software AG

QUARTERLY REPORT NO. 1/2009 January 1 – March 31, 2009

SOFTWARE AG CORPORATE HEADQUARTERS | DARMSTADT, GERMANY

ENGINEERING THE FUTURE FOR 40 YEARS

KEY FIGURES 2009

KEY FIGURES for the three months ended March 31, 2009
IFRS, unaudited

in € million (unless otherwise stated)	Q1 2009	Q1 2008	change in %
Total revenue	**165.3**	**159.4**	**4**
Product revenue	122.5	114.8	7
of which			
Licenses	49.3	55.4	−11
Maintenance	73.2	59.4	23
Professional services	42.3	43.9	−4
Other	0.5	0.7	
EBITA	**42.1**	**40.1**	**5**
as % of revenue	25.5	25.2	
EBIT	**38.1**	**36.0**	**6**
as % of revenue	23.1	22.6	
Net income	**25.6**	**22.5**	**14**
as % of revenue	15.5	14,0	
Earnings per share (€ basic)	0.90	0.79	14
Earnings per share (€ diluted)	0.89	0.79	13
Total assets	**1,167.9**	**1,000.1**	
Cash and cash equivalents	**136.7**	**64.8**	
Shareholders' equity	**595.0**	**454.8**	
as % of total assets	51	45	
Employees [1]	**3,640**	**3,426**	
of which in Germany	851	755	

[1] Full-time equivalents

MISSION

Software AG's 4,000 global customers use our software to improve business processes and drive an agile IT infrastructure. Our customers' goals are to reduce costs and increase flexibility and efficiency. We help them do this by governing and optimizing their operations and aligning IT with the business goals. Our leading Business Infrastructure Software portfolio is used for data and system integration and modernization. It fosters new levels of IT agility through service-oriented architecture (SOA) and allows the rapid creation of new business processes with business process management (BPM).
Our 40-year history of success ensures our customers have a reliable platform for driving future business results – faster.

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SOFTWARE AG STABLE IN Q1 2009

Software AG's segment reporting is prepared in accordance with IAS 8 (Segment Reporting). The primary segment reporting is by division and corresponds to the Group's internal control and reporting lines. Accordingly, Software AG reports based on the ETS (data management) and webMethods (integration software) business divisions.

1 SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

Software AG demonstrated stable development at the beginning of the new fiscal year in light of the global economic crisis. Our revenue and profit increased further, and we confirmed our revenue forecast of 4 to 8 percent growth for the full year 2009. Integration software from the webMethods business division continued to drive the company's growth. In these economically challenging times in particular, liquidity and a solid financial basis are crucial. Against this backdrop, the sharp rise in free cash flow during the first quarter (up 26 percent) and an additional reduction in net debt were particularly positive.

Highlights of Q1 2009 from an operational point of view included: new products and awards for existing ones, the conclusion of important agreements for customer and partner projects, our acquisition of a majority interest in Leipzig-based itCampus Software- und Systemhaus GmbH and our successful appearance at CeBIT 2009.

Fiscal year 2009 is being marked by Software AG's 40th anniversary, which we will report on in the coming quarters.

1.1 GROWTH DRIVERS – INNOVATION AND CUSTOMER ORIENTATION

Product innovation and partners are two of the four growth drivers found in Software AG's corporate strategy. We achieved success in both areas in the first quarter of 2009. We developed a new version of Tamino XML Server and launched it in January. It features enhancements such as flexible access protection, quicker data access, and the inclusion of interfaces to other systems based on a service-oriented architecture (SOA).

With the launch of AlignSpace, we announced the establishment of the first social network for BPM (business process management) experts. This new product is a platform through which all parties involved in a BPM environment can collaborate. The data, documents, and services generated in such an environment are provided across company boundaries and can continue to be used in this manner. It will be available as an SaaS (software-as-a-service) offering. As a social network, functionality includes the identification and modeling of collaborative processes as well as a marketplace for systems integrators, consultants, and application developers.

Our existing products were again praised by well-known industry analysts during the first quarter. Software AG was ranked as a technology leader in the areas of SOA governance and ESB (enterprise service bus), in direct comparison with the competition, continuing our technological leadership. In the last year alone, we won awards in eight technology categories.

We strengthened our research and development activities with our majority interest of 51 percent in Leipzig-based itCampus Software- und Systemhaus GmbH (itCampus). With this acquisition, Software AG further expanded its German research and development capacity in the realm of process automation. With 120 employees and enormous potential for innovation, ItCampus is a supplier of software and communication solutions for the call center, energy, medical, and public administration industries.

