Q2/06

Quarterly Report
as of 30th June, 2006

Key Figures

Key Figures IFRS, unaudited				
€ millions	June 30, 2006	June 30, 2005	Q2 2006	Q2 2005
Revenue	**234.8**	**210.8**	**121.0**	**110.5**
Products	168.8	148.1	87.9	77.4
of which				
Licenses	74.7	59.1	41.3	32.1
Maintenance	94.1	89.0	46.6	45.3
Professional services	64.9	61.6	32.7	32.4
Other	1.1	1.1	0.4	0.7
EBITDA	**55.0**	**48.4**	**31.6**	**28.6**
as % of revenue	23	23	26	26
EBIT	**51.2**	**44.4**	**29.7**	**26.5**
as % of revenue	22	21	25	24
Income before taxes	**55.4**	**47.0**	**31.8**	**27.8**
as % of revenue	24	22	26	25
Income after taxes	**33.8**	**27.7**	**19.4**	**16.0**
as % of revenue	14	13	16	14
Earnings per share (euro)	**1.20**	**1.02**	**0.69**	**0.59**
Total assets	**603.5**	**534.3**		
Cash and cash equivalents	**155.9**	**128.8**		
Shareholders' equity	**397.0**	**334.4**		
as % of total assets	66	63		
Employees	**2,725**	**2,578**		
of which in Germany	783	763		

Stock: key figures		
	June 30, 2006	June 30, 2005
Year's closing price (XETRA) in €	40.68	34.25
Total number of shares	28,112,715	27,266,752
Market capitalization in € millions	1,144	934
Year high/year low	49.20/33.86	34.25/21.80

Software AG shares are listed on the Frankfurt Stock Exchange, Germany (Prime Standard, Index TecDAX). ISIN DE 0003304002, Symbol SOW.

Company profile

Ever more information needs to be created, administered, and made available. In order to maximize the data availability, we offer our customers integrated data access in real time. This supports businesses and organizations in achieving their fundamental goals: faster, more flexible processes, comprehensive networking, higher added value, increased competitive strength.

Our products and services focus on IT infrastructures that make use of service-oriented architectures (SOA). Based on business processes, they integrate innovative applications and systems while simultaneously modernizing the IT environment. We are one of the top companies in our market world-wide, and the market leader in Europe.

The Software AG company culture is differentiated by absolute customer orientation. We work in best-practice networks, driving change in an open and transparent way. We focus on profitable growth and a distinctive market profile.

Karl-Heinz Streibich, Chief Executive Officer
Engineer. Chief Executive Officer since 2003
Darmstadt, Germany

Dear Ladies and Gentlemen,

Software AG continued on its growth path in the second quarter of 2006. The increases in sales and earnings emphazise the Company's focus on sustained growth. Our strategy is showing a rising effect, above all in our licensing business. Both of our business lines – Enterprise Transaction Systems (ETS) and crossvision – generated impressive growth rates during the second quarter as well as in the entire first half of 2006.

A good start for crossvision

The past few months have been characterized by the particularly positive response to crossvision, an SOA suite which we introduced in February. The broad market interest in this new product is evidence of the clear focus Software AG places on customer requirements when developing products. Companies and institutions prefer options that allow them to open, connect and modernize existing applications rather than having to replace them. The aim is for IT landscapes to lose their monolithic structures and adapt flexibly to new process workflows. This is exactly where crossvision comes into play. Our innovative model for service-oriented architecture (SOA) allows companies to better align their IT systems with their business strategies providing them with competitive advantages.

SOA suite acknowledged by customers and analysts

In addition to the positive response from our customers, crossvision has also enabled Software AG to gain recognition among industry analysts. For the first time, Forrester Research, a renowned independent research institute for the IT market, has named Software AG a world leader in the category of Enterprise Service Bus (ESB), an essential component of SOA solutions. In the category of product strategy, Software AG achieved the number one ranking. This award proves that we are on a promising path with our SOA products and that we are not merely pursuing the right vision, but also the best.

Strong starting position for further growth

Modernization, integration and management of business processes are key factors of SOA. Software AG has specific expertise in all three of these fields. For SOA, however, mainframe expertise as well as XML competence is required – a combination that can only be found at Software AG.

Our aim is to become a leader in the global SOA market. SOA is not simply a fleeting trend, but represents a paradigm shift in information technology: SOA is regarded as the most efficient possibility for integrating heterogeneous IT systems. The significance of service-oriented architectures is also documented in a survey conducted by Capgemini, a management and IT consultancy firm, according to which SOA was named a top priority for 2006 by one in five companies. Software AG has already secured a number of large projects since the launch of the crossvision suite in mid-May. For the second half of 2006, we expect accelerated growth for this business line based on full availability of all products and an increasing average contract size.

Licensing revenues in our Enterprise Transaction Systems business line have grown substantially. This underscores our excellent market position and demonstrates the significance of mainframe applications for customers. A major part of all corporate applications and business data is stored on mainframe computers, which are and will remain a fundamental part of information technology due to innovative technologies and improved performance. We support our customers in further exploiting these valuable resources by providing powerful technologies for modernization and integration.

Alliances

Collaboration and open alliances promote progress. Software AG's network has gained a scientific component through the cooperation with Hasso-Plattner-Institut agreed upon in the second quarter. The Institute researches the fundamentals of architecture models for the provision of IT-based services. Together with Hasso-Plattner-Institut, Software AG will work on innovative IT technologies with an emphasis on the field of service-oriented architectures.

Karl-Heinz Streibich
Chief Executive Officer

Software AG stock follows general market trend

Subdued sentiment on European and U.S. equity markets

The positive sentiment in the equity markets that was observed in the first quarter, continued into the month of April. M&A speculation in all sectors and strong economic growth in the U.S. and China helped ensure stable price trends in all markets. In addition, the first quarter results were encouraging, especially for DAX companies. In May, however, sentiment on the stock exchanges began weakening. This situation was exacerbated in mid-May by concerns over inflation and interest rates in the U.S. based on statements by the U.S. Federal Reserve, inflation figures for the U.S. as well as the dispute with Iran over nuclear energy and the resulting increase in the price of oil, which led to significant declines in share prices. The U.S. technology index NASDAQ 100 suffered a loss of 7.7 percent and closed at 1,575 at the end of the second quarter.

