discuss topics such as the financial results for the first quarter of 2016 and Adabas & Natural 2050+.

In an extraordinary telephone meeting on **June 23, 2016**, the Supervisory Board discussed and approved the acquisition of Connx Solutions Inc.

Topics dealt with at the Supervisory Board's meeting on **July 29, 2016** included the financial results of the second quarter and first half of 2016; additionally, the Supervisory Board examined key points of Software AG's strategy and strategically relevant projects.

The Supervisory Board meeting on **October 27, 2016** dealt with the approval of Dr. Stefan Sigg's appointment as Chief R&D Officer and the resulting change in responsibility assignments of the members of the Management Board. Strategic budget planning for 2017 was also discussed at this meeting. Furthermore, the Supervisory Board carried out an analysis of the Management Board's remuneration system and concluded that the remuneration system is balanced and the Management Board members' remuneration is appropriate. In light of the European Regulation on Market Abuse, the mechanics of share-based variable compensation were adjusted to prevent any possible conflicts with close periods. Based on the recommendation of the Committee for Compensation and Succession Issues and its own in-depth discussion, the Supervisory Board also approved a new long-term incentive plan, "Management Incentive Plan 2017 (MIP 2017)" for members of the Management Board.

In the telephone meeting on **November 14, 2016**, the acquisition of Zementis Corporation was deliberated and approved.

At its last meeting of the year, on **December 7, 2016**, the Supervisory Board discussed the financial results of the third quarter of 2016; it examined in detail the Management Board's remuneration system, approved an amount as a payout cap for MIP 2017 and updated the stipulations of the Management Board's remuneration system. In addition, the Supervisory Board informed itself of legal proceedings in the Group and specified April 2017 as the date of appointment of Dr. Sigg as full member of the Software AG Management Board. The Audit Committee also reported to the Supervisory Board on the effects of the financial audit reform and proposed that the Supervisory Board amend the Audit Committee's Rules of Procedure. The Supervisory Board discussed the matter, voted in favor of adjusting the Audit Committee's and Supervisory Board's

Rules of Procedure and amended them to reflect the new legislation.

Committees

In order to efficiently carry out its duties, the Supervisory Board established a Committee for Compensation and Succession Issues, an Audit Committee and a Nominating Committee. 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 allowable. The committee chairs report to the Supervisory Board plenum about the results of the respective committee meetings. All members of the Supervisory Board must attend at least half of the meetings of the committees to which they belong during a reporting year and their term.

The **Committee for Compensation and Succession Issues** prepares personnel-related decisions made by the Supervisory Board provided they affect the remuneration policies for the members of the Management Board or appointment resolutions. It has three members and is constituted based on one-third co-determination. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met three times in fiscal year 2016. It dealt with personnel matters related to the Management Board, particularly the Management Board members' defined targets for fiscal 2016, preparation of the Supervisory Board's decision regarding their achievement of these targets and the resulting determination of their achieved variable remuneration for fiscal 2015. The Committee for Compensation and Succession Issues also prepared the appointment of Dr. Sigg as an additional full member of Software AG's Management Board and the resulting change in responsibility assignments of the members of the Management Board. Additionally, the Committee for Compensation and Succession Issues prepared the evaluation of the Management Board's remuneration system and the vote on MIP 2017 as well as the amendment of the stipulations of the Management Board's remuneration system.

The following table shows meeting attendance of the members of the Committee for Compensation and Succession Issues:

Committee for Compensation and Succession Issues 2016

	1/28/2016	3/10/2016	10/27/2016
Bereczky	x	x	x
Falkenberg	x	x	x
Wulf	x	x	x

The **Audit Committee** deals with issues related to monitoring the financial reporting process, risk management, half-yearly and quarterly reports, financial statement audits—particularly the independence of the auditor—the internal audit and compliance. The Audit Committee also prepares the Supervisory Board's discussion and vote to approve the annual and Consolidated Financial Statements. The Audit Committee was chaired by Markus Ziener. The Audit Committee met twice in fiscal year 2016. In a meeting on March 10, 2016, and in the presence of auditors, it dealt with the annual Financial Statements and the management report, the Consolidated Financial Statements and Management Report, the Management Board's proposal on the appropriation of profits, the selection of the financial auditor for fiscal 2016 and the Supervisory Board's respective resolution recommendation to the Annual Shareholders' Meeting. The Audit Committee also informed itself on the internal audit and compliance matters at this meeting. On December 7, 2016, the Audit Committee discussed the key points of the 2016 audit and the new legal aspects of the financial audit reform with the financial auditors. In this context, the Audit Committee prepared its recommendation to the Supervisory Board on updating its Rules of Procedure and finalizing a list of approved non-audit services. In addition, this Audit Committee meeting dealt with an interim report on the results of the internal audit, Software AG's risk report and treasury. After the Supervisory Board approved the new Rules of Procedure for the Audit Committee, the Audit Committee finalized its previously drafted list of approved non-audit services.

The following table shows meeting attendance of the members of the Audit Committee:

Audit Committee 2016

	3/10/2016	12/7/2016
Park	x	x
Ziener	x	x**
Zimmermann	x	x

** In part

The **Nominating Committee** was chaired by Andreas Bereczky. All three members of the Nominating Committee are shareholder representatives (Dr. Andreas Bereczky, Alf Henryk Wulf and Markus Ziener). It did not convene in fiscal year 2016.

Annual Audit

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed **BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg**, to audit the Financial Statements and the Consolidated Financial Statements of Software AG for fiscal year 2016. BDO has been Software AG's financial auditor since 1997.

BDO examined the Financial Statements and Consolidated Financial Statements for the year ended December 31, 2016, as well as the Management Report, and the accounting books and records. The auditor issued an unqualified audit option. Mr. Ralf Pfeiffer and Mr. Klaus Eckmann are the signers of the auditor's certificate and responsible for the audit at BDO. Mr. Klaus Eckmann is responsible for the audit for the first time; Mr. Ralf Pfeiffer worked on the audit for the first time on the 2015 Financial Statements.

The audit reports were presented to the Supervisory Board, and the head of the audit team explained the results in person to the Audit Committee, the Supervisory Board as a whole and the Management Board. The Audit Committee and the Supervisory Board thoroughly reviewed the audit reports in their meetings on March 15, 2017. The Supervisory Board concurred with the results of the audit and approved the Financial Statements and Consolidated Financial Statements. This constitutes formal approval and acceptance of the annual Financial Statements. We, the Supervisory Board, uphold the recommendation of the Management Board with respect to the appropriation of profits.

Corporate Governance Code

The Supervisory Board thoroughly addressed the subject of corporate governance and the **German Corporate Governance Code** again in fiscal year 2016. In its meeting on January 28, 2016, the Supervisory Board unanimously determined the appropriate number of independent members of the Supervisory Board as defined by point 5.4.2 of the German Corporate Governance Code to be three (half of the members of the Supervisory Board). Moreover, the Supervisory Board expressed its consensus that Mr. Markus Ziener should still be considered an independent member of the Supervisory Board in accordance with section 100 (5) of the German Stock Corporation Act and points 5.4.2, sentence 2 and 5.3.2, sentence 3 of the German Corporate Governance Code, because there is no apparent significant conflict of interest given Mr. Ziener's employment at the Software AG Foundation due to, among other things, the Software AG Foundation's limited possibilities to exercise its votes. Furthermore, the Supervisory Board examined the government commission's proposals to amend the German Corporate Governance Code in its meeting on December 7, 2016.

Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2016. For further information, refer to the Remuneration Report, on p. 80 of the 2016 Annual Report. The corresponding model tables as per the German Corporate Governance Code dated May 5, 2015 were used. The Management Board's remuneration system was amended in 2016 regarding share-based variable remuneration, known as performance phantom shares (PPS), to comply with the Market Abuse Regulation and avoid any conflicts associated with close periods. In addition, some editorial and clarifying changes were made to the stipulations of the Management Board's remuneration system.

No conflicts of interest on the part of members of the Supervisory Board arose in the year under review. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Management Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report on p. 16 of the 2016 Annual Report. The declaration of compliance has been made public on the Company's website at SoftwareAG.com/declaration.

Changes to the Management Board and Supervisory Board

There were no personnel changes on the Management Board or Supervisory Board of Software AG in 2016. The resolution to appoint Dr. Stefan Sigg took place in fiscal 2016 and will take effect as of April 1, 2017.

The Supervisory Board would like to thank the Management Board and all employees for their high degree of commitment and excellent work during fiscal year 2016.

Darmstadt, March 15, 2017

The Supervisory Board

Dr. Andreas Bereczky
Chairman of the Supervisory Board

For more information on the members of the Supervisory Board, please refer to Other Disclosures in the Notes to the Consolidated Financial Statements on p. 167 of the 2016 Annual Report or visit SoftwareAG.com/svb.

COMBINED MANAGEMENT REPORT

FUNDAMENTAL ASPECTS OF THE GROUP

General Conditions and Business Activities

Legal corporate structure

The **Software AG Group** is managed globally by the parent company, Software AG, acting as a holding company. The financial position of Software AG is determined by the financial position of the Group. For this reason, the Management Board of Software AG combines the management reports of the Group and of Software AG into one **consolidated management** report. Unless otherwise stated, "Software AG" will hereinafter refer to the Software AG Group.

Software AG was founded in 1969 in Darmstadt, Germany. It has been listed on the Frankfurt Stock Exchange since April 26, 1999. Software AG's corporate headquarters are in Darmstadt, Germany.

Organizational structure

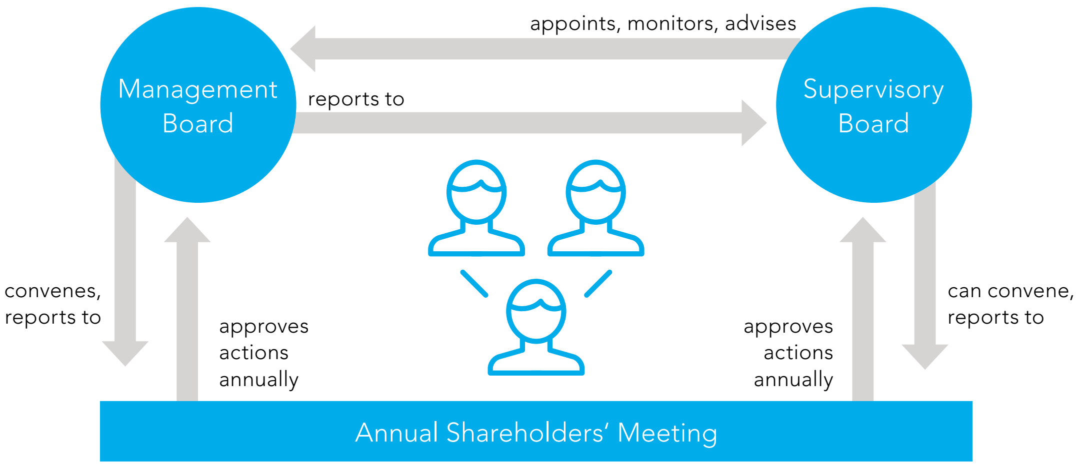
Software AG has control and profit transfer agreements with its three most important subsidiaries; otherwise, the Group is structured as a matrix organization reflected in its reporting lines, global policies and committees. The current consolidated group is discussed on p. 118 of the Notes to the Consolidated Financial Statements.

Management and control

Software AG's **Management Board** consists of the Chief Executive Officer (CEO) Karl-Heinz Streibich, the Chief Financial Officer (CFO) Arnd Zinnhardt, the Chief Technology Officer (CTO) Dr. Wolfram Jost and the Chief Customer Officer (CCO) Eric Duffaut. The members are presented on p. 168 of the Notes to the Consolidated Financial Statements. The Management Board is appointed, supervised and advised by the Supervisory Board. As of April 1, 2017, the Management Board will be expanded to include Dr. Stefan Sigg, the appointed Chief Research & Development Officer (CRDO). For more details, see p. 68 in Events After the Balance Sheet Date.

The **Supervisory Board** of Software AG is composed in accordance with the stipulations of the One-Third Participation Act. It has consisted of six Supervisory Board members (four shareholder representatives and two representatives of Software AG employees) since the amendment to the Articles of Incorporation passed at the Annual Shareholders' Meeting on May 13, 2015 was entered in the Commercial Register on May 27, 2015. In past years, the Supervisory Board had been composed in accordance with the requirements of the Codetermination Act, with 12 members. For more information on the members, please see p. 167 of the Notes to the Consolidated Financial Statements.

Corporate Governance Structure



Business lines

The **digital transformation** is changing enterprise IT landscapes from inflexible application silos to modern software platform-driven IT architectures which deliver the openness, speed and agility needed to enable the digital real-time enterprise. Companies in every industry are confronted with new competitors, market developments and disruptive technologies created by **digital business models.** A growing number of innovative businesses are entering the market and overtaking traditional market leaders in record time. At the same time, business processes, massive data volumes and IT infrastructures are all becoming increasingly complex. In light of the unstoppable digitalization of the professional and private spheres worldwide, building **in-house software expertise** provides the most important source for innovation and growth at any modern company. Digital enterprises need to set themselves apart from their competition through innovation and efficient change processes—and to do so they need modular applications that are flexible and constantly adaptable. In this business environment, Software AG is acting as a **technology service provider for companies in every industry.**

Software AG offers the first end-to-end Digital Business Platform, based on open standards, with integration, process management, in-memory data, adaptive application development, real-time analytics and enterprise architecture management as core building blocks. With the help of this modular platform, users can develop **application systems for the digital future.**

As a technology leader in the area of application infrastructure and middleware software, Software AG develops comprehensive solutions and services for digitalization, including products for real-time analysis, which have great potential in the Industry 4.0 and Internet of Things growth markets. Software AG's product portfolio offers companies both **investment protection for their existing IT architecture** as well as a **sustainable future for modern technologies.** The customized solutions focus on the customer's needs, building on existing IT landscapes and improving usage flexibility so that processes and applications can be adapted quickly and easily to changing market conditions in the future. Furthermore, Software AG supports its customers in their digital transformation with custom consulting services and extensive expertise. Software AG's technology leadership is confirmed again and again in market studies by independent analysts who rank the product portfolio as market leader in numerous technology categories with regard to innovation and digitalization.

Key products, services and business processes

Software AG's **corporate structure** is separated into the following three business lines:

- Digital Business Platform (DBP)
- Adabas & Natural (A&N)
- Consulting

In the DBP and A&N business lines, Software AG targets both licensing and maintenance revenues with its software products. Software AG provides customer-specific consulting services exclusively for its own products in the Consulting business line. Further information about the business lines can be found in the Segment Reporting section starting on p. 51.

Digital Business Platform business line

Software AG launched the world's first platform for the digital transformation, the Digital Business Platform, to meet the needs of digitalization. With this agile software platform, businesses and public organizations can optimize their processes, drive innovations, develop agile business applications, boost efficiency and take advantage of sales opportunities in real time. The Digital Business Platform builds on existing systems with modular, vendor-neutral solutions so that innovative applications can now be developed and integrated faster and with greater flexibility. This business line is Software AG's growth driver and is being expanded through extensive research and development measures as well as targeted technology acquisitions.

Adabas & Natural business line

The mainframe-based database business represents Software AG's origins. Database products from Software AG remain an indispensable key technology for a large customer base including many well-known major enterprises. **Adabas** is a long-established, efficient database management system for mainframe computers. The system is able to process more than 320,000 calls or 80,000 transactions per second. **Natural** is a development environment and is the basis of hundreds of thousands of mainframe software applications that support the core processes of large companies across all industries. Both of these solutions have been optimized for digital business models and supplemented through the technology acquired from CONNX Solutions Inc. in August 2016. With this action, Software AG is helping many longtime customers secure their investments, because the A&N products have been established for nearly 50 years in the IT landscapes of major companies and public administrations. Because of the exceptional loyalty of its A&N customers, Software AG announced in 2016 its intention to offer support for the A&N mainframe products through the year 2050 and beyond.

Consulting business line

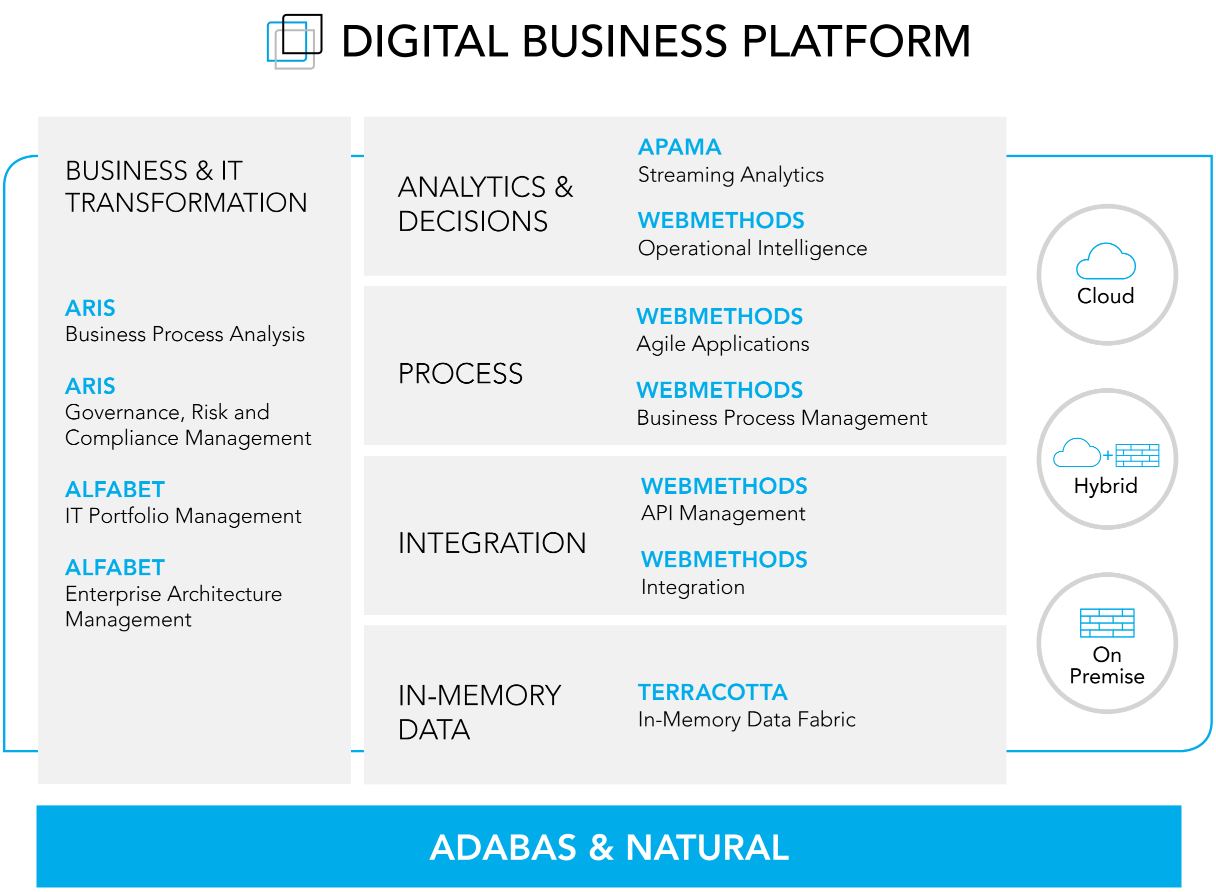
The Consulting business line focuses exclusively on projects and services involving Software AG's own software products. With their proven market experience and industry expertise, Software AG's consultants provide crucial support for product sales in the DBP and A&N lines and support customers in implementing the systems and digital process organization. Through these efforts, Software AG ensures total support for its customers in their transformation to the digital enterprise.

Product and brand portfolio

The **Digital Business Platform** bundles Software AG's comprehensive brand portfolio, connecting data, integration and process platforms of the established product brands with aligned software products. It supports co-innovation with customers as an agile and adaptive development platform, enabling the integration of existing IT landscapes as well as the management and intelligent analysis of the huge data volumes that accrue in the age of big data. The **ARIS, alfabet, webMethods, Apama** and **Terracotta** product families are bundled in the DBP business line. **Adabas** and **Natural** comprise the product portfolio of the **A&N business line.**

The software solutions from the 2016 Zementis and CONNX Solutions Inc. acquisitions are also joining the portfolio. The entire product portfolio is focused on fully supporting Software AG customers as they transform into a digital enterprise.

Brand Architecture



Using a clearly-structured **brand architecture,** the individual product families have been separated into five modules, which represent the core themes of digital enterprise transformation.

- **Business & IT Transformation:** ARIS products optimize business processes—from strategy and analytics to design and controlling. Alfabet software streamlines the complete transformation of business processes with the resulting modifications to the IT systems.

- **Analytics & Decisions:** This platform combines webMethods Operational Intelligence for decision logic and Apama Streaming Analytics for real-time big data analytics.

- **Process:** webMethods Business Process Management and webMethods AgileApps enable management of agile applications and processes.

- **Integration:** webMethods Integration and webMethods API Management enables integration of systems and processes.

- **In-Memory Data:** The Terracotta software employs in-memory technology—which means saving large amounts of data in the main memory—to manage big data. This enables extremely fast data access.

The product offering is made complete with A&N transaction processing as well as Software AG's cloud offering (with a specific focus on the private cloud).

The sale of software products generally results in subsequent consulting, maintenance and service business. These technologies must be incorporated into customers' individual IT environments and expanded, modified and modernized while operating by specialists. Additionally, innovation cycles are getting shorter and shorter. Software AG has a global team driving its service and maintenance business across countries and business lines, which promotes customer proximity and loyalty.

Major locations

Software AG serves customers in **more than 70 locations worldwide**. The Company's corporate headquarters are located in Darmstadt, Germany. And its largest offices are in Darmstadt (Germany), Bangalore (India), Madrid (Spain), Or-Yehuda (Israel) and Reston (USA).

Software AG is a globally active company that seeks a close relationship with its customers through a broad sales and partner network. In 2016, the Company strengthened its **presence in important strategic markets**. As the world's largest IT market, the North American market continues to be a key driver for Software AG's business, generating 35 percent of total revenues in 2016. After North America, Software AG separates its sales markets into regions by percentage of total revenue—EMEA North (26 percent), EMEA South (25 percent), APJ (Asia-Pacific; 7 percent) and LATAM (Latin America; 6 percent). In the EMEA region, Germany remains the most important market with 14 percent of total revenues followed by the Iberian Peninsula and Great Britain. Software AG is positioning itself equally in new, up-and-coming locations with a promising future as part of its global geographic strategy. Software AG's subsidiary in India showed the strongest growth in 2016. The number of employees there grew by 25 percent to 766 (2015: 613).

Key sales markets and competitive position

According to numerous analysts, Software AG has established itself as one of the world's leading providers of digital business platforms. The combination of its software and service portfolio for digitalization, automation and integration of business processes along with the development of new adaptive apps is unique to the global market. It therefore gives Software AG an **excellent competitive position** in a software market marked by rapid consolidation.

Software AG's software and service portfolio appeals equally to CIOs, IT managers and IT architects as well as CEOs and executives from companies in all industries and public institutions. The Company has designed use cases and developed customer-centric solutions for every need and every industry.

Market access has continued to improve: Software AG has reached critical mass in Europe's core markets in particular and strengthened in North America by expanding locations. Moreover, the Company has established a basis for effective market cultivation and higher sales productivity through a focused, scalable go-to-market model. Extending the partner network and close collaboration with universities and research institutions support this realignment. In particular, a growing number of prominent technology partners are joining forces with Software AG to combine the necessary software expertise with industry know-how.

With this unique selling point, the Company can address customers' growing needs for process improvement and digital transformation while positioning itself in key growth markets. The digital age is changing the significance of information technology entirely. It is what makes new business models successful. Software AG's portfolio, integrated in the adaptive Digital Business Platform, delivers its customers all the IT components and services that they need on their road to becoming a digital enterprise without compromise—regardless of their industry.

Legal and economic factors

Software is the fundamental raw material of digitalization of business and society as well as of the next industrial revolution (Industry 4.0 and Internet of Things). In the future, innovative products and services will not be possible without software. This is a positive indication for Software AG's business development. The ability of business to compete will pivot on the ability to create software- based products and services of the highest quality. Software know-how will be the prerequisite for Germany in maintaining its leading position in engineering and in exports. As an interdisciplinary technology, a German software industry that is dynamic and successful serves as an important impetus for many other sectors of the economy and thus for the competitive position of the German national economy. Leading technology companies, such as Software AG, are active in organizations like the German software cluster, the House of IT and the Bitkom IT industry association to promote a flourishing hub and dialog between industry, academia and the public sector.

By the same token, having access to a stable, secure and productive infrastructure is a matter of survival for the software industry. That means establishing a clearly defined legal framework to guarantee the security of cloud offerings, but also the expansion of faster broadband networks with adequate transmission capacities.

Macroeconomic uncertainty and exchange rate fluctuations can have a notable effect on Software AG's globally oriented business. This is true for all free market players.

Market survey recognition

Numerous studies carried out by independent research institutes confirm the strategy and quality of Software AG's product and service offering. Market analysts have been acknowledging Software AG's portfolio for years with top scores and leading rankings. Software AG continued to receive outstanding ratings for its solutions in fiscal 2016.

Gartner

Software AG was positioned as a leader by Gartner in its 2016 "Magic Quadrant for Integrated IT Portfolio Analysis Applications"[1, 3] and in the "Magic Quadrant for Enterprise Architecture Tools"[2, 3] and as a visionary in the "Magic Quadrant for Intelligent Business Process Management Suites."[3, 5] Software AG was also given the highest scores for Business Transformation and Digitalized Process[3, 4] use cases in Gartner's Report on Critical Capabilities for Intelligent Business Process Management Suites (iBPMS): Business Transformation and Digitalized Process.

Forrester

Software AG was ranked a leader in "The Forrester Wave™: Big Data Streaming Analytics, Q1 2016"[6] and "The Forrester Wave™: Hybrid Integration for Enterprises, Q4 2016." [7]

Bloor

Software AG attained the highest score overall in Bloor Research's Streaming Analytics 2016 Market Report.

1 Gartner, Magic Quadrant for Integrated IT Portfolio Analysis Applications, Daniel B. Stang, Sfefan Van Der Zijden, November 22, 2016
2 Gartner, Magic Quadrant for Enterprise Architecture Tools, Mark McGregor, May 3, 2016
3 Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.
4 Gartner, Critical Capabilities for Intelligent Business Management Suites, by Rob Dunie, W. Roy Schulte, Michele Cantara, Marc Kerremans, August 22, 2016
5 Gartner, Magic Quadrant for Intelligent Business Process Management Suites, by Rob Dunie, W. Roy Schulte, Marc Kerremens, Michele Cantara, August 18, 2016
6 The Forrester Wave™: Big Data Streaming Analytics, Q1 2016, Forrester Research, Inc., March 30, 2016
7 The Forrester Wave™ Hybrid Integration For Enterprises, Q4 2016, Forrester Research, Inc., November 18, 2016

Strategy, Objectives and Management

Strategy

Software AG's strategy is aimed at **sustainable profitable growth,** the goal being to continuously increase enterprise value. Its long-term portfolio strategy is focused on the intensive expansion of the high-growth, future-oriented DBP business. This segment has become the primary revenue generator over the past few years, most recently accounting for more than 50.6 percent (2015: 49.4 percent) of Group revenue. Software AG's established A&N database business contributed 26.9 percent (2015: 28.4 percent) and Consulting 22.5 percent (2015: 22.2 percent) to total global revenue.

The reason for the **focus on product revenue** is the significant potential for growth and higher earnings compared to services. License sales in the software sector are considered to be a key indicator of future growth, because they typically lead to long-term, recurrent maintenance revenue with a particularly high profit margin.

Financial objectives

Software AG expects further **margin growth** in the next four years. Based on its current business model, its target operating profit margin (EBITA, non-IFRS) range is 32.0 to 35.0 percent by 2020. The foundation for this will consist primarily of organic growth in the DBP business, continued Sales productivity improvements and a larger share of revenue from the expanded partner ecosystem. The targeted organic growth in DBP licenses is expected to manifest itself as high single-digit to low double-digit annual growth rates, supplemented by a strong trend in Group maintenance revenue.

Non-financial objectives

Software AG will focus on the opportunities of enterprise digitalization in the years to come. Digital transformation will be the key driving force of growth in the software sector. An essential component of Software AG's success strategy is the **ongoing development of its own product portfolio** including the integration of technologies acquired in previous years and co-innovation with customers and partners. Software AG's long-term vision is to evolve into a global market leader in application infrastructure and middleware software.

Software AG will propel this growth with its own efforts, but will not limit itself to that. It is ready to make additional selective investments in innovation-driven businesses that will strengthen its technology leadership and boost its market share. With that in mind, the A&N business line provides a highly profitable and solid basis for flexible and strategic **investments in visionary markets of the future.** Furthermore, this segment gives the Company access to an established customer base that holds promising sales potential for DBP products.

Internal corporate control system

In order to increase its long-term enterprise value, Software AG continues to focus its efforts on growing profitably and increasing the financial strength of the Group. The Company uses an internal control system to achieve these strategic objectives. DBP and A&N product revenue at constant currency as well as operating income (non-IFRS) and **operating profit margin (non-IFRS)** are its most relevant performance indicators. Operating profit margin (non-IFRS) is the focus of internal controlling. Software AG defines this indicator as follows:

+	Earnings before all interest and taxes (EBIT)
+	Acquisition-related depreciation of intangible assets
+	Acquisition-related decreases in product revenue due to purchase price allocations
+/–	Other acquisition-related effects on earnings
+/–	Income/expense resulting from share price-based remuneration
+	Expense for restructuring and personnel changes
+/–	Extraordinary litigation/other one-time effects

= Operating EBITA (non-IFRS)

The **operating profit margin** is calculated by dividing EBITA (non-IFRS) by total Group revenue (adjusted for acquisition-related product revenue reductions).

Aside from the Group performance indicators published in the 2016 outlook—A&N and DBP product revenue (at constant currency) and non-IFRS operating profit margin—Software AG employs a number of other indicators relevant to each business line.

For example, the **segment margin** (revenue less cost of sales and sales and marketing expenses) is reported in the segment report and is a segment-specific indicator for the Consulting line. This margin is influenced primarily by the capacity utilization of staff in the Delivery department, sales and marketing expenses and the cost per employee. The last factor can be optimized by controlling on/offshore and high/low cost percentages.

The key performance indicators for the product business are those reflecting sales efficiency. Efficiency is portrayed in external segment reporting through the cost of sales ratio, which reflects the sales and marketing expense of a product segment in relation to the associated product revenue. The factors influencing optimization of the cost of sales ratio are depicted using additional efficiency indicators such as revenue performance per sales employee and average deal size trends.

As with most companies in the software industry, capital-oriented financial indicators play a minor role for Software AG. This is due to the fact that its business model's commitment of capital is low. Software AG's largest expense block are its personnel costs.

Revenue and earnings monitoring

Software AG continuously monitors revenue and costs in the areas of licenses, maintenance and services. **License revenue** is the key growth driver of maintenance and services revenue. For this reason, the development of license revenues over time is closely watched by all levels of management.

Software AG also employs a multidimensional matrix structure to continuously monitor **changes in EBITA** for every profit and cost center. The matrix is broken down further according to business lines and revenue types and, within the business, by region. Furthermore, the Company 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 Company's most important goals is the ongoing improvement of **sales efficiency**. Software AG achieves this through its customer-centric go-to-market model led by the Chief Customer Officer, responsible for global sales, services, support and marketing. A cross-regional sales and service structure and steady expansion of inside sales activities and the partner ecosystem offer additional potential for market coverage and growth.

Cost management

All cost items in the Group are subject to stringent budget control. On a monthly basis, the individual profit and cost centers are reviewed to determine whether budgets were adhered to and how forecast costs evolved. A **dynamic budget model** is used to ensure that key components of the cost budget remain flexible in relation to sales growth. The cost budget is adjusted as needed throughout the year in order to achieve or surpass profit targets.

Cash flow management

Receivables management has a significant effect on cash flow. At Software AG, **receivables management** is decentralized and is subject to a variety of internal control processes. In order to improve the receivables structure, Software AG selectively sell certain accounts receivable. Its cash management, in contrast, is a centralized function and is carried out in Darmstadt. The Company uses a global, standardized **cash management system.** It enables it to optimize investment strategy and minimize investment risk.

Non-financial performance indicators

Software AG's enterprise value is defined not only by financial indicators, but also by the following non-financial performance indicators:

- **Strategic product positioning in the market**
  (e.g. external analyst ratings)

- **Customer satisfaction and loyalty, as well as feedback**
  (e.g. average deal sizes, maintenance agreement termination rates, regional trends)

- **Employee satisfaction and retention**
  (e.g. performance-based compensation, length of service, turnover)

- **Research and development**
  (e.g. product-release cycles)

- **Sales activities**
  (focus on sales efficiency and effectiveness)

- **Expansion of the partner ecosystem**
  (e.g. number of sales and technology partners, revenue influenced by partners or through partners)

Software AG strongly believes that these factors are absolutely key to its long-term business success.

Integrated management system

The integrated management system implemented in 2016 is a supplemental control system that currently includes the areas of **Quality Management** and **Business Continuity Management.** Both of these topics were initiated to provide an adequate response to the growing compliance requirements on the customer side.

By defining internal quality goals and continuously monitoring compliance with them through management reviews and monitoring key quality indicators, Software AG is creating a corporate culture that is committed to maintaining high quality standards. The successful **ISO 9001:2015 certification** is evidence of this commitment.

Software AG has performed a targeted analysis of its business processes and the accompanying IT systems to develop strategies that enable it to preserve the most critical processes from a customer's perspective in crisis situations, or be able to restore them as quickly as possible. This also includes concepts for redundant data storage. The Company is further securing its constant preparedness here through ongoing training of the global Incident Response Team and testing crisis scenarios. The Company's successful **ISO 22301:2012 certification** (Business Continuity Management) confirms the effectiveness of these measures.

Research and Development (R&D) management

Technological acquisitions, research and development as well as the resulting innovations form the basis for Software AG's long-term success. The Company works continuously on developing its product portfolio while considering customer requirements as well as business concerns. Software AG performs an ongoing **breakeven analysis for products** as part of this process and optimizes its innovative potential by combining technological acquisitions and in-house solutions. Moreover, product development is intentionally balanced across high-wage and low-wage locations.

With the **Customer Value Navigator,** Software AG is making use of a tool based on its own technology for analyzing concluded customer contracts. The findings regularly yield new knowledge that can help R&D and Sales in particular to optimize the value that Software AG's product portfolio adds for its customers.

Early warning indicators

The early warning indicators used by Software AG are separated into **cross-departmental** and **department-specific** indicators.

The key cross-departmental early warning indicator is licensing business growth, because license sales directly impact the Company's profitability and indirectly affect it through the resulting maintenance and consulting business. At the beginning of a reporting period, the existing qualified project pipeline is the essential early warning indicator for **licensing business growth**. In this qualified project pipeline, existing opportunities are evaluated in size and probability and placed in relation to expected revenues. Since opportunities naturally are gradually disqualified, delayed, lost or contracted during the sales process, the relation between the pipeline and revenues is not fixed. Rather, it is subject to constant change until the end of the reporting period. To actively manage the complexity of this early warning indicator, Software AG uses a customer relationship management tool that shows the relationship between the existing pipeline and anticipated revenue in real time. Therefore, at the start of a quarter, the value of that quarter's opportunities should equal at least three times the expected revenue volume. If this is not the case, activities in license sales need to be intensified accordingly.

Pipeline development in Consulting is a potential department-specific early warning indicator of product business. However, because the preceding order intake is subject to normal industry fluctuations, Software AG focuses more on **growth of order level** as an early warning indicator. Therefore, the averaged order level should increase over the previous year's period to the same extent as the anticipated revenue growth. If this is not the case, sales activities in the Consulting business line need to be intensified as well.

Another department-specific early warning indicator is the **termination rate for maintenance contracts.** Due to contractually defined termination periods, terminations received during the course of the year combined with anticipated licensing revenues allow the Company to draw conclusions about maintenance revenue growth for the subsequent reporting periods. With low termination rates of 6–7 percent in industry comparison, experience has shown that Software AG can expect single-digit percentage growth in maintenance revenues if licensing revenue growth remains positive (if other conditions remain the same).

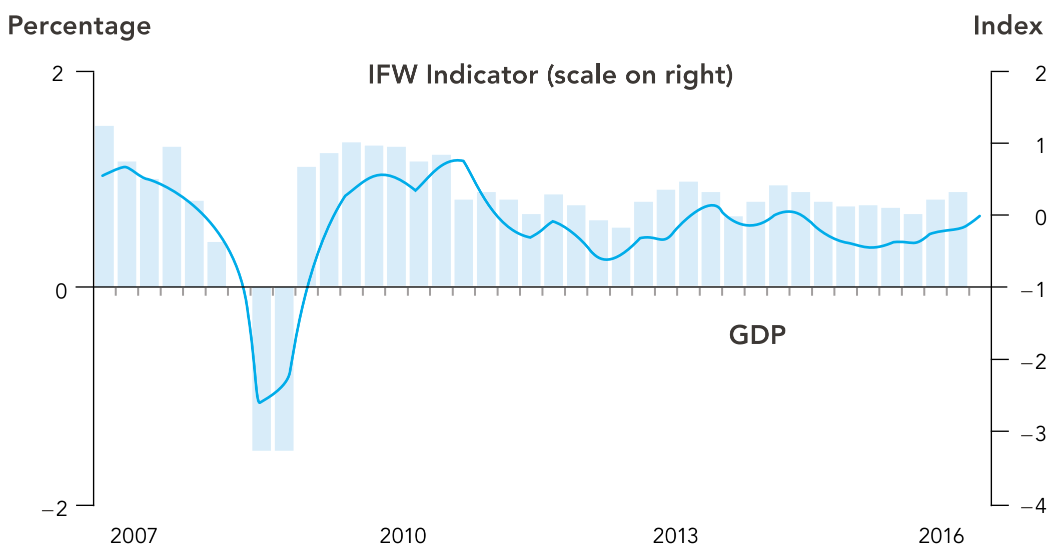
ECONOMIC REPORT

Business Summary

General economic conditions

Global **economic expansion** slowed down during the first half of 2016, only picking up after mid-year. A key factor, according to the Institute for the Word Economy (IfW) in Kiel, Germany, was increased output in the United States of America and China. After the sluggish first six months of the year under review, the USA's GDP grew 0.8 percent in the third quarter alone. But for the 2016 fiscal year as a whole, the U.S. economy shrank 100 basis points to 1.6 percent (2015: 2.6 percent). The **eurozone's economy** was on solid footing as a result of growth in many of its member countries. Even countries plagued with economic troubles like Portugal and Greece saw above-average growth. Italy's economy also outperformed expectations. The eurozone's GDP shrank slightly in 2016, losing 20 basis points to 1.7 percent (2015: 1.9 percent). Economic indicators in Germany continued pointing toward expansion. The **German economy** has experienced an extended upswing for the last three years, which should persist through the next two years. The IfW expects GDP growth of 1.9 percent (2015: 1.7 percent) for 2016 in Germany. Although economic forecasts for **emerging economies** improved clearly, there was no significant economic growth due to low commodity prices and many unresolved structural issues. A mixed scenario prevailed in **Latin America.** While the Mexican economy and that of Andean nations saw substantial expansion, Brazil, Argentina and Venezuela remained in recession. In total, global annual average economic output for 2016 grew 3.1 percent, as in 2015 (2015: 3.1 percent).

Global Economic Activity from 2007–2016



Quarterly data; seasonally adjusted; indicator calculated based on sentiment index in 42 countries;
GDP; adjusted for price, change re. previous quarter.

