SOFTWARE AG

Q1/06

Quarterly Report
as of 31st March, 2006

Key Figures

Key Figures IFRS, unaudited		
€ millions	**March 31, 2006**	**March 31, 2005**
Revenue	**113.8**	**100.3**
Products	80.9	70.7
of which		
Licensing	33.4	27.0
Maintenance	47.5	43.7
Professional services	32.2	29.2
Other	0.7	0.4
EBITDA	**21.5**	**19.8**
as % of revenue	19	20
EBIT	**21.5**	**18.0**
as % of revenue	19	18
Income before taxes	**23.6**	**19.2**
as % of revenue	21	19
Income after taxes	**14.4**	**11.7**
as % of revenue	13	12
Earnings per share (euro)	**0.51**	**0.43**
Total assets	**622.5**	**541.8**
Cash and cash equivalents	**183.2**	**134.7**
Shareholders' equity	**404.8**	**336.9**
as % of total assets	65	62
Employees	**2,771**	**2,515**
of which in Germany	776	760

Stock: key figures		
	March 31, 2006	**March 31, 2005**
Year's closing price (XETRA) in €	46.05	25.26
Total number of shares	28,039,259	27,266,752
Market capitalization in € millions	1,291	689
Year high/year low	49.20/24.80	28.17/20.35

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 has made a successful start to the new year. This is primarily attributable to three factors: portfolio expansion in the two business areas of Enterprise Transaction Systems (ETS) and crossvision (formerly “XML Business Integration”), geographic expansion and gearing our global organization to growth. Both business areas – ETS and crossvision – contributed with significant growth rates to the almost 14 percent increase in revenue in the first quarter. We are proceeding on our growth track according to plan, in particular with the expansion of the high-margin licensing business. This also applies to our geographic expansion, with the result that in the first three months of the fiscal year, more than one-third of our revenue increase originated in the growth markets of Latin America, Asia and the Near East. In addition to higher total sales, earnings also showed a good performance, with operating profit up by almost 20 percent in the first quarter.

Priority on process innovation

Our business success is the result of activities which systematically focus on our customers. All of Software AG’s product developments are targeted at fulfilling specific customer requirements. As market analyses by Gartner Research show, the IT departments of large companies increasingly prefer a process-oriented approach for solving problems critical to their business. I have been able to confirm this through numerous personal visits to customers within and outside of Germany. As a consequence, Software AG has been working for some time with its partners to make process innovation a top priority. Seamlessly integrated processes and IT systems protect previous capital investments, save costs and increase competitiveness. They are therefore increasingly important for companies and organizations.

Making existing IT more productive
With Business Process Management (BPM), we support our customers in optimizing processes and increasing productivity. Our BPM products and our expertise from successfully implemented integration solutions create strategic competitive advantages. For companies, this results in a robust structure that makes it possible to implement good business ideas faster.

In order to be able to reliably modernize, integrate and automate enterprise-wide business processes, our products support service-oriented architectures (SOA). SOAs increase the productivity of existing IT systems, widen their usage and create more efficiency.

Optimized workflows through SOA and crossvision™
By the end of May 2006, the complete spectrum of our crossvision suite will be available for the planning and implementation of service-oriented architectures. Software AG supports companies in implementing their SOA strategies using the components of its new product suite for integration solutions. crossvision links the existing IT infrastructure with the business strategy and creates the basis for optimized processes. Companies benefit from greater transparency and improved monitoring for a rapid implementation of their business objectives.

A core component of crossvision is CentraSite, for the management of integrated processes within service-oriented architectures. The software product is a result of our strategic partnership with Fujitsu and it ensures both system openness and the support of standards. The cooperation on CentraSite is exemplary of cooperative ventures between Software AG and its strategic partners. The aim of these partnerships is to further strengthen the leading integration competence in Europe on the process, information and data level.

Prospects of higher dividends
The initial quarterly results point to strong growth and create a good foundation for achieving our goals for 2006 as a whole: a 10 percent increase in revenue and an EBIT ratio of 21 to 23 percent.

