ANNUAL REPORT 2008

SOFTWARE AG CORPORATE HEADQUARTERS | DARMSTADT, GERMANY

ENGINEERING THE FUTURE FOR 40 YEARS

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.

ACHIEVEMENTS

40 years
of success in the market

6%
ETS revenue growth

€ 720.6 mn.
total revenue

33%
webMethods revenue growth

25.1%
EBIT margin

4,000
customers in a variety of sectors all over the world rely on Software AG technology

KEY FIGURES 2008

€ milion (unless otherwise stated)	Dec. 31, 2008 IFRS	Dec. 31, 2007 IFRS	Dec. 31, 2006 IFRS	Dec. 31, 2005 IFRS
Revenue	**720.6**	**621.3**	**483.0**	**438.0**
Licenses	272.0	241.3	165.7	131.6
Maintenance	267.1	212.9	187.3	181.4
Professional Services	177.8	161.2	126.2	122.7
Other	3.7	5.9	3,8	2.3
EBITA	**195.0**	**143.5**	**111.2**	**96.4**
EBIT	**180.5**	**136.8**	**111.2**	**96.4**
Earnings before taxes	**175.4**	**137.1**	**118.6**	**101.1**
in % of revenue	24	22	24.6	23
Net income	**115.9**	**88.4**	**73.2**	**61.8**
in % of revenue	16	14	15	14
Total assets	**1,111.0**	**1,023.3**	**643.9**	**599.3**
Cash and cash equivalents	**96.9**	**81.3**	**184.8**	**161.6**
Shareholders' equity	**549.1**	**462.5**	**422.2**	**393.0**
in % of total assets	49	45	66	66
Employees [1]	**3,526**	**3,479**	**2,621**	**2,750**
of which in Germany	772	760	761	774

KEY SHARE DATA

	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS
Year-end closing price (Xetra) in €	40.00	60.57	59.74	41.15
Year high in €	60.37	77.20	59.89	43.30
Year low in €	29.50	50.12	37.43	23.40
Number of shares at year end	28,638,842	28,539,455	28,112,715	28,036,009
Market capitalization at year end in € million	1,145.6	1,728.6	1,679.5	1,153.7
Dividend per share in € [2]	1.10	1.00	0.90	0.80
Earnings per share in €	4.05	3.11	2.60	2.24
Price/earnings ratio at year end	9.9	19.5	23.0	18.4
Operating cash flow per share at year end in €	4.89	3.29	2.18	1.99

Frankfurt (Prime Standard/TecDAX), ISIN DE 0003304002

[1] Full-time equivalents

[2] Proposal by the Supervisory Board and the Executive Board to the Annual Shareholders' Meeting on April 30, 2009

BUSINESS MODEL

BUSINESS LINES

REVENUE SEGMENTS

PRODUCTS

Licenses

Maintenance

Professional Services

Enterprise Transaction Systems

- Adabas
- Adabas SQL Gateway
- Adabas SOA Gateway
- Event Replicator
- Adabas Manager

- Natural
- Natural for Ajax
- Natural Business Services
- Natrual SQL Gateway
- Natural for Eclipse
- Natural Engineer

webMethods

webMethods Suite

- Application Modernization
- Business Activity Monitoring (BAM)
- Business Process Management (BPM)
- Business-to-Business Integration
- Composite Applications
- Enterprise Service Bus (ESB)
- Service-Oriented Architecture (SOA)
- XML Data Management (Tamino)

CentraSite

- Service and Process Governance
- ActiveSOA

Adabas offers clients of Software AG high-performance data management systems that can handle up to 320,000 transactions per second. Natural is the name of the tool for modernizing processes across entire organizations up to and including Web-applications and e-business solutions.

Software AG has rounded out its product offerings with the acquisition of webMethods, Inc. to include new solutions for integration management and business process management. This offers our customers the chance to completely restructure their IT processes and integrate their existing data.

CONTENTS

THE COMPANY

LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,

2008 was the most successful fiscal year in Software AG's 40-year history. Software AG is 40 years old. This is an ideal point in time to reflect briefly on Software AG's achievements over the past four decades.

The firm that first opened its doors in the year 1969 in Darmstadt, Germany has grown to become one of the world's top 25 software companies. Indeed, a great deal has changed since then. But one thing has stayed the same: Software AG develops enterprise software that is recognized all over the world. Products, whose development began 40 years ago, are still in use today. Adabas, for instance, remains the fastest and most efficient mainframe database in the world.

Our newly added webMethods division, which encompasses integration software, complements our traditional database management business extremely well. In 2008, we achieved organic growth in all areas of our business – ETS data management, webMethods and Professional Services. This is proof that our strategy was right on track. We remained committed to our four growth drivers: organic growth through innovation, geographic expansion, growth through acquisitions and new customer groups through partnerships.

Our financial performance in fiscal 2008 illustrates that we operate successfully even in challenging economic times. Our revenue increased by 16 percent to reach €720.6 million, while operating earnings (EBIT) improved by 32 percent to hit €180.5 million. Our EBIT margin was posted at 25,1 percent. We surpassed the market's expectations with these record-breaking results.

Our two business divisions released a number of new products, which were received with enthusiasm by customers. CentraSite ActiveSOA, for example, is the first fully integrated product by Software AG and webMethods and is the cornerstone of our SOA Suite.

Furthermore, our products were repeatedly recognized by top IT analysts as leaders in the global market. This makes us the only software vendor to be a technology leader in both service-oriented architecture (SOA) and business process management (BPM). We have laid an excellent foundation for future development and achieving our goal of becoming the world's market leader in infrastructure software.

One of Software AG's major milestones last year was our direct market entry in Brazil following the transfer of distribution rights in the region. Since the beginning of 2008, we have had a direct presence there. And during the year we signed deals with more than 45 customers worth a total of over €30 million.

Following our acquisition of SPL Israel, webMethods, Inc. and Jacada in 2007, our efforts last year were focused on assimilating them effectively into our company. Particularly the incorporation of U.S.-based webMethods, Inc. helped us make a quantum leap in the high-opportunity integration software market and expand our position in the U.S. market. We continue gaining market share in the SOA and BPM segments.

In looking toward the future, one thing is certain. Growth in 2009 will not be easy. Due to the worldwide recession, we expect slower revenue gains, but are optimistic that we can grow despite the economic crisis. We have a robust business model with a high percentage of recurring revenue sources. More than 70 percent of our revenue falls under the category of our customers' recurring operating costs, whereas only 30 percent of our revenue is investment spending. Our enterprise customers will continue running their mission-critical systems, which in turn secures Software AG's licensing and maintenance revenue.

In fiscal 2009 we will concentrate on further developing sales activities in our solutions business line and expanding Professional Services. Thanks to our strong cash flow, we are well equipped for future acquisitions that strengthen our technology or our Professional Services division.

We expect overall growth between four and eight percent and an EBIT margin between 24.5 and 25.5 percent in the current fiscal year. We are resolute in achieving our medium-term goal of surpassing one billion euros in revenue in 2011.

We are very proud of this successful fiscal year. It would not have been possible without such highly motivated and qualified employees. On behalf of the entire Executive Board, I would like to express my gratitude to them for their work.

I would also like to draw your attention to a unique aspect of this annual report. For the first time, we dedicated a great deal of energy to the subject of corporate social responsibility. As Europe's fourth largest software company and one of the biggest IT vendors in the world, we have a corporate responsibility to foster technological innovation, customers, employees and society. In the Corporate Social Responsibility section we depict for you a number of examples of our initiatives in this direction. The illustrations in this section were contributed by staff members' children.

Esteemed shareholders, we want to share Software AG's excellent results with you as well. So the Executive and Supervisory Boards will propose a dividend of €1.10 per share at the Annual Shareholders' Meeting.

Stay with us on this exciting journey!

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

THE EXECUTIVE BOARD

Karl-Heinz Streibich Chief Executive Officer (CEO)
Member of the Executive Board since 2003
Born in 1952; Karl-Heinz Streibich is responsible for Global Marketing, Human Resources, Legal, Internal Audit, Processes, Corporate Communicatons and Partners.

Arnd Zinnhardt Chief Financial Officer (CFO)
Member of the Executive Board since 2002
Born in 1962; Arnd Zinnhardt is responsible for Finance and Treasury, Controlling, Business Operations, Taxes, Global Purchasing, Investor Relations, Mergers and Acquisitions, Global IT, Support and Administration.

David Broadbent Chief Operating Officer (COO)
Region East
Member of the Executive Board since 2007
Born in 1960; David Broadbent is Chief Operating Officer and responsible for both business divisions, ETS and webMethods, Region East (Asia/Pacific, Nordic, Central Europe, South Africa).

Mark Edwards Chief Operating Officer (COO)
Region West
Member of the Executive Board since 2003
Born in 1956; Mark Edwards is Chief Operating Officer and responsible for both business divisions, ETS and webMethods, Region West (North America, Latin America, Northern/Western/Southern Europe).

Dr. Peter Kürpick Chief Product Officer (CPO)
Member of the Executive Board since 2005
Born in 1966; Dr. Peter Kürpick is responsible for Research & Development in both business divisions, ETS and webMethods.

Holger Friedrich Member of the Executive Board
Member of the Executive Board since 2008
Born in 1966; Holger Friedrich is responsible for Global Professional Services.

STRATEGY

Software AG's success story continued in 2008. Revenue has grown by 75 percent over the past four years. Retained earnings have more than doubled. Operational cash flow has increased by almost 500 percent. Furthermore, last year was the most successful year in the Company's history. The foundation of this success is a clear strategy and dedicated implementation of this strategy.

VISION: GLOBAL MARKET LEADER

Our vision is to further expand our position as a top independent vendor of infrastructure software to become the world's market leader in the high-opportunity segments of SOA and BPM. Our enterprise software modernizes, automates and optimizes existing IT systems and processes in both public and private sector organizations.

Software AG is dedicated to implementing a long-term business development strategy. Our goal of profitable growth is comprised of four components:

1. Organic growth through innovation
2. Geographic expansion
3. Growth through acquisitions
4. New customer groups through partnerships

Our focal points in fiscal 2008 were organic growth through innovation and geographic expansion. We successfully integrated webMethods, Inc. and broadened our product portfolio. Geographic expansion consisted primarily of our successful direct market entry in Brazil at the beginning of the year.

ORGANIC GROWTH THROUGH INNOVATION

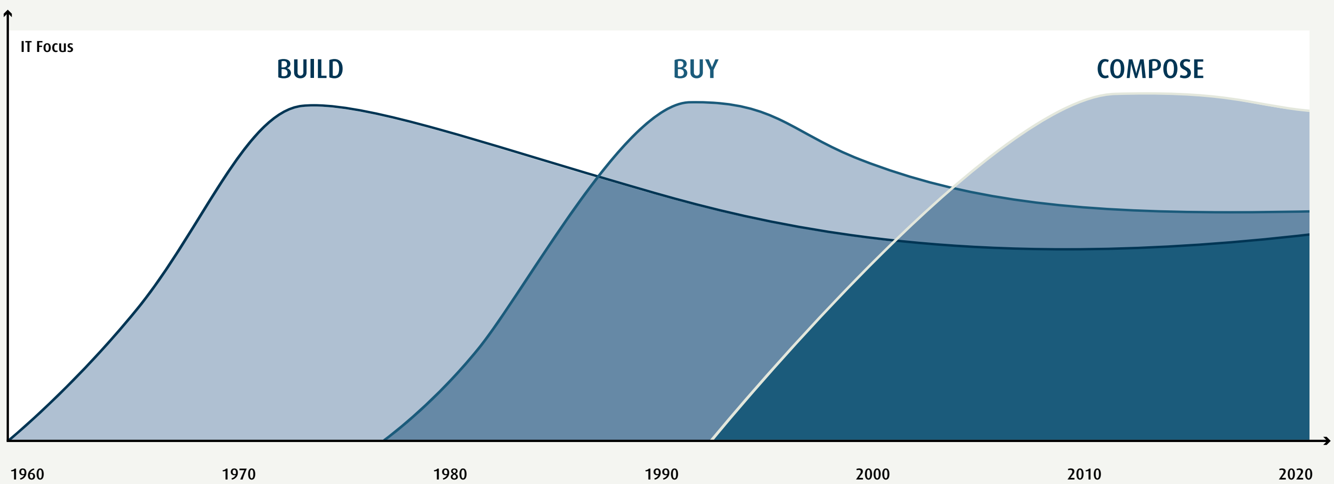
Software AG has been shaping the enterprise software market for 40 years. Our data management (ETS) business division is a strong generator of revenue and therefore our Company's mainstay. Our high-performance Adabas database system undergoes continuous enhancements and remains the fastest and most effective database in the world. With this product, we are able to retain a significant share of our customer base. Software AG has built a second key line of business with webMethods. It is a globally leading integration software portfolio in the high-opportunity service-oriented architecture (SOA) and business process management (BPM) markets. Independent industry analysts deem Software AG a technology leader in these segments. Integration software is useful to both existing as well as new customers, which makes it particularly important from a strategic point of view. The webMethods business division enables us to modernize our customer base's IT systems and to acquire new customers and thus achieve profitable growth.

VENDOR-INDEPENDENCE

One of our key success factors among customers is our independence from specific hardware and application systems. Software AG modernizes vendor-neutral IT systems. This gives us the flexibility to design the best and most efficient IT solutions possible for our customers. Our vendor-independence sets us apart from the rest of the enterprise software market.

Our consistent customer orientation, technological leadership and efficient processes form the foundation of our targeted annual organic growth of 10 percent, in times of normal economic development. Our high-growth webMethods business division generated 44 percent of total revenue in 2008, up from 38 percent the previous year. In the medium term, webMethods will account for more than 50 percent of revenue and bolster growth of the corporation as a whole.

THE EVOLUTION OF THE SOFTWARE INDUSTRY



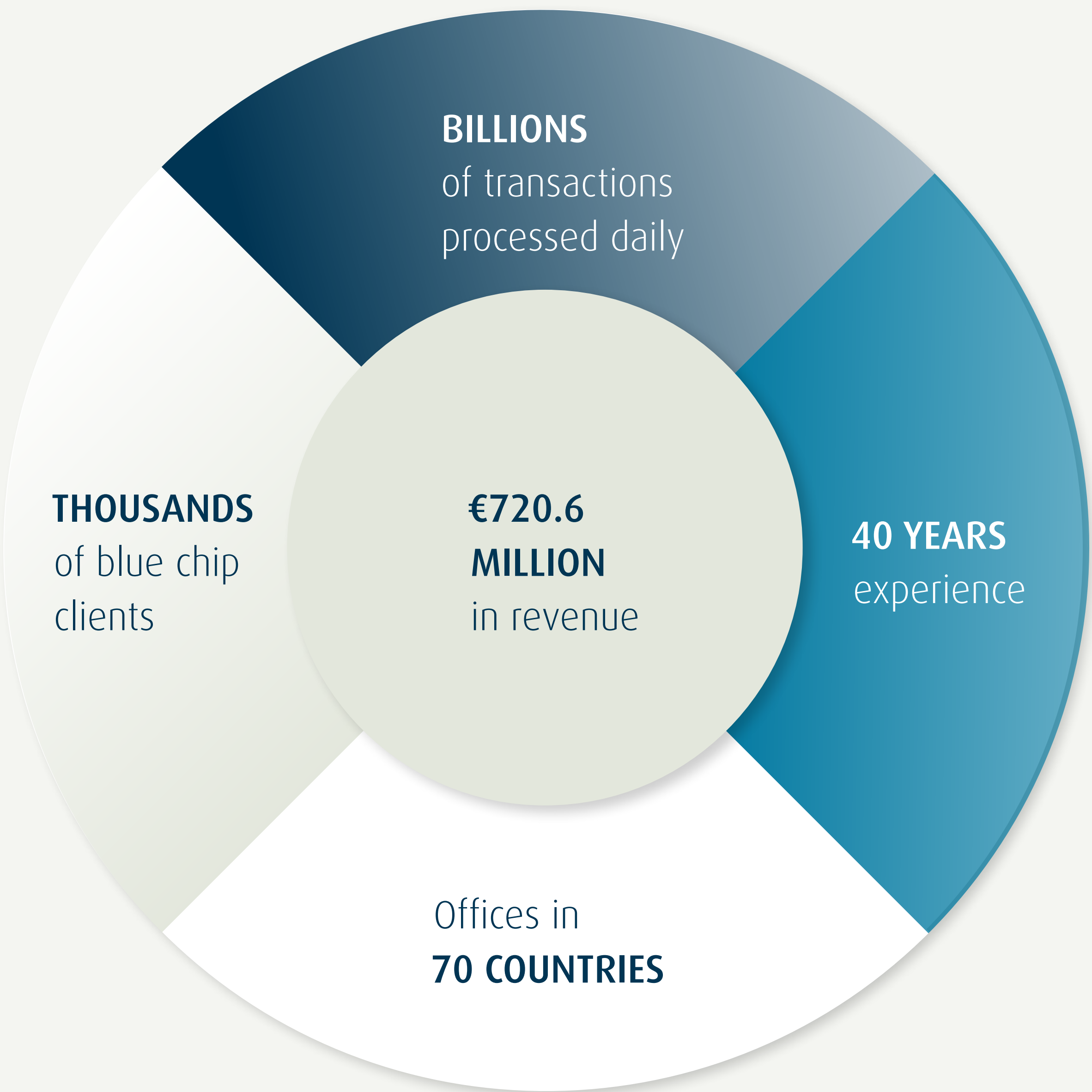
Software AG regards IT solutions based on SOA and BPM as a market of the future.

SOA AND BPM: OPPORTUNITY MARKETS

The infrastructure software market – also known as "middleware" – serves enterprise customers. Software AG's customers are predominantly large organizations from all industry sectors, including government agencies and institutions. From general business operations or efficiency optimization to introducing new business activities, new products or internal processes, all these processes depend on software solutions. Increasingly, these solutions control processes automatically and form complex IT landscapes. The strategic role of enterprise software is therefore constantly growing. Process innovation is becoming even more important than product innovation. Organizations of tomorrow will be controlled in real time by electronically generated performance indicators, which will be enabled by process-centric software. The concepts and technologies comprising these landscapes are called service-oriented architecture (SOA) and business process management (BPM).

According to leading industry analysts and professional associations, a paradigm shift is taking place in the software industry. In the 1970s the trend was home-grown enterprise software. Later, the software market evolved to be dominated by complementary standard packages. Today, these application silos can be made more flexible with SOA and BPM. In 2007, the percentage of business applications supported by an SOA was still quite low (source: Capgemini IT Trends 2008). In the medium term, however, users plan to convert almost one-third of their applications to SOA. The opposite trend is expected for standard software packages. The percentage of these programs in use will drop from 40 to 20 percent. The SOA and BPM product market is still very fragmented and is thus expected to grow by one billion U.S. dollars per year. Software AG's post-merger market share of 6.4 percent puts us in third place. We plan to build on this position through our technological leadership.

SOFTWARE AG
MAJOR PLAYER IN THE SOFTWARE MARKET



GROWTH THROUGH GEOGRAPHIC EXPANSION

Our direct market entry in Brazil was very successful. As planned, we established direct-sales operations in January 2008 after the transfer of distribution rights to Software AG. In the first year alone, we signed new contracts with more than 45 of the approximately 150 Brazilian Software AG product users. During the year, revenue clearly surpassed our forecast of €30 million, which had been raised several times throughout the year. By the year 2010 we want to achieve $75-100 million in revenue in Brazil. Since gaining distribution rights in Brazil, we now have the potential to establish direct contact to all users of our software products and thus to strengthen our customer relationships and broaden our scope of products. Our next phase of growth with regard to geographic expansion will focus on intensified market representation within the 70 countries in which Software AG currently operates.

GROWTH THROUGH ACQUISITIONS

Following the three acquisitions of SPL Israel, webMethods, Inc. and Jacada (effective on January 1, 2008) in 2007, our focus in 2008 was on successfully integrating these companies. In September 2008, CentraSite ActiveSOA, our first integrated product, went to market.

Acquisitions continue to be a component of our growth strategy. Vendors in the highly fragmented infrastructure software market are having to consolidate. Software AG is a consolidator, buying technology companies that complement our product portfolio and smaller systems firms that strengthen our local or industry-specific consulting activities and project capacities.

NEW CUSTOMER GROUPS THROUGH PARTNERSHIPS

In 2008 we also increased the number of customer projects in which partners were involved. Thanks to the Partner-Eco-System customer base, we are able to better penetrate the market with our webMethods products. As a technology leader, Software AG is attractive to new partners, which enables us to lay the groundwork for sustained growth.

SUCCESS IN TIMES OF ECONOMIC TURMOIL

The extent and duration of a worldwide recession are difficult to predict, as is the impact on demand for IT in our market segment. Furthermore, we expect varying effects depending on the specific sector and region. In spite of the high level of uncertainty with respect to forecasting the future, we nevertheless believe, that Software AG is well equipped for difficult economic times:

- We have a global-market-leading, innovative product portfolio, which, particularly in challenging economic times, can help our customers to cut costs and increase the efficiency of existing IT systems.

- We have a robust business model. Our mission-critical software solutions control the core processes of our enterprise customers, thereby safeguarding their business operations. As long as these business processes exist, our software will be needed – even if a company is taken over. Maintenance and a large percentage of service and licensing fees represent continuous sources of income and account for about 70 percent of our earnings. From a customer standpoint, these fees are recurring operating costs and therefore less vulnerable to economic conditions than investment spending, which is more typically reduced in times of crisis.

- We have a global corporate structure which is scalable but can also compensate for regional differences. For instance, a percentage of our revenue is generated in countries like Brazil or Japan where sales are less affected by the economy than by the transfer of customer contact from former distribution partners to our company.

OUTLOOK 2009: SIGHTS ON ONE BILLION EUROS IN 2011

Software AG intends to continue growing profitably in fiscal 2009. However, the uncertain global economy makes it difficult to predict performance, for which reason our forecast for 2009 is more cautious than in the previous year.At present, we expect our currency-adjusted net revenue to increase by 4 to 8 percent. Our EBIT margin in the coming year will be between 24.5 and 25.5 percent. Our operational focal points in the current fiscal year will be further market penetration in Brazil and Japan and expansion of our consulting and product activities in our high-growth webMethods business division. Moreover, additional targeted acquisitions remain a possibility. We aim to continue profitable growth through these activities. We will not lose sight of our goal of achieving one billion euros in revenue in 2011.

SOFTWARE AG TECHNOLOGY: FLEXIBILITY AND EFFICIENCY FOR OUR CUSTOMERS

Our technology is geared to benefit customers. The ongoing development of our products optimizes existing systems' performance and lengthens their lifecycle. Enhancements to our products take our customers' needs into account. Our customers reap benefits such as investment protection, economical use of resources and thus sustainable business. Over the past four decades we have continued expanding our ability to develop innovative enterprise software.

FLEXIBILITY

CUSTOMER INNOVATION WITH SOFTWARE AG SOFTWARE SOLUTIONS

Business case
Picture this.... You are the chief information officer of a telecommunications firm. Your company is growing. Your IT runs well. The core of your business is your accounting system software. It processes more than 12 million invoices per year, 400 different rates and hardly ever makes a mistake. It is a home-grown system, and you are happy with it.

But suddenly your mood changes. You read in the newspaper that your competitor has expanded its direct distribution activities through its Internet site. In addition, it has guaranteed all customers who spend more than 100 euros per month zero-wait privileges at the call center.

You had already thought of this. But your accounting system isn't linked to your website. A small innovative Web firm takes care of it. To enable Internet ordering, you would have to connect the two software systems and probably redo your Web pages. But you just spent a lot of money updating your site.

Plus, to promise your top customers no wait, your call center software would have to recognize your customers and their monthly balances. You've wanted to do this for a long time, but the data on average sales per customer is stored in your CRM system and not in the accounting system.

Sometimes you think about replacing your IT systems with a package solution. But your experience in this field says, "Never change a running system." It takes too long, costs to much and poses too many risks. The heart of your business is the customized accounting system.

Technology
A few days later, while reading the newspaper, you read about a new way to connect software solutions. Bridges can be built between systems, which allow data to be exchanged and processes to be adapted quickly to changing business needs. Not a single existing system has to be shut down or replaced.

In your case, the solution would link your accounting system, your Internet site and your call center. Customers could go to your website, find the calling plan they want and order it online. Your products and invoices would all be generated automatically. If a customer with an inquiry calls, the call-center employee has immediate access to that customer's data and can therefore help him or her efficiently and competently.

IT terms
SOA/BPM; SOA governance; integration of heterogeneous IT systems, replace IT silos with process-centric workflows

Products
webMethods Suite

SOFTWARE AG CORPORATE HEADQUARTERS, DARMSTADT
This building has been home to headquarters since 1984.
It is designed to put people at its center.

MIZRAHI-TEFAHOT BANK, ISRAEL
7% increase in market share: Shoham Mortgage System of Israel has increased market share significantly since 2000—by modernizing IT assets and gaining an all-encompassing view of customers.

DYK MOTORS, CHINA
80% lower costs: China-based automaker DYK Motors uses SOA to decrease integration costs dramatically and speed up process development by nearly 50%.

TREASURY OF PUERTO RICO, PUERTO RICO
Taxes collected 80% faster with Software AG solution.

AUTOMATE

NEW BUSINESS MODELS WITH SOFTWARE AG SOFTWARE SOLUTIONS

Business case

Picture this…You are the CEO of a corporation that operates in various lines of consumer goods. Your products must compete heavily with similar products from other companies. Your supervisory board has asked you to come up with a strategy for growth. But there just isn't any money for investments in innovative products, catchy marketing campaigns or strategic acquisitions. The supervisory board suggests going after the competition's customers.

You think to yourself: "This would only work if I could offer those customers a product faster, in a more convenient way or cheaper than my competitor. So I have to redesign our ordering and distribution process to be better than the others. And, I could offer customers even more value if I joined forces with partners."

At a meeting with your business unit directors, you discuss the strategy, which generates a lot of ideas. One business unit could enter the market as a new electricity provider without actually producing electricity or having lines or meters. You could be a one-stop vendor of an end-to-end digitized process for your customers: ordering, shipping, billing and customer service. You could buy capacity from energy producers, pay usage fees for lines and residential meters and, in turn, increase their capacity utilization. You would advertise via online marketplaces on the Internet. Digitization would make your offering scalable, cheaper than the competition's and you would penetrate an upscale segment of the market. Your other business units – Mobile Communications, Landline Communications, Rental Cars, Auto Sales and Travel – are quick to follow.

All your directors have ideas for generating business through partnerships with other organizations. The Electricity unit could market other providers' green energy; Mobile Communications plans to sell access to music portals in addition to cell phone plans; Auto Sales wants to add insurance and vacation bookings to its portfolio; and Travel could offer travel guides.

Technology

Your company must evaluate its entire operation from a process point of view, regardless of basic IT infrastructure or other limitations. You direct your staff to redesign all processes from receipt of order to receipt of payment based on KPIs. Only after this has happened should the decision about IT support for these new business processes be made. In collaboration with your CIO, you choose webMethods by Software AG. Processes are built and managed using BPMS and governed with BAM. SOA, based on the CentraSite registry/repository, is at the core of this system. CentraSite enables you to structure, scale and accelerate your SOA implementation. This solution includes directives for re-use; it automates SOA management processes, simplifies the complex dependencies between services and manages the complete service lifecycle. CentraSite provides the critical advantage of comprehensive transparency and control over the development and implementation of services. Through user-defined monitoring and enforcement policies, CentraSite ensures that your new SOA implementation meets service-level agreements (SLAs) and performance targets set for your mission-critical applications.

IT terms

business process management; cross-over integration; process innovation outranks product innovation;

Products

webMethods Suite

DANISH COMMERCE AND COMPANIES AGENCY (DCCA), DENMARK
90% re-use: With SOA, DCCA can re-use pre-built functionality to offer the most advanced end-to-end digital XBRL filing solution in the public sector.

FONTERRA, NEW ZEALAND
140 markets: Fonterra delivers milk faster and more accurately using webMethods BPM and BAM for order visibility and real-time response.

ERHVERVS- OG SELSKABSSTYRELSEN

Fonterra

AUTOMATE, INTEGRATE

NEW BUSINESS MODELS
SOFTWARE AG'S GLOBAL DEAL DESK

Business case

Software AG is the largest independent vendor of infrastructure software for enterprise processes in the world. Every month we handle a sizeable number of license and service agreements with new and existing customers.

Until just a few years ago, our subsidiaries employed different procedures for internally approving the highly complex quotes on these agreements. The lack of consistency among processes hindered their approval. Furthermore, the absence of automation and coordination among the offices slowed contract processing. Senior sales employees were spending far too much time on internal approval before a deal could be closed.

With the acquisition of webMethods, we recognized an opportunity to completely revamp the process. We reorganized, harmonized and automated our approval process using the webMethods Business Process Management Suite and within one year implemented a corporate-wide "Global Deal Desk."

Now our approval process runs without a glitch. It is transparent to our sales force and upper management. It allows for detailed revisions of issued approvals. Thanks to thorough, systematic quote checks, risks to the company are minimized. And best of all, the process is consistent in all our offices around the world.

Technology

The Global Deal Desk is an internal joint project with input from Sales, Finance and Controlling and Legal. It was coordinated by the Auditing department. And our IT department was responsible for technical conceptualization, realization and ongoing development.

In every business division of every branch office, our sales employees fill out the same standardized Web form and then attach relevant documents. After the form is manually checked for missing information and/or accuracy, a workflow is initiated, which automatically sends the documents to the appropriate employee depending on the type of quote. Key process participants are responsible for their assigned task and nothing else. The flow is transparent and swift. Employees can track status online of any open quote at any point until the final approval. They can see which quotes are waiting on whose approval. All approval processes are stored in a contract database and can be tracked retrospectively as well.

This project was carried out with the help of the Software webMethods Business Process Management Suite (BPMS). BPMS features comprehensive functionality for defining process rules and rolls and for adapting quickly to new business or organizational circumstances when necessary. All requirements, from analysis to implementation,can be modeled. BPMS is based on a service-oriented architecture approach and can be integrated with existing IT components.

