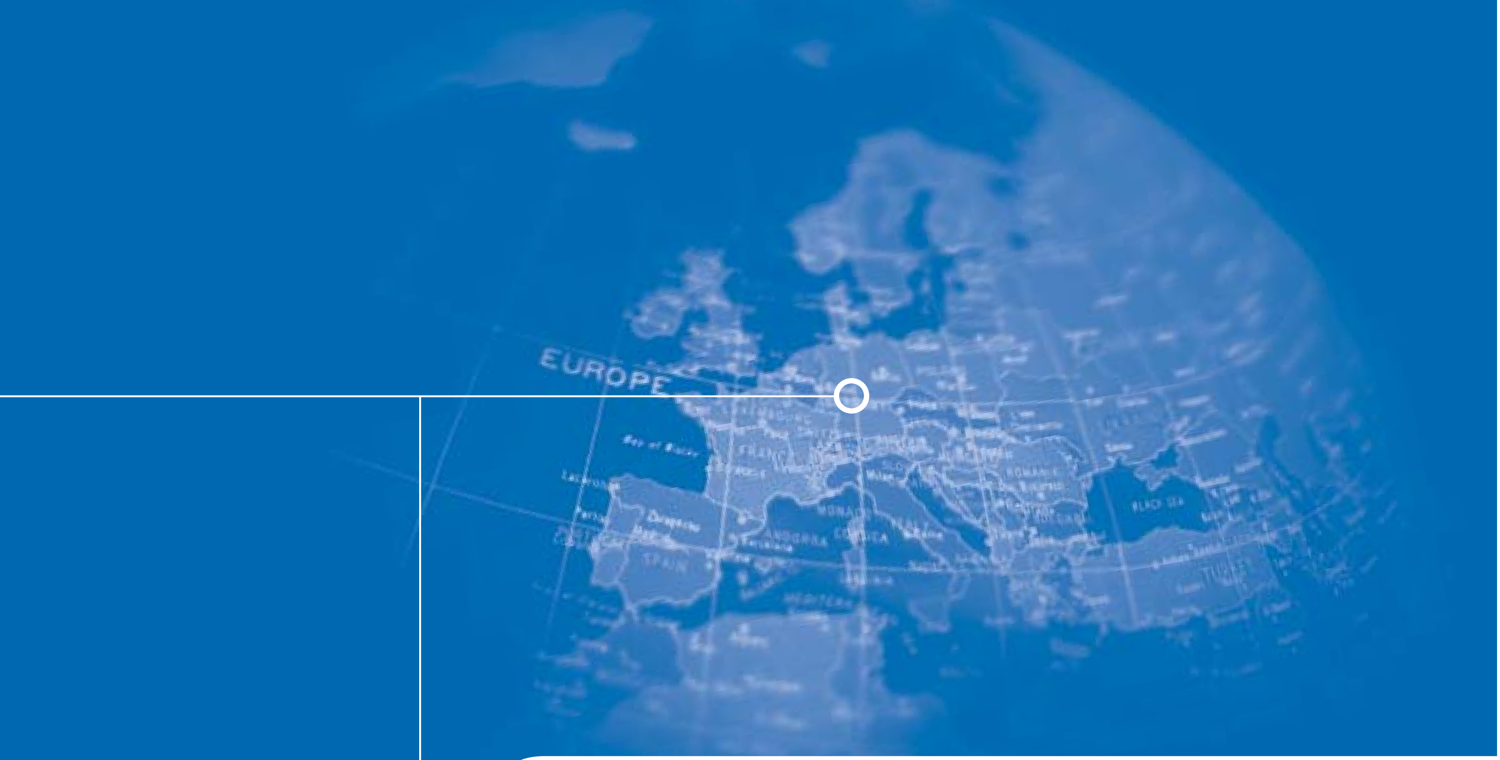


Q3/05

3rd Quarterly Report 2005

SOFTWARE AG
THE XML COMPANY

Key Figures

Key Figures
IFRS, unaudited

€ millions	September 30, 2005	September 30, 2004	Q3 2005	Q3 2004
Revenue	**314.5**	**298.6**	**103.7**	**96.6**
Products	223.1	214.6	75.0	71.1
of which				
Licensing	88.3	77.7	29.2	25.1
Maintenance	134.8	136.9	45.8	46.0
Professional services	90.0	82.8	28.5	25.2
Other	1.4	1.2	0.2	0.3
EBIT*	**67.5**	**60.4**	**23.1**	**21.0**
as % of revenue	21	20	22	22
Investments		**24.5**		
Net Income adjusted	**43.0**	**37.9**	**15.2**	**12.7**
Net Income	**43.0**	**61.9**	**15.2**	**12.7**
as % of revenue	14	21	15	13
Earnings per share (Euro) basic	**1.57**	**2.27**	**0.55**	**0.47**
Earnings per share (Euro) diluted	**1.56**	**2.27**	**0.55**	**0.47**
Total assets	**571.3**	**510.9**		
Cash and cash equivalents	**153.3**	**110.2**		
Shareholders' equity	**370.5**	**312.9**		
as % of total assets	65	61		
Employees	**2,664**	**2,445**		
of which in Germany	770	776		

* Pre Income from Investments (sales of SAP-SI shares in Q2/2004).

Stock: key figures

	September 30, 2005	September 30, 2004
Year's closing price (XETRA) in €	38.80	26.51
Total number of shares	27,933,357	27,266,752
Market capitalization in € millions	1,084	723
Year high/year low	39.00/21.80	28.17/15.30

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

Profile

The XML Company

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

XML (eXtensible Markup Language) is the key technology for the exchange of data and documents. At the same time, it simplifies the integration of new technologies and applications in existing IT architectures.

Our products and solutions enable the integration of 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
Darmstadt/Germany

Dear Ladies and Gentlemen,

Software AG's favorable performance in the third quarter has confirmed our forecasts for the current fiscal year. The 16 percent increase in licensing revenues shows that we are on course for leveraging the potential of our business lines, Enterprise Transaction Systems and our high-growth XML Business Integration. Operating earnings also made good progress, increasing 12 percent to €67.5 million in the first nine months of the year. The operating margin rose to over 21 percent.

To further drive growth, we invested in new products and new markets. We also expanded our network of partners and our sales and marketing activities.

Process innovation as a key to corporate success
Our customers appreciate our strong commitment to IT-supported process innovation. This is what I am frequently told during my travels around the globe to discuss projects with key customers.

With our help, clients can derive more benefits from their IT investments, making them an integral part of their corporate success. We help our customers to improve the productivity and efficiency of their existing IT systems using service-oriented architectures (SOA).

SOA: the answer to major IT challenges
Our SOA-based products allow us to reliably modernize, integrate and automate business processes in order to help our clients save costs and increase competitiveness. According to a study recently published in Denmark, the growth rates of companies with integrated processes and IT systems exceed those of companies without them by 12 percent on average.

Alliance of leading software firms focusing on standards

Software AG is in a pole position in the growth market of service-oriented architecture for innovative processes. We strengthen our position further through continued systematic development activities and the integration of the best-practice solutions of our technology partners.

The individual development steps are principally geared towards standards so that customers are not restricted to proprietary platforms from specific providers. As a European company, we are familiar with the issues of Europe's fragmented markets such as cultural and language barriers and differing legislation.

The ability to offer specific solutions for individual customers opens up major opportunity in the European market for service-oriented architecture. Our market alliance with leading software companies such as Fujitsu, SAP, IDS Scheer, and Novell is intended to realize the potential in the European SOA market and will also serve to strengthen the positions of individual members.

Catering to the CentraSite community together with Fujitsu

Together with our strategic partner, Fujitsu, we started delivery in the third quarter of CentraSite, a joint offer for the management of integrated processes within an SOA. CentraSite was designed from the start to be open and to support real standards.

Another step in expanding our range of SOA products was the acquisition of Casabac Technologies, a German company whose Composite Application Integrator assists clients in developing rich Internet applications.

Solid base for profit growth

Software AG will continue to support income and earnings growth through disciplined implementation of our long-term strategy for success. We anticipate an increase in net income of 4 – 6 percent on a currency-adjusted basis for 2005 as a whole. We expect to achieve an EBIT ratio at the upper end of the target corridor of 20 – 22 percent set for 2005. By the end of 2006, we plan to have increased revenue to 10 percent and the EBIT ratio to 21 – 23 percent.