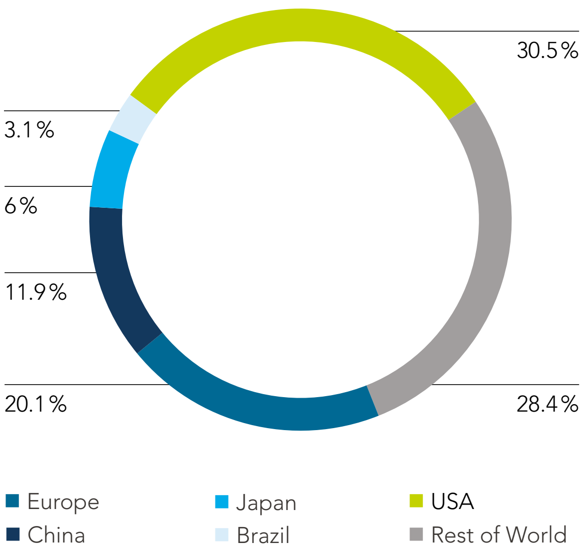
Source: Institute for the World Economy (IfW), Economic Reports, Global Economy in Winter 2016 No. 25 (2016|Q4), Dec. 14, 2016

Sector-specific conditions

The IT market was extremely stable in 2016. According to Gartner, a U.S.-based market research firm, worldwide IT spending dropped by 0.6 percent to $3.4 trillion in 2016. Software AG's market segments, in contrast, demonstrated growth. Spending for enterprise software was up 5.9 percent to $333 billion; the IT services market segment grew 3.9 percent to $899 billion.

The European Information Technology Observatory (EITO) expects stronger growth rates estimating worldwide sales in information and communication technology (ICT) products and services to be €3.1 trillion (2015: € 3.0 trillion) in 2016, which is 2.1 percent above the previous year. The USA continues to account for the largest share in global sales of ICT products and services at 30.5 percent (2015: 28.4 percent). According to EITO, emerging economies are the key growth engines of digitalization. According to the German Association of Information, Telecommunications and New Media (Bitkom), EITO expected growth in Germany. Revenue in the ICT sector exceeded € 150 billion (2015: € 148 billion) for the first time, reflecting 1.8 percent year-on-year growth.

The Global ICT Market: 2016 Revenue by Country/Region



Source: ICT Market Report 2016/17, European IT Observatory, Bitkom Research GmbH

Key events affecting business performance

Software AG's announcement of the **Adabas & Natural 2050+ customer and innovation program** resulted in strong A&N performance above market expectations. This was Software AG's response to the fact that 98 percent of A&N customers run strategic, mission-critical applications on this high-performance platform. Furthermore, on July 31, 2016 Software AG acquired CONNX Solutions, a U.S. company providing key data integration and replication technologies for A&N customers. This secures Software AG's customers long-term access to the whole range of CONNX Solutions Inc. technology. Thanks to its innovative A&N service portfolio, Software AG can help customers master the generational shift confronting the whole software sector.

The Company developed and enhanced its growth-driving **digital business line, the Digital Business Platform,** in 2016. This included the acquisition of Zementis, an innovative artificial Intelligence technology company. For more information, see Corporate Acquisitions on p. 60. The growing customer base and increasing average deal sizes are testimony to the strategic relevance of the Digital Business Platform for the digital transformation of large companies. With a view to maximizing the growth potential of IoT and Industry 4.0, Software AG entered **strategic partnerships** with companies such as Bosch, Dell, OCTO Telematics and Cumulocity. Software AG will expand its Management Board with the addition of a new Chief Research & Development Officer as of April 2017 and thereby further strengthen its innovative power. For more information, see Events After the Balance Sheet Date on p. 68.

Other focal points of fiscal year 2016 for Software AG were increasing profitability, successful implementation of its go-to-market strategy and the expansion of its sales partner network. The adopted measures led to improved key financial indicators a record-breaking quarter at the end of the year.

Management's general statement on business performance and financial position

Software AG remained committed to its **focus on strategic growth** in 2016. We achieved key strategic milestones and expanded our digital business. Our Company gained both in terms of profitability and market relevance. Revenue remained stable, while profitability grew, as did our investments in research and development and the number of employees.

Software AG's strategic priorities in 2016 were customer-centric development of our product portfolio, increasing recurring income (maintenance revenue) and further improving sales efficiency as part of our go-to-market strategy, as well as further improving overall profitability. This value-oriented strategy led to an improvement in our key performance indicators and ultimately to a record-breaking quarter at the end of 2016. As confirmed by countless analysts, we were able to expand our technology leadership with our leading digital product portfolio.

Software AG stayed on par with last year in fiscal 2016 with €871.8 million (2015: €873.1 million) in total consolidated revenue. The Digital Business Platform (DBP) business line accounted for €441.4 million (2015: €431.5 million) of that, which is an increased contribution year-on-year of 50.6 percent (2015: 49.4 percent). The well-established Adabas & Natural line contributed €234.6 million (2015: €248.0 million), or 26.9 percent (2015: 28.4 percent) of total revenue. At constant currency, A&N product revenue was at the upper end of the original annual forecast (–4 to –8 percent) and in the middle of the raised guidance from July 2016 (–4 to –6 percent)—better than market expectations. Our Consulting business line contributed €195.8 million (2015: €193.6 million), which reflects 22.5 percent (2015: 22.2 percent) of total revenue.

Our profitability continued to grow. At 31.2 percent, our operating profit margin (EBITA, non-IFRS) not only reached its best level since Software AG began using this key indicator, but this margin was also one of the best in the entire software sector. Software AG also achieved a number of all-time highs in the last four quarters.

Our largest business line, the **Digital Business Platform,** unites our enterprise digitalization products: integration software, process optimization solutions, analytics tools for big data, artificial intelligence and Internet of Things. This segment also broke a new Software AG revenue record in 2016. We saw a notable rise in 2016 in the market relevance of our software products resulting from the steady spread of digitalization around the world. This was illustrated by a further increase in our average deal size and several notable wins with large industry leaders around the world. As planned, we were able to significantly increase the number of large-scale and multiproduct deals as well as our sales productivity.

Our **Adabas & Natural** database business again proved to be more stable than expected. Its performance beat market expectations with revenue at the upper end of the original target range and mid-range after the adjustment to guidance in July 2016. This positive trend is a result of the relevance of our mainframe technology and intensified efforts to address the market with our Adabas & Natural 2050+ customer and innovation program aimed at offering our customers innovations for their application landscapes and supporting Adabas & Natural beyond 2050. The resonance of the program with our customers was illustrated by the high number of contract renewals and upgrades in this business line in fiscal 2016.

Software AG's **Consulting** business line carries out a key strategic support function for our product sales and contributes significantly to our profitable growth and our customers' success. The combination of leading software solutions and our consultants' implementation expertise help organizations create true business value, resulting in greater satisfaction of Software AG customers. Revenue in the Consulting segment grew 1.1 percent in 2016. The segment margin demonstrated strong profitability for the consulting market at 10.6 percent as our Global

Consulting services unit steadily transitioned to high-value services. Sustainable profitability and high-value service quality are our strategic targets for our consulting business, which have clearly been met in the last few years.

This segment's performance varied from quarter to quarter, ultimately resulting in a substantial increase in revenue and earnings in the fourth quarter. Over the four quarters, Group revenue started at €206.2 million (2015: €194.1 million) in the first quarter, fell to €203.4 million (2015: €205.6 million) then €198.3 million (2015: €215.9 million), finally rising to €263.9 million (2015: €257.5 million) in the fourth. Operating profit margin (EBITA, non-IFRS) is Software AG's key indicator of profitability. Over the four quarters, our EBITA margin improved from 28.7 percent (€59.1 million) in the first quarter to 27.4 percent (€55.8 million) in the second to 33.7 percent (€66.8 million) in the third to reach 34.2 percent (€90.2 million) in the fourth and final quarter of the year.

After the successful performance of the first two quarters and given the strong project pipeline for the second half of 2016, Software AG's Management Board **raised its forecast for the 2016 year** in July. The previous target operating profit margin (EBITA, non-IFRS) range of 30.0 to 31.0 percent was revised upward to 30.5 to 31.5 percent. With an expected decline in Adabas & Natural product revenue between 2 and 6 percent at constant currency and year-on-year (previously: –4 to –8 percent as of Jan. 27, 2016), the Management Board projected greater stability in the Company's database business for fiscal 2016. Its forecast for the Digital Business Platform business line remained unchanged.

We met and even surpassed most of our **financial and non-financial objectives**. In addition to earnings growth, free cash flow rose 10.0 percent (2015: 28.1 percent), which is equivalent to 21.4 percent of revenue. This reflects further growth over the already high level the year before and sets a record for recent years. Equity ratio reached a strong 61.1 percent at the end of the year, up even further from the previous year's good result of 60.0 percent. By strengthening our financial basis and profitability in the year under review, we have paved the road for sustainable profitable growth and increasing enterprise value in the future. This level of profitability will serve as the foundation for innovation and expansion and for Software AG's successful development.

During the past two years, we have successfully driven our entire **go-to-market transformation**, achieved significant progress in sales efficiency and continuously increased our market relevance. Our role as a global player of digital transformation is manifesting itself in our growing international customer base. We logged our biggest success in 2016 in the USA, one of the world's most rapidly moving IT markets. Particularly our fourth-quarter results saw a big leap in that region. Manufacturing companies are increasingly seeking partnerships with software providers and specifically with Software AG to keep up with the quickly growing Industry 4.0 and Internet of Things markets. Global players such as Bosch, Dell, OCTO Telematics and Cumulocity chose to partner with Software AG in 2016 to co-develop new digital IoT and Industry 4.0 services and solutions. We have made significant progress in reaching our goal of assuming a lasting leadership role in digital transformation and establishing our products with customers both onsite and in the cloud.

Our positive earnings in 2016 are tangible results of our value-oriented management focused on profitable growth and financial discipline. In the year under review, we strengthened our innovative potential by expanding our R&D resources and technology acquisitions in forward-looking fields. This will enable us to strengthen our **market-leading position** with our award-winning product portfolio.

Comparison of actual performance with forecast issued last year

It is important to note that the revenue and earnings forecast does not account for currency effects, acquisition or restructuring-related expenses or short-term effects that arise during the course of the year, all of which are unforeseeable.

Earlier than scheduled, Software AG communicated the following **forecast for the full fiscal year** on January 19, 2016:

- Based on the growing importance of its product portfolio and further impetus expected from its go-to-market strategy, Software AG expected DBP product revenue growth between 5 and 10 percent at constant currency in fiscal year 2016.
- The Company predicted a decline in the A&N business line at constant currency between 4 and 8 percent year-on-year.
- Furthermore, Software AG anticipated a continuation of the improved EBITA (non-IFRS) margin to between 30.0 and 31.0 percent.

This outlook was confirmed in the scheduled release of the detailed financial figures for 2015 on January 27, 2016 and again with the release of the first-quarter financials on April 12, 2016.

Following the end of the second quarter, Software AG's Management Board raised the Company's guidance for the full 2016 fiscal year on July 13, 2016 and published an ad hoc statement that same day. Based on the preliminary second-quarter financial figures and strong business development in the first half of the year as well as a good project pipeline for the second half, the Management Board announced the following targets for fiscal 2016:

- An operating profit margin (EBITA, non-IFRS) between 30.5 and 31.5 percent (previously: 30.0 to 31.0 percent as of Jan. 27, 2016)
- Greater stability with product revenue growth in the A&N database business between –2 and –6 percent at constant currency and year-on-year (previously: –4 to –8 percent as of Jan. 27, 2016)
- Unchanged year-on-year product revenue growth in the DBP line at 5 to 10 percent at constant currency

Software AG achieved the following figures in fiscal 2016:

- Operating profit margin (EBITA, non-IFRS) was 31.2 percent (2015: 29.7 percent), hitting the upper end of the target range raised mid-year. The achieved operating profit margin (EBITA, non-IFRS) exceeded the target range announced at the beginning of the year.
- The A&N line generated €234.6 million (2015: €248.0 million) in fiscal 2016, which reflected a 4 percent decrease compared to last year at constant currency. This figure is exactly in the middle of the raised target range. It is at the top of the original range announced at the beginning of the year.
- The DBP line posted €441.4 million (2015: €431.5 million) in revenue in 2016, which is 3 percent growth year-on-year and at constant currency. This figure is below the projected range for growth between 5 and 10 percent. This deviation was a result of temporary challenges in the United Kingdom and with the U.S. public sector.

Financial Performance

Revenue

Software AG generated €871.8 million (2015: €873.1 million) in fiscal 2016, which is the same level as last year (–0.1 percent). Adjusted for constant currency, this is revenue growth of 1.2 percent. The Digital Business Platform business line accounted for €441.4 million (2015: €431.5 million) of that, which is an increased contribution year-on-year of nearly 50.6 percent (2015: 49.4 percent). The Adabas & Natural line contributed €234.6 million (2015: €248.0 million), or 26.9 percent (2015: 28.4 percent) of total revenue. Profitability continued to grow. Operating EBITA (non-IFRS) was at the upper end of the raised forecast and thus the highest it has ever been since this performance indicator has been used. Software AG also achieved a number of all-time highs in the last four quarters closing out the year with a record quarter. For the fast growing DBP line, the fourth quarter was the most successful three-month period in the history of the Company. The A&N database line exceeded market expectations for revenue growth in the last quarter of the year. These results and the increasing use of Software AG's leading technology by large companies in all industries worldwide underscore its successful go-to-market transformation, growing market relevance and focus on profitable growth.

Currency impact on revenue

Exchange rates had a negative effect of €11.5 million on Software AG's total revenue in 2016 after a positive effect of €51.9 million the year before. This development was due primarily to the British pound sterling (GBP), accounting for €7.2 million in losses, and the South African rand (ZAR) for €4.1 million. The U.S. dollar (USD), in contrast, led to gains of €2.5 million.

The largest **percentage of the Company's global revenue** was again in euros (EUR) with 32.8 percent (2015: 33.9 percent), followed by the dollar (USD) with 31.6 percent (2015: 31.1 percent). The next largest shares of revenue in other currencies were 6.5 percent (2015: 7.8 percent) in pound sterling (GBP), 4.6 percent (2015: 4.2 percent) in Israeli shekel (ILS) and 4.4 percent (2015: 3.2 percent) in Brazilian real (BRL). The percentage in Australian dollars (AUD) was stable at 3.4 percent (2015: 2.8 percent). The percentage in South African rand (ZAR), however, dropped to 2.8 percent (2015: 4.0 percent). Other currencies accounted for 13.9 percent (2015: 13.0 percent) of total revenue.

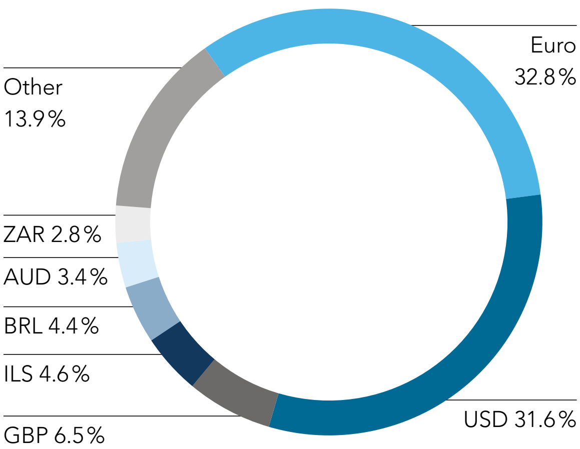
Exchange rates had **varying effects** on the three business segments. Whereas the effect of exchange rates on licenses was minimal at €0.6 million (–0.2 percent), they had a very negative impact on maintenance revenues with losses of €7.5 million (–1.8 percent) and on services with losses of €3.4 million (–1.7 percent) in fiscal 2016.

Currency Impact on Revenue

in € millions	2016	as %
Licenses	–0.6	–0.2 %
Maintenance	–7.5	–1.8 %
Consulting & other	–3.4	–1.7 %
Total	**–11.5**	**–1.3 %**

2016 Currency Split

- ➡ 32.8 % revenue in Euro
- ➡ 76.2 % revenue in foreign currency



Sales by revenue type

Group **license revenue**, which consists of DBP and A&N Software AG products, dropped slightly by 3.3 percent to € 263.0 million (2015: € 271.9 million). The Group's **maintenance revenue** increased to € 412.2 million (2015: € 406.9 million), which is 1.3 percent growth. As a percentage of total sales, maintenance thus climbed further to 47.3 percent (2015: 46.6 percent), confirming Software AG's focus on recurring, high-margin revenues. **Product revenue**, including license and maintenance revenue, performed similarly to last year totaling € 675.2 million (2015: € 678.8 million). As a percentage of total sales, 2016 product revenue remained stable with last year's high level at € 77.4 million (2015: € 77.7 million). Consulting revenue, which refers solely to projects associated with Software AG's own products, rose to € 195.8 million (2015: € 193.6 million) in the year under review (including other income). Software AG's intensified focus on the segment's margin and service quality paid off here as well.

Fourth-quarter revenue in 2016

The fourth quarter of 2016 was especially strong with respect to product revenue, comprising licenses and maintenance. DBP license revenue hit an all-time quarterly best with a decisive 5.5 percent increase to € 78.1 million (2015: € 74.0 million). A&N licenses beat market expectations in the fourth quarter of the year thanks to the successful Adabas & Natural 2050+ customer and innovation program. At € 29.4 million (2015: € 28.9 million), this is growth of 1.6 percent year-on-year. DBP maintenance revenue jumped 4.3 percent to a record level at € 66.3 million (2015: € 63.6 million) in the fourth quarter. A&N maintenance also saw an increase, expanding 2.2 percent to total € 39.9 million (2015: € 39.1 million). Revenue in the Consulting business line was € 50.0 million (2015: € 51.8 million) in the fourth quarter of 2015.

Software AG's fourth-quarter total revenue increased 2.5 percent to € 263.9 million (2015: € 257.5 million). While license revenue for the DBP and A&N product lines rose by 4.4 percent to € 107.5 million (2015: € 103.0 million), global maintenance revenue grew 3.5 percent to € 106.2 million (2015: € 102.6 million) in the final quarter of the year.

Product revenue by region

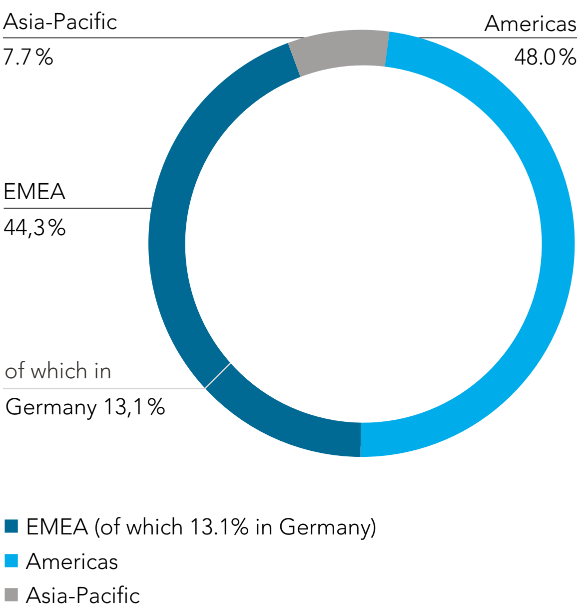
Software AG's product revenue is divided into three geographical regions: **EMEA** (Europe, Middle East and Africa), the **Americas** (North and South America) and **Asia-Pacific** (Australia, Japan, Asia and China). The Group reports product revenue by region based on the management approach in the combined Management Report.

The Americas, Software AG's most important region, accounted for 48.0 percent (2015: 45.9 percent) or € 323.1 million (2015: € 308.8 million) of product revenue and thus the largest portion for the first time ever. The USA, followed by Brazil and Canada, was the largest revenue contributor.

EMEA generated € 298.3 million (2015: € 319.28 million) and thus 44.3 percent (2015: 47.4 percent) of global product revenue. After Germany, the UK and France are Software AG'S most important single markets in the region. Germany alone accounted for € 88.4 million (2015: € 90.0 million), or 13.1 percent (2015: 13.4 percent) of product revenue.

Asia-Pacific increased its contribution considerably, accounting for € 51.5 million (2015: € 45.1 million) or 7.7 percent (2015: 6.7 percent) of the Group's product revenue in 2016. Australia was this region's top performer by a wide margin.

Product Revenue by Region*



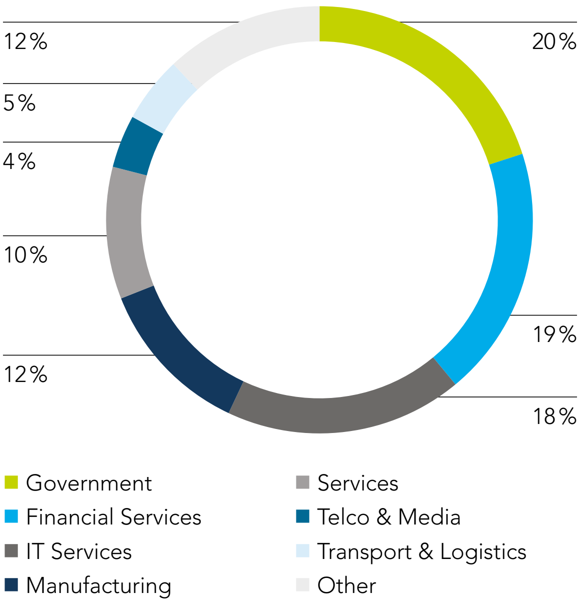
* Based on product revenue in 2016 by management approach (revenue is reported by country in which it was generated)

Product revenue by industry

Companies and organizations in all industries use Software AG's products and services as interdisciplinary technology for all types of business process digital transformation. Its broad distribution across many market segments is a key factor of stability. It protects Group-wide business development from economic fluctuations in individual sectors and is a core component of the business model ensuring solidity and security.

Thanks to a continuously expanding, extremely loyal customer base including many big-name companies, Software AG is well established in the public, financial and IT (including outsourcing) sectors. These industries together accounted for 57 percent of Software AG's revenue in fiscal 2016. Those were followed by the manufacturing industry (12 percent), services (10 percent), transport & logistics (5 percent) and telecommunication & media (4 percent) as percentages of total revenue.

Product Revenue by Industry*



* Based on product revenue in 2016

Order intake

Software AG's business model considers order intake in Consulting as well as in some areas of the product business to be an **indicator of future business development.**

In the Consulting line, a report on order intake for consulting projects is submitted monthly. Work orders typically define a clear order value, whereas service agreements only stipulate an anticipated volume. Since neither the size of orders nor the date they are received are evenly distributed, order intake can fluctuate considerably. For this reason, Software AG assigns greater importance to the Consulting line's order level than to its order intake. The order level at the end of a period is defined as: the order level during a period plus all new orders during that period minus all new projects realized in that period (completed). The order level for a reporting period should increase by about the same rate as the target revenue growth for the next periods. Software AG's order level as of December 31 demonstrated single-digit positive growth from 2016 to 2017 and thus corroborates the expected growth rate for the following period. Accordingly, the forward order range (order level/revenue* 365 days) was four to five months at the end of 2016.

Order intake for products with perpetual licenses play a minimal role, because order intake usually leads to immediate revenue. New orders in maintenance renewal, maintenance agreements and product subscriptions (software-as-as-service) are not a separate performance indicator for the Group. They are managed in line with the Consulting business via resulting order level performance. The order level for these product revenue components in 2016 showed a single-digit growth rate year-on-year. The forward order range is not calculated for the entire product business. It is not a reliable measure due to the heterogeneity of the various components (perpetual licenses, maintenance renewal, maintenance agreements and subscriptions).

Performance of key items on the income statement and cost structure

Software AG reduced its **cost of sales** slightly in fiscal 2016 to €211.8 million (2015: €212.2 million) by further optimizing internal sales-related processes. Gross profit was €660.0 million (2015: €660.9) in 2016. The gross profit margin as a percentage of Group revenue was identical to last year at 75.7 percent. The key factors involved in this high level of profitability were Software AG's focus on efficiency in all areas of the Company, but particularly in sales, the high share of product revenue to total revenue, the increased percentage of high-margin recurring maintenance revenues and the improved margin in Consulting.

Research and development expenses were raised by 5.7 percent to €112.5 million (2015: €106.4 million). As a result, R&D expenses in relation to product revenue (licenses and maintenance) climbed from 15.7 percent to 16.7 percent. This increase is primarily due to R&D investments in the amount of €89.9 million (2015: €85.7 million) in the rapidly growing DBP segment. To fortify its position as innovation leader, Software AG will continue investing in forward-looking digital products and markets. Software AG is dedicated to evaluating and developing technologies for the digital enterprise and thus to a sustainable and customer-centric investment strategy. Furthermore, the increase is also due to the decision to continue developing and supporting its Adabas & Natural database business through the year 2050 and beyond. This strategy was directly reflected by the growth in A&N license and maintenance revenue in the fourth quarter of 2016. The increased spending for the expansion of near and offshore capacities—particularly in India—illustrate a long-term investment policy in the future.

Sales, marketing and distribution expenses were down 8.6 percent to €245.7 million (2015: €268.8 million). These expenses as a percentage of total revenue decreased to 28.2 percent (2015: 30.8 percent). Measures taken in recent years to improve sales efficiency were reflected in the numbers. All customer-related activities were consolidated and the go-to-market strategy was realigned under the Chief Customer Officer. Sales efficiency remains a key operating performance indicator for the management of Software AG.

General and administrative expenses rose year-on-year by 14.3 percent to €79.3 million (2015: €69.4 million) after this cost center had been impacted by two one-time effects in 2015 (for more information, see table on next page). As a percentage of total revenue, administrative expenses therefore increased to 9.1 percent (2015: 7.9 percent).

2016 Consolidated Income Statement

in € millions	2016	2015	One-time effects* 2015	2015 (operating)	Δ as %	Δ as % (operating)
Licenses	263.0	271.9	0.0	271.9	–3%	–3%
Maintenance	412.2	406.9	0.0	406.9	1%	1%
Services	195.2	193.4	0.0	193.4	1%	1%
Other	1.4	0.9	0.0	0.9	56%	56%
Total revenue	**871.8**	**873.1**	**0.0**	**873.1**	**0%**	**0%**
Cost of sales	–211.8	–212.2	1.1	–211.1	0%	0%
Gross profit	**660.0**	**660.9**	**1.1**	**662.0**	**0%**	**0%**
Research and development expenses	–112.5	–106.4	–1.5	–107.9	6%	4%
Sales, marketing and distribution expenses	–245.7	–268.8	6.7	–262.1	–9%	–6%
General and administrative expenses	–79.3	–69.4	–5.6	–75.0	14%	6%
Other taxes	–5.5	–6.0	0.0	–6.0	–8%	–8%
Operating earnings	**217.0**	**210.3**	**0,7**	**211.0**	**3%**	**3%**
Other income/expenses, net	–8.6	–6.8	0.0	–6.8	26%	26%
Net financial income/expense	–4.4	–3.0	0.0	–3.0	47%	47%
Earnings before income taxes	**204.0**	**200.5**	**0.7**	**201.2**	**2%**	**1%**
Income taxes	–63.6	–60.9	0	–60.9	4%	4%
Net income	**140.4**	**139.6**	**0.7**	**140.3**	**1%**	**0%**
Thereof attributable to shareholders of Software AG	**140.2**	**139.4**	**0.7**	**140.1**	**1%**	**0%**
Thereof attributable to non-controlling interests	**0.2**	**0.2**	**0.0**	**0.2**	**0%**	**0%**
Earnings per share in € (basic)	1.84	1.78	0.01	1.79	3%	3%
Earnings per share in € (diluted)	1.84	1.78	0.01	1.78	3%	3%
Weighted average number of shares outstanding (basic)	76,231,631	78,429,032	78,429,032	78,429,032	–3%	–3%
Weighted average number of shares outstanding (diluted)	76,254,712	78,510,932	78,510,932	78,510,932	–3%	–3%

* Two one-time effects had essentially no effect on the income statement in fiscal 2015: €14.7million resulting from the reversal of accumulated expenses calculated for share-based remuneration (MIP IV) offset restructuring costs primarily related to the realignment of Sales in the amount of €15.4 million. This resulted in an effect in the amount of -€0.7 million for the year as a whole.

Earnings performance

Software AG's **operating earnings (IFRS)** were €217.0 million (2015: €210.3 million) in fiscal 2016, which is a year-on-year increase of €6.7 million or 3.2 percent. Accordingly, the operating margin went up to 24.9 percent (2015: 24.1 percent). The driving forces behind the profitability growth were the ongoing high-margin product revenue with a strong 80 percent share of total revenue, steadily rising maintenance sales and the improved Consulting profit. Additional factors included the continued highly profitable A&N business line, increased sales efficiencies through the consolidation of sales activities and the go-to-market transformation and efficiency gains across all processes coupled with active cost management.

Software AG's **EBIT (net income plus income taxes and other taxes plus net financial income/expense)** increased 2.1 percent in fiscal 2016 to €213.9 million (2015: €209.4 million). Accordingly, the EBIT margin went up to 24.5 percent (2015: 24.0 percent).

Other net expenses totaled €8.6 million (2015: €6.8 million). This is mainly due to the increased costs incurred for litigation in the USA. Net financial expense was €4.4 million (2015: €3.0 million). Operationally speaking, financial income/expense was positively affected primarily by items such as the reduced credit volume and increased short-term financial investments. These, however, were outweighed by extraordinary negative items such as amortization of equity instruments in the amount of €2.5 million and interest payments in the amount of €2.9 million relating to a court decision of an appeal case in the USA. Despite other expenses and net financial expense, **pre-income-tax income** increased by 1.7 percent to €204.0 million (2015: €200.5 million). At the same time, income taxes rose 4.4 percent to total €63.6 million (2015: €60.9 million), whereas other taxes dropped 8.3 percent to €5.5 million (2015: €6.0 million). The Group's effective income tax rate was 31.2 percent (2015: 30.4 percent).

Software AG's **net income** for 2016 grew by 0.6 percent to €140.4 million (2015: €139.6) million. This results in a 3.4 percent rise in earnings per share (basic) to €1.84 (2015: €1.78).

Earnings

in € millions	2016	2015	Δ as %	Δ as % acc*
Total revenue	**871.8**	**873.1**	**0%**	**1%**
Cost of sales	–211.8	–212.2	0%	1%
Gross profit	**660.0**	**660.9**	**0%**	**1%**
Margin as %	75.7%	75.7%	—	—
R&D expenses	–112.5	–106.4	6%	6%
Sales, marketing and distribution expenses	–245.7	–268.8	–9%	–7%
General and administrative expenses	–79.3	–69.4	14%	15%
Other income/expenses (net)	–8.6	–6.8	26%	—
EBIT	**213.9**	**209.4**	**2%**	**—**
Margin as %	24.5%	24.0%	—	—

*acc = at constant currency

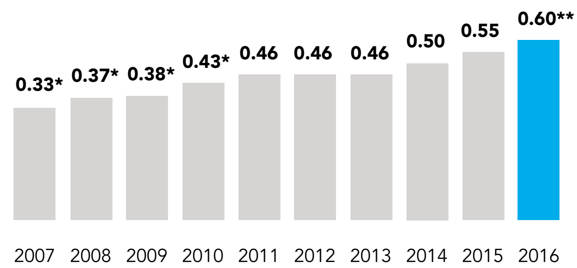
Appropriation of profits

Software AG adheres to a sustainable dividend policy, which is geared toward long-term development and value orientation of the Company. It strives to pursue this continuity in the interest of a dependable relationship with stockholders. The Management Board and Supervisory Board will therefore propose a **dividend** in the amount of €0.60 per share at the Annual Shareholders' Meeting on May 17, 2017 for fiscal year 2016. Last year, the dividend was raised by 10 percent to €0.55 per share. Subject to the approval of the Annual Shareholders' Meeting and assuming 76.2 million dividend-bearing shares outstanding, this would be a total payout sum of €45.7 million (2015: €41.9 million). Based on the closing share price in 2016 (Xetra closing price on Dec. 30, 2016: €34.49/2015: €26.42), this proposal is equal to a dividend yield of about 1.74 percent.

Software AG increased the dividend ratio range in 2015 to 25 to 33 percent of the averaged net income (attributable to shareholders) and free cash flow. Based on the average free cash flow and net income of €163.7 million in fiscal 2016, the dividend ratio would equal 28.0 percent (2015: 27.1 percent). This consistent dividend policy stands for the Company's unequivocal commitment to value and will be continued in upcoming years.

Dividend Development Since 2007

in € per share



* Adjusted for 1:3 stock split, rounded
** Dividend proposal, subject to shareholder approval in May 2017

Additional earnings performance indicators

In order to improve the comparability of Software AG with competitors (primarily in the U.S.) which do not use the IFRS accounting standard, Software AG also reports **non-IFRS performance indicators**. For more information, please refer to the section on "Corporate Control, Objectives and Strategy" on p. 35 of this report.

EBITA (non-IFRS) went up 5.0 percent to €272.0 (2015: €259.1 million) in fiscal 2016. It is important to note that €3.1 million of net income in 2015 resulted from the reversal of recognized accumulated expenses relating to share-based remuneration (MIP IV) totaling €14.7 million. In contrast, this indicator showed a normal trend in 2016. The restructuring/severance/litigation line referred primarily to restructuring of the Sales organization in 2015, whereas in 2016 it related mainly to severance payments and legal fees of similar amounts.

As a percentage of Group revenue, the operating profit margin (non-IFRS) rose 150 basis points to 31.2 percent (2015: 29.7 percent), which is an all-time company high. The operating margin thus hit the upper end of the guidance range that had been raised mid-year.

Net income (non-IFRS) increased 3.7 percent to €180.4 million (2015: €173.9 million). Accordingly, earnings per share (non-IFRS) based on the average number of shares outstanding (basic) of 76.2 million (2015: 78.4 million) were €2.37 (2015: €2.22). This substantial improvement in operating income has solidified Software AG'S financial foundations for further strategic development of its business.

Non-IFRS Earnings

in € millions	2016	2015
EBIT (before all taxes)	**213.9**	**209.4**
Amortization of acquisition-related intangible assets	29.1	35.0
Other M&A-related effects	3.0	2.5
Share price-based remuneration	14.2	–3.1
Restructuring/severance/litigation	11.8	15.3
EBITA (non-IFRS)	**272.0**	**259.1**
as % of revenue (non-IFRS)	31.2	29.7
Net income (non-IFRS)*	**180.4**	**173.9**
Earnings per share (non-IFRS)**	**€ 2.37**	**€ 2.22**

* Net income (non-IFRS) was calculated by subtracting the financial income/expense (IFRS) and other taxes (IFRS) from EBITA (non-IFRS) and using the Group's effective income tax of 31.2 percent (2015: 30.4 percent) to calculate tax expenses.
** Weighted average number of shares outstanding (basic) in 2016: € 76.2 million/2015: € 78.4 million. Operating profit margin (EBITA, non-IFRS) is Software AG's key performance indicator for monitoring profitability.

Multi-Period Earnings Summary

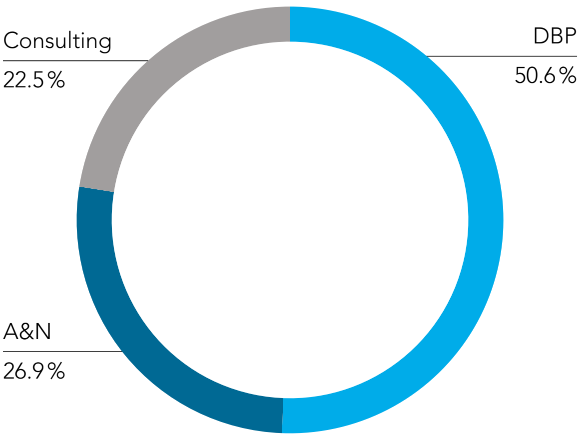
in € millions	2016	2015	2014	2013	2012	2011
Total revenue	**871.8**	**873.1**	**857.8**	**972.7**	**1,047.3**	**1,098.3**
Thereof product revenue	675.2	678.8	641.4	707.5	712.2	673.9
EBIT (before all taxes)	**213.9**	**209.4**	**176.0**	**205.5**	**248.3**	**296.2**
as % of total revenue	24.5%	24.0%	20.5%	21.1%	23.7%	24.5%
Net income	**140.4**	**139.6**	**110.6**	**134.0**	**164.7**	**177.2**
as % of total revenue	16.1%	16.0%	12.9%	13.8%	15.7%	16.1%

Segment reports

Software AG's operations are divided into three segments: Digital Business Platform, Adabas & Natural and Consulting. The Company's strategic focus on its high-margin product business consisting of license and maintenance sales from its own product families is reflected by the positive revenue distribution across the three segments.

Accounting for 50.6 percent (2015: 49.4 percent) of total revenue, for the first time ever, the cutting-edge DBP segment contributed more than half of the Group's sales in fiscal 2016. This is testimony to its business relevance. The A&N business line accounted for 26.9 percent (2015: 28.4 percent) of total revenue. The Consulting business line slightly increased its share of revenue to 22.5 percent (2015: 22.2 percent).

Revenue Split



in € millions	2016	as %
Total revenue	871.8	100
DBP	441.4	50.6
A&N	234.6	26.9
Consulting	195.8	22.5

Digital Business Platform

In fiscal 2016, the Digital Business Platform business line generated €441.4 million (2015: €431.5 million) in total revenue from the sale of integration and process management software and IT management and big data analytics solutions. This marks 2.3 percent growth.

DBP license and maintenance revenue demonstrated positive growth during 2016, ending the year with the most successful quarter the DBP line has ever had. All products were integrated to form the Digital Business Platform, which was unveiled at the end of 2014. This strategy has paid off. The number and size of multi-product orders in the Digital Business Platform line is on the rise. That played a role in the positive results and will have an even more substantial impact in future years. Maintenance revenue went up 2.9 percent to €255.1 million (2015: €248.0 million). Longer-term past DBP license agreements were the reason for this trend. Increasing maintenance revenue is an indicator of Software AG's focus on the profitable sales of its own products and sustainable customer relationships.

License sales from DBP products grew 1.5 percent to total €186.3 million (2015: €183.5 million) in 2016. Software AG's new go-to-market strategy and steadily improving efficiency in sales led to a growth rate of 5.5 percent in the fourth quarter year-on-year. Compared to the fourth quarter of 2014, this is a 29.8 percent gain and confirmation of the increasing relevance of the DBP products.

DBP increased its segment earnings by an excellent 18.1 percent to €147.8 million (2015: €125.2 million). Compared to 2015, this is a 39.7 percent increase, which reflects the sustainable profitability of this business line. The DBP segment margin climbed to 33.5 percent.

2016 Segment Report for the Digital Business Platform

in € millions	2016	2015	Δ as %	Δ as % acc*
Licenses	186.3	183.5	2%	1%
Maintenance	255.1	248.0	3%	5%
Total revenue	**441.4**	**431.5**	**2%**	**3%**
Cost of sales	–31.3	–27.9	12%	13%
Gross profit	**410.1**	**403.6**	**2%**	**3%**
Sales, marketing and distribution expenses	–172.4	–192.7	–11%	–10%
R&D expenses	–89.9	–85.7	5%	4%
Segment earnings	**147.8**	**125.2**	**18%**	**20%**
Margin as %	**33.5%**	**29.0%**	**—**	**—**

*acc = at constant currency

Adabas & Natural

Software AG's mainframe-based database business line consisting of the Adabas & Natural products generated €234.6 million (2015: €248.0 million) in revenue in fiscal 2016. This is a decline of 5.4 percent. At constant currency, this is a decrease of 3.8 percent, which falls in the middle of the target range which had been raised mid-year. The whole market for traditional database software for mainframes is in decline due to its maturity and saturation. So Software AG's expectations have been a gradual decrease in this business for some years. The fact that this decline was slowed down and is very moderate reflects the loyalty of the A&N customer base, which relies on Software AG's dependable technology to run their business-critical applications. Software AG's announcement at the end of August 2016 of its intent to continue developing and supporting the A&N portfolio beyond the year 2050 had an immediate effect in the fourth quarter. It is certain to produce further impetus for the business line in fiscal 2016 and beyond.

