

Process Innovation for the Digital Enterprise



PIONEER AND MARKET LEADER

Software AG is the global leader in Business Process Excellence. Our 40 years of innovation include the invention of the first high-performance transactional database, Adabas; the first business process analysis platform, ARIS; and the first B2B server and SOA-based integration platform, webMethods.

We are unique in offering the world's only end-to-end and easiest-to-use business process management (BPM) solutions, with the lowest total cost of ownership. Our industry-leading brands, ARIS, webMethods, Adabas, Natural, CentraSite and IDS Scheer Consulting, represent a unique portfolio for: process design, implementation and control; SOA-based integration and data management; process-driven SAP implementation; and strategic process consulting and services.

KEY INDICATORS FOR 2011 AT A GLANCE

€1,098.3 mn.

Group revenue

24.5%

EBIT margin

€527.9 mn.

BPE segment revenue

€177.2 mn.

net income

€198.6 mn.

operating cash flow

5,535

employees worldwide

2011 HIGHLIGHTS

01

ONE BILLION EUROS IN REVENUE ACHIEVED

Software AG announces in January the achievement of its revenue target of €1 billion for fiscal year 2010.



03

TAKE OFF TO THE DIGITAL ENTERPRISE

Software AG launches product initiative with state-of-the-art process solutions and cloud computing at CeBIT 2011.



04

The new product versions webMethods 8.2 and ARIS 7.2 feature extended functionality for business process excellence (BPE).



05

ACQUISITION OF TERRACOTTA AND METISMO

Software AG acquires two leading companies for in-memory technology and cloud computing.

TERRACOTTA
A SOFTWARE AG COMPANY

METISMO

06

U.S. market research firm Forrester positions Software AG as a "leader" in the enterprise architecture management suite market.

JAN

JUL

FEB

AUG

MAR

SEP

APR

OCT

MAY

NOV

JUN

DEC

07



With more than 100,000 members, the ARIS Community is a key driver of the knowledge community.

10

U.S. market analyst firm Gartner ranks Software AG as a "leader" in SOA governance technologies.

11

Software AG's latest cloud solution, Software AG Cloud Ready, is released.



11

A data highway for large and oversize goods transporters is introduced at the **German National IT Summit** (with Software AG as a corporate member of working group 3).



12

EUROPEAN BUSINESS AWARD

Software AG receives an award for its international growth strategy in December 2011.



KEY FIGURES 2011

KEY FIGURES as of December 31, 2011

in € millions	2011	2010	2009	2008	2007
Revenue	1,098.3	1,119.5	847.4	720.6	621.3
By type					
Licenses	295.2	327.4	269.9	272.0	241.3
Maintenance	378.7	369.4	310.6	267.1	212.9
Services and other revenue	424.4	422.7	266.9	181.5	167.1
By business line					
Enterprise Transaction Systems (ETS)	381.3	420.0	396.1	404.9	383.1
Business Process Excellence (BPE)	527.9	499.2	372.3	315.7	238.1
IDS Scheer Consulting (IDSC)	189.2	200.3	79.0	n/a	n/a
EBIT	269.2	268.6	218.2	180.5	136.8
as % of revenue	24.5	24	26	25	22
Net income	177.2	175.6	140.8	115.9	88.4
Equity ratio (in %)	57	48	39	52	45
Employees (full-time equivalents)	5,535	5,644	6,013	3,526	3,479
of which in Germany	1,881	2,051	2,149	772	760

KEY SHARE DATA

	2011	2010**	2009**	2008**	2007**
Year-end closing price (XETRA) in €	28.60	36.60	25.47	13.33	20.19
Year high in €	43.70	36.60	25.92	20.12	25.73
Year low in €	22.30	24.92	11.59	9.83	16.71
Number of shares at year end	86,827,845	85,330,806*	86,125,230	85,916,526	85,618,365
Market capitalization at year end in € millions	2,483.3	3,123.1	2,193.3	1,145.6	1,728.6
Dividend per share in €	0.46	0.43	0.38	0.37	0.33
Earnings per share in €	2.05	2.06	1.64	1.35	1.04
Price/earnings ratio at year end in €	14.0	17.8	15.5	9.9	19.5
Free cash flow per share at year end in €	2.18	2.56	2.19	1.55	0.96

Frankfurt (Prime Standard/TecDAX), ISIN DE0003304002

* Excluding 817,377 treasury shares bought on stock exchange in 2010

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

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Agility



THE COMPANY

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LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,

Software AG began fiscal year 2011 in a new dimension of revenue with one billion euros. Our multi-award-winning Business Process Excellence (BPE) portfolio is our primary source of revenue, offering software and consulting for industry-independent IT integration and process automation.

In the last fiscal year, we achieved the previous year's record levels in both revenue and earnings. In Europe, BPE product revenue grew in the final quarter by some 23 percent, which more than compensated for the quarter's weak growth in the Americas. Our traditional data management software (ETS) business reflected a notable decline in investment activity among customers in the fourth quarter, which exacerbated the expected minor drop in revenue for the full year.

The considerable, above-market-average rise in BPE revenue in Europe is an unequivocal confirmation of our strategy and the quality of our vendor-neutral product portfolio. With the measures we have adopted, we are certain that our success will continue — in the Americas as well — and that BPE will remain Software AG's key growth driver.

We set the course for further profitable growth with a number of measures in 2011:

- We established ourselves as the world's leading provider of business process excellence (BPE). The web-Methods and ARIS BPE products foster the expansion of the increasingly profitable product division, while meeting the growing demand for IT integration and process software.
- We consistently strengthened our leading market position through technology acquisitions: With UK-based Metismo Ltd., we entered the growing mobile applications market. California-based Terracotta Inc. enhanced our portfolio with innovative in-memory and cloud-computing solutions.
- CeBIT 2011 marked our kick off to the "digital enterprise." Digital enterprises will become more agile and gain clear-cut competitive advantages with cloud-readiness and an integrated comprehensive cloud and social-networking strategy.
- We strengthened our equity ratio (56.6 percent) and financial foundation for further revenue growth.

"Please join our social network and send your suggestions and questions to our **Social Media Center**. We welcome constructive dialog."

KARL-HEINZ STREIBICH,
CHIEF EXECUTIVE OFFICER



The market surveys of reputable industry analysts are an additional testimony to Software AG's globally leading product and service offering. In 2011 alone, more than 15 market studies recognized us as a technology leader. Furthermore, our corporate strategy was validated: Bloomberg Business Week named Software AG one of the fastest growing high-tech companies in the world. At the end of 2011, we received the HSBC International Growth Strategy of the Year prize and were recognized by Financial Times Deutschland as Strategist of the Year 2011 (company category: €1 to €2.5 billion in revenue). Not only our corporate growth, but our sustainable medium and long-term development together with our strategic positioning played decisive roles in attaining these honors.

We consider these awards as a compliment to our dedicated employees, who form the backbone of our success. So, on behalf of my colleagues on the Management Board, I would like to express our gratitude to all Software AG employees.

With our leading technology, we plan to continue growing steadily and increasing profitability. We will rely on our four proven growth-driving factors: globalization, partnerships, acquisitions and, most importantly, organic growth. We are very well equipped to achieve our target of doubled BPE revenue by 2015.

Esteemed shareholders, we are grateful for your trust in Software AG. Like last year, we would like to include you in the financial results of our company. The Management Board and Supervisory Board will therefore propose a dividend of €0.46 at the Annual Shareholders' Meeting.

Yours sincerely,

A handwritten signature in black ink, reading "K-H Streibich". The signature is written in a cursive, slightly stylized font.

Karl-Heinz Streibich
Chief Executive Officer

MANAGEMENT BOARD AND GROUP EXECUTIVE BOARD



DARREN ROOS,
Chief Operating Officer (COO)
EMEA (not including D-A-CH and Eastern Europe)

Member of the Group Executive Board since 2011

Born in 1974; Areas of responsibility:
EMEA (not including D-A-CH, EE)

PAUL ORME-SMITH,
President & CEO North America

Member of the Group Executive Board since 2012

Born in 1962; Areas of responsibility: North America

ARND ZINNHARDT,
Chief Financial Officer (CFO)

CFO and Labor Director
Member of the Management Board since 2002

Born in 1962; Areas of responsibility:
Finance, Controlling, Treasury, Taxes, M&A,
Business Operations, Investor Relations,
Human Resources, Global Purchasing

KARL-HEINZ STREIBICH,
Chief Executive Officer (CEO)

Chairman of the Management Board and Group Executive Board
Member of the Management Board since 2003

Born in 1952; Areas of responsibility: Group Executive Board, Global
Business Development, Corporate Marketing, Corporate PR, Global Legal,
Audit/Processes & Quality, Corporate Communications, Corporate Office,
Top Management Development



Member of Software AG's Management Board

**IVO TOTEV,
Chief Services Officer (CSO)**

Member of the Group Executive Board since 2009

Born in 1967; Areas of responsibility:
Global Consulting Services

**DR. WOLFRAM JOST,
Chief Technology Officer (CTO)**

Member of the Management Board since 2010

Born in 1962; Areas of responsibility:
Research & Development, Product Marketing

**KAMYAR NIROUMAND,
Chief Operating Officer (COO) D-A-CH**

Member of the Group Executive Board since 2010

Born in 1960; Areas of responsibility:
D-A-CH (Germany, Austria, Switzerland)

**MARK EDWARDS,
Chief Operating Officer (COO) Global Operations**

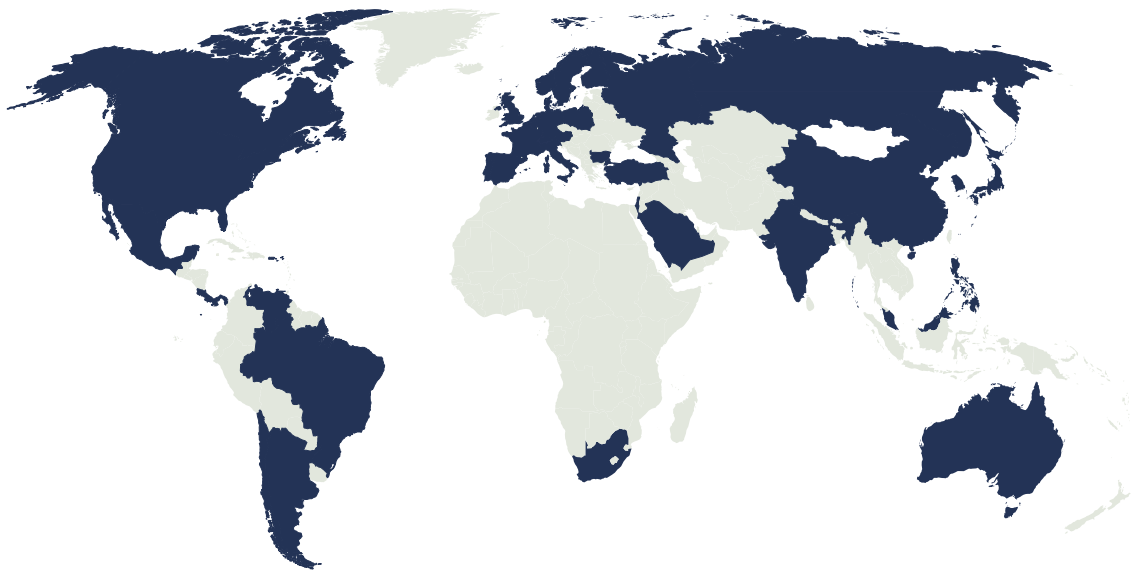
Member of the Group Executive Board since 2003

Born in 1956; Areas of responsibility:
Global Maintenance, Global Pre-Sales Community, Global Support and IT,
Brazil and Latin America

PROCESS INNOVATION FOR THE DIGITAL ENTERPRISE

Software AG is currently the technology leader in process and integration solutions. This is confirmed by numerous market studies by reputable analyst firms.

Our customer base includes thousands of large companies and organizations from all industries of the private and public sector. More than 5,500 employees, including over 850 in research & development, are working in 70 countries to enable the success of our customers. Our excellent position provides a base for us to continue our qualitative and profitable growth and to evolve our technology leadership into market leadership over the next few years. Only through powerful innovations, product expertise and customer orientation can we be a strong partner to enterprises offering them the additional value that will make a difference. We therefore make ongoing investments to expand our position in international high-growth markets through customer-driven innovations, partnerships, internal research activities and the targeted acquisition of key technologies.



Software AG's global presence

“Using the ARIS Platform and webMethods has enabled us to integrate our R&D, production and logistics systems with our central SAP ERP — and helped us achieve end-to-end control of all our business processes.”

CHRISTIAN SCHULZE
CIO AND BOARD MEMBER
KNEIPP, GERMANY



OUR FORMULA FOR SUCCESS

Our vendor-neutral software and service portfolio for business process excellence (BPE) helps organizations become more efficient and faster. In other words: We help them achieve the agility and flexibility that allow them to react to the dynamics of their markets.

THE CHALLENGES

In a business world characterized by global competition, market conditions and demands change at an extraordinary pace. In the blink of an eye, entire industries — such as the energy sector, manufacturing and banking and insurance — can be forced to change dramatically due to technological breakthroughs or even natural disasters. The fastest companies to react to change are the winners. That is why reacting flexibly and agilely is a matter of survival for organizations of all sizes and in all industries. A level of agility is required of organizations that has never before been possible with their existing IT application landscapes.

Organizations must aim for a successful business model and thus efficient processes, or business process excellence.

TODAY'S CHALLENGES FOR ENTERPRISES



REFERENCE CASE: MANUFACTURING

Process optimization with ARIS Platform

Suntech, the world's largest producer of photovoltaic modules and solar panels, enjoys the advantages of reduced costs through speeding up its processes along the value chain. The Chinese company with European headquarters in Switzerland chose the ARIS Platform to optimize its cross-enterprise processes. Its ultimate goal is to meet the challenges of the rapidly growing solar industry with agility and flexibility. Timely local support and delivery reliability are increasingly important in this market. This requires constant adaptation of IT, business processes and the whole organization to current demands. Investments in business process management, such as ARIS, are therefore a critical success factor for Suntech. The initial results of the successful implementation of the solution are reduced risks and lower costs for internal control processes. Compliance with the Sarbanes-Oxley Act can now be verified in seconds. The company hopes to achieve high transparency that allows it to act quickly and proactively. Suntech has achieved savings of several days in the delivery process with the Software AG solution.



"webMethods plays a significant role in our company-wide IT harmonization strategy by ensuring that integration projects are carried out quickly and cost efficiently and, as a result, it greatly increases our agility in OMV's markets."

ULRICH ENDLICH
MANAGING DIRECTOR, INTERFACE SYSTEMS BUSINESS UNIT
OMV GROUP



THE SOLUTION

Efficient processes are only possible if business models and procedures are constantly fine-tuned and adapted. But existing IT systems from various vendors are extensively integrated in the enterprise processes and thus difficult to adapt to new business requirements. Application functionality and control of individual process steps are usually permanently entangled.

We have found a way to solve this problem (and a way to realize true process excellence, "BPE"). We offer a vendor-neutral process and integration software that builds a layer of agility between our customers' existing IT systems and their application-based business models. This separates the inflexible connection between IT and business that has existed in the past. This division is a prerequisite to being able to quickly adapt IT processes to new business applications.

"Enterprise integration is the enabler to give you agility in your company."

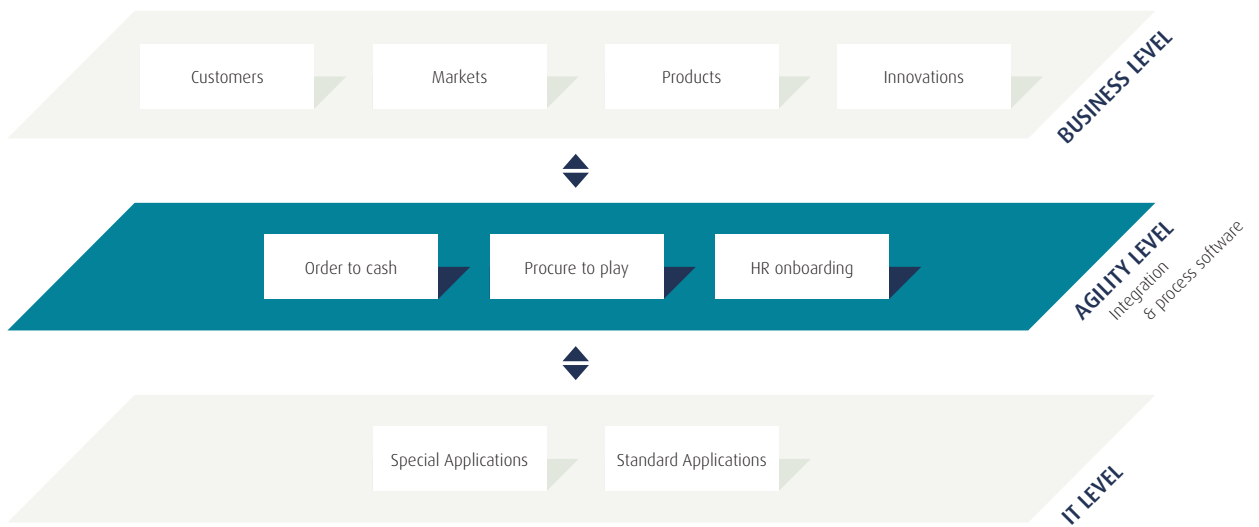
KEVIN FLOWERS
CHIEF TECHNOLOGY OFFICER
COCA COLA ENTERPRISES

Coca-Cola Enterprises, Inc.

We care about the security of our customers' investments. With our approach, the existing IT infrastructure is not ripped out, nor are previous investments lost. Rather, our software solutions are added to increase the value of existing investments. We aim to utilize legacy IT landscapes as effectively as possible by digitizing processes and making them more flexible.

The customer's advantage and what makes us stand out from the competition is our one-of-a-kind BPE product portfolio. It enables IT solutions that are independent from existing vendor-specific infrastructures. That means technological freedom for our customers. True to our motto "Get There Faster," our customers can adapt their business processes faster and make the digital enterprise of tomorrow become a reality today.

A NEW LEVEL OF AGILITY REFLECTS THE NEW ENTERPRISE ARCHITECTURE



“Working with Software AG and its product portfolio was the perfect supplement to the existing process work Omnicom Media Group Germany had already done with ARIS. The solution was built based on Omnicom Media Group Germany’s previous experience in implementing an ARIS-based BPM governance system.”

ROMAN KORNAUKA,
DIRECTOR, BUSINESS OPERATIONS
OMNICOM MEDIA GROUP GERMANY



ENGINE OF GROWTH

At CeBIT 2011 we introduced our vision of the “digital enterprise.” A digital enterprise will be more agile and gain competitive advantages with cloud-readiness and an integrated comprehensive cloud and social-networking strategy. The underlying idea is to be able to collaborate closely via electronic platforms (“extreme collaboration”), which breaks down existing barriers between business and IT departments permanently.

This vision became a reality with the market release of the cloud-ready process platform, Software AG Cloud Ready, in 2011. The platform comprises components for modeling, process management, service-oriented architectures (SOA) and cloud integration. It combines public cloud, private cloud and on-premise models, offering flexible implementation options that are custom-designed to meet each customer’s individual security and availability requirements. Based on the example of social networks, it replaces application-oriented software design with user-driven process and software development.

As shown by the success of the ARIS Community, we are taking advantage of the fast-growing topics of social networking and social collaboration to drive the market penetration of our software products. Established in 2009, the online platform reached more than 100,000 members in just 18 months.

REFERENCE CASE: LOGISTICS

En route to green logistics

Quality management and protecting the environment are integral elements of the corporate culture at Horst Mosolf GmbH & Co. KG. The systems provider for the vehicle logistics industry is now counting on Software AG’s know-how even more to achieve green logistics. With the help of Software AG products, the company has been able to analyze its fleet’s CO₂ emissions since January 2011. The result is comprehensive CO₂ reporting and administration and thus a significant reduction in CO₂. In this manner, the logistics service provider achieves a high level of emissions transparency and is able to meet the reporting requirements of its customers. With Software AG’s support, Horst Mosolf GmbH was also able to establish a solid base for eco-friendly transport processes and identify huge savings potential.



In order to quickly leverage new trends in technology for customer projects, we expanded our portfolio with the acquisition of key technologies in 2011. Since the acquisition of U.K.-based Metismo Ltd. in May, Software AG has added a versatile platform for the development of device-independent mobile applications. This marked our entry into the fast growing mobile-app market.

In just five months following the June acquisition of U.S.-based software company, Terracotta Inc., we integrated the technology leading in-memory and cloud solutions into our BPE Suite. In-memory technology gives a major boost in speed to processing business information. This enables extremely complex processes and large data volumes with no interruptions to real-time transactions. This level of performance also allows for the necessary scalability for cloud solutions and future cloud offerings by Software AG.

REFERENCE CASE: PUBLIC SECTOR

Central services platform for process automation

The following reference case illustrates just how dramatically a modern, application-neutral IT architecture can improve processes in the public sector. In collaboration with Software AG, the German state of Lower Saxony is employing the first state-wide central services platform known as eGovPro (e-Government Integration and Process Platform) to automate existing processes at public agencies across the state. Regardless of location and time, state and city agencies as well as national institutions can access centralized services, such as the process for registering a business. Until now, registration occurred on paper forms that were forwarded via mail and inter-office mail. Now, process stakeholders can handle the transaction electronically, which means significant time savings. The savings potential is estimated to be some €1.2 million annually. The service platform is built on a service-oriented architecture comprised of Software AG's IT components. Software AG also provides the software for process automation and integration of the components. With eGovPro, cities and towns can significantly speed up communication and improve collaboration between states, courts and other city agencies. And, they can cut costs thanks to optimized administrative processes.



€1.2 mn.
saved per year

MULTI-AWARD-WINNING TECHNOLOGY

Our globally leading position in process and integration solutions was confirmed repeatedly by widely respected industry analysts. In 2011 alone, more than 15 market studies by Gartner, Forrester and other research institutes rated our company as a technology leader in various market segments, including SOA governance, enterprise architecture tools and master data management.

A recent commendation was published in a January 2012 Gartner report. In it the leading market research firm positioned Software AG in the "leader" quadrant for the market for business process analysis tools (BPA). The rating was based on "ability to execute" and "completeness of vision."

Furthermore, our growth strategy was recognized by multiple studies. Bloomberg Business Week named Software AG as one of the fastest growing high-tech companies in the world. Software AG is listed fourth in the latest Truffle100 ranking of the largest European software companies. Our CEO Karl-Heinz Streibich was Financial Times Deutschland's top pick for "Strategist of the Year 2011" (company category: €1 to €2.5 billion in revenue). In addition to quantitative growth, our medium and long-term strategy played a key role here.

In December 2011 we received the HSBC International Growth Strategy of the Year prize. Since the release of our market-leading BPE product portfolio, we have consistently positioned and asserted ourselves against the competition. The jury paid a particular acknowledgement to Software AG's track record of innovation in BPE. We offer customers an unmatched portfolio of IT solutions for complete business process management.

**"Process-driven realignment of our operations has increased productivity
by 30 percent."**

FRANK BERTENHOFF
HEAD OF ACCOUNT, PROCESS AND SYSTEM MANAGEMENT SALES
RWE KUNDENSERVICE GMBH



SOFTWARE AG STOCK

The debt crisis in the euro zone that had emerged in 2010 came to a head during the year under review. It was therefore the year's prevailing theme on the stock market.

2011 — STOCK MARKETS IN THE SHADOW OF THE EURO DEBT CRISIS

The markets recovered modestly from the slump following Japan's natural and nuclear disaster in March. But then the European debt crisis began taking center stage. Europe did not remain the only hot spot though. Months of debating a raise to the debt limit in the U.S. was followed by rating agency Standard & Poor's downgrading the U.S. credit rating from its top grade in August. By year's end, uncertainty in the markets had continued to grow due to fears of a recession in the euro zone. The European Central Bank's interest-rate decrease in November indicated that economic troubles outweighed concerns regarding the threat of inflation. The situation in the financial markets worsened due to worries about a refinancing of the banking sector and the looming threat of a credit crunch.

Macroeconomic problems led to losses in almost all major indices in the euro zone during the year. After a lateral tendency at the start of the year, the Euro-Stoxx-50 suffered a significant decline in the second half closing out the year with an 18-percent loss. Germany's leading index, the DAX, ended the year at 5,898 points, which reflected a 16-percent loss. Germany's TecDAX high-tech barometer, in which Software AG is listed, could not avoid the impact of the negative equities climate. It closed the year at 685 points — down 20 percent from the beginning of the year.

U.S. indices performed somewhat better. The Dow Jones posted a four-percent gain; and the Nasdaq Composite fell only three percent during the year.

SOFTWARE AG SHARE PRICE PERFORMANCE

The turbulent climate in the equities market took a toll on Software AG's stock, causing share price volatility.

Following the announcement on July 13, 2011 that second-quarter results had not met the ambitious forecast, Software AG's share price's cumulative gains during the first half of 2011 were neutralized. This came on the heels of the stock's peak for the year at €43.7 on July 7, 2011.

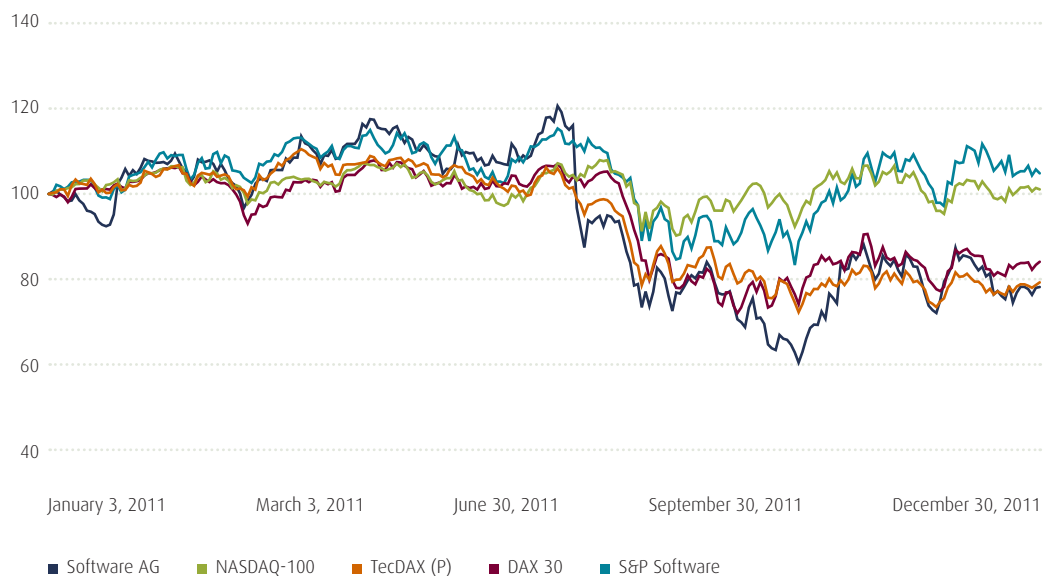
Due to the bleak situation surrounding the financial crisis in the euro zone and the discouraging economic outlook, Software AG's share price was not able to recover during the rest of the year. It reached its lowest point at €22.3 on October 4, 2011.

The company's third-quarter results clearly exceeded the market's expectations. And, after two months below €30, the share price overtook the mark in October. Fluctuations during the rest of the year were caused primarily by the turbulent macroeconomic environment. Software AG's stock lost 21 percent during the year. At the end of trading on December 30, 2011 it was at €28.6. It thus followed a comparable trend to that of the relevant TecDAX benchmark index.

Software AG's stock got off to a difficult start in 2012. With the release of the preliminary fourth-quarter 2011 financial results on January 10, 2012, it fell to €24.3. The announcement of full-year 2011 results on January 24, 2012 revealed that the record earnings from the previous year were equaled. But revenue and earnings growth forecasts were not met. The outlook for fiscal 2012 was cautious due to general economic conditions, but it did not succeed in providing a boost for the company's share price.

Software AG's stock remains in the top five on the TecDAX. At year end, it was second in both market capitalization and trading volume according to Deutsche Börse AG's ranking of the TecDAX.

SHARE PRICE DEVELOPMENT (INDEXED)



SHARE CAPITAL SPLIT

At the Annual Shareholders' Meeting on May 5, 2011, shareholders voted in favor of a proposal to divide Software AG's share capital into 86,148,183 bearer shares by way of a three-for-one stock split. Through the split, each share representing a proportionate amount of the share capital of €3.00 was replaced by three shares representing €1.00 — the lowest legal amount of share capital. Respective share amounts in the company were not affected by this capital measure. The conversion took place on May 13, 2011.

The stock split led mathematically to a reduction in the price of each share to one third. The aim of the transaction was to make Software AG's stock, which now seems less expensive, more attractive to a broader range of investors and further increase the liquidity of the stock.



For a detailed list of all changes in share capital, please visit the Investor Relations section of our website.

The exercise of stock options resulted in an additional rise in the number of shares issued during the course of the year. At the end of the fiscal year, the number of issued shares was 86,827,845.

KEY SHARE DATA

	2011	2010	2009
Closing price in €	28.6	36.6 [*]	25.5 [*]
Year high in €	43.7	36.6 [*]	25.9 [*]
Year low in €	22.3	24.9 [*]	11.6 [*]
Total number of shares at year end	86,827,845	85,330,806 [*]	86,125,230 [*]
Market capitalization at year end in € millions	2,483.3	3,123.1	2,193.3
Free float in %	71.2	70.7	71.0

Source: XETRA closing prices

* Adjusted for 3-for-1 stock split on May 13, 2011

DIVIDEND CONTINUITY

Software AG paid a dividend of €1.30 per share (equivalent to €0.43 after the 3-for-1 stock split) in fiscal 2010. This reflects an increase of 13 percent or €0.15 per share year on year. The total dividend sum paid out to shareholders was approximately €37 million.

Software AG will continue its consistent dividend policy in the fiscal year under review as well. The Management Board and Supervisory Board will propose a dividend of €0.46 per share for fiscal 2011 at the Annual Shareholders' Meeting. This is above the record amount from the previous year. Subject to the approval of the shareholders, this would be a total payout sum of €39.9 million for 2011.

DIVIDEND DEVELOPMENT SINCE 2007

in € per share



* Adjusted for 3-for-1 stock split, rounded

PROMISSORY NOTE SUCCESSFULLY ISSUED

Software AG successfully placed a promissory note for €200 million in the euro capital market in July 2011. The offer of a promissory note in two tranches (fixed and variable interest rates), each with a term of three years, was received with great interest. Demand exceeded expectations considerably. Hence, the originally planned amount of €100 million was raised to €200 million. The spread of both tranches was set at the lower end of the marketing margin.

The placement was effected with more than 70 investors, the majority of which were private banks, state banks and savings banks. Regionally, most of the investors were from Germany (79%) and Austria (12%), with the remainder from neighboring European countries.

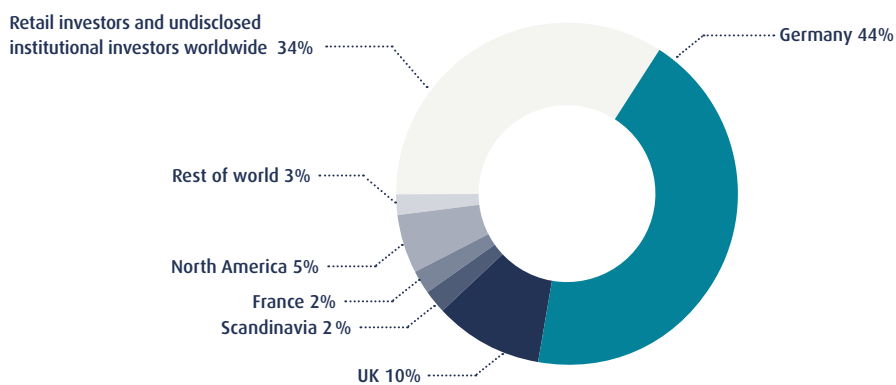
The new promissory note replaces an existing note and improves Software AG's financing structure with better rates. The high level of interest from investors underscores the capital market's confidence in Software AG's financial strength. It also extended the company's credit volume, opening up further flexibility in financing corporate growth.

Software AG was able to further reduce its debts considerably. On December 31, 2011, Software AG's net debt was €60.9 million, which is €106.3 million less than the previous year (2010: €167.2 million).

SHAREHOLDER STRUCTURE

Software AG Foundation is the largest Software AG shareholder with some 29 percent of shares outstanding. Software AG Foundation is one of Germany's ten largest charitable foundations and supports a wide variety of social projects involving children and youth, vocational training, the elderly and disabled as well as research and science.

With a free float of about 71 percent, Software AG, has a broad investor base consisting of private and institutional investors in Germany and abroad.



Source: ThomsonOne, Software AG data, February 2012

We identified an increased level of interest coming from investors in the U.S., who became aware of Software AG through Software AG's high market capitalization in 2010. Share capital in North America doubled in the year under review, while the number of investors increased by one-third.



For up-to-date information on Software AG's shareholder structure, please refer to our website.

Excluding Software AG Foundation, the following institutional investors held more than three percent in Software AG stock at year end: Alken Asset Management, Deka Investment GmbH, DWS Investment, T. Rowe Price and Fidelity.

ONGOING DIALOG WITH INVESTORS

In addition to engaging in an ongoing dialog with existing shareholders, active investor relations work also involves the 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 according to region. Software AG's Investor Relations team will continue to focus on optimizing these efforts in the current year. Raising awareness of Software AG as an attractive investment will remain our goal.

In the year under review, we met with many existing and prospective investors during 22 conferences held in Germany, the United Kingdom, the USA and elsewhere. The Management Board and Investor Relations team conducted one-on-one and group interviews during 26 days of road shows in the major financial hubs of Europe and the USA. Investors also took advantage of the option to receive information via telephone or a visit to Software AG's Corporate Headquarters in Darmstadt, Germany. We were able to discuss our business model and corporate strategy with more than 400 investors and analysts in fiscal year 2011. Having personal contact with our investors enables us to tailor our investor relations activities according to specific target audiences.

Our annual Investor Days in Darmstadt and the presence of our Investor Relations team at CeBIT provided excellent opportunities for investors and analysts to learn about the latest trends, products and services as well as our corporate strategy. At our Process World customer event in Berlin and Orlando, domestic and foreign investors and analysts were briefed on Software AG's portfolio strategy. In particular, we discussed our acquisitions of U.K.-based Metismo Ltd. (platform for mobile applications) and U.S.-based Terracotta Inc. (in-memory technology) and how they form the essential components of a cloud strategy.

As a measure to expand its U.S. investor base, Software AG has been participating in the Level I American Depositary Receipt (ADR) program since 2005. It enables American investors to buy and sell non-U.S. securities in U.S. dollars. The program was renewed with BNY Mellon in May 2011. Since September, Software AG's ADRs have been traded on the American electronic platform, OTCQX International Premier. It provides greater transparency and visibility for ADR trading.

TOP 10 INVESTORS

	in %
Software AG Foundation	28.8
Deka Investment GmbH	5.0
Alken Asset Management LLP	4.8
DWS Investment GmbH	3.3
T. Rowe Price Associates, Inc.	3.1
Fidelity Worldwide Investment (UK) Ltd.	3.0
Allianz Global Investors Kapitalanlagegesellschaft mbH	3.0
SEB Investment GmbH	1.7
Norges Bank Investment Management	1.4
European Value Partners	1.0

Source: Thomson One, Software AG data (March 2012)

BROAD MARKET COVERAGE BY FINANCIAL INSTITUTIONS

Commentaries and recommendations from financial analysts are an important source of information for investors and the financial press. Software AG continues to enjoy a high level of attention from financial analysts. This is reflected in the number and standing of the institutions that cover us.

Following the release of Software AG's 2011 financial results, analysts at 21 banks reported on the company. Of those, 15 gave Software AG's stock a neutral or positive rating. The average target stock price expected by all analysts was €28.

INVESTOR RELATIONS MAINTAINS HIGH QUALITY

Software AG's Investor Relations team continued to provide the capital markets with comprehensive and prompt communication in the year under review. We set the high standard for ourselves to communicate equally with all investors. In addition to events and teleconferences for analysts and investors, the Annual Shareholders' Meeting is an important information platform for private investors in particular. Our Investor Relations website provides a wealth of corporate and financial information as well as all relevant dates.

Again in 2011, Software AG's communication with the capital markets earned top ratings in Thomson Reuters Extel 2011, published by the Wirtschaftswoche financial journal, and in the competition for the Capital Investor Relations Prize 2011, conducted by Capital financial magazine.

Software AG is not only committed to the ongoing development of internal investor relations work, but extending that beyond the walls of the company as well. As a member of the German Investor Relations Association (DIRK), Software AG actively contributes to the definition of investor relations standards at a national and international level.

