Process Excellence
for the Digital Enterprise

Annual Report | 2010

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.

2010 GROWTH INDICATORS

+32%

Group revenue growth

+23%

EBIT growth

+34%

Revenue growth in BPE business line

+25%

Net income growth

+16%

Free cash flow growth

+19%

Shareholders' equity growth

KEY FIGURES 2010

KEY FIGURES
on December 31, 2010

in € millions	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS
Revenue	**1,119.5**	**847.4**	**720.6**	**621.3**	**483.0**
Licenses	327.4	269.9	272.0	241.3	165.7
Maintenance	369.4	310.6	267.1	212.9	187.3
Services and other revenue	422.7	266.9	181.5	167.1	130.0
Business lines					
BPE (includes ARIS since August 2009)	499.2	372.3	315.7	238.2	125.6
ETS	420.0	396.1	404.9	383.1	357.4
IDS Scheer Consulting (since August 2009)	200.3	79.0	n/a	n/a	n/a
EBIT	**268.6**	**218.2**	**180.5**	**136.8**	**111.2**
Net income	**175.6**	**140.8**	**115.9**	**88.4**	**73.2**
Free cash flow	**217.8**	**188.4**	**133.4**	**82.2**	**56.2**
Shareholders' equity	**769.3**	**647.2**	**549.1**	**462.5**	**422.2**
Employees *	**5,644**	**6,013**	**3,526**	**3,479**	**2,621**
of which in Germany	2,051	2,149	772	760	761

KEY SHARE DATA

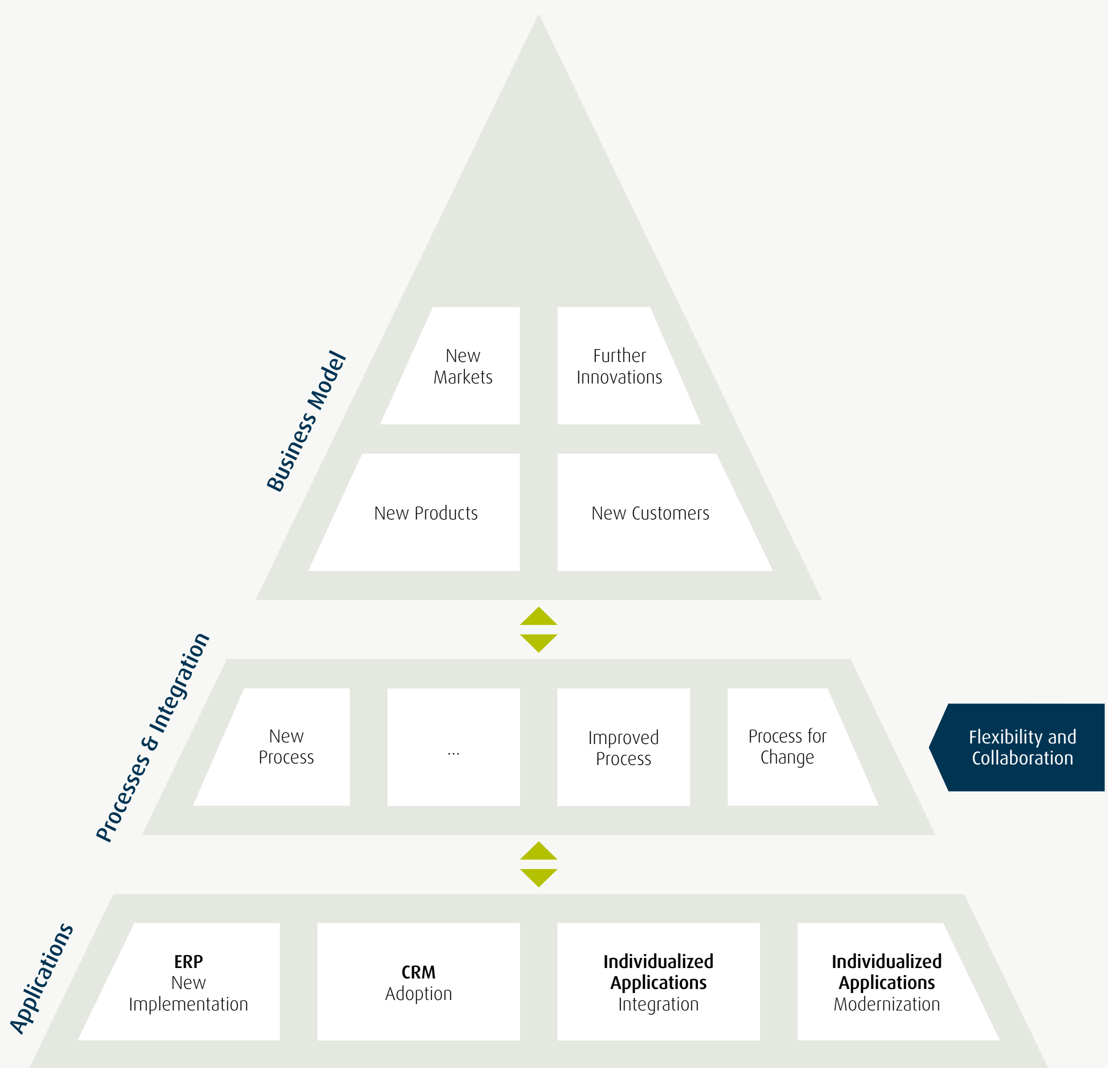
	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS
Year-end closing price (Xetra) in €	109.80	76.40	40.00	60.57	59.74
Year high in €	109.80	77.77	60.37	77.20	59.89
Year low in €	74.75	34.78	29.50	50.12	37.43
Number of shares at year end	28,443,602**	28,708,410	28,638,842	28,539,455	28,112,715
Market capitalization at year end in € millions	3,123.1	2,193.3	1,145.6	1,728.6	1,679.5
Dividend per share in €	1.30	1.15	1.10	1.00	0.90
Earnings per share in €	6.18	4.92	4.05	3.11	2.60
Price/earnings ratio at year end	17.80	15.50	9.90	19.50	23.00
Free cash flow per share at year end in €	7.67	6.57	4.66	2.88	2.00

Frankfurt (Prime Standard/TecDAX), ISIN DE 0003304002

* Full-time equivalents

** Excluding 272,459 own shares bought on stock exchange in 2010

SOFTWARE AG POSITIONING



The business processes used by organizations are dynamic because the world is ever changing. So organizations must continually adapt their processes to new requirements of the market. For this reason, agile business processes and dynamic process landscapes that are supported by flexible software solutions are a necessity.

We see ourselves as a software project company for sustainable transformation of processes and IT integration. We offer platform-independent software solutions for process planning, modeling, implementation, and monitoring. This enables our customers to create flexible, collaborative enterprise structures based on their existing IT landscapes.

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THE COMPANY

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LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,

2010 was an exceptionally successful fiscal year that opened up many new possibilities for Software AG. We surpassed one billion euros in revenue and achieved global leadership as the number-one provider of Business Process Excellence (BPE). The successful acquisition and integration of IDS Scheer AG has resulted in a rapidly growing global player for software and services, with headquarters in Germany, and more than 10,000 customers worldwide with over 6,000 employees in 70 countries.

REVENUE AND EARNINGS LEAP

We achieved record-breaking results in total revenue and earnings. Group revenue increased by 32 percent to €1.12 billion and operating earnings (EBIT) by 23 percent to €268.2 million. This excellent performance was a result of our targeted growth and acquisition strategy, our market focus, and our customers' deep confidence in our products and solutions. A number of positive studies conducted by independent market analyst firms confirmed our high growth rate and leading market position. In the 2010 Truffle Study, Software AG placed fourth among the largest software companies in Europe.

Our growth is driven by three business areas: our traditional data management software for mainframes (Enterprise Transaction Systems), our Business Process Excellence software products (webMethods and ARIS), and our consulting and services. Our clear positioning of solutions for the ongoing enhancement of IT and business processes enabled Software AG to emerge from the global financial and economic crisis even stronger than before.

SUCCESSFUL INTEGRATION OF IDS SCHEER AG

The IDS Scheer AG acquisition process proceeded according to plan, and the legal and organizational integration has been completed. On December 21, 2010, the legal merger of the two companies became effective. This represented yet another important milestone on the path to becoming a larger and more competitive company.

Software AG's strengths—technology leadership in middleware products, financial power, and a global presence—are complemented by those of IDS Scheer—business process modeling, implementation, and control, a partner network, and a clear consulting and service focus. Additionally, we gained highly developed industry-specific expertise, direct access to vertical markets, and a strong position in SAP consulting. This combination of two cutting-edge complementary product offerings for the digitization and implementation of business processes is unique. It has secured a sustainable competitive edge for the merged company in a software market where consolidation is quickly on the rise.

INNOVATIVE PRODUCT AND SERVICE PORTFOLIO EXPANDED

We have significantly expanded our product and service portfolio with the addition of ARIS and IDS Scheer Consulting. We now support the complete business process cycle, thereby covering the entire value chain (model-to-execute). This offering improves our customers' reaction time and efficiency, which has a sustainable impact on their success.

The integration of these two leading IT companies' product offerings signifies a major breakthrough in realizing new innovations. Software AG is committed to investing in the ongoing development of these products. We know that continuous innovation is what propelled us to become a technology leader. The complete integrated product portfolio was unveiled at CeBIT 2011, where in addition, we presented the first joint customer stories and our answers to the latest topics such as cloud computing and social networking.

Software is the "mechanical engineering of the 21st century"—the driver of growth for innovation and jobs. Compared to the international average, most German software companies are too small. Software AG actively promotes a strong German software cluster to achieve international recognition and consistent software policies in Germany through active participation in the German government's IT Summit. This commitment is already producing results. Our "Software Innovation for the Digital Enterprise" initiative earned our region recognition as a "technology hub for enterprise software" in a cluster competition sponsored by the German Ministry of Research in January 2010.

SHARE PRICE REACHES TEN-YEAR HIGH
Our efforts as well as the significance of the IDS Scheer acquisition were also acknowledged by the capital markets. Software AG's share price shot up over the 100-euro mark in the concluded fiscal year. It clearly outperformed the TecDAX benchmark index with a year-end 44-percent increase.

Esteemed shareholders, we are grateful for your trust and would like to include you in the success of our Company by way of an increased dividend. The Management and Supervisory Boards will therefore propose a dividend of €1.30 per share at the 2011 Annual Shareholders' Meeting.

OUTLOOK
We see this success as both confirmation and incentive alike. We'll use the one-billion-euro-revenue mark as a stepping stone for further profitable growth with a sustainable value increase. Only a long-term, sustainable corporate strategy can be successful for all stakeholders. We will thus follow the path we have begun and continue to increase our Company's value through organic growth and selective acquisitions. We will solidify our technology leadership, reaffirm our position through respected market analysts and customers, and further strengthen our image as an attractive employer.

RESPONSIBILITY AND GRATITUDE
We believe in achieving success through value-oriented, sustainable business. We contribute to sustainability based on the "green through IT" principle. Our multifaceted social activities combined with the preservation of resources through intelligent software solutions for our customers testify to that.

But at the end of the day, Software AG's success is only possible because of the many dedicated people working for our Company around the world. I would therefore like to express my utmost gratitude—and that of my colleagues on the Management Board—to our employees. The personal commitment and high level of motivation of the integrated teams are critical to success, particularly in times of economic hardship and extensive acquisition and integration measures. We will therefore continue to actively invest in qualification and human resource programs and to create international job opportunities in this growing global company. The achieved goals give us reason to be optimistic that, together, we will write yet another chapter in our story of success in the new year.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

GROUP EXECUTIVE BOARD

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; Karl-Heinz Streibich is responsible for Corporate Marketing, Audit, Processes & Quality; Legal Affairs; Corporate Office and Corporate Communications.

Arnd Zinnhardt, Chief Financial Officer (CFO)
Member of the Management Board since 2002
Born in 1962; As CFO, Arnd Zinnhardt is responsible for Finance, Controlling, Treasury, Taxes, Mergers & Acquisitions, Business Operations, Investor Relations, and Global Purchasing. As Software AG Labor Director, Arnd Zinnhardt is also responsible for Human Resources.

Kamyar Niroumand, Chief Operating Officer (COO)
Germany, Austria, Switzerland (D/A/CH)
Member of the Group Executive Board since 2010
Born in 1960; As COO, Kamyar Niroumand is responsible for the Germany, Austria, and Switzerland region (D/A/CH).

Mark Edwards, Chief Executive Officer (CEO)
Americas & APJ
Mark Edwards was appointed to the Management Board of Software AG in 2003. In 2010 he moved to the Group Executive Board. Born in 1956; Mark Edwards is CEO for the Enterprise Transaction Systems (ETS) and webMethods business lines in the Americas (North America, Latin America) and APJ (Asia Pacific Japan) regions.

Member of Software AG's Management Board

Dr. Wolfram Jost, Chief Technology Officer (CTO)
Member of the Management Board since 2010
Born in 1962; Wolfram Jost is CTO R&D and responsible for Global Product Marketing.

David Broadbent, Chief Operating Officer (COO) EMEA Region (excl. D/A/CH)
Member of the Management Board since 2007
Born in 1960; As COO, David Broadbent is responsible for the Enterprise Transaction Systems (ETS) and webMethods business lines in the EMEA region (excluding D/A/CH).

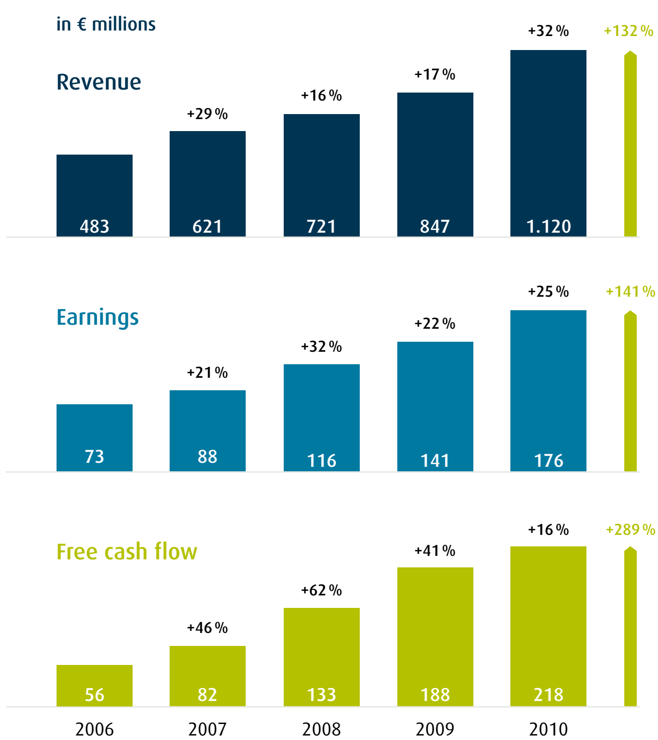
Ivo Totev, Chief Services Officer (CSO) (excl. D/A/CH) and Global Support & IT
Ivo Totev was appointed to the Management Board of Software AG in 2009. In 2010 he moved to the Group Executive Board.
Born in 1967; As CSO, Ivo Totev is responsible for the Global Consulting Services unit (outside of Germany, Austria, and Switzerland). He is also responsible for Global Support units and the IT infrastructure of Software AG.

Dr. Hans Kraus, Chief Services Officer (CSO) Delivery Consulting/Services for Germany, Austria, and Switzerland (D/A/CH)
Member of the Group Executive Board since 2011
Born in 1964; Hans Kraus is responsible for Delivery of Consulting and Services in the D/A/CH region.

STRATEGY

Software AG wrote yet another long chapter in its success story in fiscal year 2010. Our record-breaking results took an already impressive growth path a bit further. During the past five years, revenue has grown 55 percent to €1.12 billion; net income has risen by 25 percent; free cash flow has improved by 16 percent to total €217.8 million; the number of employees in 70 countries is 5,644; and, the number of customers has gone up to more than 10,000 worldwide.

SUSTAINABLE PROFITABLE GROWTH DURING THE LAST 5 YEARS



THE STORY OF SUCCESS CONTINUES

The year 2010 will go down in the Company's history as a special one: Group revenue reached €1.12 billion and therefore a whole new dimension. Furthermore, with the successful acquisition and integration of IDS Scheer AG, Software AG established itself as a platform-independent global technology leader for Business Process Excellence (BPE). Our rapid growth rate and leading market position were reflected by a number of studies conducted by independent market analyst firms. For example, Software AG ranked fourth among the largest software companies in Europe in the 2010 Truffle Study. Our formula for success consists of a corporate strategy that focuses on the long term plus a robust business model built on stable customer relationships. It is this approach that enabled Software AG to emerge from the global recession even stronger.

THE FOUNDATION OF SOFTWARE AG'S ECONOMIC SUCCESS IS ITS ROBUST BUSINESS MODEL.

ROBUST BUSINESS MODEL AND EXPANDED STRATEGIC FOCUS

The foundation of Software AG's economic success is its robust business model. It is based on technologically leading products and solutions that control and safeguard our customers' business processes.

Expenditures for these products and solutions yield a quick return on investment (ROI). So, they are less vulnerable to questioning even in challenging economic times. Because of this, Software AG was able to grow profitably during the recession and will continue to do so.

- Software AG's technological competence in business process management (BPM) opens up a new dimension in the value chain, market access, company size, and market position.
- Evolution from infrastructure vendor to provider of total BPE solutions and consulting: end-to-end coverage of the value chain.
- Dedicated development of IT into BPE (Business Process Excellence) to increase measurability of business benefits and sustainable success for customers.

MISSION

Our mission is to:

- Become one of the top ten global providers of enterprise software whose technologies and expertise drive efficient processes, thereby enabling the "digital enterprise" of tomorrow.
- Help overcome the central challenges to society and ensure economic sustainability through increased productivity and process efficiency based on "Green through Software AG."
- Strengthen the software industry to become an engine of growth and a key economic sector through active software politics.

VISION

It is our goal to become a market and technology leader in multiple enterprise software market segments. At present, we are the technology leader in process optimization and IT-based process implementation. We aim to earn a best-in-class rating from industry analysts for every product in our portfolio. These references confirm us as innovation partners to our customers.

With a focused growth strategy, including acquisitions, we will expand our market share in all the major regions of the world.

We want to continue expanding our role as an innovation partner to our customers through customer-centric innovation. We therefore apply practical experience and the needs of our customers to the development of new software solutions. Our customers are enterprises and public institutions that want to sustainably increase efficiency by digitizing their business model and optimizing their processes.

PROCESS INNOVATION WILL BECOME
AS IMPORTANT AS PRODUCT INNOVATION.

We are certain that process innovation will become as important as product innovation in all areas of business. Vendors in many industries no longer differentiate themselves by their product. But rather, process excellence (PE) increasingly plays the decisive role in gaining a competitive edge in these industries. We estimate that the process innova-

SOFTWARE AG WILL BECOME A STRATEGIC
PROJECT PARTNER FOR PROCESS INNOVATION.

tion market will be larger than the enterprise resource planning (ERP) software market is today. Repositioning ourselves in the process optimization space therefore opens up great growth potential. Our role here will evolve to that of a strategic project partner for process innovation.

Our software solutions and consulting expertise are geared to the development of process innovation. Our IT solutions enable organizations to have flexible processes and thus be agile enough to react quickly and economically to ever changing requirements. We are specialists in creating end-to-end processes running on heterogeneous IT systems. Our technology is platform-independent, easy to use, and fast to implement.

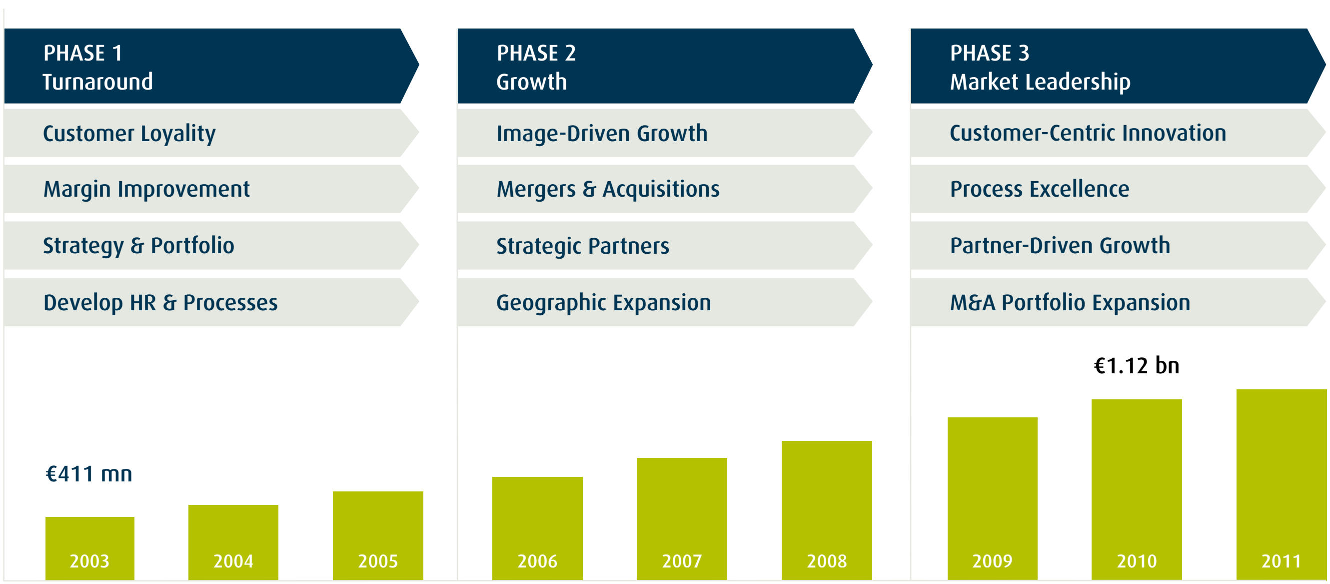
The strategic focus of our process solution portfolio on comprehensive industry-specific solutions is possible thanks to our IDS Scheer consulting and industry expertise and through collaboration with partners (e.g. Accenture). Our position as a technology leader in the BPE high-growth market is an essential differentiating characteristic for Software AG and opens up promising opportunities for the future.

DIFFERENTIATION

Software AG is a world leader in the BPE (Business Process Excellence) space. Our name has stood for innovation for 40 years with: Adabas, the first high-performance transactional database; ARIS, the first business process analysis platform; and, webMethods, the first B2B server and SOA-based integration platform.

We stand out from the competition because of our globally leading and innovative process optimization product offering, and the platform-independence of our solutions, which means technological freedom for our customers. A technology-neutral process platform enables digitization of business process using the existing software in an organization. This allows for the separation of applications from

SUCCESSFUL IMPLEMENTATION OF THE COMPANY'S LONG-TERM STRATEGY (TEN-YEAR PLAN EXCERPT)



processes. Entire processes are seamlessly supported regardless of the IT solutions (typically from different vendors) they are running on. This separation is a prerequisite for organizations that need to adapt quickly to constantly changing environments. And, it is therefore a technical requirement for sustainable successful business operations.

The ease and speed with which we develop and implement IT solutions, our 40-plus years of experience with business software, and our financial stability due to our anchor investor, the Software AG Foundation, make us a solid, trustworthy partner for our customers.

SUSTAINABLE PROFITABLE GROWTH

Our Company is following a path of sustainable and profitable growth. A trend of consolidation prevails in the software market. Software AG believes that successful software companies must therefore grow organically as well as through acquisitions in order to realize size advantages. Our long-term corporate growth consists of customer orientation, in-house research and development, close cooperation with partners, personal development for employees, and social responsibility. We not only want to become bigger, but better all the time.

WE NOT ONLY WANT TO BECOME BIGGER, BUT BETTER.

Software AG has been implementing a clear and long-term strategy since 2003. This strategy led the Company back to growth. The period between 2009 and 2011 is our "market leadership" phase, which has already culminated in the achievement of our revenue target of more than one billion euros combined with dynamic earnings growth. The following four growth-driving concepts have been identified by Software AG for the current period:

1. Innovative product portfolio
2. Project business with industry-specific focus
3. Expansion through acquisitions
4. Market share growth in all geographic regions and markets

Each of these growth factors generates additional revenue in a different area and thus complements the others' strengths while minimizing any risks. The result is a more innovative and successful Company with organic growth supplemented with external growth.

1. Innovative product portfolio

Innovation is our core business. As a highly customer-oriented innovation leader, we focus on the continuous enhancement and expansion of our offering. Software AG is known as a product provider that develops its own software products and solutions. This approach always provides customers with the market's best technology combined with multi-source services, which leads to long-term customer relationships. Thanks to reusable product solutions and ongoing maintenance agreements, Software AG is able to generate stable income and profit margins, thereby safeguarding its long-term role as a pivotal player in enterprise processes. Multiple new Software AG products were recognized by industry analysts as best in class in 2010.

The Software AG product portfolio consists of two segments:

- Data management software for mainframes (Enterprise Transaction Systems (ETS) with the Adabas and Natural products)
- BPE software products (webMethods and ARIS)

Both segments are supplemented by very strong consulting and services.

With the integration of the IDS Scheer solution portfolio, a bridge was built between the business side and the technical side of processes. This is cutting edge in the market. The complete lifecycle model offers a new level of quality in the interplay between business operations and IT and a tight coupling of the business and technical levels. Software AG of tomorrow is therefore not just a product provider, but much more. It is a software product solutions provider, or a "software project company."

WE CONSIDER OURSELVES TO BE A PROVIDER OF IT PRODUCTS AND INDUSTRY-SPECIFIC SOLUTIONS, OR A "SOFTWARE PROJECT COMPANY."

In addition to the development of innovative products and solutions for customers, BPE as a growth driver also includes the use of process expertise for internal process structures. In 2010 we continued the digitization of Software AG by automating processes based on our own product portfolio.

2. Industry-specific project business

Software AG has evolved from an infrastructure vendor to a provider of comprehensive solutions and consulting services for BPE. As a software project company, we offer a one-stop source for software products, services, and consulting. Our end-to-end technology approach supports the entire value chain of an organization.

The addition of the IDS Scheer consulting unit, consisting of business and IT consulting for upper management and SAP consulting, has given our project business a major boost. This represents three benefits for Software AG: an extensive SAP customer base, which opens up cross-selling potential for our software products; a broadened market presence, which helps brand recognition; operating earnings growth through cost and revenue synergies.

Software AG made tremendous progress during the year 2010 merging the two organizations' portfolios and transforming itself to a leading software project company.

3. Portfolio expansion through acquisitions

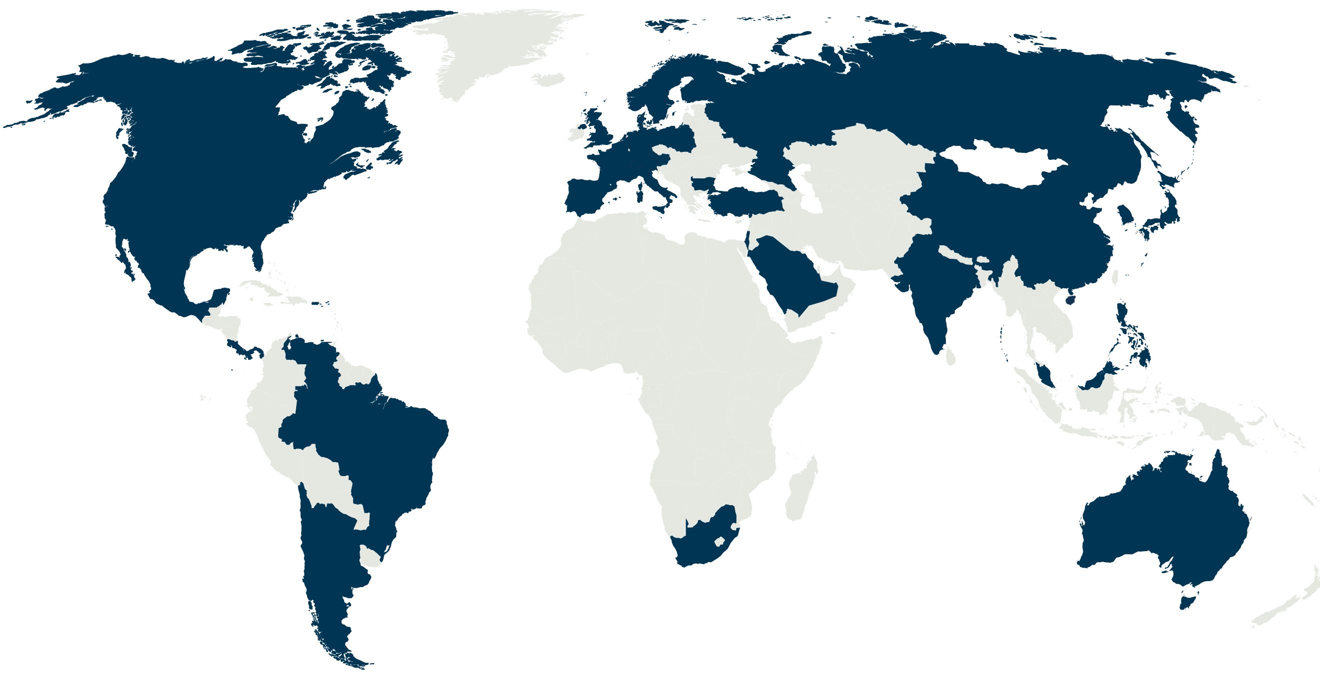
Our acquisition and integration of IDS Scheer AG of Saarbrücken, Germany was the focal point of our Company's strategic development and future-securing activities in the fiscal year under review. The successful merger created a global player in BPE. From a strategic perspective the acquisition means a significantly extended value chain and a broader market reach for Software AG. In addition, small-scale acquisitions serve to round out our corporate portfolio with complementary products and/or local or industry-specific consulting and project capacities.

4. Market share growth in all geographic regions and markets

Further expansion of our market presence is an essential component of our long-term strategy. We are entering markets with high-growth potential such as Asia, the Middle East, Eastern Europe, and Latin America. Of particular importance was our market entry in South Africa, Japan, Israel, and Brazil in recent years.

The next stage of geographic expansion will be intensification of our market presence in the 70 countries in which we are already represented. The first step will consist of targeted growth in markets with particular potential. A recovery from the global recession was noted in international markets during the course of 2010. However, the extent of the improvement varied by country. Emerging nations with high-growth potential did much better than those with more mature economies. We will therefore expand our activities to include large emerging economies as well.

SOFTWARE AG'S GLOBAL PRESENCE



ATTRACTIVE EMPLOYER

Employees are the most valuable internal asset of a successful (IT) company. Their skills, dedication, and creativity drive innovation and, therefore, the long-term development of a company in a highly competitive market. For this reason, our employees are at the center of our corporate strategy. Software AG works to continuously enhance its image as an attractive employer. We offer a wide array of staff development and qualification programs, multifaceted international career opportunities, and constructive activities and services for employees.

GERMAN IT STUDENTS RATED SOFTWARE AG AS A PREFERRED EMPLOYER.

These efforts were recognized by an external study conducted in June 2010. More than 20,000 college students majoring in IT, economics, engineering, and sciences were surveyed. Ahead of much larger IT companies, Software AG was named for the first time ever by German IT students as one of the top-20 most sought after employers. Software AG offers a combination of factors that today's young graduates and specialists are looking for: business success, challenging tasks, excellent training options, competitive salaries, and sensitivity to work/life balance.

Our top specialists work in the areas of IT development, IT consulting, sales, and administration. Our Corporate University was established in 2005 and offers field-specific further training and qualification to employees in all departments. The program features a learning management system, an online platform for e-learning and collaborative study. In addition, our international High Potentials Program, which promotes employees who display outstanding performance, is in its fourth year.

WE RECOGNIZED EARLY ON THE IMPORTANCE OF A WORK/LIFE BALANCE ALONGSIDE A COMPETITIVE SALARY AND FURTHER EDUCATION OPPORTUNITIES.

Software AG uses global benchmarks as a guide for remuneration and benefits. In this way, we ensure that our employees' remuneration is highly competitive in the market. Furthermore, our management recognized early on how important a work/life balance is for staff members in addition to salary and further education. We therefore invested in the development of programs according to individual countries' needs, for example counseling on child and elder care, sports activities, and health and fitness days.

But being a sought-after employer is not enough to attract the best employees—especially in the ICT sector. As concluded by a recently published survey by the German BITKOM industry association, more than 20,000 positions—mostly in the software and IT services fields—are currently vacant. Software AG is actively working to counteract this shortage of specialists with its University Relations Program. The goal of the program is to put all Software AG products into colleges and universities around the world to be used for teaching and research purposes. In connection with this, we offer IT and business students the chance to get to know us through guest lectures, corporate visits, and events. We provide internship positions as well as advising for degree theses. In the last three years, more than 280 departments in over 100 colleges or universities in Germany participated. Some 2,800 students have taken advantage of this program to acquire skills in service-oriented architectures (SOA) and business process management (BPM).

CORPORATE RESPONSIBILITY

Software AG is highly dedicated to strengthening the software industry in Germany to promote growth and create and secure jobs. To this end we maintain a close dialog with other institutions and companies. This enables us to realize synergies, exchange knowledge, and drive innovation. After all, valuable innovation usually results from open collaboration between strong partners. Regional partnerships—known as clusters—establish long-term competitive advantages and economic growth.