Karl-Heinz Streibich
Chief Executive Officer

Growing share price lead to profit taking

Technology stocks continued to improve in a market plagued by rising oil prices, natural disasters and affected by the new elections in Germany. The Nasdaq 100 rose 7 percent in the third quarter of 2005, and the TecDAX increased more than 11 percent. The share price performance of Software AG contributed to the upward trend of the TecDAX. Our good results again demonstrated to the capital markets that our new strategic orientation is paying off: The price of Software AG shares continued to rise in the third quarter, increasing more than 13 percent and reaching a high of €39.00. Software AG stock closed at €38.80 on September 30, 2005 in Xetra trading.

Investor sentiment changed, however, at the start of October 2005. Persistently high energy prices as well as interest rate fears had a marked impact on the equity markets, rapidly diminishing the optimism of international investors, who resorted to profit-taking to safeguard their annual gains. Our stock also showed signs of profit-taking after the excellent performance of the past two quarters, closing at €37.88 on October 31, 2005.

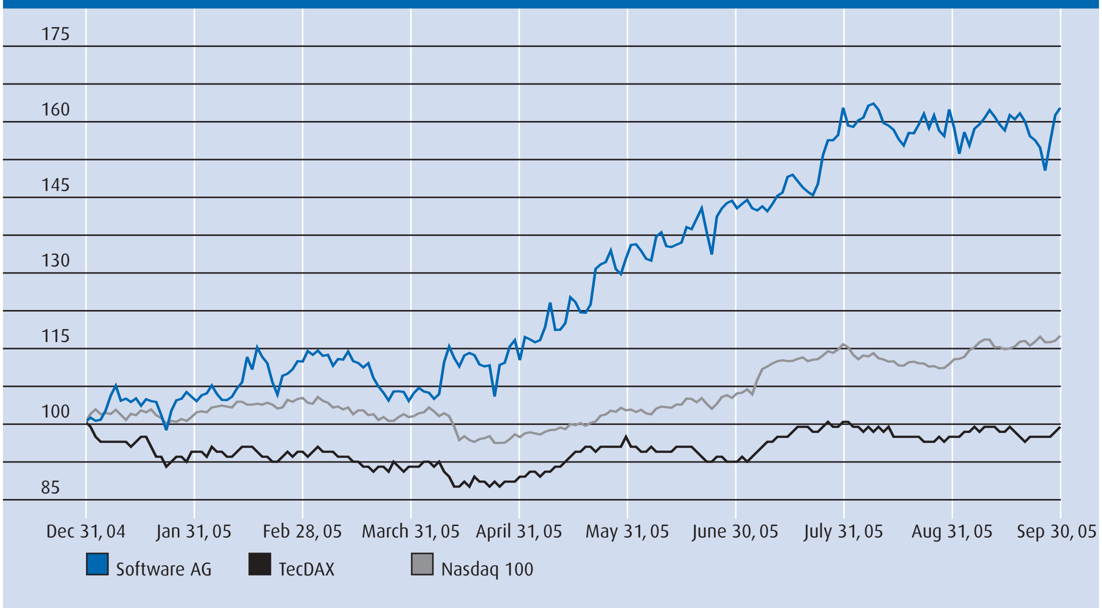
Management and employee stock options exercised

On August 19, 2005, we announced that 666,605 options had been exercised from employee stock option plans for the years from 1999 to 2001. No active Executive Board members took part in these transactions. The favorable share price performance made it possible for the first time in three years to exercise options: Software AG stock significantly outperformed the TecDAX benchmark index both in fiscal year 2004 and in the first half of 2005. The number of outstanding shares increased to 27,933,357 upon exercise of the stock options. Software AG received proceeds in the amount of €18.7 million from this transaction. Approximately 184,000 options can still be exercised under this program up until summer 2008. For more information, please refer to the notes to this quarterly report.

ADR program results in new investors

We presented our company at six road shows and two conferences in Europe in the third quarter. We would now like to further increase visibility of our stock and win new investors, especially in the United States. For this reason, we have made preparations with Deutsche Bank for trading Software AG shares on the U.S. market as American Depository Receipts ("ADR"). The ADR program began on October 27, 2005. American Depositary Receipts are negotiable U.S. certificates representing shares held in a non-U.S. company. ADRs enable U.S. investors to buy and sell foreign securities in U.S. dollars. At Software AG, ADRs are traded in the over-the-counter (OTC) market under a "sponsored level I ADR program." When a U.S. investor purchases foreign stock, the shares are converted to ADRs. When the stock is sold, the ADRs are converted back to shares. Issuers offering ADRs under a level I program are not subject to reporting requirements as defined in the Sarbanes-Oxley Act.

Comparison of share development with leading indices



Favorable performance in the third quarter Revenue and earnings exceed targets

Software AG continued on its profitable growth course in the third quarter, with revenue increasing more than 7 percent and EBIT up 10 percent. The Company's favorable performance over the past nine months means that Software AG will most likely close the year at the upper end of the target corridor set for 2005. The prospects for 2006 are likewise positive due to our successful implementation of corporate strategy.

In the third quarter, revenues of Software AG increased by €7.1 million over the prior-year period to €103.7 million. Third-quarter growth outpaced growth in the two preceding quarters.

Dynamic growth in licensing business

The high-yield licensing business once again made above-average gains. Revenue from new software licenses increased 16 percent to €29.2 million from €25.1 a year earlier. Sales of Enterprise Transaction products for state-of-the-art data management rose 9 percent to €19.7 million from €18.1 million a year earlier.

In the XML Business Integration division, sales of proprietary products climbed 22 percent to €5.5 million. As planned, sales of third party products decreased €1.6 million to €0.5 million based on our decision to phase out the business with products from outside suppliers. We now generate 92 percent of licensing revenues in the integration business with our own software products, compared to 74 percent a year earlier.

Licensing revenue by product line

€ millions	Q3 2005	Q3 2004	+/–
Software AG XML products	5.5	4.5	+ 22 %
Third party XML products	0.5	1.6	
ETS	19.7	18.1	+ 8 %

In the first nine months of the current fiscal year, licensing revenues increased 14 percent to €88.3 million from €77.7 a year earlier. Both XML Business Integration and Enterprise Transaction Systems (ETS) contributed to this increase, again demonstrating the pulling power of our strategy of offering both integration products and solutions for the modernization of legacy systems. The combination of these two product lines allows us to take advantage of the potential offered by the rapidly growing integration market while benefiting from the stability of our established mainframe basis.

Professional Services still in high demand

As in the first six months of the year, revenues from Professional services continued to increase, rising 13 percent to €28.5 million. Maintenance revenues remained stable in comparison with the prior-year period, reaching €45.8 million in the third quarter.

Revenue

€ millions	Q3 2005	Q3 2004	+/–
Licensing	29.2	25.1	+ 16 %
Maintenance	45.8	46.0	± 0 %
Professional Services	28.5	25.2	+ 13 %

Higher margin brings leap in earnings

On the earnings side, Software AG benefited from higher revenue volumes. Consistent cost management, an expanded range of products and a profitable licensing business also contributed to the margin increase. Operating income (EBIT) for the Group as a whole rose 10 percent to €23.1 million. The EBIT ratio increased to 22.3 percent from 21.7 percent a year earlier. Net income grew even more than EBIT, reaching €15.2 million. This significant increase of approx. 20 percent is attributable to the considerable growth in net interest income to €1.5 million from €0.8 million a year earlier. The slight decrease in the tax rate over the previous year also had a beneficial effect.

Key performance indicators

€ millions	Q3 2005	Q3 2004
EBIT	23.1	21.0
Interest result	+ 1.5	+ 0.8
Income before taxes	24.6	21.9
Net income	15.2	12.7
Earnings per share (in €)	0.55	0.47
Average number of shares outstanding (in millions)	27.6	27.3

Sharp increase in earnings per share

Earnings per share increased 17 percent to €0.55 from the prior-year period. This rise reflects the increase in the number of weighted average shares outstanding to 27.6 million from 27.3 million a year earlier as a result of the exercise of options from two employee and management stock option plans that will expire in the summer of 2008. Software AG received proceeds of €18.7 million from the stock purchases.

Growth in all regions

Software AG made both revenue and earnings progress in all regions. Revenues from the Central and Eastern Europe/Asia region saw particularly high growth, increasing 13 percent over the prior-year period to €30.6 million. In addition to the core countries of Germany, Austria and Switzerland, this region comprises of the Eastern European countries, including Russia, the APEC member countries and the Middle East. Growth was driven mainly by the strong Professional Services business, which increased 26 percent. EBITA improved by nearly 25 percent to €6.2 million.