2016 Segment Report for Adabas & Natural

in € millions	2016	2015	Δ as %	Δ as % acc*
Licenses	76.8	88.4	–13%	–12%
Maintenance	157.1	158.9	–1%	1%
Product revenue	**233.9**	**247.3**	**–5%**	**–4%**
Other	0.7	0.7	0%	0%
Total revenue	**234.6**	**248.0**	**–5%**	**–4%**
Cost of sales	–11.7	–14.2	–18%	–17%
Gross profit	**222.9**	**233.8**	**–5%**	**–3%**
Sales, marketing and distribution expenses	–38.0	–39.5	–4%	–2%
R&D expenses	–22.5	–20.7	9%	8%
Segment earnings	**162.4**	**173.6**	**–6%**	**–5%**
Margin as %	**69.2%**	**70.0%**	**—**	**—**

*acc = at constant currency

A&N maintenance revenue was € 157.1 million (2016: € 158.9 million) in fiscal 2016, which at constant currency is 1 percent higher than last year. A&N license revenue dropped to € 76.8 million (2015: € 88.4 million) in 2016, because the mainframe database market is mature and saturated.

A&N segment earnings fell accordingly to € 162.4 million (2015: € 173.6 million), even though the cost of sales and sales and marketing expenses were reduced. On par with the record level of 70 percent from 2015, the A&N segment margin was 69.2 percent for 2016.

Consulting

The Consulting business line generated € 195.8 million (2015: € 193.6 million) in fiscal 2016, which is growth of 1.2 percent. Consulting's percentage of total revenue thus went up slightly from 22.2 percent to 22.5 percent.

Segment earnings for Consulting were € 20.8 million (2015: € 21.8 million), which marks a 4.6 percent decrease. The segment margin was thus 10.6 percent (2015: 11.3 percent), which is very strong for the consulting market. This result emphasizes the increasing relevance of Software AG's strategic consulting services for its customers. It also illustrates the success of the transformation of the Consulting business.

Sustainable profitability and high service quality are Software AG's strategic targets for its Consulting business. The Company therefore focuses its activities on projects that comprehensively support its product business. Furthermore, Software AG is reducing its presence in regions with low profit expectations and focusing on more promising markets. The Consulting business line was able to support the sustainable success of the other two product-driven business lines, while undergoing further optimization measures.

2016 Segment Report for Consulting

in € millions	2016	2015	Δ as %	Δ as % acc*
Total revenue	**195.8**	**193.6**	**1%**	**3%**
Cost of sales	–157.4	–153.3	3%	4%
Gross profit	**38.4**	**40.3**	**–5%**	**–2%**
Sales, marketing and distribution expenses	–17.6	–18.5	–5%	–2%
Segment earnings	**20.8**	**21.8**	**–5%**	**–1%**
Margin as %	**10.6%**	**11.3%**	—	—

*acc = at constant currency

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 portfolio optimization through an appropriate financing structure—regardless of short-term capital market conditions. The Group also ensures the solvency of all its subsidiaries. The Company has sufficient liquid assets available for this from net cash provided by operations and existing credit agreements. A high equity ratio and free cash flow provide the financial flexibility for accelerated organic growth and targeted acquisitions.

The corporate Finance department implements financial policy and risk management based on guidelines determined by the Management Board. Software AG's liquidity position is centrally 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 through broadly diversified 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, minimizing them using derivative financial instruments. In doing so, only existing balance sheet items or expected cash flows are hedged.

Financing analysis

Software AG's **cash and cash equivalents** were €374.6 million as of December 31, 2016 compared to €300.6 million at the beginning of the reporting year, which marks an increase of €74.0 million. Thanks to Software AG's active cash flow management, free cash flow increased year-on-year by €17.0 million to total €187.0 million. The free cash flow could therefore be used for loan repayments (net) in the amount of €38.0 million (2015: €130.0 million), acquisition payments (net) in the amount of €43.1 million (2015: €0 million) and dividend payments in the amount of €42.1 million (2015: €39.6 million).

Shareholders' equity increased 9.8 percent to total €1,196.8 million (2015: €1,089.7 million) as of December 31, 2016. Software AG posted increases in its retained earnings to €1,145.4 million (2015: €1,047 million) and other reserves to €19.8 million (2015: –€5.8 million), while capital reserves decreased to €23.7 million (2015: €40.5 million) due to the exercise of options under Management Incentive Plan (MIP) III. For more information see Note [34] on p. 87 in the Notes to the Consolidated Financial Statements. Software AG's equity-to-assets ratio rose from 60.0 percent in 2015 to 61.1 percent in 2016. Software AG's share capital as of December 31, 2016 totaled 79,000,000 shares.

Software AG used its high level of cash and cash equivalents in fiscal year 2016 to make two technology acquisitions which will further strengthen its innovation portfolio and thus the Group's future organic growth.

Multi-Period Financial Position Summary

in € millions	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	374.6	300.6	318.4	450.0	315.6	216.5
Current financial liabilities	101.5	113.0	110.8	208.3	58.7	37.5
Non-current financial liabilities	200.0	213.2	340.5	410.5	213.4	254.3
Net liquid assets/net debt	73.1	–25.7	–132.9	–168.8	43.5	–75.3
Equity	1,196.8	1,089.7	1,013.4	965.6	1,060.1	951.5
Equity ratio	61 %	60 %	55 %	48 %	60 %	57 %
Total assets	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**

Financing instruments

Software AG's financing is based largely on continued strong free cash flow. In addition, the Company uses bank loans, promissory note loans, factoring and finance leasing models for any additional financing needs. A primary financing risk arises form the possibility that the Company would not be able to satisfy existing financial liabilities, which include loan agreements, lease agreements and trade accounts payable. Active **working capital management** and Group-wide **liquidity control** limit this risk. Financial obligations can be balanced by available cash and bilateral lines of credit. The loans used are predominantly at fixed interest rates and have terms to maturity of no more than six years. Software AG secured fixed-interest rates for some of the loans using interest rate swaps. Variable interest payments are based on the prevailing interest rate on the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2016.

Investment analysis

Capital expenditure for property, plant and equipment and intangible assets play a minor role at software companies such as Software AG. These investments were up moderately at €12.7 million (2015: €12.1 million) in fiscal 2016 and were used primarily for operating and office equipment in the Sales and R&D offices and administrative headquarters in Darmstadt.

Liquidity analysis

Total cash flow outperformed earnings in fiscal 2016. **Net cash provided by operating activities** rose by €18.3 million, or 9.9 percent, to €203.7 million (2016: €185.4 million). Changes in liabilities had a very positive effect here. Furthermore, the sustainable cash flow growth is a result of Software AG's consistent receivables and cost management.

Cash outflows from investing activities were €60.0 million compared to inflows of €32.8 million one year ago. This difference is a result partly of the change in investments in current financial assets. While net proceeds from the change in current financial assets led to inflows of €49.2 million the year before, net outflows for investments totaled €0.2 million in 2016. An additional difference resulted from net cash outflows for two **technology acquisitions** in the amount of €43.1 million in fiscal 2016.

Cash outflows from financing activities decreased from €239.5 million in 2015 to €80.5 million in 2016. Whereas expenses totaling €70.0 million for the repurchase of treasury shares and €130.0 million net for the repayment of financial liabilities were reported in 2015, no share buyback occurred in 2016. Net repayments on loans were €38.0 million. The total dividend payout rose to €42.1 million (2015: €39.6 million) after the dividend per share increased from €0.50 in 2015 to €0.55 in fiscal 2016.

Statement of Cash flows for Fiscal Year 2016

in € millions	2016	2015
Operating cash flow before changes in working capital	224.0	245.5
Net cash provided by operating activities	203.7	185.4
Net cash used in investing activities	–60.0	32.8
Net cash provided by/used in financing activities	–80.5	–239.5
Net change in cash and cash equivalents	74.0	–17.8
Cash and cash equivalents at end of period	374.6	300.6
Free cash flow	**187.0**	**170.0**

Free cash flow improved 10.0 percent year-on-year to € 187.0 million (2015: € 170.0 million), which illustrates similarly positive growth to the 9.9 percent increase posted for operating cash flow (2015: 29.5 percent). The ratio of free cash flow to Group revenue was 21.4 percent, up from last year's 19.5 percent. The cash-conversion ratio (free cash flow to net income: € 187.0 million/€ 140.4 million) of 133.2 percent clearly outperformed last year's of 121.8 percent. Free cash flow per share increased to € 2.45 (2015: € 2.17) in the year under review.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including cash outflows for investments in current financial assets, proceeds from the sale of current financial assets, proceeds from the sale of disposal groups or net cash outflows for acquisitions.

Asset structure analysis

Software AG's **total assets and liabilities** increased from € 1,814.8 million on December 31, 2015 to € 1,957.2 million on December 31, 2016.

On the **assets side, current assets** were up 9.9 percent to € 642.0 million (2015: € 584.2 million), the main reason being the increase in cash and cash equivalents by 24.6 percent to € 374.6 million (2015: € 300.6 million). An increase was also reported for non-financial assets of € 5.5 million to € 20.3 million (2015: € 14.8 million). Current trade receivables and other receivables decreased by 5.0 percent to € 221.0 million (2015: € 232.6 million), whereas non-current trade receivables and other receivables increased by 13.1 percent. Current income tax reimbursement claims dropped by 48.4 percent to € 12.6 million (2015: € 24.4 million) resulting from excessively high advance payments made in previous years.

Non-current assets were up year-on-year at € 1,315.2 million (2015: € 1,230.6 million). The rise is due to € 36.6 million from the increase in goodwill to € 936.6 million (2015: € 900.0 million). The increase in goodwill is due to € 24.5 million from additions related to two acquisitions of technology companies in fiscal 2016 and € 12.1 million from currency effects. Furthermore, property, plant and equipment were up by € 19.4 million to € 75.6 million (2015: € 56.2 million). This rise is due to € 17.4 million from the acquisition of an office building in Darmstadt (Germany). In addition to the rise in current other financial assets, non-current other financial assets also increased to € 46.0 million (2015: € 24.5 million) due primarily to hedging stock option plans. In contrast to the current trade receivables and other receivables, non-current receivables rose 13.0 percent to € 84.9 million (2015: € 75.1 million). The rise is partly due to exchange rate effects as of the balance sheet date. The aging structure of trade receivables in 2016 was similar to 2015 and exhibited no irregularities. Intangible assets fell to € 149.4 million (2015: € 157.4 million) due to amortization, partially compensated for by the acquisition of two technology companies in 2016.

On the **liabilities side, current outside capital** increased to € 467.6 million (2015: € 439.5 million). This was primarily due to the rise in other non-financial liabilities by 7.9 percent to € 121.8 million (2015: € 112.9 million) and in other provisions by 80.2 percent to € 51.0 million (2015: € 28.3 million). That includes provisions for variable remuneration in the amount of € 25.6 million (2015: € 8.2 million) and litigation in the amount of € 17.9 million (2015: € 13.8 million).

Non-current outside capital increased by 2.6 percent year-on-year to € 292.8 million (2015: € 285.5 million). This rise is due to the increased trade payables in the amount of € 4,2 million (2015: € 0.1 million) and increased provisions for pensions and similar obligations and other provisions totaling € 67.0 million compared to € 53.5 million in 2015.

Due to the long-term expansion of the maintenance business and the associated recurring revenues, current and non-current deferred income, which includes the increasing volume of future maintenance revenues, grew by about 9.3 percent to total € 133.1 million (2015: € 123.8 million).

Software AG's **net cash position** improved considerably to €73.1 million, compared to 2015 where net debt was posted in the amount of €25.7 million.

Equity was up 9.8 percent year-on-year totaling €1,196.8 million (2015: €1,089.7 million) as of December 31, 2016. Software AG's equity-to-assets ratio rose from 60.0 percent in 2015 to 61.1 percent in 2016.

Off-balance sheet assets

In addition to the assets reported in the consolidated balance sheet, Software AG has off-balance sheet assets. Off-balance sheet assets include the Software AG brand and internally developed software products, which are important intangible assets. Employees, their skills and their dedication are also critical to Software AG's success. Additional off-balance sheet assets include office space, leased company cars and hardware.

Multi-Period Assets Summary

in € millions	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Assets	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**
Current assets	642.0	584.2	635.4	769.5	675.8	574.3
Non-current assets	1,315.2	1,230.6	1,213.6	1,227.4	1,096.1	1,106.4
Equity and liabilities	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**	**1,680.7**
Current liabilities	467.6	439.5	415.1	533.1	401.8	381.6
Non-current liabilities	292.8	285.5	420.4	498.2	310.0	347.7
Equity	1,196.8	1,089.7	1,013.4	965.6	1,060.1	951.5

Separate Annual Financial Statements of Software AG (Parent Company)

The Financial Statements of Software AG (parent company) were prepared pursuant to the provisions of the German commercial code.

Financial performance of Software AG

The key items of the **income statement** are as follows:

in € millions	2016	2015	Δ as %
Licenses	8.9	8.7	2.3
Maintenance	107.1	104.6	2.4
Services	103.5	111.5	–7.2
Total revenue	**219.5**	**224.8**	**–2.4**
Operating income and expenses	–247.1	–234.4	5.4
Income from investments and profit transfer	139.1	114.0	22.0
Operating earnings before interest and taxes	**111.5**	**104.4**	**6.8**
Net financial income/expense	–3.7	–4.2	–11.9
Earnings before taxes	107.8	100.2	7.6
Taxes	–14.0	–13.0	7.7
Net income/loss for the year	**93.8**	**87.2**	**7.6**

- **Licenses** resulted from license-related royalties from subsidiaries and from Software AG's own license sales in Germany.

- **Maintenance** includes maintenance-related royalties from subsidiaries and maintenance revenue from third-party products. The year-on-year increase relates to higher maintenance revenue from the subsidiaries.

- **Services** include management fees crossed-charged to the subsidiaries as well as services rendered by central support and cross-chargeable research and development costs. The year-on-year decrease is due primarily to the reassignment of R&D projects between the U.S. and Germany.

- **Operating income and expenses** include changes in inventories of finished goods and work in progress, other operating income and expenses, expenses for purchased goods and services, personnel expenses and depreciation, amortization and impairment on intangible and tangible fixed assets. The increase is due largely to the balance of write-ups on share interests that went up by € 17.9 million, transfers to provisions for legal risks that went up by € 12.8 million and a one-time effect recognized in 2015 from the termination of MIP IV in the amount of € 14.7 million.

- **Income from investments and profit transfer** includes dividends from subsidiaries, income arising from profit transfer agreements and impairment of financial assets and marketable securities. The rise resulted primarily from the increase in subsidiaries' dividends by € 28 million.

- **Net financial income/expense** is the result of offsetting other interest and similar income against interest and similar expenses. The year-on-year improvement was due mainly to the overall lower interest on liabilities to banks.

- **Tax expenses** rose by € 1 million mainly due to effects from the previous fiscal year and non-deductible foreign withholding taxes.

Balance sheet and financial position of Software AG

Total assets of Software AG increased by a total of €37.2 million, from €872.0 million on December 31, 2015 to €909.2 million on December 31, 2016.

The following depicts the primary changes compared with the prior year:

in € millions	2016	2015	Δ as %
Intangible assets	21.5	24.0	–2.5
Property, plant and equipment	41.3	23.9	17.4
Long-term financial assets	679.6	655.6	24.0
Inventories	0.1	0.1	0.0
Receivables and other assets	130.6	128.6	2.0
Cash and cash equivalents and short-term securities	28.8	34.9	–6.1
Prepaid expenses/other	7.3	4.9	2.4
Assets	**909.2**	**872.0**	**37.2**
Equity	322.6	287.1	35.5
Provisions	110.6	73.4	37.2
Liabilities to banks	280.5	312.8	–32.3
Liabilities	194.7	198.5	–3.8
Deferred income	0.8	0.2	0.6
Equity and liabilities	**909.2**	**872.0**	**37.2**

- **Intangible assets** decreased by €2.5 million due primarily to amortization and additions from the current year.
- The increase in **property, plant and equipment** of €17.4 million is a result of the purchase of an office building in Darmstadt (Germany).
- **Financial assets** went up by €24 million. These related mainly to write-ups on two subsidiaries and to the reassignment of provisions for future pension commitments from other assets.
- **Receivables and other assets** increased by €2.0 million as of December 31, 2016. This was due to a rise in receivables from subsidiaries in the amount of €9.9 million and a share price-related increase of €12.0 million in hedges on management incentive plans. This was offset by a €14.8 million decrease in receivables due from tax authorities and a reclassification of provisions for future pension commitments to financial assets in the amount of €4.9 million.
- **Cash and cash equivalents** went down by €6.1 million. Software AG predominantly generates liquidity based on royalties, dividends, Group financing and management fees from the subsidiaries. For this reason, the cash flows of Software AG depend to a great extent on decisions regarding the dividend payouts of subsidiaries and financing arrangements between the parent company and the subsidiaries. A cash flow statement for Software AG alone would therefore have little meaning, for which reason such a statement is not prepared.
- Software AG' **equity** increased by €35.6 million year-on-year. This rise resulted from the balance of net income for the year totaling €93.8 million, the dividend payout in fiscal 2016 totaling €41.9 million and the recognition of a stock option payout under MIP III in the amount of €16.3 million.

- **Provisions** increased by €37.2 million. This change is due primarily to the rise in provisions for litigation and the increase of revenue and earnings-based provisions for staff.

- **Liabilities to banks** went down by €32.3 million due primarily to loan repayments.

- **Liabilities** decreased year-on-year by €3.8 million. This resulted predominantly from the balance of a decrease in loans from affiliated companies due to higher dividends and the entry of a purchase price obligation for an office building in Darmstadt.

Outlook

Software AG's future financial performance depends upon the financial standing of the Software AG Group and decisions regarding the payout of Group-internal dividends. Therefore, please refer to the Outlook in the Group Management Report.

Other Intangible Assets

Explanation of corporate acquisitions

Corporate acquisitions and participating interests play an important role in Software AG's future-oriented sustainable growth. New impetus and expertise has been gained with targeted technology acquisitions in recent years. This has expanded the Company's product portfolio and opened up new markets while solidifying Software AG's technology leadership. A total of 14 businesses were acquired between 2007 and 2014 for the purpose of growing the Company as well as the product portfolio. The following two acquisitions were concluded in fiscal year 2016:

Software AG completed the acquisition of **CONNX Solutions Inc.** based in Redmond, Washington (USA) on July 31, 2016. With a portfolio of business-critical SQL applications and integration solutions, this company provides key technologies and expertise in data integration and replication for Adabas & Natural customers. Software AG has been working successfully with CONNX Solutions Inc. for over 10 years and this acquisition strengthens the implementation of the Adabas & Natural 2050+ customer initiative. With this purchase, Software AG is securing its customers' access to this technology over the long term.

Software AG announced the acquisition of **Zementis**, an artificial intelligence specialist, on December 2, 2016. The company is based in San Diego, California (USA) and develops software for deep learning, a core function of machine learning and data analysis. Software AG sees the current progress in these areas as the foundation for next-generation IoT applications. These include self-driving cars, personal digital assistants, medical diagnoses, predictive maintenance and robotics. Zementis products were already part of the Digital Business Platform as a partner technology at the time of the acquisition. In combination with Software AG's real-time streaming analytics technology, they have been providing companies with precise business and technical knowledge about customer behavior, market dynamics, security risks and sensor information from the Internet of Things.

Employees

As of December 31, 2016 Software AG employed 4,471 (2015: 4,337) people (full-time equivalents) worldwide. Of those, 1,914 (2015: 1,866) worked in in Consulting and Services, 842 (2015: 862) in Sales and Marketing, 1,110 (2015: 992) in Research and Development and 605 (2015: 617) in Administration. Software AG employees sold products and services in 70 countries around the globe. In Germany, Software AG employed 1,148 (2015: 1,178) people as of December 31, 2016.

Software AG's staff was distributed according to function and region as follows:

Headcount by Function* and Region 2016

FTE	Dec. 31, 2016	Dec. 31, 2015	Δ as %**
Total	**4,471**	**4,337**	**3%**
Consulting/Services	1,914	1,866	3%
R&D	1,110	992	12%
Sales and Marketing	842	862	–2%
Administration	605	617	–2%
Germany	1,148	1,178	–3%
USA	601	561	7%
India	766	613	25%
Other countries	1,956	1,985	–1

* According to P&L structure ** Year-on-year

Employee recruitment and development

Software AG's employees play a substantial role in the Company's success. Their expertise and personal skills make a crucial contribution to persuading customers, investors and business partners to choose Software AG. Particularly when competition for the best talent is growing fiercer, offering high-value training is a key competitive advantage. This is especially true for the highly innovative IT sector. Only employees with excellent education and training are able to unfailingly develop the best solution for customers.

Against this backdrop, Software AG pursues a comprehensive program of **employee recruitment and development** to manage the Company's culture and strengthen employer branding.

Software AG's **Corporate University** is an integral component of Human Resources and offers employees all over the world an extensive array of trainings, both as e-learning as well as face-to-face sessions. In addition to providing sessions to build technical expertise, other programs focus on new concepts of talent and management development as well as promoting social skills. iLearn, Software AG's new digital learning platform, was rolled out worldwide in February 2016, backed by a learning management system with specific training offerings for different departments.

The **University Relations** Program has proven to be a long-term recipe for success in the search for the best rising talent: Software AG is providing software products for teaching and research purposes to more than 1,350 universities in over 70 countries. More than 22,000 students have already benefited from this program, learning about solutions from Software AG for a wide variety of technology trends. In addition, visits to Software AG facilities and guest lectures create close ties to universities and their graduates, which is absolutely invaluable in times of trained personnel shortages.

Software AG's **corporate culture** is shaped by an international team of employees, a working environment that is family-like and yet global at the same time, as well as the high level of commitment among employees. For that reason, promoting a diverse workforce, their leadership strengths and their expert knowledge while strengthening their global identity is vitally important at Software AG.

With the help of differentiated **employer branding** activities, Software AG is solidifying its position as an appealing employer and creating an innovative, performance-oriented work environment at the same time. To strengthen its position as market leader, Software AG must not only find and hire the most talented experts, it needs to retain, motivate and support existing employees with their many years of knowledge about processes, products and customer needs. Of particular note in this context is the Company's deep respect for its employees—manifested in individual recognition, competitive compensation and comprehensive social benefits.

Research and Development (R&D)

Research and Development (R&D) comprises a key building block of Software AG's innovation-oriented business strategy and strengthens its technology leadership. In 2016, R&D worked on customer-centric development of the Digital Business Platform, focusing on a complementary product portfolio, integrating technologies from new partners and acquired companies into the DBP and A&N product families, and implementing the co-innovation strategy. At CeBIT 2016, Software AG joined with partners to present solutions for the digitalization of business processes and business models—from data storage to predictive analytics to dynamic enterprises, supplemented with specific use cases for individual industries. The Company launched a series of **innovations** on the market throughout the year. The next focal points concentrate on innovations for the Internet of Things and Industry 4.0, meaning the integration of sensors and smart objects into business processes.

Technological advances create ideal prerequisites for shaping IT trends. Once again, joint **research projects** with customers, users and partners as well as universities, research institutes and startups delivered valuable impetus. Approaches such as scrum and design thinking methods were employed in the innovation process.

Expenditures for research and development in new and existing products amounted to € 112.5 million (2015: € 106.4 million) in fiscal 2016. Therefore, its percentage of Group product revenues (licenses and maintenance) rose slightly to 16.7 percent (2015: 15.7 percent). The increase is due primarily to future-oriented **investments** in the Adabas & Natural 2050+ agenda. Moreover, the R&D department is concentrating on managing R&D activities efficiently by taking into consideration development capacities in different countries. For that reason, the Company now maintains three large, high-performance development centers in India. Software AG is optimizing its resource allocation even further by combining technology acquisitions and in-house solutions, and intentionally balancing development work across high and low-wage locations.

In this context, the number of **employees in R&D** rose to 1,110 (2015: 992) full-time equivalents as of December 31, 2016. This corresponds to an 11.9 percent increase compared to the previous year and reflects the Company's comprehensive focus on the future. In the year under review, R&D experts worked in 15 countries worldwide, the majority of those in Germany, India, the USA and Bulgaria.

Multi-Period Summary for R&D

in € millions	2016	Δ as %	2015	Δ as %	2014	2013	2012	2011
R&D expenditure for A&N	22.5	8.7 %	20.7	–14.9 %	24.3	25.3	26.1	26.4
R&D expenditure for DBP	89.9	4.9 %	85.7	1.2 %	84.7	82.6	75.0	61.6
Total	**112.4**	**5.6 %**	**106.4**	**–2.4 %**	**109.1**	**107.9**	**101.1**	**88.0**
as % of product revenue	16.7 %		15.7 %		17.0 %	15.3 %	14.2 %	13.1
as % of total revenue	12.9 %		12.2 %		12.7 %	11.1 %	9.7 %	8.0
R&D headcount (FTE)	**1.110**	**11.9 %**	**992**	**2,5 %**	**968**	**998**	**887**	**887**

Participation in research programs

In order to recognize market and technology trends early on, Software AG collaborates on joint research projects —national and international—with prestigious partners from the science and business communities:

- **ELISE** is a research project to develop an interactive and emotion-sensitive learning system for developing expertise in the area of business process management. The integrated hardware-software system ELISE is designed as a "serious game," where learners pass through and play through 3D visual multimedia business models (process walkthrough) using virtual-reality goggles. This makes the process interactive and provides a unique user experience. ELISE is being funded by Germany's Federal Ministry for Education and Research. Software AG is responsible for the development and concept as well as media implementation of selected business processes in the learning system using its ARIS software solution.

- Software AG is participating in the **enera** research project as a business partner. Its objective is to build a decentralized and dynamic energy system (smart grid) to combine two previously contrary goals: the intensive use of renewable energies on the one hand, and ensuring a stable power supply on the other. enera aims to achieve this by digitally transforming the energy system. Germany's Federal Ministry for Economic Affairs and Energy is sponsoring this project, which represents the next big step in the energy revolution.

- The **Radar CNS** (Remote Assessment of Disease and Relapse in Central Nervous System Disorders) research program funded by the European Commission explores the potential of wearable devices and smartphones to prevent and treat illnesses of the central nervous system such as depression, multiple sclerosis and epilepsy. It aims to improve patient quality of life and develop new treatment approaches. As one of 24 participating organizations, Software AG is supporting the project with its data analysis solutions for detecting the disease status, collecting and processing the data in real time as well as visualizing the data and managing patients.

Customers, sales and partners

Software AG is laying the foundation for long-term competitive advantages with a customer-centric, value-oriented sales approach. The go-to-market strategy, as well as cutting-edge strategic alliances, solidify Software AG's market relevance.

Software AG's primary objective is to support its **customers** with innovative technologies in their transition to an agile digital enterprise. Many successful projects with well-known large and midsized companies on all continents and in every industry attest to this. Software AG's relevance as a global player in the digital transformation is reflected in its growing international customer base with many longtime relationships based on trust. The renewed increase in average deal size in 2016 illustrated the growing relevance of Software AG products for digitalization moving forward all over the world.

The **Sales organization** focuses on putting customers and their individual business needs at the center of all sales and marketing activities. Software AG's efforts in this area include working together with user groups to continue developing solutions for the key product lines. The innovative power of Software AG's product portfolio and all-round solution approach support this tactic—and positive results from customer surveys and awards from independent analysts confirm its effectiveness. In addition to the rise in average deal size and increase in deals exceeding €1 million, especially in the DBP business line, the significant improvement in customer satisfaction demonstrates the success of the Company's go-to-market transformation. Software AG's Adabas & Natural customers are extraordinarily loyal. The Group is honoring this with concrete measures to ensure innovation and support services through 2050 and beyond as part of its new Adabas & Natural 2050+ customer and innovation program.

The Company has successfully driven its go-to-market transformation, achieving significant progress in sales efficiency and consistently strengthening Software AG's market relevance. The biggest success in 2016 was in the USA, a trendsetting market. An extraordinarily strong project pipeline will continue to strengthen this growth trajectory at the start of 2017.

Sales and marketing activities also include numerous tradeshows and customer events where Software AG presents its innovative product portfolio and engages with customers, interested participants, partners and industry experts:

- **CeBIT 2016:** Making the digital transformation come alive. That was the motto of the CeBIT industry tradeshow where Software AG presented its solutions March 14–18, 2016 in Hannover (Germany).

- **Digital Business Day:** More than 600 prospects and customers attended the Digital Business Day on July 5, 2016 in Bonn (Germany) and learned how they can successfully implement digitalization in their own company. Other events in 2016 were held in Australia, Brazil, China, England, France, Japan, Korea, Mexico, Poland, Singapore, Spain, South Africa and the USA with a total of more than 2,400 attendees.

- **International User Group Meeting:** More than 390 participants from 210 companies and 37 countries attended the International User Group Meeting in Dresden (Germany) from June 13–17, 2016.

- **Partner Summit:** The EMEA Partner Summit was held in Frankfurt (Germany) on January 18, 2016. The APJ Partner Summit in Bali (Indonesia), the Americas Partner Summit in New York (USA) and the Partner Kick Off 2016 in Grassau (Germany) followed throughout the year. The event series gives partners direct insights into Software AG's strategy and product roadmaps, and focuses on current partner-specific themes.

The **user groups** are one of the most important instruments for strengthening customer loyalty. Users of Software AG's key product lines come together in these groups and share their experiences in regular regional meetings. They discuss with Software AG how the products should be developed in the future. Approximately 1,600 members from more than 1,100 companies in 67 countries are organized into over 30 regional user groups. The International User Group Meeting is held once a year, with the next one happening on May 8–12, 2017 in Salzburg, Austria.

Software AG's **partner ecosystem** is a key pillar in Software AG's business model for expanding its own services and sales capabilities and industry-specific expertise. It enables the Company to develop solutions on top of its Digital Business Platform to further drive adoption of the product portfolio and deliver customer success. As of December 31, 2016, this network included a total of 389 sales partners (2015: 333). In the last three years alone, more than 2,000 partner consultants have been added and trained on Software AG's products with a self-designed enablement program. Another core element of the partner enablement strategy is the partner portal, where registered partners can access information and marketing material on campaigns, products and the joint sales strategy any time, day or night.

Furthermore, Software AG engages in specific **strategic partnerships** to further expand its leading position in trending technologies. For example, Software AG forged several new IoT and Industry 4.0 partnerships in the reporting year—including alliances with Bosch, Dell, OCTO Telematics and Cumulocity—that focus on the integration of digital sensors and the requirements of predictive maintenance. The strategic innovation partnership with Robert Bosch GmbH was established specifically to develop new services and solutions for the Internet of Things and Industry 4.0 in the Bosch IoT Cloud as well as for joint sales activities. There are possible applications in the manufacturing industry, logistics and any other data-intensive application.

In addition, Software AG announced a cooperation with Google at the start of the 2017 business year: The market-leading webMethods Hybrid Integration Platform from Software AG is now available on the Google Cloud. During the course of the year, the Digital Business Platform will also be offered on the Google Cloud Platform.

Sustainability—corporate social responsibility

Software AG considers sustainability as a holistic concept for the creation of long-term value which requires **responsible action.** For that reason, it is important to the Company to handle resources responsibly to achieve sustainable economic and social progress. Following moral guidelines and business success are not contradictory concepts for Software AG. In fact, they go hand-in-hand and can even strengthen each other—and Software AG's employees, customers, technologies, partnerships and investments take center stage.

For its business model as a software provider, responsible action means that Software AG:

- enables long-term success for customers around the world
- works continuously to improve standards
- is a long-term partner—and therefore a reliable partner
- enables employees to grow along with the Company
- adds value to society
- observes the highest social standards in daily activities
- promotes education and innovation—at its locations and all over the world

These values coupled with trust and respect, openness and transparency shape the Company's global business activities. To ensure that this does not change, Software AG implemented companywide guidelines that ensure positive, responsible corporate governance. In addition to compliance with the **German Corporate Governance Code,** Software AG established a **Code of Business Conduct and Ethics** in 2011. This voluntary commitment defines the ethical and legal framework for the Group's business activities and relationships with its stakeholders.

Civic engagement

Software AG relies on the cultural diversity, engagement, abilities and performance of its employees to succeed as a global enterprise. Every employee shares in that success. Therefore, Software AG shows its respect for employees by creating a balanced work environment and satisfying changing wants and needs with regard to quality of life, family friendliness and leisure activities. Flexible working hours, professional and personal continuing education opportunities, healthy food, company sports activities, home office and part-time working options are just a few examples of the Company's broad offering.

Software AG is proud that so many employees engage in social responsibility and volunteer in projects worldwide. For that reason, the Company offers employees leeway for creative, innovative work. Software AG's **employee volunteerism** includes many aid programs and donation campaigns for disadvantaged and needy people. The Company reports on individual campaigns and projects online at Software.ag/csr.

As the main sponsor of the SV Darmstadt 98 Bundesliga soccer club, Software AG and the team have joined forces to support the **"Under the Sign of the Lily"** social campaign, which helps people with physical and developmental limitations in Germany. These activities included cooking events in the cafeteria at headquarters in Darmstadt, the annual Christmas wish list campaign, and organizing a soccer training session with disabled athletes. Software AG has also worked with the club regularly on campaigns to promote young talent. As part of its sponsorship, Software AG is also supporting a youth development academy opened by SV Darmstadt 98 in 2016. Software AG joined with the club, the

Promoting Young Talent

Target Group	Initiatives (examples)
Youth	**Girls' Day in Germany and Slovakia** • Girls try out technical careers for a day. **Talent at Home in Spain** • Software AG employees' children are invited to spend a day observing people at work at Software AG in Madrid. **Hesse Technical School** • High school graduates with (technical) university entrance qualifications get the opportunity to learn first-hand about STEM fields through a combination of trial classes and company internships.
College students	**University Relations Program** • Through the University Relations program, Software AG maintains close contact with colleges and universities and provides them with select software products for teaching and research free of charge. **Software Campus** • As a founding and collaborating partner of Software Campus, Software AG is making an active contribution to opening up excellent career prospects in Germany to tomorrow's IT managers.
Rising talents	**Future Talents Program** • The Future Talents Program supports next-generation employees in driving important Software AG projects and products and filling them with new ideas and impetus.

Chamber of Industry and Commerce, and the Darmstadt Chamber of Craft Trades to initiate the "Gateway to the Future" career information day for young athletes. The Company also worked with 21 different companies in Darmstadt to launch the #DAventskalenders initiative, with all proceeds going to the children's cancer organization, "DU MUSST KÄMPFEN!" (English: You have to put up a fight!).

Social responsibility and civic engagement are firmly ingrained in Software AG's identity. About 25 years ago, company founder Dr. Peter Schnell established the Software AG Foundation and laid the cornerstone for responsible action and sustainability. **The Software AG Foundation** is a key anchor investor holding around 32 percent of Software AG shares. The foundation exclusively supports independent charitable organizations in Europe and Brazil. In Germany, for example, Software AG is supporting volunteer efforts to help integrate refugees in Germany through the aid fund, "Auf Augenhöhe" (English: at eye level), in which the Company also participated in 2016.

With initiatives like the **"Move Your Feet to Give a Hand"** campaign, Software AG is bridging the gap between company sports, team spirit, charitable activity and athletic commitment. For every kilometer run by employees at official races, Software AG, employee representatives on the Supervisory Board and the Software AG Foundation all donate a fixed amount. In 2016, employees ran a total of 5,380 kilometers and raised a total of €24,000. Employees also get to propose which charitable organizations should receive the donation funds.

Environmental activism

With its products and services for digitalization and improved process efficiency, Software AG provides its customers with access to the opportunities of the digital world, which often goes hand-in-hand with saving resources as well as reducing environmental impact.

Environmentally friendly services and products are a core element of Software AG's sustainability efforts. For example, Royal Dirkzwager, a leading global provider of maritime services and information with headquarters in the Netherlands, uses Software AG's Apama streaming analytics solution to gather shipping and weather data and analyze it in real time. It can process more than 1,500 messages per second. The ability to process huge data volumes extremely quickly has enabled Royal Dirkzwager to penetrate new markets, reduce costs and optimize processes. The company's customers use the information to plan and synchronize their activities to cut costs and, in particular, to optimize resources such as fuel. This leads to an enormous reduction of CO_2 emissions.

Software AG can also ensure optimized, sustainable use of resources with more than just its own software solutions. The Company's 1,148 employees in Germany are supplied with green energy at work. Furthermore, the corporate headquarters building in Darmstadt uses waste heat produced by servers to heat the building. The cafeteria offers employees in Darmstadt an ample offering of organic-quality meals made with products from local suppliers.

Economic engagement

Digital technologies offer a unique opportunity to improve quality of life and create an environmentally friendly life and work styles. Software AG helps its customers in their transformation to a digital enterprise so they can compete at an international level while contributing to sustainability. Software AG always ensures the alignment of social values and global business activities, while taking local culture and customs into consideration.

Software AG takes its role as a responsible company in different economic and political areas very seriously. This is evident in its involvement in a diverse array of initiatives, sponsorship projects and memberships in industry associations. As Germany's second-largest software firm, Software AG participates in the annual National IT Summit and helps shape the digital future as a member of the Bitkom industry association, just to name two examples. Learn more about Software AG's participation in research programs on p. 63.

Network Memberships and Political Participation

Organization	Description
Bitkom	The Bitkom industry Association represents more than 2,300 companies in the digital economy. Bitkom acts as a spokesperson for its members and in particular champions innovative economic policy, modernizing the education system and establishing a future oriented internet policy.
National IT Summit/ German Digital Summit	The National IT Summit and its recurring process establishes central platforms for collaboration for shaping the digital transition among government, business, academia and society. The IT Summit addresses topics in the German government's Digital Agenda and its organization is oriented accordingly. The Digital Agenda consists of seven areas of action. The Summit process is organized into nine platforms and two forums that address these areas of action, develop concrete projects for them and launch initiatives. Karl-Heinz Streibich, CEO of Software AG, co-chairs the Digital Administration and Public Sector IT platform with Klaus Vitt, State Secretary of Germany's Federal Ministry of the Interior and the Federal Commissioner for Information Technology. The platform focuses on innovative public administration.
House of IT	Software AG is a founding partner and premium member of the House of IT, which emerged from the state of Hesse's "House of…" strategy in 2011. The House of IT contributes to raising awareness about the regional software industry's scientific and business strengths at a national and international level.
Software Cluster	Around 11,000 software companies are based in Europe's "Silicon Valley," which refers to the software development centers in and around Darmstadt, Kaiserslautern, Karlsruhe, Saarbrücken and Walldorf. Together they generate annual revenues totaling approximately €25 billion and employ more than 100,000 people. Software AG has provided the spokesperson for the German Software Cluster since April 2014, lending a strong voice to the business-to-business software industry in southern Germany.
IT FOR WORK e. V.	IT FOR WORK brings together the various IT expertise in the Rhine-Main-Neckar region, actively networks that expertise and offers a foundation for successful business relationships. In addition to networking events, the group focuses on promoting young IT companies and hiring trained professionals with an annual job fair. Moreover, the network has been Hesse's coordination office for the Software Cluster since 2016.
Initiative D21 e. V.	The D21 e.V. initiative promotes innovative and charitable engagement in business and government. The charitable organization aims to stimulate economic growth and promising, sustainable jobs through better education, qualification and innovative ability.