Europe's largest software cluster

Europe's largest software cluster, known as "Software Innovation for the Digital Enterprise," won a cluster excellence competition sponsored by the German Ministry of Education and Research in January 2010. The cluster is considered to be the Silicon Valley of Europe, spanning centers in Darmstadt, Kaiserslautern, Karlsruhe, Saarbrücken, and Walldorf. The endorsement of the German government will help the

EVEN NOW SOFTWARE IS REGARDED AS A KEY TECHNOLOGY TO VALUE CREATION AND PRODUCTIVITY.

software cluster develop into an internationally recognized technology hub. Six projects will propel the cluster itself as well as technological and methodological research and development of software solutions for digital enterprises. The decision of the German government will strengthen the software industry in Germany. Recent studies estimate that there will be 430,000 new jobs in the software industry by the year 2030. Even now software is regarded as a key technology to value creation and productivity.

Truffle 100 confirms dynamism of the market

The EU Commission published the Truffle 100 Europe at the end of September 2010, a list of the 100 biggest software companies in Europe. The report shows that the software sector dynamically increased investment in research and employment and generated more revenue than the European industrial averages despite the global recession. Moreover, the industry maintained profit levels from 2009.

Of particular significance was the increase of over four percent in investments and employment in research and development within the software industry at a time when overall employment was shrinking. The report shows that a larger software sector in Europe would provide a buffer to economic contraction and provide an earlier return to growth. This phenomenal performance in a difficult market highlights the positive effect a fully developed software industry would have on Europe's economy. Therefore, Software AG sees it as ever more pressing that the European Union focuses on the development of the software industry as central to its Digital Agenda 2015.

The Management Board of Software AG represented this point of view at Germany's fifth national IT Summit held in December 2010 and welcomed EU Commissioner Neelie Kroes' efforts at a European level.

CORPORATE SOCIAL RESPONSIBILITY

Customers, investors, employees, partners, and representatives of public institutions alike are our stakeholders. They are entitled to achieve their goals in an environment of social responsibility through their collaboration with Software AG. We regard the needs of our stakeholders as a comprehensive responsibility which, when accepted, will lead to sustainable corporate success and added value in society.

OUR VISION IS TO:

- Be a leading platform-independent provider of Business Process Excellence in the countries where we are represented;
- Be one of the financially most successful software companies in the world;
- Maintain independence with the help of our anchor investor, Software AG Foundation;
- Strive to undertake large acquisitions on a regular basis to combine organic and external growth and
- Double revenue at least every five to six years;
- Use the one billion euro mark in revenue as a stepping stone for a new profitable growth period.

TECHNOLOGY AND CUSTOMERS
BUSINESS PROCESS EXCELLENCE AND SUSTAINABILITY

To stay ahead of global competition, companies must constantly react to changes, flexibly adapting and optimizing their business processes. This is only possible if they address their IT and business infrastructures as a whole. Software AG's integrated Business Process Excellence (BPE) Suite is the first comprehensive platform for managing and executing processes that play a critical role in customers' sustainable business success.

BPE FOR SUCCESSFUL ENTERPRISES

The challenge:
Business processes used by organizations are dynamic because the world is ever changing. So organizations must continually adapt their processes to new requirements of the market if they want to survive global competition. Changing laws and regulations as well as mergers and acquisitions cause breaks in IT-driven processes. For this reason, agile business processes and dynamic process landscapes that are supported by flexible software solutions are a necessity.

AGILE BUSINESS PROCESSES AND DYNAMIC PROCESS LANDSCAPES THAT ARE SUPPORTED BY FLEXIBLE SOFTWARE SOLUTIONS ARE A NECESSITY.

Business management software (e.g. ERP) does not cover all the processes of a large organization, because these applications are usually employed for single processes or process segments and department-specific functions. At best, end-to-end standardization is only possible for those processes applying to simple business tasks, such as in a customer relationship management system. Furthermore, processes undergo changes more frequently than applications, meaning that every time a process changes, the IT solutions also have to be laboriously modified.

Software AG's philosophy is based on the following approach:

a. We can adapt processes to market requirements faster than any other vendor because we offer a combination of best-in-class BPE products. In other words, all our products have been recognized by industry analysts as market leaders.

b. We see ourselves as a project partner (software project company) for successful, sustainable transformation of processes and IT integration. We offer platform-independent software solutions for all steps of the process lifecycle: from process planning and modeling to implementation and monitoring. We therefore enable the creation of flexible enterprise structures based on existing IT landscapes.

Step 1:
With hardware-independent database technology, such as Software AG's Adabas and Natural, existing applications are ported to other operating systems and hardware platforms with minimal effort.

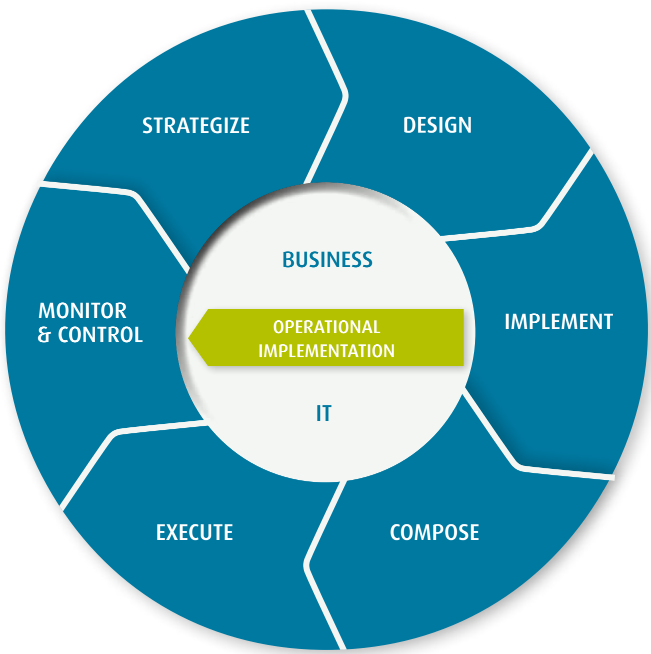
Step 2:
Integration software, called middleware, enables data interchange between existing application silos. This is possible with Software AG's webMethods product, which is based on a service-oriented architecture (SOA).

Step 3:
An independent end-to-end platform that supports applications from different vendors provides everything from the design and operation to continuous optimization of entire business processes (model-to-execute concept). Only with a consistent, independent process platform can communication between applications be flexibly, quickly, and with minimal effort, adapted to new situations.

WE ENABLE ORGANIZATIONS TO DESIGN BUSINESS PROCESSES END TO END, CONTROL THEM IN REAL TIME, AND MODIFY THEM EFFICIENTLY AND FLEXIBLY.

Software AG's new integrated BPE portfolio offers this total functionality with the market-leading webMethods Suite and ARIS products. It equips organizations with all the tools they need to design their business processes end to end, control them in real time, and modify them efficiently and flexibly according to business goals.

BUSINESS PROCESS EXCELLENCE
LIFECYCLE MODEL



TECHNICAL AND BUSINESS LEVELS UNITE

Software AG's comprehensive, integrated BPE suite combines all the components needed for the full business process lifecycle. This unique offering was unveiled together with the first case reports at CeBIT 2011. The foundation was laid in the concluded fiscal year with the successful integration of the IDS Scheer AG and Software AG product lines.

The term Business Process Excellence (BPE) refers to the fusion of the business and technical sides of business process management (BPM). This is a market innovation. BPE goes way beyond BPM in that it encompasses the complete process lifecycle including both the technical and business elements. The business component consists of the BPE lifecycle, which describes step-by-step how complete process management should be approached from the point of view of business operations. The technical component—and basis of the BPE lifecycle—is the BPE platform. The Suite offers the different systems in an integrated format (e.g. BPM, CEP, MDM, EAM, BPA, B2B, and SOA—Refer to the Glossary on p. 154). Only when the business and technical components of business processes in an organization are regarded and implemented as a whole, can process management be successful in the long run.

All enterprises face the same main challenge: to continuously ensure and optimize the performance of business processes with respect to quality, cost, and speed. But, more often than not, process performance is coincidental rather than a result of proactive management. Organizations therefore need two things. Firstly, process management must be clearly defined. The BPE lifecycle answers the questions of who, how, what, where, and when. Secondly, a technological platform that supports the strategy, design, implementation, composition, execution, monitoring, and analysis of the business-related processes in an integrated way (BPE platform) is necessary. Integration is key here. The BPE platform supports both business and IT users. In this way, a BPE solution allows organizations to monitor and actively control performance of business processes in real time.

COMPREHENSIVE, INTEGRATED SUITE FOR BUSINESS PROCESS EXCELLENCE

Software AG's integrated portfolio covers the entire business process lifecycle.

With the business components of the BPE lifecycle—process design, process discovery, process mining, and process benchmarking—ARIS covers strategy, design, and implementation. Through the BPE platform, webMethods supports process implementation, composition, and execution with technical components including real-time monitoring and analysis. Performance benchmarking is handled by webMethods Optimize, while the IDS Scheer Performance Manager enables medium-term analysis. ARIS Mashzone displays results on a dashboard. Complete integration of the product lines was achieved in 2010. The result is "model-to-execute," or the transfer of ARIS-based process models to the execution level of webMethods with an additional feature known as the governance process model. This guides transformation, incorporating CentraSite into the solution. Software AG developed bidirectional data interchange between the two technologies based on the BPMN 2.0 standard whereby a technical model can be automatically generated from a business process model in ARIS. In addition to model-to-execute, process intelligence (PI), and architectural components, the platform will also include complex event processing (CEP) and master data management (MDM).

PIONEERS OF CHANGE

The integration of ARIS and webMethods was presented at CeBIT 2011 as a complete BPE product suite. This provided the first look at the model-to-execute concept, in other words, process excellence from design and operation to ongoing optimization of business processes.

The key to BPE and thus to the model-to-execute concept is the fusion of processes and IT, and also close collaboration between employees from IT and business units. Integration of various disciplines leads to excellent business processes. A pivotal element to easing communication and shared process management is using cutting-edge collaboration tools. Therefore, we will expand our BPE platform to include social networking elements such as communities, forums, and blogs. Our aim is to coordinate the various roles of employees, e.g. enterprise architects, data architects, business analysts, process modelers, and developers to enable them to work on their process models simultaneously. Experiences gained from the ARISalign online collaboration platform will be applied to social communication functions in the integrated product suite.

The world of IT does not stand still. We will drive existing approaches forward, keep in stride with the latest market trends, and rise to new and greater challenges. Innovative topics such as cloud computing, social BPM, extreme collaboration and mobility are high on our agenda. Mobile device capability will be available for some of our solutions' functionality and some basic functionality on a cloud basis in the future.

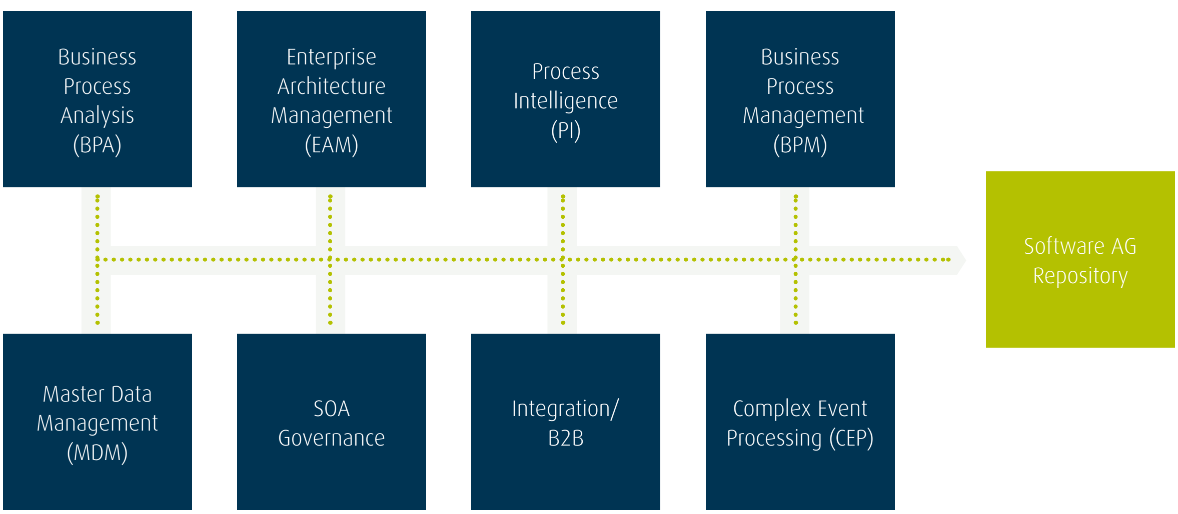
The world of business process management is currently undergoing an immense transformation. We want to be at the forefront of this transformation. We are, according to widely respected market analysts, a global leader in a number of business process management segments, and therefore well equipped to achieve that.

SUSTAINABILITY AND RESPONSIBILITY ARE THE FOUNDATION OF BUSINESS

Never before has the world been as globally connected as it is today. We are all living in a global village: anchored to one place, but connected with the world. Information technology is the foundation, driving globalization and the ever growing political and economic inter-dependence between nations.

Globalization and digitization have led to huge advances in productivity. Many processes have become significantly faster, cheaper, and more efficient as a result of digitization. Countless new products and services have been created. New suppliers and buyers have generated new types of income and increased wealth in many places.

SOFTWARE COMPONENTS OF THE PROCESS LIFECYCLE*



* For an explanation of these terms, refer to the Glossary.

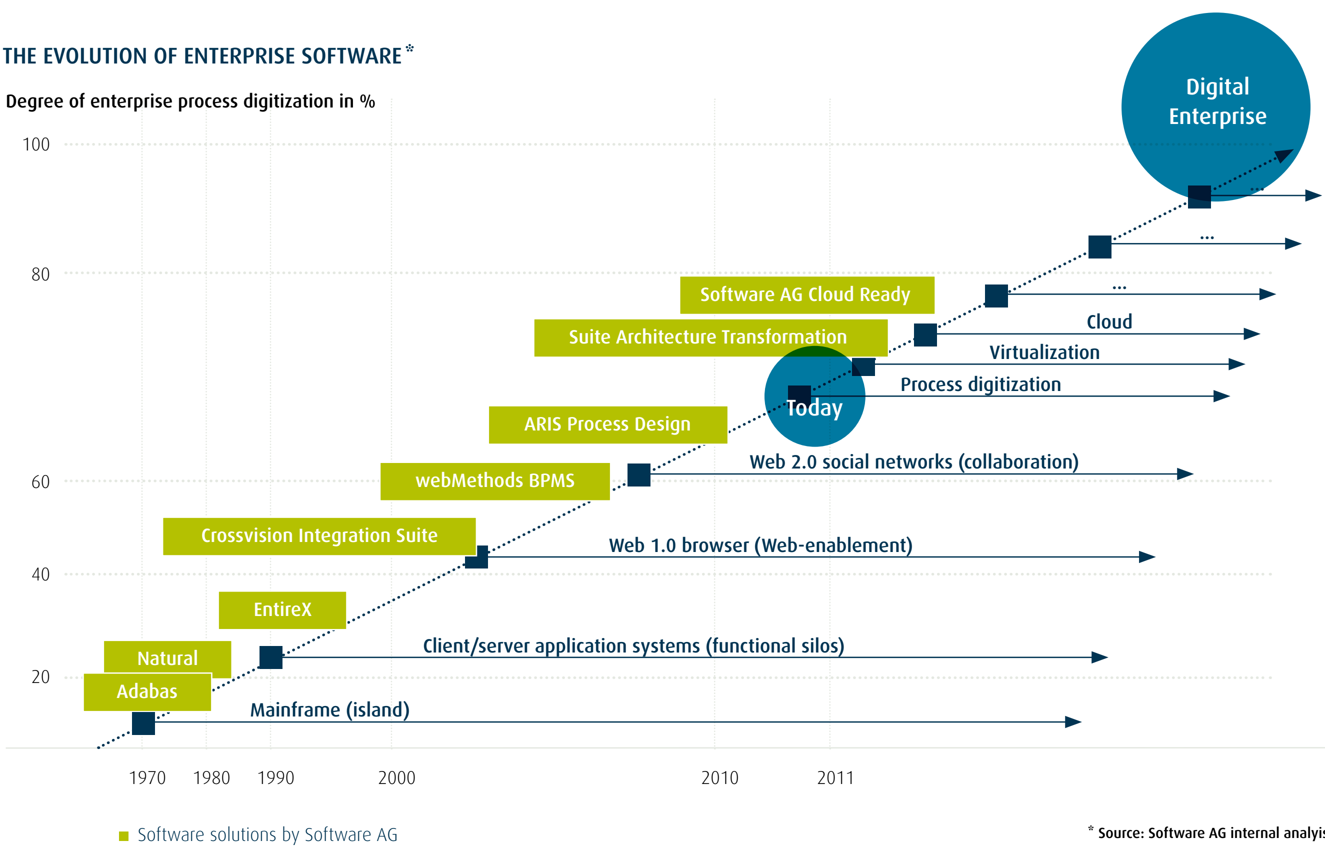
Citizens of the global village demand answers from governments and companies on how economic and societal threats can be minimized. The challenges are daunting and complex. They require a coordinated approach from the political and business communities. They also call for sustainable and responsible action on the part of all individuals.

To us, acting responsibly is having a business model based on sustainability. Information technology is a dynamic industry. Moore's law states that the power of computer processors doubles every 18 months. This means that the total computing power needed for the first moon landing in 1969 would now fit into a cell phone. Fast technology means rapid change. Products and companies come and go, but there are exceptions. Software AG is one of them. We were founded in 1969 and were one of the first international software companies in the world. Our business model is robust and sustainable. We have been adapting our enterprise-scale software to meet the needs of our customers for more than 40 years.

We conduct our own research and development. The requirements our customers have for our software solutions along with our own drive to be the best in the market fuel the continuous improvement of our own processes and products.

More than 10,000 customers including banks, airlines, government ministries, media companies, and logistics firms control their processes with our solutions. We are globally responsible for the success of our customers and partners. Only with reliable, cost-effective, and fast software solutions can we be successful. That requires innovative, sustainable software solutions and responsible, customer-oriented action in every corner of our Company.

THE EVOLUTION OF ENTERPRISE SOFTWARE*



* Source: Software AG internal analyis

Country: Germany
Industry: Pharmaceuticals

KNEIPP ACHIEVES MILESTONE IN PROCESS-DRIVEN IT TRANSFORMATION

CHALLENGE

Kneipp is a traditional company with a highly departmentalized structure. In the past, this led to goals being defined and discussed within individual departments only. Paper-based procedural instructions were common, which resulted in unnecessary work and errors. This is still true of many organizations today. The primary goal of the Kneipp project, which was kicked off in 2003 in cooperation with IDS Scheer, was to boost delivery capabilities mainly by speeding up processes. This would require end-to-end communication between processes as well as a less department-oriented mentality. But the majority of the company's process knowledge and best practices could be found only in employees' heads. Work flows were constantly being reinvented. Consequently, processes, such as the implementation of a new formula, took longer than necessary, even though Kneipp's very complex product line requires high-performance processes. From procurement of raw materials to sales, pharmaceutical products entail different processes than beauty products and cosmetics.

SOLUTION AND CUSTOMER BENEFITS

The Würzburg-based Kneipp Group needed systematic process management and began collaborating with Software AG on a phased transition to become a process-driven organization. This mid-sized enterprise aimed to improve its agility and competitive performance in the global consumer market. Within the context of a general reorganization, Kneipp restructured its production into project units and streamlined its operations into three main business processes: product lifecycle management, supply chain, and sales. The three main business processes modeled with the ARIS platform offer transparency and end-to-end business control. The first segment of the business process for handling product launches has already been transitioned from the ARIS model to the webMethods suite and is now automated. And no less valuable is the experience they have gained in "thinking in processes," which has replaced a strictly departmental mentality at Kneipp.

TECHNOLOGY

The successful automation of this first process segment was very important to the health products manufacturer. Specifically, it deals with the destruction process of expired products, which previously required a great deal of effort because many signatures had to be gathered, reports prepared, and value adjustments for all raw materials taken into account. Now they have the necessary transparency at the push of a button—a complete overview of all costs, status information, and the remaining value of a raw material. Thanks to the automation, Kneipp is achieving a solid cost savings of 35 percent.

A priority of the project was gaining control over the complex product portfolio (a wide array of customers, distribution, types, parts, and materials) and interfaces (distribution planning, production planning, logistics, procurement, contract manufacturing, and outsourcing). Because employees of a mid-sized enterprise often have a wider variety of responsibilities than in a large company, having a clear view of processes from beginning to end is of utmost importance. Reducing interfaces and becoming more process-oriented enables medium-sized businesses to become more efficient and thus competitive for the long term.

Software AG and the Kneipp Group have taken a major step forward in their long-term collaboration on a project for implementing process-driven IT transformation. It also represents a milestone in the integration of IDS Scheer AG's ARIS and Software AG's webMethods product lines. The next phase will focus on implementing Business Process Excellence for all main business processes with the ARIS platform and webMethods.

STATEMENT

"Now we have the necessary transparency at the push of a button—a complete overview of all costs, status information, and the remaining value of a raw material. Thanks to the automation, we are achieving a solid cost savings of 35 percent. And no less valuable is the experience we have gained in 'thinking in processes,' which has replaced a strictly departmental mentality at Kneipp."

Holger Wolf, CIO and Member of the Board, Kneipp Group

Country: USA
Industry: Oilfield services

BAKER HUGHES REDUCES PROCESS TIMES AND COSTS WITH WEBMETHODS

CHALLENGE

Baker Hughes is a top-tier oilfield service company operating in 130 countries around the world. With almost 50,000 employees, Baker Hughes develops, manufactures, and markets products for the drilling and production of natural gas and oil. The company wanted to optimize its procure-to-pay (P2P) process to improve invoice accuracy, minimize delivery delays, and reduce late payments. The worldwide petroleum leader needed a world-class business process management (BPM) solution to increase process agility, visibility, and control.

SOLUTION AND CUSTOMER BENEFITS

A webMethods customer since 2001, Baker Hughes built on its investment in the webMethods integration platform by adding the webMethods BPMS (Business Process Management Suite) to gain new efficient capabilities for process modeling and execution. The company used webMethods Optimize for SAP to create a real-time dashboard to proactively monitor P2P activities, end to end, across multiple systems. Based on real-time KPIs displayed on the dashboard, Baker Hughes can monitor and measure processing time and speed, and thus quality. This allows problems to be avoided preemptively and improvements to be implemented in an ongoing, sustainable manner. Management maintains an overview of all transactions and can recognize and resolve problems at any time.

With automated processes and the ability to digitally track them, Baker Hughes has realized notably fewer invoice errors and delinquent payments. In addition, process optimization has eliminated unnecessary work. The company saves valuable time and money—about five to six dollars per invoice—by scanning invoices into an SAP system. The P2P process is now significantly faster, traceable, and paperless. This, in turn, increased process transparency and improved supplier relations for the long term.

TECHNOLOGY

For years, Baker Hughes had integrated its SAP ERP system with other systems via the webMethods integration platform. After success with these initiatives, Baker Hughes decided to "drill deeper" into the webMethods product line when optimizing its P2P process. Baker Hughes chose webMethods BPMS after evaluating several alternatives in detail. The selection enabled Baker Hughes to leverage and extend its BPM and SOA functionality with powerful capabilities to automate and manage processes. By adding business activity monitoring (BAM) with webMethods Optimize for SAP, management can measure workflow performance and then improve processes—the key to achieving greater efficiency.

With the webMethods products, the company has found a way to inject agility into the process in four key areas: awareness, flexibility, productivity, and adaptability. The first thing that is important is to have an awareness of a problem or event. This awareness enables you to drive the productivity of that situation. And, finally, flexibility is crucial to adapt processes to whatever occurred and constantly optimize them.

STATEMENT

"We shortened processing times, obtained traceable processes and a paperless work environment, thanks to Software AG's webMethods Business Process Management Suite. In doing so, we also improved overall sales, retention, and transparency."

Anthony Aming, Project Manager, Baker Hughes

Country: Germany
Industry: Financial services

WÜSTENROT & WÜRTTEMBERGISCHE ACHIEVES REGULATORY COMPLIANCE AND MAJOR COST SAVINGS

CHALLENGE
Wüstenrot & Württembergische AG (W&W) Group's management knew that their internal control system (ICS) would not be able to support their high standards for risk management much longer and that it also made it difficult for them to comply with ever more stringent regulatory requirements. Furthermore, the lack of good-quality documentation and a process-related overview of risks increased the chances that they might have shortcomings in the area of process control and risk assessment. W&W wanted to standardize their alert and escalation management processes, and needed to be able to provide status reports on the performance of the ICS itself in order to meet new German regulatory requirements.

SOLUTION AND CUSTOMER BENEFITS
W&W radically redesigned its ICS by implementing an automated, workflow-driven risk management system based on the ARIS Solution for Governance, Risk & Compliance (GRC). The new system enables fast compliance with new regulatory requirements and annual savings in the amount of €2.5 million. The system was up and running in just a few weeks, making it a model project for the company. It can be modified as called for by the German financial regulatory authority's (BaFin) "Minimum Requirements for Risk Management (MaRisk VA)" to provide required proof of audits at any time. The financial services company has always regarded risk management as an integral component of its business model. Detailed internal analyses show that W&W's ROI for software licenses, maintenance, and project costs for the new ICS will be more than 150 percent over the three-year project period.

TECHNOLOGY
W&W worked with IDS Scheer Consulting to build an excellent ICT solution based on the ARIS Solution for Governance, Risk & Compliance (GRC), which underscores the pension specialist's leading role in Germany. The company considers the ICS to be a management tool, not just a compulsory exercise to meet regulations. This level of automation gives W&W a comprehensive management view, rather than based on department, of ICS-related tasks, controls, and response to assessment queries. W&W applied the guiding principles of the Sarbanes-Oxley Act (SOX) for the design of their new ICS. This included centralizing operational control of the ICS across the corporation in a corresponding administrative department. Automatic e-mail notifications alert the responsible employees when control verifications are needed, and the process leads them through the appropriate sequence of activities to be performed. Audit-compliant storage of all results is ensured for both external and internal audits. W&W can now grant read-only access rights to independent third parties, which has significantly reduced auditing costs.

The ARIS Solution for Governance, Risk & Compliance supports W&W's risk management across the entire lifecycle: from the identification of risk-relevant processes and impacted functionality, to risk definition, control/test development and implementation, documentation, monitoring, and assessment of compliance and improvement activities. Using ARIS Risk & Compliance Manager has enabled W&W to create an audit-compliant ICS environment with a high-performance audit workflow that can be monitored and optimized on an ongoing basis. W&W won Software AG's 2010 Business Process Excellence Award for Governance, Risk and Compliance Management.

STATEMENT
"Together with IDS Scheer Consulting and using the ARIS software and methodology portfolio, we have transformed our internal control system into a truly excellent solution that underscores our leading role as pension specialists in Germany. It is in our best interest, and that of our customers, to manage and minimize risks. Therefore we see our internal control system as a management tool and not a compulsory regulatory exercise. A powerful ICS is the mark of a good organization."
Anthony Aming, Project Manager, Baker Hughes

SOFTWARE AG STOCK

With a 44-percent gain, Software AG stock outperformed all key benchmark indices. It surpassed the 100-euro mark, and, with a closing price of €109.80, achieved its highest value in ten years.

2010—AN INCONSISTENT YEAR ON THE STOCK MARKET

As the threat of the recession was subsiding, a number of euro zone countries found themselves heading toward new problems in the first quarter of the year. Their creditworthiness was negatively affected by a high debt burden, which rattled the markets mid-year. This was felt by capital market investors. The debt crisis in the region cost the euro almost twelve cents in 2010. The ongoing low interest rates in the euro zone together with maturing loans had a revitalizing impact on the bond markets in Europe and the U.S.

Key U.S. indices enjoyed major gains, whereas performance in Europe was mixed. The Stoxx-50 maintained a sideways tendency, while the Euro-Stoxx-50 fell slightly. The cause was primarily the stock markets in Spain and Italy.

For the year as a whole, the German Dax benchmark index posted a 16-percent rise, closing at 6,914 points and clearly outperforming analysts' expectations. On the whole, the other German indices performed solidly during the last 12 months. The MDax gained more than 34 percent and the SDax even more than 45 percent.

SOFTWARE AG STOCK UP 44 PERCENT

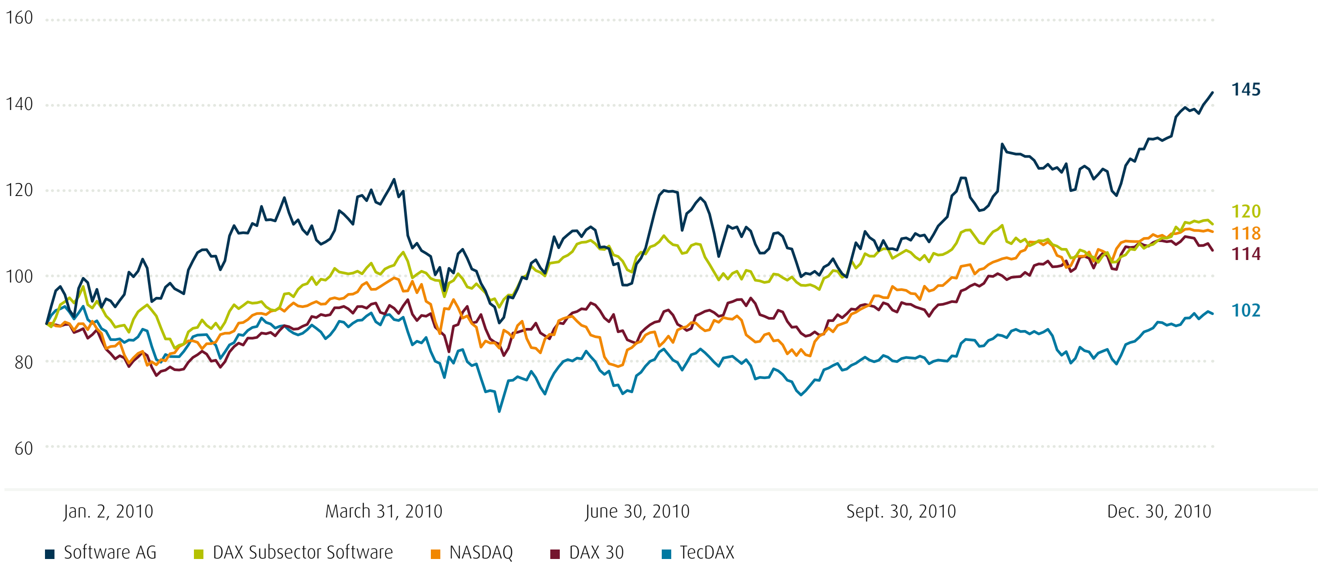
Performance among technology stocks varied. At year end, slightly more than half of TecDAX stocks were leaning toward growth. The index closed at 856 points, showing a four-percent improvement over the year.

Software AG's strong business results were reflected in the very positive performance of its stock. Software AG investors enjoyed a gain of 44 percent in the year under review. Software AG stock opened the year at €76.40 and ended it at €109.80. The uncertainty in the European markets in May caused Software AG stock to bottom out for the year at €74.75. This was the only quarter in which our stock dropped.

Market capitalization rose significantly. At year end, it was approximately €3.1 billion, which represents an increase in company value of about one billion euros. The average daily volume of traded shares on the Xetra remained level during the fiscal year.

Software AG stock is listed on the stock exchange in Frankfurt/Main, Germany. Software AG is represented in the TecDax technology index,

SHARE PRICE DEVELOPMENT (INDEXED)



MARKET CAPITALIZATION AT YEAR END

in € millions

2008	1,145.60
2009	2,193.32
2010	3,123.11

the TechAllShare industry index, the DAX100, and the DAXplus Family index.

COMMUNICATION

Software AG communicated its consistently encouraging business development on a regular basis through quarterly reports. Progress of the integration of IDS Scheer AG was the primary focus. The profitable ETS business line increasingly provides a source of financing for tapping new areas of growth. Merging the WebMethods and ARIS products within the Business Process Excellence line is one such high-growth area.

These highly lucrative products combined with good growth prospects and a solid dividend were vital factors in making Software AG an attractive investment in 2010.

CAPITAL STRUCTURE

The total number of shares outstanding at year end decreased from 28,708,410 to 28,443,602 common bearer shares. In fiscal 2010, only an insignificant volume of options were exercised on common shares in accordance with the stock option plans described in the Annual Report (For further in information, refer to p. 35). As a result, the number of shares increased to a total of 7,651. As part of the acquisition of IDS Scheer, 400,000 shares were repurchased on the stock exchange, reducing the number of outstanding shares. Software AG used these shares to complete the exchange of IDS Scheer shares for Software AG shares. 127,541 shares were issued for this purpose.

EARNINGS PER SHARE

Software AG achieved earnings of €6.18 per share in fiscal 2010. This marked a considerable increase as compared to the previous year of around 26 percent. (For further information on earnings performance, refer to the Group Management Report on p. 54).

KEY SHARE DATA

	2010	2009
Closing price (XETRA) in €	109.8	76.4
Year high in €	109.8	77.8
Year low in €	74.8	34.8
Total number of shares at year end	28,443,602	28,708,410
Market capitalization at year end in € millions	3,123.11	2,193.32
Free float in %	70.7	71.0

DIVIDEND

Almost €33 million were paid out to shareholders in fiscal 2010, which represents a dividend of €1.15 per share. Software AG intends to raise the dividend for fiscal 2010 again as a result of our excellent business development and to support our policy of dividend continuity. We will propose a dividend of €1.30 per common share to our shareholders. This would be a 13-percent increase per share with a total payout sum of about €37 million. Based on the proposed dividend and the closing share price in 2010, the dividend yield would be 1.2 percent.