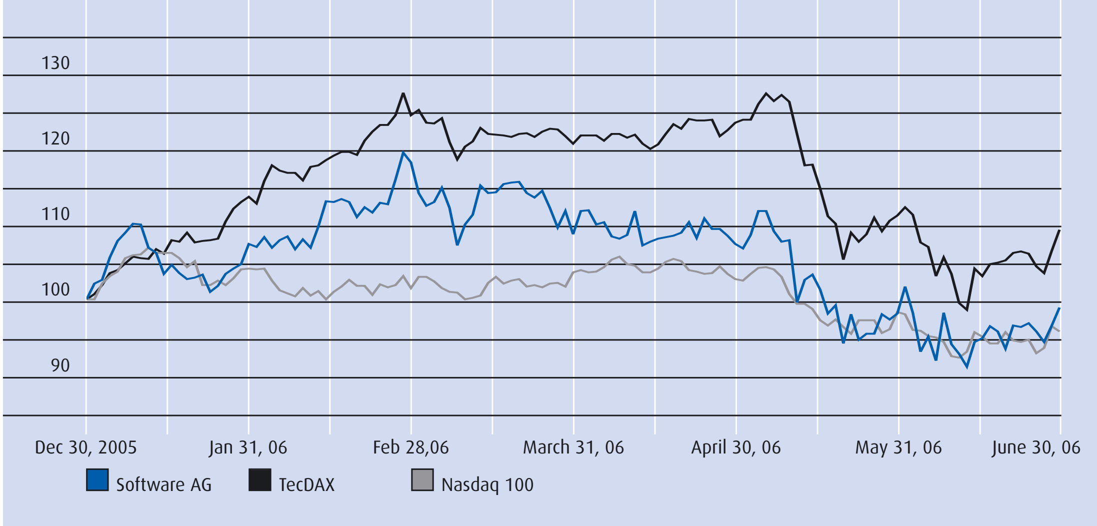
Due to these events the technology companies listed in the TecDAX came under pressure. The TecDAX opened the second quarter at 727, falling below 600 in mid June though recovering somewhat to close at 652 on June 30. At the end of the second quarter, the TecDAX had stabilized thanks to positive reports from the solar industry. The German Association for the Solar Industry (Bundesverband Solarwirtschaft) recently announced the creation of more than 5,000 new jobs this year. The outlook for the IT industry also looks promising. For example, the German government is predicting that the German IT industry will increasingly drive the economy.

Software AG stock follows TecDAX

In the second quarter, our stock performed in line with the TecDAX, which fell by 10.3 percent during this period. After peaking at €46.02 at the beginning of May, Software AG's share price dropped by 10.1 percent by the end the second quarter to close at €40.68 in Xetra electronic trading on June 30, 2006.

The Software AG stock improved slightly in the TecDAX ranking of Deutsche Börse AG, reaching 7th place (Q1 2006: 8th place) in market capitalization and 10th place (Q1 2006: 10th place) in trading volume as of the end of June 2006.

Share price comparison (indexed values)



Investor relations activities intensified in the U.S.

Now that the Software AG stock is once again receiving attention from mid-cap and large-cap investors due to our rapidly growing market capitalization, investor relations activities in 2006 are particularly focused on the U.S. However, our efforts in this region were complicated by weak European equity markets, which unsettled U.S. investors. In order to minimize risk, investors tended to hold blue chips and sell small caps, particularly technology stocks. On the whole, investors were reluctant to make new investments. We will nevertheless maintain our investor relations activities in order to build up relationships until the investment climate improves. For example, we held roadshows on the east and west coasts of the U.S. and participated in an investor conference in San Francisco. Subsequent investor conferences took place in Europe along with roadshows in Frankfurt, London, Dublin, Paris and Lugano. All in all, we held discussions with more than 100 investors, stock traders and analysts in the second quarter.

Software AG receives prestigious investor relations awards

Our investor relations activities were honored with the “Thomson Extel Survey Beste IR Deutschland” award, attaining first place among TecDAX companies. More than 500 investment professionals from 270 companies took part in the survey. The most important criteria were clarity and transparency, proactive executive board communication, quality of investor relations team’s knowledge, service and responsiveness, formal disclosure and general investor support.

At the 2006 “Capital Investor Relations Awards”, Software AG’s investor relations team achieved second place within the TecDAX. Capital, a German business publication, awards its investor relations prize to German and European companies included in the Euro-Stoxx 50, DAX, MDAX, SDAX and TecDAX indices. More than 250 analysts from 250 European banks, funds and corporations participated in this survey. They assessed the quality of investor relations activities on the basis of four criteria: target group orientation, transparency, track record and extra financial reporting.

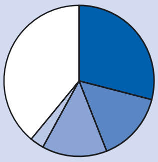
High attendance at Annual General Meeting

Our Annual General Meeting took place in Frankfurt, Germany, on May 12, 2006. A total of 62.26 percent of equity capital entitled to vote was present, the highest attendance level ever achieved. This was largely attributable to our active investor approach. All ten agenda items were approved either unanimously or by a large majority. Software AG paid out a total of €22.4 million (€0.80 per share) to its shareholders as resolved by the Annual General Meeting. The next Annual General Meeting will take place on May 11, 2007 in Frankfurt/Main, Germany.

Changed shareholder structure

In comparison to December 2005, the number of shareholders residing in Germany increased by 5 percent, and that of shareholders residing in the UK by 4 percent.

Shareholder structure by countries (percentage of free float)*



Institutional investors	Dec 31, 05	June 30, 06
Germany	24 %	29 %
United Kingdom	11 %	15 %
Rest of Europe	17 %	14 %
North America	3 %	3 %
Private investors and not identified institutional investors	45 %	39 %

*) as of June 2006, Source: Thomson Financial

crossvision accelerates market success in the second quarter
Sales and earnings continue to grow

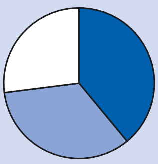
Software AG is continuing its upward trend. Both sales and earnings rose considerably based on significant increases in the strategically important licensing business. The expansion of our portfolio to include new products, such as our crossvision SOA suite, ensured dynamic growth rates. The excellent market response to this new product was accompanied by explicit recognition from industry analysts and IT market research institutes. Forrester Research, for instance, has ranked Software AG as one of the world leaders in the category of Enterprise Service Bus (ESB), a core element of service-oriented architectures (SOA).

