software AG

QUARTERLY REPORT Q2|07

April 1 – June 30, 2007

SOFTWARE AG – BRINGING BRIGHT IDEAS TO LIFE

Key figures

KEY FIGURES IFRS, UNAUDITED

€ million (unless otherwise stated)	June 30, 2007	June 30, 2006	Q2 2007	Q2 2006
Revenue IFRS	**276.9**	**234.8**	**152.2**	**121.0**
IFRS Adjustment on Maintenance	2.6	0.0	2.6	0.0
Revenue operating	**279.5**	**234.8**	**154.8**	**121.0**
Products IFRS	200.0	168.8	108.7	87.9
IFRS Adjustment on Maintenance	2.6	0.0	2.6	0.0
Products operating	202.6	168.8	111.3	87.9
of which:				
Licenses	104.2	74.7	57.3	41.3
Maintenance	95.8	94.1	51.4	46.6
IFRS Adjustment on Maintenance	2.6	0.0	2.6	0.0
Maintenance operating	**98.4**	**94.1**	**54.0**	**46.6**
Professional services	74.3	64.9	41.7	32.7
Other	2.6	1.1	1.8	0.4
EBITA	**62.9**	**51.2**	**37.9**	**29.7**
IFRS Adjustment on Maintenance	2.6	0.0	2.6	0.0
EBITA operating	**65.5**	**51.2**	**40.5**	**29.7**
as % of revenue operating	23.4	21.8	26.2	24.5
EBIT	**61.7**	**51.2**	**36.7**	**29.7**
IFRS Adjustment on Maintenance	2.6	0.0	2.6	0.0
EBIT operating	**64.3**	**51.2**	**39.3**	**29.7**
as % of revenue operating	23.0	21.8	25.4	24.5
Net income	**42.3**	**33.8**	**24.6**	**19.4**
as % of revenue	15.1	14.4	15.9	16.0
Earnings per share (EUR) basic	**1.49**	**1.20**	**0.86**	**0.69**
Earnings per share (EUR) diluted	**1.48**	**1.20**	**0.86**	**0.69**
Total assets	**1,092.4**	**603.5**		
Cash and cash equivalents	**114.5**	**155.9**		
Shareholders' equity	**441.1**	**397.0**		
as % of total assets	40.4	65.8		
Employees[1]	**3,719**	**2, 725**		
of which in Germany	763	783		

KEY SHARE DATA

	June 30, 2007	June 30, 2006
Closing price (Xetra) in €	72.35	40.68
High in €	73.40	46.02
Low in €	62.10	37.46
Total number of shares	28,480,471	28,112,715
Market capitalization in € millions	2,060.6	1,143.6

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.

Software AG has more than 37 years of global IT experience and approximately 3,700 employees serving customers in 70 countries. The company is headquartered in Germany and listed on the Frankfurt Stock Exchange (TecDAX, ISIN DE 0003304002 / SOW).

Software AG posted total revenues of €483 million in 2006.

Karl-Heinz Streibich, Chief Executive Officer

Dear Ladies and Gentlemen,

In the preceding quarter, we made history with the takeover of U.S. software company webMethods, Inc. Valued at USD 560 million, the takeover represents one of the largest transactions in the European software industry. Under the motto “The Power of Two,” the integration of the two companies has created a new, globally leading provider of infrastructure software for business processes with more than 4,000 enterprise customers worldwide. The transaction is a major step toward achieving our stated goal of pushing up revenues to one billion euros and at least doubling Group earnings by 2011.

Growth strategy continues to show success

Announced at the start of April, the acquisition of webMethods, Inc., a leading supplier of software solutions for integrating and optimizing business processes, took effect as of May 25, 2007. This takeover will enhance our already successful growth strategy by creating a number of synergies: We are optimizing our product portfolio in integration software – the growth market for Service-Oriented Architecture (SOA) – and we are improving our global market presence and expanding our client base. At the same time, we are strengthening our base in major geographic markets and reinforcing our strategic partnerships, especially in the area of system integration.

By integrating webMethods, Inc., we are adhering to our principle of sustainably increasing value. For us, this means focusing on communication with customers and partners, maintaining our high level of sales activities, tying in key expertise on a long-term basis, securing the market value of webMethods, Inc., and merging all divisions as partners. The integration is proceeding according to plan. webMethods, Inc. has been delisted from the stock exchange, and Software AG's previous “Crossvision” business line has been renamed “webMethods.” We succeeded in implementing some projects more quickly than expected, such as our new product planning roadmap. The first integrated product will be available as early as the first quarter of 2008. Together, Software AG and webMethods, Inc. offer the most comprehensive product portfolio of all independent suppliers of system software and have advanced to No. 3 in the global market for integration technology. The merger of sales activities in the EMEA (Europe, Middle East, Africa) and APAC (Asia, Pacific) regions is also being implemented more rapidly than planned, and establishment of a new sales structure in the U.S. has been scheduled for the fourth quarter of 2007.

In addition to the positive effects on the growth of our Company, we have also identified numerous cost synergies. In the second half of 2007, we will achieve cost synergies of USD 15 million, with synergies reaching up to USD 50 million per year in the subsequent periods.

The takeover has already been acknowledged by the capital markets: The price of Software AG stock climbed from €68.85 on April 5, 2007 to €77.34 on July 20, 2007.

Moreover, the transaction has been highly commended by nearly all sector experts and financial market participants.

In the first quarter of the year we also announced an additional acquisition: the majority takeover of SPL Software, our Israeli sales partner, as of April 1, which will increase our market presence in Israel. The acquisitions of SPL Software and webMethods, Inc. have allowed us to successfully implement our M&A strategy in the first half of the current fiscal year.

New customers acquired

In the second quarter of 2007, we - including SPL and webMethods – closed more than 200 new business transactions. Customer feedback regarding the joint product roadmap of Software AG and webMethods, Inc. has also been positive, and we have received the first orders for products from both companies.

In the first half of 2007, we conducted a customer survey of some 180 companies regarding mainframe applications. The results of the survey were promising:

75 percent of those surveyed place priority on modernizing existing applications rather than developing new applications, purchasing new products, or outsourcing. Specifically, mainframe clients focus clearly on optimizing business processes, i.e., linking IT and corporate management. These results confirm Software AG's approach of modernizing mainframe applications to make them Internet compatible by combining the high capacity of mainframe computers with modern Internet flexibility.

Results reflect successful corporate strategy

The figures for the second quarter of 2007 have confirmed that we are on the right track in pursuing dynamic internal and external growth. We have once again significantly improved nearly all key figures. SPL was consolidated in the financial statements as of April 1 and webMethods, Inc. was consolidated as of May 25. The Group's operating revenues rose by 28 percent over the previous quarter (currency-adjusted: 32 percent) to €154.8 million in the second quarter of 2007. License revenues contributed in particular to this growth. The Enterprise Transaction Systems (ETS) business line increased licensing revenue by 11 percent (currency-adjusted) over the prior-year quarter to €32.8 million. Licensing revenue for the webMethods business line rose by an impressive 139 percent to €24.5 million. Operating earnings (EBITA) grew by 28 percent to €37.9 million due to additional optimizations in business processes along with initial synergy effects from the acquisition of webMethods, Inc.

Forecast raised after takeover

We have adjusted our forecast for the current fiscal year to reflect the acquisition of webMethods, Inc. In comparison with 2006, we expect Group revenues to increase by approximately 30 to 35 percent, with licensing revenues climbing by 45 to 50 percent. The merger is also expected to positively impact earnings per share in the first year. We anticipate an increase in earnings per share between €3.10 and €3.25.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

Acquisition of webMethods Pushes Up Software AG Stock

The acquisition of webMethods by Software AG, which attests to the Company's growth, has positively impacted the price of Software AG shares on the TecDax. The stock began the second quarter of 2007 at €64.59 in Xetra trading and closed the quarter at €72.35. This represented a 12 percent rise in value; our shares thus outperformed benchmark indices such as the TecDax (10 percent), the Goldman Sachs Technology Index (10 percent) and the Nasdaq Composite (8 percent).