SHAREHOLDER STRUCTURE

Software AG Foundation is the largest Software AG shareholder with some 29 percent of voting shares. The Foundation is dedicated to a wide variety of social projects and is one of Germany’s ten financially strongest foundations.

TOP 10 INVESTORS*

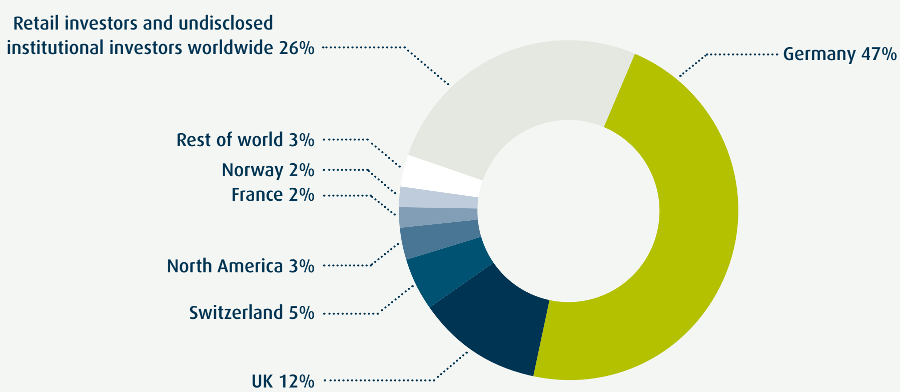
Investor name	in %
Software AG Foundation	29.00
Alken Asset Management LLP	4.79
Deka Investment GmbH	4.61
Braun, von Wyss & Müller AG	3.90
DWS Investment GmbH	3.70
JPMorgan Asset Management U.K. Limited	3.02
Fidelity International Limited	3.01
Allianz Global Investors Kapitalanlagegesellschaft mbH	2.97
SEB Investment GmbH	2.18
Norges Bank Investment Management (NBIM)	1.30

* Source: Thomson Reuters, Software AG research, February 2011

Investors (excluding Software AG Foundation) with more than three percent are Alken Asset Management, Deka Investment GmbH, Braun, von Wyss und Müller, DWS Investment, JPMorgan Asset Management, and Fidelity. The top ten investors hold a total of about 58 percent of Software AG common stock and are based primarily in Germany, Great Britain, and Switzerland.

The regional distribution of institutional investors serves as a guide for orienting investor relations activities toward the expansion of our shareholder base. Our shareholder base has proven itself to be very stable in recent years and confirms our intensive shareholder care approach. We plan to intensify our dialog with investors in the U.S. through stronger road show and conference participation.

SHAREHOLDER STRUCTURE*



* Source: ThomsonOne, Software AG research, February 2011

ANALYST RECOMMENDATIONS

Recommendations and assessments by financial analysts are an important source of information and a barometer for decisions for private and institutional investors. Software AG's image has continued to thrive in recent months.

In 2009, slightly more than 20 analysts covered Software AG. During the past year, the number increased, and, currently, 30 investment firms report on Software AG. Particularly new analysts were kept abreast of the fundamentals of our business model. At the end of the year, 26 analysts gave Software AG a neutral or positive rating. Only four recommended selling our stock.

EXCELLENT INVESTOR RELATIONS

Our investor relations work is based on transparency. Software AG's goal is to communicate comprehensively, clearly, and promptly with all participants of the capital markets. Equal treatment of all investors and interested parties is important to us. Our Investor relations website provides information on key dates, activities, and publications. Visitors to the site can view and download financial reports, press releases, ad hoc disclosures, annual shareholders' meeting documentation, presentations, analyst recommendations, and other relevant materials.

We publish financial figures promptly and present them to the capital markets via face-to-face events or teleconferences. Our Management Board is committed to publication deadlines and maintains an active dialog with investors and analysts.

Software AG's Investor Relations team ranked first in the TecDAX in the Extel Survey published by the financial journal, Wirtschaftswoche. Thomson Reuters surveyed fund managers and analysts around the world and published the results in May.

Software AG's investor relations work took second place in the TecDAX category of the Capital Investor Relations Prize contest. This was the fifth consecutive year the Company has captured a top position. With this prize, Capital honors companies that have demonstrated the best communication with the financial markets based on the criteria of transparency, target-audience focus, track record, and extra financial reporting.

Software AG's website won first place in the TecDAX in a contest sponsored by Net Federation, which assesses investor relations websites and provides feedback on the quality and organization of online communications.

COMMUNICATION WITH INVESTORS

As a publicly traded company, we conduct ongoing analysis of our shareholder structure. We utilize direct market access, conferences, and road shows to engage appropriate investors in different regions.

Our participation in 28 conferences, primarily in Germany, Great Britain, France, and the USA, was rewarded with great interest. We conducted one-on-one and group interviews during 29 days of road shows. We discussed our business model and critical success factors with a total of 340 investors and analysts during fiscal 2010. In addition, we communicated with former IDS Scheer shareholders who became Software AG shareholders.

At our Investors Day, held in February 2010 in Darmstadt, more than 30 investors and analysts took advantage of the opportunity to learn first-hand about the products and services of our business lines and future growth drivers in our industry. The Management Board and Investor Relations team look forward to welcoming investors and analysts again in 2011 and to discussing current market trends and the development of Software AG.

Software AG is a visible and active member of the German Investor Relations Association (DIRK), contributing to the definition of principles and best practices in investor relations at a national and international level.

TICKER SYMBOL AND BASIC 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
Offering price	€30

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
- Dow Jones 600 Index

CORPORATE GOVERNANCE REPORT

SOFTWARE AG

- Follows the German Corporate Governance Code
- 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

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 four 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 consisted of six members until the conclusion of the Annual Shareholders' Meeting on May 21, 2010. Due to the acquisition of the majority share of IDS Scheer AG, the Supervisory Board became codetermined based on parity, which led to an increase in size to 12 members. Half of them were elected at the Annual Shareholders' Meeting on May 21, 2010 (shareholder representatives); and half were elected by Software AG and IDS Scheer AG employees on August 27, 2010 (employee representatives). 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

As a result of the change of composition from one-third participation to parity-based codetermination in fiscal year 2010, a new election of all members of the Supervisory Board took place. Upon conclusion of the Annual Shareholders' Meeting on May 21, 2010, the terms of all existing members of the Supervisory Board ended. On May 21, 2010, the following were elected as shareholder representative members to the Supervisory Board: Andreas Bereczky, 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, Sector CEO 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. Pursuant to rulings of the Darmstadt District Court on April 23 and May 5, 2010, the following were appointed as interim employee representatives to the Supervisory Board until employee elections could take place: Monika Neumann (Chairwoman of the General Works Council of SAG Deutschland GmbH, employee of SAG Deutschland GmbH), Rainer Burckhardt (Deputy Chairman of the General Works Council of Software AG and Chairman of the Works Council of Darmstadt, employee of SAG Deutschland GmbH), Otto Schley (employee of Software AG), Manfred Otto (representative of upper management of Software AG), Peter Gallner (trade union secretary of the Vereinte Dienstleistungsgewerkschaft-VERDI), and Martin Sperber-Tertsunen (trade union secretary of IG Metall). In an election held on August 27, 2010, the employees of Software AG and its German subsidiaries confirmed the appointment of Ms. Neumann, Mr. Schley, Mr. Otto, Mr. Gallner, and Mr. Sperber-Tertsunen as employee representatives to the Supervisory Board. Mr. Burckhardt left the Supervisory Board. In his place, Dietlind Hartenstein, Deputy Chairwoman of the Saarbrücken Works Council, was elected as employee representative to the Supervisory Board. The members of the Supervisory Board elected Andreas Bereczky as Chairman and Monika Neumann as Deputy Chairwoman of the Supervisory Board on May 21, 2010.

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, the Audit Committee three times, and the Nominating Committee once. Since its first session on May 21, 2010, the Strategy Committee has not met again. 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 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 abovementioned guidelines in preparing nominations for those elections—and any other prior elections that may become necessary—as well as conduct regular assessments of the guidelines in the meantime.

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 21, 2010 in Darmstadt. Approximately

66.5 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 5, 2011 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.

OPEN AND TRANSPARENT COMMUNICATION

We communicate openly, transparently, comprehensively, and in a timely manner with all market participants. In 2010 we further intensified communication, taking part in numerous conferences, road shows, and other events.

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. To read them, please visit http://www.softwareag.com and click on Investors.

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

Software AG has commissioned independent consulting firm IR Consult to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. Our performance in the most recent study, conducted in September 2010, was good, with an overall rating of 1.93.

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

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. Foreign investment companies in particular had difficulties publishing voting rights changes according to form and in due time. In close collaboration with Germany's Federal Financial Supervisory Authority (BaFin), Software AG supported investors in improving the notification processes. TUG also stipulates that companies must make such notifications available throughout Europe. We use a suitable service provider for this purpose. 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.

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

Date	Content
September 4, 2009 (published on June 1, 2010)	The voting share of FIL Holdings Limited exceeded the threshold of three percent.
September 4, 2009 (published on June 1, 2010)	Correction of the voting rights disclosure of September 7, 2009: The voting share of FIL Investments International exceeded the threshold of three percent.
September 4, 2009 (published on June 1, 2010)	Correction of the voting rights disclosure of September 7, 2009: The voting share of FIL Limited exceeded the threshold of three percent.
September 4, 2009 (published on June 1, 2010)	Correction of the voting rights disclosure of September 7, 2009: The voting share of FIL Investment Management Limited exceeded the threshold of three percent.
May 14, 2010 (published on May 25, 2010)	The voting share of FIL Holdings Limited fell below the threshold of three percent.
May 14, 2010 (published on May 25, 2010)	The voting share of FIL Investments International fell below the threshold of three percent.
May 14, 2010 (published on May 25, 2010)	The voting share of FIL Investment Management Limited fell below the threshold of three percent.
May 14, 2010 (published on May 25, 2010)	The voting share of FIL Limited fell below the threshold of three percent.
May 14, 2010 (published on June 1, 2010)	Correction of the voting rights disclosure of May 25, 2010: The voting share of FIL Holdings Limited fell below the threshold of three percent.
May 14, 2010 (published on June 1, 2010)	Correction of the voting rights disclosure of May 25, 2010: The voting share of FIL Limited fell below the threshold of three percent.
May 14, 2010 (published on June 1, 2010)	Correction of the voting rights disclosure of May 25, 2010: The voting share of FIL Investment Management Limited fell below the threshold of three percent.
May 14, 2010 (published on June 1, 2010)	Correction of the voting rights disclosure of May 25, 2010: The voting share of FIL Investments International fell below the threshold of three percent.
July 6, 2010 (published on July 8, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH exceeded the threshold of three percent.
July 14, 2010 (published on July 16, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH fell below the threshold of three percent.
August 6, 2010 (published on August 11, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH exceeded the threshold of three percent.
August 17, 2010 (published on August 19, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH fell below the threshold of three percent.
September 2, 2010 (published on September 7, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH exceeded the threshold of three percent.
September 6, 2010 (published on September 13, 2010)	The voting share of Deka International S.A exceeded the threshold of three to five percent.
September 10, 2010 (published on September 14, 2010)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH fell below the threshold of three percent.
October 13, 2010 (published on October 18, 2010)	The voting share of Deka International S.A.fell below the threshold of five percent.

See business register at https://www.unternehmensregister.de

Software AG deals with risks and opportunities responsibly, aided by an 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. Please refer to the Notes for information on our consolidated financial statements.

DIRECTORS` DEALINGS

No reportable transactions were announced in the 2010 calendar year.

2010 DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

On January 26, 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 all recommendations of the government commission's German Corporate Governance Code dated June 18, 2009 and of the revised version dated May 25, 2010. The Management Board and the Supervisory Board intend to comply with the Code (as drafted on May 25, 2010) in the future as well.

Software AG implements the recommendations of the German Corporate Governance Code. Further details can be found at www.softwareag.com under Investor Relations. 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/index-e.html.

FINANCIAL REPORTING STANDARDS AND AUDITING

The 2010 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 as well as on business matters. 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 2010 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 reported 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.

Short-term remuneration of active 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 the 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.

VARIABLE REMUNERATION/BONUSES

Individual Management Board members are paid a bonus based on the Group's sales and earnings performance. 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) Stock option program

The stock option plan (Management Incentive Plan II) has been in existence since 2001. No new options have been issued in conjunction with this program since January 1, 2005. As of December 31, 2010, no (2009: 860) subscription rights had been issued to Management Board members. All issued subscription rights were exercised in 2010. The program is therefore finished.

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

	Balance on Jan. 1, 2010	Average base price	Fair value of stock option at grant time	Remaining term of options	Granted options in 2009
	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 THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 2)

	Forfeited options in 2010	Exercised options in 2010	Average base price	Average market price on day exercised	Expired options in 2009
	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 THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 3)

	Balance on Dec. 31, 2010	Of which were exercisable	Remaining term of options	Base price	Expenses from MIP II stock options
	No. of options	No. of options	Years	in €	in €
Karl-Heinz Streibich (Chief Executive Officer)	0	0	0.0	0.00	1,829.89
David Broadbent	0	0	0.0	0.00	2,532.89

b) 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 2010 is converted into virtual (phantom) shares on the basis of the average share price of Software AG stock at the end of February 2011 less ten 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 2012 to 2014, 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. For the phantom shares due in 2011, Management Board members could elect to extend the shares due for a period of six years, rather than receiving a payment. During the extension period, the Board member has an opportunity four times per year (each time the Company's financial results are announced) to demand payment of extended shares. The number of phantom shares is adjusted over the extended term by the amount (measured in percent) by which Software AG shares outperform or underperform the TecDAX index. The adjustment for this out- or underperformance is limited to 50 percent. 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 day after publication of the financial results. 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 the phantom shares. Personnel expenses of €9,481 thousand (2009: €5,932 thousand) were incurred under this plan during fiscal 2010 primarily due to the outperformance of Software AG's stock against the benchmark (TecDAX); these expenses are reflected under "long-term components" in the table.

c) Management Incentive Plan III (MIP III)

An incentive program based on the performance of Software AG stock was initiated for Management Board members and managers in the third quarter of 2007. A total of 1,050,000 ownership rights have been issued to Management Board members. 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. The performance target was defined as the attainment of Group revenues of €1,000,000 thousand with a simultaneous doubling of net income compared to fiscal year 2006 by no later than fiscal year 2011. The exercise conditions were met in fiscal year 2010.

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 1)

	Balance on Jan. 1, 2010 No. of options	Base price in €	Value of option at time of grant in €	Remaining term Years	Granted options in 2010 No. of options	Base price 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 THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 2)

	Forfeited options in 2010 No. of options	Base price in €	Exercised options in 2010 in €	Expired options in 2010 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	72.36	0	0
David Broadbent	0	72.36	0	0
Mark Edwards	0	72.36	0	0
Dr. Peter Kürpick	0	72.36	0	0
Ivo Totev	0	72.36	0	0
Arnd Zinnhardt	0	72.36	0	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 3)

	Balance on Dec. 31, 2010 No. of options	Of which were exercisable No. of options	Remaining term Years	Expenses from MIP III stock options* in €
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

	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 commitment time in the amount of €116.04 (2009: €83.08) per phantom share are included in the long-term remuneration components. The expenses from the phantom share program were reduced by €3,635 thousand (2009: €5,048 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.

Total remuneration for members of the Management Board amounted to €16,331 thousand (2009: €14,794 thousand) in the year under review. This includes considerations for 33,993 phantom shares totaling €3,923 thousand and a one-time payment of €3,180 thousand relating to the end of Board service.

The Management Board members received a total of 33,993 (2009: 50,728) phantom shares under the phantom share plan.

Remuneration for former Management Board members totaled €350 thousand (2009: €340 thousand). Last year's figure was adjusted.

Pension provisions for former Management Board members amounted to €6,570 thousand (2009: €4,188 thousand). Last year's figure was adjusted.

OTHER REMUNERATION COMPONENTS

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 most recently agreed annual target remuneration. In the case of two Board members, the amount is derived from the average target performance ratio for the preceding three full fiscal years. 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, 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 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 remaining Management Board members will receive no severance pay in such a case. From the time of their departure until completion of their 62nd year of age, the German members of the Management Board will receive a disability pension of €13 thousand per month, and the CEO will receive €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 British member of the Management Board is subject to the provisions of the Permanent Health Insurance Plan applicable in the United Kingdom. Under this plan, the British member of the Management Board will receive 90 percent of his average annual after-tax remuneration for the preceding three years until he reaches the pensionable age of 60 years. This entitlement will be adjusted to reflect inflation in years in which the inflation rate is less than five percent. If the inflation rate exceeds five percent, the entitlement will be adjusted annually by five percent.

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 three members of the Management Board, the pension amounts to €13 thousand per month; the CEO's pension amounts to €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 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.

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 (since July 31, 2010)	164,260.25	0
Arnd Zinnhardt	368,008.00	938,471.00

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 2009 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	2,348,814.65	34,210.93
David Broadbent	188,576.62	558,773.50	35,024.18
Mark Edwards	181,277.76	1,057,349.45	50,785.51
Holger Friedrich* (until March 13, 2009)	62,499.99	0.00	1,111,410.18
Dr. Peter Kürpick	200,000.04	917,293.53	30,966.51
Ivo Totev (since March 13, 2009)	200,268.78	424,666.67	23,542.84
Arnd Zinnhardt	231,999.96	1,513,680.55	28,467.45

* €1,102 thousand of Holger Friedrich's other remuneration components is compensation associated with the end of his Board service.

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

	Balance on Jan. 1, 2009	Average base price	Fair value of stock option at time of award	Remaining term of options	Granted options in 2009
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	9,375	22.43	8.63	2.5	0
David Broadbent	2,808	22.33	8.36	2.5	0
Mark Edwards	2,184	21.31	8.34	2.5	0

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

	Forfeited stock options in 2009	Exercised options in 2009	Average exercise price	Average market price on day exercised	Expired options in 2009
	No. of options	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	8,750	22.14	48.47	0
David Broadbent	0	2,573	22.19	52.01	0
Mark Edwards	0	2,184	21.31	49.86	0

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

	Balance on Dec. 31, 2009	Of which were exercisable	Remaining term	Base price	Expenses from MIP II stock options
	No. of options	No. of options	Years	in €	in €
Karl-Heinz Streibich (Chief Executive Officer)	625	625	1.8	26.47	8,548.21
David Broadbent	235	235	2.0	23.89	2,601.22
Mark Edwards	0	0	0	0	1,866.93

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 1)

	Balance on Jan. 1, 2009	Base price	Value of option at time of award	Remaining term	Granted options in 2009	Base price
	No. of options	in €	in €	Years	No. of options	in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	72.36	20.41	7.5	0	–
David Broadbent	150,000	72.36	20.41	7.5	0	–
Mark Edwards	150,000	72.36	20.41	7.5	0	–
Holger Friedrich (until March 13, 2009)	150,000	72.36	6.22	7.5	0	–
Dr. Peter Kürpick	150,000	72.36	20.41	7.5	0	–
Ivo Totev (since March 13, 2009)	0	–	–	–	150,000	72.36
Arnd Zinnhardt	150,000	72.36	20.41	7.5	0	–

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 2)

	Forfeited stock options in 2009	Base price	Exercised options in 2009	Expired options in 2009
	No. of options	in €	No. of options	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	72.36	0	0
David Broadbent	0	72.36	0	0
Mark Edwards	0	72.36	0	0
Holger Friedrich (until March 13, 2009)	150,000	72.36	0	0
Dr. Peter Kürpick	0	72.36	0	0
Ivo Totev (since March 13, 2009)	0	72.36	0	0
Arnd Zinnhardt	0	72.36	0	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 3)

	Balance on Dec. 31, 2009	Of which were exercisable	Remaining term	Expenses from MIP III stock options*
	No. of options	No. of options	Years	in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	6.5	894,827.19
David Broadbent	150,000	0	6.5	447,413.59
Mark Edwards	150,000	0	6.5	447,413.59
Holger Friedrich (until March 13, 2009)	0	0	–	−996,455.16
Dr. Peter Kürpick	150,000	0	6.5	447,413.59
Ivo Totev (since March 13, 2009)	150,000	0	6.5	411,446.81
Arnd Zinnhardt	150,000	0	6.5	447,413.59

* These expenses were reduced by €2,216 thousand in hedging earnings.

LONG-TERM REMUNERATION COMPONENTS

	Long-term remuneration components	Performance phantom shares	Expenses from performance phantom shares*
	in €	No. of options	in €
Karl-Heinz Streibich (Chief Executive Officer)	1,261,989.97	14,460	1,475,754.94
David Broadbent	424,803.93	4,935	657,149.43
Mark Edwards	687,602.50	7,929	1,313,298.27
Holger Friedrich** (until March 13, 2009)	−988,555.56	−1,115	−55,555.56
Dr. Peter Kürpick	652,280.84	7,624	894,705.83
Ivo Totev*** (since March 13, 2009)	1,984,814.81	4,030	334,814.81
Arnd Zinnhardt	1,121,400.10	12,865	1,307,926.22

* The expenses attributable to the fair value of the phantom shares at commitment time, amounting to €83.08 per performance phantom share, are included in the long-term compensation components. Expenses from the phantom share plan were reduced by €5,048 thousand in hedging earnings.

** The negative value of the long-term remuneration components is due to the withdrawal of the options from the MIP III plan as well as the withdrawal of the entitlements from the phantom share plan.

*** Ivo Totev's long-term compensation components include 150,000 stock options with a fair value of €11.00 each awarded in fiscal year 2009.

in €	Change in present value (DBO) from pension commitments 2009	Present value of pension commitments Dec 31, 2009
Karl-Heinz Streibich (Chief Executive Officer)	1,162,614.00	1,787,565.00
David Broadbent	220,347.00	300,193.00
Mark Edwards	943,176.12	1,248,734.57
Holger Friedrich (until March 13, 2009)	17,752.00	17,752.00
Dr. Peter Kürpick	165,177.00	261,065.00
Ivo Totev	215,416.00	215,416.00
Arnd Zinnhardt	336,827.00	570,463.00

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). Due to a resolution passed at the Annual Shareholders' Meeting on May 21, 2010, the fixed annual remuneration for the members of the Supervisory Board was increased from €25 thousand to €40 thousand. 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 of 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 will be 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 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
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

Total remuneration for members of the Supervisory Board amounted to €752 thousand (2009: €285 thousand) in the fiscal year under review.

Remuneration of Supervisory Board members for fiscal year 2009 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman until April 30, 2009)	16,438.36	0.00	6,312.33	5,000.00
Willi Berchtold	25,000.00	0.00	9,600.00	4,500.00
Dr. Andreas Bereczky (Dep. Chairman until April 30, 2009; Chairman since April 30, 2009)	46,027.40	0.00	17,674.52	6,500.00
Rainer Burckhardt	25,000.00	0.00	9,600.00	1,500.00
Heinz Otto Geidt (since April 30, 2009)	16,849.32	0.00	6,470.14	0.00
Monika Neumann	25,000.00	0.00	9,600.00	4,500.00
Alf Henryk Wulf (Dep. Chairman since April 30, 2009)	33,493.15	0.00	12,861.37	3,000.00

REPORT OF THE SUPERVISORY BOARD

Fiscal year 2010 at Software AG was marked by our merger and integration with IDS Scheer AG—which had been acquired in 2009—and therefore by the redefinition of our technological and business focus because of the expansion of the Software AG offering. This refocus affected all areas of Software AG. Due to the acquisition, the number of Software AG employees in Germany increased to more than 2,000.

Software AG therefore exceeded the threshold for parity-based codetermination. This required a restructuring of the Supervisory Board in 2010, including doubling the number of seats and reelecting all members.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In fiscal year 2010, 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 seven ordinary and two extraordinary meetings during the year under review. At least one session took place each quarter. Once, 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, ballots were cast in writing, with one exception. 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 2010:

DR. ANDREAS BERECZKY
Chairman of the
Supervisory Board

SUPERVISORY BOARD 2010

	1/22	3/17	5/20	5/21	7/30	9/17	11/5	12/14
Bereczky	present	present	present	present	present	present	present	present
Berchtold	present	present	present	present	present	present	present	present
Burckhardt*	present	present	present	present	present			
Gallner**				present	present	present	present	excused, ballot cast in writing
Geidt	present	present	present	present	present	present	present	present
Hartenstein***						present	present	present
Neumann	present	present	present	present	present	excused	present	present
Otto**				present	present	present	present	present
Requardt**				present	excused, ballot cast in writing	present	excused, ballot cast in writing	present
Schäferkordt**				present	present	present	excused, ballot cast in writing	present
Schley**				present	present	present	present	present
Sperber-Tertsunen**				present	present	present	present	present
Wulf	present	present	present	present	present	present	present	present

present excused excused, ballot cast in writing

* Member until 8/27
** Member since 5/21, after ASM
*** Member since 8/27

At the meeting on January 22, 2010, the Supervisory Board resolved to begin the merger process between IDS Scheer AG and Software AG and a stock repurchase program for the purpose of exchanging IDS Scheer AG shares for Software AG shares. The Supervisory Board further dealt with the medium- to long-term portfolio strategy of Software AG, as well as strategy in the Asian-Pacific/Japan region, with a focus on China. Furthermore, the Supervisory Board determined goals for fiscal year 2010 and discussed the results of the conducted efficiency audit at this meeting.

At the accounts meeting on March 17, 2010, in the presence of financial auditors, the 2009 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 acquisition of Realtime Monitoring GmbH, in Marburg, Germany, a technology acquisition in the field of complex event processing. With regard to Management Board issues, the Supervisory Board renewed the CEO's appointment until March 31, 2015. It approved three-year objectives for the members of the Management Board, evaluated the Management Board members' goal achievement for fiscal year 2009, and established goal-based compensation for fiscal 2010. In preparation for a parity-based, codetermined and enlarged Supervisory Board, the Supervisory Board passed new Rules for Procedure for the Management Board, Supervisory Board, and Audit Committee effective as of May 21, 2010. In the Rules for Procedure for the Management Board, mainly the catalog of transactions requiring approval was expanded and adapted to reflect the business volume of the Company. In the

Rules for Procedure for the Supervisory Board, because the threshold limit for parity-based codetermination had been exceeded, the mandatory Mediation Committee and Strategy Committee were established in addition to the existing Committee for Compensation and Succession Issues, Audit Committee, and Nominating Committee.

On May 20, 2010, an extraordinary meeting of the Supervisory Board was held to adopt a resolution on the merger agreement with IDS Scheer AG. In the presence of value appraisers and attorneys, the value of IDS Scheer AG and the merger agreement were discussed, and passed, on the recommendation of the Audit Committee. Software AG's medium- and long-term strategy was then discussed.

On May 21, 2010, a meeting was held before and after the Annual Shareholders' Meeting. In the last meeting of the Supervisory Board before the Annual Shareholders' Meeting, in accordance with the German One-Third Participation Act, Management Board issues were discussed. In its opening meeting after the Annual Shareholders' Meeting, the new parity-based codetermined Supervisory Board elected Andreas Bereczky as Chairman, Monika Neumann as Deputy Chairwoman, and the rest of the members of the committees. The committee members then elected their respective committee Chairs and Deputy Chairs.

The meeting on July 30, 2010 focused on the restructuring of the top level of management of Software AG. Mark Edwards and Ivo Totev had resigned as members of the Management Board effective on July 31, 2010 in order to become members of the newly established Group Executive Board, an operational Group-level management entity. The Group Executive Board consists of the members of the Management Board and executive directors of operational divisions in Sales and Consulting. Responsibilities for the operational sales departments were redefined. David Broadbent turned over responsibility for the APJ region (Asia Pacific Japan) to Mark Edwards (now in charge of Americas and APJ) and D/A/CH to Kamyar Niroumand. Instead, he assumed responsibility for EMEA (excluding D/A/CH). The Supervisory Board accepted the resignations of Mark Edwards and Ivo Totev.

Simultaneously, Wolfram Jost was appointed to replace Peter Kürpick, who had resigned, on the Management Board for a term of three years effective August 1, 2010. He would be responsible for Research and Development as well as Product Marketing. The Supervisory Board then approved a new role distribution among the members of the Management Board whereby the operational members of the Group Executive Board would report to the CEO. Furthermore, the Supervisory Board increased the number of members on the Audit and Strategy Committees to six members respectively.

In a further extraordinary meeting, which took place on September 17 via telephone, the Supervisory Board approved another technology acquisition: The acquisition of all shares of Data Foundations, Inc., a U.S. company specializing in master data management.

In a meeting on November 5, 2010, the Supervisory Board dealt, among other things, with product strategy. In addition, it discussed Software AG's risk control system with the Management Board. The Supervisory Board was convinced of the efficacy of Software AG's risk control system. In this meeting, the Supervisory Board defined the goals of its future composition.

At the last meeting of the year, on December 14, 2010, the Supervisory Board approved the 2011 financial plan, discussed Software AG's controlling and internal audit system in detail, and appointed Arnd Zinnhardt as Labor Director of Software AG.

COMMITTEES

To fulfill its duties efficiently in 2010, the Supervisory Board established the Strategy Committee and, pursuant to section 27, paragraph 3 of the Codetermination Act, the mandatory Mediation Committee in addition to the existing Committee for Compensation and Succession Issues, Audit Committee, and Nominating 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 was formed in the opening session of the Supervisory Board on May 21, 2010. It has the number of members required by law (four) and is constituted based on parity. It is chaired by Andreas Bereczky. The Mediation Committee did not meet in 2010.

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 had five members until the meeting on July 30, 2010. On July 30, 2010, the Committee for Compensation and Succession Issues was reduced to four members and is now constituted based on parity. It is chaired by Andreas Bereczky. The Committee for Compensation and Succession Issues met three times in fiscal year 2010. It dealt with personnel issues for the Management Board and the changed roles of the members of the Management Board due to the creation of the Group Executive Board.

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

COMMITTEE FOR COMPENSATION AND SUCCESSION ISSUES 2010

	3/17	5/21 before ASM	7/30
Bereczky	■	■	■
Berchtold	■	■	■
Neumann	■	■	■
Sperber-Tertsunen*			■
Wulf	■	■	■

■ present

* Member since 5/21, after ASM

The Audit Committee deals with issues related to financial reporting standards, half-year and quarterly reports, financial auditing, and risk management. The Committee was enlarged from four to six members in 2010 and is constituted based on parity. It was chaired by Willi Berchtold. The Audit Committee met three times in fiscal year 2010. In a meeting on March 17, 2010, and in the presence of an auditor, 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. In a meeting on May 17, 2010, in the presence of auditors and value appraisers, it discussed in detail a value assessment in relation to the merger of IDS Scheer AG and Software AG. On December 14, 2010, in the presence of auditors, the Audit Committee examined the internal controlling and audit system and the 2010 financial audit of Software AG.

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

AUDIT COMMITTEE 2010

	3/17	5/17	12/14
Bereczky*	■	■	
Berchtold	■	■	■
Burckhardt**	■	■	
Gallner***			□
Geidt	■	■	■
Otto***			■
Schäferkordt***			□
Schley***			■

■ present □ excused

* Member until 5/21
** Member until 8/27
*** Member since 5/21

The Strategy Committee was formed on May 21, 2010 and 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 is chaired by Andreas Bereczky. The Strategy Committee did not convene in 2010.

The Nominating Committee was reduced from four shareholder representatives to three. It was chaired by Andreas Bereczky. The Committee met once in fiscal year 2010 to consult on new shareholder representatives in the Supervisory Board, who, because of the increase from six to twelve members, were elected at the 2010 Annual Shareholders' Meeting. The discussion on potential candidates took into account the international scope of the Company's operations, the age and possible conflicts of interest among candidates. Diversity was also named as an important criterion for choosing members of the Supervisory Board. All members of the Nominating Committee were in attendance.

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 2010.

BDO AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, examined the financial statements and consolidated financial statements for the year ended December 31, 2010, as well as the Management Report, and the accounting books and records. The auditors issued an unqualified audit option.

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 11, 2011. 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.

GERMAN CORPORATE GOVERNANCE CODE

The Supervisory Board thoroughly addressed the subject of corporate governance and the German Corporate Governance Code again in fiscal year 2010. 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 2010. (For further information, refer to the Remuneration Report, p. 34.) Conflicts of interest on the part of members of the Supervisory Board did not arise. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Management Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report (p. 30). The Declaration of Compliance has been made public on the Company's website at www.softwareag.com.

CHANGES TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The following personnel changes took place on the Management Board of Software AG in 2010:

Peter Kürpick left the Company by mutual agreement at the beginning of August 2010. On August 1, 2010, Wolfram Jost was appointed as a member of the Management Board with global responsibility for Research & Development and Product Marketing.

Mark Edwards and Ivo Totev relinquished their positions on the Management Board as of July 31, 2010 in order to assume positions on the newly established Group Executive Board of Software AG.

