software AG

GET THERE FASTER

Quarterly Report Q3|08

July 1 – September 30, 2008

KEY FIGURES

KEY FIGURES
IFRS, UNAUDITED

€ million (unless otherwise stated)	January 1 – September 30, 2008	January 1 – September 30, 2007	Q3|2008	Q3|2007
Revenue IFRS	**508.2**	**434.7**	**180.1**	**157.8**
Product revenue IFRS	375.9	315.1	138.0	115.1
of which				
Licenses	184.5	161.6	67.8	57.4
Maintenance	191.4	153.5	70.2	57.7
Professional Services	130.5	116.6	41.8	42.3
Other	1.8	3.0	0.3	0.4
EBITA	**136.8**	**98.3**	**52.3**	**35.3**
as % of revenue	26.9	22.6	29.0	22.4
EBIT	**125.6**	**94.0**	**48.7**	**32.4**
as % of revenue	24.7	21.6	27.0	20.5
Net income	**80.6**	**61.5**	**31.0**	**19.2**
as % of revenue	16	14	17	12
Earnings per share (€, basic)	2.82	2.16	1.08	0.67
Earnings per share (€, diluted)	2.82	2.16	1.08	0.67
Total assets	**1,073.9**	**1,025.7**		
Cash and cash equivalents	**83.1**	**71**		
Shareholders' equity	**524.7**	**442.9**		
as % of total assets	49	43		
Employees[1]	**3,466**	**3,552**		
of which in Germany	759	759		

KEY SHARE DATA

	September 30, 2008	September 30, 2007
Closing price (Xetra) in €	39.98	65.84
High in €	53.31	77.2
Low in €	37.64	65.61
Total numbers of shares	28,628,635	28,513,498
Market capitalization in € million	1,145	1,877

Frankfurt (Prime Standard / TecDAX), ISIN DE 0003304002

[1] Full-time equivalents

MISSION

Software AG's 4,000 global customers achieve measurable business results by modernizing and automating their IT systems and rapidly building new systems to meet growing business demands.

The company's industry-leading product portfolio includes best-in-class solutions for managing data, enabling service oriented architecture, and improving business processes. By combining proven technology with industry expertise and best practices, our customers improve and differentiate their businesses – faster.

CONTENTS

SOFTWARE AG INCREASES EARNINGS

Software AG's segment reporting is prepared in accordance with IFRS 8 (Segment Reporting). Primary segment reporting is by division and corresponds to the Group's internal control and reporting lines. As of January 1, 2007, Software AG began breaking down its segment report into the ETS (data management) and webMethods (formerly Crossvision; integration software) divisions, whereas in fiscal 2006 primary segment reporting was still by geographical segment.

1. Significant events during the reporting period

Software AG has maintained its financial success despite the difficult market conditions. In the third quarter of 2008, we expanded our technology, our customer base, our market presence and increased our financial strength. A highlight on the product side was our new version of CentraSite SOA Active. This product is the heart of the webMethods division – its integration software. With regard to our customer base, an outstanding example of the progress made was the continuation of our successful direct market presence in Brazil. In addition, we reinforced our market presence in our new webMethods division by holding events for customers, media, and trade specialists in New York, Boston, London, Stockholm, and Darmstadt. Our successful, stable business model forms the basis for all of our activities. Even in the current atmosphere of overall economic decline, this model helped us increase our revenue, profit, and margins in the third quarter.

Product portfolio expanded

We take a "total customer orientation" approach in developing and upgrading our software solutions. Our goal of becoming the world market leader in service-oriented architecture (SOA) and business process management (BPM) leads right to the customer. To this end, we conducted a survey of US customers on the topic of SOA application practice. One major finding of the study, published in July, was that companies regard SOA governance as a crucial component of sustainable SOA implementation: More than 90 percent of companies surveyed have at least started SOA planning. More than half have already succeeded in implementing projects on an SOA basis and / or corporate-wide SOA. The most significant expectations related to the introduction of SOA were an increase in flexibility for the company, simplification of integration, and support for BPM projects. The survey also found that more than half of those interviewed believe that SOA governance should be introduced before the first service is provided.

As previously announced, at the end of September 2008 Software AG presented CentraSite ActiveSOA – our new SOA control center and likely our most important new development of the year. CentraSite Active SOA combines SOA governance and lifecycle management, supplying our customers with a variety of new functions and a new user interface. Customers benefit from process automation, life cycle management for IT systems, simplified cooperation with different user groups, and a new user interface. The new product is another major success in our integration of webMethods Inc.: Software AG launched CentraSite Active SOA – the Company's first webMethods-based, integrated software solution – on the market within a year of integrating webMethods. The former CentraSite Enterprise Edition (previously CentraSite) was combined with the CentraSite Governance Edition (previously webMethods Infravio) to create a mature, all-in-one solution for SOA governance and lifecycle management. CentraSite ActiveSOA is expected to be delivered in the second quarter of 2009.

Early in the third quarter, we presented webMethods Insight, an addition to our webMethods Suite. Development of the product was based on a new strategic OEM (original equipment manufacturer) partnership with IT service provider Progress Actional, a US-based software firm. webMethods Insight helps companies to monitor runtime services and to implement policies. The new product has been available for sale since October 1, 2008.

