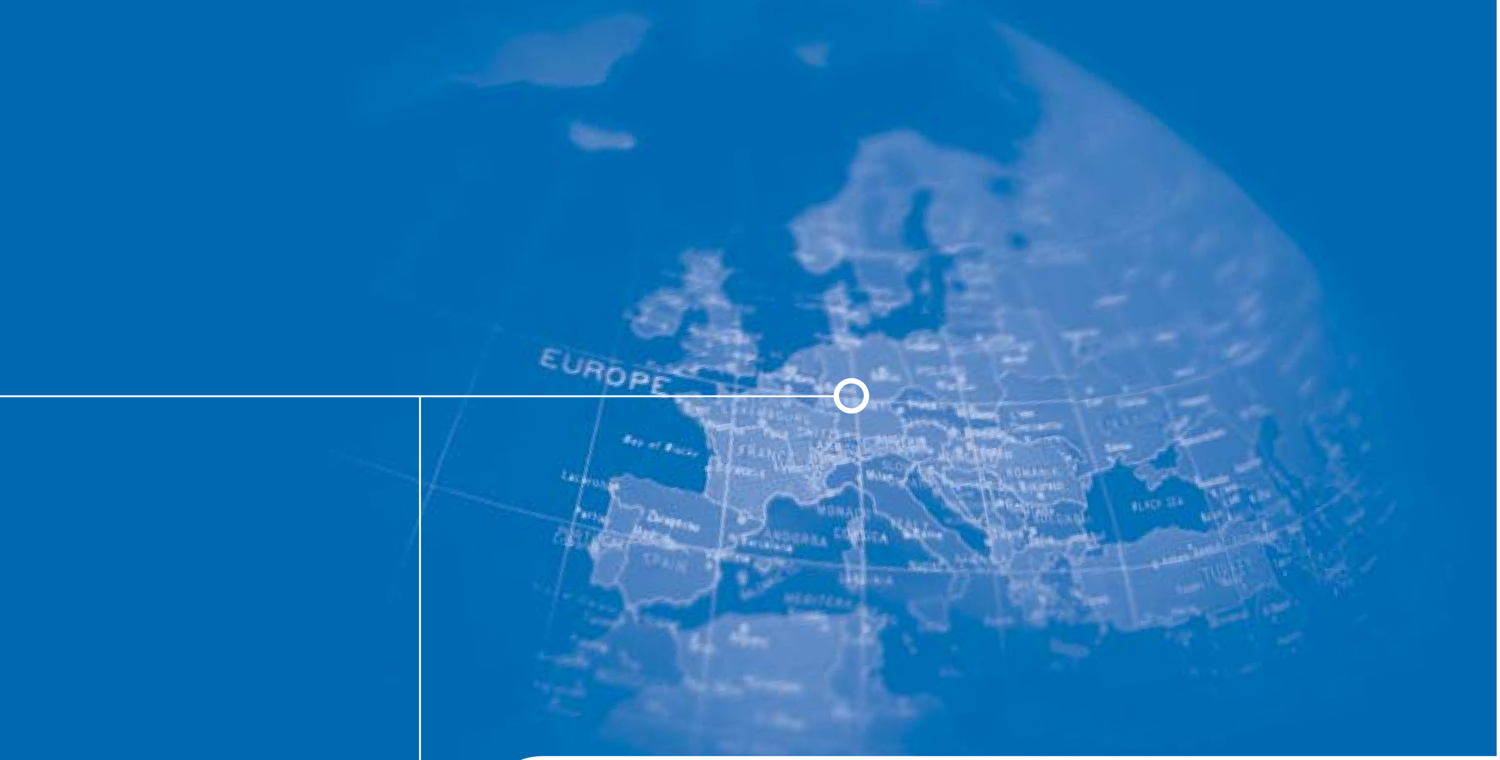


Q2/05

2nd Quarterly Report 2005

Key Figures

Key Figures

IFRS, unaudited

€ millions	June 30, 2005	June 30, 2004	Q2 2005	Q2 2004
Revenue	**210.8**	**202.0**	**110.5**	**106.3**
Products	148.1	143.5	77.4	76.2
of which				
Licensing	59.1	52.6	32.1	29.4
Maintenance	89.0	90.9	45.3	46.8
Professional services	61.6	57.6	32.4	29.6
Other	1.1	0.9	0.7	0.5
EBIT *	**44.4**	**39.4**	**26.5**	**24.2**
as % of revenue	21	19.5	24	22.8
Income from Investments*		**24.5**		**24.5**
Net Income	**27.7**	**49.2**	**16.0**	**39.4**
Net Income adjusted*	**27.7**	**25.1**	**16.0**	**15.4**
Earnings per share (EUR)	**1.02**	**0.92**	**0.59**	**0.56**
Total assets	**534.3**	**528.7**		
Cash and cash equivalents	**128.8**	**110.5**		
Shareholders' equity	**334.4**	**301.6**		
as % of total assets	63	57		
Employees	**2,578**	**2,435**		
of which in Germany	763	782		

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

Stock: key figures

	June 30 2005	June 30 2004
Year's closing price (XETRA) in €	34.25	23.00
Total number of shares	27,266,752	27,266,752
Market capitalization in € millions	934	627
Year high/year low	34.25/21.80	25.16/11.81

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 shareholders,

Software AG's chief goal for fiscal 2005 is to grow profitably. In the first six months, we achieved an operating margin of 21 percent and sales growth of 5 percent after adjusting for currency fluctuations. This pleasing performance was accompanied by strategic successes in expanding our business geographically, optimizing our product portfolio and adding to our network of partners.

Direct presence in the dynamic IT markets of Latin America

We took a major step in acquiring the APS Group, which gave us direct access to the dynamic IT markets of Latin America. APS Venezuela has been a sales partner of Software AG for more than 25 years, combining sound knowledge of the market with outstanding expertise of our products. APS's customers include some 50 key accounts which already utilize our company's high-performance systems. This gives us ideal starting conditions and enables us to rapidly expand our market position.

Adding technologies to our product portfolio

We have already integrated ApplinX technology from Sabratec – acquired in the first quarter – into our legacy modernization solutions. Our portfolio also gained in attractiveness due to the release of the Enterprise Information Integrator Version 2.1 and the Event Replicator for Adabas.

We are working on developing a worldwide association of renowned software companies to enable us to offer the best solutions. To this end, we entered into an alliance with Fujitsu and intensified our cooperation with Novell during the first quarter. This was followed by partnerships with IDS Scheer and SAP in the second quarter.

Service-oriented architecture in demand

The collaboration with our partners focuses above all on service-oriented architecture (SOA). SOA offers solutions for the most pressing IT demands of the decade. Architecture of this type:

- supports customers in their efforts to modernize existing IT systems rather than replacing them
- meets requirements for integration through web services and allows a complete automation of business processes

SOA allows our customers to tap into competitive advantages in the form of productivity advantages and cost benefits. As a consequence, SOA components are at the top of the list for IT decision makers.

IT trend of the future

Estimates by the Yankee Group project that 75 percent of all companies invest in the implementation of service-oriented architectures. Following the decade of computer centers, the PC era and today’s epoch of business applications, SOA is emerging as the wave of the future, in which process innovation will be have priority over product innovation.

Open standards such as XML are regarded as key SOA technologies. Accordingly, Software AG has good prospects for benefiting substantially from the potential offered by this expanding market. We are solidifying our outstanding starting position in the field of SOA through continued systematic development, which also includes integrating the best-practice solutions of our partners in technology.

Basis for growth will be systematically expanded
In order to optimize our product portfolio, we will continue to improve the capacity of our SOA integration components in the second half of the year. At the same time, we will be working on Adabas 2006 and Natural 2006, the next generation of our database system/application development environment. In terms of geographic expansion, we are intensifying our market activities in Latin America. We are also looking increasingly towards the up-and-coming markets of Easter Europe. We see additional opportunities in the Middle and Far East.