In the second quarter of 2006, Group sales increased by 10 percent to €121.0 million (Q2 2005: €110.5 million), with sales volumes growing in all business segments. The highest increase was seen in licensing revenues, which grew by 29 percent to €41.3 million, representing more than one-third of total revenues.

Sales by segment

€ millions	Q2 2006	Q2 2005	Change in %
Licenses	41.3	32.1	+ 29
Maintenance	46.6	45.3	+ 3
Professional Services	32.7	32.4	+ 1

Segment sales in proportion to total sales
Q2 2006



Maintenance	39 %
Licenses	34 %
Professional Services	27 %

ETS potential confirmed

Enterprise Transaction Systems (ETS) benefited from sustained high demand for solutions to modernize legacy systems. Both companies and public authorities require products that are able to adapt mainframe applications to meet modern requirements. Total licensing revenue of Enterprise Transaction Systems climbed to €30.5 million (prior year: €24.0 million), accelerated by our product offer, which has been optimized to include Adabas 2006 and Natural 2006, as well as our intensified marketing efforts. This represents an increase of 27 percent over the second quarter of 2005.

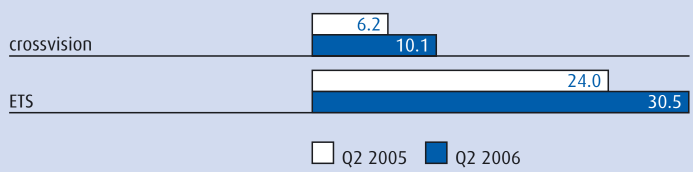
crossvision grows by 63 percent

We achieved even higher growth in our crossvision business line, where licensing revenues grew by 63 percent (currency-adjusted by 65 percent) to €10.1 million (2005: €6.2 million). The rapid growth generated in this business line, both in comparison with the second quarter of 2005 and the first quarter 2006 (up 58 percent), also reflects the successful introduction of our new crossvision products.

Today, all integration products of Software AG have been combined under the crossvision brand. The full range of the crossvision suite has been available since mid-May and consists of six integrated components which may be used separately and map a complete SOA life cycle. This process-oriented approach makes crossvision particularly attractive, which increasingly benefits sales volumes.

Licensing revenue by product line

€ millions



Upward trend in maintenance revenues

The maintenance business, which had been stable over a long period of time, showed a slight increase of 3 percent to €46.6 million (prior year: €45.3 million). This growth confirms the development experienced in the first quarter, in which licensing revenues accelerated significantly for the first time as a result of sustained sales growth in the licensing business. Sales in the professional services segment were slightly above the previous year's level, increasing by 1 percent to €32.7 million (prior year: €32.4 million).

Key earnings indicators

€ millions	Q2 2006	Q2 2005	Change in %
EBIT	29.7	26.5	+ 12
Interest result	2.1	1.3	+ 62
Earnings before taxes	31.8	27.8	+ 14
Net income	19.4	16.0	+ 21
Earnings per share (in euro)	0.69	0.59	+ 17

Operating margin climbs to almost 25 percent

Our financial performance was boosted by sustained sales growth, an optimized product mix and continued focus on cost efficiency. Accordingly, operating income (EBIT) climbed 12 percent in the second quarter to €29.7 million (prior year: €26.5 million), despite an increase in expenses of over 20 percent resulting from intensification of our marketing efforts. The operating EBIT margin amounted to 24.5 percent (prior year: 24.0 percent).

During the quarter net income also continued to grow, increasing by 21 percent to €19.4 million. Earnings per share rose to €0.69 (prior year: €0.59), in spite of the fact that 809,235 additional shares were outstanding in the period under review.

Growth markets account for 11 percent of total sales

In the North America/Northern Europe region, we generated sales of €56.6 million (prior year: €52.5 million). The licensing business was the primary growth driver with an increase of 22 percent to €20.1 million. The high-margin licensing business fuelled the EBITA generated in this region, which grew 13 percent to €17.7 million.

Sales increased even more in the Central and Eastern Europe/Asia region with a rise of 24 percent over the prior year quarter to €35.7 million. This growth was almost exclusively attributable to the licensing business, which doubled from €7.6 million to €15.7 million. EBITA for this region developed accordingly, tripling to €9.7 million in comparison with the previous year.

In Southern and Western Europe/Latin America, sales amounted to €29.1 million in the second quarter of 2006. Professional services developed particularly well, while a number of major licensing projects were delayed. The slightly negative EBITA (€–0.1 million) is due to future-oriented capital expenditure aimed at developing emerging growth markets and mainly resulted from business expansion expenses in Latin America as well as from expenses related to our activities to increase penetration in the markets in the Middle East. The growth markets of Latin America, Eastern Europe and the Middle East/Asia contributed 11 percent to Group sales in the second quarter.

Revenue and earnings trend by region*

€ millions	Revenue		EBITA	
	Q2 2006	Q2 2005	Q2 2006	Q2 2005
North America/Northern Europe	56.6	52.5	17.7	15.7
Central and Eastern Europe/Asia	35.7	28.5	9.7	3.6
Southern and Western Europe/ Latin America	29.1	29.7	– 0.1	4.4

*) As of January 2006, certain sales territories were reallocated to other regions. In order to ensure comparability, the figures for 2005 have been presented in accordance with the new structure.

Top position as enterprise service bus (ESB) provider

In a report entitled "The Forrester Wave: Enterprise Service Bus" published at the end of June, Forrester Research name Software AG as one of the leading global providers of enterprise service buses (ESB), a product which is essential for SOA architectures. Forrester Research, a renowned research institute for the IT industry, awarded us several top scores on the basis of over 100 assessment criteria. Software AG ranked first in the "strategy" category, which includes evaluations of vision, product concept and financial stability. With regard to our product range, Software AG's high level of expertise in mainframe integration and particularly our crossvision Service Orchestrator and CentraSite Repository ensured the Company's leading position. Both products are part of our new crossvision SOA suite, which supports companies in building, managing and controlling service-oriented architectures.

