

*Dear Investors / Analysts,*

The year-end rally and Christmas shopping are on our minds, whereas the sales teams in the software industry - and not only them - are hoping for a budget flush. The latter may be as tricky as the dream of a white Christmas. In the old days both were standard in this season. Nowadays we have to recognize a climate change: last minute spending on software licenses works only with additional capacity for existing software installations which can be shelved for later use.

Today budgets are under tighter control and most of our license revenue is project-based (BPE) and not capacity driven (ETS). Therefore a budget flush - if at all - would support the ETS revenue only. But there is hope for BPE too: a larger product offering and sales force should allow for bigger year end license revenue. And yes, even in the absence of a budget flush, the traditional behavior of saving the best for Q4 puts a glint to our eyes around Christmas.

This year-end issue of our IR News brings to a close a year of very active communication, and in some cases even intensive education, on software products and financial statements. We appreciate your interest, efforts and patience in following Software AG's business model in transition.

Enjoy reading the last updates now or in the next weeks while we go into the (very) quiet period and enjoy a couple of seasonal holidays.

*Best regards*

*Otmar F. Winzig*

SVP Investor Relations and Compliance

Software AG



**IR NEWS**

**#4/2013**

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**Safe-the-date ++ Capital Market Day ++ February 11, 2014**

## 1. SILICON VALLEY NEWS

### Investment into Hadoop-based Data Analytics startup

Beyond the ongoing acquisitions of established technology vendors, Software AG also is investing, together with VC companies, in startups with innovative technology profiles. Minority stakes make sense to follow cutting edge technology trends in the first line but at a time when the market potential is still evolving.

Executing on this strategy, Software AG acquired a minority stake in **Datameer**. This fast growing start-up offers special Hadoop-based analytic tools in the multi-billion dollar Big Data market where the global demand for self-service Big Data analytics is increasing.

Datameer is one of the leading vendors in Hadoop-based analysis. The company was founded by Hadoop veterans and is on a mission to make Hadoop-based analysis consumable by business users. The company was founded in 2009, is headquartered in Silicon Valley (San Mateo) and has offices in New York and Halle (Germany). The company has some 100 employees and around 130 clients. The main shareholders of Datameer are the founders of the company and other venture capitalist, such as Citi Ventures, Kleiner Perkins Caufield & Byers, Redpoint Ventures and Next World Capital.

Please find more information on the company at [www.datameer.com](http://www.datameer.com)

### San Francisco hosted Innovation World 2013

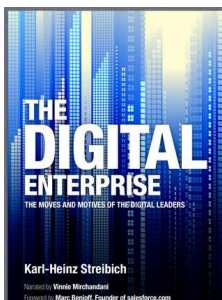


Software AG's main customer event *Innovation World* was held in San Francisco but journalists from over 15 countries made sure the company's business and technology messages were heard globally. 60 sessions attended by about 1,000 customers, in just two days was a Big Fast Data stream in itself, delivering enough innovative ideas to inspire everyone until next year's event in New Orleans.

With three simultaneous product releases, Software AG showed customers how they can continue to use their IT systems in flexible IT architectures and succeed against their competition thanks to better products and services.

Software AG videos played before and during the keynotes can be found on <http://www.youtube.com/playlist?list=PL3HwMrSYjxiMg1IDYQOUqF6zjTv9u8PLB>

### The Digital Enterprise - the Moves and Motives of Digital Leaders



Marc Benioff, Founder of salesforce.com introduces the book by our CEO, Karl-Heinz Streibich and Vinnie Mirchandani, a thought leader and ex-Gartner analyst. In the book C-level executives at the biggest brand name companies in the world share practical experience around the most challenging topic for all companies, on how to become digital.

Throughout the book you will encounter the vision of the digital transformation that is driving innovation across a wide spectrum of industries around the globe.

You will discover how Software AG's customers from banking, insurance, oil and gas, utilities, entertainment, museums and many more industries are innovating using a wide range of our technologies. Availability: Spring 2014

<http://florence20.typepad.com/renaissance/2013/12/the-digital-enterprise-launches.html#!>

## 2. SHARE BUY BACK AND SHAREHOLDER STRUCTURE - UPDATE

Due to our ongoing Share Buy Back program, Software AG now owns more than 5% of its own shares. Currently, an aggregate number of 5.0m treasury shares (as of Dec. 13) have been bought within the first and second Buy Back program. A weekly update on the Share Buy Back is available here:

[http://www.softwareag.com/corporate/inv\\_rel/stockinfo/share\\_buy/default.asp](http://www.softwareag.com/corporate/inv_rel/stockinfo/share_buy/default.asp)

Since the end of November, the total number of voting rights amounts to 86.943.945. In the same month, Norges Bank exceeded the 3% threshold of voting rights, while Alken fund informed us that they fell below the 3% threshold. Our actual main shareholders are:

Software AG Foundation	28.7%
Software AG (Treasury Shares)	5.8%
Fidelity (FMR LLC)	3.5%
Norges Bank	3.1%
Templeton	3.0%
Universal-Investment GmbH	3.0%