In the Southern and Western European regions, including Latin America, we generated revenues of €30.3 million in the reporting period. EBITA increased significantly to €1.6 million in spite of our investments in entering the South American market and the acquisition of APS Venezuela along with its affiliates in Panama, Costa Rica and Puerto Rico.

Revenue and earnings trend by region

	Revenue		EBITA	
€ millions	Q3 2005	Q3 2004	Q3 2005	Q3 2004
North America/Northern Europe	43.4	41.4	14.1	12.1
Central and Eastern Europe/Asia	30.6	27.2	6.2	5.0
Southern and Western Europe/Latin America	30.3	28.3	1.6	– 0.4

High earnings power in North America/ Northern Europe

The North American/Northern Europe region accounts for 42 percent of Software AG's revenue, more than any other geographic area. Income from this region increased to €43.4 million from €41.4 million a year earlier. The licensing business experienced particularly high growth of €2.2 million to €13.0 million. Revenues from Professional services reached €5.5 as of the reporting date from €4.9 million a year earlier. EBITA rose 17 percent to €14.1 million, again proving the capacity of this region to generate high margins.

Key performance indicators improve again

The Group's operating cash flow rose to €9.7 million, more than three times higher than a year earlier. Software AG's balance sheet continued to improve, not least due to the sustained high cash flow. As of the September 30 reporting date, cash and cash equivalents had increased 39 percent over the prior-year period to €153.3 million. The equity capital of €370.5 million corresponds to nearly two-thirds of total assets.

New hirings, mainly in sales

As of September 30, 2005, Software AG employed people to the equivalent of 2,664 full-time positions – 219 more than a year earlier. The Company also had 485 temporary project employees. The number of employees increased primarily in the Southern and Western Europe region, including Latin America, where business was impacted by the expansion of our activities in South America and the acquisition of the APS Group. In terms of areas of activity, the number of employees increased in sales in particular. We expanded our sales team by 16 percent, reflecting our intensive market orientation and emphasis on customer acquisitions. More than 71 percent of our employees work outside of Germany.

Change in headcount by function (full-time equivalents)

	Sept. 30, 05	Sept. 30, 04	+/–
Sales and Pre-Sales	368	318	+ 16 %
Marketing	86	84	+ 2 %
R&D	374	333	+ 12 %
Support, administration and other personnel	776	771	+ 1 %
Professional Services	1,060	939	+ 13 %
Temporary project staff	485	519	– 7 %
Total	2,664	2,445	+ 9 %

New opportunities in SOA environment through innovation

A major part of Software AG's growth is driven by innovative new products and functional expansions. We considered these aspects in advancing the portfolios of the two business lines. The additions focused on software products that integrate business applications, accelerate business processes, and support changes in corporate structures. In practice, these basic market requirements can be met primarily by using solutions based on service-oriented architectures (SOA). SOA combines existing services and networks available application building blocks, resulting in improved productivity and cost benefits for existing systems. Since SOA fulfills crucial customer criteria for IT investments, this area offers particular market opportunities.

New product generation makes ETS product portfolio more attractive

In the third quarter we announced major enhancements in our product line for mainframe systems: The data management platform Adabas 2006 uses additional components and functions to optimize access to information administered in the database system. Natural 2006, the development and implementation environment, provides enhancements for integrating Natural applications as well as comprehensive support for service-oriented architectures.

These innovations are in response to high customer demand for modernization solutions with which legacy systems can be easily adapted to new business requirements at low cost. Parts of the new product generation are already on the market, including the Event Replicator™ for Adabas. We have generated revenue of €1.5 million in the third quarter with this product, which has been available worldwide since July. Additional versions of the Replicator, which is currently available for IBM mainframes, are planned for the start of 2006.

ApplinX enhances position in legacy modernization

As planned, ApplinX technology – acquired from the takeover of Sabratec Ltd., Israel, at the start of the year – increased its market share. The first upgrades to ApplinX were made after integration into our portfolio. ApplinX is now particularly suited for use in additional legacy systems. ApplinX has further expanded Software AG's significant position in the market for modernizing mainframe applications and integrating legacy applications into Web services or SOA environments.

Casabac Technologies improves integration competency

Software AG believes in organic growth but also makes use of acquisitions to expand its regional presence or to gain additional technological capabilities. With this in mind, Software AG acquired Casabac Technologies GmbH as of August 1, 2005. This company's Java-based technology is currently being integrated into our XML Business Integration product line. The core research and development team from Casabac has been assigned to the XML Business Integration unit to ensure close and efficient cooperation. At the start of October, the first joint development was introduced – the Composite Application Integrator (CAI). The CAI acts as a link between the IT environment and end users in service-oriented architectures.

Fujitsu and Software AG: joint SOA integration project

Under the global cooperation with Fujitsu, we announced the joint project CentraSite in the third quarter, an offering for managing integrated business processes in a service-oriented architecture (SOA). CentraSite is a powerful, open and standards-based SOA repository of the next generation, supporting the entire life cycle and management of integration components, Web services and other application components. Intuitive reporting tools simplify communication between corporate functions and IT, which is the basis for successfully implementing and operating SOA-based solutions. CentraSite is available as of October 2005.

SOA integration offers crucial advantages in practice, such as lower costs and shorter implementation phases for integration projects as well as improvements in internal and inter-company cooperation. In addition, business risks diminish since the effects of changes can be identified quickly. These advantages make CentraSite an extremely attractive solution.

Partnership with Fujitsu forges ahead

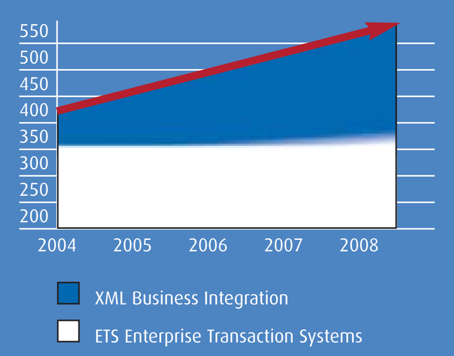
Fujitsu and Software AG will continue to combine innovative and marketing forces in the future. CentraSite will be marketed and updated by both companies. The strategic alliance formed for this purpose involves Fujitsu distributing two of Software AG's integration products: the Enterprise Service Integrator and the Enterprise Information Integrator. In return, we will market Fujitsu's Interstage Business Process Manager (Interstage).

Good prospects for the rest of 2005 and 2006

We are still anticipating net income to increase 4 – 6 percent on a currency-adjusted basis for 2005 as a whole. The licensing business will outperform sales growth, reaching the upper end of our target corridor of 10 – 12 percent. Our maintenance revenues will most likely remain stabile, while Professional Services are expected to exceed the prior-year's revenue by 8 – 10 percent. We anticipate an operating EBIT margin of 20 – 22 percent. From a current perspective, this figure should lie at the upper end of this target corridor.

Projected sales growth for the Group as a whole

€ millions



For the coming year, Software AG is aiming for revenue growth of 10 percent and an EBIT ratio of 21 – 23 percent. XML integration solutions will continue to drive growth, while new customer acquisitions promise additional growth potential in response to increased direct marketing activities. Software AG will also benefit from geographical expansion in emerging markets as well as from the global alliances entered into this year with partners such as Fujitsu and SAP.

Events after the balance sheet date: Changes in the Executive Board

At the end of October, Alfred Pfaff was appointed to the Executive Board of Software AG. He is responsible for the Central and Eastern Europe/Asia region, which CEO Karl-Heinz Streibich had directed on a provisional basis. Alfred Pfaff joined the Company on January 1, 2005 and has since then been in charge of Software AG's German business as Managing Director of SAG Systemhaus GmbH. Mr. Pfaff previously held the post of Chief Representative of IBM Deutschland.

In October, Software AG entered into a strategic partnership with the danet Group, Weiterstadt, Germany. The partnership aims to combine danet's existing solutions and system integration expertise with Software AG's comprehensive interface tools to form new solutions.