New customers acquired

We won additional new projects in the third quarter, for instance with energy company Watt Deutschland GmbH. Watt is a very interesting customer in the energy sector with a business model similar to that of a telecommunications service provider. The company does not have its own network; instead, it uses processes to offer its customers improved service. This new type of IT infrastructure allows Watt Deutschland to alter processes as needed, implement new regulations as they take effect, offer more effective support to customers, and respond proactively when putting new products on the market. Process innovation is the key factor here. Process-based business models require flexible IT systems – i.e. SOA and BPM – and an independent provider. With our support, Watt Deutschland GmbH plans to completely revamp all of its business processes. Software AG's webMethods product portfolio will be used to optimize and automate all business processes from A to Z. According to company estimates, the planned procedures, which will build on a fully new IT infrastructure, will bring an increase in efficiency of some 30 percent.

We also posted successes with our ETS customers in the third quarter. In Brazil, for instance, we demonstrated once again that our entry into this market is not merely about transferring the Software AG business volumes of previous distributors to our books. Rather, our aim is to take advantage of previously untapped potential.

This is possible because we focus our full attention on helping our customers to benefit from the Software AG portfolio; we also take advantage of our expertise and our products to provide better customer support, and we modernize infrastructures to assist our customers in generating maximum value from their existing equipment. The benefits to our customers of Software AG's on-site presence in all relevant markets include investment protection, contributions to innovation, and a more flexible IT.

Our team in Brazil is extremely successful, having won more than 30 customers and over 40 new contracts within a very short period of time. This is yet another example of Software AG's international competency and, most definitely, an additional contribution to the stability of our business model.

In addition, on September 2, 2008 we announced the biggest order in the history of Software AG from a customer in Brazil.

Market presence remains at a high level

We met with our customers at major events during the third quarter. On September 2, for instance, Software AG's first German Business Innovation Forum opened its doors to the public in Darmstadt, where solutions and projects in the field of business innovation were presented to more than 400 participants. A number of our customers were involved in the program and described their practical experience with SOA and BPM. These included companies such as T-Systems, the European Central Bank, Austrian financial services provider UNIQA, logistics firm DHL, and Bundesrepublik Deutschland Finanzagentur GmbH (German Finance Agency). 17 of Software AG's partner companies, including Atos Origin, held presentations and manned exhibition stands. One of the highlights of the German Business Innovation Forum was the podium discussion entitled "Using SOA to Implement an e-Government Strategy" with Federal Minister of Justice Brigitte Zypries, MdB, who is regarded as an expert in IT issues related to government agencies.

The SOA Governance Summit, held on September 23, 2008 in Stockholm, was also a resounding success: Software AG, along with customers such as Tele2, SAS, and HSBC, presented SOA governance technologies, projects, and solutions to nearly 300 participants. The event was topped off by market presentations from leading companies and analyst firms.

2. Financial performance

Group revenue rises under difficult market conditions

In the third quarter of 2008, Group revenue rose 14 percent to €180.1 million (Q3 2007: €157.8 million). The Q3 results again demonstrate the strength of Software AG's business model, with product revenues building on a large existing customer base.

Since more than 50 percent of Software AG's revenues are generated in foreign currencies, exchange rates have an impact on Group revenue. However, exchange rates have less of an impact on earnings given that expenses are also incurred in foreign currencies by the individual sales companies. Foreign currency effects lessened in the third quarter. In the fourth quarter, neutral currency effects or even a currency translation gain are expected, depending on the exchange rate for the dollar.

Sales by revenue type

Licensing revenue an indication of robust business

The licensing business of Software AG continued to perform well. Licensing revenues grew by 18 percent to €67.8 million in Q3 2008 (Q3 2007: €57.4 million).

Long-term success for maintenance business

The maintenance business increased again in the third quarter. Revenues improved by 22 percent to €70.2 million compared to €57.7 million in Q3 2007.

Product revenues contributed 77 percent to total revenue, primarily due to our successful entry into the Brazilian market and organic growth in the webMethods division.

Professional Services remains steady

Revenues in the Professional Services business were nearly the same as last year at €41.8 million (Q3 2007: 42.3 million). As a result Professional Services contributed 23 percent to Group revenue in the third quarter of 2008. The Professional Services business has been steadily geared toward efficiency and profitability in recent quarters. Among other things, consultants have been trained to provide higher quality services in the fields of SOA and BPM.

REVENUES BY DIVISION

IFRS, unaudited in € million	January 1 – September 30, 2008	January 1 – September 30, 2007	Change in %	Q3|2008	Q3|2007	Change in %
webMethods						
Licenses	79.5	64.3	24	30.6	25.9	18
Maintenance	66.9	37.2	80	23.5	19.3	22
Service	77.3	64.3	20	24.8	24.4	2
Other	0.6	2.1		0.1	0.3	
Total	**224.3**	**167.9**	**34**	**79.0**	**69.9**	**13**
ETS						
Licenses	105.1	97.3	8	37.1	31.4	18
Maintenance	124.3	116.3	7	46.7	38.4	22
Service	53.2	52.3	2	17	17.9	–5
Other	1.3	0.9	44	0.3	0.2	50
Total	**283.9**	**266.8**	**6**	**101.1**	**87.9**	**15**

Revenues by division

webMethods successfully integrated

The webMethods division had organic growth of 13 percent in the third quarter. Sales revenues increased from EUR 69.9 million in Q3 2007 to EUR 79.0 million. The robust growth experienced by webMethods in all regions shows that Software AG is well positioned for international competition. Licensing revenues rose 18 percent to €30.6 million, up from €25.9 million in Q3 2007. Maintenance revenues increased by 22 percent, from €19.3 million to €23.5 million. In the Professional Services business of the webMethods division, we increased revenue slightly from €24.4 million to €24.8 million.

The earnings contribution of the webMethods division soared 109 percent to €28.0 million (Q3 2007: 13.4 million). Cost of sales fell by 3 percent to €26.9 million (Q3 2007: €27.7 million). Selling expenses declined by 16 percent in response to the reorganization of Sales and Distribution in 2008 and the ensuing new allocation of sales personnel. They fell from €28.8 million to €24.1 million. These figures are impressive evidence of how successfully we have implemented the measures introduced to increase efficiency and exhaust synergy potential.