Editors' Choice Award for Software AG and Fujitsu

Together with our strategic partner, Fujitsu, we received the Editors' Choice Award from the U.S. magazine Intelligent Enterprise. The award in the category of "Companies to Watch in Business Process Management" primarily recognizes SOA and BPM solutions and relates mainly to CentraSite. The SOA registry and repository, which was developed in cooperation with Fujitsu, combines the strengths of both companies in the areas of SOA, ESB and BPM (Business Process Management).

Gartner confirms increase in market share

The markets have also honored Software AG's particular contributions to the integration business. In addition to awards and growing sales figures, this is also reflected in the increase in our market share. In accordance with recent statements from the Gartner Group, Software AG belongs to the group of companies that successfully focus on newly emerging market segments. We were thus able to improve our position in the global market for Application Integration and Middleware (AIM). The attractive AIM market has a volume of USD 8.5 billion and growth rates of approx. 7 percent.

Expansion in the growth market of Latin America

We have systematically continued to develop promising growth regions, again focusing on Latin America, our most important expanding market. In order to accelerate corporate growth in these emerging markets, we opened a branch in Brazil, Software AG's largest and most important target market in Latin America, in the second quarter. In Chile, we opened an office and an IT training center for employees of public authorities. Solutions for more efficient management processes and so-called "e-government" form the basis for our rapid successes in Latin America.

Activities in the Middle East

The Middle East is one of the strongest growth regions in the global software market. While visiting the Arabian peninsula, we introduced our market strategy for these emerging countries. In addition to our regional headquarters in Bahrain, we plan to open a branch in Saudi Arabia. Enhancing our regional presence will allow us to increasingly benefit from the potential offered by the Gulf countries of Kuwait, Oman, Qatar and the United Arab Emirates and Saudi Arabia, Egypt and Jemen. Software AG has been operating in the Middle East for 15 years and currently has over 25 customers in this region.

SOA suite enhanced

The expansion of our product portfolio focuses on Software AG's SOA suite, crossvision. As a design and runtime environment the new version of the Application Designer simplifies the development of Web browser user interfaces. In combination with the Application Composer, this new version creates a direct link between the service-oriented architecture and the individual workstation. In order to quickly establish the Application Designer on the market, we initiated a partner program geared towards software houses and developers.

crossvision – complete SOA suite consisting of six products

Our cooperation with the U.S. company AmberPoint will open up additional possibilities for managing SOA-based IT architectures. The integration of AmberPoint's SOA Runtime Management Software into the crossvision suite will improve the control of company-wide services. Services recorded in CentraSite are recognized by the AmberPoint software and updated automatically. This helps companies to find efficient solutions for new tasks and to implement compliance requirements.

New solutions for mainframe modernization

In the mainframe area, we extended the product familiy Legacy Integrator for SAP NetWeaver by two additional adapters. These adapters integrate applications based on Common Business Oriented Language (COBOL) and Programming Language One (PL/I). Around 85 percent of all computer transactions in the business world are based on COBOL. The new adapters, which have already been certified by SAP, enable these applications to communicate with the SAP platform.

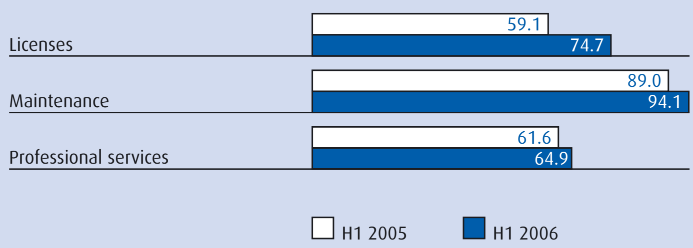
Positive business trend in the first half of 2006
Licensing business continues to drive growth

In the first six months of the current fiscal year, Group sales climbed to €234.8 million, an increase over the prior year of €24.0 million, or 11 percent (currency-adjusted: 10 percent). EBIT increased by 15 percent to €51.2 million (previous year: €44.4 million).

Accelerated growth in the licensing business

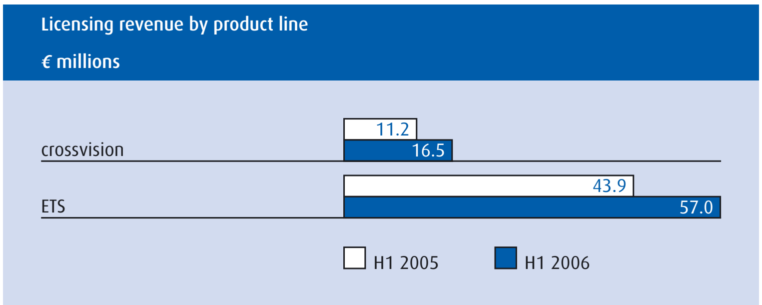
In the maintenance business, revenue grew by 6 percent to €94.1 million. Licensing revenues increased by a much greater margin: In the ETS and crossvision business lines, we generated revenues from licensing new software totaling €74.7 million. This represents an increase over the first half of 2005 of 26 percent (currency-adjusted: 25 percent). The strong momentum in the licensing business is especially evident when comparing the growth rates: In the first half of 2006, our licensing revenues grew twice the amount as in the same period of the prior year. Sales generated from professional services grew by 5 percent to €64.9 million in the first half year. Among other things, this shift in revenue towards the high-margin licensing business was attributable to our focus on strategic projects and the ensuing reduction of low-margin projects and projects not based on Software AG products. In addition, the use of the new crossvision suite entails less professional services than the implementation of single products.