Consolidated income statement for the nine months ended September 30, 2005

IFRS, unaudited

€ thousands	September 30, 2005	September 30, 2004	Q3 2005	Q3 2004
Licensing	88,256	77,663	29,163	25,057
Maintenance	134,786	136,900	45,824	45,995
Professional Services	90,027	82,846	28,463	25,222
Other	1,390	1,202	243	361
Total revenue	**314,459**	**298,611**	**103,693**	**96,635**
Total revenue	– 104,942	– 101,901	– 33,606	– 32,903
Gross profit	**209,517**	**196,710**	**70,087**	**63,732**
Research and development	– 32,460	– 36,948	– 10,934	– 11,353
Sales, marketing and distribution	– 75,730	– 65,414	– 25,256	– 22,346
Administrative costs	– 33,410	– 33,488	– 11,201	– 11,321
Operating result	**67,917**	**60,860**	**22,696**	**18,712**
Income from sale of SAP-SI shares	0	24,539	0	0
Other income	10,509	8,544	3,619	3,621
Other expenses	– 10,898	– 9,021	– 3,228	– 1,300
Earnings before interest, taxes and amortization	**67,528**	**84,922**	**23,087**	**21,033**
Amortization	0	0	0	0
Earnings before interest and taxes	**67,528**	**84,922**	**23,087**	**21,033**
Interest result	4,079	2,345	1,543	845
Earnings before taxes	**71,607**	**87,267**	**24,630**	**21,878**
Income taxes	– 27,340	– 24,145	– 8,980	– 8,804
Other taxes	– 1,308	– 1,221	– 402	– 333
Consolidated income	**42,959**	**61,901**	**15,248**	**12,741**
Earnings per share (Euro, basic)	1.57	2.27	0.55	0.47
Earnings per share (Euro, diluted)	1.56	2.27	0.55	0.47
Weighted average shares outstanding (basic)	27,377,853	27,266,752	27,600,055	27,266,752
Weighted average shares outstanding (diluted)	27,561,688	27,266,752	27,783,890	27,266,752

Consolidated balance sheet as of September 30, 2005

IFRS, unaudited

Assets

€ thousands	September 30, 2005	December 31, 2004	September 30, 2004
Current assets			
Cash on hand and bank balances	136,318	89,397	88,146
Securities	16,982	29,695	22,102
Inventories	399	345	356
Trade receivables	125,993	109,674	112,400
Other receivables and other assets	6,075	4,015	7,043
Deferred expense	6,059	5,261	6,214
	291,826	**238,387**	**236,261**
Non current assets			
Intangible assets	6,234	1,516	1,306
Goodwill	187,274	174,591	176,472
Property, plant and equipment	45,628	44,274	44,853
Financial assets	2,343	1,592	1,774
Trade receivables	7,881	14,648	13,720
Deferred taxes	30,080	35,677	36,465
	279,440	**272,298**	**274,590**
	571,266	**510,685**	**510,851**

Equity and Liabilities

€ thousands	September 30, 2005	December 31, 2004	September 30, 2004
Current liabilities			
Current financial liabilities	2,586	3,349	3,757
Trade payables	21,263	21,192	17,508
Other current liabilities	29,853	22,279	18,291
Current provisions	25,295	33,257	33,269
Tax provisions	18,566	14,291	12,166
Deferred income	58,389	47,245	68,532
	155,952	**141,613**	**153,523**
Non-current liabilities			
Non-current financial liabilities	2,336	3,490	3,887
Trade payables	84	0	0
Other non-current liabilities	580	299	396
Provision for pension	22,624	22,149	20,748
Non-current provisions	828	906	652
Deferred taxes	13,376	12,443	11,944
Deferred income	5,012	6,183	6,830
	44,840	**45,470**	**44,457**
Equity			
Share capital	83,800	81,800	81,800
Capital reserve	16,946	132	132
Retained earnings	210,707	154,032	156,454
Consolidated income	42,959	77,125	61,901
Currency translation differences	– 19,075	– 41,574	– 26,870
Other reserves	34,897	51,847	39,328
Minority interest	240	240	126
	370,474	**323,602**	**312,871**
	571,266	**510,685**	**510,851**

Statement of cash flows for the nine months ended September 30, 2005

IFRS, unaudited

€ thousands	September 30, 2005	September 30, 2004	Q3 2005	Q3 2004
Income after taxes	42,959	61,901	15,248	12,741
Income taxes	27,340	24,146	8,980	8,778
Interest result	– 4,079	– 2,345	– 1,544	– 846
Depreciation	5,670	6,784	1,686	2,253
Income from sale of SAP SI-shares	0	– 24,539	0	0
Income from sale of assets	63	231	31	237
Cash generated from operations	**71,953**	**66,178**	**24,401**	**23,163**
Changes in inventories, receivables and other current assets	– 9,624	– 1,073	– 9,353	11,770
Changes in payables and other liabilities	– 1,562	– 34,012	2,305	– 22,317
Income taxes paid	– 16,776	– 17,637	– 9,078	– 10,861
Interest paid	– 1,673	– 693	– 116	– 174
Interest received	5,923	2,928	1,608	996
Net cash used in/provided by operating activities	**48,241**	**15,691**	**9,767**	**2,577**
Cash received from the sale of tangible/intangible assets	162	72	0	16
Investments in tangible/intangible assets	– 6,566	– 3,480	– 3,189	– 1,564
Cash received from the sale of financial assets	3,350	26,273	3	135
Investments in financial assets	– 4,128	– 846	– 620	– 98
Investments in consolidated companies	– 8,897	0	– 1,478	0
Net cash used in/provided by investing activities	**– 16,079**	**22,019**	**– 5,284**	**– 1,511**
Cash proceeds from issuing shares	18,814	0	18,814	0
Dividend payments	– 20,450	0	0	0
Repayment of loans from acquisitions and other finance liabilities	– 1,397	– 2,308	– 572	– 811
Net cash used in/provided by financing activities	**– 3,033**	**– 2,308**	**18,242**	**– 811**
Change in cash funds from cash relevant transactions	**29,129**	**35,402**	**22,725**	**255**
Adjustment from currency translation	**5,079**	**687**	**1,740**	**– 473**
Net change in cash and cash equivalents	**34,208**	**36,089**	**24,465**	**– 218**
Cash and cash equivalents at the beginning of the period	119,092	74,159	128,835	110,466
Cash and cash equivalents at the beginning of the period	**153,300**	**110,248**	**153,300**	**110,248**

Segment report for the nine months ended September 30, 2005

IFRS, unaudited

€ thousands	North America, Northern Europe	Southern and Western Europe	Central and Eastern Europe/ Asia	Total Region	Development Central function Consolidation	Total Group
Licenses	41,490	22,041	24,890	88,421	– 165	88,256
Maintenance	73,546	24,388	37,212	135,146	– 360	134,786
Professional Services	17,333	50,241	23,724	91,298	– 1,271	90,027
Other	292	512	181	985	405	1,390
Total revenue	**132,661**	**97,182**	**86,007**	**315,850**	**– 1,391**	**314,459**
EBITA	**43,327**	**6,397**	**14,312**	**64,036**	**3,492**	**67,528**
Interest result						4,079
Profit before taxes						**71,607**
Taxes						– 28,648
Net income						**42,959**
Total revenue proportion per region	42.0	30.8	27.2	100.0		
Product revenue	115,036	46,429	62,102	223,567		
Proportion per region	51.4	20.8	27.8	100.0		

Segment report for the nine months ended September 30, 2004

IFRS, unaudited

€ thousands	North America, Northern Europe	Southern and Western Europe	Central and Eastern Europe/ Asia	Total Region	Development Central function Consolidation	Total Group
Licenses	35,398	19,761	22,673	77,832	– 169	77,663
Maintenance	75,817	23,097	38,462	137,376	– 476	136,900
Professional Services	15,644	47,977	19,502	83,123	– 277	82,846
Other	371	365	110	846	356	1,202
Total revenue	**127,230**	**91,200**	**80,747**	**299,177**	**– 566**	**298,611**
EBITA (operating)	**36,668**	**6,138**	**13,805**	**56,611**	**3,772**	**60,383**
Income from sale of SAP SI					24,539	24,539
EBITA (as reported in P&L)	**36,668**	**6,138**	**13,805**	**56,611**	**28,311**	**84,922**
Interest result						2,345
Profit before taxes						**87,267**
Taxes						– 25,366
Net income						**61,901**
Total revenue proportion per region	42.5	30.5	27.0	100.0		
Product revenue	111,215	42,858	61,135	215,208		
Proportion per region	51.7	19.9	28.4	100.0		