Revenues in this division are expected to expand to between €300 million and €310 million for the year as a whole.

ETS expanded geographically

The ETS division performed extremely well in the third quarter. Sales revenues grew by 15 percent, from €87.9 million to €101.1 million, driven primarily by product business. Our business in Brazil, where we took over direct distribution at the start of the year, had a particularly positive impact on revenue growth. Licensing revenues increased by 18 percent to €37.1 million (Q3 2007: €31.4 million). Maintenance revenues also posted encouraging growth, climbing 22 percent to €46.7 million compared to €38.4 million in Q3 2007. The Professional Services business maintained a steady level, with revenues declining slightly from €17.9 million in Q3 2007 to €17.0 million in Q3 2008.

The ETS division contributed €63.4 million to segment revenues, an increase of nearly 17 percent over the prior-year period (Q3 2007: €54.3 million). Cost of sales fell slightly by 2 percent to €19.6 million (Q3 2007: €19.9 million). Selling expenses increased to €18.1 million (Q3 2007: €13.7 million) as a result of our entry into the Brazilian market as well as the reorganization of Sales and Distribution in 2008 and the ensuing new allocation of sales personnel.

EBIT improves again significantly

Software AG increased EBITA by 48 percent in the third quarter to €52.3 million (Q3 2007: €35.3 million). EBIT grew from €32.4 million in Q3 2007 to €48.7 million, an increase of approximately 50 percent. The EBIT margin reached a record 27 percent compared to 20.5 percent in the third quarter of 2007. As a result, we raised our projection for full-year 2008 and are now calling for an EBIT margin of between 24 and 25 percent.

Research and development expenses rose by approximately 5 percent to €19.4 million compared to €18.4 million in Q3 2007. The increase was related to the successful integration of R&D departments and the corresponding synergy effects as well as the outsourcing of R&D services to low-wage countries. Marketing and sales expenses amounted to €42.2 million. This was approximately the same as in the previous year due to foreign currency effects (Q3 2007: €42.5 million).

Net income and earnings improve again

Profit after tax saw another significant increase in the third quarter, rising 61 percent to €31 million compared to €19.2 million in Q3 2007. The decline in the tax rate from between 36 and 37 percent to between 33 and 34 percent also contributed to the improvement of net income. Earnings per share improved from €0.67 to €1.08 in the third quarter. As of September 30, 2008, 28.6 million shares were in circulation (excl. dilutive shares), an increase of nearly 180,000 shares year-on-year.

Nine-month figures are solid basis for full-year 2008

The figures for the first nine months, along with orders on hand for the fourth quarter, support our current forecast for fiscal 2008 as a whole. During the first nine months of 2008, net income of Software AG rose by 17 percent to €508.2 million, up from €434.7 million in the previous year. Licensing revenue rose by 14 percent to €184.5 million in the same period (September 30, 2007: €161.6 million). Maintenance revenues increased by 25 percent, from €153.5 million in the first nine months of 2007 to €191.4 million. Due to consolidations, the Professional Services business increased by 12 percent in the first nine months to €130.5 million (September 30, 2007: €116.6 million).

The substantial rise in product business in particular had a positive impact on operating earnings: Earnings before interest and taxes (EBIT) improved by 34 percent to €125.6 million (September 30, 2007: €94.0 million). The EBIT margin rose from 21.6 percent to 24.7 percent. Operating cash flow was also strong at €96.3 million, an increase of 107 percent year-on-year.

KEY EARNINGS INDICATORS

in € million	Q3|2008	Q3|2007	Change in %	January 1 – September 30, 2008	January 1 – September 30, 2007	Change in %
EBIT	48.7	32.4	50.3	125.6	94	33.6
EBITA	52.3	35.3	48.2	136.8	98.3	39.2
Financial income / expense, net	–1.6	–2.0		–4.4	2.5	
Earnings before taxes	47.1	30.4	55.0	121.2	96.5	26.0
Net income	31	19.2	61.5	80.6	61.5	31.1
Earnings per share in Euro (basic)	1.08	0.67	61.0	2.82	2.16	31.0

3. Financial position

Cash flow triples in value

Operating cash flow amounted to €36.0 million in the third quarter. This is nearly triple the level achieved in the previous year (Q3 2007: €12.3 million). Our receivables management contributed to this improvement. Free cash flow performed very well in the third quarter, reaching €34.2 million to exceed the previous year's figure by 229 percent (Q3 2007: €10.4 million). Free cash flow as a percentage of net income attained a level of 19 percent for the third quarter and 18 percent for the first nine months.

Total assets and capital expenditure

Total assets of Software AG rose from €1,025.7 million as of September 30, 2007 to €1,073.9 million as of September 30, 2008. Cash and cash equivalents increased from €71.0 million to €83.1 million. Equity improved by 18 percent, from €442.9 million to €524.7 million. The equity-to-assets ratio rose accordingly from 43 percent to 49 percent as of September 30, 2008. We continued to reduce the borrowings taken out in the previous year to fund acquisitions. Financial liabilities declined from €227.9 million as of September 30, 2007 to €192.4 million as of September 30, 2008. Net debt decreased to €109.3 million (September 30, 2007: €156.9 million). Software AG therefore remains in a strong position to further develop business activities.