EVENTS AFTER THE BALANCE SHEET DATE

Software AG announced an **addition to its Management Board** on January 16, 2017. Starting April 1, 2017, Dr. Stefan Sigg will join Software AG's Management Board as its fifth member and take over a new position as the Chief Research & Development Officer (CRDO). This action strengthens the Group's ongoing focus on developing technological innovations in the fast-paced growth market for digital solutions, especially for the Industry 4.0 and Internet of Things mega trends. Dr. Sigg previously served as Senior Vice President and Head of SAP Analytics at SAP SE in the Research and Development unit in Walldorf, Germany, where he managed more than 1,800 employees. In his new role at Software AG, Dr. Sigg, who has a degree in mathematics, will concentrate on developing the Group's product portfolio in the areas of IoT, real-time analytics, process management, API management and data integration. As the head of all R&D locations worldwide, he will also be responsible for research programs. Working together with the Chief Technology Officer, Dr. Wolfram Jost, he will lead the Company's Global Portfolio Innovation Steering Team to combine market developments and customer requirements equally in the product portfolio.
Dr. Wolfram Jost will focus more heavily on the customer process in his responsibilities as Chief Technology Officer, building and leading a global CTO community. This includes leading the global systems engineer community that is embedded in the different countries' go-to-market teams. His previous responsibility for Product Marketing, Product Management and Industry Analyst Relations remains unaffected by this change.

OPPORTUNITY AND RISK REPORT

Opportunity and Risk Management System

Goals

Software AG's primary goal is to generate long-term, profitable growth, accompanied by an increase in enterprise value. To that end, we combine established, stable business activities with an involvement in promising new market segments and regions. In order to ensure the long-term, sustainable development of Software AG, we forgo short-term opportunistic earnings increases and the resulting short-lived positive effects on share price. With a strategy that is based on sustainable, long-term success, we strive for balance between opportunities and risks and take on risks only if the business activities associated with them have a high probability of enhancing the value of Software AG. It is always a prerequisite that we can evaluate risks and that they remain manageable and controllable. In addition, we systematically monitor risks and opportunities from ongoing business, for example, by keeping a constant eye on product and service quality and managing exchange rate developments.

Organization

A Group-wide opportunities and risk management system enables us to identify potential risks early to then accurately assess and minimize them to the greatest extent possible. By continuously monitoring risks, we can constantly evaluate the overall status systematically and in a timely manner and better assess the effectiveness of appropriate countermeasures. In doing so, we include operational risks 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 for ongoing monitoring of the risk areas identified, which address the development of the entire company as well as department-specific issues. The Management Board receives ongoing information as to current and future risks and opportunities as well as the aggregated risk and opportunity situation via established channels. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Responsibility

Risks and opportunities throughout the world are managed and controlled by the teams at corporate headquarters responsible for risk management for both Software AG and its subsidiaries. Corporate headquarters compiles risk and opportunity reports, initiates further development of our risk management system and elaborates risk-mitigating guidelines for the entire Group. We constantly review the functioning and reliability of the system as well as the reporting. Software AG's internal control system has operationalized business risks by way of internal policies on business policies and practices, as well as Group-wide specification of effective internal controls, compliance with which are continually monitored. The defined policies regulate internal procedures and areas of responsibility at the global and local levels. They are designed to provide information for management and to monitor the operating business risks of the Software AG Group. To enhance transparency, administration, communication and compliance assessment of the policies are carried out centrally on an ongoing basis. Group business processes are managed and monitored centrally using software applications based primarily on Software AG technology. Another component of risk and opportunity management is the transfer of operating risks to insurance carriers. The General Services department at corporate headquarters coordinates this function globally.

Structure of the opportunity and risk management system

Controlling

Controlling—which is under unified global leadership—monitors operating business risks, such as those from professional services, in real time and reports management-relevant figures monthly to the Management Board. 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 monthly or quarterly (depending on KPI) to the Management Board. 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). 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 Company.

Treasury

The Corporate Treasury team creates daily cash reports and weekly hedging transaction reports for the Management Board. 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. Internal Audit evaluates compliance with this policy on a regular basis. The global process of receivables management is monitored centrally by the Treasury department.

Internal Audit

Software AG's Internal Audit is an active component of the Company's risk management system. Through a systematic and targeted approach, it 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. Quality management and business continuity management are also included in this area of responsibility. Internal Audit reports directly to the CEO and operates worldwide.

Risk management in the financial reporting standards process

The risk of financial reporting errors was largely eliminated through implementation of the following processes:

- Detailed, global, IFRS-compliant accounting standards must be used. Compliance with these standards is monitored by Corporate Finance and verified by Internal Audit.

- The national subsidiaries' accounting departments are monitored by the local Finance, Controlling, and Administration (FC&A) managers, who are in turn supervised by regional FC&A managers. The subsidiaries report their figures to Corporate Accounting, which is part of the Corporate Finance team. There, the figures from the national subsidiaries are consolidated using the SAP/BCS software tool. At the same time, Corporate Controlling consolidates the countries' profit and loss statements using Office Plus (management information system). Finally, the two consolidated Group profit and loss statements are compared with each other, any deviations are investigated, and any discrepancies that arise are corrected.

- Worldwide separation of the functions of generating and reviewing accounting figures is guaranteed by segregation into two areas: Corporate Finance and Corporate Controlling. Both of them, with different managers, report separately to the CFO.

- As part of monthly report generation, the Corporate Finance and Corporate Controlling departments analyze and review the figures from all reporting entities. Any differences that arise are corrected on a monthly basis.

- 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, a preventative internal control system, is employed worldwide. All offers to conclude contracts with customers go through this approval process, in which the Legal department as well as Corporate Finance, Corporate Controlling and the Management Board are also involved.

- In addition, contracts valued at more than €500 thousand are subject to spot checks with respect to consolidated revenue recognition.

- After completing the quarterly reporting, Internal Audit continually reviews all key customer contracts worldwide with a view to compliance with the approval process and correct representation in accounting.

- A global policy regulates access rules for the local and central accounting programs, which are monitored by the General Information Services (GIS) department.

- Only employees of Corporate Accounting have access to the data from the SAP/BCS consolidation program.

- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual-control principle.

- External experts are commissioned on a regular basis to evaluate such complex matters as stock option plans, pension provisions, legal risks and purchase-price assignments within the framework of acquisitions.

Strategic risk and opportunity management

The strategic risk management system is composed of a core interdisciplinary Group team of the directors of corporate Finance, Internal Audit and Legal who report to the CFO in this function. A manager from the relevant field of expertise serves as risk advisor and is responsible for monitoring, assessing and managing identified strategic risks. The risk advisors are recommended by the core team and chosen by the responsible member of the Management Board. Risks are evaluated according to a uniform valuation system. The system takes into account the potential impact to Group EBIT for the next three years to determine the risk category. This impact is calculated taking into account the risk-mitigating measures taken by management.

The impact on EBIT over the next three years is divided into three categories. A low impact, up to €50 million on Group EBIT, falls into risk category 1. Medium impact is category 2 and refers to effects on EBIT between €50 and €200 million. A major impact on EBIT of over €200 million in the next three years is risk category 3.

In a separate step, these impacts on EBIT in the next three years are categorized according to probability into three risk levels. Probability between 0 and 33 percent is risk level 1, between 34 and 66 percent is risk level 2 and above 66 percentis risk level 3. The risk categories and levels are assigned equivalence numbers between one and nine based on their expected values. All strategic risks/opportunities are evaluated based on this uniform risk matrix. Risks/opportunities not considered of strategic nature were not included in the risk matrix. All Group managers are responsible for reporting newly identified strategic risks/opportunities to the central corporate team. The team then informs the Management Board for advice on possible strategies for handling them. The corporate team reports to the Management Board regularly about the ongoing development of the identified risks/opportunities. The Management Board regularly presents the risk management system to the Audit Committee of the Supervisory Board and discusses with it the level of the identified risks/opportunities as well as appropriate measures for managing risks/opportunities.

Ensuring the effectiveness of the risk management system and internal control system

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

Key Individual Risks and Opportunities

We explore key risk/opportunity areas and individual risks/opportunities discerned from the totality of risks/opportunities identified through the risk and opportunity management system.

Environment and sector risks and opportunities

Market risks

Among other things, market risks are related to the different economic developments in individual countries or regions. The technological evolution of the individual sectors of the IT industry can impact the business potential of the individual business lines positively or negatively. Software AG's balanced revenue mix reduces dependence on a single geographical or professional IT submarket. Software AG markets technologies that are not specific to certain industries, ruling out a dependence on individual industries or customers. Thanks to our technological innovations, ongoing R&D investments and purchase of new technologies as part of our technology-driven acquisitions, we significantly expanded our product portfolio and will continue to do so in the future. In this manner, we facilitate the flexibility of customers' existing IT infrastructures and thus lower costs substantially. This, in turn, secures our broad customer base over the long term. The ROI is relatively fast for our customers. Hence, our new products are a logical way to cope with market-related cost pressures even in weak economic periods. The overwhelming majority of our customers use our software for business-critical applications for years and often decades when running satisfactorily. Therefore, our revenue flow is stable, especially from maintenance services.

Market opportunities

Software AG sees itself as a technology leader in the enablement of enterprise digitalization. This strong trend, for example with Industry 4.0 and the Internet of Things (IOT), is a big opportunity for Software AG's future development. The Company expects to see product revenue growth in the future in its Digital Business Platform (DBP) line through the opportunities discussed here.

Debt crisis

The debt crisis in individual eurozone countries lingering since 2010 has had only a limited impact on Software AG's primary business. The Software AG Group earned only 3.6 percent (2015: 3.8 percent) of its profitable product revenue in countries hit particularly hard by the debt crisis (Portugal, Italy, Greece and Spain) in fiscal year 2016. The majority of that was from Spain. Software AG is not conducting business operations in Greece.

Brexit
With the planned exit of Great Britain from the European Union, uncertainties have arisen with respect not only to the future of Britain's economy but of Europe's as well. The specific impact is currently not foreseeable since exit negotiations have not yet begun. It is therefore impossible to make exact predications other than the existing uncertainty. The British market is one of Software AG's most important markets. From a risk-mitigating point of view, it is also important to note that Software AG operates in all key financial centers of the European Union. So, should any customers in the financial sector choose to relocate their European headquarters to somewhere outside of the United Kingdom, Software AG subsidiaries can serve them in the relevant EU country.

Corporate strategy risks and opportunities

Product risks and opportunities
As a high-tech industry, the software sector is characterized by very short innovation cycles with respect to new products and sales models, e.g. cloud computing. Large competitors have greater financial resources for innovation and ongoing development of their product portfolios. Because the future of the software sector is difficult to predict, a risk exists of insufficient attention being directed to future growth-relevant products.

Software AG's business model in general is particularly susceptible to being negatively affected by the innovation risk of new competitor products.

To minimize this innovation risk, significant investments have been and are being made in the development of the product portfolio. Ongoing assessment of future market development is conducted in cooperation with leading technology analysts such as Gartner and Forrester. Software AG's customer-centric innovation process is based on close collaboration between Sales, Product Marketing, Product Management and R&D and customers, enabling market-driven and thus market-relevant product innovation. New product co-innovation with customers was expanded in fiscal 2016. Software AG collaborates with customers to develop specific products they need and adapt existing products to customer use cases. Co-innovation is expected to increase considerably, especially in the field of the Internet of Things (IOT), and generate growth potential.

One of the greatest challenges of our industry is to optimally allocate R&D resources. Specifically, a risk exists of insufficient attention being directed to future growth-relevant products, because future market trends are difficult to predict and new innovation trends aren't recognized at all or in time. We reduce this risk by implementing our functional square (sales-marketing-R&D-M&A) and by close contact with customers in all industries and countries. To more closely analyze product deals within a certain period, a Customer Value Navigator was implemented in fiscal 2015. It enhances the existing product reporting process, facilitating the right allocation of R&D resources, for example.

With newer development trends, Software AG's products are also augmented by acquisitions. As technological leaders in the Digital Business Platform product area—a fact confirmed by independent analysts—we are often operating in innovative market segments. There must therefore be a balance between the objectives of product quality and product innovation. This carries the risk of problems arising from the implementation of a customer solution that is not completely technologically mature, which can then damage customer relationships. We handle this risk through expectations management for customers and customer-specific support teams, consisting of R&D and Consulting. Customer situations are continuously monitored by carefully formed teams. This ensures that any arising problems are recognized early and solved in cooperation with customers. Problem fixes are incorporated in the standard product so as to be available to all other customers. This process guarantees closely linked innovation speed and product quality. Furthermore, project launches are monitored through key performance indicators based on region and country.

There are major market opportunities for Software AG resulting from its technology leadership with the Digital Business Platform product line. This leadership has been confirmed multiple times by highly distinguished technology analysts such as Gartner and Forrester. In light of the ever-faster moving trends toward Industry 4.0 and the Internet of Things (IOT) and the advancing digitalization of organizations in the private and public sectors, Software AG can help shape markets from its position of innovation leader.

The product risks described here were given equivalence level 5 (2015: 5) at the end of 2016.

Market risks and opportunities: Digital Business Platform (DBP)

Software AG's is committed to its focus on becoming the world's leading provider of digital business platforms. Through its own R&D efforts and targeted technology acquisitions, the Company will continue investing in product innovations that play a key role for customers in maximizing the opportunities of digitalization. But, as innovation leader, Software AG competes with other companies also seeking to forge and dominate this market.

The Digital Business Platform combines the ARIS, Alfabet, webMethods, Apama and Terracotta product families. For this reason, the Digital Business Platform market includes sub-markets such as business process management software, integration software, business process analytics, governance risk analysis, enterprise architecture management and critical event processing as well as other smaller sub-markets. There is the possibility of conflicting objectives in the Digital Business Platform markets between the best single solution and the best overall solution for business processes (best-of-suite versus best-of-breed approach).

Software AG's challenge is to continuously improve the individual products as well as the platform as a whole. Software AG recognized the transformational power and potential of technological mega trends like big data, Internet of Things and Industry 4.0 early and integrated them into its product portfolio. The modular, vendor-neutral structure of the Digital Business Platform and its ability to build on any vendor's systems represent a particular opportunity. The Digital Business Platform offers users a high level of investment protection as it enables them to develop and integrate their own innovative applications quickly and flexibly based on their existing IT landscapes.

There is an additional challenge associated with building replicable solutions based on the Digital Business Platform in order to benefit from economies of scale. The replicability of solution scenarios developed therefore influences the profitability of the business line.

The global advancement of digitalization offers a big opportunity. According to leading market analysts, the core components of the Digital Business Platform—integration software, process optimization solutions and analytics tools for big data and Internet of Things—are exceptionally promising fields of growth.

The DBP solutions are gaining strategic importance with customers as they are increasingly employed for the transformation of entire business models. This results in opportunities and risks. On one hand, deal sizes are growing and the number of Digital Business Platform multi-product deals are rising. But on the other, the situation requires a focus on a limited number of strategic customers and placing such large-scale deals with them. This leads to longer go-to-market processes and the risk of more volatile license revenue in individual quarters.

The following measures were taken to proactively manage the market risks associated with DBP:

- Expansion of sales using references
- Focus on larger country organizations with sufficient numbers of technology consultants
- Smaller country organizations focus on individual products or industry solutions
- Existing customer relationship maintenance and improvement
- Ongoing supervision of go-to-market results and early response to problematic developments

The DBP business line offers major opportunities for Software AG's future business development, especially through its technology lead and the rapidly growing trend of enterprise digitalization (please refer to the market opportunities discussed above).

These risks were given equivalence level 7 at the end of 2016 (2015: 7).

Market risks and opportunities: Adabas & Natural (A&N)

Software AG's traditional A&N product family is currently in an advanced stage of the product life cycle. Revenues are therefore declining in this product line. Our strategy is based in part on extending customers' existing license rights and/or selling add-on products. This generates new revenue for Software AG. Because the product portfolio depends on existing customers, A&N license revenues are in decline. A&N customers continue to be extremely loyal to Software AG. This is because the A&N products are highly valued due to their:

- high availability
- high performance
- low operating costs
- high strategic relevance for customers' operations of applications running on A&N
- future guarantee

This presents opportunities to interest customers in a positive Software AG experience with long-term maintenance and modernization of their IT infrastructure while retaining the A&N technology. Software AG is the best partner for that. Retaining and acquiring product expertise make these opportunities possible. Ongoing innovation and R&D activities lead to significantly better prospects for the A&N business line. Software AG began communicating its A&N 2050+ initiative in 2015. It is fundamentally willing to continue developing A&N and providing A&N customers support in operating their systems through the year 2050 and beyond. This initiative resonated extremely well with customers and increased the level of loyalty among the customer base.

Software AG is countering these risks with the following measures:

- A&N modernization to continuously extend the product life cycle
- Customer dedication initiative with the goal of developing common, long-term IT strategies and leveraging new benefits and revenue potential
- The steady expansion of the A&N product portfolio with add-on products generates new revenue sources
- A&N modernization/integration with new technologies and product bundles
- Development of new cross-platform solutions with the Digital Business Platform
- Implementation of premium support packages for A&N customers
- Extended application support to serve customers with existing A&N staff
- To reduce hardware costs, Software AG offers support for customers migrating from mainframe to open-systems platforms on A&N technology
- Training and education programs for young A&N staff both at Software AG and customer organizations
- Secure and build R&D and support resources at dynamic Software AG R&D hubs (sends signal that Software AG continues to support this business line to the full extent)

These measures can significantly slow the downward trend of A&N sales while offering opportunities for generating additional sources of revenue. Software AG expects A&N product revenue growth between –2 and –6 percent at constant currency in fiscal 2017. In 2016 this figure was –4 percent which is at the upper end of the range of the expected –4 to –8 percent. The Company anticipates a moderate drop in revenue in the following years as well. Customer evaluations show that the overwhelming 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 the A&N products. Those customers have invested heavily in this technology, which they cannot and will not forgo. Therefore, there is the opportunity that this business line will continue generating high revenues in the future.

There are significant opportunities associated with product innovation and modernization/digitalization packages in the A&N product line; 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.

Like last year, these risks were given equivalence level 7 at the end of 2016 and are currently leaning toward 4.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. Acquisitions present the opportunity to participate in waves of innovation, to expand the product portfolio and increase relevance in the market and for individual customers or prospective customers. The uncertainty of future market and technology trends means that there is a risk associated with determining the right target companies. Due to the high prices at present, large technology companies and private equity firms are offering a wide array of small and medium-sized target companies. This could be an initial indication that valuations have peaked. The valuation of cloud providers in particular—with their high sales multiples—has reached a status of inherent profitability risk in the event of an acquisition. Due to the market's current level of maturity, the number of possible target companies for strategic acquisitions is very low. Furthermore, there are risks associated with due-diligence processes. To mitigate the selection risk, our M&A department is continuously observing and evaluating the market for technology developments both in the Silicon Valley and Europe alike.

Furthermore, there is a risk that the companies acquired will not be integrated successfully. Insufficient integration could result in growth and profitability issues as well as failure to achieve combined business plan targets. It would become difficult to quickly exploit revenue and cost synergies. There is an additional potential risk associated with the loss of key staff when not enough attractive positions are created quickly. The main challenges include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. The following risk-mitigating processes have been defined for the time prior to and after acquisitions:

Pre-acquisition phase

Prior to a takeover, an intensive review is conducted to ascertain whether the technologies of the company in question effectively expand Software AG's product portfolio, how market access and market penetration will change, and what synergy potentials can be realized. Every acquisition is preceded by a precise analysis of the financial condition of the target company conducted by an experienced due diligence team. Moreover, the question of whether the target company's corporate culture can be harmonized with ours is explored. In order to ensure consistent integration planning, staff members who will be responsible for integration later are included in due-diligence processes at an early point in time. The risks described here were given equivalence level 5 (2015: 5) at the end of 2016.

Post-acquisition phase

We identify potential problem areas as quickly as possible using established control mechanisms. The implemented processes are coordinated centrally and ensure the integration of the following areas:

- R&D and knowledge sharing
- Marketing and branding
- Sales and partner business
- Key staff members and new career opportunities
- Administration

These processes enable us to quickly create revenue and cost synergies. Specific KPIs are identified and monitored for each integration. Opportunities and risks associated with the post-acquisition phase with regard to integration were rated at equivalence level 5 (2015: 1) at the end of 2016 because of two smaller acquisitions in fiscal year 2016 and the planned intensification of acquisition activities in the near future.

Product distribution risks and opportunities

Sales efficiency and sales risks and opportunities

The complexity of our products together with the complexity of the requirements of our customers alike require a high level of experience and expertise on the part of our sales force. This presents the risk that smaller deal sizes are handled by direct sales, rather than "inside" or indirect sales. This reduces the average revenue per sales employee. Sales and marketing expenses in fiscal 2016 were higher than 90 percent of license revenue. A sales focus on large key customers and upselling to existing customers is critical to increasing average contract value and improving scalability. The smaller country subsidiaries could have too few technology consultants (pre-sales staff) and expertise to be able to provide customers with technical consulting on the entire platform.

Software AG intends to continue increasing sales efficiency and therefore accelerating growth in DBP product revenue with the following measures:

- Focus on multi-product platform sales with key customers
- Expansion and harmonization of customer loyalty programs, including new customers
- Implementation of inside-sales organization for effective lead generation and small transactions management
- Develop next-generation marketing plan under newly hired CMO
- Establish a balanced mix of direct sales and support by specialized partners
- Roll out of a game-changing customer-engagement process focused on value-based selling and effective opportunity management

The equivalence level remained unchanged from last year at 7 due to the continued relevance of sales-efficiency topics.

Partnership risks and opportunities
Software AG's growth strategy includes the expansion of its partner ecosystem to achieve vertical and regional coverage and accelerate growth. But the expansion of the partner ecosystem among system integrators must be multinational, because business decisions at these organizations are usually made at a national level. Too little involvement of the partner ecosystem in sales and the exploitation of new market segments could negatively affect Software AG's market relevance. The lack of trained Software AG consultants at system integrators could lead to a shortage of consulting services. Project problems and delays caused by partners could negatively affect customer satisfaction. Insufficient partner governance could result in potential legal risks and jeopardize the success of Software AG's partner business.

In order to strengthen its partner business, Software AG implemented the following measures:

- Implementation of a global competitive partner life cycle management system
- Clearly defined criteria for partner sale products and targeted markets
- Improvement and expansion of partner/business-relevant systems and processes
- Expansion of innovation-based partnerships to broaden solutions offering through OEMs, strategic system integrators, value-added resellers; technology and cloud partnerships
- Development and expansion of an effective partner enablement and qualification program to improve service capacity and quality
- Implementation and development of standardized partner contracts
- Ongoing use of the Partner Code of Conduct

The risks associated with partnerships were given equivalence level 2 (2015: 5) at the end of 2016.

Personnel risks and opportunities
Employees are the most important asset for Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. The ability of an employer to hire and, above all, retain qualified and motivated employees is key to success. In particular, sales staff stability and continuity are of utmost importance to a growth strategy. The demographic trend in some countries and markets could also result in a reduction in potential growth due to a shortage of qualified young talent.

Software AG takes the following measures to counter this risk:

- Improved external and internal recruiting process
- Improved employer image
- Ensure market-oriented remuneration and target salaries based on global benchmarks

- Needs-based training for all staff and managers worldwide
- Staff development programs for all staff worldwide
- Targeted efforts to develop young talent as part of the generational changeover related to the Adabas & Natural 2050+ agenda

We value a balanced mix between high and low-cost locations.

Software AG assumes that these measures provide a sound basis for ensuring Software AG's long-term success. These personnel-related topics were therefore given equivalence level 1 (2015: 1) at the end of 2016.

Legal risks

Patent infringements

Patent law, especially in the U.S. due to the large number of software patents granted combined with the peculiarities of U.S. procedural law, favors the bringing of patent lawsuits. This also affects Software AG.

Patent litigation in the U.S. entails the risk of higher procedural costs to defend ourselves against claims without provision for reimbursement in American procedural law.

The Company has an Intellectual Property Rights team to counter patent law suits. In addition to tasks associated with patent law protection, the team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against claims from other market participants, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio, particularly in the U.S. Software AG owns a number of patents, which can be used to protect our business and defend it against patent suits. These patents could also contribute in the future to generating additional licensing revenues. Implemented measures and processes reduce this risk considerably for Software AG. No new patent suits have been filed against Software AG since 2012. It is currently unforeseeable to what extent future patent suits will be fueled by the increasingly nationalistic tendencies worldwide. Like last year, the patent infringement risk was therefore given equivalence level 1 on December 31, 2016.

Other legal risks: regulatory, compliance and litigation risks

Regulatory and political changes, such as embargoes, can influence our business operations in difference national markets. That could have a negative impact on the Group's future business and financial performance. Uncertainties regarding regional legal systems could hinder or prevent the assertion of our rights (e.g. commercial property rights).

A multinational software company such as the Software AG Group is subject to global risks associated with legal disputes and government and official processes, relating to, for example, accusations of non-contractual provision of software or services, product defects and/or claims or suspicions of anti-competitive and antitrust violations. Anti-competitive and antitrust proceedings can, for example, result in fines, penalties or other sanctions or restrictions on an individual subsidiary or even the Group.

Software AG cannot rule out that litigation and proceedings will have negative effects on the position of the Company; as a rule, the Group's financial position can even be negatively affected when law suits are won, given the high cost of defense attorneys and other defense services needed to thwart accusations, for example in the U.S. This presents the risk that the calculated risk provisions are not sufficient and the actual cost of litigation is higher than assumed at present.

For information on specific litigation, please refer to p. 162 [33] in the Notes to the Consolidated Financial Statements and the section on "Other Provisions" in the Notes to the Financial Statements of Software AG (separate for parent company).

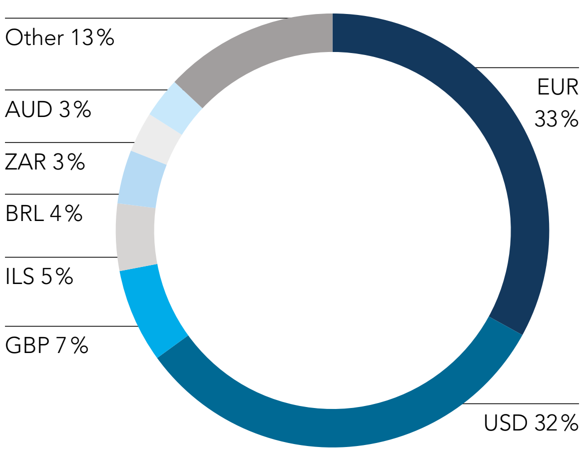
Financial operating risks

Exchange rate risks

Software AG is exposed to exchange rate risks through our global business activities. Our 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.

The sales-related expenses are in the same currency as the sales themselves, however. This natural hedging relationship is further strengthened in the U.S. since components of our research and development and global marketing are based in the U.S. We further utilize derivative financial instruments for hedging. This mitigates the effects of exchange rate fluctuations on Group results. Our hedging instruments are used to cover existing foreign currency receivables and payables and anticipated cash flows. Income generated in foreign currencies from individual Group companies is also hedged against changes in value due to exchange rate fluctuations. All exchange rate risks are monitored centrally.

2016 Currency Split



Exchange rate fluctuation impact on Group revenue in 2016

Currency fluctuation in 2016	Change in exchange rates 2016 vs. 2015	Impact on revenue in 2016 in € millions
U.S. dollar 31.6% of revenue	+0.3%	+2.5
Pound sterling 6.5% of revenue	–12.8%	–7.2
Israeli shekel 4.6% of revenue	+1.6%	+0.8
Brazilian real 4.4% of revenue	–4.6%	–0.8
Canadian dollar 3.0% of revenue	–3.4%	–0.1
South African rand 2.8% of revenue	–15.0%	–4.1
Other currencies 14.3% of revenue	–0.3%	–2.6
Currency effects on total revenue	**–1.3%**	**–11.5**

Risks from financial instruments
Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure only existing balance sheet items or highly likely cash flows. Based on the financial instruments open on the balance sheet date, an increase in the market interest rate level by 100 basis points would have increased Group net income in 2016 by €2.1 million (2015: €1.8 million). Provided conditions such as revenue structure and balance sheet relationships remained constant and no further hedging transactions took place,this approximate correlation could be applied to future fiscal years as well. Under these conditions, a 10-percent decrease in the euro's value against the U.S. dollar as of December 31, 2016 would have caused Group net income in 2016 to increase by €1.4 million (2015: €1.2 million). The remaining reserves in shareholders' equity would increase by €2.9 million (2015: €2.9 million). Constantly monitoring the creditworthiness of the affected banks helps us minimize the risk of losing our business partners with whom we conclude derivative financial instruments.

Other financial risks
Other financial risks include predominantly the risk of bad debt losses. No cluster risks exist due to Software AG's diversified markets and customer structure. Due to the long-range average, default risks are quite marginal as a result of the generally high level of creditworthiness on the part of our customers. To reduce the impacts of this risk, we are using an automated approval process for customer contracts, known as the Global Deal Desk, based on our own technology. To protect our cash holdings, we constantly monitor our partner banks' creditworthiness and adjust our investment decisions accordingly.

General Statement on the Group's Risk Situation

The Management Board's overall view indicates that the risk situation of the Software AG Group has not changed significantly from last year. The Management Board therefore assumes that the strategic risks are limited and manageable. No risks can be identified that are likely to jeopardize the going concern of the Company now or in the future.

Software AG's Rating

The necessity for an external rating did not arise because of Software AG's solid financial structure and employed financing instruments. There is currently no official external rating of Software AG. Nevertheless, there are some facts that shed light on Software AG's external rating.

Based on the Financial Statements from December 31, 2015, as in previous years, Software AG was given central bank eligibility by the German Central Bank (Deutsche Bundesbank). This means that lending banks can use credit claims with Software AG as collateral for refinancing with the Deutsche Bundesbank.

Software AG's own banks classified its creditworthiness as investment-grade at the end of 2016.

REMUNERATION REPORT

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code from May 5, 2015 (hereinafter referred to as GCGC) and the provisions of the German financial reporting standard in its revised 2016 version no. 17 (DRS 17). It contains the information required and/or recommended by the German Commercial Code (HGB), the GCGC and the International Financial Reporting Standards (IFRS). The Remuneration Report is part of the Group Management Report and provides details on the compensation system for the Management and Supervisory Boards as well as the amounts and structure of their compensation. As required by the new GCGC, remuneration of Board members is presented as individual members' total amounts, broken down into non-performance-based components and one-year and multi-year performance-based components with long-term share-based incentive components. Furthermore, as recommended by the GCGC, the allocation of different compensation components is shown for the year under review.

Allocation

The following table shows the allocation of fixed remuneration, additional benefits and one-year variable remuneration in/for fiscal year 2016 as well as the allocation of multi-year variable remuneration with long-term share-based incentive during fiscal 2016.

Allocation

			Karl-Heinz Streibich Chief Executive Officer Since October 1, 2003	
in €			**2015**	**2016**
Non-performance-based components	Fixed compensation (base salary)		697,642.92	697,642.92
	Additional benefits[1]		25,509.63	25,623.99
	Total		**723,152.55**	**723,266.91**
Performance-based components	One-year variable remuneration		3,063,211.34	2,876,837.52
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS[2]	220,821.50	271,352.40
		Management Incentive Plan III – (MIP III)(2007 – 2011)[3]	0.00	9,252,720.00
Total allocation			**4,007,185.39**	**13,124,176.83**
Service cost			685,582.80	1,702,416.10
Total allocation (GCGC)			**4,692,768.19**	**14,826,592.93**

1 Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

2 The allocation for the Performance Phantom Share (PPS) plan refers to payment on Management Board members' PPS balance as of the Annual Shareholders' Meeting equal to the approved dividend per share for each PPS. Dividends received by Mr. Streibich and Mr. Duffaut are reported under allocation in fiscal 2016. Mr. Streibich reinvested all 380,555 exercisable phantom shares with a value of €13,125 thousand in Software AG. Mr. Duffaut opted to hold onto his investment in Software AG by not receiving payment for any of the 2,291 exercisable phantom shares valuing €79 thousand. Mr. Jost opted to receive payment for all 42,605 exercisable phantom shares with a value of €1,332 thousand. The remainder of the payout is €24 thousand for the dividends mentioned above. Mr. Zinnhardt reinvested 166,080 (83 percent) of 201,057 exercisable phantom shares with a value of €5,728

Eric Duffaut Chief Customer Officer Since October 1, 2014		Dr. Wolfram Jost Chief Technology Officer Since July 9, 2010		Arnd Zinnhardt Chief Financial Officer Since May 1, 2002	
2015	2016	2015	2016	2015	2016
600,000.00	600,000.00	459,999.96	535,000.02	441,715.32	441,715.32
30,143.46	30,246.79	42,964.48	38,667.51	36,952.32	37,617.39
630,143.46	**630,246.79**	**502,964.44**	**573,667.53**	**478,667.64**	**479,332.71**
863,309.28	810,783.28	546,762.54	533,765.66	1,937,787.47	1,819,887.40
3,437.00	19,401.80	174,823.50	1,356,294.52	531,347.76	1,233,156.85
0.00	0.00	0.00	0.00	0.00	4,626,360.00
1,496,889.74	**1,460,431.87**	**1,224,550.48**	**2,463,727.71**	**2,947,802.87**	**8,158,736.96**
0.00	0.00	321,393.84	214,924.12	221,122.74	148,003.55
1,496,889.74	**1,460,431.87**	**1,545,944.32**	**2,678,651.83**	**3,168,925.61**	**8,306,740.51**

thousand in Software AG and received payment for 34,977 phantom shares valued at €1,088 thousand. The remainder of the payout is €145 thousand for the dividends mentioned above.

3 The allocations shown from MIP III result from the exercise of these stock options by the relevant Management Board member. This share-based remuneration plan was instituted in 2007 and was exercisable for the first time in 2011. The relevant members of the Management Board have therefore voluntarily held onto their options longer.

Benefits granted (1)

in €			Karl-Heinz Streibich, Chief Executive Officer Since October 1, 2003 2015	2016
Non-performance-based components	Fixed compensation (base salary)		697,642.92	697,642.92
	Additional benefits[1]		25,509.63	25,623.99
	Total		**723,152.55**	**723,266.91**
Performance-based components	One-year variable remuneration[2]		3,063,211.34	2,876,837.52
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS[3]	3,142,784.69	3,003,490.41
		Management Incentive Plan IV – (MIP IV)(2011–2016)[4]	107,400.00	0.00
		Management Incentive Plan 2016 – (MIP 2016)[5]	1,222,493.92	0.00
		Management Incentive Plan 2017 – (MIP 2017)[6]	0.00	1,209,704.92
Total (DRS 17)			**8,259,042.50**	**7,813,299.76**
Service cost			685,582.80	1,702,416.10
Total (GCGC)			**8,944,625.30**	**9,515,715.86**
Losses from the cancellation of MIP IV (in 2015), share price gains/losses and max. possible loss from vested share-based remuneration components[7]			–4,982,703.62	3,900,261.26
Total economic allocation			**3,961,921.68**	**13,415,977.12**

1 Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

2 The one-year variable remuneration depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. One-third of over achievement (greater than 100 percent) is not paid in cash, but rather must be invested in phantom shares. The highest attainable one-year variable remuneration decreases accordingly.

3 Members of the Management Board invest a portion of their variable compensation in phantom shares, which have a maximum waiting period of three years. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by the amount of the one-year variable remuneration, which is not paid out but invested in phantom shares, when performance exceeds 100 percent. Conversion to phantom shares is calculated based on Software AG's share price. When the waiting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the Management Board members with the interests of the shareholders and the capital market, payouts are made based on Software AG's current share price. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management Board over a period of three years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (in percent) by which the share outperforms or underperforms the TecDAX. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. If any PPS balances are extended beyond December 31, 2016 and the corresponding Management Board member is employed by the Company on June 30, 2016, the balance of PPS is not subject to this TecDAX adjustment. This resulting increases in value of the phantom share balances were reported on a pro rata basis over three years under Management Board remuneration. The following amounts were recognized as increases to remuneration in fiscal 2016: €1,313 thousand for Mr. Streibich, €46 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

		Eric Duffaut, Chief Customer Officer Since October 1, 2014			
2016 (min.)	**2016 (max.)**	**2015**	**2016**	**2016 (min.)**	**2016 (max.)**
697,642.92	697,642.92	600,000.00	600,000.00	600,000.00	600,000.00
25,623.99	25,623.99	30,143.46	30,246.79	30,246.79	30,246.79
723,266.91	**723,266.91**	**630,143.46**	**630,246.79**	**630,246.79**	**630,246.79**
0.00	3,548,220.10	863,309.28	810,783.28	0.00	1,000,000.00
0.00	5,845,197.86	886,730.24	815,151.71	0.00	2,270,812.82
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	611,246.96	0.00	0.00	0.00
0.00	3,767,112.00	0.00	604,852.46	0.00	1,883,556.00
723,266.91	**13,883,796.87**	**2,991,429.94**	**2,861,034.24**	**630,246.79**	**5,784,615.61**
1,702,416.10	1,702,416.10	0.00	0.00	0.00	0,00
2,425,683.01	**15,586,212.97**	**2,991,429.94**	**2,861,034.24**	**630,246.79**	**5,784,615.61**
0.00	–17,016,262.32	14,985.32	240,094.16	0.00	–1,216,669.24
2,425,683.01	**–1,430,049.35**	**3,006,415.26**	**3,101,128.40**	**630,246.79**	**4,567,946.37**

4 MIP IV (2011–2016) was instituted in Q2 2011 with a term until June 30, 2021. The defined performance targets require reaching at least €450 million in IFRS revenue with new products, including cloud business, by fiscal 2015 at the latest and an official Group non-IFRS EBIT margin of 10 percent by 2015. The waiting period following the award of participation rights was four years. MIP IV options became null and void due to performance targets not being met in fiscal 2015.

5 The share-based management incentive Plan 2016 (MIP 2016) was instituted in December 2015 whereby members of the Management Board were awarded stock appreciation rights with a term of three years ending on December 31, 2018. These stock appreciation rights will be exercised between November 15, 2018 and December 15, 2018 at Software AG's average share price provided the share price exceeds €30.00 on ten consecutive days during the period from December 1, 2017 to November 30, 2018. The resulting maximum compensation is capped at €51.88 per share. The maximum remuneration values shown were calculated by multiplying that amount by the number of issued stock appreciation rights.

6 The share-based management incentive Plan 2017 (MIP 2017) was instituted in December 2016, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.4 years ending on August 28, 2020. The base price of these stock options is €33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €33.18 by 20 percent on ten consecutive trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation under this plan is capped at the amounts presented in the maximum compensation column above.

7 The increased intrinsic values of phantom share balances in fiscal 2016 due to the positive share performance are presented in the 2016 column as increases to remuneration. The 2016 max. column shows the maximum possible losses from vested share-based remuneration components of the phantom share plan. The losses from the cancellation of MIP IV (2011–2016) were shown here in 2015. They were a result of the failure to meet the revenue target with new products by December 31, 2015 due to the strategic realignment geared toward more value-oriented growth. The respective historically accumulated remuneration reported to date under MIP IV was therefore presented in negative amounts for fiscal 2015. The negative remuneration amounts shown in 2015 reflect €9,546 thousand relating to Mr. Streibich, €3,514 thousand to Mr. Jost and €4,773 thousand to Mr. Zinnhardt. These losses were set off by the increased intrinsic values of the stock options from MIP III and the stock appreciation rights from the phantom share plan.

Benefits granted (2)

			Dr. Wolfram Jost, Chief Technology Officer Since July 9, 2010	
in €			2015	2016
Non-performance-based components	Fixed compensation (base salary)		459,999.96	535,000.02
	Additional benefits[1]		42,964.48	38,667.51
	Total		**502,964.44**	**573,667.53**
Performance-based components	One-year variable remuneration[2]		546,762.54	533,765.66
	Multi-year variable remuneration			
	with long-term share-based incentive	Performance Phantom Shares – PPS[3]	789,064.89	757,864.81
		Management Incentive Plan IV – (MIP IV)(2011–2016)[4]	0.00	0.00
		Management Incentive Plan 2016 – (MIP 2016)[5]	611,246.96	0.00
		Management Incentive Plan 2017 – (MIP 2017)[6]	0.00	604,852.46
Total (DRS 17)			**2,450,038.83**	**2,470,150.46**
Service cost			321,393.84	214,924.12
Total (GCGC)			**2,771,432.67**	**2,685,074.58**
Losses from the cancellation of MIP IV (in 2015), share price gains/losses and max. possible loss from vested share-based remuneration components[7]			–3,185,993.78	586,168.23
Total economic allocation			**–414,561.11**	**3,271,242.81**

1 Additional benefits include provision of a company car, voluntary social security and accident insurance premiums.

2 The one-year variable remuneration depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. One-third of over achievement (greater than 100 percent) is not paid in cash, but rather must be invested in phantom shares. The highest attainable one-year variable remuneration decreases accordingly.