Segment report Q3 2005

IFRS, unaudited

€ thousands	North America, Northern Europe	Southern and Western Europe	Central and Eastern Europe/ Asia	Total Region	Development Central function Consolidation	Total Group
Licenses	13,013	6,783	9,411	29,207	– 44	29,163
Maintenance	24,808	8,141	12,992	45,941	– 117	45,824
Professional Services	5,530	15,313	8,172	29,015	– 552	28,463
Other	83	32	27	142	101	243
Total revenue	**43,434**	**30,269**	**30,602**	**104,305**	**– 612**	**103,693**
EBITA	**14,133**	**1,636**	**6,238**	**22,007**	**1,080**	**23,087**
Interest result						1,543
Profit before taxes						**24,630**
Taxes						– 9,382
Net income						**15,248**
Total revenue proportion per region	41.6	29.0	29.4	100.0		
Product revenue	37,821	14,924	22,403	75,148		
Proportion per region	50.3	19.9	29.8	100.0		

Segment report Q3 2004

IFRS, unaudited

€ thousands	North America, Northern Europe	Southern and Western Europe	Central and Eastern Europe/ Asia	Total Region	Development Central function Consolidation	Total Group
Licenses	10,770	6,292	8,056	25,118	– 61	25,057
Maintenance	25,722	7,847	12,611	46,180	– 185	45,995
Professional Services	4,901	13,969	6,514	25,384	– 162	25,222
Other	40	150	57	247	114	361
Total revenue	**41,433**	**28,258**	**27,238**	**96,929**	**– 294**	**96,635**
EBITA	**12,146**	**– 403**	**5,002**	**16,745**	**4,288**	**21,033**
Interest result						845
Profit before taxes						**21,878**
Taxes						– 9,137
Net income						**12,741**
Total revenue proportion per region	42.7	29.2	28.1	100.0		
Product revenue	36,492	14,139	20,667	71,298		
Proportion per region	51.2	19.8	29.0	100.0		

Statement of changes in equity for the nine months ended September 30, 2005 IFRS, ungeprüft									
€ thousands	Shares		Capital	Retained	Consolidated	Currency	Other	Minority	Total
	Number	Share capital	reserve	earnings	income	translation differences	reserves	interest	
Equity as of January 01, 2005	**27,266,752**	**81,800**	**132**	**231,157**	**0**	**-41,574**	**51,847**	**240**	**323,602**
Cash proceeds from issuing shares	666,605	2,000	16,664						18,664
Personnel expenses Stock Options (IFRS 2)			150						150
Consolidated income of the period					42,959				42,959
Dividend payment				– 20,450					– 20,450
Currency translation differences						22,499			22,499
Net gains from the fair value valuation of securities not recognized in income statement							– 1,207		– 1,207
Net gains from the fair value valuation of loans with group members not recognized in income statement							– 15,743		– 15,743
Equity as of September 30, 2005	**27,933,357**	**83,800**	**16,946**	**210,707**	**42,959**	**– 19,075**	**34,897**	**240**	**370,474**

Statement of changes in equity for the nine months ended September 30, 2004 IFRS, ungeprüft									
€ thousands	Shares		Capital	Retained	Consolidated	Currency	Other	Minority	Total
	Number	Share capital	reserve	earnings	income	translation differences	reserves	interest	
Equity as of January 01, 2004	**27,266,752**	**81,800**	**132**	**156,454**	**0**	**– 32,340**	**63,149**	**126**	**269,321**
Consolidated income of the period					61,901				61,901
Currency translation differences						5,470			5,470
Net gains from the fair value valuation of securities not recognized in income statement							– 18,112		– 18,112
Net gains from the fair value valuation of loans with group members not recognized in income statement							– 5,709		– 5,709
Equity as of September 30, 2004	**27,266,752**	**81,800**	**132**	**156,454**	**61,901**	**– 26,870**	**39,328**	**126**	**312,871**

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, 2004 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 2004 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, 2004:

1.) The two companies of the Sabratec Group acquired in the first quarter of 2005, Software AG Israel (formerly Sabratec Ltd., Israel) and its subsidiary, Sabratec Technologies, Inc., USA, were initially consolidated as of the closing date of the purchase agreement (February 3, 2005). The fixed purchase price including ancillary costs for 100 percent of the shares was €6,159 thousand. In addition, the purchase price includes a variable portion based on future sales. At the time of acquisition, these companies had a consolidated equity of €1,213 thousand, and in fiscal year 2004 generated revenues of €2,185 thousand.

2.) Software AG Latinoamerica S.A., which was created on May 27, 2005 as a subsidiary of SAG Spain with a share capital of €50 thousand, was initially consolidated as of the date of foundation of the company.

3.) On June 29, 2005 (closing date), the Company acquired the six companies of the APS Group in Central and South America. Two of these companies are located in Venezuela (SAG Venezuela, formerly Análisis Programación y Software, C.A. (APS) and A. Zancani & Asociados, C.A. (AZA)), two in Panama (SAG Panama, formerly Soluciones de Integración de Negocios, S.A. (SINSA)) and its subsidiary, Soluciones de Integración Movil, S.A. (SINSA MOVIL), and one company each in Costa Rica (another subsidiary of SINSA: SAG Costa Rica, formerly Soluciones de Integración Movil, S.A. (SINSA Costa Rica)) and in Puerto Rico (SAG PTO. RICO, formerly XML Partners, Inc. (XML)). These companies were initially consolidated as of the closing date. The fixed purchase price including ancillary costs for 100 percent of the shares will amount to a maximum of €4,126 thousand, depending on 2005 revenues. In addition, the purchase price contains a variable portion based on future sales and earnings. At the time of acquisition, these companies had a consolidated equity of minus €422 thousand and in fiscal year 2004 generated revenues of USD 4,415 thousand (€3,551 thousand).

4.) With effect from August 1, 2005, Software AG acquired Casabac Technologies GmbH in Bammental near Heidelberg, Germany, including its U.S. subsidiary, Casabac Technologies, Inc. These companies were initially consolidated as of the closing date (August 1, 2005).

The fixed purchase price including ancillary costs for 100 percent of the shares was €1,531 thousand. In addition, the purchase price includes a variable portion based on future sales. At the time of acquisition, these companies had a consolidated equity of €104.5 thousand and in fiscal year 2004 generated revenues of €270 thousand.

A new Russian subsidiary was established as of August 3, 2005 with capital of €50 thousand. Software AG – as the parent company – holds 100 percent of the shares in this subsidiary.

There were no other changes in the consolidated group compared to December 31, 2004.

Earnings per share

Earnings per share were calculated by dividing net income for the period attributable to 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 third quarter, the weighted average number of shares amounted to 27,600,055. In the first nine months of 2005, the weighted average number of shares amounted to 27,377,853.

Since all three criteria for exercising options as set out in the first stock option plan for members of the Executive Board, officers and other employees were met in the course of the second quarter 2005, 666,605 stock options were exercised during the third quarter. The exercising criteria for another 183,835 options were also met. These options may therefore be exercised in the fourth quarter of 2005 and in the first half of 2006, provided the share price at the time the options are exercised is at least €30 and the return on sales for fiscal 2005 reaches at least 10 percent. 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 shareholders by the number of shares in issue and the exercisable stock options.

Financial Position

Goodwill

The acquisition of the Software AG USA Group as of February 1, 2001 resulted in goodwill of €174,591 thousand; the acquisition of the two Sabratec companies in Israel and in the USA on February 3, 2005 resulted in goodwill of €6,589 thousand; the acquisition of the APS Group on June 29, 2005 resulted in goodwill of €3,978 thousand; and the acquisition of Casabac Technologies GmbH, Bammental near Heidelberg, including its U.S. subsidiary resulted in goodwill of €2,116 thousand. Goodwill related to the Software AG USA Group had been fully amortized over ten years by December 31, 2002 in accordance with the HGB accounting regulations applicable at that time.

Shareholders' equity

The change in shareholder's equity is shown in the Statement of Changes in Equity as of September 30, 2005.

1. Conditional capital

The following conditional capital existed as of September 30, 2005:

1.) Up to €2,785 thousand divided into a maximum of 928,288 bearer shares, reserved to cover subscription rights under the first stock option plan (Management Incentive Plan I (MIP I)) for members of the Executive Board and officers in the Group. The requirements of this program and the status of allocations and exercising options are presented under other disclosures/stock-based compensation programs.

    On August 18, 2005, as a result of the options being exercised by officers and former members of the Executive Board during the third quarter 2005, the Executive Board partially made use of the authorization to service the options granted under the first stock option plan in the amount of €572 thousand divided into 190,674 bearer shares.

2.) Up to €3,000,000 divided into a maximum of 1,000,000 bearer shares to provide for subscription rights under the second stock option plan (Management Incentive Plan II, MIP II) for members of the Executive Board and officers of the Software AG Group. The requirements of this program and the status of allocations and exercising options are presented under other disclosures/stock-based compensation programs.