Upon conclusion of the Annual Shareholders' Meeting on May 21, 2010, the terms of all members of the Supervisory Board ended pursuant to section 97, paragraph 2, sentence 3 of the German Stock Corporation Act (AktG) as a result of the change to a Supervisory Board constituted in accordance the German Codetermination Act. On recommendation of the Supervisory Board, existing members Andreas Bereczky, Willi Berchtold, Heinz Otto Geidt, and Alf Henryk Wulf, and new members Hermann Requardt, member of the Management Board of Siemens AG, Sector CEO Healthcare, Director of Corporate Technology and resident of Erlangen, and Anke Schäferkordt, General Manager of RTL Television GmbH and resident of Cologne, were elected as shareholder representatives to the Supervisory Board of Software AG at the Annual Shareholders' Meeting on May 21, 2010.

Because the election of employee representatives to the Supervisory Board was delayed by employees, the District Court of Darmstadt, in a ruling on April 23, 2010 appointed Monika Neumann, Chairwoman of the General Works Council (SAG Deutschland GmbH), Rainer Burckhardt, Deputy Chairman of the General Works Council (Software AG), Roland Schley, employee of the acquired IDS Scheer AG, Manfred Otto, executive manager of former IDS Scheer AG, Martin Sperber-Tertsunen, trade union secretary of IG Metall, Darmstadt, and, in a ruling on May 11, 2010, Peter Gallner, trade union secretary of the Vereinte Dienstleistungsgewerkschaft (ver.di), as employee representatives to the Supervisory Board of Software AG effective upon completion of the Annual Shareholders' Meeting on May 21, 2010. Monika Neumann and Rainer Burckhardt had already been members of the previous Supervisory Board of Software AG.

On August 27, 2010, the employees of Software AG and its German subsidiaries elected Monika Neumann, Roland Schley, Manfred Otto, Martin Sperber-Tertsunen, Peter Gallner, and—for the first time—Dietlind Hartenstein as employee representatives to the Supervisory Board of Software AG. Ms. Hartenstein is Deputy Chairwoman of the Saarbrücken Works Council.

Rainer Burckhardt was not reelected. The Supervisory Board would like to thank its departing colleague for his dedication and reliable cooperation.

The Supervisory Board would also like to thank the Management Board and all employees for their great dedication and excellent work during fiscal year 2010.

Darmstadt, March 2011

The Supervisory Board
Dr. Andreas Bereczky
Chairman

Please refer to page 147 of the Notes for more information about the members of the Supervisory Board.

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SOFTWARE AG GROUP MANAGEMENT REPORT

The Software AG Group is managed globally by the parent company, Software AG, acting as an operating 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 report. Software AG included operations of IDS Scheer AG for the first time in fiscal year 2010.

1 THE SOFTWARE AG GROUP

1.1 BUSINESS ACTIVITIES

Software AG is a global leader in infrastructure software. For more than 40 years we have been providing innovations, starting with Adabas—the first high-performance transactional database —later webMethods—the SOA-based integration platform, including the first B2B server—and most recently ARIS, the business process analysis platform. With the combination of ARIS and the webMethods platform, we are the first to offer completely integrated BPM (business process management) solutions covering the value chain from beginning to end.

Our industry-leading ARIS, webMethods, Adabas, Natural, and IDS Scheer brands comprise a unique portfolio which meets all the needs for customized software and process management in modern enterprises today: Strategy, design, implementation, automation, modeling, and monitoring of processes; SOA-based integration and data management; process-oriented SAP implementation and strategic consulting and services.

Our broad offering of software and services enables our customers to achieve their business goals faster. We generate our revenue from the licensing of enterprise software and from maintenance and services in Enterprise Transaction Systems (ETS), Business Process Excellence, and consulting. In fiscal year 2010 we achieved more than €1.1 billion in revenue with over 5,600 employees working in 70 countries and more than 10,000 customers around the world. Founded on May 30, 1969, Software AG was Europe's first global software company and is currently one of the world's leading software providers. The Adabas database remains the fastest database in the world today. Software AG co-founder and long-term CEO, Dr. Peter Schnell, established the Software AG Foundation in 1992, which currently holds approximately 29 percent of Software AG stock.

1.2 ORGANIZATION

Since the integration of IDS Scheer AG, Software AG Group's structure consists of three strategic business lines:

- Enterprise Transaction Systems (ETS) with the Adabas and Natural product families
- Business Process Excellence (BPE) with the webMethods and ARIS product families
- IDS Scheer Consulting with a focus on SAP consulting

With our data management (ETS) business line we have played a vital role in the IT landscapes of companies and government agencies around the world for many years. Software AG provides software solutions for mainframes and modernizes mainframe-based IT sytems. In this way, we ensure the long-term protection of customers' investments. Adabas offers our customers 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. The ETS business line includes technologies such as database management, application development, and application modernization.

Our comprehensive Business Process Excellence offering covers the entire life cycle of business processes. The webMethods products 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 easily controlled and managed within a service-oriented architecture (SOA). The rapid creation of new processes through the reuse of programs or parts of programs in these Web services, the control of these services, and the monitoring of all created applications in real time are equally important. In this way, IT provides optimum support for the business development of an organization. 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 second pillar of the Business Process Excellence business line is the ARIS product line, which was acquired with IDS Scheer AG in 2009. According to market analysts, the Saarbrücken, Germany-based company was the global leader in business process analysis. Its software products, IT solutions, and services provide companies and government agencies with one of the world's most innovative and comprehensive BPM offerings. The key software product is the ARIS Platform for Process Excellence, an integrated solution portfolio for business process strategy, analysis, design, and control.

The two BPE product lines are perfect complements to each other and enable organizations to establish a complete solution for optimization and operation of business processes.

Software AG's two product business lines, ETS and BPE, are supplemented by the Global Consulting Services (GCS) business unit, an integral component of our solutions offering. This unit's consulting specialists implement customized IT solutions based on our own products and thereby provide customers with further operational benefits for their business. GCS offers consulting on service-oriented architectures (SOA), business process management (BPM), IT transformation, and customized resolution to product-specific issues. GCS is a Software AG-internal group. As such, it differentiates itself from other IT service providers by having the best product expertise in the market thanks to close cooperation with R&D departments and proximity to customers.

In addition to the ETS and BPE product offerings and the associated Global Consulting Services, the IDS Scheer Consulting (IDSC) business line provides product-independent consulting for Business Process Excellence, with a particular focus on SAP. IDS Scheer Consulting helps organizations optimize their strategic business and technology investments and achieve greater added value through implementation of service-oriented architectures (SOA) and BPM/BPA solutions, especially in SAP environments.

A key topic for our consulting units is the transformation of IT to a digital enterprise. The main triggers of IT transformation projects today are overly complex IT structures, the need to modernize home-grown application landscapes, and the resulting unmanageable maintenance costs. Transformation initiatives rattle the foundations of companies' existing IT architectures. Transforming an existing IT landscape to a new architecture does not just involve radically changing the information technology itself, but all the processes in an organization as well. The far-reaching implications of IT transformation for an organization increase the need for consulting. The goal of Software AG consulting is to harmonize and further develop IT systems, thereby enabling change and innovation based on existing systems. This makes the IT more agile and able to adapt to ever changing business requirements.

New management structure
The Software AG Supervisory Board resolved to established a new corporate management body, known as the Group Executive Board (GEB), on July 30, 2010. The GEB has eight members. In addition to the four existing Management Board members, the Company's operational areas are represented by divisional executive directors. This change resulted in a smaller Management Board, which previously consisted of six members and is now four members in an initial phase. The Group Executive Board (GEB) is chaired by Karl-Heinz Streibich, CEO of Software AG.

The enhanced management structure reflects the new size and rapid growth of the Company. Existing Board members Mark Edwards and Ivo Totev assumed executive director positions in the GEB. As announced in July, Kamyar Niroumand was appointed to the GEB with responsibility for the DACH region (Germany, Austria, and Switzerland). Addionally, Josef Bommersbach, former IDS Scheer Board member and thus new to Software AG management, also joined the Group Excecutive Board. Mr. Bommersbach served until the end of 2010 as Software AG executive director in charge of IDS Scheer Consulting.

The Management Board now consists of Karl-Heinz Streibich, Arnd Zinnhardt, David Broadbent, and Wolfram Jost, former IDS Scheer AG Board member. Wolfram Jost was appointed by the Supervisory Board as of August 1, 2010. As CTO, he heads research and development and product management and marketing for all products of the Software AG Group. Software AG's former Chief Product Officer, Peter Kürpick, left the Company at his own request.

Effective January 1, 2011, Hans Kraus was appointed as executive director and thus to the Group Executive Board of Software AG. In this capacity, the long-year IDS Scheer executive is responsible for the new Consulting & Services unit in the DACH region (Germany, Austria, and Switzerland). The new department combines the consulting business of the former IDS Scheer AG with the existing product services of Software AG. The consulting and services units outside the DACH region are headed by Group Executive Board member Ivo Totev.

Group structure
With the integration of IDS Scheer AG, the corporate structure of the Software AG Group consists of 116 subsidiaries. (For further information, refer to the Notes, p. 108.) Our largest subsidiaries are in the USA, Spain, Germany, and the United Kingdom. Brazil is also becoming one of the most important sales markets for Software AG.

Major locations
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), and Sao Paulo (Brazil).

1.3 MARKET POSITION
Software AG is the world's leading provider of infrastructure software for business processes. Our merger with IDS Scheer created a global player in business process excellence solutions. The combination of the two technologically leading, complementary product portfolios covers the entire business process excellence value chain. It is a unique mix in the global market that offers the Company a sustainably strengthened position in an increasingly consolidated software market. (For further information, refer to Strategy, p. 8.)

Our rapid growth and leading market position were recognized by various independent market analysts (For further information, refer to "Award & Industry Recognition" at http://www.softwareag.com/corporate/products/bis/recognition/default.asp).
For example, Software AG ranked fourth largest software company in Europe in the 2010 Truffle Study. Our formula for success is a long-term strategy combined with a robust business model built on stable customer relationships. Because of it, Software AG emerged from the global recession even stronger. We are second only to SAP AG among software providers in Germany.

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 technology and market leader in infrastructure software. 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, staff development, and social responsibility. Our goal is to double our revenues every five to six years and to be among the ten largest software companies in the world.

In the wake of 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 newly achieved profitable growth. Our growth was driven by organic growth through innovation, geographic expansion, new customer groups via partners, and growth through acquisitions. The phase from 2009 to 2011 is entitled "market leadership." Its culmination is the achievement of one billion euros in revenue with dynamic earnings growth, which was accomplished ahead of schedule with our 2010 financial results.

Software AG has identified the following four growth-driving concepts for the current period:

1. Innovative product portfolio
2. Project business with industry-specific focus strengthened by partners
3. Expansion through acquisitions
4. Market share growth in all geographic regions and markets

These factors generate growth in different areas, complement each other's strengths while minimizing any risks. The result is a more innovative and successful company with organic growth supplemented by external growth.

Merger with IDS Scheer AG

The merger was entered into the commercial registry of Darmstadt, Germany on December 21, 2010 with immediate effect. This was the final legal step in the merger process. In accordance with the merger agreement, the remaining shareholders of IDS Scheer AG received four Software AG shares per 33 shares in IDS Scheer AG. The exchange was transacted by custodian banks on December 22, 2010. Software AG had purchased the necessary number of shares (approximately 127,541) on the stock exchange in February 2010.

Combining the two companies to form one corporation establishes a new global player in software and services for Business Process Excellence. As a result of the efficient completion of the merger, Software AG expects higher total cost savings than the originally announced 25 to 30 million euros.

We achieved major progress with the integration of the two companies in 2010. We received very positive feedback from customers, employees, and industry analysts alike. Completing this final legal step will allow us to accelerate our joint business development, to further expand our offering, and to leverage the opportunities that Software AG as a global player can offer employees and customers.

Software AG's strengths—technology leadership in middleware products, financial power, and a global presence—are complemented by those of IDS Scheer—business process modeling, implementation, and control, and a clear service focus. Software AG gained highly developed industry-specific expertise, direct access to vertical markets, and a strong position in SAP consulting.

The combination of two cutting-edge complementary product offerings for the digitization and implementation of business processes is unique. It has secured a sustainable and unique competitive edge for the merged company in a software market where consolidation is quickly on the rise. Having reached a critical mass in more key European markets significantly improved our market access. Furthermore, IDS Scheer's consulting expertise strengthened our market penetration with our own products in industry-specific and large-scale projects.

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, operating income (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 at all levels of management the development of license revenues over time.

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. 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 interregional sales and service structure offers significant additional potential for 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). 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 Research and Development, p. 76.)

Key financial indicators

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

KEY FINANCIAL INDICATORS

in € millions	2010	2009	change in %
Revenue	1,119.5	847.4	32
Licensing revenue	327.4	269.9	21
Maintenance revenue	369.4	310.6	19
Consulting and service revenue	418.7	262.5	60
EBIT	268.3	218.2	23
EBIT margin in %	24.0	25.8	−1.8 pts.
Earnings per share (basic) in €	6.18	4.92	26
Operating cash flow	227.4	200.5	13

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 UNDERLYING ECONOMIC CONDITIONS

2.1 OVERALL ECONOMIC SITUATION

General economic trend

2010 was a year of world economic recovery after the 2008/2009 global financial and economic crisis, which was the worst recession since World War II. Although this positive trend moved more quickly than expected in countries such as Germany, the situation remained difficult in others. Factors leading to such inconsistent development included the expiration of government aid programs, weak domestic spending due to high unemployment, and, above all, heavy debt in certain nations. Ireland, Portugal, Spain, Italy, and, most of all, Greece struggled with economic problems and extremely high national deficits.

The 0.9-percent decline of the global economy in 2009 was followed by a major boost in the global gross domestic product. The Kiel Institute for the World Economy (IfW) expects the GDP for the year 2010 to be 4.8 percent, although expansion of the world economy significantly lost momentum during the course of the year. The IfW indicator is based on behavior in 41 countries and showed a decline in global economic activity as of mid-year. The Institute deemed the waning of stimulus from the inventory cycle as one factor for the economic slowdown. Another was the fact that economic incentive programs gradually ended in many countries. Furthermore, monetary policy was tightened in some emerging nations as a way to counteract the threat of an overheated economy. Finally, a hefty price increase was felt during the year, particularly due to the rising cost of raw materials.

Economic recovery in industrial nations slowed during the year, according to the IfW. The gross domestic product of the G7 countries increased in the third quarter by just 2.3 percent annually. The sluggish growth affected national economies in differing economic situations. One part of the world—primarily emerging markets in Asia—had recovered to the level of pre-recession growth, whereas growth in industrial nations was still below the pre-recession level. In response to the recession, many governments had taken drastic reflationary measures. The massive liberalization of monetary and fiscal policy played a decisive role in deterring an economic free fall and triggering a recovery. Despite reflationary economic policy, unemployment remained high in most countries.

The euro zone economy stabilized in 2010. An appreciable upturn was observed in some countries, particularly in Germany. The picture in the peripheral countries was not as rosy. Growth in the Portuguese market was surprisingly strong. But the gross domestic product in Spain and Ireland barely expanded at all during the year. The Greek economy spiraled into a deep recession. In the third quarter, economic recovery continued. The GDP went up by 1.6 percent (annualized rate), which was again lower overall than in Germany. Stimulus came from private and government spending as well as from foreign trade. Economic growth was particularly strong in Finland (5.3 percent) and Austria (3.6 percent), whereas the GDP in The Netherlands shrank slightly. With about ten percent unemployment, the labor market in the euro zone stabilized during the economic recovery. IfW analysts expect 1.3 percent growth for the euro zone GDP in 2010.

Recovery of the U.S. economy lost momentum during the course of the year. The dynamic expansion at the end of 2009 and beginning of 2010 weakened with the gradual expiration of government programs and diminished stimulus from the inventory cycle during the summer months. Additionally, recovery continued to be impeded by major structural problems and high unemployment. The GDP grew at a slightly higher rate in the third quarter with 2.5 percent (annualized).

Latin America also experienced a downturn in growth in the third quarter following an extremely vigorous growth spurt in the first half of the year. Less inventory stocking and a weakened demand for raw materials, particularly from Asia, were decisive factors in this according to the IfW. In contrast, private consumption in almost all Latin American countries continued to expand. This was due primarily to a favorable employment trend and rising wages. Unemployment in Brazil fell to the lowest rate ever recorded.
Economic expansion in emerging nations due to reflationary economic policy slowed after a particularly dynamic first half year. The slackening in industrial countries had an impact on many emerging economies. The accumulation of warehouse inventory slowed. Furthermore, the expiration of economic stimulus measures also had a negative effect. In the meantime, many emerging nations have tightened their monetary policies. Interest rates have been raised in order to curb lending and an overheated economy. India's economy returned to significant expansion. After slowing down late in 2009, the GDP grew in the third quarter of 2010 at a rate of more than 11 percent. Other East Asian countries' GDP growth decreased during the course of the year.

Performance of major currencies

The foreign currencies most important to Software AG are the U.S. dollar, the pound sterling, the Brazilian real, and the Australian dollar. Conversion of the Venezuelan bolivar was calculated using the exchange rate that was in fact used to convert the individual amounts. Furthermore, Venezuela has been regarded as a hyperinflationary economy since January 1, 2010 as defined by IAS 29. The resulting impact on the consolidated financial results was nevertheless of minimal consequence. (For further information, refer to the Notes, p. 112.)

The following table shows the change in exchange rates of the major currencies against the euro year on year:

CLOSING RATE (€1)

	Dec. 31, 2010	Dec. 31, 2009	change in %
U.S. dollar	1.3380	1.4405	7.1
Brazilian real	2.2211	2.5097	11.5
Pound sterling	0.8625	0.8900	3.1
Australian dollar	1.3168	1.6004	17.7

Source: Commerzbank

AVERAGE RATE (€1)

	Dec. 31, 2010	Dec. 31, 2009	change in %
U.S. dollar	1.3271	1.3931	4.7
Brazilian real	2.3353	2.7705	15.7
Pound sterling	0.8584	0.8914	3.7
Australian dollar	1.4441	1.7753	18.7

Source: Commerzbank

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 therefore pertains to the software and IT services market segments of the ICT industry.

ICT market

According to Gartner, worldwide IT spending in 2010 increased by 1.1 percent. According to the Experton Group, performance varied among the different market segments. Following the major collapse in 2009, hardware in Germany posted subtle growth at 1.1 percent. Software licenses and maintenance were up 2.1 percent. The services market, which is influenced by projects and outsourcing, demonstrated solid growth at 4.5 percent.

According to the European Information Technology Observatory (EITO), the ICT market in the European Union expanded by 1.2 percent in the fiscal year under review. EITO's more conservative spring report, however, had forecast a 0.6-percent decline.

The BRIC countries (Brazil, Russia, India, and China) are the growth drivers of the international high-tech market. The Chinese ICT market is the largest single BRIC market. Its volume in the year under review increased 15 percent to €204 billion, according to EITO estimates. This makes China the third-largest market in the sector, behind the USA and Japan. India's market grew 18 percent to €55 billion. Due to solid macroeconomic conditions, the Brazilian ICT market has demonstrated impressive growth in recent years and was one of few nations that reported expansion in 2009 in this this market. In 2010, Brazil's market achieved eight-percent growth at €78 billion.

Lünendonk analysts expect the IT services market in the DACH region (Germany, Austria, and Switzerland) to have reached a volume of €50 billion in 2010. The financial crisis of 2008 and 2009 caused considerable setbacks in investments in IT hardware and software, which, according to Lünendonk, could have a continued effect in 2010 and 2011.

Morale in the German ICT sector was better at the end of 2010 than it had been in years. This was reflected in the findings of an economic survey conducted by the high-tech industry association, BITKOM, in late 2010. It revealed that 78 percent of the companies surveyed posted revenue growth in the third quarter. The BITKOM economic index climbed from 48 to 67 points, which was the highest it had been since its inception in 2001. The positive business trend was evident in all segments of the market. For fiscal 2010, 79 percent of the companies expect revenue growth. AS a result, many firms are recruiting new employees. 55 percent of the surveyed ICT companies were planning to create new jobs in 2010.

The fifth edition of the "Truffle 100 Europe" was published on September 28, 2010. It shows that the software industry's research and development spending significantly increased and that revenues were above the European industrial average despite the global recession. Of particular significance was the increase of over four percent in investments and employment in research and development at a time when overall employment was shrinking. Furthermore, the report illustrates that a larger software sector in Europe would provide a buffer to economic contraction and provide an earlier return to growth.

3 BUSINESS TREND AND ECONOMIC SITUATION

3.1 SUMMARY OF BUSINESS TREND

2010 was an extraordinarily good year for Software AG. We took business development a major step forward. We again concluded our best fiscal year in the Company's history. And, we achieved record levels for all key financial indicators. We accomplished this with a dedicated implementation of our growth-driven Company strategy. The acquisition and integration of IDS Scheer AG and the merging of both companies' product portfolios enable us to cover the entire value chain for business process management solutions. We expanded our market reach and strengthened our market position. We advanced to a new dimension of business. (For further information, refer to Strategy, p. 8).

We surpassed our revenue and earnings forecast for fiscal 2010. We achieved our long-term revenue target ahead of schedule even though economic recovery was not consistent in the countries in which we do business. We clearly outperformed our profit forecast, which we had repeatedly raised during the year. We generated record-breaking revenue levels with our services and in both product lines in fiscal 2010.

Our products were recognized by independent industry analysts as market leaders in 2010. (For further information, refer to: http://www.softwareag.com/corporate/products/ bis/recognition/default.asp)

Growth through acquisitions

Our corporate strategy is based not only on organic growth, but on external growth through mergers and acquisitions (M&A) as well. In addition to our merger and integration with IDS Scheer AG, we expanded our business by way of two smaller acquisitions in 2010. Both enhance Software AG's competencies and leading market position:

- Through our acquisition of Data Foundations Inc., we are now an important provider of master data management.
- Through our acquisition of RTM Realtime Monitoring GmbH, we offer complex event processing, a new technology that provides enterprises with a real-time view of business events and enables them to react quickly with the appropriate measures.

We presented our new offerings, made possible due to these acquisitions, at the beginning of March 2011 at CeBIT.

3.2 OVERALL STATEMENT ON FINANCIAL POSITION

Software AG added another chapter to its success story in fiscal year 2010 with record-breaking revenue and earnings for the fourth consecutive year. Group revenue increased year on year by 32 percent to €1.12 billion. Operating income went up 23 percent to €268.6 million, which represents an EBIT margin of 24.0 percent. The expansion of the new Business Process Excellence (BPE) product line with the integrated webMethods and ARIS products played a key role in this success with 31-percent growth. Service and consulting revenue also had a positive impact with a 58-percent increase due to the integration of IDS Scheer AG. With these results, we achieved profitable growth despite a somewhat challenging world economic climate.

In the fiscal year under review IDS Scheer AG revenues were completely consolidated for the first time. During the initial integration phase, revenue from ARIS and IDS Scheer Consulting was reported on as the Enterprise Process Innovation business line. In this Annual Report, ARIS product revenue was incorporated into the BPE line and the consulting revenue into the IDS Scheer Consulting business unit.

After successful integration of the company and products of IDS Scheer AG, we achieved considerable revenue growth, particularly in the fourth quarter from the number of large projects coming to an end and initial cross-selling successes. The larger percentage of high-profit products in total revenue, faster realization of cost synergies in combination with IDS Scheer AG, and continued positive exchange rate effects all led to these results.

The Software AG Group is on firm footing thanks to continued increases in revenue and earnings growth in recent years. Ongoing process optimization in our own organization improves profitability and ensures a constantly growing cash flow. We invest this primarily in new technologies and the expansion of our business. Our cost reduction plan, which we introduced in 2009 during the financial and economic crisis, also contributed to the renewed increase in earnings.

4 FINANCIAL PERFORMANCE

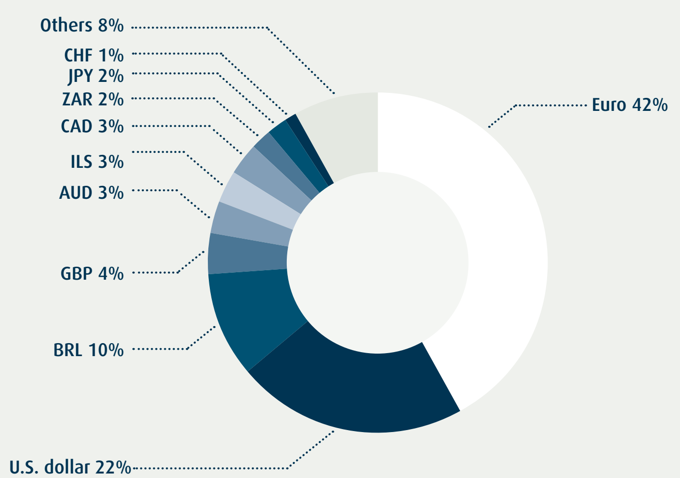
4.1 REVENUE TRENDS

In the 2010 fiscal year, total revenue rose by 32 percent (26 percent at constant currency) to more than €1.1 billion. We therefore met our forecast and exceeded our long-term target of achieving revenue of €1 billion.

In fiscal 2010, Software AG's Group revenue reached the record value of €1.12 billion (2009: €847.4 million) and therefore exceeded the target, set in 2007, one year earlier than originally planned. Product revenue increased by 20 percent to €696.8 million (2009: €580.5 million) year on year. Licensing revenue increased by 21 percent from €269.9 million to €327.4 million, while maintenance revenue increased by 19 percent to €369.4 million (2009: €310.6 million).

The reported revenue increase of 32 percent (26 percent at constant currency) was also facilitated by the consolidation of IDS Scheer, which was complete for the first time in 2010, as well as the weak euro. Revenue was positively impacted by six percent as a result of exchange rate effects of €51.1 million (2009: €2.5 million). Over the year as a whole, 42 percent of revenue was attributable to the euro, 22 percent to the U.S. dollar, and ten percent to the Brazilian real. The positive exchange rate development in Brazil and America, in particular, was decisive here. The revenue share in foreign currency in 2010 is distributed as follows:

CURRENCY EFFECT ON REVENUE IN 2010



CURRENCY EFFECT ON REVENUE IN 2010

in € millions	2010	2009
Licenses	23.7	0.6
Maintenance	19.1	3.2
Consulting & other	8.3	–1.3
Total	**51.1**	**2.5**

The trend in the individual regions reflects the different degree of economic recovery overall. For the German sales region, the fourth quarter of 2010 was the best quarter in history with regard to the conclusion of license agreements—an indication of the optimistic mood in the German economy. Overall, North and South America, Northern Europe, the Middle East and Asia-Pacific regions reported growth in 2010, while countries more affected by the economic crisis, such as Japan, were not able to keep pace. With numerous new customers, our U.S. business experienced a strong upturn thanks to higher customer investments, high order volumes and a stronger national economy. Like other up-and-coming markets, Brazil grew continuously over the course of the year. In the Middle East, we achieved strong growth in the Gulf region, while business in South Africa and Israel diminished. In the Asia-Pacific region, Australia grew, but the situation in Japan is still difficult.

Among the industries, the financial and public sectors, in particular, saw continuously high demand, and in 2010 again made the greatest contribution to revenue. As a result of the acquisition of IDS Scheer AG, we are now serving a broader range of industries, which means that the distribution of revenue across the industries is now more balanced. This broader base makes our business even less dependent on economic fluctuations in individual sectors.

Sales by revenue type

Product revenue is extremely important for a software company, because it boosts profit margin. It is generated by license sales and maintenance contracts. Our product revenue rose by 20 percent in 2010 to €696.8 million (2009: €580.5 million). The revenue driver was license business, which grew by 21 percent from €269.9 million to €327.4 million. Maintenance revenue rose by 19 percent to €369.4 million (2009: €310.6 million). These figures reflect the additional revenue from the ARIS products and initial cross-selling effects.

In the past five years, we have systematically concentrated on profitable growth. It is therefore particularly encouraging that, in 2010, net income grew more rapidly, with an increase of 25 percent, than product revenue, which rose by 20 percent. This positive development is due to strict cost management in all areas, including central departments, and to ongoing financial management.

Revenue for services and consulting rose 60 percent to €418.7 million (2009: €262.5 million). This exceptionally high increase is primarily due to the contribution of IDS Scheer Consulting. Thus, service business has become an important revenue driver for Software AG.

The Global Consulting Services (GCS) business unit offers product-related services for the ETS and webMethods products. GCS experts implement customized IT solutions based on our own products and thereby provide customers with further operational benefits for their business. The product range includes consulting for service-oriented architecture (SOA), business process management (BPM) and IT transformation as well as specific product-related solutions to problems. The revenue of this business unit developed in parallel with the product areas and is included in the ETS and BPE revenues.

Management of digital business processes involves the implementation of a process-oriented and flexible IT structure that helps customers optimize their business over the long term and achieve a rapid return on investment. Today, process innovations, as well as pure product innovations, are playing an increasingly important role in companies and are often the decisive factor in gaining a competitive edge. For this reason, we have restructured and strengthened the Global Consulting Services business unit in recent years and want to expand it to create an important pillar of our Company.

Revenue by business line

As part of the integration of IDS Scheer operations, our internal control and reporting changed. The existing Enterprise Process Innovation segment comprised the ARIS and IDS Scheer Consulting product families. The ARIS division joined former webMethods segment to form the new Business Process Excellence (BPE) segment in fiscal 2010. IDS Scheer Consulting will, for the time being, be handled as its own segment and reported on separately in the segment report.

All the Software AG business lines developed very positively and were able to increase their revenue in 2010. The new products for Business Process Excellence (webMethods and ARIS) were Software AG's strongest growth driver. For the first time in our history, the new products made a larger contribution to revenue than our traditional ETS products. Combined, this means we have a very stable business model with high potential for growth.

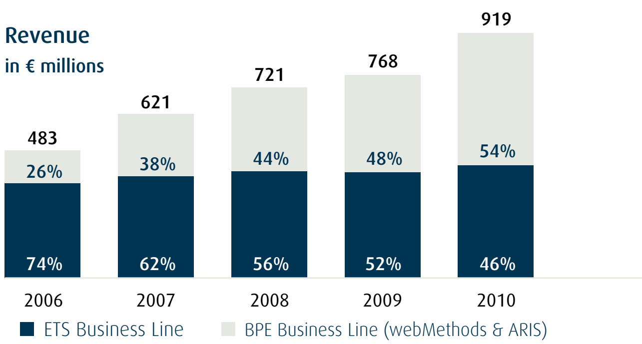
Business Process Excellence (BPE) business line

The new Business Process Excellence business line, which comprises the two leading product families webMethods and ARIS, is the clear growth engine for Software AG. We have specifically developed the two product lines further, and thanks to compatible process models, our customers are also able to combine webMethods and ARIS. In 2010, the BPE business line achieved revenue of €499.2 million (2009: €372.3 million), an increase of 34.1 percent.

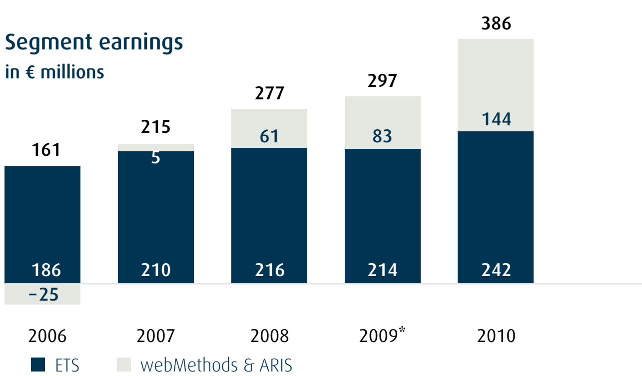
Product revenue, consisting of licenses and maintenance, rose 31 percent to €319.4 million. Licensing revenue increased by 30.1 percent from €126.3 million to €164.4 million, while maintenance revenue saw a slightly higher increase of 31.9 percent, and amounted to €155.0 million, compared with €117.5 million in 2009. Service revenue in this business line grew by 42.1 percent to €177.7 million (2009: €125.1 million). As a result of the additional revenue from IDS Scheer products and services, as well as the improved sales mix and higher sales efficiency, the segment's contribution climbed sharply and, at €204.3 million, exceeded 2009's €135.5 million by 50.7 percent.

Partner business was a further element in the revenue growth in the BPE business line: Our global and regional partnerships again made an important contribution to revenue and profit in this business line in 2010 (For further information, refer to Partners, p. 82.).

BPE ESTABLISHED AS STRONGEST REVENUE DRIVER



DYNAMIC PROFIT GROWTH WITH NEW BUSINESS



* Excluding the ARIS contribution

- Both business lines contribute to earnings.
- Increased momentum in the last twelve months.

Enterprise Transaction Systems (ETS) business line

Over the course of the fiscal year, the Enterprise Transaction Systems business line (Adabas, Natural) showed a clear revenue recovery. In 2010, we were able to further expand this traditional business line, developed new products that have been well-received by the market, acquired renowned customers and large projects, and achieved good results for licensing and maintenance revenues. The business strategy focuses in particular on ensuring the further technological development of the traditional ETS business line for existing customers with mainframes and on all platforms. This extends the lifecycle of successfully running systems, which are business-critical in the financial sector, logistics, or the telecommunications industry, for example. In turn, Software AG is able to secure part of the client base, and thus safeguard maintenance revenue.