4. Risks and opportunities

We have made acquisitions in the past, and do not rule out further acquisitions in the future. Software AG is therefore subject to the risks inherent in acquisitions and integration. With regard to the product business, the risk of customers postponing certain contracts until the new year has increased. Other than these, in the third quarter of 2008 there were no changes to the risk situation of the Software AG Group as portrayed in the Risk Report of the 2007 Annual Report.

The related opportunities are detailed in the Outlook section of this report and in the Outlook section of the 2007 Annual Report.

5. Events after the balance sheet date

The following relevant events occurred at Software AG after the balance sheet date: As of October 1, 2008, Holger Friedrich assumed his new position as Executive Board member with global responsibility for the Professional Services business at Software AG. The move will greatly reinforce the reorganized Professional Services business, placing it under the global leadership of an expert with more than 15 year experience. The goal is to expand the implementation competence of a number of software solutions and our consulting services, particular SOA and BPM, on a lasting basis.

6. Outlook

Software AG's robust business model promises to lead to further increases in product business in both divisions during the fourth quarter. The Professional Services business will remain at approximately the prior-year level. This forecast is supported by orders on hand for the fourth quarter. For the full year 2008, Group revenue is expected to grow to between €710 and €730 million. We are also raising our forecast for the EBIT margin from the previous 24 percent to between 24 and 25 percent.

In view of the difficult general market situation, in 2009 we expect organic growth of approximately 4 to 8 percent and another rise in the EBIT margin to between 24.5 and 25.5 percent.

CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
IFRS, UNAUDITED

in € thousands	January 1 – September 30, 2008	January 1 – September 30, 2007	Change in %	Q3|2008	Q3|2007	Change in %
Licenses	184,518	161,583	14	67,771	57,352	18
Maintenance	191,333	153,554	25	70,197	57,713	22
Professional Services	130,463	116,565	12	41,763	42,272	– 1
Other	1,891	3,013	– 37	316	460	– 31
Total revenue	**508,205**	**434,715**	**17**	**180,047**	**157,797**	**14**
Costs of sales	– 141,979	– 130,670	9	– 46,465	– 47,640	– 2
Gross profit	**366,226**	**304,045**	**20**	**133,582**	**110,157**	**21**
Research and development expenses	– 56,721	– 45,320	25	– 19,397	– 18,390	5
Sales, marketing and distribution expenses	– 122,114	– 112,386	9	– 42,234	– 42,513	– 1
General and administrative expenses	– 47,773	– 40,522	18	– 15,684	– 13,985	12
Operating result	**139,618**	**105,817**	**32**	**56,267**	**35,269**	**60**
Other operating income	21,742	17,324	26	7,576	8,046	– 6
Other operating expenses	– 24,535	– 24,886	– 1	– 11,521	– 7,981	44
Earnings before interest and taxes and amortization (EBITA)	**136,825**	**98,255**	**39**	**52,322**	**35,334**	**48**
Amortization	– 11,196	– 4,217		– 3,660	– 2,981	
Earnings before interest and taxes (EBIT)	**125,629**	**94,038**	**34**	**48,662**	**32,353**	**50**
Net financial income	– 4,459	2,484		– 1,572	– 1,941	
Earnings before taxes	**121,170**	**96,522**	**26**	**47,090**	**30,412**	**55**
Income taxes	– 38,899	– 33,158	17	– 15,590	– 10,555	48
Other taxes	– 1,622	– 1,866	– 13	– 498	– 689	– 28
Net income	**80,649**	**61,498**	**31**	**31,002**	**19,168**	**62**
thereof attributable to shareholders of Software AG	80,649	61,333	31	31,002	19,105	62
thereof attributable to minority interest	0	165		0	63	
Earnings per share (EUR, basic)	2.82	2.16	31	1.08	0.67	61
Earnings per share (EUR, diluted)	2.82	2.16	31	1.08	0.67	61
Weighted average shares outstanding (basic)	28,587,447	28,411,120	–	28,615,731	28,496,985	–
Weighted average shares outstanding (diluted)	28,621,957	28,452,561	–	28,650,241	28,538,426	–

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2008
IFRS, UNAUDITED

Assets

in € thousands	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Current assets			
Cash on hand and bank balances	83,107	80,822	69,370
Securities	7	472	1,614
Inventories	90	90	73
Trade receivables	232,335	209,311	228,597
Other receivables and other assets	21,073	10,125	10,642
Prepaid expenses	8,405	5,794	6,070
	345,017	**306,614**	**316,366**
Non-current assets			
Intangible assets	151,179	139,265	147,471
Goodwill	443,667	431,596	445,070
Property, plant and equipment	49,935	49,847	53,000
Financial assets	8,687	8,232	3,008
Trade receivables	11,708	15,704	12,966
Other receivables and other assets	7,715	16,582	0
Prepaid expenses	46	0	0
Deferred taxes	55,931	55,484	47,775
	728,868	**716,710**	**709,290**
	1,073,885	**1,023,324**	**1,025,656**