The Executive Board did not made use of the authorization to service the options granted under the second stock option plan prior to September 30, 2005.

3.) Up to €33,000,000 divided into a maximum of 11,000,000 bearer shares, each with a proportional share in the capital stock of €3, for the purpose of granting option rights and agreeing on option obligations arising from bonds with warrants or granting conversion rights and agreeing on conversion obligations to bearers of convertible bonds in a total nominal amount of up to €500,000,000 and a term not exceeding 15 years in accordance with the terms and conditions of the bonds, as resolved at the Annual Shareholders' Meeting on May 13, 2005. Pursuant to this authorization, the Executive Board may, with the consent of the Supervisory Board, resolve until May 12, 2010 that the rights presented may be issued by Software AG or a directly or indirectly held wholly-owned affiliate of Software AG.

In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Executive Board is authorized to exclude fractional amounts from the shareholders' subscription rights.

- Subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude the shareholders' subscription rights in full provided it has come to the conclusion that the issue price of the bonds with warrants or convertible bonds is not significantly lower than their hypothetical market value arrived at by using accepted methods, in particular financial calculation methods, after having conducted a review in accordance with its professional duties. However, this authorization to exclude subscription rights only applies to bonds with warrants and convertible bonds with option or conversion rights or with share-related option or conversion obligations at a proportional amount of the registered share capital not to exceed €8,180 thousand, or 10 percent of the registered share capital in existence at the time the authorization is acted upon.

The Executive Board did not make use of this authorization prior to September 30, 2005.

2. Authorized capital

As of September 30, 2005, the Executive Board is also authorized, with the consent of the Supervisory Board, to increase the Company's registered share capital on one or more occasions on or before April 27, 2006 by up to a total of €36,561 thousand by issuing up to 12,187,105 new bearer shares against cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights except in the following cases:

- The Executive Board is authorized to exclude fractional amounts from the shareholders' subscription rights.

- Subject to the consent of the Supervisory Board, the Executive Board is further authorized to exclude subscription rights for capital increases against contributions in kind for the purpose of acquiring equity investments or companies in part or in whole.

- Subject to the consent of the Supervisory Board, the Executive Board is also authorized to exclude subscription rights for capital increases against cash contributions if the capital increases resolved on the basis of this authorization do not, in total, exceed 10 percent of the registered share capital at the time the authorization is first acted upon and if the issue price is not significantly lower than the stock market price.

- Finally, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights for a nominal amount not to exceed €5,076 thousand in total for the purpose of offering the new shares to the employees of the Company and its affiliated companies as defined in §§ 15 et seq. of the German Stock Corporation Act (AktG) as part of an employee stock ownership plan. The new shares may also be transferred to a bank, provided they will be held exclusively for the purpose of acquisition by entitled employees in accordance with the Company's instructions.

As a result of the options being exercised by employees of the Company during the third quarter 2005, the Executive Board on August 18, 2005 made partial use of such authorization in the amount of €1,428 thousand divided into 475,931 bearer shares.

3. Acquisition of own shares

Pursuant to the resolution adopted at the Annual Shareholders' Meeting on May 13, 2005, the Company is authorized to purchase on or before November 12, 2006 Company shares having a proportional interest in the registered share capital of up to a total of €8,180 thousand. The Company shares may be purchased on the stock market or through a public purchase offer directed to all shareholders of the Company. If the shares are purchased on the stock market, the consideration for purchase of the shares may not be more than 10 percent higher or lower than the average listed price on the Frankfurt Stock Exchange over the five trading days prior to the purchase. If the shares are purchased via a public purchase offer, the consideration for the purchases of the shares may be more than 20 percent higher or lower than the average listed price on the Frankfurt Stock Exchange from the fifth to ninth trading day prior to publication of the offer. The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.

The Executive Board is authorized, subject to the Supervisory Board's consent, to take the following action in relation to the own shares acquired:

- The Executive Board may sell the Company's own shares in a manner other than via the stock market or by means of a public offer to all shareholders. This authorization is limited to shares with a proportional interest in the registered share capital not exceeding a total of €8,180 thousand.

- The Executive Board is further authorized, subject to the exclusion of the shareholders' subscription rights, to sell the shares to third parties, provided such sale takes place for the purpose of acquiring companies in part or in whole and/or equity investments.

- The Executive Board may offer the shares for purchase by the members of the Executive Board and officers of the Company and affiliated companies as part of the second stock option plan for members of the Executive Board and officers of the Company.

- In compliance with the terms and conditions of the bonds, the Executive Board may deliver the shares to the holders of warrants or convertible bonds issued by the Company or by a wholly-owned direct or indirect subsidiary of the Company.

- In the event of a sale of acquired own shares by way of an offering to all shareholders, the Executive Board will be authorized to grant the holders of the warrants and convertible bonds issued by the Company or by a wholly-owned direct or indirect subsidiary of the Company a subscription right to the shares equivalent to that to which the warrant or bondholders would be entitled after exercising the option or conversion rights or after the performance of the option or conversion obligation.

- The Executive Board may redeem the own shares acquired in whole or in part without any additional resolution by the Annual Shareholders' Meeting.

The authorization to purchase or use the Company's own shares may be exercised either in whole or in part (and in the latter case, more than once). The Company's own shares may be purchased for one or more of the aforementioned purposes.

The Executive Board did not made use of its authorization to acquire own shares prior to September 30, 2005.

4. Dividend payment
Pursuant to the proposal of the Executive Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 13, 2005 to appropriate €20,450 thousand of the unappropriated profit of €62,955 thousand for 2004 of Software AG, the parent company of the group, for the payment of dividends – corresponding to a dividend of €0.75 per share – and to carry forward €42,505 thousand of such amount.

Other disclosures

Seasonal influences
Revenues and pre-tax earnings adjusted for one-time effects were distributed over the previous year's quarters as follows:

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	2004
Revenue in € thousands	95,720	106,256	96,635	112,760	411,371
in % of annual revenue	23.3	25.8	23.5	27.4	100.0
Operating earnings before tax in € thousands	15,782	25,608	21,878	24,462	87,191
in % of net income for the year	18.1	28.8	25.1	28.0	100.0

The distribution of revenues was similarly structured in previous years, primarily due to the purchasing behavior of our customers. The first three quarters 2005 were characterized by a similar trend as in the previous year. Restructuring measures during the first quarter 2004 led to considerable cost savings and to a corresponding increase in pre-tax earnings. Pre-tax earnings for the second quarter of 2004 included €24,539 thousand of extraordinary income resulting from the sale of SAP SI shares which were not included in operating earnings before tax. It is not likely that similar extraordinary income will be realized in the future.

Contingent liabilities

As of September 30, 2005, no provisions were recognized for the following contingent liabilities, expressed at nominal values, since it appeared unlikely that claims would be asserted:

	€ thousands
Guarantees	7,129
Other	1,484
Total	8,613

Stock option plans

Software AG has different stock option plans for members of the Executive Board, officers and other Group employees. This resulted in personnel expenses of €150 thousand in the third quarter 2005 due to the transition regulations set out in IFRS 2.

1. Stock option plan for members of the Executive Board, officers and other employees

As of September 30, 2005, a total of 30,323 subscription rights had been issued to officers. The current members of the Executive Board did not hold any options from this program. The number of options decreased by 190,674 compared to December 31, 2004 as a result of the options exercised by officers and former members of the Executive Board during the third quarter 2005.

In addition, 153,512 subscription rights were granted to the other employees of the Software AG Group as of September 30, 2005. Compared to December 31, 2004, the number of subscription rights of the other employees as of September 30, 2005 decreased by 328,293 due to employee fluctuation and by 475,931 due to the options exercised during the third quarter 2005.

The options have a term of seven years from the time of issue. They may be exercised on a quarterly basis after publication of the annual results, the semi-annual results or the quarterly results. In addition, the options may only be exercised during their term, which commences after a 24-month waiting period following the Company's IPO.

When exercising an option, the subscription price per share is €28.12. In order for the options to be exercised, the following three conditions must be met:

(1) The Group's profit from ordinary activities as reported under the German Commercial Code (HGB) must have increased by a total of 30 percent in the years from 1997 to 1999.

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

(3) The share price must exceed the minimum price of €30 per share at the time the option is exercised.