KEY DATA

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

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

INDICES

- CDAX Performance Index
- HDAX Performance Index
- L-TECDAX Performance Index
- TECDAX Performance Index
- Technology All Share Performance Index
- DAXsector Software
- DAXsubsector Software
- Midcap Market Price Index
- Midcap Market Performance Index
- DAX International 100 Performance Index
- Stoxx Europe 600

CORPORATE GOVERNANCE REPORT

SOFTWARE AG

- Follows the German Corporate Governance Code
- Guides the company efficiently and protects the interests of the shareholders
- Communicates proactively, comprehensively, promptly and transparently
- Deals with opportunities and risks responsibly
- Bases management decisions on long-term value creation
- Has established and complies with a code of business conduct and ethics

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 our divisions guide themselves by it. Responsible, qualified and transparent corporate governance focuses on a company's long-term success. It includes both compliance with the law and extensively following generally accepted standards and recommendations. The focus is on values such as sustainability, transparency and value orientation. Software AG's Corporate Governance Report has been prepared jointly by the Management Board and the Supervisory Board pursuant to section 3.10 of the German Corporate Governance Code. It describes the principles of the company's management and control structure and the fundamental rights of Software AG shareholders.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The corporate bodies of Software AG are the Management Board, the Supervisory Board and the Annual Shareholders' Meeting. The duties of these corporate bodies are governed by the German Stock Corporation Act, the Articles of Incorporation and the Rules of Procedure for the Management Board and the Supervisory Board. In the year under review, the Management Board and Supervisory Board again collaborated closely in an atmosphere of trust. The Management Board is solely responsible for the management of Software AG. It is committed to acting in the interests of the company and the long-term enhancement of company value. In addition, it represents the company vis-à-vis third parties. Presently our Management Board is comprised of three members. It reports to the Supervisory Board regularly, in a timely manner and comprehensively concerning the company's recent performance, corporate planning, the risk situation, risk management and compliance.

The Supervisory Board of Software AG has consisted of 12 members since the completion of the Annual Shareholders' Meeting on May 21, 2010. It is codetermined based on parity; half its members were elected by the Annual Shareholders' Meeting on May 21, 2010 and half by the employees of Software AG and IDS Scheer AG on August 27, 2010. The Supervisory Board advises and supervises the Management Board in managing the company. The two bodies jointly decide on corporate strategy and its implementation.

The Supervisory Board appoints the members of the Management Board and is entitled to dismiss them for good cause. In addition, it discusses the quarterly reports and reviews and approves our year-end financial statements and consolidated financial statements. Key Management Board decisions, such as important financing measures and acquisitions, require its consent. At Software AG, the election of the Supervisory Board is in compliance with the recommendations of the Corporate Governance Code. Each member of the Supervisory Board is elected individually. Our Rules of Procedure stipulate that if a Supervisory Board member leaves the Board prior to the expiration of his or her term of office, the successor's court appointment is valid only until the next Annual Shareholders' Meeting.

COMPOSITION OF THE SUPERVISORY BOARD

In fiscal year 2011, the following individuals were shareholder representative members to the Supervisory Board: Andreas Bereczky (CEO, Production Director at ZDF), Willi Berchtold (businessman), Heinz Otto Geidt (Director of Asset Management at Software AG Foundation), Hermann Requardt (member of the management board of Siemens AG, CEO of Healthcare, Director of Corporate Technology), Anke Schäferkordt (General Manager of RTL Television GmbH) and Alf Henryk Wulf (Chairman of the Board of Alcatel Lucent AG [until Feb. 17, 2012]).

The employees of Software AG and its subsidiaries in Germany elected their representatives to the Supervisory Board on August 27, 2010. In the year under review, the following individuals were employee representative members to the Supervisory Board: Peter Gallner (trade union secretary of Vereinte Dienstleistungsgewerkschaft VERDI), Dietlind Hartenstein (employee of Software AG and Dep. Chairwoman of the Saarbrücken Works Council), Monika Neumann (Dep. Chairwoman of the Supervisory Board, employee of SAG Deutschland GmbH and Chairwoman of the Software AG General Works Council), Manfred Otto (executive employee representative until November 3, 2011), Roland Schley (employee of Software AG), Martin Sperber-Tertsunen (trade union secretary of IG Metall) and Karl Wagner (replacement for Manfred Otto as executive employee representative since November 3, 2011, employee of Software AG).

EFFICIENT COMMITTEE WORK

The Supervisory Board's Rules of Procedure provide for the establishment of four committees, in addition to the mandatory Mediation Committee pursuant to section 27, paragraph 3 of the German Codetermination Act. They include the Committee for Compensation and Succession Issues, the Audit Committee, the Strategy Committee and the Nominating Committee. The Nominating Committee is responsible for preparing nominations for election of members to the Supervisory Board. In the past fiscal year, the Committee for Compensation and Succession Issues met three times and the Audit Committee twice. The Nominating Committee did not convene in 2011. The Strategy Committee met twice in 2011. The Supervisory Board provided information concerning its responsibilities and work executed in the year under review in the Report of the Supervisory Board. The Management Board, Supervisory Board and committees work together closely with the objective of sustainably enhancing Software AG's value.

The Supervisory Board defined the following goals for its membership composition: Members should be actively engaged in their careers and should not exceed the age of 65; they should work in the fields of ICT/media or enterprise IT and, as an R&D board member of a large technology company, they should know the needs of medium-sized enterprises or possess in-depth knowledge in financial reporting and/or financial auditing. Moreover, 25 percent of the members should be female; members of the Supervisory Board should be familiar with the requirements and duties associated with the two-tier governance structure of German Stock Corporation Law. The Nominating Committee followed these guidelines in selecting possible candidates for the election of shareholder representatives at the Annual Shareholders' Meeting on May 21, 2010. The composition of the Supervisory Board reflects these goals. The terms of those members of the Supervisory Board elected on May 21, 2010 will end upon completion of the 2015 Annual Shareholders' Meeting, where the actions of the Board in fiscal year 2014 will be ratified. The Supervisory Board will apply the guidelines described above in preparing nominations for those elections — and any other prior elections that may become necessary — as well as conduct regular assessments of the guidelines in the meantime.

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 our main corporate bodies, through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including ratification of the actions of the Management and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation, and measures that change the company's capital. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business developments, financial performance, and assets and financial position four times per year. We held our most recent Annual Shareholders' Meeting on May 5, 2011 in Darmstadt. Approximately 59.6 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 4, 2012 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 our 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. The Annual Shareholders' Meeting is also broadcast live via the Internet. The invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda, financial statements, Articles of Incorporation and explanations of draft resolutions are published on the Software AG website along with the date of the Meeting. The resolutions adopted by previous shareholders' meetings as well as the quarterly reports of the preceding fiscal years may also be found there.

CODE OF BUSINESS CONDUCT AND ETHICS

Software AG established a global code of business conduct and ethics in the year under review. It describes company-wide ethical standards with attention to specific regional customs. The code is binding for all employees of Software AG and its subsidiaries. The also newly created Compliance Board intervenes to make decisions in questionable situations.

OPEN AND TRANSPARENT COMMUNICATION

We communicate openly, transparently, comprehensively and in a timely manner with all market participants. In 2011 we further intensified communication with the capital market through participation in numerous investor conferences, road shows and other events for the capital market.

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 inconsistencies and to ensure that laws and regulations are upheld. Our communications guidelines define how we handle corporate communication and can be read in the Investor Relations section of our website under Corporate Governance.

The Management Board immediately publishes insider information that affects Software AG unless it is exempt from the publication requirement in specific cases. In accordance with legal stipulations, we maintain registries of persons with access to insider information who have been instructed to maintain confidentiality. Software AG provides information to investors, analysts and journalists in accordance with standard criteria. This information is transparent for all capital market participants.

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

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

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

Software AG commissions an independent consulting firm to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. We received a good grade (2.3 on a scale from one to six, with one being the best) in the most recent survey, which was conducted in October 2011.



Please refer to the Notes for information on our consolidated financial reporting.

Software AG deals with risks and opportunities responsibly, aided by a comprehensive opportunity and risk management process that identifies and monitors all significant risks and opportunities. It is consistently refined and adjusted to correspond to changing conditions. We present our risk management concept in the Risk and Opportunities Report. Opportunities that are strategic to the company are described in the Outlook section of the Management Report.



For further information on Software AG's shareholder structure, please refer to the section on Software AG Stock.

CHANGING VOTING SHARES PURSUANT TO SECTION 26 (1) OF THE SECURITIES TRADING ACT (WPHG)

Pursuant to the German Law to Implement Transparency Guidelines (TUG), the threshold for issuing a mandatory notification concerning shareholdings in listed companies was reduced to three percent of the voting rights, effective January 20, 2007. This facilitates the identification of large shareholders.

The following changes to voting shares pursuant to section 26 (1) of the WpHG were disclosed in 2011:



For further information, please refer to the business registry.

CHANGING VOTING SHARES PURSUANT TO SECTION 26 (1) OF THE SECURITIES TRADING ACT (WPHG)

Date	Content
March 8, 2011 (published on March 10, 2011)	The voting share of Deka International S.A. fell below the threshold of three percent.
October 6, 2011 (published on October 12, 2011)	The voting share of T. Rowe Price Associates, T. Rowe Price Group exceeded the threshold of three percent.
December 20, 2011 (published on December 23, 2011)	The voting share of DWS Investment GmbH exceeded the threshold of three percent.

DIRECTOR'S DEALINGS PURSUANT TO SECTION 15A OF THE WPHG

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

The following reportable transactions were announced in the 2011 calendar year:

TRANSACTION DATE: MARCH 15, 2011

Full name:	Heinz Otto Geidt
Position:	Member of the Supervisory Board
Title of security/right:	Software AG stock
WKN/ISIN:	DE 0003304002
Type of transaction:	Purchase of shares
Place of transaction:	Xetra
Number of shares:	200
Price:	€105.55
Transaction volume:	€21,110.00
Date reported:	March 21, 2011

TRANSACTION DATE: JUNE 3, 2011

Full name:	Heinz Otto Geidt
Position:	Member of the Supervisory Board
Title of security/right:	Software AG stock
WKN/ISIN:	DE 0003304002
Type of transaction:	Purchase of shares
Place of transaction:	Xetra
Number of shares:	250
Price:	€39.85
Transaction volume:	€9,962.50
Date reported:	July 4, 2011

TRANSACTION DATE: AUGUST 5, 2011

Full name:	Heinz Otto Geidt
Position:	Member of the Supervisory Board
Title of security/right:	Software AG stock
WKN/ISIN:	DE 0003304002
Type of transaction:	Purchase of shares
Place of transaction:	Xetra
Number of shares:	700
Price:	€29.30
Transaction volume:	€20,510.00
Date reported:	August 9, 2011

2011 DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

On January 27, 2011, the Management and Supervisory Boards of Software AG submitted a declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG). The company follows the recommendations of the government commission's German Corporate Governance Code in its revised version dated May 26, 2010: The Management Board and Supervisory Board intend to continue complying with the Code (dated May 26, 2010) in the future.



Further details can be found under Investor Relations on our website.

Software AG implements the recommendations of the German Corporate Governance Code. The current version of the German Corporate Governance Code published by the Commission of the German Corporate Governance Code can be found in English at www.corporate-governance-code.de/eng/kodex/1.html.

FINANCIAL REPORTING STANDARDS AND AUDITING

The 2011 Annual Shareholders' Meeting again appointed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, as company auditor.

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

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, represented by the chairman of the Audit Committee, appointed the auditor and agreed on the fee. In connection with the awarding of the contract, the chairman of the Audit Committee has also agreed with the auditor to comply with the reporting duties pursuant to the German Corporate Governance Code. BDO participates in meetings of the Supervisory Board's Audit Committee concerning the financial statements and consolidated financial statements and reports on key audit findings.

REMUNERATION REPORT

The Remuneration Report is prepared in accordance with the recommendations of the German Corporate Governance Code and contains the information required by the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS). It is a part of the audited Management Report. The Remuneration Report was prepared pursuant to the provisions of the German financial reporting standard in its revised 2011 version no. 17 (DRS 17).

The Remuneration Report provides details on remuneration amounts and the structure of the remuneration system for the Management and Supervisory Boards. Remuneration of Board members is presented as total amounts, while stating the proportion of the individual remuneration components to one another. And the total figure is broken down into fixed payments, performance-related components and long-term incentive components.

REMUNERATION OF THE MANAGEMENT BOARD PURSUANT TO SECTION 314 (1), NO. 6A OF THE GERMAN COMMERCIAL CODE (HGB)

Short-term remuneration of active Management Board members for fiscal 2011 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	697,642.92	3,038,223.74	23,884.23
David Broadbent* (until July 18, 2011)	129,938.30	107,057.37	29,516.28
Dr. Wolfram Jost	279,999.96	509,636.59	26,423.56
Arnd Zinnhardt	441,715.32	1,921,980.32	27,717.85

* David Broadbent received compensation relating to the termination of his Board service in the amount of €62 thousand.

VARIABLE REMUNERATION / BONUSES

Individual Management Board members are paid a bonus based on the Group's sales and earnings performance that is communicated to the capital market. In addition, a variety of quantitative and qualitative targets have been agreed on depending on area of responsibility. The bonuses are calculated based on the extent to which targets are achieved.

MEDIUM AND LONG-TERM REMUNERATION COMPONENTS

a) Phantom share plan

A portion of the variable remuneration is paid as a long-term component on the basis of a phantom share plan. The portion accruing for fiscal year 2011 is converted into virtual (phantom) shares on the basis of the average price of Software AG stock for the month of February at the end of February 2012 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 2013 to 2015, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and is then paid to the members of the Management Board. The adjustment for this out- or underperformance is limited to 50 percent. The members of the Management Board receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche. Members of the Management Board may elect to let the company dispose of the compensation that has become due for an unlimited period of time after the waiting period and thus continue to participate in the success of the company. Accounting procedures correspond to the phantom shares that have not yet become due. This plan led to personnel expenses of €6,105 thousand (2010: €9,481 thousand) in fiscal year 2011, which are mainly included in long-term remuneration components..

b) Management Incentive Plan III 2007 – 2011 (MIP III)

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and officers was launched. A total of 1,050,000 ownership rights were issued to members of the Management Board in past years. The number of ownership rights issued to members of the Management Board increased in accordance with the decision by the Software AG Annual Shareholders' Meeting on May 5, 2011 in favor of a three-for-one stock split. If performance targets are reached by June 30, 2016, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price of €72.36 (after stock split: €24.12). The defined performance target involves 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.

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN III
MIP III 2007 – 2011 (TABLE 1)**

	Balance on Jan. 1, 2011 *	Base price *	Value of option at time of grant *	Remaining term	Granted options in 2011	Base price
	No. of options	in €	in €	Years	No. of options	in €
Karl-Heinz Streibich (Chief Executive Officer)	900,000	24.12	6.80	5.5	0	-
David Broadbent	450,000	24.12	6.80	5.5	0	-
Arnd Zinnhardt	450,000	24.12	6.80	5.5	0	-

* Pro forma after 3-for-1 split

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN III
MIP III 2007 – 2011 (TABLE 2)**

	Forfeited options in 2011	Base price	Exercised options in 2011	Expired options in 2011
	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	-	0	0
David Broadbent	0	-	450,000	0
Arnd Zinnhardt	0	-	0	0

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN III
MIP III 2007 – 2011 (TABLE 3)**

	Balance on Dec. 31, 2011	Of which were exercisable	Remaining term	Accounting income from MIP III stock options ^{1) 2)}
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chief Executive Officer)	900,000	900,000	4.5	700,524.23
David Broadbent	0	0	-	504,977.81
Arnd Zinnhardt	450,000	450,000	4.5	350,262.12

¹⁾ This income totaling €1,556 thousand (2010: €-4.486 thousand in expenses) was increased by €680 thousand in hedging earnings (2010: decreased by €13,637 thousand).

²⁾ Irrelevant to optionees

c) Management Incentive Plan IV 2011 – 2016 (MIP IV)

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 officers was launched in the second quarter of 2011. A total of 1,485,000 ownership rights have been issued to members of the Management Board to date. If performance targets are reached by fiscal year 2015, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price. This entitlement is valid until June 30, 2021. The base price for ownership rights issued thus far is €41.34. The defined long-term performance target involves doubling Group revenue for new products and net income compared to fiscal year 2010 by no later than 2015. "New products" as defined for the purpose of the revenue performance target are mainly all products outside of the ADABAS, NATURAL and EntireX product portfolios. The plan includes a medium-term performance target that requires that the long-term doubling of new product revenue and net income must be achieved along a lineal progression of at least 15 percent per year. If annual growth in revenue from new products or net income is less than 10 percent during one year, the total ownership right award will be reduced on a pro rata basis by 0.5 percent for every percentage point under 10 percent. The reduction can be recovered with growth greater than 15 percent annually in the following years. But the original award cannot be increased. The rights can 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 must be at least €60 on one of the five trading days before rights are exercised.

STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN IV MIP IV 2011 – 2016 (TABLE 1)

	Balance on Jan. 1, 2011	Base price	Value of option	Remaining term	Granted options in 2011	Base price	Value of option
	No. of options	in €	in €	Years	No. of options	in €	in €
Karl-Heinz Streibich (Chief Executive Officer)	0	-	-	-	810,000	41.34	11.49
Dr. Wolfram Jost	0	-	-	-	270,000	41.34	11.74
Arnd Zinnhardt	0	-	-	-	405,000	41.34	11.49

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN IV
MIP IV 2011 – 2016 (TABLE 2)**

	Forfeited options in 2011 No. of options	Base price in €	Exercised options in 2011 in €	Expired options in 2011 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	-	-	0	0
Dr. Wolfram Jost	-	-	0	0
Arnd Zinnhardt	-	-	0	0

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN IV
MIP IV 2011 – 2016 (TABLE 3)**

	Balance on Dec. 31, 2011 No. of options	Of which were exercisable No. of options	Remaining term Years	Accounting expense from MIP IV options in €
Karl-Heinz Streibich (Chief Executive Officer)	810,000	0	9.5	566,916.16
Dr. Wolfram Jost	270,000	0	9.5	140,992.05
Arnd Zinnhardt	405,000	0	9.5	283,458.08



Disclosures pursuant to section 314 (1), no. 6a, sentences 1-4 and nos. 6b-c of the German Commercial Code (HGB) are included in the Notes to the Consolidated Financial Statements.

LONG-TERM REMUNERATION COMPONENTS

	Long-term remuneration Performance phantom shares in €	Long-term remuneration MIP IV annualized in €	Performance phantom shares No. of options	Expenses from phantom shares* in €	MIP IV for period from May 2011 to May 2016 in €
Karl-Heinz Streibich (Chief Executive Officer)	1,676,133.51	1,861,560.00	57,711	3,301,850.27	9,307,800.00
Dr. Wolfram Jost	479,092.48	633,960.00	17,407	478,382.08	3,169,800.00
Arnd Zinnhardt	1,409,516.62	930,780.00	50,223	2,325,133.80	4,653,900.00

* The expenses attributable to the fair value at the time of award in the amount of €27.43 (2010: adjusted = €38.68) per phantom share are included in the long-term remuneration components. These expenses were increased by €428 thousand in hedging expenses (2010: reduced by €3,635 thousand in hedging income).

OTHER REMUNERATION COMPONENTS

A member of the Management Board who resigns due to a change of control within 12 months of such change and 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, 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 illness, three 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 twelve months. In such a case, severance pay will be provided for one Management Board member in the amount of €158.00 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. The third Management Board member 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 €13.1 thousand (2010: €13.0 thousand) per month, and the CEO will receive €19.7 thousand (2010: €19.5 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 life insurance policies for the Management Board members with an insured amount equaling €500 thousand in the event of death and €1,000 thousand in the event of disability.

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 €13.1 thousand (2010: €13.0 thousand) per month; the CEO's pension amounts to €19.57 thousand (2010: €19.5 thousand) per month. 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.

in €	Change in present value (DBO) from pension commitments 2011	Present value of pension commitments Dec. 31, 2011
Karl-Heinz Streibich (Chief Executive Officer)	329,879.00	3,327,454.00
David Broadbent (until July 18, 2011)	-118,659.00	563,714.00
Dr. Wolfram Jost	273,833.00	373,918.00
Arnd Zinnhardt	57,158.00	995,629.00

In addition, 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 benefit 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 Management Board members for fiscal 2010 is composed as follows:

in €	Fixed remuneration	Variable remuneration/ bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	697,642.92	2,561,830.41	35,075.44
David Broadbent	240,163.50	738,169.88	23,106.37
Mark Edwards** (until July 31, 2010)	207,253.75	763,031.84	22,148.09
Dr. Wolfram Jost (since August 1, 2010)	116,666.65	151,318.22	12,619.55
Dr. Peter Kürpick* (until August 4, 2010)	213,216.95	720,000.00	3,209,373.89
Ivo Totev** (until July 31, 2010)	145,833.31	279,205.76	20,865.42
Arnd Zinnhardt	441,715.32	1,620,613.90	27,717.85

* €3,180 thousand of Dr. Peter Kürpick's "other remuneration components" is compensation associated with the end of Board service.

** Mark Edwards' and Ivo Totev's remuneration components were calculated based on 7 months of service on the Management Board using the straight-line method.

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN II
(MIP II) (TABLE 1)**

	Balance on Jan. 1, 2010	Average base price	Fair value of stock option at time of award	Remaining term of options	Granted options in 2010
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	625	26.47	8.63	1.5	0
David Broadbent	235	23.89	8.36	1.5	0

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN II
(MIP II) (TABLE 2)**

	Forfeited options in 2010	Exercised options in 2010	Average exercise price	Average market price on day exercised	Expired options in 2010
	No. of options	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	625	26.47	76.73	0
David Broadbent	0	235	23.89	86.99	0

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN II
(MIP II) (TABLE 3)**

	Balance on Dec. 31, 2010	Of which were exercisable	Remaining term	Base price	Expenses from MIP II stock options in €
	No. of options	No. of options	Years	in €	
Karl-Heinz Streibich (Chief Executive Officer)	0	0	0	0	1,829.89
David Broadbent	0	0	0	0	2,532.89

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN III
MIP III 2007 – 2011 (TABLE 1)**

	Balance on Jan. 1, 2010	Base price	Value of option at time of grant	Remaining term	Granted options in 2010	Base price
	No. of options	in €	in €	Years	No. of options	in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	72.36	20.41	6.5	0	-
David Broadbent	150,000	72.36	20.41	6.5	0	-
Mark Edwards	150,000	72.36	20.41	6.5	0	-
Dr. Peter Kürpick	150,000	72.36	20.41	6.5	0	-
Ivo Totev	150,000	72.36	11.00	6.5	0	-
Arnd Zinnhardt	150,000	72.36	20.41	6.5	0	-

**STOCK OPTION AWARDS FROM MANAGEMENT INCENTIVE PLAN III
MIP III 2007 – 2011 (TABLE 2)**

	Forfeited stock options in 2010	Base price	Exercised options in 2010	Expired options in 2010
	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	-	0	0
David Broadbent	0	-	0	0
Mark Edwards	0	-	0	0
Dr. Peter Kürpick	0	-	0	0
Ivo Totev	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, 2010	Of which were exercisable	Remaining term	Accounting expenses from MIP III stock options* in €
	No. of options	No. of options	Years	
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	5.5	1,363,335.97
David Broadbent	150,000	0	5.5	681,667.98
Mark Edwards	150,000	0	5.5	397,639.66
Dr. Peter Kürpick	150,000	0	5.5	818,954.89
Ivo Totev	150,000	0	5.5	542,838.56
Arnd Zinnhardt	150,000	0	5.5	681,667.98

* These expenses were reduced by €13,637 thousand (2009: €2,216 thousand) in hedging earnings.

LONG-TERM REMUNERATION COMPONENTS IN 2010

	Long-term remuneration components in €	Performance phantom shares No. of options	Expenses from performance phantom shares* in €
Karl-Heinz Streibich (Chief Executive Officer)	1,372,649.14	11,304	4,078,969.24
David Broadbent	619,104.86	5,297	1,423,283.25
Mark Edwards** (until July 31, 2010)	561,409.65	4,701	949,124.11
Dr. Wolfram Jost (since August 1, 2010)	121,318.46	1,045	121,318.46
Dr. Peter Kürpick (until August 4, 2010)	19,145.20	0	122,847.97
Ivo Totev** (until July 31, 2010)	210,878.98	1,777	227,272.62
Arnd Zinnhardt	1,179,392.14	9,869	2,558,243.61

* The expenses attributable to the fair value at the time of award in the amount of €116.04 per phantom share are included in "long-term remuneration components." Expenses from the phantom share plan were reduced by €3,635 thousand in hedging earnings.

** Mark Edwards' and Ivo Totev's remuneration components were calculated based on 7 months of service on the Management Board using the straight-line method.

in €	Change in present value (DBO) from pension commitments 2010	Present value of pension commitments Dec. 31, 2010
Karl-Heinz Streibich (Chief Executive Officer)	1,210,010.00	2,997,575.00
David Broadbent	382,180.00	682,373.00
Mark Edwards (until July 31, 2010)	263,259.17	0
Dr. Wolfram Jost (since August 1, 2010)	100,085.00	100,085.00
Dr. Peter Kürpick (until August 4, 2010)	58,561.00	0
Ivo Totev (until July 31, 2010)	164,260.25	0
Arnd Zinnhardt	368,008.00	938,471.00

SUPERVISORY BOARD REMUNERATION

Remuneration for Supervisory Board members is made up of fixed and performance-related components. 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 remuneration of Supervisory Board members is €40,000. In addition, members of the Supervisory Board receive annual performance-related remuneration of €2 thousand for each percentage point or fraction thereof in excess of five percent by which the growth of currency-adjusted Group revenue has exceeded the previous year's figure (Variable Remuneration I).

The figures reported in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the relevant fiscal year or fiscal years are utilized for calculating performance-related remuneration.

Furthermore, Supervisory Board members receive annual compensation based on long-term corporate profits in the amount of €200 for each percentage point or fraction thereof by which the growth in value of Software AG stock exceeds the growth in value of the TecDAX index for the same period (Variable Remuneration II). The growth in value of the stock is assessed on the basis of a three-year comparison of the XETRA closing rates, and the growth in value of the TecDAX is assessed on the basis of a three-year comparison of the index.

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

In addition, members of the Supervisory Board receive €1,500 each time they participate in person in a meeting of one of their committees. Attendance compensation is paid only once for multiple committee sessions occurring on the same day or for a session that takes place on 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 2011 is composed as follows:



Disclosures pursuant to section 314 (1), no. 6a, sentences 1-4 and nos. 6b-c of the German Commercial Code (HGB) are included in the Notes to the Consolidated Financial Statements.

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Dr. Andreas Bereczky (Chairman)	80,000.00	0	1,200.00	12,500.00
Prof. Willi Berchtold	40,000.00	0	600.00	5,000.00
Peter Gallner	40,000.00	0	600.00	3,000.00
Heinz Otto Geidt	40,000.00	0	600.00	3,000.00
Dietlind Hartenstein	40,000.00	0	600.00	7,500.00
Monika Neumann (Dep. Chairwoman)	60,000.00	0	900.00	4,500.00
Manfred Otto (until November 3, 2011)	33,551.91	0	503.28	1,500.00
Prof. Dr. Hermann Requardt	40,000.00	0	600.00	3,000.00
Anke Schäferkordt	40,000.00	0	600.00	3,000.00
Roland Schley	40,000.00	0	600.00	6,000.00
Martin Sperber-Tertsunen	40,000.00	0	600.00	3,000.00
Karl Wagner (since November 3, 2011)	6,448.09	0	96.72	1,500.00
Alf Henryk Wulf	40,000.00	0	600.00	7,500.00

Remuneration of Supervisory Board members for fiscal year 2010 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Dr. Andreas Bereczky (Chairman)	80,000.00	0	46,000.00	11,500.00
Prof. Willi Berchtold	40,000.00	0	23,000.00	12,000.00
Rainer Burckhardt (until August 27, 2010)	26,448.09	0	15,207.65	3,000.00
Peter Gallner (since May 21, 2010)	24,590.16	0	14,139.34	0.00
Heinz Otto Geidt	40,000.00	0	23,000.00	6,000.00
Dietlind Hartenstein (since August 27, 2010)	13,551.91	0	7,792.35	0.00
Monika Neumann (Dep. Chairwoman) (since May 21, 2010)	52,295.08	0	30,069.68	4,500.00
Manfred Otto (since May 21, 2010)	24,590.16	0	14,139.34	1,500.00
Prof. Dr. Hermann Requardt (since May 21, 2010)	24,590.16	0	14,139.34	0.00
Anke Schäferkordt (since May 21, 2010)	24,590.16	0	14,139.34	0.00
Roland Schley (since May 21, 2010)	24,590.16	0	14,139.34	1,500.00
Martin Sperber-Tertsunen (since May 21, 2010)	24,590.16	0	14,139.34	1,500.00
Alf Henryk Wulf	47,704.92	0	27,430.32	6,000.00

REPORT OF THE SUPERVISORY BOARD

Fiscal year 2011 at Software AG was marked by the company's focus on its Business Process Excellence (BPE) activities. The BPE product portfolio and the associated services form an integral part of Software AG's growth strategy. To effectively represent the business line's strategic significance, a staff-related change on the Management Board and a review and reassignment of key responsibilities in various regions on the Global Executive Board was necessary. This played a major role in the work of the Supervisory Board.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In fiscal year 2011, 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 management. In doing so, the Supervisory Board was directly involved in all key decisions about Software AG. Via oral and written reports, the Management Board informed the Supervisory Board regularly, comprehensively and promptly about all important aspects of 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, business development and risk management. The CEO informed him immediately of important occurrences. The close cooperation between the Management Board and Supervisory Board is based on trust and an open, constructive dialog.

These deliberations addressed 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, where appropriate. Documents relevant for decisions were forwarded to the Supervisory Board in due time before the meetings.

SUPERVISORY BOARD MEETINGS

The Supervisory Board held six ordinary and two extraordinary meetings during the year under review. At least one session took place each quarter. On two occasions the Supervisory Board took advantage of the option permitted by 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 participated via telephone or cast ballots in writing. Except the member of the Supervisory Board, Mr. Karl Wagner, whose appointment began on November 3, 2011, no member of the Supervisory Board attended fewer than half the Supervisory Board meetings.

The following table illustrates the attendance of the members at Supervisory Board meetings and its committees held in 2011:

SUPERVISORY BOARD 2011								
	1/26	3/11	5/5	6/16	7/18	7/27	10/21	12/14
Bereczky	■	■	■	■	■	■	■	■
Berchtold	■	■	■	■	■	■	■	■
Gallner	■	■	■	■	■	■	■	■
Geidt	■	■	■	■	■	■	■	■
Hartenstein	■	■	■	■	■	■	■	■
Neumann	■	■	■	■	■	■	■	■
Otto *	■	■	■	■	■	■	■	
Requardt	■	■	■	■	■	■	■	■
Schäferkordt	■	■	■	■	■	■	■	■
Schley	■	■	■	■	■	■	■	■
Sperber-Tertsunen	■	■	■	■	■	■	■	■
Wagner **								■
Wulf	■	■	■	■	■	■	■	■

■ present
 ■ excused
 ■ ballot cast in writing

* Member until November 3, 2011
 ** Member since November 3, 2011

At the first meeting of the year on January 26, 2011, the Supervisory Board discussed the Management Board's remuneration system and defined goals for fiscal year 2011. Furthermore, the Chairman of the Supervisory Board presented the results of the efficiency audit, which was discussed in depth.

At the accounts meeting on March 11, 2011, in the presence of financial auditors, the 2010 financial statements and consolidated financial statements were discussed in depth and approved on the recommendation of the Audit Committee following its own audit. The Supervisory Board approved the Report of the Supervisory Board for the Annual Shareholders' Meeting and the proposals for the Annual Shareholders' Meeting agenda. The Supervisory Board agreed on the spinoff of all German operations of the former IDS Scheer AG and simultaneous acquisition by IDS Scheer Consulting GmbH, a wholly owned subsidiary of Software AG. With regard to Management Board issues, the Supervisory Board determined the Management Board members' variable remuneration for fiscal 2010 after the financial auditors' verification of the accuracy of its calculations.

On May 5, 2011, the day of the Annual Shareholders' Meeting, a meeting was held after the Annual Shareholders' Meeting to discuss the acquisition of Metismo Ltd. and Terracota Inc. The Supervisory Board approved both acquisitions. At this meeting the Supervisory Board also adopted the implementation of a new Management Incentive Plan (MIP IV), which sets the framework for the successful achievement of the BPE strategy and the resulting corresponding corporate growth until 2015 as a long-term target and requirement for exercise. An increase of the Management Board members' variable remuneration for positive business performance is suspended until the targets defined in the MIP IV have been met, whereas a decrease in their variable remuneration for negative business development remains possible during the entire term of the MIP IV.

In an extraordinary meeting held on June 16, 2011, the Supervisory Board passed a resolution (including different forms of votes) on the refinancing of an existing promissory note through the issuance of a promissory note loan in the amount of €200 million with more favorable interest rates.

The next extraordinary meeting was held on July 18, 2011 to deal with the subject of the dismissal of Management Board member David Broadbent and the resulting necessity for an adjustment of the Management Board's assignment of responsibilities. Following a lengthy discussion, the Supervisory Board voted unanimously on the immediate revocation of David Broadbent's appointment to the Management Board. Professor Requardt, who was unable to attend the meeting, submitted his vote in writing at a later point in time as stipulated by the Articles of Incorporation.

In a meeting on July 27, 2011, the Supervisory Board discussed Management Board issues and, in advance, approved the renewal of Mr. Zinnhardt's appointment for five years from August 1, 2011 until July 31, 2016. The corresponding contractual agreement was signed by Mr. Zinnhardt on July 27, 2011, at which time the reappointment took effect. Furthermore, the Supervisory Board approved an appointment to the advisory board of the Hessian Landesbank (Helaba) at this meeting as well.

At the meeting on October 21, 2011, the Supervisory Board passed an amendment to the Audit Committee's Rules of Procedure to establish parity-based codetermination in this committee as well. As a result, the Audit Committee is now composed of three employee representative members of Supervisory Board and three shareholder representative members of the Supervisory Board.

At the last meeting of the year, on December 14, 2011, the Supervisory Board approved the 2012 financial plan and discussed Software AG's controlling and internal audit system in detail. Manfred Otto submitted his resignation on November 3, 2011 to take effect immediately and, at the same time, requested that the Management Board shorten the one-month notice period stipulated in the Articles of Incorporation accordingly. In the interest of the company, the Management Board fulfilled this wish and approved his resignation effective November 3, 2011. Karl Wagner accepted the appointment as substitute member effective November 3, 2011. Mr. Wagner was elected unanimously to the Audit Committee.

COMMITTEES

To fulfill its duties efficiently in 2011, the Supervisory Board established the Committee for Compensation and Succession Issues, the Audit Committee, the Nominating Committee, the Strategy Committee and, pursuant to section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee. The committees prepare the Supervisory Board's resolutions and topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairs reported to the plenum about the results of the committee meetings.

The Mediation Committee has the number of members required by law (four) and is constituted based on parity. It was chaired by Andreas Bereczky. The Mediation Committee did not convene in 2011.

The Committee for Compensation and Succession Issues prepares personnel-related decisions made by the Supervisory Board to the extent that they affect the remuneration policy of the members of the Management Board. It has four members and is constituted based on parity. It was chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met three times in fiscal year 2011. It dealt with personnel issues for the Management Board and the changed roles of the members of the Management Board due to the dismissal of David Broadbent from the Management Board.

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

COMMITTEE FOR COMPENSATION AND SUCCESSION ISSUES 2011			
	3/11	5/5	7/18
Bereczky	■	■	■
Hartenstein	■	■	■
Neumann	■	■	■
Wulf	■	■	■

The Audit Committee deals with issues related to financial reporting standards, half-year and quarterly reports, financial auditing and risk management. It has six members and is constituted based on parity. The Audit Committee was chaired by Willi Berchtold. The Audit Committee met twice in fiscal year 2011. In a meeting on March 11, 2011, and in the presence of auditors, it dealt with the annual financial statements and the management report, the consolidated financial statements and Group management report, and the Management Board's proposal on the appropriation of profits. The newly formed Audit Committee examined the internal controlling and audit system of Software AG on November 29, 2011. When Manfred Otto resigned from the Supervisory Board, he also left the Audit Committee. The Supervisory Board elected Karl Wagner to the Audit Committee on December 14, 2011.

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

AUDIT COMMITTEE 2011

	3/11	12/14
Berchtold	■	■
Gallner	■	■
Geidt	■	■
Otto *	■	
Schäferkordt	■	■
Schley	■	■
Wagner **		■

* Member until 11/3

** Member since 12/14

The Strategy Committee has six members. It is constituted based on parity. This committee deals with the preparation of and success monitoring of strategic partnerships, acquisitions and joint ventures. It was chaired by Andreas Berezcky. The Strategy Committee met twice in 2011.

STRATEGY COMMITTEE 2011

	5/4	11/11
Berezcky	■	■
Hartenstein	■	■
Requardt	■	■
Schley	■	■
Sperber-Tertsunen	■	■
Wulf	■	■

The Nominating Committee was chaired by Andreas Berezcky. It did not convene in fiscal year 2011.

ANNUAL AUDIT

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2011.

BDO AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, examined the financial statements and consolidated financial statements for the year ended December 31, 2011, as well as the management report, and the accounting books and records. The auditors issued an unqualified audit opinion.

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 results in their meetings on March 23, 2012. The Supervisory Board concurs with the results of the audit and approves the financial statements and consolidated financial statements. This constitutes formal approval and acceptance of the annual financial statements. We, the Supervisory Board, concur with the recommendation of the Management Board with respect to the appropriation of profits.