IT terms
business process management; cross-over integration; service-oriented architecture

Products
webMethods Business Process Management Suite

COX COMMUNICATIONS, USA
10 minutes/day: Cox Communications leveraged its investment in SOA for a BPM solution that saves each field service technician 10 minutes per day.

PENN STATE, USA
The Pennsylvania State University, a Software AG customer for over 26 years, has implemented campus-wide solutions using Adabas and Natural. Today, these solutions form the basis for SOA, a services-oriented architecture, that Penn State and Software AG are working together to implement.

INTEGRATE

SUCCESSFUL MERGERS & ACQUISITIONS WITH SOFTWARE AG SOFTWARE SOLUTIONS

Business case

Picture this...You are the chief information officer of a financial services company. You have thousands of customers each of whom uses different products. Your IT system runs on a database system and applications from a major vendor. Everything is homogeneous, automated and works well.

But one morning you wake up after a bad night's sleep. "What would happen if my company were to merge with another? Who would stay? The other CIO or I? What about all the money my company has invested in our IT? Well, that would depend on who has the superior IT system. But how do I know now what type of systems the others have? I guess it will always remain an area of uncertainty."

Then a light bulb goes off in your mind. "To come out on top, I need IT that is so agile that it can integrate with other IT systems. It should be completely independent of other organizations that we merge with or that we buy out. I need control over my critical business processes above the individual applications. I also need my software to answer the questions CEOs and CFOs face every day, such as: Who are our most profitable customers? Which products are most in demand? What are our greatest business risks and how do we minimize them?"

Technology

You read in the newspaper about software that can be adapted to your organization regardless of vendor. This software enables the CEO and CFO to manage production and sales. It provides upper management with real-time information about revenue, costs and profitability according to business units, regions and customers. This software can also give competitor benchmarks on the same KPIs. My boss and my coworkers can define their requirements. I give them a template on their computer where they can track activity every day conveniently and in real time. The software takes the data it needs from the different systems in my company and compiles it for management.

IT terms

convert IT to SOA-based approach, road to SOA, define all data as Web services, restructure, define KPIs and reproduce in IT-based way.

Products

webMethods Business Process Management Suite, business activity monitoring, B2B integration, CentraSite, webMethods Enterprise Service Bus

MACIF, FRANCE
14.5 million contracts: 7,500 employees at Macif, the premier insurance company in France, use Adabas and Natural applications to manage approximately millions of contracts.

WIEN IT, AUSTRIA
3 months to modernize: In just three person-months, Wien IT put a modern interface on a time-tested system. Ninety-five percent of the Web interfaces were generated automatically.

3COM, USA
250+ point-to-point contacts eliminated. 3COM can resolve problems in minutes, rather than days, using the webMethods ESB to replace cumbersome "spaghetti-tied" connections and improve data integrity.

MODERNIZE

GROW
WITH SOFTWARE AG SOFTWARE SOLUTIONS

Business case

Picture this...You are the chief information officer of a successful corporation. Both you and your company are well respected for running an experienced, stable and efficient enterprise. In fact, your corporation is famous for its customer relations systems, its human resources systems, it financial reporting, its manufacturing operations, the list goes on.

You know that this efficiency is built on your IT environment. It is the machine that powers your enterprise, its engine, and the machine hums.

But how quickly can your IT environment change direction? You have realized over recent years that IT can do more than run a corporation. It can be a strategic resource in opening new markets, capturing more market share and serving customers in new and exciting ways. You have realized that, though your products are built to the highest standards, they are no longer sufficiently differentiated from the competition. That customer individualization, online sales channels, after-sales service are increasingly important, as are the processes that support them.

You want to change your IT engine into a tool of change and corporate strategy implementation without losing its power, its reliability and the decades of corporate skills and knowledge that have been invested in them.

But you must do this without disrupting operations, without downtime, without huge re-investment. You must capture the years of experience built into your current systems and re-use this knowledge in an open, agile and flexible way.

The advantage is clear. IT can provide a huge return on investment to the corporation if it can harness the power and experience of decades in new and innovative ways. But the risks can be minimized.

Technology

Today's technology allows you to open your systems at a pace and with a level of investment that suits you.

Old user and customer interfaces can be redeployed using the latest graphical techniques in a matter of days. Multiple interfaces can be combined into a new user experience.

Even the millions of lines of code in your organization, state-of-the-art when written, can be analyzed and transformed into today's state-of-the-art, open and re-usable structures. Then these modernized applications are made available as components, modules or full applications to the latest automated business process management systems. You can harness the power of your IT, the accumulated success of maybe decades, to drive your organization's business processes and provide that competitive edge.

IT terms

Resource code modernization; Web-enablement of mainframe data, application or legacy modernization; no rip & replace, Adabas goes SOA

Products

webMethods ApplinX, webMethods EntireX, webMethods Enterprise Service Bus, CentraSite, webMethods ConnecX Adapters, webMethods Application Modernization Discovery Edition, webMethods Application Modernization Web Edition, webMethods Application Modernization SQL Edition, webMethods Application Modernization SOA Edition

CORPORATE SOCIAL RESPONSIBILITY AS THE BASIS FOR BUSINESS

Customers, investors, employees, partners and representatives of public institutions are all stakeholders in our company. Their association with Software AG entitles them to achieve their goals with a partner who works in a socially responsible manner. We consider the needs of our stakeholders a holistic responsibility, which leads to sustainable business success and added value in society.

Never before has the world been as globally connected as it is today. We are all living in a global village: rooted in one place, but connected with the world. The cause is globalization, the increasing political and economic integration between countries based on mobility and information technology.

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

But a global world still poses global threats, such as poverty, water and energy shortages and global warming. The citizens of the global village demand answers from governments and companies on how these threats can be reduced. The challenges are complex and require a coordinated approach from the political and business communities – they require responsible action on the part of each individual.

For us at Software AG acting responsibly means being a successful enterprise in a holistic sense.

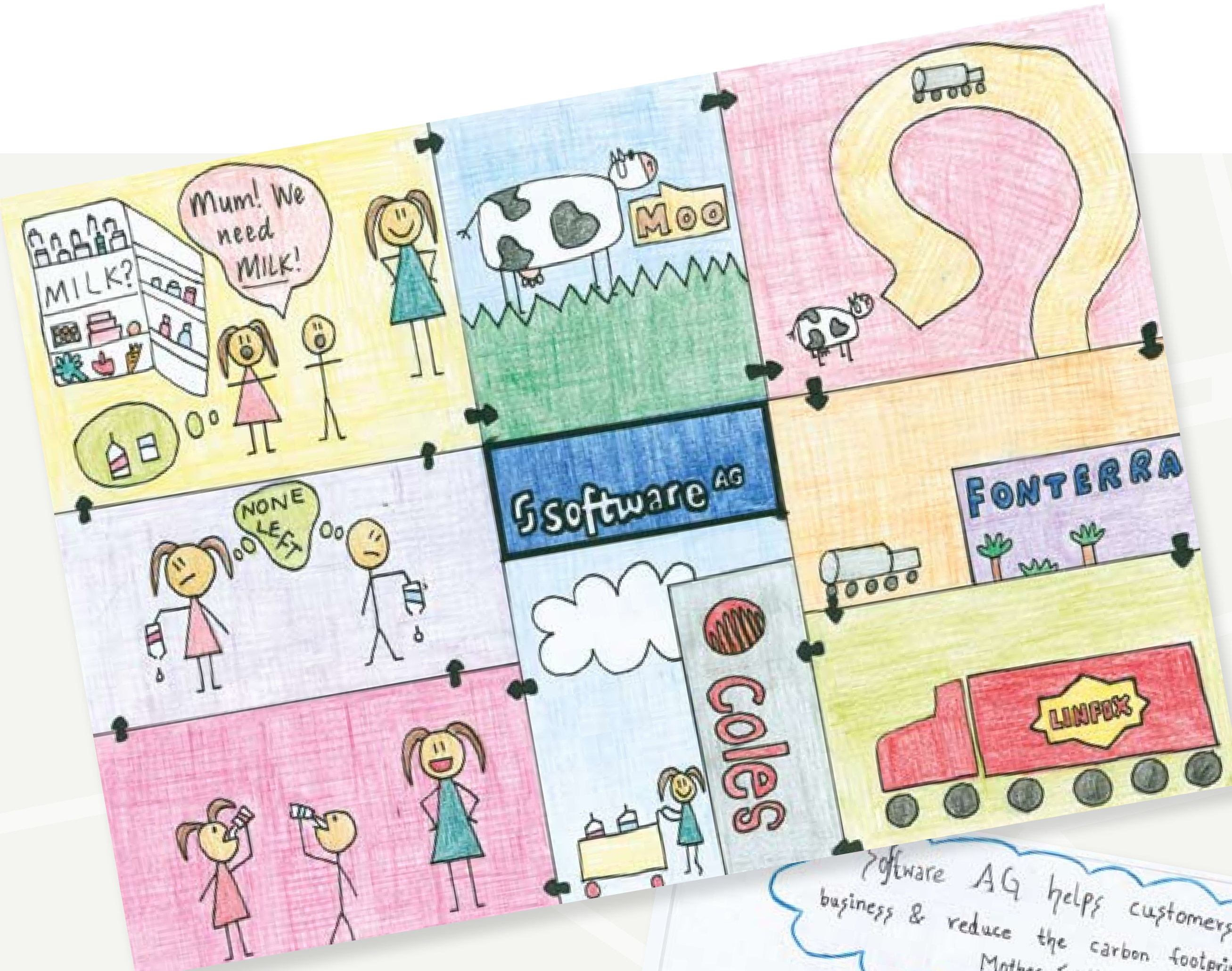
FOR US, HOLISTIC BUSINESS SUCCESS MEANS:

- Making our customers globally successful
- Researching and developing our own solutions
- Setting standards, developing patents
- Being a convincing and reliable partner for our partners
- Developing our employees with the Company
- Growing and being profitable
- Benefiting society
- Maintaining exemplary values and social standards in our day-to-day business operations
- Promoting education and innovation: globally and at our locations

Our software solutions can serve as tools for transparency and trust, speed and control, flexibility and efficiency. These solutions are, among other things, our contribution to minimizing global crises. They support those who understand and are aware of their responsibility. We are aware of our responsibility.

SOFTWARE AG IN THE EYES OF CHILDREN

Using the themes **"My mom or my dad works at Software AG"** and **"Software AG products control business processes,"** Software AG employees' children were invited to participate in an artwork contest. We would like to present some of their work in the CSR section.



KATIE UNWIN
Australia, 13 years old

REDDY SIDDHARTH
India, 13 years old

RESPONSIBILITY OPENS UP POTENTIAL: BUSINESS MODEL AND MANAGEMENT

RESPONSIBLE ACTION AND BUSINESS SUCCESS ARE DIRECTLY RELATED TO EACH OTHER

Software AG develops business-critical software solutions for enterprise customers in some 70 countries. Banks, airlines, ministries, TV networks and import/export companies control their processes using our solutions and those of our partners. We have global responsibility for the success of our customers and partners. We can only be successful if our software solutions are reliable, cost-effective and fast. To achieve this, responsible action is a prerequisite at every level within the Company.

RESPONSIBLE ACTION AS AN INNOVATION DRIVER

We conduct research and development ourselves. Our customers' requirements relating to our software solutions and the standard we set for ourselves of being the best in the market drive us to continuously improve our own processes and products. For the best software, we need the best employees: in terms of training and experience, motivation and loyalty, social skills and cultural diversity. We want to offer attractive workplaces where people can be successful and feel comfortable.

RESPONSIBLE ACTION ADDS VALUE

Those who act responsibly are better. They make the fewest mistakes. They offer the fastest customer support. They design the most efficient processes with the lowest use of resources. They anticipate risks. Those who act responsibly are appreciated. Garnering appreciation is the best way of achieving customer loyalty, the most convincing way of retaining employees and creates the most credible public image. Responsible action is therefore neither an end in itself, nor the result of an altruistic attitude. Responsible action is a logical consequence of our own desire for success.

RESPONSIBLE ACTION IN SOCIETY SUPPORTS SUSTAINABLE BUSINESS SUCCESS

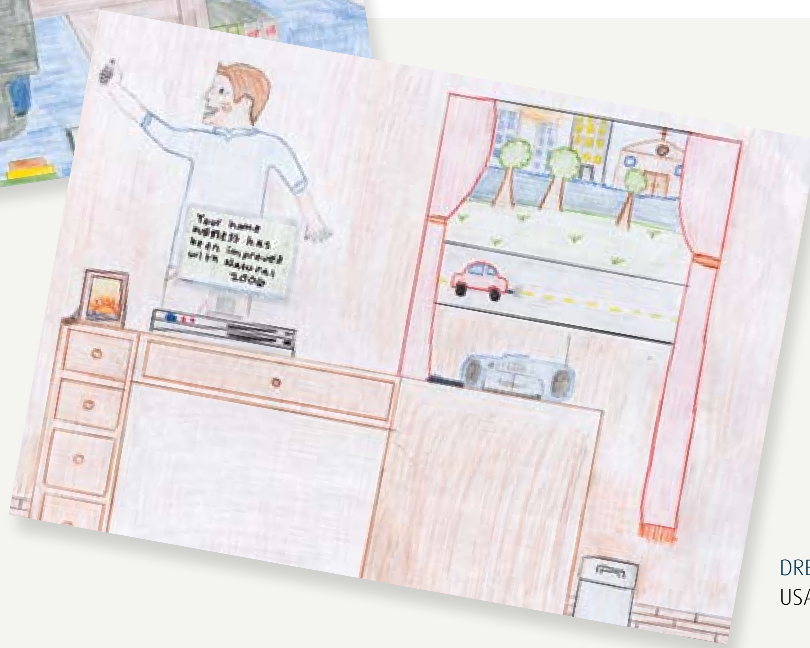
As the fourth largest software company in Europe and one of the 25 largest software companies in the world, we also have a responsibility to society. We are committed to policies that promote education and innovation and that recognize the importance of software as a strategic economic policy. We support universities and schools and build on alliances between companies as well as on regional clusters. An improved range of IT education and training today leads to qualified IT users. These may be our customers, partners or employees of tomorrow.

RESPONSIBLE ACTION MEANS HAVING A BUSINESS MODEL BASED ON SUSTAINABILITY

Information technology is a fast-moving 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 now fits 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 adapt our enterprise software to the requirements of our customers. And we have a major shareholder with long-term perspectives, namely Software AG Foundation.

NAHARTIA ROSENBERG
Israel, 7 years old

VANESSA SCHWAHN
Germany, 16 years old



DREW BOLAND
USA, 11 years old

GLOBAL R&D NETWORK

We are positive that innovation, long-term customer relationships, efficient processes and cooperative inclusion of all stakeholders are pivotal to a sustainable business. The numbers are testimony.

- 650 software developers
- 1,600 employees in software project management and system maintenance
- More than 40 patent applications filed in 2007–2008
- Use and development of more than 100 open standards
- R&D spending is 14 percent of product revenue (2008)

DIVERSITY

Software AG is international. This is not only illustrated by our presence in 70 countries around the world, but by our staff as well. At corporate headquarters we have employees from 19 different countries working under one roof. IT is a traditionally male-dominated industry. To achieve a more balanced work environment, Software AG strives to attract women from the fields of mathematics, IT, science and technology.

- nearly 20 percent of IT-related or technical staff at Software AG are female
- 30 percent of the total workforce in Germany in 2007 and 2008 were female

RESPONSIBILITY AS AN EMPLOYER

Software AG encourages employees to grow with the company through positive self-development. We know that dedicated, motivated employees are decisive to sustainable business success. Performance and success-based salaries, a flexible working model and ongoing personal/professional staff development create a constructive environment in which employees feel happy and which decidedly contributes to their identification with the company.

- Global standard for staff development
- Personalized development plans and career paths
- Various training programs and certification options
- Work/life balance program

FAMILY-FRIENDLY COMPANY: HARMONIZING WORK AND FAMILY

Jobs and families place high demands on employees. We aim to support both in a successful way. In Germany, for instance, we work with an independent consulting and placement agency, which actively assists our staff with its services.

Services to our employees include:

- Child and emergency care
- Dependent care
- Advice on various personal situations
- Coaching and professional consulting

CORPORATE UNIVERSITY

A focus of our long-term, responsible human resources strategy is the continuing education and qualification of our employees. Our Corporate University, started in 2006, conveys the message that life-long learning and training are of strategic importance to Software AG. The Corporate University's qualification program is geared toward all employees around the world. We offer training in social skills and special programs for global management development. The fields of technology, sales and marketing also continue to play a crucial role.

- 2,000 employees took 182 instructor-based courses (2008)
- 7,000 e-learning courses were taken
- 355 different e-learning courses were offered in 2008

UNIVERSITY RELATIONS PROGRAM

An important component of our Corporate University is the Software AG University Relations program. One of the goals of this program is to train 3,000 university students in Germany in SOA by the year 2010. Software AG provides its software free of charge as well as staff for organization and projects.

- Free Software AG product licenses for teaching and research purposes
- Guest speakers
- Market-oriented SOA and BPM projects
- Thesis advising
- Internship positions
- 183 academic departments are in contact with Software AG
- 80 universities and colleges in 13 German states participate in the program
- So far more than 1,000 students have received supplemental SOA training at a university or college in Germany

DEVELOPING AND LIVING OUR CORPORATE CULTURE

As a company, we consider our employees and their decisive role to be our greatest asset in meeting our goals. The way in which our staff members relate to each other and with our customers is characterized by our core values: innovation, trust, responsibility, open communication and a winning spirit.

- Regular worldwide staff surveys on topics such as corporate culture
- Employee suggestions as impetus for corporate culture initiatives
- Worldwide workshops on communication of values and proposals for activities
- Living trust: payment in the Darmstadt headquarters cafeteria is based on the honor system with no cashiers present

FABIO CORONATO
Germany, 7 years old

SURAJ BALAJI
India, 10 years old

BUSINESS AND ETHICS

Responsible action is the foundation of our business. It defines not just our conduct toward those outside the company, but our internal work processes as well. Software AG employs guidelines in all departments which facilitate good and responsible corporate leadership. We have also been complying with the recommendations of the German Corporate Governance Code since 2003. Our internal guidelines for business policies and practices control processes at global and local levels.

SOFTWARE IS A DRIVER OF GROWTH AND PROSPERITY IN SOCIETY

Software is a key technology of the 21st century. Software is the most critical driver of productivity and process innovation. Both make companies and public institutions successful and thus play a decisive role in the competitiveness of national economies. Competitive economies usually offer their citizens more prosperity. They have resources for education, infrastructures and sustainable business. The prerequisites for the creation and application of software are education, research and development, partnerships and clusters. They are what enable the type of creative innovation that will move digital society – or "Webciety" – forward throughout the world. Because of their economic importance, Europe and the U.S. have a special role.

SOFTWARE AG EXECUTIVE BOARD'S POLITICAL COMMITMENT

- Membership in the presiding committee of the industry association, BITKOM, to establish optimal standards for the ICT sector
- Chaired "I&C in small and medium-sized enterprises" working group at German chancellor's IT summit
- Member of CeBIT steering committee to strengthen CeBIT as billboard for the IT industry and world's largest ICT fair
- Member of the Federation of German Industries (BDI) Asia committee
- Member of the joint board of the non-profit initiative D21 e.V.

GOOD CORPORATE CITIZENSHIP

Software AG is a responsible member of society and considers this the foundation of our success as a software company. As a good citizen, we are active in the areas of education and innovation as well as in individual projects in and around Darmstadt. We promote select initiatives in our region, in Germany and throughout the world.

- Local: Main sponsor of SV Darmstadt 98 soccer club and supporter of triathlete Frank Vytrisal, Darmstadt
- Regional: Cofounder of the Rhein-Main-Neckar cluster
- Global: "Move your feet" – Software AG employees have run a total of more than 8,000 kilometers at official races around the world for a good cause. For every kilometer, Software AG and Software AG Foundation donate one euro to socially oriented projects.
- Brazil: Supporter of the German School of Sao Paolo through the program, "Schools: Partners of the Future"
- South Africa: Supporter of Habitat for Humanity

SOFTWARE AG STOCK

Software AG's stock was not able to buck the downward trend felt by the global stock markets, but did better than benchmark indices in fiscal 2008. Our closing price was €40.00, with market capitalization at €1.1 billion.

2008: ONE OF THE WORST YEARS IN STOCK-MARKET HISTORY

2008 will go down in history as one of the worst stock market years worldwide. The intensifying financial crisis and associated weakening of the global economy as a whole were key contributing factors in this development. The second half of the year was particularly hard on global indices.

The DAX lost just over 40 percent last year. This makes 2008 the second worst year in the 20-year history of the German benchmark index. It lost more only in 2002 when it decreased by 44 percent. Since then, the DAX had seen gains over five successive years. The situation was scarcely better for other indices. The MDAX lost 43 percent over the year; the SDAX almost 54 percent; while the Euro-Stoxx 50 suffered a 52 percent decline.

The Dow Jones, which tracks 30 US standard stocks, fell by 44 percent, the broader-based American S&P 500 by 50 percent. Even technology stocks were not able to withstand the strong downward pull in fiscal 2008. The Nasdaq computer composite index plunged 40 percent in 2008. And the Nasdaq 100, which tracks the largest companies listed on the exchange, lost as much as 51 percent. The German TecDAX technology barometer suffered a 48 percent drop.

SOFTWARE AG STOCK BEATS INDICES

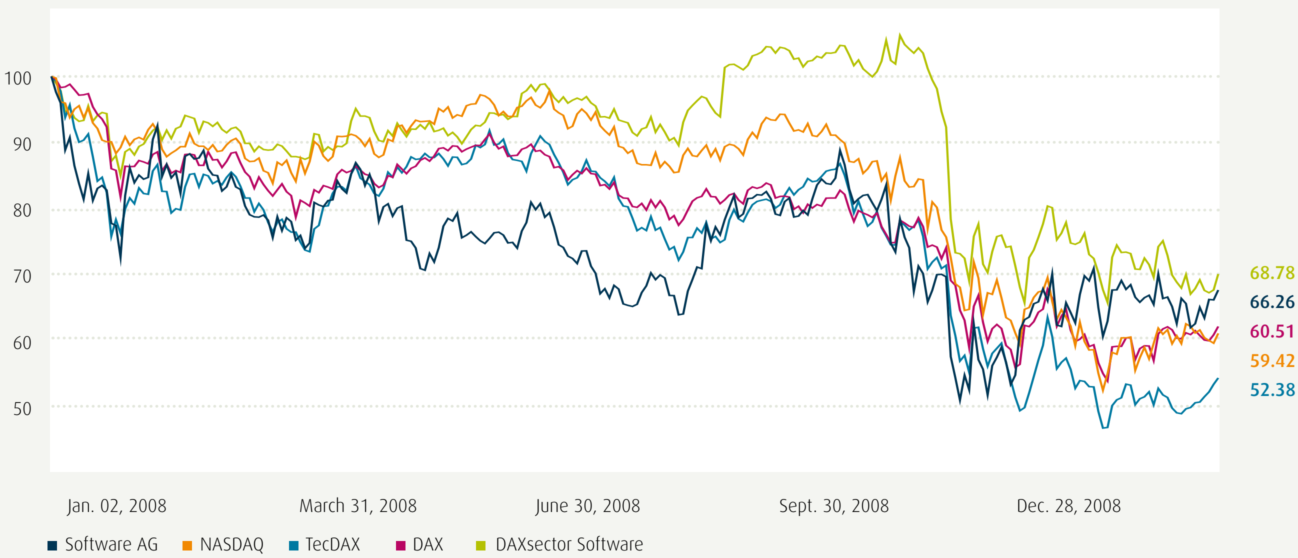
In 2008, Software AG's stock was unable to escape the market's overall uncertainty or counter the negative trend. It started the year at €60.37 and closed 33 percent lower at €40.00. However, Software AG's stock still outperformed the major indices.

Software AG's initial share price of €60.37 was also its peak for fiscal 2008. In the first six months of the year, our stock increasingly felt the impact of the market's continued uncertainty. Profit warnings from competitors further complicated the scenario. We observed a typical trend in times of weak stock markets. Despite numerous recommendations to buy Software AG shares, assets were invested primarily in blue chips or liquidized, while smaller IT stocks appeared on investors' "to sell" lists. Our stock reached its low point - €29.50 - on October 8, 2008. Nevertheless, in the second half of the year, Software AG garnered attention with positive company announcements, such as signing on a number of major deals, and consistently strong quarterly financials. Our share price saw an improvement over the indices after publication of third-quarter results, in particular, and was able to develop a certain degree of resistance to the increasingly downward trend. As a result, our share price enjoyed a slight recovery at year's end.

Software AG is now one of the 100 most widely traded stocks on the German market and therefore meets the highest liquidity criteria for electronic trading on the Xetra. In the 2008 fiscal year, around 55.1 million shares were traded (2007: 45.7 million).

As a result of the drop in share price, market capitalization fell in 2008. At the end of the year, it was approximately €1.1 billion, compared with €1.7 billion on the same day of the previous year. After the stock's recovery at the start of 2009, market capitalization rose again in February 2009 to approximately €1.4 billion and Software AG advanced to be the third-highest valued stock on the TecDAX.

Share price development (indexed)



Market capitalization at year end

in € million

2006	1,679.45
2007	1,728.63
2008	1,145.6

DIVIDEND FOR 2008

For many years Software AG's shareholders have been profiting from a stable corporate dividend policy geared toward continuity. At the Annual Shareholders' Meeting on April 29, 2008 in Darmstadt, we decided to increase the dividend from €0.90 per share to €1.00 per share. In other words, approximately €28.5 million were paid out to shareholders as dividends.

Software AG's shareholders will participate in the Company's success once again this year. At the same time, we need to protect our cash reserves in the face of uncertain economic forecasts and with a view to further acquisition opportunities. For the 2008 fiscal year, the Executive Board and Supervisory Board will therefore propose a dividend of €1.10 for each share entitled to dividends at the Annual Shareholders' Meeting. The total dividend payout would therefore be €31.5 million, and the payout ratio would be 27 percent of consolidated earnings after tax.

Total dividend payout

in € million

2006	25.30
2007	28.50
2008	31.50

Software AG has a robust business model with continued sales and earnings growth and a sustained cash flow increase that enables us to grow on through internal funding. Investment in Software AG is therefore a defensive investment with high dividend continuity.

PROMPT, COMPREHENSIVE AND TRANSPARENT INVESTOR RELATIONS

We maintain intensive, transparent and ongoing communication with all capital market stakeholders. Our publicly accessible financial calendar on the Internet provides a detailed overview of current activities. We publish our financial results extremely promptly, presenting them to journalists, analysts and investors in conference calls or face-to-face events. Our website also features comprehensive documents providing speeches, presentations, press releases, ad-hoc reports, etc. Last year, our financial report was accessed from our homepage around 4.000 times.

We also received numerous awards for our work last year. We were ranked second in the TecDAX for "Best IR" by both the *Wirtschaftswoche* economic journal (carried out by Thomson Financial) and by the *Capital* economic journal. NetFederation also awarded Software AG's website first place in the TecDAX in the category "Best IR Website." We relaunched our new user-friendly website last year. The awards are a testament to our transparent reporting and communication with the market.

Twenty-four analyst firms in Germany, the United Kingdom and France regularly monitor Software AG and its development. Most of them see high potential in our stock and have rated it as "buy" or "outperform."

INVESTOR COMMUNICATIONS ENHANCED

Our communication with existing and potential investors was further intensified last year. This is reflected in the higher number of direct contacts with analysts and investors interested in Software AG. We took part in a total of 17 capital market conferences and visited investors in Europe and North America in 50 roadshow events. Last fiscal year, we conducted 500 one-to-one meetings in which we explained our business model, strategy and products. We recently received positive feedback from France, in particular, where we accepted more invitations than in the past to roadshows and conferences. Overall, market interest has increased significantly, particularly following publication of Q3 results.

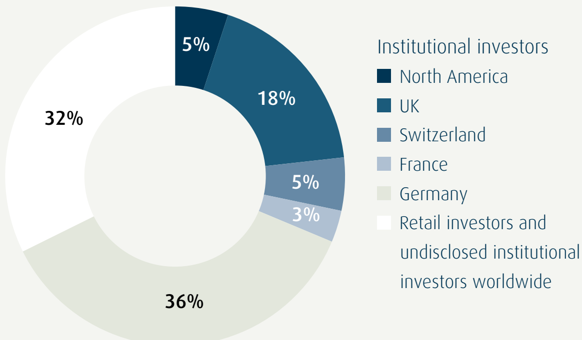
According to the "Close Cycle Ranking 2007," a study by ifb group and BPM International, Software AG is one of Germany's leaders in prompt publication of its results. This also pays tribute to the quality of our financial processes and systems. Through active involvement in the board of the German Investor Relations Association (DIRK), we contribute to the definition of fundamental investor relations conditions on a national and international level and state our view on capital market rulings.

SHAREHOLDER STRUCTURE

The non-profit Software AG Foundation holds 29.4 percent of outstanding Software AG shares. The foundation supports Software AG's growth strategy and thereby facilitates long-term corporate development to ensure the creation of sustained shareholder value.

Software AG's free float is 70.6 percent and ensures good liquidity in stock exchange trading. It is spread over a diversified investor structure made up of private and institutional investors, both domestic and foreign. A number of internationally renowned investment companies have shares of more than 1 percent in Software AG's capital. Private investors and unregistered investors hold 24 percent of our shares. Our reported free float is distributed by region as follows: Germany 51 percent, United Kingdom 26 percent, rest of Europe 16 percent, North America 7 percent. The percentage of shares held by North American investors has risen again, in line with our objective (2007: 5.2 percent).