Revenue in the ETS business line rose six percent from €396.0 million to €420.0 million. ETS product revenue surpassed the 2009 value by 8.2 percent at €354.6 million (2009: €327.7 million). Licenses saw the greatest increase, rising 11.8 percent to €156.3 million. This result is a reflection of the high demand in some countries and the overall economic recovery. Maintenance revenue rose by 5.5 percent to €198.3 million (2009: €187.9 million). Service revenue fell 4.4 percent from €67.6 million to €64.6 million. The line made a segment contribution of €273.1 million compared with €243.7 million in 2009, an increase of 12.1 percent. The ETS business line is thus still making the largest contribution to Software AG's earnings.

IDS Scheer Consulting business line

Alongside 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.

In 2010 this business line generated revenue of €200.3 million, compared with €79.0 million in 2009. Segment earnings fell from €3.3 million to -€5.9 million, due to low revenue in the first half of 2010 caused by the economic crisis, weak revenue in individual countries, and one-time effects from the Managed Services unit in Germany. Since new orders were received in December and January, we expect a slightly positive margin in this area for the current fiscal year.

4.2 EARNINGS PERFORMANCE

In the 2010 fiscal year, we were able to increase the earnings of the Software AG Group significantly. The higher proportion of high-margin products in the overall revenue, the faster leveraging of cost synergies in the merger with IDS Scheer AG, and the continued positive currency rate effects were all positive influencing factors.

SEGMENT REPORT
for fiscal 2010

in € thousands	ETS		BPE		IDSC		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Licenses	156,277	139,816	164,363	126,321	6,732	3,725	327,372	269,862
Maintenance	198,283	187,871	155,049	117,517	16,099	5,216	369,431	310,604
Product revenue	**354,560**	**327,687**	**319,412**	**243,838**	**22,831**	8,941	**696,803**	**580,466**
Services	64,617	67,577	177,710	125,057	176,336	69,822	418,663	262,456
Other	818	785	2,092	3,387	1,151	282	4,061	4,454
Sales revenue	**419,995**	**396,049**	**499,214**	**372,282**	**200,318**	**79,045**	**1,119,527**	**847,376**
Cost of sales	-73,602	-81,730	-169,829	-133,877	-177,698	-65,828	-442,052	-300,300
Gross profit	**346,393**	**314,319**	**329,385**	**238,405**	**22,620**	**13,217**	**677,475**	**547,076**
Sales & marketing expenses	-73,308	-70,669	-125,123	-102,897	-28,471	-9,924	-238,902	-192,396
Segment contribution	**273,085**	**243,650**	**204,262**	**135,508**	**-5,851**	**3,293**	**438,573**	**354,680**
Research and development expenses	-31,557	-29,371	-59,815	-52,573	-615	-222	-91,987	-82,166
Segment earnings	**241,528**	**214,279**	**144,447**	**82,935**	**-6,466**	**3,071**	**346,586**	**272,514**

In 2010, our gross profit rose 24 percent to €677.5 million (2009: €547.1 million). The gross profit margin fell from 64.6 percent to 60.5 percent. As a result of IDS Scheer AG's integrated business, we now have higher service revenue, and consequently higher directly apportionable costs as well as higher revenues from external products.

The operating result (EBIT) for the year increased by 23 percent from €218.2 million to €268.6 million. We have been able to increase efficiency further thanks to close cost monitoring. Our EBIT margin fell slightly from 25.8 percent to 24.0 percent. These figures are above our own annual forecasts for 2010, which had already been increased several times.

Net income rose by 25 percent to €175.6 million (2009: €140.8 million). This was due primarily to the higher operating result and a further reduction in the tax rate for the Company from 32.7 percent to 31.0 percent. Because of credit financing for the acquisitions, net financial expense rose from -€8.9 million to -€14.2 million. Earnings before tax improved by 22 percent to €254.4 million (2009: €209.3 million).

NET EARNINGS IN FISCAL 2010

in € millions	2010	2009	change in %
EBIT	**268.6**	**218.2**	**23**
Margin in %	24.0	25.8	
Net financial income	−14.2	−8.9	
Profit before tax	**254.4**	**209.3**	**22**
Taxes	−78.8	−68.5	15
Tax rate in %	31.0	32.7	
Net income	**175.6**	**140.8**	**25**
EPS*	**6.18**	**4.92**	**26**

* Weighted average shares outstanding (basic) Q4 2010: 28.4 mn. / Q4 2009: 28.7 mn.

4.3 COST STRUCTURE

In the year under review, the cost of sales increased by 47 percent from €300.3 million to €442.1 million. This is primarily connected with the acquisition of IDS Scheer AG and the resulting higher proportion of service revenue and subsequently higher directly apportionable costs and increased revenues from external products. In the BPE business line, cost of sales increased by 26.8 percent from €133.9 million to €169.8 million. In the ETS business line, cost of sales fell from €81.7 million to €73.6 million, a drop of ten percent. Cost of sales in the IDS Scheer Consulting business line were €177.7 million, compared with €65.8 million in 2009.

Research and development expenses rose 12 percent to €92.0 million, compared with €82.2 million in 2009. The proportion of R&D expenses to product revenue (licenses and maintenance) fell from 14.2 percent to 13.2 percent.

Expenses for sales and marketing increased by 24 percent to €238.9 million (2009: €192.4 million). However, the proportion of sales and marketing expenses to total revenue was once again reduced, from 22.7 percent to 21.3 percent. Sales and marketing expenses in the ETS and BPE business lines were €73.3 million and €125.1 respectively.

General administrative expenses increased by 21 percent to €85.3 million (2009: €70.7 million). Thus their proportion to total revenue fell from 8.3 percent to 7.6 percent.

4.4 NET INCOME AND APPROPRIATION OF PROFITS

Net income for the year

In fiscal 2010, the Software AG Group's net income improved from €140.8 million to €175.6 million. This is equivalent to an increase of 25 percent. Earnings per share (basic) therefore increased from

EARNINGS IN FISCAL 2010

in € millions	2010	2009	change in %
Total revenue	**1,119.5**	**847.4**	**32**
Cost of sales	−442.0	−300.3	47
Gross profit	**677.5**	**547.1**	**24**
Margin in %	60.5	64.6	
R & D	−92.0	−82.2	12
Sales & Marketing	−238.9	−192.4	24
Administration	−85.3	−70.7	21
Other income/expense	7.3	16.4	
EBIT	**268.6**	**218.2**	**23**
Margin in %	24.0	25.8	
EBITDA (pro forma*)	315.0	257.1	23
Margin in %	28.1	30.3	

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

€4.92 to €6.18. The average number of shares outstanding (basic) amounted to 28,380,152 (2009: 28,681,849). In the spring, we bought 400,000 shares for the merger between IDS Scheer AG and Software AG. We needed 127,541 of these shares in December to exchange for IDS Scheer AG shares. The remaining shares were put into our own portfolio and are therefore no longer outstanding.

Appropriation of profits

In the past fiscal year, we were once again able to significantly improve profit and cash flow. In accordance with our existing continual dividend policy and payout ratio, the Management Board and Supervisory Board of Software AG will propose a dividend of €1.30 per share (2009: €1.15) at the Annual Shareholders' Meeting. This results in a total dividend payout of €37.0 million (2009: €32.6 million) or 21 percent of net earnings.

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 €10.1 million in fiscal year 2010, compared to €7.6 million in 2009, and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken. Net expenditure for acquisitions fell considerably from €320.4 million to €25.9 million, largely a result of the takeover of IDS Scheer AG in 2009. Free cash flow in fiscal year 2010 totaled €217.8 million, which allowed us to reduce financial liabilities by €222.4 million. Because of strong cash inflow in subsequent years, loans will be repaid in 2011 and 2012 as well as subordinated loans in 2013.

5.2 CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow did particularly well again in 2010. Free cash flow for the 12-month period increased to €217.8 million (2009: €188.4 million), which represents 16-percent growth year on year. This is also above net income for 2010, which was €175.6 million. Free cash flow per share rose from €6.57 to €7.67. This strong cash-flow trend over the long term enables us to foster our strategic business development through liquidity and rapidly reduce acquisition-related net liabilities.

Operating cash flow

In fiscal 2010 Software AG achieved €227.4 million in operating cash flow compared to €200.5 million the previous year. This 13.4-percent increase is largely attributable to Software AG's organic growth. Cash outflows from investing activities decreased from €332.5 million to €35.6 million, mainly as a result of the acquisition of IDS Scheer AG the year before. Cash inflows from financing activities amounted to €315.6 million compared to €259.4 million in 2009. A repayment of financial liabilities totaling €222.4 million was set against new acquisition-related borrowing of €0.3 million (2009: €330.6 million). In total, cash and cash equivalents decreased by €115.7 million in 2010, compared with a €121.2 million decrease the previous year.

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.

Cash and cash equivalents went down in 2010 due to the repayment of loans and amounted to €102.5 million (2009: €218.1 million). Group shareholders' equity rose from €647.2 million to €769.3 million, achieving an equity ratio of 48 percent on December 31, 2010 compared to 39 percent in 2009. Net debt less the fair value of our own shares was cut almost in half from last year's €271.8 million down to €137.3 million. We were able to pay off a total of €222.4 million in financial liabilities during fiscal year 2010.

CASH FLOW IN FISCAL 2010

in € millions	2010	2009	change in %
Operating cash flow	227.4	200.5	13
CapEx*	−9.6	−12.1	
Free cash flow	**217.8**	**188.4**	**16**
as % of revenue	19.5	22.2	
Free cash flow per share (in €)	**7.67**	**6.57**	**17**
Weighted average number of shares (in mn.)	28.4	28.7	

* Cash flow from investing activities except acquisitions

Financing instruments

Software AG uses bank loans, finance leasing, and 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 bank loans used are predominantly at variable interest rates and a small portion have terms to maturity of no later than 2021. Partial amounts are converted into synthetic fixed-interest rate loans using interest rate swaps. The table below shows the contractually fixed payments arising from recognized 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, 2010.

5.4 ASSETS

Software AG's assets dropped slightly in fiscal 2010 from €1,654.9 million to €1,599.6 million. Current assets decreased to €494.2 million from €595.2 million in 2009 due to the repayment of financial liabilities. Our non-current assets at the end of the year amounted to €1,105.5 million, which is a minor increase over €1,059.7 million in 2009.

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

As a result of the acquisition of IDS Scheer AG, the balance sheet and its key financial indicators have undergone considerable changes. In the year under review, the total assets of the Software AG Group decreased moderately to €1,599.6 million from €1,654.9 million last year.

NON-DERIVATIVE FINANCIAL LIABILITIES

in € thousands	Up to 1 year	1 to 5 years	>5 years	Total
Non-derivative financial liabilities				
Liabilities to financial institutions 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
Liabilities from finance leasing	37	164	0	201
Other non-derivative liabilities	68,064	4,252	0	72,316
Derivative financial liabilities	135	41	0	176

On the assets side, current assets fell from €595.2 million to €494.2 million. Cash and cash equivalents decreased from €218.1 million to €102.5 million. Trade receivables totaled €337.8 million, just up from last year's €328.5 million. Other receivables and other assets increased from €38.2 million to €43.0 million. Non-current assets were €1,105.5 million, slightly up from last year's €1,059.7 million. Goodwill rose from €686.1 million to €717.3 million as a result of the strong U.S. dollar and acquisitions during the fiscal year. This includes goodwill of €250.6 million for IDS Scheer. 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 2010.

On the liabilities side, current liabilities were €586.1 million and thus relatively even with last year's figure of €588.5 million. Of that, financial liabilities dropped to €136.9 million from €198.5 million in 2009. Deferred income increased from €117.3 million to €127.9 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 went down significantly totaling €244.2 million compared to €419.3 million the previous year. This was due primarily to the major decrease in financial liabilities from €291.4 million to €132.9 million.

6 FINANCIAL STATEMENTS OF SOFTWARE AG

Due to the merger of IDS Scheer AG with Software AG on December 21, 2010 with retrospective effect on the financial statements as of January 1, 2010, the 2010 financial statements of Software AG (parent company of the Group) for the first time included the German operating business of the former IDS Scheer AG. For this reason, the balances of all of the items in the financial statements increased significantly compared to the prior year.

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

In 2010, we continued the process of aligning our sales organization with the industrial segments of the former IDS Scheer AG. The integration of IDS Scheer is intended to bring an expansion of industry-specific expertise to Software AG's business in order to support our goal of achieving an integrated, industry-specific approach for the entire Group portfolio. In this process, the industrial segments will focus on large corporate accounts, while medium-sized customers will be serviced by our Managed Services units. This unit offers medium-sized customers computing center services and application support for SAP and ARIS.

Financial performance of Software AG

The key items of the income statement are as follows:

in € millions	2010	2009	change in %
Licenses	76.2	50.3	51.5
Maintenance	106.1	78.5	35.1
Services	210.3	81.8	157.1
Total revenue	**392.6**	**210.6**	86.4
Operating income and expenses	−333.8	−89.2	274.2
Income from investments and profit transfer	100.9	119.6	−15.6
Operating earnings (EBIT)	**159.7**	**241.0**	**−33.7**
Net financial expense	−17.3	−11.1	−55.9
Extraordinary expenses	−288.0	0.0	
Earnings before taxes	**−145.6**	**229.9**	
Taxes	−18.9	−29.6	
Net loss/income for the year	**−164.5**	**200.3**	

- Adjusted for the revenue contribution of the former IDS Scheer AG, total revenue of Software AG increased by €5.7 million, rising from €210.6 in 2009 to €216.3 million in 2010. The volume of revenues generated by the operating business of the former IDS Scheer increased slightly on the previous year to €177.0 million. This amount is not included in the prior-year figures stated above, however. The alignment of the operating business generally corresponds to the previous formation within IDS Scheer AG. The operating business consists primarily of the consulting business, which focuses on SAP project solutions and includes the related SAP licensing and maintenance sales, the project business, which revolves around the ARIS product family (licensing and maintenance) and includes the corresponding near-product services, and the Managed Services unit. The first half of the year was characterized by weak revenues due to the aftereffects of the economic crisis. However, the economy improved significantly over the course of the second half, particularly in Germany, which led to a significant rise in business volumes. As a result, revenue for full-year 2010 increased slightly year on year, as shown above.
- “Licenses” include ARIS licensing revenues, licensing revenues from third-party products, and licensing-related royalties from subsidiaries. In fiscal 2010, this figure for the first time included licensing revenue from the former IDS Scheer AG in the amount of €21.0 million based on the merger of IDS Scheer AG.
- “Maintenance” includes ARIS maintenance revenues, maintenance revenues from third-party products, and maintenance-related royalties from subsidiaries. In fiscal 2010, this figure for the first time included maintenance revenues from the former IDS Scheer AG in the amount of €20.8 million.
- “Services” comprises the BPE service business, the SAP consulting business, and management fees from the subsidiaries. In 2010, this figure for the first time included services revenues from the former IDS Scheer AG in the amount of €135.2 million.
- “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. In the year under review, this figure for the first time included operating expenses and income from the former IDS Scheer AG in the amount of €137.7 million.

- "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 is attributable to the former IDS Scheer AG.
- "Operating earnings (EBIT)" includes an amount of €31.3 million from the former IDS Scheer AG in the 2010 reporting year.
- "Net financial expense" is the result of offsetting interest and similar income against interest and similar expenses. This item also includes expenses for guaranteed dividends to minority shareholders of the former IDS Scheer AG, as well as the net financial expense of the former IDS Scheer AG of €-0.7 million.
- "Extraordinary expenses" includes 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 includes expenses of €2.5 million due to first-time accounting pursuant to the new German Accounting Law Modernization Act (BilMoG).
- "Earnings before taxes" includes a total of €30.9 million from the former IDS Scheer AG.
- "Taxes" includes a tax expense of €0.4 million from the former IDS Scheer AG.
- "Net income for the year" includes €30.6 million from the former IDS Scheer AG, without taking the accounting loss from the merger into account.

Financial position and cash flows of Software AG

Total assets of Software AG declined by €273.9 million, decreasing from €1,254.7 million as of December 31, 2009 to €980.9 million as of December 31, 2010, in particular due to effects of the merger with IDS Scheer AG.

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

in € millions	Dec. 31, 2010	Dec. 31, 2009	change in %
Intangible assets	5.4	5.4	0.0
Tangible assets	25.2	11.9	13.3
Financial assets	760.1	1,168.1	–408.0
Inventories	26.3	0.1	26.2
Receivables and other assets	148.2	55.6	92.6
Cash and cash equivalents	12.4	8.9	3.5
Prepaid expenses	3.3	4.7	–1.4
Total assets	**980.9**	**1,254.7**	**–273.8**
Equity	364.2	583.3	–219.1
Provisions	102.3	72.6	29.7
Liabilities	508.2	552.2	–44.0
Deferred income	6.2	46.6	–40.4
Total equity and liabilities	**980.9**	**1,254.7**	**–273.8**

- "Property, plant, and equipment" increased, particularly due to the transfer of operating property, which included the offices of IDS Scheer AG in Saarbrücken.
- The reduction in "financial assets" resulted primarily from the decrease of €403.6 million in shares in affiliated companies, which declined from €1,163.7 million in the previous year to €760.1 as of December 31, 2010. The decrease in shares in affiliated companies was mainly due to the balance resulting from the two-step process of offsetting the carrying amount of the investment in IDS Scheer AG from the prior year as part of the merger. In the first step, the investment in Software AG Beteiligungs GmbH was offset, and in the second step the investment in IDS Scheer AG of €446.3 was offset. In addition, Software AG took over the investments in the former IDS Scheer subsidiaries in the amount of €93.7 million.
- "Inventories" increased by €26.2 million to €26.3 million as of December 31, 2010 due to the merger. The increase of €26.1 million was largely due to work in progress of the former IDS Scheer AG.
- "Receivables and other assets" rose by €92.6 million as a result of the merger, increasing from €55.6 million in the previous year to €148.2 million as of December 31, 2010. This figure for the first time included €81.8 million in receivables and other assets from the German operating business of the former IDS Scheer AG.
- "Cash and cash equivalents" increased slightly by €3.5 million year on year. Software AG predominantly generates liquidity within the Group based on royalties, dividends, Group financing, and management fees from the subsidiaries and, to a lesser extent, from the German operating business of the former IDS Scheer AG. For this reason, the cash flows of Software AG depend to a great extent on management 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 decreased by €219.1 million year-on-year, declining from €583.3 million to €364.2 million as of December 31, 2010. The reduction in equity was mainly due to the significant decline in net retained profits, which decreased from €321.7 million to €124.6 million as of December 31, 2010, a year-on-year decline of €197.1 million. The reduction resulted primarily from the net extraordinary expense of €288.0 million, including the accounting loss from the merger, the operating earnings for 2010 of €123.5 million, and the dividends paid by Software AG of €32.6 million in 2010.
- "Provisions" increased by €29.7 million year-on-year, rising from €72.6 million to €102.3 million as of December 31, 2010. The main portion of the increase—€17.7 million—resulted from the merger with the former IDS Scheer AG.
- "Liabilities" declined, primarily due to the balances resulting from the following transactions:
  - Liabilities to banks were reduced by €185.8 million, decreasing from €399.7 million in the prior year to €213.9 million as of December 31, 2010 due to repayments enabled by the high level of net cash provided by operating activities of Software AG.
  - By contrast, liabilities to affiliated companies increased by €101.7 million to €189.7 million as of year-end 2010, as did advance payments received on account of orders, which rose by €33.4 million to €33.6 million as of December 31, 2010. Both of these increases were due to the merger with the former IDS Scheer AG.
- "Deferred income" decreased as a result of a change in the system for invoicing royalties on maintenance revenues to the subsidiaries in fiscal 2010.

Outlook:
In fiscal 2011, we plan to transfer the operating business of the former IDS Scheer AG to another Group company effective January 1, 2011.

7 ADDITIONAL EARNINGS-RELATED FACTORS

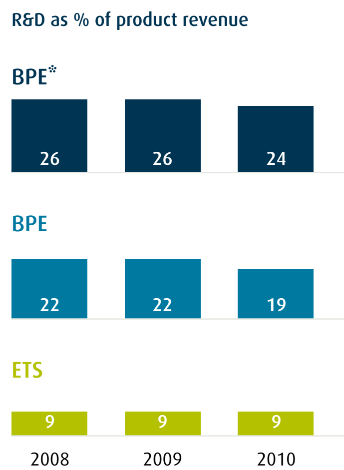
7.1 RESEARCH & DEVELOPMENT

Technological leadership is one of the pillars of our long-term growth strategy. We can continue to grow profitably only if we continuously develop product innovations that meet our customers' constantly changing needs. 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 (R&D) is a key department for us as a software company. We place great value on close cooperation between Sales and Marketing, Services, and Research and Development to turn innovations into market success.

Our goal is to be a technology and market leader in several enterprise software market segments. Today, Software AG is already a technology leader in the optimization of processes and their IT-based implementation. We want each of the products in our portfolio to receive a top rating from industry analysts. Such credentials help distinguish us as an innovation partner for our customers. As in previous years, several studies by leading industry analysts in 2010 characterized our products as leaders in their respective market segments (see Software AG awards at http://www.softwareag.com/de/products/bis/recognition/default.asp).

We develop products on the basis of our customers' needs. We regularly conduct needs analyses to determine their specific needs and derive product improvement and innovation processes from them. Our actual development work therefore starts with the customer—to our mutual advantage.

DEVELOPMENT OF R&D RATIO BY BUSINESS LINE



* includes amortization on IP rights

Milestones in 2010

In fiscal year 2010, we focused on investing in research and development. Research and development spending increased by 12 percent to €92 million, compared to €82.2 million the year before. Measured by product revenue, the proportion of R&D expenses decreased from 14.2 percent to 13.2 percent. As of December 31, 2010, we employed 850 people in R&D, which amounts to 15.1 percent of all employees at Software AG.

Following the integration of IDS Scheer AG and its ARIS product family, we have reorganized responsibilities and expanded the product area significantly with the R&D departments. The Research & Development departments of the two newly restructured product areas, BPE (Business Process Excellence, which includes ARIS and webMethods) and ETS (Adabas and Natural), are now the direct responsibility of freshly appointed Management Board member Dr. Wolfram Jost (formerly of IDS Scheer AG). In this way, research and development for the two product lines are closely linked and tied to downstream product management, right from the start of the process chain. Various products still have different requirements, so we will continue to pursue specific R&D strategies for the two business lines and synchronize them with each other.

In May 2010, Software AG took over 100 percent of shares in the Leipzig-based research and development company itCampus, after having acquired 51 percent of its shares in April 2009. The R&D company has close ties with leading universities and research institutions and, as a think tank, it strengthens our capacity for development. Over the course of the year, we hired additional research experts and further expanded the location. The better part of the technology developed in this hotbed of innovation is incorporated into our product portfolio.

Standardizing interfaces and technologies is essential to the market success of innovations and increasing the strength of the software industry. Thus, Software AG is involved in numerous cross-industry initiatives and committees, such as its collaboration with other companies on Germany's National Platform for Electric Mobility (NPE). In late December 2010, the NPE's working group on standardization and certification first published recommendations for action in an interim report to leading federal ministries, offering suggestions developed as part of the standardization roadmap on how to introduce electric vehicles to the market successfully. Information technologies will help shape more efficient integration of electric mobility into the business processes for the automotive industry and the energy sector.

Business Process Excellence
webMethods

The webMethods R&D department is active throughout the world at twelve locations in Germany, Bulgaria, Israel, India, and the United States, employing a global staff of 466 (2009: 453).

During 2010, one focus of research and development in this area was on the complete integration of ARIS products and Software AG products, resulting in the full integration of the individual steps needed for process modeling, automation, and monitoring.

We saw it as our duty also to continue working on effectively reducing our customers' total cost of ownership and, especially, simplifying the sale of our software to users.

New product developments

The development and delivery of webMethods 8.2 was a significant milestone for the business line. The focus of this new version is on integration with the ARIS platform in order to provide a common business process excellence solution. With webMethods, companies can better utilize both new, open architectures and investments in existing infrastructures. In addition, they lower the time and costs for process optimization and system integration, thereby increasing productivity thanks to close collaboration between the IT and business departments.

In July 2010, Software AG launched its new process intelligence offerings based on webMethods BPMS. The portfolio now includes strategic dashboards, automated process discovery, and benchmarking capabilities. This new product offers users the ability to create dashboards from existing webMethods BPMS data quickly and without any programming knowledge; they can then use these dashboards to make sound decisions quickly. On the tactical level, process owners can automatically discover and aggregate historical process flows to analyze probabilities and performance indicators. Improvement initiatives can then be focused on the most widely used process paths. Such process attributes as cost, quality measures, processing times, and error rates are modeled and analyzed over time to detect and eliminate process defects.

The acquisition of Realtime Monitoring GmbH expanded the webMethods product range with a state-of-the-art complex event processing engine. This software solution allows customers to analyze highly complex data streams—as are common in the logistics industry and finance—in real time and immediately respond to anomalies in the data streams.

In conjunction with a newly integrated business rules solution, customers can react much more flexibly and dynamically to an ever more rapidly changing business environment through webMethods-based business process management.

The acquisition of American company Data Foundations Inc. added a comprehensive master data management solution to webMethods. Master data management delivers consistent, reliable information from various data sources that can be used by almost every system and application in a service-oriented architecture or any automated business process. This technology is frequently in demand in both SOA and enterprise integration. The availability of consistent data within a company increases the quality of processes and leads to faster and more accurate decisions.

Introduced last year, the AlignSpace collaborative platform based on webMethods was integrated into the ARIS community under the name ARISalign over the course of the year. This, also, is an important component of our integrated business process excellence initiative and demonstrates how well our ARIS and webMethods product lines complement each other.

Innovations for webMethods in 2011

A number of webMethods development projects are on the schedule for the current fiscal year. The focus is on a joint BPE offering that integrates webMethods and ARIS products, incorporating new offerings such as master data management into an integrated suite, and improved cost-of-ownership for our customers.

ARIS

In addition to the customer-driven development of existing ARIS products, IDS Scheer launched an innovation campaign in 2009 and reached several milestones in fiscal 2010. The goal of the campaign is to expand the ARIS product range, enhance user friendliness, and broaden the use of ARIS within organizations, and address Internet users.

The ARIS product family's R&D department—with its 177 emploees—is concentrated in Saarbrücken and Berlin, Germany, as well as Slovakia and Ukraine. Since the end of 2010, this department, along with the ETS and webMethods R&D departments, has been operating under one Management Board member so that product line integration is already taken into account at the development stage. In 2010, the following product developments were released as part of the innovation campaign:

In September 2010, Software AG introduced a new version of ARIS MashZone, for the rapid creation of flexible and interactive management dashboards, or "MashApps." ARIS MashZone 2.0 supports departmental users in preparing their own management dashboards to analyze data on a Web 2.0 basis. The data can be taken from different sources and combined and modeled within minutes. This helps companies gain a better understanding of the relationship between existing data and greater freedom in processing key performance indicators (KPIs). Our Enterprise Edition now addresses the needs of large-scale enterprises as well. New functionalities include enhanced data access and modeling components.

The ARIS community launched in mid-2009, became the world's largest pure BPM community in less than 12 months, and now has over 75,000 registered members. It is an online network where individuals, businesses, and universities discuss ARIS and use ARIS Express to analyze and model business information. Beginners and experts in the business process environment can very easily network with one another and learn from each other. This collaborative approach marks a decisive step toward a knowledge-based organization. In addition, the collaboration platform provides modeling software to its members free of charge, which they can use for process design and process analysis immediately, and the BPM social network ARISalign provides access to additional BPM expertise. BPMN 2.0 support means that members of the community can use the entire webMethods suite to execute the process models, covering the entire value chain, from "model to execute." (www.ariscommunity.com)

ARIS Express, the free starter tool introduced in late 2009, now has over 80,000 installations (or downloads) and was expanded to BPMN 2.0 in 2010. Software AG was one of the first providers to integrate BPMN 2.0 into a professional tool, ARIS Business Architect, for BPMN modeling.

As a key expansion of the publishing components, ARIS Rocket Search was made available to broad user groups (with several thousand users) starting in the second quarter of 2010. The product intuitively makes ARIS content, such as process descriptions, available to all the company's process workers in a fraction of a second for a simple search of any type of process content.

The new ARIS Process Governance Engine, which contributes to increased efficiency by automating control processes, was implemented for numerous customers during the year under review. The new DocumentStorage component desired by customers was made available in the fourth quarter. New ARIS products were released for the field of governance, risk, and compliance to support efficient compliance and risk management: ARIS Process Risk Simulation and the new Loss and Incident solution.

In addition, the ARIS Process Performance Manager was rolled out with new in-memory architecture. The excellent performance of this new storage technology opens up completely new analysis capabilities that were impossible to implement efficiently because of wait times.

Integration into existing Software AG product portfolio

One of the ARIS R&D department's functions is to integrate the ARIS product family with Software AG's ETS and webMethods products. Intensive work on the full integration of the product lines continued throughout 2010. The result is called "model to execute," referring to the transfer of ARIS-based process models to the execution level of webMethods. On the basis of the BPMN 2.0 standard, the development teams have engineered a bidirectional data exchange between the two technologies. A technical model can be produced automatically from a functional process model in ARIS.

The first integrated Process Intelligence (PI) solutions were released for Software AG's customer base in the fourth quarter: PI for webMethods BPMS and PI for Natural applications.

The product groups complement each other perfectly and, as an integrated offering, provide further potential for innovation with increased customer benefits. The functional enhancement allows customers to export process and service information to webMethods. With its complete, integrated product suite for BPE, Software AG brings together all the components that companies need for their business process life cycle.

Shaping change actively

At CeBIT 2011, the integration of ARIS and webMethods into the entire BPE product suite was presented along with initial customer stories. This unique offering is the first to bring the model-to-execute concept to life: that is, process excellence from the design phase and operation to the continual optimization of business processes.

A successful implementation of BPE and thus model-to-execute enables both the merging of IT and processes and the close collaboration of IT and departmental staff. Modern collaboration tools are a key element in facilitating communication and shared process control. We will therefore expand our BPE platform with such additional social networking elements as communities, forums, and blogs. Our aim is to coordinate the various staff roles, such as enterprise architects, process modelers, and developers, so that they can work on their process models at the same time. Experiences gained with the ARISalign online collaboration platform will be incorporated into social communication functions in the integrated product suite.

ETS

A total of 198 (2009: 203) employees in ETS R&D teams collaborate to develop our product portfolio at five centers in Germany, the UK, Israel, Bulgaria, and the United States. This global positioning helps us most effectively exploit cost benefits and the specific expertise of the individual countries, because each location specializes in certain products or product groups.

We are working successfully with our customers to further develop the ETS product portfolio. The focus of 2010 was on even closer integration with webMethods and supporting ARIS products.

Link between ETS and webMethods

In 2010, R&D employees advanced the integration of ETS and webMethods in several development projects. We developed Optimize for Infrastructure: Mainframe Edition in late 2009 and introduced the next version of the product in December 2010. With it, our customers can monitor the performance of several products, such as Adabas, Natural, EntireX, and ApplinX, simultaneously with a single view. In addition, Optimize for Infrastructure analyzes previous performance data to create forecasts of potential problems, enabling customers to fine tune their system performance more efficiently. This allows corporate IT managers to identify potential system problems at an early stage and resolve them before the business is affected. Features of the new version include support for additional ETS products and expansion of the measured data.

Similarly, Software AG brought NaturalONE version 8.2 to market at the end of 2010; it was originally developed in 2009. Initial customer feedback based on the first version has been incorporated into it. Development focused on improved support for the development of browser-and Web-based applications. NaturalONE is a software tool to simplify the modernization of programs for our maintenance customers and develop new Web- and service-based programs in Natural. It helps our customers secure their existing investments in their business-critical applications and integrate them into new business processes (webMethods).

The first version of Adabas Archiving was released mid-year. The amount of business information is growing rapidly. Large databases that must hold terabytes of information are very difficult to manage. Lengthy processes for backing up and archiving data have a significant negative effect on availability. The majority of the data is not relevant for day-to-day business. Nevertheless, this data cannot and must not simply be deleted. This is where Adabas Archiving comes in: it defines, initiates, and manages archiving, removing data from the production environment and storing it securely in an archive. This data can be accessed again and retrieved as needed.

Planned product innovations

Another focus of development is on integrating IDS Scheer products. Accordingly, the new product Process Intelligence for Natural is being introduced in early 2011. This solution can extract process data from Adabas and Natural applications and analyze business processes via the integrated ARIS Process Performance Manager. Adabas and Natural customers are the focal point of our process intelligence strategy.

The featured topic for 2011 is application monitoring. This means monitoring the entire business transaction across a wide variety of products and networks. It helps managers identify bottlenecks in the IT systems and analyze performance and response times within the company, with the goal of identifying and eliminating weaknesses in IT systems early on.

In 2011, Software AG's R&D team will continue to work hard to develop new products and further develop existing ones, thereby supporting the ongoing expansion of the ETS product business. We will focus in particular on product enhancements that will provide even better integration between the ETS, webMethods, and ARIS product portfolios in both directions. Integrating the products forms the foundation for further product innovations with great benefits for our customers.

7.2 CUSTOMERS AND SALES

After Software AG's portfolio was expanded through the addition of IDS Scheer products and services, the merged Company's departments were restructured and combined in a customer-centric way. Along with the traditional and unchanged Enterprise Transaction Systems business line, we combined our webMethods and ARIS products to form a new business line called Business Process Excellence. We reorganized responsibilities in order to closely align development, marketing, and consulting expertise. For the same reason, we assigned Research and Development and Product Management and Product Marketing for all Software AG Group products to a single Management Board member. This allows us to increase our market success, thereby accelerating worldwide revenue growth for all products and pursuing a consistent, customer-oriented market strategy. This strategy is already bearing fruit, as shown by the initial cross-selling success and greater order volumes in the second half of 2010.