Announcement of the planned takeover of webMethods in early April had already caused a sharp increase in the price of Software AG stock. Share prices then declined along with the market during the acquisition process to reach a quarterly low of €62.10 on May 11. The acquisition of webMethods, Inc. was concluded on June 1 in a surprisingly quick process. Software AG shares responded to management's revenue and earnings guidance with a steep rise, surpassing the €70 mark. This upward trend was briefly interrupted by a slight correction in the markets in early June. However, European markets were once again on a clear upswing at the end of the quarter. As a result of our positive outlook for the Group, which we have actively and repeatedly communicated since the takeover, Software AG shares significantly exceeded the previous 5-year high with an all-time quarterly high of €73.40 on June 19.

Coverage

Software AG's acquisition of webMethods was very well received by the capital markets. A total of 24 analysts companies in Germany, the United Kingdom and France currently cover Software AG stock. The majority of analysts have raised their target price once again and continue to issue “buy” or “hold” recommendations.

Investor Relations

We approached additional potential and current investors in the second quarter, and were extremely well received at seven investment conferences in London, New York, Frankfurt and Zurich as well as at a total of seven road shows in the United Kingdom, Germany, Switzerland, the Benelux countries and Ireland. Investors consider the acquisition of webMethods, Inc. as a milestone in the development of Software AG and rate us as a rapidly growing company with a clearly improved market position. This leads them to see further price potential for our shares.

Software AG was given high marks for its comprehensive and transparent IR work: We received first place among TecDAX companies at the Capital Investor Relations Awards 2007 as well as the Thomson Extel Survey “Best IR Germany 2007”.

Annual Shareholders Meeting

Our annual shareholders meeting took place in Frankfurt on May 11, 2007. A total of 67.47 percent of the share capital was represented – an above-average participation level for Germany. The annual shareholders meeting agreed to another proposed 10-cent increase in the dividend to €0.90 for fiscal 2006. Dipl. Ing. (TU) Alf Henryk Wulf was newly elected to the Supervisory Board. All other agenda items were approved by a majority of well over 90 percent.

SHARE PRICE DEVELOPMENT (INDEXED)

Dynamic Growth Course Continues

Software AG's segment report is prepared in accordance with IAS 14 (Segment Reporting). Primary segment reporting is by business segment and corresponds to the internal control and reporting lines of the Group. As of January 1, 2007, Software AG began breaking down its segment report into the business lines of ETS and webMethods (formely Crossvision), whereas in fiscal 2006 primary segment reporting was still by geographical segments. Starting with the report on the second quarter, the Crossvision business line has been renamed "webMethods."

1. Significant Events During the Reporting Period

Software AG continued on its dynamic growth path in the second quarter of 2007 thanks to further organic growth and the takeover of U.S. firm webMethods, Inc.

¬ One of the biggest transactions in the European IT industry

As previously announced, we acquired webMethods as of May 25, 2007. At a deal value of €417 million (USD 560 million) (including ancillary acquisition costs), the acquisition is one of the largest transactions in the history of the European IT industry. webMethods, Inc., a U.S. software firm, is a leading supplier of software for integrating and optimizing business processes. The acquisition has created a new, globally leading provider of infrastructure software for business processes with more than 4,000 enterprise customers worldwide. This makes Software AG one of the biggest independent suppliers in two growth markets at once: Service-Oriented Architecture (SOA) and business process management (BPM).

Software AG customers will benefit from numerous advantages ensuing from the acquisition. Our global product portfolio has been considerably enhanced, our services expanded, and our financial strength increased. In the future, Software AG will use the well-established brand name "webMethods" to refer to the joint range of integration products. In addition, the corporate merger will allow us to double revenues in the integration business. This will lead to a balanced distribution of revenue between the newly named webMethods business line and our Enterprise Transaction Systems (ETS) business line.

The integration of webMethods, Inc. into Software AG is proceeding according to plan, and in some instances even faster than planned. webMethods, Inc. has already been delisted from the stock exchange, and all administrative departments were merged as of July 1, 2007. In addition, we have started integrating the R&D divisions as well as sales and marketing. The first integrated product will be available for sale in the first quarter of 2008. We expect the merger to bring cost savings of up to USD 50 million per year, above all based on process optimization and efficiency increases in general administrative activities. The synergy effects will amount to approximately USD 15 million in 2007.

Capital expenditure for research and development as well as for expanding our high-performance sales team and enhancing customer relations will remain continuously high.

¬ New customers acquired

Together with SPL Software and webMethods, Inc., we closed more than 200 new business transactions in the second quarter of 2007. This testifies to the outstanding quality of our products. Our customers have also responded positively to the merger, and we have received the first orders for products from both companies.

2. Financial Performance

Double-digit growth in Group revenues

Group revenues amounted to €152.2 million in the second quarter of 2007, up 26 percent from the previous year (Q2 2006: €121.0 million), or 30 percent on a currency-adjusted basis. This increase resulted primarily from the acquisitions made, with the acquisition of webMethods, Inc. contributing some two-thirds to revenue growth.

Total revenue generated from operations amounted to €154.8 million in the second quarter of 2007. This figure is €2.6 million higher than the reported quarterly revenue, which had to be reduced to conform with IFRS 3 § 36 accounting standards relating to the first-time consolidation of webMethods, Inc.

Product revenues (licenses and maintenance) increased by 24 percent (currency-adjusted: 28 percent) to €108.7 million (operating product revenue: €111.3 million) in the second quarter of 2007. Of these, licensing revenues performed especially well, climbing 39 percent (currency-adjusted: 44 percent) to €57.3 million (Q2 2006: €41.3 million) in the second quarter of 2007. Our Professional Services business generated revenues of €41.7 million in the second quarter of 2007, an increase of 28 percent after €32.7 million in 2006.

Revenues by business line

Crossvision + webMethods = market leader In our webMethods business line, we increased revenues in the second quarter of 2007 by 99 percent over the prior-year quarter (currency-adjusted: 105 percent) to €61.6 million (operating revenue: €64.2 million); (Q2 2006: €30.9 million). Two-thirds of this revenue growth was attributable to the acquisition of webMethods, Inc. One positive trend is that both new and existing customers are placing a greater quantity of large orders.

ETS remains at high level Revenue from the ETS business line amounted to €90.6 million in the second quarter of 2007, and thus slightly exceeded the prior-year level (Q2 2006: €90.1 million). This growth appears low at first glance because a number of large orders were already entered on the accounts at the end of the first quarter of 2007, earlier than originally planned. The half-year results for 2007, which show a currency-adjusted revenue increase of 9 percent over the previous year, present a more realistic picture. In the first half of 2007, the ETS segment had lower revenues than in the previous year due to the Company's focus on proprietary products and profitable consulting services during the second half of 2006. This pushed down the growth rate for this business line by 6 percent, or 4 percent in the second quarter of 2007.

REVENUES BY BUSINESS LINE

€ millions	June 30, 2007	June 30, 2006	Change in %	Q2 2007	Q2 2006	Change in %
webMethods						
Licenses	38.3	17.4	120	24.5	10.7	129
Maintenance	18.0	12.9	40	11.8	6.3	87
Professional Services	39.9	27.3	46	24.1	13.7	76
Other	1.8	0.8	125	1.2	0.3	300
Total	**98.0**	**58.4**	**68**	**61.6**	**31.0**	**99**
ETS						
Licenses	65.9	57.3	15	32.8	30.6	7
Maintenance	77.9	81.3	– 4	39.6	40.4	– 2
Professional Services	34.4	37.7	– 9	17.7	19.0	– 7
Other	0.7	0.3	133	0.5	0.1	400
Total	**178.9**	**176.6**	**1**	**90.6**	**90.1**	**1**

Revenues by type

Licensing business still driving growth Our customers continued to make investments in modernizing their IT systems in the second quarter of 2007, resulting in licensing revenues climbing a total of 39 percent (currency-adjusted: 44 percent) to €57.3 million (Q2 2006: €41.3 million).