The prospects for our shareholders are also encouraging. In the Annual Shareholders' Meeting to be held on May 12, the Executive and Supervisory Boards will recommend that the dividend for fiscal year 2005 be increased once again to €0.80 per share.

Karl-Heinz Streibich
Chief Executive Officer

Software AG stock continues on growth track

The European stock markets started 2006 on a positive note, the most important stimulus being the extremely high M&A activities. In February and March, these reached a historic high of USD 376 billion, exceeding the previous records set in October and November 1999. German blue chips were among the top performers in the European equity market. The DAX climbed 9.5 percent and closed the first quarter at 5,970. The TecDax was up an entire 21.0 percent to 727 points as of March 31, 2006. The decisive stimulus for the TecDax was the excellent performance of solar stocks.
In contrast, US stock indices hardly grew at all. The technology index NASDAQ 100 was only able to post a 3.6 percent gain and closed the first quarter at 1,704. The reason was growing interest rate fears, higher energy costs and the anticipated cooling of the US real estate market.

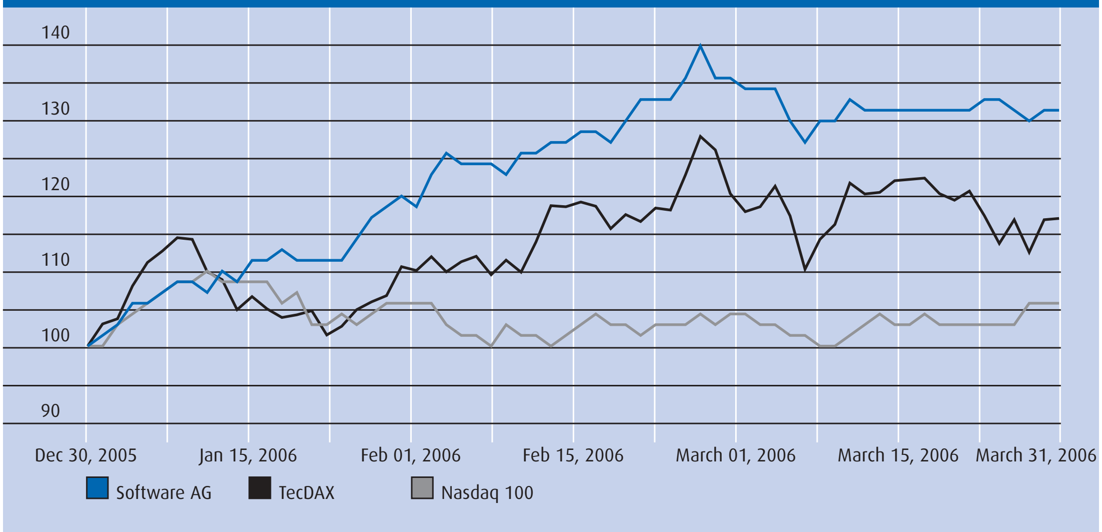
Software AG stock continues on upward trend
Our stock performed parallel to the DAX in the first quarter and gained more than 9 percent by the end of March 2006. After a low of €41.58 in late January 2006, the stock peaked at the end of February at more than €49 and closed at €46.05 in Xetra trading on March 31, 2006. At the end of the first quarter, the market capitalization of Software AG was €1.29 billion, reflecting a gain of €113.5 million. We also increased the trading volume of our stock. The average daily trading volume was €4.1 million (previous year: €2.4 million). We attained 8th place in market capitalization by the end of March 2006 and 10th place in trading volume in the TecDAX ranking of Deutsche Börse AG (the German Stock Exchange).

Analyst coverage expanded
Financial analysts took the performance of the fiscal year 2005 figures as an indication that Software AG would be able to achieve its mid-range growth and profit targets. Announcement of our annual targets for 2006, the good performance of our stock and our sound business model led to increased target prices and upgrades by financial analysts. The total coverage now comprises 20 global and regional analyst firms in Germany, the UK and France. In the first quarter of 2006, Dresdner Kleinwort Wasserstein in the UK and Bryan Garnier & Co in France initiated coverage of our company.