Sales by product segment
€ millions



Focus on proprietary products with strong market positions

Within the licensing business, the crossvision business line increased sales from €11.2 million to €16.5 million. Sales in the Enterprise Transaction Systems (ETS) business line amounted to €57.0 million after €43.9 million in the first half of 2005. This licensing revenue related exclusively to proprietary products. In order to focus our marketing resources on Software AG products, we have been steadily reducing sales of third-party products. As a result, sales generated from third-party products were deliberately reduced from €2.5 million to €0.9 million.



High earnings power remains a critical criterion

The growth in income was stronger than the sales growth. For the first six months EBIT climbed by €6.8 million, or by good 15 percent, to €51.2 million. The operating margin increased to 21.8 percent after 21.1 percent in the prior year. Net income grew 22 percent over the first half of 2005 to €33.8 million. Despite the greater number of shares outstanding earnings per share rose to €1.20 (prior year: €1.02). Free cash flow reached €23.2 million in the first half year (previous year: €35.0 million). This decline was mainly caused by higher tax prepayments due to our improved earnings situation. Moreover, cash flow during the first half of 2005 was considerably better than usual due to extraordinarily high cash receipts from South Africa. For the second half 2006, we expect a significantly higher cash flow than in the previous year.

Licensing business fuels growth in all regions

Sales growth was evident in all regions, with licensing revenues showing the highest growth rates. Maintenance revenues also increased across the board while demand for professional services differed from region to region.

Sales growth was highest in the Central and Eastern Europe/Asia region, where sales climbed to €63.1 million, representing an increase of 13 percent. This significant sales growth resulted almost exclusively from the licensing business, which increased by 49 percent. Operating income (EBITA) for this region grew at a lesser rate of 40 percent to €11.9 million.

In Southern and Western Europe, including Latin America, sales increased by 11 percent to €59.8 million. At €1.4 million, EBITA – which was weaker than in the previous year – reflected expenses for intensification of our activities in Latin America and initial efforts to expand our position in the Middle East. This was complemented by a postponement of some larger licensing projects, amongst other things to public authorities being blocked by the election campaign in Mexico.

In the North America/Northern Europe region, we increased revenues by 9 percent to €112.7 million. With a share in Group sales of 48 percent, this region remains Software AG’s main sales driver. The licensing business grew by 20 percent to €37.7 million resulting in additional momentum for this region’s EBITA, which in turn grew by 17 percent to €34.9 million. The largest growth in this region was achieved in the United Kingdom, where sales climbed from €14.5 million to €22.4 million in the first six months, representing an increase of 55 percent.

Revenue and earnings trend by region

€ millions	Revenue		EBITA	
	H1 2006	H1 2005	H1 2006	H1 2005
North America/Northern Europe	112.7	103.6	34.9	29.9
Central and Eastern Europe/Asia	63.1	54.6	11.9	7.1
Southern and Western Europe/ Latin America	59.7	53.3	1.4	4.5

Strong balance sheet and high equity-to-assets ratio

As of June 30, 2006, Software AG had equity of €397.0 million (prior year: €334.4 million). Based on our total assets of €603.5 million (prior year: €534.3 million), the equity-to-assets ratio amounted to 66 percent, an increase of 3 percentage points compared to June 30, 2005. Cash and cash equivalents grew by 21 percent compared to the prior year and amounted to €155.9 million (prior year: €128.8 million) as of the reporting date. Retained earnings increased by €36.6 million to €247.3 million in spite of a dividend payment totaling €22.4 million.

Our strong balance sheet ratios illustrate the huge financial potential of Software AG. These figures indicate that we have the necessary resources to implement our long-term product and technology strategies, as well as laying the foundation and providing the flexibility for potential acquisitions.

Number of employees increases

The number of employees grew slightly compared to the prior year's reporting date. As of June 30, 2006, Software AG employed 2,725 full-time equivalents (prior year: 2,578). This 6 percent increase in new employees was largely due to additions to our marketing and sales teams as well as in the area of professional services. This hike was particularly evident outside of Germany and resulted from geographic expansion, primarily in Latin America. After the first half of 2006 the number of employees in Germany had grown by 3 percent.

Outlook: Promising perspectives for 2006

We will continue our geographic expansion with a focus on Latin America and above all the Middle East and Japan. In Japan, the exclusive contract with our sales partner will expire in the fourth quarter of 2006, from which time onwards we will support our customers directly. This will enable us to leverage new growth potentials.

We will also continue pursuing our strategy of using acquisitions as a means of improving our market position. Assuming sustained organic growth, acquisitions are used for the purpose of enhancing our technology portfolio or positioning ourselves in the market as a one-stop solution provider. Acquisitions must therefore accelerate the growth of Software AG's core business.

Alliances with partners are also an essential part of our growth strategy. We will thus continue to build on our successes with other technology partners such as Fujitsu, IDS Scheer and ILOG and cooperate with system integrators at project and local levels. The recently established CentraSite Community will also help spread Software AG's technology.

For 2006 as a whole, we continue to expect currency-adjusted sales growth of 10 percent. Licensing revenues will continue to grow at an above-average rate. For the year as a whole, we anticipate sales growth between 22 and 25 percent. We had initially projected growth within a range of 18 and 20 percent. For the maintenance business, we now expect growth rates between 2 and 4 percent based on recent developments. Originally, we had forecasted a flat sales trend for this business segment.

Sales in the professional services segment is expected to grow between 5 and 8 percent compared to our initial assumption between 12 and 15 percent. Amongst other things, our focus on strategic projects and the introduction of flexible use of resources ("resource balancing") should lead to improving margins and thus lay the foundation for qualitative growth in this area.

With regard to our business divisions, the Enterprise Transaction Systems (ETS) business line is expected to grow by 6 to 8 percent. In the crossvision business line, all products are now available. We will also benefit from our highly qualified sales force. Against this backdrop, we expect revenues from the crossvision business line to increase by 20 to 25 percent.

As for the income, we are raising our guidance for 2006 and now expect an operating EBIT margin of between 22 and 23 percent.