In sales, the focus remains on serving our Adabas and Natural customer base and providing solutions for integration and modernization. We will continue to gradually expand Business Process Management (BPM), which will play a crucial role in this area. BPM increases the efficiency of corporate processes, making it a logical addition to our integration business.

Software AG is aiming for accelerated growth in 2006. The progress made in the first half of 2005 and our activities in the second half have laid the foundation for us to achieve this goal.

Karl-Heinz Streibich
Chief Executive Officer

Stock climbs to three-year high

The positive price trend of Software AG stock is continuing. Driven by positive company reports, the share price increased approximately EUR 10 in absolute terms, once again surpassing the Nasdaq 100 and TecDAX reference indices by a wide margin.

Positive company reports lead to outperforming share prices

Technology stocks were given little regard in the second quarter of 2005: The Nasdaq 100 persisted at a nearly unchanged level in the second quarter, and the TecDAX rose only moderately by approx. 2 percent. Our stock performance did not reflect this restraint: Software AG stock rose 36 percent to EUR 34.25 as of the end of June 2005, the highest level in three years.

After publication of our Q1 results we demonstrated to the capital markets that our strategic reorientation is bearing fruit and surpassing market expectations. The credibility of our growth strategy was given another boost when the partnership between Software AG and IDS Scheer was announced in April 2005. In addition, the acquisition of the APS Group in Venezuela and the Caribbean reinforced our presence in Latin America and demonstrated our expansion strategy in growth regions. Based on these positive reports, analyst recommendations for the target price were adjusted upwards.

Price performance attracts new investors

After the steep price increase in June, some investors took profits allowing new investors to enter. For instance, the Liechtenstein-based Classic Fund AG informed us that its voting rights share had fallen below the 5 percent mark on July 18 to 4.9 percent. According to our information, our shareholder structure is as follows: The Software AG Foundation holds approx. 31.6 percent, DIT-Deutscher Investment Trust approx. 5.1 percent, other institutional investors approx. 44 percent and private investors approx. 15 percent of outstanding shares.

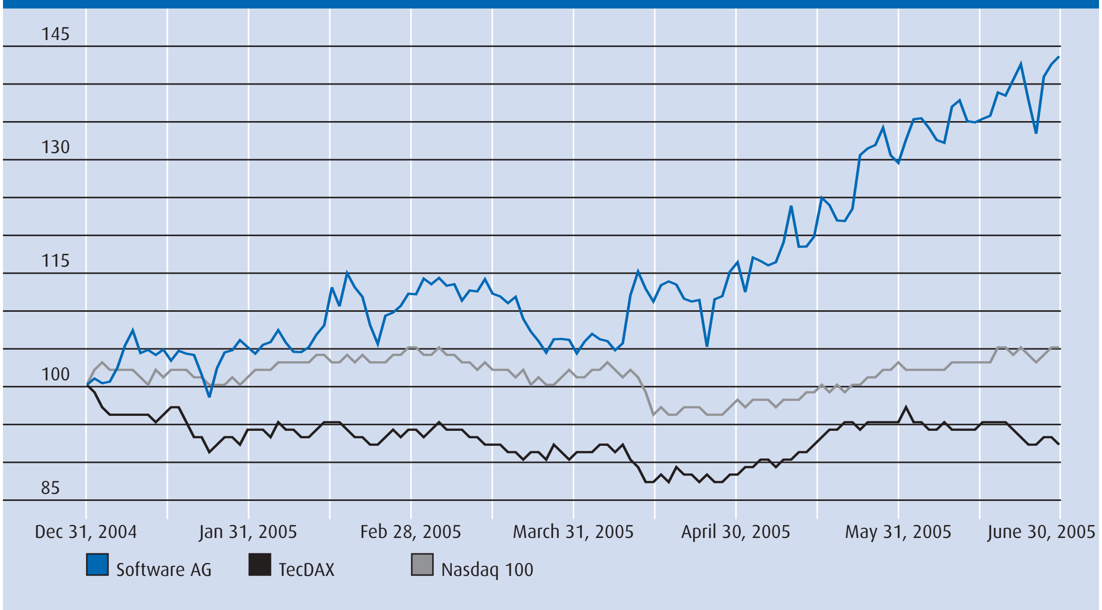
Contact with investors and financial analysts remains intensive

We intensified our investor contacts in the second quarter by holding several road shows and participating in seven international investor conferences in Europe and the U.S. We also provide information to investors and media representatives in person on a regular basis in our CEO visit program "Top 100 – customers worldwide." In the quarter under review, we raised awareness in the U.S. and France through this program. In the second half of 2005, we plan to reinforce our presence in the U.S. in particular.

Second quarter earnings exceed expectations

Earnings in the second quarter of 2005 once again surpassed market expectations. The fact that both product lines contributed to revenue growth met a particularly positive response. The stabile business in Enterprise Transaction Systems gives us the financial leeway to expand into new markets and regions. The integration business, which is important for future growth, will continue to see high growth rates. The market is now optimistic that we will reach our growth targets in the current year, a confidence which is already reflected in our share price. Software AG stock closed at EUR 37.25 on July 31, 2005.

Comparison of share development with leading indices

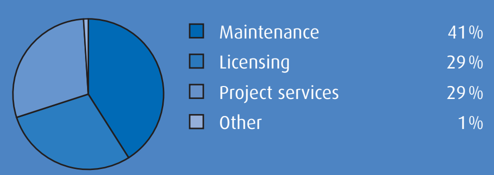


Software AG grows profitably – Good performance in second quarter

High earnings and steady sales growth continue to reflect our corporate development. Quarterly earnings before taxes and interest (EBIT) rose to €26.5 million, driven mainly by increasing license revenue. We also made major progress in implementing our strategy – geographic growth, expansion of our partner network and expansion of our product portfolio.

Group sales at Software AG climbed to €110.5 million in the second quarter of 2005 (previous year: €106.3 million), surpassing the prior-year period by 5 percent and the first quarter of this year by 10 percent after adjustment for currency translation. Licensing revenue once again made above-average gains, increasing to €32.1 million (previous year: €29.4 million), corresponding to a currency-adjusted increase of 10 percent.

Total sales by segment



Licensing revenues for Enterprise Transaction Systems increased to €24.0 million (previous year: €21.8 million). This business unit benefited from the continuing high market potential for modernization of existing IT systems as well as from new product releases and portfolio expansion.

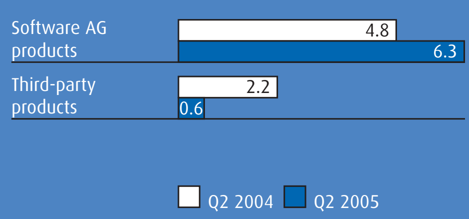
Higher share for Software AG's integration products

More than one-fifth of our license revenue is attributable to the XML Business Integration business unit, which addresses the expanding market for corporate-wide integration of business processes. Software AG's growing portfolio in this field consists primarily of in-house developed products with some third-party products. Sales of Software AG integration products rose 29 percent to €6.3 million. This dynamic upward trend underlines our increasing strengths in this strategic growth area.

Sales of third-party products was reduced according to plan. As a result, sales of third-party products declined to €0.6 million (previous year: €2.2 million). All in all, revenues from the licensing of integration software totaled €6.9 million (previous year: €7.0 million).

Licensing revenues for XML Business Integration

€ millions



Professional services in upward trend

Maintenance revenues declined slightly in the second quarter to €45.3 million (previous year: €46.8 million) as a result of currency translation and special effects. This decrease was more than compensated for, however, by higher license revenues. Total product revenue – combining maintenance and licensing – amounted to €77.4 million after €76.2 million in the same period of the previous year.

The increase in Professional Services already experienced in the first quarter gained momentum. At €32.4 million (previous year: €29.6 million), sales outperformed the previous year's figure by 10 percent after adjustment for currency effects.