In January, Germany's three largest software companies – SAP AG, Software AG, and IDS Scheer along with other partners – initiated the ADiWa research project (an alliance for the digital flow of goods). The aim of the project is to use all process-relevant information from the Internet of Things to make corporate processes more flexible and adapt them dynamically. By examining certain methods and tools, the ADiWa intends to compile a structured record of all events that occur during a single process for analysis. This will enable automated planning, monitoring, and optimization of the entire business flow of products and information from an economic and environmental point of view. ADiWa is supported by a €17.7 million grant from the Federal Ministry of Education and Research (BMBF).

As indicated in press releases, we were able to announce some significant customer deals during the quarter under review. For example, Chinese insurance group Ping An began implementing our webMethods product suite to support their ambitious expansion plans. Israel's largest mortgage bank, Mizrahi-Tefahot, raised its market share by seven percent with the help of a new mortgage management system by Software AG. In addition, we entered into a strategic partnership with Braintribe IT Technologies GmbH to expand our webMethods product suite. With the joint solution, documents can be integrated seamlessly into automated workflows. In cooperation with U.S.-based software company Proginet, we unveiled webMethods ActiveTransfer, a solution which enables the secure transfer of data between IT systems in a service-oriented architecture.

Once again, our participation in CeBIT was a resounding success, and we were able to increase the number of customer contacts and press appearances once more. One of this year's highlights was the visit of Federal Chancellor Angela Merkel and California Governor Arnold Schwarzenegger to our stand. The state of California has been a customer of Software AG for many years. We conducted a total of more than 600 intensive discussions with customers, partners, analysts, and politicians. And the response from the media – after 12 press events and more than 30 interviews and meetings with journalists from 15 countries in which Software AG operates – was remarkable.

CeBIT is an important instrument for Software AG to demonstrate its market presence and come into direct contact with various stakeholders. Another important event during the quarter under review that strengthened customer contacts and our market presence was the Business Innovation Forum (BIF) held in France on March 17, with 300 participants.

We conducted a survey on the subject of IT among top executives from German companies with at least €50 million in revenue. Among other things, the results showed that financial service providers are far ahead of other industries when it comes to implementing SOA and BPM.

1.2 CONTINUOUS COMPANY DEVELOPMENT

We continued sustainable development of our company in line with our business strategy. The following important events took place in the first quarter of 2009: On March 16, 2009, former Chief Marketing Officer Ivo Totev was appointed to the Executive Board, where he assumed global responsibility for the Professional Services unit. His predecessor, Holger Friedrich, left Software AG for personal reasons at the same time. With the appointment of Ivo Totev, we are pursuing the strategic objective of strengthening and developing our Professional Services unit, building it into our company's third major pillar. During the quarter under review, we incorporated the Product Marketing department into the Research and Development department in an effort to secure closer collaboration and increased efficiency, as well as customer-oriented product development.

Process optimization is a hot topic for us as well as for our customers. At Software AG, we continually optimize our most important end-to-end processes – increasingly on the basis of our own SOA/BPM technology. For instance, the Audit, Processes, and Quality (AP&Q) department optimized the product lifecycle process to ensure total readiness of the entire Software AG organization for new products and major releases. In addition, the Human Resources department established a library of e-learning courses within the scope of the Corporate University. This library gives all Software AG employees around the world – at any time of the day – convenient access via e-learning to individualized training programs in the areas of management, communication, and customer service.

1.3 PROACTIVE CRISIS PREVENTION

In the last few months, Software AG has demonstrated that it is well positioned to deal with crises, such as the ongoing global recession. We can fall back on a globally leading, innovative product portfolio that helps our customers cut costs and make their IT systems more efficient. In addition, we possess a robust business model that includes a high percentage of recurring revenue. At the same time, our global corporate structure is scalable and can compensate for regional differences.

Our 10-point plan outlines our proactive measures to mitigate the further effects of the crisis as best we can and even emerge from the crisis stronger than before. Our priorities lie in precisely analyzing the situation and acting decisively based on that analysis. We are protecting our cash flow and liquidity – through measures such as stringent cost management – and are focusing on what is really important to our business. Our reliable management information systems are very helpful in this regard. Furthermore, we have developed plans to deal with various crisis scenarios and their effects.

2 FINANCIAL PERFORMANCE

2.1 GROUP REVENUE GROWTH IN A CHALLENGING ENVIRONMENT

In the first quarter of 2009, Software AG increased its Group revenue by 4 percent to €165.3 million (previous year: €159.4 million). In so doing, we again relied on strong product revenues – the sign of a robust business model and a broad global presence.