3 Members of the Management Board invest a portion of their variable compensation in phantom shares, which have a maximum waiting period of three years. The investment amount depends on the achievement of the Company's revenue and earnings targets communicated to the capital market for the respective fiscal year and on individual strategic, qualitative or quantitative goals specifically defined according to the responsibilities of the member of the Management Board. The possible range of meeting a target is between 0 and 200 percent. When performance is greater than 100 percent, the conversion amount increases by the amount of the one-year variable remuneration, which is not paid out but invested in phantom shares, when performance exceeds 100 percent. Conversion to phantom shares is calculated based on Software AG's share price. When the waiting period is over, members of the Management Board can choose if they want to receive payment of the due amount or to reinvest it partially or entirely in phantom shares. The term of this reinvestment is limited to a maximum of six years and four months after the term of the Management Board member's contract has ended. Members of the Management Board can request to receive payment at any time during defined windows of time. In order to synchronize the Management Board members with the interests of the shareholders and the capital market, payouts are made based on Software AG's current share price. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management Board over a period of three years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (in percent) by which the share outperforms or underperforms the TecDAX. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. If any PPS balances are extended beyond December 31, 2016 and the corresponding Management Board member is employed by the Company on June 30, 2016, the balance of PPS is not subject to this TecDAX adjustment. This resulting increases in value of the phantom share balances were reported on a pro rata basis over three years under Management Board remuneration. The following amounts were recognized as increases to remuneration in fiscal 2016: €1,313 thousand for Mr. Streibich, €46 thousand for Mr. Jost and €662 thousand for Mr. Zinnhardt.

		Arnd Zinnhardt, Chief Financial Officer Since May 1, 2002			
2016 (min.)	**2016 (max.)**	**2015**	**2016**	**2016 (min.)**	**2016 (max.)**
535,000.02	535,000.02	441,715.32	441,715.32	441,715.32	441,715.32
38,667.51	38,667.51	36,952.32	37,617.39	37,617.39	37,617.39
573,667.53	**573,667.53**	**478,667.64**	**479,332.71**	**479,332.71**	**479,332.71**
0.00	658,333.33	1,937,787.47	1,819,887.40	0.00	2,244,604.02
0.00	1,987,449.59	2,187,455.19	2,055,458.98	0.00	4,432,325.47
0.00	0.00	53,700.00	0.00	0.00	0.00
0.00	0.00	611,246.96	0.00	0.00	0.00
0.00	1,883,556.00	0.00	604,852.46	0.00	1,883,556.00
573,667.53	**5,103,001.45**	**5,268,857.26**	**4,959,531.55**	**479,332.71**	**9,039,818.20**
214,924.12	214,924.12	221,122.74	148,003.55	148,003.55	148,003.55
788,591.65	**5,317,925.57**	**5,489,980.00**	**5,107,535.10**	**627,336.26**	**9,187,821.75**
0.00	–1,482,207.75	–2,310,345.12	2,226,135.27	0.00	–9,116,155.37
788,591.65	**3,835,717.82**	**3,179,634.88**	**7,333,670.37**	**627,336.26**	**71,666.38**

4 MIP IV (2011–2016) was instituted in Q2 2011 with a term until June 30, 2021. The defined performance targets require reaching at least €450 million in IFRS revenue with new products, including cloud business, by fiscal 2015 at the latest and an official Group non-IFRS EBIT margin of 10 percent by 2015. The waiting period following the award of participation rights was four years. MIP IV options became null and void due to performance targets not being met in fiscal 2015.

5 The share-based management incentive Plan 2016 (MIP 2016) was instituted in December 2015 whereby members of the Management Board were awarded stock appreciation rights with a term of three years ending on December 31, 2018. These stock appreciation rights will be exercised between November 15, 2018 and December 15, 2018 at Software AG's average share price provided the share price exceeds €30.00 on ten consecutive days during the period from December 1, 2017 to November 30, 2018. The resulting maximum compensation is capped at €51.88 per share. The maximum remuneration values shown were calculated by multiplying that amount by the number of issued stock appreciation rights.

6 The share-based management incentive Plan 2017 (MIP 2017) was instituted in December 2016, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.4 years ending on August 28, 2020. The base price of these stock options is €33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of €33.18 by 20 percent on ten trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation under this plan is capped at the amounts presented in the maximum compensation column above.

7 The increased intrinsic values of phantom share balances in fiscal 2016 due to the positive share performance are presented in the 2016 column as increases to remuneration. The 2016 max. column shows the maximum possible losses from vested share-based remuneration components of the phantom share plan. The losses from the cancellation of MIP IV (2011–2016) were shown here in 2015. They were a result of the failure to meet the revenue target with new products by December 31, 2015 due to the strategic realignment geared toward more value-oriented growth. The respective historically accumulated remuneration reported to date under MIP IV was therefore presented in negative amounts for fiscal 2015. The negative remuneration amounts shown in 2015 reflect €9,546 thousand relating to Mr. Streibich, €3,514 thousand to Mr. Jost and €4,773 thousand to Mr. Zinnhardt. These losses were set off by the increased intrinsic values of the stock options from MIP III and the stock appreciation rights from the phantom share plan.

Benefits Granted

Fixed compensation

The fixed compensation agreed to by the members of the Management Board is paid monthly, 12 times a year.

Additional benefits

The fixed additional benefits consist of the commitment of an appropriate company car, voluntary social security benefits and accident insurance premiums.

One-year variable remuneration

Fifty percent of the one-year variable remuneration depends on achievement of the Group revenue and earnings targets that are communicated to the capital market. In addition, each member of the Management Board agrees to different quantitative and qualitative targets relevant to the respective area of responsibility, which are in the interest of the medium to long-term strategic development of the Company. The bonuses are calculated based on the extent to which targets are achieved. If the level of achievement is zero, no variable remuneration is paid. The maximum achievable level is 200 percent. One-third of any percentage of performance exceeding 100 percent will not be paid in cash, but put aside as performance phantom shares (PPS) and paid out at a later point in time based on future share price performance. The highest attainable one-year variable compensation decreases accordingly.

Multi-Year Variable Remuneration

Performance-based components with long-term share-based incentive

Performance Phantom Share Plan (PPS)

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2015 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2016, less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two and three years.

On the due dates in March 2017 to 2019, the number of phantom shares will be multiplied by the then-applicable share price for February. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management Board over a period of three years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (as a percentage) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. If any PPS balances are extended beyond December 31, 2016 and the corresponding Management Board member is employed by the Company on June 30, 2016, the balance of PPS is not subject to the TecDAX adjustment. New PPS issued since March 2014 are not subject to the TecDAX adjustment. In this context, remuneration caps were instituted in 2014 as recommended by the new German Corporate Governance Code. Pursuant to this cap policy, neither old PPS balances nor newly issued PPS will be fully included in future share price increases, but only up to a maximum of twice the reference price at issue of the corresponding PPS tranche.

The beneficiaries will receive an amount per phantom share held equal to the dividends paid to Software AG shareholders.

Company officers may elect to let the Company dispose of the PPS that has become due after the defined waiting period for an unlimited period of time and thus continue to participate in the success of the Company.

At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading days after publication of the financial results. This plan led to expenses relating to the members of the Management Board in the amount of €7,049 thousand (2015: €7,420 thousand) in fiscal year 2016. The following table illustrates the phantom shares to be issued based on the average share price in February 2017 and the effects this remuneration plan had on Software AG's profit/loss in fiscal 2016.

Stock option plans

In December 2014, the Supervisory Board introduced caps for both Management Incentive Plans III and IV at €45.00 for MIP III (2007–2011) and €55.00 for MIP IV (2011–2016) in accordance with the German Corporate

	Phantom shares granted in 2016 No.	Expense from phantom shares granted in 2016[1] in €	Expense from price fluctuation, hedging instruments, dividends and removal of TecDax outperformance clause for old PPS components[2] in €	Total expense in €
Karl-Heinz Streibich (CEO)	41,419	1,418,833.37	1,637,838.87	**3,056,672.24**
Eric Duffaut	23,227	1,116,861.57	28,731.23	**1,145,592.80**
Dr. Wolfram Jost	20,081	687,875.31	75,523.60	**763,128.91**
Arnd Zinnhardt	36,424	1,247,737.02	836,130.43	**2,083,867.45**

1 This expense relates to allocation in fiscal 2016 at a price of €34.26 (2015: €31.10) per phantom share on the award date.
2 This expense relates from value changes to awards from previous years amounting to €6,953 thousand (2015: €4,263 thousand), less hedging income in the same amount. It also includes payments on PPS balances in line with dividends for shares amounting to €460 thousand (2015: €384 thousand). Expenses relating to the removal of TecDAX outperformance clause in the amount of €2,022 thousand (2015: €2,087 thousand) are also included.

Governance Code. As part of this, the term of MIP III (2007–2011) was extended by three years (until June 30, 2019), and the exercise condition of a minimum price of €60.00 for MIP IV (2011–2016) was removed accordingly. The decision was also made to introduce a new management incentive plan (2015) (MIP V) for fiscal 2015. Plan participants received the changes in December. Participation in MIP V was conditional upon approval of the proposed amendments. The specific changes are presented in detail in the corresponding plan descriptions below. Due to the Software AG Group's strategic realignment geared toward more value-oriented growth, revenue targets under MIP IV (2011–2016) involving new products were not met by December 31, 2015. These stock options therefore became null and void at the end of 2015.

1. Management Incentive Plan III (MIP III)(2007–2011)

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and officers was launched. A total of 3,150,000 (1,050,000 prior to the stock split in 2011) ownership rights were issued to members of the Management Board in past years. If performance targets were reached by June 30, 2016, the holders of these ownership rights would be entitled to a payment of the value by which the Software AG stock surpassed the base price of €24.12 (€72.36 prior to the stock split). The defined performance target involved reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006. These conditions were met in fiscal year 2010.

Participants of MIP III (2007–2011) can be paid an annual bonus for unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting. This must be reapproved every year. As in past years, this bonus was not paid in fiscal 2016. In the event that an authorized board member does not exercise these MIP III rights, although they are exercisable, for each year in which they are not exercised he receives additional rights from the MIP IV described below. Because of this policy, Mr. Streibich received 30,000 MIP IV options and Mr. Zinnhardt 15,000 MIP IV options in fiscal 2015 all of which became null and void on December 31, 2015 along with those options awarded in past years.

As part of the above-mentioned offer to amend plan conditions, the following changes were made:

On December 8, 2014 the plan's term was extended by three years until June 30, 2019. In exchange, remuneration was limited in accordance with the German Corporate Governance Code through the introduction of a €45.00 cap with €20.88 per stock option assuming a base price of €24.12. Furthermore, the option to service with shares was removed. The option to service with shares was reinstated as part of the changes to the plan on March 27, 2015.

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 1]	Balance on Jan. 1, 2015	Base price in €	Value of option at time of grant in €	Remaining term on Jan. 1, 2016 Years	Granted options in 2016 No.
Karl-Heinz Streibich (CEO)	900,000	24.12	6.80	3.5	0
Arnd Zinnhardt	450,000	24.12	6.80	3.5	0

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 2]	Forfeited options in 2016 No.	Exercised options in 2016 No.	Weighted average share price on the date of exercise in €	Expired options in 2016 No.
Karl-Heinz Streibich (CEO)	0	900,000	34.40	0
Arnd Zinnhardt	0	450,000	34.40	0

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 3]	Balance on Dec. 31, 2016* No.	Accounting expense from MIP III stock options in 2016 in €
Karl-Heinz Streibich (CEO)	0	0.00
Arnd Zinnhardt	0	0.00

2. Management Incentive Plan IV (MIP IV)(2011–2016)

After Software AG had met the secondary conditions of MIP III (2007–2011) in 2010, it was necessary to launch a new long-term success-based incentive plan. Accordingly, a share-based incentive plan for members of the Management Board and managers was launched in the second quarter of 2011. A total of 1,745,000 ownership rights were issued to members of the Management Board as of December 31, 2015. If performance targets had been reached by fiscal year 2015, the holders of these ownership rights would have been entitled to a payment of the value by which the Software AG stock surpassed the base price. This entitlement would have been valid until June 30, 2021. The base price for ownership rights issued was €41.34.

The defined long-term performance target involved doubling Group revenue for new products compared to fiscal year 2010 by no later than 2015. "New products" as defined for the revenue performance target were mainly all products outside of the Adabas & Natural and EntireX product portfolios. The Company therefore took the cloud computing megatrend into account in its calculations of relevant revenue. This meant that the cloud revenue generated on a pro rata subscription basis would be recognized with a multiplying factor; IFRS revenue from new products however had to be at least €450 million in fiscal year 2015. Furthermore, the objective was defined that the Software AG Group's publicized non-IFRS EBIT margin had to be at least 10 percent respectively by 2015, whereby underperformance of the non-IFRS EBIT margin could be balanced out by an appropriate outperformance of the revenue performance target. The issue rights were eligible to be exercised for the first time four years after they were allotted. An additional condition for exercising rights was defined whereby Software AG's stock price had to be at least

€ 60.00 on one of the five trading days before rights were exercised.

Furthermore, participants of MIP IV (2011–2016) could be paid an annual bonus on exercisable but unexercised options in the amount of the dividend approved at the respective Annual Shareholders' Meeting.

As part of the above-mentioned offer to amend plan conditions, the following changes were made:

A cap of € 55.00 was defined as part of a remuneration limit pursuant to the German Corporate Governance Code. Thus, the maximum income from exercising a right with a base price of € 41.34 was capped at € 13.66. As part of that, the condition that the share price must be € 60.00 on at least one of the last five weekdays prior to exercise was removed accordingly.

3. Management Incentive Plan V (2015) (MIP V)

A share-performance-based Management Incentive Plan (MIP V) for members of the Management Board, upper management and key members of staff was approved in December 2014. The rights have a term of three years. Payment of exercise benefits is dependent upon a 30-percent share price increase. The target has been met when Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the reference price at issue of € 21.22 by 30 percent or more on ten consecutive trading days between November 15, 2016 and December 15, 2017. This represents an exercise threshold of € 27.59. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15, 2014. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP during the period from November 15 to December 15, 2017. The maximum possible exercise benefit per right is capped at 200 percent of the reference price, or € 42.44.

The following expenses were incurred under this plan in fiscal 2016:

Management Incentive Plan V

	Committed MIP V stock appreciation rights in 2016 No.	Expense from MIP V stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	1,369,941.71
Eric Duffaut	0	899,716.92
Dr. Wolfram Jost	0	684,970.86
Arnd Zinnhardt	0	684,970.86

4. Management Incentive Plan 2016 (MIP 2016)

Management Incentive Plan 2016, a plan based on Software AG's share price performance, was approved in December 2015. The rights have a term of three years. Exercise benefits are paid out conditional upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the price of € 30.00 on ten consecutive trading days during the period between December 1, 2017 and November 30, 2018. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP during the period from November 15 to December 15, 2018. The maximum exercise benefit per right is capped at 200 percent of the reference price of € 25.94. This is equal to € 51.88. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15, 2015.

The fair value on the date of award was € 18.68 per stock appreciation right.

The following expenses were incurred under this plan in fiscal 2016:

Management Incentive Plan 2016

	Committed MIP 2016 stock appreciation rights in 2016 No.	Expense from MIP 2016 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	744,971.18
Eric Duffaut	0	419,452.51
Dr. Wolfram Jost	0	320,192.76
Arnd Zinnhardt	0	320,192.76

5. Management Incentive Plan 2017 (MIP 2017)

The share-based Management Incentive Plan 2017 (MIP 2017) was instituted in December 2016, whereby members of the Management Board were awarded stock options in four tranches with a term of 3.4 years ending on August 28, 2020. The base price of these stock options is € 33.18 and is the weighted average price of Software AG's share on the 20 trading days after November 15, 2016. A quarter of these stock options will become exercisable at the respective average share price on the first 20 trading days in November 2019, in February 2020, in May 2020 and in August 2020. The performance target requires Software AG's share price (including dividends paid out in the meantime) to exceed the base price of € 33.18 by 20 percent on ten consecutive trading days in the period from December 1, 2018 to November 30, 2019. The maximum possible compensation under this program was defined at €3,767 thousand for Mr. Streibich (CEO) and at €1,884 thousand for the other members of the Management Board.

The following stock appreciation rights were awarded and expenses incurred under MIP 2017 in fiscal 2016:

Management Incentive Plan 2017

	Committed MIP 2017 stock appreciation rights No.	Expense from MIP 2017 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	252,548	20,643.43
Eric Duffaut	126,274	7,384.50
Dr. Wolfram Jost	126,274	5,637.02
Arnd Zinnhardt	126,274	5,637.02

For further information on total remuneration of the Management Board, on the remuneration of former members of the Management Board and pension provisions for former members of the Management Board, please refer to the Notes to the Consolidated Financial Statements and the Notes to the Financial Statements of Software AG (separate for parent company).

Other remuneration components

A member of the Management Board whose employment is terminated within 12 months of a change of control without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration. In case of resignation by a member of the Management Board, the above-mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control.

When an employment contract is terminated prematurely but not by the member of the Management Board, the severance payment is limited to the target compensation for two years but no more than the remaining term of the contract. The employment contract for one member of the Management Board limits the severance payment to one annual target remuneration and not to the remaining term of the contract.

In the event of illness, the members of the Management Board will receive full pay based on the annual target remuneration for a period of six months. After six months, the variable remuneration component will be reduced by 1/12 for every month that follows. Salary payments will cease at the end of the term of the contract in any event. Any health insurance benefits received by the Board member must be credited against such payments.

In case of permanent disability, the employment contract of the Management Board member concerned will terminate at the end of the month in which the permanent disability was determined or at the end of the month in which the Management Board member has been incapacitated for work for an uninterrupted period of 12 months. In such a case, severance pay will be provided for one Management Board member in the amount of €158 thousand. Another member will receive severance payment equal to the member's total fixed salary for the remainder of the contract period, but not to exceed six months. Two Management Board members will receive no severance pay in such a case. From the time of their departure until completion of their 62nd year of age, the German members of the Management Board will receive a disability pension of €14.0 thousand (2015: €14.0 thousand) per month, and the CEO will receive €28.1 thousand (2015: €28.0 thousand) per month. The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year.

The Company maintains accident insurance policies for the Management Board members with an insured amount equaling € 1,500 thousand in the event of death and € 3,000 thousand in the event of disability. Furthermore, Software AG carries Directors & Officers (D&O) insurance which covers members of the Management Board; the deductible is currently 1.5-times the fixed annual salary of the Management Board member.

German members of the Management Board receive pensions for life after completing their 62nd year of age, regardless of their age when they joined the Company. For two members of the Management Board, the pension amounts to € 14.0 thousand (2015: € 14.0 thousand) per month; the CEO's pension amounts to € 28.1 thousand (2015: € 28.0 thousand) per month. As part of the CEO's contract renewal, his pension was adjusted beyond the age limit of 62 using a straight-line method. The pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year. This pension commitment also includes a widow's annuity of 60 percent of the Management Board member's pension. In the event that a Management Board member leaves the Company prior to the age of 62 and before reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to pension benefits, but they will be reduced on a pro-rated basis. In the event that a Management Board member leaves the Company prior to the age of 62, but after reaching the 15th year as a member of the Company's Management Board, such Management Board member will still be entitled to full pension benefits. If the CEO leaves the Company prematurely, there is no pro-rated reduction. Given the increased flexibility of pension benefit policies (in Germany), members of the Management Board were granted the option in fiscal 2015 to receive pension benefits as a one-time lump sum instead of pension benefit payments. The amount of the one-time lump sum payment is calculated based on the surrender value of the Company's life insurance policies, pledged to the members of the Management Board as reinsurance cover for pension entitlements. Beneficiaries must declare their choice to exercise the option of a one-time lump sum payment no later than three months and one week before the regularly scheduled beginning of their pension.

Claims from the French Management Board member to pension or disability pension will be served by the applicable social security system for Company employees in France.

The change in present value from pension commitments (IFRS) in 2016 and the present value of pension commitments as of December 31, 2016 are as follows:

in €	Change in present value (DBO) from pension commitments 2016	Present value of pension commitments Dec. 31, 2016
Karl-Heinz Streibich (CEO)	2,338,499.00	9,887,878.00
Eric Duffaut	0.00	0.00
Dr. Wolfram Jost	291,786.00	1,774,093.00
Arnd Zinnhardt	385,847.00	2,431,972.00

In addition, German Management Board members who have served on the Board for more than three years can, at the discretion of the Company, be given the opportunity to waive portions of their future variable target remuneration to finance additional supplementary benefits. In such a case, the Company pays an annual amount corresponding to the amount waived, raised to the percentage of the average target performance ratio for the preceding three full fiscal years before the respective waiver, into a pension plan negotiated by the Company for the benefit of the Management Board member. This option has thus far not been granted to any Management Board member.

In addition, all members of the Management Board are entitled to be provided with a suitable company car.

No additional commitments have been made regarding severance pay in the event an employment contract is not extended or a shareholder change occurs, nor regarding supplementary state benefits paid to unemployed people who enter self-employment or found a new business, continuation of salary payments in the event of early termination of employment, or interest on severance payments. There are also no entitlements to payments based on customary practice.

Remuneration of the Management Board in 2015

The specific components of the Management Board's compensation in 2015 are contained in the complete tables in accordance with the German Corporate Governance Code. These components will therefore not be repeated here. Accordingly, this portion of the Remuneration Report will deal solely with the development of compensation relating to stock options and pension commitments in 2015.

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 1]	Balance on Jan. 1, 2015	Base price in €	Value of option at time of grant in €	Remaining term on Jan. 1, 2015 Years	Granted options in 2015 No.
Karl-Heinz Streibich (CEO)	900,000	24.12	6.80	4.5	0
Arnd Zinnhardt	450,000	24.12	6.80	4.5	0

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 2]	Forfeited options in 2015 No.	Exercised options in 2015 No.	Expired options in 2015 No.
Karl-Heinz Streibich (CEO)	0	0	0
Arnd Zinnhardt	0	0	0

Stock option awards from Management Incentive Plan III

MIP III (2007–2011) [Table 3]	Balance on Dec. 31, 2015* No.	Thereof exercisable as of Dec. 31, 2015 No.	Remaining term on Dec. 31, 2015* Years	Accounting expense from MIP III stock options in 2015 in €
Karl-Heinz Streibich (CEO)	900,000	900,000	3.5	1,818,000.00
Arnd Zinnhardt	450,000	450,000	3.5	909,000.00

* MIP III, which had been an equity-based plan, converted to a cash-settlement plan on December 8, 2014. Its term was also extended by three years, and a remuneration cap of €20.88 (€45.00 less €24.12) per option was instituted. The plan converted back to an equity-based plan on March 27, 2015. Stock options on the date of conversion were worth €4.96 per option.

Stock option awards from Management Incentive Plan IV

MIP IV (2011–2016) [Table 1]	Balance on Jan. 1, 2015 No.	Base price in €	Value of option at time of award in €	Remaining term on Jan. 1, 2015 Years	Granted options in 2015 No.	Base price in €	Value of option at time of award in 2015 in €
Karl-Heinz Streibich (CEO)	900,000	41.34	10.94	6.5	30,000	41.34	3.58
Dr. Wolfram Jost	350,000	41.34	10.49	6.5	0	41.34	3.58
Arnd Zinnhardt	450,000	41.34	10.94	6.5	15,000	41.34	3.58

Stock option awards from Management Incentive Plan IV

MIP IV (2011–2016) [Table 2]	Forfeited options in 2015 No.	Exercised options in 2015 No.	Expired options in 2015 No.
Karl-Heinz Streibich (CEO)	0	0	–930,000
Dr. Wolfram Jost	0	0	–350,000
Arnd Zinnhardt	0	0	–465,000

Stock option awards from Management Incentive Plan IV

MIP IV (2011–2016) [Table 3]	Balance on Dec. 31, 2015* No.	Thereof exercisable as of Dec. 31, 2015 No.	Remaining term on Dec. 31, 2015* Years	Accounting income from MIP IV stock options in 2015 in €
Karl-Heinz Streibich (CEO)	0	0	0	3,728,977.61
Dr. Wolfram Jost	0	0	0	1,195,996.74
Arnd Zinnhardt	0	0	0	1,864,489.31

* Due to the Software AG Group's strategic realignment geared toward more value-oriented growth, all stock options from this plan became null and void.

The following expenses were incurred under Management Incentive Plan V 2015 (MIP V) in fiscal 2015:

	Committed MIP V stock appreciation rights No.	Expense from MIP V stock appreciation rights in €
Karl-Heinz Streibich (CEO)	0	387,485.94
Eric Duffaut	0	253,803.29
Dr. Wolfram Jost	0	193,742.97
Arnd Zinnhardt	0	193,742.97

The following MIP 2016 stock appreciation rights were awarded and expenses incurred under Management Incentive Plan 2016 (MIP 2016) in fiscal 2015:

	Committed MIP 2016 stock appreciation rights No.	Expense from MIP 2016 stock appreciation rights in €
Karl-Heinz Streibich (CEO)	65,444	11,053.29
Eric Duffaut	32,722	7,239.91
Dr. Wolfram Jost	32,722	5,526.65
Arnd Zinnhardt	32,722	5,526.65

The change in present value from pension commitments in 2015 and the present value of pension commitments as of December 31, 2015 are as follows:

in €	Change in present value (DBO) from pension commitments in 2015	Present value of pension commitments as of Dec. 31, 2015
Karl-Heinz Streibich (CEO)	–504,464.00	7,549,379.00
Eric Duffaut	0.00	0.00
Dr. Wolfram Jost	–266,726.00	1,482,307.00
Arnd Zinnhardt	–787,405.00	2,046,125.00

Supervisory Board Remuneration

Remuneration for Supervisory Board members consists of fixed short-term compensation. Members receive additional remuneration for their work on the Committees (Committee for Compensation and Succession Issues, Audit Committee, Strategy Committee, Mediation Committee and Nominating Committee).

The fixed short-term annual compensation of Supervisory Board members was €60,000 (2015: €60,000). Remuneration paid to the members of the Supervisory Board in fiscal year 2016 totaled €478 thousand (2015: €614 thousand).

Remuneration of the Chairman/ Deputy Chairman

The Chairman of the Supervisory Board receives twice the remuneration stated, and the Deputy Chairman one-and-a-half times such amount.

Other arrangements

Members of the Supervisory Board also receive €1,500 each time they attend a meeting of one of their committees in person. Attendance compensation is paid only once for multiple committee sessions occurring on the same day or for a session that takes place over consecutive days. The attendance compensation is €2,500 for the committee chairs.

Remuneration is payable one week after approval of the Financial Statements for the year by the Supervisory Board or, if applicable, the Annual Shareholders' Meeting. Members of the Supervisory Board who were on the Board for only a part of the fiscal year will receive remuneration for each day during the first month of activity and one-twelfth of the annual remuneration for each additional month.

Remuneration of Supervisory Board members for fiscal year 2016 was as follows:

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	120,000.00	7,500.00	127,500.00
Guido Falkenberg (Deputy Chairman)	90,000.00	4,500.00	94,500.00
Eun-Kyung Park	60,000.00	3,000.00	63,000.00
Alf Henryk Wulf	60,000.00	4,500.00	64,500.00
Markus Ziener	60,000.00	5,000.00	65,000.00
Christian Zimmermann	60,000.00	3,000.00	63,000.00

All information on the remuneration of the Supervisory Board is included in the Notes to the Consolidated Financial Statements and in the Notes to the Financial Statements of Software AG (separate for parent company). Remuneration of Supervisory Board members for fiscal year 2015 was as follows:

in €	Fixed remuneration	Remuneration for committee work	Total
Dr. Andreas Bereczky (Chairman)	112,602.74	10,000.00	122,602.74
Prof. Willi Berchtold (until May 13, 2015)	21,863.01	2,500.00	24,363.01
Maria Breuing (until May 13, 2015)	21,863.01	1,500.00	23,363.01
Guido Falkenberg (Deputy Chairman) (since May 13, 2015)	54,739.73	3,000.00	57,739.73
Peter Gallner (until May 13, 2015)	21,863.01	1,500.00	23,363.01
Heinz Otto Geidt (until May 13, 2015)	21,863.01	3,000.00	24,863.01
Dietlind Hartenstein (until May 13, 2015)	21,863.01	3,000.00	24,863.01
Monika Neumann (Deputy Chairwoman) (until May 13, 2015)	32,794.52	3,000.00	35,794.52
Eun-Kyung Park (since May 27, 2015)	36,000.00	3,000.00	39,000.00
Prof. Dr. Hermann Requardt (until May 13, 2015)	21,863.01	3,000.00	24,863.01
Anke Schäferkordt (until May 13, 2015)	21,863.01	1,500.00	23,363.01
Martin Sperber-Tertsunen (until May 13, 2015)	21,863.01	0.00	21,863.01
Karl Wagner (until May 13, 2015)	21,863.01	0.00	21,863.01
Alf Henryk Wulf	57,863.01	6,000.00	63,863.01
Markus Ziener (since May 27, 2015)	36,000.00	5,000.00	41,000.00
Christian Zimmermann (since May 13, 2015)	38,301.37	3,000.00	41,301.37

FORECAST

Economic Conditions for Upcoming Fiscal Years

Future overall economic situation

According to the Institute for the World Economy (IfW), **global production** will increase by 3.5 percent in the year 2017. A growth rate of 3.6 percent is anticipated for the following year.

The outlook for the **eurozone** is burdened by unsolved structural problems in some of its countries. Since parliamentary elections will be held in four out of the five largest European Union member states, uncertainties about the direction of economic policy are considerable. Nevertheless, the IfW expects moderate economic expansion of 1.7 percent per year in 2017 and 2018. Significantly higher growth rates are anticipated for the **United States**: The IfW predicts a 2.5 percent increase in output in 2017, and 2.6 percent in 2018. Expansive economic policy is largely responsible for the accelerated upward trend. Declining real interest rates and significant impetus from the government through higher expenditures and tax cuts should also stimulate demand. The overall economic expansion will grow stronger in emerging nations over the next two years, with the recent recovery in commodity prices contributing to this trend. However, risks to the economy result primarily from rising debt burdens (particularly in the business sector)—especially as the U.S. dollar grows stronger. The speed of economic expansion in China will slow again in 2017 and 2018. In 2017, its gross domestic product is predicted to gain 6.4 percent, and 5.9 percent in 2018.

The **development of the global economy** is currently especially difficult to predict. This is due to the unstable political environment because the U.S. government's economic policy direction is very difficult to assess. And, the upcoming parliamentary election in four major European Union countries has unleashed uncertainty about the future of European economic policy. This uncertainty is due largely to the unpredictable programs of new parties. Moreover, it is unclear how Brexit will change the economic conditions in Europe. In this environment, it has become clear that monetary policy has reached its limits. The negative side effects of extremely low interest rates will become increasingly evident with the growing risks to financial sector stability. Nevertheless, significant financial market tensions are not expected; and those that do occur should be limited to short periods of time and single countries. Risks here are higher for emerging nations. The economy could experience significant burdens if—against all expectations—the agreed-upon cuts in oil production are implemented by oil-producing nations. Oil prices would increase significantly as a result.

Indicators continue to point to growth for **Germany's economy**. For the last three years, the German economy has experienced an extended upward trend that is expected to continue for the next two years according to the IfW. Gross domestic product growth of 1.9 percent is anticipated for 2016.

Key Data on Germany's Economic Development

For the years 2015 to 2018	2015	2016 Forecast	2017 Forecast	2018 Forecast
GDP, price-adjusted	1.7	1.9	1.7	2.0
GDP, deflator	2.0	1.4	1.2	2.0
Consumer prices	0.2	0.5	1.5	1.8
Labor productivity (hourly concept)	0.8	1.2	1.3	1.0
Employed domestically (1,000 people)	43,057	43,495	43,881	44,390
Unemployment rate (%)	6.4	6.1	5.9	5.6
In relation to the nominal GDP				
Government deficit/surplus	0.7	0.5	0.4	0.5
Debt level	71.2	68.2	65.8	62.7
Account balance	8.4	8.7	8.2	8.2

Source: IfW, Kiel Economic Reports No. 26/Q4 2016 (Gross domestic product, Consumer prices, Labor productivity: Changes compared to the previous year in percent; Unemployment rate: determined by the German Federal Employment Agency)

GDP in Specific Countries and Regions

GDP	2016 Forecast	2017 Forecast	2018 Forecast
USA	1.6	2.5	2.7
Japan	1.0	1.2	0.7
Eurozone	1.7	1.7	1.7
United Kingdom	1.6	1.2	1.6
Advanced nations, total	**1.7**	**2.1**	**2.1**
China	6.6	6.4	5.9
Latin America	–1.2	1.0	2.0
India	7.1	6.8	7.2
East Asia	4.8	4.9	5.1
Russia	–0.6	1.2	1.7
Global economy, total	**3.1**	**3.5**	**3.6**
Global economy (weighted based on market exchange rates in 2015)	**2.4**	**2.9**	**3.0**

Source: Forecast by IfW Kiel Economic Reports No. 26/Q4 2016

Future sector situation

Market analyst firm Gartner anticipates that global IT spending for 2017 will increase by 2.7 percent to $3.464 trillion, and in the following year by another 2.6 percent to $3.553 trillion. According to their projection, the market segments in which Software AG operates should perform well. The enterprise software market segment is expected to grow by 6.8 percent to $355 billion in 2017, and by an additional 7.0 percent in 2018 to reach $380 billion. The IT services market segment should see growth of 4.2 percent to $938 billion in 2017, and then 4.7 percent to $981 billion in 2018.

According to the German Association of Information, Telecommunications and New Media (Bitkom), the European Information Technology Observatory (EITO) calculated moderate growth in the ICT market of 0.7 percent for Europe for 2017. Information technology will remain the ICT industry's pillar of growth. EITO predicts that digitalization of businesses will be the growth driver for the industry this year. Over the long-term, creating the digital domestic market will tap into additional growth potential. The McKinsey Global Institute predicts that the successful organization of the EU initiative could contribute between €375 billion and €415 billion to the eurozone's gross domestic product by the year 2022.

This would also affect Germany as an IT location. According to the Bitkom industry association, two-thirds (65 percent) of software-industry companies in Germany plan to add jobs. At the end of 2016, 1.03 million people were employed in the ICT industry. As such, the industry is strengthening its role as the second largest industrial employer, right behind machine manufacturing.

The Group's focus

Software AG's focus is to be the world's leading provider of digital business platforms. To achieve that goal, the Company will continue investing in its own R&D efforts as well as targeted technology acquisitions that contribute significantly to enabling customers to fully exploit the opportunities of digitalization.

We recognized the transformational power and potential of technological mega trends such as big data, Internet of Things (IoT) and Industry 4.0 early on and integrated them into our product portfolio. After all, digitalization of the world is unstoppable. It offers enormous opportunities and potential, but also bears the risk that companies respond too slowly and end up being squeezed out of the market by young digital startups. Therefore, digitalizing their own business model will become a prerequisite for established companies. The transformation to a digital enterprise builds on the transformation of the internal IT architecture. Over the last three decades, IT's technological progress has changed decisively. It was initially all about standard applications that were linked through point solutions. Then middleware and application infrastructure software emerged to compensate for the resulting silo deficits. Today everything focuses on an event-driven real-time platform that is needed in practically every field, from product development to customer contact.

IT expertise and software competence are crucial for a company's successful transformation. Outsourcing the IT infrastructure led to the loss of necessary architecture know-how over the years. This needs to change. Companies need to bring the responsibility for their IT

Forecast of Global IT Spending

In U.S.$ billions	2016 Spending	2016 Growth (%)	2017 Spending	2017 Growth (%)	2018 Spending	2018 Growth (%)
Enterprise software	333	5.9	355	6.8	380	7.0
IT services	899	3.9	938	4.2	981	4.7
Total IT	**3,375**	**–0.6**	**3,464**	**2.7**	**3,553**	**2.6**

Source: Gartner. Gartner Says Worldwide IT Spending Forecast to Grow 2.7 Percent in 2017. www.gartner.com/newsroom/id/3568917 (February 7, 2017).

architecture back in-house to make their enterprise IT more flexible and agile as well as to be able to shape ongoing development, for example with IoT. The existing IT landscape must be transformed into a digital, platform-based and scalable architecture to be able to process the data. This will support any needed capabilities and cover all digital use cases reliably. The spectrum of the most important digital use cases ranges from smart products to optimized logistics processes and networking with customers to predictive maintenance. On the customer side, end-to-end customer experience, including real-time customer interaction, identification of customer location and automated, personalized feedback are all key themes.

Five building blocks are needed to represent the necessary digital capabilities: In-Memory Data, Integration, Process, Analytics & Decisions and Business & IT Transformation. A digital business platform provides all the essential capabilities and components to design, implement and monitor digital architectures. Our Digital Business Platform—the world's first platform for digitalization, which we launched in late 2014—fully covers all of these digital capabilities, with continued development bringing cutting-edge advances.

Technological Focal Points in 2017

software AG

Market Plays 2017

Business & IT Transformation
Hybrid Integration & API Management
Next Generation APP Platform
Internet of Things
A&N Modernization & Digital Enablement

According to leading market analysts, the core components of our portfolio—integration software, process optimization solutions and analytics tools for big data and Internet of Things—represent exceptionally promising fields of growth. Numerous studies and awards received again in 2016 from respected market analysts confirmed that our product families are unique and leading in the market (refer to "Awards" on p. 34). The addition of a new Chief Research & Development Officer (CRDO) to the Management Board in April 2017 enables us to continue strengthening our innovative power in the rapidly growing digital solutions market. For more information, see Events After the Balance Sheet Date on p. 68.

Software AG's position in growth markets combined with addressing customers' market-driven needs during the digital transformation lay the foundation for strong business development. Thanks to our technology leadership, we are optimistic that we will achieve our 2017 goals under the assumption that the global economy and the IT sector develop according to current expectations. As illustrated by our regional revenue split, Software AG is successfully addressing new high-growth markets and reducing its dependency on individual currencies through internationalization. Software AG's focus however continues to be on profitable growth in specific market segments and countries.

Furthermore, Software AG will concentrate on increasing new license business—a key success factor and performance indicator in the software sector. In the long term, licenses lead to subsequent highly profitable maintenance revenues which, in turn, generate positive cash flow. In addition to these growth fields, increased efficiency will continue to be of utmost priority in all areas of the Company, above all in Sales. Software AG's successful go-to-market transformation and consolidation of sales, marketing and service activities under the leadership of one Management Board function have already produced initial results.

With the widespread adoption of new software solutions for enterprise digital transformation over the next five years, the currently moderate growth rates are expected to rise sharply. We saw a notable rise in 2016 in the market relevance of our products resulting from the spread of digitalization around the world. This was specifically illustrated by a further increase in our average deal size and number of strategic engagements with key industry leaders. As planned, we were able to significantly increase the number of large-scales deals as well as
sales productivity.

Our role as a global player of digital transformation is reflected in our growing international customer base as well as the strategic partnerships that we entered in 2016. In general, manufacturing companies are increasingly seeking partnerships in the software sector and specifically with Software AG. Bosch, for instance, chose to partner with Software AG in 2016 for co-development of new digital services and solutions for the Bosch IoT Cloud. We have made significant strides toward our goal of assuming a lasting leadership role in digital transformation and establishing our products with customers.

Acquisitions remain a component of our growth strategy. We will continue to observe potential M&A targets and invest selectively in innovation-driven companies in order to strengthen our technology leadership and value-oriented growth.