For further information, refer to the Remuneration Report and the Corporate Governance Report.

GERMAN CORPORATE GOVERNANCE CODE

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code again in fiscal year 2011. The Supervisory Board and Management Board took the necessary steps to comply with the recommendations of the Code during the year under review. Remuneration of Management and Supervisory Board members is again reported individually for fiscal year 2011. The Management Board members' remuneration system was adjusted in 2011 due to the introduction of the Management Incentive Plan IV (MIP IV) as follows: An increase of the Management Board members' variable remuneration for positive business performance is suspended until the targets defined in the MIP IV have been achieved, whereas a decrease in their variable remuneration for negative business development (malus system) remains possible during the entire term of the MIP IV. No conflicts of interest on the part of members of the Supervisory Board arose. No agreements were concluded with members of the Supervisory Board.



The declaration of compliance can be found on our website.

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.



Please refer to the Notes for more information about the members of the Supervisory Board.

CHANGES TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The following personnel changes took place on the Management Board of Software AG in 2011:

The Supervisory Board voted unanimously to revoke David Broadbent's appointment to the Management Board with good cause on July 18, 2011 effective immediately and to terminate his contract as of August 31, 2011.

The roles of the Management Board members were thus redistributed: The CEO was assigned responsibility for EMEA Sales and Global Business Development; CFO and Labor Director Arnd Zinnhardt was assigned responsibility for the Corporate University.

Mr. Manfred Otto resigned from the Supervisory Board on November 3, 2011 with immediate effect. Effective November 3, 2011, Karl Wagner took over as executive employee representative on the Supervisory Board and was also elected unanimously as member of the Audit Committee on December 14, 2011.

The Supervisory Board would like to thank the Management Board and all employees for their great dedication and excellent work during fiscal year 2011.

Darmstadt, March 23, 2012

The Supervisory Board
Dr. Andreas Bereczky
Chairman

Flexibility



SOFTWARE AG GROUP MANAGEMENT REPORT

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SOFTWARE AG GROUP MANAGEMENT REPORT

The Software AG Group is managed globally by the parent company, Software AG, acting as holding company. The financial position of the parent company is shaped by the financial position of the Group. For this reason the Management Board of Software AG combines the management reports of the Group and the parent company into one management report.

1 THE SOFTWARE AG GROUP

1.1 BUSINESS ACTIVITIES

Software AG's corporate headquarters are in Darmstadt, Germany. It is a global leader in process and integration solutions. For more than 40 years we have been providing customer-driven innovations, starting with ADABAS—the first high-performance transactional database—later webMethods—the first SOA-based integration platform, and, most recently, ARIS, the first business process analysis platform. With the combination of the ARIS and webMethods products, we are the first to offer completely integrated solutions for enterprise-wide process management (business process management—BPM) that cover the value chain from beginning to end.

According to customers and market analysts, a high level of usability combined with low cost of ownership is what characterizes our products, solutions and services. Our software product and service offering ranges from the design of complete process chains to their implementation and monitoring. Our vendor-neutral, cross-industry offering enables organizations to increase the efficiency and speed of their processes and thus to achieve the agility needed to keep pace with today's markets.

Software AG's revenue comes from the licensing, maintenance and servicing of enterprise software in the Business Process Excellence (BPE) and Enterprise Transaction Systems (ETS) business lines and from consulting services in the IDS Scheer Consulting business line. In fiscal year 2011 we achieved almost €1.1 billion in revenue with over 5,500 employees working in 70 countries around the world. Founded on May 30, 1969 as the first international software company

in Europe, Software AG has since established itself as one of the leading software providers in the world. The ADABAS database remains the fastest database in the world today. Software AG co-founder and long-term CEO, Dr. Peter Schnell, established Software AG Foundation in 1992, which currently holds approximately 29 percent of Software AG stock.

1.2 ORGANIZATION

The Software AG Group's structure consists of the following three business lines:

- Business Process Excellence (BPE: business process management) with the webMethods and ARIS product families
- Enterprise Transaction Systems (ETS: data management) with the ADABAS and NATURAL product families
- IDS Scheer Consulting with a focus on SAP consulting

Our comprehensive business process excellence software solutions and services cover the entire life cycle of business processes (model to execute). An important component of this line is the ARIS product family and process-oriented consulting offered by IDS Scheer AG, which was acquired in 2009. The key software product is the ARIS Platform for Process Excellence, an integrated solution portfolio for business process strategy, analysis, design and control. According to market analysts, the ARIS Platform is the global leader in business process analysis. The BPE software products, solutions and services provide companies and government agencies with one of the world's most innovative and comprehensive BPM offerings.

The second important component of the BPE line are the webMethods products and services. They enable customers to develop and run automated, flexible and efficient business processes using data from existing systems (business process management, BPM). This is achieved through Web-based programs that, as Web services, can be controlled and managed according to a defined process chain within a service-oriented architecture (SOA). The rapid creation of new processes through the reuse of programs or parts of programs in the Web services, the control of these services and the monitoring of all created applications in real time are equally important. The webMethods technologies include control software for service-oriented architectures (SOA governance), business process management (BPM), business activity monitoring (BAM), enterprise service bus (ESB) and B2B integration technology.

The two BPE product families are perfect complements to each other, forming a comprehensive solution for the optimization and implementation of enterprise processes. The BPE business line is currently Software AG's largest source of revenue. Software AG sees BPE as a growth driver for the company and has made this future-proof technology the focus of its strategy.

With our data management (Enterprise Transaction Systems, ETS) business line, we have played a vital role in the IT landscapes of companies and government agencies around the world for many years. The ETS technologies include database management, application development and application modernization. Software AG provides software solutions for mainframes and modernizes mainframe-based IT systems. In this way, we ensure the long-term protection of customers' investments. With ADABAS we provide our customers with a high-performance database that is able to process 320,000 calls or 80,000 transactions per second. For decades, the NATURAL development environment has been the foundation of hundreds of thousands of software applications that make up the technical backbone of core processes at large companies and government agencies. Today, customers modernize their application infrastructures

with our help by optimizing their performance and opening up their business-critical systems to new environments such as the Internet and digital business.

Software AG's two product business lines, ETS and BPE, are supplemented by IDS Scheer Consulting (IDSC), which offers product-neutral consulting with a particular focus on SAP environments. Using a proven consulting model, this business line's consultants help organizations optimize their strategic business and technology investments and achieve greater value through the implementation of service-oriented architectures (SOA) and BPM solutions. Additional key topics dealt with by this business line are product-specific solutions and IT transformation.

All of Software AG's solutions support IT transformation to becoming an agile, digital enterprise. The growing complexity of existing IT structures, the need to modernize homegrown application landscapes and the resulting high costs of maintaining existing IT systems are the driving forces behind IT transformation projects. Transforming an existing IT landscape to a new architecture means further developing not just the IT, but all the processes in an organization. Software AG's consulting services harmonize and further develop enterprise IT systems thereby enabling flexible adaptation and innovation of the existing systems. This makes IT more agile and able to adapt quickly to the ever changing business requirements of an organization. Software AG's consulting unit stands out from other IT service providers thanks to its in-depth product knowledge based on close collaboration with research and development, close customer relationships and industry expertise.

Organizational changes

Software AG again posted record-breaking revenue results in the high-growth Business Process Excellence segment in 2011. This confirms our corporate strategy and is a clear indication of the potential held by business process technology. In order to tap this market as quickly as possible, we will strengthen our sales activities in key regions and optimize our marketing efforts with a new management structure.

As illustrated by our 2011 results, Software AG is very well positioned in the BPE market in the EMEA (Europe, Middle East, Africa) region, including the DACH (Germany, Austria, Switzerland) region. To expand our position in North America, we made a number of operational and strategic decisions in January 2012. They will allow us to significantly improve our competitive position and our image in this important market.

For this reason, the head of North American operations was appointed to the Group Executive Board (GEB) of Software AG as of February 1, 2012. The GEB has nine seats including the members of the Management Board and divisional executive directors representing the operational areas of the company. The composition of the Management Board is in accordance with the German Stock Corporation Act and is not affected by the GEB. The Chairman of the Group Executive Board is Karl-Heinz Streibich, CEO of Software AG

Focus on North America as key strategic market

The goal of this operational measure is to strengthen the identity of our American subsidiary. To do this, we will expand our U.S. management, sales and support teams over the next 12 to 18 months. We are also planning a sales and marketing initiative, which will enable our long-term success against U.S. based competitors in their home market.

We are creating a federal unit as a strategic step to succeed in the public-sector arena as a foreign-based company. These measures will boost our image and position in the USA as an innovative software company.

Furthermore, we intend to expand our presence in Silicon Valley, California—famous for its IT innovation, large IT companies and extraordinary success stories. This includes the move of strategic functions such as Mergers & Acquisition, Product Marketing and the head of Research & Development to that region. This will help us recognize sales potential

early. We also aim to broaden our technology network and partners in the U.S. market.

The first 35 years of Software AG's history were marked by the development of products in Germany, including ADABAS and NATURAL. The last 10 years were primarily dominated by opportunities and products from the east coast of the United States, including our acquisition of webMethods. The next 10 years will be known for our success in the USA. We have already laid a solid foundation for that with our takeover of Californian data management software company Terracotta.

Expansion of Global Operations

Global Operations is a new corporate unit focused on the collaborative and efficient use of internal resources and processes for strengthening the quality of our operations. We therefore began pooling our most important international resources under the leadership of GEB member Mark Edwards in February 2012. This includes enhancing the maintenance business with the Global Maintenance Management team, which will foster customer proximity, customer loyalty and profitability. Furthermore, we established the Global SE Community team to support systems engineers (SEs), who are an essential resource for winning new contracts.

Group structure and major locations

With the integration of both companies acquired in 2011, the structure of the Software AG Group now consists of 104 subsidiaries. **For further information, refer to the Notes.**

Software AG has more than 70 locations worldwide. Based on number of employees, our largest locations are Darmstadt and Saarbrücken (Germany), Reston (USA), Madrid (Spain), Bracknell (UK), Sydney (Australia), Bangalore (India) and Sao Paulo (Brazil).



Business expansion through acquisitions

In order to leverage future trends in technology to the benefit of our customers, we expanded our portfolio with the acquisition of key technologies in 2011. Since the acquisition of U.K.-based Metismo Ltd. in May, Software AG has added a versatile platform for the development of device-independent mobile applications. This marked our entry into the extremely fast growing mobile-app market.

In just five months following the May acquisition of U.S.-based software company, Terracotta Inc., we integrated the technology leading in-memory and cloud solutions into our BPE Suite. In-memory technology gives a major boost in speed to processing business information. This enables interruption-free processing of highly complex work flows and very large data volumes in real time. This capability provides the level of scalability needed for cutting-edge cloud solutions and Software AG's future cloud offerings.

1.3 MARKET POSITION

Software AG established itself as the world's leading provider of business process excellence (BPE). The combination of our software and service portfolios for digitization, automation and integration of business processes is, according to numerous market studies, unique to the global market. It therefore gives us an excellent competitive position in a software market marked by rapid consolidation. Software AG's market reach improved considerably by achieving a critical mass, particularly in Europe's core markets. These unique selling points allow us to meet the growing needs of customers to improve their processes and to position ourselves in high-growth markets. **For further information, refer to Section 1.4 Corporate Strategy and Objectives.**



For companies that compete globally, harmonization and integration of IT processes is the key to long-term business

success while becoming a digital enterprise. Our cross-industry and vendor-neutral product portfolio covers the entire enterprise process life cycle. Supporting the value creation chain from end to end generates ongoing process innovations for the enterprise.

Adjusting IT strategies for greater business agility

Today's enterprises are confronted with a continuous stream of new competitors and market developments as they emerge from Internet-based business models and globalization trends. Due to the increasing complexity of companies and their IT infrastructures as well as rapidly changing challenges of the global market, they have to react quickly and adapt their processes flexibly to new requirements. Companies therefore need not only product innovation, but ongoing process innovation as well to have the flexibility to react accordingly to dynamic markets. This is achieved only with the new agility of vendor-neutral IT systems. They enable organizations to adapt their business models faster. Every organization's goal is ultimately sustainable, optimized processes or business process excellence (BPE).

Agile IT landscapes were therefore high on many CIOs' list of priorities in 2012, according to market analysts with the Experton Group. Agility means that resources can be adjusted to quickly changing markets. Most organizations have an IT strategy. But, according to analysts, it does not adequately address the vision and focus of the organization.

Recognition in market studies

Numerous studies carried out by well-known industry analysts confirm the strategy and quality of Software AG's leading product and service offering. In 2011 alone, Software AG was named a technology leader for its implementation expertise and sophisticated vision by Gartner, Forrester and other research institutes in more than 15 studies. This includes the fields of SOA governance, enterprise architecture

tools and master data management, as well as most recently, business process analysis (BPA) in January 2012.

Our corporate strategy was also validated. Bloomberg Business Week named Software AG one of the fastest growing high-tech companies in the world. At the end of 2011, we received the "HSBC International Growth Strategy of the Year" prize and were recognized by Financial Times Deutschland as "Strategist of the Year 2011" (company category: €1 billion to €2.5 billion in revenue). In addition to quantitative growth, our medium and long-term planning played a key role here.

The recognition of our business success is ultimately due to the highly qualified and dedicated employees working around the world for Software AG. Especially in times when there is a shortage of skilled labor, Software AG is very well equipped to meet the future needs of customers with its competent employee base.

1.4 CORPORATE STRATEGY AND OBJECTIVES

Software AG's success is based on a clear, long-term strategy and its consistent implementation and development. Our long-term vision is to become a global market leader in infrastructure software and BPE. Because the trend in the mature software market is heavily leaning toward consolidation, we believe that successful software companies must realize size advantages by growing organically and through acquisitions. Software AG is committed to sustainable corporate growth through customer orientation, in-house research and development, close cooperation with partners, systematic staff development and social responsibility. Our goal is to double our revenue every five to six years.

In the last 10 years Software AG achieved its long-term plan of continued profitable growth and increasing corporate value. Following our strategic realignment phase from 2003 to 2006, the period until 2009 was our growth phase. During that

time, we were able to significantly accelerate our profitable growth. This was driven by organic growth through innovation, geographic expansion, new customer groups via partners and inorganic growth. The phase from 2009 to 2011 is entitled "market leadership." Its culmination was the achievement of one billion euros in revenue with dynamic earnings growth, which was accomplished ahead of schedule.

With a clearly defined positioning as technology leader in the BPE space, we are dedicated to continued growth and expansion of our leadership in the integration and process software market. To do this, we rely on four growth-driving concepts: globalization, partnerships, innovation and growth through acquisitions of companies with key technologies or complementary market coverage.

Software AG has clearly proven its potential for growth over the last 10 years. We achieved our goal of establishing ourselves as the leading provider of BPE. By focusing our organization on the high-growth BPE market, we are securing the long-term future of our company. Through the acquisition of innovations such as in-memory, mobility and cloud technologies, we have set the course for tapping new forward-looking markets.

1.5 VALUE-ORIENTED CONTROL

We aim to achieve a sustained increase in enterprise value. To do this, we must continue growing profitably and increasing the financial strength of our Group. We use an internal information system in order to control these strategic goals. Based on IFRS reporting, we consider relevant key indicators, such as revenue, earnings before interest and taxes (EBIT), earnings per share and cash flow. Value-oriented financial indicators relating to employment of capital play a minor role for us, as our commitment of capital is low and personnel expenses make up the largest expense block. As with most other companies in the software industry,

EBIT is therefore the most important financial indicator for Software AG.

Revenue and earnings monitoring

We perform ongoing sales and cost monitoring as well as forecasting for the revenue areas of licenses, maintenance and services. License revenue is the key growth driver of maintenance and services revenue. For this reason, we intensively monitor the development of license revenues during different stages in the process and at all levels of management.

We also employ a multidimensional matrix structure to continuously monitor the development of the EBITA of every profit or cost center. The matrix structure is divided according to business lines, revenue types and regional structures within the business lines. Furthermore, we constantly observe the operating income of our service business with respect to specific projects, from the time a quote is prepared through to project conclusion with a clear focus on profitable projects. One of our most important goals is the ongoing improvement of sales efficiency, which we achieve through more highly qualified employees and larger projects. Our cross-regional sales and service structure holds great potential for further increased sales efficiency.

Cost management

All cost items in the Group are subject to stringent budget control. On a monthly basis we determine whether budgets were adhered to and ascertain how forecast costs have evolved. We use a dynamic budget model, ensuring that the cost budget remains flexible in relation to sales growth for all key components. We adjust the cost budget dynamically throughout the year in order to achieve or surpass our profit targets.

R&D management

Our long-term business success as a product enterprise in the software industry is based on research and development (R&D) and the resulting marketable innovations. We therefore continuously adapt and develop our portfolio to meet the needs of our customers and to reflect business demands. To this end, we calculate the profit contribution of our products on an ongoing basis. We optimize our utilization of resources by combining purchases of technology with in-house development and by maintaining a balanced mix of high-wage and low-wage product development centers. **For further information, refer to Section 7.1 Research and Development.**

Key financial indicators

Our key financial indicators performed as follows in the year under review:



FINANCIAL INDICATORS

in € millions	2011	2010	Change in % *
Revenue	1,098.3	1,119.5	-1
Licensing revenue	295.2	327.4	-10
Maintenance revenue	378.7	369.4	+3
Consulting and services revenue	419.8	418.7	+1
EBIT	269.2	268.6	-
EBIT margin (in %)	24.5	24.0	+50 pts.
Earnings per share in € (basic)	2.05	2.06	-
Net income	177.2	175.6	+1
Operating cash flow	198.6	227.4	-13

* At constant currency

Cash flow management

Receivables management has a significant effect on cash flow. At Software AG, receivables management is conducted locally and is subject to a variety of internal control processes. In order to improve our receivables structure, we selectively sell certain accounts receivable. Software AG's cash management, in contrast, is a centralized function, for which we use a global, standardized cash management system. This enables us to optimize our investment strategy and minimize investment risk.

2 ECONOMIC CONDITIONS**2.1 OVERALL ECONOMIC SITUATION****General economic trend**

Recovery of the global economy stalled in 2011. At the end of 2011 and the beginning of 2012, the global economy was suffering from the pressures of the euro zone's debt crisis. A growing number of euro countries introduced measures to reduce their national budget deficits, which ended up slightly hampering short-term domestic demand. An additional negative factor was the uncertainty regarding the magnitude and nature of further measures that could become necessary in the medium term. Financing terms also worsened—for companies, because banks were coming under increased pressure, and for several EU countries, after significant downgrades from credit agencies at the end of 2011.

In contrast to the robust 5.1-percent growth in 2010, the Kiel Institute for the World Economy (IfW) expects only 3.8 percent in global economic expansion for 2011. The halting expansion of the global GDP in the first half of 2011 was due mainly to temporary factors such as the spike in the price of raw materials and the effects of the earthquake in Japan on the (global) economy. As these factors subsided, the global economy picked up speed in the third quarter with four-percent (annualized rate) growth. According to

the IfW's indicator for economic activity, which is calculated based on confidence indicators in 41 countries, there was a downward economic trend in the last quarter of 2011.

According to the IfW, the economic slowdown in the first half of the year was especially apparent in modern economies where total economic growth was very weak. There was, however, an upswing in the third quarter, which was then followed by a drop in the fourth. Expansion in developing and emerging economies also slowed significantly during the year. This was due primarily to the considerable decrease in exports and to the lack of domestic economic stimulus resulting from the expiration of government programs and the tightening of monetary policy.

The euro-zone economy was affected considerably in 2011 by the worsening debt crisis. After a strong start to the year, IfW analysts then observed a notable weakening that followed. The increasingly restrictive financial policies of individual countries and uncertainty about the continuation of the European debt crisis paralyzed the euro-zone economy. In the third quarter, total economic expansion went up just slightly over the previous quarter. In Germany and France the GDP grew in the third quarter; in Spain it stagnated; and in the Netherlands and Belgium it contracted. All over the euro zone, except in Germany, economic expansion came to a halt. The job market also worsened appreciably. After remaining almost constant at 10 percent during the first half of the year, the unemployment rate rose to 10.3 percent in October. IfW economists project GDP growth for 2011 in the euro zone at 1.5 percent.

The U.S. economy picked up some speed during the year. Economic recovery was hampered by the rise in oil prices early in the year and the natural disaster in Japan. But it regained momentum after the impact of these factors subsided. The job market remained stable since mid-year. The GDP gained moderately during the first nine months of the year, according to IfW.

The Latin American economy slowed considerably in 2011. In addition to the economic contraction in industrialized nations and emerging Asian economies—whose role as consumers of raw materials has grown in recent years—companies' price competitiveness was negatively influenced by the revaluation of local currencies and increasing wage pressures. Domestic demand remained robust, and unemployment fell significantly in the last two years.

Economic expansion in other developing and emerging economies also decreased during the year. This was due to declining exports and the monetary policies of these countries. The fact that global trade showed a stagnating trend in 2011 was primarily because trade in developing and emerging economies, which had been growing rapidly since mid-2009, did not continue to gain. But since the governments of these countries—in contrast to most advanced nations—have greater fiscal leeway to stimulate the economy for the long term, it is unlikely that domestic factors would lead to an economic downturn.

Performance of major currencies

The foreign currencies most important to Software AG are the U.S. dollar, the Brazilian real, the Australian dollar, the South African rand and the Canadian dollar. 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, 2011	Dec. 31, 2010	Change in %
U.S. dollar	1.2932	1.3380	3.3
Brazilian real	2.4137	2.2211	-8.7
Australian dollar	1.2714	1.3168	3.4
South African rand	10.476	8.8849	-17.9
Canadian dollar	1.3192	1.3370	1.3

AVERAGE RATE (€1)

	2011	2010	Change in %
U.S. dollar	1.3920	1.3271	-4.9
Brazilian real	2.3263	2.3353	0.4
Australian dollar	1.3485	1.4441	6.6
South African rand	10.093	9.7179	-3.9
Canadian dollar	1.3758	1.3665	-0.7

2.2 SECTOR TREND

The ICT market (market for information technology, telecommunications and consumer electronics) includes the IT and telecommunications sectors. The IT sector includes IT accessories (hardware), software and IT services. The telecommunications sector consists of network infrastructure, telecommunications equipment for consumers and telecommunications services. Software AG is a provider of system software and services and therefore pertains to the software and IT services market segments of the ICT industry.

ICT market

According to U.S. market research firm, Gartner, worldwide IT spending in 2011 increased by 6.9 percent. The performance of the specific market segments differed: Enterprise

software posted 9.6 percent growth; the services market, dominated by projects and outsourcing, climbed 6.9 percent.

A declining trend was seen in the EMEA region: Total IT expenditure by companies in Europe, the Middle East and Africa (EMEA) was, according to Gartner, approximately €604 billion in the fiscal year under review. This is a 1.4-percent drop from 2010.

According to EITO (European Information Technology Observatory), a subsidiary of the German BITKOM industry association, the BRIC countries (Brazil, Russia, India and China) are still the growth drivers of the international high-tech market. India achieved the largest leap with 17-percent growth to €65 billion—a trend that is expected to continue in 2012. The Chinese ICT market is, according to EITO, the largest single BRIC market with a volume of €204.5 billion. This makes China the third-largest market in the sector, behind the USA and Japan. Due to solid macroeconomic conditions, the Brazilian ICT market grew six percent to total €87 billion in 2011.

The good business climate in the German ICT sector continued into the end of 2011 after extremely high morale at the end of 2010. This was reflected in the findings of an economic survey conducted by the high-tech industry association, BITKOM, in late 2011. The BITKOM economic index was 60 points and thus significantly higher than the Ifo index for the overall economy. Demand from the manufacturing and services sector was particularly high. New technologies such as cloud computing and the boom in mobile devices were responsible for a very dynamic trend. More than two-thirds of information technology, telecommunications and consumer electronics vendors expect revenue growth in 2012, according to BITKOM. **For further information, refer to Section 12 Forecast.** Many companies recruited new staff because of the positive business trend. About two-thirds of all ICT companies wanted to create new jobs in 2011.



The sixth edition of “Truffle 100 Europe,” published on October 17, 2011, shows that the software sector clearly increased investments in research and development with growth of some 16 percent. The sector’s revenues and earnings increased in the wake of the global recession. And, the number of jobs in research and development also went up slightly. The report also illustrates that the current economic conditions are not conducive to innovation, growth and the creation of highly qualified positions in the European software sector. Software AG is listed fourth in the latest Truffle100 ranking of the largest European software companies.

GLOBAL ICT SPENDING 2011

in € billions	Expenditure	Growth (%)
Computing hardware	404	7.6
Enterprise software	268	9.6
IT services	848	6.9
Telecom equipment	444	7.7
Telecom services	1,701	6.1
Total IT	3,664	6.9

Source: Gartner (January 2012)

3 BUSINESS TREND AND ECONOMIC SITUATION

3.1 SUMMARY OF BUSINESS TREND

Software AG achieved the same level of record-breaking total revenue and earnings as in the previous year. The BPE business line again proved to be the Group’s largest contributor to revenue and driver of growth in both licenses and maintenance and services. We concluded activities for establishing a presence in the Brazilian market in 2010. This in combination with hesitant investment behavior among customers in the fourth quarter of 2011 led to a revenue decline in our traditionally highly profitable ETS business line.



We consider the continued success in BPE to be an indication of the potential of business process technology and the positioning of our company in established high-growth markets. **Refer to Section 1.3 Market Position.** Companies of all sizes and in all industries are realizing more and more that the ongoing enhancement and digitization of their processes is the prerequisite for business success in competitive, global markets. Only with fast and agile processes and supporting IT systems can they react adequately to ever-changing challenges. For all companies and organizations, harmonization and integration of IT processes is the key to long-term business success while becoming a digital enterprise. Numerous studies by independent market analysts (**refer to Section 1.3 Market Position**) confirm Software AG as a technology leader with its portfolio for business process management.



After extraordinarily strong growth in 2010 and having achieved one billion euros in revenue one year earlier than planned, our results for fiscal year 2011 equaled and stabilized the previous year's record level. We did not, however, meet our own expectations. Our forecast for the year included revenue growth between five and seven percent at constant currency and a rise in net income between 10 and 15 percent year on year. The weak revenue in the fourth quarter led us to implement a number of operational measures. Furthermore, we took some strategic steps in the second half of 2011 that lay the foundation for sustainable, profitable growth in the future. The steps were incorporated into the global organization in February 2012. We pooled resources in order to leverage the market potential in all important regions and drive growth of the company.

Growth through acquisitions

Software AG's corporate strategy is based on both organic and external growth through targeted acquisitions and mergers. In the fiscal year under review we expanded

our strategic BPE portfolio through the acquisition of two companies offering innovative key technologies.

- In May we acquired U.K.-based Metismo Ltd. and its multifaceted platform for the development of device-neutral mobile applications. This gave Software AG access to the extremely fast growing mobile-app market.
- In May we also acquired the Californian software company, Terracotta Inc., a technology leader in in-memory and cloud solutions. In-memory technology boosts the speed of business processes and enables complex work flows and extremely large data volumes to be processed in real time with no interruptions. This unique capability provides the level of scalability needed for cutting-edge cloud solutions and Software AG's future cloud offerings.

In March 2012 at CeBIT, the world's largest computer fair, we introduced these products, which were already integrated into our BPE offering, and discussed their value to our customers.

3.2 OVERALL STATEMENT ON FINANCIAL POSITION

Software AG's innovative and high-margin BPE business line continued its successful performance in the fiscal year under review. This product family generated 48 percent of total revenue with software and services associated with the integrated webMethods and ARIS products for process automation and integration.

At the same time, business with the ETS products was weaker than in the previous year, which almost completely counterbalanced the growth achieved in the BPE line. Following three quarters of stable growth, the ETS business line was impacted in the fourth quarter by the bad economy and resulting cautious spending among customers.

With respect to the IDS Scheer Consulting business, we decided a year ago to focus our efforts on profitable consulting projects. This led to an increase in profit margin, which we opted for despite the lower revenue volume.

Software AG's total revenue in the fiscal year under review was €1.1 billion, which was stable with respect to the record level achieved in fiscal 2010. Thanks to consistent cost management, EBIT rose €0.6 million to total just upward of €269 million. Our EBIT margin went up 50 basis points to 24.5 percent. A continuous reduction of net liabilities and significantly lower financing costs led to improved net financial income. Net income was €177 million (2010: €176 million) and thus just above the previous year. As of December 31, 2011, 5,535 people (full-time equivalents) were employed by Software AG compared with 5,644 year on year. Of those, 1,881 (2010: 2,051) were employed in Germany.

Thanks to these components, Software AG raised its pre-tax profit (€259 million; 2010: €254 million) as well as its net income (€177 million; 2010: €176 million) to new record levels. Shareholders' equity on December 31, 2011 was 23.7 percent higher than one year earlier and totaled €951.5 million. Our equity ratio was thus quite high at 56.6 (2010: 48.1) percent.

We continued strengthening the operational base of our business in the fiscal year under review. We were again able to achieve additional process efficiency and therefore a new record in profit. We are using our strengthened capital base to invest in the development of market-driven innovation and the future growth of our company.

Because of the market success and potential of the future-oriented BPE product line, we are putting more strategic focus on it. In order to tap this market as quickly as possible, we will strengthen our sales activities in key regions and focus our marketing efforts on the opportunities this forward-looking segment offers.

4 FINANCIAL PERFORMANCE

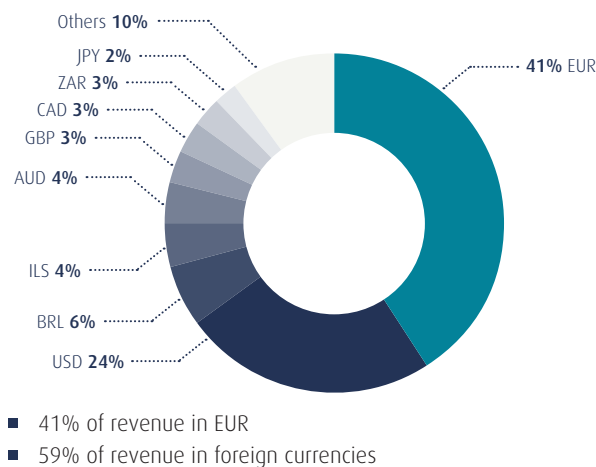
4.1 REVENUE TRENDS

Total revenue in fiscal year 2011 was €1.1 billion—the record level from the previous year.

Currency translation had negative effects on revenue in fiscal 2011 totaling €13.2 million. Licenses were impacted the most. In the year under review 41 percent of revenue was generated in euros, which is comparable to the previous year. The U.S. dollar attributed for 24 percent, down two percent from 2010. The Brazilian real attributed for six percent, some 400 basis points less year on year.

Considering the individual quarters of 2011, a strong level of volatility is apparent in the effect of currency on revenue performance. After exchange rates had a positive impact on revenue in the first quarter, the strong euro put a burden on the rest of the fiscal year. The exchange rate effect in the fourth quarter of 2011 was €2.6 million. It was primarily due to good business and the associated exchange rate impact in South Africa.

REVENUE SPLIT BY CURRENCY

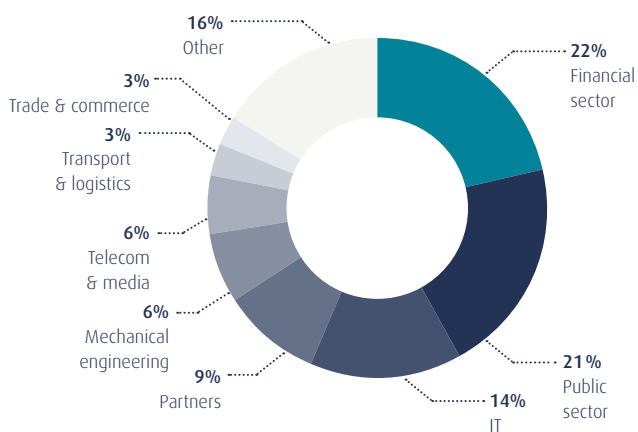


CURRENCY EFFECT ON REVENUE IN 2011

in € millions	2011	2010
Licenses	-6.3	23.7
Maintenance	-4.9	19.1
Consulting & other	-2.0	8.3
Total	-13.2	51.1

With respect to distribution of revenue among specific industries, the financial sector and the public sector together contributed the most to revenue again in 2011. Demand for our products from the financial sector remained stable in spite of the difficult economic climate in that industry.

Our vendor-neutral portfolio is relevant for companies and organizations in all industries. This is essential to growth through scalability and to a robust business model, as we are less dependent on fluctuations of individual industries.

REVENUE SPLIT BY INDUSTRY IN FISCAL 2011*

* Based on product revenue

Business over the course of the year progressed differently depending on region. ETS revenue fell due to the normalization of business in Brazil especially. Our successful growth in BPE sales of €29 million to total €527.9 million could not however compensate for the losses in ETS. As illustrated by the BPE results in the year under review, we are in a very good position in the DACH and EMEA regions with our growth driver. Here, measures adopted in the third quarter of 2011 were successfully implemented.

In order to guide our business toward long-term growth in North America—an important market for a software company—we approved a number of operational and strategic changes in January 2012. They will allow us to significantly improve our competitive position and our image in this important market.

Sales by revenue type

The high-margin product revenue is generated from the sale of licenses and maintenance contracts of all software products. Product revenue was €673.9 million (2010: €696.8 million) in fiscal year 2011. Maintenance sales increased by three percent to €378.7 million (2010: €369.4 million), whereas license sales fell by 10 percent to €295.2 million.

Revenue from consulting and services rose moderately to €419.8 million from €418.7 million last year.

The Global Consulting Services (GCS) unit offers product-related services for the BPE and ETS products. GCS specialists implement customer-specific IT solutions based on Software AG products, which gives customers operational advantages for their business. The GCS offering consists of consulting on service-oriented architectures (SOA), business process management (BPM) and IT transformation as well as solutions to product-specific issues. Revenue from this business unit developed in parallel to the product lines and is reported with ETS and BPE revenue.

Sales by business line

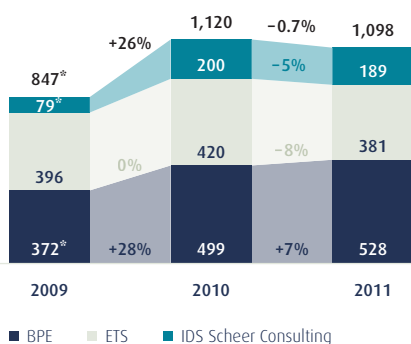
The BPE business line, which comprises the two leading product families ARIS and webMethods, expanded its position as Software AG's largest driver of revenue in fiscal year 2011.

BUSINESS LINE DEVELOPMENT

Total annual revenue

in € millions

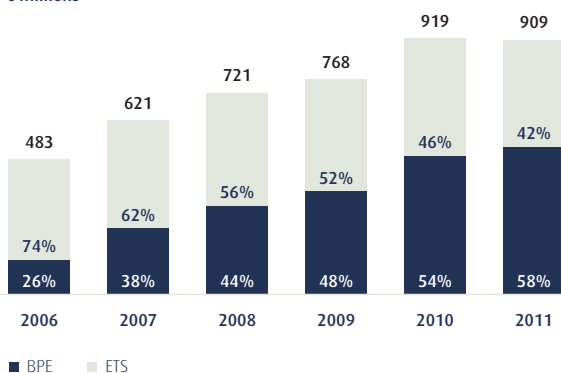
Change in % (acc)



* Consolidated IDS Scheer results were reported for the first time in Q3 2001

BPE STILL STRONGEST REVENUE-DRIVING BUSINESS

in € millions



The importance of BPE's profitability to Software AG grows analogously to its revenue performance. This is due to a higher profit margin in the BPE line from more economies of scale, more profitable maintenance contracts and larger order sizes combined with demand-related revenue growth. This is all the more encouraging considering that the ETS line achieved an operating margin of clearly over 50 percent again in 2011.

Business Process Excellence (BPE) business line

SEGMENT REPORT – BUSINESS PROCESS EXCELLENCE for fiscal 2011

in € millions	2011	2010	Change in % (acc)
Licenses	168.6	164.4	3 (5)
Maintenance	169.2	155.0	9 (11)
Product revenue	337.8	319.4	6 (8)
Services & other	190.1	179.8	6 (6)
Total revenue	527.9	499.2	6 (7)
Cost of sales	-187.1	-169.8	10
Gross profit	340.8	329.4	3
Sales & marketing expenses	-125.3	-125.1	-
Research & development expenses	-61.3	-59.9	2
Segment earnings	154.2	144.4	7

The BPE business line has evolved to be a driver of growth for Software AG. Our customers not only have the option of further developing the two product lines, but also of combining ARIS and webMethods due to their compatible process models.

This high-growth product line posted nine-percent revenue growth (at constant currency) in the first three months of the year. In the final quarter, this growth then slowed due to weak business in North America. For the full year, revenue in the BPE line grew to €527.8 million from €499.2 the previous year. This is a seven-percent increase at constant currency.