Significant rise in income in all regions

We experienced above-average growth in the Southern and Western Europe region, which includes Latin America. Sales rose 10 percent to €36.6 million. This major increase resulted from organic growth as well as from our successful geographic diversification. Sales were driven by license revenue, which makes up a full quarter of total revenue in this region. The earnings contribution improved even more than revenue: EBITA generated in this region was 29 percent over the previous year's figure, reaching €4.4 million.

In the Central and Eastern European/Asia region, revenue rose to €29 million (previous year: €27.5 million). In addition to the licensing business, Professional Services picked up, increasing by one-third. We increased EBITA for this region by 12 percent to €4.5 million.

In the North America/Northern Europe region, revenue amounted to €45.2 million (previous year: €45.8 million). The slight decline of €0.6 million translates into slight growth after adjustment for currency effects. Particular success was achieved in increasing sales of Professional Services in the USA, where orders on hand for integration projects rose sharply. At €15.1 million EBITA, this region – which is the most profitable – surpassed the high level of the previous year by 9 percent.

Revenue and earnings trend by region

	Revenue		EBITA	
€ millions	Q2 2005	Q2 2004	Q2 2005	Q2 2004
North America/Northern Europe	45.2	45.8	15.1	13.9
Central and Eastern Europe/Asia	29.0	27.5	4.5	4.0
Southern and Western Europe/Latin America	36.6	33.1	4.4	3.4

EBIT margin increases to 24 percent
The Group's operating earnings (EBIT) rose to €26.5 million (previous year: €24.2 million). This represents a further improvement in the operating margin to 24 percent, an increase parallel to growth in total revenue.

The net income of €16.0 million is higher than the nominal €39.4 million in the previous year. The difference between the two figures is the result of the sale in 2004 of our equity interest in SAP SI. Software AG received income of €24.5 million from the transfer, which was reflected in the net profit of the prior-year quarter. After adjusting for the effects of this extraordinary income, the comparison figure for current net income amounts to €15.4 million.

Earnings performance: key figures

€ millions	Q2 2005	Q2 2004
EBIT	26.5	24.2
Sale of equity investments	n/a	24.5
Financial result	1.3	0.9
Income before taxes	27.8	49.6
Net income	16.0	39.4
Adjusted net income	16.0	15.4*
Adjusted earnings per share (in €)	0.59	0.56*

* Not including income from the sale of the SAP SI-shares

Operating cash flow increases significantly
Free cash flow from operations improved considerably to €14.9 million (previous year: €1.0 million after adjustment for the sale of equity investments). In the previous year, payments for restructuring measures amounting to €10.8 million had a negative impact on cash flow. This year, only €0.2 million is attributed to restructuring. Free cash flow corresponds to a good 13 percent of the revenue volume. Based on the total of 27.3 million Software AG shares, free cash flow amounts to €0.54 per share in comparison with €0.04 for the second quarter of 2004.

Acquisition of APS expands business in Latin America
We view the strategic development of new markets as an effective way to sustainable accelerated growth. To ensure a direct presence in Central America and the Caribbean, we acquired APS Venezuela and its affiliated companies in Panama, Costa Rica and Puerto Rico. Following our entry into the Chinese market, this acquisition represents another step in tapping into the promising IT market of Latin America. This market currently has a total volume of USD 134 billion and is growing at an average rate of 7.7 percent annually. Organizationally, the APS Group, which in 2004 generated sales of €3.6 million, is allocated to the newly-founded Software AG Latinoamerica S.I.

Global network of partners expanded
Our increased collaboration with SAP and strategic cooperation with IDS Scheer have expanded the international association of partners of Software AG. In the second quarter, SAP awarded its XI certificate to our XI adaptors for EntireX and Natural. Integrated into the SAP platform Netweaver, the adapters enable the smooth integration of existing mainframe systems and the acceleration of business processes by exchanging data in real time.

In addition, Software AG is now also a software and service partner of SAP Deutschland. This cooperation allows us to offer integration services using the XI adaptor. Certification and partnership complete our solution for the modernization of legacy systems, while strengthening the position of Software AG in the SAP environment.

Cooperation with IDS Scheer supplements the BPM portfolio
We have agreed a strategic partnership with IDS Scheer, a software and consulting company, which combines the products of both companies. The cooperation focuses on a comprehensive business process management solution which is expected to be launched in the first quarter of 2006. This solution will assist customers in flexibly adapting their systems to dynamic business processes, allowing new demands to be met more quickly and changes to be implemented more rapidly.

Innovation in the market for SOA and web services
Optimized product developments are the aim of our technological alliance with the U.S. company Active Endpoints, Inc. Active Endpoints is the leading independent provider of solutions utilizing Business Process Execution Language (BPEL). The company’s ActiveWebflow products promote the automation of process flows for organizations. We are integrating these products into our Enterprise Service Integrator, thus making it possible for existing systems to be used for web services. Customers will then, within an SOA, have access to all their IT resources.

Dr. Peter Kürpick joins Executive Board
Dr. Peter Kürpick has been a member of the Executive Board since April 1, 2005. Dr. Kürpick is in charge of the newly-established XML Business Integration division. His responsibilities include product marketing as well as research and development activities for this rapidly-growing corporate business unit.

Andreas Zeitler, Executive Board member and managing director of the Central and Eastern Europe region, left the company in May. Karl-Heinz Streibich is provisionally managing this region at present.

On the right track in growth and income – Promising performance in first half-year

In the first six months of the current fiscal year, currency-adjusted revenues increased 5 percent to €210.8 million. EBIT reached €44.4 million, increasing the operating margin to 21 percent. Both growth and income are right in the center of the target corridor for 2005 as a whole.

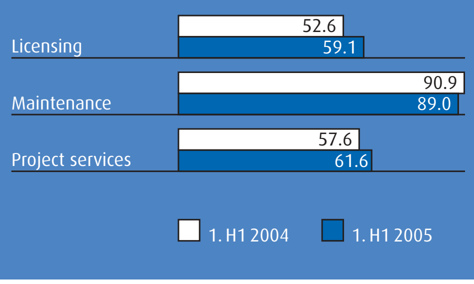
Significant growth in license revenue

The strategically important licensing business was the most rapidly growing area, increasing 13 percent after adjustment for currency effects. Taken together, the division's two business lines – XML Business Integration and Enterprise Transaction Systems – achieved license revenue of €59.1 million (previous year: €52.6 million). Both the sale of products for the modernization of existing systems and the integration business made strong advances. We registered high growth rates in the distribution of our own integration products.

In the Professional Services segment, revenues in the first half rose €4.0 million to €61.6 million. Maintenance revenues reached €89.0 million (previous year: €90.9 million), remaining at nearly the same level as in the previous year after adjustment for currency translation. The overall picture indicates that we are pursuing the right strategy in combining stable maintenance with rapidly growing business areas.

Revenue by segments

€ millions



Increase in income in all regions

In geographic terms, we made gains in particular in the Southern and Western Europe region, including Latin America, where revenues rose 6 percent to €66.9 million. Planned start-up costs for our market entry in Latin America led to EBITA being €4.8 million lower than in the prior-year period.

The Central and Eastern Europe/Asia region and North America/Northern Europe both saw revenue increases of 4 percent. We expanded our licensing business in North America/Northern Europe to €28.5 million with above-average growth of 16 percent. This beneficial trend boosted earnings in this region, with EBITA increasing 19 percent to €29.2 million.

Revenue and earnings trend by region

€ millions	Revenue		EBITA	
	1. H1 2005	1. H1 2004	1. H1 2005	1. H1 2004
North America/Northern Europe	89.2	85.8	29.2	24.5
Central and Eastern Europe/Asia	55.4	53.5	8.1	8.8
Southern and Western Europe/Latin America	66.9	62.9	4.8	6.5

Operating margin reaches 21 percent

Group EBIT improved by €5.0 million in the first half to €44.4 million, largely due to higher license revenues. The operating margin increased 1.6 percent over the previous year's figure to 21.2 percent.

We combined strict cost management with investments in expanding the business. The slight increase in operating expense to €95.0 million (previous year: €93.6 million) resulted from higher marketing and distribution costs, reflecting intensified marketing activities as well as Software AG's consistent focus on organic growth.