Consolidated income statement for the six months ended June 30, 2006

IFRS, unaudited

€ thousands	June 30, 2006	June 30, 2005	Q2 2006	Q2 2005
Licenses	74,659	59,094	41,281	32,132
Maintenance	94,090	88,962	46,636	45,274
Professional services	64,937	61,563	32,711	32,386
Other	1,140	1,147	403	690
Total revenue	**234,826**	**210,766**	**121,031**	**110,482**
Total costs of sales	– 72,122	– 71,336	– 35,475	– 36,528
Gross profit	**162,704**	**139,430**	**85,556**	**73,954**
Research and development	– 22,367	– 21,527	– 11,167	– 10,426
Sales, marketing and distribution	– 63,008	– 50,474	– 32,039	– 26,424
Administrative costs	– 24,482	– 22,209	– 12,136	– 11,064
Operating result	**52,847**	**45,220**	**30,214**	**26,040**
Other income	6,450	6,890	3,844	4,847
Other expenses	– 8,116	– 7,669	– 4,407	– 4,397
Earnings before interest and taxes	**51,181**	**44,441**	**29,651**	**26,490**
Interest result	4,243	2,535	2,171	1,331
Earnings before taxes	**55,424**	**46,976**	**31,822**	**27,821**
Income taxes	– 20,640	– 18,360	– 11,898	– 11,445
Other taxes	**– 987**	**– 905**	**– 543**	**– 400**
Consolidated income	**33,797**	**27,711**	**19,381**	**15,976**
Thereof for shareholders of Software AG	**33,797**	**27,711**	**19,381**	**15,976**
Thereof for minority interest	**0**	**0**	**0**	**0**
Earnings per share (Euro, basic)	1.20	1.02	0.69	0.59
Earnings per share (Euro, diluted)	1.20	0.99	0.69	0.57
Weighted average shares outstanding (basic)	28,056,811	27,266,752	28,075,987	27,266,752
Weighted average shares outstanding (diluted)	28,114,504	28,107,165	28,082,988	28,107,165

Consolidated balance sheet as of June 30, 2006 IFRS, unaudited Assets			
€ thousands	**June 30, 2006**	**December 31, 2005**	**June 30, 2005**
Current assets			
Cash on hand and bank balances	129,838	151,767	107,741
Securities	26,083	9,811	21,094
Inventories	365	335	383
Trade receivables	148,476	138,494	113,098
Other receivables and other assets	6,037	4,766	5,296
Deferred expense	5,524	4,549	6,560
	316,323	**309,722**	**254,172**
Non-current assets			
Intangible assets	5,287	6,093	5,769
Goodwill	187,571	188,102	185,513
Property, plant and equipment	45,156	46,324	43,820
Financial assets	2,180	2,233	1,753
Trade receivables	16,466	11,780	11,432
Deferred taxes	30,550	35,083	31,868
	287,210	**289,615**	**280,155**
	603,533	599,337	534,327

Equity and Liabilities			
€ thousands	**June 30, 2006**	**December 31, 2005**	**June 30, 2005**
Current liabilities			
Current financial liabilities	2,933	2,654	3,193
Trade payables	20,240	22,760	17,122
Other current liabilities	30,958	27,711	30,518
Current provisions	22,992	25,437	24,920
Tax provisions	11,013	15,711	19,252
Deferred income	69,376	58,579	58,907
	157,512	**152,852**	**153,912**
Non-current liabilities			
Non-current financial liabilities	757	1,698	2,670
Trade payables	0	0	84
Other non-current liabilities	3,350	4,201	598
Provision for pension	24,775	25,108	22,991
Non-current provisions	3,425	2,544	828
Deferred taxes	13,431	15,502	13,440
Deferred income	3,272	4,444	5,416
	49,010	**53,497**	**46,027**
Equity			
Share capital	84,338	84,108	81,800
Capital reserve	23,015	20,428	132
Retained earnings	247,339	208,143	210,707
Consolidated income	33,797	61,625	27,711
Currency translation differences	– 33,647	– 15,203	– 20,016
Other reserves	41,788	33,506	33,814
Minority interest	381	381	240
	397,011	**392,988**	**334,388**
	603,533	599,337	534,327

Statement of cash flows for the six months ended June 30, 2006

IFRS, unaudited

€ thousands	June 30, 2006	June 30, 2005	Q2 2006	Q2 2005
Income after taxes	33,797	27,711	19,381	15,976
Income taxes	20,640	18,360	11,899	11,445
Interest result	– 4,243	– 2,535	– 2,171	– 1,331
Depreciation	3,796	3,984	1,902	2,110
Non-cash income/expense	467	32	132	9
Cash generated from operations	**54,457**	**47,552**	**31,143**	**28,209**
Changes in inventories, receivables and other current assets	– 17,564	– 271	– 12,227	10,238
Changes in payables and other liabilities	5,062	– 3,867	– 9,417	– 16,213
Income taxes paid	– 20,766	– 7,698	– 12,341	– 6,847
Interest paid	– 1,339	– 1,557	– 122	– 127
Interest received	5,515	4,315	2,276	1,420
Net cash used in/provided by operating activities	**25,365**	**38,474**	**– 688**	**16,680**
Cash received from the sale of tangible/ intangible assets	708	162	687	8
Investments in tangible/ intangible assets	– 2,989	– 3,377	– 1,080	– 1,678
Cash received from the sale of financial assets	89	3,347	41	237
Investments in financial assets	– 37	– 3,508	– 17	– 504
Investments in consolidated companies	0	– 7,419	0	– 1,841
Net cash used in/provided by investing activities	**– 2,229**	**– 10,795**	**– 369**	**– 3,778**
Cash proceeds from issuing shares	2,157	0	2,066	0
Dividend payments	– 22,429	– 20,450	– 22,429	– 20,450
Repayment of loans from acquisitions and other finance liabilities	– 982	– 825	– 485	– 374
Net cash used in/provided by financing activities	**– 21,254**	**– 21,275**	**– 20,848**	**– 20,824**
Change in cash funds from cash relevant transactions	**1,882**	**6,404**	**– 21,905**	**– 7,922**
Adjustment from currency translation	**– 7,539**	**3,339**	**– 5,350**	**2,020**
Net change in cash and cash equivalents	**– 5,657**	**9,743**	**– 27,255**	**– 5,902**
Cash and cash equivalents at the beginning of the period	161,578	119,092	183,176	134,737
Cash and cash equivalents at the end of the period	**155,921**	**128,835**	**155,921**	**128,835**