In the webMethods business line, we increased licensing revenues from our products by 129 percent to €24.5 million (Q2 2006: €10.7 million). Licensing revenues from our ETS business line also performed well with an increase of 7 percent to €32.8 million, up from €30.6 million a year earlier.

Growth in maintenance business After having experienced good growth rates in the maintenance business in fiscal 2006, we increased revenues by another 10 percent in the second quarter of 2007 (currency-adjusted: 14 percent) to €51.4 million. In the ETS business line, reported maintenance revenues amounted to €39.6 million, slightly under the previous year's figure of €40.4 million. However, currency-adjusted maintenance revenues (i.e., operating revenues from maintenance) increased by 2 percent. In the webMethods business line, revenues from the maintenance business increased by 87 percent to €11.8 million (operating revenue: €14.4 million).

In the coming quarters, our sales activities will increasingly focus on the maintenance business, and we expect to see improvements in the second half of 2007.

Professional Services business benefits from webMethods business line Our Professional Services business performed very well in the second quarter, with revenues climbing 28 percent to €41.7 million, up from €32.7 million a year earlier.

In the webMethods business line, we increased Professional Services revenues by 76 percent to €24.1 million in the second quarter of 2007, up from €13.7 million a year earlier. As expected the ETS business line, however, saw a decline of 7 percent in Professional Services revenues to €17.7 million (Q2 2006: €19.0 million) after the restructuring.

Revenues in key markets

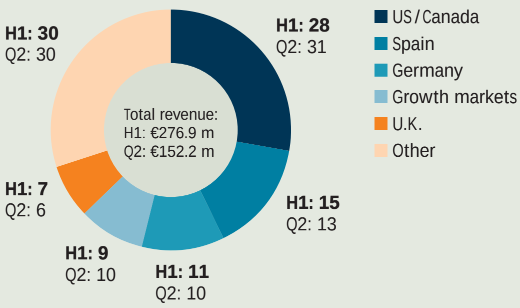
Our key markets developed well for the most part. As in the first quarter, the business trend was the strongest in the U.S. and Canada, which contributed 28 percent, or €79.2 million, to total revenues in the first half. This represents an increase of 44 percent over the prior-year period and is the result of continued strong organic growth as well as the initial consolidation of webMethods. Spain was in second place with 13 percent growth in the second quarter, making it the highest-revenue country in Europe. Spain contributed a total of 15 percent, or €41.5 million, to total revenues in the first half (2006: €40.2 million). The revenue trend was weaker in Germany and the United Kingdom during the second quarter. Total revenues for the first half of 2007 amounted to €31.8 million in Germany (H1 2006: €33.7 million) and €20.4 million in the United Kingdom (H1 2006: €22.4 million). The decline was primarily due to significant non-recurring income reported in the prior-year quarter and the postponement of projects planned for the second quarter of 2007 until the second half of 2007. Revenue in the JACA (Japan, Asia, China, Australia) region was particularly robust in the second quarter, leading to an encouraging rise in revenue of 44 percent to €26.1 million in the first half.

Based on the requirements of IAS 14.69a, the segment report in the notes to the consolidated financial statements includes a breakdown by geographical segment (EMEA, ASIAPAC, and the Americas regions) in addition to the primary segment reporting by business segment (ETS and webMethods). As soon as the new IFRS 8 is approved by the European Union, we will no longer publish a breakdown of revenue by geographical segment.

EBIT continues to improve

Operating earnings (EBITA) amounted to €37.9 million, surpassing last year's figure of €29.7 million by 28 percent. Significant reasons for the increase included the continued optimization of business processes and initial synergy effects from the acquisition of U.S. software firm webMethods, Inc. Despite the non-recurring expenses related to this transaction, we have succeeded in continuing on our profitable growth track.

SHARE OF KEY MARKETS IN GROUP REVENUES IN PERCENT



Revenues and marketing expenses also saw an acquisition-related increase of 16 percent over the second quarter of 2006 to €37.2 million. In addition, research and development expenses rose in the same period by 32 percent to €14.8 million.

We improved earnings before income and taxes (EBIT) by 24 percent to €36.7 million in the period under review (Q2 2007: €29.7 million). This figure includes amortization of €1.2 million on the products and customer base acquired. The EBIT margin remained at a high level amidst a significantly expanded revenue base, declining only 0.4 percentage points from the prior-year quarter to 24.1 percent.

KEY EARNINGS INDICATORS

€ millions	Q2 2007	Q2 2006	Change in %
EBIT	36.7	29.7	24
EBITA	37.9	29.7	28
Net interest result	1.3	2.2	– 41
Earnings before taxes	37.9	31.8	19
Net income	24.6	19.4	27
Earnings per share (in euros)	0.86	0.69	25

Segment earnings contributions

Our webMethods business line made an earnings contribution of €13.4 million after a loss of €2.0 million in the prior-year period. webMethods is thus well on its way to improving profitability. The cost of sales increased by 55 percent to €24.0 million (Q2 2006: €15.5 million), primarily due to the acquisition of webMethods, Inc. Selling costs also rose to €24.2 million from €17.4 million in the prior-year period.

The already high contribution of the ETS business line to segment earnings increased slightly by 2 percent to €56.7 million from €55.5 million a year earlier. Selling costs declined by 11 percent to €13.0 million.

Increase in net income and earnings per share

Income after taxes increased by 27 percent to €24.6 million in the reporting period, up from €19.4 million a year earlier. Earnings per share rose by 25 percent to €0.86 (Q2 2006: €0.69), since the number of shares in circulation increased by an average of 384,140 in comparison with the quarter ending June 30, 2006 to 28.5 million.

First half of 2007

In the first six months of 2007, Group revenues amounted to €276.9 million, up 18 percent over the 2006 figure of €234.8 million. Acquisitions accounted for 12 percent of this figure. Total operating revenue rose by 19 percent in the first half to €279.5 million.

Earnings before interest and taxes (EBIT) increased 21 percent to €61.7 million in the first half of 2007 from €51.2 million a year earlier. The operating EBIT margin improved to 23.4 percent in the first six months of 2007, up from 21.8 percent a year earlier. Operating cash flow reached €34.3 million, 35 percent more than in the prior-year period.

3. Financial Position

Operating cash flow in the black

Net cash from operating activities amounted to €11.0 million in the second quarter. This represents a share of 7 percent of Group revenues. In the second quarter of 2006, net cash from operating activities had amounted to €-0.6 million due to one-time effects.

Increase in total assets and capital expenditure

Total assets grew to €1,092.4 million (December 31, 2006: €643.8 million) based on the additional borrowings to finance the acquisition. The equity-to-assets ratio decreased accordingly from 66 percent at year-end 2006 to 40 percent as of June 30, 2007. Shareholders' equity rose 11 percent to €441.1 million (December 31, 2006: €422.2 million). Capital expenditure amounted to €357.9 million in the quarter under review (Q2 2006: €0.4 million).

KEY EARNINGS INDICATORS

€ millions	Jan. 1 – June 30, 2007	Jan. 1 – June 30, 2006	Change in %
EBIT	61.7	51.2	21
EBITA	62.9	51.2	23
Net interest result	4.4	4.2	4
Earnings before taxes	66.1	55.4	19
Net income	42.3	33.8	25
Earnings per share (in euros)	1.49	1.20	24

4. Risks and Opportunities

We are subject to acquisition and integration risks based on those acquisitions already undertaken and possible additional acquisitions. In the second quarter of 2007, this risk position increased due to the acquisition of webMethods, Inc. Other than this, however, there were no changes to the risk situation of the Software AG Group as portrayed in the Risk Report of the 2006 Annual Report.

The related opportunities are detailed in the Outlook section of this report and in the Forecast section of the 2006 Annual Report.