In assessing the net income of €27.7 million (previous year: €49.2 million), the sale of the equity interest in SAP SI, which affected net income in 2004, should be taken into consideration. Adjusted for this extraordinary income, current net income is 10 percent more than net income in the same period of the previous year. Earnings per share rose to €1.02.

Balance sheet figures characterized by high cash flow

On June 30, 2005, shareholders' equity amounted to €334.4 million (previous year: €301.6 million). The equity-to-assets ratio rose to 63 percent despite the increase in total assets to €534.3 million (previous year: €528.7 million). Cash and cash equivalents were €128.8 on the reporting date (previous year: €110.5 million). This figure was 17 percent over the previous year's amount, even though Software AG paid out a total of €20.5 million in dividends. The positive balance sheet figures reflect the high operating free cash flow of €35 million in the first half of 2005. Having increased €24.6 million, this figure is more than triple the previous year's amount.

Number of employees slightly higher

As of June 30, Software AG employed full time equivalents of 2,578 Group wide (previous year: 2,435). The higher number of employees is primarily due to staff expansions in the Southern and Western European regions, including Latin America. In addition to acquisitions, reinforcement of our marketing and distribution team as well as new hiring for the growing business in Professional Services affected the number of employees.

Outlook: Forecast remains positive

We are continuing to project currency-adjusted growth of 4 to 6 percent for the year as a whole. The stable maintenance business should form a solid basis for growth, as it has done in the year to date. We anticipate increases of approximately 10 percent in both license revenue and Professional Services.

Software AG's income is expected to increase at a higher rate than revenue. We expect an operating EBIT margin of 20 to 22 percent, and free cash flow per share of approx. €2.00. These assumptions confirm our projections to date of a successful performance in 2005.

Consolidated income statement for the six months ended June 30, 2005

IFRS, unaudited

€ thousands	June 30, 2005	June 30, 2004	Q2 2005	Q2 2004
Licensing	59,094	52,605	32,132	29,353
Maintenance	88,962	90,905	45,274	46,768
Professional services	61,563	57,624	32,386	29,625
Other	1,147	841	690	510
Total revenue	**210,766**	**201,975**	**110,482**	**106,256**
Total costs of sales	– 71,336	– 68,997	– 36,528	– 35,692
Gross profit	**139,430**	**132,978**	**73,954**	**70,564**
Research and development	– 21,527	– 25,596	– 10,426	– 10,565
Sales, marketing and distribution	– 50,474	– 43,068	– 26,424	– 22,482
Administrative costs	– 22,209	– 22,166	– 11,064	– 11,060
Operating result	**45,220**	**42,148**	**26,040**	**26,457**
Income from sale of SAP SI-shares	0	24,539	0	24,539
Other income	6,890	4,923	4,847	2,728
Other expenses	– 7,669	– 7,721	– 4,397	– 4,965
Earnings before interest, taxes and amortization	**44,441**	**63,889**	**26,490**	**48,759**
Amortization	0	0	0	0
Earnings before interest and taxes	**44,441**	**63,889**	**26,490**	**48,759**
Interest result	2,535	1,499	1,331	848
Earnings before taxes	**46,976**	**65,388**	**27,821**	**49,607**
Income taxes	– 18,360	– 15,341	– 11,445	– 9,723
Other taxes	– 905	– 888	– 400	– 482
Consolidated income	**27,711**	**49,159**	**15,976**	**39,402**
Earnings per share (EUR, basic)	1.02	1.80	0.59	1.45
Earnings per share (EUR, diluted)	0.99	1.80	0.57	1.45
Weighted average shares outstanding (basic)	27,266,752	27,266,752	27,266,752	27,266,752
Weighted average shares outstanding (diluted)	28,107,165	27,266,752	28,107,165	27,266,752

Consolidated balance sheet as of June 30, 2005

IFRS, unaudited

Assets

€ thousands	June 30, 2005	December 31, 2004	June 30, 2004
Current assets			
Cash on hand and bank balances	107,741	89,397	72,619
Securities	21,094	29,695	37,847
Inventories	383	345	388
Trade receivables	113,098	109,674	119,881
Other receivables and other assets	5,296	4,015	6,174
Deferred expense	6,560	5,261	8,213
	254,172	**238,387**	**245,122**
Non current assets			
Intangible assets	5,769	1,516	1,327
Goodwill	185,513	174,591	176,472
Property, plant and equipment	43,820	44,274	45,620
Financial assets	1,753	1,592	1,818
Trade receivables	11,432	14,648	17,308
Deferred taxes	31,868	35,677	41,008
	280,155	**272,298**	**283,553**
	534,327	**510,685**	**528,675**

Equity and Liabilities

€ thousands	June 30, 2005	December 31, 2004	June 30, 2004
Current liabilities			
Current financial liabilities	3,193	3,349	4,981
Trade payables	17,122	21,192	20,421
Other current liabilities	30,518	22,279	23,632
Current provisions	24,920	33,257	41,068
Tax provisions	19,252	14,291	15,663
Deferred income	58,907	47,245	79,432
	153,912	**141,613**	**185,197**
Non-current liabilities			
Non-current financial liabilities	2,670	3,490	4,088
Trade payables	84	0	6
Other non-current liabilities	598	299	442
Provision for pension	22,991	22,149	20,786
Non-current provisions	828	906	4,538
Deferred taxes	13,440	12,443	11,999
Deferred income	5,416	6,183	0
	46,027	**45,470**	**41,859**
Equity			
Share capital	81,800	81,800	81,800
Capital reserve	132	132	132
Retained earnings	210,707	154,032	156,454
Consolidated income	27,711	77,125	49,159
Currency translation differences	– 20,016	– 41,574	– 24,350
Other reserves	33,814	51,847	38,298
Minority interest	240	240	126
	334,388	**323,602**	**301,619**
	534,327	**510,685**	**528,675**

Statement of cash flows for the six months ended June 30, 2005

IFRS, unaudited

€ thousands	June 30, 2005	June 30, 2004	Q2 2005	Q2 2004
Income after taxes	27,711	49,159	15,976	39,402
Income taxes	18,360	15,368	10,926	9,845
Interest result	– 2,535	– 1,499	– 1,331	– 848
Depreciation	3,984	4,532	2,110	2,282
Income from sale of SAP SI-shares	0	– 24,539	0	– 24,539
Income from sale of assets	32	– 6	9	– 8
Cash generated from operations	**47,552**	**43,015**	**27,690**	**26,134**
Changes in inventories, receivables and other current assets	– 271	– 12,843	10,238	– 13,533
Changes in payables and other liabilities	– 3,867	– 11,695	– 16,213	– 8,264
Income taxes paid	– 7,698	– 6,776	– 6,328	– 2,778
Interest paid	– 1,557	– 519	– 127	– 319
Interest received	4,315	1,932	1,420	1,129
Net cash used in/provided by operating activities	**38,474**	**13,114**	**16,680**	**2,369**
Cash received from the sale of tangible/intangible assets	162	56	8	34
Investments in tangible/intangible assets	– 3,377	– 1,916	– 1,678	– 1,179
Cash received from the sale of financial assets	3,347	26,138	237	26,103
Investments in financial assets	– 3,508	– 748	– 504	– 191
Investments in consolidated companies	– 7,419	0	– 1,841	0
Net cash used in/provided by investing activities	**– 10,795**	**23,530**	**– 3,778**	**24,767**
Dividend payments	– 20,450	0	– 20,450	0
Repayment of loans from acquisitions and other finance liabilities	– 825	– 1,497	– 374	– 770
Net cash used in/provided by financing activities	**– 21,275**	**– 1,497**	**– 20,824**	**– 770**
Change in cash funds from cash relevant transactions	**6,404**	**35,147**	**– 7,922**	**26,366**
Adjustment from currency translation	**3,339**	**1,160**	**2,020**	**1,002**
Net change in cash and cash equivalents	**9,743**	**36,307**	**– 5,902**	**27,368**
Cash and cash equivalents at the beginning of the period	119,092	74,159	134,737	83,098
Cash and cash equivalents at the end of the period	**128,835**	**110,466**	**128,835**	**110,466**