The strong currency translation effects (in particular of the U.S. dollar) on revenues have been further diminished by our global expansion in recent years. The U.S. dollar's revenue share in the quarter under review amounted to only 28 percent. Another 37 percent of revenue came from other currencies outside the euro zone. The overall currency translation effect on revenues amounted to less than 2 percent and could weaken even further over the course of the year.

2.2 SALES BY REVENUE TYPE

Product business still strong

All in all, products contributed three-quarters and services one-quarter of total revenues. Product revenues were driven by sustained strong growth in the maintenance business, which improved by 23 percent to €73.2 million, from €59.4 million. In addition, our successful business expansion continued in Brazil.

The product business' percentage of licensing revenue, in contrast, was below that of the previous year. Software AG's posted licensing revenues lacked two deals from the ETS division that were deferred at short notice and could not be closed before quarter's end. Thus, licensing revenues fell by 11 percent to €49.3 million (Q1 2008: €55.4 million). In the meantime, the deals have been signed and can be credited to the second quarter. For that reason as well, stronger licensing revenues than in the first quarter can be expected.

Service business remains steady

Revenues from the Professional Services unit – at €42.3 million – remained steady compared to the same quarter of the previous year (€43.9 million). The focus here will continue to lie on increased efficiency and profitability. A revival of the economy during the course of the year should result in additional potential for Professional Services.

2.3 REVENUES BY DIVISION

webMethods a powerful growth driver

The webMethods business division grew by 9 percent in the quarter under review to €74.6 million (Q1 2008: €68.7 million). In doing so, webMethods (Software AG's strongest growth area) showed positive development in a difficult market environment, also in comparison to the competition. webMethods licensing revenues grew by 2 percent, from €22.2 million to €22.7 million. Maintenance revenues climbed by 28 percent to €26.9 million (Q1 2008: €21.0 million). Services remained stable at €24.8 million (Q1 2008: €25.0 million).

The webMethods division's contribution to earnings was €24.2 million (Q1 2008: €19.9 million), which is an increase of 22 percent. Production costs rose by 8 percent to €29.2 million (Q1 2008: €27.1 million). Sales costs fell slightly (by 2 percent) from €21.7 million to €21.2 million.

ETS demonstrates stability

The ETS division – Software AG's traditional business division – generated €90.7 million in revenues in the first quarter, similar to the previous year's level. As expected, maintenance revenue exhibited solid growth, contributing more than half of the division's revenues, which amounted to €46.4 million. This represents an improvement of 21 percent (Q1 2008: €38.3 million). In contrast, licensing revenue fell by 20 percent to €26.5 million (Q1 2008: €33.2 million). It turned out lower because two deals that were among the first quarter's sales successes could not be credited until after the quarter ended. The ETS division's services business declined by 8 percent, from €18.9 million to €17.5 million.

The ETS division made a segment earnings contribution of €52.0 million, approximating last year's level (€51.7 million). Production costs remained constant, at €20.7 million (Q1 2008: €20.7 million). Sales costs were reduced slightly (by 2 percent) to €18.0 million (Q1 2008: €18.3 million).

Gratifying EBIT development

In the quarter under review, EBITA grew by 5 percent to €42.1 million (Q1 2008: €40.1 million). EBIT improved by 6 percent over the same quarter of the previous year to €38.1 million from €36.0 million. The EBIT margin increased by 50 points to 23.1 percent (Q1 2008: 22.6 percent). This is the foundation for our target EBIT margin between 24.5 and 25.5 percent for the 2009 full year.

There have been no noteworthy changes to cost ratios in comparison to the same quarter of the previous year. In the quarter under review, expenditures for research and development amounted to €20.2 million, 7 percent higher than in the first quarter of 2008 (€18.9 million). This is primarily a result of our purchase of shares in itCampus. Administration costs remained steady. Marketing and sales costs fell slightly, by 2 percent, to €39.2 million (Q1 2008: €40.1 million).

Disproportionate increase in net income and earnings

Software AG's profit after tax rose by 14 percent to €25.6 million (Q1 2008: €22.5 million), thanks in part to improved financial results and further reduced taxes. Our tax rate decreased to 33.5 percent, in comparison to 35.0 percent in the fourth quarter of 2008. Earnings per share in the first quarter of 2009 amounted to €0.90, corresponding to an increase of 14 percent over €0.79 in the first quarter of 2008. As of March 31, 2009, there were 28.7 million shares in circulation (undiluted), an increase of almost 77,000 shares year on year.