5. Events After the Balance Sheet Date

The Supervisory Board newly appointed Mr. David Mitchell to the Executive Board effective July 27, 2007. Mr. David Mitchell was previously CEO of U.S. software producer webMethods, Inc., which was taken over by Software AG as of May 25, 2007. In his future role, he will be in charge of global sales for the webMethods division. This appointment marks the discontinuation of the previous regional sales structure and a continuation of the Company's focus on the two business divisions of Enterprise Transaction Systems (ETS) and webMethods, Inc. Thus each of the two divisions has an Executive Board member in charge of development and sales. Software AG had already transformed the primary control logic of the Company from a regional focus to a focus on business divisions at the start of the year. Mr. Alfred Pfaff, previously a member of the Executive Board, will be leaving the Board by mutual consent.

6. Outlook

Software AG raises forecast Software AG has adjusted its forecast to reflect the takeover of webMethods, Inc. Group revenues are now expected to increase by approximately 30 to 35 percent in comparison with 2006. Previously, the Company had projected an increase of approximately 14 percent. Software AG expects licensing revenues for 2007 to increase by 45 to 50 percent. The ETS business line will contribute approximately 60 percent to Group revenues, and webMethods approximately 40 percent.

The merger is also expected to positively impact earnings per share in the first year. The Company expects earnings per share to increase to between €3.10 and €3.25.

Medium-term planning

Software AG is aiming to increase revenues to €1 billion by 2011. The acquisition of webMethods, Inc. has brought the Company considerably closer to meeting this goal. In addition, we intend to continue to improve the EBIT margin in the medium term. The following factors are expected to contribute to improved operating earnings: higher revenue per employee, faster growth in the high-margin licensing business, increased maintenance revenues, and economies of scale.

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED JUNI 30, 2007
IFRS, UNAUDITED

€ thousands	June 30, 2007	June 30, 2006	Change in %	Q2 2007	Q2 2006	Change in %
Licenses	104,231	74,659	40	57,326	41,281	39
Maintenance	95,841	94,090	2	51,371	46,636	10
Professional services	74,293	64,937	14	41,736	32,711	28
Other	2,553	1,140	124	1,749	403	334
Total revenue	**276,918**	**234,826**	**18**	**152,182**	**121,031**	**26**
Total costs of sales	– 83,030	– 72,122	15	– 44,871	– 35,475	26
Gross profit	**193,888**	**162,704**	**19**	**107,311**	**85,556**	**25**
Research and development	– 26,930	– 22,367	20	– 14,772	– 11,167	32
Sales, marketing and distribution	– 69,874	– 63,008	11	– 37,206	– 32,039	16
Administrative costs	– 26,536	– 24,482	8	– 14,752	– 12,136	22
Operating result	**70,548**	**52,847**	**33**	**40,581**	**30,214**	**34**
Other income	9,278	6,450	44	6,996	3,844	82
Other expenses	– 16,905	– 8,116	108	– 9,670	– 4,407	119
Earnings before interest and taxes and amortization (EBITA)	**62,921**	**51,181**	**23**	**37,907**	**29,651**	**28**
Amortization	– 1,236	0		– 1,236	0	
Earnings before interest and taxes (EBIT)	**61,685**	**51,181**	**21**	**36,671**	**29,651**	**24**
Interest result	4,424	4,243	4	1,276	2,171	– 41
Earnings before taxes	**66,109**	**55,424**	**19**	**37,947**	**31,822**	**19**
Income taxes	– 22,604	– 20,640	10	– 12,693	– 11,898	7
Other taxes	– 1,175	– 987	19	– 697	– 543	28
Consolidated income	**42,330**	**33,797**	**25**	**24,557**	**19,381**	**27**
Thereof for shareholders of Software AG	**42,228**	**33,797**	**25**	**24,497**	**19,381**	**26**
Thereof for minority interest	**102**	**0**	**0**	**60**	**0**	**0**
Earnings per share (EUR, basic)	1.49	1.20	24	0.86	0.69	25
Earnings per share (EUR, diluted)	1.48	1.20	23	0.86	0.69	25
Weighted average shares outstanding (basic)	28,368,188	28,056,811	–	28,460,127	28,075,987	–
Weighted average shares outstanding (diluted)	28,441,648	28,114,504	–	28,533,587	28,082,988	–

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2007
IFRS, UNAUDITED

Assets

€ thousands	June 30, 2007	Dec. 31, 2006	June 30, 2006
Current assets			
Cash on hand and bank balances	112,751	163,199	129,838
Securities	1,755	21,575	26,083
Inventories	59	339	365
Trade receivables	228,960	172,440	148,476
Other receivables and other assets	14,447	10,877	6,037
Deferred expense	8,027	4,654	5,524
	365,999	**373,084**	**316,323**
Non current assets			
Intangible assets	157,283	4,694	5,287
Goodwill	453,147	187,947	187,571
Property, plant and equipment	54,096	44,403	45,156
Financial assets	3,799	1,699	2,180
Trade receivables	6,549	10,039	16,466
Deferred taxes	51,548	22,011	30,550
	726,422	**270,793**	**287,210**
	1,092,421	**643,877**	**603,533**

Equity and Liabilities

€ thousands	June 30, 2007	Dec. 31, 2006	June 30, 2006
Current liabilities			
Current financial liabilities	49,961	1,851	2,933
Trade payables	48,478	22,931	20,240
Other current liabilities	55,866	28,937	30,958
Current provisions	37,038	37,186	22,992
Tax provisions	21,783	14,726	11,013
Deferred income	86,289	62,231	69,376
	299,415	**167,862**	**157,512**
Non-current liabilities			
Non-current financial liabilities	228,969	26	757
Trade payables	69	33	0
Other non-current liabilities	12,770	2,765	3,350
Provision for pension	24,331	24,609	24,775
Non-current provisions	9,908	6,075	3,425
Deferred taxes	74,493	18,174	13,431
Deferred income	1,333	2,102	3,272
	351,873	**53,784**	**49,010**
Equity			
Share capital	85,441	84,338	84,338
Capital reserve	30,095	23,576	23,015
Retained earnings	295,065	247,447	247,339
Consolidated income	42,228	72,920	33,797
Currency translation differences	– 47,695	– 41,133	– 33,647
Other reserves	35,260	34,446	41,788
Minority interest	739	637	381
	441,133	**422,231**	**397,011**
	1,092,421	**643,877**	**603,533**

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2007
IFRS, UNAUDITED

€ thousands	June 30, 2007	June 30, 2006	Q2 2007	Q2 2006
Income after taxes	42,330	33,797	24,557	19,381
Income taxes	22,604	20,640	12,693	11,899
Interest result	– 4,424	– 4,243	– 1,276	– 2,171
Depreciation	5,280	3,796	3,472	1,902
Non-Cash income / expense	1,354	467	37	132
Cash generated from operations	**67,144**	**54,457**	**39,483**	**31,143**
Changes in inventories, receivables and other current assets	– 23,636	– 17,564	– 8,526	– 12,227
Changes in payables and other liabilities	3,576	5,062	– 8,698	– 9,417
Income taxes paid	– 18,150	– 20,766	– 13,727	– 12,341
Interest paid	– 828	– 1,339	– 571	– 122
Interest received	6,232	5,515	3,044	2,276
Net cash used in / provided by operating activities	**34,338**	**25,365**	**11,005**	**– 688**
Cash received from the sale of tangible / intangible assets	525	708	280	687
Investments in tangible / intangible assets	– 2,269	– 2,989	– 947	– 1,080
Cash received from the sale of financial assets	2,572	89	2,378	41
Investments in financial assets	– 1,107	– 37	– 858	– 17
Investments in consolidated companies	– 358,781	0	– 358,781	0
Net cash used in / provided by investing activities	**– 359,060**	**– 2,229**	**– 357,928**	**– 369**
Cash proceeds from issuing shares	6,140	2,157	718	2,066
Dividend payments	– 25,302	– 22,429	– 25,302	– 22,429
Increase in loans from acquisitions and other finance liabilities	325,829	– 982	325,829	– 485
Repayment of loans from acquisitions and other finance liabilities	– 51,987	0	– 51,897	0
Net cash used in / provided by financing activities	**254,680**	**– 21,254**	**249,348**	**– 20,848**
Change in cash funds from cash relevant transactions	– 70,042	1,882	– 97,575	– 21,905
Adjustment from currency translation	– 226	– 7,539	906	– 5,350
Net change in cash and cash equivalents	**– 70,268**	**– 5,657**	**– 96,669**	**– 27,255**
Cash and cash equivalents at the beginning of the period	184,774	161,578	211,175	183,176
Cash and cash equivalents at the end of the period	**114,506**	**155,921**	**114,506**	**155,921**