Investor relations activities strengthens US presence

Our rapidly growing market capitalization, which exceeded USD 1.5 billion in the first quarter, brought our stock to the attention of mid-cap and large-cap investors, particularly in the US. That is where our investor relations activities will be focused in 2006. After a break of four years, we were again on a roadshow in Dublin in March to access additional capital markets. Moreover, we visited investors in Frankfurt, London, Zurich, New York and Edinburgh. Software AG was also represented at two investor conferences in Frankfurt and London in the first quarter of 2006 and introduced the new crossvision product line at an investor conference at CeBIT in Hanover. The experiences of users with our products have a great impact on financial analysts' ratings of Software AG. In April, we organized a workshop for analysts in London for the first time, in which customers from various industries presented concrete examples of how to use our software successfully. The response of the financial analysts was wholly positive. Through events like this and participation in investor conferences and roadshows, we intend to further increase direct contact with our investors and analysts.

Share price comparison (indexed values)



Software AG continues on growth course

The first quarter of 2006 was consistently positive for Software AG. Total Group revenue increased 13.5 percent, and EBIT climbed by just under 20 percent. Attractive product portfolio enhancements and the new branding of the crossvision business line simultaneously expanded the base for further growth.

In the first three months, total Group sales amounted to €113.8 million (previous year: €100.3 million). This significant increase of almost 14 percent (currency-adjusted almost 10 percent) exceeded expectations. Growth was again driven mainly by licensing. There was additional growth in Professional Services and once again in maintenance.

High licensing revenues drive growth

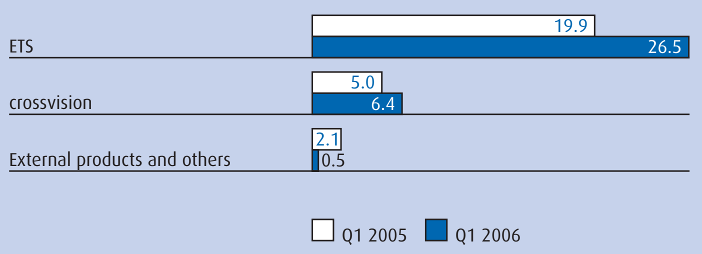
Income from software licensing increased by 23.7 percent to €33.4 million. As in the previous months, licensing was a key growth driver for Software AG.

In the crossvision business line (formerly "XML Business Integration"), licensing revenues increased by 28 percent to €6.4 million (previous year: €5.0 million). crossvision was launched in February of this year and is the conclusion of the development of a series of individual products into one seamless suite. crossvision denotes both the complete product package, its individual components and the business line itself.

The products of the Enterprise Transaction Systems (ETS) business line generated licensing revenues of €26.5 million (previous year: €19.9 million) in the reporting period. The 33 percent increase underscores the high potential of this business area, which promises reliable growth rates due to its broad, stable customer base. Software AG's mainframe competence brings additional impetus to the integration business, in particular in the modernization of mainframe applications, a component of our product line in the area of service-oriented architectures (SOA).

Licensing revenue by product line

€ millions



Increasing contribution by Professional Services

Our income from Professional Services increased of 10 percent to €32.2 million (previous year: €29.2 million) continuing the upward trend of 2005.

Maintenance returns to growth

Our maintenance business has shown growth for the first time in several years. The large increase to €47.5 million (previous year: €43.7 million) is partly attributable to the stronger US dollar and to a large one-time deal; however, the trend shows that the increased licensing sales of 2005 will positively impact maintenance revenue.

Sales by segment

€ millions	Q1 2006	Q1 2005	Change in %
Licensing	33.4	27.0	+ 24
Maintenance	47.5	43.7	+ 9
Professional Services	32.2	29.2	+ 10

Double-digit income growth once again

Despite considerable investment in sales and marketing, operating income (EBIT) increased by nearly one-fifth to €21.5 million. The EBIT margin rose from 18 to 19 percent. The marked increases in income resulted primarily from the above-average growth of the licensing business, an improved sales mix and sustained cost control.