REVENUES BY DIVISION
IFRS, unaudited

in € million	Q1 2009	Q1 2008	change in %
webMethods			
Licenses	22.7	22.2	2
Maintenance	26.9	21.0	28
Professional Services	24.8	25.0	−1
Other	0.2	0.5	−60
Total	**74.6**	**68.7**	**9**
ETS			
Licenses	26.5	33.2	−20
Maintenance	46.4	38.3	21
Professional Services	17.5	18.9	−7
Other	0.3	0.3	0
Total	**90.7**	**90.7**	**0**

KEY EARNINGS INDICATORS

in € million	Q1 2009	Q1 2008	change in %
EBIT	38.1	36.0	6
EBITA	42.1	40.1	5
Financial income / expense, net	0.4	-1.4	7
Net income	25.6	22.5	14
Earnings per share in (€ basic)	0.90	0.79	14

3 FINANCIAL POSITION

3.1 SIGNIFICANT INCREASE IN CASH FLOW

Operating cash flow was €47.5 million during the first three months of the current fiscal year, a jump of 31 percent over the same quarter in 2008 (€36.2 million). Our proactive receivables management contributed to this continued improvement. Free cash flow once again grew vigorously, reaching €43.0 million, and thereby exceeding that of the previous year (€34.0 million) by 26 percent. This amount corresponds to Software AG's free cash flow for the entire 2005 fiscal year. Free cash flow as a percentage of Group revenue reached 26.0 percent (Q1 2008: 21.3 percent). This put us well on the way to achieving the forecasted free cash flow of €130 to 140 million for the 2009 full year.

3.2 TOTAL ASSETS AND CAPITAL EXPENDITURE

Software AG's total assets rose from €1 billion as of March 31, 2008 to €1.17 billion on March 31, 2009. Cash and cash equivalents increased from €64.8 million to €136.7 million. The equity-to-assets ratio climbed by 31 percent from €454.8 million to €595.0 million. The equity-to-assets ratio increased accordingly from 45 percent to 51 percent at the end of the quarter. During the quarter under review, the debt acquired due to acquisitions was further reduced. Non-current liabilities were reduced from €277.2 million to €228.7 million. Net debt could be further reduced by more than €100 million due to excellent cash flow during the last 12 months to total €31.5 million. Thus, Software AG can also build on solid financial strength in the future.

4 RISKS AND OPPORTUNITIES

We are subject to the risks inherent to acquisitions and integration because of past and possible future acquisitions. Apart from this, in the first quarter of 2009, there were no changes to the risk situation of the Software AG Group as portrayed in the Risk Report of the 2008 Annual Report.

The related opportunities are detailed in the Outlook section of this report and in the Outlook section of the 2008 Annual Report.

5 EVENTS AFTER THE BALANCE SHEET DATE

No relevant events took place at Software AG after the end of the reporting period.

6 OUTLOOK

Software AG can build on a solid business model as a strong foundation in economically difficult times. Our success factors include sustainable development in the maintenance business with two-digit growth rates, high revenue and earnings contributions in a new market with direct distribution in Brazil, as well as strong cash flow development.

Building on that, our current profitable growth should continue in fiscal year 2009 as well. Therefore, we confirm our forecast for fiscal year 2009, according to which revenue growth for the full year 2009 will amount to 4 to 8 percent. Both business divisions will contribute to it, with expected growth for ETS between 4 and 6 percent and for webMethods between 4 and 10 percent. Our EBIT margin is expected to reach between 24.5 and 25.5 percent in 2009.

CONSOLIDATED INCOME STATEMENT for the three months ended March 31, 2009 (January 1 to March 31, 2009 and January 1 to March 31, 2008) IFRS, unaudited

in € thousands	Q1 2009	Q1 2008	change in %
Licenses	49,271	55,395	−11
Maintenance	73,203	59,356	23
Professional Services	42,304	43,920	−4
Other	512	720	−29
Total revenue	**165,290**	**159,391**	**4**
Cost of sales	−49,904	−47,743	5
Gross profit	**115,386**	**111,648**	**3**
Research and development expenses	−20,172	−18,867	7
Sales, marketing and distribution expenses	−39,163	−40,078	−2
General and administrative expenses	−16,062	−15,413	4
Operating result	**39,989**	**37,290**	**7**
Other operating income	14,452	11,484	26
Other operating expenses	−12,386	−8,691	43
Earnings before interest, taxes and amortization (EBITA)	**42,055**	**40,083**	**5**
Amortization	−3,941	−4,052	−3
Earnings before interest and taxes (EBIT)	**38,114**	**36,031**	**6**
Net financial income/expense	406	−1,469	
Earnings before taxes	**38,520**	**34,562**	**11**
Income taxes	−12,167	−11,805	3
Other taxes	−704	−219	221
Net income	**25,649**	**22,538**	**14**
thereof attributable to shareholders of Software AG	25,649	22,538	14
thereof attributable to minority interest	0	0	
Earnings per share (€ basic)	0.90	0.79	14
Earnings per share (€ diluted)	0.89	0.79	13
Weighted average shares outstanding (basic)	28,654,191	28,577,462	–
Weighted average shares outstanding (diluted)	28,695,711	28,645,139	–