Shareholder structure (percentage of free float)*



* As of January 2009, Source: Thomson Reuters

Top 10 investors in Software AG stock

Investor name	No. of shares held	in %
Software AG Stiftung	8,416,926	29.40
Deka Investment GmbH	1,770,000	6.18
DWS Investment GmbH	1,419,859	4.96
Virmont S.à.r.l. (Alken)	1,430,581	5.00
JPMorgan Asset Management U.K. Limited	868,511	3.03
Allianz Global Investors Kapitalanlagegesellschaft mbH	847,136	2.96
Braun, von Wyss & Müller AG	745,066	2.60
Baring Asset Management Ltd.	470,491	1.64
Universal-Investment-Gesellschaft mbH	373,933	1.31
Deutsche Asset Management Investmentgesellschaft mbH	349,806	1.22

Source: Thomson Reuters/Software AG

CHANGES IN SHARE CAPITAL

Compared to last year, the number of shares outstanding has increased by 99,387 to 28,638,842. This is due to the exercising of a conditional capital increase (management option plan).

Key share data

	2008 IFRS	2007 IFRS
Closing price (Xetra) in €	40.00	60.57
Year high in €	60.37	77.20
Year low in €	29.50	50.12
Total number of shares at year end	28,638,842	28,539,455
Market capitalization at year end in €	1,145.6	1,789.21
Free float in %	70.6	70.8
Average daily trading volume (XETRA)	218,517	181,485

INDICES:

- CDAX
- German Entrepreneurial Index Gex
- HAFixD
- HDAX
- L-TecDAX Performance-Index
- Midcap Market
- Prime All Share
- Prime IG Software
- Prime Software
- TecDAX
- Technology All Share
- MSCI Europe Small Cap Index
- MSCI Germany Small Cap
- MSCI Europe Information Technology Small Cap
- Dow Jones STOXX 600

Ticker symbol and basic data

ISIN	DE 0003304002
WKN	330400
Symbol	SOW
Reuters	SOW Gn.F
Bloomberg	SOW GY
Stock exchange	Börse Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO	April 26, 1999
Offering price	€30
Total number of shares outstanding	28,638,842

CORPORATE GOVERNANCE

SOFTWARE AG

- Complies with the German Corporate Governance Code
- Manages the company efficiently and safeguards shareholder interests
- Communicates actively, effectively, in a timely manner and transparently
- Deals with risks and opportunities responsibly
- Bases its management decisions on adding value long-term

Basic understanding

Good corporate governance continues to be a core component of management at Software AG. The Executive Board and the Supervisory Board are committed to it, and all our divisions focus on 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 Executive 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 Executive Board and Supervisory Board

The corporate bodies of Software AG are the Executive 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 Executive Board and the Supervisory Board. In the year under review, the Executive Board and Supervisory Board again collaborated closely in an atmosphere of trust.
The Executive 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 us vis-à-vis third parties. Presently our Executive Board is comprised of six 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.

Our Supervisory Board is also comprised of six members. It advises and supervises the Executive Board in managing the Company. The two bodies jointly decide on corporate strategy and its implementation. The Supervisory Board appoints the members of the Executive Board and is entitled to dismiss them for good cause. In addition, it discusses the quarterly reports and reviews and approves our financial statements and consolidated financial statements. Key Executive Board decisions such as 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. All Supervisory Board members are elected individually. Our Rules of Procedure stipulate that if a Supervisory Board members leaves the Board prior to the expiration of his or her term of office, the successor's appointment is valid only until the next Annual Shareholders' Meeting.

Efficient committee work

The Supervisory Board's Rules of Procedure provide for the establishment of three committees. They include the Committee for Compensation and Succession Issues, the Audit Committee and the Nominating Committee, which 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 once and the Nominating Committee once. The Supervisory Board provides information concerning its responsibilities and work in the Report of the Supervisory Board. The Executive Board, Supervisory Board and committees work together closely with the objective of enhancing Software AG's value in the long term. The following change was made to the committees in fiscal 2008: After the Annual Shareholders' Meeting, Mr. Justus Mische withdrew from both the Supervisory Board and the Staff and Nomination Committee, and was replaced by Mr. Willi Berchtold.

We maintain no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist. Both employee representatives on the Supervisory Board are employees of Software AG.

Shareholders and Annual Shareholders' Meeting

The Annual Shareholders' Meeting is one of our core institutions, 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 approval of the actions of the Executive and Supervisory Boards, appointment of the Supervisory Board and external auditors, amendments to the Articles of Incorporation and corporate measures. 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 financial position four times per year. We held our most recent Annual Shareholders' Meeting on April 29, 2008 in a new venue: the newly build "darmstadtium" convention center in Darmstadt. We welcomed about 450 participants – more than twice as many as last year. Because of the positive feedback we received, the next Annual Shareholders' Meeting on April 30, 2009 will take place there as well.

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, and we broadcast it live via the Internet. 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 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 2008 we further intensified communication, taking part in additional conferences and meetings.

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 deal with corporate communication. To read them, please go to http://www.softwareag.com and click on Investors.

Accordingly, the Executive 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 are instructed to maintain confidentiality. Software AG provides information to shareholders, analysts and journalists in accordance with standard criteria. This information is transparent for all capital market participants. All ad hoc announcements and 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.

We have commissioned independent consulting firm IR Consult to carry out an annual perception 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 2008, was good, with an overall rating of 2.09.

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

Pursuant to the 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 with 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 Europe-wide. 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.

Date		**Content**
January 15, 2008	(published on January 17, 2008)	The voting share of DWS Investment GmbH fell below the threshold of five percent.
January 17, 2008	(published on January 18, 2008)	The voting share of DWS Investment GmbH exceeded the threshold of five percent.
January 22, 2008	(published on January 25, 2008)	The voting share of DWS Investment GmbH fell below the threshold of five percent.
January 23, 2008	(published on January 29, 2008)	The voting share of Baring Asset Management Limited fell below the threshold of three percent.
February 20, 2008	(published on May 9, 2008)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH exceeded the threshold of three percent.
March 11, 2008	(published on March 13, 2008)	The voting share of DWS Investment GmbH exceeded the threshold of five percent.
April 24, 2008	(published on May 8, 2008)	The voting share of MSDW Equity Finance Services (I) Cayman Ltd exceeded the threshold of three percent.
April 24, 2008	(published on June 20, 2008)	Correction of the voting rights notification of May 8, 2007: The voting share of MSDW Equity Finance Services (I) Cayman Ltd exceeded the threshold of three percent.
April 29, 2008	(published on June 9, 2008)	The voting share of Alken Asset Management LLP exceeded the threshold of five percent.
May 2, 2008	(published on May 8, 2008)	The voting share of MSDW Equity Finance Services (I) Cayman Ltd fell below the threshold of three percent.
May 2, 2008	(published on May 9, 2008)	The voting share of Allianz Global Investors Kapitalanlagegesellschaft mbH fell below the threshold of three percent.
May 2, 2008	(published on June 4, 2008)	Correction of the voting rights notification of May 8, 2007: The voting share of MSDW Equity Finance Services (I) Cayman Ltd fell below the threshold of three percent.
June 4, 2008	(published on June 20, 2008)	The voting share of Alken Fund SICAV exceeded 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 for the company are described in the Outlook section of the Management Report. Please refer to the Notes for information on Group accounting.

Directors' dealings
No reportable transactions were announced in the 2008 calendar year.

2008 declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG)
On December 12, 2008, the Executive and Supervisory Boards submitted an unqualified declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG). The Company follows all recommendations of the German Corporate Governance Code dated June 14, 2007 and of the revised version dated June 6, 2008. The Executive Board and the Supervisory Board intend to comply with the Code (as amended on June 6, 2008) in the future as well.

Software AG implements the recommendations of the German Corporate Governance Code. However, separate preparation of Supervisory Board meetings by shareholder or employee representatives does not take place in a formal sense. Due to the small number of representatives, informal coordination is easily achieved.

Additional details can be found on the Internet at www.softwareag.com under Investors. 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 2008 Annual Shareholders' Meeting of Software AG has again appointed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, as Company auditor. In accordance with the internal rotation regulations set forth in Section 319a (1) No. 4 of the German Commercial Code (HGB), our financial statements for 2008 were audited by a new BDO team.

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

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, represented by the Chairman of the Audit Committee, has 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 consolidated financial statements. The remuneration report was prepared pursuant to the provisions of the new German financial reporting standard No. 17 (DRS 17), which was applied for the first time in fiscal 2008. Last year's figures were adjusted accordingly. The remuneration report provides details on remuneration amounts and the structure of the remuneration system for the Executive 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.

Executive Board remuneration pursuant to Section 314 (1) No. 6a German Commercial Code (HGB)

Remuneration of active Executive Board members for fiscal 2008 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	1,883,018.36	28,376.78
David Broadbent	211,331.25	465,838.63	129,676.68
Mark Edwards	203,151.68	881,491.74	253,129.47
Holger Friedrich (since October 1, 2008)	62,499.99	87,500.00	6,279.18
Dr. Peter Kürpick	200,000.04	690,578.47	31,261.56
David Mitchell** (until April 30, 2008)	76,894.78	0.00	273,848.00
Arnd Zinnhardt	231,999.96	1,203,694.65	34,687.66

*) €91 thousand of David Broadbent's other remuneration components and €213 thousand of Mark Edwards' other remuneration components include employer contributions to British social security and do not increase the entitlement of either Board member. This data is provided in a departure from the provisions of DRS 17 pursuant to Recommendation 4.2.5 of the Corporate Governance Code.

**) €276 thousand of David Mitchell's other remuneration components is compensation associated with the end of his Board service.

Variable remuneration / bonuses

Individual Executive 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, 2008, 14,367 (2007: 34,835) subscription rights had been issued to Executive Board members. The plan will continue until the end of 2011. The conditions for exercising options were again met in fiscal 2008. Net revenue rose by more than 10 percent over the previous year, and profit from ordinary activities surpassed 10 percent of sales. The exercise price averaged €49.64 (2007: €65.08) for all persons eligible to exercise options in the year under review.

Stock option awards from the Management Incentive Plan II (MIP II) (Table 1)

	Balance on Jan. 1, 2008	Average exercise price	Fair value of stock option at grant time	Remaining term of options	Stock options granted in 2008
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	16,875	20.38	8.44	3.5	0
David Broadbent	6,558	10.82	7.80	3.5	0
Mark Edwards	10,152	13.58	7.30	3.5	0
Arnd Zinnhardt	1,250	9.73	4.40	2.0	0

Stock option awards from the Management Incentive Plan II (MIP II) (Table 2)

	Forfeited options in 2008	Exercised options in 2008	Average exercise price	Average market price on day exercised	Expired options in 2008
	No. of options	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	7,500	21.00	52.98	0
David Broadbent	0	3,750	18.92	45.11	0
Mark Edwards	0	7,968	17.30	48.10	0
Arnd Zinnhardt	0	1,250	9.73	52.98	0

Stock option awards from the Management Incentive Plan II (MIP II) (Table 3)

	Balance on Dec. 31, 2008 No. of options	Of which were exercisable No. of options	Remaining term of options Years	Exercise price range in €	Expenses from MIP II stock options in €
Karl-Heinz Streibich (Chief Executive Officer)	9,375	9,375	2.5	15.72 – 26.47	10,551.99
David Broadbent	2,808	2,574	2.5	16.47 – 23.89	4,100.74
Mark Edwards	2,184	2,184	2.5	16.47 – 22.93	6,348.07
Arnd Zinnhardt	0	0	–	–	781.63

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. As in the previous year, the portion accruing for fiscal year 2008 is converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2008 less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two, and three years. On the due dates in March 2010 to 2012, 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 TecDAX30 index and is then paid to the members of the Executive Board. The adjustment for this out- or underperformance is limited to 50 percent. The members of the Executive 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 2009, Executive Board members could for the first time 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 entire term by the amount (measured in percent) by which Software AG shares outperform or underperform the TecDAX30 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 Executive 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 €3,995 thousand (2007: €3,524 thousand) were incurred under this plan during fiscal 2008; these expenses are reflected under "long-term components" in the table.

c) Management Incentive Plan III (MIP III)

A new incentive program based on the performance of Software AG stock was initiated for Executive Board members and managers in the third quarter of 2007. So far, 1,050,000 ownership rights have been issued to Executive 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 after taxes compared to fiscal year 2006 by no later than 2011.

Stock option awards (Table 1)

	Balance on Jan. 1, 2008 No. of options	Average exercise price in €	Value of option at time of grant in €	Remaining term Years	Options granted in 2008 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	300,000	72.36	20.41	3.4	0
David Broadbent	150,000	72.36	20.41	3.4	0
Mark Edwards	150,000	72.36	20.41	3.4	0
Holger Friedrich	0	72.36	–	3.4	150,000
Dr. Peter Kürpick	150,000	72.36	20.41	3.4	0
David Mitchell (until April 30, 2008)	125,000	72.36	20.41	3.4	0
Arnd Zinnhardt	150,000	72.36	20.41	3.4	0

Stock option awards (Table 2)

	Forfeited options in 2008 No. of options	Average exercise price in €	Exercised options in 2008 in €	Expired options in 2008 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	–	0	0
David Broadbent	0	–	0	0
Mark Edwards	0	–	0	0
Holger Friedrich	0	–	0	0
Dr. Peter Kürpick	0	–	0	0
David Mitchell (until April 30, 2008)	125,000	72.36	0	0
Arnd Zinnhardt	0	–	0	0

Stock option awards (Table 3)

	Balance on Dec. 31, 2008 No. of options	Of which were exercisable No. of options	Remaining term* Years	Exercise price in €	Expenses from MIP III options in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	3.4	72.36	1,010,086.40
David Broadbent	150,000	0	3.4	72.36	505,043.70
Mark Edwards	150,000	0	3.4	72.36	505,043.70
Holger Friedrich	150,000	0	3.4	72.36	63,455.16
Dr. Peter Kürpick	150,000	0	3.4	72.36	505,043.70
David Mitchell (until April 30, 2008)	0	–	–	–	−149,035.00
Arnd Zinnhardt	150,000	0	3.4	72.36	505,043.70

*) The assumed remaining term until December 31, 2008, at 3.4 years, corresponds to the assumed remaining term of the previous year, which was until December 31, 2007. Because of the financial market crisis, the Company assumes that it will take one year longer than estimated last year to achieve this program's performance targets.

Long-term remuneration components

	Long-term remuneration components in €	Pension expenses* in €	Performance Phantom Shares No. of options	Expenses from performance phantom shares** in €
Karl-Heinz Streibich (Chief Executive Officer)	1,055,191.13	77,161.00	20,589	1,112,898.22
David Broadbent	438,582.59	44,285.18	8,658	485,444.13
Mark Edwards***	726,678.41	–95,965.98	14,125	836,500.91
Holger Friedrich	988,555.56	0.00	1,115	55,555.56
Dr. Peter Kürpick	494,429.48	13,841.00	9,620	539,025.32
David Mitchell**** (until April 30, 2008)	–2,654,334.80	0.00	0	0.00
Arnd Zinnhardt	915,103.01	5,380.00	17,855	965,139.59

*) Based on Recommendation 4.2.5 of the Corporate Governance Code and at variance with the provisions of DRS 17, we have included pension expenses in this table of Executive Board remuneration.
**) The expenses attributable to the fair value at the time the options were awarded are included in the long-term remuneration components.
***) The negative value from pension expenses is due largely to the negative development of the British pound.
****) The negative value of the long-term remuneration components is due to the forfeiting of options from the MIP III program as well as the withdrawal of entitlement from the phantom share program.

Expenses amounting to €45 thousand (2007: €2 thousand) were charged to the pension expenses for Executive Board members in fiscal 2008. Employer contributions to social security for two members of the Executive Board resulted in expenses of €304 thousand (2007: €473 thousand). In accordance with Recommendation 4.2.5 of the Corporate Governance Code, these two items were recognized in total remuneration of the Executive Board. This relates to remissions from the company for British social security, which will not increase the future pensions for either of the Executive Board members.

Total remuneration for members of the Executive Board amounted to €9,414 thousand (2007: €34,005 thousand) in the year under review. Included in the total remuneration for the previous year is the fair value of the MIP III options in the amount of €20,920 thousand which represents a nonrecurring long term element. We were required to report in this manner for the first time in fiscal year 2008 in accordance with the provisions of DRS 17. Last year's values were adjusted accordingly.

The Executive Board members received a total of 71,962 (2007: 61,546) phantom shares under the phantom share plan.

Remuneration for former Executive Board members totaled €291 thousand (2007: €169 thousand).

Pension provisions for former Executive Board members amounted to €1,765 thousand (2007: €1,886 thousand).

Other remuneration components

A member of the Executive 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 and 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 Executive Board member has only been altered marginally with the change of control.

In the event of illness, five members of the Executive 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 the event of illness, one Executive Board member will continue to be paid 90 percent of his average after-tax annual remuneration for the preceding three years for a period of six months.

In case of permanent disability, the employment contract of the Executive 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 Executive 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 Executive 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 Executive Board members will receive no severance pay in such a case. From the time of their departure until completion of their 65th year of age, the German members of the Executive Board will receive a disability pension of €11 thousand per month, and the CEO will receive €15 thousand per month. British members of the Executive Board are subject to the provisions of the Permanent Health Insurance Plan applicable in the United Kingdom. Under this plan, British members of the Executive Board will receive 90 percent of their average annual after-tax remuneration for the preceding three years until they reach 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 five Executive Board members. For four Executive Board members, the insured amount equals €500 thousand in the event of death and €1,000 thousand in the event of disability. For one Executive Board member, the insured amount equals four times his fixed annual remuneration.

Five members of the Executive Board will receive pensions of €11 thousand per month for life after completing their 65th year of age, regardless of their age when they joined the Company. The CEO's pension amounts to €15 thousand. This pension commitment also comprises a widow's annuity of €6 thousand per month, with €9 thousand per month for the widow of the CEO. In the event an Executive Board member leaves the Company prior to the age of 65, such Executive Board member will still be entitled to pension benefits, but they will be reduced on a pro rated basis. The beneficiary will not be entitled to claim an adjustment or indexation of the entitlement. One member of the Executive Board will receive an annual pension for life after completing his 60th year in the amount of 1.66 percent of the average fixed remuneration for the preceding three years multiplied by the member’s number of service 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.

Instead of a pension plan, one member of the Executive Board receives a monthly allowance for maintaining a second place of residence in the amount of €2 thousand ($3 thousand) as well as weekend flights home.

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

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

Due to the new German financial reporting standard No. 17 (DRS 17), which has to be applied for the first time in fiscal 2008, the previous year's data is presented in accordance with the provisions of DRS 17. The previous year's data deviates from this because it was presented pursuant to the previously valid interpretations of the provisions of Section 314 (1) No. 6a of the German Commercial Code (HGB).

Remuneration of Executive Board members for fiscal 2007 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	1,500,774.20	19,384.30
David Broadbent	244,852.38	444,813.03	208,550.28
Mark Edwards	236,073.82	887,264.69	338,604.42
Dr. Peter Kürpick	200,000.04	547,135.33	26,487.52
David Mitchell	102,843.71	486,340.09	15,485.30
Arnd Zinnhardt	231,999.96	967,165.60	34,589.40
Christian Barrios Marchant** (until January 8, 2007)	19,333.33	36,000.00	836,120.56
Alfred Pfaff*** (until August 8, 2007)	166,666.64	0.00	1,851,406.92

*) €180 thousand of David Broadbent's other remuneration components and €293 thousand of Mark Edwards' other remuneration components include employer contributions to British social security and do not increase the entitlement of either Board member. This data is provided in a departure from the provisions of DRS 17, but pursuant to Recommendation 4.2.5 of the Corporate Governance Code.

**) €834 thousand of Christian Barrios Marchant's other remuneration components is compensation associated with the end of his Board service.

***) Alfred Pfaff's other remuneration components include compensation associated with the end of his Board service in the amount of €1,830 thousand.

Stock option awards from the Management Incentive Plan II (MIP II) (Table 1)

	Balance on Jan. 1, 2007 No. of options	Average exercise price in €	Fair value of stock option at time of award in €	Remaining term Years	Granted options in 2007 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	30,000	20.99	8.19	4.5	0
David Broadbent	14,994	18.92	7.39	4.5	0
Mark Edwards	31,244	16.37	6.23	4.5	0
Arnd Zinnhardt	40,000	11.66	2.20	3.0	0
Christian Barrios Marchant (until January 8, 2007)	35,625	14.91	2.94	4.5	0

Stock option awards from the Management Incentive Plan II (MIP II) (Table 2)

	Forfeited stock options in 2007 No. of options	Average exercise price in €	Exercised options in 2007 No. of options	Average exercise price in EUR	Average market price on day exercised in €	Expired options in 2007 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	–	13,125	19.97	56.22	0
David Broadbent	0	–	8,436	17.78	58.08	0
Mark Edwards	0	–	21,092	15.50	57.77	0
Arnd Zinnhardt	0	–	38,750	11.72	57.23	0
Christian Barrios Marchant (until January 8, 2007)	10,784	15.10	24,841	14.83	56.22	0

Stock option awards from the Management Incentive Plan II (MIP II) (Table 3)

	Balance on Dec. 31, 2007 No. of options	Of which were exercisable No. of options	Remaining term Years	Exercise price range in €	Expenses from MIP II stock options in €
Karl-Heinz Streibich (Chief Executive Officer)	16,875	13,125	3.5	15.72 – 26.47	61,414.25
David Broadbent	6,558	4,455	3.5	12.39 – 23.89	0.00
Mark Edwards	10,152	7,968	3.5	9.73 – 22.93	48,700.31
Arnd Zinnhardt	1,250	1,250	2.0	9.73	22,011.50
Christian Barrios Marchant (until January 8, 2007)	0	0	–	–	32,890.19

Stock option awards from the Management Incentive Plan III (MIP III) (Table 1)

	Balance on Jan. 1, 2007 No. of options	Granted options in 2007 No. of options	Average exercise price in €	Value of option at time of award in €	Forfeited options in 2007 No. of options	Exercised options in 2007 No. of options	Expired options in 2007 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	300,000	72.36	20.41	0	0	0
David Broadbent	0	150,000	72.36	20.41	0	0	0
Mark Edwards	0	150,000	72.36	20.41	0	0	0
Dr. Peter Kürpick	0	150,000	72.36	20.41	0	0	0
David Mitchell	0	125,000	72.36	20.41	0	0	0
Arnd Zinnhardt	0	150,000	72.36	20.41	0	0	0

Stock option awards from the Management Incentive Plan III (MIP III) (Table 2)

	Balance on Dec. 31, 2007 No. of options	Of which were exercisable No. of options	Remaining term Years	Exercise price in €	Expenses from MIP III stock options in €	Value of option at time of award* in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	3.4	72.36	357,683.00	6,123,000.00
David Broadbent	150,000	0	3.4	72.36	178,841.00	3,061,500.00
Mark Edwards	150,000	0	3.4	72.36	178,841.00	3,061,500.00
Dr. Peter Kürpick	150,000	0	3.4	72.36	178,841.00	3,061,500.00
David Mitchell	125,000	0	3.4	72.36	149,035.00	2,551,250.00
Arnd Zinnhardt	150,000	0	3.4	72.36	178,841.00	3,061,500.00

*) The value of the MIP III options at the time they were awarded is included in the long-term compensation components.

Long-term remuneration components

	Long-term remuneration components* in €	Pension expenses in €	Performance Phantom Shares No. of options	Expenses from performance phantom shares** in €
Karl-Heinz Streibich (Chief Executive Officer)	7,005,779.98	24,150.00	16,809	1,023,833.26
David Broadbent	3,434,468.41	35,560.82	7,258	420,708.37
Mark Edwards***	3,733,219.99	−1,989.56	12,775	845,375.79
Dr. Peter Kürpick	3,474,943.79	8,571.00	7,830	506,643.00
David Mitchell	2,666,042.71	0.00	2,234	114,792.71
Arnd Zinnhardt***	3,830,227.43	−32,924.00	14,640	890,850.82
Christian Barrios Marchant (until January 8, 2007)	0.00	245.67	0	0.00
Alfred Pfaff*** (until August 8, 2007)	5,180.40	−30,830.00	−5,114	−277,786.41

*) The value of the MIP III options at the time they were awarded is included in the long-term compensation components.
**) The expenses attributable to the fair value of the phantom shares at award time are included in the long-term compensation components.
***) The negative expenses from pension expenses result from actuarial gains.

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 Committee for Compensation and Succession Issues, the Audit Committee as well as the Nominating Committee.

In addition to reimbursement of their expenses, members of the Supervisory Board receive a fixed annual remuneration in the amount of €25 thousand as well as 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 net income 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 TecDAX30 index for the same period (Variable Remuneration II). Starting in fiscal year 2008, 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 TecDAX30 will be assessed on the basis of a 3-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 an attendance fee of €1,500 each time they participate in person in a meeting of one of their committees. Attendance fees are paid only once for multiple committee sessions occurring on the same day or for a session that takes place on consecutive days. The attendance fee is €2,500 for the committee chairmen.

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 of their first month of activity and one-twelfth of the annual remuneration for each additional month.

Remuneration of Supervisory Board members for fiscal year 2008 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman)	50,000.00	64,000.00	17,200.00	7,500.00
Willi Berchtold (as of April 29, 2008)	16,803.28	21,508.20	5,780.33	1,500.00
Dr. Andreas Bereczky (Deputy Chairman)	37,500.00	48,000.00	12,900.00	5,500.00
Rainer Burckhardt	25,000.00	32,000.00	8,600.00	1,500.00
Justus Mische (until April 29, 2008)	8,196.72	10,491.80	2,819.67	3,000.00
Monika Neumann	25,000.00	32,000.00	8,600.00	4,500.00
Alf Henryk Wulf	25,000.00	32,000.00	8,600.00	3,000.00

Total remuneration for members of the Supervisory Board amounted to €519 thousand (2007: €775 thousand) in the year under review.

Remuneration of Supervisory Board members for fiscal year 2007 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman)	50,000.00	116,000.00	28,000.00	15,000.00
Karl Heinz Achinger (Deputy Chairman until May 11, 2007)	13,458.90	31,224.66	7,536.99	6,500.00
Dr. Andreas Bereczky (Deputy Chairman as of May 11, 2007)	33,013.70	76,591.78	18,487.67	4,500.00
Rainer Burckhardt (as of May 11, 2007)	16,027.40	37,183.56	8,975.34	0.00
Justus Mische	25,000.00	58,000.00	14,000.00	9,000.00
Monika Neumann	25,000.00	58,000.00	14,000.00	9,000.00
Reinhard Springer (until May 11, 2007)	8,972.60	20,816.44	5,024.66	3,000.00
Alf Henryk Wulf (as of May 11, 2007)	16,027.40	37,183.56	8,975.34	0.00

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Software AG supervised the Executive Board, and in consideration of all significant business events, also closely monitored the development of the Group, as required by the German Corporate Government Code, during fiscal year 2008. The Supervisory Board met six times. At least one session took place each quarter. All members of the Supervisory Board attended all sessions. The Supervisory Board took advantage of the option permitted by the Articles of Incorporation to adopt resolutions according to the written circulation procedure.

During these sessions, the Supervisory Board analyzed the ongoing business development and strategic direction of the Company in detail with the Executive Board. Any transactions requiring Supervisory Board approval in accordance with the Articles of Incorporation or applicable legislation were reviewed and approved, where appropriate.

Consultations covered the financial status of Software AG and its subsidiaries, the growth strategy of Software AG, the current and longer-term development of individual business segments, and the strategy for products, sales and marketing. The Supervisory Board also received written reports on business development from the Executive Board on a monthly basis.

The Supervisory Board includes the following committees:
- The Committee for Compensation and Succession Issues
- The Audit Committee
- The Nomination Committee

The Committee for Compensation and Succession Issues met three times, the Audit Committee and Nomination Committee each met once.

The Supervisory Board continuously held detailed deliberations on the subject of corporate governance and the German Corporate Governance Code in the course of several meetings during fiscal year 2008. The Supervisory Board and Executive Board took the necessary steps to continue to comply in full with the recommendations of the Code during the year under review. Remuneration of Executive and Supervisory Board members is again reported individually for fiscal year 2008 (refer to the Remuneration Report on p. 32).

The declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) issued jointly with the Executive Board states that in 2008, Software AG complied with the recommendations of the Code in the version dated June 14, 2007, as well as the most recent version of June 6, 2008, without exception and will continue to do so in the future. This declaration of compliance has been made public on the Company's website www.softwareag.com.

In 2008, the efforts of the Supervisory Board were primarily influenced by the growth strategy and the changes needed to achieve the targeted growth:
- The meeting in March 2008 was in preparation for the Annual Shareholders' Meeting, which took place on April 29, 2008 in Darmstadt.
- In April and August 2008, changes to the Rules of Procedure for the Executive Board were decided as a result of personnel changes in the Executive Board. The sales organizations of the webMethods and ETS business divisions were realigned to two Executive Board members each of whom manages different regional territories. The Professional Services unit was assigned its own Executive Board member.

FRANK F. BEELITZ
Chairman of the
Supervisory Board

- In the meetings in the second half of 2008, in July, October and December, the various aspects of the Company strategy for products, partners, acquisitions and communication were discussed in depth.

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2008.

BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, examined the financial statements, consolidated financial statements and management report for the year ended December 31, 2008, including 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 Audit Committee and the Supervisory Board thoroughly reviewed the audit results in their meeting of March 13, 2009. 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 Executive Board with respect to the appropriation of profits.

The following personnel changes took place on the Executive Board and Supervisory Board of Software AG in 2008.

David Mitchell left the Company by mutual agreement on April 30, 2008.

Effective October 1, 2008 Holger Friedrich was appointed as a member of the Executive Board and took on global responsibility for the Professional Services unit.

The term of office of Justus Mische ended at the Annual Shareholders' Meeting on April 29, 2008. Mr. Mische had been a member of the Supervisory Board since December 9, 2002. Upon the recommendation of the Supervisory Board, the shareholders appointed Willi Berchtold as the successor to Justus Mische. Mr. Berchtold is Executive Officer of Finance, Controlling and Information Technology at ZF Friedrichshafen AG.