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE POSTED DIRECTLY TO EQUITY* FOR THE SIX MONTHS ENDED JUNE 30, 2007
IFRS, UNAUDITED

€ thousands	June 30, 2007	June 30, 2006	Q2 2007	Q2 2006
Currency translation differences	– 6,562	– 18,444	– 3,753	– 13,018
Net gain / loss from fair value measurement of financial instruments not recognized in income	– 37	19	0	– 82
Net gain / loss from fair value measurement of net investments in foreign operations not recognized in income	851	8,263	– 67	6,009
Total income and expense directly recognized in equity	**– 5,748**	**– 10,162**	**– 3,820**	**– 7,091**
Net income for the period (from P&L)	42,330	33,797	24,557	19,381
Total recognized income and expense	**36,582**	**23,635**	**20,737**	**12,290**

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

SEGMENT REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2007
IFRS, UNAUDITED

€ thousands	ETS		webMethods		TOTAL	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Licenses	65,920	57,262	38,311	17,397	104,231	74,659
Maintenance	77,863	81,266	17,978	12,824	95,841	94,090
Product revenue	**143,783**	**138,528**	**56,289**	**30,221**	**200,072**	**168,749**
Services	34,379	37,663	39,914	27,274	74,293	64,937
Other	712	344	1,841	796	2,553	1,140
Total revenue	**178,874**	**176,535**	**98,044**	**58,291**	**276,918**	**234,826**
Cost of sales	– 39,146	– 41,135	– 43,884	– 30,987	– 83,030	– 72,122
Gross profit	**139,728**	**135,400**	**54,160**	**27,304**	**193,888**	**162,704**
Sales, Marketing & Distribution	– 29,088	– 28,587	– 40,786	– 34,421	– 69,874	– 63,008
Business line contribution	**110,640**	**106,813**	**13,374**	**– 7,117**	**124,014**	**99,696**
Research & Development					– 26,930	– 22,367
Administrative costs					– 26,536	– 24,482
Other income / expenses					– 7,627	– 1,666
EBITA					**62,921**	**51,181**
Amortization					– 1,236	0
EBIT					**61,685**	**51,181**
Interest result					4,424	4,243
Profit before tax					**66,109**	**55,424**
Taxes					– 23,779	– 21,627
Net income					**42,330**	**33,797**

SEGMENT REPORT FOR THE QUARTER ENDING JUNE 30, 2007
IFRS, UNAUDITED

€ thousands	ETS		webMethods		TOTAL	
	Q2 2007	Q2 2006	Q2 2007	Q2 2006	Q2 2007	Q2 2006
Licenses	32,824	30,575	24,502	10,706	57,326	41,281
Maintenance	39,569	40,369	11,802	6,267	51,371	46,636
Product revenue	**72,393**	**70,944**	**36,304**	**16,973**	**108,697**	**87,917**
Services	17,676	19,000	24,060	13,711	41,736	32,711
Other	514	133	1,235	270	1,749	403
Total revenue	**90,583**	**90,077**	**61,599**	**30,954**	**152,182**	**121,031**
Cost of sales	– 20,835	– 19,987	– 24,036	– 15,488	– 44,871	– 35,475
Gross profit	**69,748**	**70,090**	**37,563**	**15,466**	**107,311**	**85,556**
Sales, Marketing & Distribution	– 13,034	– 14,596	– 24,173	– 17,443	– 37,207	– 32,039
Business line contribution	**56,714**	**55,494**	**13,390**	**– 1,977**	**70,104**	**53,517**
Research & Development					– 14,772	– 11,167
Administrative costs					– 14,752	– 12,136
Other income / expenses					– 2,673	– 563
EBITA					**37,907**	**29,651**
Amortization					– 1,236	0
EBIT					**36,671**	**29,651**
Interest result					1,276	2,171
Profit before tax					**37,947**	**31,822**
Taxes					– 13,390	– 12,441
Net income					**24,557**	**19,381**

Notes to the Quarterly Financial Statements

Accounting Policies

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). The IAS/IFRSs applicable as of December 31, 2006 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The same accounting policies have been applied to these interim financial statements as were applied to the 2006 financial statements. Therefore, the accounting policies are not explained in detail in these quarterly financial statements, These quarterly financial statements have been prepared in accordance with IAS 34, Interim Financial Statements.

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

These interim financial statements have not been audited or reviewed by an auditor.

Changes in the consolidated group

The companies in the consolidated group changed as follows in comparison with December 31, 2006:

SPL Software, Ltd., Israel Effective April 1, 2007, Software AG acquired 80,08 percent of the shares in SPL Software, Ltd., Israel (SPL), along with its five subsidiaries, The fixed cost for obtaining 80,08 percent of the shares, including costs directly attributable to the acquisition, amounted to €43,174 thousand, With regard to the remaining 19,92 percent of the shares, Software AG holds a call option and the seller holds a put option that may be exercised within two years of purchase of the company. The purchase price for the remaining shares will be calculated on the basis of the operating result for fiscal 2007, The price was initially set at €7,888 thousand in connection with inclusion of SPL in the financial statements of Software AG. Based on the requirements of IFRS 3 regarding the treatment of combined put and call options, 100 percent of the shares in the SPL companies were included in the financial statements of Software AG as of the date of acquisition. At the time of their acquisition, these companies contributed equity of €11,651 thousand to the consolidated accounts. In fiscal 2006, the SPL companies generated revenues amounting to €31,298 thousand.

webMethods, Inc., USA On May 25, 2007, a majority shareholding was acquired in webMethods, Inc., Fairfax, Virginia, USA. A 100-percent shareholding was subsequently acquired as of June 1, 2007. Given that Software AG effectively obtained control of webMethods as of May 25, 2007 (date of acquisition), webMethods and its 23 subsidiaries were included in the consolidated accounts of Software AG as of such date.

The cost for obtaining 100 percent of the shares, including costs directly attributable to the acquisition, amounted to €416,640 thousand (USD 559,548 thousand). As of the date of acquisition, the webMethods Group contributed equity of €150,244 thousand to the consolidated accounts. In the fiscal year extending from April 1, 2006 to March 31, 2007, the webMethods Group generated revenues in the amount of €156,719 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 outstanding during the reporting period and have been presented accordingly. Software AG has only issued common shares. In the second quarter of 2007, the weighted average number of shares amounted to 28,460,127. In the first half of 2007, the weighted average number of shares was 28,368,188.

All three criteria for exercising options as set out in the first stock option plan for members of the Executive Board, officers, and other employees were met in the first and second quarters of 2007. The 6,750 options outstanding under this stock option plan were exercised during the first quarter. No other options are available for exercise from this plan.

The two criteria for exercising stock options under the second stock option plan were met in fiscal 2006: Revenue increased by more than 10 percent over the previous year, and the return on sales was 23 percent. As a result 320,317 stock options from this plan were exercised in the first quarter of 2007, and 40,689 in the second quarter of 2007.

Exercise of the options increased the total number of shares by 367,756.

Another 73,460 stock options may be exercised from the second stock option plan in fiscal 2007. The diluted earnings per share were thus calculated for these potential shares using the treasury stock method and presented accordingly for the reporting period. Diluted earnings per share were computed by dividing net income for the period attributable to Software AG'shareholders by the number of shares in issue and the exercisable stock options.