Net income once improved again. At €14.4 million, this exceeded the comparable value for 2005 by 23 percent. Despite approx. 700,000 additional shares in circulation, earnings per share (EPS) rose to €0.51 (previous year: €0.43).

Key earnings indicators

€ millions	Q1 2006	Q1 2005	Change in %
EBIT	21.5	18.0	+ 20
Interest result	2.1	1.2	+ 75
Earnings before taxes	23.6	19.2	+ 23
Net income	14.4	11.7	+ 23
Earnings per share (in euro)	0.51	0.43	+ 19

Robust leap in earnings in Southern and Western Europe/Latin America

All regions contributed to the increased revenue, but the strongest growth was recorded in the Southern and Western Europe/Latin America region, where revenue rose by 30 percent to €30.6 million. The region's share in Group sales increased from 23 to 27 percent due to the robust expansion of business.

The licensing business showed very dynamic development in these markets, with revenues doubling from €4.3 million to €8.6 million. The high-margin licensing business stimulated earnings. EBITA increased significantly to €1.6 million (previous year: €0.1 million).

North America/Northern Europe is most profitable region

In the region of North America and Northern Europe, we increased revenue by 10 percent to €56.1 million. With an 18 percent gain to €17.6 million, the licensing business was also the strongest growth driver in this region. Approximately 31 percent of the revenue generated originated from licensing sales. At €17.2 million, EBITA exceeded the comparable value for 2005 by 21 percent. We generated half of the Group-wide total revenue and 80 percent of the Group EBITA in the markets of North America and Northern Europe. This is a ratio that clearly shows the positive effects of the highly profitable product business.

Central and Eastern Europe/Asia

In the Central and Eastern Europe/Asia region, sales rose to €27.3 million (previous year: €26.2 million). In this region, our Professional Services business grew rapidly, gaining 11 percent. At €2.2 million (previous year: €3.4 million), this region's EBITA in the first quarter fell short of the previous year's figure. The decline in earnings is due to the weakness of a sales region within Germany. We expect to remedy this as the year proceeds.

Revenue and earnings trend by region

€ millions	Revenue		EBITA	
	Q1 2006	Q1 2005	Q1 2006	Q1 2005
North America/Northern Europe	56.1	51.1	17.2	14.2
Central and Eastern Europe/Asia	27.3	26.2	2.2	3.4
Southern and Western Europe/Latin America	30.6	23.5	1.6	0.1

Geographic expansion brings clear success

Software AG's increasing international presence, in particular in fast growing emerging economies, is showing a positive impact on sales. In the countries of Latin America, Eastern Europe and the Middle East/Asia, we increased sales revenue in the first quarter by 59 percent to €14.0 million (previous year: €8.8 million). Accordingly, these emerging markets contributed 12 percent (previous year: 9 percent) to total sales. They contributed more than one-third to the Group's increase in revenue in the first quarter.

Regarding our established core markets, the United Kingdom reported the largest sales increase including an extraordinary one-off deal: 48 percent to €10.2 million. In North America, the most important regional market with a 25 percent share of Group revenue, sales increased by

11 percent to €28.4 million. Sales in Spain grew by 7 percent to €18.8 million. These growing regions compensated for the weakness of the German market, where sales in the first quarter declined to €13.5 million (previous year: €14.9 million).

Share of Group sales in significant regional markets

Operating cash flow significantly higher

The Group's operating cash flow increased to €26.1 million (previous year: €21.8 million). Compared to a year earlier, this represents a 19.7 percent growth rate. Free cash flow increased to €24.2 million, representing 21.3 percent of sales generated, or €0.86 per share. However, it should be noted that due to the high maintenance payments received in the first quarter, cash flow in the subsequent quarters regularly remains below the level of the first quarter.

Equity accounts for almost two-thirds of total assets

On March 31, 2006, the cash and cash equivalents of Software AG came to €183.2 million (previous year: €134.7 million). Shareholders' equity amounted to €404.8 million, an increase of €67.9 million or 20.2 percent from a year earlier. In line with the increase in total assets to €622.5 million, the equity-to-assets ratio rose once again to 65 percent (previous year: 62 percent).

