GET THERE FASTER

ANNUAL REPORT 2007

January 1 to December 31, 2007

ACHIEVEMENTS

2

Successful acquisitions

29%

Rise in revenue compared to 2006

22

Applications for patent registration for webMethods

€1.7 billion

Market capitalization

22%

EBIT margin

4,000

Customers in a variety of sectors all over the world have put their trust in technology from Software AG

KEY FIGURES 2007

€ million (unless otherwise stated)	Dec. 31, 2007 IFRS	Dec. 31, 2006 IFRS	Dec. 31, 2005 IFRS	Dec. 31, 2004 IFRS
Revenue	**621.3**	**483.0**	**438.0**	**411.4**
Licenses	241.3	165.7	131.6	114.2
Maintenance	212.9	187.3	181.4	182.6
Professional Services	161.2	126.2	122.7	112.8
Other	5.9	3.8	2.3	1.8
EBITA	**143.5**	**111.2**	**96.4**	**85.8**
EBIT	**136.8**	**111.2**	**96.4**	**83.9**
Earnings before taxes	**137.1**	**118.6**	**101.1**	**111.7**
in % of revenue	22	24.6	23	27
Net income	**88.4**	73.2	61.8	77.2
in % of revenue	14	15	14	19
Total assets	**1,023.30**	**643.9**	**599.3**	**510.7**
Cash and cash equivalents	**81.3**	**184.8**	**161.6**	**119.1**
Shareholders' equity	**462.5**	**422.2**	**393.0**	**323.6**
in % of total assets	45	66	66	63
Employees[1]	**3,479**	**2,621**	**2,750**	**2,438**
of which in Germany	760	761	774	765

KEY SHARE DATA

	2007 IFRS	2006 IFRS	2005 IFRS	2004 IFRS
Year-end closing price (Xetra) in €	60.57	59.74	41.15	23.80
Year high in €	77.20	59.89	43.30	28.17
Year low in €	50.12	37.43	23.40	17.30
Number of shares at year-end	28,539,455	28,112,715	28,036,009	27,266,752
Market capitalization at year-end in € million	1,728.6	1,679.5	1,153.7	648.9
Dividend per share in €[2]	1.00	0.90	0.80	0.75
Earnings per share in €	3.11	2.60	2.24	2.83
Price / earnings ratio at year-end	19.5	23	18.7	8
Operating cash flow per share at year-end in €	3.29	2.19	2.06	1.06

Frankfurt (Prime Standard / TecDAX), ISIN DE 0003304002
1) Full-time equivalents
2) Proposal by the Supervisory Board and the Executive Board to the Annual Shareholders' Meeting on April 29, 2008

BUSINESS MODEL

BUSINESS LINES

REVENUE SEGMENTS

PRODUCTS

Licenses

Maintenance

Professional Services

Enterprise Transaction Systems

- ¬ Adabas 2006
- ¬ Adabas SQL Gateway
- ¬ Adabas SOA Gateway
- ¬ Event Replicator
- ¬ Adabas Manager

- ¬ Natural 2006
- ¬ Natural for Ajax
- ¬ Natural Business Services
- ¬ Natural SQL Gateway
- ¬ Natural for Eclipse
- ¬ Natural Engineer

webMethods

webMethods Suite

- ¬ Application Modernization
- ¬ Business Activity Monitoring
- ¬ Business Process Management
- ¬ Business to Business
- ¬ Enterprise Service Bus
- ¬ Service-Oriented Architecture (SOA)
- ¬ XML Data Management (Tamino)

CentraSite

- ¬ SOA Governance

Adabas offers clients of Software AG high-performance data management systems that can handle up to 320,000 transactions per second. Natural is the name of the tool for modernizing processes across entire organizations up to and including Web-applications and e-business solutions.

Software AG has rounded out its product offerings with the acquisition of webMethods, Inc. to include new solutions for integration management and business process management. This offers our customers the chance to completely restructure their IT-processes and integrating their existing data.

MISSION

Software AG's 4,000 global customers achieve measurable business results by modernizing and automating their IT systems and rapidly building new systems to meet growing business demands.

The company's industry-leading product portfolio includes best-in-class solutions for managing data, enabling Service-Oriented Architecture, and improving business processes. By combining proven technology with industry expertise and best practices, our customers improve and differentiate their businesses – faster.

CONTENTS

LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,

Fiscal year 2007 was a record year for Software AG. We once again grew dynamically and were highly profitable, recording the best results in our Company's nearly 40-year history for the second consecutive year. Group revenues rose by 29% to €621.3 million while the operating result (EBIT) improved by 23% to €136.8 million.