Product revenue, consisting of licenses and maintenance, rose eight percent at constant currency to €337.8 million. Licenses accounted for €168.6 million (2010: €164.4 million) and maintenance for €169.2 million (2010: €155.0 million). Maintenance revenue growth was slightly stronger at 11 percent at constant currency and totaling €169.2 million, up from €155.0 in 2010. This performance bolsters growth in overall maintenance revenue for the company and thus future cash flow and (net) earnings as well.

Service revenue for the business line went up six percent to total €188.3 million (2010: €177.7 million).

Segment earnings grew seven percent in fiscal 2011, which led to a profit margin improvement of 30 basis points to 29.2 percent. This margin growth is expected to last for the medium term in spite of our expansion of Marketing and Sales.

Our partner business also played a role in the revenue growth of the BPE business line. Our global and regional partnerships made a significant contribution to revenue and earnings again in 2011. **For further information, refer to Section 7.3 Expanding the Partner Network.**



Enterprise Transaction Systems (ETS) business line

SEGMENT REPORT – ENTERPRISE TRANSACTION SYSTEMS for fiscal 2011

in € millions	2011	2010	Change in % (acc)
Licenses	120.1	156.3	-23 (-21)
Maintenance	192.8	198.3	-3 (-2)
Product revenue	312.9	354.6	-12 (-10)
Services & other	68.4	65.4	5 (5)
Total revenue	381.3	420.0	-9 (-8)
Cost of sales	-72.3	-73.6	-2
Gross profit	309.0	364.4	-11
Sales & marketing expenses	-66.8	-73.3	-9
Research & development expenses	-26.4	31.6	-16
Segment earnings	215.8	241.5	-11

The ETS business line comprising the ADABAS and NATURAL software products followed an uneven trend during the fiscal year. Following three quarters of stable growth, the ETS business line was impacted in the fourth quarter of 2011 by the bad economy and thus cautious spending among customers. This made it impossible for Software AG to absorb the expected normalization of revenue growth in Brazil following the above-average expansion in this country since 2008. For the 2011 full year, ETS reported an eight-percent revenue decline at constant currency to €381.3 million (2010: €420.0 million). Product sales accounted for €312.9 million (2010: €354.6 million) and services for €67.3 million (2010: €64.6 million).

The reluctant investment climate in the ETS line at the end of 2011 triggered us to establish a global Maintenance & Support business unit, which will be led by an experienced ETS manager. The aim of the unit is to maintain the stability of the high-margin ETS maintenance business even during times of persisting pressure on ETS license revenue.

We have a particular strategic focus on the continued technical development of the traditional ETS line for our existing customers with mainframes and on all platforms. For our customers, this extends the life cycle of successfully running systems, which, in sectors such as finance, logistics and telecommunications, are business-critical. For Software AG, it secures a portion of the customer base and thus of maintenance revenue.

IDS Scheer Consulting business line

In addition to the ETS and BPE products and the associated services of the Global Consulting Group, our specialists in the IDS Scheer Consulting business line offer industry-oriented consulting services for business process excellence focusing on SAP implementations.

IDS Scheer Consulting contributed revenue of €189.2 million (2010: €200.3 million), or approximately 17 percent of Software AG's total revenue in the year under review. To minimize the risk of unprofitable project commitments, we decided at the beginning of the fiscal year to focus solely on

consulting projects with a sufficient operating profit margin. This resulted in improved segment earnings of €0.8 million (2010: €-6.5 million).

IDS Scheer Consulting followed a positive earnings trend in the second half of 2011. The profit margin realized in the fourth quarter was five percent and should be our target for this business line in the future. This positive upturn was the result of important changes made to internal processes, the implementation of management tools and operational performance improvements.

4.2 EARNINGS PERFORMANCE

Group earnings

In the 2011 fiscal year, despite weak revenue in the fourth quarter, we were able to further increase EBIT and net income of the Software AG Group.

Our flexible cost structures enabled us to cushion the impact of the slightly lower total revenue on profitability. Software AG achieved earnings before interest and taxes (EBIT) of €269 million in fiscal 2011. Thanks to consistent cost management, our EBIT margin rose 50 basis points to 24.5 percent. This was driven primarily by optimized administrative processes. It is and will remain our goal to have administrative structures that are as efficient as possible. As part of this, we employ our own BPE technology as the backbone of our operations.

Our net financial result improved by €4 million year on year. This was primarily due to lower interest rates resulting from our reduced net debt and better credit conditions (since May 2011).

In line with expectations, our tax rate was between 31 percent and 32 percent. The percentage of revenue contributed by the countries in which Software AG operates is mainly responsible for the marginal change in tax rate.

Thanks to these individual components, Software AG's pre-tax profit increased to €259 million (2010: €254 million). Net income rose to €177 million (2010: €176 million), a new company record. EPS were equal to last year at €2.05 per share.

NET EARNINGS in fiscal 2011

in € millions	2011	2010	Change in %
EBIT	269.2	268.6	-
Margin (in %)	24.5	24.0	
Net financial income	-9.9	-14.2	-30
Profit before tax	259.3	254.4	+2
Taxes	-82.1	-78.8	+4
Tax rate (in %)	31.7	31.0	
Net income	177.2	175.6	+1
EPS* (in €)	2.05	2.06	-

* Weighted average shares outstanding (basic)
Q4 2011: 86.7 mn. / Q4 2010: 85.1 mn. (pro forma after 3-for-1 split)

4.3 COST STRUCTURE

The cost of sales was €442.1 million, as in the previous year. Expenses for sales and marketing were reduced by four percent to €230.2 million (2010: €238.9 million). The proportion of sales and marketing expenses to total revenue was further lowered from 21.3 percent to 20.9. These cost cuts reflect the revenue drop in licenses and confirm the flexibility of our cost structure.

In the year under review we adjusted research and development (R&D) expenses to business performance. This meant a four-percent reduction to €88.0 million compared to €92.0 million the year before. The proportion of R&D expenses to product revenue (licenses and maintenance) went down from 13.2 percent to 13.1 percent.

We were able to decrease general administrative expenses by way of ongoing optimization of administrative processes by 12 percent to €75.1 million (2010: €85.3 million). Their proportion to total revenue thus fell from 7.6 percent to 6.8 percent.

4.4 NET INCOME AND APPROPRIATION OF PROFITS

In fiscal year 2011, the Software AG Group's net income increased from €175.6 million to €177.2 million. Earnings per share (basic) were €2.05 (2010: €2.06). The average number of shares outstanding (basic) amounted to 86,195,814 (2010: 85,140,456).

EARNINGS in fiscal 2011

in € millions	2011	2010	Change in %
Total revenue	1,098.3	1,119.5	-2
Cost of sales	-442.1	-442.0	-
Gross profit	656.2	677.5	-3
Margin (in %)	59.7	60.5	
R & D	-88.0	-92.0	-4
Sales & marketing	-230.2	-238.9	-4
Administration	-75.1	-85.3	-12
Other income/expense	6.3	7.3	-14
EBIT	269.2	268.6	-
Margin (in %)	24.5	24.0	
EBITDA (pro forma*)	315.5	315.0	-
Margin (in %)	28.7	28.1	

* Depreciation & amortization are included in functional areas in accordance with IFRS

Appropriation of profits

Software AG will continue its consistent dividend policy in the fiscal year under review. The Management Board and

Supervisory Board will propose a dividend of €0.46 per share (2010: €0.43; adjusted for stock split: €1.30) for fiscal 2011 at the Annual Shareholders' Meeting. This is equal to the record amount from the previous year. Subject to the approval of the shareholders, this would be a total dividend payout sum of €39.9 million (2010: €37.0 million) for 2011.

5 FINANCIAL POSITION

5.1 CAPITAL EXPENDITURE

Capital expenditure for property, plant and equipment normally plays a minor role at Software AG given that we are a software and consulting company. These investments totaled €11.2 million in fiscal year 2011, compared to €10.1 million in 2010, and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken. Net expenditure for acquisitions increased from €25.9 million to €59.2 million.

5.2 CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow for the full fiscal year 2011 decreased due to the high tax burden. Free cash flow for the 12-month period fell from €217.8 million to €187.7 million. This was again above net income for 2011, which was €177.2 million. Free cash flow per share was €2.18 (2010: €2.56).

Operating cash flow

In fiscal 2011 Software AG's operating cash flow dropped to €198.6 million from €227.4 million the year before. This is mainly attributable to higher tax payments.

Due to the purchase of technologies, cash outflows from investing activities rose from €35.6 million to €70.2 million. Cash inflows from financing activities decreased from €315.6 million in 2010 to €15.9 million.

5.3 FINANCING

The financial management of Software AG ensures that all Group companies are continuously solvent. Based on guidelines determined by the Management Board, the central Treasury department implements financial policy and risk management. Active working capital management centrally controls the Group's liquidity position. Financial investments are essentially oriented toward the short term. We minimize default risk by careful selection of transaction partners based on stringent criteria and broadly diversified investment. The focus on short-term investment means that Group funds are invested at near money-market rates. Our central Treasury department monitors the current risks for all Group companies and hedges them using derivative financial instruments. In doing so, we only hedge existing balance sheet items or expected cash flows. A high equity ratio and strong free cash flow create the basis for organic growth and allow us to make acquisitions for the Group.

Cash and cash equivalents more than doubled year on year to €216.5 million (2010: €102.5 million). Net financial liabilities decreased by more than €100 million to €60.9 million. This is attributable to the company's strong operating cash flow.

Shareholders' equity on December 31, 2011 was 23.7 percent higher than one year earlier and totaled €951.5 million (2010: €769.3 million). Equity ratio was thus quite high at 56.6 percent (2010: 48.1 percent).

Financing instruments

Software AG uses bank loans, promissory note loans, finance leasing and internal financing with strong free cash flow as financing instruments. A financing 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. The loans used are predominantly at fixed interest rates and a small portion have terms to maturity of no later than 2017. Partial amounts are converted into synthetic fixed-interest rate loans using interest rate swaps. Variable interest payments are based on the level of interest at the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2011.

5.4 ASSETS

Software AG's current assets increased because of a rise in cash and cash equivalents from €494.2 million in 2010 to €574.3 million in 2011. Our non-current assets at the end of the year amounted to €1,106.4 million, which is a minor increase over €1,105.5 million in 2010.

In addition to the assets reported in the consolidated balance sheet, Software AG has off-balance sheet assets. These

CASH FLOW in fiscal 2011

in € millions	2011	2010	Change in %
Operating cash flow	198.6	227.4	-13
less CapEx*	-10.9	-9.6	
Free cash flow**	187.7	217.8	-14
as % of revenue	17.1	19.5	
Free cash flow per share (in €)	2.18	2.56	-15
Weighted average number of shares (in mn.)***	86.2	85.1	

* Cash flow from investing activities except acquisitions

** Pro forma after stock split

*** Software AG defines "free cash flow" as cash flow from ongoing business operations less cash flow from investment activities not including net outflows for acquisitions.

relate primarily to rented office space, leased company cars and hardware. Off-balance sheet assets also include the Software AG brand and internally developed software products, which are important intangible assets. The brand was continuously enhanced in the year under review.

5.5 BALANCE SHEET STRUCTURE AND KEY FINANCIAL INDICATORS

The Software AG Group's total assets rose in fiscal 2011 from €1,599.6 million to €1,680.7 million.

On the assets side, current assets increased from €494.2 million to €574.3 million. Cash and cash equivalents went up from €102.5 million to €216.5 million. Trade receivables totaled €304.7 million, down from last year's €337.8 million. Other receivables and other assets remained stable at €43.9 million. Non-current assets were €1,106.4 million, equivalent to last year's €1,105.5 million. Goodwill rose from €717.3 million to €752.2 million as a result of the strong U.S. dollar and acquisitions during the fiscal year. The value of goodwill is regularly tested in an impairment test and is ensured over the long term by the future cash flows of the acquired business units. The impairment test again identified no need for devaluation in 2011.

On the liabilities side, current liabilities fell €204.5 million to €381.6 million. Of that, financial liabilities dropped to €26.1 million from €136.8 million in 2010. Deferred income decreased from €127.9 million to €105.3 million. This figure refers to future maintenance revenue of which the proportion paid in advance by the customer was deferred in the balance sheet. Non-current liabilities totaled €347.6 million compared to €244.2 million the previous year. This was due primarily to the rise in financial liabilities from €118.4 million to €251.3 million.

6 FINANCIAL STATEMENTS OF SOFTWARE AG

Due to the spinoff of IDS Scheer Consulting GmbH on July 18, 2011 with retrospective effect on the financial statements as of January 1, 2011, the 2011 financial statements of Software AG (parent company of the Group) no longer include the German operating business of the former IDS Scheer AG. For this reason, the balances of all of the items in the financial statements decreased significantly compared to the prior year.

Software AG's financial statements were prepared pursuant to the provisions of the German Commercial Code (HGB).

Financial performance of Software AG

The key items of the income statement are as follows:

in € millions	2011	2010	Change in %
Licenses	55.8	76.2	-26.8
Maintenance	102.3	106.1	-3.6
Services	93.1	210.3	-55.7
Total revenue	251.2	392.6	-36.0
Operating income and expenses	-203.7	-333.8	-39.0
Income from investments and profit transfer	113.7	100.9	12.7
Operating earnings before interest and taxes (EBIT)	161.2	159.7	0.9
Net financial expense	-15.2	-17.3	-12.1
Extraordinary expenses	0	-288.0	
Earnings before taxes	146.0	-145.6	
Taxes	-38.0	-18.9	
Net income/loss for the year	108.0	-164.5	

- Software AG's revenue decreased from €392.6 million in 2010 to €251.2 million in 2011. In 2010 "revenue" included sales revenue from the operating business of the former IDS Scheer AG of €177.0 million.
- "Licenses" include primarily proceeds from royalties from the subsidiaries' sale of licenses, which fell in fiscal 2011 due to reduced ETS license sales from subsidiaries. Furthermore, in fiscal 2010, this figure had included licensing revenue from IDS Consulting in the amount of €21.0 million, which decreased by €13.6 million to €7.4 million due to the spinoff of IDS Scheer Consulting GmbH.
- "Maintenance" includes primarily maintenance-related royalties from subsidiaries. Software AG's maintenance decreased by the amount accounted for by IDS Scheer products from €20.8 million in 2010 to €13.4 million in 2011 due, in particular, to the spinoff of the IDS Consulting operations.
- "Services" include management fees from the subsidiaries, which increased year on year as a result of the intensified integration of IDS entities. In 2010, this figure included service revenues from the former IDS Scheer AG in the amount of €135.2 million. There were no amounts in 2011 to compare with those from 2010 due to the spinoff.
- "Operating income and expenses" includes 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. Operating expenses and income included €137.5 million from the former IDS Scheer AG in 2010, which fell to zero in 2011 due to the spinoff of this company.
- "Income from investments and profit transfer" includes dividends from subsidiaries, income and expenses arising from profit transfer agreements and impairment of financial assets. A total of €-8.0 million of this item was attributable to the former IDS Scheer AG in 2010.
- "Operating earnings before interest and taxes" included an amount of €31.3 million from the former IDS Scheer AG in 2010. As a result, Software AG's operating earnings, adjusted for the spinoff, increased by €32.8 million.
- "Net financial expense" is the result of offsetting interest and similar income against interest and similar expenses. In 2010, this figure included a portion from the former IDS Scheer AG in the amount of €-0.7 million.
- "Extraordinary expenses" in 2010 included an accounting loss from the merger in the amount of €284.5 million based on undertaking the merger of IDS Scheer AG with Software AG at the carrying amounts. This item also included expenses of €2.5 million due to first-time accounting pursuant to the German Accounting Law Modernization Act (BilMoG).
- "Earnings before taxes" includes a total of €30.9 million from the former IDS Scheer AG. Adjusted for extraordinary expenses and the earnings attributable to IDS Scheer operations in 2010, operating earnings before taxes rose by €34.5 million.
- "Taxes" increased by €19.1 million due to the higher earnings before taxes. Taxes in 2010 included €0.3 million from the former IDS Scheer AG.
- Adjusted for €30.6 million in earnings attributable to IDS Scheer operations in 2010 and the accounting loss from the merger in 2010, "operating net income for the year" in 2011 increased by €15.1 million year on year.

Financial Position and Cash Flows of Software AG

Total assets of Software AG declined by a total of €50.4 million, from €980.9 million on December 31, 2010 to €930.5 million on December 31, 2011.

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

in € millions	Dec. 31, 2011	Dec. 31, 2010	Change
Intangible assets	5.1	5.4	-0.3
Tangible assets	11.9	25.2	-13.3
Financial assets	781.1	760.1	21.0
Inventories	0.1	26.3	-26.2
Receivables and other assets	104.8	148.2	-43.4
Cash and cash equivalents	24.0	12.4	11.6
Prepaid expenses	3.5	3.3	0.2
Total assets	930.5	980.9	-50.4
Equity	452.9	364.2	88.7
Provisions	73.2	102.3	-29.1
Liabilities	403.6	508.2	-104.6
Deferred income	0.8	6.2	-5.4
Total equity and liabilities	930.5	980.9	-50.4

- “Tangible assets” decreased, particularly due to the transfer of operating property, which included the offices of IDS Scheer Consulting GmbH in Saarbrücken.
- The increase in “financial assets” resulted primarily from the granting of long-term loans to subsidiaries.
- “Inventories” decreased by €26.2 million year on year to €0.1 million as of December 31, 2011 due to the spinoff. This item totaled €26.1 million in 2010 largely due to work in progress of the IDS Scheer business.
- “Receivables and other assets” fell by €43.4 million from €148.2 million on December 31, 2010 to €104.8 million on December 31, 2011 due to the spinoff. This figure included €81.8 million in receivables and other assets from the operating business of IDS Scheer. The organic growth of this item by €38.4 million resulted primarily from receivables from affiliated entities.
- “Cash and cash equivalents” increased by €11.6 million from €12.4 million to total €24.0 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 we do not prepare such a statement.
- “Equity” of Software AG increased by €88.7 million, from €364.2 million on December 31, 2010 to €452.9 million on December 31, 2011. The increase in equity was mainly due to the significant rise in net retained profits, which went up by €71.0 million from €124.6 million in 2010 to €195.6 million on December 31, 2011 due to net income for the year.
- “Provisions” decreased by €29.1 million year on year, from €102.3 million to €73.2 million on December 31, 2011. A significant portion of the decrease—€11.9 million—resulted from the spinoff of IDS Scheer Consulting GmbH.
- “Liabilities” declined, primarily due to advance payments received on account of orders by €33.6 million to zero as of December 31, 2011 due to the spinoff. Furthermore, liabilities to affiliated companies declined by €83.7 million year on year mainly due to profit distributions from subsidiaries.

- “Deferred income” went down mainly due to the spinoff of IDS Scheer Consulting GmbH, which contributed €3.5 million to this item in 2010.

Outlook:

The future financial performance of Software AG depends upon the financial standing of the Software AG Group. For more information, please refer to the Outlook section in this joint Management Report.

7 ADDITIONAL EARNINGS-RELATED FACTORS

7.1 RESEARCH & DEVELOPMENT

Software AG’s business development is based on two product areas, BPE and ETS. BPE now constitutes the biggest source of revenue, and the trend is rising. The business line once again demonstrated strong growth in 2011.

In today’s fast-paced globalized world, in which one technology trend constantly displaces another and competition grows ever more intense, software companies must launch product innovations regularly in order to continue to grow profitably. As an innovation leader with strong customer orientation, we seek to steadily improve and expand our offerings for customers. That is why research and development is a key department for us.

At Software AG, our goal is to achieve long-term technological and market leadership in multiple enterprise software segments based on our leadership in innovation. We consider that to be an essential component of our long-term growth strategy. We rely on a mix of developing targeted customer-centric enhancements to existing products, identifying new market trends, and continuously developing market-driven product innovations. We benefit here from our close cooperation with universities and technology partners. **For further information, refer to Section 7.4 Employees, subsection University Relations.**

Numerous positive reviews from leading analyst firms in 2011 confirm that this strategy is panning out. **For further information, refer to Software AG’s awards and industry recognition on our website.**



Expenditures for research and development

Consistently pursuing our R&D strategy is of utmost importance to Software AG. Only in this way can we increase our competitive edge in the market while ensuring product revenue and high earnings contributions. The growing business with our BPE products, ARIS and webMethods, not only represented the largest source of revenue in the year under review, but it also made a significant contribution to business results. In addition, our cost-optimizing measures in R&D safeguard stable development of the business with our data management software for mainframes (ETS).

In 2011 we lowered R&D expenditures by four percent to €88 million (2010: €92 million), thanks to increased internal efficiency. At the same time, the number of employees grew from 850 in 2010 to 887 (as of December 31, 2011). One way that we reduced R&D expenditures was through offshoring measures to such locations as Israel, India and Eastern Europe.

Employees’ increasing ability to interact with each other electronically, even at an international level, is enabling the trend toward using collaboration tools across borders. The R&D department benefits in particular from the resulting new impetus with regard to content and varied impressions of customer segments in other countries. We want to tap this enormous potential with our internationalization strategy and an expanded R&D team in the coming years.

Agility, flexibility and cost effectiveness through BPE

Customers expect a market leader to be clearly positioned, with explicitly defined goals. After all, they have a vital interest in having Software AG as a long-term software and service partner and in achieving sustainable added value for their organizations through the use of the latest



technologies. Our portfolio, which is used in a large number of industries, supports companies in continuously optimizing their business processes and becoming more efficient and competitive. It gives them the agility that today's dynamic global markets require.

Markets, prices, rules—everything changes with incredible speed these days. This applies to a company's processes as well as its underlying IT systems, which must map the constant changes. For example, introducing a new generation of mobile device or experiencing a major natural disaster can turn entire industries—from the energy sector and manufacturing to banks and insurance companies—inside out within a very short time. Winning companies are those that respond most quickly to these changes. Speed and efficiency are the key factors from which companies draw their strength when competing globally. It is therefore essential to the survival of enterprises of all sizes and industries that they always be flexible and agile—more agile than often allowed by their IT-supported processes.

The challenges companies face today are very complex and inspire equivalent demands on IT. Companies often have a heterogeneous IT environment, consisting of legacy systems, various proprietary developments and standard applications. This results in IT silos where products from different manufacturers are not fully integrated into the overall IT architecture. In addition, CIOs must implement ongoing changes to the business models using the latest technological advances, such as mobile applications, in-memory technologies, social and collaboration tools, and cloud computing.

Therefore, in addition to product innovations, companies need continuous process innovations that allow greater flexibility. They can achieve this only with the help of new agility for their IT systems that allows them to customize business models more quickly. Ultimately, every company needs continuously and sustainably optimized processes, or business process excellence (BPE).

In order to achieve this, business processes must be streamlined and adjusted continually, and extra costs and wasted time must be eliminated from operations. Standard application software—for example, an ERP (enterprise resource planning) system—can be configured for new business processes to only a limited extent, because application function and process control are tightly interwoven with each other. It is time-consuming and expensive for IT specialists to customize existing software by integrating process changes into the existing standard applications. Thus far, companies have had to accept a loss of agility and flexibility in exchange for the benefit of tight integration. But it is exactly these factors that are crucial to the current momentum in the business world. Organizations and their IT systems are often too slow for the ever-changing market conditions. Business processes today must adapt much more quickly than can be mapped by the IT systems. Software AG's solutions are standing by where large ERP systems are too inflexible or do not cover new processes.

The agile digital enterprise

Companies must continually adapt their processes and IT in order to achieve the greatest degree of agility. Software AG provides the necessary software tools for this—for cost-effective use and high investment protection. Our process-oriented approach does not require replacing the existing IT infrastructure; rather, we build on it. We want to get more out of companies' existing IT landscapes, digitizing workflows throughout and making them more flexible. This way, our customers receive added value from their investments.

The operating principle behind it is this: Our process and integration software introduces a new agility layer between the IT silos and the customers' business models, because different speeds prevail at these two levels. This continues the evolution of unbundling (breaking up the fixed connections between IT systems) in the IT market.

The history of corporate IT is rife with examples of unbundling. The computer age was several decades old when hardware

began to be separated from software over thirty years ago. This was followed by replacing mainframes with the client/server model as the dominant computer architecture in the 1990s. This movement was inspired by the desire of management to establish divisional or division-oriented organizational structures with integrated processes. The triumph of the Internet as a communications infrastructure for businesses is also a result of the division of labor in a globalized economy.

Our current approach is to break up the rigid connection between process and business logic and provide flexible support for workflow digitization. This is succeeding thanks to the new agility level for process management, supported by the standardization of processes and the use of service-oriented architectures (SOA), as well as newer technologies like social networking platforms, cloud computing and mobile solutions.

The benefit we provide to customers that differentiates Software AG from the competition is our unique range of BPE products and the associated independence of IT solutions, which means technological freedom for our customers. A technology-neutral process platform enables the digitization of processes on the basis of existing software (from different vendors) in an organization. This allows the separation of applications and processes, which is necessary for organizations that need to adapt quickly to new business requirements.

Innovations and product milestones in 2011

Cloud computing for the digital enterprise

The IT industry is characterized by constant changes and extremely short innovation cycles. It is faster paced than many other market segments. Growing global competition, such new trends as cloud computing, the rapid spread of mobile devices, and increasing integration—accelerated by collaboration tools and social media—play a role here. This places high pressure on corporate IT to adapt while providing great

business potential for Software AG, which is positioning itself in these growth markets.

As an innovation leader, we monitor market developments very closely and seize the opportunities that new technologies present for customer-oriented development of our portfolio. We introduced numerous new products in 2011 as well, while continuing to develop such significant trends as cloud computing and the digital enterprise. Our activities always focus on the customer: Only innovations that provide an obvious business benefit for the customer are successful on the market.

The dominant trend in the IT industry in 2011 was cloud computing, which is the delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a metered service over a network (typically the Internet). We have also added this much-discussed and promising approach to our R&D activities. As announced at CeBIT 2011, our Software AG Cloud Ready process platform was released for sales in November as a key building block of our cloud strategy. A bottom-up, integrated cloud and social networking strategy makes organizations more agile and competitive. At the same time, it paves the way to the completely digital—and thus efficient—enterprise.

The new platform offers components for modeling, process management, service-oriented architecture and cloud integration. It allows business processes to be changed more quickly and cost-effectively. By combining public cloud, private cloud and on-premise models, it offers customers various implementation options—coordinated exactly with their individual security and resource needs.

The extreme collaboration concept is the foundation of this. With it, existing barriers in cooperation between departments and IT can be overcome definitively. It brings together

participants across organizational and geographic boundaries, so that they can collaborate on innovations. Extreme collaboration enables the direct involvement of all stakeholders relevant to the process and accelerated transformation and improvement of business processes and product and service offerings. The result is more-dynamic business models and faster implementation of corporate strategy. Software AG sees cloud computing not only as a way for customers to lower costs, but also as a new approach to innovation in business operations.

Next steps for the cloud strategy

Software AG Cloud Ready is the first milestone in our cloud strategy. The journey continues, and we are working steadily on innovative solutions with additional functionality. The next step is a new Web-based collaboration platform that will combine conventional business process automation (BPA) tools with business process management (BPM) tools. The new social technologies are being integrated into it. Extended functionality allows virtual teams to work together regardless of their location and interaction environment. On-premises and cloud implementation models promote the development and management of processes within the team, because those involved always have access to all relevant project data and models. Thus, team members can easily invite other experts to collaborate online and enrich the content of a project through the innovative impetus of other stakeholders.

Technology from Software AG acts as an information backbone at many of the world's largest companies. To make the information more usable for our customers, we are working on a new communications solution with which enterprises mine technical data from their systems and can provide it to users in real time at any time. Departmental employees can work on projects in a team initially using their existing system and the channels used by them personally. The new

platform will notify users of new technical events immediately, while providing context.

Mobility and collaboration

Along with cloud computing, mobility is another trend that is of particular importance to Software AG—and to the market in general. Our acquisition in 2011 of the U.K.-based company Metismo has opened up direct access to mobile applications for our customers and us. The core product Metismo, a user-friendly development platform for mobile applications, now allows our customers to integrate external information available via mobile devices—such as GPS, video or audio data—in established business processes in real time. Furthermore, business processes can be monitored and controlled with mobile devices. And what's more: The business applications work with all major mobile operating systems. Not only does this reduce development cycles for mobile applications, but it also is making the mobile office a reality. And it clearly takes us a step closer to the completely digital enterprise with integrated mobile users.

Further impetus for our innovative strength comes from our close cooperation with customers, universities and research institutions and the attendant opportunities for experts to interact closely with one another. Software AG's Technology Community established for this purpose is a professional network that allows our customers access to a database of experts and a knowledge base where they can exchange information online.

The Community encompasses all of Software AG's product areas, including the ADABAS, ARIS, CentraSite, NATURAL, Terracotta and webMethods product families. It gives developers and other IT experts access at no charge to the latest articles, code samples, webinars, forums, product videos and wikis in the technical product environment. Contributions to the discussion can be shared on other

social networks. The Community has more than 16,000 members and contains over 50,000 posts on various discussion boards—and the trend is growing. On average, the platform is accessed 14,000 times per day. It offers developers and IT professionals a central source of information about Software AG products and technologies.

Social networking and collaboration are key drivers for the further development of our software products. This is demonstrated by the success of the ARIS Community. The online platform launched in 2009 gathered more than 100,000 members by the end of 2011—a period of only 18 months. The Community is the world’s largest BPM user group and allows individuals, companies and universities to analyze, visualize and discuss business information. More and more, companies are seeing that collecting intellectual capital for use by the entire company provides competitive advantages and is a crucial step toward a knowledge-based organization.

Not only does this platform offer its members—who come from over 40 countries—extensive opportunities for interacting with each other, but it also provides the modeling software free of charge. After modeling, the process models can be implemented in the webMethods suite, covering the entire value chain, from model to execute.

BPE product line

Cloud computing was the central topic for BPE in 2011. With Software AG Cloud Ready, customers can run the two BPE product families, ARIS and webMethods, on new platforms like Amazon EC2 or VMware and take advantage of all the benefits of cloud computing. They can combine integration and process solutions from the cloud and on in-house computers in hybrid scenarios. Furthermore, on-premise applications and SaaS offerings such as Salesforce CRM, Workday and Google can be integrated.

Not least due to our continuous investment in research and development in the field of BPE, numerous analysts have

classified Software AG as a leader in various BPE segments. For example, Gartner positions Software AG as a “leader” in SOA governance technologies. **For further information, please refer to our website.**



BPE product line: ARIS product platform

The ARIS product family’s R&D activities—with 174 (2010: 177) employees—are concentrated in Slovakia and Ukraine, as well as in Saarbrücken and Berlin, Germany. The ARIS R&D team focuses on the customer-centric evolution of the multiple award-winning platform and is pursuing the goal of business process excellence with ease of use and low total cost of ownership for customers.

New ARIS product developments

With the ARIS Platform, companies can plan, visualize and evaluate their business processes, applications, technologies, data and organizational structures. A central storage location, or repository, is used for this and ensures the consistent integration of all information. The repository allows architectural elements for planning, designing and developing of solution scenarios to be reused across the enterprise. The platform provides all stakeholders involved in this process within the company—from the strategic to the operational management level—with specific information for their daily work.

The introduction of ARIS 7.2 was a milestone in 2011 for the ARIS R&D department. Like webMethods 8.2, which was also introduced in 2011, the new ARIS version supports the seamless integration of the two platforms and offers advanced functionality for greater customer benefits.

The launch of the Prime solution was another highlight of 2011. It accelerates process optimization and automation projects for specific sectors and such interdisciplinary topics as compliance, supply chain management and customer relationship management. This helps Software AG give its customers a faster time-to-value. Prime is based, among other

things, on ARIS and can be combined with different software applications—such as with SAP solutions or the webMethods platform. This proves once again that Software AG is further pushing the concept of full integration of the product lines and thus the integrated model-to-execute approach referring to the transfer of ARIS-based process models to the execution level of webMethods.

Our enterprise BPM solution, introduced in February 2011, makes Software AG the first company to provide a holistic approach to business process management, supporting the entire life cycle of processes, including adaptation and improvement. With Enterprise BPM, all those involved in the process can collaborate on a process model. Quickly measurable results follow from integration with the ARIS and webMethods platforms.

The continuous investment in R&D is also paying off for ARIS. Several analysts recognized the portfolio with top positions in the rankings. For example, Gartner and Forrester Research rated Software AG a leader in the field of enterprise architecture. **For further information, refer to our website.** In the Forrester Wave™: Enterprise Architecture Management Suites, Q2 2011 study published in April 2011, Forrester Research ranked Software AG and its ARIS Platform as a leader in this new market segment. We received top marks in the categories of overall strategy, product architecture and market presence. In evaluating providers, Forrester examined third-generation tools with functionalities that cover the entire life cycle of enterprise architecture management (EAM). Forrester described Software AG as a “provider with high potential for success in this market” and highlights important criteria that were essential to classifying Software AG as a leader in the field of enterprise architecture management suites (EAMS) and reflect the ARIS portfolio’s range of functions:

- “Software AG promises the best EAMS business orientation.”

- “The combination of Software AG’s product and services divisions forms an important basis for the potential success of the provider in this market. The unique selling propositions include the business orientation that the company is known for, the link with Software AG’s SOA platform and the company’s metadata strategy using CentraSite.”

Software AG’s service repository, CentraSite, is an additional key element of the EAMS solution. Companies can use CentraSite to develop, store and manage SOA services. With the enterprise architecture (EA) functions of the ARIS Platform, service portfolios can be managed professionally in order to plan the life cycle of the SOA services and to link them with the business processes.

The R&D efforts of the ARIS developer team will continue to focus on expanding the ARIS product range, enhancing user friendliness and broadening the use of ARIS within the enterprise. Addressing Internet users will also play an increased role, and we are therefore planning to further expand our ARIS community; at 100,000 members, it is already the world’s largest BPM community.

BPE product line: webMethods product platform

The webMethods R&D department is active throughout the world at 19 locations in Germany, Bulgaria, Israel, India, the United Kingdom, France, Canada and the United States, employing a global staff of 519 (2010: 466). The focus of its activities in 2011 was on further integrating the ARIS and webMethods product lines with each other. The goal is to integrate the individual steps for process modeling, automation and monitoring. Software AG places great emphasis on simpler operation for our solutions, as well as a lower total cost of ownership (TCO) for our customers.

New product developments

With webMethods, the full potential of new, open architectures and existing infrastructures can be exhausted. The products allow closer collaboration between IT and the other



departments, lowering the time and costs for process optimization and system integration while significantly increasing productivity.

In April 2011, Software AG introduced new versions of our market-leading software solutions for the areas of business process management (BPM), integration, SOA and SOA governance and IT modernization: webMethods 8.2 (business process management) and ARIS 7.2 (business process analysis). These products support the seamless integration of ARIS and webMethods. They offer advanced functionalities, such as interoperability of process models, extensive content integration, business-driven event processing, IT agility and change management or support for Web-oriented architectures.

This approach means a particular added value for our customers: Only an independent integration and process platform enables enterprise-wide rapid development, implementation and finally monitoring of business process solutions in real time. Through the interplay of ARIS and webMethods, organizations can better align their IT with business goals and integrate a larger number of BPM stakeholders into the development process. Implementation and upgrades become easier. And last but not least, the result is lower TCO (total cost of ownership).

Master data management (MDM) was another focus of R&D activities in 2011. At CeBIT 2011, Software AG presented a solution for process-driven MDM: webMethods OneData. Thus, we are expanding our presence in the acknowledged growth segment of master data management. According to IT market research and consulting firm Gartner, MDM revenues will climb in 2012 to US\$1.9 billion. In the latest forecast from Gartner, the market will achieve revenues of US\$3.2 billion by 2015.

With WebMethods OneData, enterprises improve the quality of their data sets and increase their availability, which provides the companies with a better foundation for business-

critical decisions and greater operational efficiency. Analysts generally rate Software AG's approach very positively. The leading market analyst firm specializing in MDM, The Information Difference, ranked Software AG number one in its third annual report, The MDM Landscape Q2 2011. This is the third time in a row that webMethods OneData has occupied first place in a technology evaluation. Further integration of webMethods OneData into the solution portfolio of Software AG is planned for 2012 — giving customers better value from their existing investments.

Also at CeBIT 2011, Software AG supplemented its webMethods Business Events portfolio with a solution for complex event processing. This addresses an additional segment with increasing demand. The solution analyses the relationship between the event data and identifies patterns across a variety of sources, allowing companies to quickly adapt their processes to changing conditions and react more quickly to the needs of their customers, partners and other stakeholders.

Software AG and Trillium Software—a division of the Harte-Hanks Group and a leading provider of data quality solutions—announced their cooperation at ProcessWorld in June 2011. The joint out-of-the-box solution offers customers a seamless MDM process that enhances the quality and hence the value of data in all business activities. Customers receive a fully integrated and certified solution for consolidation, enrichment and administration of master data, and the combined expertise of both partners is reflected in a single product.

Thanks to Software AG's acquisition of in-memory technology provider Terracotta Inc. in fiscal year 2011, our customers now benefit from a new clustering technology for the webMethods product suite. And the improved caching functionality results in a 50 percent increase in product performance for CentraSite. The technology allows access to data held in-memory (cached), which can be accessed about 1,000 times faster than via databases, providing customers with

a significant cost advantage. Software AG successfully integrated this technology into our portfolio in only five months, and it is now also being used as part of Software AG's cloud readiness strategy as well.