Expected Financial Performance

Anticipated revenue and earnings

Remarks on the forecast: It is important to note that the revenue and earnings forecast does not account for currency exchange effects, acquisition or restructuring-related expenses or short-term effects that arise during the course of the year, all of which are unforeseeable.

In light of Software AG's market-leading product portfolio, the growing demand for Software AG technology and its excellent financial basis, the Management Board expects DBP revenue growth between 5.0 and 10.0 percent at constant currency in fiscal year 2017. A decline is expected in the A&N business line at constant currency between 2.0 and 6.0 percent year-on-year. Software AG anticipates a single-digit positive growth rate in its Consulting line. Based on this guidance, this mathematically results in a low single-digit growth rate for total revenue at constant currency. This performance indicator is not used to manage the Company. Furthermore, the Company forecasts a high EBITA margin (non-IFRS) between 30.5 and 31.5 percent.

The Company's total financial guidance—including the expected performance for DBP, A&N and Consulting revenue and operating EBITA margin—is approved by the Management Board and Supervisory Board and is based on individual national subsidiary planning. Factors used in their planning are anticipated economic developments in the specific regions, current order levels, existing pipelines, anticipated maintenance contract renewal rates and anticipated resource utilization of Consulting staff.

Outlook for Fiscal Year 2017

	2016 in € millions	2017 outlook as of Jan. 26, 2017
Digital Business Platform revenue	441.4	+5% to +10%*
Adabas & Natural revenue	233.9	−2% to −6%*
Operating margin (EBITA, non-IFRS)**	31.2%	30.5% to 31.5%

* At constant currency
** Before adjusting for non-operating factors (see non-IFRS results)

Medium-term performance until 2020

Software AG expects further margin growth in upcoming years. Based on its current business model, Software AG seeks to increase its operating profit margin (EBITA, non-IFRS) from its presently high level of 31.2 percent in fiscal 2016 to between 32.0 and 35.0 percent by 2020. This target will be achieved primarily through organic growth in the DBP business line, continuation of productivity improvements in Sales and a growing share of revenues via an expanded partner network. With respect to organic growth in DBP licenses, Software AG expects annual growth rates ranging between high single digits and low double digits. This will be supplemented with a positive trend in total Group maintenance revenues.

Outlook for the Software AG Holding Company (separate Financial Statements)

Software AG's future financial performance depends upon the financial standing of the Software AG Group and is determined by profit transfers and decisions regarding the payout of Group-internal dividends. Therefore, please refer to the forecast on the expected financial performance of the Software AG Group.

Anticipated performance of key items on the income statement

The cost of sales, largely consisting of personnel costs related to consulting services, are expected to rise moderately year-on-year in line with Consulting revenues. R&D expenses should also demonstrate single-digit growth year-on-year, particularly to fuel innovation in the field of the Internet of Things (IoT). This includes expansion of R&D resources in low-cost locations. Expenditures in DBP and A&N will follow the revenue trend. Sales expenses are expected to increase by a mid-single-digit rate to boost growth in the DBP line and steadfastly serve the A&N customer base. General and administrative expenses will approximate those of the previous year.

Anticipated dividend development

Consistent dividend policy

Software AG adheres to a sustainable dividend policy, which is geared toward long-term development of the Company. This continuity is in the interest of reliable shareholder relationships and their focus on value. The dividend is paid from Software AG's earnings and cash flow. In addition to investments in profitable growth, Software AG's use of cash flow aims to enable shareholders to participate in the Company's profitability through attractive dividends. To reflect shareholder value, Software AG raised its dividend ratio range in 2015 to between 25 and 33 percent of the Group's average net income (attributable to shareholders) and free cash flow.

Software AG continued its value-based dividend policy in fiscal 2016. After having raised the dividend to €0.55 per dividend-bearing share for fiscal 2015, the Management and Supervisory Boards will propose a dividend of €0.60 for fiscal 2016 at the 2017 Annual Shareholders' Meeting. Subject to the approval of the shareholders, this would equal a total payout sum of €45.7 million (2015: €41.9 million), or, in relation to average net income (attributable to shareholders) and free cash flow in 2016, a dividend ratio of 28.0 percent (2015: 27.1 percent). Based on the closing share price (Dec. 30, 2016: €34.49/2015: €26.42) for the year, this would correspond to a dividend yield of 1.7 percent (2015: 2.1 percent). This is an attractive yield in the current capital market climate. The dividend policy is a clear indication of the Company's value focus and will continue in the future.

Software AG's shareholders also benefit from share buyback plans and ensuing capital decreases. Software AG has reduced the number of outstanding shares through several buyback measures and redemption of treasury shares in recent years. The treasury shares repurchased by Software AG are not entitled to a dividend. The Management Board was authorized by the 2016 Annual Shareholders' Meeting to repurchase up to 10 percent of the Company's share capital. It has not yet exercised this authorization. But it may be used at any time for future share buyback programs.

Anticipated Financial Position

Planned financing activities

Due to Software AG's high level of cash flow and comfortable liquidity, the Company does not foresee a need for external financing. External financing measures are taken almost exclusively for financing large acquisitions. Because the timing of such acquisitions is not exactly foreseeable, neither a precise point in time nor the necessary financing can be named. Should a large acquisition arise, financing measures could be taken at any time.

Planned investments

There are currently no concrete plans for major investments. Software AG is however always prepared to take advantage of opportunities that arise for technology-driven acquisitions. Software AG has access to attractive financing options thanks to its high and stable cash flow. Given favorable circumstances, larger strategic acquisitions could therefore occur.

Anticipated liquidity

Based on Software AG's positive outlook for revenue and earnings, an ongoing stable trend is expected for free cash flow. As in past years, free cash flow is expected to be higher than net income in 2017. This means that operating cash inflows will be significantly higher than dividend payments and contractual credit repayments, resulting in a further increase in liquidity and thus even more financial options for possible acquisitions.

Management's general statement on the anticipated development and position of the Group

Software AG was able to further increase its profitability and market relevance in fiscal 2016. Our strong earnings are tangible results of our value-oriented management focused on profitable growth and financial discipline. This positive trend was particularly highlighted by the very successful fourth quarter of 2016 and its record-breaking results. We therefore consider Software AG to be better equipped in 2017 than ever before to exploit the growing demand for digital transformation solutions in all industries and target markets. We aim to stay on course for profitable growth in fiscal 2017, meeting further targets along the way.

Thanks to our leading product portfolio, we were able to claim our technology leadership in 2016 and lay the foundation for future market success. New strategic partnerships with global market leaders show that Software AG is a highly sought-after software provider in the digital transformation field. Additionally, awards from market analysts and the positive results of our 2016 customer survey confirm an extraordinary degree of customer loyalty and satisfaction with our products. We are steadfast in driving innovation in forward-looking fields like Internet of Things (IoT) and Industry 4.0. Thanks to our multiple-award-winning product portfolio, we will be able to strengthen our market-leading position. That includes our collaboration with Google. Software AG's market-leading webMethods Hybrid Integration Platform became available on Google Cloud in January 2017. We will also offer the Digital Business Platform on Google Cloud later in the year.

Dedicated measures to increase sales efficiency such as our successful go-to-market transformation and focusing on the profitable core business of Software AG's own products have proven valuable and will produce lasting effects. We are convinced that Software AG's substantial earnings improvement and product portfolio expansion will lend new impetus to business development and generate sustainable profitability.

Our customers are at the center of all our activities. We therefore consider today which software solutions will lead them to success tomorrow and how we can specifically develop our innovative product portfolio. Software AG's takeover of U.S. software company, Zementis, is one example of how our acquisition strategy enables us to gain access to critical technology components and innovation—such as artificial intelligence. As of April 1, 2017, we will welcome a new member of the Management Board. As Chief Research & Development Officer, Dr. Stefan Sigg will further strengthen Software AG's innovative power. A highly-qualified software development expert, he will fuel product innovation in the fields of IoT, real-time analytics, process and interface management and data integration.

In further increasing our operating profit margin from the previous profitable years, we have advanced significantly in achieving our long-term goal: We aim to have an operating profit margin (EBITA, non-IFRS) between 32 and 35 percent by the year 2020. This strategy is propelled by our strong financial position, illustrated by extremely high cash flow and equity ratios of the past years. This position gives us the flexibility necessary to invest in our own innovation and non-organic growth—provided a favorable acquisition market climate.

Our business strategy focuses on profitable organic growth, improved efficiency, increased maintenance revenues, cultivation of the loyal A&N customer base, partner ecosystem expansion and the rapidly-growing Internet of Things and Industry 4.0 markets. The core of the Company's long-term portfolio strategy is intensive expansion of the future-oriented, profitable Digital Business Platform line. This segment has become our primary source of revenue in the past few years. In order to drive the expansion of this promising business, we will continue investing in acquisitions and developing our partnerships with research institutes and technology companies.

In the long term, Software AG plans to:

- further strengthen its position as one of the world's leading providers of Digital Business Platforms and related solutions
- remain independent with the help of our anchor investor, the Software AG Foundation
- seek select acquisitions in order to bolster organic growth through external growth

We will concentrate on the opportunities that the rapidly advancing digitalization offers us and our customers in the years to come. Mega trends in IT require companies to transform to a digital enterprise. These global trends will continue to be the critical engines of growth in the software sector. Software AG is equipped to help customers meet the associated requirements with its innovative product portfolio, including integration and consulting know-how. We assume that, as digitalization intensifies, demand for integration solutions and agile, flexible application development platforms will continue and will drive DBP product revenue.

Because A&N continues to generate the largest share of Group earnings while maintaining a loyal customer base, we will secure customer relationships in this segment with long-term value-adding offerings. We therefore made the decision to continue developing and supporting the A&N product portfolio for our customers though the year 2050 and beyond. Furthermore, A&N will be combined with our Digital Business Platform products to help our customers modernize their applications.

We have built up our Consulting line into an active market player. Thanks to their comprehensive expertise, our consultants offer high-quality services for Software AG products and contribute to a high level of customer satisfaction. This high-end positioning has further strengthened this segment's profitability.

Increasing profitability remains a clear objective for the years to come. Moreover, a high equity ratio and free cash flow provide the financial flexibility for accelerated organic growth with our own R&D resources as well as for targeted acquisitions. Software AG considers itself well equipped to drive profitable growth in 2017.

We consider a steady dividend policy to be an important indication of our long-term business success and a symbol of shareholder appreciation. The Management Board and Supervisory Board will therefore propose a new increase to the Software AG dividend for 2017. The dividend ratio range was already increased in 2015 to 25 to 33 percent of the averaged net income (attributable to shareholders) and free cash flow. This dividend policy is Software AG's unequivocal commitment to value and will continue in the future.

TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

On December 31, 2016, Software AG's share capital totaled €79,000,000 before deducting treasury shares and is divided into 79,000,000 bearer shares. Each share represents € 1.00 of the Company's share capital. Each share entitles its holder to one vote. 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 Incorporation.

Conditional capital

The following conditional capital existed as of December 31, 2016:

Up to €55,000 divided into a maximum of 55,000 bearer shares, each with a notional interest in the share capital of € 1.00, for the purpose of granting bearer shares upon the exercise of conversion or option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005, such conversion or option rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with section 23 of the German Reorganization and Transformation Act (UmwG). The last of these option rights expired on September 29, 2016.

Authorized capital

In accordance with the resolution passed at the Annual Shareholders' Meeting on May 31, 2016, there is authorized capital. The Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 30, 2021 up to a total of €39,500,000, issuing up to 39,500,000 new bearer shares against cash contributions or contributions in kind (authorized capital).

Share buyback

Furthermore, the Company is authorized to purchase treasury shares up to the par value of 10 percent of the existing share capital at the time of the resolution on or before May 30, 2021 in order to realize benefits associated with the acquisition of treasury shares in the interest of the Company and its shareholders. The treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the Company.

Please refer to the Group and Software AG Notes to the Financial Statements for additional information on conditional capital, authorized capital and the acquisition of treasury stock.

Significant shareholders

The Software AG Foundation, Darmstadt, holds approximately 32 percent of the outstanding shares in Software AG stock. The foundation is a separate non-profit legal entity and is devoted worldwide to therapeutic pedagogy, social therapy, education, youth and senior citizens services, environment and research. No other shareholders hold more than 10 percent of the Company's share capital.

Appointment/dismissal of Management Board members and changes in the Articles of Incorporation

Management Board members are appointed and dismissed in accordance with section 84 et seqq. of the German Stock Corporation Act. Any changes in the Articles of Incorporation are resolved by the Annual Shareholders' Meeting by a majority of at least three-fourths of the share capital represented at the time of the resolution in accordance with section 179 of the German Stock Corporation Act.

Change of control

Liabilities to banks in the amount of €272.5 million (2015: €312.6 million) could become due, in full or in part, in the case of a change of control on the part of the creditors. A member of the Management Board whose employment is terminated within 12 months of a change of control without good cause will receive a severance payment equal to three annual salaries based on the most recently agreed annual target remuneration. In case of resignation by a member of the Management Board, the above-mentioned regulation is not applicable if the position of the Management Board member has only been altered marginally with the change of control.

In the event of a change of control, any stock appreciation rights granted by the Company under Management Incentive Plans V, 2016 and 2017 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.

STATEMENT ON CORPORATE GOVERNANCE

The Company submitted its Statement on Corporate Governance on February 3, 2017. It will be published in March 2017 on the website at: SoftwareAG.com/statement.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on the website at SoftwareAG.com/declaration on January 30/31, 2017.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For fiscal years 2016 and 2015

in € thousands	Note	2016	2015
Licenses		263,027	271,901
Maintenance		412,205	406,942
Services		195,179	193,368
Other		1,422	846
Total revenue	**[5]**	**871,833**	**873,057**
Cost of sales		–211,856	–212,158
Gross profit		**659,977**	**660,899**
Research and development expenses		–112,452	–106,413
Sales, marketing and distribution expenses		–245,666	–268,836
General and administrative expenses		–79,322	–69,405
Other taxes	[10]	–5,523	–5,984
Operating earnings		**217,014**	**210,261**
Other income	[6]	33,519	36,140
Other expenses	[7]	–42,177	–42,956
Financing income	[8]	9,945	8,746
Financing expenses	[8]	–14,333	–11,673
Earnings before income taxes		**203,968**	**200,518**
Income taxes	[9]	–63,615	–60,913
Net income		**140,353**	**139,605**
Thereof attributable to shareholders of Software AG		140,156	139,445
Thereof attributable to non-controlling interests		197	160
Earnings per share in € (basic)	[12]	1.84	1.78
Earnings per share in € (diluted)	[12]	1.84	1.78
Weighted average number of shares outstanding (basic)		76,231,631	78,429,032
Weighted average number of shares outstanding (diluted)		76,254,712	78,510,932

STATEMENT OF COMPREHENSIVE INCOME

For fiscal years 2016 and 2015

in € thousands	Note	2016	2015
Net income		**140,353**	**139,605**
Currency translation differences from foreign operations		28,562	41,927
Net gain/loss on remeasuring financial assets	[29]	2,355	1,936
Currency translation gain/loss from net investments in foreign operations		1,348	4,240
Items to be reclassified to the income statement if certain conditions are met		**32,265**	**48,103**
Net actuarial gain/loss on pension obligations	[25]	–6,668	624
Items not to be reclassified to the income statement		**–6,668**	**624**
Other comprehensive income	**[26]**	**25,597**	**48,727**
Total comprehensive income		**165,950**	**188,332**
Thereof attributable to shareholders of Software AG		165,753	188,172
Thereof attributable to non-controlling interests		197	160

CONSOLIDATED BALANCE SHEET

As of December 31, 2016 and 2015

ASSETS

in € thousands	Note	2016	2015
Current assets			
Cash and cash equivalents		374,611	300,567
Other financial assets	[13]	13,488	11,840
Trade receivables and other receivables	[14]	220,966	232,576
Other non-financial assets	[15]	20,286	14,794
Income tax receivables	[16]	12,638	24,406
		641,989	**584,183**
Non-current assets			
Intangible assets	[17]	149,420	157,438
Goodwill	[17]	936,606	899,954
Property, plant and equipment	[18]	75,559	56,221
Other financial assets	[13]	45,957	24,547
Trade receivables and other receivables	[14]	84,905	75,090
Other non-financial assets	[15]	291	82
Income tax receivables	[16]	6,988	6,215
Deferred tax receivables	[19]	15,502	11,039
		1,315,228	**1,230,586**
Total assets		**1,957,217**	**1,814,769**

EQUITY AND LIABILITIES

in € thousands	Note	2016	2015
Current liabilities			
Financial liabilities	[20]	101,467	113,033
Trade payables and other liabilities	[21]	39,695	33,016
Other non-financial liabilities	[22]	121,817	112,932
Other provisions	[23]	50,959	28,329
Income tax liabilities	[24]	28,224	28,626
Deferred income		125,464	123,606
		467,626	**439,542**
Non-current liabilities			
Financial liabilities	[20]	200,049	213,247
Trade payables and other liabilities	[21]	4,195	90
Other non-financial liabilities	[22]	381	1,719
Other provisions	[23]	24,793	17,897
Provisions for pensions and similar obligations	[25]	42,215	35,644
Deferred tax liabilities	[19]	13,498	16,723
Deferred income		7,665	178
		292,796	**285,498**
Equity	[26]		
Share capital		79,000	79,000
Capital reserves		23,682	40,504
Retained earnings		1,145,374	1,047,145
Other reserves		19,789	–5,808
Treasury shares		–71,596	–71,596
Attributable to shareholders of Software AG		1,196,249	1,089,245
Non-controlling interests		546	484
		1,196,795	**1,089,729**
Total equity and liabilities		**1,957,217**	**1,814,769**

CONSOLIDATED STATEMENT OF CASH FLOWS [27]

For fiscal years 2016 and 2015

in € thousands	2016	2015
Net income	140,353	139,605
Income taxes	63,615	60,913
Net financial income/expense	4,388	2,927
Amortization/depreciation of non-current assets	40,162	49,432
Payments for cash-settled claims to optional share-based compensation	–16,319	0
Other non-cash income/expense	–8,198	–7,385
Operating cash flow before changes in working capital	**224,001**	**245,492**
Changes in receivables and other assets	–7,144	–16,473
Changes in payables and other liabilities	56,019	21,812
Income taxes paid/received	–64,111	–61,872
Interest paid	–15,019	–12,209
Interest received	9,950	8,687
Net cash provided by operating activities	**203,696**	**185,437**
Proceeds from the sale of property, plant and equipment/intangible assets	385	2,388
Purchase of property, plant and equipment/intangible assets	–12,687	–12,149
Proceeds from the sale of non-current financial assets	1,457	283
Purchase of non-current financial assets	–5,874	–5,977
Proceeds from the sale of current financial assets	16,818	49,232
Purchase of current financial assets	–16,970	–5
Proceeds/payments from the sale of disposal groups	0	–1,000
Payments for acquisitions, net	–43,117	0
Net cash used in investing activities	**–59,988**	**32,772**

in € thousands	2016	2015
Repurchase of treasury shares (including option premiums paid)	0	–70,021
Use of treasury shares	0	645
Dividends paid	–42,105	–39,633
New financial liabilities	84,475	8,705
Repayment of financial liabilities	–122,432	–138,687
Payments for non-controlling interests	–460	–500
Net cash provided by/used in financing activities	**–80,522**	**–239,491**
Change in cash and cash equivalents	63,186	–21,282
Change in cash and cash equivalents from currency translation	10,858	3,453
Net change in cash and cash equivalents	**74,044**	**–17,829**
Cash and cash equivalents at beginning of period	300,567	318,396
Cash and cash equivalents at end of period	**374,611**	**300,567**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [26]

For fiscal years 2016 and 2015

in € thousands	Share capital		Capital reserves	Retained earnings
	Common shares outstanding (no.)			
Equity as of Jan. 1, 2015	**78,918,844**	**86,944**	**43,195**	**1,161,411**
Total comprehensive income				**139,445**
Transactions with shareholders				
Dividend payment				–39,459
Stock options			–2,473	
Issue and use of treasury shares	25,300	–7,944	–50	–214,252
Repurchase of treasury shares (including option premiums paid)	–2,712,513			
Other changes			–1	
Transactions between shareholders			–167	
Equity as of Dec. 31, 2015	**76,231,631**	**79,000**	**40,504**	**1,047,145**
Equity as of Jan. 1, 2016	**76,231,631**	**79,000**	**40,504**	**1,047,145**
Total comprehensive income				**140,156**
Transactions with shareholders				
Dividend payment				–41,927
Stock options			–16,319	
Transactions between shareholders			–503	
Equity as of Dec. 31, 2016	**76,231,631**	**79,000**	**23,682**	**1,145,374**

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	Net actuarial gain/loss on pension obligations	Currency translation gain/loss from net investments in foreign operations				
–32,299	**–1,365**	**–27,308**	**6,437**	**–224,466**	**1,012,549**	**831**	**1,013,380**
41,927	**1,936**	**624**	**4,240**		**188,172**	**160**	**188,332**
					–39,459	–174	–39,633
					–2,473		–2,473
				222,891	645		645
				–70,021	–70,021		–70,021
					–1		–1
					–167	–333	–500
9,628	**571**	**–26,684**	**10,677**	**–71,596**	**1,089,245**	**484**	**1,089,729**
9,628	**571**	**–26,684**	**10,677**	**–71,596**	**1,089,245**	**484**	**1,089,729**
28,562	**2,355**	**–6,668**	**1,348**		**165,753**	**197**	**165,950**
					–41,927	–178	–42,105
					–16,319		–16,319
					–503	43	–460
38,190	**2,926**	**–33,352**	**12,025**	**–71,956**	**1,196,249**	**546**	**1,196,795**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 315a (1) of the German Commercial Code (HGB). The IFRSs applicable as of December 31, 2016 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. It is the parent company of a Group that is globally active in the fields of software development, licensing and maintenance as well as IT services. The functional currency of Software AG is the euro.

The Consolidated Financial Statements of Software AG are expressed in thousands of euros unless otherwise stated.

[2] Scope of Consolidation

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 are part of the Group of Software AG (parent company):

a) Domestic entities	Ownership interest %
SAG Deutschland GmbH, Darmstadt	100
SAG Consulting Services GmbH, Darmstadt	100
SAG LVG mbH, Darmstadt and its foreign subsidiaries	100
• Software Dutch License Company C.V., Al's-Gravenhage/Netherlands	99
FACT Unternehmensberatung GmbH, Darmstadt (acquisition of 19.48 percent of shares as of May 3, 2016) and its subsidiary	100
• FACT Informationssysteme und Consulting AG, Neuss	55
itCampus Software und Systemhaus GmbH, Leipzig	100
alfabet GmbH, Berlin	100
SAG Cloud GmbH, Darmstadt (formerly webMethods Germany GmbH)	100

b) Foreign entities	Ownership interest %	Country
Software A.G. Argentina S.R.L., Buenos Aires/Argentina	95	Argentina
in which SAG Deutschland GmbH also has a direct stake	5	
Software AG Sydney PTY LTD, McMahons Point/Australia	100 inactive	Australia
Software GmbH Österreich, Vienna/Austria	100	Austria
Software AG (Gulf) S.P.C., Manama/Bahrain and its subsidiary	100	Bahrain
• Software AG International FZ LLC, Dubai/United Arab Emirates	100	United Arab Emirates
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	Brazil
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	Bulgaria

b) Foreign entities	**Ownership interest %**	**Country**
Software AG China Ltd., Shanghai/China	100	China
Software AG (Hong Kong) Limited, Hong Kong/China	100	China
Software d.o.o., Split/Croatia	100	Croatia
Software AG Denmark A/S, Hvidovre/Denmark and its subsidiary	100	Denmark
• Software AG Nordic A/S, Oslo/Norway	100 inactive	Norway
Software AG Finland Oy, Helsinki/Finland	100	Finland
Software AG France S.A.S, Courbevoie Cedex/France	100	France
Software AG India Sales Private Ltd, Bangalore, Karnataka/India	100	India
Software AG (India) Private Limited, Bangalore/India	100	India
S.P.L. Software Ltd, OR-Yehuda/Israel and its subsidiary	100	Israel
• Software A.G. (Israel) Ltd, OR-Yehuda/Israel and its subsidiary	100	Israel
•• Sabratec Technologies, Inc., OR-Yehuda/Israel	100	Israel
Software AG Italia S.p.A, Milan/Italy	100	Italy
SAG Software AG Luxembourg S.A., Capellen/Luxembourg	100	Luxembourg
SAG Central and Eastern Europe S.A., Capellen/Luxembourg	100	Luxembourg
Software AG Nederland B.V., Den Haag/Netherlands	100	Netherlands
Software AG (Philippines), Inc., Makati City/Philippines	100	Philippines
Software AG Polska Sp. z o.o., Warszawa/Poland	100	Poland
Software AG (RUS), Moscow/Russia	100	Russia
IDS Scheer Saudi Arabia LLC, Riyadh/Saudi Arabia	95	Saudi Arabia
in which SAG Software Systems AG also has a direct stake	5	
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabi	95	Saudi Arabia
Software AG (Singapore) Pte LTD, Singapore/Singapore	100	Singapore
Software AG Development Centre Slovakia s.r.o., Košice/Slovakia	100	Slovakia
Software d.o.o., Ljubljana/Slovenia	100	Slovenia
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100	South Africa
Software AG España, S.A. Unipersonal, Tres Cantos, Madrid/Spain and its subsidiaries	100	Spain
• Software AG Brasil Informática e Serviços Ltda, São Paulo/SP/Brazil	100	Brazil
• Software AG Factoria S.A., Santiago de Chile/Chile	100	Chile
• Software AG De Panamá, S.A., Corregimiento de Pueblo nuevo/ Panama and its subsidiary	100	Panama
•• Software AG De Costa Rica, S.A., San José/Costa Rica	100	Costa Rica
• Software AG (Portugal) Alta Tecnologia Informática, Ltd., Lisboa/Portugal	97	Portugal
in which Software AG also has a direct stake	3	
• Software AG De Puerto Rico, Inc., San Juan/ Puerto Rico	100	Puerto Rico
• A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela	100 inactive	Venezuela
• Software AG Venezuela, C.A., Caracas/Venezuela	100	Venezuela

b) Foreign entities	Ownership interest %	Country
Software AG Sweden AB, Kista/Sweden	100	Sweden
SAG Software Systems AG, Zurich/Switzerland	100	Switzerland
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	Turkey
Software AG (UK) Limited, Derby/U.K. and its subsidiaries	100	United Kingdom
• Software AG Belgium S.A., Watermael-Boitsfort/Belgium	76	Belgium
in which Software AG also has a direct stake	24	
• PCB Systems Limited, Derby/U.K.	100 inactive	United Kingdom
• SAG SALES CENTRE IRELAND LIMITED, Dublin/Ireland (founded on June 22, 2016)	100	Ireland
SGML Technologies Limited, Derby/U.K.	100	United Kingdom
Software AG, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG (Canada) Inc., Cambridge, Ontario/Canada	100	Canada
• Software AG, S.A. de C.V. (Mexico), Distrito Federal/Mexico	100	Mexico
• Software AG Cloud Americas Inc., Wilmington (New Castle)/USA (founded on May 20, 2016)	100	United States
• Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100	United States
• Software AG Australia (Holdings) Pty Ltd., McMahons Point/Australia and its subsidiaries	100	Australia
• Software AG Australia Pty Ltd., McMahons Point/Australia	100	Australia
• Software AG CLOUD APJ PTY LTD, McMahons Point/Australia (formerly webMethods Australia Pty Ltd.)	100	Australia
• webMethods Software Development (Beijing) Co. Ltd., Beijing/China (liquidated as of January 8, 2016)	100	China
• Software AG Bangalore Technologies Private Ltd., Bangalore/India	100	India
• Software AG Chennai Development Center India Pvt Ltd, Chennai/India	100	India
• Software AG Kochi Pvt. Ltd., Bangalore, Karnataka/India	98	India
• Software AG Ltd. Japan, Minato-ku, Tokyo/Japan	100	Japan
• Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100	Malaysia
• Software AG Korea, Ltd., Seoul/South Korea	100	South Korea
• Software AG Distribution LLC, Reston, VA/USA	100	United States
• CONNX SOLUTIONS Inc., Redmond, Washington/USA (acquired as of July 31, 2016)	100	United States
• Zementis Inc., San Diego/USA (aquired as of December 1, 2016)	100	United States
• Software AG Government Solutions, Inc., Reston, VA/USA and its subsidiary	100	United States
• JackBe Mexico, Mexico City/Mexico	100	Mexico
• Terracotta Inc., San Francisco/USA and its subsidiary	100	United States
• Terracotta Software India Pvt. Ltd., Bangalore, Karnataka/India	100	India

Changes in the consolidated Group

The number of consolidated entities changed from the level as of December 31, 2015 as follows:

	Germany	Foreign	Total
December 31, 2015	**9**	**68**	**77**
Additions	0	4	4
Disposals (including mergers)	0	1	1
December 31, 2016	**9**	**71**	**80**

The disposal resulted from the liquidation of a consolidated enterprise. The additions relate to the openings of a new company in the United States and one in Ireland and to the acquisition of two enterprises in the USA. The changes to the scope of consolidation had no significant effect on the comparability to last year.

[3] 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, share-based remuneration accounting, acquisition accounting, subsequent accounting of goodwill and other intangible assets, measurement of pension obligations, assessment of legal risks, measurement of trade receivables and income tax and deferred tax accounting.

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 balance sheet date for the Consolidated Financial Statements (December 31, 2016). The initial consolidation method applied to business combinations was based on the respective date of foundation in the case of companies founded by Software AG. Acquired companies are included for the first time on the date Software AG achieves control. Changes in ownership interests that do not lead to a loss of control are excluded from income and reported within equity.

Since the transition to IFRS on January 1, 2003, goodwill previously recognized in line with the Commercial Code has been measured in accordance with IAS 36.

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

Mergers

All mergers are recognized according to the purchase 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 corres-ponding 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 set out in IAS 21. Since the subsidiaries operate independently from an organizational, financial, and business standpoint, the respective local currency is 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, 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 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 both "cost" and "accumulated depreciation/impairment."

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 long-term, intercompany monetary items that are part of a net investment in a foreign company. These differences are recognized directly in equity under "other reserves."

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, 2016	Dec. 31, 2015	Change as %
U.S. dollar	1.0541	1.0877	3.1%
Brazilian real	3.4305	4.3117	20.4%
Pound sterling	0.8562	0.7340	–16.6%
Australian dollar	1.4596	1.4897	2.0%
Israeli shekel	4.0477	4.2641	5.1%
South African rand	14.4570	16.9530	14.7%
Canadian dollar	1.4188	1.5116	6.1%

Average Rate

€ 1	Dec. 31, 2016	Dec. 31, 2015	Change as %
U.S. dollar	1.1066	1.1097	0.3%
Brazilian real	3.8613	3.6920	–4.6%
Pound sterling	0.8189	0.7260	–12.8%
Australian dollar	1.4886	1.4765	–0.8%
Israeli shekel	4.2469	4.3149	1.6%
South African rand	16.2745	14.1523	–15.0%
Canadian dollar	1.4664	1.4176	–3.4%

The exchange rate 710.4235 VEF/EUR was applied to convert the Venezuelan bolivar (VEF) as of December 31, 2016.

Since January 1, 2010 Software AG has counted Venezuela as a hyperinflationary economy as defined in IAS 29. However, this has had no material impact on the Consolidated Financial Statements.

Total revenue

Software AG sales revenues primarily consist of revenue from granting software licenses (usually of indefinite duration, though in certain cases temporary software licenses), maintenance revenue and revenue from services.

Revenue from granting temporary and perpetual licenses is only recognized once a legally binding contract exists, any rights to return have expired, the software has been delivered in accordance with the contract, a price has been agreed or can be established and there is sufficient probability that payment will be made. Revenue from granting temporary licenses is treated in accordance with the specific features of the license. If the transaction resembles a sale, i.e. involves immediate payment, and the other requirements mentioned above are fulfilled, the income is recognized immediately. However, if the transaction resembles a transfer of use, the income is recognized in installments during the period of use.

Software licenses are often sold in combination with maintenance and services. In this case, when an agreement involves multiple elements, revenue recognition is based on the individually identifiable elements of the transaction. Accordingly, revenue is attributed to the individual elements on the basis of their respective market values.

If reliable market values cannot be determined for all elements, revenue recognition is based on the residual method. Under the residual method, all determinable market values are deducted from the total transaction value. The residual amount is then attributed to the elements for which no reliable market values can be determined, using list prices.

Revenue from maintenance business is recognized proportionately over the period of service provision.

Revenue resulting from services, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by the Software AG entities. Pursuant to IAS 18 in conjunction with IAS 11, revenues and expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if the revenues can be reliably measured, there is sufficient probability that Software AG will receive the economic benefits from the transaction, and all costs incurred for the transaction and the costs to complete the service can be reliably established. The stage of completion of a contract is calculated on the basis of the proportion of contract costs incurred for work performed as of the balance sheet date to the estimated total contract costs. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

Revenue is reported net of discounts, price rebates and customer bonuses.

Cost of sales

Cost of sales includes all production-related full costs based on normal capacity utilization. In particular, the cost of sales includes the individual unit costs that can be directly allocated to orders as well as fixed and variable overheads. No impairments on inventories were necessary during the reporting period.

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 run-up to technological realizability, research and development processes are closely linked. Any research and development expenses incurred after technological realizability has been achieved are immaterial.

Sales, marketing and distribution expenses

Sales, marketing and distribution expenses include costs for personnel, materials, depreciation allocated to the sales cost center, and all marketing-related costs.

General and administrative expenses

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

Government grants

Government grants are not recognized until there is reasonable assurance that the conditions attaching 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 IAS 39, and the payments received. The interest-rate advantage is recognized 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.

Share-based payment

In accordance with IFRS 2, share-based payment transactions are divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at their fair value as of the grant date and then amortized as personnel expenses over the vesting period. Rights granted under cash-settled share-based payment transactions are remeasured at fair value on each reporting date until settlement.

If Software AG has a choice of settling either in cash or by providing equity instruments (shares), the right granted is accounted for as an equity-settled transaction, unless there is a present obligation to settle in cash.

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. Financial assets are measured at fair value on initial recognition. Financial assets that are not measured at fair value through profit or loss are measured at fair value plus directly related transaction costs. Interest-free or below-market-rate loans and receivables are initially recognized at the present value of the expected future cash flows.

Subsequent measurement is carried out based on the relevant category of financial assets in accordance with IAS 39:

a) Financial assets that are measured at fair value through profit or loss

These include only the financial assets being held for trading purposes, because Software AG does not designate any financial assets at fair value through profit or loss on initial recognition. This classification therefore includes only freestanding derivatives with a positive fair value. This category of financial assets are measured at fair value, and the changes are recognized in profit or loss accordingly.

b) Financial investments held to maturity

If Software AG is able and intends to hold debt instruments until maturity, such financial assets are categorized as financial investments to be held until maturity. They are measured initially at fair value plus directly attributable transaction costs. Subsequently, financial assets to be held to maturity are measured at amortized cost using the effective interest rate less any impairments.

c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments not listed on an active market. On initial recognition, they are measured at fair value plus directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate less any impairments.

Loans and receivables include cash and cash equivalents as well as trade receivables and other receivables.

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.

Trade receivables

The carrying amount of trade receivables corresponds to their respective invoiced amount, less sales deductions and valuation allowances. If there is objective evidence that the receivables may be impaired, we recognize specific valuation allowances. In addition, certain classes of receivables are subject to portfolio-based valuation allowances based on past experience, taking into account the age of receivables. Non-interest bearing receivables with maturities of more than one year are discounted using an adequate interest rate.

This item also includes services performed under fixed-price contracts that have not yet been invoiced and that are recognized in accordance with the percentage-of-completion method. Furthermore, it includes receivables from the sale of software licenses whereby the service has already been fully rendered but not yet invoiced.

d) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets, which were not assigned to any of the categories described above and comprise primarily investments and debt instruments. Financial assets available for sale are measured at fair value provided fair value can be determined based on market data. Changes to the fair value are reported net of taxes as other comprehensive income. Changes to the fair value are not recognized until assets are sold or an impairment is present. Financial assets available for sale for which no market price is available and a fair value cannot be calculated reliably because of the absence of an active market are measured at cost less impairments.

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 held for trading. Changes in the fair value of the instruments are recognized directly in profit or loss.

If the criteria for hedge accounting in accordance with IAS 39 are met, the derivative financial instrument is designated as a hedging instrument and accounted for pursuant to the hedge accounting provisions of IAS 39.

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 have any derivative financial instruments to be accounted for as fair value hedges.

If the derivative financial instruments are equity instruments in accordance with IAS 32, they are reported as equity. Accordingly, paid premiums for acquired call options that entitle Software AG to buy back a set number of treasury shares for a set amount are deducted from equity.

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:

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

	Amortization period in years	Amortization method
Acquired software	5–12.5	straight line
Acquired customer base	5–17	straight line
Acquired order portfolio	—	in accordance with order completion

Goodwill

Goodwill resulting from mergers is recognized at cost. 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 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.

	Years
Buildings	25–50 years
Improvements to buildings/leasehold	8–10 years
Operating and office equipment	3–13 years
Computer hardware and accessories	1–7 years

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 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 recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and 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 reported under costs of the relevant functional area or under other expenses. Impairment losses are reversed provided the reasons for a previously scheduled impairment no longer exist.

Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the tax accounts (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.

Non-derivative financial liabilities

Software AG initially recognizes issued promissory note loans and subordinate loans as of the date they were incurred. All other financial liabilities are recognized as of the value date.

Financial liabilities are derecognized when the contractual obligation has been settled, cancelled or has expired.

Non-derivative financial liabilities are measured at fair value less directly attributable transaction costs on first recognition. Subsequently, they are measured at amortized cost using the effective interest rate.

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 pension provisions are calculated using actuarial principles in accordance with the projected unit credit method set out in IAS 19 (revised in 2011, IAS 19R). 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 defined benefit obligations or the fair value of the plan assets accumulated to cover pension entitlements. The changes in the actuarial gains/losses compared to the previous year are excluded from income and allocated directly to other reserves.

The payments for defined contribution pension plans are recognized as expenses in profit or loss for the period when the agreed service has been rendered.

Deferred income

Deferred income consists of advance payments received from customers for maintenance services to be rendered in future periods. The deferred item is reversed and taken to income in the period in which the service is rendered.

New accounting rules to be applied starting in the fiscal year

None of the new accounting rules to be applied starting in the 2016 fiscal year had a significant effect on Software AG's Consolidated Financial Statements.

Published but not yet applicable accounting rules

The IASB has published the following 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, 2016.

The IASB published the final version of IFRS 9 "Financing Instruments" in July 2014, which replaces all previous versions and concludes the project to replace IAS 39 "Financing Instruments." IFRS 9 introduces a uniform approach for classification and measurement of financial assets. It also introduces a new impairment model that is based on expected loan defaults. Furthermore, IFRS 9 contains new rules on hedge accounting. According to the standard, the first time IFRS 9 is applied is elective, whereby hedge relationships must be balanced pursuant to either the provisions of IFRS 9 or, as in the past, to those of IAS 39. The new standard is to be applied to fiscal years that begin on or after January 1, 2018. Application prior to that is permissible. Software AG currently assumes it will not exercise the option of early application. The standard was adopted by the European Union as European law in November 2016. Based on current expectations, this will not have any significant impact for Software AG.