Consolidated statement of recognized income and expense posted directly to equity* for the six months ended June 30, 2006

IFRS, unaudited

€ thousands	June 30, 2006	June 30, 2005	Q2 2006	Q2 2005
Currency translation differences	– 18,444	21,558	– 13,018	13,518
Net gain/loss from fair value measurement of financial instruments not recognized in income	19	– 1,356	– 82	– 485
Net gain/loss from fair value measurement of net investments in foreign operations not recognized in income	8,263	– 16,677	6,009	– 11,022
Total income and expense directly recognized in equity	**– 10,162**	**3,525**	**– 7,091**	**2,011**
Net income for the period (from P&L)	33,797	27,711	19,381	15,976
Total recognized income and expense	**23,635**	**31,236**	**12,290**	**17,987**

* 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 three months ended June 30, 2006

IFRS, unaudited

€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	37,685	14,007	22,966	74,658	1	74,659
Maintenance	56,230	13,229	24,757	94,216	– 126	94,090
Professional services	18,301	32,189	15,281	65,771	– 834	64,937
Other	509	290	83	882	258	1,140
Total revenue	**112,725**	**59,715**	**63,087**	**235,527**	**– 701**	**234,826**
EBITA	**34,859**	**1,430**	**11,891**	**48,180**	**3,001**	**51,181**
Interest result						4,243
Profit before taxes						55,424
Taxes						– 21,627
Net income						**33,797**
Total revenue proportion per region in %	47.9	25.3	26.8	100.0		
Product revenue	93,915	27,236	47,723	168,874		
Proportion per region in %	55.6	16.1	28.3	100.0		

Segment report for the three months ended June 30, 2005

IFRS, unaudited

€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	31,433	12,352	15,430	59,215	– 121	59,094
Maintenance	53,589	12,087	23,530	89,206	– 244	88,962
Professional services	18,381	28,371	15,531	62,283	– 720	61,563
Other	232	463	148	843	304	1,147
Total revenue	**103,635**	**53,273**	**54,639**	**211,547**	**– 781**	**210,766**
EBITA	**29,869**	**4,450**	**7,053**	**41,372**	**3,069**	**44,441**
Interest result						2,535
Profit before taxes						46,976
Taxes						– 19,265
Net income						**27,711**
Total revenue proportion per region in %	49.0	25.2	25.8	100.0		
Product revenue	85,022	24,439	38,960	148,421		
Proportion per region in %	57.3	16.5	26.2	100.0		

To optimize the management of the Group, as of January 2006 several distribution areas have been differently assigned to the regions. The regions have changed as follows:

– The region "North Europe/North America" took over the responsibility for the distribution areas of France and Italy from the region "South".

– The region "South" took over the responsibility for the distribution areas of Middle East including Israel and the distribution partner SPL-Israel from the region "Central Europe/Asia".

– The region "Central Europe/Asia" took over the responsibility for the distribution area of Netherlands from the region "South".

A restated Segment Report for the year 2005 under the new regional structure can be found on our homepage at Investor Relations/Financial reports and presentations (www.softwareag.com/Corporate/InvestorRelations/reports/default.asp).

Segment report Q2 2006 IFRS, unaudited						
€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	20,079	5,443	15,733	41,255	26	41,281
Maintenance	27,164	6,846	12,599	46,609	27	46,636
Professional services	9,084	16,722	7,360	33,166	– 455	32,711
Other	264	66	46	376	27	403
Total revenue	**56,591**	**29,077**	**35,738**	**121,406**	**– 375**	**121,031**
EBITA	**17,661**	**– 124**	**9,692**	**27,229**	**2,422**	**29,651**
Interest result						2,171
Profit before taxes						31,822
Taxes						– 12,441
Net income						**19,381**
Total revenue proportion per region in %	46.6	24.0	29.4	100.0		
Product revenue	47,243	12,289	28,332	87,864		
Proportion per region in %	53.8	14.0	32.2	100.0		

Segment report Q2 2005 IFRS, unaudited						
€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	16,504	8,096	7,605	32,205	– 73	32,132
Maintenance	26,708	6,335	12,349	45,392	– 118	45,274
Professional services	9,428	15,013	8,407	32,848	– 462	32,386
Other	– 114	338	119	343	347	690
Total revenue	**52,526**	**29,782**	**28,480**	**110,788**	**– 306**	**110,482**
EBITA	**15,652**	**4,386**	**3,641**	**23,679**	**2,811**	**26,490**
Interest result						1,331
Profit before taxes						27,821
Taxes						– 11,845
Net income						**15,976**
Total revenue proportion per region in %	47.4	26.9	25.7	100.0		
Product revenue	43,212	14,431	19,954	77,597		
Proportion per region in %	55.7	18.5	25.8	100.0		

Accounting Policies

Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB). The IAS/IFRSs applicable as of December 31, 2005 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The same accounting policies have been applied in these interim financial statements as in the 2005 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.

Changes in the consolidated group

In the first half of 2006, the number of consolidated companies was increased from the level as of December 31, 2005 due to the formation of the following companies:

Software AG Chile S.A., Chile, was founded on the 1st February, 2006. This company was equipped with a share capital of €8 thousand (CLP 5 million). The share capital is divided into 999 shares held by Software AG Latinoamérica, S.L., Spain and 1 share held by Software AG, Spain.

As of February 23, 2006, Software AG, Ltd. Japan was established with a share capital of €72 thousand (JPY 10 million). The company's shares are wholly owned by its parent company, Software AG, Inc., USA.

As of June 30, 2006, Software AG Development Center Bulgaria EOOD, Bulgaria, was established with a share capital of €3 thousand. The company's shares are wholly owned by its parent company, Software AG.

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 2006, the weighted average number of shares amounted to 28,075,987. In the first half of 2006, the weighted average number of shares was 28,056,811. 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 also met in the second quarter of 2006. A total of 73,456 of the outstanding options under this stock option plan were exercised during the second quarter. The remaining 7,001 options under this plan may be exercised until 2008, provided the share price is at least €30 at the time the options are exercised. The diluted earnings per share were calculated for these potential shares using the treasury stock method and presented for the reporting period. Diluted earnings per share were calculated by dividing net income for the period attributable to Software AG's shareholders by the number of shares in issue and the exercisable stock options.