The Supervisory Board would like to thank the outgoing members for their dedication and reliable cooperation.

The Supervisory Board would also like to thank the Executive Board and all employees for their commitment, as well as their achievements, during fiscal year 2008.

Darmstadt, March 2009

The Supervisory Board
Frank F. Beelitz
Chairman

Please refer to page 106 of the Notes for additional information on the members of the Supervisory Board.

GROUP MANAGEMENT REPORT

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 Executive Board of Software AG combines the management reports of the Group and the parent company into one report.

1 THE SOFTWARE AG GROUP

1.1 BUSINESS ACTIVITIES

Software AG is the world's leading independent provider of infrastructure software for business processes. By modernizing, automating and optimizing their existing IT systems and processes, our customers are able to achieve their business targets more quickly, add tangible value and react flexibly to new business requirements. With solutions from Software AG, companies open up and control information, systems, applications, processes and services and achieve a high degree of automation and end-to-end transparency.

Our product portfolio contains market-leading solutions for data management, the creation and modernization of applications, service-oriented architectures and the optimization of business processes. We combine powerful technology with industry expertise and proven best practices, which help our customers to achieve their company targets more quickly. Software AG has 40 years of international IT experience and operates in 70 countries with around 3,500 employees. The Company is headquartered in Germany and is listed on the Frankfurt Stock Exchange. Software AG posted total revenue of €721 million in 2008.

Software AG generates its revenue from the licensing of enterprise software and from maintenance and services in the two business divisions, ETS and webMethods.

1.2 ORGANIZATION

Software AG consists of two business divisions: Enterprise Transaction Systems (ETS) and webMethods. The associated consulting services are provided by the Professional Services (PS) business unit.

ETS and webMethods business divisions

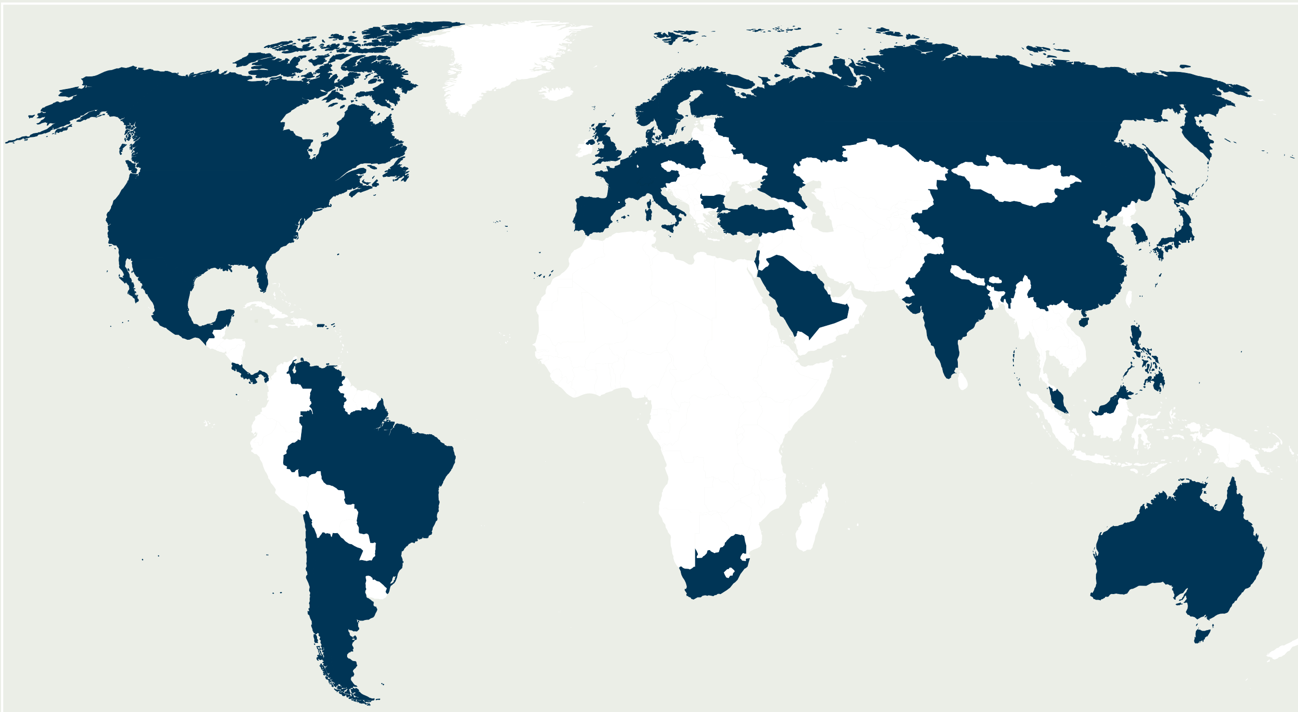
With our ETS business division, we have a firm footing in the IT landscapes of companies and government agencies worldwide. Software AG is an ideal partner for mainframe software and the modernization of mainframe-based IT systems and therefore ensures the long-term protection of customers' investments. Adabas offers our clients a high-performance database that is able to process 320,000 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 business-critical processes at large companies and government agencies. Today, customers modernize their business systems with our help by optimizing their performance and opening up these business-critical systems up to new environments such as Web and e-business. The ETS business division includes technologies such as database management, application development and application modernization.

The comprehensive product range in the webMethods business segment enables customers to develop automated, flexible and efficient business processes (business process management, BPM) by integrating existing systems and make these processes available to external business partners. This is achieved through Web-based programs that can be easily controlled and managed as Web services 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 services and applications in real time are also equally important. The IT therefore provides optimum support for business development. With the acquisition of webMethods, Inc. in 2007, Software AG has strengthened its product range with first-class products for integration and business process management. The technologies in the webMethods business segment include control software for service-oriented architectures (SOA governance), business process management (BPM), business activity monitoring (BAM) and enterprise service bus (ESB) and B2B integration technology.

Global Professional Services (PS) business unit

Since our reorganization in 2007, our two global business divisions, ETS and webMethods, have been supplemented by the globally positioned Professional Services business unit. This unit implements customized IT solutions based on our own products and thereby provides customers with further operational benefits for their business. Professional Services offers consulting for service-oriented architecture (SOA), business process management (BPM) and modernization as well as specific product-related solutions. As part of Software AG, our Professional Services team has the best product expertise on the market thanks to close cooperation with the development departments and its proximity to customers.

OUR SUBSIDIARIES



Realignment of the sales divisions

Following our acquisition of webMethods, Inc. in 2007, ETS and webMethods became two equally important divisions of Software AG's business. Consequently, in the same year the Company structure was changed from an organization divided into subsidiaries to one based on business divisions.

In April 2008, the Executive Board also decided on a further organizational change: The sales organizations of the two business divisions were aligned under two Executive Board members, each with different regional responsibilities. The goal was to increase sales efficiency and in particular to push sales growth in the webMethods business, which was previously focused primarily on the USA. The Western region (North and South America, Western and Southern Europe) is therefore the responsibility of Executive Board member Mark Edwards as COO West. He was previously responsible for the ETS business segment. Executive Board member David Broadbent, previously CTO of the ETS business, was entrusted with sales in the Eastern region (Northern and Central Europe, Africa, Asia and Australia) as COO East.

The two sales units focus their market cultivation efforts on ETS and webMethods respectively, and are managed consistently at Executive Board level. This ensures that sales specialization for the different segments is retained, but at the same time enables Management to pursue a consistent and customer-oriented sales strategy. With this strategy, we aim to acquire large projects with new and existing customers in the software market for service-oriented architecture. As a result of our restructuring measures, the area of Research & Development is now the responsibility of Dr. Peter Kürpick, who was previously in charge of webMethods R&D. The merging of activities into a single R&D organization should result in a considerable increase in efficiency, particularly with regard to the development of add-on products (see Research & Development section).

Changes in the Executive Board

An important strategic decision was made with regard to the further expansion of our Professional Services business unit. To underline the importance of the newly aligned area, Holger Friedrich assumed his new role as Executive Board member with global responsibility for Software AG Professional Services on October 1, 2008. As a result, this area is under the global leadership of an expert with more than 15 years of experience. Our aim is to build on the implementation competence of our own software solutions and consulting services over the long term, in particular in the SOA and BPM markets.
The former president and CEO of webMethods, Inc., David Mitchell, who was Board member for sales of the webMethods division of Software AG following the acquisition, left the Company on April 30, 2008 for personal reasons. Further information on this can be found in the Corporate Governance section and the Remuneration Report.

Group structure
The corporate structure of Software AG comprises 75 subsidiaries in 42 countries (see the Notes to the Financial Statements for a detailed breakdown). The largest subsidiaries are located in the USA, Spain, Germany and the United Kingdom. Brazil is also becoming one of the most important sales markets for Software AG. The subsidiaries are responsible for all Software AG sales, marketing and service activities in the respective countries. In Germany, the two wholly-owned subsidiaries SAG Deutschland GmbH and SAG Consulting Services GmbH employ around 200 people and have seven offices.

Major locations
Software AG has more than 80 locations worldwide. Our most important locations include Darmstadt (Germany), Reston (USA), Madrid (Spain), Bracknell (UK), Sydney (Australia) and Sao Paulo (Brazil).

1.3 MARKET POSITION
Software AG's goal is to become the global market leader in the future IT markets for SOA and BPM. In 2008 we further strengthened our market position as the leading independent provider of infrastructure software. We were able to draw on our 40 years of extensive experience in international IT markets here. Software AG's particular strengths are our strong focus on the customer, a highly innovative product portfolio, the financial stability of the Group and our global presence.

Worldwide, Software AG is one of the 25 largest providers of enterprise software. In Europe, the Company has moved into fourth place on the list of the largest software companies, rising from fifth place the year before. This was corroborated by the "Truffle 100 Europe" report published in November 2008 by the European Commission in Brussels, which rated the 100 largest software companies in Europe. The rating was based on global software revenue generated in 2007. In Germany, Software AG is already the second-largest provider of enterprise software.

In the market segment for infrastructure software for business processes, Software AG is the largest independent provider and is one of the three largest providers worldwide. The Company is the only software provider that is technology leader in BPM (business process management) and SOA (service-oriented architecture) governance, the two pillars of infrastructure software, as confirmed by current studies by leading industry analysts. They have also classified Software AG as a "leader" or in the "leader's quadrant" in numerous studies.

1.4 CORPORATE STRATEGY AND OBJECTIVES
Software AG would like to further expand its position as a top independent provider of infrastructure software to become the world's market leader in the high-opportunity segments of SOA and BPM. To accomplish this, we are dedicated to implementing a sustainable business development strategy. Our goal of profitable growth consists of four components:

1. Organic growth through innovation
2. Geographic expansion
3. Growth through acquisitions
4. New customer groups through partnerships

The first two components were our focal points in 2008. We successfully integrated webMethods and broadened our product portfolio. Geographic expansion consisted primarily of our successful direct market entry in Brazil at the beginning of the year.

Organic growth through innovation
Software AG built a second key line of business with webMethods to complement our traditional data management (ETS) business division. It is a globally leading integration software portfolio in the high-opportunity service-oriented architecture (SOA) and business process management (BPM) markets. Our technologies have been recognized as leaders by Independent industry analysts. Integration software is useful to Software AG's new and existing customers, which makes it particularly important from a strategic point of view. The webMethods business division enables us to modernize our customer base's IT systems and to acquire new customers and thus achieve profitable growth.

Growth through geographic expansion
Our direct market entry in Brazil in January 2008 was very successful. In the first year alone, we signed new contracts with more than 45 of the approximately 150 Brazilian product users. During the year, revenue surpassed our forecast of €30 million, which had been raised several times throughout the year. By the year 2010 we want to achieve $75-100 million in revenue in Brazil. Our next phase of growth with regard to geographic expansion will concentrate on intensified market representation within the 70 countries in which Software AG currently operates.

Growth through acquisitions
In 2007 we acquired SPL Israel, webMethods, Inc. and Jacada (effective January 1, 2008). In 2008 we successfully assimilated the three companies. In September 2008, CentraSite ActiveSOA, our first integrated product, went to market. Acquisitions continue to be a component of our growth strategy. Software AG is a consolidator in the highly fragmented infrastructure software market. Technology companies that complement our product portfolio and smaller systems firms that strengthen our local or industry-specific consulting and project capacities are of particular interest.

New customer groups through partnerships
In 2008 we also increased the number of customer projects in which partners were involved. Our access to our partners' customer base through the Partner-Eco-System enables us to better penetrate the market with our webMethods products. As a technology leader, Software AG is attractive to new partners, which enables us to lay the groundwork for sustained growth.

Independence
One of our key success factors among customers is our independence from a particular IT environment or platform. Software AG modernizes vendor-neutral IT systems. This gives us the flexibility to put in place the best and most efficient IT solutions possible for our customers. This is one of our greatest unique selling points. Through our consistent customer orientation, technological leadership and efficient processes we aim to achieve annual organic growth of 10 percent, provided a normal economic environment. Our high-growth

webMethods business division generated 44 percent of total revenue in 2008. In the medium term, webMethods will account for more than 50 percent of revenue and bolster growth of the corporation as a whole.

For our complete financial targets for 2009, please refer to the Forecast section.

1.5 VALUE-ORIENTED CONTROL

Software AG's goal is to achieve a sustained increase to its enterprise value. To this end we want to continue growing profitably and further increasing the Group's financial strength. We use an information management system in order to control these aims. The key indicators we look at here are the revenue, operating result (EBIT), EBIT margin, earnings per share and cash flow on the basis of our IFRS reporting. 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 cost block. As in other companies in the software industry, EBIT is therefore the most important financial indicator for Software AG.

Ongoing 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 for maintenance and services revenue. For this reason, we continuously monitor the development of license revenues, in particular, from the initial customer contact to the signing of the license agreement, on all management levels.
We also continuously monitor the development of operating margin (EBIT margin) in a multidimensional matrix structure. This monitoring takes into account the breakdown by business divisions and revenue types and the regional structure within the business divisions.
In addition, we constantly observe the operating margins of our service business at project level from the time a quote is prepared through to project finalization. One of our most important aims is to further improve sales efficiency, which we achieve through more highly qualified personnel and larger projects. The newly established interregional sales and service structures offer significant additional potential with regard to sales efficiency (see Customers and Sales).

Optimized cost management

All cost items in the Group are subject to stringent budget control. A check is carried out monthly to determine whether the budgets were adhered to and to ascertain how forecast costs have developed. The basis of this is 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.

Dedicated R&D management

Our success as a product enterprise in the software industry is based on research and development (R&D). We continuously adapt our portfolio to meet the needs of our customers and take business concerns into account. To this end, we calculate the profit contribution of our products on an ongoing basis. We optimize our use of resources by combining purchases of technology and in-house development and achieving a balanced mix of high-wage and low-wage locations for the development of our products.

Improved cash flow management

Receivables management has a significant effect on cash flow. At Software AG, receivables management is performed locally and is subject to a variety of internal control processes based on strict rules relating to poor debt allowances. Software AG's cash management, on the other hand, is a centralized function, for which we use a globally standardized cash management system. This enables us to optimize our investment strategy and minimize investment risk.

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

FINANCIAL INDICATORS

In € million	2008	2007	Change in %
Revenue	720.6	621.3	16
Licensing revenue	272.0	241.3	13
Maintenance revenue	267.1	212.9	25
Service revenue	177.8	161.2	10
EBIT	180.5	136.8	32
EBIT margin	25.1%	22.0%	+310 pts.
Earnings per share (diluted)	4.04	3.09	31
Operating cash flow	140.1	94.0	49

2 UNDERLYING ECONOMIC CONDITIONS

2.1 OVERALL ECONOMIC SITUATION

In 2008, the global economy saw a trend reversal following years of expansion. The downturn intensified in the second half of the year, and had affected practically all regions of the global economy by the end of the year. The reason for this was the culmination of the financial market crisis in the USA in September 2008, which shocked the entire global economy. Negative knock-on effects led to an unusually strong downward trend in the industrial sector, which increasingly affected other countries. The world's gross national product grew by 3.4 percent (2007: 5.2 percent), driven by continued positive development on average across the year in emerging nations, particularly China. In the USA, a strong downward trend was reported over the course of the year. This downward trend could be seen in Germany at the end of the year as well.

Performance of significant currencies

The foreign currencies of greatest importance to Software AG's development are the U.S. dollar, the British pound, the Brazilian real and the Japanese yen. On average for the year, the U.S. dollar was weaker against the euro compared to the previous year, but gained significant ground toward the end of the year and strengthened its position against the euro.

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

AVERAGE RATE (€1)

	Dec. 31, 2008	Dec. 31, 2007	Change in %
U.S. dollar	1.3976	1.4718	5.0
Brazilian real	3.2574	2.6208	–24.3
Pound sterling	0.9589	0.7347	–30.5
Japanese yen	126.40	165.10	23.4

Source: Commerzbank

AVERAGE RATE (€1)

	2008	2007	Change in %
U.S. dollar	1.4705	1.3700	–7.3
Brazilian real	2.6714	2.6629	–0.3
Pound sterling	0.7967	0.6845	–16.4
Japanese yen	152.28	161.18	5.5

Source: Commerzbank

USA

The negative trend of the previous year continued through 2008 in the U.S. The increase in the gross domestic product was just 1.1 percent, compared to 2.0 percent the previous year. Following a surprisingly positive first half, caused by strong foreign trade and the effects of the economic stimulus package, the forces of recession became increasingly apparent in the third quarter. The main reason was the 3.7 percent fall in private consumption, the biggest drop since 1980. In the second half of the year, only foreign trade and government spending propped up the markets. The financial and real estate crisis hit the USA particularly hard. Investment activities, which were already very limited, were further reduced by restrictions on the granting of loans resulting from the financial crisis.

Europe

The European economy also suffered from the economic and financial crisis, particularly in the second half of the year. At the end of 2008, the euro zone experienced a recession for the first time since the currency union came into force. In 2008 it posted total growth of just 1.0 percent, compared with 2.6 percent the previous year. In the European Union, growth was 1.3 percent (2007: 3.1 percent). Several factors caused the slowdown in the economy: Into the third quarter, high inflation caused a fall in private consumption; in addition, exports suffered as a result of the downturn in the global economic situation. Companies were therefore more reluctant to invest. The situation was made worse by adjustments on the real estate markets and the impact of the problems on the international financial markets, particularly toward the end of the year.

With a gross domestic product (GDP) of 1.3 percent (2007: 2.5 percent), the German economy performed better than the euro zone average. However, since the end of 2008, the German economy has also been in recession. The main contributing factor here was the fall in exports caused by the weaker economic position of trading partners. The economic development in Eastern Europe was also slower, with a 3.2 percent increase compared with the previous year (5.4 percent).

Asia

The economy in Asia continued to grow at a dynamic pace in 2008 but in the second half was not immune to the global economic situation. As a result, production also slowed significantly in the third and fourth quarters in countries in the Asian region. The expansion phase that began in 2002 in Japan came to an end in 2008. Production across the whole economy fell significantly as of the spring. The Japanese economy thus shrunk by 0.3 percent (2007: +2.4 percent). With an improvement of 9.0 percent, China failed to achieve economic growth of more than 10 percent for the first time in five years. In the last quarter of the year, in particular, the downturn in the global economy also hit China, in particular in terms of falling exports. In the emerging Asian economies, growth was 7.8 percent, compared to 10.6 percent in 2007.

Latin America

After six years of strong growth and an average increase in the gross domestic product of around 4.8 percent per year, Latin America was also affected by the global financial and economic crisis in 2008. However, the gross domestic product still increased by 4.4 percent. Negative factors were the drop in exports to industrialized nations and the major fall in prices for raw materials such as oil and precious metals. With GDP growth of 5.8 percent, Brazil was slightly above the previous year's figure (5.7 percent).

2.2 SECTOR TREND

The ICT market (market for information technology, telecommunications and consumer electronics) encompasses the IT and the telecommunications sector. The IT market includes IT accessories (hardware), software and IT services segments. The telecommunications sector consists of network infrastructure, telecommunications equipment for consumers and telecommunications services. As a provider of systems software, Software AG pertains to the software market segment of the ICT industry. In 2008, software accounted for approximately 19 percent of the global IT market and almost 8 percent of the ICT market.

ICT market

According to calculations by the European Information Technology Observatory (EITO), the global market volume for information and communications technology (ICT) grew by almost 6 percent to approximately €2,363.4 billion in 2008. The USA and the countries of the European Union are the strongest regions, each with a share of approximately one third of the total volume. In the European Union, the market grew by 3 percent to approximately €682.6 billion. The largest single market – Germany – grew by 1.3 percent to €133.0 billion.

IT market

Within the technology sector, information technology exhibits the highest growth rates. Worldwide, the IT market grew by around 5.3 percent to €964.6 billion in 2008, according to information from EITO. In the European Union, the IT market expanded by 4.2 percent to €311.1 billion, and the German market also grew by 4.2 percent to €66.6 billion.

Software market

As in previous years, the software market exhibited the strongest growth within the ICT industry worldwide in 2008. According to information from EITO, the global software market grew by 6.7 percent to €185.0 billion and the European Union market by 5.3 percent to €58.6 billion. The German software market saw a 5.3 percent increase to €14.6 billion.

2.3 CHANGES IN LEGAL REQUIREMENTS

During 2008, there were no changes in legal requirements that had a significant impact on our business.

3 BUSINESS TREND AND ECONOMIC SITUATION

3.1 SUMMARY OF BUSINESS TRENDS

2008 was a very successful fiscal year for Software AG, despite the worsening global conditions. We clearly improved all key indicators, and had the best fiscal year in the company's 40-year history. The positive trend was also due to our successful market entry in Brazil, the successful integration of webMethods, Inc. and the organic growth of the webMethods business division.

Important steps in 2008

In the year under review we took important steps to achieve our targets for the year as a whole and equip the company for future challenges. These include the restructuring of the sales divisions and the changes in the Executive Board, the complete integration of webMethods, Inc. and the exploitation of the associated synergies and the further development of our leading product portfolio.

ETS

In our ETS business division, we continued to develop at all levels: We developed new products that were well received by the market, acquired renowned customers and large projects and achieved excellent results in license and maintenance revenues. Our geographic expansion played a significant role in this positive trend. Since the replacement of indirect sales in October 2006, business in Japan has developed excellently. Within just two years, Japan has become one of Software AG's biggest revenue generators, and its revenue over this period has almost tripled. In the fiscal year we were also able to surpass our expected figures.

Our direct market entry in Brazil, where we have been represented with our own company since the start of 2008 and have therefore switched from selling via a distributor, was more successful than planned. We were able to increase our forecast figures over the course of the year. In the past fiscal year, the team in Brazil was able to win 45 new customers with more than 50 new contracts, including the largest order in Software AG's history. This was achieved by focusing on large users, through comprehensive and qualified support and the modernization of old IT infrastructures, thereby maximizing the value of customers' existing infrastructures.

In the year under review, we also concluded integration of software companies SPL and webMethods, Inc., acquired in 2007/2008, and the application modernization division of Jacada in Israel, acquired January 1, 2008. Jacada was an extension to our ETS business division. The integration of this Jacada division ran smoothly in the 2008 fiscal year, included the acquisition of more than 200 primarily U.S. corporate customers and enabled us to strengthen our leading position on the market for application modernization.

webMethods

In the first half of the 2008 fiscal year, development of the webMethods business division was characterized by the integration of webMethods, Inc., acquired in 2007. By the end of 2008, all integration measures had been completed. We made significant progress expanding sales, with the reorganization of the Executive Board structure (see Organization section) and the strengthening of the Company through numerous new employees in key positions playing an important role here.

With webMethods we have built up a second strong line of business. The enhancement of our database business with the new integration technology provides us with a basis on which we can benefit extensively from market trends. We are thus able to provide our existing ETS customers with significant added value with our webMethods products. We will also offer new customers a complete SOA product portfolio. We have competitive advantages, which we want to exploit to increase our market share.

Overall, the acquisition of the U.S.-based webMethods, Inc. was a major success for Software AG. It resulted in numerous positive synergy effects and further increased our profitability. However, the really important advantage was the additional customer base, which we will continue to extend with the webMethods portfolio. In the past fiscal year, we were able to sign on new customers with large-scale projects.

Professional Services

With the acquisition of webMethods, our Professional Services business unit has become even more important from a strategic point of view. A competent partner is needed for customer services for complex IT architecture solutions such as SOA and BPM – and we can offer this expertise in the form of Professional Services. The business unit implements its own products, and in doing so builds a long-term connection with the customer and also positions SOA expert services on the market. In the past year we merged the many local units to form one global service provider, which uses the same management methods worldwide. As a result, Professional Services also contributes to Software AG's ongoing development.

In order to turn the business unit into a growth driver over the long term, we enhanced its role and established a separate Executive Board area for it (see Organization section). The core aims are to contribute to growth, ensure profitability and communicate an image of expertise as Software AG moves toward market leadership for Web-based business applications (SOA Business Solutions).

3.2 OVERALL STATEMENT ON FINANCIAL POSITION

Thanks to the continued growth in revenue and improvements in profitability, Software AG is on a solid financial footing. For many years, process optimization has improved profitability and ensured a constantly growing cash flow, part of which we invest in new technologies and the expansion of our business.

4 FINANCIAL PERFORMANCE

4.1 REVENUE TRENDS

Software AG's group revenue increased by 16 percent to €720.6 million (2007: €621.3 million) in fiscal year 2008. This increase resulted from the acquisition of webMethods, Inc. and in the second half of the year, from the organic growth generated from the webMethods business division. In addition, our successful market entry in Brazil made a significant contribution to revenue. Currency adjusted, the increase was 21 percent. The Company was therefore able to grow dynamically, despite the financial and economic crisis.

The changing exchange rate relations to the euro over the fiscal year affected the reported revenues as follows:

EXCHANGE RATE VARIATIONS

	Effects of exchange rate variation on 2008 revenue in € million	Revenue share in foreign currency 2008 in %
U.S. dollar (USD)	–14.6	29
Pound sterling (GBP)	–7.0	6
South African rand (ZAR)	–4.3	3
Canadian dollar (CAD)	–1.4	2
Japanese yen (JPY)	+1.9	4
Brazilian real (BRL)	–2.3	7

Sales by revenue type

Product revenue from licenses and maintenance increased by 19 percent to €539.1 million in 2008. In 2007 it was €454.2 million. Adjusted for currency effects, the growth rate amounted to 24 percent. License revenue included in product revenue increased from €241.3 million to €272.0 million, which corresponds to an improvement of 13 percent, or 18 percent after currency adjustment. As a result, license revenue exceeded maintenance revenue, as in the previous year. However, maintenance revenue grew more, at 25 percent, rising from €212.9 million in 2007 to €267.1 million in 2008. Overall, product revenue made up 75 percent of total Group revenue. This was the result of our successful direct market entry in Brazil and growth in the webMethods business division.

Our service revenue increased by 10 percent to €177.8 million (2007: €161.2 million). The Professional Services unit therefore contributed 25 percent to Group revenue. In fiscal year 2008, this unit focused on continued improvement to efficiency and profitability. In 2009, one main focus will be on further profitable growth in this business unit. The foundation for this has been laid with additional personnel and a separate Executive Board area.

Revenue by business division

With its high growth rates, the webMethods business division made a significant contribution to Software AG's business expansion in fiscal year 2008. Revenue in the webMethods business division grew by 33 percent to €315.7 million (2007: €238.1 million). This is due to organic growth and the acquisition of webMethods, Inc., whose revenue was consolidated as of May 25, 2007. In 2008, the new webMethods business division contributed 44 percent to total revenue (2007: 38 percent). This is a confirmation of our corporate strategy of capturing the integration software (SOA/BPM) growth market with webMethods and building a second business division alongside ETS that enables corporate growth over the long term. In the fiscal year license revenue for webMethods rose by 31 percent from €88.3 million to €115.3 million. Maintenance revenue saw an even sharper increase of 63 percent from €57.2 million to €93.2 million. Service revenue rose from €88.2 million to €105.0 million – an increase of 19 percent. The segment contribution (EBIT before R&D and administrative expenses) of the webMethods division shows an above-average increase in earnings. It improved by 156 percent to €107.1 million (2007: €41.8 million).

The ETS business division achieved revenue of €404.9 million, corresponding to an increase of 6 percent over the previous year (€383.1 million). This is mainly the result of the direct market entry in Brazil. The ETS business division therefore contributed 56 percent to Group revenue of Software AG. In the fiscal year, license revenue for ETS rose by 2 percent (currency adjusted by 5 percent) to €156.8 million (2007: €153.0 million). Maintenance sales performed even better, rising 12 percent from €155.7 million to €173.8 million. At €72.8 million, service revenue remained on par with the previous year's value. In the fiscal year the segment contribution from the ETS business division rose by 3 percent to €245.7 million (2007: €238.8 million).

SALES BY REVENUE TYPE

2008 as a whole in € million	2008	2007	Change in %	Change in % currency-adjusted
Product	**539.1**	**454.2**	**+19**	**+24**
Licenses	272.0	241.3	+13	+18
Maintenance	267.1	212.9	+25	+31
Service	177.8	161.2	+10	+13
Other	3.7	5.9	–37	–33
Total	**720.6**	**621.3**	**+16**	**+21**

4.2 EARNINGS PERFORMANCE

We were able to significantly increase our earnings again in 2008 and once more achieved a record value. The significant increase in net income is evidence of the consistent optimization of processes and demonstrates how successful the integration of webMethods, Inc. was. Our gross profit margin rose from 70.8 percent to 72.5 percent. As a result, gross profit rose even more than revenue, posting a value of €522.4 million, compared to €439.8 million in the previous year, an improvement of 19 percent.

EBITA increased by 36 percent to €195.0 million in the fiscal year (2007: €143.5 million). Factors contributing to this were increased revenues, higher process efficiency and exploited cost synergies following the acquisition of webMethods, Inc. Acquisition-related amortization amounted to €14.5 million (2007: €6.7 million) and thus produced EBIT for the year as a whole of €180.5 million, a 32 percent increase of the previous year's figure of €136.8 million. The EBIT margin was therefore significantly improved: it rose from 22.0 percent to 25.1 percent and therefore performed better than we forecast.