The first condition was fulfilled based on the results achieved in the years from 1997 to 1999. The return on sales of 27 percent in fiscal 2004 fulfilled the second crieteria. The third condition was also met based on the excellent performance of Software AG's shares in fiscal year 2005.

As a result, 850,440 stock options were exercisable in the third quarter 2005, 666,605 of which were exercised at an average share price of €37.00. The remaining 183,853 options may be exercised until July 31, 2008.

This stock option program led to personnel expenses of €150 thousand in the third quarter of 2005. The 150,267 stock options granted after November 7, 2002 were measured in accordance with the transition regulations set out in IFRS 2.53, recognized as personnel expenses of €150 thousand and taken to the capital reserve. The remaining 700,173 stock options were issued prior to November 7, 2002 and were not measured in accordance with IFRS 2.53.

The underlying average market value of the options was determined to be €3.28 per stock option calculated on the basis of the Black-Scholes model.

The calculation was based on the following parameters:

Expected average term until exercise of the options (in years)	2,8
Risk-free interest rate in %	2.81
Expected volatility for three years as of the valuation date %	50
Expected dividend yield in %	3
Weighted average share price upon exercise in €	16.84
Exercise price in €	28.12

For the purpose of calculating the average term until the exercise of the options, it has been assumed that the options might be exercised early based on experience with previously exercised options. This calculation takes into account the previous average holding periods of the employee options after the date as of which they could be exercised as well as expected future share price development.

The expected volatility was calculated as the average three-year volatility of Software AG's shares as of the dates the options were granted.

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

2. Stock option plan for Executive Board members and officers

As of September 30, 2005, a total of 163,375 subscription rights had been issued to Executive Board members, and 684,800 subscription rights had been issued to officers; these subscription rights may not, however, be exercised prior to September 30, 2005. In the first three quarters of 2005, a total of 140,775 subscription rights were issued to officers. A total of 22,000 stock options were withdrawn during the first three quarters 2005 (10,000 thereof in the third quarter 2005). Based on the new compensation model, which took effect on January 1, 2005, no further subscription rights were issued.

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

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

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

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

Terms, waiting periods and exercise intervals correspond to the conditions of the first stock option plan.

No stock options could be exercised in the first three quarters of 2005 given that the criteria for the second stock option plan were not met. It is also unlikely that options under this stock option plan will be exercisable in the near future. Therefore, the options were measured at €0.00 per option in accordance with IFRS 2.

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 2005 amount to €3,976 thousand. Obligations of €35,828 thousand exist for the period up to the end of fiscal year 2010 and obligations of €15,526 thousand for the period after fiscal year 2010. The lease agreements are operating leases as defined under IAS 17.

Notes on significant business events

1. Payments related to restructuring

A total of €3,300 thousand was paid out for restructuring measures in the first three quarters of 2005, €0 of which related to the third quarter. This amount was included in the restructuring provisions of €30,682 thousand recognized for this purpose in fiscal year 2003.

2. Software AG Inc. and Software AG ./. U.S. software company

Software AG Inc. and Software AG filed a complaint against a U.S. software company in July 2003 seeking damages and a permanent injunction for a violation of a patent granted to Software AG in 1994 after out-of-court negotiations had failed. In November 2004, the defendant company in turn filed a complaint alleging a patent violation before the U.S. District Court of Alexandria. The case was settled in April 2005. The claims of both parties under the alleged patent infringements were offset against each other. This settlement did not adversely impact income of Software AG.

3. Licensing of non-exclusive source code rights

In the third quarter of 2005, Software AG granted a customer a non-exclusive source code right related to one of its products. The Company generates licensing revenue of €3.3 million on the basis of this agreement.

4. Acquisition of Sabratec Ltd. Israel

Components of purchase price: Software AG acquired 100 percent of the shares in Software AG Israel (formerly Sabratec Ltd., Israel) and its subsidiary Sabratec Technologies, Inc., USA, effective as of February 3, 2005. The fixed purchase price including ancillary costs for 100 percent of the shares was €6,159 thousand. In addition, the purchase price includes a variable portion based on future sales. In initial consolidation, this variable portion was estimated at €2,803 thousand. Ancillary costs reflected fees paid for legal and tax advice as well as auditing fees. The first fix purchase price payment in the amount of €5,720 thousand was made at the time of acquisition. A further installment amounting to €245 thousand was made on June 2, 2005. Based on a preliminary calculation revised in the third quarter, the purchase price was paid for the balance of the following assets/liabilities:

Assets/Liabilities

€ thousands	Market value	Carrying amount before acquisition
Liquid funds	342	342
Trade receivables and other current assets	1,120	1,120
Intangible assets – software	2,029	0
Intangible assets – customer base	533	0
Goodwill	6,209	0
Property, plant and equipment	92	92
Financial assets	3	3
Deferred tax assets	519	519
Trade payables and other current liabilities	– 182	– 182
Non-current liabilities	– 616	– 616
Deferred tax liabilities	– 1,022	0
Deferred income	– 48	– 48
Difference from currency translation	– 17	– 17
Purchase price (fixed portion)	6,159	
Purchase price (estimated variable portion based on future sales)	2,803	
Total purchase price	8,962	
Carrying amount of the assets acquired		1,213

Goodwill: Since Sabratec has an excellent reputation in the market for integration technology and it was possible to retain the company's excellent software development team following the acquisition, it was necessary to recognize goodwill. There was no evidence of other factors contributing to goodwill.

Contribution to earnings since the date of acquisition (February 3, 2005): Since the date of acquisition, the acquired company, Software AG Israel, has contributed €217 thousand to the Software AG Group's earnings for the first three quarters of 2005.

Preliminary initial consolidation pursuant to IFRS 3.62: As a result of the close proximity in time between the date of acquisition (February 3, 2005) and the balance sheet date of the quarterly financial statements (March 31, 2005), it was not possible to complete the necessary measurements for initial consolidation. Therefore, the initial consolidation of Software AG Israel was performed on the basis of preliminarily determined carrying amounts. In the third quarter of 2005, the amounts so determined were revised, resulting in deviations from the amounts stated in the report for the first quarter of 2005.

The following items were subject to deviation:

€ thousands	Previously reported carrying amounts	Revised carrying amounts	Deviation
Items			
Goodwill	3,250	6,209	2,959
Software	1,900	2,029	129
Customer base	500	533	33
Deferred tax liabilities	– 958	– 1,023	– 65
Purchase price	5,909	8,962	3,053

The deviations resulted primarily from sales of products of the acquired company which exceeded initial expectations. Therefore, the carrying amounts for the sales-dependent portion of the purchase price were increased.

Contribution to sales and earnings in initial consolidation on January 1, 2005: Software AG Group revenues arising from sales of Sabratec products are primarily reported in the financial statements of the sales companies. The relevant share of these sales reported by Software AG Israel (previously Sabratec Ltd., Israel) amounted to €746 thousand in the first three quarters of 2005. In the same period, Software AG Israel achieved pre-tax earnings of €217 thousand.

Expenses in connection with the acquisition of Software AG Israel: The software products ApplinX and Guidance, which were capitalized in connection with the acquisition of Software AG Israel, are amortized over a period of five years, leading to amortization expenses of €271 thousand in the first three quarters 2005. Expenses resulting from the amortization of the acquired customer base over a period of five years came to €71 thousand in the first three quarters 2005. The deferred tax liabilities related to the accounting treatment of the software and the customer base are being reversed in line with the amortization period of five years. This has resulted in deferred tax assets of €136 thousand for the first three quarters 2005. No income or expense from the consolidation other than that described was incurred, nor is any such income or expense anticipated for the future.

5. Acquisition of the APS Group

On June 29, 2005 (closing date), the Company acquired the six companies of the APS Group in Central and South America. Two of these companies are located in Venezuela (SAG Venezuela, formerly Análisis Programación y Software, C.A. (APS) and A. Zancani & Asociados, C.A. (AZA)), two in Panama (SAG Panama, formerly Soluciones de Integración de Negocios, S.A. (SINSA) and its subsidiary, Soluciones de Integración Movil, S.A. (SINSA MOVIL)), and one company each in Costa Rica (another subsidiary of SINSA, SAG Costa Rica, formerly Soluciones de Integración Movil, S.A. (SINSA Costa Rica)) and in Puerto Rico (SAG PTO.RICO, formerly XML Partners, Inc. (XML)).

Components of purchase price: The fixed purchase price including ancillary costs for 100 percent of the shares will amount to a maximum of €4,126 thousand, depending on 2005 revenues. In addition, the purchase price contains a variable portion based on future sales and earnings. In initial consolidation, this portion was estimated at €500 thousand. The first purchase price payment in the amount of €2,187 thousand was made at the time of acquisition.