Segment report for the six months ended June 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	28,477	15,258	15,480	59,215	– 121	59,094
Maintenance	48,738	16,247	24,221	89,206	– 244	88,962
Services	11,803	34,929	15,551	62,283	– 720	61,563
Other	210	480	154	844	303	1,147
Total revenue	**89,228**	**66,914**	**55,406**	**211,548**	**– 782**	**210,766**
EBITA	**29,193**	**4,762**	**8,073**	**42,028**	**2,413**	**44,441**
Interest result						2,535
Profit before taxes						**46,976**
Taxes						– 19,265
Net income						**27,711**
Total revenue proportion per region	42.2	31.6	26.2	100.0		
Product revenue	77,215	31,505	39,701	148,421		
Proportion per region	52.0	21.2	26.8	100.0		

Segment report for the six months ended June 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	24,629	13,469	14,618	52,716	– 111	52,605
Maintenance	50,095	15,250	25,850	91,195	– 290	90,905
Services	10,742	34,007	12,988	57,737	– 113	57,624
Other	330	215	53	598	243	841
Total revenue	**85,796**	**62,941**	**53,509**	**202,246**	**– 271**	**201,975**
EBITA (operating)	**24,523**	**6,541**	**8,803**	**39,867**	**– 517**	**39,350**
Income from sale of SAP SI					24,539	24,539
EBITA (as reported in P&L)	**24,523**	**6,541**	**8,803**	**39,867**	**24,022**	**63,889**
Interest result						1,499
Profit before taxes						**65,388**
Taxes						– 16,229
Net income						**49,159**
Total revenue proportion per region	42.4	31.1	26.5	100.0		
Product revenue	74,724	28,719	40,468	143,911		
Proportion per region	51.9	20.0	28.1	100.0		

Segment report Q2 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	14,827	9,522	7,856	32,205	– 73	32,132
Maintenance	24,337	8,424	12,631	45,392	– 118	45,274
Services	5,971	18,478	8,399	32,848	– 462	32,386
Other	74	148	120	342	348	690
Total revenue	**45,209**	**36,572**	**29,006**	**110,787**	**– 305**	**110,482**
EBITA	**15,121**	**4,429**	**4,476**	**24,026**	**2,464**	**26,490**
Interest result						1,331
Profit before taxes						**27,821**
Taxes						– 11,845
Net income						**15,976**
Total revenue proportion per region	40.8	33.0	26.2	100.0		
Product revenue	39,164	17,946	20,487	77,597		
Proportion per region	50.5	23.1	26.4	100.0		

Segment report Q2 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	14,339	7,349	7,697	29,385	– 32	29,353
Maintenance	25,363	8,026	13,496	46,885	– 117	46,768
Services	5,849	17,584	6,301	29,734	– 109	29,625
Other	206	166	21	393	117	510
Total revenue	**45,757**	**33,125**	**27,515**	**106,397**	**– 141**	**106,256**
EBITA (operating)	**13,896**	**3,422**	**4,007**	**21,325**	**2,895**	**24,220**
Income from sale of SAP SI					24,539	24,539
EBITA (as reported in P&L)	**13,896**	**3,422**	**4,007**	**21,325**	**27,434**	**48,759**
Interest result						848
Profit before taxes						**49,607**
Taxes						– 10,205
Net income						**39,402**
Total revenue proportion per region	43.0	31.1	25.9	100.0		
Product revenue	39,702	15,375	21,193	76,270		
Proportion per region	52.0	20.2	27.8	100.0		

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

IFRS, unaudited

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

Statement of changes in equity for the six months ended June 30, 2004

IFRS, unaudited

€ thousands	Shares Number	Share capital	Capital reserve	Retained earnings	Consolidated income	Currency translation differences	Other reserves	Minority interest	Total
Equity as of January 1, 2004	**27,266,752**	**81,800**	**132**	**156,454**	**0**	**– 32,340**	**63,149**	**126**	**269,321**
Consolidated income of the period					49,159				49,159
Currency translation differences						7,990			7,990
Net gains from the fair value valuation of securities not recognized in income statement							– 18,301		– 18,301
Net gains from the fair value valuation of loans with group members not recognized in income statement							– 6,550		– 6,550
Equity as of June 30, 2004	**27,266,752**	**81,800**	**132**	**156,454**	**49,159**	**– 24,350**	**38,298**	**126**	**301,619**

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/IFRS 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 as in the 2004 financial statements were applied.

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

Principles of consolidation

The separate financial statements of the companies included in the consolidated financial statements were prepared according to uniform accounting policies in accordance with IFRS as of the balance sheet date of the consolidated financial statements (June 30, 2005).

Subsidiaries established by Software AG are consolidated at the date they were established. The date of first inclusion in the consolidated financial statements is taken as the date of consolidation for the companies initially consolidated in 1994, i.e. Software AG-E, Software AG-P, Software AG-CH und SIH, for the Asian subsidiaries, for SQL and for Software AG-IRL. The date of acquisition was selected as the consolidation date for all other companies included in the consolidated financial statements.

Initial consolidation of the companies which were first consolidated prior to December 31, 2002 was performed on the basis of the book value method in accordance with section 301 para. 1 no. 1 of the German Commercial Code (HGB). Accordingly, the acquisition and start-up costs were offset against the Group's investment in shareholders' equity. Initial consolidation after the transition to IFRS on January 1, 2003 was in accordance with the IFRS 3 regulations. Subsequent consolidations were based on the initial consolidation.

Goodwill arising from business combinations was offset against retained reserves for acquisitions prior to January 31, 2001 in accordance with section 309 para. 1 HGB. Goodwill arising after January 31, 2001 was capitalized in accordance with previously applicable HGB accounting principles and amortized over 10 years, using the straight-line method. In accordance with the option set out in IFRS 1.14, the Company continues to account for business combinations and the resulting goodwill on the date of transition to IFRS in accordance with the HGB.

Since the transition to IFRS on January 1, 2003 (date of transition), goodwill previously capitalized in line with HGB is measured in accordance with IAS 36. Thus, goodwill was frozen at the carrying amount stated on the date of transition from HGB to IFRS on January 1, 2003 and only written down in case of actual impairments. Goodwill reported on the balance sheet is tested annually for impairment.

Revenue, expenses and income, receivables and payables arising between consolidated companies have been eliminated. Intercompany earnings from transactions within the Group are eliminated where these were not realized from services to third parties. Consolidated equity and net income attributable to minority interests are reported separately from consolidated equity and net income attributable to the parent company.

Scope of consolidation

The consolidated financial statements include Software AG and all companies it controls. Control is generally considered to exist if the Group directly or indirectly controls the majority of voting rights of a company's subscribed capital and/or is in a position to determine the financial and operating policies of a company.

Since December 31, 2004, the scope of consolidation was enhanced due to the following events:

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 on the closing date of the purchase agreement dated 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 in the amount 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 at the date the company was established.

3.) On June 29, 2005 (closing date), the company acquired the APS Group in Central and South America including a total of six companies, thereof two companies in Venezuela (SAG Venezuela, formerly Análisis Programación y Software, C.A. ("APS") and Zancani & Asociados, C.A. ("AZA")) and in Panama (SAG Panama, formerly Soluciones de Integración de Negocios, S.A. ("SINSA") and its subsidiary Soluciones de Integración Movil, S.A. ("SINSA MOVIL")) as well as one company each in Costa Rica (a further subsidiary of SINSA, SAG Costa Rica, formerly Soluciones de Integración Movil, S.A. ("SINSA Costa Rica")) and Puerto Rico (SAG PTO. RICO, formerly XML Partners, Inc., ("XML")). These companies were initially consolidated on the closing date. The fixed purchase price for 100 percent of the shares is dependent on 2005 revenues but shall not exceed €4,126 thousand. 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 in the amount of USD 4,415 thousand (€3,551 thousand).