We again gained a multitude of new orders in 2010, including both follow-up orders from existing customers and orders from new customers.

Our customers have reacted very positively to our merger with IDS Scheer AG, as well as to our market-leading process solutions. Accordingly, the number of webMethods deals worth more than €100,000 increased significantly in 2010. In addition, active cross-selling measures helped us generate an increasing number of large ARIS deals and combined ARIS/webMethods projects. We have likewise closed deals worth millions through the integrated webMethods/ETS product portfolio.

Software AG's Marketing and Sales departments accounted for 1,022 employees—about 18 percent of all Software AG employees.

Global market presence

The continued expansion of our market presence around the world is a major component of our long-term strategy. We are increasing our presence in new markets with high growth potential: Asia, the Middle East, Eastern Europe and Latin America. In recent years, we entered the important markets of Japan and Brazil. We established direct distribution in Brazil at the beginning of 2008 and have since won many well-known customers and major deals, especially in the ETS business division.

We continually conduct a multitude of sales-support measures to promote customer loyalty and awareness of other interesting products from our portfolio. We conduct 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 (http://www.softwareag.com/corporate/community/default.asp).

Trade shows, forums, and other events are a good opportunity for us to meet customers, prospective customers, and other stakeholders 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 participation in CeBIT 2010, the first one at which we appeared jointly with IDS Scheer AG, was another resounding success. Our ProcessWorld 2010 trade shows for customers, held in Berlin and Washington, were visited by more than 1,300 participants from business and government and from many parts of the world. The event, launched by IDS Scheer many years ago, now provides a unique forum for process owners and IT decision-makers to discuss their experiences and exchange information about new approaches to business process excellence. Other events of the past fiscal year included the ProcessForum—which took place in Vienna, Austria, in October and in Darmstadt, Germany, in November—and the Innovation through Process Excellence road show that visited major cities in Germany and Switzerland.

Customer success stories and references can be found in the Customers section of our Website as well, at http://www.softwareag.com/corporate/customers/default.asp.

7.3 EXPANDING THE PARTNER NETWORK

Software AG significantly expanded our partner business in 2010. The partner network consists of system integrators, OEM partners, resellers, independent software vendors, and consulting firms. They primarily promote business relating to the BPE product line and make an important contribution to business success. The licensing revenues generated by our partners came from projects with new customers and existing ones. Vertical industry expertise plays a major role in our business success with our partners, because their knowledge of the customers' industry-specific requirements and processes is in demand. Our partners' industry expertise centers on the following four business segments: public administration, banking/insurance, telecommunications, and manufacturing.

Software AG's existing partners added the new ARIS product family to their range of products in 2010, embracing the merged Company's unique and complete Business Process Excellence portfolio. We gained a large network of partners by acquiring IDS Scheer; more than 100 new partners add potential to our partner strategy.

In the current fiscal year, we will focus on a proactive partner program with our most important partners. We will further expand our collaborations with our 12 largest partners worldwide while implementing regional initiatives with key partners, and we will add new success factors to the partner program, such as annual planning sessions, balanced scorecards, and a vertical industry focus. During the current fiscal year, we will continue to work with existing, tried-and-true methods by developing vertical process templates and solutions with our partners.

7.4 EMPLOYEES

Our employees' and managers' dedication and ability to innovate shape our Company's success. In order to continue in the future with the best people, we provide training for young people, recruit young talents from universities, and cultivate our employees with targeted human resources development programs. High achievers will find challenging work and attractive international opportunities at Software AG.

Workforce development

As of December 31, 2010, the Group had a total of 5,644 employees (full-time equivalents), with 2,051 of them in Germany. The values for the previous year (6,013/2,149) were collected prior to the operational integration of IDS Scheer AG. Headcount by functional and regional areas are distributed as follows:

HEADCOUNT BY FUNCTIONAL AREAS* AND GEOGRAPHY

Full-time equivalents	Dec. 31, 2010	Dec. 31, 2009	change in %
Sales & Marketing	1,022	1,072	-5
Consulting/Services/Support	3,038	3,246	-6
Research & Development	850	854	0
Administration	734	841	-13
Total	**5,644**	**6,013**	**-6**
Germany	2,051	2,149	-5
USA	685	742	-8
Rest of world	2,908	3,122	-7

* According to P+L structure

Focal points of Human Resources activities in 2010

Our employees determine our business success. Their personal and professional skills are a major factor in customers, investors, and business partners choosing our Company. By appropriately deploying our IT solutions, they ensure long-term added value within our customers' companies, along with lasting customer satisfaction. That is why we invest systematically in winning new employees and improving the skills of existing ones.

Our human resources (HR) strategy is to provide services in line with the corporate strategy and the labor market and create a cooperative work environment. A particular focus of our human resources activities during the year under review was integrating the employees of the former IDS Scheer AG. A structured integration plan was used to introduce employees to their new tasks and teams. Special training sessions and workshops acted as a forum for exchanging expertise on the shared portfolios as well as information on corporate processes and cultures.

Other HR activities included expanding the IT infrastructure and optimizing the central structures of the global Human Resources organization. A homogeneous global incentive system was introduced, with a focus on the sales and consulting business. By using global benchmarks for remuneration and benefits, we ensure that our employees' remuneration is attractive and in line with the market. Additional HR issues included talent management and diversity. Furthermore, the HR staff refined the existing HR development and training programs, as well as Software AG's position in the labor market in 2010.

This was confirmed in June 2010 by an external market survey of more than 20,000 computer science, economics, engineering, and natural science students: For the first time, Software AG ranked as one of German computer science students' top-20 preferred places to work, surpassing larger IT companies. Software AG provides the combination of economic success, challenging work, excellent continuing education opportunities, and attractive compensation desired by today's young college graduates and professionals.

Training and continuing education

To develop and implement the best solutions for our customers, our experts need a range of skills–both technical and social. To meet our high standards, we attach great importance to continuing education and training of employees. Accordingly, the Corporate University we introduced in 2005 has proved valuable in cultivating excellence among staff in all countries and areas through continuous learning. More than 9,000 courses were completed via the globally established learning management system in 2010, and more than 300 certifications were awarded. Along with traditional in-person instruction, online models of teaching are gaining importance, from e-learning and virtual classrooms to interactive and collaborative forms of learning based on Web 2.0 technologies. We expanded the subjects offered by the Corporate University considerably.

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, which is in its fourth year, nurtures those who have distinguished themselves through their outstanding performance. The six-month program to develop staff for the management level was conducted in the second half of 2010. It was followed at the end of the year by a program for higher management levels developed and implemented in collaboration with the European Business School, Germany's oldest state-recognized private business school. 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.

University Relations

To 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. Additionally, we offer various opportunities for IT and business students, including guest lectures, corporate visits and events, and internships; we also provide support for master's and bachelor's theses. In August 2010, for example, Software AG launched a cooperative effort with universities to map a virtual business environment, giving students low-cost access to practical experience.

After over three years, we drew some positive interim conclusions about our University Relations program at the end of 2010: 304 departments at 136 universities/colleges in 14 German states have taken part in the program since 2007. The volume of €50 million planned in 2007 was clearly surpassed, and more than 5,000 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 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. The "software campus" established at Germany's national IT summit will play a central role in this, as will the proposed Darmstadt-based House of IT (HIT) in the Frankfurt/Rhine/Main region.

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 actively using a variety of measures to shape a sustainable, future-oriented society.

Those who act responsibly convey and receive appreciation. Appreciation strengthens the bonds of customer and employee loyalty and builds the most credible public image. Sustainability means more than just environmental sustainability; rather, we see it as creating long-term values in a wider sense. Our customer relationships, technology, partnerships, and investments in our Company and our employees' knowledge capital are assets that endure for many years, bringing true benefits for society and all stakeholders.

For us at Software AG, sustainable and responsible action means leading a successful Company. For us, having a successful business means:

- 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.

Dedication of employees throughout the world

Personal initiative and individual social responsibility are important building blocks of our society. We are proud that our employees are active in numerous social projects and embrace their voluntary work.

Thanks to the participation of our employees around the world, Software AG's "Move Your Feet" campaign has been moving along successfully for some time now—showing our athletic and charitable sides. During the campaign, Software AG employees have logged more than 10,000 kilometers for a good cause in official races around the world. Software AG and the Software AG Foundation are making a donation to a social project for every kilometer run.

Various examples attest to Software AG's social commitment: Software AG participated in Germany's Girls' Day 2010, which introduces girls to technical professions, giving 30 girls an understanding of the IT activities taking place a software company. In August, we held a day for employees in Darmstadt and Saarbrücken to bring their children to work to learn about what their parents do, awakening an interest in IT careers. Employees' children interested in exploring the world can participate in our Youth Exchange Program to get to know other countries and their cultures.

For the benefit of the environment, employees in Darmstadt and at our Leipzig subsidiary, itCampus, called for bike-to-work initiatives, leaving their cars at home. Software AG UK employees ran, biked, and kayaked through the countryside of southwestern England to raise money for the Prince's Trust charity during the Wild Challenge. And since April, the cafeteria at Company headquarters in Darmstadt has been offering certified organic food.

Since its founding in 1994, the American subsidiary in Reston has been a sponsor of the Relay for Life, an international fundraising event to fight cancer. In addition, employees in Reston got their hands dirty for a good cause to make pathways in a community facility accessible again.

With support from the Software AG Foundation, which also advocates social projects, one of the founders of itCampus is paving the way for addicts to rejoin society. For example, the Foundation enabled the construction of a social therapeutic facility for people with disabilities north of Sao Paulo, Brazil, which it has supported with help and advice since 2006. Employee representatives on the Supervisory Board are supporting Software AG Foundation projects with the "Move Your Feet" campaign: athletic employees competed in public fun runs and gave the donations they collected to an orphanage in South Africa.

Our subsidiary in Spain is leading by example. A number of social projects have been implemented under the direction of Human Resources: an equality plan, family services to improve work-life balance, active dissemination of environmental best practices, as well as repeated participation in a job fair for people with disabilities to provide impetus for the inclusion of disabled people.

In addition, Software AG is particularly committed to strengthening the software industry, promoting growth, and creating and securing jobs. To this end, we maintain close contact with other institutions, universities, and businesses to take advantage of synergies, ensure know-how transfer, and promote innovation.

Our corporate mission reflects our involvement in social welfare. In the long term, we want to be one of the world's top ten providers of enterprise software, whose technologies and skills enable efficient business processes and thus the "digital enterprise" of the future. With "Green through Software AG," we contribute to overcoming key societal challenges and achieving economic sustainability through increased productivity and process efficiency. In addition, we are pursuing the goal of strengthening the software industry as a growth driver and a key industry through active software policy, thereby contributing to the creation and maintenance of highly skilled jobs. We are assuming responsibility.

More information on corporate social responsibility (CSR) and the complete CSR report can be found at www.softwareag.com/de/Press/csr/.

8 TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

Software AG's share capital totaled €86,148,183 and is divided into 28,716,061 bearer shares. Each share represents €3.00 of the share capital and 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 authorized non-issued capital pursuant to Section 5 (6) of the Company's Articles of Incorporation. 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 12, 2011 up to a total of €41,803,632 by issuing up to 13,934,544 new bearer shares against cash contributions or contributions in kind (authorized capital).

Furthermore, the Company is authorized to purchase own 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 own shares in the interest of the Company and its shareholders. Own 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 addtional information on the conditional capital, authorized capital, and the acquisition of treasury stock.

Significant shareholders
The 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. Changes in the wording of the Articles of Incorporation in connection with the utilization of conditional and authorized capital were resolved by the Supervisory Board in accordance with resolutions of the Annual Shareholders' Meeting of September 21, 1998 and April 27, 2001 on May 13, 2005 (Section 5, Paragraphs 1 and 4 of the Articles of Incorporation); May 12, 2006 (Section 5, Paragraphs 1 and 5 of the Articles of Incorporation); April 2, 2007 (Section 5, Paragraphs 1, 2, and 3 of the Articles of Incorporation); December 14, 2007 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); March 12, 2008 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); December 11, 2008 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); March 13, 2009 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); December 17, 2009 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); and January 26, 2011 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation).

Change of control
Liabilities to banks in the amount of €205 million (2009: €399 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.

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. For details, please refer to the following information.

10.1.2 ORGANIZATION OF THE RISK MANAGEMENT SYSTEM

Fundamental organization as risk and opportunity management system throughout the Group

Close collaboration between our Sales force and the Research and Development team (R&D) makes it possible for the development of new products to be market-driven and also market-relevant. 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 profit and loss 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 thousand 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 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. The related opportunities are detailed in the Forecast and in the segment sections in the Management Report.

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.

10.2.2 CORPORATE STRATEGY RISKS

Product risks

Close collaboration between our Sales force, Product Marketing, Management, and the Research and Development team (R&D) makes it possible for the development of new products to be market-driven and also market-relevant. As is customary in the software industry, one of our greatest challenges is to optimally allocate our R&D resources. Development of the BPE business line is particularly susceptible to being negatively affected by new competitor products. We reduce this risk 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, Data Foundations and RTM Realtime Monitoring were acquired in the year under review.

As technological leaders—a fact confirmed by independent analysts—in the BPE product areas 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. In order to manage this risk, we started our Entire Readiness of Software AG for New Technology / Release initiative during the previous year to prepare the whole Software AG Group optimally for launching new products. In 2010, this process was fully digitized using proprietary technology.

The Company's Research and Development group 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.

Risks in services

Price is often a key factor in winning projects in the area of project services. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed budgeted costs. The former IDS Scheer's high percentage of project services business has increased this risk. In the course of integrating and standardizing the processes, Software AG's project controlling was extended to the IDS Scheer project services business. This ensures that adequate risk-adjusted profit margins will be taken into account and monitored continuously.

The Group-wide standardized and automated approval process (Global Deal Desk) will be further rolled out for the IDS Scheer service business and replace the existing manual approval process in the IDS Scheer area. Full implementation of these measures will significantly reduce the risk from the services business. The project's quality and thus customer satisfaction depend to a great extent on the acting project manager. The integration resulted in increased fluctuations at this level, which are reduced back to a normal level by targeted Human Resources measures.

Rights management

Our growth strategy for the ETS business line is based in part on the possibility of extending customers' existing licensing rights to generate new sales revenues. This option cannot be repeated arbitrarily after contracts have been adjusted. Through this, the risk arises that revenue growth in individual core countries could fall, especially for the ETS product line. We are reducing this risk by steadily adding to our ETS product line.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. There is a 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, research and development, sales, marketing and internal communication.

The risk analysis focuses on the 2009 acquisition of IDS Scheer. The integration of the IDS Scheer Group presents a major challenge in the near term, offering many opportunities while also entailing many risks. This takeover made us a global provider of infrastructure software and business process management, with more than 5,600 employees and revenues of more than €1.1 billion, based on figures for fiscal year 2010. Software AG has strong brands and an excellent global image. The integrated Company's success in terms of strategies for growth and adding value will depend significantly on whether current employees can be retained and new, highly qualified ones can be added. To this end, long-term prospects must be opened up for employees of the new Software AG. Structural changes associated with the integration have created a certain amount of insecurity for the staff. This risk was reduced through targeted communication of each individual's opportunities within the new organization, especially since employees now have the opportunity to work for a larger and more internationally active attractive company that is a technology leader in infrastructure software and business process management and offers varied, attractive, long-term career opportunities.

The gross synergies in the amount of €25 to €30 million announced for fiscal year 2011 and resulting from the acquisition of IDS Scheer were achieved in 2010 and will be exceeded in 2011. This excellent financial performance—despite the marked increase in revenue share from services—with a 24-percent EBIT margin for the entire Company in fiscal year 2010 shows that the successful integration of the IDS Scheer Group is already well advanced.

The former IDS Scheer Group's risk management system is now fully integrated into Software AG's risk management.

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. 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. Integrating the former IDS Scheer's consulting organization engenders the risk of losing key consultants. This Company counters this risk by way of individual HR measures.

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.

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. The financial instruments open on the balance sheet date mean that a hypothetical increase in the market interest rate level by 100 basis points would reduce Group net income by €0.5 million (2009: €0.6 million). This presupposes that no future hedging transactions will take place. Provided that the Company did not finalize any additional hedging strategies and no negative effects were present on the balance sheet, a ten percent decrease in the euro's value against the U.S. dollar would cause Group net income to decrease by €0.7 million (2009: €1.2 million) and the remaining reserves in shareholders' equity by €1.7 million (2009: €0.4 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 introduced in 2008, 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.

Internal IT risks

The current integration of the former IDS Scheer IT Systems entails the risk that information will not be available consistently when needed. This is counteracted by a global process excellence initiative, in which the system support for each of Software AG's core process is analyzed, inconsistencies and redundancies are revealed, and leading future systems are determined.

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 69 patents from 36 patent families. In addition, 192 registrations from 90 patent families are pending. Of a total of 25 (2009: 31) filings in 2010, 17 (2009: 13) 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 USA Inc., and 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 two of the defendants. The outcomes of these two showcase proceedings will determine whether the proceedings against Software AG will continue. The order is not expected to be lifted until after the test case trials in the second quarter of 2011.

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 objections to be groundless. The proceedings are at an early stage; oral proceedings before the court have not yet taken place.

Regarding the merger of IDS Scheer AG and Software AG, three shareholders filed lawsuits challenging the validity of the approval by IDS Scheer AG's Annual Shareholders' Meeting. The decision of the Saarland higher regional court on December 7, 2010 established that the lawsuits the plaintiffs filed with the Saarbrücken regional court against the validity of the decision at the Annual Shareholders' Meeting do not conflict with entering the merger in the commercial registries of the IDS Scheer AG and Software AG respective headquarter locations.

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

There are no transactions of any significance that became known after the conclusion of fiscal year 2010.

12 FORECAST

12.1 OVERALL ECONOMIC OUTLOOK

After the economic recovery that followed the great recession, the global economy has entered a phase of moderate expansion that Kiel Institute for the World Economy (IfW) expects to last until well into the coming year. Increasingly, factors impeding further rapid global economic expansion are becoming apparent. In addition to financial policy, which is being tightened in many countries, sometime quite significantly, the factors are mainly consolidation processes in the private sector, hindering the expansion of credit in many industrialized nations. The IfW expects the world economy to grow by only 3.6 percent in the current year, following a jump of 4.8 percent in 2010. Although growth is expected to accelerate in 2012 due to a lessening of hurdles, the increase should be small in terms of the annual average. The continued moderate growth will have only a slight effect on reducing unemployment in industrialized countries. At the same time, inflationary pressure is likely to remain low.

Significantly weaker development is expected in peripheral European countries in 2011 as well, and, in the case of Greece, a drastic contraction is anticipated. At the beginning of 2012, momentum is likely to pick up, buttressed not least by monetary policy. In their forecast, the IfW experts do not expect the debt crisis to threaten the euro zone's financial stability seriously; rather, they predict that the financial markets will stabilize. The IfW expects the gross domestic product of industrialized nations to grow by 1.9 percent (2009: 2.4 percent) in 2011.

In addition to steadily increasing foreign demand, China's economic policy will be much less reflationary than before, because monetary and fiscal policy-makers will take action to counter an overheated economy. The IfW's economists expect the real gross domestic product to grow by 8.1 percent (2009: 10.7 percent) in 2011 and by 8.5 percent in 2012. Early indicators suggest that India's real gross domestic product will experience strong growth again. Economic momentum will slow slightly over the course of 2011, mainly through the government's consolidation measures. It has set a goal of reducing the budget deficit from 5.5 percent in fiscal year 2010/2011 to 4.1 percent in 2012/13. Overall, the IfW anticipates an increase in overall output of 7.1 percent in 2011 and 8.0 percent in 2012.

Latin America's economic growth is likely to weaken from 5.9 percent in 2010 to 3.2 percent in 2011. In 2012, growth will probably be faster again thanks to the acceleration of the global economy.

According to the IfW, global trade will grow in 2011 at a rate of only five percent. This is in contrast to an upsurge of 11.5 percent in 2010, which can be traced back primarily to the very sharp rise at the beginning of the year and in the second half of the previous year. In 2012, global trade should expand at a rate of 6.5 percent, approximately the same as the medium-term average.

Uncertainty about the progress of the world economy remains high. This is partly because the financial sector is still in such a condition that banks' depreciation or even a heavily modified risk assessment —for example, relating to a larger country defaulting on its debt—can lead to a credit crunch with a strong impact on real economic activity. Furthermore, economic policies meant to combat the recession often break new ground, so the longer-term impact of the measures and the effects of policy normalization are difficult to assess. For example, it is uncertain how much of a strain the planned consolidation will put on the economy. Almost every industrialized nation is to reduce its budget deficit significantly over the next two years.

Although the United States is still seen as the "engine of the world economy," other countries are on track to overtake it. The BRIC countries of Brazil, Russia, India, and especially China shine continuously despite the economic and financial crisis, with growth rates that surpass those of the mature markets. The BRIC countries could increasingly take on international leadership roles, not only in terms of global market mindshare, but also increasingly in the realm of innovation and future technologies. Among the Next Eleven countries, South Korea in particular proved to be an ICT nation of international standing back in 2009.

12.2 ANTICIPATED SECTOR TREND

Newly industrialized countries in Asia and Latin America will drive ICT development in the coming years. The European Information Technology Observatory (EITO) anticipates that the ICT markets in the BRIC countries will increase by nearly 13 percent to about €431 billion in 2011. About one-third of that increase is expected to come from IT (hardware, software, and IT services). These countries hold great potential, because the importance of information technology will increase compared to the more mature market for telecommunications technology. Growth of about 12 percent is forecast in 2011 for the largest of the four countries, China. Brazil is expected to grow by seven percent and India by as much as 26 percent. The Russian market is driven by IT, and an increase of 12 percent is predicted.

Growing demand for information technology will put the European high-tech markets back on a successful course. According to EITO analysis, revenues for IT devices, software, and IT services in Europe will increase by 3.9 percent to reach €314 billion as European companies continue to work on making up for diminished investments. Therefore, an increase of 1.5 percent, to €715 billion, is calculated for the global ICT market in 2011. EITO predicts that the ICT volume in the BRIC countries will increase by five percent: economists believe that Brazil will see growth of seven percent, Russia eight percent, China 12 percent, and India a growth spurt of 26 percent.

12.3 CORPORATE STRATEGY OPPORTUNITIES

We have proven that we can hold our ground even in a difficult economic environment. In a comprehensive management system at all levels of the Group, we identify the opportunities presented to us. The details about our corporate strategy and our objectives can be found in Section 6; the risk report describes the potential risks for Software AG.

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

1. Increasing significance of software for business and society

Software has become a central component of the information society. Innovative products and services cannot be realized without reliable software. The German economy's international competitiveness is characterized by the ability to develop top-quality software and IT services quickly and economically. The economic significance of software and IT services has grown and will continue to do so. The "Stuttgart Declaration" at Germany's Fourth National IT Summit said this about the importance of software to Germany: "Germany is already one of the world's most important locations for software development. Software is plainly the key technology for innovation. An above-average number of premium jobs in Germany are in the software sector. To further build on these strengths, we will turn our attention to this area in particular for the new ICT strategy." The software industry is a key growth driver of strategic importance in a modern economy and a key element in digitizing the economy.

2. The importance of software as an interdisciplinary technology for companies' and institutions' innovation processes

Because of the increasing digitalization of companies and society, software will be an integrated—in some cases dominant—component for flexible and agile business processes in the future. Tomorrow's digital companies will automate routine work in order to dedicate themselves to strategic issues. IT is used in every department as interdisciplinary technology. Chief Information Officers are becoming Chief Process Officers, project managers are process managers, and IT is becoming efficiency technology on the basis of a flexible IT infrastructure. Process automation middleware will gain in strategic importance because enterprise-wide digital business processes are developed outside of the application. This is the foundation for business process excellence. We believe that process innovations are just as important as product innovations. Business Process Excellence will therefore become a future market for IT and a growth market for providers.

Becoming a digital enterprise presents all major companies with the challenge of harmonizing and integrating IT processes. So far, there has been no complete, software-based solution that assists companies in mastering this challenge. Software AG is now established as a market leader in business process excellence and offers a comprehensive range of solutions for the process lifecycle, which is reflected in our portfolio strategy:

1. Our BPE portfolio provides a unique solution for process excellence, complemented by the professional experience of our consulting teams and partners. The scope and combination of all components and their high level of integration are unique in the industry.
2. Our extensive process expertise helps us implement SAP solutions in a process-oriented manner, giving us access to a much larger customer base.
3. We are a trusted partner for our Adabas and Natural customers, offering them the most powerful transaction system.

We offer the full range—technology, methodology, expertise, and customized, customer-oriented process and integration solutions.

3. Business Process Excellence

Software AG, a global leader in the field of Business Process Excellence, offers such solutions. We have been delivering innovations for over 40 years. Through the combination of ARIS and the webMethods platform, we are the first company to offer fully integrated BPM solutions (business process management) throughout the value-added chain. 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 control 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

During the past fiscal year, we set a course for Software AG's continued profitable growth. By integrating IDS Scheer, we met our goal by exceeding €1 billion in revenue—originally set for 2011—in 2010.

In fiscal year 2011, we are expecting an ever growing interest in new products that integrate different IT systems and business processes. Additional revenue growth of 10 to 15 percent is expected for these products in the BPE business division. The full integration of ARIS and webMethods announced for CeBIT 2011 enables greater efficiency than ever in creating and implementing process solutions. This innovation should contribute to our sales momentum over the course of the fiscal year. Product revenue equal to that of the previous year is expected in our traditional business (ETS), and moderate growth is forecast for the field of IDS Scheer Consulting. Software AG expects total revenue growth of about five to seven percent at constant currency. Because of the optimized utilization of our consultants, declining cost ratios, and the realization of revenue synergies through the merger with IDS Scheer AG, Software AG expects a considerable increase in net income between 10 and 15 percent in 2011 over the previous year.

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.

FORECAST 2011
IRFS

in € millions	2010	Forecast 2011 in %
Product revenue		
BPE	319.4	Growth: + 10 to + 15*
ETS	354.6	Stable: −2 to + 2*
Total revenue	1,119.5	Growth: + 5 to + 7*
Net income	175.6	Growth: + 10 to + 15

* At constant currency

Based on Software AG's proven robust business model and the measures introduced in past years, we are well positioned for the future. We aim to be an internationally leading software company on all levels: technology, growth, as an attractive employer, and as perceived by customers.

Software AG's total revenue growth is driven by the fact that we will expand our presence in countries with high growth rates. We will increase our business volume as well by using dedicated industry solutions.

Exceeding €1 billion in revenue means more than just achieving a long-term goal. It also contributes to reinforcing our confidence and credibility in the market while strengthening Software AG's position in becoming a strategic provider for other large-scale enterprises.

Continued profitable growth is expected in 2012. Buoyed by the high-growth BPE line and at constant currency, total revenue growth in the mid to high single-digit range is expected. The operating margin (EBIT) is expected to continue increasing and to contribute to corresponding net income growth. Double-digit revenue growth is anticipated in the medium term, energized by organic and acquired growth.

WE AIM TO

- Over the long term, become one of the world's top ten providers of enterprise software, whose technologies and skills enable efficient business processes and thus the "digital enterprise" of the future
- Be one of the leading vendor-neutral providers of business process excellence 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, the Software AG Foundation
- Seek major acquisitions on a regular basis in order to combine organic and external growth
- Double revenue at least every five to six years

13 CORPORATE GOVERNANCE DECLARATION

The Company adopted the Corporate Governance Declaration on February 28, 2011 and will publish it on our website in March 2011 at http://www.softwareag.com/de/ir/corpgovernance/default.asp.

The declaration includes the Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161, which was adopted separately on January 26, 2011 and published on our website at http://www.softwareag.com/de/inv_rel/corpgovernance/statement/default.asp.

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CONSOLIDATED INCOME STATEMENT
for fiscal years 2010 and 2009

in € thousands	Note	2010	2009
Licenses		327,372	269,862
Maintenance		369,431	310,604
Services		418,663	262,456
Other		4,061	4,454
Total revenue	[5]	**1,119,527**	**847,376**
Cost of sales	[6]	−442,052	−300,300
Gross profit		**677,475**	**547,076**
Research and development expenses	[7]	−91,987	−82,166
Sales, marketing, and distribution expenses	[8]	−238,902	−192,396
General and administrative expenses	[9]	−85,267	−70,683
Operating result		**261,319**	**201,831**
Other operating income	[10]	43,806	78,747
Other operating expenses	[11]	−36,515	−62,417
Earnings before interest and taxes		**268,610**	**218,161**
Net financial income/expense	[12]	−14,240	−8,885
Earnings before taxes		**254,370**	**209,276**
Income taxes	[13]	−72,666	−65,540
Other taxes	[14]	−6,072	−2,941
Net income for the year		**175,632**	**140,795**
Thereof attributable to shareholders of Software AG		175,415	140,978
Thereof attributable to non-controlling interests		217	−183
Earnings per share in € (basic)	[16]	6.18	4.92
Earnings per share in € (diluted)	[16]	6.15	4.91
Weighted average number of shares outstanding (basic)		28,380,152	28,681,849
Weighted average number of shares outstanding (diluted)		28,507,753	28,689,540

STATEMENT OF COMPREHENSIVE INCOME
for fiscal years 2010 and 2009

in € thousands	Note	2010	2009
Net income for the year		**175,632**	**140,795**
Currency translation differences		46,690	–1,385
Net gain/loss on remeasuring financial assets	[32]	–1,166	6,809
Net gain/loss arising from translating net investments in foreign operations		–780	–35,603
Net actuarial gain/loss on pension obligations	[27]	–6,927	–4,990
Other comprehensive income	[29]	**37,817**	**–35,169**
Total comprehensive income		**213,449**	**105,626**
Thereof attributable to shareholders of Software AG		213,232	105,798
Thereof attributable to non-controlling interests		217	–172

CONSOLIDATED BALANCE SHEET
as of December 31, 2010 and 2009

in € thousands	Note	2010	2009
ASSETS			
Current assets			
Cash and cash equivalents		102,467	218,141
Inventories		1,341	748
Trade receivables	[17]	337,796	328,543
Other receivables and other assets	[18]	43,012	38,192
Prepaid expenses		9,536	9,616
		494,152	**595,240**
Non-current assets			
Intangible assets	[19]	232,631	236,567
Goodwill	[19]	717,297	686,085
Property, plant, and equipment	[20]	66,356	67,064
Financial assets	[21]	5,262	5,692
Trade receivables	[17]	13,028	11,427
Other receivables and other assets	[18]	47,836	26,231
Prepaid expenses		1,596	758
Deferred taxes	[22]	21,452	25,868
		1,105,458	**1,059,692**
		1,599,610	**1,654,932**
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	[23]	136,837	198,516
Trade payables	[24]	60,465	62,030
Other liabilities	[25]	68,064	73,101
Other provisions	[26]	139,685	92,395
Provisions for taxes	[28]	53,113	45,097
Deferred income		127,927	117,309
		586,091	**588,448**
Non-current liabilities			
Financial liabilities	[23]	132,871	291,410
Trade payables	[24]	91	260
Other liabilities	[25]	4,252	1,067
Provisions for pensions	[27]	41,890	29,562
Other provisions	[26]	15,726	27,548
Deferred taxes	[22]	47,388	66,711
Deferred income		1,982	2,765
		244,200	**419,323**
Equity	[29]		
Share capital		86,148	86,125
Capital reserve		22,512	39,406
Retained earnings		727,070	584,211
Other reserves		–44,687	–82,504
Treasury shares		–22,313	0
Non-controlling interests		589	19,923
		769,319	**647,161**
		1,599,610	**1,654,932**

CONSOLIDATED STATEMENT OF CASH FLOWS [30]
for fiscal years 2010 and 2009

in € thousands	2010	2009
Net income for the year	175,632	140,795
Income taxes	72,666	65,540
Net financial income/expense	14,240	8,885
Amortization/depreciation of non-current assets	46,387	38,937
Other non-cash income/expense	7,083	−29,142
Operating cash flow before changes in working capital	**316,008**	**225,015**
Changes in inventories, receivables, and other assets	−22,420	33,553
Changes in payables and other liabilities	25,033	28,477
Income taxes paid	−78,991	−76,674
Interest paid	−18,843	−17,328
Interest received	6,657	7,449
Net cash provided by operating activities	**227,444**	**200,492**
Proceeds from the sale of property, plant, and equipment/intangible assets	1,708	1,369
Purchase of property, plant, and equipment/intangible assets	−12,461	−14,359
Proceeds from the sale of financial assets	6,855	3,682
Purchase of financial assets	−5,796	−2,830
Payments for acquisitions, net	−25,863	−320,360
Net cash used in investing activities	**−35,557**	**−332,498**
Proceeds from issue of share capital	180	1,524
Payments for share repurchase	−32,758	0
Dividends paid	−32,834	−31,503
Additions to financial liabilities	305	330,624
Repayments of financial liabilities	−222,449	−41,225
Purchase of non-controlling interests	−28,052	0
Net cash provided by/used in financing activities	**−315,608**	**259,420**
Change in cash and cash equivalents from cash-relevant transactions	−123,721	127,414
Currency translation adjustment	8,047	−6,198
Net change in cash and cash equivalents	**−115,674**	**121,216**
Cash and cash equivalents at beginning of period	218,141	96,925
Cash and cash equivalents at end of period	**102,467**	**218,141**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [29]
for fiscal years 2010 and 2009

in € thousands	Common shares (No.)	Share capital	Capital reserve	Retained earnings
2009				
Equity as of Jan. 1, 2009	**28,638,842**	**85,917**	**35,810**	**474,736**
Total comprehensive income				140,978
Transactions with shareholders				
Dividend payment				−31,503
New shares issued	69,568	208	1,316	
Stock options			2,280	
Transactions between shareholders				
Equity as of Dec. 31, 2009	**28,708,410**	**86,125**	**39,406**	**584,211**

in € thousands	Common shares (No.)	Share capital	Capital reserve	Retained earnings
2010				
Equity as of Jan. 1, 2010	**28,708,410**	**86,125**	**39,406**	**584,211**
Total comprehensive income				175,415
Transactions with shareholders				
Dividend payment				−32,556
New shares issued	7,651	23	157	
Stock options			4,378	
Issue and use of treasury shares	127,541		3,215	
Repurchase of treasury shares	−400,000			
Transactions between shareholders			**−24,644**	
Equity as of Dec. 31, 2010	**28,443,602**	**86,148**	**22,512**	**727,070**