Our integrated portfolio introduced in 2011 perfectly meets the needs of today's user and has drawn the interest of our customers. Cloud computing remains a core issue in the webMethods environment for the current fiscal year. Presently, our R&D group is working on a completely cloud-enabled application platform, which we will present in the course of the year.

ETS product line

A total of 187 (2010: 198) employees in ETS are collaborating to develop our product portfolio at seven locations in Germany, the UK, Israel, Bulgaria, Japan, Canada and the United States. This includes the core products of ADABAS and NATURALOne. This global distribution helps us most effectively exploit increased cost benefits and specific expertise, because each location focuses on certain products or product groups.

Integrating the ETS product portfolio with ARIS and webMethods was the dominant theme of the development team's work in 2011. This integration is necessary to the sustainability of the entire portfolio. Not least in this area, the team achieved lasting success in the period under review and developed solutions that bring additional benefits to our customers for their tried-and-tested mainframe systems.

In 2011, a key aspect was application monitoring. We developed, for example, new features for monitoring applications that complement our Optimize for Infrastructure: Mainframe Edition product. They likewise access developments from the webMethods and ARIS environments. Optimize for Infrastructure displays the performance of all types of Software AG products in a common view, including ADABAS, NATURALOne

and EntireX. It analyzes current performance data and calculates expected future demand, which creates the basis for efficient optimization of system performance. The new application monitoring features are available for EntireX applications. In the course of 2012, they will be available also for NATURALOne and AJAX applications.

The ETS team focused also on developing process performance monitoring for Natural and other traditional applications in 2011. The main objective was to integrate important KPIs (key performance indicators) from the ADABAS and EntireX ETS systems into the ARIS platform. With them, customers can analyze whether the theoretically achievable processing power performance deviates from the actual one.

Numerous new developments were likewise added to the ETS flagship products NATURALOne and ADABAS. The amount of data in enterprises is growing and growing. Keeping it under control and ensuring fast data access at all times require special archiving technologies. The ADABAS Archiving solution, available since mid-2010, comes into play here; it defines, initializes and manages all archiving processes so that users can access the archived data as needed at any time. The features introduced in 2011 now allow logical business-related relationships between data to be taken into consideration in the archiving rules. Also introduced in 2011 were the new, integrated dashboard features for AJAX-based Web applications, as well as a new life cycle management application.

Close communication with our customers has shown that they want these advanced integration capabilities of mainframe computers with the webMethods Integration Server. We achieved this in 2011 as well. Our solution is the only one on the market that handles both incoming and outgoing requests. At the end of fiscal year 2011, Software AG introduced zIIP Enabler for NATURAL, a solution with which customers can reduce operating costs and hence the TCO of their IBM mainframes.

ETS planning for 2012

The ETS development team is addressing application monitoring in 2012. We want to enable single sign-on functionalities across all Software AG product lines. This simplifies navigation for our customers in environments with different Software AG components and allows our portfolio to continue to coalesce.

At the end of 2011, selected customers were already able to use the new data masking functions in ADABAS as part of an early customer review. To test their IT security measures under realistic conditions, companies frequently use their live data for security testing; this data provides the highest quality and is the basis for a very realistic scenario. However, this approach conflicts with the compliance requirements in that live data is extremely sensitive. With our data masking capabilities, companies now get realistic test results with the greatest possible data protection. We will continue to develop ADABAS in 2012 on the basis of the early customer review findings. The focus will be on the issues of security, administration, clustering, replication and archiving.

7.2 CUSTOMERS AND SALES

In 2011 we continued conducting a multitude of sales-support measures to promote customer loyalty and awareness of other interesting products from our portfolio. We conducted customized events in our conference center outfitted with the latest in technology. Through our customer success program, companies can demonstrate how using Software AG technologies helped them succeed. In addition, Software AG presents an annual Customer Innovation Award, recognizing customers who have created particularly innovative, exemplary solutions with our technologies. We also organize numerous other customer events and training sessions, provide a great deal of information on our website about our technologies and application options, and organize business communities on the Internet. **For further information, refer to our website.**



Trade shows, forums and other events are a good opportunity for us to meet customers, prospective customers and other interest groups and to present our new technologies to them. Numerous one-on-one interviews give us valuable feedback from the market which we were able to integrate into our product strategy. In addition, events such as CeBIT generate extensive coverage in the business and technology press. Our ProcessWorld 2011 trade shows for customers, held in Europe and the USA, were visited by several thousand international participants from business and government. These events provide a unique forum for process owners and IT decision-makers to discuss their experiences and exchange information about new approaches in the area of BPE. **For customer references about our events, refer to our website.**



7.3 EXPANDING THE PARTNER NETWORK

Software AG's technology, sales and consulting partners are an important component of our growth strategy. The global partner network consists of system integrators, OEM partners, resellers and independent software vendors and consulting firms. They primarily promote business relating to the BPE product line and, again in 2011, made an important contribution to business success.

The licensing revenues generated by our partners came from projects with new customers and existing ones. Vertical market expertise plays a major role in our business success with our partners, because their knowledge of the customers' industry-specific requirements and processes is critical for project success. Our partners' industry expertise centers on the following four business segments: public administration, banking/insurance, telecommunications and manufacturing.

The importance of the partner business grew overall in 2011. Our partners included our company's integrated BPE offerings in their marketing efforts after the large partner network and IDS Scheer AG's product portfolio merged at the end of 2010.

The focus also included the expansion of activities with globally operating system integrators to jointly position Software AG products. The system integrators contribute business content and examples of use, while Software AG supplies the software solutions. By combining our efforts in this way, we create a clear added value for our customers together.

The new solutions for master data management, mobility, and in-memory technology, which we gained through the acquisition of the companies Metismo and Terracotta and our new collaboration with Trillium, appealed greatly to our existing partners, who adopted them with great enthusiasm. At the same time, the acquisitions opened up new partnership options for Software AG.

In fiscal year 2011, we focused on a proactive partner program with our most important partners. We further expanded our collaborations with our largest partners worldwide while implementing regional initiatives with key partners, and we added new success factors to the partner program, such as annual planning sessions, balanced scorecards and a vertical industry focus. In addition, during 2012, we will work with our partners using tried-and-true methods to develop vertical process templates and solutions.

7.4 EMPLOYEES

Employees are a modern software and service provider's most important resource. Their commitment and skills make a difference in our company's success. We support our employees at Software AG with targeted human resources development programs and offer an innovative, performance-oriented work environment. Results-oriented employees will find challenging work and attractive international career opportunities at Software AG.

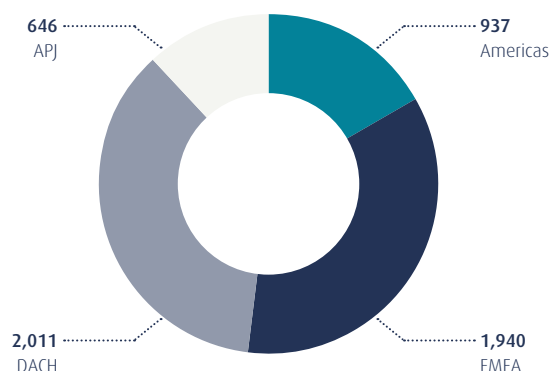
Especially when there is a lack of skilled workers, retaining existing employees while attracting new ones stands at the forefront of our HR work. In order to attract the best minds in the future, we are training young people, facilitating collaboration and sharing across departments, offering individual HR development programs and strengthening our already established position as an attractive employer.

Workforce development

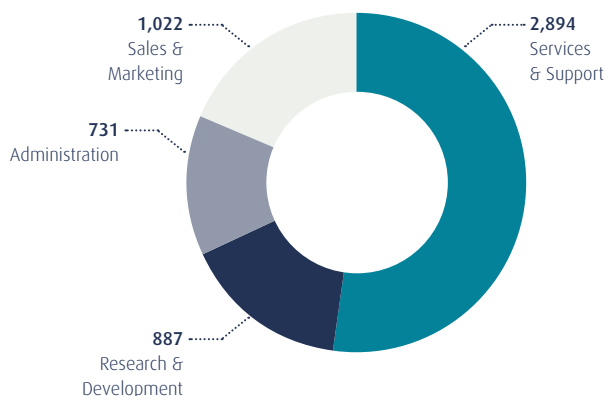
At the end of 2011, Software AG had a total of 5,535 employees worldwide, in contrast to the 5,644 (full-time equivalents) working for the company as of December 31, 2010. In line with our Group's global positioning, these employees' jobs are spread out over our locations in 70 countries.

Headcount by functional and regional areas is distributed as follows:

HEADCOUNT BY REGION *



* In accordance with the structure of the consolidated income statement

HEADCOUNT BY FUNCTIONAL AREA *

* In accordance with the structure of the consolidated income statement

Focal points of human resources activities in 2011

Our human resources strategy is to provide services in line with the business strategy and the labor market and create a cooperative work environment. To support the growth we are striving for in the company, Human Resources has made it its business to shape global HR processes in a scalable fashion, so that they could grow with the ever growing organization. An essential aspect is the thorough digitization of global processes. As a pioneer in digital enterprises for our customers, Software AG would like take a leadership role internally as well.

The integration of IDS Scheer was a major focus for HR in 2011. Over the course of the year, all relevant employer/central works council agreements were extended to the new employees. The topics of business partnerships, company pension plans, working hours regulations, long-term time accounts and travel policies have all been standardized

in Germany, where most of the IDS staff members were added. Likewise, our new employees were integrated into our company's IT system; for example, they were added to our global SAP HR database, our global SAP HR master system, which forms the basis of our global organization management containing consistently defined report paths and responsibilities.

Special attention will be directed toward staff members who will come to Software AG through future acquisitions. Via a structured integration plan and close technology links they will be brought together under the Software AG brand in joint teams, as required by their customer and project work. Special training sessions and workshops are a way to exchange expertise on the shared portfolios as well as information on corporate processes and cultures.

The international team from the new Human Resources department—established in September 2011—developed a new global human resources strategy for 2012 to 2014 and discussed and coordinated it with the Management and Supervisory Boards. This strategy focuses on aligning HR processes and strategies with company objectives, in particular rapid international growth, both organically and through acquisitions. Key areas here are global talent management, international management development, integrated performance management and standardizing remuneration structures and incentive mechanisms. HR management places particular emphasis on further promoting interaction and collaboration across departmental and national boundaries.

Internally, we have a number of best practices in different countries, which will certainly help the company grow. Our assumption is that a learning organization will develop. We take care to share knowledge more quickly and easily and to learn from others. This best-ball principle leads to winning performances not only in sports. Software AG's management is aware that corporate culture plays the most important role

in the success of an organization. Organizational structures established by the management are only the “hardware.” A company’s “software” is its employee culture—everyone’s willingness to take responsibility for succeeding along with the customer.

Programs that focus on the different stages of life of our employees are an integral component of our human resources strategy. We expanded our human resources programs in 2011 with the goal of intensifying how we convey our common values of innovation, trust, responsibility, open communication and a spirit of success. Understanding cultural differences and tolerance form the foundation of our successful customer-oriented business. We unite teams and cultures with the help of common values and a sensitivity to cultural differences. As of December 31, 2011, there were people working for Software AG from 70 countries around the world.

About 20 percent of managerial positions are held by women. We will increase our focus on hiring, retaining and supporting qualified women in the future. The ability to balance a job and family plays an important role in that. In addition, we will define uniform standards and conditions with the introduction of a global function and salary matrix in 2013. This will promote international exchange, developmental opportunities and fair compensation structures. The fact that performance and qualification-based human resource activities do not depend on culture, gender or nationality is a matter of course to us. Our salary system is based on individual functions, personal performance, general market conditions and Software AG’s business success. Individual recognition and a wide range of social and supplementary benefits reflects the value of our employees.

Demographic change, but also the changing life plans and expectations of our workforce have made the subject of work/life balance a focus of our human resources strategy. Software AG is therefore undertaking various measures to make this a priority. As an innovative software company,

we offer — among other things — flexible working structures. This includes programs for helping our staff achieve a work/life balance, such as variable working hours, part-time employment, working from home, time accounts, sabbaticals and employee assistance options.

Human resources development programs

We rely on regular, structured annual reviews and assessments by supervisors and HR professionals, along with systematic management development, to identify young talents with strong leadership skills. The International High Potentials program, in existence since 2005, nurtures those who have distinguished themselves through their outstanding performance. The nine-month program to develop staff for the management level was conducted in the second half of 2011.

The High Potentials program focuses on such subjects as leadership and strategy, as well as innovation and change management. The program’s objectives are to develop employees and promote loyalty to the company, prepare suitable employees for taking on greater responsibility, recruiting reliable resources for available management positions, and creating a forum for international networks and exchanging best-practice knowledge.

Training and continuing education

Software AG has made a name for itself as an attractive employer. As a result, the shortage of skilled labor that is impeding growth in Germany in particular is not affecting us as much as other companies. Nonetheless, it is because of that that we are working continuously on our positioning in the labor market, and especially on our own employees’ qualifications and motivation.

In today’s battle for the best brains, high-quality training and continuing education of employees is a key competitive advantage. This is especially true for the IT sector, which faces a great deal of pressure to innovate. Our experts need a variety

of skills to design suitable customer solutions tailored to companies' ever-changing business needs. In addition to the relevant technical and industry expertise, which must always be kept up to date, social and interpersonal skills are increasingly in demand. They include, for example, communication skills, public speaking, negotiating skills and mobility. Only employees with excellent training are able to always develop and implement the best solution for our customers.

In order to meet this high standard, our Corporate University has a range of comprehensive training offerings for technical topics as well as social skills. It promotes excellence in our employees in all countries and areas through continuous learning and close interaction. Contemporary IT-based learning methods and styles that can be embedded in everyday work promote and encourage continuous learning. That's why beyond traditional in-person instruction, online models of teaching are gaining importance, from e-learning and virtual classrooms to collaborative forms of learning based on Web 2.0 technologies. In 2011, we again expanded our Corporate University's training options significantly. Nearly 2,200 courses spanning the range of learning formats were offered during the year. A new peak of 13,000 registrations was achieved this year. About three quarters of this training was offered online or virtually. The number of certifications received almost doubled in comparison to 2010 to around 600.

New code of business conduct and ethics

Long-term success is possible only if companies and their employees consistently follow legal and ethical principles in their day-to-day work. The newly established Compliance Board has written a code of business conduct and ethics that defines what we at Software AG mean by ethical behavior.

This code includes a basic set of values and codes of conduct that all Software AG employees around the world must observe—in all countries and cultures. All employees have been invited to familiarize themselves with the rules and to take advantage of the provided training and opportunities

for feedback. If they truly exemplify the code of conduct in their professional lives, they will contribute to an open and trusting atmosphere at Software AG. In conjunction with our Corporate University, we offer Web-based training on the subject, consisting of a presentation and a subsequent review through selected questions. All employees must participate in training on a regular basis. It is also a part of the introduction process for new employees.

We have decided to introduce this code now because our company is working more and more at the international level and thus increasingly in other cultures. This code is important to us, even if it is not prescribed by German law. Usually, large, globally active customers have such a code of conduct and they expect their IT services partner to comply with it. Against this backdrop, an internationally established set of values ensures clarity for all employees.

University Relations—from ideas to innovations

To keep abreast of cutting-edge trends in technology, find tomorrow's top employees and prevent a shortage of skilled labor, Software AG maintains close contact with universities. As part of the University Relations program launched in 2007, Software AG actively seeks contact with universities and colleges worldwide and provides them with software products for teaching and research purposes free of charge.

Turning ideas into innovations—from institutions of higher learning to the market. Our slogan means that the results of the research conducted through our higher education program are implemented to achieve market success. In this way, Software AG helps students and universities to develop their ideas and research results in a practical way. Setting up a virtual economy on campus helps students gain low-cost practical experience. By providing seed capital and support for thesis work, the expanded University Relations program, now in over 20 countries, promotes the best of the creative solutions—including founding start-up companies if the potential is great enough. More than 200

projects worldwide have already resulted in 37 bachelor's and master's theses.

After over four years, we drew some positive interim conclusions about our University Relations program at the end of 2011: 350 departments at 180 universities/colleges had taken part to date. The volume of €50 million planned in 2007 was clearly surpassed, and more than 9,000 students have gone through the program, learning about service-oriented architectures (SOA) and business process management (BPM). This exceeded our own target significantly. Because of its success, the University Relations program will be further rolled out globally in the coming years. In the future, even greater emphasis will be placed on teaching start-up entrepreneurs and future managers core skills. Our objective is to combine existing IT excellence with managerial skills.

Along with the House of IT (HIT) founded in Darmstadt in 2011, the expansion of the University Relations program is an important step toward promoting and strengthening the European software industry. The Hessian state government and partners from science and industry, including Software AG, jointly founded the House of IT. It is intended to be a place where the partners collaborate closely and interact in an atmosphere of trust to create innovation and jobs. As an IT platform for the internationally prominent Frankfurt-Rhine-Main metropolitan area, HIT combines IT activities for the region from the private and public sector while providing a platform for research and development, interdisciplinary education and training, and start-up activities. Especially for small and medium-sized IT companies, HIT is intended to be an indispensable starting point for collaborative research, training, and consulting in the future. Software AG is a founding member and sponsor of HIT.

In September 2011, Software AG started an idea competition at universities in Germany and abroad. We called on faculty and students to submit creative proposals for a showcase project at CeBIT 2012 on the topic of business

processes and highlighting Software AG technology. The objective was to present the software in a way that can be experienced—based on the idea of making software tangible. The showcase project is intended to give visitors an understanding of the topic of business process management. Creative ideas that bring this complex issue to life simply and clearly will be honored.

7.5 SUSTAINABLE CORPORATE SOCIAL RESPONSIBILITY

As a globally active company, Software AG feels committed to bearing corporate social responsibility and environmental responsibility. We are working on multiple levels using a variety of measures to shape a sustainable, future-oriented society.

To us, acting responsibly means showing appreciation—to employees, partners and customers, as well as vis-à-vis other stakeholders and the society and environment in which we live. Appreciation means deep-seated customer bonds and employee loyalty, along with a credible public image and environmental sustainability.

We do not consider sustainability from a purely ecological point of view. Rather, we have a broader definition of the term. We see it as the creation of long-term value in various ways: Our customer relationships, technology, partnerships, and investments in our company and our employees' knowledge capital are assets that have endured for many years and will continue to do so, bringing true benefits for society and all stakeholders.

For us at Software AG, sustainable and responsible action means leading a successful company. We define business success as:

- Making our customers around the world successful
- Researching and developing our own solutions
- Setting standards and developing patents
- Being a strong and reliable partner for our partners

- Developing our employees, and therefore our company
- Growing and operating profitably
- Maintaining exemplary values and social standards in our day-to-day action
- Promoting education and innovation at all our locations around the world
- Benefitting society

Our software solutions serve as tools for transparency and trust, speed and control, flexibility and efficiency. These solutions are our contribution to minimizing global crises and threats. **For further information, visit our website.**



8 TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

Software AG's share capital totaled €86,766,468 before deduction of treasury shares and is divided into 86,766,468 bearer shares. Each share represents €1.00 of the share capital. On May 5, 2011, the Annual Shareholders' Meeting approved the redistribution of the share capital by way of a three-for-one stock split. Each share entitles the 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.

Authorized capital and share repurchase

Software AG has authorized non-issued capital pursuant to the decision of the Annual Shareholders' Meeting on May 5, 2011. 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 4, 2016 up to a total of €43,074,091 by issuing up to 43,074,091 new bearer shares against cash contributions or contributions in kind (authorized capital).

Furthermore, the company is authorized to purchase treasury shares up to ten percent of the existing share capital at the time of the resolution of the par value on or before May

20, 2015 in order to realize benefits associated with the acquisition of treasury shares in the interest of the company and its shareholders. Treasury shares may be purchased on the stock market or through a public purchase offer directed to all shareholders of the company. **Please refer to the Notes for additional information on the conditional capital, authorized capital and the acquisition of treasury stock.**



Significant shareholders

Software AG Foundation, Darmstadt, holds approximately 29 percent of the outstanding shares in Software AG. The foundation is a separate nonprofit legal entity and is devoted worldwide to the themes of therapeutic pedagogy, social therapy, education, services to youth and senior citizens, environment and research. No other shareholders hold more than ten percent of the 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 €218.5 million (2010: €205.0 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 who resigns due to a change of control within twelve months of such change and without good cause will receive a severance payment equal to three annual salaries based on the annual target remuneration most recently agreed. For two Management Board members, the average target performance ratio for the preceding three full fiscal years is taken as a basis. In case of resignation, 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. Other takeover-related disclosures not mentioned in this section do not apply to Software AG.

9 FEATURES OF THE REMUNERATION SYSTEM

The Remuneration Report is part of the Corporate Governance Report, which is an integral component of the Management Report and can be found in its entirety in the Corporate Governance Report on page 32.



10 RISK REPORT

10.1 RISK AND OPPORTUNITY MANAGEMENT SYSTEM

10.1.1 OBJECTIVES OF THE RISK MANAGEMENT SYSTEM

Software AG's primary goal is to generate long-term, profitable growth, accompanied by a steady increase in enterprise value. To that end, we combine established, stable business activities with an involvement in promising new market segments and regions. 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 from ongoing business, for example, by keeping a constant eye on product quality through evaluating support queries or managing exchange-rate risks.

10.1.2 ORGANIZATION OF THE RISK MANAGEMENT SYSTEM

Fundamental organization of the global risk and opportunity management system

A Group-wide risk and opportunity management system enables us to identify potential risks early and to assess and limit them to the best possible extent. 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, including a key performance indicator (KPI) system that contains short, middle and long-term KPIs. The Management Board is continuously informed of current and future risks and opportunities as well as the overall 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.

Central responsibility for Group-wide processes

Risks and opportunities throughout the world are managed and controlled at corporate headquarters for both Software AG and the individual Group companies. 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. 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. In order to enhance transparency, these policies are administered and published centrally. 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 risk management system

1. Controlling

Controlling—which is under unified global leadership—monitors operating business risks in real time and reports operational figures monthly to the Management Board. In addition, both operational and strategic risks are analyzed by means of a key performance indicator system and reported quarterly to the Management Board.

2. Treasury

The Corporate Treasury team creates daily cash reports for the Management Board, and all Group-wide risks from foreign-currency transactions are reported to the Management Board weekly. All high-risk foreign-currency and hedging transactions may be conducted only by the Corporate Treasury team, which is directly below the CFO. The country subsidiaries are forbidden by a central treasury policy from engaging in any high-risk transactions with derivatives. Regular internal audits monitor compliance with this policy.

3. 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 and the management and supervision processes. It is also geared to the creation of added value for Software AG by optimizing business processes. Internal Audit reports directly to the CEO and operates worldwide.

4. Risk management in the financial reporting standards process

The risk of errors in the financial reporting standards process is largely eliminated by the following processes:

- Detailed, global, IFRS-compliant accounting standards must be used. Compliance with these standards is monitored regularly at all levels by both Corporate Finance and Internal Audit.
- The countries' accounting departments are monitored by the local Finance, Controlling, and Administration (FC&A) managers, who are in turn supervised by the regional FC&A managers. The country subsidiaries report their figures to Corporate Accounting, which is part of the Corporate Finance team. There, the figures from the country subsidiaries are consolidated with the SAP/BCS software tool. At the same time, the Business Intelligence team consolidates the countries' profit and loss statements with the Office Plus management information system. This team is part of Corporate Controlling. Finally, the two consolidated Group income statements are compared with each other, any deviations are investigated, and discrepancies that arise are reported.
- Worldwide separation of functions in generating and reviewing accounting figures is guaranteed by splitting into two areas: Corporate Finance and Corporate Controlling. Both of them, with different managers, report to the CFO separately.
- 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 administered through cooperation agreements and are legally regulated. Central departments in the areas of Corporate Finance and Corporate Controlling handle essential accounting for services in the divisions. In addition, the intercompany transactions policy standardizes internal Group coordination processes throughout the world. The revenue process is strictly controlled by means of the Global Deal Desk system in the commencement of contract negotiations phase. All customer contracts go through this approval process, in which Corporate Finance and Corporate Controlling are also involved.

- All contracts with a volume of more than €100,000 are randomly checked for revenue recognition at the Group level.
- After completing the quarterly reporting, Internal Audit reviews all key customer contracts worldwide with a view to their 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) and Internal Audit departments.
- Only employees of Group 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 to evaluate such complex matters as pension provisions, legal risks, and purchase-price assignments within the framework of acquisitions.

5. Strategic risk management (RCM)

The strategic risk management system is composed of a central Group team that reports to the CFO and the employees responsible for risk (risk advisors). One risk advisor, who is at the level just below the Management Board, is responsible for monitoring and managing each recognized strategic risk. Risks are evaluated according to a specially-developed, standard point system. All Group managers are requested to report new strategic risks to the central Group team when they are discovered. The Group team then informs the Management Board for advice on the course of action. The central Group team reports to the Management Board regularly about the ongoing development of the recognized risks.

10.1.3 ENSURING THE EFFECTIVENESS OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

Internal Audit regularly reviews the effectiveness of the risk management system (RMS) and the internal control system. If necessary, suggestions for improvement are developed, which are then introduced centrally or their introduction is monitored centrally. Corporate Finance and Corporate Controlling regularly conduct an internal review of accounting-relevant control processes and modifies them for new developments.

10.2 PRESENTATION OF KEY INDIVIDUAL RISKS

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

10.2.1 ENVIRONMENT AND SECTOR RISKS

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 adversely impact the business potential of the individual business lines.

The balanced revenue mix at Software AG reduces dependence on a single geographical or professional IT submarket. Due to our increasing global expansion, Software AG is not particularly dependent on individual regional markets. The three business lines — ETS, BPE and IDSC — market technologies that are used in a large number of industries, ruling out a concentration on individual industries or customers. We take advantage of our technical innovations and growing range of integration products, including the integration of mainframe-based applications, to promote the satisfaction of our customers and to secure our broad customer base over the long term.

By deploying integration and modernization products from both our product lines, ETS and BPE, our customers achieve

considerable cost reductions for their IT infrastructure. The return-on-investment times are very short for our customers. Hence, our products offer a way to cope with crisis-induced cost pressures. The overwhelming majority of our customers use our software for business-critical applications that cannot be shut down even in times of economic crisis. Therefore, our revenue flow is very stable, especially from maintenance services. For these reasons, the recent economic crisis had only minor adverse effects on Software AG's business. New, innovative products will ensure further growth. The company expects to see additional revenue growth in the future on the basis of the opportunities discussed here.

The European debt crisis

The debt crisis in individual euro zone countries that has been escalating since 2010 has had a limited impact on Software AG's primary business. The Software AG Group earned only 4.6 per cent of its profitable product revenues in the PIGS countries (Portugal, Italy, Greece and Spain) in fiscal year 2011.

10.2.2 CORPORATE STRATEGY RISKS

Product risks

The high-tech software industry is generally susceptible to innovation risk and negative effects from new competitor products. Close collaboration between Sales, Product Marketing, Management and Research and Development (R&D) makes it possible for the development of new products to be market-driven and also market-relevant. As is typical in the software industry, one of our greatest challenges is to optimally allocate our R&D resources. This risk is reduced by implementing our functional triangle (Sales - Marketing - R&D) and by close contact with customers in all industries and countries. Moreover, we maintain close contact with technology analysts so as to be continuously informed of new market and product developments. With newer development trends, Software AG's products are also augmented by acquisitions. For this reason, among others, Terracotta and Metismo were all acquired in the year under review. Acquiring U.K.-based company Metismo Ltd. is allowing us

to enter the rapidly growing market for mobile applications. The acquisition of Silicon Valley-based Terracotta complements our product portfolio with innovative technology for in-memory and cloud solutions.

As technological leaders—a fact confirmed by independent analysts—in the BPE product area in particular, we are often operating in technological uncharted waters. This carries the risk of marketing products that are not completely technologically mature, which can then damage customer relationships. We manage this risk using the Entire Readiness of Software AG for New Technology/Release initiative we implemented in 2009 to prepare the whole Software AG Group optimally for launching new products.

The company's Research and Development uses open-source code in its product development to a lesser extent. In doing so, the self-developed source code absolutely must function separately from the open-source code components. In order to guarantee this, Software AG implemented R&D internal approval processes in 1998. Furthermore, we introduced measures to conduct a controlling analysis for using open source elements by reviewing the program code's software technology. There is a risk that these processes could fail in isolated cases and the company would not be able to impose any licensing fees for products contaminated with open-source code rights.

ETS product line

Our traditional ETS products division is in an advanced stage of the product life cycle, which presents the risk of weakening revenue in this product area. Our stabilization strategy for this business is based in part on the option to extend customers' existing licensing rights to generate new sales revenues. This option cannot be repeated arbitrarily after contracts have been adjusted. This raises the risk that ETS licensing revenues in certain core countries could decrease rapidly. ETS growth in recent years was informed in particular by acquiring the customers of one of our sales partners in Brazil, and this geographic expansion has now largely been

completed. The steady trend of customers switching from mainframes to the less-expensive open systems platforms increases the risk of weakening maintenance revenues.

Software AG is counteracting these risks through the following measures:

- Process improvements through the BPE product portfolio support ETS modernization, thereby increasing the product line's life cycle.
- New sources of revenue are being tapped by the steady expansion of the ETS product portfolio through add on products.
- A Global Maintenance and Support business unit is being implemented in 2012. This unit is responsible for global coordination of all measures necessary to stabilize maintenance revenue from the ETS business.

The measures taken are likely to have a stabilizing effect on revenues for this product line, so only a slowdown in sales in the single-digit range is expected.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. The continuing consolidation of the middleware market means that there is a risk of further weakening Software AG's acquisition-driven growth due to a reduced number of potential target companies.

There is also the risk that the companies acquired will not be integrated successfully. The challenges arising from this include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. In order to successfully integrate the acquired companies, we have defined safeguarding processes for the time prior to and after acquisition:

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. Moreover, the question of whether its corporate culture is compatible with ours is explored.

Post-acquisition phase: We identify potential problem areas as quickly as possible using established control mechanisms with central responsibility for integration. We look at all key areas of the acquired company, including finance, legal affairs, human resources, research and development, sales, marketing and internal communication.

10.2.3 PRODUCT DISTRIBUTION RISKS

Sales risks

The complexity of our products requires a high level of experience and expertise on the part of our sales force. In addition, the advanced technology of our products necessitates the provision of a considerable amount of information when selling them. A new department called Business Unit Sales Enablement was created in fiscal year 2011. It is responsible for developing a platform strategy to increase understanding of our products, both for sales and customers. The establishment of user groups in connection with intensive training of our sales employees and of our customers significantly facilitates the sale of these products. Successfully selling the services offered also depends on the professionalism and good reputation of the respective consultants.

A cluster of operational and strategic measures was enacted to improve our competitive position in the world's most important software market—North America—and to strengthen Software AG's image.

The following operational measures are being implemented:

The previous U.S. head of sales is being appointed to the Group Executive Board; Sales realigned, in part by con-

solidating Sales teams; marketing and sales expenditures significantly increased and regional centers formed for our marketing efforts.

As a strategic measure, we decided to establish a Federal Unit as an authorized national provider for defense and internal security projects and to increase the presence of Mergers & Acquisitions, Research & Development, and Product Marketing in Silicon Valley. In addition, the business base of Terracotta, the Silicon Valley-based company we acquired in 2011, is being significantly increased.

Distribution partner risks

Due to the complexity of our products, undertaking sales via partnerships is a challenge. To ensure these conditions with indirect sales via partners, we are offering targeted training sessions and are focusing on select partners. In fiscal year 2011, responsibility for the partner business moved up one level in the hierarchy to a Group Executive Board member. In addition, investments were initiated in partnerships with major systems integrators, niche systems integrators, OEM partnerships and resellers, in particular in the ARIS product range.

Service risks

Price is often a key factor in winning projects in the area of professional services. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed budgeted costs. The standard, automated approval process across the Group (Global Deal Desk) and Software AG's project controlling guarantees that adequate risk-adjusted profit margins are taken into account and continuously monitored. A turnaround began for this business unit in 2011 thanks to new back-office, controlling and other processes, which have also been rolled out in the SAP Consulting unit, along with the improved change request management for fixed price projects.

Too few specialists are available in individual market segments for our multitude of complex products. To reduce this

risk, specialist teams are being established for entire regions. Smaller country subsidiaries are focusing increasingly on parts of our product portfolio, and market positioning in the various market segments is being realigned depending on the size of the country subsidiaries.

Personnel risks

Employees are the most important asset for an innovative company like Software AG. Therefore, one of the central challenges is having a sufficient number of highly qualified employees at all relevant sites at all times. This risk is reduced by enhancements to our remuneration systems, hiring young talents and introducing targeted incentives. In addition, we are balancing high and low-cost locations. The higher turnover rate in the IDS Consulting Business due to integration and greater competition for highly qualified SAP consultants increase the risk that we will not be able to accept certain jobs due to a lack of staff.

10.2.4 FINANCIAL 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. due to the fact that components of our research and development and global marketing are based in the U.S. We further utilize derivative financial instruments to mitigate 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.

Risks from financial instruments

Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure 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 2011 by €1.6 million (2010: €0.5 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, 2011 would have caused Group net income in 2011 to increase by €1.2 million (2010: €1.7 million) and the remaining reserves in equity to decrease by €1.2 million (2010: €1.7 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, 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.

10.2.5 LEGAL RISKS

Patent infringements

Especially in the U.S., the large number of software patents granted as well as the peculiarities of U.S. procedural law favor the bringing of patent lawsuits. This also affects Software AG.

Such 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 established an Intellectual Property Rights team to counter patent law suits. This team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against competitors' claims, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio. Software AG owns 94 (2010: 69) patents from 49 (2010: 36) patent families. In addition, 214 (2010: 192) registrations from 110 (2010: 90) patent families are pending. Of a total of 24 (2010: 25) filings in 2010, 22 (2010: 17) were for new inventions. These patents could contribute in the future to generating additional licensing revenues.

Patent law suits

A software company from Virginia, USA sued Software AG along with eleven other defendants, including IBM and SAP, in February 2010 for infringing on several of its software patents. The suit was brought before the court in Virginia, USA. The court ordered that the legal proceedings for Software AG and some of the other defendants be abated. The proceedings are continuing against only one of the defendants. The outcome of these proceedings will determine whether the proceedings against Software AG will continue. The court rejected the suit during the test case trials, and the plaintiff has appealed the ruling. The court of appeals rejected the appeal in January 2012. It remains to be seen whether the plaintiff will introduce further legal action.

Other litigation

In connection with the domination and profit transfer agreement with IDS Scheer AG, a large number of legal challenges were filed with the Saarbrücken regional court, in which the plaintiffs seek an increase in cash severance and annual compensation. Software AG considers the valuation objec-

tions to be inconsequential. The proceedings were combined into one. The first hearing took place on February 29, 2012.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with the Saarbrücken regional court, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the valuation objections raised to be inconsequential. The proceedings were combined into one. The proceeding is at an early stage; oral proceedings before the court have not yet taken place.

In connection with the termination of David Broadbent's Management Board membership, Mr. Broadbent has instituted legal proceedings before the Darmstadt regional court, which the company considers to be unfounded. After an extensive exchange of briefs, the court has pronounced its order to hear evidence. Because of an illness-related absence, the date for hearing of evidence has not yet been determined.

Furthermore, a small number of judicial proceedings arise concerning issues related to distribution or the scope of rights of use; generally, however, the number of other legal disputes is very low.

10.3 GENERAL STATEMENT ON THE GROUP'S RISK SITUATION

An overall view indicates that risks in the Software AG Group 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.

11 EVENTS AFTER THE BALANCE SHEET DATE

On February 10, 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the district court of Delaware for violating one of its software patents. This NPE

has filed similar parallel lawsuits against other defendants. The complaint has not yet been served upon Software AG. Therefore, the risks cannot be conclusively assessed.

12 FORECAST

12.1 OVERALL ECONOMIC OUTLOOK

After the recession-related economic recovery, the global economy entered a phase of lower growth in 2011. According to the Institute for World Economics (IfW) in Kiel, Germany, this was due to the debt crisis in the euro zone, uncertainties about the state of the financial sector, fiscal policy debate in the United States, and surprisingly weak momentum in emerging markets. The global crisis of confidence began in July 2011, when the United States wrestled with raising the public debt ceiling while the European Union was to set a new aid package for Greece in motion. Reform of the bailout fund was also pending. The results presented on both sides of the Atlantic were not considered by the markets to be a solution to the debt problems and could not prevent a loss of confidence. The economic concerns were due to more than just the debt crises, however; in the preceding months, confidence indicators had already decreased slightly worldwide when supply chains were interrupted by Japan's natural and nuclear disasters. Another stress factor was the major hike in energy and raw material prices. Demand in most emerging markets remained dynamic compared to the industrialized economies. It has remained moderate despite a cyclical slowdown. It was intentional for the most part: In many places, such as in China, India and Brazil, monetary and financial policy experts took the reins because of high inflation. Aggregate demand was dampened as a result.

The IfW expects global production to increase by only 3.4 percent in the current year, following a moderate increase of 3.8 percent in 2011. The gross domestic product is expected to grow 4.0 percent in 2013, although the economy is trending downwards. The continued moderate increase in production will have only a slight effect on reducing unemployment in industrialized countries. At the same time, inflationary pressure is likely to remain low.