Equity and liabilities

in € thousands	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Current liabilities			
Financial liabilities	26,165	46,652	3,536
Trade payables	28,143	31,300	36,587
Other liabilities	41,524	64,199	43,237
Other provisions	45,960	42,802	37,037
Tax provisions	11,156	11,485	23,006
Deferred income	112,116	83,878	97,623
	265,064	**280,316**	**241,026**
Non-current liabilities			
Financial liabilities	166,200	167,648	224,402
Trade payables	69	64	94
Other liabilities	342	2,966	12,531
Pension provision	16,464	17,229	23,719
Other provisions	11,778	9,686	9,040
Deferred taxes	86,232	79,621	71,531
Deferred income	3,069	3,332	412
	284,154	**280,546**	**341,729**
Equity			
Share capital	85,886	85,618	85,540
Capital reserve	34,336	31,933	31,668
Retained earnings	359,368	299,532	294,907
Net income attributable to shareholders of Software AG	80,649	88,375	61,333
Currency translation differences	– 66,815	– 80,008	– 57,984
Other reserves	31,243	36,343	26,635
Minority interest	0	669	802
	524,667	**462,462**	**442,901**
	1,073,885	**1,023,324**	**1,025,656**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
IFRS, UNAUDITED

in € thousands	January 1 – September 30, 2008	January 1 – September 30, 2007	Q3|2008	Q3|2007
Net income for the year	80,649	61,498	31,002	19,168
Income taxes	38,899	33,158	15,590	10,554
Net financial income	4,459	– 2,484	1,572	1,940
Amortization / depreciation of non-current assets	18,431	11,195	5,940	5,915
Other non-cash income / expense	3,359	2,384	863	1,030
Operating cash flow before changes in working capital	**145,797**	**105,751**	**54,967**	**38,607**
Changes in inventories, receivables and other current assets	– 28,809	– 24,142	– 10,778	– 506
Changes in payables and other liabilities	22,837	– 9,069	4,243	– 12,645
Income taxes paid	– 39,121	– 28,567	– 9,478	– 10,417
Interest paid	– 7,621	– 5,431	– 4,003	– 4,603
Interest received	3,192	8,107	1,075	1,875
Net cash from operating activities	**96,275**	**46,649**	**36,026**	**12,311**
Proceeds from sale of tangible / intangible assets	1,463	1,061	1,276	536
Purchase of tangible / intangible assets	– 6,812	– 4,729	– 3,000	– 2,460
Proceeds from the sale of financial assets	1,217	2,697	108	125
Purchase of financial assets	– 916	– 1,233	– 198	– 126
Payment for acquisitions, net	– 38,854	– 360,626	– 35	– 1,845
Net cash used in investing activities	**– 43,902**	**– 362,830**	**– 1,849**	**– 3,770**
Proceeds from issue of share capital	1,595	6,771	479	631
Dividends paid	– 28,539	– 25,302	0	0
Proceeds from financial liabilities	0	325,829	0	0
Repayments of financial liabilities	– 20,937	– 102,643	– 10,700	– 50,656
Payments for hedging instruments	– 2,542	0	– 1,867	0
Net cash provided by / used in financing activities	**– 50,423**	**204,655**	**– 12,088**	**– 50,025**
Change in cash and cash equivalents from cash relevant transactions	1,950	– 111,526	22,089	– 41,484
Adjustment from currency translation	– 130	– 2,264	1,615	– 2,038
Net change in cash and cash equivalents	**1,820**	**– 113,790**	**23,704**	**– 43,522**
Cash and cash equivalents at the beginning of the period	81,294	184,774	59,410	114,506
Cash and cash equivalents at the end of the period	**83,114**	**70,984**	**83,114**	**70,984**

SEGMENT REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
IFRS, UNAUDITED

in € thousands	ETS		webMethods		Total	
	January 1 – September 30, 2008	January 1 – September 30, 2007	January 1 – September 30, 2008	January 1 – September 30, 2007	January 1 – September 30, 2008	January 1 – September 30, 2007
Licenses	105,066	97,292	79,452	64,291	184,518	161,583
Maintenance	124,341	116,316	66,992	37,238	191,333	153,554
Product revenue	**229,407**	**213,608**	**146,444**	**101,529**	**375,851**	**315,137**
Professional services	53,185	52,245	77,278	64,320	130,463	116,565
Other	1,341	940	550	2,073	1,891	3,013
Total revenue	**283,933**	**266,793**	**224,272**	**167,922**	**508,205**	**434,715**
Cost of sales	– 59,193	– 59,102	– 82,786	– 71,568	– 141,979	– 130,670
Gross profit	**224,740**	**207,691**	**141,486**	**96,354**	**366,226**	**304,045**
Sales, Marketing & Distribution expenses	– 51,888	– 42,785	– 70,226	– 69,601	– 122,114	– 112,386
Business line contribution	**172,852**	**164,906**	**71,260**	**26,753**	**244,112**	**191,659**
Research and development expenses					– 56,721	– 45,320
General and administrative expenses					– 47,773	– 40,522
Other operating income / expenses					– 2,793	– 7,562
EBITA					**136,825**	**98,255**
Amortization					– 11,196	– 4,217
Earnings before interest and taxes					**125,629**	**94,038**
Net financial income					– 4,459	2,484
Earnings before taxes					**121,170**	**96,522**
Taxes					– 40,521	– 35,024
Net income for the period					**80,649**	**61,498**

SEGMENT REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2008
IFRS, UNAUDITED

in € thousands	ETS		webMethods		Total	
	Q3|2008	Q3|2007	Q3|2008	Q3|2007	Q3|2008	Q3|2007
Licenses	37,117	31,372	30,654	25,980	67,771	57,352
Maintenance	46,709	38,453	23,488	19,260	70,197	57,713
Product revenue	**83,826**	**69,825**	**54,142**	**45,240**	**137,968**	**115,065**
Professional services	16,981	17,866	24,782	24,406	41,763	42,272
Other	281	228	35	232	316	460
Total revenue	**101,088**	**87,919**	**78,959**	**69,878**	**180,047**	**157,797**
Cost of sales	– 19,569	– 19,955	– 26,896	– 27,685	– 46,465	– 47,640
Gross profit	**81,519**	**67,964**	**52,063**	**42,193**	**133,582**	**110,157**
Sales, Marketing & Distribution expenses	– 18,133	– 13,698	– 24,101	– 28,815	– 42,234	– 42,513
Business line contribution	**63,386**	**54,266**	**27,962**	**13,378**	**91,348**	**67,644**
Research and development expenses					– 19,397	– 18,390
General and administrative expenses					– 15,684	– 13,985
Other operating income / expenses					– 3,945	65
EBITA					**52,322**	**35,334**
Amortization					– 3,660	– 2,981
Earnings before interest and taxes					**48,662**	**32,353**
Net financial income					– 1,572	– 1,941
Earnings before taxes					**47,090**	**30,412**
Taxes					– 16,088	– 11,244
Net income for the period					**31,002**	**19,168**