Notes to the consolidated balance sheet

Goodwill

The decline in goodwill of €531 thousand compared to December 31, 2005 resulted from currency translation differences due to exchange rate fluctuations.

Shareholders' equity

The change in shareholder's equity is shown in the following Statement of Changes in Equity as of June 30, 2006:

Statement of changes in equity for the six months ended June 30, 2006
IFRS, unaudited

€ thousands	Shares Number	Shares Share capital	Capital reserve	Retained earnings	Consolidated income	Currency translation differences	Other reserves	Minority interest	Total
Equity as of January 1, 2006	**28,036,009**	**84,108**	**20,428**	**269,768**	**0**	**– 15,203**	**33,506**	**381**	**392,988**
Cash proceeds from issuing shares	76,706	230	1,927						2,157
Stock options			660						660
Consolidated income of the period					33,797				33,797
Dividend payment				– 22,429					– 22,429
Currency translation differences						– 18,444			– 18,444
Net result from the fair value valuation of securities not recognized in income statement							19		19
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							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**

Statement of changes in equity for the six months ended June 30, 2005
IFRS, unaudited

€ thousands	Shares Number	Shares Share capital	Capital reserve	Retained earnings	Consolidated income	Currency translation differences	Other reserves	Minority interest	Total
Equity as of January 1, 2005	**27,266,752**	**81,800**	**132**	**231,157**	**0**	**– 41,574**	**51,847**	**240**	**323,602**
Consolidated income of the period					27,711				27,711
Dividend payment				– 20,450					– 20,450
Currency translation differences						21,558			21,558
Net result from the fair value valuation of securities not recognized in income statement							– 1,356		– 1,356
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							– 16,677		– 16,677
Equity as of June 30, 2005	**27,266,752**	**81,800**	**132**	**210,707**	**27,711**	**– 20,016**	**33,814**	**240**	**334,388**

The composition of the individual accounts of shareholders' equity did not change compared to December 31, 2005. The exercise of stock options from the first stock option plan increased the number of bearer shares by 73,456 to 28,112,715 shares in the second quarter. This increased the Company's share capital by €220 thousand and the capital reserve by €1,845 thousand.

Dividend payment

Pursuant to the proposal of the Executive Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 12, 2006 to appropriate €22,429 thousand of the unappropriated profit of €60,465 thousand for 2005 of Software AG, the parent company of the Group, for the payment of dividends – corresponding to a dividend of €0.80 per share – and to carry forward €38,036 thousand of such amount.

Other disclosures

Seasonal influences

Revenues and pre-tax earnings were distributed over fiscal year 2005 as follows:

€ thousands	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005
Total revenue	100,284	110,482	103,693	123,574	438,033
in % of annual revenue	22.9	25.2	23.7	28.2	100.0
Earnings before taxes	19,156	27,821	24,630	29,534	101,141
in % of net income for the year	18.9	27.5	24.4	29.2	100.0

The distribution of revenues was similarly structured in previous years, primarily due to the purchasing behavior of our customers. As a result, the Company expects the revenue and earnings trend to remain similar in the future.

Contingent liabilities

As of June 30, 2006, no provisions were recognized for the following contingent liabilities, expressed at nominal values, since it appeared unlikely that claims would be asserted:

€ thousands	
Guarantees	9,307
Other	1,383
Total	**10,690**

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 €330 thousand in the second quarter of 2006 based on the transition regulations set out in IFRS 2. Personnel expenses for the first half amounted to €660 thousand. A total of 73,456 options were exercised in the second quarter 2006. As a result, as of June 30, 2006, a total of 729,376 stock options remain outstanding for exercise by members of the Executive Board and officers (December 31, 2005 including employees: 870,358 stock options).

Please refer to the 2005 Annual Report for further disclosures on the option plans.

Other financial commitments

The Company has rent and lease agreements for buildings, land, computer and telephone equipment as well as vehicles. The obligations under these contracts for the remaining non-cancelable terms up to the end of fiscal year 2006 amount to €5,550 thousand. Obligations of €27,981 thousand exist for the period up to the end of fiscal year 2011, and obligations of €11,660 thousand for the period after fiscal year 2011. The lease agreements are operating leases as defined in IAS 17.

Notes on significant business events

In the second quarter of 2006, there were no special business events having a significant impact on the financial performance and the financial position of the Software AG Group.

Employees

As of June 30, 2006, the effective number of employees (i.e., part time employees are taken into account on a pro-rata basis only) amounted to 2,725 (June 30, 2005: 2,578), 71.3 percent of whom were employed abroad (previous year: 70.4 percent). The average absolute number of employees (i.e., part-time employees are recorded in full regardless of their average number of working hours) of the Software AG Group as of June 30, 2006 amounted to 2,838 (previous year: 2,630). In absolute terms, the Group employed 2,828 people (previous year: 2,676) as of June 30, 2006.

Executive Board and Supervisory Board

There have been no changes in the Executive and Supervisory Boards since December 31, 2005.

Events after the balance sheet date

Some personnel adjustments are planned for the third quarter of 2006 in connection with our Professional Service Margin Improvement Project.

Financial Calendar*

August 30	2nd EuroTech Conference, Merrill Lynch, San Francisco, USA
September 13 – 14	German Small Cap Conference, M. M. Warburg, Paris, France & London, UK
September 27 – 28	HVB German Investment Conference, Munich, Germany
October 24	Q3 2006 Financial Figures
November 09	German Technology Conference, Commerzbank AG, Frankfurt, Germany
November 15 – 17	6th Annual Technology, Media & Telecoms Conference, Morgan Stanley, Barcelona, Spain
November 16	European Mid Cap Conference, CA Cheuvreux, New York, USA
November 27 – 29	German Equity Forum, Deutsche Börse AG, Frankfurt, Germany

* Status: July 2006

For further details concerning Investor Relations Events please visit our homepage: www.softwareag.com/investor

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