CONSOLIDATED BALANCE SHEET as of March 31, 2009
IFRS, unaudited

in € thousands	March 31, 2009	Dec. 31, 2008	March 31, 2008
ASSETS			
Current assets			
Cash and cash equivalents	136,740	96,925	64,764
Inventories	486	85	81
Trade receivables	228,312	247,251	213,452
Other receivables and other assets	22,239	21,187	12,311
Prepaid expenses	8,337	5,945	7,286
	396,114	**371,393**	**297,894**
Non-current assets			
Intangible assets	160,638	150,931	146,118
Goodwill	452,871	442,676	420,865
Property, plant and equipment	46,975	46,988	49,694
Financial assets	7,344	6,456	8,387
Trade receivables	16,824	17,208	12,763
Other receivables and other assets	15,834	8,563	10,139
Prepaid expenses	0	47	41
Deferred taxes	71,250	66,729	54,187
	771,736	**739,598**	**702,194**
	1,167,850	**1,110,991**	**1,000,088**
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	63,289	61,360	36,717
Trade payables	29,952	35,824	32,410
Other liabilities	46,149	45,151	42,050
Other provisions	43,271	69,011	29,920
Tax provisions	25,873	36,688	5,357
Deferred income	135,668	100,528	121,625
	344,202	**348,562**	**268,079**
Non-current liabilities			
Financial liabilities	104,912	105,841	167,011
Trade payables	68	68	62
Other liabilities	382	378	2,331
Pension provision	16,762	16,650	16,543
Other provisions	18,590	13,959	10,204
Deferred taxes	85,570	73,771	77,782
Deferred income	2,426	2,623	3,241
	228,710	**213,290**	**277,174**
Equity			
Share capital	86,009	85,917	85,726
Capital reserve	36,933	35,810	32,763
Retained earnings	472,765	356,953	387,907
Net income attributable to shareholders of Software AG	25,649	115,860	22,538
Currency translation differences	−62,369	−76,744	−106,846
Other reserves	33,942	31,343	32,747
Minority interest	2,009	0	0
	594,938	**549,139**	**454,835**
	1,167,850	**1,110,991**	**1,000,088**

CONSOLIDATED STATEMENT OF CASH FLOWS for the three months ended March 31, 2009 (January 1 to March 31, 2009 and January 1 to March 31, 2008) IFRS, unaudited

in € thousands	Q1 2009	Q1 2008
Net income for the year	25,649	22,538
Income taxes	12,167	11,805
Net financial income/expense	–406	1,469
Amortization/depreciation of non-current assets	6,349	5,774
Other non-cash income/expense	1,384	1,128
Operating cash flow before changes in working capital	**45,143**	**42,714**
Changes in inventories, receivables and other current assets	25,315	–5,115
Changes in payables and other liabilities	739	18,055
Income taxes paid	–24,335	–17,838
Interest paid	–1,748	–2,733
Interest received	2,347	1,164
Net cash from operating activities	**47,461**	**36,247**
Proceeds from sale of tangible/intangible assets	26	177
Purchase of tangible/intangible assets	–3,997	–2,388
Proceeds from the sale of financial assets	56	8
Purchase of financial assets	–556	–33
Payment for acquisitions, net	–4,571	–38,356
Net cash used in investing activities	**–9,042**	**–40,592**
Proceeds from issue of share capital	635	657
Dividends paid	0	0
Proceeds from financial liabilities	0	0
Repayments of financial liabilities	–848	–10,156
Payments for hedging instruments	0	–675
Net cash used in financing activities	**–213**	**–10,174**
Change in cash and cash equivalents from cash relevant transactions	38,206	–14,519
Adjustment from currency translation	1,609	–2,011
Net change in cash and cash equivalents	**39,815**	**–16,530**
Cash and cash equivalents at the beginning of the period	96,925	81,294
Cash and cash equivalents at the end of the period	**136,740**	**64,764**