Additional potential from portfolio expansion

Our goal is to grow in both business lines: Enterprise Transaction Systems (ETS) and crossvision. We regard the crossvision product portfolio as a particular growth driver. In the related business areas of integration and legacy modernization (linkage of mainframes to IT infrastructures), we are striving to have a significant position in the global market. With this intention, we worked toward expanding, supplementing and rounding out our product portfolio. We furthermore expanded the global network of strategic partners and strengthened our position in the market for service-oriented architectures.

crossvision addresses SOA

Integration solutions are a core competence and a particular strength of Software AG. We use this to expand our market position in the SOA environment. SOA makes it possible to have flexible IT landscapes that adapt quickly to changes and thus support agile business processes. Analysts expect the market to show sustained high demand and increasing growth rates. To be better able to take advantage of this potential, we have placed the entire integration expertise of the Company in the crossvision business line.

The modular suite includes new components but also updated versions of the proven integration products of Software AG. It supports companies and organizations in all phases, from planning through implementation and to the management of the SOA architectures. The focus of the six current crossvision components is CentraSite, technically the leading SOA repository on the market, jointly developed with Fujitsu.

Complete package for all phases

The unique advantage of the crossvision suite is that it integrates products from business process management (BPM) and legacy modernization. This process-oriented approach also makes it possible to integrate the SOA theme considerably more effectively in corporate contexts. Both of these capabilities fulfill important customer demands and assure that the suite will have high market attractiveness.

A new flexible licensing model facilitates migration to the crossvision suite. The model operates on a modular system, the customer choosing specific components when needed and will therefore substantially increase the average size of our business transactions. The newly initiated SOA Competence Center of Software AG supports our customers in making the transition from IT infrastructures to a service-oriented architecture. The focus is on consultation on organizational and technical prerequisites for successful SOA projects.

Strategic alliance for SOA solutions

To expand our network of international cooperation, we agreed on a strategic alliance with ILOG, an internationally leading producer of business rule management systems (BRMS). Software AG is including ILOG's "JRules" product in its range of products for BPM and SOA solutions. In addition, both partners cooperate in marketing.

New generation of Adabas and Natural

In addition to the expansion of the crossvision suite, the well-known core products of Adabas and Natural are significant highlights of our portfolio. This year will bring numerous innovations to the market for both products.

As a management system for high-performance databases, Adabas 2006 is able to process any data type and volume in any order of magnitude. For closer networking of the mainframe and SOA worlds, we introduced in the first quarter the SOA Gateway for Adabas 2006. This integrates business-critical systems into SOA architectures rapidly, reliably and cost-effectively.

Natural 2006, a development platform, was also more strongly aligned with SOA. Natural Business Services, which was launched at the beginning of the year, allows service-oriented applications that use the proven strengths of the mainframe. It is the sole environment on the market that operates on several legacy platforms as well as facilitating the interaction of mainframe and service-specialized developers.

Number of employees continues to rise

Our headcount increased, slightly, again in the first quarter. As of March 31, 2006, Software AG employed 2,771 full-time equivalents – 21 more than at the beginning of the year. Compared to a year earlier, 256 full-time equivalents were added, nearly half of them in the region of Southern and Western Europe/Latin America, in response to the expansion of our activities in Latin America. Consistent with the geographic expansion, 72 percent (previous year: 70 percent) of the employees of Software AG worked outside Germany as of the reporting date.

Headcount by region (full-time equivalents)

€ millions	Q1 2006	Q1 2005	Change in %
North America/Northern Europe	639	658	– 3
Central and Eastern Europe/Asia	451	457	– 1
Southern and Western Europe/ Latin America	994	763	+ 30
Headquarters including R&D, central division	687	637	+ 8

Outlook

crossvision as well as Adabas 2006 and Natural 2006 create important foundations for powerful IT infrastructures. In addition to expanding our portfolio (additional products in the crossvision product line will be available in the second half of the year), we will continue the geographic expansion in Latin America, in Eastern Europe and the Near East. With this in mind, we are confirming our expectations of being able to increase our currency-adjusted Group sales by 10 percent for the year as a whole.