Notes to the Consolidated Balance Sheet

Goodwill

As of June 30, 2007, Software AG had accrued goodwill of €453,147 thousand. Thereof, €174,591 thousand were due to the acquisition of the Software AG USA Group effective February 1, 2001; €6,401 thousand were due to the acquisition of the two Sabratec companies in Israel and in the USA effective February 3, 2005; €3,131 thousand were due to the acquisition of the APS Group effective June 29, 2005; and €1,878 thousand were due to the acquisition of Casabac Technologies GmbH, Bammental near Heidelberg. Goodwill related to the Software AG USA Group had been fully amortized over ten years by December 31, 2002 in accordance with the HGB accounting regulations applicable at that time. Additions and disposals during the fiscal year reflect the acquisition of SPL Software Ltd., Israel, effective April 1, 2007 (€37,966 thousand), the acquisition of webMethods, Inc., USA effective May 25, 2007 (€229,180 thousand), and subsequent changes in the acquisition cost of goodwill related to the acquisitions of Sabratec, the APS Group, and Casabac in 2005.

Shareholders' equity

The change in shareholder's equity is shown in the following Statement of Changes in Equity as of June 30, 2007.

STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDING JUNE 30, 2007 (JANUARY 1 TO JUNE 30, 2007 AND JANUARY 1 TO JUNE 30, 2006) IFRS, UNAUDITED

€ thousands	Common shares		Capital reser-ve	Retained earnings	Consol-idated income	Currency transla-tion dif-	Other reserves	Minority interest	Total
	Number	Share capital							
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	367,756	1,103	5,037						6,140
Stock options			1,482						1,482
Earnings after taxes					42,228			102	42,330
Dividend payment				– 25,302					– 25,302
Currency translation differences						– 6,562			– 6,562
Net gain from fair value measurement of financial instruments not recognized in income							– 37		– 37
Net gain from fair value measurement of net invest-ments in foreign operations not recognized in income							851		851
Equity as of June 30, 2007	**28,480,471**	**85,441**	**30,095**	**295,065**	**42,228**	**– 47,695**	**35,260**	**739**	**441,133**
Equity as of January 1, 2006	**28,036,009**	**84,108**	**20,428**	**269,768**	**0**	**– 15,203**	**33,506**	**381**	**392,988**
New shares issued	76,706	230	1,927						2,157
Stock options			660						660
Earnings after taxes					33,797				33,797
Dividend payment				– 22,429					– 22,429
Currency translation differences						– 18,444			– 18,444
Net gain from fair value measurement of financial instruments not recognized							19		19
Net gain from fair value measurement of net invest-ments in foreign operations not recognized in income							8,263		8,263
Equity as of June 30, 2006	**28,112,715**	**84,338**	**23,015**	**247,339**	**33,797**	**– 33,647**	**41,788**	**381**	**397,011**

The composition of the individual accounts of shareholders' equity did not change compared to December 31, 2006. The exercise of stock options from the first and second stock option plans increased the number of bearer shares in issue by 327,067 to 28,480,471 shares in the first and second quarters. This increased the Company's share capital by €1,103 thousand and the capital reserve by €5,037 thousand. Due to recognition of the issued stock options as personnel expenses pursuant to IFRS 2, the capital reserve increased in the first half of 2007 by €1,482 thousand.

Dividend payment

The Annual Shareholders' Meeting resolved on May 11, 2007 to appropriate €25,302 thousand of the unappropriated profit of €77,080 thousand for 2006 of Software AG, the parent company of the Group, for the payment of dividends – corresponding to a dividend of €0.90 per share – and to carry forward €51,779 thousand of such amount.

Other Disclosures

Seasonal influences

Revenues and earnings before taxes were distributed over fiscal 2006 as follows:

€ thousands	Q1 2006	Q2 2006	Q3 2006	Q4 2006	2006
Revenue including webMethods	163,245	157,371	153,654	174,562	648,832
in % of annual revenue	25.2	24.3	23.7	26.8	100
Earnings before taxes not including webMethods	23,602	31,822	27,794	35,338	118,556
in % of net income for the year	19.9	26.8	23.5	29.8	100

As a result of the purchase of SPL Software, Ltd., Israel, effective April 1, 2007, and the acquisition of webMethods, Inc., USA, in the second quarter of 2007, the revenues of the Software AG Group and the revenues of webMethods for the four quarters of fiscal 2006 were combined. In 2007, the distribution of revenue over the quarters is expected to approximate that of the previous year based on the purchasing behavior of our customers. However, the distribution of earnings before taxes over the quarters cannot yet be projected since the extent of the cost synergies anticipated from the acquisition of webMethods cannot yet be reliably predicted. For this reason, the table above only presents the earnings before taxes of the previous Software AG Group not including webMethods.

Contingent liabilities

€ thousands	
Guarantees	11,577
Other	5,339
Total	**16,916**

Stock option plans

Software AG has two different stock option plans for members of the Executive Board, officers, and employees. This resulted in personnel expenses of €1,482 thousand in the first half of 2007 – thereof €97 thousand in the second quarter of 2007 – based on the transition regulations set out in IFRS 2. Additional personnel expenses of approx. €192 thousand are expected for the remainder of fiscal 2007. The high level of personnel expenses in the first quarter of 2007 (€1,385 thousand) resulted from exercise of a greater number of stock options than had been expected when budgeting expenses. A total of 327,067 options were exercised in the first quarter of 2007. Another 16,729 stock options were withdrawn. In the second quarter of 2007, an additional 40,689 stock options were exercised and 4,689 options withdrawn. As a result, as of June 30, 2006, a total of 270,893 stock options remained outstanding for exercise by members of the Executive Board and officers. As of December 31, 2006, 660,067 stock options had been issued to members of the Executive Board and officers.

Please refer to the 2006 Annual Report for further disclosures on the stock option plans.

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 year 2007 amount to €7,407 thousand. Obligations of €41,090 thousand exist for the period up until the end of fiscal year 2012, and obligations of €17,267 thousand for the period after fiscal year 2012. The lease agreements are operating leases as defined in IAS 17.

Segment report

The segment report for the first half of 2007 will be prepared and published for the first time broken down by product line (primary segment reporting) due to the realignment of Executive Board areas of responsibility to reflect the product lines of ETS and webMethods and the according change in internal segment reporting.

The segment report included in these notes corresponds to the new IFRS 8 regulations. However, since IFRS 8 has not yet been endorsed by the European Union, we have also included a breakdown by region (secondary segment reporting; see below) as required by IAS 14, which is still in effect for the EU, to supplement the segment report in accordance with IFRS 8. To comply with the requirements of IAS 14, the Company has broken down revenue to reflect the geographical regions of Europe, the Middle East, and Africa (EMEA), the Asian and Pacific regions (ASIAPAC), and North and South America (the Americas).

SEGMENT REPORT, H1 2007
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	34,800	53,465	16,133	104,398	– 167	104,231
Maintenance	39,959	50,640	8,273	98,872	– 3,031	95,841
Product revenue	**74,759**	**104,105**	**24,406**	**203,270**	**– 3,198**	**200,072**
Professional Services	12,472	62,186	1,666	76,324	– 2,031	74,293
Other	774	1,435	0	2,209	344	2,553
Total revenue	**88,005**	**167,726**	**26,072**	**281,803**	**– 4,885**	**276,918**

SEGMENT REPORT, H1 2006
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	15,580	51,669	9,236	76,485	– 1,826	74,659
Maintenance	39,324	48,897	8,405	96,626	– 2,536	94,090
Product revenue	**54,904**	**100,566**	**17,641**	**173,111**	**– 4,362**	**168,749**
Professional Services	10,182	55,063	526	65,771	– 834	64,937
Other	274	608	0	882	258	1,140
Total revenue	**65,360**	**156,237**	**18,167**	**239,764**	**– 4,938**	**234,826**