**SEGMENT REPORT for the three months ended March 31, 2009
(January 1 to March 31, 2009 and January 1 to March 31, 2008)
IFRS, unaudited**

	ETS		webMethods		Total	
in € thousands	**Q1 2009**	**Q1 2008**	**Q1 2009**	**Q1 2008**	**Q1 2009**	**Q1 2008**
Licenses	26,537	33,201	22,734	22,194	49,271	55,395
Maintenance	46,350	38,342	26,853	21,014	73,203	59,356
Product revenue	**72,887**	**71,543**	**49,587**	**43,208**	**122,474**	**114,751**
Professional services	17,518	18,944	24,786	24,976	42,304	43,920
Other	262	248	250	472	512	720
Total revenue	**90,667**	**90,735**	**74,623**	**68,656**	**165,290**	**159,391**
Cost of sales	−20,675	−20,691	−29,229	−27,052	−49,904	−47,743
Gross profit	**69,992**	**70,044**	**45,394**	**41,604**	**115,386**	**111,648**
Sales, marketing & distribution expenses	−17,991	−18,358	−21,172	−21,720	−39,163	−40,078
Business line contribution	**52,001**	**51,686**	**24,222**	**19,884**	**76,223**	**71,570**
Research and development expenses					−20,172	−18,867
General and administrative expenses					−16,062	−15,413
Other operating income/expense, net					2,066	2,793
EBITA					**42,055**	**40,083**
Amortization					−3,941	−4,052
Earnings before interest and taxes					**38,114**	**36,031**
Net financial income/expense					406	−1,469
Earnings before taxes					**38,520**	**34,562**
Taxes					−12,871	−12,024
Net income					**25,649**	**22,538**

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE for the three months ended March 31, 2009 (January 1 to March 31, 2009 and January 1 to March 31, 2008)
IFRS, unaudited

in € thousands	Q1 2009	Q1 2008
Currency translation differences	–14,375	–26,838
Net gain/loss from fair value measurement of financial instruments	–2,470	–3,937
Net loss/gain from fair value measurement of net investments in foreign operations	–129	341
Net actuarial gain/loss on pension obligations	48	0
Total income and expense recognized directly in equity	**–16,926**	**–30,434**
Net income	25,649	22,538
Total recognized income and expense	**8,723**	**–7,896**

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

GENERAL PRINCIPLES

1_ BASIS OF ACCOUNTING

Software AG's condensed and unaudited consolidated financial statements (quarterly financial statements) as of March 31, 2009, have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs/IFRSs applicable as of March 31, 2009, were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC).

Software AG is a joint stock corporation under German law with registered offices in Darmstadt. The Company is the parent company of a Group which is active in the fields of development, licensing, and maintenance of software, as well as IT services.

The consolidated financial statements of Software AG are expressed in thousands of euros unless stated otherwise.

2_ CHANGES IN THE CONSOLIDATED GROUP

Software AG gained control over itCampus Software- und Systemhaus GmbH, Leipzig (itCampus) on March 2, 2009, by acquiring 51 % of its shares. itCampus controls four subsidiaries. Additional notes on the acquisition of itCampus can be found under Note 4 (Business acquisitions). The acquisition resulted in the following additions to the consolidated group:

- itCampus GmbH, Leipzig, Germany
- itCampus UK, Limited, Newcastle Upon Tyne, United Kingdom
- itCampus Schweiz AG, Sursee, Switzerland
- itCampus Sarix Italia GmbH, Bozen, Italy
- itCampus Informationstechnologie Austria GmbH, Wiener Neudorf, Austria

The subsidiaries of itCampus GmbH were not consolidated, because they are immaterial for the Group's financial position, financial performance and cash flows. They are recognized at cost.

3_ ACCOUNTING POLICIES

The same accounting policies have been applied as in the consolidated financial statements as of December 31, 2008. Accordingly, accounting policies are not explained in detail in these quarterly financial statements. These quarterly financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

4_ BUSINESS ACQUISITIONS

By acquiring 51% of its shares, Software AG gained control over itCampus Software- und Systemhaus GmbH, Leipzig (itCampus), a supplier of software and communication solutions for the call center, energy, medicine, and public administration industries.