We expect this growth to be primarily based on the increase in licensing revenue. The crossvision business line will accelerate growth as additional products become available; this line is expected to grow by 20 to 30 percent. For the established ETS business area, we anticipate sales growth in the 5 to 7 percent range. Maintenance revenues should remain stable. For professional services, we expect revenue growth of between 12 and 15 percent.

With regard to Group income, we continue to anticipate an EBIT ratio of 21 – 23 percent.

Consolidated income statement for the three months ended March 31, 2006 IFRS, unaudited		
€ thousands	**March 31, 2006**	**March 31, 2005**
Licensing	33,378	26,962
Maintenance	47,454	43,688
Professional services	32,226	29,178
Other	737	456
Total revenue	**113,795**	**100,284**
Total costs of sales	– 36,647	– 34,808
Gross profit	**77,148**	**65,476**
Research and development	– 11,200	– 11,101
Sales, marketing and distribution	– 30,969	– 24,050
Administrative costs	– 12,346	– 11,145
Operating result	**22,633**	**19,180**
Other income	2,606	2,043
Other expenses	– 3,709	– 3,272
Earnings before interest and taxes	**21,530**	**17,951**
Interest result	2,072	1,204
Earnings before taxes	**23,602**	**19,155**
Income taxes	– 8,741	– 6,915
Other taxes	– 445	– 505
Consolidated income	**14,416**	**11,735**
Thereof for shareholders of Software AG	**14,416**	**11,735**
Thereof for minority interest	**0**	**0**
Earnings per share (euro, basic)	0.51	0.43
Earnings per share (euro, diluted)	0.51	0.43
Weighted average shares outstanding (basic)	28,037,634	27,266,752
Weighted average shares outstanding (diluted)	28,146,020	27,266,752

Consolidated balance sheet as of March 31, 2006

IFRS, unaudited

Assets

€ thousands	March 31, 2006	December 31, 2005	March 31, 2005
Current assets			
Cash on hand and bank balances	160,450	151,767	122,706
Securities	22,726	9,811	12,031
Inventories	358	335	377
Trade receivables	140,813	138,494	121,988
Other receivables and other assets	6,378	4,766	4,740
Deferred expense	6,419	4,549	6,595
	337,144	**309,722**	**268,437**
Non current assets			
Intangible assets	5,688	6,093	3,674
Goodwill	187,805	188,102	177,841
Property, plant and equipment	46,476	46,324	44,425
Financial assets	2,205	2,233	1,485
Trade receivables	11,183	11,780	11,631
Deferred taxes	31,992	35,083	34,298
	285,349	**289,615**	**273,354**
	622,493	599,337	541,791

Equity and Liabilities

€ thousands	March 31, 2006	December 31, 2005	March 31, 2005
Current liabilities			
Current financial liabilities	3,166	2,654	2,809
Trade payables	18,228	22,760	18,500
Other current liabilities	32,782	27,711	24,811
Current provisions	19,486	25,437	24,900
Tax provisions	12,078	15,711	17,895
Deferred income	81,890	58,579	70,990
	167,630	**152,852**	**159,905**
Non-current liabilities			
Non-current financial liabilities	1,231	1,698	3,083
Other non-current liabilities	3,379	4,201	417
Provision for pension	24,831	25,108	22,586
Non-current provisions	2,411	2,544	864
Deferred taxes	13,689	15,502	12,296
Deferred income	4,568	4,444	5,789
	50,109	**53,497**	**45,035**
Equity			
Share capital	84,118	84,108	81,800
Capital reserve	20,839	20,428	132
Retained earnings	269,768	208,143	231,157
Consolidated income	14,416	61,625	11,735
Currency translation differences	– 20,629	– 15,203	– 33,534
Other reserves	35,861	33,506	45,321
Minority interest	381	381	240
	404,754	**392,988**	**336,851**
	622,493	599,337	541,791