**GROSS DOMESTIC PRODUCT IN ADVANCED COUNTRIES AND REGIONS
FOR FISCAL YEARS 2011-2013**

	2011	2012	2013
United States	1.7	1.9	2.2
Japan	-0.7	1.8	1.4
Euro zone	1.5	-0.1	1.2
United Kingdom	0.8	0.4	1.3
Industrialized countries as a whole	1.6	1.4	2.0
China	9.5	8.0	8.5
East Asia*	4.8	4.1	4.8
Latin America	4.8	5.0	5.2
India	6.7	7.0	7.5
Russia	4.0	4.0	3.7
World economy overall	3.8	3.4	4.0
For information only: World trade volumes	6.0	4.5	6.5

* East Asia: emerging Asian countries, excluding China and India

Source:
Kiel Institute for the World Economy (IfW):
Sluggish World Economy 2011

Significantly weaker development is to be expected throughout Europe in the coming year. Due to the intensification of the debt crisis in the euro zone, measures to reduce the budget deficit have been adopted in an increasing number of countries. They are dampening demand in the short term. In their forecast, the IfW experts assume that the high degree of uncertainty about the progress of the European debt crisis in conjunction with restrictive financial policies will seriously damage domestic economic activity in the euro zone. The IfW expects the euro zone as a whole to have a GDP for 2012 of -0.1 percent (2010: 1.5%).

In China, economic momentum slipped slightly in 2011, from 9.5 percent to 8 percent. Due to the debt crisis in the euro zone, economic uncertainty in the United States, and the natural disaster in Japan, Chinese exports, in particular, lost momentum. The IfW's economists expect the real gross domestic product to grow by 8.5 percent in 2013. India's real GDP will grow by 30 basis points to 7.0 percent in 2012, as shown by initial early indicators from the OECD (Organization

for Economic Cooperation and Development). The decline in aggregate output during the year points to the considerably weaker economic momentum in the rest of East Asia. The IfW's experts anticipate macroeconomic output of 4.8 percent in 2011 and 4.1 percent in 2012.

The increase in GDP in Latin America will likely rise from 4.8 percent in 2011 to 5.0 percent in 2012. On average, a flatter growth course is expected for the current year and next year in Latin America. This development is accompanied to a great extent by moderate inflation and easing in the labor market.

According to the IfW, global trade will climb in 2011 at a rate of only 4.5 percent—in contrast to the strong growth of 6 percent in 2011. In 2013, the expected global trade growth rate of 6.5 percent should be slightly above the medium-term average.

Uncertainty remains high about the progress of the European debt crisis and economic development in the United States.

This is partly because the banking sector's heavily modified risk assessment—for example, relating to a larger country defaulting on its debt—can lead to a credit crunch with a major impact on real economic momentum. Furthermore, industrialized countries' economic policies intended to combat budget deficits have longer-term effects on the economy. Almost every industrialized nation is to reduce its budget deficit significantly over the coming years.

12.2 ANTICIPATED SECTOR TREND

According to current figures of the European Information technology Observatory (EITO), the global IT market is set to expand by 5.4 percent in 2012 and exceed the threshold of one trillion euros for the first time. The IT market includes expenditures for computers and other IT hardware, as well as for software and IT services.

The BRIC countries (China, Russia, India and Brazil), some of which have double-digit growth rates forecast for 2012, are major growth drivers. IT sales in China are expected to grow more than 10 percent to well over €204.5 billion. Double-digit growth rates are likewise projected for the Indian IT market.

Projected growth in the European Union will amount to 2.7 percent in 2012, for a total of €320 billion. Global spending should develop as follows in 2012, according to market research firm Gartner:

OUTLOOK FOR WORLDWIDE IT SPENDING in fiscal 2012

in € billions	Expenditure	Growth (%)
Computing hardware	424	5.1
Enterprise software	285	6.4
IT services	874	3.1
IT overall	3,798	3.7

Source: Gartner (January 2012)

According to the German Association for Information Technology, Telecommunications and New Media (BITKOM), the German ICT market will exceed the €150 billion mark for the first time next year. For 2012 in Germany, BITKOM expects a plus of 2.2 percent (to €151.3 billion). The IT sector leads the overall market with growth of 4.5 percent to €73 billion.

12.3 CORPORATE STRATEGY OPPORTUNITIES

The results from fiscal year 2011 show that Software AG's vendor-neutral, cross-industry product and service portfolio is a robust and future-oriented business model. Following the weaker revenues in the fourth quarter, the emphasis in the coming years will be on reinforcing our leadership position in the EMEA and DACH regions and achieving a leading market position in other major countries of the Americas and Asia and thus globally stable revenue distribution for the Group. With

IT MARKET IN GERMANY

	Market volume in billions of euros				Growth rates in percent		
	2009	2010	2011	2012	09/10	10/11	11/12
IT hardware	16.1	19.4	19.6	20.6	20.4	1.1	5.2
Software	14.3	15.4	16.2	17	7.9	5.1	5.2
IT services	32.5	33	34.2	35.5	1.7	3.6	3.8
Total	62.9	67.8	70	73.1	7.8	3.2	4.6

Source: BITKOM, EITO; November 2011

the increased focus on the growth themes of the high-profit BPE area, complemented by the stable maintenance revenue and high margins of the traditional ETS area, the company is continuing to pursue profitable growth.

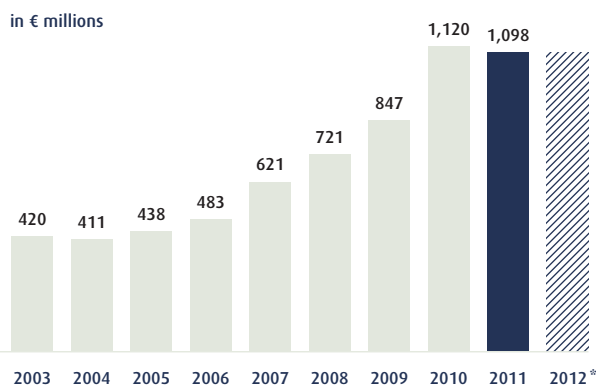
Over the past ten years, Software AG has shown continued robust sales and earnings growth and achieved one billion euros in revenue in 2010, a year earlier than expected in the long-term planning. Given the current uncertain economic environment, we expect that 2012 will be a year of stabilization and consolidation. This stage is important in order to lay the foundation for new growth by protecting our revenue amounts and market position.

We have proven that we can hold our ground even in a difficult economic environment. In a company-wide, comprehensive management system at all levels of the Group, we continually identify the opportunities presented to us and the risks we face on the market. **Details about our corporate strategy and our objectives can be found in Section 1.4 Corporate Strategy and Objectives;** the Risk Report describes the potential risks for Software AG.



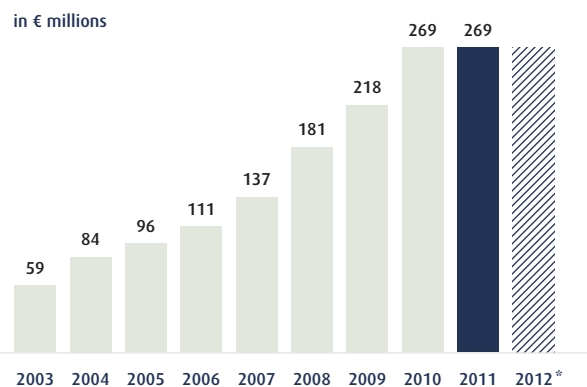
Consolidation in 2012 after strong sales and earnings performance since 2003—a foundation for further growth

REVENUE DEVELOPMENT



* Expected development

EBIT DEVELOPMENT



* Expected development

Currently, we see opportunities for Software AG primarily in the following area:

Increasing significance of software for business and society

Software has become a central component of our society. One reason that software and IT services are now taking up a greater share of value creation and employment is that they play an importance role in almost all areas due to their function as cross-cutting technologies. The Fraunhofer ISI study on the software industry in Germany assumes that more than half of all industrial products depend on the use of ICT technologies. Expressed in figures, this means that more than 40 percent of overall economic growth is due to the use of ICT. Software is the key factor that enables productivity gains through all other ICT technologies, and it is essential to economic growth and social welfare. The economic significance of software and IT services has increased massively and will continue to do so. As stated in the Munich Declaration at Germany's 6th National IT Summit on the importance of software to the country:

"We must see the rapid digitization of business and society as an opportunity for Germany. Smart technologies are

key to growth and prosperity. They are the basis for the expansion and transformation of the existing infrastructure to smart networks. The increasing integration of networks requires well-developed digital infrastructure. The Internet will become the central structure for business processes between companies and for the establishment of new value chains. Enterprise and industry boundaries are shifting, and new business models are emerging. In short, the world is becoming networked, mobile, smart.”

The innovations necessary to the creation of economic growth, the promotion of social change and the preservation of our environment depend significantly on ICT, of which software is the focus. Digital technologies are thus at the center of this development, which increasingly promotes productivity, sustainable growth and innovation in all sectors of the economy. This paradigm shift opens up immense possibilities for Software AG:

Transformation to a digitized enterprise in a linked society

In a business world characterized by global competition, market conditions and demands change at an extraordinary pace. In the blink of an eye, entire industries can be forced to change dramatically due to technological breakthroughs. The fastest companies to react to change are the winners. That is why reacting flexibly and agilely is a matter of survival for organizations of all sizes and in all industries. A level of agility is required of organizations that has never before been possible with their existing IT application landscapes. Transforming into a true digital enterprise is the challenge for the coming years. The key technology is a flexible, vendor-neutral process and integration platform across all divisions. Digitization is already underway and means a radical change in the way companies conduct their business. The market for this breakthrough

technology is exploding. As a technology leader, Software AG can be propelled with it into the top tier of global software vendors. Ideally, an enterprise’s business processes are fully mapped digitally and based on flexible, customizable IT systems. A more effective course of business must be clearly defined, transparent, and measurable at every point. Only then can deviations be noticed quickly; appropriate measures are then taken to correct them or even to anticipate possible errors. Management, the working level, and external partners and customers are connected across sites by excellent processes. Also, these processes should have a high degree of flexibility, so that they can quickly be adapted to changed market or environmental conditions. This helps companies create the basis for realizing new business models rapidly and even integrating external suppliers efficiently into their own value chain. Key performance indicators (KPI) support an organization in achieving such targets as customer satisfaction, service quality and profitability.

Because of the necessary digitization of companies, software will be an integrated—in some cases dominant—component for flexible and agile business processes in the future. This is the foundation for business process excellence (BPE). We are certain that the digitization of enterprise processes will be of pivotal importance to the business models of tomorrow. BPE is therefore a future market for IT and a growth market for providers. We are the first company to offer a completely integrated BPM solution that covers the value creation chain from beginning to end. Our industry-leading brands—ARIS, webMethods, ADABAS, NATURAL and IDS Scheer Consulting—form a unique portfolio for all the process-management requirements of modern enterprises: strategy, design, implementation, visibility, and monitoring of processes; SOA-based integration and data management; process-oriented SAP implementations; and strategic consulting and services.

12.4 GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

Due to general economic uncertainty, we expect revenue for fiscal year 2012 to be between -3 percent and +3 percent year on year. For the BPE business, we anticipate a growth rate of 5 to 15 percent and a decline of 7 to 12 percent in ETS in the current year.

In terms of operating earnings, we expect to achieve an EBIT margin ranging from 23 to 24.5 percent. At the moment, all our actions and plans focus on operational improvements to business performance.

We will take advantage of 2012 to invest more in the future-oriented BPE segment. Therefore, as stated above, we are consistently adapting our international organization to future market requirements. We will further accelerate our sales and marketing activities and align them more closely with the high-growth topics in the BPE market. This applies in particular to the United States, the home market of our largest competitors. With these measures, and through further sustained success in EMEA and DACH, we are creating the necessary conditions for long-term, stable growth.

We plan to maintain our continuity-focused dividend policy in the future as well. The economic environment and our current liquidity requirements must also be taken into account, however.

IRFS FORECAST for fiscal 2012

in € millions	2011	Forecast 2012 in %*
Consolidated total revenue	1,098.3	-3 to +3**
BPE	527.9	+5 to +15**
ETS	381.3	-12 to -7**
EBIT margin (in %)	24.5	23.0 to 24.5**

* As of Jan. 24, 2012

** At constant currency

Outlook for the first quarter of 2012

Given the typical seasonal tendencies, revenue in the first quarter of 2012 will be lower than the extraordinarily strong performance of the previous year

Software AG is well positioned for the future, thanks to our leading position in the high-growth market of business process management, our robust business model and the operational and strategic measures we introduced. We will accelerate our total revenue growth by expanding our presence in countries with high growth rates. In addition, we will extend our business base by means of custom industry solutions.

We aim to be an internationally leading software company on all levels: technological innovation, growth, as an attractive employer and in customer value.

Medium-term planning

Software AG is continuing to follow an ambitious growth plan. We expect to see profitable growth again starting in 2013. Buoyed by the growing BPE business, total revenue growth in the mid to high single-digit range at constant currency is expected. The operating margin (EBIT) is expected to continue increasing and to contribute to corresponding net income growth.

We plan to double the 2010 revenues of our largest segment, the fast-growing BPE, by the end of 2015. Our aim with our traditional ETS division is to further optimize our cost structure while maintaining a very high profit margin.

In all projects in our IDS Scheer Consulting business segment, our focus is on profitability. Our medium-term goal is an operating profit margin in the mid-single-digit range.

We are sticking to our medium-term earnings targets: We will strive to improve the operating EBIT margin for the Software AG Group to up to 30 percent in the next three to five years. We intend to double net income by the end of 2015.

We will continue to support revenue growth both organically and inorganically (through acquisitions). Larger acquisitions help speed the development of Software AG by expanding our portfolio, customer base and critical size in other countries. We are confirming our stated target of making a major acquisition approximately every two to four years. We carefully review any options that arise anywhere in the world.

Software AG has demonstrated great potential for growth since 2003. We have achieved our goal of establishing ourselves as the leading provider in the growth market of BPE. This is the business of the future, which we are continuously strengthening through technological innovations such as in-memory, mobility and cloud computing technologies. Our measures to stabilize and promote operational performance in the world's markets are securing our company's long-term future. Software AG's Management Board sees the company as well prepared to assert itself in the challenging environment of the future.

MEDIUM-TERM TARGETS (3-5 YEARS)

BPE BUSINESS LINE

- Two-digit license revenue growth
- Doubled revenue by the end of 2015 (compared to 2010)

ETS BUSINESS LINE

- Maintenance revenue mostly stable
- Optimization of cost structure to maintain operating margin >50 percent

GROUP

- EBIT margin growth up to 30 percent
- Doubled net income by the end of 2015
- Large acquisition every 2-4 years

We want to

- Be one of the world's leading vendors of enterprise software in the long term
- Be one of the leading vendor-neutral providers of BPE in the countries where we are present
- Be one of the most economically successful software companies in the world
- Remain independent with the help of our anchor investor, Software AG Foundation
- Seek major acquisitions on a regular basis in order to combine organic and external growth

13 STATEMENT ON CORPORATE GOVERNANCE

The company submitted its Statement on Corporate Governance on March 9, 2012. It will be published in March 2012 on our **website**.

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 27, 2012 on our **website**.



Integration



CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

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CONSOLIDATED INCOME STATEMENT
for fiscal years 2011 and 2010

in € thousands	Note	2011	2010
Licenses		295,234	327,372
Maintenance		378,678	369,431
Services		419,783	418,663
Other		4,639	4,061
Total revenue	[5]	1,098,334	1,119,527
Cost of sales	[6]	-442,147	-442,052
Gross profit		656,187	677,475
Research and development expenses	[7]	-88,038	-91,987
Sales, marketing and distribution expenses	[8]	-230,227	-238,902
General and administrative expenses	[9]	-75,110	-85,267
Operating result		262,812	261,319
Other operating income	[10]	30,901	43,806
Other operating expenses	[11]	-24,517	-36,515
Earnings before interest and taxes		269,196	268,610
Financial income	[12]	7,318	6,616
Financial expense	[12]	-17,220	-20,856
Earnings before taxes		259,294	254,370
Income taxes	[13]	-71,110	-72,666
Other taxes	[14]	-10,975	-6,072
Net income for the year		177,209	175,632
Thereof attributable to shareholders of Software AG		176,960	175,415
Thereof attributable to non-controlling interests		249	217
Earnings per share in € (basic)	[16]	2.05	2.06
Earnings per share in € (diluted)	[16]	2.03	2.05
Weighted average number of shares outstanding (basic)		86,195,814	85,140,456
Weighted average number of shares outstanding (diluted)		87,249,051	85,523,259

STATEMENT OF COMPREHENSIVE INCOME
for fiscal years 2011 and 2010

in € thousands	Note	2011	2010
Net income for the year		177,209	175,632
Currency translation differences		4,546	46,690
Net gain/loss on remeasuring financial assets	[32]	-3,657	-1,166
Net gain/loss arising from translating net investments in foreign operations		4,185	-780
Net actuarial gain/loss and asset caps on defined benefit plans	[27]	2,518	-6,927
Other comprehensive income	[29]	7,592	37,817
Total comprehensive income		184,801	213,449
Thereof attributable to shareholders of Software AG		184,552	213,232
Thereof attributable to non-controlling interests		249	217

CONSOLIDATED BALANCE SHEET
as of December 31, 2011 and 2010

in € thousands	Note	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents		216,479	102,467
Inventories		505	1,341
Trade receivables	[17]	304,736	337,796
Other receivables and other assets	[18]	43,909	43,012
Prepaid expenses		8,656	9,536
		574,285	494,152
Non-current assets			
Intangible assets	[19]	248,202	232,631
Goodwill	[19]	752,223	717,297
Property, plant and equipment	[20]	65,365	66,356
Financial assets	[21]	3,446	5,262
Trade receivables	[17]	13,197	13,028
Other receivables and other assets	[18]	3,990	47,836
Prepaid expenses		1,256	1,596
Deferred taxes	[22]	18,731	21,452
		1,106,410	1,105,458
		1,680,695	1,599,610
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	[23]	26,088	136,837
Trade payables	[24]	58,066	60,465
Other liabilities	[25]	88,656	68,064
Other provisions	[26]	83,315	139,685
Provisions for taxes	[28]	20,171	53,113
Deferred income		105,269	127,927
		381,565	586,091
Non-current liabilities			
Financial liabilities	[23]	251,278	132,871
Trade payables	[24]	453	91
Other liabilities	[25]	8,798	4,252
Provisions for pensions	[27]	38,200	41,890
Other provisions	[26]	11,495	15,726
Deferred taxes	[22]	36,745	47,388
Deferred income		679	1,982
		347,648	244,200
Equity	[29]		
Share capital		86,828	86,148
Capital reserve		35,716	22,512
Retained earnings		867,053	727,070
Other reserves		-37,095	-44,687
Treasury shares		-1,675	-22,313
Attributable to shareholders of Software AG		950,827	768,730
Non-controlling interests		655	589
		951,482	769,319
		1,680,695	1,599,610

CONSOLIDATED STATEMENT OF CASH FLOWS [30]
for fiscal years 2011 and 2010

in € thousands	2011	2010
Net income for the year	177,209	175,632
Income taxes	71,110	72,666
Net financial income/expense	9,902	14,240
Amortization/depreciation of non-current assets	46,276	46,387
Other non-cash income/expense	6,475	7,083
Operating cash flow before changes in working capital	310,972	316,008
Changes in inventories, receivables and other assets	80,071	-22,420
Changes in payables and other liabilities	-63,676	25,033
Income taxes paid	-120,334	-78,991
Interest paid	-15,709	-18,843
Interest received	7,320	6,657
Net cash provided by operating activities	198,644	227,444
Proceeds from the sale of property, plant and equipment/intangible assets	1,985	1,708
Purchase of property, plant and equipment/intangible assets	-14,435	-12,461
Proceeds from the sale of financial assets	2,886	6,855
Purchase of financial assets	-1,383	-5,796
Payments for acquisitions, net	-59,210	-25,863
Net cash used in investing activities	-70,157	-35,557
Proceeds from issue of share capital	34,628	180
Payments for share repurchase	-19,900	-32,758
Dividends paid	-37,160	-32,834
Additions to financial liabilities	200,000	305
Repayments of financial liabilities	-193,449	-222,449
Purchase of non-controlling interests	0	-28,052
Net cash provided by/used in financing activities	-15,881	-315,608
Change in cash and cash equivalents from cash-relevant transactions	112,606	-123,721
Currency translation adjustment	1,406	8,047
Net change in cash and cash equivalents	114,012	-115,674
Cash and cash equivalents at beginning of period	102,467	218,141
Cash and cash equivalents at end of period	216,479	102,467

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [29]
for fiscal years 2011 and 2010

in € thousands	Common shares (no.)	Share capital	Capital reserve	Retained earnings	Currency translation differences
Equity as of Jan. 1, 2010	86,125,230	86,125	39,406	584,211	-78,130
Total comprehensive income				175,415	46,690
Dividend payment				-32,556	
New shares issued	22,953	23	157		
Stock options			4,378		
Issue and use of treasury shares	382,623		3,215		
Repurchase of treasury shares	-1,200,000				
Transactions between shareholders			-24,644		
Equity as of Dec. 31, 2010	85,330,806	86,148	22,512	727,070	-31,440
Equity as of Jan. 1, 2011	85,330,806	86,148	22,512	727,070	-31,440
Total comprehensive income				176,960	4,546
Dividend payment				-36,977	
New shares issued	679,662	680	15,714		
Stock options			19,793		
Issue and use of treasury shares	756,000		-2,403		
Repurchase of treasury shares			-19,900		
Equity as of Dec. 31, 2011	86,766,468	86,828	35,716	867,053	-26,894

Other reserves			Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
Fair value measurement of securities and derivatives	Actuarial gains/losses and asset caps from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
1,769	-6,923	780	0	627,238	19,923	647,161
-1,166	-6,927	-780		213,232	217	213,449
				-32,556	-350	-32,906
				180		180
				4,378		4,378
			10,445	13,660		13,660
			-32,758	-32,758		-32,758
				-24,644	-19,201	-43,845
603	-13,850	0	-22,313	768,730	589	769,319
603	-13,850	0	-22,313	768,730	589	769,319
-3,657	2,518	4,185		184,552	249	184,801
				-36,977	-183	-37,160
				16,394		16,394
				19,793		19,793
			20,638	18,235		18,235
				-19,900		-19,900
-3,054	-11,332	4,185	-1,675	950,827	655	951,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

1 BASIS OF PRESENTATION

Software AG's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) and as applicable in the 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, 2011 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC — formerly SIC).

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 is generally considered to exist if Software AG directly or indirectly controls the majority of voting rights of an entity's subscribed capital and/or is in a position to govern the financial and operating policies of a company.

The following affiliated entities are part of the Group of Software AG (parent company):

	Ownership interest %	Abbreviation
A) DOMESTIC ENTITIES		
Software Financial Holding GmbH, Darmstadt	100	SAG-MK
IDS Scheer Consulting GmbH, Saarbrücken (formerly SAG East GmbH - A Software Company)	100	SAG-ME
SAG Deutschland GmbH, Darmstadt	100	SAG-D
SAG Consulting Services GmbH, Darmstadt	100	SAG-PS
IDS Scheer EMEA GmbH, Munich	100	
RTM Realtime Monitoring GmbH, Marburg/Lahn	100	RTM
FACT Unternehmensberatung GmbH, Frankfurt am Main and its subsidiaries	65	
FACT Informationssysteme und Consulting AG, Neuss	55	
FACT Unternehmensberatung Schweiz AG, Zurich/Switzerland	90	
itCampus Software und Systemhaus GmbH, Leipzig and its foreign subsidiary	100	
itCampus Schweiz AG, Sursee/Switzerland	80	

	Ownership interest %	Abbreviation
B) FOREIGN ENTITIES		
Software AG (UK) Limited, Derby/United Kingdom and its subsidiaries	100	SAG-UK
Software AG Belgium S.A., Brussels/Belgium, in which Software AG also has a direct stake	76 24	SAG-B
Natural Software Limited, Derby/United Kingdom	100	
Entire Software Limited, Derby/United Kingdom	100	
Entire Business Solutions Limited, Derby/United Kingdom	100	
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	SAG-BULG
Software AG (Gulf)S.P.C., Manama/Kingdom of Bahrain	100	SAG-GULF
Software AG France S.A.S, Courbevoie Cedex/France and its subsidiary	100	SAG-F
Expert Consulting S.A., Brussels/Belgium (in liquidation)	100	
Software AG Italia S.p.A, Segrate (MI)/Italy	100	SAG-I
Software AG Nederland B.V., Amsterdam/The Netherlands	100	SAG-NL
Software AG Nordic A/S, Hvidovre/Denmark and its subsidiaries	100	SAG-DK
Software AG Norge A/S, Oslo/Norway	100	SAG-N
Software AG Nordic AB (Aktiebolag), Kista/Sweden (in liquidation)	100	SAG-S
OY Software AG Nordic, Espoo/Finland (liquidated as of Dec. 30, 2011)	100	SAG-SF
Software GmbH Österreich, Vienna/Austria	100	SAG-A
Software AG Polska Sp. z o.o., Warsaw/Poland	100	SAG-PL
Software AG s.r.o., Prague/Czech Republic	100	SAG-CZ
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey in which IDS Scheer CEE S.A. also has a direct stake	95 5	SAG-TR
Software A.G. Argentina S.R.L., Buenos Aires/Argentina in which SAG Deutschland GmbH also has a direct stake	95 5	SAG-ARG
SAG Software Systems AG, Zurich/Switzerland	100	SAG-CH
Softinterest Holding AG, Zug/Switzerland (merged with SAG Software Systems AG, as of June 17, 2011)	100	SIH
Software AG España, S.A. Unipersonal, Tres Cantos, (Madrid)/Spain and its subsidiaries	100	SAG-E
Software AG Portugal, Alta Tecnologia Informática, Lda., Lisbon/Portugal	100	SAG-P
Software AG Factoria S.A., Santiago/Chile	100	SAG-CL
Software AG Brasil Informática e Serviços Ltda, São Paulo/Brazil	100	SAG-BRAS
Software AG de Puerto Rico, Inc., San Juan/Puerto Rico	100	SAG-PUER
Software AG Venezuela, C.A., Chacao Caracas/Venezuela	100	SAG-VEN
A. Zancani & Asociados, C.A., Chacao Caracas/Venezuela	100	AZA
Software AG de Panamá, S.A., Clayton/Panama and its subsidiaries	100	SAG-PAN

	Ownership interest %	Abbreviation
Software AG de Costa Rica, S.A., San José/Costa Rica	100	SAG-CR
Sinsa Móvil, S.A., Clayton/Panama	100	SINSA
Software AG, Inc., Reston, VA/USA and its subsidiaries	100	SAG-USA
Software AG (Canada) Inc., Ontario/Canada and its subsidiary	100	SAG-CAN
IDS Scheer Canada Inc., Toronto, Ontario/Canada (merged with Software AG (Canada) Inc., as of Jan. 1, 2011)	100	
Software AG, S.A. de C.V. (Mexico), Mexico, Distrito Federal/Mexico	100	SAG-MEX
Software AG, LLC, Reston, VA/USA	100	SAG-LLC
Software AG International, Inc., Reston, VA/USA and its subsidiary	100	SAG-INT
Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100	wM-USA
Infravio Inc., Reston, VA/USA (merged with Software AG USA, Inc., as of April 26, 2011)	100	wM-INFRAV
Software AG Chennai Development Center India Pvt Ltd, Chennai/India	100	wM-INFIND
webMethods Australia Pty Ltd., North Sydney/ Australia	100	wM-AUS
Software AG Bangalore Technologies Private Ltd., Bangalore/India	100	wM-IN
webMethods Software Development (Beijing) Co. Ltd., Beijing/China (PRC)	100	wM-CHINA
webMethods Germany GmbH, Darmstadt/Germany	100	wM-D
Software AG Ltd. Japan, Tokyo/Japan	100	SAG-JAP
Software AG Korea, Ltd., Seoul/Korea	100	wM-KOR
Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100	wM-MAL
webMethods UK Limited, Derby/United Kingdom	100	wM-UK
Software AG Australia (Holdings) Pty Ltd., North Sydney/Australia and its subsidiary	100	SAG-AUS (Holding)
Software AG Australia Pty Ltd., North Sydney/Australia	100	SAG-AUS (operat)
Terracotta Inc., USA, San Francisco/USA and its subsidiaries	100	
Terracotta Software Limited UK, Bristol/United Kingdom	100	
Terracotta Software India Private Limited, New Delhi/India	100	
IDS Scheer Americas, Inc., Berwyn/USA (merged with Software AG USA, Inc., as of Jan. 1, 2011)	100	
IDS Scheer Canada, Inc., Montreal, Canada	100	inaktiv
IDS Scheer Japan Co. Ltd., Tokyo/Japan (merged with Software AG Ltd. Japan, as of Jan. 1, 2011)	100	
Data Foundation, India	100	
SGML Technologies Limited, Derby/United Kingdom	100	SGML
Software AG (Hong Kong) Limited, Hong Kong/China (PRC)	100	SAG-HK
Software AG (Singapore) Pte Ltd, Singapore/Singapore and its subsidiary	100	SAG-SIN
Software AG (Asia Pacific) Support Centre Pte Ltd, Singapore/Singapore	100	SAG-AP

	Ownership interest %	Abbreviation
Software AG (M) Sdn. Bhd., Kuala Lumpur/Malaysia	100	SAG-MAL
Software AG (Philippines), Inc., Pasig City/Philippines	100	SAG-PHI
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100	SAG-ZA
Software AG (India) Private Limited, Maharashtra/India	100	SAG-IN
SAG Systems RUS Limited Liability Company, Moscow/Russia	100	SAG-RUS
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia	95	SAG-SA
in which IDS Scheer Consulting GmbH also has a direct stake	5	
S.P.L. Software Ltd, Or-Yehuda/Israel and its subsidiaries	100	SPL-ISR
Software A.G. (Israel) Ltd, Or-Yehuda/Israel and its subsidiary	100	SAG-ISR
Sabratec Technologies, Inc., Or-Yehuda/Israel	100	SAG-ISRUS
SPL Systems (1986) Ltd, Or-Yehuda/Israel	100	SPL-SYS86
SPL Idor Management Ltd, Or-Yehuda/Israel (liquidated as of Aug. 1, 2011)	100	SPL-IM
SPL Idor Business Solutions, Or-Yehuda/Israel (liquidated as of Nov. 9, 2010)	100	SPL-IBS
SPL Holding B.V., Or-Yehuda/Israel and its subsidiary	100	SPL-HOLD
SPL Systems B.V., Or-Yehuda/Israel	100	SPL-SYS
Text Systems International Inc, Washington D.C./USA	100	SPL-TXT
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	
IDS Scheer China Ltd., Shanghai/China (PRC)	100	
IDS Scheer UK Ltd., Birmingham/United Kingdom	100	
Software AG Sweden AB, Bromma/Sweden (formerly IDS Scheer Sverige A.B.)	100	
IDS Scheer Nederland B.V., Den Haag/The Netherlands (merged with Software AG Nederland B.V., as of Aug. 3, 2011)	100	
Software AG Finland OY, Helsinki/Finland (formerly IDS Scheer Finland Oy)	100	
Software AG Development Centre Slovakia s.r.o. Kosice/Slovakia (formerly IDS Scheer SDC s.r.o.)	100	
IDS Scheer Belgium S.A., Brussels/Belgium (merged with Software AG Belgium S.A., as of July 29, 2011)	100	
IDS Scheer Schweiz AG, Zurich/Switzerland (merged with SAG Software Systems AG, as of June 30, 2011)	100	
IDS Scheer Saudi Arabia LLC., Riyadh/Saudi Arabia	95	
in which SAG Software Systems AG also has a direct stake	5	
IDS Scheer Luxemburg S.A., Capellen/Luxembourg	100	
IDS Scheer Slovakia, s.r.o., Bratislava/Slovakia	100	
IDS Scheer CR, s.r.o., Prague/Czech Republic (merged with Software AG s.r.o., as of Sept. 8, 2011)	100	
IDS Scheer Polska Sp. z o.o., Warsaw/Poland (merged with Software Polska Sp. z o.o., as of Dec. 30, 2011)	100	
IDS Scheer Hungaria Kft., Budapest/Hungary	100	
IDS Scheer Austria GmbH, Vienna/Austria (merged with Software GmbH Austria, as of July 12, 2011)	100	

	Ownership interest %	Abbreviation
IDS Scheer Iberia S.L., Madrid/Spain (merged with Software AG España, S.A. Unipersonal, as of June 29, 2011)	100	
IDS Scheer Australia – New Zealand, North Sydney/Australia	100	
IDS Scheer s.r.l (Headquarters), Rome/Italy	100	
Software AG Development Center, Lviv City/Ukraine (formerly IDS Scheer Ukraine LLC)	100	
IDS Scheer CEE S.A., Capellen/Luxembourg and its subsidiaries	100	
IDS Scheer, d.o.o., Ljubljana/Slovenia	100	
IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100	
Software AG (RUS), Moscow/Russia (vormals IDS Scheer Russia)	100	
IDS Scheer A.S. Turkey, Istanbul/Turkey (merged with Software AG Bilgi Sistemleri Ticaret A.S., as of Jan. 20, 2011)	100	
IDS Scheer India PVT.LTD., Mumbai/India	100	
IDS Scheer France S.A., Saint-Cloud Cedex/Paris/France (merged with Software AG France S.A.S., as of May 19, 2011)	100	
IDS Scheer Singapore Pte. Ltd., Singapore/Singapore	100	
IDS Scheer Malaysia SDN BHD, Kuala Lumpur/Malaysia	100	
Metismo Ltd. UK, Derby/United Kingdom	100	

CHANGES IN THE CONSOLIDATED GROUP

The number of consolidated entities changed from the level as of December 31, 2010 as follows:

in € thousands	Germany	Foreign	Total
January 1, 2011	10	107	117
Additions	0	3	3
Disposals (including mergers)	0	16	16
Dec. 31, 2011	10	94	104

The additions resulted from the acquisitions of Terracotta USA, Terracotta India and Metismo UK as described in Note 4. The disposal resulted from the merger and liquidation of consolidated enterprises.

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 experience 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, measurement of trade receivables, acquisition accounting, subsequent accounting of goodwill and other intangible assets, and accounting for income taxes and deferred taxes.

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, 2011).

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. For acquired companies, the date of acquisition was taken as the consolidation date.

The initial consolidation of the entities that were first consolidated prior to January 1, 2003 was performed on the basis of the book value method in accordance with Section 301 (1) Sentence 1 of the German Commercial Code (HGB). Accordingly, the acquisition and start-up costs were offset against the Group's share in equity of the consolidated subsidiaries. Initial consolidation after the transition to IFRS on January 1, 2003 was performed in accordance with IFRS 3. Subsequent consolidations were derived from the relevant initial consolidation.

Changes in ownership interests that do not lead to a loss of control are treated as transactions among equity holders and reported within equity.

Goodwill arising from business combinations was offset against retained earnings for acquisitions prior to January 31, 2001 in accordance with Section 309 (1) of the Commercial Code. Goodwill arising after January 31, 2001 was recognized in accordance with the previously applicable HGB (German Commercial Code) accounting principles and amortized over 10 years using the straight-line method.

In accordance with the option set out in IFRS 1.14, the company continued to account for business combinations and the resulting goodwill on the date of transition to IFRS in accordance with the German Commercial Code.

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. Thus goodwill was frozen at the carrying amount stated on the date of transition from HGB to IFRS (January 1, 2003) and only written down in the case of impairment. Goodwill reported on the balance sheet is tested for impairment annually or whenever there is an indication that an impairment has occurred.

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.

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.

Currency translation differences arising from equity consolidation are offset against equity and reported in a separate line item 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 shown 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, 2011	Dec. 31, 2010	Change in %
U.S. dollar	1.2932	1.3380	3.3
Brazilian real	2.4137	2.2211	-8.7
Australian dollar	1.2714	1.3168	3.4
South African rand	10.476	8.8849	-17.9
Canadian dollar	1.3192	1.3370	1.3

.....

AVERAGE RATE			
€1	2011	2010	Change in %
U.S. dollar	1.3920	1.3271	-4.9
Brazilian real	2.3263	2.3353	0.4
Australian dollar	1.3485	1.4441	6.6
South African rand	10.093	9.7179	-3.9
Canadian dollar	1.3758	1.3665	-0.7

For the Venezuelan bolivar, the rate at which the amounts are actually translated is used. Moreover, 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 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.

In the case of multiple element arrangements, 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 contracts for services, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by the SAG 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.

Revenues are reported net of discounts, price rebates, customer bonuses, and allowances.

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 write-downs on inventories were necessary during the reporting period.

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 operating income.

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 advertising costs.

General and administrative expenses

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

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 period in which the employees acquire an unconditional right to the cash settlement or equity instrument. 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.

Fair values are determined using an appropriate option pricing model (Black-Scholes or binomial model).

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.

Other receivables and other assets

Other receivables and other assets are measured at cost and written down to the relevant market price, if applicable.