The IASB published IFRS 15, "Revenue from Contracts with Customers," in May 2014. IFRS 15 replaces IAS 11 "Production Orders" and IAS 18 "Revenue Income" and the corresponding interpretations. According to the new standard, revenue recognition should reflect the transfer of promised goods or services to a customer as the amount of the consideration that the company expects to receive in exchange for these goods or services. Revenue is recognized when the customer receives power of control over the goods or services. IFRS 15 also contains guidelines on reporting performance surplus or performance obligations that exist at a contractual level. These can be assets or liabilities from contracts with customers depending on the relationship between the service rendered by the company and payment made by the customer. Furthermore, the new standard requires disclosure of various quantitative and qualitative data that enable users of the Consolidated Financial Statements to understand the type, the amount, the timing and uncertainty of revenues and cash flows from contracts with customers. In July 2015 the IASB decided to postpone the date of first-time application of the standard to fiscal years that begin on or after January 1, 2018; early application is permitted. In April 2016 a number of clarifications to IFRS 15 were published, in particular with regard to identifying separate contractual obligations, differentiating between principal and agent and recognizing licensing income. These clarifications have not yet been adopted by European law; IFRS 15 and the amendment to IFRS 15 on postponement of the date of first-time application were published on October 29, 2016 in the Official Journal of the European Union.

Software AG will not exercise the option of early application before fiscal year 2018. In addition to complete retrospective application of IFRS 15, the standard permits modified retrospective application. The standard will be applied only after the date of first-time application so that periods being compared do not need to be adjusted retrospectively, with the exception of adjustments to equity. It that case, as of the date of first application, a company must balance only those contracts that, pursuant to the current accounting principles, have not yet expired prior to the date of first application in accordance with the new rules. Software AG currently plans to apply the standard using a modified retrospective method.

Software AG analyzed the rules of IFRS 15 and depicted how they will impact its business model. The impact analysis was conducted by the Finance department at corporate parent company level. The rules of internal control and approval with respect to revenue recognition (Global Deal Desk) require that every customer contract must be internally reviewed before going to the customer. The amount of a revenue associated with a contract, the quoted payment targets and the complexity of the revenue calculation are–overlapping–criteria that determine whether a contract must be approved by Corporate Finance. Corporate Finance must therefore approve the majority of revenue of the Software AG Group and have sufficient knowledge of contract structure within the Software AG Group. This knowledge is necessary to assess the impact of IFRS 15 on revenue recognition processes.

The impact analysis shows that IFRS 15 does not require identification of performance obligations which were not already considered performance obligations by current rules, to which revenue is assigned as part of a multi-component business transaction. Software AG identified no performance obligations by current definition which aren't performance obligations pursuant to IFRS 15. A new way to report revenue for individual performance obligations has arisen: According to current rules, income from temporary licenses that resembles a transfer of use in nature (leasing licenses and subscriptions) is recognized in installments during the period of use. According to IFRS 15, revenue allocated to the license portion is recognized at the beginning of the transfer of use. This does not result in a significant impact.

Software AG is following the international considerations on implementation of IFRS 15 and primarily the discussions of AICPA Software Entities Revenue Recognition Task Force in the USA on the question of when and under what circumstances application management services as well as integration and installation services can be identified as independent performance obligations and on issues relating to the differentiation and depreciation of costs associated with securing deals.

Software AG is currently finalizing the changes required by IFRS 15 to its revenue recognition processes, including the IT-related impact particularly when determining what information must be included in the Consolidated Financial Statements.

The IASB published IFRS 16 "Leases" in January 2016. IFRS 16 replaces the previous directive on leases, including IAS 17 Leases, IFRIC 4 "Determining Whether an Agreement Includes a Lease," SIC-15 "Operating Leases–Incentives" and SIC-27 "Evaluating the Substance of Transactions in the Legal Form of a Lease." IFRS 16 introduces a uniform accounting model whereby leases must be recognized on the balance sheet of the lessee.

A lessee recognizes a right that represents its right to use an underlying asset and a debt from the lease that represents its obligation to make lease payments. There are exceptions to the rules for short-term leases and leases related to low-value assets. The lessor's financial reporting is comparable to the current standard, meaning that the lessor will continue to classify leases as financing or operating leases. The standard is to be applied for the first time in the first reporting period of a fiscal year beginning on or after January 1, 2019. Early application is permitted for companies that apply IFRS 15 "Revenue from Contracts with Customers" when they first apply IFRS 16 or earlier. Accordingly, Software AG will not exercise the option of early application. Software AG is currently reviewing what implications application of IFRS 16 will have on its Consolidated Financial Statements. At present, Software AG assumes that—with the exception of leases for rented office buildings—there are very few leases in the Software AG Group which do not fall under the exceptions for short-term leases and leases associated with low-value assets. The expected increase in assets and liabilities (assets from use rights and leasing obligations) resulting from leases for rented office buildings is likely to be around €60 million. Furthermore, the standard is not expected to have a significant impact on Software AG. The standard is expected to be adopted as European law by the European Union in the fourth quarter of 2017.

In addition, the IASB and the IFRIC have issued a number of other pronouncements that were not yet required to be applied as of December 31, 2016. However, Software AG does not expect these changes to have a significant impact on the Consolidated Financial Statements.

[4] Business Combinations

In fiscal year 2016, Software AG achieved control over the entities shown below through the acquisition of equity interests.

Both acquisitions were made for the purpose of technological supplementation, to broaden Software AG's products with related, synergetic market segments.

The earnings of the companies and/or operations acquired have been included in the consolidated income statement as of the respective date of acquisition.

Company	CONNX Solutions Inc., USA	Zementis
Headquarters	Redmond, Washington, USA	San Diego, California, USA
Line of business	Provider of SQL data access, integration and replication solutions	Software for deep learning, a core function of machine learning and data analytics (adaptive decision and predictive analytics technology)
Ownership interest recognized on the balance sheet as of Dec. 31, 2016	100%	100%
Percentage of acquired equity with voting rights	100%	100%
Date of acquisition	July 31, 2016	December 1, 2016
Number of employees	approximately 20	approximately 10
Purchase price	€ 11.5 million	€ 31.5 million

The following table shows the allocation of the cost of the business combination to the net assets acquired.

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	240	0	240
Intangible assets	1	20,815	20,816
Goodwill	0	24,516	24,516
Other assets	1,527	0	1,527
Deferred tax assets	0	2,617	2,617
Assets	**1,768**	**47,948**	**49,716**
Liabilities and provisions	170	0	170
Deferred tax liabilities	0	6,017	6,017
Deferred income	1,112	–527	585
Equity and liabilities	**1,282**	**5,490**	**6,772**
Acquired assets and assumed liabilities, net	**486**	**42,458**	**42,944**
Payments to shareholders			42,728
Consideration not yet paid			216
Acquisition cost, gross			**42,944**
Cash and cash equivalents acquired			240
Net cost of the business combination			**42,704**

Goodwill in the amount of €19,337 thousand resulting from the purchase price allocations was assigned to the Digital Business Platform (DBP) segment and in the amount of €5,179 thousand to the Adabas & Natural (A&N) segment.

The recognition of goodwill resulted from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. With the exception of goodwill resulting from the acquisition of CONNX in the amount of €5,179 thousand, the goodwill arising from these acquisitions is not tax deductible.

The amount of Software AG Group revenue attributable to these acquisitions since the date of acquisition is approximately €0.5 million. It is not possible to compute the exact amount of Group net income attributable to these acquisitions due to the rapid integration into the Group as a whole.

Providing fictitious amounts for Group revenue and net income for the fiscal year calculated under the assumption that all corporate acquisitions in the fiscal year took place at the beginning of the year is not possible with the information available and due to the seasonality of the business.

In addition to the considerations for these acquisitions in the amount of €42,488 thousand (net), considerations not yet paid from previous acquisitions in the amount of €629 thousand were paid in fiscal 2016.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

[5] Total Revenue

Revenue by segment and region is presented in the segment report in Note [28].

Services revenue

Services revenue includes €29,393 thousand (2015: €28,917 thousand), which was recognized in accordance with the percentage-of-completion method. The status of uncompleted projects recognized under the percentage-of-completion method as of December 31, 2016 was as follows:

in € thousands	2016	2015
Costs accumulated over the term of a (multi-year) project and not yet invoiced	44,208	31,322
Recognized profit (+)/loss (–) (during the entire term of the project)	16,967	8,586

As of December 31, 2016, the net amount due from customers for unfinished project work was €3,835 thousand (2015: €3,652 thousand), and the amount due to customers from running projects was €649 thousand (2015: €333 thousand).

The net balance of a project consists of costs incurred, plus the gains reported less the total amount of reported losses and progress billings.

[6] Other Income

Other income includes the following items:

in € thousands	2016	2015
Foreign exchange gains	27,232	31,480
Income from the reversal of provisions and deferred liabilities	2,177	2,778
Government grants in the form of low-interest-rate loans	4,110	0
Other income	0	1,882
	33,519	**36,140**

[7] Other Expenses

Other expenses consist of the following items:

in € thousands	2016	2015
Foreign exchange losses	24,567	31,376
Expenses relating to legal disputes	17,610	7,731
Other expenses	0	3,849
	42,177	**42,956**

[8] Net financial Income/Expense

Financial income includes interest on financial assets in the amount of €8,888 thousand (2015: €8,309 thousand). Financial expense consists of interest expenses for financial liabilities in the amount of €8,251 thousand (2015: €9,697 thousand, of which €973 thousand (2015: €900 thousand) are from interest swaps. No financing costs were capitalized as part of the cost of the asset in fiscal 2016.

[9] Income Taxes

Taxes on income are broken down into the following categories:

in € thousands	**2016**	**2015**
Current domestic taxes	–14,331	–12,970
Current foreign taxes	–59,672	–52,153
	–74,003	**–65,123**
Deferred domestic taxes	9,787	3,915
Deferred foreign taxes	601	295
	10,388	**4,210**
	–63,615	**–60,913**

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 will be 31.26 percent starting in 2016 (2015: 30.98 percent). The changed tax rate is due primarily to the changed trade tax structure. Tax rates abroad range between 10 and 39.3 percent (2015: between 10 and 39 percent).

The income tax expense of €63,615 thousand for fiscal year 2016 (2015: €60,913 thousand) is €145 thousand lower than the expected income tax expense of €63,760 thousand (2015: €62,120 thousand) that resulted from applying the domestic tax rate of 31.26 percent currently applicable (2015: 30.98 percent) at Group level. The Group's effective invome tax rate is 31.19 percent (2015: 30.38 percent).

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

in € thousands	**2016**	**2015**
Earnings before income taxes	**203,968**	**200,518**
Expected income tax (31.26%; 30.98%)	–63,760	–62,120
Difference vs. foreign tax rates and changes in tax rates	–464	–819
Aperiodic income tax effects	–2,982	–3,512
Tax increases (-) due to tax-exempt income or non-tax deductible expenses	5,963	13,008
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	6,178	–4,970
Non-deductible foreign and withholding taxes	–8,463	–2,485
Other adjustments	–87	–15
Reported income tax expense	**–63,615**	**–60,913**

Income from deferred taxes totaled €10,388 thousand and consist of €4,497 thousand (2015: €17,139 thousand) in tax income relating to temporary differences that arose.

The change in income tax rates led to a total effect of -€234 thousand (2015: -€164 thousand) is fiscal 2016.

[10] Other Taxes

Other taxes decreased €461 thousand to €5,523 thousand (2015: €5,984 thousand) and included royalty-related indirect taxes in Brazil, property taxes, vehicle taxes and other indirect taxes.

[11] Personnel Expenses

Personnel expenses in fiscal years 2016 and 2015 were as follows:

in € thousands	2016	2015
Wages and salaries	396,362	393,066
Social security contributions	54,474	48,331
Pension expenses	10,640	8,966
	461,476	**450,363**

In fiscal 2016, the average number of employees (part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

in € thousands	2016	2015
Maintenance and Services	1,874	1,840
Sales and Marketing	847	923
R&D	1,060	976
Administration	600	621
	4,381	**4,360**

In absolute terms (part-time employees are counted in full), the Group employed 4,633 (2015: 4,479) people as of December 31, 2016.

[12] Earnings per Share

Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2016, the average weighted number of shares was 76,231,631 (2015: 78,429,032).

A total of 1,590,000 (2015: 25,300) stock options were exercised in 2016. In order to service stock options, 0 (2015: 25,300) treasury shares were used. The number of shares outstanding accordingly did not increase (2015: 25,300). No treasury shares were repurchased in fiscal 2016 (2015: 2,712,513) nor were any treasury shares that had been repurchased in previous years redeemed (2016: 7,943,945). The number of treasury shares thus did not change from the previous year and totaled 2,768,369 (2015: 2,768,369). The treasury shares are not expected see a dilution effect, since they can be sold at market prices.

An additional 83,900 (2015: 1,683,500) stock options from the third stock option plan may be exercised.

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Net income	140,353	139,605
Less earnings attributable to non-controlling interests	–197	–160
Net income attributable to shareholders of Software AG	140,156	139,445
Weighted average number of shares outstanding	76,231,631	78,429,032
Effect of dilutive share-based payment	23,081	81,900
Weighted average number of shares outstanding (diluted)	76,254,712	78,510,932
Earnings per share in € (basic)	1.84	1.78
Earnings per share in € (diluted)	1.84	1.78

NOTES TO THE CONSOLIDATED BALANCE SHEET

[13] Other Financial Assets

Other financial assets as of December 31 were as follows:

in € thousands	Dec. 31, 2016 Current	Non-current	Total
Debt securities	4,000	0	4,000
Equity securities	0	10,189	10,189
Investment funds	2,200	0	2,200
Loans and other financial receivables	795	9,885	10,680
Derivatives	6,493	25,883	32,376
Total	**13,488**	**45,957**	**59,445**

in € thousands	Dec. 31, 2015 Current	Non-current	Total
Debt securities	8,766	1,414	10,180
Equity securities	0	11,751	11,751
Investment funds	2,202	0	2,202
Derivatives	872	11,382	12,254
Total	**11,840**	**24,547**	**36,387**

Further information on the valuation of financial assets can be found in Note [29].

[14] Trade Receivables and Other Receivables

Trade receivables and other receivables as of December 31 were as follows:

in € thousands	Dec. 31, 2016 Current	Non-current	Total
Trade receivables	220,380	84,213	304,593
Other receivables	586	692	1,278
Total	**220,966**	**84,905**	**305,871**

in € thousands	Dec. 31, 2015 Current	Non-current	Total
Trade receivables	229,198	72,598	301,796
Other receivables	3,378	2,492	5,870
Total	**232,576**	**75,090**	**307,666**

The following trade receivables were not yet due or past due as of the reporting date:

in € thousands	2016	2015
Carrying amount	304,593	301,796
of which neither impaired nor past due as of the balance sheet date	270,990	275,337
of which past due in the following time periods as of the balance sheet date		
1 to 3 months	22,916	18,246
4 to 6 months	7,458	5,601
7 to 12 months	3,229	2,612
> 12 months	0	0

[15] Other Non-Financial Assets

Other non-financial assets mainly consist of receivables due from tax authorities in the amount of €5,058 thousand (2015: €1,893 thousand) and prepaid expenses in the amount of €13,116 thousand (2015: €12,140 thousand).

[16] Income Tax Receivables

Tax receivables in the amount of €19,626 thousand (2015: €30,621 thousand) consist primarily of receivables due to excessive advance payments made in relation to income taxes.

[17] Intangible Assets and Goodwill

Changes in intangible assets and goodwill as of December 31, 2016

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2016	**901,854**	**473,027**	**1,374,881**
Currency translation differences	12,136	8,426	20,562
Additions from acquisitions	24,516	20,816	45,332
Additions	0	437	437
Disposals	0	–664	–664
Balance as of Dec. 31, 2016	**938,506**	**502,042**	**1,440,548**
Accumulated impairment/amortization			
Balance as of Jan. 1, 2016	**–1,900**	**–315,589**	**–317,489**
Currency translation differences	0	–6,183	–6,183
Additions	0	–31,514	–31,514
Disposals	0	664	664
Balance as of Dec. 31, 2016	**–1,900**	**–352,622**	**–354,522**
Residual carrying amount as of Jan. 1, 2016	899,954	157,438	1,057,392
Residual carrying amount as of Dec. 31, 2016	936,606	149,420	1,086,026

Changes in intangible assets and goodwill as of December 31, 2015

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2015	**859,179**	**438,179**	**1,297,358**
Currency translation differences	42,675	31,459	74,134
Additions	0	3,903	3,903
Disposals	0	–514	–514
Balance as of Dec. 31, 2015	**901,854**	**473,027**	**1,374,881**
Accumulated impairment/amortization			
Balance as of Jan. 1, 2015	**–1,900**	**–257,983**	**–259,883**
Currency translation differences	0	–19,144	–19,144
Additions	0	–38,947	–38,947
Disposals	0	485	485
Balance as of Dec. 31, 2015	**–1,900**	**–315,589**	**–317,489**
Residual carrying amount as of Jan. 1, 2015	857,279	180,196	1,037,475
Residual carrying amount as of Dec. 31, 2015	899,954	157,438	1,057,392

Intangible assets mainly include software, customer bases and brand names obtained in connection with acquisitions.

The following intangible assets with limited useful lives are of particular significance for the Consolidated Financial Statements:

in € thousands	Carrying amount as of Dec. 31, 2016	Carrying amount as of Dec. 31, 2015	Remaining amortization period in years
Customer base obtained through webMethods acquisition	19,257	25,941	3.0
Software obtained through Zementis acquisition	10,614	0	12.5
Customer base (rights and licenses) obtained through Jacada acquisition	10,386	10,701	6.0
Customer base obtained through SPL Israel acquisition	9,728	10,439	7.2

In addition, the following important intangible assets with indefinite useful lives existed as of December 31, 2016:

in € thousands	Carrying amount as of Dec. 31, 2016	Carrying amount as of Dec. 31, 2015	Reason for assuming indefinite useful life
Brand name (webMethods) obtained through webMethods acquisition	23,717	22,965	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand names (ARIS & others) obtained through IDS acquisition	22,300	22,300	We plan to continue using the brand names for an indefinite period of time and to expand them in the future.

Brand names are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amounts of goodwill were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Adabas & Natural (A&N)	327,516	318,526
Digital Business Platform (DBP)	584,679	557,318
Consulting	24,411	24,110
Goodwill	**936,606**	**899,954**
of which from acquisition of SAG Inc. USA 2001	174,591	174,591
of which from acquisition of webM Inc. USA 2007	258,742	250,658
of which from acquisition of IDS Scheer AG 2009	240,759	240,759

The carrying amounts of intangible assets with indefinite useful lives were allocated to the segments as follows:

Segment

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Adabas & Natural (A&N)	0	0
Digital Business Platform (DBP)	40,502	39,769
Consulting	5,515	5,496
Intangible assets with indefinite useful lives	**46,017**	**45,265**

The segments represent the smallest cash-generating units in the Group.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment at least once per year by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to fair value less costs to sell.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management, which are for a period of three (2015: three) years. The budgets are designed on the basis of past experience, information derived from current operating results, and management estimates of future developments. Revenue trends at country level, for instance, is one element of management estimates of future developments that is particularly prone to uncertainty. This approach is rated as level 3 of the valuation hierarchy in accordance with IFRS 13.

The forecasts take into account historical values and estimates of future developments. Costs to sell are assumed to amount to 2 percent of the relevant fair value.

The estimated future cash flows for the Adabas & Natural (A&N) segment were discounted using a post-tax weighted average cost of capital (WACC) of 7.3 percent (2015: 7.0 percent). The sustainable growth rate was assumed to be 0 percent (2015: 0 percent). A discount of 20 percent (2015: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even using a discount of 80 percent on the last year of detailed planning, the fair value less costs to sell would exceed the carrying amount.

We assumed a sustainable growth rate of 2 percent (2015: 2 percent) and a weighted average cost of capital (WACC) after tax of 7.6 percent (2015: 10.0 percent) for the Digital Business Platform (DBP) segment. A high single-digit revenue growth rate and a significant margin improvement (EBITA margin) were assumed in the period of detailed planning. However, given a sustainable growth rate of 0 percent and 0 percent revenue growth assumed for the period of detailed planning, the fair value less costs to sell would still exceed the carrying amount.

We assumed a weighted average cost of capital (WACC) after tax of 6.4 percent (2015: 6.9 percent) and a sustainable growth rate of 2 percent for perpetual annuity for the Consulting segment. Even if a sustainable growth rate of 0 percent were used for perpetual annuity, the fair value less costs to sell would be greater than the carrying amount.

[18] Property, Plant and Equipment

Changes in Property, Plant and Equipment as of December 31, 2016

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2016	**76,186**	**34,270**	**110,456**
Currency translation differences	–110	535	425
Additions from acquisitions	0	50	50
Additions	20,064	7,942	28,006
Disposals	–6,840	–9,699	–16,539
Balance as of Dec. 31, 2016	**89,300**	**33,098**	**122,398**
Accumulated depreciation			
Balance as of Jan. 1, 2016	**–33,131**	**–21,104**	**–54,235**
Currency translation differences	138	–272	–134
Additions	–2,751	–5,897	–8,648
Disposals	6,787	9,391	16,178
Balance as of Dec. 31, 2016	**–28,957**	**–17,882**	**–46,839**
Residual carrying amount as of Jan. 1, 2016	43,055	13,166	56,221
Residual carrying amount as of Dec. 31, 2016	60,343	15,216	75,559

Changes in Property, Plant and Equipment as of December 31, 2015

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2015	**76,879**	**32,084**	**108,963**
Currency translation differences	1,139	1,778	2,917
Additions	2,479	5,713	8,192
Disposals	–4,311	–5,305	–9,616
Balance as of Dec. 31, 2015	**76,186**	**34,270**	**110,456**
Accumulated depreciation			
Balance as of Jan. 1, 2015	**–29,674**	**–18,118**	**–47,792**
Currency translation differences	–695	–1,339	–2,034
Additions	–4,439	–6,046	–10,485
Disposals	1,677	4,399	6,076
Balance as of Dec. 31, 2015	**–33,131**	**–21,104**	**–54,235**
Residual carrying amount as of Jan. 1, 2015	47,205	13,966	61,171
Residual carrying amount as of Dec. 31, 2015	43,055	13,166	56,221

Most of the land and buildings are owned by the parent company and the Spanish subsidiary. The properties pertain mainly to the central administrative buildings of these entities. The additions of land and buildings refer primarily to a leased office building in Darmstadt (Germany) in the amount of €17,370 thousand until its acquisition (for more information, see Note [20] "Financial Liabilities").

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €7,942 thousand (2015: €5,713 thousand) primarily relates to expenses for the initial purchase of computer equipment.

[19] 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, 2016**	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
Intangible assets	203	1,142	43,398	44,250
Property, plant and equipment	1,487	1,447	2,617	2,691
Receivables and financial assets	3,832	2,981	10,638	5,735
Other obligations	14,592	9,755	3,556	2,662
Reserves for pensions and other commitments	9,959	8,707	0	0
Deferred income	4,529	3,908	469	0
Tax loss carryforwards	28,080	21,714	0	0
Total	**62,682**	**49,654**	**60,678**	**55,338**
Amount offset	–47,180	–38,615	–47,180	–38,615
Amount recognized on the balance sheet	15,502	11,039	13,498	16,723

Deferred tax assets on tax loss carryforwards rose from the prior year by €6,366 thousand. The increase resulted from ongoing consumption due to taxable income and the appropriate subsequent capitalization based on future income expectations and changes in the consolidated Group.

As of December 31, 2016, the consolidated Group had unutilized tax loss carryforwards in the amount of €29,746 thousand (2015: €43,351 thousand) for which no deferred tax assets were recognized. The decreased valuation adjustment is primarily due to the increased value. Of the losses carried forward for which no deferred taxes were recognized, €18,917 thousand will expire in the period from 2017 to 2025, €3,166 thousand in the period from 2026 to 2035, and €7,663 thousand can be utilized indefinitely.

The Software AG subsidiaries in Germany that suffered tax-related losses in the current and previous fiscal years estimated a surplus of deferred tax assets over deferred tax liabilities in the amount of €6,224 thousand (2015: €0.00) in fiscal 2016. These assets are considered recoverable because, due to changed conditions, it is likely that taxable income will be sufficient to utilize deferred tax assets.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of € 13,220 thousand (2015: 10,849 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither disposals nor future profit distributions are planned.

In fiscal year 2016, deferred taxes totaling €7,111 thousand (2015: €6,873 thousand) were recognized directly in equity. These amounts mainly resulted from actuarial gains/losses recognized directly in equity based on changes in the measurement of pension obligations as well as from financial instruments also recognized directly in equity.

[20] Financial Liabilities

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Current financial liabilities		
Liabilities to banks	79,130	100,784
Purchase price liabilities related to the acquisition of land and buildings	17,370	0
Other current financial liabilities	2,719	12,249
Derivatives	2,248	0
	101,467	**113,033**
Non-current financial liabilities		
Liabilities to banks	200,028	209,185
Other non-current financial liabilities	21	4,062
	200,049	**213,247**

Liabilities to banks and other financial liabilities had the following maturities as of the reporting date:

in € thousands	Up to 1 year	>1 year
Loans with variable interest rates	16,636	95,028
Loans with fixed interest rates	62,999	105,000

The fair values of the liabilities to banks with variable interest rates are equal to their carrying amounts. The fair values of the liabilities with fixed interest rates amounted to € 170,050 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

[21] Trade Payables and Other Liabilities

Trade payables and other liabilities can be broken down as follows:

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Payables to suppliers	31,103	27,918
Payments received on account of orders	7,384	4,351
Other liabilities	5,403	837
	43,890	**33,106**

[22] Other Non-Financial Liabilities

Other non-financial liabilities relate to the following items:

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Liabilities due to employees	90,586	81,675
Tax liabilities	20,936	23,204
Liabilities for social security	5,331	5,610
Remaining other current liabilities	5,345	4,162
	122,198	**114,651**

[23] Other Provisions

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2016	**29,448**	**16,778**	**46,226**
Currency translation differences	–21	156	135
Additions	29,926	16,883	46,809
Utilization	–5,426	–11,277	–16,703
Reversal	–195	–520	–715
Balance as of Dec. 31, 2016	**53,732**	**22,020**	**75,752**
of which with a remaining term of more than 1 year			24,793

in € thousands	Other personnel-related provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2015	**24,339**	**7,426**	**31,765**
Currency translation differences	–42	253	211
Additions	13,891	12,207	26,098
Utilization	–3,195	–2,089	–5,284
Reclassification	–5,056	0	–5,056
Reversal	–489	–1,019	–1,508
Balance as of Dec. 31, 2015	**29,448**	**16,778**	**46,226**
of which with a remaining term of more than 1 year			17,897

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2016	Dec. 31, 2015
Litigation	17,949	13,757
Anticipated losses	2,243	1,107
Onerous contracts	1,074	1,024
Asset retirement obligations	375	451
Other provisions	379	439
	22,020	**16,778**

For further information on litigation, please refer to Note [33].

[24] Income Tax Liabilities

in € thousands	2016	2015
Balance as of Jan. 1	**28,626**	**32,605**
Currency translation differences	–296	–94
Additions	17,535	23,144
Utilization	–15,664	–20,321
Reversal	–1,977	–6,708
Balance as of Dec. 31	**28,224**	**28,626**

[25] Provisions for Pensions and Similar Obligations

Defined Benefit Plans

	Defined benefit obligation (DBO)		Fair value of plan assets		Effects of asset caps		Net defined benefit balance	
in € thousands	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Germany	39,003	33,508	17,347	18,662	0	0	21,656	14,846
U.K.	84,263	68,270	67,507	62,310	0	9,468	16,756	15,428
Switzerland	6,710	5,469	4,424	3,288	0	0	2,286	2,181
Other insignificant pension plans and similar plans							1,517	3,189
							42,215	**35,644**

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 (U.K.) 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.

The commitments in Switzerland result from legal requirements of the BVG (law on occupational, survivor and disability planning). 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	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Balance as of Jan. 1	**107,247**	**112,901**	**–84,260**	**–75,953**	**22,987**	**36,948**
Current service cost	2,633	3,052	0	0	2,633	3,052
Past service cost	1,112	–1,801	0	0	1,112	–1,801
Net interest income/expense	3,482	3,617	–2,975	–2,698	507	919
	7,227	**4,868**	**–2,975**	**–2,698**	**4,252**	**2,170**
Expense/income resulting from adjustments						
Return on plan assets net of income recognized as net interest income/expense	0	0	–4,604	1,170	–4,604	1,170
Expectation adjustment	–1,771	–2,292	0	0	–1,771	–2,292
Net actuarial gains/losses from changes to demographic assumptions	–882	0	0	0	–882	0
Net actuarial gains/losses from changes to financial assumptions	25,364	–6,701	0	0	25,364	–6,701
	22,711	**–8,993**	**–4,604**	**1,170**	**18,107**	**–7,823**
Currency-related changes	–6,333	–542	5,538	407	–795	–135
Employer contributions	0	0	–3,290	–8,373	–3,290	–8,373
Employee contributions	363	478	–363	–478	0	0
Plan-related payments	–1,239	–1,465	676	1,664	–563	199
	–876	**–987**	**–2,977**	**–7,186**	**–3,853**	**–8,174**
Balance as of Dec. 31	**129,976**	**107,247**	**–89,278**	**–84,260**	**40,698**	**22,987**

The significant assumptions used for calculating the present value of the defined benefit obligations (DBO) are as follows:

	2016	**2015**
Discount rate		
Germany	1.75%	2.25%
U.K.	3.00%	4.00%
Switzerland	0.50%	0.75%
Salary trend		
Germany	2.00%	0.00%
U.K.	5.25%	5.00%
Switzerland	1.50%	1.50%
Pension trend		
Germany	1.75%	1.75%
U.K.	3.50%	3.00%
Switzerland	0.00%	0.00%

A change in the above discount rates by a half of a percentage point would have the following impact on the respective DBOs:

	Change in DBO		
in € thousands	**Germany**	**U.K.**	**Switzer-land**
Discount rate (–0.5%)	3,427	10,144	708
Discount rate (+0.5%)	–3,004	–9,840	–613
Salary trend (–0.5%)	–164	–1,010	–82
Salary trend (+0.5%)	168	1,016	86
Pension trend (–0.5%)	–2,368	3,330	n/a*
Pension trend (+0.5%)	2,637	–3,279	444

* 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	**2016**	**2015**
Equities	38,970	38,939
Life insurance policies	21,770	21,949
Fixed-interest securities	16,560	12,430
Cash and cash equivalents	11,978	10,942
	89,278	**84,260**

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 2017 are expected to amount to €5,532 thousand.

Expected benefit payments during the next ten years are expected to be as follows:

in € thousands	**Expected benefit payments**
2017	3,145
2018	2,301
2019	6,725
2020	2,488
2021	2,243
2022 – 2026	15,351

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 €13,177 thousand (2015: €13,849 thousand) in 2016.

[26] Equity

Share capital

As of December 31, 2016, Software AG's share capital totaled €79,000 thousand (2015: €79,000 thousand), divided into 79,000,000 (2015: 79,000,000) bearer shares. Each share entitles its holder to one vote.

Conditional capital

As of December 31, 2016, conditional capital existed in the amount of €55 thousand (divided into 55,000 bearer shares) for servicing conversion/option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG on April 29, 1999 and May 20, 2005, such rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with section 23 of the German Reorganization and Transformation Act (UmwG). The last of these option rights expired on September 29, 2016.

The Management Board did not exercise this authorization in fiscal year 2016.

Authorized capital

The Annual Shareholders' Meeting on May 31, 2016 authorized the Management Board—subject to the consent of the Supervisory Board—to increase the Company's share capital by issuing bearer shares. Subscription rights can be excluded in accordance with the stipulations of the resolution of the Annual Shareholders' Meeting.

The authorized capital approved on May 31, 2016 permits an increase in the share capital by a maximum of €39.5 million and/or 39.5 million shares against cash contributions and/or contributions in kind until and including May 30, 2021.

The authorized capital from 2011 expired on May 4, 2016.

The Management Board did not exercise this authorization in fiscal year 2016.

Acquisition of treasury shares

At the beginning of the reporting period, Software AG held 2,768,369 (2015: 8,025,101) treasury shares representing an interest of €2,768,369 (2015: €8,025,101) or 3.5 percent (2015: 9.23 percent) in Software AG's share capital.

No treasury shares were acquired or used in the year under review. As a result, the balance of treasury shares remained unchanged.

As of December 31, 2016, Software AG held 2,768,369 (2015: 2,768,369) treasury shares representing an interest of €2,768,369 (2015: €2,768,369) or 3.5 percent (2015: 3.5 percent) of the share capital.

Pursuant to the Annual Shareholders' Meeting resolution from May 31, 2016, the Company is authorized to purchase Software AG shares totaling a maximum of ten percent of the share capital at the time of the resolution up to and including May 20, 2021. 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 the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

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. Dividends are calculated based on the average net income and free cash flow attributable to Software AG shareholders. This results in a total dividend sum of €45,739 thousand (2015: €41,927 thousand) and a dividend ratio of 28.0 percent (2015: 27.1 percent).

Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 31, 2016 to appropriate €41,927 thousand (2015: €39,459 thousand) for a dividend payout from the net retained profits of €87,193 thousand reported by Software AG, the controlling Group company, in 2015. This corresponded to a dividend of €0.55 (2015: €0.50) per dividend-bearing share. A total amount of €45,266 thousand (2015: €51,685 thousand) was carried forward.

Based on the number of shares outstanding as of February 28, 2016, the Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €139,097 thousand reported by Software AG, the controlling Group company, in 2016, as follows: to appropriate €45,739 thousand for dividends and to carry forward €93,358 thousand. This corresponds to a dividend of €0.60 per share.

Other reserves

Other reserves changed as shown in the following table, taking into account tax effects.

Other reserves include unrealized income and expense from the market value measurement of derivatives as of December 31, 2015 for which net income of €40 thousand (2015: net expense of €913 thousand) was recognized in profit or loss for fiscal year 2016.

Other Reserves

			2016			2015
in € thousands	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences from foreign operations	28,562	0	28,562	41,927	0	41,927
Net gain/loss on remeasuring financial assets	3,429	–1,074	2.355	2,807	–871	1,936
Currency translation gain/loss from net investments in foreign operations	1,348	0	1,348	4,240	0	4,240
Net actuarial gain/loss on pension obligations	–7,980	1.312	–6,668	2,105	–1.481	624
Other comprehensive income	25,359	238	25,597	51,079	–2,352	48,727

OTHER DISCLOSURES

[27] Notes to the Consolidated Statement of Cash flows

Cash and cash equivalents include € 136 thousand (2015: € 1,397 thousand), which were held by the sales subsidiary in Venezuela. Due to current legal limitations relating to foreign currency transactions in Venezuela, Software AG has only limited access to these funds.

Dividends paid reported in the statement of cash flows include dividend payments of € 178 thousand (2015: € 174 thousand) to minority shareholders of subsidiaries.

Net payments for acquisitions in 2016 amounted to € 43,117 thousand and consist of € 43,357 thousand in considerations paid less € 240 thousand in cash and cash equivalents received. No payments were made for acquisitions in 2015.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including cash outflows for investments in current financial assets, proceeds from the sale of current financial assets, proceeds from the sale of disposal groups or net cash outflows for acquisitions. Accordingly, free cash flow totaled € 186,977 thousand (2015: € 169,982 thousand) in fiscal 2016.

[28] Segment Reporting

Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. Software AG therefore reports on the following three segments:

- Digital Business Platform
  (DBP: integration, business process management and big data with the webMethods, Aris, Alfabet, Apama and Terracotta product families)

- Adabas & Natural
  (A&N: data management with the Adabas-Natural products)

- Consulting
  (implementation of Software AG products)

The following table shows the segment data for the 2016 and 2015 fiscal years:

Segment Report for Fiscal Years 2016 and 2015

	Adabas & Natural (A&N)		Digital Business Platform (DBP)	
in € thousands	**2016**	**2015**	**2016**	**2015**
Licenses	76,765	88,393	186,262	183,508
Maintenance	157,119	158,939	255,086	248,003
Product revenue	**233,884**	**247,332**	**441,348**	**431,511**
Services	0	0	0	–1
Other	686	621	48	7
Total revenue	**234,570**	**247,953**	**441,396**	**431,517**
Cost of sales	–11,674	–14,126	–31,288	–27,933
Gross profit	**222,896**	**233,827**	**410,108**	**403,584**
Sales, marketing and distribution expenses	–37,994	–39,473	–172,384	–192,713
Segment contribution	**184,902**	**194,354**	**237,724**	**210,871**
Research and development expenses	–22,522	–20,720	–89,930	–85,693
Segment earnings	**162,380**	**173,634**	**147,794**	**125,178**
General and administrative expenses				
Other taxes				
Operating earnings				
Other operating income/expenses, net				
Net financial income/expenses				
Earnings before income taxes				
Income taxes				
Net income				

The segment contribution does not include the amortization expense associated with acquisitions of intangible assets. These charges are therefore shown separately under "reconciliation." This presentation corresponds with internal control and reporting lines (management approach). The business lines (segments) are managed on the basis of their segment contribution. Research and development expenses are subsequently allocated to the business lines and have no impact on internal management.

	Consulting		Reconciliation		Total	
	2016	2015	2016	2015	2016	2015
	0	0			263,027	271,901
	0	0			412,205	406,942
	0	**0**			**675,232**	**678,843**
	195,179	193,369			195,179	193,368
	688	218			1,422	846
	195,867	**193,587**			**871,833**	**873,057**
	–157,495	–153,325	–11,399	–16,774	–211,856	–212,158
	38,372	**40,262**	**–11,399**	**–16,774**	**659,977**	**660,899**
	–17,588	–18,436	–17,700	–18,214	–245,666	–268,836
	20,784	**21,826**	**–29,099**	**–34,988**	**414,311**	**392,063**
	0	0	0	0	–112,452	–106,413
	20,784	**21,826**	**–29,099**	**–34,988**	**301,859**	**285,650**
					–79,322	–69,405
					–5,523	–5,984
					217,014	**210,261**
					–8,658	–6,816
					–4,388	–2,927
					203,968	**200,518**
					–63,615	–60,913
					140,353	**139,605**

Information on geographic regions

Revenues by location of the Company can be broken down into geographic regions as follows:

Geographic Distribution of Revenues

	2016			
in € thousands	**Germany**	**USA**	**Other countries**	**Group total**
Licenses	37,731	108,477	116,819	263,027
Maintenance	56,967	146,287	208,951	412,205
Services	34,468	19,945	140,766	195,179
Other	703	137	582	1,422
Total	**129,869**	**274,846**	**467,118**	**871,833**

	2015			
in € thousands	**Germany**	**USA**	**Other countries**	**Group total**
Licenses	38,929	104,652	128,320	271,901
Maintenance	57,814	145,581	203,547	406,942
Services	34,894	19,832	138,642	193,368
Other	649	29	168	846
Total	**132,286**	**270,094**	**470,677**	**873,057**

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Because revenues in the U.S. accounted for more than 10 percent of Group revenue, they were listed separately. These revenues are generated in U.S. dollars, so when comparing consecutive periods, exchange rate fluctuations should be considered.