Consolidated statement of cash flows for the three months ended March 31, 2006 IFRS, unaudited		
€ thousands	**March 31, 2006**	**March 31, 2005**
Income after taxes	14,416	11,735
Income taxes	8,741	6,915
Interest result	– 2,072	– 1,204
Depreciation	1,894	1,874
Non-Cash income/expense	335	23
Cash generated from operations	**23,314**	**19,343**
Changes in inventories, receivables and other current assets	– 5,337	– 10,509
Changes in payables and other liabilities	14,479	12,346
Income taxes paid	– 8,425	– 851
Interest paid	– 1,217	– 1,430
Interest received	3,239	2,895
Net cash used in/provided by operating activities	**26,053**	**21,794**
Cash received from the sale of tangible/ intangible assets	21	154
Investments in tangible/ intangible assets	– 1,909	– 1,699
Cash received from the sale of financial assets	48	3,110
Investments in financial assets	– 20	– 3,004
Investments in consolidated companies	0	– 5,578
Net cash used in/provided by investing activities	**– 1,860**	**– 7,017**
Cash proceeds from issuing shares	91	0
Dividend payments	0	0
Repayment of loans from acquisitions and other finance liabilities	– 497	– 451
Net cash used in/provided by financing activities	**– 406**	**– 451**
Change in cash funds from cash relevant transactions	**23,787**	**14,326**
Adjustment from currency translation	**– 2,189**	**1,319**
Net change in cash and cash equivalents	**21,598**	**15,645**
Cash and cash equivalents at the beginning of the period	161,578	119,092
Cash and cash equivalents at the end of the period	**183,176**	**134,737**

Consolidated statement of recognized income and expense posted directly to equity* for the three months ended March 31, 2006

IFRS, unaudited

€ thousands	March 31, 2006	March 31, 2005
Currency translation differences	– 5,426	8,040
Net gain/loss from fair value measurement of financial instruments not recognized in income	101	– 871
Net gain/loss from fair value measurement of net investments in foreign operations not recognized in income	2,254	– 5,655
Total income and expense directly recognized in equity	**– 3,071**	**1,514**
Net income for the period (from P&L)	14,416	11,735
Total recognized income and expense	**11,345**	**13,249**

* 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 March 31, 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	17,606	8,564	7,233	33,403	– 25	33,378
Maintenance	29,066	6,383	12,158	47,607	– 153	47,454
Services	9,218	15,467	7,921	32,606	– 380	32,226
Other	245	224	37	506	231	737
Total revenue	**56,135**	**30,638**	**27,349**	**114,122**	**– 327**	**113,795**
EBITA	**17,199**	**1,553**	**2,199**	**20,951**	**579**	**21,530**
Interest result						2,072
Profit before taxes						23,602
Taxes						– 9,186
Net income						**14,416**
Total revenue proportion per region in %	49.2	26.8	24.0	100.0		
Product revenue	46,672	14,947	19,391	81,010		
Proportion per region in %	57.6	18.5	23.9	100.0		

Segment report for the three months ended March 31, 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	14,929	4,257	7,825	27,011	– 49	26,962
Maintenance	26,881	5,751	11,182	43,814	– 126	43,688
Services	8,953	13,357	7,124	29,434	– 256	29,178
Other	346	125	29	500	– 44	456
Total revenue	**51,109**	**23,490**	**26,160**	**100,759**	**– 475**	**100,284**
EBITA	**14,218**	**64**	**3,412**	**17,694**	**257**	**17,951**
Interest result						1,204
Profit before taxes						19,155
Taxes						– 7,420
Net income						**11,735**
Total revenue proportion per region in %	50,7	23,3	26,0	100,0		
Product revenue	41,810	10,008	19,007	70,825		
Proportion per region in %	59,0	14,1	26,9	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).

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 consolidated group

The following changes in the consolidated group have occurred since December 31, 2005:

Software AG, Ltd., Japan, which was established on February 23, 2006 as a subsidiary of Software AG, USA with a share capital of €72 thousand (JPY 10 million), was initially consolidated as of the date of foundation of the company.

There were no other changes in the consolidated group compared to December 31, 2005.