The purchase price of this acquisition was settled in cash and totaled €4,571 thousand after deducting acquired cash funds. There were no significant directly attributable costs in connection with the acquisition. The purchase price was broken down as follows, based on a preliminary calculation:

in € thousands	Carrying amount before acquisition	Adjustment to fair value	Initial carrying amount on the balance sheet
Cash and cash equivalents	1,429		1,429
Inventories	400		400
Trade receivables	1,135		1,135
Other receivables and other assets	333		333
Intangible assets	172	5,917	6,089
Property, plant and equipment	258		258
Financial assets	603		603
Assets	**4,330**	**5,917**	**10,247**
Financial liabilities	2,140		2,140
Trade payables	381		381
Other liabilities	1,494		1,494
Other provisions	190		190
Tax provisions	160		160
Deferred tax liabilities	0	1,817	1,817
Net assets	**–35**	**4,100**	**4,065**
Minority interest			–2,009
Goodwill			3,944
Payments to shareholders			2,900
Payment to the company for capital increase			3,100
Acquisition costs			**6,000**
Acquired cash and cash equivalents			1,429
Acquisition costs net of acquired cash			**4,571**

Due to the short time between the acquisition date and the reporting date of the quarterly financial statements on March 31, 2009, itCampus was consolidated for the first time on a provisional basis.

The intangible assets measured at fair value during the purchase price allocation are comprised of mainly software. The innovative employees represent an additional material asset that nevertheless may not be capitalized separately from goodwill in accordance with IFRS 3.

The acquired company's contribution to revenue and profits since the acquisition date is immaterial.

NOTES TO THE CONSOLIDATED BALANCE SHEET

5_ GOODWILL

Goodwill totaling €452,871 thousand as of March 31, 2009, increased €10,195 thousand compared to December 31, 2008. €6,251 thousand of this increase can be attributed to exchange rate fluctuations, in particular of the strong U.S. dollar, whereas €3,944 thousand can be attributed to the acquisition of itCampus (for more on this, please see Note 4 Business acquisitions).

6_ EQUITY

The change in equity is shown in the following Statement of Changes in Equity as of March 31, 2009.

STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2009
(January 1 to March 31, 2009 and January 1 to March 31, 2008)
IFRS, unaudited

in € thousands 2009	Common shares Number	Subscribed capital	Additional paid-in capital	Retained earnings	Net income attributable to shareholders	Accumulated currency translation differences	Other reserves	Non-controlling interests	Total
Equity as of January 1, 2009	**28,638,842**	**85,917**	**35,810**	**472,813**	**0**	**−76,744**	**31,343**	**0**	**549,139**
New shares issued	30,697	92	543						635
Stock options			580						580
Purchase of non-controlling interests in fully consolidated companies								2,009	2,009
Net income for the year					25,649				25,649
Currency translation differences						14,375			14,375
Net gain from fair value measurement of financial instruments not recognized in income							2,470		2,470
Net gain from fair value measurement of net investments in foreign operations not recognized in income							129		129
Net gain from measurement of pension obligations				−48					-48
Equity as of March 31, 2009	**28,669,539**	**86,009**	**36,933**	**472,765**	**25,649**	**−62,369**	**33,942**	**2,009**	**594,938**

in € thousands 2008	Common shares Number	Subscribed capital	Additional paid-in capital	Retained earnings	Net income attributable to shareholders	Accumulated currency translation differences	Other reserves	Non-controlling interests	Total
Equity as of January 1, 2008	**28,539,455**	**85,618**	**31,933**	**387,907**	**0**	**−80,008**	**36,343**	**669**	**462,462**
New shares issued	36,013	108	549						657
Stock options			281						281
Purchase of non-controlling interests in fully consolidated companies								-669	-669
Net income for the year					22,538				22,538
Currency translation differences						-26,838			-26,838
Net gain from fair value measurement of financial instruments not recognized in income							-3,937		-3,937
Net gain from fair value measurement of net investments in foreign operations not recognized in income							341		341
Net gain from measurement of pension obligations									0
Equity as of March 31, 2008	**28,575,468**	**85,726**	**32,763**	**387,907**	**22,538**	**−106,846**	**32,747**	**0**	**454,835**

The composition of the individual equity accounts did not change compared to December 31, 2008. The exercise of stock options under the second stock option plan increased the number of bearer shares in issue by 30,697 to 28,669,539 shares in the first quarter of 2009. In response, the Company's share capital rose by €92 thousand and the capital reserve by €543 thousand.

Dividend payment

The Annual Shareholders' Meeting resolved on April 30, 2009, to transfer an amount of €150 thousand from the €153,060 thousand in accumulated profit of the controlling Group company Software AG for 2008 to other retained earnings, to appropriate €31,503 thousand for a dividend payout, and to carry forward €121,407 thousand to a new account. This corresponded to a dividend of €1.10 per share.