Other reserves				Treasury shares	Attributable to shareholders of Software AG	Non-controlling interests	Total
Currency translation differences	Fair value measurement of securities and derivatives	Actuarial gains/ losses from defined benefit plans	Currency translation gains/losses from net investments in foreign operations				
–76,744	**–5,040**	**–1,923**	**36,383**	**0**	**549,139**	**0**	**549,139**
–1,386	6,809	–5,000	–35,603		105,798	–172	105,626
					0		**0**
					–31,503		–31,503
					1,524		1,524
					2,280		2,280
					0	**20,095**	**20,095**
–78,130	**1,769**	**–6,923**	**780**	**0**	**627,238**	**19,923**	**647,161**
–78,130	**1,769**	**–6,923**	**780**	**0**	**627,238**	**19,923**	**647,161**
46,690	–1,166	–6,927	–780		213,232	217	213,449
					0		**0**
					–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**
–31,440	**603**	**–13,850**	**0**	**–22.313**	**768,730**	**589**	**769,319**

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, 2010 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):

a) Domestic entities	Shareholding in %	Abbreviation
Software Financial Holding GmbH, Darmstadt	100	SAG-MK
SAG East GmbH – A Software Company, Darmstadt	100	SAG-ME
SAG Deutschland GmbH, Darmstadt	100	SAG-D
SAG Consulting Services GmbH, Darmstadt	100	SAG-PS
SAG Beteiligungs GmbH, Darmstadt (merged with Software AG as of December 21, 2010) and its domestic subsidiaries	100	SAG-BET
IDS Scheer Aktiengesellschaft, Saarbrücken (merged with Software AG as of December 21, 2010) and its domestic subsidiaries	100	
IDS Scheer Consulting GmbH, Saarbrücken (formerly IDS Scheer EMEA GmbH, Munich)	100	
FACT Unternehmensberatung GmbH, Frankfurt/Main	65	
FACT Informationssysteme und Consulting AG, Neuss	55	
itCampus Software und Systemhaus GmbH, Leipzig	100	
RTM Realtime Monitoring GmbH, Marburg/Lahn	100	RTM

b) Foreign entities	Shareholding in %	Abbreviation
Software AG (UK) Limited, Derby/United Kingdom and its subsidiaries	100	SAG-UK
Software AG Belgium S.A., Brussels/Belgium,	76	SAG-B
in which Software AG also has a direct stake	24	
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	100	SAG-F
Software AG Italia S.p.A, Segrate (MI)/Italy	100	SAG-I
Software AG Nederland B.V., Amsterdam/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	100	SAG-S
OY Software AG Nordic, Espoo/Finland	100	SAG-SF
Software GmbH Österreich, Vienna/Austria	100	SAG-A
Software AG Polska Sp. z o.o., Warszawa/Poland	100	SAG-PL
Software AG s.r.o., Praha/Czech Republic	100	SAG-CZ
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	SAG-TR
Software AG Argentina S.R.L., Buenos Aires/Argentina	100	SAG-ARG
Softinterest Holding AG, Zug/Switzerland and its subsidiary	100	SIH
SAG Software Systems AG, Zurich/Switzerland	100	SAG-CH
Software AG España, S.A. Unipersonal, Tres Cantos (Madrid)/Spain and its subsidiaries	100	SAG-E
Software AG Portugal, Alta Tecnologia Informática, Lda., Lisboa/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
Sinsa Móvil, S.A., Clayton/Panama	100	SINSA
Software AG de Panamà, S.A., Clayton/Panama and its subsidiary	100	SAG-PAN
Software AG de Costa Rica, S.A., San José/Costa Rica	100	SAG-CR
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 Ltd., Toronto, Ontario/Canada	100	
Data Foundations, Inc., Reston, VA/USA (merged with Software AG USA Inc., Reston, VA, as of December 31, 2010)	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 with its subsidiary	100	wM-INFRAV
Software AG Chennai Development Center India PVT Ltd., Chennai/India (formerly Infravio Software Technologies Private Limited)	100	wM-INFIND
webMethods Australia Pty Ltd., North Sydney/Australia	100	wM-AUS
Software AG Bangalore Technologies Private Ltd., Bangalore/India (formerly webMethods Development Center India Private Limited)	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
webMethods Sweden AB, Kista/Sweden (liquidated as of July 13, 2010)	100	wM-S

Foreign entities (continued)	Shareholding in %	Abbreviation
Software AG Australia (Holdings) Pty Ltd., North Sydney/Australia and its subsidiary	100	SAG-AUS (hldng. co.)
Software AG Australia Pty Ltd., North Sydney/Australia	100	SAG-AUS (oper. co.)
IDS Scheer Americas, Inc., Berwyn/USA and its subsidiary	100	
IDS Scheer Canada, Inc., Montreal/Canada	100	
IDS Scheer Japan Co. Ltd., Tokyo/Japan	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
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
Software A.G. (Israel) Ltd, Or-Yehuda/Israel and its subsidiary	100	SAG-ISR
Sabratec Technologies, Inc., Or-Yehuda/Israel	100	SAG-ISRUS
SAG Systems RUS Limited Liability Company, Moscow/Russia	100	SAG-RUS
Software AG Saudi Arabia, LLC, Riyadh/Saudi Arabia,	95	SAG-SA
in which SAG East GmbH also has a direct stake	5	
S.P.L. Software Ltd, Or-Yehuda/Israel and its subsidiaries	100	SPL-ISR
SPL Systems (1986) Ltd, Or-Yehuda/Israel and its subsidiaries	100	SPL-SYS86
SPL Idor Management Ltd, Or-Yehuda/Israel	100	SPL-IM
SPL Idor Business Solutions, Or-Yehuda/Israel	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
Foreign subsidiaries of IDS Scheer AG (merged with Software AG)		
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/Netherlands	100	
IDS Scheer Finland Oy, Espoo/Finland	100	
IDS Scheer SDC s.r.o., Kosice/Slovakia	100	
IDS Scheer Belgium S.A., Brussels/Belgium	100	
IDS Scheer Schweiz AG, Zurich/Switzerland	100	
IDS Scheer Saudi Arabia LLC., Riyadh/Saudi Arabia,	95	
in which IDS Schweiz 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	100	
IDS Scheer Polska Sp. z o.o., Warszawa/Poland	100	
IDS Scheer Hungaria Kft., Budapest/Hungary	100	
IDS Scheer Austria GmbH, Vienna/Austria	100	
IDS Scheer Iberia S.L., Madrid/Spain	100	
IDS Scheer Australia – New Zealand, North Sydney/Australia	100	
IDS Scheer s.r.l (Headquarters), Rome/Italy	100	
IDS Scheer Ukraine LLC, Lviv City/Ukraine	100	
IDS Scheer CEE S.A., Capellen/Luxembourg	100	
IDS Scheer, d.o.o., Ljubljana/Slovenia	100	
IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100	
IDS Scheer Russia, Moscow/Russia	100	
IDS Scheer A.S. Turkey, Istanbul/Turkey	100	

Foreign subsidiaries of IDS Scheer AG (merged witih Software AG) (continued)	**Shareholding in %**	**Abbreviation**
IDS Scheer India PVT.LTD., Mumbai/India	100	
FACT Unternehmensberatung Schweiz AG, Zurich/Switzerland	90	
IDS Scheer France S.A., Saint-Cloud Cedex (Paris)/France	100	
IDS Scheer Singapore Pte. Ltd., Singapore/Singapore	100	
IDS Scheer Malaysia SDN BHD, Kuala Lumpur/Malaysia	100	
Expert Consulting S.A., Brussels/Belgium (in liquidation)	100	
Foreign subsidiaries of itCampus GmbH		
itCampus (UK) Limited, Newcastle Upon Tyne/United Kingdom	100	
itCampus Schweiz AG, Sursee/Switzerland	80	
itCampus Italia s.r.l., Bozen/Italy	51	

CHANGES IN THE CONSOLIDATED GROUP

The number of consolidated entities changed from the level as of December 31, 2009 as follows:

	Germany	**Foreign**	**Total**
January 1, 2010	11	108	119
Additions	1	2	3
Disposals (including mergers)	2	3	5
December 31, 2010	**10**	**107**	**117**

The additions resulted from the acquisitions of RTM Realtime Monitoring GmbH and Data Foundation, Inc. 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, 2010).

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 ten 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.

Currency translation differences resulting from the elimination of intragroup balances are recognized under "other operating income" and "other operating expenses" on the income statement.

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, 2010	Dec. 31, 2009	Exchange rate change in %
U.S. dollar	1.3380	1.4405	7.1
Brazilian real	2.2211	2.5097	11.5
Pound sterling	0.8625	0.8900	3.1
Australian dollar	1.3168	1.6004	17.7

Average rate (€1)	2010	2009	Exchange rate change in %
U.S. dollar	1.3271	1.3931	4.7
Brazilian real	2.3353	2.7705	15.7
Pound sterling	0.8584	0.8914	3.7
Australian dollar	1.4441	1.7753	18.7

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 Professional 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 service contracts, 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 phase prior 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.

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.

The fair values are determined using either an option pricing model (Black-Scholes) or, if the rights granted are hedged with derivatives, by reference to the fair values of such derivatives.

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.

Buildings	40–50 years
Improvements to buildings/leasehold improvements	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

Derivative financial instruments such as forward currency contracts, interest rate swaps and stock options 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.

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 2010:

- Amendment of IAS 27 "Consolidated and Separate Financial Statements" (including ensuing amendments to IAS 21)
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement—Eligible Hedged Items"
- Revised version and subsequent amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 2 "Share-based Payment"
- Revised version of IFRS 3 "Business Combinations" (including ensuing amendments to IAS 12)
- "Improvements to IFRSs" (as published by the IASB in April 2009)
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"

The amendments of IFRS 3 (including the ensuing amendments to IAS 12) were applied to the recognition of loss carryforwards and previously not recognized deferred taxes related to earlier acquisitions. The policies to be applied in 2010 stipulate a retroactive capitalization of those deferred taxes through profit or loss. As it is no longer necessary to immediately adjust and write down goodwill in the same amount, these retroactive capitalizations, in contrast to earlier regulations, cause a rise in net income for the period. In 2010, we retroactively capitalized deferred tax assets related to earlier acquisitions in the amount of €23.5 million through profit or loss.

The amendments to IAS 27 and IFRS 3 were applied for the accounting of the purchase of additional shares in IDS Scheer AG. Prior to the amendment of IAS 27, such subsequent share purchases in connection with a majority shareholding were not governed. In fact, there were multiple options (full remeasurement, partial remeasurement, no remeasurement, and transactions between owners). The amended provisions now require the presentation as a transaction between owners (see also Note 4). Moreover, as a result of the amendment to IFRS 3, acquisition-related costs have to be recognized for the first time as an expense. However, acquisition-related costs were not significant in 2010.

The other changes to standards required to be applied for the first time in 2010 had no material effects.

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, 2010. For these IFRSs to be applied, they must first be endorsed by the EU.

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.

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, 2010. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

4_ BUSINESS COMBINATIONS

In fiscal 2010, 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, 2010 (in %)	Date of acquisition/ initial consolidation
RTM Realtime Monitoring GmbH, Marburg		
Real-time processing and analysis of time-critical data	100	Apr. 13, 2010
Data Foundations, Inc.		
Master data management software	100	Oct. 13, 2010

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 amounted to €22,679 thousand, net of cash acquired, and was paid in cash, with the exception of contingent consideration not yet due (earn outs). The contingent consideration amounts to €3,206 thousand and depends on the achievement of pre-defined revenue targets.

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	130	0	130
Trade receivables	149	0	149
Other receivables and other assets	52	0	52
Deferred income	29	0	29
Intangible assets	4	19,336	19,340
Goodwill	0	7,471	7,471
Property, plant, and equipment	41	0	41
Assets	**405**	**26,807**	**27,212**
Financial liabilities	85	0	85
Trade payables	83	0	83
Other liabilities and other provisions	99	0	99
Deferred tax liabilities	0	3,955	3,955
Deferred income	319	-138	181
Total equity and liabilities	**586**	**3,817**	**4,403**
Acquired assets and assumed liabilities, net	**–181**	**22,990**	**22,809**
Payments to shareholders	0	0	19,603
Consideration not yet paid	0	0	3,206
Total consideration paid	**0**	**0**	**22,809**
Cash and cash equivalents acquired	0	0	130
Net cost of the business combination	**0**	**0**	**22,679**

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 of €7,471 thousand arising from these acquisitions is fully 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.

Change in the original allocation of the cost of the business combination with respect to the acquisition of IDS Scheer AG in 2009

The original allocation of the cost of the business combination was adjusted in fiscal 2010. Based on the information available as of the end of the measurement period, the allocation of the cost of the business combination to net assets acquired as of August 20, 2009, the effects of changes in ownership interests and a transaction of IDS Scheer with treasury shares prior to December 31, 2009 are as follows:

in € thousands	Allocation of the cost of the business combination as of August 20, 2009			Changes taking effect as of December 31, 2009	
	Carrying amount prior to acquisition	Remeasure-ment to fair value	Opening balance	Effects of changes in ownership interests and transactions of IDS Scheer with treasury shares	Total
Cash and cash equivalents	120,328	0	120,328	7,527	127,855
Inventories	138	0	138		138
Trade receivables	91,813	0	91,813		91,813
Other receivables and other assets	16,012	0	16,012		16,012
Deferred income	6,241	0	6,241		6,241
Intangible assets	2,398	110,524	112,922		112,922
Goodwill	78,098	195,156	273,254	−22,650	250,604
Property, plant, and equipment	21,839	875	22,714		22,714
Financial assets	52	0	52		52
Deferred tax assets	8,557	−2,083	6,474		6,474
Total assets	**345,476**	**304,472**	**649,948**	**−15,123**	**634,825**
Financial liabilities	33,001	0	33,001		33,001
Trade payables	22,532	0	22,532		22,532
Other liabilities	23,443	1,851	25,294		25,294
Other provisions	19,185	1,900	21,085		21,085
Provisions for pensions	720	1,574	2,294		2,294
Provisions for taxes	7,542	0	7,542		7,542
Deferred tax liabilities	10,352	36,576	46,928		46,928
Deferred income	15,358	−5,670	9,688		9,688
Total equity and liabilities	**132,133**	**36,231**	**168,364**		**168,364**
Acquired assets and assumed liabilities, net	**213,343**	**268,241**	**481,584**	**−15,123**	**466,461**
thereof attributable to non-controlling interests			−1,214	−19,770	−20,984
Total consideration paid			**480,369**	**−34,893**	**445,477**
Less acquired cash and cash equivalents			120,328	7,527	127,855
Acquisition cost net of cash acquired			**360,041**	**−42,420**	**317,622**

The changes in the carrying amounts of the acquired receivables (decrease of €1,922 thousand) and tax provisions (increase of €2,800 thousand) and the adjustment to deferred tax assets (increase of €785 thousand) compared with the original allocation of the cost of the business combination did not impact profit or loss in the period between the acquisition and the reporting date. The changes took effect retroactively, upon which goodwill increased by €3,937 thousand as of August 20, 2009. Based on the retroactive increase in goodwill of €3,937 thousand, the effects of changes in ownership interests decreased by €354 thousand between August 20 and December 31, 2009. The net effect of the retrospective adjustment described above to goodwill reported as of December 31, thus amounted to €3,583 thousand. The financial statements prepared since the initial consolidation of IDS Scheer have been adjusted accordingly.

The goodwill of €250,604 thousand was allocated as follows to the segments:

in € thousands	
Enterprise Transaction Systems	85,420
Business Process Excellence	155,202
IDS Scheer Consulting	9,982
	250,604

Acquisition of additional shares in IDS Scheer AG (share purchase)

On February 11, 2010, the control and profit transfer agreement concluded on November 24, 2009 between IDS Scheer AG and SAG Beteiligungs GmbH (the controlling entity) was entered in the commercial registry, upon which the shareholders of IDS Scheer AG effectively received a put option to sell their shares at a price of €15.10 per share. Thus 100 percent of the IDS Scheer shares were required to be recognized on the balance sheet of Software AG pursuant to IAS 32 in conjunction with IFRS 3. As stipulated by IAS 27, the non-controlling interests in IDS Scheer in the amount of €18.9 million that had been reported thus far were derecognized. In addition, a financial liability was recognized in the amount of €43.0 million to reflect the put option. The difference between the financial liability and the decrease in the non-controlling interest was recognized in the equity attributable to Software AG as a decrease of €24.1 million in the capital reserve.

In fiscal 2010, Software AG acquired all of the shares in IDS Scheer AG still outstanding. The Company's ownership interest increased accordingly, rising from 91.0 percent as of December 31, 2009 to 100 percent as of December 31, 2010. The shares acquired prior to the effective date of the control and profit transfer agreement on February 11, 2010 resulted in a reduction of €0.4 million in the carrying amount of non-controlling interests and a reduction of €0.5 million in the capital reserve. The acquisitions made after February 11, 2010 reduced the originally recognized financial liability to the remaining IDS Scheer shareholders.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5_ TOTAL REVENUE

License and maintenance revenues can be broken down by business line as follows:

in € thousands	Enterprise Transaction Systems (ETS)		Business Process Excellence (BPE)		IDS Scheer Consulting		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Licenses	156,277	139,816	164,363	126,321	6,732	3,725	327,372	269,862
Maintenance	198,283	187,871	155,049	117,517	16,099	5,216	369,431	310,604
Product revenue	**354,560**	**327,687**	**319,412**	**243,838**	**22,831**	**8,941**	**696,803**	**580,466**

Service revenues

Service revenues include sales of €86,013 thousand (2009: €57,995 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, 2010 was as follows:

in € thousands	2010	2009
Costs accumulated over the term of a (multi-year) project and not yet invoiced	85,157	74,403
Recognized profit (+) / loss (–)	25,152	22,501
Advance payments received	87,033	71,189
Retentions	2	0

As of December 31, 2010, the net amount due from customers for unfinished project work was €22,943 thousand (2009: €25,715 thousand), and the net amount due to customers from running projects was €1,353 thousand (2009: €2,885 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 €442,052 thousand (2009: €300,300 thousand) and primarily consisted 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 €91,987 thousand (2009: €82,166 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 €238,902 thousand (2009: €192,396 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 €85,267 thousand (2009: €70,683 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	2010	2009
Foreign exchange gains	29,998	60,456
Income from the reversal of provisions and deferred liabilities	13,808	15,643
Other income	0	2,648
	43,806	**78,747**

11_ OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

in € thousands	2010	2009
Foreign exchange losses	33,937	35,652
Restructuring costs	0	11,220
Legal fees	0	914
Other expenses	2,578	14,631
	36,515	**62,417**

12_ NET FINANCIAL INCOME/EXPENSE

The balance of financial income and financial expense declined by €5,355 thousand due to the acquisition of IDS Scheer AG in 2009 and the resulting temporary increase in financial liabilities and can be broken down as follows:

in € thousands	2010	2009
Financial income	6,616	7,291
Financial expense	−20,856	−16,176
	−14,240	**−8,885**

13_ INCOME TAXES

Taxes on income are broken down into the following categories:

in € thousands	2010	2009
Current domestic taxes	−21,910	−33,075
Current foreign taxes	−67,356	−42,893
	−89,266	**−75,968**
Deferred domestic taxes	10,807	3,492
Deferred foreign taxes	5,793	6,936
	16,600	**10,428**
	−72,666	**−65,540**

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 31.0 percent starting in 2010 (2009: 30.8 percent). Tax rates abroad range between 10 and 41 percent (2009: between 10 and 41 percent).

The tax expense increased by approximately 11 percent due to our improved financial performance in 2010 compared to the prior year.

The income tax expense of €-72,666 thousand for fiscal year 2010 (2009: €–65,540 thousand) is €4,306 thousand lower than the expected income tax expense of €–76,972 thousand (2009: €–63,551 thousand) that resulted from applying the domestic tax rate of 31.0 percent currently applicable (2009: 30.8 percent) at Group level. The effective tax rate for the Group is 29.27 percent (2009: 31.76 percent). The difference between the expected and current tax expense can be attributed to the following:

in € thousands	2010	2009
Earnings before income tax	**248,298**	**206,335**
Expected income tax (31.0%; 30.8%)	–76,972	–63,551
Difference vs. foreign tax rates and changes in tax rates	–9,923	–2,695
Income tax income/expense from other periods	–1,319	129
Tax decreases (+) / tax increases (–) due to tax-exempt income or non-tax deductible expenses	–3,727	–6,908
Use of tax loss carryforwards and changes in valuation adjustments to deferred tax assets	21,625	9,245
Other adjustments	–2,350	–1,760
Reported income tax expense	**–72,666**	**–65,540**

14_ OTHER TAXES

Other taxes mainly include property taxes, vehicle taxes, and other indirect taxes.

15_ PERSONNEL EXPENSES

Personnel expenses in fiscal years 2010 and 2009 were as follows:

in € thousands	2010	2009
Wages and salaries	446,109	337,346
Social security contributions	59,122	44,090
Pension expenses	8,038	9,530
	513,269	**390,966**

In fiscal 2010, 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:

	2010	2009
Maintenance and service	3,103	2,232
Sales and marketing	1,055	867
Research and development	840	734
Administration	772	651
	5,770	**4,484**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 5,798 people as of the reporting date (2009: 6,170 thousand).

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 2010, the average weighted number of shares was 28,380,152 (2009: 28,681,849).

A total of 7,651 stock options were exercised in 2010 (2009: 69,568). The second stock option plan ended in the second quarter. In the first quarter, 400,000 Company shares were repurchased on the stock exchange as part of the share repurchase plan, and in the fourth quarter, 127,541 Software AG shares were issued to meet the conditions of the offer made to former IDS Scheer shareholders. The number of shares decreased accordingly by 264,808. The remaining treasury shares are not expected see a dilution effect, since they can be sold at market prices.

Another 665,354 stock options from the third stock option plan may be exercised for the first time in fiscal year 2011. The dilutive effect on earnings per share is calculated using the treasury stock method.

in € thousands	2010	2009
Net income for the year	175,632	140,795
Less earnings attributable to non-controlling interests	–217	183
Net income for the year attributable to shareholders of Software AG	175,415	140,978
Weighted average number of shares in issue	28,380,152	28,681,849
Effect of dilutive share-based payment	127,601	7,691
Weighted average number of shares in issue (diluted)	28,507,753	28,689,540
Earnings per share in € (basic)	6.18	4.92
Earnings per share in € (diluted)	6.15	4.91

NOTES TO THE CONSOLIDATED BALANCE SHEET

17_ TRADE RECEIVABLES

Trade receivables include:

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Trade receivables due within 1 year	191,325	252,531
Uninvoiced services (<1 year)	146,471	77,934
	337,796	**330,465**
Trade receivables due in more than one year	7,554	7,384
Uninvoiced services (>1 year)	5,474	4,043
	350,824	**341,892**

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

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Carrying amount	**350,824**	**341,892**
of which neither impaired nor past due as of the balance sheet date	293,342	244,626
of which past due in the following time bands		
1 to 3 months	45,668	60,176
4 to 6 months	5,044	26,111
7 to 12 months	4,344	10,440
> 12 months	2,426	539

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 €43,721 thousand (2009: €22,524 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 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**

CHANGES IN INTANGIBLE ASSETS AND GOODWILL in fiscal year 2009

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2009	**444,572**	**186,702**	**631,274**
Currency translation differences	−6,130	−5,836	−11,966
Additions from acquisitions	260,110	116,094	376,204
Additions	0	5,853	5,853
Disposals	−10,567	−2,651	−13,218
Balance as of Dec. 31, 2009	**687,985**	**300,162**	**988,147**
Accumulated amortization/impairment			
Balance as of Jan. 1, 2009	**−1,896**	**−35,771**	**−37,667**
Currency translation differences	−4	2,101	2,097
Additions	0	−30,930	−30,930
Disposals	0	1,005	1,005
Balance as of Dec. 31, 2009	**−1,900**	**−63,595**	**−65,495**
Residual carrying amount as of Jan. 1, 2009	**442,676**	**150,931**	**593,607**
Residual carrying amount as of Dec. 31, 2009	**686,085**	**236,567**	**922,652**

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

Fair value less costs to sell is calculated using discounted cash flows based on strategic budgets calculated and approved by management. 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, 2010 using a post-tax weighted average cost of capital (WACC) before taxes of 7.3 percent. The sustainable growth rate was assumed to be zero percent. A discount of 20 percent on the last year of detailed planning was used to determine sustainable cash flows. Even if a discount of 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 and a weighted average cost of capital (WACC) after tax of 7.5 percent for Business Process Excellence.

In the impairment test for the IDS Consulting segment, a post-tax WACC of 9.1 percent and a long-term growth rate of one 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 40 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 20 percent compared to plan figures, the fair value less costs to sell would exceed the relevant carrying amounts in all segments, and therefore, no impairment losses would be required.

In the prior year, testing for impairment involved checking the recoverable amount with regard to value in use. The annual impairment test was made on the basis of the then existing segments, which also corresponded to the cash-generating units.

Three-year plans had been developed for the ETS and webMethods segments and a five-year plan for the IDS segment. The forecasts took into account historical values and estimates of future developments.

The estimated cash flows for the ETS segments were discounted as of December 31, 2009 using a pre-tax weighted average cost of capital (WACC) before taxes of 11.1 percent (7.33 percent after taxes). For webMethods, a pre-tax weighted average cost of capital (WACC) of 10.9 percent (7.33 percent after taxes) was calculated.

The calculated value in use for the ETS and webMethods segments exceeded the carrying amounts even if a growth rate of zero percent was assumed. For this reason, we have opted to forego using realistic growth rates in the calculation.

In the impairment test for the IDS segment, a pre-tax WACC of 11.4 percent (8.49 percent after taxes) and a long-term growth rate of one percent were assumed.

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, 2010	Carrying amount as of Dec. 31, 2009	Remaining amortization period in years
Customer base obtained through webMethods acquisition	45,514	46,973	9.0
Software (rights and licenses) obtained through webMethods acquisition	25,643	30,790	3.4
Software (rights and licenses) obtained through IDS acquisition	35,787	43,504	4.7
Customer base obtained through IDS acquisition	21,492	24,918	6.7

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

in € thousands	Carrying amount as of Dec. 31, 2010	Carrying amount as of Dec. 31, 2009	Reason for assuming indefinite useful life
Brand name (“webMethods”) obtained through webMethods acquisition, Segment: Business Process Excellence	18,684	17,355	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name (“Aris”) obtained through IDS acquisition, Segment: Business Process Excellence	17,900	17,900	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.
Brand name (“IDS Scheer”) obtained through IDS acquisition, Segment: IDS Consulting	8,800	8,800	We plan to continue using the brand name for an indefinite period of time and to expand it in the future.

Brand names 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, 2010	Dec. 31, 2009
Segment		
ETS	323,019	229,608
Business Process Excellence (2009: webMethods)	384,296	205,873
IDS Consulting (2009: Enterprise Process Innovation)	9,982	247,021
	717,297	**682,502**

The break-down in the prior year was made based on the then existing segments. Further information on the change in segment reporting can be found in Note 31. The segments represent the smallest cash-generating units in the Group.

20_ PROPERTY, PLANT, AND EQUIPMENT

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT in fiscal 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**

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT in fiscal 2009

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2009	53,201	43,258	**96,459**
Currency translation differences	–220	–754	–974
Additions from acquisitions	17,703	5,414	23,117
Additions	650	6,947	7,597
Disposals	–2,133	–11,404	–13,537
Balance as of Dec. 31, 2009	69,201	43,461	**112,662**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2009	–20,042	–29,429	**–49,471**
Currency translation differences	141	417	558
Additions	–1,949	–6,272	–8,221
Disposals	2,069	9,467	11,536
Balance as of Dec. 31, 2009	–19,781	–25,817	**–45,598**
Residual carrying amount as of Jan. 1, 2009	33,159	13,829	**46,988**
Residual carrying amount as of Dec. 31, 2009	49,420	17,644	**67,064**

Most of the land and buildings are owned by the parent company 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, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Intangible assets	11,696	14,830	69,036	72,295
Other obligations	23,573	20,552	3,109	5,173
Receivables and financial assets	1,785	5,482	23,457	22,469
Property, plant, and equipment	773	1,268	4,631	4,646
Pension commitments	7,820	5,059	217	253
Prepaid expenses/deferred income	3,342	5,845	1,937	7,163
Tax loss carryforwards	27,462	18,119	–	–
Total	**76,451**	**71,155**	**102,387**	**111,999**
Amount offset	-54,999	-45,288	-54,999	-45,288
Amount recognized in the balance sheet	**21,452**	**25,867**	**47,388**	**66,711**

No current or non-current distinction is made in the presentation of deferred taxes in the consolidated balance sheet.

Deferred tax assets on tax loss carryforwards rose over the prior year by €9,343 thousand. The increase resulted 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, 2010, the consolidated Group had unutilized tax loss carryforwards in the amount of €116,727 thousand (2009: €155,541 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €26,977 thousand will expire in the period from 2011 to 2020, €62,810 thousand in the period from 2021 to 2030, and €26,940 thousand can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €3,357 thousand (2009: €2,600 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 2010, deferred taxes totaling €5,075 thousand (2009: €2,107 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, 2010	Dec. 31, 2009
Current financial liabilities		
Liabilities to banks	131,420	192,388
Other financial liabilities	4,450	4,920
Bills payable	854	1,025
Liabilities from finance leases	37	177
Other current financial liabilities	76	6
	136,837	**198,516**
Non-current financial liabilities		
Liabilities to banks	84,195	239,241
Other financial liabilities	48,500	51,966
Liabilities from finance leases	164	106
Other non-current financial liabilities	12	97
	132,871	**291,410**

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	111,756	57,073
Loans with fixed interest rates	22,983	75,622
	134,739	**132,695**

Loans amounting to €4,289 thousand are secured by liens on real property.

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 €100,345 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, 2010	Dec. 31, 2009
Current liabilities		
Payables to suppliers	47,722	59,145
Payments received on account of orders	12,743	2,885
	60,465	**62,030**
Non-current liabilities		
Payables to suppliers	91	260

25_ OTHER LIABILITIES

Other liabilities relate to the following items:

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Other current liabilities		
Tax liabilities	28,717	24,827
Liabilities due to employees	24,316	26,955
Liabilities for social security	5,399	5,899
Deferred lease payments	2,526	2,652
Outstanding consideration (acquisitions)	0	3,920
Miscellaneous other current liabilities	7,106	8,848
	68,064	**73,101**
Other non-current liabilities		
Outstanding consideration (acquisitions)	3,288	493
Liabilities due to employees	260	150
Liabilities for social security	102	133
Tax liabilities	0	2
Miscellaneous other current liabilities	602	289
	4,252	**1,067**

26_ OTHER PROVISIONS

in € thousands	Other provisions for personnel expenses	Restructuring provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2010	**55,830**	**1,888**	**62,225**	**119,943**
Currency translation	2,248	21	940	3,209
Additions from acquisitions	0	0	63	63
Additions	46,948	186	62,201	109,335
Utilization	−39,707	−1,373	−29,019	-70,099
Reversal	−4,828	0	−2,212	-7,040
Balance as of Dec. 31, 2010	**60,491**	**722**	**94,198**	**155,411**
of which with a remaining term of more than 1 year	284	16	15,426	15,726

Miscellaneous other provisions

Miscellaneous other provisions include:

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Bonuses	30,849	24,863
Obligations from stock price-based remuneration plans	39,294	10,874
Lease payment obligations	4,942	7,242
Other taxes	4,245	1,897
Impending losses for consulting projects	3,295	3,858
Asset retirement obligations	1,199	1,156
Remaining miscellaneous other provisions	10,374	12,335
	94,198	**62,225**

Remaining miscellaneous other provisions primarily include provisions related to pending litigation and the audit of financial statements.