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 first quarter of 2006, the weighted average number of shares amounted to 28,037,634.
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 first quarter of 2006. A total of 3,250 of the outstanding options under this stock option plan were exercised during the first quarter. The remaining 108,386 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.

Financial Position

Goodwill

The decline in goodwill of €297 thousand compared to December 31, 2005 resulted from differences related to currency translation.

Shareholders' equity

The change in shareholder's equity is shown in the following Statement of Changes in Equity as of March 31, 2006.

Statement of changes in equity for the three months ended March 31, 2006
IFRS, unaudited

€ thousands	Shares Number	Share capital	Capital reserve	Retained earnings	Accumulated profits	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	3,250	10	81						91
Stock Options			330						330
Consolidated income of the period					14,416				14,416
Currency translation differences						– 5,426			– 5,426
Net result from the fair value valuation of securities not recognized in income statement							101		101
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							2,254		2,254
Equity as of March 31, 2006	**28,039,259**	**84,118**	**20,839**	**269,768**	**14,416**	**– 20,629**	**35,861**	**381**	**404,754**

Statement of changes in equity for the three months ended March 31, 2005
IFRS, unaudited

€ thousands	Shares Number	Share capital	Capital reserve	Retained earnings	Accumulated profits	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					11,735				11,735
Currency translation differences						8,040			8,040
Net result from the fair value valuation of securities not recognized in income statement							– 871		– 871
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							– 5,655		– 5,655
Equity as of March 31, 2005	**27,266,752**	**81,800**	**132**	**231,157**	**11,735**	**– 33,534**	**45,321**	**240**	**336,851**

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 3,250 to 28,039,259 shares. This increased the Company's share capital by €10 thousand and the capital reserve by €81 thousand.

Dividend payment

The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting on May 12, 2006 to appropriate €22,429 thousand of the unappropriated profit of €60,465 thousand for 2005 of Software AG, the controlling Group company, 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:

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005
Total revenue in € thousands	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 in € thousands	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 that the revenue and earnings development will have a similar structure in the future.

Contingent liabilities

As of March 31, 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	9,554
Other	1,125
	10,679

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 first quarter of 2006 due to the transition regulations set out in IFRS 2. In the first quarter of 2006, employees of the Company exercised 3,250 stock options. As of March 31, 2006, a total of 864,611 stock options (December 31, 2005: 870,358 stock options) had been issued to members of the Executive Board, officers and employees. 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 €8,257 thousand. Obligations of €29,029 thousand exist for the period up to the end of fiscal year 2011, and obligations of €11,891 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 first 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 March 31, 2006, the effective number of employees (i.e., part time employees are taken into account on a pro-rata basis only) amounted to 2,771 (March 31, 2005: 2,515), 72.0 percent of whom were employed abroad (previous year: 69.8 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 in the first quarter of 2006 was 2,847 (previous year: 2,583). In absolute terms, the Group employed 2,847 people (previous year: 2,583) at the end of the first quarter on March 31, 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

There have been no events of special significance since March 31, 2006.

Financial Calendar*

May 12	Annual General Meeting, Frankfurt/Main, Germany
May 17	UBS Northern European Conference 2006, London, UK
May 22	34th Annual JPMorgan Technology Conference, San Francisco, USA
May 31	9th German Corporate Conference, Deutsche Bank AG, Frankfurt, Germany
June 1	Credit Suisse European Technology Conference, Barcelona, Spain
June 6	9th Pan-European Technology, Media and Telecommunications Conference, Merrill Lynch, London, UK
June 7	European Small & MidCap Conference, Crédit Agricole Cheuvreux S.A., London, UK
July 28	Q2/H1 2006 Financial Figures
August 30	2nd EuroTech Conference, Merrill Lynch, San Francisco, USA
September 27 – 28	HVB German Investment Conference, Munich, Germany
October 27	Q3 2006 Financial Figures
November 15 – 17	6th Annual Technology, Media & Telecoms Conference, Morgan Stanley, Barcelona, Spain
November 27 – 29	German Equity Forum, Deutsche Börse AG, Frankfurt, Germany

* Status: May 2006

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

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