OTHER DISCLOSURES

7_ CONTINGENT LIABILITIES

in € thousands	Mar. 31, 2009	Dec. 31, 2008	Mar. 31, 2008
Guarantees	1,223	1,311	1,312
Other	1,581	1,252	1,333
	2,804	**2,563**	**2,645**

The carrying amount of collateral received is €521 thousand (Q1 2008: €521 thousand).

Other financial commitments

The Company has entered into rent and lease agreements for buildings, land, computer and telephone equipment, and vehicles. The obligations under these agreements for their remaining non-cancelable terms up until the end of fiscal 2009 amount to €9,470 thousand (Q1 2008: €7,506 thousand). Obligations of €37,931 thousand exist for the period up until the end of fiscal year 2014 (Q1 2008: a total of €40,915 thousand until the end of fiscal 2013), and obligations of €9,547 thousand for the period after fiscal 2014 (Q1 2008: a total of €6,130 thousand for the period after fiscal 2013). The lease agreements are operating leases as defined in IAS 17.

8_ SEASONAL INFLUENCES

Revenues and pre-tax earnings per quarter were as follows in fiscal 2008:

in € thousands/in %	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2008
Total revenue	159,391	168,767	180,047	212,405	720,610
in % of annual revenue	22.1	23.4	25.0	29.5	100.0
Earnings before taxes	34,562	39,518	47,090	54,256	175,426
in % of net income for the year	19.7	22.5	26.9	30.9	100.0

Revenues and earnings before taxes for the third and fourth quarters were positively influenced by the expansion of the business in Brazil; thus, the quarterly breakdown of revenues and earnings before taxes has only limited informational value.

9_ LITIGATION

In connection with the lawsuit by a small Canadian software company, mediation talks were held which led to an approximation of the parties' positions. There were no other changes with respect to the legal disputes reported at the end of 2008, nor were there any new legal disputes that could potentially have a significant effect on the financial position, financial performance, or cash flows.

10_ STOCK OPTION PLANS AND STOCK APPRECIATION RIGHTS PROGRAM

Software AG has two different stock option plans for members of the Executive Board, upper management, and employees of the Group. Our share-based compensation programs are described in detail on pages 103–106 of our 2008 Annual Report.

The expense for stock options that were accounted for in accordance with IFRS 2 as equity-settled stock option programs amounts to €579 thousand (Q1 2008: €309 thousand).

The expense for stock options that were accounted for in accordance with IFRS 2 as cash-settled stock option programs amounts to €2,094 thousand (Q1 2008: €1,782 thousand).

The number of outstanding stock options has changed as follows since Dec. 31, 2008:

in € thousands	Balance as of Dec. 31, 2008	Granted	Exercised	Forfeited	Balance as of Mar. 31, 2009	Thereof exercisable as of Mar. 31, 2009
Stock option program	77,707	0	−30,697	0	47,010	23,242
Stock price-based remuneration plan from 2007	1,919,000	199,000	0	−152,500	1,965,500	0

Of the options outstanding on March 31, 2009, from the 2007 stock price-based remuneration program, 1,100,000 options were accounted for in accordance with the provisions of IFRS 2 as cash-settled stock option programs

11_ EMPLOYEES

As of March 31, 2009, the effective number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) amounted to 3,640 (March 31, 2008: 3,426), 76.6 percent of whom were employed abroad (March 31, 2008: 77.9 percent). In absolute terms (i.e., part-time employees are taken fully into account), the Group employed 3,720 people (March 31, 2008: 3,576) at the end of the first quarter on March 31, 2009.

12_ CHANGES AND INFORMATION REGARDING CORPORATE BODIES

Supervisory Board

Frank F. Beelitz, who had been a member of the Supervisory Board since January 1, 2000, having been elected by the Annual Shareholders' Meeting, stepped down from his position on the Board as of the end of the Annual Shareholders' Meeting held on April 30, 2009.
Heinz Otto Geidt, domiciled in Kelkheim, Germany and Director of Asset Management at the Software AG Foundation, was elected to the Supervisory Board as a new member by the Annual Shareholders' Meeting on April 30, 2009.

Executive Board

Holger Friedrich left the Company on March 13, 2009.
As of March 13, 2009, Ivo Totev was appointed as member of the Executive Board and took over global responsibility for the area of Professional Services.

Date of release of the consolidated interim financial statements

Software AG's Executive Board approved the quarterly consolidated financial statements on April 30, 2009.

FINANCIAL CALENDAR

FINANCIAL CALENDAR

	2009
July 22	Q2/H1 2009 preliminary financial figures
October 22	Q3 2009 preliminary financial figures
	2010
January 27	Q4/FY 2009 preliminary financial figures

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