Software AG pursues and implements a clear strategy. This strategy has four growth drivers:
¬ Organic growth through innovation
¬ Geographic expansion
¬ Growth through acquisitions
¬ Addressing new customer groups through partnerships

We achieved organic growth in all areas – both in our ETS and webMethods business division and in the Professional Services business division. We were able to do so because of our strong customer orientation backed by innovative products that analysts rank as leaders in the global market.

We are also continuing to pursue growth through geographic expansion. The launch of direct distribution in Japan went especially well in 2007, with revenues more than tripling in this market. In addition, we made the preparations for a direct market entry in Brazil effective as of January 1, 2008. We anticipate that Brazil, the largest IT market in Latin America, will contribute 20 to 30 million U.S. dollars to revenue in 2008.

Acquisitions were the strongest growth drivers in the reporting year. The purchase of the U.S. software company webMethods, Inc., a leading provider specializing in the integration and optimization of business processes, was one of the largest acquisitions in the history of the European software industry. Effective as of April 1, 2007, we purchased an 80% holding in SPL, our distribution partner in Israel, and effective as of January 1, 2008, we bought the software division of the Israeli company Jacada. All of these acquisitions noticeably strengthened our core business. The webMethods product range ideally complements our portfolio. In addition, we gained about a thousand new customers. We reinforced our market position in the USA and secured important partners, particularly among system integrators for vertical industries. On the whole, the Software AG brand has been greatly augmented by the very strong brand name webMethods. The integration proceeded as planned and we achieved the targeted cost synergies. We expect to complete the integration in the first half of the year 2008.

We were able to launch our first shared product line in September 2007. Called webMethods 7.1, it incorporates our existing Crossvision product line in a fully modular product suite. It is a wholly integrated product including SOA governance and the next version will be available in the second quarter of 2008.

The benefits of the acquisition soon became apparent. With webMethods, we immediately became one of the world's largest independent providers in two growth markets: Service-Oriented Architecture (SOA) and Business Process Management (BPM). Top international market analysts ranked our innovative product portfolio as technologically leading. In addition, as of the third quarter we were able to win major client orders that we would not have been able to secure without the webMethods acquisition.

Another growth driver is our network of partners consisting of technology and distribution partners as well as system integrators. We consider this network a key strategy for achieving a leading market position in Service-Oriented Architecture (SOA). In 2007, we doubled the number of partners to 120.

Operational excellence is another key factor in our Company's success. The continuous improvement of our global processes and hence our efficiency leads to higher profitability. We use the funds we generate from operations to finance our expansion and increase our innovative strength.

For us, innovation encompasses our own software products and solutions as well as the supplementary technologies we acquire, the specialized staff we recruit, and the employee training and development programs we pursue. The successful implementation of our strategy brings us to our next major target, which is for Software AG's revenues to surpass the €1 billion threshold by 2010. We are already ideally positioned in the market. In 2007 Software AG advanced to become the fifth largest software company in Europe, and we have been among the top 25 in our industry, worldwide, since last year. The current consolidation trend in the software sector demonstrates how important a leading position is in such a dynamic industry. We continue to build on our technology, our broad, global customer base, our financial strength, and our high efficiency. We intend to continue our growth with the objective of becoming one of the world's three largest providers of infrastructure software.

Dear shareholders, in order for you to participate in the favorable business trend, the Executive Board and Supervisory Board will propose a dividend of €1.00 per share at the Annual Shareholders' Meeting. On behalf of all my colleagues on the Executive Board, I would like to take this opportunity to thank our employees, customers, partners, and shareholders for their confidence in our Company.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

THE EXECUTIVE BOARD

Karl-Heinz Streibich / / Chief Executive Officer (CEO) /
Executive Board member since 2003
Born in 1952; Karl-Heinz Streibich is responsible for the areas of Strategic Marketing, Professional Services Management, Human Resources, Audit, Legal Affairs as well as Corporate Communications.

Arnd Zinnhardt / / Chief Financial Officer (CFO) /
Executive Board member since 2002
Born in 1962; Arnd Zinnhardt is responsible for the areas of Finance & Controlling, Global Purchasing, Global IT, Support, Investor Relations and M&A.

Mark Edwards / / Chief Operating Officer (COO) ETS /
Executive Board member since 2003
Born in 1956; Mark Edwards is responsible for distribution of the ETS business division.