SEGMENT REPORT, Q2 2007
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	23,031	25,586	8,876	57,493	– 167	57,326
Maintenance	21,749	27,454	4,966	54,169	– 2,798	51,371
Product revenue	**44,780**	**53,040**	**13,842**	**111,662**	**– 2,965**	**108,697**
Professional Services	8,006	33,369	1,363	42,738	– 1,002	41,736
Other	713	922	0	1,635	114	1,749
Total revenue	**53,499**	**87,331**	**15,205**	**156,035**	**– 3,853**	**152,182**

SEGMENT REPORT, Q2 2006
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	6,032	31,134	5,069	42,235	– 954	41,281
Maintenance	19,460	23,947	4,419	47,826	– 1,190	46,636
Product revenue	**25,492**	**55,081**	**9,488**	**90,061**	**– 2,144**	**87,917**
Professional Services	5,159	27,758	248	33,165	– 454	32,711
Other	127	248	0	375	28	403
Total revenue	**30,778**	**83,087**	**9,736**	**123,601**	**– 2,570**	**121,031**

SEGMENT REPORT, Q1 2007
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	11,769	27,879	7,257	46,905	0	46,905
Maintenance	18,210	23,186	3,307	44,703	– 233	44,470
Product revenue	**29,979**	**51,065**	**10,564**	**91,608**	**– 233**	**91,375**
Professional Services	4,466	28,817	303	33,586	– 1,029	32,557
Other	61	513	0	574	230	804
Total revenue	**34,506**	**80,395**	**10,867**	**125,768**	**– 1,032**	**124,736**

SEGMENT REPORT, Q1 2006
IFRS, UNAUDITED

€ thousands	The Americas	EMEA	ASIAPAC	Total regions	Elimination	Group total
Licenses	9,548	20,535	4,167	34,250	– 872	33,378
Maintenance	19,864	24,950	3,986	48,800	– 1,346	47,454
Product revenue	**29,412**	**45,485**	**8,153**	**83,050**	**– 2,218**	**80,832**
Professional Services	5,023	27,305	278	32,606	– 380	32,226
Other	147	360	0	507	230	737
Total revenue	**34,582**	**73,150**	**8,431**	**116,163**	**– 2,368**	**113,795**

Notes on Significant Business Events

Restructuring activities Expenses of €6,940 thousand – thereof €2,835 thousand in the second quarter – were incurred in the first half due to restructuring activities, especially at Software AG Spain.

Due to the strength of the euro, especially against the U.S. dollar, currency translation losses of €10,030 thousand – thereof € 4,506 thousand in the second quarter – were incurred on Group sales and €6,920 thousand on Group EBITA – thereof €2,825 thousand in the second quarter – in comparison with the prior-year quarter.

Acquisition of SPL Software, Ltd., Israel and webMethods, Inc., USA Software AG carried out two acquisitions in the second quarter of 2007. As a result, due to IFRS requirements for measuring the cost of business combinations, deferred income has been stated at the lower fair value in the opening balance sheet instead of at the carrying amount. Therefore, initial inclusion of these acquisitions in the accounts of Software AG has reduced the Company's revenues, since the deferred income primarily relates to future maintenance revenues as well as future licensing and service revenues. Revenues for the second quarter were reduced by a total of €2,813 thousand: €2,605 thousand for maintenance, €177 thousand for non-perpetual licenses, and €31 thousand for service revenues. With regard to maintenance revenues, which were €2,605 thousand less under IFRS, Software AG has presented the higher operating figures separately in the overview of key figures for both revenue as well as EBIT and EBITA.

In fiscal 2007, revenue under IFRS will decline by €10,788 thousand in comparison with operating revenue: maintenance revenue by €10,103 thousand, licensing revenue by €653 thousand, and service revenue by €32 thousand. Additional revenue reductions of €3,102 thousand will occur in fiscal 2008, with maintenance revenue declining by €2,296 thousand and licensing revenue by €806 thousand.

a) Acquisition of SPL Software, Ltd., Israel Effective April 1, 2007, Software AG acquired 80.08 percent of the shares in SPL Software, the Company's former Israeli sales partner. This acquisition has established Software AG directly in the Israeli market. Prior to the takeover, SPL Software was a wholly-owned subsidiary of the Silverboim Group and was Software AG's sales partner in Israel for 30 years. With its high-capacity IT business solutions, SPL Software is well positioned in banking and insurance, public utilities, and the public sector. Silverboim will retain a 19.92 percent share in SPL Software to secure its extensive contacts in the financial sector.

Cost of the business combination: The fixed cost for the 80.08 percent of the shares acquired amounted €43,174 thousand. The first installment was paid on April 1, 2007. With regard to the remaining 19.92 percent of the shares, Software AG holds a call option and the seller holds a put option, both of which may be exercised within two years of purchase of the company. The purchase price for the remaining shares will be calculated on the basis of the operating result for fiscal 2007. The price was initially set at €7,888 thousand in connection with inclusion of SPL in the financial statements of Software AG.

The cost of the business combination has been determined provisionally in accordance with IFRS 3.62 as follows:

€ thousands	Fair value	Carrying amount prior to acquisition
Cash and cash equivalents	4,833	4,833
Trade receivables and other current assets	6,957	6,957
Customer base	19,270	0
Goodwill	39,411	7,248
Property, plant and equipment	2,185	2,185
Non-current financial assets	108	108
Deferred tax assets	219	219
Liabilities to banks	– 3,416	– 3,416
Trade payables and other current liabilities	– 9,246	– 9,246
Deferred tax liabilities	– 6,341	– 141
Deferred income	– 2,918	– 5,789
Carrying amount of the assets acquired		2,958
Cost of the business combination	51,062	

Initial accounting pursuant to IFRS 3.62: As a result of the close proximity in time between the date of acquisition (April 1, 2007) and the balance sheet date of the quarterly financial statements (June 30, 2007), Software AG Israel was initially accounted for using the provisional fair values.

Goodwill: It was necessary to recognize goodwill in the amount of €39,411 thousand due to the good market position of SPL Software and the possibility of leveraging this position to establish direct client relationships and penetrate new market segments.

Customer base: SPL Software has been Software AG's exclusive sales partner in Israel for 30 years. Based on modern software infrastructure technology from Software AG such as the “Adabas 2006” database software, the “Natural 2006” programming language, and the “SOA Crossvision Suite,” SPL has developed modern business applications for its customers. SPL's customers include leading companies in Israel, among them banks, insurance carriers, telecommunications service providers, industrial enterprises, and government agencies. More than 80 companies and public institutions utilize Software AG products distributed by SPL Software. For this reason, the initial accounting for the business combination includes SPL's customer base stated at € 19,270 thousand.

Deferred income: Deferred income mainly includes future maintenance and licensing revenues for non-perpetual licenses for which customers had already made advance payments as of the acquisition date. Based on the requirements of IFRS 3 § 36, these items have been stated in the opening balance sheet at the fair values of the future maintenance obligations, which are €2,871 thousand less than the carrying amounts. Thus measuring the cost of the business combination in accordance with IFRS resulted in a decline in revenue of €614 thousand for the second quarter of 2007. Revenue will decrease by an additional €1,075 thousand in the second half of 2007 and by another €1,182 thousand in fiscal 2008.

Earnings contribution since the date of acquisition: Since the date of acquisition, the acquired company, SPL Software, Ltd., Israel, has contributed €504 thousand to Software AG's net income for the second quarter of 2007.

Contribution to revenue and earnings since initial inclusion in the financial accounts as of January 1, 2007: If SPL Software, Ltd., Israel, had been included in the Software AG Group since January 1, 2007, the company would have contributed €14,863 thousand to Group revenues and €3,806 thousand to net income in the first half of 2007.

Expenses related to the acquisition of SPL Software, Ltd., Israel: The customer base of SPL Software, Ltd., Israel, which was identified as an asset in connection with the acquisition, will be amortized over a period of 17 years for the Enterprise Transaction Services (ETS) division and 8 years for the webMethods division. Total amortization amounted to €183 thousand in the second quarter of 2007.