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE POSTED DIRECTLY TO EQUITY*
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
IFRS, UNAUDITED

in € thousands	January 1 – September 30, 2008	January 1 – September 30, 2007	Q3|2008	Q3|2007
Currency translation differences	13,193	– 16,851	35,852	– 10,289
Net gain / loss from fair value measurement of financial instruments not recognized in income	– 6,056	– 242	– 760	– 205
Net loss / gain from fair value measurement of net investments in foreign operations not recognized in income	956	– 7,569	623	– 8,420
Total income and expense recognized directly in equity	**8,093**	**– 24,662**	**35,715**	**– 18,914**
Net income for the period (from P&L)	80,649	61,498	31,002	19,168
Total recognized income and expense	**88,742**	**36,836**	**66,717**	**254**

* These valuation impacts are posted directly to equity and are therefore not recognized as a part of the P&L statement

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2008

Accounting policies

Basis of presentation

Software AG's condensed and unaudited consolidated financial statements (quarterly financial statements) as of September 30, 2008 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable on the balance sheet date, as endorsed by the EU. The IASs / IFRSs applicable as of September 30, 2008 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The same accounting policies have been applied as in the consolidated financial statements as of December 31, 2007. Accordingly, accounting policies are not explained in detail in these interim financial statements. These interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

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

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

Changes in the consolidated group

The group of consolidated companies changed in comparison with December 31, 2007 as a result of the following transactions.
1. Mergers within the Group effective as of 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
2. In addition, on June 5, 2008, Software AG Argentina S.R.L. was established in Buenos Aires, Argentina, with a share capital of €100 thousand.

Earnings per share

Earnings per share were calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued and outstanding during the period under review. Software AG has issued only common shares. The weighted average number of shares amounted to 28,587,447 in the first three quarters of 2008. The weighted average number of shares amounted to 28,615,731 in the third quarter 2008.

A total of 89,180 stock options were exercised in the first three quarters of 2008, of which 25,808 were exercised in the third quarter. The number of shares increased correspondingly by 89,180 in the first three quarters of 2008. Another 34,510 stock options may be exercised from the second stock option plan in fiscal 2008. Therefore, diluted earnings per share were calculated for these potential shares in the quarterly financial statements using the treasury stock method. Diluted earnings per share were computed by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued and outstanding plus the weighted average number of exercisable stock options.

Notes to the consolidated balance sheet

Goodwill

Goodwill as of September 30, 2008 amounted to €443,667 thousand, an increase of €12,071 thousand over December 31, 2007. The increase was a result of changes in currency exchange rates, particularly the strong US dollar, which had a positive impact on goodwill in the amount of €12,151 thousand, and from the purchase of the remaining shares (49 percent) in SPL Idor Business Solutions, Or-Yehuda, Israel with a positive impact of €337 thousand, contrasted by a negative €417 thousand from the final adjustment of the earn-out payment arising on the purchase of Sabratec.

Equity

The change in equity is shown in the following Statement of Changes in Equity as of September 30, 2008.

STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDING SEPTEMBER 30, 2008 (JANUARY 1 TO SEPTEMBER 30, 2008 AND JANUARY 1 TO SEPTEMBER 30, 2007) IFRS, UNAUDITED

in € thousands	Shares								
September 30, 2008	Number	Share capital	Capital reserve	Retained earnings	Net income attributable to shareholders	Accumulated currency translation differences	Other reserves	Minority interest	Total
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	89,180	268	1,327						1,595
Stock options			1,076						1,076
Purchase of minority interest in fully consolidated companies								– 669	– 669
Net income for the year					80,649				80,649
Dividend payment				– 28,539					– 28,539
Currency translation differences						13,193			13,193
Net gain from fair value measurement of financial instruments not recognized in income							– 6,056		– 6,056
Net gain from fair value measurement of net investments in foreign operations not recognized in income							956		956
Equity as of September 30, 2008	**28,628,635**	**85,886**	**34,336**	**359,368**	**80,649**	**– 66,815**	**31,243**	**0**	**524,667**

in € thousands	Shares								
September 30, 2007	Number	Share capital	Capital reserve	Retained earnings	Net income attributable to shareholders	Accumulated currency translation differences	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	400,783	1,202	5,569						6,771
Stock options			2,523						2,523
Net income for the year					61,333			165	61,498
Dividend payment				– 25,302					– 25,302
Currency translation differences						– 16,851			– 16,851
Net gain from fair value measurement of financial instruments not recognized in income							– 242		– 242
Net gain from fair value measurement of net investments in foreign operations not recognized in income							– 7,569		– 7,569
Net gain from fair actuarial gain / loss open pension obligations not recognized in income				– 158					– 158
Equity as of September 30, 2007	**28,513,498**	**85,540**	**31,668**	**294,907**	**61,333**	**– 57,984**	**26,635**	**802**	**442,901**

The composition of the individual equity accounts did not change compared to December 31, 2007. The exercise of stock options under the second stock option plan increased the number of bearer shares in issue by 89,180 to 28,628,635 shares in the first three quarters of 2008. In response, the Company's share capital rose by €268 thousand and the capital reserve by €1,327 thousand.