Net income improved by 31 percent to €115.9 million (2007: €88.4 million). This is due primarily to a further reduction in the tax rate for the Company, which fell from 35.5 percent to 34.0 percent. For the future, we expect a tax rate of 35 percent for Software AG. Because of credit financing for acquisitions, net financial income fell from €0.3 million to -€5.1 million. Pre-tax earnings rose by 28 percent to €175.4 million (2007: €137.1 million).

4.3 COST STUCTURE

We continue to pursue the goal of a sustained increase in profit and therefore continue to implement our cost optimization measures. As a result, we use targeted cost management, which also equips us for the challenges presented by times of crisis. The main cost blocks increased at a lower rate than revenue in 2008.

In the year under review, the cost of sales rose by 9 percent, a far smaller rise than revenue (16 percent). The higher gross margin was achieved through cost efficiency in the Professional Services unit and consolidation in Support, as well as lower expenses for third-party products as a result of our own extended portfolio. At 13 percent, the rise in the cost of sales in the webMethods business segment was significantly lower than the growth in revenue of 33 percent. In the ETS business division, the cost of sales rose by 4 percent to €83.2 million (2007: €79.8 million), compared with sales growth of 6 percent.

In 2008, research and development expenses rose at the same rate as revenue, 16 percent, from €65.9 million to €76.2 million. We therefore adjusted expenses in this area as planned, following a rise of 47 percent in the previous year as a result of acquisitions. Measured by product revenue, the share of R&D expenses developed as planned, at 14.1 percent (2007: 14.5 percent). As R&D integration has now been completed, we expect a further improvement to the cost situation in 2009.

In fiscal 2008, expenses for sales and marketing saw a smaller rise of 6 percent to €169.5 million (2007: €159.2 million). The webMethods selling expenses even fell by one percent to €93.6 million (2007: €94.7 million), while in the ETS business segment they rose by 18 percent to €75.9 million (2007: €64.5 million). The share in the total

KEY EARNINGS INDICATORS

in € million	Q4 2008	Q4 2007	Change in %	2008 as a whole	2007 as a whole	Change in %
EBIT	54.9	42.8	+28	180.5	136.8	+32
EBITA	58.2	45.2	+29	195.0	143.5	+36
Net financial income/expense	−0.6	−2.2		−5.1	0.3	
Net income	35.2	26.9	+31	115.9	88.4	+31
Earnings per share in € (basic)	1.23	0.95	+29	4.05	3.11	+30

COST STRUCTURE

in € million	Q4 2008	Q4 2007	Change in %	2008 as a whole	2007 as a whole	Change in %
Total revenue	212.4	186.5	+14	720.6	621.3	+16
Cost of sales	−56.3	−50.8	+11	−198.2	−181.5	+9
Gross profit	156.1	135.7	+15	522.4	439.8	+19
margin in %	73.5	72.8		72.5	70.8	
Research & Development	−19.5	−20.6	−5	−76.2	−65.9	+16
Sales & Marketing	−47.4	−46.8	+1	−169.5	−159.2	+6
Management & Administration	−17.3	−18.8	−8	−65.1	−59.3	+10
Other	−13.7	−4.3		−16.6	−11.9	+39
EBIT	54.9	42.8	+28	180.5	136.8	+32
margin in %	25.8	22.9		25.1	22.0	

revenue is now 23.5 percent, compared with 25.6 percent in the previous year, and is therefore clearly below the planned upper limit of 25 percent.

General administrative expenses rose by 10 percent from €59.3 million to €65.1 million. Consequently, the share in the total revenue is now at 9.0 percent, meeting our target of a value permanently below 10 percent (2007: 9.5 percent).

4.4 NET INCOME AND APPROPRIATION OF PROFITS

Net income

Software AG's net income increased by 31 percent to €115.9 million in fiscal 2008. In 2007, it was €88.4 million. This is due among other things to the considerable expansion of business and a lower tax rate.

In the fiscal year basic earnings per share rose from €3.11 to €4.05, an improvement of €0.94. The average number of shares outstanding amounted to 28,599,020 at the end of the fiscal year (2007: 28.439.959). The increase in the number of shares was due to the exercising of options by the Executive Board and managers.

Appropriation of profits

In the past fiscal year we were once again able to significantly improve profit and cash flow. Based on our ongoing dividend policy and payout ratio to date, an increase to the dividend would be logical. However, we are operating in uncertain economic times in which a reduction in dependency on bank loans is recommended. At the same time, we want to be able to take advantage of the acquisition opportunities on the software market. An increase in cash reserves is therefore necessary. The Executive Board and Supervisory Board of Software AG will propose to the Annual Shareholders' Meeting a dividend of €1.10 per share (2007: €1.00). This results in total dividends of €31.5 million (2007: €28.5 million) and a payout ratio of 25 percent (2007: 33 percent). The payout ratio calculation is based on the average of earnings after tax and free cash flow.

4.5 SOFTWARE AG FINANCIAL STATEMENTS

The financial statements of Software AG (parent company of the Group) were prepared in accordance with the German Commercial Code (HGB). Software AG's revenue amounting to €203.6 million (2007: 188.6 million) resulted primarily from royalty income and management fees from subsidiaries. €25.9 million in income (2007: €12.4 million) was due to profit transfers and €38.2 million (2007: €24.7 million) to dividends from affiliated companies. Net income totaled €77.1 million (2007: €62.1 million).

5 FINANCIAL POSITION

5.1 CAPITAL EXPENDITURE

Capital expenditure for property, plant and equipment normally plays a minor role at Software AG. These investments totaled €11.3 million in fiscal year 2008, compared with €11.0 million in 2007, and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt.

Capital expenditure for financial assets fell from €4.9 million to €1.0 million. Investments relating to acquisitions were significantly reduced, from €362.3 million to €38.9 million. In 2007, the acquisition of webMethods, Inc., at €321.4 million including ancillary acquisition costs, made up most of this total.

5.2 CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow developed particularly well in 2008. In the past fiscal year Software AG generated free cash flow of €133.4 million (2007: €82.2 million). This is equivalent to an increase of 62 percent. Free cash flow therefore even exceeded net income of € 115.9 million. Free cash flow was 18.5 percent of total revenue, compared with 13.2 in the previous year. Free cash flow per share rose by 61 percent from €2.89 to €4.66. This strong cash flow trend supports us in the form of liquidity for our strategic business development. It also enables a rapid reduction of net liabilities, caused by acquisitions, of €70.3 million at the end of 2008.

Good operating cash flow

In fiscal 2008, our operating cash flow rose by 49 percent to €140.1 million, compared to €94.0 million in 2007. This growth is primarily based on the higher income for the year and a ratio of working capital to revenue that fell from 4.2 percent in the previous year to 3.4 percent.

Cash outflow from investing activities fell from €374.1 million to €45.5 million. In the previous year, this value was exceptionally high, in particular because of the acquisition of webMethods, Inc. Cash out-

CONSOLIDATED STATEMENT OF CASH FLOWS

in € million	Q4 2008	Q4 2007	2008 as a whole	2007 as a whole	Change in %
Operating cash flow	43.8	47.4	140.1	94.0	+49
CapEx*	−1.6	−9.6	−6.6	−11.8	−44
Free cash flow	42.2	37.8	133.4	82.2	+62
% of revenue	19.9	20.3	18.5	13.2	
Free cash flow per share (in €)	1.48	1.33	4.66	2.89	+61
Average number of shares (in million)	28.6	28.5	28.6	28.4	+1

*Net cash used in investing activities adjusted to take account of acquisitions flows from financing activities amounted to €76.3 million, compared with cash inflows of €179.8 million in 2007. In the fiscal year €46.2 million of the bank loans of €328.4 million in 2007 were repaid, and at the end of the year under review these valued only €165.6 million.

In total, cash and cash equivalents decreased by €15.6 million, compared with a decrease of €103.5 million in the previous year, when cash transactions for acquisitions caused this high value.

5.3 FINANCING

The financial management of Software AG ensures that all Group companies are continuously solvent. Based on the guidelines adopted by the Executive Board, the financial policy and risk management are implemented by the central Treasury department. Active working capital management controls the Group's liquidity position centrally. Financial investments are basically 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. The high equity ratio and a robust free cash flow create the basis for the Company's internal and external growth.

Liquidity and financing

Following a large reduction in 2007 caused by acquisitions, cash and cash equivalents rose again in 2008. At the end of the year, they totaled €96.9 million, compared to €81.3 million in 2007. Equity rose to €549.1 million (2007: €462.5 million). As a result, the equity-to-assets ratio returned to a value of 49 percent (2007: 45 percent). Acquisition-related borrowing totaling €328.4 million was significantly reduced once again in 2008. At the end of the year, non-current liabilities were €138.5 million, compared to €197.6 million at the end of 2007.

Financing instruments

The company uses bank loans, finance leasing and the free cash flow as financing instruments. The 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 have terms to maturity of no later than 2013. 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 show the undiscounted liabilities. Variable interest payments are based on the level of interest at the reporting date. Liabilities in foreign currency are measured at the exchange rate as of December 31, 2008.

5.4 ASSETS

Software AG's assets increased by 9 percent to €1,111.0 million in fiscal 2008 (2007: €1,023.3 million). Both current and non-current assets rose.

At year end, current assets amounted to €371.4 million (2007: €306.6 million). This reflects an increase of 21 percent. Bank deposits, trade receivables, other receivables and other assets rose.

At year end, our non-current assets amounted to €739.6 million (2007: €716.7 million). This a slight increase of 3 percent on the previous year's value. There were no significant changes within the items.

Off-balance sheet assets and financial instruments

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, rented company cars and hardware. Off-balance sheet assets also include the Software AG brand name, which is an important intangible asset. The brand image was continuously enhanced in the year under review.

5.5 BALANCE SHEET STRUCTURE AND KEY FINANCIAL INDICATORS

In the period under review, the Group's total assets rose 9 percent to €1,111.0 million, compared to €1,023.3 million in the previous year.

The following changes occurred on the assets side: Cash and cash equivalents rose from €81.3 million to €96.9 million (+ 19 percent). Trade receivables increased from €225.0 million to €264.5 million as a result of business expansion. Other receivables and other assets also increased from €26.7 million to €29.8 million. Deferred tax

NON-DERIVATIVE FINANCIAL LIABILITIES

in € thousands	Up to 1 year	1 to 5 years	>5 years	Total
Liabilities to financial institutions				
- Repayment	59,782	105,771	0	165,553
- Interest	5,006	4,877	0	9,883
Trade payables	35,824	68	0	35,892
Other financial liabilities	1,569	70	0	1,639
Liabilities from finance leasing	9	0	0	9
Other non-derivative liabilities	42,698	378	0	43,076
Derivative financial liabilities	1,929	870	0	2,799

assets rose from €55.5 million to €66.7 million. The financial market crisis made it necessary to increase various provisions and allowances for bad debt, which are not tax deductible in certain countries, and as a result, an increase in the deferred tax assets was posted. The prepaid expenses remained practically unchanged at €6.0 million, compared with €5.8 million in the previous year. Fixed assets rose more sharply, from €628.9 million to €647.1 million. Goodwill makes up €442.7 million of this, a currency-related increase on €431.6 million in 2007. The value of goodwill is regularly tested in an impairment test and is ensured over the long term by the cash flows of the acquired business units.

On the liabilities side, current liabilities rose from €196.4 million to €248.1 million. Of this, financial liabilities amounted to €61.4 million (2007: €46.7 million). This results from a transfer of previously non-current financial liabilities to current liabilities following the expiry of periods. Non-current liabilities, which include the debt financing of the webMethods acquisition, amounted to €136.9 million. We were able to significantly reduce this, compared to the previous year's value of €197.6 million because of the strong cash flow. Deferred tax liabilities fell from €79.6 million to €73.8 million. Deferred income rose considerably from €87.2 million to €103.2 million. This relates to future maintenance revenues, of which the proportion paid in advance by customers was deferred in the balance sheet. The growth results from the clear increase in business volume. Our equity increased from €462.5 million to €549.1 million. As a result, our equity-to-assets ratio is 49.4 percent (2007: 45.2 percent).

6 ADDITIONAL EARNINGS-RELATED FACTORS

6.1 RESEARCH & DEVELOPMENT

The development of new products and solutions and the enhancement of existing ones form the basis of our business expansion. We can only expand our leading product portfolio, continue to offer our customers the products and solutions they need, and therefore continue to grow profitably in the future if we continuously develop product and process innovations. This is supported by close cooperation between Sales and Marketing, Services and Research and Development (R&D).

In the fiscal year under review, investments in research and development amounted to 14.1 percent of our product revenue (2007: 14.5 percent). As of December 31, 2008 we employed 651 people in R&D, 4 percent fewer than on the previous year's reporting date. Consequently, 18 percent of all employees at Software AG work in R&D.

From an organizational point of view, the area of Research and Development is directly assigned to the Executive Board. However, as a result of restructuring, this area has undergone significant changes. The R&D work of the two business divisions, ETS and webMethods, is now the direct responsibility of Executive Board member Dr. Peter Kürpick. Consequently, the two product lines have been brought closer together in research and development and are therefore more closely aligned at the very start of the process chain. This was one of the goals following the integration of webMethods, Inc. However, the requirements initially differ, so we will continue to pursue specific R&D strategies for the two business segments. Nevertheless, these will be more closely related to each other.

ETS focuses on application modernization

ETS operates R&D centers in a total of five locations in Germany, UK, Israel, Bulgaria and the United States, developing its product portfolio. As a result of this global positioning, we can effectively exploit cost benefits and the specific expertise of the individual countries, because each location specializes in certain products or product groups.

Our product developments are usually based directly on the needs of our customers. In order to define requirements, we regularly carry out requirement analyses and initiate product improvement and innovation processes as a result. Our actual development work therefore starts with the customer – to our mutual advantage. Currently, one focus of our development work is in the area of application modernization. We develop tools to simplify the modernization of programs for our maintenance customers. This involves integrating existing applications in new systems and therefore facilitating the use of past investments more effectively for the present and future.

In fiscal 2008, we brought numerous new products to market or began their development. These included the Event Replicator for Adabas on Open Systems, which automatically replicates Adabas data for databases and messaging systems from third-party providers on open-systems platforms using SQL data format. This makes central business data available to other important operational systems. All users therefore work on the basis of complete and up-to-date data. Another development was Natural SQL Gateway, which offers users a comprehensive and standardized view of data across different applications and databases. By consolidating the access of data in a single application, this data can be optimally analyzed and used with existing Natural applications.

Other new products that will be launched in 2009 include Adabas Archiving and Optimize for ETS Infrastructure. The latter is the result of a close collaboration between ETS and webMethods in the area of research and development. The first fully integrated product from Software AG and webMethods was launched in the third quarter of 2008: CentraSite ActiveSOA, the heart of the SOA suite. The product draws together Software AG's specific strengths in SOA Governance/CentraSite and webMethods' lifecycle management from Infravio. Customers benefit from the automation of processes, lifecycle management for IT systems, easier collaboration between different user groups and a standardized user interface.

On this basis, we will continue to work intensively on the development of innovative products and the enhancement of existing applications in 2009. This will support the ongoing expansion of ETS business. We will focus in particular on product enhancements that will provide even better integration between the ETS and webMethods product portfolios in both directions. We will also concentrate on developing new products from the integrated product portfolio.

webMethods

Highlights 2008

In 2008, webMethods R&D activities focused on creating new customer value through the seamless integration of Software AG and webMethods products while also continuing to innovate with new product introductions to meet changing customer demands. This included enhancing our BPM and SOA products as well as ensuring ease-of-use and rapid implementation capabilities for improved ROI and lower TCO. Another key R&D goal was to continue to develop tools that enable IT and business staff to collaborate, while supporting the scale necessary to support mission-critical environments.

Designer 7.2 for the webMethods Suite

webMethods Designer 7.2, released together with service pack 2 of webMethods Suite 7.1 in Q4 2008, was a significant step forward in improving ease-of-use and providing faster development cycles for creation of business processes and service-oriented architecture. Key benefits of the latest webMethods suite include:

- Unified design tooling that spans processes, services, data, people and policies across databases, applications and mainframe solutions
- Improved performance and scalability of the platform
- New features that enhance usability and support of bidirectional user interfaces, including support of Hebrew and Arabic
- Adoption of common integration and interoperability standards for integration across webMethods and ETS products

CentraSite ActiveSOA

As companies look to save money and reduce the backlog of IT projects, they turn to service-oriented architecture (SOA). However, building an SOA "right" requires the right approach, including foresight, proper tooling and an assurance that the resulting solutions will actually work. To gain this confidence, CIOs often look to registry repositories to store, manage and govern their SOA assets.

CentraSite ActiveSOA was released in December and integrated with the CentraSite Enterprise and CentraSite Governance Editions. With a rich history stemming from a partnership between Software AG and Fujitsu, the CentraSite Enterprise Edition enabled complete development lifecycle management. Originating from Infravio (a webMethods acquisition), the CentraSite Governance Edition focused on policy management. The combined ActiveSOA product capitalizes on the highly rated flexibility and extensibility of the Enterprise Edition along with the award-winning policy-based management offered by the Governance Edition. Additionally, customers benefit from market-driven features, including federation, asset lifecycle and services provisioning. This has resulted in the creation of the industry's most comprehensive and advanced solution for SOA governance and lifecycle management.

webMethods Insight

webMethods Insight is a new product from Software AG that helps SOA architects and business application owners easily manage their SOA by quickly identifying issues with service disruption and policy enforcement - before they interrupt business performance.

Research and innovation in 2009

In 2009, we plan to continue to empower IT by creating and defining an IT infrastructure that can enable business to have more self-service. We have a laser-like focus on enabling the CIO and IT team to advance technically while achieving the demanding goals of a rapidly changing business. Recent surveys of IT and business professionals have demonstrated that the number-one priority for IT is to communicate better with the business and deliver faster business solutions. Increasingly, IT needs to ensure that its vision can be implemented quickly, using the industry's best practices as well as the innovation essential for competitive advantage. To that end, we will give customers a head start by combining the latest technologies from virtualization, social networks and platform-as-a-service offerings.

Highlights include:

Process Frameworks

webMethods Process Frameworks are examples of proven blueprints and solutions, including the processes, services, data formats, messages and key performance indicators required to ensure business success. Delivered in conjunction with professional services implementations, webMethods Process Frameworks help customers rapidly deliver solutions instead of starting projects from scratch. This helps customers focus on the competitive advantages required by the business instead of on technology issues. In addition, Software AG has partnerships with global systems integrators to build a library of process frameworks. These pre-built frameworks provide everything required to inspire IT with the amazing possibilities that await as they use their existing investment to build new composite business solutions.

Business self-service and virtual IT

We continue to focus on solutions that align business and IT, while also turning our attention to enabling IT to establish a governed infrastructure that allows business users to design, create and deliver their own solutions on top of this infrastructure. Two critical components of this strategy will be announced throughout 2009: (1) a new product called webMethods Align and (2) “Virtual IT” features throughout the webMethods Suite that provide easy-to-deploy, highly distributable, virtualized runtimes.

At most companies today, it is difficult to align all stakeholders to collaborate on strategic decisions about improving the business. webMethods Align promises to enable the collaboration around process design, bringing together people to work across the company, and even reaching out to business partners, to ensure that business processes are optimized and made more customer-oriented.

webMethods Align brings together business and IT for one purpose, to drive faster business improvement. To that end, webMethods Align will greatly shorten the turn-around time on analysis, definition and improvement of business processes by facilitating:

- discovery of existing processes – knowledge of which may be unstructured and distributed throughout the organization
- definition of process and service-oriented projects to ensure they meet the expectations of the business
- process governance by establishing and enforcing standards, ownership structures, roles and ideal points for optimization

Built as a collaborative Web-based discovery platform, webMethods Align enables business people of all skill levels to join together in the search for better ways to optimize business operations.

Virtual IT includes a series of features focused on providing runtime governance over existing services. These can include highly distributable runtimes supported by dynamic installation, central administration and deployment of software, solutions and configuration data, along with the ability to spin-up virtual machines on demand. By providing a unified approach that spans the lifecycle of software projects, these features enable IT to establish a set of best practices across an infrastructure. Over time, IT can watch these features grow dynamically as the business grows, while still assuring the right set of security, policies and governance.

Optimization and predictive monitoring

The business activity monitoring and reporting capabilities available with the webMethods Suite will be extended to Adabas and Natural installations, delivering powerful visibility opportunities to thousands of existing Software AG customers. These in-demand BAM features will provide effective monitoring and reporting capabilities for Adabas and Natural implementations while providing a process-oriented approach across all Adabas/Natural installations.

WEBMETHODS R&D LOCATIONS/STAFF

December 2008	2008
HQ Darmstadt	59
USA (San Jose, Seattle, Denver, Reston)	127
India (Bangalore, Chennai)	169
Bulgaria (Sofia)	44

CentraSite Community goes from strength to strength

The CentraSite Community is an award-winning initiative developed in mid-2006 between Fujitsu and Software AG. The community helps bring customers and partners together to advance the implementation of SOA environments, with ready-made integrations between the different partner technologies. This community is based on CentraSite, and is marketed and developed by Fujitsu and Software AG cooperatively. Partner companies are headquartered in over 12 different countries around the world.

During 2008, the community saw further integrations developed in areas such as Enterprise Architecture (QualiWare) and Testing (Green-Hat Software), with several more targeted for 2009. The successful collaborations between Software AG and eight other companies were highlighted in a special paper, “The CentraSite Community: Fast-tracking SOA Governance Using Best-of-Breed Solutions.”

The third Software AG SOA Governance Summit was held in Stockholm, Sweden in September 2008. Building on the success of previous years, it featured nearly 200 participants from 14 countries. One key moment at the summit was the global announcement of CentraSite ActiveSOA, the latest Software AG SOA Governance product. One major development given favorable feedback by industry analysts was the launch of SOALink, a new interoperability framework which gives specific details on how customers and partners can integrate CentraSite with other technologies. For those wishing to find out more about CentraSite, Software AG also launched the CentraSite Developer Community, which contains many useful articles, demos, product news updates and discussion forums.

6.2 CUSTOMERS & SALES

All employees of Software AG around the world base their work on the principle of total customer orientation. We win large, important orders because we are close to the customer and do everything to understand our customers and their needs. We want to continue to do this in the future, because satisfied customers are the basis for our continued profitable growth. At year end, our Sales and Marketing departments accounted for 703 employees – nearly 20 percent of all Software AG employees.

Expanded global market presence

We further expanded our global presence in fiscal 2008. This is one of the cornerstones of our corporate strategy. For that reason, we are increasing our presence in new markets with high growth potential: Asia, the Middle East, Eastern Europe and Latin America. Our business in Japan, which we have been building for about two years, is developing very positively. We want to expand here in the future, strengthening our webMethods business in particular. Our direct entry into the Brazilian market has thus far remained a singular success story. We established direct distribution there at the beginning of 2008 and within the first few months, we gained many well-known new customers and major orders (refer to the Summary of Business Trends). Thus, we were able to significantly exceed our own revenue forecasts in Brazil for the full year.

Realignment of sales divisions to further increase efficiency

In April 2008, two members of the Executive Board with different regional jurisdiction became responsible for the sales organizations of the two business lines. The aim was to increase sales efficiency and in particular accelerate the global revenue growth of the webMethods division, which previously was focused mainly on the United States. By keeping the sales areas separate under uniform management at the Executive Board level, the sales specialization for the different business divisions was preserved. At the same time, however, we were able to merge distribution into a standard, customer-oriented market strategy, with the primary aim of winning major projects from existing and new customers in the market for service-oriented architecture software (see Organization section). This closer collaboration can also be seen in the Research and Development department, leading to stronger cross-selling effects for both business lines.

Trade shows and forums as key marketing tools

Participating in and organizing trade fairs, forums and other events is a good opportunity for Software AG to meet existing and prospective customers and to present our new technologies to the general public. In addition, events such as CeBIT provide us with extensive coverage in the business and technology press. At CeBIT 2008, we spoke with more than 450 business customers and welcomed 70 government representatives and politicians from 50 countries, including the German Chancellor. Other important events for Software AG during the past fiscal year were the Business Innovation Forum in Darmstadt, Germany; Innovation World in Florida; and the SOA Governance Summit in Stockholm, Sweden.

A Software AG study provided insight into the field of SOA: The majority of the companies surveyed consider SOA governance to be a crucial component of a lasting SOA implementation. More than 90 percent of the companies surveyed have at least begun planning an SOA.

New customers won

The aforementioned activities enabled us to gain numerous prominent new customers as well as follow-up orders in the fiscal year under review. Furthermore, Software AG received the largest individual order in its corporate history in fiscal year 2008. The Global Support group also contributes to high customer satisfaction and even greater customer loyalty. It is available to Software AG customers throughout the world, seven days a week, 24 hours a day. The group troubleshoots any problems customers might have and solves them as quickly as possible while working closely with our development teams and customers.

6.3 PARTNERS

Global and regional partnerships contributed significantly to the company's success in 2008. Industry expertise and our partners' service offerings combined with Software AG's product portfolio ensure the business success of many customers' SOA/BPM projects. In 2009, Software AG will further intensify its collaboration with partners, in particular in the area of common industry solutions, in order to support existing and potential customers in dealing quickly and efficiently with their industry-specific issues.

Joint development of new frameworks

One of Software AG's most important international partners is Accenture. Our partnership with this successful international consulting firm led to three major deals within twelve months. For these solutions we worked together to develop a software platform (framework) for financial institutions that includes the entire webMethods suite and guarantees secure data exchange for banks. This framework can then be offered to any other bank in the world.

Further intensification of partnerships

One of Software AG's highest priorities in 2009 is to intensify its relationship with key partners in the fields of banking, manufacturing and public administration. About half our revenue in recent years has come from these vertical markets. Moreover, we plan to work together to develop additional process frameworks that combine our partners' expertise with Software AG technology for specific business applications. These market-oriented solutions, for such applications as improving insurance companies' claims processing or operating call centers, can be marketed either by the partners themselves or the Software AG sales team.

6.4 EMPLOYEES

Number of employees

The number of employees increased by one percent in the past year. As of December 31, 2008, Software AG employed 3,526 persons worldwide, compared to 3,479 employees as of the 2007 reporting date. Of that number, 772 persons were employed in Germany (2007: 760), and 691 in the U.S. (2007: 731). As in the previous year, 78 percent of our employees worked outside of Germany at year end.

HEADCOUNT BY FUNCTIONAL AREAS

	Dec. 31, 2008	Dec. 31, 2007	Change in %
Sales & Marketing	703	755	–7
Maintenance & Service	1,634	1,545	+6
Research & Development	651	676	–4
Management & Administration	538	503	+7
Total	**3,526**	**3,479**	**+1**

Focal points of Human Resources activities in 2008

A major focal point of our Human Resources activities in 2008 was the creation of a standard IT infrastructure for the Human Resources department. We are using a standard system to create uniform structures and policies in Germany, the U.S., Switzerland and Canada. In addition, the introduction of a homogeneous global incentive system guarantees that all employees are offered attractive benefits in line with the market for their respective countries. Along with the amount of the salary, these include such benefits as health insurance. A third related point is that globally standardized job descriptions and career paths should form the basis for a systematic Human Resources policy throughout the Group.

Training and continuing education are a priority for us

Another constant focus of our Human Resources activities is the continuing education and qualification of our employees. Our Corporate University, started in 2005, conveys the message that learning and training are of strategic importance to Software AG. The Corporate University's qualification program is geared towards all employees around the world, and its core task is ensuring the qualifications of all target groups by customizing the training to Software AG's vision, values and strategy.

Our continuing education offerings include training sessions in the field of social skills, special programs for global management development and foreign language courses. In addition, the fields of technology, sales and marketing continue to play a crucial role. The Corporate University also bears responsibility for the development of training materials for customer training sessions and certifications, thereby contributing to stronger customer relationships.

The Learning Management System – begun as a pilot project in October 2007 – was launched globally for all departments in 2008. It is an electronic learning platform that manages all Corporate University content, such as training documents for traditional continuing education offerings and seminars conducted by a trainer, and also documents for e-learning courses. In 2008, more than 7,000 e-learning courses were completed, proving the growing significance and high degree of enthusiasm for this type of offering. Furthermore, in the past year more than 2,000 employees attended 185 seminars, and 350 certifications for Software AG products were issued.

Human Resources development programs expanded

After the successful conclusion of the first international High Potentials Program in 2007, the program was begun again in the second half of 2008. The High Potentials Program is geared toward Software AG employees from all departments with a diverse professional background who display outstanding performance and should actively support the Company's growth in the coming years. We also offer various other development programs in the fields of leadership and project management.

An assessment center conducted a management audit of about 100 executives from the Global Leadership Team last year with the objective of assessing each manager's potential and then creating an individual development plan. Consequently, a program for managers will be conducted in 2009 along with individual training measures focusing on such topics as innovation and change management.

In many countries, including the Unites States, we have introduced an electronic appraisal tool that we developed with the objective of assessing employees' competence in a standardized fashion and then being able to access this data electronically. This is intended to contribute to greater transparency in the assessment of employee potential, as well as be another component in the harmonization and standardization of Human Resources work.

University Relations

The intense competition for new graduates in the IT industry makes close contact with universities increasingly important. Today's graduates are the IT managers of the future and will therefore be our customers of tomorrow. Particularly when there is a shortage of skilled labor, it is important to take suitable actions early to support young talent for our own needs and the needs of our customers. Thus, it is of great strategic importance for any software company's future success to establish long-term and trusting relationships with colleges and universities.

Since early 2007, Software AG has had a globally oriented University Relations department. In 2008, the department was further expanded at an international level. The crux of the University Relations program is to put Software AG products into colleges and universities around the world free of charge for teaching and research purposes. In connection with this, we offer IT and business students an opportunity to get to know us through guest lectures, corporate visits and events. We offer internships and jobs for students, as well as providing support for master's and bachelor's theses. During their university education, interested students are given the opportunity to gain practical and reality-based experience in fully equipped and predefined projects. The students work on topics covered by our product range, such as SOA, BPM, mainframe technology and application modernization. So far, more than 90 software packages have been delivered to universities for student projects. In the meantime, we are in direct contact with more than 200 departments at more than 100 universities.