There were no other changes in the scope of consolidation compared to December 31, 2004.

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions were made for certain items impacting the recognition and measurement of assets, liabilities, income, expenses and contingent liabilities reported. The actual amounts may differ from these estimates.

Currency translation

Financial statements of foreign subsidiaries are translated according to the functional currency concept using the modified closing rate as set out in IAS 21. Since the subsidiaries operate independently from an organizational, financial and business standpoint, the respective local currency is identical with the functional currency.

Income and expenses are translated at monthly average rates; assets and liabilities are translated at closing rates, and the respective equity is translated at historical rates. Currency translation differences arising from equity are excluded from income and reported in a separate column in the statement of changes in equity.

Currency translation differences related to the elimination of receivables and liabilities are recognized under other operating income and expenses on the income statement.

In the statement of fixed assets movements, the balances at the beginning and the end of the fiscal year are translated at the applicable closing rates, and the other items are translated at average rates. Any differences arising from exchange rate changes are shown in a separate column under both cost and accumulated depreciation/amortization as exchange rate differences.

In the local separate financial statements of the consolidated companies, foreign currency receivables and payables are translated at the closing rate. Exchange rate gains and losses not yet recognized on the balance sheet date are included in net income for the period, except for translation differences from non-current, intercompany monetary items that are part of a net investment in a foreign company. These differences are excluded from income and recorded as other reserves in shareholders' equity.

Notes to the consolidated income statement

Revenue

The revenue of Software AG primarily consists of revenue from the granting of software licenses of usually unlimited periods of usage, maintenance revenue and revenue from the provision of services. Revenue from the granting of perpetual licenses is only recognized once a contract has been signed with the customer, any rights to return have expired, the software has been delivered in accordance with the contract, a price has been agreed or can be established and there is sufficient probability that payment will be made.

Revenue from pure maintenance is recognized ratably over the period of service provision.

Service agreements which are invoiced on the basis of hours performed are recognized in relation to the services performed by the Software AG companies.

Pursuant to IAS 11 and IAS 18, revenues and expenses from fixed-price service contracts are recognized according to the percentage-of completion-method if revenues can be reliably measured, there is sufficient probability that Software AG will receive the economic benefits from the transaction, and all costs incurred for the transaction and all costs expected to be incurred by completion of the service can be reliably established.

Revenues are reported net of discounts, price rebates, customer bonuses and allowances.

Cost of sales
Cost of sales includes all production-related full costs based on normal capacity utilization. In particular, cost of sales includes the individual unit costs directly allocable to the orders as well as fixed and variable overheads. Borrowing costs are not capitalized as part of cost. No write-downs on inventories were required during the reporting period.

Research and development costs
Research and development costs are recorded as an expense in the income statement as they are incurred.

The creation and development of software involves the use of closely linked, iterative processes between the research and development phases. As a result, expenses incurred for research cannot be strictly separated from those incurred for development. The criteria for the capitalization of development expenses defined in IAS 38.41 in conjunction with 38.42 are, therefore, not fulfilled.

Software acquired for consideration due to business combinations was capitalized at cost.

Selling expenses
Selling expenses include costs for personnel, materials, depreciation allocated to the sales cost center as well as advertising costs.

Administrative expenses
Administrative expenses include costs for personnel, materials and depreciation allocated to the administration cost center.

Earnings per share
The earnings per share figure was calculated by dividing net income for the period attributable to shareholders by the weighted average number of shares outstanding during the reporting period and presented accordingly. Software AG has issued only common shares.

Since all 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 of 2005, a total of 840,413 stock options from this plan may now be exercised. Therefore, diluted earnings per share were calculated 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.

Cash on hand and bank balances
This item includes cash and demand deposits as well as current cash equivalents.

The securities item includes current, highly liquid financial investments which are readily convertible to known amounts of cash and which are only subject to minor price fluctuation risks.

Securities, financial assets and derivative hedging instruments
Generally, financial assets are initially recognized at cost, including transaction costs. The subsequent measurement depends on the classification of the financial assets.

Available-for-sale financial instruments are recognized at their fair value at the balance sheet date (market value). Gains or losses are excluded from income and reported in equity as other reserves.

Financial assets are included individually at their fair values, unless they are classified as held-to-maturity and their fair value can be determined. Loans and receivables included in this item which are not held for trading purposes, and financial assets with no quoted market price on an active market and for which the fair value cannot be reliably determined, are measured at amortized cost.

The carrying amounts are regularly reviewed to determine whether there is significant objective evidence of impairment. Impairments losses are charged against net income for the period.

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forward and currency option transactions. This provides a general protection against various currency exchange rate risks independent of the individual underlying transactions. Open positions in currency forward transactions and options are measured at their market values. The relevant amounts are reported in the balance sheet under other assets and current provisions. Changes in the market value of derivative financial instruments intended to hedge future foreign currency cash flows are reported under other reserves until the hedged item has to be recognized in income.

The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments which do not meet the requirements of hedge accounting are recognized in income in the period in which they are incurred.

Inventories

Inventories are recognized at the lower of cost or fair value less net realizable value. The fair value less net realizable value is the estimated selling price in the ordinary course of business less the estimated costs until completion and the estimated costs necessary to make the sale.

Trade receivables

Receivables are carried at the fair value applicable at the time revenues or consideration are realized, and they are measured at amortized cost less bad debt provisions.

This item also includes services performed under fixed-price contracts which have not yet been invoiced and are recognized according to the percentage-of-completion-method.

Other current assets

The other items reflected under current assets are measured at cost which corresponds to their respective market prices.

Deferred expenses

Deferred expenses include advance payments made by Software AG under license and lease agreements. The deferred item is reversed and the expense recorded in the period in which the services are provided by the corresponding contracting party.

Intangible assets

Concessions, industrial property rights and similar rights, intangible assets as well as licenses for such rights are capitalized at cost and amortized over the expected useful life of the asset using the straight-line-method. The assets are regularly tested for impairment.

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 caused goodwill of €6,944 thousand; and the acquisition of the APS Group on June 29, 2005 brought about goodwill of €3,978 thousand. Goodwill related to the Software AG-USA-Group had been subject to scheduled amortization up to January 1, 2003.

Property, plant and equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. When items of property, plant and equipment are sold or scrapped, the corresponding cost and any accumulated depreciation are derecognized, and any realized gain or loss from the disposal is recognized in the income statement.

The cost of an item of property, plant and equipment consists of the purchase price, including any import duties and non-refundable purchase taxes and any directly attributable costs required to prepare the asset for its intended use. Subsequent expenditures, such as service and maintenance charges arising once the asset is put into operation, are recognized as expenses in the period in which they are incurred. Subsequent expenditures relating to an item of property, plant and equipment are only added to the carrying amount of the asset if the expenditure improves the condition of the asset beyond its originally assessed standard of performance. Financing costs are not capitalized as part of cost.

Items of property, plant and equipment are generally depreciated using the straight-line method in accordance with their useful economic lives.

Buildings	50 years
Improvements to buildings/ leasehold improvements	8 – 10 years
Operating and office equipment	3 – 13 years
Computer hardware and accessories	1 – 4 years

The terms of the useful economic life and the methods of depreciation are reviewed on a regular basis to ensure that they are in accordance with the expected economic life of the asset in question.

Assets under construction are recorded as such and are recognized at cost. Depreciation on these items begins only after they have been completed and put into operation.

Impairment of intangible assets and property, plant and equipment

As soon as there are indications that an intangible asset or an item of property, plant and equipment is impaired, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized in income. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life.

Impairments losses are reported under costs of the relevant functional area or under other operating expenses.

Leases

Fixed assets include assets provided under lease contracts. Software AG leases computer equipment as well as other operating and office equipment. The lease contracts are classified in accordance with IAS 17 under which the lease agreement is evaluated on the basis of the risks and rewards, with the leased asset being allocated to the lessee (finance leases) or the lessor (operating leases).