Based on a preliminary calculation, the purchase price was paid for the balance of the following assets/liabilities:

Assets/Liabilities

€ thousands	Market value	Carrying amount before acquisition
Liquid funds	829	829
Other securities	119	119
Trade receivables and other current assets	1,707	1,707
Intangible assets – customer base	1,780	0
Goodwill	3,978	0
Property, plant and equipment	343	343
Deferred tax assets	4	4
Trade payables and other current liabilities	– 3,176	– 3,176
Financial liabilities	– 147	– 147
Deferred tax liabilities	– 710	0
Deferred income	– 60	– 60
Difference from currency translation	– 41	– 41
Purchase price (fixed portion)	4,126	
Purchase price (estimated variable portion based on future sales and earnings)	500	
Total purchase price	4,626	
Carrying amount of the assets acquired		– 422

Goodwill: It was necessary to recognize goodwill due to the good market positions of these companies and the possibility of leveraging these positions to penetrate new market segments.

Customer base: It was necessary to recognize the customer base in initial consolidation since these established sales companies have distributed Software AG's products in South and Central America for more than 25 years and have more than 50 key accounts in the financial services, production, oil and mining industries as well as in the public sector.

Contribution to earnings since the date of acquisition (June 29, 2005): The companies acquired by the APS Group have contributed €2,437 thousand to Software AG Group's earnings since the date of acquisition.

Preliminary initial consolidation pursuant to IFRS 3.62: As a result of the close proximity in time between the date of acquisition (June 29, 2005) and the balance sheet date of the quarterly financial statements (September 30, 2005), it was not possible to complete the necessary measurements of the items for the initial consolidation of the APS Group. Therefore, the initial consolidation was performed on the basis of preliminarily determined carrying amounts.

Contribution to sales and earnings in initial consolidation on January 1, 2005: If the APS Group had been part of the Software AG Group since January 1, 2005, it would have contributed €7,365 thousand to Group sales and €3,937 thousand to the Group's net income for the first three quarters 2005.

Expenses in connection with the acquisition of the APS Group: The customer base capitalized in connection with the acquisition of the APS Group will be amortized over a period of five years. In the third quarter of 2005, expenses related to the amortization of the customer base came to €89 thousand. The deferred tax liabilities resulting from the accounting treatment of the customer base are being reversed in line with the amortization period of five years. This has resulted in deferred tax assets of €36 thousand for the first three quarters 2005. No other income or expense from the consolidation was incurred, nor is any such income or expense anticipated for the future.

6. Acquisition of Casabac Technologies GmbH and its subsidiaries

With effect from August 1, 2005, Software AG acquired all the shares of Casabac Technologies GmbH in Bammental near Heidelberg, Germany, including its U.S. subsidiary, Casabac Technologies, Inc. Founded in 2001, Casabac specializes in software for designing interactive, Web-based interfaces. The Casabac GUI Server is used by approximately 100 organizations as a core technology for developing web-enabled enterprise applications.

Components of purchase price: The fixed purchase price including ancillary costs for 100 percent of the shares was €1,531 thousand. In addition, the purchase price contains three variable portions based on sales. These variable portions are to be paid from 2007 to 2009 and shall not exceed a total of €1.131 thousand. The first purchase price payment was made on August 1, 2005.

Based on a preliminary calculation, the purchase price was calculated on the basis of the balance of the following assets/liabilities:

Assets/Liabilities

€ thousands	Market value	Carrying amount before acquisition
Liquid funds	53	53
Trade receivables and other current assets	79	79
Intangible assets – customer base	46	0
Intangible assets – software	688	0
Goodwill	2,116	0
Property, plant and equipment	1	1
Trade payables and other current liabilities	– 28	– 28
Deferred tax liabilities	– 293	0
Fixed purchase price incl. ancillary costs	1,531	
Purchase price (estimated variable portion based on future sales and earnings)	1,131	
Total purchase price	2,662	
Carrying amount of the assets acquired		105

Goodwill: This technology-related acquisition represents a further step in the expansion of our Integration and Business Process Management business. Casabac's Java-based technology will further expand the application possibilities and increase the attractiveness of Software AG's integration solutions. Furthermore, the product range of the XML Business Integration line will be expanded. As a result, it was necessary to recognize goodwill.

Customer base: The Casabac GUI Server is used by more than 100 organizations as a core technology for developing web-enabled enterprise applications. Software AG and Casabac have been cooperating since mid-2004. For these reasons, it was necessary to recognize the customer base in initial consolidation.

Contribution to earnings since the date of acquisition (August 1, 2005): The employees of Casabac were taken over by Software AG as of August 1, 2005. Casabac has discontinued its operating activities since its products are now directly marketed by Software AG companies. As a result, the company will no longer contribute to Group earnings. The remaining shell company will be merged with Software AG during the fourth quarter, effective retrospectively as of August 1, 2005.

Preliminary initial consolidation pursuant to IFRS 3.62: As a result of the close proximity in time between the date of acquisition (August 1, 2005) and the balance sheet date of the quarterly financial statements (September 30, 2005), it was not possible to complete the necessary measurements of the items for the initial consolidation of Casabac. Therefore, the initial consolidation was performed on the basis of preliminarily determined carrying amounts.

Contribution to sales and earnings in initial consolidation on January 1, 2005: If Casabac had been part of the Software AG Group since January 1, 2005, it would have contributed €237 thousand to Group sales and €81 thousand to the Group's net income for the first three quarters of 2005.

Expenses in connection with the acquisition of Casabac: The software products capitalized in connection with the acquisition of Casabac will be amortized over a period of five years. This resulted in amortization expenses of €23 thousand in the third quarter 2005. Amortization resulting from the acquired customer base over a period of five years led to amortization expenses of €2 thousand. The deferred tax liabilities related to the accounting treatment of the software and the customer base are being reversed in line with the amortization period of five years. This has resulted in deferred tax assets of €10 thousand for the third quarter 2005.

Employees

As of September 30, 2005, the effective number of employees (i.e., part time employees are taken into account on a pro-rata basis only) amounted to 2,664 (September 30, 2004: 2,445), 71.09 percent (previous year: 68.26 percent) of whom were employed abroad. The average absolute number of employees (i.e., part-time employees are recorded in full) of the Software AG Group in the first three quarters 2005 was 2,678 (previous year: 2,515). In absolute terms, the Group employed 2,774 people (previous year: 2,468) at the end of the third quarter.

Executive Board and Supervisory Board

On April 1, 2005, Peter Kürpick, formerly Vice President of NetWeaver Foundation, SAP AG, joined the Company's Executive Board. He is responsible for the XMLi product line.

Executive Board member Andreas Zeitler, responsible for the region Central and Eastern Europe/Asia, left the Company in May 2005 and retired from the Executive Board effective as of August 22, 2005.

There have been no changes in the Supervisory Board since December 31, 2004.

Events after the balance sheet date

Effective on November 1, 2005, Alfred Pfaff was appointed to Software AG's Executive Board. He is responsible for the Central and Eastern Europe/Asia region.

As of October 5, 2005, a new subsidiary was established in China with capital of €200 thousand. Software AG – as the parent company – holds 100 percent of the shares in this subsidiary.

Software AG Taiwan Ltd., Taipeh/Taiwan, was dissolved effective as of October 5, 2005.

Financial Calendar*

November 01 – 02	Roadshow New York, USA – CFO
November 03	Roadshow Milan, Italy – CEO
November 08	Roadshow London, UK – CFO
November 11	Roadshow Frankfurt, Germany – Country Manager
November 14	Commerzbank Conference, Frankfurt, Germany – CFO
November 16	Roadshow Madrid, Spain – Executive Board Member
November 17	Morgan Stanley 5th Annual Technology, Media & Telecoms Conference, Barcelona, Spain – Country Manager
November 22	German Equity Forum, Deutsche Börse AG, Frankfurt, Germany – CEO
November 25	Roadshow Munich, Germany – IR
November 29	Roadshow Paris, France – CFO
December 05 – 09	Roadshow USA/Canada – IR
January 16 – 18, 2006	CA Cheuvreux German Corporate Conference, Kronberg, Germany – CFO
May 12, 2006	Annual General Shareholders' Meeting, Frankfurt, Germany

* Status: October 2005

Further details concerning Investor Relations Events can be found on our home-page: www.softwareag.com/investor.

Impressum

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