Idea management strengthened

During the past fiscal year, we continued our innovation program "Innogize" (innovation and energize), which began in 2007 and is part of the Corporate Culture department. Using Innogize as the basis, we want to establish a globally engaging culture of innovation at Software AG. The program was developed using our own software and contains standardized processes as well as an innovation campaign, which are valid across all regions, countries and departments. The goal is to collect, manage, implement and honor innovative ideas associated with any areas of our business. Employees from all departments and countries took advantage of the program last year. The suggestions that made their way into the "idea database" dealt with product improvements, ideas for workflow process optimization and solutions contributing to cost savings. In addition, some good ideas were implemented: For example, company videos were posted on the online video platform YouTube as a way to improve the Company's communication with the public.

Corporate Culture – an important component of responsible Human Resources work

As a result of our first global employee survey in 2005, we developed corporate values that were officially introduced in January 2007. Innovation, trust, responsibility, open communication and a winning spirit form the cornerstones of the corporate culture that act as a foundation for the special working environment at Software AG. The Corporate Culture Workshops begun in 2007 continued last year as well. Work/life balance is an important topic that developed from these workshops dealing with responsibility to employees. Therefore, one of our pilot projects in Germany was to start a family-friendly program with a wide variety of offerings aimed at all phases of life – from laundry service to consultation on childcare and dependent care.

An additional example is the new health program for employees in the United Kingdom, which established "fitness days" and offered discounted health-club memberships.

Employee survey

To investigate employee satisfaction at Software AG, the Human Resources department conducted a second global employee survey in October 2008, and we were able to draw clear conclusions on our leadership culture and employee satisfaction. We were particularly pleased by the high level of attachment employees reported to the Company and their appreciation for their jobs within the Company.

Software AG – an attractive employer

Software AG took part in university job fairs in Germany and Spain for the first time in 2008, with the objective of improving our name recognition and popularity with students. We hope to rank well in relevant surveys of university graduates this year as a result of these activities.

Some examples of Software AG's attractiveness as an employer in 2008 include winning the Investors in People Award in the United Kingdom and Software AG Bulgaria's Human Resources directors´s 2008 commendation as the country's Top Human Resources Manager in 2008.

Outlook

We will continue the above-described Human Resources policy in the coming fiscal year. In light of the troubled market environment around the world, we are focusing all our efforts on guiding the Company through the crisis with lean structures. In so doing, Software AG's declared Human Resources policy is to retain jobs. We will continue to concentrate on Human Resources development and qualification as well as on creating standardized conditions for Human Resources activities. In this context, we will install the appraisal tool described above worldwide. In addition, we will use the results of the employee survey to develop measures that contribute to better company management, thereby further increasing our employees' motivation, loyalty and productivity.

6.5 CORPORATE SOCIAL RESPONSIBILITY

As Europe's fourth-largest software company and one of the biggest IT companies in the world, we have a special corporate social responsibility to technological innovation, our customers, our employees and society. To us, responsible action means being a successful company, which includes making our customers successful, researching and developing our own solutions, developing employees with the company, benefiting society and maintaining exemplary values and social standards in day-to-day business activity. It is especially important in this regard that our business model be based on sustainability.

Concrete examples of our responsibility toward our employees are our work/life balance and family-friendly company programs, as well as the Corporate University. An example of our outward responsibility is our commitment to education and innovation. Thus, as part of our University Relations program initiated in 2007, we provide colleges and universities with free software licenses, and we are cofounders of the regional Rhine-Main-Neckar corporate software cluster.

7 TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

Software AG's share capital totaled €85,916,526 and is divided into 28,638,842 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 has authorized non-issued capital pursuant to Section 5 (5) of the Company's Articles of Incorporation. The Executive 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 €8,572,640 par value on or before October 28, 2009 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 additional information on the conditional capital, authorized capital and the acquisition of treasury stock.

Significant shareholders

Software AG Foundation, Darmstadt, holds almost 30 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 10 percent of the share capital.

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

Executive 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 (Section 5, Paragraphs 1 and 2 of the Articles of Incorporation); April 27, 2001 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); 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); and December 11, 2008 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation).

Change of control

Liabilities to banks in the amount of €152 million (2007: €197 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 Executive 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 and 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 Executive 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.

8 MAIN FEATURES OF THE REMUNERATION SYSTEM

The Remuneration Report is part of the Corporate Governance Report, which is an integral component of the Management Report.

9 RISK REPORT

9.1. RISK AND OPPORTUNITY MANAGEMENT SYSTEM

Opportunity/risk management

Software AG's primary goal is long-term, profitable growth. Based on that, we intend to increase our enterprise value on a consistent basis. 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 the risks remain manageable and controllable.

Risk and opportunity management system throughout the Group

Through a Group-wide risk and opportunity management system, we identify possible risks at an early stage so as to correctly evaluate them and limit them to the extent possible. By continuously monitoring risks, we can constantly evaluate the presumed 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 and market risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas.

One of our tools for ongoing monitoring of the risk areas identified is a balanced scorecard system. The Executive Board is continously 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 elaborages 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 guidelines on business policies and practices. Software AG classifies these policies by field: general, Professional Services, financial powers and financial markets. The defined policies regulate internal procedures 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.

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.

9.2. 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.

9.2.1. 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 mainframe market. Due to our increasing global expansion, Software AG is not particularly dependent on individual regional markets. Both business divisions market a technology that is used in a large number of industries, ruling out a concentration on individual industries or single customers. We have also decreased our reliance on developments in the mainframe market thanks to the strong integration business we have built. 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 ETS customers and to secure our broad customer base over the long term.

The financial crisis that began in 2008 presents a particular risk for the sale of our products. Our customers' IT budgets have been cut in conjunction with this crisis, and the effects on Software AG are not yet clear. By deploying integration and modernization products from both our product lines, our customers achieve considerable cost reductions for their IT infrastructure. The return-on-investment times are very short for our customers. Hence, these 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 in times of economic crisis. Therefore, our revenue flow is very stable, especially from maintenance services. In addition, we are continuing our geographical expansion, in particular in Brazil and Japan. Because of the opportunities found there, the Company is expecting continued moderate growth in the future as well.

9.2.2. CORPORATE STRATEGY RISKS

Product risks

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. As is customary in the software industry, one of our greatest challenges is to optimally allocate our R&D resources. Development of the webMethods business division 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.

As confirmed by independent analysts, we are a technology leader. In the webMethods product areas in particular, this means that we often assume a pioneer role in unknown technological territory. This carries the risk of marketing products that are not completely technologically mature, which can damage customer relationships. In order to manage this risk, during the year under review, we started our Entire Readiness of Software AG for New Technology / Release initiative to prepare the whole Software AG Group optimally for launching new products.

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. 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 Professional Services

Price is often a key factor in winning projects in the area of Professional Services. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed budgeted costs. A standard, automated approval process across the Group (Global Deal Desk) mitigates this risk and places emphasis on adequate risk-adjusted profit margins, and it is continuously monitored.

Rights management

Our growth strategy for the ETS business division 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 completed contract optimization. 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.

Profitable growth for the webMethods division

There is a risk associated with new customer projects in the webMethods business division being postponed and revenue deviating from budget due to the current macroeconomic business environment.

Ensuring productive acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. This entails the risk that the companies acquired cannot be successfully integrated. 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 companies involved, 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. We look at all key areas of the acquired company, including finance, legal affairs, research and development, sales, marketing and internal communication.

9.2.3. 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.

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.

9.2.4. FINANCIAL RISKS

Exchange rate risks

Due to our global business activities, Software AG is exposed to exchange rate risks. Our sales organizations operate in the countries in which the sales are transacted. The sales-related expenses are in the same currency as the sales themselves. 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. 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

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 raise Group net income by €0.2 million and the remaining equity ratio reserves would increase by €1.2 million. Provided that the Company did not finalize any additional hedging strategies and no negative effects were present on the balance sheet, a 10 percent decrease in the euro's value against the U.S. dollar would cause Group net income to decrease by €3.1 million and the remaining reserves by €2.5 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. 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.

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.

The 2008 financial crisis has had a negative effect on our customers' creditworthiness, so we took extra precautions in fiscal year 2008 through reserves for portfolio risks. To reduce the impacts of this risk, we have optimized the approval process for customer contracts by introducing a Global Deal Desk based on our BPM software and improved monitoring processes.
To protect our cash holdings, we constantly monitor our partner banks' creditworthiness and adjust our investment decisions accordingly.

9.2.5. 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. A small software company from Canada sued Software AG USA Inc., Software AG Inc., and Software AG along with seventeen other defendants, including Microsoft and IBM, in August 2007 for infringing on one of its software patents. Particulars about this case can be found in the Notes on the consolidated financial statements.
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 patents are the most effective protection against lawsuits. Software AG owns 47 patents from 22 patent families. In addition, a total of 152 registra-

tions from 64 patent families are pending. In 2008, patents were filed for 20 (2007: 22) new inventions. These patents could contribute in the future to generating additional licensing revenues.

Other litigation

Sporadically, we are faced with legal proceedings that are distribution oriented or relate to the extent of usage rights. Generally, however, the number of legal disputes is very low.

Risks arising from U.S. export regulations

Software AG's U.S. locations are subject to U.S. export regulations. Restrictions exist against exports of the developments achieved in the U.S. to countries under U.S. embargo or to companies on the U.S. black list. United States export regulations also apply to products in which the provenance of component parts greater than a certain minimum can be traced back to development undertaken in the United States. Failure to respect these export regulations may result in sanctions from the U.S. government. Software AG, which has a customer base in 70 countries around the globe, has eliminated this risk by implementing an internal monitoring system that precludes deliveries to customers in U.S. embargo countries.

9.3. 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.

10 EVENTS AFTER THE BALANCE SHEET DATE

At the end of February 2009 Software AG signed an agreement to purchase 51 percent of itCampus Software- und Systemhaus GmbH, Leipzig. itCampus is a provider of software and communication solutions for call centers, the energy, medical and public sectors. The purchase will strengthen our research and development capacity in the realm of process automation.

11 FORECAST

11.1 FUTURE DIRECTION OF THE GROUP

We will continue along our profitable path to growth in 2009 as well. In doing so, we will still focus our attention on implementing strategic measures to expand our business (refer to Corporate Strategy and Objectives).

Essential operational measures in 2009 include the following:

- Taking advantage of opportunities offered by acquisitions
- Expanding the consulting and product business in the new high-growth webMethods business
- Continuing to penetrate markets, especially in Brazil and Japan
- Expanding technological leadership through ongoing new developments and advancements, especially in the field of SOA
- Expanding the partner network

Long-term goals confirmed

We continue to be committed to our previously set revenue and earnings target: We will exceed €1 billion in revenue in fiscal 2011.

11.2 OVERALL ECONOMIC OUTLOOK

Seldom has it been more difficult to forecast further economic development than it is now. The duration and the depth of the recession and its effects on IT demand are very hard to estimate. Much will depend on how far the reorganization efforts of monetary policy and the supporting measures of individual governments go. In general, however, the most serious global recession in years is predicted, as suggested by the clearly falling indicators at the end of 2008. In addition, the downturn is now also hitting emerging markets, which were still expected to experience substantial economic expansion. According to the assessment of the Institute for the World Economy (IfW), the global economy will scarcely expand in 2009. The growth rate of world production – at 0.4 percent – could be even lower than in the recession year 1982.

A slump in economic performance is expected in the United States in early 2009. U.S. industry is suffering in particular from the strong decline in international demand as well as the increase in the dollar’s value. However, domestic momentum is weak as well. Rising unemployment, consumers’ losses on the stock market and in real estate, a growing savings rate and continuing more restrictive lending practices on the part of banks mean private consumption is caving in. Even all the measures enacted by the U.S. Federal Reserve and the new administration cannot stop the downswing. The U.S. economy is expected to decline 1.6 percent overall.

The euro zone economy will suffer considerable losses in 2009 as well: This is related to exports and the fact that investments will cave in as a result of tightened financing conditions and pessimistic sales and profit expectations. Furthermore, consumption will likely fall in some countries in light of rising unemployment and sinking assets. The International Monetary Fund expects a decline in the gross domestic product of 2 percent in the euro zone and 2.5 percent in Germany. Eastern European countries should be affected even more by the recession.

As already indicated in late 2008, Asia also will not be able to withstand the pull of the global recession. The Purchasing Managers Indexes of the region’s largest national economies, Japan and China, were at record lows recently. Growth in China, which will be affected primarily by a further slump in exports and the near standstill in investments in the building sector, is expected to reach only 6.7 percent. The Japanese economy will probably even shrink by 2.6 percent.

Early indicators for the Latin American economy also are showing a negative trend: Here slight gross domestic product growth of only 0.3 percent is anticipated. Nevertheless, growth of 1.8 percent is forecast for 2009 in Brazil.

11.3 EXPECTED SECTOR TREND

The ICT market's global growth will weaken in 2009 largely due to the effects of the economic crisis on the high-tech industry.
Nevertheless, according to an estimate of the German Association for Information Technology, Telecommunications and New Media (BITKOM), the global IT market will grow about 2.7 percent in 2009 to €983.0 billion, in spite of the current economic crisis. With reference to the European technology news service EITO, according to BITKOM, suppliers of software and IT services especially will show significant increases. Their global revenues are estimated to increase by 3.4 percent in 2009 to €670 billion.
A leading market research and consulting firm believes that the world market for corporate software will grow 6.6 percent in 2009. This includes software products for use in companies, such as infrastructure solutions and business applications for ERP, CRM, and SCM.
EITO believes the ICT market in the European Union will grow by about 3 percent in the coming year, with the software and IT services segments making a particular contribution.
BITKOM expects total revenues for the German ICT market to reach €135 billion in 2009, which is similar to the level in 2008. The latest BITKOM forecast has the German IT market growing by 1.5 percent to €67 billion.

11.4 FUTURE FINANCIAL PERFORMANCE

We want to continue our present profitable growth in fiscal year 2009 as well. However, precise forecasts are still difficult because of the unpredictability of the general economic development worldwide. Therefore, our estimate from today's perspective is as follows: Our medium-term organic growth target continues to be about 10 percent per year. We are expecting revenue growth of 4-8 percent (taking into account currency translation effects) for 2009, however. We anticipate growth for the ETS business line at about 4-6 percent, and 4-10 percent for webMethods. The EBIT margin is expected to reach to 24.5-25.5 percent in 2009.

Continued attractive dividend policy

We plan to maintain our attractive dividend policy in the future as well, but this of course depends on further world economic developments.

FORECAST FOR 2009

	2008 (in € million)	Forecast for 2009*
Revenue	720.6	+ 4 – 8 %
ETS division	404.9	+ 4 – 6 %
webMethods division	315.7	+ 4 – 10 %
EBIT margin	25.1 %	24.5 – 25.5 %

* taking into account currency translation effects / in local currency

Because of the uncertain global economic situation, there will be no additional forecast for 2009.

11.5 CORPORATE STRATEGY OPPORTUNITIES

We also see various opportunities for Software AG that we intend to take consistent advantage of in the current financial year.

The right conditions are in place: The competitiveness of our products, the continuous development of webMethods sales, the market's demand for IT modernization, our customers' integration of applications and integration with business partners, as well as the necessary increased efficiency of their processes – all this creates excellent opportunities for Software AG to achieve our stated goal of becoming a market leader in the SOA integration technology segment. Another positive outlook is presented by our global presence in countries with high growth rates and the promotion of the webMethods project business by cross selling in a large, stable ETS customer base. Not least, we have a very competent staff with a customer-oriented corporate culture, which continues to focus in difficult times on added value for the customer.

Even the ongoing negative development of the world economy offers us opportunities. Within the scope of our strategy, we will take consistent advantage of opportunities for acquisitions and keep a sharp lookout for them on the market. We have our eye on some smaller companies that either complement us technologically or make a product that is similar to our product portfolio and on consulting firms that could strengthen Software AG's Professional Services. In addition, the economic crisis is also increasing demand for process-optimizing software applications; we can meet this demand with our customer-oriented solutions.

11.6 GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

Over the last few years, Software AG set the stage for continued positive business development, and we want to build on it in the coming years. In fiscal year 2008, we proved that we can achieve excellent results even in light of increasingly difficult and uncertain economic conditions. Once again, we had the best results in our 40-year history. Our business model – focusing on two complementary business lines, a large customer base and broad geographic distribution – has proven to be robust.

The following factors should contribute to achieving our revenue and profit goals: In the ETS business division, we will continue our market penetration in Brazil and Japan, and our customers in our existing markets will further develop or modernize their applications. In the webMethods business division, we want to gain new customers and benefit from the growth amounting to 8-17 percent in the relevant sectors of the market. Our Professional Services business unit will concentrate increasingly on major projects and position itself as a strategic SOA consulting firm.

Thus, we have all the necessary conditions to become the global market leader for SOA integration technology in the medium term, as planned.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
for the fiscal years 2008 and 2007

in € thousands	Note	2008	2007
Licenses		272,028	241,339
Maintenance		267,059	212,938
Professional Services		177,763	161,182
Other		3,760	5,800
Total revenue	[5]	**720,610**	**621,259**
Cost of sales	[6]	−198,260	−181,511
Gross profit		**522,350**	**439,748**
Research and development expenses	[7]	−76,224	−65,900
Sales, marketing and distribution expenses	[8]	−169,495	−159,208
General and administrative expenses	[9]	−65,083	−59,299
Operating result		**211,548**	**155,341**
Other operating income	[10]	44,509	21,503
Other operating expenses	[11]	−61,026	−33,384
Earnings before interest, taxes and amortization		**195,031**	**143,460**
Amortization	[12]	−14,483	−6,663
Earnings before interest and taxes		**180,548**	**136,797**
Net financial income/expense	[13]	−5,122	294
Earnings before taxes		**175,426**	**137,091**
Income taxes	[14]	−54,781	−45,722
Other taxes	[15]	−4,785	−2,962
Net income for the year		**115,860**	**88,407**
thereof attributable to shareholders of Software AG		115,860	88,375
thereof attributable to minority interest		0	32
Earnings per share (€ basic)	[17]	4.05	3.11
Earnings per share (€ diluted)	[17]	4.04	3.09
Weighted average number of shares outstanding (basic)		28,599,020	28,439,959
Weighted average number of shares outstanding (diluted)		28,671,237	28,563,649

CONSOLIDATED BALANCE SHEET as of December 31, 2008 and 2007

in € thousands	Note	Dec. 31, 2008	Dec. 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents		96,925	81,294
Inventories		85	90
Trade receivables	[18]	247,251	209,311
Other receivables and other assets	[19]	21,187	10,125
Deferred income		5,945	5,794
		371,393	**306,614**
Non-current assets			
Intangible assets	[20]	150,931	139,265
Goodwill	[20]	442,676	431,596
Property, plant and equipment	[21]	46,988	49,847
Financial assets	[22]	6,456	8,232
Trade receivables	[18]	17,208	15,704
Other receivables and other assets	[19]	8,563	16,582
Deferred income		47	0
Deferred taxes	[23]	66,729	55,484
		739,598	**716,710**
		1,110,991	**1,023,324**
EQUITY AND LIABILITIES			
Current liabilities			
Financial liabilities	[24]	61,360	46,652
Trade payables	[25]	35,824	31,300
Other liabilities	[26]	45,151	64,199
Other provisions	[27]	69,011	42,802
Tax provisions	[29]	36,688	11,485
Deferred income		100,528	83,878
		348,562	**280,316**
Non-current liabilities			
Financial liabilities	[24]	105,841	167,648
Trade payables	[25]	68	64
Other liabilities	[26]	378	2,966
Pension provisions	[28]	16,650	17,229
Other provisions	[27]	13,959	9,686
Deferred taxes	[23]	73,771	79,621
Deferred income		2,623	3,332
		213,290	**280,546**
Equity	[30]		
Share capital		85,917	85,618
Capital reserve		35,810	31,933
Retained earnings		356,953	299,532
Net income attributable to shareholders of Software AG		115,860	88,375
Currency translation differences		−76,744	−80,008
Other reserves		31,343	36,343
Minority interest		0	669
		549,139	**462,462**
		1,110,991	**1,023,324**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the fiscal years 2008 and 2007

in € thousands	Note	2008	2007
	[31]		
Net income for the year		115,860	88,407
Income taxes		54,781	45,722
Net financial income/expense		5,122	−294
Amortization/depreciation of non-current assets		25,538	15,140
Other non-cash income/expense		4,967	5,429
Operating cash flow before changes in working capital		**202,268**	**154,404**
Changes in inventories, receivables and other assets		−56,611	−7,119
Changes in payables and other liabilities		40,713	−25,370
Income taxes paid		−45,168	−28,299
Interest paid		−10,528	−9,335
Interest received		5,408	9,728
Net cash from operating activities		**140,082**	**94,009**
Proceeds from the sale of property, plant and equipment/intangible assets		2,553	1,135
Purchase of property, plant and equipment/intangible assets		−11,278	−10,964
Proceeds from the sale of financial assets		3,097	2,945
Purchase of financial assets		−1,009	−4,916
Payment for acquisitions, net		−38,854	−362,321
Net cash used in investing activities		**−45,491**	**−374,121**
Proceeds from issue of share capital		1,809	7,225
Dividends paid		−28,539	−25,302
Additions to financial liabilities		0	328,403
Repayments of financial liabilities		−46,203	−119,295
Payments for hedging instruments		−3,361	−11,260
Net cash provided by/used in financing activities		**−76,294**	**179,771**
Change in cash and cash equivalents from cash-relevant transactions		18,297	−100,341
Currency translation adjustment		−2,666	−3,139
Net change in cash and cash equivalents		**15,631**	**−103,480**
Cash and cash equivalents at beginning of period		81,294	184,774
Cash and cash equivalents at end of period		**96,925**	**81,294**

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

in € thousands	**2008**	**2007**
Currency translation differences	3,264	−38,875
Net gain/loss from currency effects of net investments in foreign operations	−7,059	1,983
Net gain/loss from fair value measurement of net investments in foreign operations	2,059	−86
Net actuarial gain/loss on pension obligations	−2,415	4,467
Total income and expense recognized directly in equity	**−4,151**	**−32,511**
Net income for the year	115,860	88,407
Total recognized income and expense	**111,709**	**55,896**
- thereof attributable to minority interest	0	39
- thereof attributable to shareholders of Software AG	**111,709**	**55,857**

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, 2008 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 entities 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 %	Abbreviations
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

b) Foreign entities	Shareholding in %	Abbreviations
Software AG (UK) Limited, Derby, UK and its subsidiary	100	SAG-UK
Software AG Belgium S.A., Brussels/Belgium,	76	SAG-B
in which Software AG also has a direct stake	24	
Software AG Development Center Bulgaria EOOD, Sofia/Bulgaria	100	SAG-BULG
Software AG (Gulf SPC), Manama/Kingdom of Bahrain	100	SAG-GULF
Software AG France S.A.S, Gentilly/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, Taastrup/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, Helsinki/Finland	100	SAG-SF
Software AG 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	95	SAG-ARG
Softinterest Holding AG, Zug/Switzerland and its subsidiary	100	SIH
SAG Software Systems AG, Dietikon/Switzerland	100	SAG-CH
Software AG España, S.A. Unipersonal, Tres Cantos, (Madrid)/Spain	100	SAG-E
Software AG Latinoamérica, S.L., Tres Cantos (Madrid)/Spain (merged with Software AG España, S.A. on September 29, 2008) and its subsidiaries	100	SAG-LATAM
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 Chile S.A., Santiago/Chile (liquidated on December 3, 2008)	100	SAG-CLSA
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 (formerly Soluciones de Integración de Negocios)	100	SAG-CR
Software AG, Inc., Reston, VA/USA and its subsidiaries	100	SAG-USA
Software AG (Canada) Inc., Ontario/Canada	100	SAG-CAN
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 Funding Corporation, Reston, VA/USA (liquidated on June 23, 2008)	100	SAG-FUN
Software AG International, Inc., Reston, VA/USA and its subsidiary	100	SAG-INT
Software AG USA, Inc., Reston, VA/USA (formerly webMethods, Inc., Fairfax, VA/USA) and its subsidiaries	100	wM-USA
Intellifram Corporation, Reston, VA/USA	100	wM-INTELLI
Door Acquisition, Inc., Reston, VA/USA	100	wM-DOOR
The Dante Group, Inc., Reston, VA/USA	100	wM-DANTE
The Mind Electric, Inc., Reston, VA/USA	100	wM-MIND
Infravio, Inc., Reston, VA/USA and its subsidiary	100	wM-INFRAV
Infravio Software Technologies Private Limited, Chennai, India	100	wM-INFIND
Infravio, Inc., Reston, VA/USA and its subsidiary	100	wM-INFRAV
Infravio Software Technologies Private Limited, Chennai, India	100	wM-INFIND
Chameleon Acquisition Corp., Reston, VA/USA	100	wM-CHAMEL
webMethods West, Inc., Reston, VA/USA and its subsidiary	100	wM-WEST
webMethods Worldwide, Inc., Reston, VA/USA and its subsidiaries	100	wM-WW
webMethods Canada Corporation, Toronto, Ontario, Canada (in liquidation)	100	wM-CAN

Foreign entities (continued)	Shareholding in %	Abbreviations
webMethods Australia Pty Ltd., North Sydney, North South Wales/Australia	100	wM-AUS
webMethod Development Center India Private Limited, Bangalore/India	100	wM-IN
webMethods Software Development (Beijing) Co. Ltd., Beijing/China (PRC)	100	wM-CHINA
webMethods Germany GmbH, Darmstadt/Germany	100	wM-D
webMethods Hong Kong Ltd., Wanchai/Hong Kong	100	wM-HK
Software AG Co., Ltd., Tokyo/Japan (formerly webMethods Japan Kabushiki Kaisha (webMethods Co., Ltd.), Tokyo/Japan)	100	SAG-JAP
Software AG Japan (merged on January 1, 2008 with webMethods Japan Kabushiki Kaisha (webMethods Co., Ltd.),Tokyo/Japan)	100	wM-JAP
Software AG Korea, Ltd., Seoul, Korea (formerly webMethods Korea Co., Ltd)	100	wM-KOR
Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia (formerly webMethods Malaysia Sdn Bhd.)	100	wM-MAL
webMethods Singapore Pte Limited, Singapore/Singapore	100	wM-SIN
webMethods UK Li mited, Egham, Surrey, United Kingdom	100	wM-UK
webMethods Sweden AB, Kista/Sweden	100	wM-S
Software AG Australia (Holdings) Pty Ltd., North Sydney/Australia and its subsidiary	100	SAG-AUS (Holding)
Software AG Australia Pty Ltd., North Sydney, Australia	100	SAG-AUS (operat)
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 AG (Shenzhen) Co Ltd, Shenzhen/China (PRC)	100	SAG-CHINA
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
SPL Text Systems International Inc, Washington, USA	100	SPL-TXT

CHANGES IN THE CONSOLIDATED GROUP

The number of consolidated entities decreased from the level as of December 31, 2007 due to the following transactions:

The following entities were merged effective January 1, 2008:

- Software AG, Ltd., Tokyo/Japan was merged into webMethods Japan Kabushiki Kaisha (webMethods Co., Ltd.), Tokyo/Japan
- webMethods B.V., Amsterdam/Netherlands was merged into Software AG Nederland B.V., Nieuwegein/Netherlands
- webMethods France Sarl, Paris/France was merged into Software AG France S.A.S., Gentilly/France

Software AG Latinoamérica, S.L., Tres Cantos (Madrid), Spain was merged into Software AG España S.A. Unipersonal, Tres Cantos, (Madrid), Spain, effective September 29, 2008.

On June 5, 2008, Software AG Argentina S.R.L. was established in Buenos Aires, Argentina, with a share capital of €100 thousand.

Effective March 31, 2008, 49% of the shares in Software AG (India) Private Limited were purchased from I-Gate Global Solutions Limited at a price of €609 thousand.

Software AG Chile S.A., Santiago, Chile was liquidated effective December 3, 2008.

Software AG Funding Corporation, Reston, VA, USA was liquidated effective June 23, 2008.

3_ ACCOUNTING POLICIES

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions were made for certain items that have an impact on the recognition and measurement of the assets, liabilities, income, expenses, and contingent liabilities reported. Actual amounts may differ from these estimates.

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, 2008).

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 December 31, 2002 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 (date of transition) was performed in accordance with IFRS 3 regulations. Subsequent consolidations were derived from the relevant initial consolidation.

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 capitalized in accordance with previously applicable HGB (German Commercial Code) accounting principles and amortized over 10 years using the straight-line method. In accordance with the option set out in IFRS 1.14, the Company continues 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 capitalized 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 annually for impairment.

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 in 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 the equity consolidation are offset against equity and reported on a separate line 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 fixed assets schedule, 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 on a separate line under both "cost" and "accumulated depreciation/amortization."

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 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:

Average rate (€1)	Dec. 31, 2008	Dec. 31, 2007	Exchange rate change in %
U.S. dollar	1.3976	1.4718	5.0
Brazilian real	3.2574	2.6208	-24.3
Pound sterling	0.9589	0.7347	-30.5
Japanese yen	126.40	165.10	23.4

Closing rate (€1)	2008	2007	Exchange rate change in %
U.S. dollar	1.4705	1.3700	-7.3
Brazilian real	2.6714	2.6629	-0.3
Pound sterling	0.7967	0.6845	-16.4
Japanese yen	152.28	161.18	5.5

Total revenue

Software AG sales revenues primarily consist of revenue from granting software licenses (usually of indefinite duration), in exceptional cases rental licenses, maintenance revenue, and revenue from Professional Services. Revenue from granting perpetual licenses is only recognized once a contract has been signed with the customer, 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.