## 3. MARKET EXPECTATIONS I

CFO Arnd Zinnhardt was interviewed by Bloomberg about the current business development where he also expressed his expectations for 2014. Here some core statements (full interview published by Bloomberg on Nov 26):

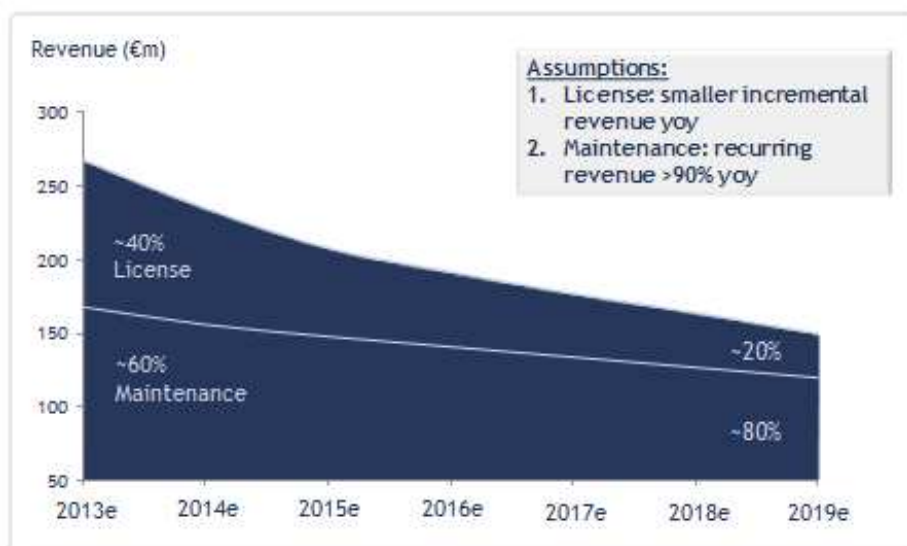
- Dividend proposal won't "be much above 46c/shr" and it won't be much less as company seeks to keep paying out 20% to 25% of net income
- 2014 revenue in BPE business rising at a double digit percentage rate again, reiterates 2013 BPE revenue to rise
- Strongest revenue growth is in Big Data which is more dynamic than BPE business; reiterates to grow at least 50%/year in coming years

In respect to ETS he made clear that the state of maturity of this product line will lead to less revenue year over year. For 2014 a decline similar to this years' stated numbers is not unlikely. (Remark: Bloomberg added our 2013 guided corridor (-4% to -9%) to the CFO's quote which can be misleading as the guidance was already lowered to the low end of the corridor (-9%) after Q2 results, reflecting a stated revenue decline of ca. € 40m for FY).

After the interview we had to reiterate this topic in many calls and meetings. Let us therefore sum up once more the view on our cash cow business:

- The nature of perpetual licenses is not to provide recurring license revenue. All license revenue in a given year is therefore related to incremental capacity or extended rights of existing customers. Most of them, however, are fully loaded and just continue to use the systems at the given level and paying stable (recurring) amounts of maintenance.
- In this scenario we should expect further sizable reductions of incremental license (like in 2013) with moderate impact on future maintenance revenue (see graphic below).
- Continuous cost adjustments can allow us to maintain the high operating margin of the ETS business (currently above 60% before G&A).

#### ETS Revenue Scenario



#### 4. MARKET EXPECTATIONS II

The IR Team collects the sell-side analyst expectation for the given quarter and Full Year on a regular basis. The consensus numbers of our poll reflect some 20 individual estimates and are available on our website. To our surprise, consensus numbers published by Bloomberg as well as Reuters differ strongly from our survey.

A glaring example is the expected FY EBIT 2013. Here our own poll shows a consensus number of € 206.5m (mean), while Bloomberg reports 221.6m, a mismatch of more than 7% (on Reuters the respective EBIT number is € 208.1m and therefore much closer to the poll results we collected by end of November). We contact Bloomberg to encourage the analyst team to check the automated report evaluation.

(Remark: this coincides with an allegation made by *Business Insider* under the headline “Bloomberg News Pays Reporters More If Their Stories Move Markets” on December 13).

5. MARKET NEWS



Find a great example on how we position our expertise in a defined market. Giles Nelson, who is part of the Intelligent Business Operations unit, discusses the changing needs of the retail banking customer, how banks access and handle their data and the real meaning behind 'omnichannel'.

Link: <http://www.finextra.com/Video/video.aspx?videoid=520>

The Georgia Technology Authority (GTA) manages the delivery of IT infrastructure services to 85 executive branch agencies and managed network services to 1,400 state and local government entities in the U.S.



The authority’s strategic vision is to create a transparent, integrated enterprise where technology decisions are made with the citizen in mind. Its mission: to connect Georgians to their government.