Finance leases

Leased objects are recognized on the balance sheet as both assets and lease obligations in equal amounts. They are carried at the lower of the fair value of the leased object at the beginning of the lease and the present value of the minimum lease payments. The capitalized leased objects are depreciated according to the straight-line method over the useful economic lives of the asset or, if shorter, the lease term. The payment obligations resulting from future lease payments are recognized as financial liabilities.

Operating leases

The lease payments under operating lease contracts are recognized as an expense over the term of the lease.

Deferred taxes

Deferred taxes are recognized according to the balance sheet liability method for all temporary differences between the carrying amounts of the tax base and the consolidated balance sheet. Deferred tax assets on tax loss carryforwards are also recognized.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of the tax base and the consolidated balance sheet as well as with respect to consolidation measures with an impact on income. The deferred tax assets also include claims for tax reductions resulting from the anticipated use of tax loss carryforwards in subsequent years, the realization of which is deemed reasonably certain.

Deferred taxes are calculated on the basis of tax rates which are anticipated to apply in the relevant countries according to the legal situation prevailing at the time of realization (reversal of tax deferrals).

Deferred tax assets and liabilities are not discounted. The carrying amounts of the recognized assets and liabilities are regularly examined and adjusted if necessary.

Liabilities

Current liabilities are reported at their repayment or settlement amount.

Non-current liabilities are recorded at amortized cost. Amortized cost is determined using the effective interest rate method by discounting the repayment amount.

Provisions

Provisions are reported if the Company has a current legal or constructive obligation towards a third party due to a past event, which is likely to result in a future outflow and for which the amount of the obligation can be reliably estimated. Estimates are regularly reviewed and adjusted.

If the interest rate impact is significant, the present value of expenditures expected to be required to perform the obligation is reported.

Provisions for pensions

There are both defined benefit plans and defined contribution plans for pensions. The pension provisions are calculated using actuarial principles in accordance with the projected unit credit method set out in IAS 19. This approach takes into account anticipated future increases in pensions and salaries in addition to the pensions known at the balance sheet date.

Provisions for pensions are measurement in accordance with the amendment to IAS 19, issued in December 2004. Accordingly, they are reported at the full present value of the defined obligation, adjusted for the present value of the reinsurance cover taken out for defined benefit obligations, or, respectively, the present value of the plan assets accumulated to ensure pension payments. The changes in the actuarial gains/losses compared to the previous year are excluded from income and allocated directly to retained earnings.

German pension obligations are calculated on the basis of the biometric calculations in the 1998 mortality tables of Prof. Dr. Klaus Heubeck.

Since employees do not receive illness-related allowances either domestically or abroad, calculation of costs related to health care plans is not required.

For the defined contribution plans, Software AG does not incur any obligations other than the payment of contributions to special-purpose funds. The contribution payments are recorded against current income.

Deferred income

Deferred income consists of advance payments received from customers relating to maintenance revenue. The deferred item is reversed and the income recognized in the period in which Software AG provides the services.

Equity

The development of equity is shown in the statement of changes in equity preceding the notes to the consolidated financial statements.

1. Conditional capital

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

1.) Up to €3,357 thousand divided into up to 1,118,962 bearer shares to provide for 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, the status of allocations and exercising options are presented under other disclosures/stock-based compensation programs.

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 members and officers of the Software AG Group. The requirements of this program, the status of allocations and exercising options are presented under other disclosures/stock-based compensation programs.

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, in order to grant option rights and to agree option obligations from bonds with warrants or, to bearers of convertible bonds, conversion rights and conversion obligations in a total nominal amount of up to €500,000,000 and a term not exceeding 15 years according to 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 with the exception of 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 that, after having conducted a review in accordance with its professional duties, it has come to the conclusion that the issue price of the bonds with warrants or convertible bonds is not significantly lower than its hypothetical market value arrived at by using accepted methods, in particular financial calculation methods. However, this authorization related to the exclusion of the subscription rights only applies to bonds with warrants and convertible bonds with option or conversion rights or with option or conversion obligations in relation to shares at the lower of a proportional amount of the registered share capital of up to a total of €8,180 thousand or of 10 percent of the registered share capital in existence at the time the authorization is acted upon.

The Executive Board had not made use of this authorization prior to June 30, 2005.

2. Authorized capital

As of June 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 €37,989 thousand by issuing up to 12,663,036 new bearer shares against cash contributions and/or contributions in kind (authorized capital). In this respect, the shareholders are to be granted subscription rights with the exception of 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 purposes 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 exceeding €6,503 thousand in total for the purpose of offering the new shares to the employees of the Company and its affiliated companies as defined in section 15 et seq. of the German Stock Corporation Act (AktG) as part of an employee stock ownership plan. The new shares can also be transferred to a bank, provided that they will exclusively be held for the acquisition by entitled employees in accordance with the Company's instructions.

The Executive Board had not made use of its authorization to increase the registered share capital prior to June 30, 2005.

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 public purchase offer directed to all shareholders of the Company. If the shares are purchased on the stock market, then the consideration for the purchase of a share may not exceed by more than 10 percent or fall short by more than 10 percent of the average listed price at the Frankfurt Stock Exchange over the five trading days prior to the purchase. If the shares are purchased on the basis of a public purchase offer, then the consideration for the purchase of a share may exceed by up to 20 percent or fall short by up to 20 percent of the average listed price at the Frankfurt Stock Exchange on the fifth to ninth trading days 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 actions in relation to the acquired own shares:

- The Executive Board may sell 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 companies in part or in whole and/or equity investments.

- The Executive Board may offer the shares to 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 on the shares equivalent to that to which they 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 acquired own shares without any additional resolution by the Annual Shareholders' Meeting in whole or in part.

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 had not made use of its authorization to acquire own shares prior to June 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 that from the 2004 accumulated profit of €62,955 thousand of the Group controlling company, Software AG, a dividend of €20,450 thousand be distributed and €42,505 thousand be carried forward. This corresponds to a dividend of €0.75 per share.

5. Other reserves

Other reserves include differences resulting from the currency translation of the financial statements of economically independent foreign subsidiaries into the reporting currency. The effects from the measurement of financial instruments not recognized in income are also included in this item. Translation differences from monetary items primarily consisting of net investments in an economically independent foreign entity are also recorded under this item. The amounts are recognized on an after-tax basis.

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	25,069	21,878	24,462	87,191
in % of net income for the year	18.1	28.8	25.1	28.0	100.0

A structurally similar annual distribution of revenues has also been observed in previous years and resulted primarily from the purchasing behavior of our customers. Restructuring measures during the first quarter 2004 led to considerable cost savings and to a corresponding increase in pre-tax earnings. The sale of SAP-SI shares during the second quarter of 2004 resulted in additional €24,539 thousand of extraordinary income 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 June 30, 2005, no provisions were recognized for the following contingent liabilities, expressed at nominal value, because it appeared unlikely that claims would be asserted:

	€ thousands
Guarantees	5,083
Other	1,393
	6,476

Stock option plans

Software AG has different stock option plans for members of the Executive Board, officers and other Group employees, which have not been recorded in the balance sheet and profit and loss statement due to the transition regulations as set out in IFRS 2 and due to measurement.

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

As of June 30, 2005, a total of 145,846 subscription rights had been issued to Executive Board members, and 69,069 subscription rights had been issued to officers; these subscription rights may, however, be exercised only after June 30, 2005. Therefore, the number of subscription rights granted to Executive Board members and officers as of June 30, 2005 remained unchanged compared to December 31, 2004. In addition, 622,320 subscription rights were granted to the other employees of the Software AG Group as of June 30, 2005. The number of subscription rights of the other employees as of June 30, 2005 decreased by 335,416 compared to December 31, 2004 due to employee fluctuation.

No subscription rights could be exercised in the period under review. The options have a term of seven years as from the time they were granted. They may only be exercised during their term, starting with a 24-month waiting period after the Company's IPO, on a quarterly basis, after the publication of the annual results, the semi-annual results and the quarterly results.