Dividend payment

The Annual Shareholders' Meeting resolved on April 29, 2008 to transfer an amount of €9,455 thousand from the €113,907 thousand in accumulated profit of the controlling Group company Software AG for 2007 to other revenue reserves, to appropriate €28,539 thousand for a dividend payout, and to carry forward €75,913 thousand to a new account. This corresponded to a dividend of €1.00 per share.

Other disclosures

Seasonal influences

Revenues and pre-tax earnings per quarter were as follows in fiscal 2007:

in € thousands	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2007
Total revenue	172,581	167,093	157,797	186,544	684,015
in % of annual revenue	25.2	24.4	23.1	27.3	100.0
Earnings before taxes	28,163	37,946	30,412	40,570	137,091
in % of net income for the year	20.5	27.7	22.2	29.6	100.0

In order to show seasonal influences, the revenues of SPL Software Ltd., Israel from January 1, 2007 through March 31, 2007 as well as the revenues of webMethods, Inc., USA from January 1, 2007 through May 24, 2007 were added to the revenues of the Software AG Group. Prior years showed a similar structure of revenues per quarter, which primarily reflects the purchasing behavior of our customers.

Pre-tax earnings show unadjusted values for the Software AG Group, excluding minority interests of acquired companies from the beginning of the year up to the date of acquisition. Because of the acquisitions of these companies and the cost synergies achieved during fiscal year 2007, the presentation does not reflect the normalized profit allocation. For this reason, no forward-looking statements can be derived from this profit allocation.

Given the forward-looking nature of these disclosures, the presentation of the previous year's figures was omitted.

Contingent liabilities

in € thousands	Sep. 30, 2008	Dec. 31, 2007	September 30, 2007
Guarantees	17,298	15,337	11,770
Warranties	697	0	0
Other	1,459	1,341	1,102
	19,454	16,678	12,872

The carrying amount of collateral received is €521 thousand (Q3 2007: €0 thousand).

Other financial commitments

The Company has entered into rent and lease agreements for buildings, land, computer and telephone equipment, and vehicles. The obligations under these agreements for their remaining non-cancelable terms up until the end of fiscal 2008 amount to €3,233 thousand (Q3 2007: €2,751 thousand). Obligations of €46,506 thousand exist for the period up until the end of fiscal year 2013 (Q3 2007: €38,608 thousand until the end of fiscal 2012), and obligations of €6,658 thousand for the period after fiscal 2013 (Q3 2007: €8,844 thousand for the period after fiscal 2012). The lease agreements are operating leases as defined in IAS 17.

Stock option plans and stock appreciation rights program

Software AG has two different stock option plans for members of the Executive Board, officers, and employees of the Group. For a detailed description of our share-based payment programs, please refer to pages 91 – 93 of our 2007 Annual Report.

The expenses for stock options which were accounted for as equity-settled stock option programs in accordance with IFRS 2 for the first three quarters of 2008 amount to €1,077 thousand (Q1-3 2007: €2,523 thousand), of which €197 thousand related to the third quarter (Q3 2007: €1,041 thousand).

The expenses for stock options which were accounted for as cash-settled stock option programs in accordance with IFRS for the first three quarters of 2008 amount to €2,274 thousand (Q1-3 2007: €0 thousand), of which €666 thousand related to the third quarter (Q3 2007: €0 thousand).

The number of stock options outstanding has changed as follows since December 31, 2007:

in € thousands	Balance as of Dec. 31, 2007	Granted	Exercised	Forfeited	Balance as of Sep. 30, 2008	Thereof exercisable as of Sep. 30, 2008
Stock option program	191,907	0	–89,180	–6,326	96,401	34,510
Stock-price based remuneration plan from 2007	2,014,000	14,500	0	–263,000	1,765,500	0

Of the options under the stock price-based remuneration plan outstanding as of September 30, 2008, 1,100,000 options were accounted as cash-settled stock option plans in accordance with IFRS 2.

Notes on Significant Business Events

1. Acquisition of the software division of Jacada Ltd., Israel

As of January 1, 2008, Software AG acquired business units and assets of Jacada Ltd., Israel. Through its acquisition of Jacada's Application Modernization division, Software AG enhanced its product portfolio by adding new products for the modernization of user interfaces in applications that run on large and medium-sized systems. Jacada Ltd. is publicly listed on the Nasdaq (Nasdaq: JCDA).

Breakdown of purchase price

The purchase price paid for Jacada's Application Modernization division was €17,665 thousand (US$26,000 thousand). The purchase price was paid on January 2, 2008. The cost of the business combination has been allocated provisionally in accordance with IFRS 3.62 as follows:

in € thousands	Fair value as of January 01, 2008	Carrying amount prior to acquisition
Intangible assets – customer base	15,195	0
Software	2,470	0
Carrying amount of the assets acquired		0
Cost of the business combination	17,665	

Initial consolidation pursuant to IFRS 3.62

Because of the close proximity in time between the date of acquisition (January 1, 2008) and the balance sheet date of the quarterly financial statements (September 30, 2008), the Application Modernization division acquired from Jacada was initially accounted for using provisional fair values.

Intangible assets – customer base

The Application Modernization division acquired from Jacada generated annual revenue of approximately US$12 million in 2007. The achieved profit margin was higher than the Group average of Software AG. Software AG gained more than 200 corporate customers, primarily from the USA, as a result of this acquisition. For these reasons, a customer base was recognized as part of the initial accounting.

Software

The software that the Group has acquired is designed for the modernization of user interfaces in applications that run on large and medium-sized systems. It supplements Software AG's product portfolio in the field of legacy modernization. Based upon a preliminary assessment, the software was valued at €2,470 thousand.