Prepaid expenses

Prepaid expenses are recognized for prepayments of expenses relating to future periods.

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:

	Amortization period in years	Amortization method
Acquired software	5 – 7	straight line
Acquired customer base	5 – 17	straight line
Acquired order portfolio	-	in accordance with order completion

Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Goodwill

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.

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and impairment losses. 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 added to the carrying amount of the asset 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.

	Amortization period in years
Buildings	40 - 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. Impairments losses are reported under costs of the relevant functional area or under other operating expenses.

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.

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 highly 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.

Liabilities

Liabilities are recorded at amortized cost, except for financial liabilities at fair value through profit or loss. Amortized cost is determined using the effective interest rate. Financial liabilities at fair value through profit or loss only include negative fair values from derivatives, insofar as these were not recognized in hedge accounting.

Provisions

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

Defined benefit plans and defined contribution plans exist with respect to company pensions. The pension provisions are calculated using actuarial principles in accordance with the projected unit credit method set out in IAS 19. This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known as of the balance sheet date.

Employees do not receive illness-related allowances either in Germany or abroad.

Pension provisions are measured by recognizing actuarial gains and losses directly in equity. Accordingly, 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 retained earnings.

Software AG does not incur any obligations for defined contribution plans other than premium payments on life insurance policies and contributions to special-purpose funds. These payments are recognized in profit or loss for the period.

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.

First-time application of accounting rules

The following amended accounting rules were applied for the first time in 2011, but had no or no significant impact:

- Amendment of IAS 32 "Classification of Subscription Rights"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- IAS 24 "Related Party Disclosures"
- Amendment to IFRIC 14 "Prepayments of Minimum Funding Requirements"

As part of its annual improvement process, the IASB published a number of amendments to various standards to take effect as of January 1, 2011. These amendments had no significant effect on the consolidated financial statements.

New accounting provisions with regard to which Software AG has not opted for early application

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, 2011. The application of these IFRSs requires (except the amendments of IFRS 7 that have already been endorsed by the EU for European law) that they be adopted by the EU as part of the IFRS endorsement process.

In November 2009, the IASB issued IFRS 9 "Financial Instruments." IFRS 9 changes the recognition and measurement criteria for financial assets, including various types of hybrid contracts. The new standard is intended to replace IAS 39 and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. As Software AG currently does not hold any assets available for sale, we do not expect any impact from this change. IFRS 9 also requires a single impairment method to be used. Based on current expectations, this will not have any impact for Software AG. The effective date for mandatory adoption of IFRS 9 is January 1, 2013. Early adoption is permitted.

The IASB published IAS 19 "Employee Benefits" (revised version) in June 2011. It requires companies to recognize actuarial gains and losses in "other comprehensive income." The corridor approach is thus no longer permitted. Because Software AG does not use the corridor approach and its actuarial gains and losses are already recognized in other comprehensive income, this amendment does not affect Software AG. Due to Software AG's insignificant volume of pension obligations, the additional amendments, e.g. the application of a uniform interest rate for the expected return on plan assets and the interest expenses on pension obligations, are not expected to have a significant impact on Software AG.

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, 2011. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

4 BUSINESS COMBINATIONS

In fiscal 2011, to expand its product portfolio, Software AG achieved control over the following entities and their subsidiaries through the acquisition of equity interests:

Company and line of business	Ownership interest recognized on the balance sheet as of Dec. 31, 2011	Date of acquisition/initial consolidation
Terracotta, Inc. San Francisco, USA Provider of in-memory and cloud technology	100	May 11, 2011
Metismo Ltd. UK, Derby, United Kingdom Development platform for mobile applications	100	May 13, 2011

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

The acquisitions — both individually and taken together — had no material impact on the financial position, cash flows or profit or loss of Software AG.

The consideration due for all non-material acquisitions, with the exception of €5,000 thousand in contingent consideration not yet due and €1,059 thousand in payments related to the redemption of share-based compensation not yet due, were paid in cash. Net of cash acquired, consideration due totaled €65,269 thousand. The contingent consideration amounts to €5,000 thousand and depends on employees remaining in key positions.

The following table shows the provisional 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	1,246	0	1,246
Intangible assets	62	42,748	42,810
Goodwill	0	27,718	27,718
Other assets	1,159	12,802	13,961
Assets	2,467	83,268	85,735
Liabilities and provisions	1,683	0	1,683
Deferred tax liabilities	1	16,657	16,658
Deferred income	2,669	-1,790	879
Total equity and liabilities	4,353	14,867	19,220
Acquired assets and assumed liabilities, net	-1,886	68,401	66,515
Payments to shareholders	0	0	60,456
Consideration not yet paid	0	0	6,059
Total consideration paid	0	0	66,515
Cash and cash equivalents acquired	0	0	1,246
Net cost of the business combination	0	0	65,269

The goodwill capitalized in connection with these acquisitions was allocated in full to the Business Process Excellence segment. The recognition of goodwill resulted from the fact that synergies and staff are not separable intangible assets within the meaning of IAS 38. The goodwill arising from these acquisitions is not tax deductible.

Due to intragroup mergers, it is not possible to compute the exact amount of the Group revenue and net income of Software AG attributable to these acquisitions since the date of acquisition. However, such amount is not of material significance for the financial position, cash flows or profit or loss of the Group as a whole.

NOTES TO THE CONSOLIDATED INCOME STATEMENT



5 TOTAL REVENUE

Revenue by segment and region is presented in the segment report in **Note 31**.

Services revenue

Services revenue includes sales of €64,125 thousand (2010: €86,013 thousand), 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, 2011 was as follows:

in € thousands	2011	2010
Costs accumulated over the term of a (multi-year) project and not yet invoiced	97,990	85,157
Recognized profit (+) / loss (-)	5,422	25,152
Advance payments received	75,330	87,033
Retentions	0	2

As of December 31, 2011, the net amount due from customers for unfinished project work was €21,694 thousand (2010: €22,943 thousand), and the net amount due to customers from running projects was €1,011 thousand (2010: €1,353 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 COST OF SALES

The cost of sales amounted to €442,147 thousand (2010: €442,052 thousand) and primarily consists of personnel expenses in customer support and Global Consulting Services as well as purchased services in the services business and amortization of technologies acquired in connection with acquisitions.

7 RESEARCH AND DEVELOPMENT EXPENSES

The research and development expenses of €88,038 thousand (2010: €91,987 thousand) mainly contain personnel expenses for product development and related IT expenses.

8 SALES, MARKETING AND DISTRIBUTION EXPENSES

Sales, marketing and distribution expenses amounted to €230,227 thousand (2010: €238,902 thousand). In addition to personnel expenses and amortization/depreciation relating to the customer bases allocated to the sales division; these costs mainly include marketing expenses.

9 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to €75,110 thousand (2010: €85,267 thousand). They include administrative expenses that are attributable neither to cost of sales nor to sales activities.

10 OTHER OPERATING INCOME

Other operating income includes the following items:

in € thousands	2011	2010
Foreign exchange gains	19,496	29,998
Income from the reversal of provisions and deferred liabilities	11,405	13,808
	30,901	43,806

11 OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

in € thousands	2011	2010
Foreign exchange losses	20,436	33,937
Other expenses	4,081	2,578
	24,517	36,515

12 NET FINANCIAL INCOME/EXPENSE

Financial income included interest on financial assets in the amount of €4,341 thousand (2010: €5,427 thousand). Financial expense included interest expenses for financial liabilities in the amount of €17,109 thousand (2010: €20,189 thousand).

13 INCOME TAXES

Taxes on income are broken down into the following categories:

in € thousands	2011	2010
Current domestic taxes	-34,097	-21,910
Current foreign taxes	-47,851	-67,356
	-81,948	-89,266
Deferred domestic taxes	7,834	10,807
Deferred foreign taxes	3,004	5,793
	10,838	16,600
	-71,110	-72,666

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 domestic companies will be 31.21 percent starting in 2011 (2010: 31.0 percent). Tax rates abroad range between 10 and 39 percent (2010: between 10 and 41 percent).

The tax expense in fiscal 2011 was two percent less than in the previous year.

The income tax expense of €-71,110 thousand (2010: €-72,666 thousand) for fiscal year 2011 was €6,390 thousand lower than the expected income tax expense of €-77,500 thousand (2010: €-76,972 thousand) that resulted from applying the domestic tax rate of 31.21 percent (2010: 31.0 percent) currently applicable at Group level. The effective tax rate for the Group is 28.64 percent (2010: 29.27 percent). The difference between the expected and current tax expense can be attributed to the following:

in € thousands	2011	2010
Earnings before income tax	248,319	248,298
Expected income tax (31.21%; 31.0%)	-77,500	-76,972
Difference vs. foreign tax rates and changes in tax rates	-7,682	-9,923
Income tax income/expense from other periods	6,544	-1,319
Tax increases due to tax-exempt income or non-tax deductible expenses	-3,016	-3,727
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	10,153	21,625
Other adjustments	391	-2,350
Reported income tax expense	-71,110	-72,666

14 OTHER TAXES

Other taxes rose €4,903 thousand to €10,975 thousand (2010: €6,072 thousand) and included property taxes, vehicle taxes and other indirect taxes.

15 PERSONNEL EXPENSES

Personnel expenses in fiscal years 2011 and 2010 were as follows:

in € thousands	2011	2010
Wages and salaries	417,799	446,109
Social security contributions	57,404	59,122
Pension expenses	9,681	8,038
	484,884	513,269

In fiscal 2011, the average number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

	2011	2010
Maintenance and service	2,901	3,103
Sales and marketing	1,029	1,055
Research and development	845	840
Administration	732	772
	5,507	5,770

In absolute terms (i.e., part-time employees are counted in full), the Group employed 5,695 people (2010: 5,798 thousand) as of the reporting date.

16 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 2011, the average weighted number of shares was 86,195,814 (2010: 28,380,152 — pro forma following stock split: 85,140,456).

Through a three-for-one stock split in the second quarter, the company's share capital increased by 56,887,204 shares to 85,330,806 Software AG shares. A total of 1,435,662 stock options were exercised in 2011 (2010: 7,651). In order to fulfill stock options, 756,000 treasury shares were employed and 679,662 more shares were generated by way of a capital increase. The number of shares increased accordingly by 58,322,866. The remaining 61,377 treasury shares are not expected to see a dilution effect since they can be sold at market prices.

Another 1,991,400 stock options from the third stock option plan may be exercised. The dilutive effect on earnings per share was calculated using the treasury stock method.

in € thousands	2011	2010
Net income for the year	177,209	175,632
Less earnings attributable to non-controlling interests	-249	-217
Net income for the year attributable to shareholders of Software AG	176,960	175,415
Weighted average number of shares in issue	86,195,814	28,380,152*
Effect of dilutive share-based payment	581,607	127,601
Weighted average number of shares in issue (diluted)	87,249,051	28,507,753**
Earnings per share in € (basic)	2.05	6.18***
Earnings per share in € (diluted)	2.03	6.15****

* pro forma after stock split: 85,140,456

** pro forma after stock split: 85,523,259

*** pro forma after stock split: 2.06

**** pro forma after stock split: 2.05

NOTES TO THE CONSOLIDATED BALANCE SHEET

17 TRADE RECEIVABLES

Trade receivables include:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
Trade receivables due within 1 year	172,406	191,325
Uninvoiced services (<1 year)	132,330	146,471
	304,736	337,796
Trade receivables due in more than 1 year	8,365	7,554
Uninvoiced services (>1 year)	4,832	5,474
	13,197	13,028

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

in € thousands	Dec. 31, 2011	Dec. 31, 2010
Carrying amount	317,933	350,824
of which neither impaired nor past due as of the balance sheet date	252,542	293,342
of which past due in the following time bands		
1 to 3 months	49,893	45,668
4 to 6 months	6,465	5,044
7 to 12 months	7,039	4,344
> 12 months	1,994	2,426

In a number of countries, bad debt allowances are deducted directly from the trade receivables.

18 OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets mainly consist of derivative financial instruments designated to hedge the management incentive plan in the amount of €1,497 thousand (2010: €43,721 thousand). This item also contains receivables due from tax authorities as well as rent deposits.

19 INTANGIBLE ASSETS GOODWILL

**CHANGES IN INTANGIBLE ASSETS AND GOODWILL
in fiscal year 2011**

in € thousands	Goodwill	Intangible assets	Total
COST			
Balance as of Jan. 1, 2011	719,197	332,701	1,051,898
Currency translation differences	7,208	8,903	15,959
Additions from acquisitions	27,718	43,307	71,177
Additions	0	4,099	4,099
Disposals	0	-2,754	-2,754
Balance as of Dec. 31, 2011	754,123	386,256	1,140,379
ACCUMULATED AMORTIZATION/IMPAIRMENT			
Balance as of Jan. 1, 2011	-1,900	-100,070	-101,970
Currency translation differences	0	-3,176	-3,176
Additions	0	-36,275	-36,275
Disposals	0	1,467	1,467
Balance as of Dec. 31, 2011	-1,900	-138,054	-139,954
Residual carrying amount as of Jan. 1, 2011	717,297	232,631	949,928
Residual carrying amount as of Dec. 31, 2011	752,223	248,202	1,000,425

CHANGES IN INTANGIBLE ASSETS AND GOODWILL in fiscal year 2010

in € thousands	Goodwill	Intangible assets	Total
COST			
Balance as of Jan. 1, 2010	687,985	300,162	988,147
Currency translation differences	23,322	15,475	38,797
Additions from acquisitions	7,890	19,340	27,230
Additions	0	1,537	1,537
Disposals	0	-3,813	-3,813
Balance as of Dec. 31, 2010	719,197	332,701	1,051,898
ACCUMULATED AMORTIZATION/IMPAIRMENT			
Balance as of Jan. 1, 2010	-1,900	-63,595	-65,495
Currency translation differences	0	-4,155	-4,155
Additions	0	-35,866	-35,866
Disposals	0	3,546	3,546
Balance as of Dec. 31, 2010	-1,900	-100,070	-101,970
Residual carrying amount as of Jan. 1, 2010	686,085	236,567	922,652
Residual carrying amount as of Dec. 31, 2010	717,297	232,631	949,928

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. This approach was also used in 2010.

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management. 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. The strategic financial planning consists of a four-year plan. The forecasts take into account historical values and estimates of future developments. Costs to sell are assumed to amount to two percent of the relevant fair value.

The estimated future cash flows for the ETS segment were discounted as of December 31, 2011 using a post-tax weighted average cost of capital (WACC) of 6.5 percent (2010: 7.3 percent). The sustainable growth rate was assumed to be 0 percent (2010: 0 percent). A discount of 20 percent (2010: 20 percent) on the last year of detailed planning was used to determine sustainable cash flows. Even if a discount of 50 percent (2010: 50 percent) was used 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 one percent (2010: 1 percent) and a weighted average cost of capital (WACC) after tax of 7.4 percent (2010: 7.5 percent) for Business Process Excellence segment.

In the impairment test for the IDS Consulting segment, a post-tax WACC of 7.2 percent (2010: 9.1 percent) and a long-term growth rate of one percent (2010: 1 percent) were assumed.

The main assumption in connection with determining the fair value of the IDS Consulting segment is the expected margin improvement. If the expected medium-term margin improvement, which also significantly influences the contribution from the perpetual annuity, was 35 percent below the assumed margin, the fair value less costs to sell would equal the segment's carrying amount.

Even if cash flows were reduced by 50 percent compared to plan figures, the fair value less costs to sell would exceed the relevant carrying amounts in the ETS and BPE segments, and therefore, no impairment losses would be required. In the IDS Consulting segment, cash flows could be about 35 percent below planned cash flows before the fair value less costs to sell would equal the relevant carrying amounts.

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 financial statements:

in € thousands	Carrying amount as of Dec. 31, 2011	Carrying amount as of Dec. 31, 2010	Remaining amortization period (in years)
Customer base obtained through webMethods acquisition	41,859	45,514	8.0
Software (rights and licenses) obtained through IDS acquisition	28,070	35,787	3.7
Software (rights and licenses) obtained through Terracotta acquisition	23,447	0	6.0
Software (rights and licenses) obtained through webMethods acquisition	18,766	25,643	2.4
Customer base obtained through IDS acquisition	18,229	21,492	5.7

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2010:

in € thousands	Carrying amount as of Dec. 31, 2011	Carrying amount as of Dec. 31, 2010
Brand name ("webMethods")* obtained through webMethods acquisition Segment: Business Process Excellence	19,333	18,684
Brand name ("Aris")* obtained through IDS acquisition Segment: Business Process Excellence	17,900	17,900
Brand name ("IDS Scheer")* obtained through IDS acquisition Segment: IDS Consulting	8,800	8,800

* Reason for assuming indefinite useful life: We plan to continue using the brand name for an indefinite period of time and to expand it in the future.

The brand names indicated above are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amount of goodwill was allocated to the segments as follows:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
SEGMENT		
ETS	320,590	323,019
Business Process Excellence	421,651	384,296
IDS Consulting	9,982	9,982
	752,223	717,297

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

20 PROPERTY, PLANT AND EQUIPMENT

CHANGES IN PROPERTY, PLANT AND EQUIPMENT
in fiscal year 2011

in € thousands	Land and buildings	Operating and office equipment	Total
COST			
Balance as of Jan. 1, 2011	71,336	43,168	114,504
Currency translation differences	240	-7	233
Additions	2,912	8,300	11,212
Disposals	-1,158	-6,462	-7,620
Balance as of Dec. 31, 2011	73,330	44,999	118,329
ACCUMULATED DEPRECIATION/IMPAIRMENT			
Balance as of Jan. 1, 2011	-22,503	-25,645	-48,148
Currency translation differences	-138	-197	-335
Additions	-2,871	-7,130	-10,001
Disposals	997	4,523	5,520
Balance as of Dec. 31, 2011	-24,515	-28,449	-52,964
Residual carrying amount as of Jan. 1, 2011	48,833	17,523	66,356
Residual carrying amount as of Dec. 31, 2011	48,815	16,550	65,365

CHANGES IN PROPERTY, PLANT AND EQUIPMENT In fiscal year 2010

in € thousands	Land and buildings	Operating and office equipment	Total
COST			
Balance as of Jan. 1, 2010	69,201	43,461	112,662
Currency translation differences	843	3,075	3,918
Additions from acquisitions	0	12	12
Additions	1,941	8,149	10,090
Disposals	-649	-11,529	-12,178
Balance as of Dec. 31, 2010	71,336	43,168	114,504
ACCUMULATED DEPRECIATION/IMPAIRMENT			
Balance as of Jan. 1, 2010	-19,781	-25,817	-45,598
Currency translation differences	-477	-2,121	-2,598
Additions	-2,861	-7,659	-10,520
Disposals	616	9,952	10,568
Balance as of Dec. 31, 2010	-22,503	-25,645	-48,148
Residual carrying amount as of Jan. 1, 2010	49,420	17,644	67,064
Residual carrying amount as of Dec. 31, 2010	48,833	17,523	66,356

Most of the land and buildings are owned by the parent company, IDS Scheer Consulting GmbH and the Spanish subsidiary. The properties pertain to the central administrative buildings of these entities.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €8,149 thousand primarily relates to expenses for the initial purchase of computer equipment.

21 FINANCIAL ASSETS

Financial assets chiefly relate to the provision of collateral as part of long-term customer contracts as well as rent deposits and assets held to cover the value of long-term employee time accounts.

22 DEFERRED TAXES

Deferred taxes were composed of the following as of the balance sheet date (before offsetting):

in € thousands	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Intangible assets	8,520	11,696	76,378	69,036
Other obligations	11,811	23,573	5,732	3,109
Receivables and financial assets	4,318	1,785	8,169	23,457
Property, plant and equipment	414	773	4,685	4,631
Pension commitments	6,257	7,820	0	217
Prepaid expenses/deferred income	1,790	3,342	485	1,937
Tax loss carryforwards	44,324	27,462	-	-
Total	77,434	76,451	95,449	102,387
Amount offset	-58,703	-54,999	-58,703	-54,999
Amount recognized in the balance sheet	18,731	21,452	36,746	47,388

Deferred tax assets on tax loss carryforwards rose over the prior year by €16,862 thousand. The increase resulted mainly from the acquisition of Terracotta Inc. (San Francisco, USA), which accounted for €12,092 thousand of the rise, and from ongoing consumption of the loss carryforwards as they are offset against taxable income and the appropriate subsequent capitalization based on future income expectations.

As of December 31, 2011, the consolidated Group had unutilized tax loss carryforwards in the amount of €88,532 thousand (2010: €116,727 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €17,307 thousand will expire in the period from 2012 to 2020, €34,047 thousand in the period from 2021 to 2030, and €37,178 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €3,310 thousand (2010: €3,357 thousand), on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that neither are disposals planned nor will future profit distributions result in significant tax expenses.

In fiscal year 2011, deferred taxes totaling €5,705 thousand (2010: €5,075 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.

23 FINANCIAL LIABILITIES

Financial liabilities can be broken down as follows:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
CURRENT FINANCIAL LIABILITIES		
Liabilities to banks	21,166	131,420
Other financial liabilities	4,457	4,450
Bills payable	448	854
Liabilities from finance leases	7	37
Other current financial liabilities	10	76
	26,088	136,837
NON-CURRENT FINANCIAL LIABILITIES		
Liabilities to banks	203,181	84,195
Other financial liabilities	48,000	48,500
Liabilities from finance leases	97	164
Other non-current financial liabilities	0	12
	251,278	132,871

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

in € thousands	Up to 1 year	> 1 year
Loans with variable interest rates	2,349	64,299
Loans with fixed interest rates	23,274	186,882
	25,623	251,181

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 €214,579 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

24 TRADE PAYABLES

Trade payables can be broken down as follows:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
CURRENT LIABILITIES		
Payables to suppliers	52,400	47,722
Payments received on account of orders	5,666	12,743
	58,066	60,465
NON-CURRENT LIABILITIES		
Payables to suppliers	447	91
Payments received on account of orders	6	0
	453	91

25 OTHER LIABILITIES

Other liabilities relate to the following items:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
OTHER CURRENT LIABILITIES		
Tax liabilities	37,536	28,717
Liabilities due to employees	26,159	24,316
Liabilities due to a former Management Board member	7,018	0
Liabilities for social security	6,399	5,399
Deferred lease payments	2,263	2,526
Miscellaneous other current liabilities	9,282	7,106
	88,657	68,064
OTHER NON-CURRENT LIABILITIES		
Outstanding consideration (acquisitions)	7,850	3,288
Liabilities due to employees	905	260
Liabilities for social security	43	102
Miscellaneous other current liabilities	0	602
	8,798	4,252

26 OTHER PROVISIONS

in € thousands	Other provisions for personnel expenses	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2011	60,491	94,920	155,411
Currency translation	189	88	277
Additions	28,167	30,167	58,343
Utilization	-36,169	-73,751	-109,920
Reversal	-5,643	-3,659	-9,301
Balance as of Dec. 31, 2011	47,036	47,774	94,810
of which with a remaining term of more than 1 year	254	11,241	11,495

Miscellaneous other provisions

Miscellaneous other provisions can be broken down as follows:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
Bonuses	24,179	30,849
Obligations from stock price-based remuneration plans	0	39,294
Lease payment obligations	3,717	4,942
Other taxes	3,202	4,245
Impending losses for consulting projects	3,419	3,295
Litigation	2,488	3,711
Asset retirement obligations	982	1,199
Remaining miscellaneous other provisions	9,787	6,663
	47,774	94,198

27 PROVISIONS FOR PENSIONS

in € thousands	Dec. 31, 2011	Dec. 31, 2010
Provisions for pensions (foreign)	16,331	22,714
Provisions for pensions (domestic)	15,783	16,787
Provisions due to existing minimum funding obligations	4,064	0
Provisions for insignificant pension obligations from defined benefit plans and similar obligations	2,022	2,389
	38,200	41,890

The consolidated balance sheet included the following items relating to significant defined benefit plans as of December 31, 2011 and December 31, 2010:

in € thousands	Dec. 31, 2011	Dec. 31, 2010
Benefit obligation, fully funded	6,160	5,005
Benefit obligation, partially funded	67,887	74,662
Benefit obligation, unfunded	1,932	3,191
	75,979	82,858
Present value of plan assets	-43,966	-43,656
Net carrying amounts	32,013	39,202
of which provisions for pensions	32,166	39,500
of which plan assets	155	298

Pension commitments in Germany consist of fixed commitments to a select group of people. These commitments are partially covered by life reinsurance policies.

The major part of the foreign pension commitments result from a defined benefit plan of Software AG (UK) Limited, United Kingdom. The commitments comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employees' death during their active service period. Both the pension commitments from the plan of Software AG (UK) Limited and the pension commitments of the other foreign subsidiaries are partially funded through plan assets.

The actuarial calculations of the defined benefit obligations are based on the following assumptions (weighted averages):

in %	Domestic pension plans		Foreign pension plans	
	2011	2010	2011	2010
Discount rate	5.0	4.8	4.3	5.0
Expected salary increases	0.0	2.0	4.0	4.4
Expected pension increases	2.0	2.0	1.9	2.6
Expected return on plan assets	4.0	4.3	4.3	5.2

The discount rates used have been derived from the interest rates of high-quality bonds with comparable maturities.

Pension commitments in foreign countries are calculated in accordance with country-specific calculation principles and parameters.

Due to the fact that pension commitments in Germany are exclusively invested in life insurance policies, the expected return on plan assets corresponds to the minimum return stated by the insurance company.

The expected return on plan assets for foreign plans was calculated as an expected weighted average of the individual asset classes. The expected returns on such asset classes were determined on the basis of the relevant local capital market conditions.

The changes in the defined benefit obligations and plan assets are as follows:

in € thousands	Domestic pensions plans		Foreign pensions plans	
	2011	2010	2011	2010
CHANGE IN DEFINED BENEFIT OBLIGATIONS (DBO)				
DBO as of January 1	19,937	15,999	62,920	51,562
Service cost	1,483	712	2,570	2,608
Interest expense	932	823	2,563	2,750
Employee contributions	0	0	301	599
Actuarial gains (+) / losses (-)	-2,621	2,748	-7,117	6,291
Pension payments	-591	-635	-5,773	-4,524
Past service cost	0	290	0	0
Exchange differences	0	0	1,375	3,634
DBO as of December 31	19,140	19,937	56,839	62,920
CHANGE IN PLAN ASSETS				
Fair value of plan assets as of January 1	3,151	3,389	40,505	35,777
Expected return on plan assets	134	149	1,910	2,010
Employer contributions	627	536	5,359	3,618
Employee contributions	0	30	301	720
Settlements	0	0	-70	0
Actuarial gains (+) / losses (-)	-3	-387	-2,536	174
Pension payments	-553	-566	-5,767	-4,735
Exchange differences	0	0	908	2,941
Fair value of plan assets as of December 31	3,356	3,151	40,610	40,505

Net periodic pension cost can be broken down as follows:

in € thousands	2011	2010
Service cost	4,051	3,320
Interest expense	3,495	3,573
Expected return on plan assets	-1,975	-2,076
Repayment of expenses/income from retroactive plan amendments (past service cost/benefits)	0	290
Net periodic pension cost	5,571	5,107

Service cost, repayment of expenses from retroactive plan amendments (past service cost), and losses from plan termination and plan curtailments were recognized as personnel expenses under operating expenses. Interest expense, less the expected return on plan assets, was included in net financial income/expense.

Taking into account deferred taxes, actuarial gains and losses recognized in equity changed as follows:

in € thousands	2011	2010
Actuarial gains (+) / losses (-) recognized in the period	4,681	-6,814
Net actuarial gains (+) / losses (-) recognized in the period from insignificant plans and currency exchange effects	850	-123
Accumulated actuarial gains (+) / losses (-) recognized in the period as of December 31	-8,319	-13,850

The effects of asset caps (after deferred taxes) recognized in equity changed as follows:

in € thousands	2011	2010
Effects of asset caps recognized in the period	-3,013	0
Accumulated effects of asset caps	-3,013	0

The plan assets used to fund the pension obligations can be broken down as follows:

in € thousands	Dec. 31 2011	Dec. 31 2010	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
Equities	17,116	14,910	11,128	9,259	21,497
Bonds	7,543	6,318	13,882	7,996	6,289
Life insurance policies	14,956	18,385	11,525	6,386	3,821
Other	4,352	4,043	2,630	446	1,761
	43,966	43,656	39,165	24,087	33,368

The actual return on plan assets amounted to a loss of €563 thousand in 2011.

Contributions from the Software AG Group to plan assets for fiscal year 2012 are expected to amount to €5,608 thousand.

The defined benefit obligations, present values of plan assets, net carrying amounts and experience adjustments for significant plans for the current and the four preceding reporting periods are as follows:

in € thousands	Dec. 31 2011	Dec. 31 2010	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
DBO	75,979	82,858	67,561	39,927	50,597
Present value of plan assets	-43,966	-43,656	-39,166	-24,087	-33,368
Net carrying amounts	32,013	39,202	28,395	15,840	17,229
Experience adjustments to DBO in %	-3.4	3.2	1.5	-17.7	-6.1
Experience adjustments to plan assets in %	-5.1	1.6	6.8	-36.0	7.4

Defined contribution plans

There is an insignificant volume of defined contribution pension commitments. Defined contributions are paid to external insurance companies or funds. Furthermore, primarily in Germany, Software AG makes contributions to the state and/or public pension fund. Defined contribution pension commitments accounted for expenses of €14,730 thousand (2010: €16,013 thousand) in 2011.

28 PROVISIONS FOR TAXES

in € thousands	2011	2010
Balance as of January 1	53,113	45,097
Currency translation	-400	1,430
Additions to the group of consolidated companies	0	0
Additions	7,377	28,887
Utilization	-32,748	-20,861
Reversal	-7,171	-1,440
Balance as of December 31	20,171	53,113

29 EQUITY

Share capital

As of December 31, 2011, Software AG's share capital totaled €86,828 thousand. Since the vote at the Annual Shareholders' Meeting on May 5, 2011 in favor of a three-for-one stock split, Software AG's share capital has been divided into 86,827,845 bearer shares. Each share entitles its holder to one vote.

Conditional capital

The following conditional capital existed as of December 31, 2011:



The requirements of this plan and the status of allocations and options exercised are presented in Notes 38 and 39.

- 1.) Up to €6,160 thousand divided into up to 6,160,338 bearer shares to service subscription rights under the third stock option plan (Management Incentive Plan III, or MIP III) for members of the Management Board and Group officers.

The Management Board's use of this authorization totaled €680 thousand, divided into 679,662 bearer shares, in 2011.

- 2.) Up to €18,000 thousand divided into a maximum of 18,000,000 bearer shares, each with a notional interest in the share capital of €1.00, for the purpose of granting option rights and agreeing on option obligations arising from warrant bonds or granting conversion rights to and agreeing on conversion obligations with bearers of warrant bonds or convertible bonds in an aggregate principal amount of up to €500,000 thousand and with or without a limited term in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 21, 2010.

Pursuant to this authorization, the Management Board may, subject to the consent of the Supervisory Board, resolve on or before May 20, 2015 that the rights described be issued by Software AG or a directly or indirectly held wholly owned affiliate of Software AG.

In this respect, the shareholders are to be granted subscription rights except in the following cases:

The Management Board is authorized to exclude fractional amounts from shareholders' subscription rights and to additionally exclude subscription rights to the extent necessary to allow holders of warrants or convertible bonds previously issued by the company or, after the effective date of the merger of IDS Scheer AG with the company, holders of warrants or convertible bonds previously issued by IDS Scheer AG, to be granted subscription rights in a scope equivalent to that to which they would be entitled as shareholders upon exercising their option or conversion rights or fulfilling their option or conversion obligations.

Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude the shareholders' subscription rights in full, provided it has come to the conclusion that the issue price of the warrant bonds or convertible bonds is not significantly lower than their hypothetical fair value arrived at by using accepted methods, in particular financial calculation methods, after having conducted a review in accordance with its professional duties. However, this authorization to exclude subscription rights only applies to warrant bonds and convertible bonds with option or conversion rights or with share-based option or conversion obliga-

tions having a notional interest in the share capital not to exceed €8,613 thousand, or — if lower — 10 percent of the issued share capital in existence at the time the authorization is acted upon.

As of December 31, 2011, the Management Board had not made use of this authorization.

- 3.) Up to €750,000 thousand divided into a maximum of 750,000 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 Software AG and IDS Scheer AG and in accordance with Section 23 of the German Reorganization and Transformation Act (UmwG).

The Management Board did not make use of this authorization in fiscal year 2011.

Authorized capital

As of December 31, 2011, the Management Board was also authorized, subject to the consent of the Supervisory Board, to increase the company's share capital on one or more occasions on or before May 4, 2016 by up to a total of €43,074 thousand by issuing up to 43,074,091 new bearer shares in return for cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Management Board is authorized to exclude fractional amounts from shareholders' subscription rights.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights in the event of capital increases in return for contributions in kind, provided the contribution in kind is for the purpose of acquiring companies, parts of companies and/or equity interests in companies or as part of corporate mergers.
- Subject to the consent of the Supervisory Board, the Management Board is authorized, in the event of capital increases, to exclude subscription rights in return for cash contribution to the extent necessary to grant the holders of option or conversion rights or those with obligations to exercise options or convert warrant bonds or convertible bonds, which were issued by Software AG or a wholly owned direct or indirect subsidiary of Software AG, or the holders of option or conversion rights, which Software AG — following the merger of IDS Scheer AG with Software AG — is obligated to recognize as a subscription right to new shares in the amount equivalent to that which they would be entitled as shareholders upon exercising their option or conversion rights or fulfilling their option or conversion obligations.
- Subject to the consent of the Supervisory Board, the Management Board is authorized to exclude subscription rights of shareholders in the event of capital increases in return for cash contributions, provided the capital increases resolved on the basis of this authorization do not exceed 10 percent of the issued share

capital at the time the resolution is passed at the Annual Shareholders' Meeting or, if lower, of the share capital in issue at the time the authorization is acted upon and provided the issue price is not significantly lower than the stock market price. The upper limit of 10 percent of the issued share capital will be reduced by the pro rata amount of the share capital attributable to those treasury shares of the company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to Section 71 (1) No. 8, Sentence 5 and Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act.

The Management Board did not make use of this authorization in fiscal year 2011.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 21, 2010, the company is authorized to purchase on or before May 20, 2015:

- a) Treasury shares having a notional interest in the share capital of up to 10 percent of the share capital in issue on the date of the resolution. 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 share capital at any time.
- b) The treasury shares may be purchased on the stock market or through a public purchase offer addressed to all shareholders of the company. If the shares are purchased via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price — the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system — of the company shares during the five days preceding the purchase. The date of acquisition is the date upon which the transaction is concluded.

If the shares are purchased via a public purchase offer, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price — the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system — of the company shares during the five trading days prior to publication of the offer. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer. The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.

- c) The Management Board is authorized to sell the company shares purchased on the basis of the authorization pursuant to section "a" above or an authorization granted at an earlier time via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally, such as through an offer addressed to all of the company's shareholders.

The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholder subscription rights, to sell the treasury shares purchased, provided the shares are sold for cash at a price that is not significantly lower than the listed prices of Software AG shares that have the same terms and features at the time of the sale. This authorization is limited to shares with a notional interest in the share capital of up to a total of 10 percent of the share capital in issue on the date of issue of the authorization or, if lower, the share capital in issue at the time the authorization is acted upon. The upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization as part of a capital increase subject to the exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act. The average listed price of the company shares — the unweighted average closing price in Xetra trading on the Frankfurt stock exchange or a successor system — during the five trading days preceding the sale will be considered the applicable listed price within the meaning of this paragraph. The date of acquisition is the date upon which the transaction is concluded.

- d) The Management Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders' subscription rights, to dispose of the treasury shares as follows:
- (i) To sell the shares to third parties, provided such sale is for the purpose of acquiring companies, parts of companies, and/or equity interests in companies or within the context of business combinations;
 - (ii) In compliance with the terms and conditions of the bonds, the Management Board may deliver the shares to the holders of warrants or convertible bonds issued by the company or by a wholly owned direct or indirect subsidiary of Software AG;
 - (iii) In compliance with the terms and conditions of the options and bonds as well as the terms and conditions of the merger agreement between Software AG and IDS Scheer AG, the Management Board may deliver the shares to the holders of option or conversion 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.

In the event of a sale of treasury shares via an offer to all shareholders, the Management Board is furthermore authorized, subject to the consent of the Supervisory Board, to grant subscription rights to the holders of warrants or convertible bonds issued by the company or by a wholly owned direct or indirect subsidiary thereof equivalent to that to which the warrant holders or bondholders would be entitled upon exercising their option or conversion rights or fulfilling their option or conversion obligations and in the scope necessary to exclude shareholder subscription rights.

- e) Furthermore, the Management Board is authorized to recall all or part of the treasury shares in one or several steps without any additional authorization from the Annual Shareholders' Meeting. The shares may also be

recalled without a capital decrease by adjusting the pro rata amount in the company's share capital of the remaining shares. In such case, the Management Board is authorized to adjust the specification of the number of shares in the Articles of Incorporation.

- f) The authorization to purchase or use the company's treasury shares may be exercised either in whole or in part, and in the latter case on more than one occasion. Treasury shares may be purchased for one or more of the aforementioned purposes.