The subscription price per share upon exercise of the option corresponds to the issue price less a discount of 20 percent, but must be at least €28.12 (DEM 55.00). Since the issue price amounted to €30, the minimum price was applied.

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 1997 to 1999.

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

(3) The share price exceeds the minimum price at the time the option is exercised.

The first condition was fulfilled due to the results achieved in the years 1997 to 1999. Since the return on sales achieved in fiscal 2004 amounted to 27 percent and due to the extremely good performance of Software AG's shares, the second and third criteria of the first stock option plan were also fulfilled in the second quarter of 2005. As a result, 840,413 stock options will be exercisable in the third quarter of 2005.

2. Stock option plan for Executive Board members and officers

As of June 30, 2005, a total of 163,375 subscription rights had been issued to Executive Board members, and 694,800 subscription rights had been issued to officers; these subscription rights may, however, be exercised only after June 30, 2005. In the first half of 2005, a total of 128,775 subscription rights were issued to officers. Based on the new compensation model for Executive Board members, which became effective 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 at 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 the exercise of the options, the Group's sales must have increased by at least 10 percent compared to the previous year.

(2) The Group's profit from ordinary activities must be equivalent to at least 10 percent of the sales 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 half of 2005 due to the fact 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 future.

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 €8,608 thousand. Obligations in the amount of €36,452 thousand exist for the period up to the end of fiscal year 2010 and in the amount of €15,830 thousand for the time 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 during the first half of 2005. 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 the year 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 result in any additional burden on income for Software AG.

3. Acquisition of Sabratec Ltd. Israel

Composition 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 is estimated at €3,097 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 second 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	6,500	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	– 1,023	0
Deferred income	– 48	– 48
Difference from currency translation	– 13	– 13
Purchase price (fixed portion)	6,159	
Purchase price (estimated variable portion based on future sales)	3,097	
Total purchase price	9,256	
Carrying amount of the assets acquired		1,217

Goodwill: As this company has an excellent reputation in the market for integration technology and it was possible to retain its excellent software developer team following the acquisition, it became necessary to recognize goodwill. There were no other apparent factors contributing to goodwill.

Contribution to income since the date of acquisition, February 3, 2005: Since the date of acquisition, the acquired company, Software AG Israel, has contributed €261 thousand to the net income for the first half of 2005 of the Software AG Group.

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 second quarter, 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 deviations:

€ thousands	Previously reported carrying amounts	Revised carrying amounts	Deviation
Items			
Goodwill	3,250	6,500	3,250
Software	1,900	2,029	129
Customer base	500	533	33
Deferred tax liabilities	– 958	– 1,023	– 65
Purchase price	5,909	9,256	3,347

The deviations were primarily a result of the sales with 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 sales companies. The relevant share of these sales reported by the subsidiary Software AG Israel (previously Sabratec Ltd., Israel) amounted to €415 thousand in the first half of 2005. In the same period, Software AG Israel achieved pre-tax earnings of €236 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, causing amortization expenses of €169 thousand in the first half of 2005. Expenses resulting from the amortization of the acquired customer base over a period of five years came to €44 thousand in the first half of 2005. The deferred tax liabilities related to the accounting treatment of the software and the customer base will be reversed corresponding to the amortization period over five years; this resulted in deferred tax income of €85 thousand in the first half of 2005. Other income and expenses resulting from the consolidation beyond those described were not incurred and are not anticipated in the future.

4. Acquisition of APS Group

On June 29, 2005 (closing date), the Company acquired the APS Group in Central and South America including a total of six companies, thereof two companies in Venezuela (SAG Venezuela, formerly Análisis Programación y Software, C.A. ("APS") and Zancani & Asociados, C.A. ("AZA")) and 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 (a further subsidiary of SINSA, SAG Costa Rica, formerly Soluciones de Integración Movil, S.A. ("SINSA Costa Rica")) and Puerto Rico (SAG PTO. RICO, formerly XML Partners, Inc. ("XML")).

Composition of purchase price:
The fixed purchase price including ancillary costs for 100 percent of the shares is dependent on 2005 revenues but shall not exceed €4,126 thousand. In addition, the purchase price contains a variable portion based on future sales and earnings. In intial consolidation, these are 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 investigation, 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 short-term 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-term 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: Due to the good market position of these companies and the possibility to penetrate new market segments with these companies, it was necessary to recognize goodwill.

Customer base: As 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, it was necessary to recognize the customer base within the scope of initial consolidation.

Contribution to income since the acquisition on June 29, 2005: Since the date of acquisition, the acquired companies of the APS Group have contributed €1,725 thousand to Software AG Group's net income for the second quarter and the first half of 2005.

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 (June 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 the beginning of the first half of 2005 (January 1, 2005), it would have contributed approx. €3.2 million to Group revenue and approx. €1 – 2 million to the Group's net income for the first half of 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. Since the companies were included in the Software AG Group only for two days in the second quarter 2005 (June 29 and 30), expenses related to the amortization of the customer base in the second quarter 2005 amounted to €2,000. The deferred tax liabilities resulting from the accounting treatment of the customer base are reversed corresponding to the amortization period over five years. This led to deferred tax assets of €1,000 in the second quarter 2005. Other income and expenses resulting from the consolidation beyond those described were not incurred and are not anticipated in the future.

Employees

As of June 30, 2005, the effective number of employees (i.e. part time employees are taken into account on a pro-rata basis only) amounted to 2,578 (June 30, 2004: 2,435), of which 70.4 percent (previous year: 67.9 percent) were employed abroad. The average number of absolute employees (i.e. part-time employees are recorded in full) of the Software AG Group in the second quarter 2005 was 2,630 (previous year: 2,538). As of the balance sheet date of the quarter ending June 30, 2005, an absolute number of 2,676 employees (previous year: 2,467) were employed in the Group.

Executive Board and Supervisory Board

On April 1, 2005, Peter Kürpick, formerly Vice President NetWeaver Foundation, SAP AG, joined the Company. He is responsible for the business line XMLi.

In May 2005, Executive Board member Andreas Zeitler, responsible for the region of Central and Eastern Europe/Asia, has left the company.

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

Events after the balance sheet date

With effect from August 1, 2005, Software AG acquired the company Casabac Technologies GmbH in Bammetal near Heidelberg, Germany including its U.S. subsidiary Casabac Technologies, Inc. Casabac, founded in 2001, 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.
The purchase price is composed of a fixed portion of €1,500 thousand and three variable portions based on sales. The variable portions are to be paid from 2007 to 2009 and shall not exceed a total of €1,998 thousand.

As the purchase price had not been allocated by the time this quarterly report was approved for publication, the amounts recognized for each asset class could not yet be presented. The company is to be initially consolidated on August 1, 2005, i.e. in the third quarter. Income from the company acquired is therefore not reflected in the result in the second quarter results of Software AG.

Financial Calendar*

August 02 – 03	Roadshow London, UK – CFO
August 05	Roadshow Frankfurt, Germany – CFO
August 18	Roadshow Zurich, Switzerland – CFO
August 31	JP Morgan European Technology One-on-One Seminar, London, UK – CFO
September 08	Roadshow Cologne/Düsseldorf, Germany – CFO
September 13	Roadshow Lisbon, Portugal – Country Manager
September 14	Roadshow Madrid, Spain – Executive Board Member
September 22 – 23	Roadshow Channel Islands, UK – IR
September 26	Analyst Market Day, Software AG, Darmstadt, Germany
September 28	HVB German Investment Conference, Munich, Germany – CEO
October 5	German Swiss Austria Opportunities One-to-One Forum, Sal Oppenheim, London, UK – Executive Board Member
October 28	Q3 2005 financial figures
November 22	German Equity Forum, Deutsche Börse AG, Frankfurt, Germany – CEO
January 16 – 18, 2006	CA Cheuvreux German Corporate Conference, Kronberg, Germany – CFO
Mai 12, 2006	Annual General Shareholders' Meeting, Frankfurt, Germany

* Status: August 2005

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

Impressum

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