Non-current assets

Non-current assets are comprised of intangible assets and property, plant and equipment.

in € thousands	2016	2015
USA	630,508	589,456
Germany	387,360	377,107
Other countries	143,717	147,050
Group total	**1,161,585**	**1,113,613**

[29] Additional Information on Financial Instruments and Risk Management

The table below 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: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

December 31, 2016

	Valuation category		Carrying amount	
in € thousands	At amortized cost	At fair value	Held for trading purposes	Hedging instruments
Assets				
Cash and cash equivalents	374,611			
Trade receivables and other receivables	305,871			
Other financial assets				
Financial assets available for sale				
Debt securities		4,000		
Equity interest securities	10,189			
Investment funds		2,200		
Loans and other financial receivables	10,680			
Derivative financial instruments				
designated as hedging instrument				
Stock options		18,651		18,651
not designated as hedging instrument				
Forward currency contracts		1,194	1,194	
Forward equity contracts		5,919	5,919	
Stock options		6,611	6,611	
Liabilities				
Trade payables and other liabilities	43,890			
Financial liabilities				
Non-derivative financial liabilities				
Loans	272,999			
Other non-derivative financial liabilities	26,269			
Derivative financial liabilities				
designated as hedging instrument				
Interest rate swaps		323		323
not designated as hedging instrument				
Forward currency contracts		1,925	1,925	

				Fair value			
Loans and receivables	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
374,611			374,611				
305,871			305,871				
			59,444				
	4,000		4,000		4,000		4,000
	10,189		10,189				
	2,200		2,200	2,200			2,200
10,680			10,680				
			18,651		18,651		18,651
			1,194		1,194		1,194
			5,919		5,919		5,919
			6,611		6,611		6,611
			43,890				
			301,516				
		272,999	272,999		275,050		275,050
		26,269	26,269		26,269		26,269
			323		323		323
			1,925		1,925		1,925

December 31, 2015

	Valuation category		Carrying amount	
in € thousands	**At amortized cost**	**At fair value**	**Held for trading purposes**	**Hedging instruments**
Assets				
Cash and cash equivalents	300,567			
Trade receivables and other receivables	307,666			
Other financial assets				
Financial assets available for sale				
Debt securities		4,000		
Equity interest securities	11,751			
Investment funds		2,202		
Loans and other financial receivables	6,181			
Derivative financial instruments				
designated as hedging instrument				
Stock options		5,752		5,752
not designated as hedging instrument				
Forward currency contracts		872	872	
Stock options		5,629	5,629	
Liabilities				
Trade payables and other liabilities	33,106			
Financial liabilities				
Non-derivative financial liabilities				
Loans	314,171			
Other non-derivative financial liabilities	10,200			
Derivative financial liabilities				
designated as hedging instrument				
Interest rate swaps		1,193		1,193
not designated as hedging instrument				
Forward currency contracts		519	519	
Forward equity contracts		197	197	

				Fair value			
Loans and receivables	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
300,567			300,567				
307,666			307,666				
			36,387				
	4,000		4,000		4,000		4,000
	11,751		11,751				
	2,202		2,202	2,202			2,202
6,181			6,181				
			5,752		5,752		5,752
			872		872		872
			5,629		5,629		5,629
			33,106				
			326,280				
		314,171	314,171		317,289		317,289
		10,200	10,200		10,200		10,200
			1,193		1,193		1,193
			519		519		519
			197		197		197

No financial assets or liabilities were reclassified to different levels of the fair-value hierarchy during fiscal 2015 or 2016.

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 and 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 model, which accounts for influential 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
Equity forward 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
Investment funds	1	Prices quoted on active market.	n/a	n/a
Equity	n/a	Financial assets available for sale for which no market price is available and a fair value cannot be calculated reliably because of the absence of an active market are measured at cost less impairments.	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, 2016 and December 31, 2015.

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 effects.

The net loss from derivatives without qualifying hedging relationships amounted to €9,948 thousand (2015: €4,357 thousand) in fiscal 2016. The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €3,796 thousand in fiscal 2016 (2015: €13 thousand).

An impairment loss on equity interests was recognized in the amount of €2,490 thousand under net financial income/expense for fiscal 2016.

Market risks and the use of derivative 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 cash and cash equivalents and future interest income resulting from discounting non-current receivables 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 raise earnings by €2,062 thousand (2015: €1,738 thousand).

b) Exchange rate risks

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. Estimated cash flows are also 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. Changes in the fair value of derivative financial instruments designated as cash flow hedges are reported under other reserves until the hedged item is required to be recognized in income. The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments that do not meet the requirements of hedge accounting are recognized immediately in profit or loss for the year in which they are incurred.

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 result only from the relationship of the euro to the U.S. 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 reporting date, a devaluation of the euro in amount of 10 percent against the U.S. dollar would have increased earnings by € 1,360 thousand (2015: € 1,199 thousand) and other reserves by € 2,918 thousand (2015: 2,859 thousand). This amount only represents a theoretical risk for us as these instruments are hedges of recognized 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 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.

In the operating business, receivables are continuously monitored and default risk is taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2016, 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 our customer base or due to the distribution of our 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 the Company may not be able to satisfy 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 € 0.5 million (2015: € 1.6 million), the Company is required to limit net debt within the Group to a maximum of 3-times EBITDA. Under additional credit agreements having a total volume of € 200.0 million (2015: € 125.0 million), the Company is required to limit net debt within the Group to a maximum of 3.25-times EBITDA and not fall below an interest coverage ratio of 4.25. As of year end 2016, the Company’s net debt in relation to EBITDA was significantly lower than this limit and the interest 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, 2016.

2016

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (of this item)	32,311	4,195	0	36,506
Financial non-derivative liabilities	104,584	125,011	75,000	304,595
Derivative financial liabilities	2,248	0	0	2,248

2015

in € thousands	Up to 1 year	>1 to 5 years	> 5 years	Total
Trade payables and other financial liabilities (of this item)	28,665	90	0	28,755
Financial non-derivative liabilities	111,160	213,211	0	324,371
Derivative financial liabilities	1,873	36	0	1,909

Volume 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 table below shows the notional amounts, the carrying amounts and the fair values of derivative financial instruments as of December 31, 2016 and December 31, 2015. The fair values of forward currency contracts are determined on the basis of forward foreign exchange rates. The fair values of stock options and equity forward contracts used to hedge the performance phantom share plan as well as the fair values of interest rate hedges are based on market prices, which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date.

			2016			2015
in € thousands	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	—	7,113	7,113	—	7,194	7,194
Forward currency contracts remaining term < 1 year	24,097	1,194	1,194	64,297	873	873
Stock options/forward equity ontracts	70,228	12,530	12,530	15,624	6,321	6,321
Derivatives (cash flow hedges)	—	18,651	18,651	—	5,727	5,727
Stock options	14,148	18,651	18,651	6,366	5,727	5,727
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	—	–1,925	–1,925	—	–716	–716
Forward currency contracts remaining term < 1 year	46,335	–1,474	–1,474	14,975	–483	–483
Forward currency contracts remaining term > 1 year	2,941	–451	–451	3,674	–36	–36
Stock options/forward equity ontracts	0	0	0	13,638	–197	–197
Derivatives (cash flow hedges)	—	–323	–323	—	–1,193	–1,193
Interest rate swaps	30,000	–323	–323	30,000	–1,193	–1,193

The derivative financial instruments are designated to hedge the fair value of recognized assets or liabilities. Changes in the fair value of the hedging instruments are recognized in profit or loss. In addition, interest rate swaps are used to hedge financial liabilities with variable interest rates (cash flow hedges). Changes in the fair value of such financial instruments are reported under other reserves. The fair value of the interest rate swap (cash flow hedge) pertains only to 2017. These values represent the expected income from interest rate swaps.

Forward currency contracts and currency option transactions are entered into for the purpose of hedging foreign exchange risks related to future cash flows.

In order to hedge the risks arising from changes in value of the phantom share program and the MIPs, the Company has entered into hedging instruments on Software AG stock with banks.

Financial instruments for hedging currency risk have a maximum remaining term of 3.1 years, whereas financial instruments for hedging interest rate risk have a maximum remaining term of 0.3 years. Hedging transactions on the phantom share and MIP III plans have maximum terms of 3.6 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 has introduced a process in order to monitor the creditworthiness of the banks with which we maintain relationships whereby performance of the relevant credit default swaps (CDS) and external ratings are monitored continuously and investment decisions are adapted accordingly. In fiscal 2016, the interest rates for term deposit investments in euros were between 0.01 percent and 0.587 percent p.a., whereas up to 30.25 percent p.a. was reached for investments in foreign currencies abroad.

[30] Disclosures on Leases

The Group's rental agreements and operating leases relate chiefly to office space, vehicles and IT equipment. Lease payments under operating leases are recognized as an expense over the term of the lease.

Software AG made payments on leases in the amount of €20,124 thousand (2015: €22,172 thousand) in 2016.

2016

in € thousands	Up to 1 year	>1 to 5 years	>5 years	Total
Contractually agreed payments	17,507	40,878	8,344	66,729
Estimated income from subleases	738	1,232	0	1,970

2015

in € thousands	Up to 1 year	>1 to 5 years	>5 years	Total
Contractually agreed payments	18,219	37,576	13,401	69,196
Estimated income from subleases	1,634	2,214	0	3,848

[31] Contingent Liabilities

For more information on reportable contingent liabilities, please refer to the section on Litigation in Note [33].

[32] Seasonal Influences

Revenues and pre-tax earnings were distributed over fiscal year 2016 as follows:

2016

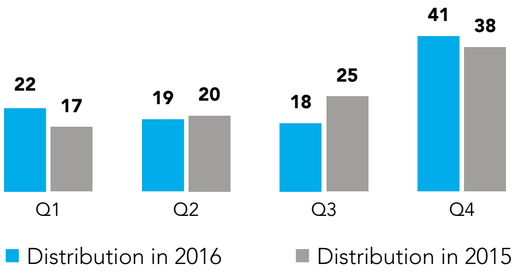
in € thousands	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
License revenue	59,070	49,574	46,871	107,512	263,027
as % of license revenue for the year	22	19	18	41	100
Total revenue	206,229	203,360	198,300	263,944	871,833
as % of revenue for the year	24	23	23	30	100
Earnings before taxes	43,535	41,708	47,073	71,652	203,968
as % of earnings for the year	21	21	23	35	100

Based on historical data, the revenue and earnings distribution from 2016 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict.

The following graph illustrates the development of license revenues in 2016 and 2015.

License Revenue in 2016 and 2015

as % of license revenue for the year



[33] Litigation

In February 2010, a software company in Virginia, USA sued Software AG together with 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. By order of the court, the proceedings were suspended for Software AG and all other defendants except for one, which was actively pursued. The court dismissed the case to set a precedent, upon which the plaintiff filed an appeal. The court of appeals rejected the appeal in January 2012. In response to further legal action brought by the plaintiff, the appellate court partially acknowledged the case and partially referred it back to the court of first instance in October 2013. In September 2014 the court ordered for proceedings to remain suspended until the U.S. Patent Office makes a decision regarding its review of the patents in question, which was initiated by the defendants. In summary proceedings in May 2015, the court decided in favor of one defendant; the plaintiff filed an appeal against the decision and won partially, which was reported by the plaintiff on August 18, 2016. After the original judge withdrew herself from the case, a new judge was assigned. The U.S. Patent office has since confirmed a decision relating to the invalidity of one TecSec patent. The proceedings are still pending for Software AG.

A number of legal actions have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections as to valuation to be groundless. In light of the court's order to hear evidence issued in September 2013, in the capacity of expert auditor, Warth & Klein GmbH Wirtschafsprüfungsgesellschaft provided a written opinion on questions concerning valuation in July 2014. Now that the involved parties have issued opinions, the next court decision is pending.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections as to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million. Software AG appealed the decision. The court has appointed an expert witness; Software AG has not yet received the expert's report and expects to receive it in the second quarter of 2017. Provisions are set up based on the estimated probable actual resource outflow.

In a matter relating to projects carried out under the European Union's research and innovation funding programs 6 and 7 by Software AG's former SAP consulting subsidiary in the Czech Republic (the projects took place between 2004 and 2009), final audit reports have now been submitted on the use of funds for these projects. According to the reports, the funds were allegedly not used as intended by the program. The European Commission has also sent information on which repayment claims it would like to assert. As part of contract negotiations with Software AG, the buyer of the shares in the aforementioned company was exempt from any repayment claims by the European Commission. Software AG also assumed responsibility for preparation of the case as well as its defense. Software AG considers the final audit reports sent in December 2016 by the European Commission to be insufficient and the anticipated repayment claims to be unjustified. Software AG will therefore pursue a complaint filed with the Czech Board of Financial Auditors and has brought the matter to the attention of the European Ombudsman. Provisions are set up based on the estimated probable actual resource outflow.

The decision of an appeal filed in the USA requires Software AG USA Inc. and Software AG Inc. to pay $15 million in addition to about $3.1 million in interest; further legal action (petition for panel rehearing en banc) had proven unsuccessful. The amount of the sentence was paid.

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 anti-competitive agreement. The CNMC has not yet made any concrete accusations against Software AG Spain which would allow for a determination of an estimate of risks associated with the case.

In a further legal matter concerning a sales distribution agreement between Software AG and a former partner in the USA, Software AG is currently involved in settlement negotiations outside of court. Provisions are set up based on the current estimated probable actual resource outflow.

The risk evaluation for other litigation and legal risks was updated; and provisions were set up based on a new calculation of the probable actual resource outflow.

Provisions for litigation totaled € 17,949 thousand (2015: € 13,757 thousand) as of December 31, 2016. Additional expenses (estimate adjustments) for litigation provisions previously recognized in 2015 resulted in the amount of € 10,065 thousand due to recent developments. In addition, contingent liabilities in the amount of € 16,991 thousand (2015: € 20,058 thousand) existed. But since a resource outflow as of December 31, 2016 was not probable, no provisions were set up. These are also related to specific legal disputes, for which accounting provisions were made.

There were no other changes with respect to the legal disputes reported as of December 31, 2015, nor were there any new legal disputes or other legal risks that could potentially have a significant effect on the Company's financial position, financial performance or cash flows.

[34] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees.

Share-based remuneration resulted in expenses of € 14,198 thousand (2015: € 3,147 thousand in income) in fiscal 2016.

No expenses for share-based compensation transactions were capitalized as inventories or non-current assets.

Management Incentive Plan 2017

A share-performance-based Management Incentive Plan 2017 for members of the Management Board, upper management and key members of staff was approved in December 2016. It consists of standard European call options to be settled in cash. Allocation took place in four tranches, differing only by terms. Gains on the exercise for members of the Management Board are paid contingent upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds a defined price on ten consecutive trading days during the relevant period of time. The relevant share price corresponds to the exercise target (€39.82) less dividends paid since the beginning of the plan.

The allocation was based on the following parameters:

Reference price at issue/base price	€ 33.18
Term of rights	
Tranche 1	36 months
Tranche 2	39 months
Tranche 3	42 months
Tranche 4	45 months
Exercise target	€ 39.82
The relevant period for reaching the exercise threshold (only applies to members of the Management Board)	Dec. 1, 2018 to Nov. 30, 2019
Cap	€ 49.77

The fair value was calculated based on the price of a hedging transaction entered into promptly with a bank; the parameters of the transaction correspond to the employee's award.

The fair values as of December 31, 2016 were:

Tranche 1	€ 4.73
Tranche 2	€ 4.81
Tranche 3	€ 4.87
Tranche 4	€ 4.76

In December 2016, 1,654,570 rights were awarded in four equally divided tranches under the Management Incentive Plan 2017.

Management Incentive Plan 2016

A share-performance-based Management Incentive Plan 2016 for members of the Management Board, upper management and key members of staff was approved in December 2015. The rights have a term of three years. Exercise benefits are paid out conditional upon an exercise threshold. The exercise threshold has been reached if Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds a defined price on ten consecutive trading days during a defined period of time. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP from November 15 to December 15 of the third year of the term of a tranche. The maximum possible exercise benefit per right is capped at 200 percent of the reference price.

The allocation was based on the following parameters:

Reference price at issue	€ 25.94
Base price	€0.00
Term of rights	3 years
Exercise target	€ 30.00
Period in which exercise threshold is to be reached	Dec. 1, 2017 to Nov. 30, 2018
Cap	€ 51.88

The rights granted under Management Incentive Plan 2016 changed as follows in fiscal year 2016:

Balance as of Dec. 31, 2015	**458,672**
Granted	0
Forfeited	–10,589
Balance as of Dec. 31, 2016	**448,083**

The fair value was calculated based on the price of a hedging transaction entered into with a bank; the parameters of the transaction correspond to the employee's award. The fair value as of December 31, 2016 was €29.28.

A total expense of €2,787 thousand (2015: €0.00 thousand) was incurred under this plan in fiscal 2016. This figure is the balance of expenses of €3,879 thousand in original commitments plus income of €1,092 thousand from hedging the commitments as cash flow hedges.

Provisions totaled €3,879 thousand (2015: €0.00) as of December 31, 2016.

Management Incentive Plan – MIP V 2015

A share-performance-based Management Incentive Plan (MIP V) for members of the Management Board, upper management and key members of staff was approved in December 2014. The rights have a term of three years. Payment of exercise benefits is dependent upon a 30-percent share price increase. The target has been achieved when Software AG's volume weighted average share price (VWAP) in Xetra trading exceeds the reference price at issue by 30 percent or more on ten consecutive trading days between November 15th of the second year of the term until December 15th of the third year of the term of one tranche. The reference price is equal to the average of the Software AG's VWAP from November 15 to December 15 prior to issue of a tranche. If the exercise target is achieved, the gross exercise benefit is equal to Software AG's VWAP from November 15 to December 15 of the third year of the term of a tranche. The maximum possible exercise benefit per right is capped at 200 percent of the reference price.

The allocation of the rights in 2014 was based on the following parameters:

Reference price at issue	€ 21.22
Base price	€ 0
Term of rights	3 years
Exercise threshold	€ 27.59
Cap	€ 42.44

The rights granted under Management Incentive Plan 2015 (MIP V) changed as follows in fiscal years 2016 and 2015:

Balance as of Dec. 31, 2014	**555,600**
Granted	28,050
Forfeited	–63,700
Balance as of Dec. 31 2015	**519,950**
Granted	0
Forfeited	–29,500
Balance as of Dec. 31, 2016	**490,450**

The fair value was calculated based on the price of a hedging transaction entered into with a bank; the parameters of the transaction correspond to the employee's award. The fair value as of December 31, 2016 was €32.89 (2015: €17.01).

A total expense of €4,397 thousand (2015: €1,522 thousand) was incurred under this plan in fiscal 2016. This figure is the balance of expenses totaling €8,064 thousand in original commitments plus €3,667 thousand in earnings from hedging the commitments as cash flow hedges.

Provisions totaled €10,491 thousand (2015: €2,427 thousand) as of December 31, 2016.

Management Incentive Plan 2007 (MIP III) (2007–2011)

In 2007, a share-based incentive plan for members of the Management Board and upper management was launched. A total of 7,342,500 participation rights have been issued to Management Board members and managers under the plan.

The performance targets were achieved at the end of fiscal year 2010. The rights have therefore been exercisable since that date.

Conditions for the rights are as follows:

A standard call option with a base price of €24.12. Software AG may opt to settle in cash or equity instruments. There is a cap at €45.00, which limits the maximum benefit from exercising a right to €20.88.

The term of the rights expires after June 30, 2019.

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal years 2016 and 2015:

	Number of rights outstanding	Exercise price per right in €	Weighted average remaining term in years	Aggregated intrinsic value in € thousands
Balance as of Jan. 1, 2015	**1,719,800**	**24.12**	**4.5**	
Forfeited	–11,000	24.12		
Exercised	–25,300	24.12		
Balance as of Dec. 31, 2015	**1,683,500**	**24.12**	**3.5**	**3,872****
Forfeited	–9,600	24.12		
Exercised	–1,590,000	24.12		
Balance as of Dec. 31, 2016	**83,900**	**24.12**		
Thereof exercisable as of Dec. 31, 2016	83,900	24.12	2.5	870*

* Based on the closing price on Dec. 30, 2016 ** Based on the closing price on Dec. 30, 2015

The 1,590,000 rights exercised in 2016 were exercised at a weighted average price of €34.38 per share and were settled in cash. They resulted in cash outflows of €16,320 thousand.

No expenses were incurred under this program in fiscal 2016 (2015: €3,469 thousand).

Performance Phantom Share Plan

A portion of the variable management remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2016 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2017, less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two and three years. On the due dates in March 2018 to 2020, the number of phantom shares will be multiplied by the then-applicable share price for February. The Supervisory Board decided in March 2014 to phase out the TecDAX adjustment for members of the Management Board over a period of three years. The TecDAX adjustment refers to an adjustment to the payout sum from PPS to reflect the amount (as a percentage) by which the share outperforms or underperforms the TecDAX index. Existing PPS balances that are paid back by the end of 2016 will still undergo TecDAX adjustment. The TecDAX adjustment will not apply to existing phantom shares which are extended beyond December 31, 2016 and not yet paid out. Furthermore, new phantom shares which have been issued since March 2014 are also not subject to the TecDAX adjustment. The beneficiaries will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

Company officers may elect to let the Company dispose of the PPS that has become due after the defined waiting period for an unlimited period of time and thus continue to participate in the success of the Company.

At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading days after the decision to exercise the relevant phantom shares. The decision to exercise must be communicated to Software AG between the date of publication of the financial results and the following fifth trading day. Those entitled receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of the phantom shares.

This plan resulted in expenses of €7,014 thousand (2015: €6,578 thousand) in fiscal 2016. This figure is the balance of €13,736 thousand (2015: €10,916 thousand) in original commitments plus €6,722 thousand in earnings (2015: €4,338 thousand in expenses) from hedging transactions with banks for the commitments.

The provision for the rights outstanding under the phantom share plan amounted to €30,420 thousand (2015: €19,297 thousand) as of December 31, 2016.

The intrinsic value of the rights exercisable under the phantom share plan as of December 31, 2016 amounted to €19,151 thousand (2015: €12,022 thousand) as of December 31, 2016.

[35] Corporate Bodies

Members of the Supervisory Board:

Dr. Andreas Bereczky
Dr.-Ing. in mechanical engineering
Shareholder representative
Chairman

Director of Production
ZDF, Mainz
Resident of: Aachen

Supervisory Board seats:

- *Member of the supervisory board of GFT Technologies AG, Stuttgart*

Guido Falkenberg
Graduate in computer science
Employee representative
Deputy Chairman

Employee of Software AG
Resident of: Mühltal-Traisa

Supervisory Board seats:

- *none*

Eun-Kyung Park
Graduate in business administration
Shareholder representative

Chief Executive Officer
SevenOne AdFactory GmbH, Unterföhring
(since May 1, 2016)
Chief Executive Officer
ProSiebenSat.1 TV Deutschland GmbH, Unterföhring
(until April 30, 2016)
Resident of: Munich

Supervisory Board seats:

- *Member of the supervisory board of ad pepper media International N.V., Amsterdam*

Alf Henryk Wulf
Graduate in engineering
Shareholder representative

Chief Executive Officer
GE Power AG, Mannheim
Resident of: Stuttgart

Supervisory Board seats:

- *Chariman of the supervisory board of GE Boiler Deutschland GmbH, Stuttgart (since May 25, 2016)*
- *Member of the supervisory board of DEA Deutsche Erdoel AG, Hamburg*
- *Member of the supervisory board of GE Grid GmbH, Frankfurt am Main*

Markus Ziener
Graduate in economics
B.A. in business administration
Shareholder representative

Member of the board of the Software AG Foundation
Resident of: Seeheim-Jugenheim

Supervisory Board seats:

- *Member of the Supervisory Board of Amryt Pharma plc, Dublin (since June 27, 2016)*
- *Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn (until April 18, 2016)*

Christian Zimmermann
Graduate in business information systems
Employee representative

Employee of SAG Deutschland GmbH
Resident of: Alsbach-Hähnlein

Supervisory Board seats:

- *none*

Members of the Management Board:

Karl-Heinz Streibich
Graduate in communications engineering

Chief Executive Officer
Global Human Resources, Global Legal, Global Information Services (IT), Corporate Communications, Global Processes, Audits & Quality and Corporate Office
Resident of: Frankfurt am Main

Supervisory Board seats:

- *Member of the supervisory board of Deutsche Telekom AG, Bonn*
- *Member of the supervisory board of Dürr AG, Bietigheim-Bissingen*
- *Member of the supervisory board of Deutsche Messe AG, Hannover (not listed on a stock exchange)*

Eric Duffaut
Graduate in economics and finance (Master)

Management Board
R&D and Product Management, Product Marketing, Analyst Relations and Research
Resident of: Bordeaux (France)

Supervisory Board seats:

- *none*

Dr. rer. nat. Wolfram Jost
Graduate in business administration

Management Board
Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Global Procurement
Resident of: Schmelz

Supervisory Board seats:

- *none*

Arnd Zinnhardt
Graduate in business administration

Management Board
Finance, Controlling, Treasury, Taxes, M&A, Business Operations, Investor Relations, Global Procurement
Resident of: Königstein

Supervisory Board and other seats:

- *Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main*
- *Member of the Investment committee, Main Incubator GmbH, Frankfurt am Main (until February 9, 2017)*

Remuneration of the Management Board pursuant to section 314 (1), No. 6 of the German Commercial Code (HGB)

Total remuneration for members of the Management Board, including newly issued MIP 2017 options, in fiscal 2016 was €18,104 thousand (2015: €18,969 thousand).

Awards under the new MIP 2017 (2015: MIP 2016) stock option plan in the amount of €3,024 thousand (2015: €3,056 thousand) are included in total remuneration for the Management Board.

The remuneration of the Management Board still includes the consideration paid for 121,151 (2015: 145,830) committed phantom shares totaling €4,150 thousand (2015: €4,535 thousand). The phantom shares had a fair value as of the grant date of €34.26 (2015: €31.10) per phantom share.

Remuneration under this plan totaled €6,623 thousand (2015: €7,006 thousand) in fiscal 2016.

Remuneration for former Management Board members totaled €367 thousand (2015: €367 thousand).

Pension provisions, offset against plan assets, for former Management Board members totaled €12,486 thousand (2015: €11,343 thousand). Last year's figure was adjusted because the amount the year before included plan assets that could not be offset. Gross pension liabilities for former Management Board members amounted to €14,570 thousand (2015: €13,331 thousand). These amounts include provisions for periods of time in which two members of the Management Board were executive employees or members of the Group Executive Board Member.

Software AG did not grant any advances or loans to Management Board members nor did it enter any contingent liabilities with those individuals in fiscal 2016 or in fiscal 2015.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report, which forms part of the consolidated Management Report.

Remuneration of the Supervisory Board pursuant to section 314 (1), No. 6a of the German Commercial Code (HGB)

Total remuneration for the Supervisory Board in fiscal 2016 amounted to €478 thousand (2015: €614 thousand).

Software AG did not grant any advances or loans to Supervisory Board members nor did it enter any contingent liabilities with those individuals in fiscal 2016 or in fiscal 2015.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report, which forms part of the combined Management Report.

[36] 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 a Software AG subsidiary, that is controlled by Software AG or a Software AG subsidiary, or in which Software AG or a Software AG subsidiary has an interest that gives it significant influence over such legal or natural person. This also includes any legal or natural person having an interest in Software AG that gives it significant influence over Software AG (Software AG Foundation), unconsolidated subsidiaries, and the members of Software AG's executive bodies, whose remuneration is specified in Note [34] as well as in the Remuneration Report contained in the Corporate Governance section of the combined Management Report.

Disclosures on remuneration paid to related parties pursuant to IAS 24

Parties related to Software AG consist of the members of the Management Board and the Supervisory Board.

Remuneration paid to the Management Board can be broken down as follows:

in € thousands	2016	2015
Short-term benefits	8,826	8,953
Post-service benefits*	2,139	1,287
Share-based compensation**	12,533	4,416
	23,498	**14,656**

* The service cost of pension obligations pursuant to IAS 19 and legal/voluntary benefits to pension insurance companies is shown here.
** Expenses incurred under the PPS plan, the new management incentive plan 2017 (MIP 2017), Management Incentive Plan 2016 (MIP 2016) and Management Incentive Plan V (MIP 2015) are shown here.

Net pension obligations for Management Board members amounted to €473 thousand (2015: -€1,799 thousand). The negative figure in 2015 resulted from over-funding of provisions through reinsurance policies. Gross pension liabilities for Management Board members amounted to €14,094 thousand (2015: €11,077 thousand).

Furthermore, obligations from share-based compensation plans for members of the Management Board amounted to € 35,789 thousand (2015: €19,310 thousand).

Remuneration paid to the members of the Supervisory Board in fiscal year 2016 totaled €478 thousand (2015: €614 thousand). This remuneration included a fixed short-term component and compensation for committee work.

Remuneration of the Management and Supervisory Boards is outlined in detail in the Remuneration Report. The Remuneration Report presents the structure and amount of the individual components. The Remuneration Report is included in the combined Management Report.

No other business transactions took place between Software AG and the members of the Management Board or the Supervisory Board in fiscal year 2016.

[37] Auditor Fees

Software AG's general and administrative expenses include auditor fees paid to BDO AG, the Group auditor, totaling €845 thousand (2015: €701 thousand). Of this amount, €691 thousand (2015: €604 thousand) relates to the audit of the domestic entities' and the Group's Financial Statements, €109 thousand (2015: €71 thousand) to other testation services and €45 thousand (2015: €26 thousand) to tax advisory services.

[38] Events After the Balance Sheet Date

As of April 1, 2017, Dr. Stefan Sigg will become the new Chief Research & Development Officer and fifth member of Software AG's expanded Management Board.

Dr. Sigg's new position at Software AG will focus primarily on innovation of the Group's product portfolio in the key areas of IoT, real-time analytics, process management, API management and data integration. In addition to his core duty of managing global R&D, he will also be responsible for research programs. Dr. Sigg will co-chair the Global Portfolio Innovation Steering team with Software AG's Chief Technology Officer Dr. Wolfram Jost. Together they will ensure that the product portfolio reflects both market trends and customer needs alike.

There were no further events that occurred between December 31, 2016 and the date of release of these Consolidated Financial Statements that were of significance to the Consolidated Financial Statements.

[39] Statement on Corporate Governance

The Company submitted its Statement on Corporate Governance on February 28, 2017. It will be published in March 2017 at SoftwareAG.com/statement.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on January 30/31, 2017 at SoftwareAG.com/declaration.

[40] Exemption for Domestic Group Companies Pursuant to Section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, SAG Consulting Services GmbH, Darmstadt and SAG LVG mbH, Saarbrücken, 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 from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the Consolidated Financial Statements on February 28, 2017.

Darmstadt, February 28, 2017

Software AG

K.-H. Streibich E. Duffaut

Dr. W. Jost A. Zinnhardt

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, and the combined Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, February 28, 2017

Software AG

K.-H. Streibich

E. Duffaut

Dr. W. Jost

A. Zinnhardt

AUDITOR'S REPORT

We have audited the Consolidated Financial Statements prepared by Software Aktiengesellschaft, Darmstadt, comprising the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes to the Consolidated Financial Statements together with the combined Management Report for the fiscal year beginning January 1, 2016 and ending December 31, 2016. Preparation of the Consolidated Financial Statements and the combined Management Report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a, paragraph 1 HGB is the responsibility of the parent Company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and the combined Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with section 317 HGB and German generally accepted standards for the audit of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the combined Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting disclosures in the Consolidated Financial Statements and the combined Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual Financial Statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the combined Management Report. We believe that our audit provides a sufficiently substantial basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of our audit, the Consolidated Financial Statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a, paragraph 1 HGB. The Consolidated Financial Statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these requirements. The combined Management Report is consistent with the Consolidated Financial Statements, meets legal requirements and, as a whole, provides an appropriate view of the Group's position and appropriately presents the opportunities and risks of future development.

Berlin, February 28, 2017

BDO AG

Wirtschaftsprüfungsgesellschaft

K. Eckmann	R. Pfeiffer
Public Auditor	Public Auditor

ADDITIONAL INFORMATION

LIST OF ABBREVIATIONS

acc	at constant currency
Americas	North and South America
API	Application Programming Interface
APJ	Asia-Pacific and Japan
ARIS	Architecture for Integrated Information Systems
AUD	Australian dollar
A&N	Adabas & Natural
BDL	Beyond Digital Learning
Bitkom	German Association of Information, Telecommunications and New Media
BPM	Business Process Management
BRL	Brazilian real
CAD	Canadian dollar
CIO	Chief Information Officer
CSR	Corporate Social Responsibility
DBP	Digital Business Platform
EBIT	Earnings before Interest and Taxes
EBITA	Earnings before Interest, Taxes and Amortization
EITO	European Information Technology Observatory
EMEA	Europe, Middle East and Africa
EPS	Earnings per Share
FC&A	Finance, Controlling and Administration
GBP	British pound sterling
GIS	Global Information Services
iBPMS	(Critical Capabilities for) Intelligent Business Process Management Suites
ICT	Informations and Communications Technology
IFRS	International Financial Reporting Standards
IfW	Institute for the World Economy
ILS	Israeli shekel
IoT	Internet of Things
ISO	International Organization for Standardization
LATAM	Latin America
MIP	Management Incentive Plan
M&A	Mergers & Acquisitions
PPS	Performance Phantom Share
Radar CNS	Remote Assessment of Disease and Relapse in Central Nervous System Disorders
R&D	Research and Development
SOA	Service Oriented Architecture
USD	U. S. dollar
ZAR	South African rand

GLOSSARY

Adabas (Adapted DAtaBAse System)

Invented by Software AG founder Peter Schnell, Adabas is the first high-performance transactional database that is so fast it can process more than 320,000 calls or 80,000 transactions per second. Since its launch in 1971, Adabas—together with Natural—has formed the backbone of many large corporations' and public institutions' IT.

Adabas & Natural (A&N)

A Software AG business line with products of the same name. Adabas and Natural have occupied a permanent space in the IT landscapes of companies and public institutions around the world for many years and will continue to do so for many more to come. With its Adabas & Natural 2050+ agenda, Software AG announced in 2016 its commitment to develop and support the A&N product portfolio through the year 2050 and beyond. This enables customers to maximize the innovation potential of digitalization for their applications. The A&N business line encompasses database management, application development and mainframe application technologies.

Alfabet

Alfabet is a technology platform that allows users to map their entire IT environment for comprehensive IT infrastructure planning and optimization.

Apama

Apama Streaming Analytics is designed to help organizations develop customer-centric streaming data applications. Streaming analytics provides intelligent, automated management of big data. It allows enterprises to analyze and recognize patterns within high-volume business operations and customer interactions in real time.

ARIS (Architecture for Integrated Information Systems)

A scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation and measurement.

Big Data

Big data is a universal term for the vast amounts of data produced by the Internet. Organizations can achieve competitive advantages by conducting fast and effective analysis of this data.

Business Process Management (BPM)

The methods, techniques and tools used to design, enact, control and analyze business operations involving people, systems, applications, data and organizations. Software AG's offering is known as the webMethods Business Process Management Suite.

Cloud
Cloud (computing) refers to the growing shift from data and application storage to the Internet.

Corporate Social Responsibility (CSR)
Corporate social responsibility, CSR for short, is part of sustainable business. CSR is about how profits are made, not what is done with them. It is not about simply doing good deeds or donating and sponsoring. Rather, a company's core business must illustrate that social and ecological corporate responsibility as well as sustainable business go hand-in-hand with economic success.

Digital Business Platform (DBP)
Software AG unveiled the world's first Digital Business Platform at the end of 2014. It is an agile software platform that helps organizations achieve adaptive applications and customized software solutions quickly and flexibly. The combination of process, data, integration and (real-time) decision logic with versatile applications lays the foundation for enterprise digital transformation. Digital Business Platform is also the name of Software AG's biggest business line, in existence since 2015. It emphasizes the portfolio's conceptual and technological innovations.

Enterprise Architecture Management (EAM)
A complete management concept to optimize IT system landscapes. EAM includes the documentation of the current landscape as well as the design and planning of an ideal IT landscape for the future.

Industry 4.0
This term refers to smart manufacturing (the fourth industrial revolution), which is possible today thanks to mega trends in ICT like the cloud, mobility, collaboration and big data. It entails the digital connectivity of all parts of the value chain, resulting in boosted productivity and quality as well as creation of new value.

Internet of Things (IoT)
The Internet of Things describes a vision whereby computers become more and more obsolete and are replaced by smart objects such as embedded devices and sensors. The connectivity of physical objects and the virtual world within an Internet-like structure will inconspicuously help humans carry out many activities.

Artificial Intelligence (AI)
The term artificial intelligence, AI for short, refers to computer systems that imitate intelligent human behavior. The ideal AI does not currently exist. Such a system would have to be able to perceive its environment and take actions to ensure its survival. Since a machine does not perceive feelings, its thought processes would probably differ greatly from those of a human. Until now, AI has mainly referred to simulations of intelligent behavior based on provided or learned patterns. It is used to solve concrete problems. AI is therefore almost always a specialist—a system developed for a specific topic. It is anything but inflexible though. An AI system can expand its capabilities through learning and can consider decisions based on probability.

Middleware
Integration software in a complex IT infrastructure whose task is to simplify mechanisms for accessing underlying layers. Middleware such as Software AG's webMethods facilitates data exchange between legacy application silos.

Natural
Software AG's high-performance development and deployment environment designed to support creation of enterprise applications for mainframe and open systems platforms. Since its market launch in 1979, Natural and Adabas have formed the backbone of many large companies' and public institutions' IT.

Terracotta
Terracotta enables real-time management of big data and is ideally suited for distributed, scalable in-memory data management with extremely low, predictable latency. Featuring integrated in-memory technology, large amounts of data can be searched within just a few microseconds. The Terracotta product family works with the Apama products for intelligent business operations.

webMethods
Systems, partners, data, devices and SaaS applications can be integrated quickly using webMethods. The webMethods product family includes Agile Applications, API Management, Business Process Management, Integration and Operational Intelligence.

EIGHT-YEAR SUMMARY

in € millions (unless otherwise stated)	2016	2015	2014	2013	2012
Revenue	**871.8**	**873.1**	**857.8**	**972.7**	**1,047.3**
By type					
Licenses	263.0	271.9	270.1	330.1	318.9
Maintenance	412.2	406.9	371.3	375.6	393.3
Services and other revenue	196.6	194.3	216.4	267.0	335.1
By business line*					
Digital Business Platform	441.4	431.5	394.5	422.9	384.7
Adabas & Natural	234.6	248.0	245.3	274.5	310.5
Consulting	195.8	193.6	218.0	275.4	352.1
EBIT**	**213.9**	**209.4**	**176.0**	**205.5**	**248.3**
as % of revenue	24.5%	24.0%	20.5%	21.1%	23.7%
Net income	**140.4**	**139.6**	**110.6**	**134.0**	**164.7**
as % of revenue	16.1%	16.0%	12.9%	13.8%	15.7%
Employees (FTE)	**4,471**	**4,337**	**4,421**	**5,238**	**5,419**
in Germany	1,148	1,178	1,216	1,711	1,768
Balance sheet	**Dec. 31, 2016**	**Dec. 31, 2015**	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2012**
Total assets	**1,957.2**	**1,814.8**	**1,848.9**	**1,996.9**	**1,771.9**
Cash and cash equivalents	374.6	300.6	318.4	450.0	315.6
Net debt/net cash***	73.1	25.7	132.9	168.8	–49.6
Equity	1,196.8	1,089.7	1,013.4	965.6	1,060.1
as % of total assets	61.1%	60.0%	54.8%	48.4%	59.8%

* 2009 to 2011: Pro forma figures; changed segment reporting as of Jan. 1, 2012
** EBIT: Net income + income taxes + other taxes + net financial income/expense
*** 2009 to 2012: Pro forma figures based on previous balance sheet structure

2011	2010	2009
1,098.3	**1,119.5**	**847.4**
295.2	327.4	269.9
378.7	369.4	310.6
424.4	422.7	266.9
339.6	321.5	247.2
313.9	355.4	328.5
444.8	442.6	271.7
269.2	**268.6**	**218.2**
24.5%	24.0%	25.8%
177.2	**175.6**	**140.8**
16.1%	15.7%	16.6%
5,535	**5,644**	**6,013**
1,881	2,051	2,149
Dec. 31, 2011	**Dec. 31, 2010**	**Dec. 31, 2009**
1,680.7	**1,599.6**	**1,654.9**
216.5	102.5	218.1
60.9	167.2	271.8
951.5	769.3	647.2
56.6%	48.1%	39.1%

FINANCIAL CALENDAR

2018	
January 25	Q4/FY 2017 financial results (IFRS, unaudited)
2017	
October 20	Q3 2017 financial results (IFRS, unaudited) Publication of Q3 2017 Quarterly Statement
August 11	Publication of 2017 Half-Year Report
July 20	Q2 2017 financial results (IFRS, unaudited)
May 17	Annual Shareholders' Meeting Darmstadt, Germany
April 21	Q1 2017 financial results (IFRS, unaudited) Publication of Q1 2017 Quarterly Statement

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