The deferred tax liabilities resulting from the accounting treatment of the customer base will be reversed in line with the amortization period. Deferred tax liabilities also resulted from the reduction of deferred income. These tax liabilities will be reversed in line with the corresponding reductions in revenue. Both factors led to deferred tax earnings of €224 thousand in the second quarter of 2007.

b) Acquisition of webMethods, Inc., USA The acquisition of webMethods is intended to significantly increase the leading position of the combined companies in the growth market of service oriented architecture (SOA) and business process management (BPM). The regional strengths of Software AG and webMethods complement each other in these areas. The two companies have more than 4,000 customers and 100 partner companies, which will benefit in the future from an expanded product range. In North America in particular, Software AG will more than double its customer base. Moreover, the merger combines complementary strengths in specific customer industries with only minimal overlap in the customer bases of the two companies, thus supplying direct, mutual access to additional customer segments, especially in the areas of financial services, production, and in the public sector. The transaction builds on the excellent reputation and market position of both companies and represents a major step toward reaching Software AG's recently announced target of doubling revenues to €1 billion in the period between 2007 and 2011. The takeover gives Software AG a leading product portfolio in the areas of SOA and BPM with outstanding breadth and depth. The portfolio includes software solutions for SOA governance & enablement, BPM, business activity monitoring, application integration, and legacy modernization.

The cost for obtaining 100 percent of the shares, including costs directly attributable to the acquisition, amounted to €416,640 thousand (USD 559,548 thousand).

Cost of the business combination: The cost of the business combination has been allocated provisionally in accordance with IFRS 3.62 as follows:

€ thousands	Fair value as of May 25, 2007	Carrying amount prior to acquisition
Cash and cash equivalents	95,247	95,247
Trade receivables and other current assets	29,842	29,842
Software, rights, and licenses	54,796	10,021
Customer base	62,993	4,114
Firm name	18,615	0
Goodwill	230,140	59,208
Property, plant and equipment	8,959	8,959
Non-current financial assets	3,467	3,467
Deferred tax assets	31,822	6,580
Trade payables and other current liabilities	– 46,400	– 39,293
Deferred tax liabilities	– 56,643	– 683
Deferred income	– 16,198	– 27,218
Carrying amount of the assets acquired		– 150,244
Cost of the business combination	416,640	

Initial accounting pursuant to IFRS 3.62: As a result of the close proximity in time between the date of acquisition (May 25, 2007) and the balance sheet date of the quarterly financial statements (June 30, 2007), webMethods was initially accounted for using the provisional fair values.

Goodwill: Based on webMethod's technology leadership in integration software and the opportunity for the new merged company to further develop and significantly increase its market share, goodwill of €230,140 thousand was initially recognized in connection with the business combination.

Software: webMethods supplies software solutions in three market segments. These are:

1. Enterprise Application Integration (EAI)
2. Service-Oriented Architecture (SOA)
3. Business Process Management (BPM)

All three of these product lines are technologically mature and are the leaders in their respective market segments. For this reason, webMethod's technology was stated at €52,345 thousand in the opening balance sheet. In addition, “software, rights, and licenses” as presented above includes licensed software such as PC and server software in the amount of €2,451 thousand.

Customer base: The company acquired has approximately 1,400 key corporate clients. There is only minor overlap of this customer base with the customer base of Software AG, for which reason the customer base was stated at €62,993 thousand in the opening balance sheet.

Company name: webMethod's firm name is very well positioned and enjoys an excellent reputation in the U.S. market. Accordingly, the firm name was initially recognized at a value of €18,615 thousand.

Deferred income: Deferred income includes future maintenance revenues for which customers had already made advance payments as of the acquisition date. Based on the requirements of IFRS 3 § 36, these items have been stated in the opening balance sheet at the fair values of the future maintenance obligations. Thus measuring the cost of the business combination in accordance with IFRS resulted in a decline in revenue of €2,200 thousand for the second quarter of 2007. Revenue will decrease by an additional €6,900 thousand in the second half of 2007 and by another €1,920 thousand in fiscal 2008.

Earnings contribution since the date of acquisition: webMethods, which was acquired as of May 25, 2007, has contributed €3,418 thousand to Software AG's net income since the date of acquisition.

Contribution to revenue and earnings since initial inclusion in the financial accounts as of January 1, 2007: If the date of acquisition for webMethods had been January 1, 2007, Software AG's Group revenues would have been €77,602 thousand higher and net income €8,961 thousand lower. However, these figures do not take into account the sales synergies expected.

Expenses related to the acquisition of webMethods, Inc., USA: The customer base of webMethods, which was identified as an asset in connection with the acquisition, will be amortized over a period of 12 years. The software of webMethods identified as an asset will be amortized over a period of 7 years. The company's firm name was also recognized as an asset. However, the firm name will not be amortized as its use is not limited in time. Total amortization thus amounted to €1,055 thousand in the second quarter of 2007.

The deferred tax liabilities resulting from the accounting treatment of the customer base, software, and firm name will be reversed in line with the amortization period. Deferred tax liabilities also resulted from the reduction of deferred income. These tax liabilities will be reversed in line with the corresponding reductions in revenue. Both factors led to deferred tax earnings of €1,258 thousand in the second quarter of 2007.

Employees

As of June 30, 2007, the effective number of employees (i.e., part time employees are taken into account on a pro-rata basis only) amounted 3,719 (June 30, 2006: 2,725), 79.5 percent of whom were employed abroad (prior year: 71.3 percent). In absolute terms, i.e., with part-time employees taken into account in full, the Group employed 3,841 people (prior year: 2,828) at the end of the second quarter (June 30, 2007).

Executive Board and Supervisory Board

In addition to the executive area of responsibility for Crossvision, Software AG set up an additional executive area of responsibility for ETS effective January 8, 2007 for which David Broadbent is responsible. Mr. Broadbent was appointed to the Executive Board as of January 8, 2007. In addition, the sales territories of Software AG have been reallocated. In connection with the reorganization, Executive Board member Christian Barrios Marchant, previously responsible for the Southern and Western Europe / Latin America region, left the Company effective January 8, 2007.

Mr. Karl Heinz Achinger, deputy chairman of the Supervisory Board, resigned from office as of the end of the Annual Shareholders' Meeting on May 11, 2007. Dr. Andreas Bereczky was appointed as the new deputy chairman. Mr. Alf Henryk Wulf was newly elected to the Supervisory Board as of May 11, 2007.

Mr. Reinhard Springer was not reelected to the Supervisory Board as employee representative in the elections held on April 25, 2007. He thus retired from office as of May 11, 2007. Mr. Rainer Burckhardt replaced Mr. Springer as employee representative on the Supervisory Board as of May 11, 2007.

Events After the Balance Sheet Date

The Supervisory Board newly appointed Mr. David Mitchell to the Executive Board effective July 27, 2007. Mr. Mitchell was previously CEO of U.S. software producer webMethods, which was taken over by Software AG as of May 25, 2007. In the future, he will be in charge of global sales for the webMethods division. This appointment marks the discontinuation of the previous regional sales structure and a continuation of the Company's focus on the two business divisions of Enterprise Transaction Systems (ETS) and webMethods. Thus each of the two divisions has an Executive Board member in charge of development and sales. Software AG had already transformed the primary control logic of the Company from a regional focus to a focus on business divisions at the start of the year. Mr. Alfred Pfaff, previously a member of the Executive Board, will be leaving the Board by mutual consent.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the fiscal year.

Darmstadt, August 14, 2007

Karl-Heinz Streibich

Arnd Zinnhardt

David Broadbent

Mark Edwards

Dr. Peter Kürpick

David Mitchell

Financial Calendar

FINANCIAL CALENDAR

	2007
September 05	Tech Conference, Citigroup, New York, USA
September 13	UBS Conference, New York, USA – CEO
September 13	11th European Technology Conference, London, Great Britain
September 26	Unicredit / HVB Conference, Munich, Germany
September 27	German Mid Cap Investment Conference, Dresdner Kleinwort, New York, USA
October 26	Q3 2007 financial figures (IFRS, unaudited)

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