In the case of multiple element arrangements, revenue recognition is based on the individually identifiable elements. Accordingly, revenue is allocated 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 contract value. The residual amount is then allocated to the elements for which no reliable market values can be determined, using list prices.

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

Revenue resulting from contracts for Professional Services, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by the SAG entities.

Pursuant to IAS 18 in conjunction with IAS 11, revenues and expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if the revenues can be reliably measured, there is sufficient probability that Software AG will receive the economic benefits from the transaction, and all costs incurred for the transaction and the costs to complete the service can be reliably established. The stage of completion of a contract is calculated on the basis of the proportion that contract costs incurred for work performed as of the balance sheet date bear to the estimated total contract costs.

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 the orders as well as fixed and variable overheads. Borrowing costs are not capitalized as part of cost. No write-downs on inventories were required during the reporting period.

Research and development expenses

Research and development expenses are recognized in the income statement as they are incurred.
The creation and development of software involves the use of closely linked, iterative processes between the research and development phases. As a result, expenses incurred for research cannot be strictly separated from those incurred for development. The criteria for the capitalization of development expenses defined in IAS 38.57 in conjunction with 38.53 are therefore not fulfilled. Software acquired for a consideration in connection with business combinations is capitalized at market value.

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.

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

Borrowing costs
In accordance with the provisions of IAS 23, interest expenses are recognized in income in the period in which they are incurred.

Share-based payment
In accordance with IFRS 2, share-based payment transactions are divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at the fair value as of the grant date and then amortized as personnel expense 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. Amortization is applied in accordance with the straight-line method over the estimated useful life of the asset. Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Goodwill
In accordance with IFRS 3, goodwill is not amortized, but tested for impairment on an annual basis 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 and maintenance charges arising once the asset is 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. Financing costs are not capitalized as part of cost.

Items of property, plant and equipment are generally depreciated using the straight-line method in accordance with their useful economic lives.

Buildings	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 are indications that an intangible asset or an item of property, plant and equipment is impaired, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized in income. 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 of the tax base and 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

Current liabilities are recognized at their repayment or settlement amount.

Non-current liabilities are recorded at amortized cost. Amortized cost is determined using the effective interest rate method by discounting the repayment amount.

Provisions
Provisions are reported in the event 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.

New accounting provisions of 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, 2008. For these IFRSs to be applied, they must first be endorsed by the EU.

- Amendment to IAS 1 Presentation of Financial Statements
- The revised IAS 23 Borrowing Costs will come into effect for fiscal year 2009
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IAS 32 and IAS 1 relating to puttable financial instruments and obligations arising on liquidation
- Amendments to IFRS 2 for the purpose of clarifying the terms “vesting conditions” and “cancellations”
- Amendments to IFRS 3 Business Combinations
- IFRIC 13 Customer Loyalty Programs
- 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
- FRIC 18 Transfers of Assets from Customers

All standards and interpretations mentioned above are required to be applied for the first time for fiscal year 2009, except the amendments to IFRS 3, IAS 27, IFRIC 17 and IFRIC 18 which are required to be applied for the first time for fiscal year 2010. Software AG does not expect initial application of the aforementioned standards and interpretations to have a significant influence on the consolidated financial statements.

4_ BUSINESS COMBINATIONS

Software AG acquired the application modernization business of Jacada Ltd., Israel, through the purchase of the net assets in the context of an asset deal as of January 1, 2008. Acquisition of the application modernization division has expanded Software AG's ETS business division.

The cost of the business combination amounted to € 17,839 thousand and was allocated as follows:

€ thousands	**Fair value as of January 1, 2008**	**Carrying amount prior to acquisition**
Intangible assets	18,549	0
Deferred income	–583	–990
Acquired assets and assumed liabilities, net	**17,966**	
Excess of the net fair value of acquired assets and liabilities assumed over the cost of the business combination	–127	
Cost of the business combination	**17,839**	

The customer base valued at €18,518 thousand represents the major part of the acquired intangible assets; it will be amortized over an expected useful life of 15 years. Deferred income includes future maintenance obligations for which customers had already made advance payments as of the acquisition date. Based on the requirements of IFRS 3, this item was stated in the opening balance sheet at only the fair value of future maintenance obligations. In 2008, it was reversed and reported as revenue.

The excess of the net fair value of acquired assets and liabilities assumed over the cost of the business combination was recognized immediately in profit or loss after reassessment in accordance with IFRS 3.56.

Since the date of acquisition (January 1, 2008), the software division acquired from Jacada has contributed €5,317 thousand to Group revenues and €1,250 thousand to net income.

As the Jacada software division was completely integrated into the Software AG Group, the contribution to Group net income could be determined only by means of an estimate.

The former owners of SPL Software Ltd, Israel, which had been acquired in 2007, exercised their put option with respect to the remaining shares in 2008. The payment for the remaining shares amounted to €18,935 thousand. In accordance with the provisions of IFRS 3 concerning the accounting method for combined call and put options, 100 percent of the shares in the SPL companies had been included in the consolidated financial statements in 2007.

In 2008, Software AG also acquired the remaining minority interests in the following entities:

- 49.0 percent of the shares in Software AG (India) Private Limited, India for €609 thousand, effective March 14, 2008
- 49.0 percent of the shares in SPL Idor E Business Solutions, Israel and 49.0 percent of the shares in SPL Idor Management Ltd., Israel for a total of €327 thousand, effective January 1, 2008

Acquisitions of remaining minority interests eliminated the need to report minority interests in equity and net income in the consolidated financial statements as of December 31, 2008.

In addition, the acquisitions of Software A.G. (Israel) Ltd. (previously Sabratec Ltd., Israel) and of Casabac Technologies GmbH resulted in contingent purchase price payments from prior periods in the amount of €1,144 thousand.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5_ TOTAL REVENUE

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

	ETS		webMethods		Total	
€ thousands	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Licenses	156,776	153,026	115,252	88,313	272,028	241,339
Maintenance	173,805	155,735	93,254	57,203	267,059	212,938
Product sales	**330,581**	**308,761**	**208,506**	**145,516**	**539,087**	**454,277**

Breakdown of license revenues by sector:

	2008		2007	
	€ thousands	**in %**	**€ thousands**	**in %**
Public sector	54,406	20	50,804	21
Banks and insurance companies	70,727	26	60,098	25
Industry and other	146,895	54	130,437	54
Total	**272,028**	**100**	**241,339**	**100**

Revenues from Professional Services

Professional Service revenues include sales of €26,757 thousand (2007: €19,502 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, 2008 was as follows:

€ thousands	**2008**	**2007**
Costs accumulated over the term of a (multi-year) project and not yet invoiced	10,465	12,871
Recognized profit (+) / loss (-)	3,414	−1,869
Advance payments received	1,331	3,826
Retentions	0	5

As of December 31, 2008, the net amount due from customers for unfinished project work was €9,032 thousand, the net amount due to customers was €212 thousand.

6_ COST OF SALES

The cost of sales amounted to €198,260 thousand (2007: €181,511 thousand) and primarily consisted of personnel expenses in customer support and Professional Services as well as purchased services in the Professional Services business.

7_ RESEARCH AND DEVELOPMENT EXPENSES

The research and development expenses of €76,224 thousand (2007: €65,900 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 €169,495 thousand (2007: €159,208 thousand). In addition to personnel expenses relating to the sales division, these costs mainly include marketing expenses.

9_ GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to €65,083 thousand (2007: €59,299 thousand). They include administrative expenses which are attributable neither to cost of sales nor to sales activities.

10_ OTHER OPERATING INCOME

Other operating income includes the following items:

€ thousands	2008	2007
Foreign exchange gains	40,461	14,938
Income from the reversal of provisions	4,042	1,968
Other income	6	4,597
	44,509	**21,503**

11_ OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

€ thousands	2008	2007
Foreign exchange losses	29,192	10,114
Bad debt allowances	8,854	0
Legal fees	4,788	0
Restructuring costs	0	12,756
Other expenses	18,192	10,514
	61,026	**33,384**

Bad debt allowances reported under other operating expenses in the amount of €8,854 thousand result from portfolio-based valuation allowances recognized to hedge risks resulting from the financial market crisis. Further bad debt allowances in the amount of €6,015 thousand refer to specific valuation allowances, which are shown under the relevant functional costs.

12_ AMORTIZATION

This item includes the amortization of the customer base and the software identified as an asset in connection with the acquisition of the SPL Group (2008: €1,240 thousand; 2007: €417 thousand), the webMethods Group (2008: €11,834 thousand; 2007: €6,246 thousand) and the acquisition of the Jacada business (€1,409 thousand). The amortization on the amounts recognized as an asset in previous years from the acquisition of Casabac, Sabratec, and the APS Group continue to be shown as functional costs. Amortization in the current fiscal year amounted to €1,021 thousand (2007: €1,005 thousand).

13_ NET FINANCIAL INCOME/EXPENSE

The acquisition of webMethods, Inc. resulted in a reduction of bank balances and an increase of liabilities to banks. As a result, the balance of financial income and financial expense declined by €5,416 thousand, broken down as follows:

€ thousands	2008	2007
Financial income	5,527	9,678
Financial expense	-10,649	-9,384
	-5,122	**294**

14_ INCOME TAXES

Taxes on income can be broken down as follows:

€ thousands	2008	2007
Current domestic taxes	−22,398	−10,125
Current foreign taxes	−48,007	−20,425
	−70,405	**−30,550**
Deferred domestic taxes	4,713	−9,712
Deferred foreign taxes	10,911	−5,460
	15,624	**−15,172**
	−54,781	**−45,722**

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 30.7 percent starting in 2008 (2007: 39.9 percent). Tax rates abroad range between 15 and 42 percent (2007: between 15 and 43 percent).

The tax expense increased by 20 percent due to our improved financial performance in 2008 compared to the prior year.

The income tax expense of €54,781 thousand in fiscal year 2008 (2007: €45,722 thousand) is €2,394 thousand higher than the expected income tax expense of €52,387 thousand (2007: expense of €53,517 thousand) that would result from applying the domestic tax rate of 30.7 percent currently applicable (2007: 39.9 percent) at Group level. The difference between the expected and current tax expense can be attributed to the following:

€ thousands	**2008**	**2007**
Earnings before income tax	**170,641**	**134,129**
Expected income tax (30.7%; 39.9%)	–52,387	–53,517
Tax rate-related adjustments	–3,868	8,992
Tax refunds (+)/back tax payments (-)	–354	129
Tax decreases (+)/tax increases (-) due to tax-exempt income or non-tax deductible expenses	–4,102	–959
Other adjustments	5,930	–367
Reported income tax expense	**–54,781**	**–45,722**

Other adjustments primarily include changes due to remeasurement of deferred tax assets related to tax loss carryforwards in France (€2,189 thousand) and Spain (€3,302 thousand), which arose due to the improved financial performance of the Group entities.

15_ OTHER TAXES

Other taxes mainly include property taxes, vehicle taxes, and other indirect taxes. Growth in business volume in Brazil alone led to an increase in other taxes of €1,889 thousand.

16_ PERSONNEL EXPENSES

Personnel expenses in fiscal years 2008 and 2007 were as follows:

€ thousands	**2008**	**2007**
Wages and salaries	271,878	243,173
Social security contributions	26,988	35,377
Pension expenses	6,777	7,427
	305,643	**285,977**

As of December 31, 2008, the effective 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:

€ thousands	**Dec. 31, 2008**	**Dec. 31, 2007**
Maintenance and service	1,634	1,545
Sales and marketing	703	755
Research and development	651	676
Administration	538	503
	3,526	**3,479**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 3,606 people (2007: 3,578) as of the reporting date.

The average number of employees of the Software AG Group amounted to 3,563 in 2008 (2007: 3,450).

17_ 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 2008, the average weighted number of shares was 28,599,020 (2007: 28,439,959).

A total of 99,387 stock options were exercised in 2008 (2007: 426,740).

The number of shares increased correspondingly by 99,387. Another 72,217 stock options may be exercised from the second stock option plan in fiscal year 2009. Diluted earnings per share were therefore calculated for these potential shares using the treasury stock method for the period under review. Diluted earnings per share are computed by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued to date plus the weighted average number of exercisable stock options.

NOTES TO THE CONSOLIDATED BALANCE SHEET

18_ TRADE RECEIVABLES

Trade receivables include:

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Trade receivables due within 1 year	196,816	169,471
Uninvoiced services (<1 year)	50,435	39,840
	247,251	**209,311**
Trade receivables due in more than 1 year	12,744	10,406
Uninvoiced services (>1 year)	4,464	5,298
	264,459	**225,015**

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

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Carrying amount	**264,459**	**225,015**
of which neither impaired nor past due as of the balance sheet date	199,275	166,159
of which past due in the following time bands		
1 to 3 months	43,059	41,078
4 to 6 months	19,372	11,419
7 to 12 months	2,753	6,359
> 12 months	0	0

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

19_ 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 €7,674 thousand. This item also contains receivables due from tax authorities as well as rent deposits.

20_ INTANGIBLE ASSETS/GOODWILL

CHANGES IN INTANGIBLE ASSETS AND GOODWILL IN FISCAL YEAR 2008

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2008	**433,492**	**177,926**	**611,418**
Currency translation differences	11,156	6,818	17,974
Additions from acquisitions	0	18,549	18,549
Additions	341	4,694	5,035
Disposals	−417	− 21,285	−21,702
Balance as of Dec. 31, 2008	**444,572**	**186,702**	**631,274**
Accumulated amortization/ impairment			
Balance as of Jan. 1, 2008	**−1,896**	**−38,661**	**−40,557**
Currency translation differences	0	−803	−803
Additions	0	−16,691	−16,691
Disposals	0	20,384	20,384
Balance as of Dec. 31, 2008	**−1,896**	**−35,771**	**−37,667**
Residual carrying amount as of Jan. 1, 2008	**431,596**	**139,265**	**570,861**
Residual carrying amount as of Dec. 31, 2008	**442,676**	**150,931**	**593,607**

CHANGES IN INTANGIBLE ASSETS AND GOODWILL IN FISCAL YEAR 2007

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2007	**189,843**	**35,891**	**225,734**
Currency translation differences	−15,709	−13,232	−28,941
Additions from acquisitions	261,138	154,260	415,398
Additions	100	1,283	1,383
Disposals	−1,880	−276	−2,156
Balance as of Dec. 31, 2007	**433,492**	**177,926**	**611,418**
Accumulated amortization/ impairment			
Balance as of Jan. 1, 2007	**−1,896**	**−31,197**	**−33,093**
Currency translation differences	0	1,143	1,143
Additions	0	−8,887	−8,887
Disposals	0	280	280
Balance as of Dec. 31, 2007	**−1,896**	**−38,661**	**−40,557**
Residual carrying amount as of Jan. 1, 2007	**187,947**	**4,694**	**192,641**
Residual carrying amount as of Dec. 31, 2007	**431,596**	**139,265**	**570,861**

In the statement of changes in intangible assets and goodwill, accumulated goodwill amortization was offset with cost in accordance with IFRS 3.79 (b).

Goodwill amounted to €442,676 thousand as of December 31, 2008, an increase of €11,080 thousand over December 31, 2007. This increase mainly results from exchange rate fluctuations, above all referring to the U.S. dollar.

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment on an annual basis 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 value in use.

Value in use is calculated on the basis of discounted cash flows based on the strategic budgets calculated for the next three years and approved by management. The forecasts take into account historical values and estimates of future developments. The valuation model does not include growth rates beyond the three-year planning horizon. The estimated future cash flows were discounted as of December 31, 2008 using pre-tax weighted average capital costs (WACC) before taxes of 12.8 percent.

Intangible assets include the customer base acquired in connection with the acquisition of webMethods with a carrying amount of €53,257 thousand (2007: €55,171 thousand) as of December 31, 2008, as well as software (rights and licenses) acquired in the same acquisition with a carrying amount of €38,922 thousand (2007: €43,784 thousand). The assumed useful life of the customer base is twelve years, while that of the acquired software (rights and licenses) is seven years.

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

The carrying amount of the brand name identified as an asset amounted to €17,888 thousand in fiscal 2008 (2007: €16,986 thousand). The carrying amount is attributable to the acquisition of webMethods in 2007. The webMethods brand name is now used for distributing both webMethods products as well as the Crossvision products. The webMethods brand is intended to be used for an indefinite period of time and to be expanded in future. Accordingly, Software AG assumes an indefinite useful life, which means that the brand name is not amortized. The change in the carrying amount results from currency translation effects.

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

€ thousands	**Dec. 31, 2008**	**Dec. 31, 2007**
Segment		
ETS	231,674	227,966
webMethods	211,002	203,630
	442,676	**431,596**

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

21_ PROPERTY, PLANT AND EQUIPMENT

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN FISCAL 2008

in € thousands	Land and Buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2008	**53,352**	**46,021**	**99,373**
Currency translation differences	–67	–531	–598
Additions	1,186	2,455	3,641
Disposals	–1,270	–4,687	–5,957
Balance as of Dec. 31, 2008	**53,201**	**43,258**	**96,459**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2008	**–18,164**	**–31,362**	**–49,526**
Currency translation differences	130	379	509
Additions	–3,636	–5,211	–8,847
Disposals	1,628	6,765	8,393
Balance as of Dec. 31, 2008	**–20,042**	**–29,429**	**–49,471**
Residual carrying amount as of Jan. 1, 2008	**35,188**	**14,659**	**49,847**
Residual carrying amount as of Dec. 31, 2008	**33,159**	**13,829**	**46,988**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN FISCAL 2007

in € thousands	Land and Buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2007	**51,252**	**42,589**	**93,841**
Currency translation differences	–1,118	–2,227	–3,345
Additions to the group of consolidated entities	5,811	5,283	11,094
Additions	1,352	4,475	5,827
Disposals	–3,945	–4,099	–8,044
Balance as of Dec. 31, 2007	**53,352**	**46,021**	**99,373**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2007	**–17,981**	**–31,457**	**–49,438**
Currency translation differences	363	1,837	2,200
Additions	–993	–5,260	–6,253
Disposals	447	3,518	3,965
Balance as of Dec. 31, 2007	**–18,164**	**–31,362**	**–49,526**
Residual carrying amount as of Jan. 1, 2007	**33,271**	**11,132**	**44,403**
Residual carrying amount as of Dec. 31, 2007	**35,188**	**14,659**	**49,847**

Only the parent company and the Spanish subsidiary own land and buildings. In both cases, amounts pertain to the central administrative buildings of these entities. The capital expenditure of €1,186 thousand primarily relates to expenses for leasehold improvements.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure in the amount of €2,455 thousand consisted predominantly of replacement purchases of IT equipment as well as capital expenditures in connection with a new office building in the United Kingdom.

22_ 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.

23_ DEFERRED TAXES

Deferred taxes were composed of the following as of the balance sheet date:

	Deferred tax assets		Deferred tax liabilities	
€ thousands	**Dec. 31, 2008**	**Dec. 31, 2007**	**Dec. 31, 2008**	**Dec. 31, 2007**
Intangible assets	18,196	20,598	47,228	51,399
Current liabilities	15,049	4,110	11,484	12,189
Non-current liabilities	13,974	3,300	13,507	11,642
Tax loss carryforwards	13,263	20,206	0	0
Goodwill	3,668	4,154	0	0
Current assets	3,270	3,604	8,640	8,555
Securities	2,232	1,659	168	993
Property, plant and equipment	652	2,171	4,075	5,414
Business combinations	−3,576	−4,318	−11,332	−10,571
	66,728	**55,484**	**73,770**	**79,621**

Deferred tax assets on tax loss carryforwards decreased over the prior year by €6,943 thousand. This amount is attributable to the utilization of deferred taxes from losses carried forward of €12,434 thousand and an addition amounting to €5,491 thousand.

As of December 31, 2008, the consolidated Group had unutilized tax loss carryforwards in the amount of €110,494 thousand (2007: €28,794 thousand) for which no deferred tax assets have been recognized. These losses may be carried forward indefinitely. The increase mainly is due to additional losses carried forward which could not be recognized in the previous year as there were doubts as to their recoverability.

We expect that the trend of improving financial performance in France, Spain and the Netherlands will continue. Therefore, we recognized deferred taxes amounting to €6,115 thousand, the utilization of which depends on future taxable profits.

In fiscal year 2008, deferred tax income totaling €2,147 thousand (2007: deferred tax expense of €2,933 thousand) was 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.

24_ FINANCIAL LIABILITIES

Financial liabilities can be broken down as follows:

€ thousands	**Dec. 31, 2008**	**Dec. 31, 2007**
Current financial liabilities		
Liabilities to banks	59,782	44,849
Bills payable	1,569	1,771
Liabilities from finance leases	9	32
	61,360	**46,652**
Non-current financial liabilities		
Liabilities to banks	105,771	167,647
Liabilities from finance leases	0	1
Other non-current financial liabilities	70	0
	105,841	**167,648**

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

€ thousands	Up to 1 year	> than 1 year
Loans with variable interest rates	57,932	94,068
Loans with fixed interest rates	1,850	11,703
	59,782	**105,771**

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 €13,744 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

25_ TRADE PAYABLES

Trade payables can be broken down as follows:

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Current liabilities		
Payables to suppliers	34,688	28,620
Payments received on account of orders	1,136	2,680
	35,824	**31,300**
Non-current liabilities		
Payables to suppliers	68	64

26_ OTHER LIABILITIES

Other liabilities relate to the following items:

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Other current liabilities		
Tax liabilities	20,084	15,520
Liabilities due to employees	14,112	15,684
Liabilities for social security	3,306	6,590
Deferred lease payments	2,962	2,419
Outstanding purchase price payments (acquisitions)	0	21,191
Remaining miscellaneous other provisions	4,687	2,795
	45,151	**64,199**
Other non-current liabilities		
Deferred lease payments	0	2,501
Liabilities due to employees	214	171
Tax liabilities	2	2
Remaining miscellaneous other liabilities	162	292
	378	**2,966**

27_ OTHER PROVISIONS

€ thousands	Other provisions for personnel expenses	Restructuring provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2008	27,575	1,545	23,368	52,488
Currency translation	–750	1	–2,024	–2,773
Additions	25,002	172	38,547	63,721
Utilization	–15,012	–1,040	–11,737	–27,789
Reversal	–2,189	0	–488	–2,677
Balance as of Dec. 31, 2008	**34,626**	**678**	**47,666**	**82,970**
of which with a remaining term of more than 1 year	1,175	0	12,784	13,959

Miscellaneous other provisions

Miscellaneous other provisions include:

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Bonuses	14,372	11,151
Lease payment obligations	7,829	5,152
Obligations from stock price-based remuneration plans	2,062	1,471
Impending losses for PS projects	1,593	1,984
Other taxes	1,129	603
Asset retirement obligations	979	746
Remaining miscellaneous other provisions	19,702	2,261
	47,666	**23,368**

Remaining miscellaneous other provisions primarily include provisions related to pending litigation, guarantee obligations for PS projects as well as the audit of financial statements.

28_ PENSION PROVISIONS

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Pension provisions (foreign)	8,351	8,912
Pension provisions (domestic)	7,511	8,317
Provisions for insignificant pension obligations from defined benefit plans and similar obligations	788	0
	16,650	**17,229**

The consolidated balance sheet includes the following items relating to significant defined benefit plans as of December 31, 2008 and December 31, 2007:

€ thousands	Dec. 31, 2008	Dec. 31, 2007
Benefit obligation fully funded	3,887	40,675
Benefit obligation partially funded	34,557	8,366
Benefit obligation unfunded	1,483	1,556
	39,927	**50,597**
Fair value of plan assets	–24,087	–33,368
Net carrying amounts	**15,840**	**17,229**
of which pension provisions	15,862	17,229
of which plan assets	22	0

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

The major part of these 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 on 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	
	2008	2007	2008	2007
Discount rate	6.0	5.3	5.7	5.6
Expected salary increases	0.0	0.0	4.4	4.9
Expected pension increases	1.9	1.7	2.2	2.9
Expected return on plan assets	4.5	4.5	5.8	6.4

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

Since fixed pension commitments granted under domestic plans do not take into account salary levels, salary increases are assumed to be 0.0 percent.

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:

€ thousands	**Domestic pension plans**		**Foreign pension plans**	
	2008	**2007**	**2008**	**2007**
Changes in defined benefit obligations (DBO)				
DBO as of January 1	**9,922**	**11,649**	**40,675**	**41,519**
Additions related to business combination	0	0	0	5,674
Service cost	248	336	1,964	2,426
Interest expense	512	457	2,147	2,135
Employee contributions	0	0	315	149
Actuarial gains (-)/losses (+)	−396	−2,082	−5,696	−5,621
Pension payments	−732	−438	−1,717	−2,110
Exchange differences	0	0	−7,315	−3,497
DBO as of December 31	**9,554**	**9,922**	**30,373**	**40,675**
	2008	**2007**	**2008**	**2007**
Changes in plan assets				
Fair value of plan assets as of January 1	**1,605**	**1,138**	**31,763**	**27,421**
Additions related to business combination	0	0	0	4,862
Expected return on plan assets	72	48	2,106	2,021
Employer contributions	523	169	2,792	3,132
Employee contributions	0	0	315	149
Actuarial gains (+)/losses (-)	−157	250	−9,580	−1,180
Pension payments	0	0	−1,678	−2,007
Exchange differences	0	0	−3,674	−2,635
Fair value of plan assets as of December 31	**2,043**	**1,605**	**22,044**	**31,763**

Net periodic pension cost can be broken down as follows:

€ thousands	**2008**	**2007**
Interest expense	2,659	2,592
Service cost	2,212	2,762
Expected return on plan assets	−2,179	−2,069
Net periodic pension cost	**2,692**	**3,285**

Service cost was recognized as a personnel expense 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 have changed as follows:

€ thousands	**2008**	**2007**
Actuarial gains (+)/losses (-) recognized in the period	−2,316	4,467
Net actuarial gains (+)/losses (-) recognized in the period from insignificant plans	−99	0
Accumulated actuarial gains (+)/losses (-) recognized in the period as of December 31	−1,922	492

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

€ thousands	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Equities	9,259	21,497	22,296	17,760	9,546
Life insurance policies	7,996	6,289	4,407	5,141	5,328
Bonds	6,386	3,821	1,138	861	632
Other	446	1,761	718	467	3,072
	24,087	**33,368**	**28,559**	**24,229**	**18,578**

The actual return on plan assets was negative and amounted to €7,267 thousand in fiscal 2008.

Contributions from the Software AG Group to plan assets for fiscal year 2009 are expected to amount to €2,547 thousand.

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

€ thousands	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
DBO	39,927	50,597	53,168	49,337	40,727
Present value of plan assets	−24,087	−33,368	−28,559	−24,229	−18,578
Net carrying amounts	**15,840**	**17,229**	**24,609**	**25,108**	**22,149**
Experience adjustments to DBO in %	−17.7	−6.1	1.2	1.6	−0.2
Experience adjustments to plan assets in %	−36.0	7.4	−9.3	1.8	5.7

The large amount of experience adjustments to plan assets in 2008 mainly result from losses incurred by the plan assets of Software AG (UK), which has a high exposure to equities. Due to the current market situation and the uncertain economic prospects, further losses on plan assets may not be ruled out for 2009.

Defined contribution plans

In addition to the defined benefit plans, the Group also maintains defined contribution plans. These plans resulted in expenses of €3,623 thousand in fiscal 2008.

29_ TAX PROVISIONS

€ thousands	2008	2007
Balance as of January 1	11,485	14,726
Currency translation	-1,291	-383
Additions to the group of consolidated companies	0	1,561
Additions	35,671	10,344
Utilization	-8,983	-14,496
Reversal	-194	-267
Balance as of December 31	**36,688**	**11,485**

30_ EQUITY

The change in shareholders' equity is shown in the following statement of changes in equity as of December 31, 2008.

€ thousands	Shares: Number	Shares: Share capital	Capital reserve	Retained earnings	Net income attributable to share-holders	Currency translation adjustments	Other reserves	Minority interest	Total
Equity as of January 1, 2007	**28,112,715**	**84,338**	**23,576**	**320,367**	**0**	**−41,133**	**34,446**	**637**	**422,231**
New shares issued	426,740	1,280	5,945						7,225
Stock options			2,412						2,412
Net income for the year					88,375			32	88,407
Dividend payment				−25,302					−25,302
Currency translation differences						−38,875			−38,875
Net gain/loss from fair value measurement of financial instruments not recognized in income							1,983		1,983
Net gain/loss from fair value measurement of net investments in foreign operations not recognized in income							−86		−86
Net actuarial gain/loss on pension obligations not recognized in income				4,467					4,467
Equity as of December 31, 2007	**28,539,455**	**85,618**	**31,933**	**299,532**	**88,375**	**−80,008**	**36,343**	**669**	**462,462**
Equity as of January 1, 2008	**28,539,455**	**85,618**	**31,933**	**387,907**		**−80,008**	**36,343**	**669**	**462,462**
New shares issued	99,387	299	1,510						1,809
Stock options			2,367						2,367
Purchase of minority interests in fully consolidated entities								−669	−669
Net income for the year					115,860				115,860
Dividend payment				−28,539					−28,539
Currency translation differences						3,264			3,264
Net gain/loss from fair value measurement of financial instruments not recognized in income							−7,059		−7,059
Net gain/loss from fair value measurement of net investments in foreign operations not recognized in income							2,059		2,059
Net actuarial gain/loss on pension obligations not recognized in income				−2,415					−2,415
Equity as of December 31, 2008	**28,638,842**	**85,917**	**35,810**	**356,953**	**115,860**	**−76,744**	**31,343**	**0**	**549,139**

Share capital

As of December 31, 2008, Software AG's share capital totaled €85,917 thousand, divided into 28,638,842 bearer shares. Each share entitles its holder to one vote.

Conditional capital

The following conditional capital existed as of December 31, 2008:

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 Executive Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented under other disclosures/stock appreciation rights plans.

The Executive Board did not make use of this authorization in fiscal year 2008.