Challenges

- Improve availability of data between federal, state and county as well as external partners
- Easy interoperability between systems and applications
- Meet local, state and federal reporting and compliance requirements

Key Benefits

- Existing IT investments preserved—millions of dollars saved
- Connectivity consolidated for 20 agencies and 300+ processes with 24 million data exchanges a month
- Improved decision-making and collaboration, easier delivery of new services to citizens

6. GARTNER RANKING - IT PORTFOLIO ANALYSIS

Software AG has been positioned in the Leaders Quadrant by Gartner, Inc., in its recently released “Magic Quadrant for Integrated IT Portfolio Analysis Applications 2013”. Amongst the leaders Software AG is positioned furthest up and to the right for its “Ability to Execute” and it’s “Completeness of Vision”.

According to Gartner, "The IIPA software market helps IT leaders link, monitor, analyze and communicate their activities on a single portfolio-level software platform, providing CIOs and other executives with holistic views of the IT portfolio while IT plans and executes in response to business and IT strategies."

With an integrated IT Portfolio Analysis Application in place, the CIO office has the intelligence to make the right decisions on the IT strategy to support the transformation towards a digital enterprise.

Furthermore it gives IT departments the tools to derive the IT strategy from the business strategy as well as to plan and monitor the transformation of the different IT portfolios.



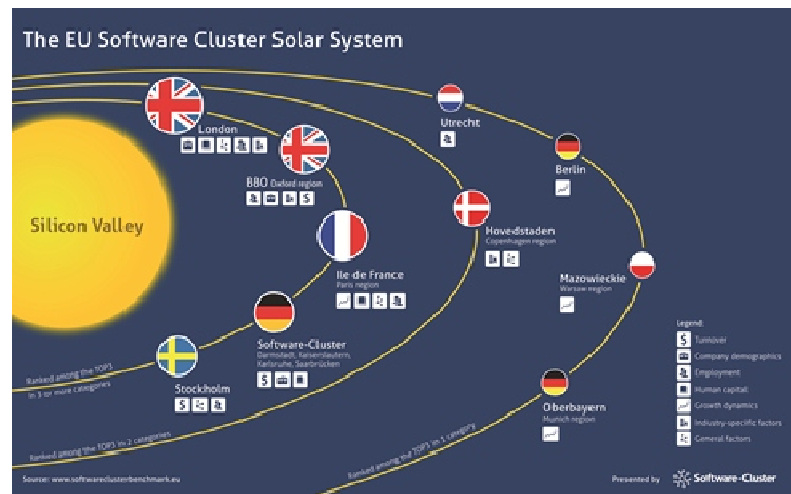
## 7. EU SOFTWARE BENCHMARK STUDY

At the end of November we presented the EU Software Cluster Benchmark Study at an online press conference. The study examined 15 software industry hubs in Europe using Silicon Valley as a benchmark.

In addition to Karl-Heinz Streibich, cluster representatives from London and Paris were on hand to talk in depth with more than 40 international journalists. To date, more than 60 IT and business publications in nine European countries and the USA have covered the study. So we have again successfully established software as an engine of innovation, growth and employment in the eye of the public, thereby initiating an international dialog on this subject. This is a tremendous achievement for us and the software industry in Europe!

Here are the results of the study.

[http://www.softwareclusterbenchmark.eu/images/images/Downloads/EU-Softwarecluster-Benchmark\\_2013\\_en.pdf](http://www.softwareclusterbenchmark.eu/images/images/Downloads/EU-Softwarecluster-Benchmark_2013_en.pdf)



## 8. CAPITAL MARKET ACTIVITIES

Throughout the fourth quarter, we attended a good number of capital market conferences and experienced increased interest from new potential investors. The latest opportunity to get in touch with Management of Software AG was at Berenberg European Conference in the UK. The CMO - Ivo Totev - presented the new go to market approach and why customers are becoming more agile in their IT landscape when using the Software AG suite.

Growth perspectives were underpinned with the presentation of the new **cloud based solutions** under the "Live" banner

- *Portfolios Live* for IT inventory management based on Alfabet,
- *Process Live* for Process Analysis based on Aris,
- *AgileApps Live* for developing cloud-based applications based on LongJump and
- *Integration Live* for building custom integrations with other cloud-based applications based on webMethods.

Growth in SaaS revenue will lead to more recurring revenue over time.

## 9. FINANCIAL CALENDAR - 2014


January 28	Financial figures Q4 2013 and FY 2013 (IFRS, unaudited)
January 29	Roadshow Arnd Zinnhardt, Investor Relations Frankfurt, Germany
February 06	Roadshow Arnd Zinnhardt, Investor Relations London, UK
February 11	Capital Market Day Software AG Headquarters Darmstadt, Germany

*Disclaimer: This document contains forward-looking statements based on beliefs of Software AG management. Such statements reflect current views of Software AG with respect to future events and results and are subject to risks and uncertainties. Actual results may vary materially from those projected here, due to factors including changes in general economic and business conditions, changes in currency exchange, the introduction of competing products, lack of market acceptance of new products, services or technologies and changes in business strategy. Software AG does not intend or assume any obligation to update these forward-looking statements.*

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