Contribution to revenue and earnings since acquisition on January 1, 2008

Since the date of acquisition on January 1, 2008, the Application Modernization division acquired from Jacada has contributed €2,612 thousand to Group revenues, of which €1,067 thousand related to the third quarter. Jacada's contribution to Group net income since the date of acquisition reached break-even in the third quarter of 2008. As the Jacada software division has been completely integrated into Software AG, the contribution to Group net income for the year could be determined only by means of an estimate. As the date of acquisition was January 1, 2008, a presentation of these profit figures as if the acquisition had occurred at the beginning of fiscal 2008 can be omitted.

Expenses related to the acquisition of the Jacada software division

The customer base, which was identified as an asset in connection with the acquisition of Jacada's Application Modernization division, will be amortized over a period of 10 years and the acquired software will be amortized over a period of 5 years. Total amortization in the first three quarters of 2008 was €1,621 thousand, of which €550 thousand related to the third quarter. There were no other expenses connected with this acquisition, and no further expenses are expected.

2. Software AG also acquired the remaining minority interests of the following companies in the first three quarters of 2008:

- ¬ Purchase of 49.0 percent of shares in Software AG (India) Private Limited, India for €609 thousand, effective March 14, 2008
- ¬ Purchase of the remaining 19.92 percent of shares in SPL Software Ltd., Israel for €18,935 thousand, effective January 1, 2008
- ¬ Purchase of 49 percent of shares in SPL Idor E Business Solutions, Israel and 49 percent of shares in SPL Idor Management Ltd., Israel for a total of €327 thousand, effective January 1, 2008

These acquisitions of remaining minority interests eliminated the need to report minority interests in equity and net income in the quarterly consolidated financial statements as of September 30, 2008.

3. Earn-out payments for earlier acquisitions

Revenue-based earn-out payments of €985 thousand (Q3 2008: €35 thousand) for Software A.G. (Israel) Ltd. (previously Sabratec Ltd., Israel) and €332 thousand for Casabac Technologies GmbH, Germany, were paid in the first three quarters of 2008.

4. Currency translation effects

In the first three quarters of 2008, the strong euro, particularly in relation to the US dollar, caused negative currency translation effects on Group revenues compared to the same period in the previous year in the amount of €27,812 thousand, €5,766 of this amount in the third quarter of 2008.

5. Brazil

In the third quarter 2008, the Brazilian subsidiary of Software AG signed a major contract with a Brazilian customer on the use and maintenance of software products, the largest deal in the history of Software AG. The total contract volume net of Brazilian sales tax amounts to €63,680 thousand (BRL 151.6 million) over a contract term of 4.5 years, with contract revenues being recognized over the period of the contract. Revenues from this contract recognized in the third quarter of 2008 amount to €8.198 TEUR, of which €5.606 thousand relate to license revenue.

Employees

As of September 30, 2008, the effective number of employees (i.e., part-time employees taken into account on a pro-rata basis only) amounted to 3,466 (September 30, 2007: 3,552), 78.1 percent of whom were employed abroad (June 30, 2007: 78.6 percent). In absolute terms (i.e., part-time employees are taken fully into account), the Group employed 3,570 people (June 30, 2007: 3,662) at the end of the second quarter on September 30, 2008.

Supervisory Board

The term of office of Mr. Justus Mische, who had been a member of the Supervisory Board since December 9, 2002, and who was elected by the Annual Shareholders' Meeting, ended with the end of the Annual Shareholders' Meeting on April 29, 2008, as he had reached the age limit specified in the Articles of Association.

Mr. Willi Berchtold, Dipl. Oec., Chief Financial Officer, Controlling and Informatics at ZF Friedrichshafen AG, and residing in Überlingen, was elected by the Annual Shareholders' Meeting on April 29, 2008 as a new member of the Supervisory Board.

Reorganization of the Executive Board

On April 29, 2008, the Supervisory Board approved a reorganization of the Executive Board. The sales organizations of the two business divisions, webMethods and ETS, have been placed under the joint direction of two Executive Board members with different regional responsibilities. Region West (North and South America, Western and Southern Europe), will be headed by Executive Board member Mark Edwards, previously Chief Operation Officer for the ETS division. Region East (Northern and Central Europe, Africa, Australia, and Asia) will be headed by David Broadbent, previously Chief Product Officer for the ETS Division, who directed sales in the Asia / Pacific region.

Dr. Peter Kürpick, who was previously responsible for R&D in the webMethods division, will in addition assume responsibility for R&D in the ETS division. Mr. David Mitchell resigned his office as member of the Executive Board on April 29, 2008. He had previously been responsible for sales in the webMethods business division.

Events after the balance sheet date

Mr. Holger Friedrich was appointed as a new member of the Executive Board with global responsibility for Professional Services effective October 1, 2008. There were no further significant events between the end of the third quarter and the date of release of these quarterly financial statements by the Executive Board.

Date of release of the consolidated interim financial statements

Software AG's Executive Board approved the quarterly consolidated financial statements on October 31, 2008.

FINANCIAL CALENDAR

FINANCIAL CALENDAR

	2009
January 27	Q4 / FY 2008 financial figures (IFRS, unaudited)
April 23	Q1 / FY 2009 financial figures (IFRS, unaudited)
July 22	Q2 / FY 2009 financial figures (IFRS, unaudited)
October 22	Q3 / FY 2009 financial figures (IFRS, unaudited)

PUBLICATION CREDITS

Publisher
Software AG

Uhlandstraße 12
64297 Darmstadt, Germany

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

CONTACT

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