2.) Up to €1,442 thousand divided into a maximum of 480,623 bearer shares to service subscription rights under the second stock option plan (Management Incentive Plan II, or MIP II) for members of the Executive Board and officers of the Software AG Group. The requirements of this plan and the status of allocations and options exercised are presented under other disclosures/stock appreciation rights plans. Based on the options exercised during 2008 by officers and Executive Board members, the Executive Board made partial use of its option to increase conditional capital in the amount of €298 thousand, divided into 99,387 bearer shares.

3.) Up to €33,000 thousand divided into a maximum of 11,000,000 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 bonds with warrants or granting conversion rights and agreeing on conversion obligations to/with bearers of convertible bonds in an aggregate principal amount of up to €500,000 thousand and a term not to exceed 15 years in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 13, 2005. Pursuant to this authorization, the Executive Board may, subject to the consent of the Supervisory Board, resolve on or before May 12, 2010 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 Executive Board is authorized to exclude fractional amounts from shareholders' subscription rights.

Subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude the shareholders' subscription rights in full, provided it has come to the conclusion that the issue price of the bonds with warrants or convertible bonds is not significantly lower than their hypothetical market 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 bonds with warrants and convertible bonds with option or conversion rights or with share based option or conversion obligations with a share in the issued share capital not to exceed €8,180 thousand, or – if lower – 10 percent of the issued share capital in existence at the time the authorization is acted upon.

As of December 31, 2008, the Executive Board had not made use of this authorization.

Authorized capital

As of December 31, 2008, the Executive Board is 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 against 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 Executive Board is authorized to exclude fractional amounts from shareholders' subscription rights.
- The Executive 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 Executive Board is authorized to exclude subscription rights in the event of capital increases against 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 Executive Board is authorized to exclude subscription rights in the event of capital increases against cash contributions, provided the capital increases resolved on the basis of this authorization do not, in total, exceed 10 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 10 percent of the issued share capital will be reduced by the pro rata amount of the share capital attributable to those treasury shares of the Company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to Section 71 (1) No. 8, Sentence 5 and Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the pro rata amount of the share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or 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 Executive Board did not make use of this authorization in fiscal year 2008.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated April 29, 2008, the Company is authorized to purchase on or before October 28, 2009:

a) Treasury shares having a notional interest in the issued share capital of up to €8,573 thousand.

b) Treasury shares may be purchased on the stock market or through a public purchase offer directed to all shareholders of the Company.

If the shares are purchased via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price – the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system – during the five days preceding the purchase or commitment to purchase. The date of acquisition is the date upon which the transaction is concluded. If the shares are purchased via a public offer, the consideration paid for the shares (not including transaction costs) may be up to 20 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 – on the fifth to ninth trading days prior to publication of the offer.

c) The Executive Board is authorized to sell the treasury shares purchased via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally.

d) The Executive 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 not to exceed a total of €8,573 thousand. 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 Executive 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, or equity interests in companies;

(ii) To offer the shares to the Executive Board or officers of the Company and its affiliated companies under the Company's stock option plan for Executive Board members and officers of the Company (Resolution on Agenda Item 8b of the Annual Shareholders' Meeting of April 27, 2001); if shares are offered to Executive Board members in accordance with the above, this authorization shall also apply to the Supervisory Board; or

(iii) In compliance with the terms and conditions of the bonds, the Executive 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.

f) In the event of a sale of treasury shares via an offer to all shareholders, the Executive 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) The Executive Board is also authorized to recall all or part of the treasury shares in one or several steps without any additional authorization from the Annual Shareholders' Meeting.

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 to purchase treasury shares on or before November 10, 2008 as resolved by the Annual Shareholders' Meeting of May 11, 2007, Agenda Item 7 ("authorization to acquire treasury shares") has been rescinded.

As of December 31, 2008, the Executive Board had not made use of its authorization to acquire treasury shares.

Equitiy Management

The Software AG Group has an obligation to achieve long-term, profitable growth. For this reason, net income for the year and equity are the key indicators with regard to corporate management. A high equity ratio represents the basis for continued internal and external growth and increases the attractiveness of the Group for shareholders. Dividends are calculated as the average of net income for the year and free cash flow. This resulted in total dividends of €31,503 thousand (2007: €28,539 thousand) and a payout ratio of 25.3 percent (2007: 33.5 percent).

Dividend payment

Pursuant to the proposal of the Executive Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on April 29, 2008 to transfer €9,455 thousand to retained earnings, to appropriate €28,539 thousand for a dividend payout and to carry forward €75,913 thousand from the 2007 net retained profits of €113,907 thousand reported by Software AG, the controlling Group company. This corresponds to a dividend of €1.00 per share.

The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €153,060 thousand for 2008 of Software AG, the controlling Group company, as follows: to transfer €150 thousand to other retained earnings, to use €31,503 thousand for the payment of dividends – corresponding to a dividend of €1.10 per share – and to carry forward €121,407 thousand.
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Other reserves

Other reserves include adjustments resulting from the currency translation of the financial statements of economically independent foreign subsidiaries into the reporting currency. The effects from the measurement of financial instruments not recognized in profit or loss are also included in this item. Translation differences from monetary items primarily consisting of net investments in foreign operations are also recorded under this item. The amounts are recognized net of tax.

Of the unrealized income and expenses from the fair value measurement of derivatives recorded in other reserves as of December 31, 2007, income of €65 thousand (2007: expenses of €61 thousand) was recognized in income during fiscal year 2008.

OTHER DISCLOSURES

31_ NOTES TO THE STATEMENT OF CASH FLOWS

Cash funds amounting to €96,925 thousand (2007: €81,294 thousand) comprise both cash and cash equivalents.

Net payments for acquisitions in 2008 amounted to €38,854 thousand and are equivalent to the gross payments as only minority interests were acquired and an asset deal was conducted in 2008. Accordingly, no cash or cash equivalents were acquired in these transactions.

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 €133,445 thousand (2007: €82,209 thousand).

32_ SEGMENT REPORT

Notes on segment reporting

The segment report is prepared in accordance with IFRS 8 Operating Segments. This IFRS is effective for annual periods beginning on or after January 1, 2009. As explicitly permitted in IFRS 8, Software AG opted for early application of this standard and has applied it since fiscal year 2007. Segmentation is in accordance with internal control and reporting lines in the Group (management approach).

€ thousands	ETS		webMethods		Total	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Licenses	156,776	153,026	115,252	88,313	272,028	241,339
Maintenance	173,805	155,735	93,254	57,203	267,059	212,938
Product sales	**330,581**	**308,761**	**208,506**	**145,516**	**539,087**	**454,277**
Professional Services	72,777	72,934	104,986	88,248	177,763	161,182
Other	1,549	1,418	2,211	4,382	3,760	5,800
Total revenue	**404,907**	**383,113**	**315,703**	**238,146**	**720,610**	**621,259**
Cost of sales	–83,229	–79,812	–115,031	–101,699	–198,260	–181,511
Gross profit	**321,678**	**303,301**	**200,672**	**136,447**	**522,350**	**439,748**
Sales, marketing and distribution expenses	–75,941	–64,522	–93,554	–94,687	–169,495	–159,208
Business line contribution	**245,737**	**238,779**	**107,118**	**41,760**	**352,855**	**280,540**
Research and development expenses					–76,224	–65,900
General and administrative expenses					–65,083	–59,299
Other operating income/expenses					–16,517	–11,881
EBITA					**195,031**	**143,460**
Amortization					–14,483	–6,663
Earnings before interest and taxes					**180,548**	**136,797**
Net financial income/expense					–5,122	294
Earnings before taxes					**175,426**	**137,091**
Taxes					–59,566	–48,684
Net income for the year					**115,860**	**88,407**

Information on geographic regions

Revenues by location of customers can be broken down into geographic regions as follows:

Geographic distribution of revenues

in € thousands	Germany		USA		Spain		Other countries		Group total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Licenses	32,113	34,055	75,446	66,839	5,041	10,644	159,428	129,801	272,028	241,339
Maintenance	30,783	28,778	94,665	81,691	15,665	14,410	125,946	88,059	267,059	212,938
Professional Services	17,517	16,507	35,348	26,500	56,153	55,015	68,745	63,160	177,763	161,182
Other	864	910	283	610	2,116	3,320	497	960	3,760	5,800
Total	**81,277**	**80,250**	**205,742**	**175,640**	**78,975**	**83,389**	**354,616**	**281,980**	**720,610**	**621,259**

Countries included in “other countries” are presented separately once the revenue generated in the country in question reaches a significant level. Revenues with external customers in the U.S. and Spain each contributed more than 10 percent to Group revenue and are therefore listed separately.

Non-current assets

The non-current assets reported under this item are comprised of intangible assets, property, plant and equipment, financial assets (not including financial instruments) and goodwill.

€ thousands	2008	2007
USA	479,490	467,138
Other countries	136,495	132,190
Germany	31,067	29,612
Group total	**647,052**	**628,940**

33_ 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 with and without hedging relationships shown separately.

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 such instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit rating. 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, 2008 and 2007.

The fair values of exchange-listed securities were based on their listed 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.

	December 31, 2008		December 31, 2007	
in € thousands	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Financial assets				
Financial assets measured at amortized cost				
Cash and cash equivalents	96,925	96,925	81,294	81,294
Trade receivables and other receivables	230,602	230,602	197,294	197,294
Other non-derivative financial assets	6,259	6,259	8,120	8,101
Derivatives				
Derivatives without qualifying hedging relationship	3	3	623	623
Derivatives with qualifying hedging relationship (cash flow hedge)	8,705	8,705	14,924	14,924
Financial liabilities				
Financial liabilities measured at amortized cost				
Liabilities to banks and other financial liabilities	167,392	167,201	214,260	214,300
Trade payables	35,892	35,892	31,364	31,364
Other non-derivative financial liabilities	69,066	69,066	64,518	64,518
Derivatives				
Derivatives without qualifying hedging relationship	1,596	1,596	65	65
Derivatives with qualifying hedging relationship (cash flow hedge)	2,904	2,904	316	316

With the exception of the abovementioned derivatives, no financial assets or liabilities were measured at fair value through profit or loss in the reporting period. There were also no financial assets classified as available-for-sale financial assets or held-to-maturity investments.

Apart from currency translation effects, only the bad debt allowances described in Note 11 had a significant influence on the net gain/loss from loans and receivables. The net loss from derivatives without qualifying hedging relationships amounted to €1,255 thousand in fiscal 2008. The net loss from derivatives designated as cash flow hedges was included in the income statement and amounted to €1,927 thousand in 2008.

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 financial investments. Derivatives are entered into to hedge existing balance sheet exposure and highly probable forecast transactions.

a) Interest rate risks

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 risks. 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 risks.

This risk is reduced due to the fact that both financial investments and existing financing carry variable interest rates for the most part. Moreover, interest rate swaps are used to hedge a part of the borrowings bearing variable interest rates against changes in market interest rates (cash flow hedges). The changes in value of the interest rate swaps are reported under "other reserves."

The sensitivity analysis required by IFRS 7 relates to interest rate risks arising from monetary financial instruments bearing variable interest.

Based on the current structure of the interest-bearing financial instruments, a hypothetical increase in the market interest level of 100 basis points would increase earnings by €240 thousand while raising other reserves included in equity by €1,205 thousand.

b) Exchange rate risks
In order to hedge the risk of future fluctuations in exchange rates, the Company enters into 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 risks arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings result only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.

Based on the monetary financial instruments available as of the reporting date, a devaluation of the euro in amount of 10 percent against the U.S. dollar would have reduced earnings by €3,092 thousand and other reserves by €2,499 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 the Group's 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 financial investments have terms of up to three months. Both financial 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 the 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 risks are taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2008, there was no indication of the existence of any risks beyond those 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. The table below shows the contractually agreed payments arising from recognized 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, 2008.

€ thousands	Up to 1 year	1–5 years	> 5 years	Total
Non-derivative financial liabilities				
Liabilities to banks				
Repayments	59,782	105,771	0	165,553
Interest	5,006	4,877	0	9,883
Trade payables	35,823	68	0	35,891
Other financial liabilities	1,569	70	0	1,639
Finance lease liabilities	9	0	0	9
Other non-derivative liabilities	42,698	378	0	43,076
Derivative financial liabilities	**1,929**	**870**	**0**	**2,799**

Volume and measurement of derivative financial instruments

Derivative financial instruments are used only to hedge existing or estimated currency risks, interest rate risks, or other market risks.

The table below shows the notional amounts, the carrying amounts, and the fair values of derivative financial instruments as of December 31, 2008 and December 31, 2007. 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 values which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date.

	2008			2007		
€ thousands	Notional amount	Fair value	Carrying amount	Notional amount	Fair value	Carrying amount
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	–	3	3	–	623	623
Forward currency contracts	811	3	3	2,350	40	40
Currency options	–	0	0	3,392	47	47
Stock options (phantom shares)	–	0	0	4,959	536	536
Derivatives (cash flow hedges)	–	8,705	8,705	–	14,924	14,924
Forward currency contracts	16,944	1,031	1,031	7,543	65	65
Stock options	79,596	7,674	7,674	74,169	14,803	14,803
Interest rate swaps	–	0	0	40,000	56	56
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	–	-1,596	−1,596	–	−65	−65
Forward currency contracts	–	0	0	1,390	−30	−30
Currency options	–	0	0	3,433	−35	−35
Stock options (phantom shares)	6,361	−1,596	−1,596	–	0	0
Derivatives (cash flow hedges)	–	−2,904	−2,904	–	−316	−316
Forward currency contracts	13,923	−451	−451	–	0	0
Interest rate swaps	180,000	−2,453	−2,453	50,000	−316	−316

The derivative financial instruments presented in the table above 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 interest rate swaps hedge against interest rate risk arising from borrowings bearing variable interest rates.

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

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 used to hedge against currency risks have maturities of less than one year. The interest rate swaps mature in 2010 at the latest. 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.

Financial investment policy

Software AG takes a very conservative approach with regard to its financial investments. The Company invests primarily in 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 development of the relevant credit default swaps (CDS) is monitored on a weekly basis. The average return on capital invested was approximately 3.9 percent in fiscal year 2008 (2007: 4.6 percent).

34_ DISCLOSURES ON LEASES

Rental agreements or operating leases in the Group 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.

€ thousands	Up to 1 year	1–5 years	> 5 years	Total
Contractually agreed payments	12,890	38,475	9,032	60,397
Estimated income from subleases	-1,137	-2,782	-301	-4,220

35_ CONTINGENT LIABILITIES

As of December 31, 2008, no provisions were recognized for the following contingent liabilities, expressed at nominal value, since it appeared unlikely that claims would be asserted:

€ thousands	2008	2007
Guarantee	1,311	1,311
Other	1,252	1,341
	2,563	**2,652**

At year end, the carrying amount of collateral granted amounted to €3,184 thousand, and the carrying amount of collateral received was €521 thousand.

36_ SEASONAL INFLUENCES

Revenues and pre-tax earnings were distributed over fiscal year 2008 as follows:

€ 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 as well as earnings before taxes for the third and fourth quarter were positively influenced due to the build-up of our business in Brazil. Therefore, the quarterly breakdown of revenues and earnings before taxes in the table above is of limited significance.

37_ LITIGATION

As part of the planned restructuring of Software AG's business in Brazil, this market has been serviced by our own sales company since January 1, 2008 after a New York court ruled in December 2007 that the termination of the distribution agreement with the previous exclusive sales partner, effective December 31, 2007, was legally valid. The sales partner has appealed the decision. No judgment has been issued on the appeal.

A small software company in Canada sued Software AG USA Inc. together with Software AG Inc., Software AG, and 17 additional defendants, including Microsoft and IBM, for a patent violation relating to its software in August of 2007. The lawsuit was filed with a court located in Texas. The main proceedings, which will be held before a jury in accordance with U.S. practice, are scheduled for November 2009. Mediation talks with all defendants were held at the end of January 2009, with no results to date for the defendant companies of the Software AG Group.

As the legal proceedings described above are pending, we elect not to make additional disclosures in accordance with IAS 37.

38_ STOCK OPTION PLANS

Software AG has various stock option plans for members of the Executive 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 €9,146 thousand in fiscal 2008 (2007: €7,271 thousand). This includes expenses of €1,791 thousand (2007: income of €243 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 €2,368 thousand in fiscal 2008 (2007: €2,413 thousand).

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

Management Incentive Plan II (MIP II)

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

The subscription price per share upon exercise of the options corresponds to the average price in the XETRA closing auction over the last five trading days on the Frankfurt Stock Exchange prior to the date of the offer to grant the subscription rights.

In order for the options to be exercised, the following two conditions must be met:

1.) In the fiscal year preceding exercise of the options, the Group's revenue must have increased by at least 10 percent over the previous year.

2.) The Group's profit from ordinary activities must be equivalent to at least 10 percent of the revenue in the year prior to exercise of the option.

The Management Incentive Plan has a term of seven years for each individual tranche. Options may be exercised and acquired shares may be sold no earlier than 24 months after the start of the respective term. This restriction applies separately to each tranche. Options may only be exercised on a quarterly basis after publication of the annual results or the quarterly results.

The stock option plan led to personnel expenses of €120 thousand in fiscal year 2008 (2007: €1,634 thousand). This amount was transferred to the capital reserve.

570 stock options had been issued prior to November 7, 2002 and were not measured in accordance with the transition regulations set out in IFRS 2.53.

The options granted under the Management Incentive Plan II (MIP II) changed as follows in fiscal 2008:

	Number of options outstanding	Weighted average exercise price per option (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2007	**191,907**	**18.45**	**3.0**	**8,083**
Granted	0	–	–	–
Exercised	-99,387	18.19	–	–
Forfeited/expired	-14,813	22.69	–	–
Balance as of Dec. 31, 2008	**77,707**	**22.09**	**2.6**	**1,391**
Thereof exercisable as of Dec. 31, 2008	72,217	21.95	2.6	1,302

The exercise prices of the options outstanding as of December 31, 2008 amount range from €11.83 to €26.47. The average share price for the options exercised during 2008 at the date of exercise amounted to €47.93.

Management Incentive Plan 2007 (MIP III)

A new share-based incentive plan for members of the Executive Board and officers was launched during the third quarter. To date 2,230,500 participation rights have been issued to Executive Board members and officers under the plan, 2,049,000 of that amount in 2007.

Upon achievement of certain performance targets, participants are entitled to payment of the difference between the price of Software AG shares and the strike price of €72.36 by June 30, 2016. 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 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006.

In order to hedge the cash flow risks from the MIP III, Software AG acquired 1,100,000 stock options which were designated as cash flow hedges as part of a hedging relationship. 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 €6.98 per right as of December 31, 2008.

The valuation was based on the following parameters:

Expected average term until exercise of the options (in years)	3.4
Risk-free interest rate	3.15%
Assumed volatility	50%
Share price on December 31, 2008	€40.00
Expected dividend yield	2.5%

The calculation of the average term until exercise of the options was based on experience with previously exercised options. This calculation took into account the previous average holding periods of the employee options as well as expected future share price performance.

The assumed volatility is based on the average expected volatility of various market participants.

The resulting personnel expenses are amortized over the period of service and amounted to €971 thousand in fiscal year 2008 (2007: €1,091 thousand). In addition, expenses of €1,791 thousand were incurred for hedging the rights granted in fiscal year 2008 (2007: income of €243 thousand).

The liability for the participation rights, which are accounted for as cash-settled share-based payments, amounted to €2,062 thousand (2007: €1,091 thousand) as of December 31, 2008.

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, may not be forecasted. The final amount of payment is expected to be recognized in profit or loss over the next three to four years. The unrealized price losses of the stock options will be recognized over the same period.

If the exercise behavior and the actual term are in line with the current assumptions, the accumulated personnel expenses will be limited to the purchase price of the hedge (€14.6 million).

The remaining 1,130,500 participation rights 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 weighted average of the fair values granted during the reporting period amounted to €6.12 on the grant date.

The valuation was based on the following parameters:

Expected average term until exercise of the options (in years)	2.9
Risk-free interest rate	4.5%
Assumed volatility	41%
Expected dividend yield	2.4%
Weighted average share price upon exercise	€46

The calculation of the average term until exercise of the options was based on experience with previously exercised options. This calculation took into account the previous average holding periods of the employee options as well as expected future share price performance.

The assumed volatility is based on the average market expectations.

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

In fiscal 2008, the personnel expenses resulting from these 1,130,500 participation rights, taking into account the expected staff turnover, amounted to €2,248 thousand (2007: €779 thousand). This amount was transferred to the capital reserve.

The options granted under the Management Incentive Plan 2007 (MIP III) changed as follows in fiscal year 2008:

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2007	**2,014,000**	**72.36**	**8.5**	**0**
Granted	181,500	72.36	–	–
Exercised	0	72.36	–	–
Forfeited/expired	-276,500	72.36	–	–
Balance as of Dec. 31, 2008	**1,919,000**	**72.36**	**7.5**	**0**
of which exercisable as of Dec. 31, 2008	–	–	–	–

Performance Phantom Share Plan

A portion of the variable remuneration for Executive Board members 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 2008 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2009, less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two, and three years. On the due dates in March 2009 to 2011, the number of phantom shares will be multiplied with the then applicable average share price for February of the relevant year. This amount will be adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX30 index and then paid to the members of the Executive Board. The members of the Executive Board will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

This plan led to personnel expenses of €3,995 thousand in fiscal year 2008 (2007: €3,524 thousand).

The provision for the rights outstanding under the phantom share plan amounted to €6,814 thousand (2007: €7,563 thousand) as of December 31, 2008.

39_ CORPORATE BODIES

Members of the Supervisory Board:

Frank F. Beelitz
Chairman
Independent investment banker
(Beelitz & Cie., Frankfurt/Main)
Resident of: Bad Homburg v.d.H.
Supervisory Board seats:
- Member of the Supervisory Board of Südwestbank AG, Stuttgart
- Member of the Supervisory Board of IVG Immobilien AG, Bonn (since March 1, 2008)

Willi Berchtold
Graduate in business administration
Member (since April 29, 2008)
Chief Financial Officer, Controlling and Informatics at ZF Friedrichshafen AG
Resident of: Überlingen
Supervisory Board seats:
- Member of the Supervisory Board of Lufthansa Systems AG, Kelsterbach
- Chairman of the Supervisory Board of ZF Boge Elastmetall GmbH, Bonn
- Member of the Supervisory Board of ZF Sachs AG, Schweinfurt
- Member of the Supervisory Board of ZF Lemförder GmbH, Lemförder
- Member of the Supervisory Board of ZF Passau GmbH, Passau
- Member of the Supervisory Board of ZF Getriebe GmbH, Saarbrücken
- Member of the Supervisory Board of ZF Lenksysteme GmbH, Schwäbisch Gmünd

Dr. Andreas Bereczky
Deputy Chairman
Director of Production of ZDF, Mainz
Resident of: Eschweiler
Supervisory Board seats:

- Member of the Supervisory Board of Alfabet AG, Berlin

Rainer Burckhardt
Employee representative
Employee of SAG Deutschland GmbH
Chairman of the Works Council at the Darmstadt location
Resident of: Darmstadt
Supervisory Board seats: none

Justus Mische
Graduate in business administration
Member (until April 29, 2008)
Resident of: Kelkheim/Ts.
Supervisory Board seats:

- Chairman of the Supervisory Board of B. Braun Melsungen AG, Melsungen

Monika Neumann
Employee representative
Employee of SAG Deutschland GmbH
Chairman of the General Works Council
Resident of: Schliersee
Supervisory Board seats: none

Alf Henryk Wulf
Graduate in electrical engineering
Member
Chairman of the Management Board of Alcatel-Lucent Deutschland AG, Stuttgart
Resident of: Stuttgart
Supervisory Board seats:

- Member of the Supervisory Board of Alcatel-Lucent Network Services GmbH, Düsseldorf (since December 15, 2008)

Members of the Executive Board:

Karl-Heinz Streibich
Graduate in communications engineering
Chief Executive Officer
Global Marketing, Press/PR, HR, Legal, Processes, Internal Audit and Partners
Resident of: Radolfzell
Supervisory Board seats: none

David Broadbent
Businessman
Member of the Executive Board,
Chief Operating Officer
Region East
Resident of: Newtown, Newbury, Berkshire, UK
Supervisory Board seats: none

Mark Edwards
Businessman
Member of the Executive Board
Chief Operating Officer
Region West
Resident of: Ascot, Berkshire, UK
Supervisory Board seats: none

Holger Friedrich
IT specialist
Member of the Executive Board (since October 1, 2008)
Global Professional Services
Resident of: Berlin
Supervisory Board seats: none

Dr. Peter Kürpick
Physicist
Member of the Executive Board
Chief Product Officer
Resident of: Darmstadt
Supervisory Board seats: none

David Mitchell
Businessman
Member of the Executive Board (until April 30, 2008)
webMethods Business Division
Resident of: Plano, Texas, USA
Supervisory Board seats: none

Arnd Zinnhardt
Graduate in business administration
Member of the Executive Board, Chief Financial Officer
Finance & Treasury, Controlling, Business Operations, Taxes, Global Procurement,
M&A, Investor Relations, Global IT, Support and Administration
Resident of: Kelkheim/Ts.
Supervisory Board seats: none

Total remuneration for the Executive Board members in fiscal 2008 amounted to €9,414 thousand (2007: €34,005 thousand). Included in the total remuneration for the previous year is the fair value of the MIP III options in the amount of €20,920,000 which represents a nonrecurring long term element.

In fiscal 2008, 150,000 stock option rights from the Management Incentive Plan III (MIP III) (2007: 1,025,000) were granted to Executive Board members, and 125,000 stock option rights were cancelled. The stock option rights granted had a fair value as of the grant date of €6.22 per right.

The Executive Board members received a total of 71,962 (2007: 61.546) phantom shares under the phantom share plan. The phantom shares granted had a fair value as of the grant date of €49.82 (2007: €51.39) per phantom share.

Remuneration for former Executive Board members totaled €291 thousand (2007: €169 thousand).

Pension provisions for former Executive Board members amounted to €1,765 thousand (2007: €1,886 thousand).

Software AG did not grant any advances or loans to Executive Board members in fiscal 2008 or in fiscal 2007.

Detailed disclosures on the remuneration paid to Executive Board members are made separately in the Remuneration Report of the Corporate Governance Report, which forms part of the Management Report.

Supervisory Board remuneration

Total remuneration for members of the Supervisory Board amounted to €519 thousand in fiscal 2008 (2007: €775 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2008 or in fiscal 2007.

Detailed disclosures on the remuneration paid to Supervisory Board members are made separately in the remuneration part of the Corporate Governance Report, which forms part of the Management Report.

40_ AUDITORS' FEES

General and administrative expenses include expenses for auditors' fees for BDO Deutsche Warentreuhand AG, the Group auditor, totaling €384 thousand (2007: €375 thousand). Of this amount, €286 thousand (2007: €295 thousand) relates to the audit of the domestic entities' and the Group's financial statements, €8 thousand (2007: €27 thousand) to tax advisory services, and €90 thousand (2007: €53 thousand) to other audit services.

41_ EVENTS AFTER THE BALANCE SHEET DATE

At the end of February Software AG signed an agreement to purchase a 51 percent interest in ItCampus Software- und Systemhaus GmbH, Leipzig (iTCampus), a provider of software and communication solutions for call center utility, medical and public sector. The agreement foresees a payment of €3.1 million to ITCampus and €2.9 million to current owners of ITCampus resulting in an expected acquisition cost of €6.0 million. Due to the short time period between the signing of the deal and the authorization of the financial statements, it was not possible to provide further details regarding a preliminary purchase price allocation. However, Software AG currently expects the impacts of the acquisition on the net assets, financial position and results of operations to be nonmaterial.

42_ DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On December 12, 2008, the Company submitted a declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). Shareholders may view the declaration of compliance at http://www.softwareag.com/de/ir/corpgovernance/default.asp

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 Executive Board approved the consolidated financial statements on February 27, 2009.

Darmstadt, February 27, 2009

Software AG

K.-H. Streibich	D. Broadbent
M. Edwards	H. Friedrich
Dr. P. Kürpick	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 27, 2009

Software AG

K.-H. Streibich	D. Broadbent
M. Edwards	H. Friedrich
Dr. P. Kürpick	A. Zinnhardt

Auditors' report

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, comprising the income statement, the balance sheet, the cash flow statement, the presentation of recorded income and expenses, and the notes to the consolidated financial statements, as well as the management report on the Group and on Software Aktiengesellschaft for the fiscal year from 1 January 2008 to 31 December 2008. The preparation of the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB, are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft on the basis of the audit performed by us.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 management report on the Group and on Software Aktiengesellschaft, 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 in the management report on the Group and on Software Aktiengesellschaft are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in the consolidated financial statements, the definition of entities to be included in the consolidation, the accounting and consolidation principles used, and significant estimates made by the legal representatives as well as evaluating the overall presentation of the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft. 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 have been prepared in accordance with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB, and give a true and fair view of the net assets, financial situation and results of operations of the Group. The management report on the Group and on Software Aktiengesellschaft is consistent with the consolidated financial statements and, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 27, 2009

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Schulz	Sartori
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

INDEX

FINANCIAL CALENDAR

FINANCIAL CALENDAR	2009
April 23, 2009	Q1 2009 financial figures (IFRS, unaudited)
April 30, 2009	Annual Shareholders´ Meeting, Darmstadt, Germany
July 22, 2009	Q2/H1 2009 financial figures (IFRS, unaudited)
October 22, 2009	Q3 2009 financial figures (IFRS, unaudited)
	2010
January 27, 2010	Q4/FY 2009 financial figures (IFRS, unaudited)

PUBLICATION CREDITS

PUBLISHER

Software AG
Corporate Communications
Uhlandstraße 12
64297 Darmstadt, Germany

Tel. +49 61 51-92-0
Fax +49 61 51 1191
E-Mail: press@softwareag.com

Software AG
Corporate Headquarters
Uhlandstrasse 12
64297 Darmstadt
Germany
Tel: +49 61 51 92-0
Fax: +49 61 51 92-1191
www.softwareag.com