27_ PROVISIONS FOR PENSIONS

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Provisions for pensions (foreign)	22,714	16,185
Provisions for pensions (domestic)	16,787	12,632
Provisions for insignificant pension obligations from defined benefit plans and similar obligations	2,389	745
	41,890	**29,562**

The consolidated balance sheet included the following items relating to significant defined benefit plans as of December 31, 2010 and December 31, 2009:

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Benefit obligation, fully funded	5,005	4,932
Benefit obligation, partially funded	74,662	59,741
Benefit obligation, unfunded	3,191	2,888
	82,858	**67,561**
Present value of plan assets	−43,656	−39,166
Net carrying amounts	**39,202**	**28,395**
of which provisions for pensions	39,500	28,817
of which plan assets	298	423

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):

Actuarial assumptions in %	Domestic pension plans		Foreign pension plans	
	2010	2009	2010	2009
Discount rate	4.8	5.3	5.0	5.1
Expected salary increases	2.0	2.0	4.4	4.9
Expected pension increases	2.0	2.0	2.6	3.0
Expected return on plan assets	4.3	4.4	5.2	5.6

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	
	2010	2009	2010	2009
Change in defined benefit obligations (DBO)				
DBO as of January 1	**15,999**	**9,554**	**51,562**	**30,373**
Additions related to business combinations	0	2,220	0	6,850
Service cost	712	287	2,608	1,941
Interest expense	823	598	2,750	1,919
Employee contributions	0	0	599	249
Actuarial gains (+) / losses (-)	2,748	1,087	6,291	8,519
Pension payments	-635	-594	-4,524	-228
Past service cost	290	2,822	0	0
Plan curtailments	0	25	0	0
Exchange differences	0	0	3,634	1,939
DBO as of December 31	**19,937**	**15,999**	**62,920**	**51,562**
Change in plan assets				
Fair value of plan assets as of January 1	**3,389**	**2,043**	**35,777**	**22,044**
Additions related to business combinations	0	1,031	0	5,512
Expected return on plan assets	149	108	2,010	1,392
Employer contributions	536	443	3,618	2,770
Employee contributions	30	10	720	249
Actuarial gains (+) / losses (-)	-387	-246	174	2,894
Pension payments	-566	0	-4,735	-361
Exchange differences	0	0	2,941	1,277
Fair value of plan assets as of December 31	**3,151**	**3,389**	**40,505**	**35,777**

Net periodic pension cost can be broken down as follows:

in € thousands	2010	2009
Service cost	3,320	2,228
Interest expense	3,573	2,517
Expected return on plan assets	-2,076	-1,437
Repayment of expenses/income from retroactive plan amendments (past service cost/benefits)	290	2,822
Losses/gains from plan termination and plan curtailment	0	25
Net periodic pension cost	**5,107**	**6,155**

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	2010	2009
Actuarial gains (+) / losses (-) recognized in the period	-6,814	-4,939
Net actuarial gains (+) / losses (-) recognized in the period from insignificant plans	-123	-52
Accumulated actuarial gains (+) / losses (-) recognized in the period as of December 31	-13,850	-6,913

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

in € thousands	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Equities	14,910	11,128	9,259	21,497	22,296
Bonds	6,318	13,882	7,996	6,289	4,407
Life insurance policies	18,385	11,525	6,386	3,821	1,138
Other	4,043	2,630	446	1,761	718
	43,656	**39,165**	**24,087**	**33,368**	**28,559**

The actual return on plan assets amounted to €1,832 thousand in fiscal 2010.

Contributions from the Software AG Group to plan assets for fiscal year 2011 are expected to amount to €5,979 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, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
DBO	82,858	67,561	39,927	50,597	53,168
Present value of plan assets	−43,656	−39,166	−24,087	−33,368	−28,559
Net carrying amounts	**39,202**	**28,395**	**15,840**	**17,229**	**24,609**
Experience adjustments to DBO in %	3.2	1.5	−17.7	−6.1	1.2
Experience adjustments to plan assets in %	1.6	6.8	−36.0	7.4	−9.3

Defined contribution plans

In addition to the defined benefit plans, the Group also maintains defined contribution plans. These plans resulted in expenses of €4,427 thousand in fiscal 2010.

28_ PROVISIONS FOR TAXES

in € thousands	2010	2009
Balance as of January 1	**45,097**	**36,688**
Currency translation	1,430	504
Additions to the group of consolidated	0	7,517
Additions	28,887	39,273
Utilization	−20,861	−29,214
Reversal	−1,440	−9,671
Balance as of December 31	**53,113**	**45,097**

29_ EQUITY

Share capital

As of December 31, 2010, Software AG's share capital totaled €86,148 thousand, divided into 28,716,061 bearer shares. Each share entitles its holder to one vote.

Conditional capital

The following conditional capital existed as of December 31, 2010:

1.) Up to €6,840 thousand divided into up to 2,280,000 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 requirements of this plan and the status of allocations and options exercised are presented in Notes 38 and 39.

    The Management Board did not make use of this authorization in fiscal year 2010.

2.) Up to €1,210 thousand divided into a maximum of 403,404 bearer shares to service subscription rights under the second stock option plan (Management Incentive Plan II, or MIP II) for members of the Management Board and officers of the Software AG Group. The requirements of this plan and the status of allocations and options exercised are presented in Notes 38 and 39. Based on the options exercised during 2009 by officers and Management Board members, the Management Board made partial use of its option to increase conditional capital in the amount of €23 thousand, divided into 7,651 bearer shares.

3.) Up to €18,000 thousand divided into a maximum of 6,000,000 bearer shares, each with a notional interest in the share capital of €3.00, 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 obligations having a notional interest in the share capital not to exceed €8,613 thousand, or—if lower—ten percent of the issued share capital in existence at the time the authorization is acted upon.

    As of December 31, 2010, the Management Board had not made use of this authorization.

4.) Up to €750,000 thousand divided into a maximum of 250,000 bearer shares, each with a notional interest in the share capital of €3 .00, for the purpose of granting bearer shares upon the exercise of conversion or option rights granted by IDS Scheer AG pursuant to the authorizations of the annual shareholders' meetings of IDS Scheer AG of April 29, 1999 and May 20, 2005, such conversion or option rights being accorded equivalent status under the provisions of the merger agreement of May 20, 2010 between the Company and IDS Scheer AG and in accordance with Section 23 of the German Reorganization and Transformation Act (UmwG).

    The requirements of this plan and the status of allocations and options exercised are presented in Notes 37 and 38.

    The Management Board did not make use of this authorization in fiscal year 2010.

Authorized capital

As of December 31, 2010, 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 12, 2011 by up to a total of €41,804 thousand by issuing up to 13,934,544 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.

- The Management Board is authorized, subject to the consent of the Supervisory Board, to exclude subscription rights in an amount not to exceed €89 thousand of the par value of the new shares issued in order to allow the Company to offer new shares to the employees of the Company and its affiliated entities as defined in Sections 15 et seq. of the German Stock Corporation Act (AktG) as part of an employee stock ownership plan. The new shares may also be transferred to a bank, provided they will be held exclusively for the purpose of acquisition by entitled employees in accordance with the Company's instructions.

- 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, or equity interests in companies.

- 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 cash contributions, provided the capital increases resolved on the basis of this authorization do not, in total, exceed ten percent of the issued share capital at the time the authorization is first acted upon and provided the issue price is not significantly lower than the stock market price. The upper limit of ten 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 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 2010.

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 ten 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 ten 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 ten 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 ten 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 letter "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.

d) 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 Company 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 ten 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.

e) 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 the Company;
   (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 the Company 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.

f) 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 of the Company 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.

g) 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.

h) 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.

i) The authorization dated April 30, 2009, to purchase treasury shares will be rescinded as of the effective date of the new authorization.

In February 2010, the Management Board made use of its authorization to acquire treasury shares by purchasing 400,000 Company shares as part of the share repurchase announced on February 3, 2010 for the purpose of executing the merger of IDS Scheer with Software AG. As of December 31, 2010, the Company still held 272,459 treasury shares.

Within the framework of the merger of Software AG with IDS Scheer AG at the end of December 2010, 127,541 treasury shares were exchanged against the then outstanding 1,052,211 IDS Scheer shares. The treasury shares exchanged had a carrying amount of €10,445 thousand.

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 €36,977 thousand (2009: €32,555 thousand) and a payout ratio of 18.6 percent (2009: 19.8 percent).

Dividend payment

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 21, 2010 to transfer €104 thousand to retained earnings, to appropriate €32,555 thousand for a dividend payout, and to carry forward €289,060 thousand from the 2009 net retained profits of €321,719 thousand reported by Software AG, the controlling Group company. This corresponded to a dividend of €1.15 per share.

The Management Board and the Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €124,560 thousand for 2010 of Software AG, the controlling Group company, as follows: to use €36,977 thousand for the payment of dividends—corresponding to a dividend of €1.30 per share—and to carry forward €87,583 thousand.

Other reserves

Other reserves changed as follows, taking into account tax effects:

in € thousands	2010			2009		
	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences	46,690	–	46,690	−1,385	–	−1,385
Net gain/loss on remeasuring financial assets	−1,682	516	−1,166	9,828	−3,019	6,809
Net gain/loss arising from translating net investments in foreign operations	−780	0	−780	−35,603	–	−35,603
Net actuarial gain/loss on pension obligations	−9,379	2,452	−6,927	−6,578	1,588	−4,990
Other comprehensive income	**34,849**	**2,968**	**37,817**	**−33,738**	**−1,431**	**−35,169**

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2009, net income of €1,806 thousand (2009: net expense of €3,453 thousand) was recognized in profit or loss in fiscal year 2010.

OTHER DISCLOSURES

30_NOTES TO THE STATEMENT OF CASH FLOWS

Cash funds amounting to €102,467 thousand (2009: €218,141 thousand) comprise both cash and cash equivalents.

Net payments for acquisitions amounted to €25,863 thousand in 2010 (2009: €320,360) and resulted from €25,994 thousand in consideration paid less €131 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 €217,750 thousand (2009: €188,354 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).

In fiscal year 2010, the internal management and reporting was adjusted within the framework of the integration of the IDS Scheer business. The previous Enterprise Process Innovation segment comprised the product lines ARIS and IDS Scheer Consulting. The ARIS product line was combined with the previous webMethods segment in fiscal 2010, to form the new segment Business Process Excellence (BPE). This restructuring resulted in the following three segments presented in the 2010 Annual Report: Enterprise Transaction Systems (ETS), Business Process Excellence (BPE), and IDS Scheer Consulting (IDSC) (further information on the segments [strategic business areas] is included in the Management Report).

The disclosures for 2009 were adjusted to the new reporting structure.

SEGMENT REPORT
as of December 31, 2010
(January 1 to December 31, 2010 and January 1 to December 31, 2009)

in € thousands	ETS		BPE		IDSC		Reconciliation		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Licenses	156,277	139,816	164,363	126,321	6,732	3,725	0	0	327,372	269,862
Maintenance	198,283	187,871	155,049	117,517	16,099	5,216	0	0	369,431	310,604
Product sales	**354,560**	**327,687**	**319,412**	**243,838**	**22,831**	8,941	**0**	**0**	**696,803**	**580,466**
Services	64,617	67,577	177,710	125,057	176,336	69,822	0	0	418,663	262,456
Other	818	785	2,092	3,387	1,151	282	0	0	4,061	4,454
Total revenue	**419,995**	**396,049**	**499,214**	**372,282**	**200,318**	**79,045**	**0**	**0**	**1,119,527**	**847,376**
Cost of sales	−73,602	−81,730	−169,829	−133,877	−177,698	−65,828	−20,923	−18,865	−442,052	−300,300
Gross profit	**346,393**	**314,319**	**329,385**	**238,405**	**22,620**	**13,217**	**−20,923**	**−18,865**	**677,475**	**547,076**
Sales, marketing, and distribution expenses	−73,308	−70,669	−125,123	−102,897	−28,471	−9,924	−12,000	−8,906	−238,902	−192,396
Business line contribution	**273,085**	**243,650**	**204,262**	**135,508**	**−5,851**	**3,293**	**−32,923**	**−27,771**	**438,573**	**354,680**
Research and development expenses	−31,557	−29,371	−59,815	−52,573	−615	−222	0	0	−91,987	−82,166
Segment result	**241,528**	**214,279**	**144,447**	**82,935**	**−6,466**	**3,071**	**−32,923**	**−27,771**	**346,586**	**272,514**
General and administrative expenses									−85,267	−70,683
Other operating income/ expenses, net									7,291	16,330
Earnings before interest and taxes									**268,610**	**218,161**
Net financial income/expense									−14,240	−8,885
Earnings before taxes									**254,370**	**209,276**
Taxes									−78,738	−68,481
Net income for the year									**175,632**	**140,795**

The business line 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 business line 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

in € thousands	Germany		USA		Other countries		Group total	
	2010	2009	2010	2009	2010	2009	2010	2009
Licenses	49,338	41,995	87,747	66,085	190,287	161,782	327,372	269,862
Maintenance	50,995	38,555	116,748	106,088	201,688	165,961	369,431	310,604
Services	161,995	64,393	42,208	29,058	214,460	169,005	418,663	262,456
Other	2,436	1,519	64	19	1,561	2,916	4,061	4,454
Total	**264,764**	**146,462**	**246,767**	**201,250**	**607,996**	**499,664**	**1,119,527**	**847,376**

Countries included in “other countries” are presented separately once the revenue generated in the country in question reaches a significant level. Revenues in the USA contributed ten 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	2010	2009
USA	500,815	448,210
Other countries	122,938	138,919
Germany	392,530	399,004
Group total	**1,016,283**	**986,133**

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, 2010 and December 31, 2009.

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	December 31, 2010		December 31, 2009	
	Fair value	Carrying amount	Fair value	Carrying amount
FINANCIAL ASSETS				
Financial assets*				
Cash and cash equivalents	102,467	102,467	218,141	218,141
Trade receivables and other receivables	240,035	240,035	301,173	301,173
Other non-derivative financial assets	3,801	3,801	5,424	5,424
Derivatives				
Derivatives without qualifying hedging relationship	49,539	49,539	5,009	5,009
Derivatives with qualifying hedging relationship (cash flow hedge)	153	153	22,532	22,532
FINANCIAL LIABILITIES				
Financial liabilities*				
Liabilities to banks and other financial liabilities	271,479	269,708	490,015	489,926
Trade payables	60,556	60,556	62,291	62,291
Other non-derivative financial liabilities	72,257	72,257	72,564	72,564
Derivatives				
Derivatives without qualifying hedging relationship	30	30	1,630	1,630
Derivatives with qualifying hedging relationship (cash flow hedge)	29	29	45	45

* 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 loss from derivatives without qualifying hedging relationships amounted to €25,174 thousand in fiscal 2010 (2009: €247 thousand). The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €-1,995 thousand in 2010 (2009: net gain of €4,918 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 risk arising from monetary financial instruments bearing variable interest rates.

Based on the current structure of the interest-bearing financial instruments, a hypothetical increase in the market interest level of 100 basis points would reduce earnings by €468 thousand (2009: €625 thousand).

b) Exchange rate risk

In order to hedge the risk of future fluctuations in exchange rates, the Company 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 amount of ten percent against the U.S. dollar would have reduced earnings by €712 thousand (2009: €1,175 thousand) and other reserves by €1,719 thousand (2009: €416 thousand). This amount only represents a theoretical risk for us as these instruments are hedges of recognized transactions, rather than open trading positions.

c) Market risk

In line with Group policy, assets are controlled in terms of maturity, interest type, and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk

Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. All cash investments have terms of up to three months. Both cash investments as well as derivative financial instruments are entered into with banks having good credit ratings. 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, 2010, 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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations arising from credit agreements, leases, trade payables, or the like. Risk is limited by pursuing active working capital management and Group-wide liquidity management and, if necessary, covered by available cash funds or bilateral credit lines.

Under credit agreements having a total volume of €205 million (2009: €399 million), the Company is required to limit net debt within the Group to a maximum of 2.75-times EBITDA. As of year-end 2010, net debt was well below this figure.

The table below shows the contractually agreed payments arising from financial liabilities. The figures represent the undiscounted liabilities. In the case of variable interest payments, the interest rate applicable on the reporting date is used for the calculation. Liabilities in foreign currency are measured at the exchange rate as of December 31, 2010.

in € thousands	Up to 1 year		>1-5 years		> 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Non-derivative financial liabilities								
Liabilities to banks and other financial liabilities								
Repayments	135,870	197,308	130,770	286,845	1,925	4,362	268,565	488,515
Interest	9,575	13,724	8,884	19,722	55	346	18,514	33,792
Trade payables	60,465	62,030	91	260	0	0	60,556	62,290
Other financial liabilities	930	1,031	12	96	0	0	942	1,127
Finance lease liabilities	37	177	164	106	0	0	201	283
Other non-derivative liabilities	68,064	71,497	4,252	1,067	0	0	72,316	72,564
Derivative financial liabilities	**135**	**1,839**	**41**	**64**	**0**	**0**	**176**	**1,903**

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, 2010 and December 31, 2009. The fair values of forward currency contracts 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.

in € thousands	2010			2009		
	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	–	49,539	49,539	–	5,009	5,009
Forward currency contracts	3,043	23	23	8,101	598	598
Stock options	87,136	49,516	49,516	9,103	4,373	4,373
Cross-currency swaps	–	–	–	408	37	37
Derivatives (cash flow hedges)	–	153	153	–	22,532	22,532
Forward currency contracts	14,948	153	153	694	4	4
Stock options / equity forward contracts	–	–	–	79,596	22,527	22,527
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	–	-30	-30	–	-1,630	-1,630
Forward currency contracts	2,990	-27	-27	1,834	-27	-27
Currency options	1,495	-3	-3	–	0	0
Interest rate swaps	–	0	0	103,471	-1,427	-1,427
Cross-currency swaps	–	0	0	1,299	-177	-177
Derivatives (cash flow hedges)	–	-29	-29	–	-45	-45
Forward currency contracts	2,242	-29	-29	3,471	-45	-45

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.

The stock options serve to hedge against future changes in the fair values of stock appreciation right commitments.

Up to and including December 31, 2009, the stock options were part of a qualifying hedging relationship. Since the assumption of the date when the performance targets of the MIP III program will be achieved were changed in 2010, the effectiveness criteria for a hedging relationship to be recognized in the balance sheet were no longer met. Of the fair value changes of the hedges previously reported in equity as of December 31, 2009 (€3,863 thousand), an amount of €3,113 thousand was reclassified to the income statement in 2010. The fair value measurements in the amount of €750 thousand, which were reported in other reserves as of December 31, 2010, are expected to affect profit or loss until May 2011.

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 and interest rate risk have remaining maturities of less than one year. The stock options used for hedging the commitments from the third stock price-based remuneration plan fall due in 2012. The individual maturities correspond to the time periods over which the expected cash flows are likely to affect profit or loss.

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 2009, the interest rates for term deposit investments were less than one percent p.a. in Germany, whereas up to 8.25 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	>1-5 years	> 5 years	Total
Contractually agreed payments	26,367	47,163	7,905	81,435
Estimated income from subleases	−2,188	−6,839	−2,557	−11,584

34_ CONTINGENT LIABILITIES

As of December 31, 2010, the nominal amount of contingent liabilities was €1,432 thousand (2009: €1,368 thousand). No provisions were recognized for these liabilities since it appeared unlikely that any claims would be asserted.

35_ SEASONAL INFLUENCES

Revenues and pre-tax earnings were distributed over fiscal year 2010 as follows:

in € thousands	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010
Total revenue	250,256	267,301	275,309	326,661	1,119,527
in % of annual revenue	22	24	25	29	100
Earnings before taxes	41,983	55,991	65,362	91,034	254,370
in % of net income for the year	17	22	26	36	100

In the fourth quarter, revenues and pre-tax earnings benefited from several individual contracts of an above-average volume, for which reason the distribution of revenue by quarter has only limited informational value.

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 case is only being actively pursued against two of the defendants. The verdict in these two exemplary proceedings will determine if the proceedings against Software AG will be resumed. The suspension order is not expected to be rescinded prior to the hearing in the representative proceedings during the second quarter of 2011.

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 are in an early stage; as yet there have been no hearings before the court.

With respect to the merger of IDS Scheer AG with Software AG, three shareholders filed a complaint contesting the validity of the resolution of the Annual Shareholders' Meeting of IDS Scheer consenting to the merger. In a decision on December 7, 2010, the Higher Regional Court of Saarland ruled that the complaints filed by the plaintiffs with the Regional Court of Saarbrücken contesting the validity of the resolution of the Annual Shareholders' Meeting did not conflict with entry of the merger in the commercial registry at the registered offices of IDS Scheer AG or at the registered offices of Software AG.

The merger was entered in the commercial registry at the registered offices of Software AG on December 21, 2010, upon which the merger of IDS Scheer AG with Software AG took effect and IDS Scheer AG ceased to exist.

There were no other changes with respect to the legal disputes reported at the end of 2009, 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, officers, 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 €18,984 thousand in fiscal 2010 (2009: €11,437 thousand). This includes income of €24,310 thousand (2009: income of €5,587 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 €4,380 thousand in fiscal 2010 (2009: €2,280 thousand).

No expenses for share-based payment transactions were capitalized as inventories or non-current assets.

Management Incentive Plan II (MIP II)

Management Incentive Plan II is a stock option plan for Management Board members and officers that was launched in the second quarter of 2001.

The stock option plan led to personnel expenses of €20 thousand in fiscal year 2010 (2009: €73 thousand). This amount was transferred to the capital reserve.

The options granted under Management Incentive Plan II (MIP II) changed as follows in fiscal 2010:

	Number of options outstanding	Weighted average exercise price per option (in €)	Weighted average remaining term (in years)	Aggregated intrinsic value (in € thousands)
Balance as of Dec. 31, 2009	**7,691**	**23.57**	**1.9**	**406**
Granted	–			
Exercised	7,651			
Forfeited/expired	40	–	–	–
Balance as of Dec. 31, 2010	**0**	**–**	**–**	**–**
Thereof exercisable as of Dec. 31, 2010	0	–	–	–

MIP II ended in the second quarter of 2010 upon exercise of the last options.

Management Incentive Plan 2007 (MIP III)

In the third quarter of 2007, a share-based incentive plan for members of the Management Board and officers was launched. To date, a total of 2,447,500 participation rights have been issued to Management Board members and officers under the plan.

As of the balance sheet date, 1,765,354 of these options were outstanding. The remaining options were forfeited as a result of employees, officers, and directors leaving the Company.

Upon achievement of certain performance targets by June 30, 2016, participants are entitled to payment of the difference between the price of Software AG shares and the strike price of €72.36. However, the Company is entitled to elect to issue shares in lieu of a cash payment at its discretion. 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 net income compared to fiscal year 2006.

In order to hedge the cash flow risks from MIP III, Software AG purchased 1,100,000 stock options. As a result of this hedge, 1,100,000 of the participation rights are accounted for as cash-settled share-based payment transactions in accordance with IFRS 2. Accordingly, Software AG recognizes a provision on a pro rata temporis basis based on the fair values of the rights granted as of the grant date.

The fair value of these participation rights was determined on the basis of the Black-Scholes option pricing model and corresponds to the market value of the purchased stock options as of the grant date. The fair value, which was calculated on the basis of the following parameters, amounted to €39.75 per right as of December 31, 2010.

The valuation was based on the following parameters:

Expected average term until exercise of the options (in years)	1.4
Risk-free interest rate	1.37 %
Assumed average volatility	34.7 %
Share price on December 31, 2010	€109.80
Expected dividend yield	1.3 %

The calculation of the average term until exercise of the options was based on experience with previously exercised options as well as management expectations.

The assumed volatility is based on the average expected volatility of various independent financial institutions.

The resulting personnel expenses are amortized over the period of service and amounted to €28,420 thousand in fiscal year 2010 (2009: €8.812 thousand). In contrast, income of €24,310 thousand was generated from hedging the rights granted in fiscal year 2010 (2009: €5,587 thousand).

The liability for the participation rights, which are accounted for as cash-settled share-based payments, amounted to €39,294 thousand (2009: €10,874 thousand) as of December 31, 2010.

The amount of the personnel expenses for non-vested rights not yet recognized in profit or loss depends on the rights' intrinsic value as of the exercise date and, therefore, cannot be forecasted. The final amount of payment is expected to be recognized in profit or loss over the next 0.4 years. The unrealized price gains or losses of from the hedging transactions will be recognized over the same period.

The remaining 665,354 participation rights still outstanding as of December 31, 2010 are accounted for as equity-settled share-based payment transactions. The fair value was determined as of the grant date using the Black-Scholes option pricing model.

The assumed volatility is based on average market expectations.

No additional parameters were used for the calculation of fair value other than the market conditions described above.

In fiscal 2010, the personnel expenses resulting from these 665,354 participation rights, amounted to €4,360 thousand (2009: €2,207 thousand) due to the short period between December 31, 2010 and the vesting date of the options. No further fluctuation was assumed. This amount was transferred to the capital reserve.

The options granted under Management Incentive Plan 2007 (MIP III) changed as follows in fiscal year 2010:

	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, 2009	**1,881,854**	**72.36**	**6.5**	**7,603**
Granted	–			
Exercised	–			
Forfeited/expired	116,500			
Balance as of Dec. 31, 2010	**1,765,354**	**72.36**	**5.5**	**66,095**
Thereof exercisable as of Dec. 31, 2010	0			

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 2010 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2011, less ten 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 2012, 2013, and 2014, 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.

For the phantom shares due in 2011, the participants may elect to extend the shares due for a period of six years, rather than receiving a payment. During the extension period, the beneficiaries have the opportunity four times per year (each time the Company's financial results are announced) to demand payment of extended shares. The number of phantom shares is adjusted over the extended term by the amount (measured in percent) by which Software AG shares outperform or underperform the TecDAX index. The adjustment for this out- or underperformance is limited to 50 percent.

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 €10,494 thousand in fiscal year 2010 (2009: €5,932 thousand).

The provision for the rights outstanding under the phantom share plan amounted to €18,920 thousand as of December 31, 2010 (2009: €12,902 thousand).

The intrinsic value of the rights exercisable under the phantom share plan amounted to €2,984 thousand as of December 31, 2010 (2009: €2.231 thousand).

38_ CORPORATE BODIES
Members of the Supervisory Board:

Dr. Andreas Bereczky
Dr. -Ing., graduate in mechanical engineering
Chairman
Director of Production of ZDF, Mainz
Resident of: Eschweiler
Supervisory board seats:
- Member of the supervisory board of Alfabet AG, Berlin

Monika Neumann
State examination for secondary education
Employee representative (until May 21, 2010)
Deputy Chairwoman (since May 21, 2010)
Employee of SAG Deutschland GmbH
Chairwoman of the General Works Council of SAG Deutschland GmbH
Resident of: Schliersee
Supervisory board seats:
- none

Willi Berchtold
Graduate in economics
Member of the Supervisory Board
Businessman
Resident of: Überlingen
Supervisory board seats:
- Member of the supervisory board of Lufthansa Systems AG, Kelsterbach
- Chairman of the supervisory board of Bundesdruckerei GmbH, Deutschland

Rainer Burckhardt
Graduate in mathematics
Employee representative (until August 27, 2010)
Employee of SAG Deutschland GmbH
Deputy Chairman of the General Works Council of Software AG,
Chairman of the Works Council, Darmstadt
Resident of: Roßdorf
Supervisory board seats:
- none

Peter Gallner
Employee representative (since May 21, 2010)
Trade union secretary of Vereinte Dienstleistungsgewerkschaft (ver.di)
Resident of: Koblenz
Supervisory board seats:
- Member of the supervisory board of Atos Origin GmbH, Essen

Heinz Otto Geidt
Graduate in business administration
Member of the Supervisory Board
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

Dietlind Hartenstein
Bank business clerk
Employee representative (since August 27, 2010)
Employee of Software AG
Chairwoman of the Works Council, Saarbrücken
Resident of: Zweibrücken
Supervisory board seats:
- none

Manfred Otto
Graduate in industrial engineering
Executive employee representative (since May 21, 2010)
Employee of Software AG
Resident of: Kaiserslautern
Supervisory board seats:
- none

Prof. Dr. Hermann Requardt
Dr. phil. nat., graduate in physics
Member of the Supervisory Board (since May 21, 2010)
Member of the management board of Siemens AG, Sector CEO Healthcare, Director of Corporate Technology
Resident of: Erlangen
Supervisory board seats:
- Member of the supervisory board of BSH Bosch und Siemens Hausgeräte GmbH, Munich
- Member of the supervisory board of Osram GmbH, Munich

Anke Schäferkordt
Graduate in business administration
Member of the Supervisory Board (since May 21, 2010)
Managing Director of 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 (since May 21, 2010)
Employee of Software AG
Resident of: Ottweiler
Supervisory board seats:
- Member of the supervisory board of IDS Scheer AG, Saarbrücken (until December 21, 2010)

Martin Sperber-Tertsunen
Graduate in administrative sciences
Employee representative (since May 21, 2010)
Trade union secretary of IG Metall
Resident of: Kelkheim
Supervisory board seats:
- None

Alf Henryk Wulf
Graduate in engineering
Member of the Supervisory Board
Deputy Chairman (until May 21, 2010)
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
Corporate Marketing, Corporate PR, Legal Affairs, Audit / Processes & Quality, Corporate Communications, Corporate Office, Top Management Development
Resident of: Frankfurt

David Broadbent
Businessman
Member of the Management Board
Chief Operating Officer EMEA (excluding DACH)
Resident of: Frilsham, Berkshire, UK

Mark Edwards
Businessman
Member of the Management Board (until July 31, 2010)
Chief Operating Officer Region West (North America, Latin America, Northern, Western, and Southern Europe)
Resident of: Ascot, Berkshire, UK

Dr. rer. nat. Wolfram Jost
Graduate in business administration
Member of the Management Board (since August 1, 2010)
Chief Technology Officer
R&D and Product Marketing
Resident of: Schmelz

Dr. Peter Kürpick
Physicist
Member of the Management Board (until August 4, 2010)
Chief Product Officer
Resident of: Darmstadt

Ivo Totev
Graduate in electrical engineering
Member of the Management Board (until July 31, 2010)
Chief Services Officer
Global Consulting Services, Global IT & Support
Resident of: Gießen

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: Kelkheim/Ts.

Total remuneration for Management Board members in fiscal 2010 amounted to €16,331 thousand (2009: €14,794 thousand). This included €3,923 thousand in considerations for 33,993 phantom shares and a one-time payment of €3,180 thousand related to the end of Management Board service.

The Management Board members received a total of 33,993 phantom shares under the phantom share plan (2009: 50,728). The phantom shares granted had a fair value as of the grant date of €116.04 per phantom share (2009: €83.08).

Remuneration for former Management Board members totaled €350 thousand (2009: €340 thousand).

Pension provisions for former Management Board members amounted to €6,570 thousand (2009: €4,188 thousand).

Software AG did not grant any advances or loans to Management Board members in fiscal 2010 or in fiscal 2009.

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 €752 thousand in the year under review (2009: €285 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2010 or in fiscal 2009.

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 €895 thousand (2009: €1,039 thousand). Of this amount, €598 thousand relates to the audit of the domestic entities' and the Group's financial statements (2009: €938 thousand), €37 thousand to tax advisory services (2009: €27 thousand), €67 thousand (2009: €74 thousand) to other testation services, and €193 thousand to other services (2009: €0 thousand).

41_ EVENTS AFTER THE BALANCE SHEET DATE

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 February 28, 2011. It will be published in March 2011 on our website at http://www.softwareag.com/de/ir/corpgovernance/default.asp.

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 our website at http://www.softwareag.com/de/inv_rel/corpgovernance/statement/default.asp on January 26, 2011.

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; SAG East GmbH - A Software Company, Darmstadt; SAG Consulting Services GmbH, Darmstadt; and Software Financial Holding GmbH, Darmstadt, which are included in the consolidated financial statements of Software AG, have been exempted from the duty to prepare and publish annual financial statements, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with Section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Management Board approved the consolidated financial statements on February 28, 2011.

Darmstadt, February 28, 2011

Software AG

K.-H. Streibich	D. Broadbent
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, February 28, 2011

Software AG

K.-H. Streibich

D. Broadbent

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 Group Management Report for the business year from January 1, 2010 to December 31, 2010. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to sec. 315a para 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 sec. 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 sec. 315a para 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 Group Management Report 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, February 28, 2011

BDO AG
Wirtschaftsprüfungsgesellschaft

Schulz	Sartori
Wirtschaftsprüfer	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.
BPMN 2.0	A standard for modeling business processes. Based on it, Software AG enables bidirectional data exchange between the business process model in ARIS and the technical execution in webMethods.
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 lifecycle of a process, which comprises a business component (BPE lifecyle) 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 lifecycle	The business component of BPE which describes step-by-step how comprehensive, business-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-centric innovation	A customer-oriented innovation approach that Software AG takes by applying real market experience and customer needs to the development of new software solutions and products.
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 application integration (EAI)	The tools and practices of linking computer applications and data together in order to achieve operational and business advantages.
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.
process intelligence (PI)	The combination of analytical functionality and monitoring capabilities with process information to enable performance management on strategic, tactical, and operational levels.
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).
total cost of ownership	Sum of all costs incurred to acquire and use an asset (e.g. a computer system) and, if relevant, to dispose of it.
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

Financial Calendar	2011
January 27, 2011	Q1 2011 financial figures (IFRS, unaudited)
May 5, 2011	Annual Shareholders' Meeting, Darmstadt, Germany
July 28, 2011	Q2/H1 2011 financial figures (IFRS, unaudited)
October 27, 2011	Q3 2011 financial figures (IFRS, unaudited)
	2012
End of January 2012	Q4/FY 2011 financial figures (IFRS, unaudited)

PUBLICATION CREDITS

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