At the beginning of the reporting period Software AG held 272,459 treasury shares, which, in accordance with the resolution of the Annual Shareholders' Meeting on May 5, 2011 on a redistribution of the share capital, were split into 817,377 shares, with an interest in the share capital of €817,377 (0.95 percent). Of these, the Management Board sold 756,000 shares representing an interest in the share capital of €756,000 (0.88 percent) to employees on May 20, 2011 as part of the exercise of options from MIP III in accordance with the aforementioned authorization in section "d." The off-exchange sale took place on May 20, 2011 at a price of €40.32 per share. Pursuant to the authorization described in section "d," the applicable stock market price was €40.48, just 0.4 percent above the sale price. Proceeds from the sale were used to service the company's obligations resulting from the exercise of options from MIP III. As of December 31, 2011 Software AG held 61,377 treasury shares representing an interest in the share capital of €61,377 (0.075 percent).

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. For this reason, net income for the year is the key indicator with regard to corporate management. 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 as the average of net income for the year and free cash flow. This resulted in total dividends of €39,913 thousand (2010: €36,977 thousand) and a payout ratio of 21.9 percent (2010: 18.8 percent).

Dividend payment

Pursuant to the proposal of the Management Board and Supervisory Board, the Annual Shareholders' Meeting resolved on May 5, 2011 to appropriate €36,977 thousand for a dividend payout and to carry forward €87,583 thousand from the 2010 net retained profits of €124,560 thousand. This corresponded to a dividend of €1.30 (after stock split: €0.43) per share.

The Management Board and Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €195,613 thousand from 2011 of Software AG, the controlling Group company, as follows: to transfer €1,965 thousand to retained earnings, to payout €39,913 thousand in dividends, and to carry forward €153,735 thousand. This corresponds to a dividend of €0.46 per share.

Other reserves

Other reserves changed as follows, taking into account tax effects:

in € thousands	2011			2010		
	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences	4,546	-	4,546	46,690	-	46,690
Net gain/loss on remeasuring financial assets	-5,313	1,656	-3,657	-1,682	516	-1,166
Net gain/loss arising from translating net investments in foreign operations	4,185	0	4,185	-780	0	-780
Net actuarial gain/loss on pension obligations	6,688	-4,170	2,518	-9,379	2,452	-6,927
Other comprehensive income	10,106	-2,514	7,592	34,849	2,968	37,817

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2010, net income of €874 thousand (2010: €1,806 thousand) was recognized in profit or loss in fiscal year 2011.

OTHER DISCLOSURES**30 NOTES TO THE STATEMENT OF CASH FLOWS**

Cash funds amounting to €216,479 thousand (2010: €102,467 thousand) comprise both cash and cash equivalents.

Dividends paid as reported in the statement of cash flows include dividend payments of €183 thousand to minority shareholders of subsidiaries.

Net payments for acquisitions amounted to €59,210 thousand in 2011 (2010: €25,863 thousand) and resulted from €60,456 thousand in consideration paid less €1,246 thousand in cash and cash equivalents received.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including net cash outflows for acquisitions. Accordingly, free cash flow amounted to €187,697 thousand (2010: €217,750 thousand).

31 SEGMENT REPORTING**Notes on segment reporting**

The segment report is prepared in accordance with IFRS 8 Operating Segments. Segmentation is in accordance with internal control and reporting lines in the Group (management approach). Software AG therefore reports on the following three segments:

- Business Process Excellence (BPE: business process management) with the webMethods and ARIS product families
- Enterprise Transaction Systems (ETS: data management) with the ADABAS and NATURAL product families
- IDS Scheer Consulting (IDSC) with a focus on SAP consulting

**SEGMENT REPORT
for fiscal years 2011 und 2010**

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Licenses	120,068	156,277	168,643	164,363	6,523	6,732	0	0	295,234	327,372
Maintenance	192,841	198,283	169,144	155,049	16,693	16,099	0	0	378,678	369,431
Product revenue	312,909	354,560	337,787	319,412	23,216	22,831	0	0	673,912	696,803
Services	67,346	64,617	188,267	177,710	164,170	176,336	0	0	419,783	418,663
Other	1,017	818	1,810	2,092	1,812	1,151	0	0	4,639	4,061
Total revenue	381,272	419,995	527,864	499,214	189,198	200,318	0	0	1,098,334	1,119,527
Cost of sales	-72,304	-73,602	-187,090	-169,829	-162,310	-177,698	-20,443	-20,923	-442,147	-442,052
Gross profit	308,968	346,393	340,774	329,385	26,888	22,620	-20,443	-20,923	656,187	677,475
Sales, marketing and distribution expenses	-66,766	-73,308	-125,281	-125,123	-25,714	-28,471	-12,466	-12,000	-230,227	-238,902
Segment contribution	242,202	273,085	215,493	204,262	1,174	-5,851	-32,909	-32,923	425,960	438,573
Research and development expenses	-26,445	-31,557	-61,262	-59,815	-331	-615	0	0	-88,038	-91,987
Segment earnings	215,757	241,528	154,231	144,447	843	-6,466	-32,909	-32,923	337,922	346,586
General and administrative expenses									-75,110	-85,267
Other operating income/expenses, net									6,384	7,291
Earnings before interest and taxes									269,196	268,610
Net financial income/expense									-9,902	-14,240
Earnings before taxes									259,294	254,370
Taxes									-82,085	-78,738
Net income for the year									177,209	175,632

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 costs are subsequently allocated to the business lines and have no impact on internal management.

Information on geographic regions

Revenues by location of the company can be broken down into geographic regions as follows:

GEOGRAPHIC DISTRIBUTION OF REVENUES for fiscal year 2011

in € thousands	Germany	USA	Other countries	Group total
Licenses	38,677	89,180	167,377	295,234
Maintenance	47,093	118,635	212,950	378,678
Services	143,663	50,023	226,097	419,783
Other	2,010	16	2,613	4,639
Total	231,443	257,854	609,037	1,098,334

GEOGRAPHIC DISTRIBUTION OF REVENUES for fiscal year 2010

in € thousands	Germany	USA	Other countries	Group total
Licenses	49,338	87,747	190,287	327,372
Maintenance	50,995	116,748	201,688	369,431
Services	161,995	42,208	214,460	418,663
Other	2,436	64	1,561	4,061
Total	264,764	246,767	607,996	1,119,527

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenues in the U.S. contributed 10 percent or more to Group revenue and are therefore listed separately.

Non-current assets

Non-current assets are comprised of intangible assets and property, plant and equipment.

in € thousands	2011	2010
USA	555,073	500,815
Other countries	141,123	122,938
Germany	369,594	392,530
Group total	1,065,790	1,016,283

32 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The table below shows the carrying amounts and the fair values of loans and receivables, financial liabilities measured at amortized cost, and derivatives, with derivatives that are part of a hedging relationship shown separately from those that are not part of a hedging relationship.

The fair values of cash and cash equivalents, current receivables, trade payables, other current financial liabilities, and other 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, 2011 and December 31, 2010.

The fair values of exchange-listed securities were based on their quoted prices as of the reporting date.

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.

in € thousands	Dec. 31, 2011		Dec. 31, 2010	
	Fair value	Carrying amount	Fair value	Carrying amount
FINANCIAL ASSETS*				
Cash and cash equivalents	216,479	216,479	102,467	102,467
Invoiced trade receivables and other receivables	228,627	228,627	240,035	240,035
Other non-derivative financial assets	2,138	2,138	3,801	3,801
Derivatives				
without qualifying hedging relationship	1,542	1,542	49,539	49,539
with qualifying hedging relationship (cash flow hedge)	-	-	153	153
FINANCIAL LIABILITIES*				
Liabilities to banks and other financial liabilities	281,792	277,366	271,479	269,708
Trade payables	58,519	58,519	60,556	60,556
Other non-derivative financial liabilities	90,875	90,875	72,257	72,257
Derivatives				
without qualifying hedging relationship	2,140	2,140	30	30
with qualifying hedging relationship (cash flow hedge)	4,439	4,439	29	29

* measured at amortized cost

With the exception of the aforementioned derivatives, no financial assets or liabilities were measured at fair value through profit or loss in the reporting period, nor were any financial assets classified as available-for-sale financial assets or held-to-maturity investments.

The net gain/loss from loans and receivables was only affected significantly by currency translation effects. The net gain from derivatives without qualifying hedging relationships amounted to €5,987 thousand in fiscal 2011 (2010: €25,174 thousand). The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €-178 thousand in 2011 (2010: €-1,995 thousand).

Market risk 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.

This risk is reduced due to the fact that both cash investments and existing financing carry variable interest rates for the most part.

The sensitivity analysis required by IFRS 7 relates to interest rate risks 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 €1,593 thousand (2010: reduce by €468 thousand).

b) Exchange rate risk

In order to hedge the risk of future fluctuations in exchange rates, Software AG enters into cross-currency swaps, currency forwards and currency option transactions. In addition to simple euro call options, combinations of euro call options purchased and euro put options sold are also utilized. The premium payments generally offset each other. 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 assets or current 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 the amount of 10 percent against the U.S. dollar would have raised earnings by €1,155 thousand (2010: reduced by €712 thousand) and reduced other reserves by €1,160 thousand (2010: €1,719 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 Software AG 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. All cash investments have terms of up to three months. 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, our receivables are continuously monitored and default risk is taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2011, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. We see 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 €18.5 million (2010: €205 million), the company is required to limit net debt within the Group to a maximum of 2.75-times EBITDA. Furthermore, applicable to financial liabilities totaling €9.1 million, the company is required to limit net debt within the Group to a maximum of three-times the EBITDA. As of year-end 2011, the company's figures were significantly below these limits.

The table below shows the contractually fixed payments arising from financial liabilities. The values listed here show the undiscounted liabilities. Variable interest payments are based on the level of interest at the reporting date. Liabilities in foreign currency are calculated at the exchange rate as of December 31, 2011.

in € thousands	Up to 1 year	>1 - 5 years	> 5 years	Total
2011				
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
Repayment	25,623	250,642	539	276,804
Interest	9,787	14,123	5	23,915
Trade payables	58,066	453	0	58,519
Other financial liabilities	458	0	0	458
Finance lease liabilities	7	97	0	104
Other non-derivative liabilities	88,657	8,798	0	97,454
Derivative financial liabilities	608	113	0	721
2010				
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
Repayment	135,870	130,770	1,925	268,565
Interest	9,575	8,884	55	18,514
Trade payables	60,465	91	0	60,556
Other financial liabilities	930	12	0	942
Finance lease liabilities	37	164	0	201
Other non-derivative liabilities	68,064	4,252	0	72,316
Derivative financial liabilities	135	41	0	176

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, 2011 and December 31, 2010. The fair values of forward currency contracts and currency options are determined on the basis of forward foreign exchange rates. The fair values of stock options

used to hedge stock appreciation rights 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. Fair values are determined based on the second level of fair value hierarchy in accordance with IFRS 7.

in € thousands	2011			2010		
	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
DERIVATIVES WITH POSITIVE FAIR VALUE						
Derivatives (without qualifying hedging relationship)	-	1,542	1,542	-	49,539	49,539
Forward currency contracts remaining term < 1 year	387	0	0	3,043	23	23
Forward currency contracts remaining term > 1 year	3,000	43	43	-	-	-
Stock options/ forward stock transactions	4,420	1,498	1,498	87,136	49,516	49,516
Derivatives (cash flow hedges)	-	-	-	-	153	153
Forward currency contracts	-	-	-	14,948	153	153
DERIVATIVES WITH NEGATIVE FAIR VALUE						
Derivatives (without qualifying hedging relationship)	-	-2,140	-2,140	-	-30	-30
Forward currency contracts remaining term < 1 year	30,548	-195	-195	2,990	-27	-27
Currency options	-	-	-	1,495	-3	-3
Stock options/equity forward contracts	7,437	-1,946	-1,946	-	-	-
Derivatives (cash flow hedges)	-	-4,439	-4,439	-	-29	-29
Forward currency contracts	11,599	-258	-258	2,242	-29	-29
Interest rate swaps	93,500	-4,182	-4,182	-	-	-

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, the company has entered into cash flow hedges for forecast transactions. Changes in the fair value of such financial instruments are reported under other reserves.

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, the company has entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency risk have remaining terms of less than one year, whereas the financial instruments for hedging interest rate risk have remaining terms of up to 5.5 years.

Cash investment policy

Software AG takes a very 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 monitoring process in order to monitor the creditworthiness of the banks with which we maintain relationships. Accordingly, the performance of the relevant credit default swaps (CDS) is monitored on a weekly basis. In fiscal 2011, the interest rates for term deposit investments were between 0.62 percent and 1.53 p.a. in Germany, whereas up to 10 percent p.a. was reached abroad.

33 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.

in € thousands	Up to 1 year	> 1 to 5 years	> 5 years	Total
Contractually agreed payments	22,048	40,459	5,990	68,497
Estimated income from subleases	-2,337	-7,787	0	-10,124

34 CONTINGENT LIABILITIES

As of December 31, 2011, the nominal amount of contingent liabilities was €1,477 thousand (2010: €1,432 thousand). No provisions were recognized for these liabilities since it appeared unlikely that any claims would be asserted. Bank guarantees for customers were issued in the amount of €8,651 thousand (2010: €6,818 thousand), the majority of which were guarantees on the delivery of services.

35 SEASONAL INFLUENCES

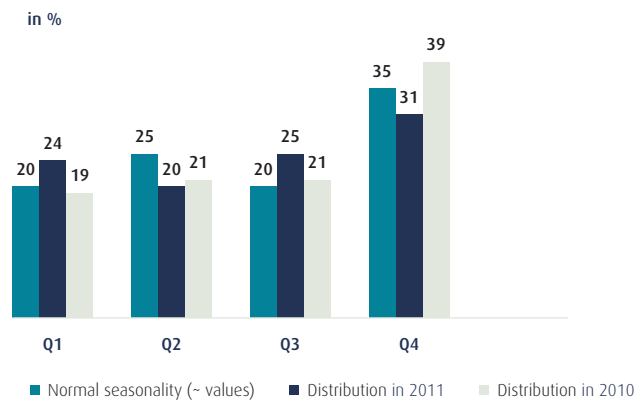
Revenues and pre-tax earnings were distributed over fiscal year 2011 as follows:

in € thousands	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011
License revenue	71,226	57,725	74,679	91,604	295,234
in % of license revenue for the year	24	20	25	31	100
Total revenue	272,626	257,069	274,632	294,007	1,098,334
in % of revenue for the year	25	23	25	27	100
Earnings before taxes	58,749	56,940	68,754	74,850	259,294
in % of net income for the year	23	22	26	29	100

Based on experience from past years, the revenue and earnings distribution in 2011 was not representative and is therefore useful only to a limited extent for calculating the expected distribution in 2012. The following image depicts the development of license revenues in 2011 and 2010 in comparison to normal license revenue development, which is expected again in 2012.

The distribution of revenue and earnings is regularly affected by large individual contracts and is thus difficult to predict.

TOTAL ANNUAL LICENSE REVENUE



36 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. The proceedings were suspended for Software AG and additional defendants by order of the court. The proceedings are continuing against only one of the defendants. The verdict of these test proceedings will determine if the proceedings against Software AG will be resumed. The court rejected the suit during the test case trials, and the plaintiff has appealed the ruling. The court of appeals rejected the appeal in January 2012. It remains to be seen whether the plaintiff will bring further legal action.

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. The proceedings were combined into one. The first hearing took place on February 29, 2012.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with the Saarbrücken regional court, 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. The proceedings were combined into one. The proceedings are in an early stage; as yet there have been no hearings before the court.

In connection with the termination of David Broadbent's Management Board membership, Mr. Broadbent has instituted legal proceedings before the Darmstadt regional court, which the company considers to be unfounded. After an extensive exchange of briefs, the court has pronounced its order to hear evidence. Because of an illness-related absence, the date for hearing of evidence has not yet been determined.

There were no other changes with respect to the legal disputes reported at the end of 2010, nor were there any new legal disputes that could potentially have a significant effect on the company's financial position, cash flows, or profit or loss.

37 STOCK OPTION PLANS

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. These involve equity-settled plans and plans where the company has the choice of settling either in cash or by providing equity instruments.

The total expense for share-based payment transactions amounted to €1,491 thousand in fiscal 2011 (2010: €18,984 thousand). This includes income of €7,121 thousand (2010: €24,310 thousand) from hedging the commitments from the Management Incentive Plan 2007.

Expenses for stock options accounted for as equity-settled plans pursuant to IFRS 2 amounted to €5,857 thousand in fiscal 2011 (2010: €4,380 thousand).

No expenses for share-based payment transactions were capitalized as inventories or non-current assets.

Management Incentive Plan 2011 (MIP IV) (2011 - 2016)

In the second quarter of 2011, a new share-based Management Incentive Plan (MIP IV) for members of the Management Board and upper management was launched. The plan offers stock options (hereinafter referred to as "rights"), but the company reserves the right to service these rights in cash or shares. The plan requires the approval of the Annual Shareholders' Meeting. The first allocation tranche is based on the following parameters:

Base price	€41.34
Earliest exercise date	May 4, 2016
Term of rights	10 years

The option to exercise rights depends upon the achievement of defined targets for revenue and Group net income. The target is defined as the doubling of Group revenue for new products and simultaneous doubling of net income compared to fiscal year 2010, by fiscal year 2015 at the latest. "New products" are defined for the purposes of the revenue performance target as all products outside of the ADABAS, NATURAL and EntireX product portfolios. In addition, the share price must be €60.00 on at least one of the last five weekdays prior to exercising the subscription rights.

The rights granted under the Management Incentive Plan 2011 (MIP IV) changed as follows in fiscal year 2011:

	Number of rights outstanding	Weighted average exercise price per right (in €)	Weighted average remaining term (in years)	Aggregated intrinsic value (in € thousands)
Balance as of Dec. 31, 2010	0			
Granted	6,227,667	41.34		
Forfeited/expired	-631,000	41.34		
Balance as of Dec. 31, 2011	5,596,667	41.34	9.5	0*
Thereof exercisable as of Dec. 31, 2011	0			

* Based on the closing price on December 31, 2011

Because there is no obligation to settle in cash, these rights are accounted for as an equity-settled stock option program pursuant to IFRS 2. Fulfillment in shares and thus the final allocation must be approved by the Annual Shareholders' Meeting. Accordingly, the grant date relevant for valuation as defined by IFRS 2 is in the future. In order to calculate the expenses in 2011, the fair value at the assumed time the rights are granted (May 2012) was determined based on a binomial model. For the measurement, the market condition that stipulates that the share price must be at least €60 on one of the last five weekdays prior to exercising the rights was taken into account.

Valuation was based on the following parameters:

Software AG share price on December 31, 2011	€28.56
Strike price of rights	€41.34
Assumed average volatility	43%
Expected dividend yield	2.0%
Risk-free interest rate	0.61%
Expected average term until exercise of rights (in years)	5.0

The expected volatility was derived by applying the implied volatility of stock options with comparable terms of maturity to Software AG shares.

Expenses of €3,020 thousand (2010: €0) were incurred under this plan during fiscal year 2011.

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 (before stock split: 2,447,500) participation rights have been issued to Management Board members and managers under the plan.

As part of the plan, the defined performance target involves 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 performance targets were achieved ahead of schedule at the end of fiscal year 2010. Accordingly, since May 19, 2011, participants are entitled to payment of the difference between the price of Software AG shares and the base price of €24.12. However, the company is entitled to elect to issue shares in lieu of a cash payment at its discretion.

In order to hedge the cash flow risks from the plan, Software AG purchased 3,300,000 (before stock split: 1,100,000) stock options. As a result of this hedge, 3,300,000 (before stock split: 1,100,000) of the participation rights were originally accounted for as cash-settled share-based payment transactions in accordance with IFRS 2. Due to the management decision in March 2011 to settle only 1,920,000 (before stock split: 640,000) rights, the provision at that point in time for 1,380,000 (before stock split: 460,000) rights was transferred to the capital reserve. Accordingly, from that point on, only 1,920,000 (before stock split: 640,000) of the participation rights were accounted for as cash-settled share-based payment transactions in accordance with IFRS 2. All other rights were accounted for as equity-settled share-based payment transactions.

The rights granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal year 2011:

	Number of rights outstanding	Weighted average exercise price per right (in €)	Weighted average remaining term (in years)	Aggregated intrinsic value (in € thousands)
Balance as of Dec. 31, 2010	1,782,354	72.36	5.5	66,095
Effect of the stock split (3:1) on May 13, 2011	1,782,354 × 3	72.36 ÷ 3	5.5	
Balance as of May 13, 2011 (after stock split)	5,347,062	24.12		
Exercised May 19, 2011 (closing price €40.42)	-1,566,950	24.12		
Exercised May 26, 2011 (closing price €38.02)	-1,716,650	24.12		
Exercised Aug. 19, 2011 (closing price €28.10)	-15,000	24.12		
Exercised Nov. 21, 2011 (closing price €26.98)	-57,062	24.12		
Forfeited/expired	-30,000	24.12		
Balance as of Dec. 31, 2011	1,961,400	24.12	4.5	8,709*
Thereof exercisable as of Dec. 31, 2011	1,961,400			

* Based on the closing price on December 31, 2011

All rights outstanding under MIP III as of December 31, 2011 were exercisable. Because there is no obligation to settle in cash, these rights were accounted for as an equity-settled stock option program pursuant to IFRS 2. The fair value was determined as of the grant date using the Black-Scholes option pricing model. Accordingly, there were no provisions for rights from MIP III as of December 31. In 2010 there were provisions of €39,294 thousand as of December 31.

Expenses of €5,268 thousand (2010: €32,780 thousand) were incurred under this plan during fiscal year 2011. In contrast, income of €7,121 thousand (2010: €24,310 thousand) was generated from hedging the rights granted in fiscal year 2011.

Because all subscription rights were 100 percent vested as of December 31, 2011 and there is no obligation to settle in cash, no further expenses will be incurred under MIP III.

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 2011 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2012, 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 2013 to 2015, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount will be adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and then paid to the members of the Management Board and officers. 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.

Beneficiaries may elect to let the company dispose of the compensation that has become due for an unlimited period of time after the waiting period 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. The beneficiaries receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of the phantom shares.

This plan led to personnel expenses of €324 thousand (2010: €10,494 thousand) in fiscal year 2011.

The provision for the rights outstanding under the phantom share plan amounted to €11,564 thousand (2010: €18,920 thousand) as of December 31, 2011.

The intrinsic value of the rights exercisable under the phantom share plan amounted to €4,146 thousand (2010: €2,984 thousand) as of December 31, 2011.

38 CORPORATE BODIES**Members of the Supervisory Board:****Dr. Andreas Bereczky**

Dr.-Ing. graduate in mechanical engineering

Shareholder representative

Chairman

Director of Production of ZDF, Mainz

Resident of: Eschweiler

Supervisory board seats:

- Member of the supervisory board of Alfabet AG, Berlin
- Member of the supervisory board of GFT Technologies AG (since May 31, 2011)

Monika Neumann

State examination for secondary education

Employee representative

Deputy Chairwoman

Employee of SAG Deutschland GmbH

Chairwoman of the General Works Council of SAG Deutschland GmbH

Resident of: Schliersee

Supervisory board seats:

- none

Prof. Willi Berchtold

Graduate in economics

Shareholder representative

Member

Managing partner of CUATROB GmbH

Resident of: Überlingen

Supervisory board seats:

- Chairman of the supervisory board of Bundesdruckerei GmbH, Germany
- Member of the supervisory board of Lufthansa Systems AG, Kelsterbach
- Member of the supervisory board of Tipp 24 SE, Hamburg

Peter Gallner

Employee representative

Trade union secretary of Vereinte Dienstleistungsgewerkschaft ver.di

Resident of: Koblenz

Supervisory board seats:

- Member of the supervisory board of Atos Information Technology GmbH, Essen

Heinz Otto Geidt

Graduate in business administration

Shareholder representative

Member

Director of Asset Management at Software AG Foundation, Darmstadt

Resident of: Kelkheim/Ts.

Supervisory board seats:

- Chairman of the supervisory board of Bingenheimer Saatgut AG, Echzell
- Chairman of the supervisory board of Birken AG, Niefern-Öschelbronn (since March 1, 2011)
- Member of the supervisory board of KHD Humboldt Wedag International AG, Cologne (since Oct. 21, 2011)

Dietlind Hartenstein

Bank business clerk

Employee representative

Employee of IDS Scheer Consulting GmbH

Chairwoman of the IDS Scheer Consulting GmbH Works Council, Saarbrücken

Resident of: Zweibrücken

Supervisory board seats:

- none

Manfred Otto

Graduate in industrial engineering

Executive employee representative (until November 3, 2011)

Employee of IDS Scheer Consulting GmbH

Resident of: Kaiserslautern

Supervisory board seats:

- none

Prof. Dr. Hermann Requardt

Dr. phil. nat., graduate in physics

Shareholder representative

Member

Member of the management board of Siemens AG, Sector CEO Healthcare

Resident of: Erlangen

Supervisory board seats:

- Member of the supervisory board of Osram GmbH, Munich

Anke Schäferkordt

Graduate in business administration

Shareholder representative

Member

Managing Director at Mediengruppe RTL Deutschland GmbH

Resident of: Cologne

Supervisory board seats:

- Member of the supervisory board of BASF SE, Ludwigshafen

Roland Schley

Graduate in electrical engineering
 Employee representative
 Employee of IDS Scheer Consulting GmbH
 Resident of: Ottweiler
 Supervisory board seats:
 ■ none

Martin Sperber-Tertsunen

Graduate in administrative sciences
 Employee representative
 Trade union secretary IG Metall
 Resident of: Kelkheim
 Supervisory board seats:
 ■ none

Karl Wagner

Graduate in computer science
 Member (since November 3, 2011)
 Executive employee representative
 Employee of IDS Scheer Consulting GmbH
 Resident of: Riegelsberg
 Supervisory board seats:
 ■ Member of the supervisory board of
 Deutsches Forschungszentrum für künstliche Intelligenz GmbH (DFKI GmbH)

Alf Henryk Wulf

Graduate in engineering
 Shareholder representative
 Member
 Chief executive officer of Alcatel-Lucent Deutschland AG, Stuttgart
 Resident of: Stuttgart
 Supervisory board seats:
 ■ none

Members of the Management Board:**Karl-Heinz Streibich**

Graduate in communications engineering

Chief Executive Officer

Sales, Consulting, Global Business Development, Corporate Marketing, Corporate PR, Global Legal, Audit/Processes & Quality, Corporate Communications, Corporate Office, Top Management Development

Resident of: Frankfurt

Supervisory board seats:

- Member of the supervisory board of Dürr AG, Bietigheim-Bissingen (since May 6, 2011)

David Broadbent

Businessman

Member of the Management Board (until July 18, 2011)

Chief Operating Officer, EMEA (excluding DACH)

Resident of: Frilsham, Berkshire, UK

Dr. rer. nat. Wolfram Jost

Graduate in business administration

Member of the Management Board

Chief Technology Officer, R&D

Resident of: Schmelz

Arnd Zinnhardt

Graduate in business administration

Member of the Management Board

Chief Financial Officer, Labor Director

Finance, Controlling, Treasury, Taxes, M&A, Business Operations,

Investor Relations, Human Resources, Global Procurement

Resident of: Königstein

Supervisory board and other seats:

- Member of the administrative board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt (since Sept. 7, 2011)

Statement pursuant to section 314 (1), no. 6a, sentence 1 of the German Commercial Code (HGB)

The total amount pursuant to section 314 (1), no. 6a, sentence 1 of the German Commercial Code (HGB) in 2011 was €27,822 thousand (2010: €16,331 thousand). The recurring regular amount for fiscal year 2011 was €10,691 thousand (2010: €16,311 thousand).

Statement pursuant to section 314 (1), no. 6a, sentences 2-7 and section 314 (1), nos. 6b-c of the German Commercial Code (HGB)

The stock options issued under MIP IV were recognized with a value that was measured using the binomial model in the amount of €17,132 thousand (2010: €0). Future performance during the five-year period from 2011 to 2016 was annualized at €3,426 thousand for this remuneration component.

These amounts include the consideration paid for 125,341 phantom shares totaling €3,439 thousand in accordance with section 314 (1), no. 6a, sentence 1 of the German Commercial Code (HGB).

Management Board members received a total of 125,341 (2010: 101,979) phantom shares under the phantom share plan. The phantom shares granted had a fair value as of the grant date of €27.43 (2010: €38.68) per phantom share.

Remuneration for former Management Board members totaled €350 thousand (2010: €350 thousand).

Pension provisions for former Management Board members amounted to €6,392 thousand (2010: €6,570 thousand). Last year's figure was adjusted.

Software AG did not grant any advances or loans to Management Board members in fiscal 2011 or in fiscal 2010.

Detailed disclosures on the remuneration paid to Management Board members are made in the Remuneration Report of the Corporate Governance Report, which forms part of the Management Report.

Supervisory Board remuneration

Total remuneration paid to members of the Supervisory Board amounted to €609 thousand (2010: €754 thousand) in the year under review.

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2011 or in fiscal 2010.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report of the Corporate Governance Report, which forms part of the Management Report.

39 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 38 as well as in the Remuneration Report contained in the Corporate Governance section of the Management Report.

Software AG Foundation provided Software AG with funds in the amount of €45 million to finance the IDS Scheer acquisition. The funding was made available in the form of a subordinated promissory note loan from a special fund in which Software AG Foundation has a 100-percent stake. The interest rate on the promissory note loan is in line with market rates. The promissory note loan is a bullet loan with a term running until August 2013.

40 AUDITORS' FEES

General and administrative expenses include expenses for auditors' fees paid to BDO AG, the Group auditor, totaling €729 thousand (2010: €895 thousand). Of this amount, €639 thousand (2010: €598 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €17 thousand (2010: €37 thousand) to tax advisory services, €72 thousand (2010: €67 thousand) to other testation services, and €1 thousand (2010: €193 thousand) to other services.

41 EVENTS AFTER THE BALANCE SHEET DATE

On February 10, 2012, a non-practicing entity (NPE: a company that solely pursues patent-right violations, rather than manufacturing or using the patented invention) from the U.S. state of Delaware sued Software AG in the district court of Delaware for violating one of its software patents. This NPE has filed similar parallel lawsuits against other defendants. The complaint has not yet been served upon Software AG.

No events of material significance for the consolidated financial statements occurred between the balance sheet date and the release for publication of the consolidated financial statements.

42 STATEMENT ON CORPORATE GOVERNANCE

The company submitted its Statement on Corporate Governance on March 9, 2012. It will be published in March 2012 on our [website](#).



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 on January 27, 2012 and published on our [website](#).



For more information on the Statement of Corporate Governance, visit our [website](#).

43 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, IDS Scheer Consulting GmbH, Saarbrücken, SAG Consulting Services GmbH, Darmstadt and Software Financial Holding GmbH, Darmstadt, 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 March 9, 2012.

Darmstadt, March 9, 2012

Software AG

K.-H. Streibich

Dr. W. Jost

A. Zinnhardt

RESPONSIBILITY STATEMENT

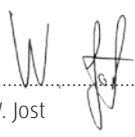
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development 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, March 9, 2012

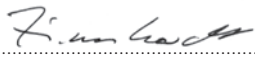
Software AG



.....
K.-H. Streibich



.....
Dr. W. Jost



.....
A. Zinnhardt

AUDITORS' 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 Management Report of the Group and Software Aktiengesellschaft for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the Management Report of the Group and Software Aktiengesellschaft in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to section 315a, paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management 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 Group 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 the evidence supporting the disclosures in the consolidated financial statements and the Group 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 Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs 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 net assets, financial position and results of operations of the Group in accordance with these requirements. The Management Report of the Group and Software Aktiengesellschaft is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 9, 2012

BDO AG
Wirtschaftsprüfungsgesellschaft

Schulz
Wirtschaftsprüfer

Sartori
Wirtschaftsprüferin

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 300,000 transactions per second. Since its market entry in 1971, Adabas — together with Natural — has formed the backbone of many large companies' and public institutions' IT.
ARIS (ARchitecture for Integrated Information Systems)	Developed by IDS Scheer AG founder, August-Wilhelm Scheer, this is a scientific method for describing business processes. The ARIS software product family is based on it and enables process analysis, modeling, implementation, and measurement.
B2B	"Business-to-business" describes electronic transactions between organizations. B2C (business-to-consumers), in contrast, refers to IT transactions between organizations and consumers.
business activity monitoring (BAM)	Software for (real-time) monitoring of business processes.
business intelligence (BI)	A general term for computer-based analysis of business data.
business process analysis (BPA)	With BPA processes are analyzed, documented, and optimized. This provides more efficient business processes and increases the competitiveness of an organization leading to improved economic results.
Business Process Excellence (BPE)	Software AG defines BPE as the merging of business and technical approaches to business process management (BPM) and, therefore, as the engine of the "digital enterprise." BPE is much more than BPM in that it addresses the complete life cycle of a process, which comprises a business component (BPE life cycle) and a technical component (BPE platform). Software AG presented Enterprise BPM at CeBIT 2011 and in doing so has brought an integrated process and integration platform to the market that enables digital enterprises to achieve the highest level of process efficiency. BPE is also the name of the Software AG business line comprising the webMethods and ARIS products.
business process management (BPM)	The methods, techniques, and tools used to design, enact, control, and analyze operational business processes involving people, systems, applications, data, and organizations.
BPE life cycle	The business component of BPE which describes step-by-step how comprehensive, business-g geared process management should work. Software AG's ARIS products cover the strategy, design, and implementation phases.
BPE platform	The technical component of BPE. The webMethods Suite supports the execution of processes including real-time monitoring and analysis.
CentraSite	CentraSite is Software AG's business service repository for SOA and BPM. CentraSite provides developers and business analysts with a central location for storing all service and product components that are then available for reuse. CentraSite thus enables rapid development of new business processes and services.
cloud computing	Over-the-Internet provision of IT resources and on-demand invoicing. Software AG will offer a comprehensive cloud-enabling technology. Software AG's cloud strategy focuses on business innovations made possible by cloud technologies and driven by the concept of "extreme collaboration."

complex event processing (CEP)	The concept of processing complex data streams. CEP enables the processing and correlating of a large number of events per time unit with low latency and therefore real-time reaction. Software AG's new CEP solution, webMethods Business Events, was presented at CeBIT 2011.
customer relationship management (CRM)	A strategic approach for comprehensive planning, control, and enactment of interactive processes with customers. The aim of CRM is to address customer needs individually to obtain customer satisfaction and long-term retention.
digital enterprise	The digital enterprise of the future plans, implements, controls, and monitors its business processes electronically and end to end. Software AG's independent process and integration platform for business process excellence enables the highest level of process efficiency, a prerequisite for the digital enterprise. With its cloud-enablement technology, Software AG accelerates innovation processes in digital enterprises.
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.
enterprise service bus (ESB)	A component of the category of middleware infrastructure, an ESB decouples communication between existing applications and processes. This decoupling allows architectural changes to be made faster and with less effort.
end-to-end platform	A platform that provides model-to-execute support for business processes, from design and operation to optimization. This means the entire value chain is covered. Software AG presented its Enterprise BPM technology at CeBIT 2011, which offers this type of innovative process and integration platform.
Enterprise Transaction Systems (ETS)	Software AG business line comprised of the Adabas and Natural products. With them, Software AG has played an integral role in the IT landscapes of companies and public institutions worldwide for many years. ETS technologies include database management, application development, and mainframe integration.
extreme collaboration	A term from Software AG's cloud strategy, it breaks down the traditional barriers between business units and the IT department, speeding up improvements in an organization. Cloud-enabling an organization's IT is the technical foundation of extreme collaboration. Software AG presented its new cloud-enabling technology, known as Software AG Cloud Ready, at CeBIT 2011.
master data management (MDM)	MDM gives organizations one consistent view of and access to core data, such as information on customers, products, suppliers, and branch offices. This type of data is very often stored in heterogeneous applications throughout the organization. Software AG presented its new MDM solution, webMethods OneData, at CeBIT 2011.
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 fast and easy-to-use development and deployment environment designed to support enterprise-scale applications on the mainframe and open-systems platforms. Since it was brought to market in 1979, Natural — together with Adabas — has formed the backbone of many large companies' and public institutions' IT.
service-oriented architecture (SOA)	A software architecture in which the desired system functionality is made available by way of interaction between loosely coupled, reusable functions (services).
webMethods Business Process Management Suite (BPMS)	Software AG's webMethods BPMS combines leading BPM and SOA functionality and offers a complete suite of fully integrated tools for process execution, real-time transaction monitoring, and the proactive identification of errors and warnings.
webMethods Platform	Software AG's fully integrated toolset for SOA governance, business process management, integration, B2B, and application modernization.

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FINANCIAL CALENDAR

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April 27, 2012	Preliminary Q1 2012 financial figures (IFRS, unaudited)
May 4, 2012	Annual Shareholders' Meeting, Darmstadt, Germany
July 24, 2012	Preliminary Q2/H1 2012 financial figures (IFRS, unaudited)
October 30, 2012	Preliminary Q3 2012 financial figures (IFRS, unaudited)

2013

End of January 2013	Preliminary Q4/FY 2012 financial figures (IFRS, unaudited)
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