THE COMPANY

David Mitchell / / Chief Operating Officer (COO) webMethods /
Executive Board member since 2007
Born in 1965; David Mitchell is responsible for worldwide distribution of the webMethods business division.

Dr. Peter Kürpick / / Chief Product Officer (CPO) webMethods /
Executive Board member since 2005
Born in 1966; Dr. Peter Kürpick is responsible for Research & Development and the Chief Technology Office in the webMethods business division.

David Broadbent / / Chief Product Officer (CPO) ETS /
Executive Board member since 2007
Born in 1960; David Broadbent is responsible for Research & Development and the Chief Technology Office in the ETS business division as well as the Asia Pacific region.

STRATEGY

2007 was a year with strong growth. We have strengthened our position as market leader in IT infrastructure solutions with the acquisition of SPL Software (Israel), webMethods, Inc. (USA) as well as the software division of Jacada (Israel) (as of January 1, 2008).

The strategy of Software AG is sustained business development and we implement it systematically. Our goal of profitable growth is based on four pillars:

1. Organic growth through innovation
2. Geographic Expansion
3. Growth through acquisitions
4. Addressing new customer groups through partnerships

Our focus for 2008 will be organic growth in both business divisions, including the expansion of our market presence in Brazil.

Our vision is to continue to expand our market position as a leading, independent provider of infrastructure software in order to become the global market leader in the markets of the future SOA and BPM.

Organic growth through innovation

Software AG would like to achieve organic growth of approximately 10 percent annually in both business divisions, ETS and webMethods, through innovation, a consistent customer focus and efficient processes.

The ETS business division, with its strong sales, is our Company's mainstay. By continuously developing our products in the ETS business division, we increase the efficiency of our customers' application systems and extend the lifecycle of those systems. For customers, this means protection of their investments and accordingly an improved return on investment. By expanding our ETS business, we retain a significant part of our existing customer base.

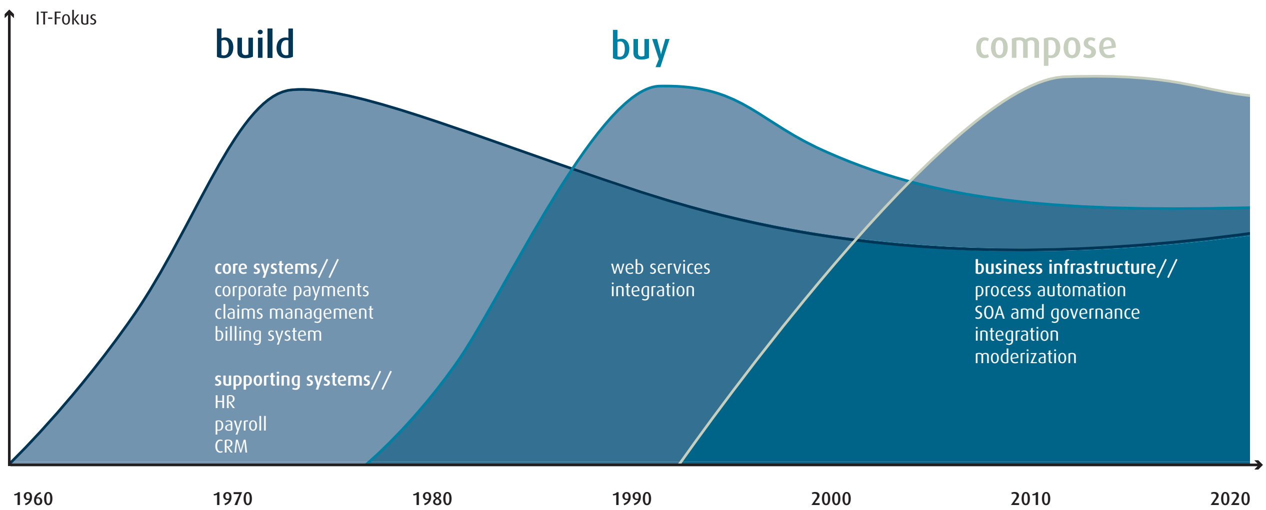
Software AG has built up a second key area of activity in the webMethods business division, a globally leading product portfolio in integration software. The existing technological leadership in high-performance database systems will be expanded into the growth markets of SOA (including SOA Governance), Business Process Management (BPM) and Business Activity Monitoring (BAM). Independent industry analysts confirm the leading position of Software AG. The emphasis will be on the ability to develop technologies such as SOA Governance in-house.

The innovative power and accordingly the technological leadership of Software AG form the basis for our organic growth.

The purchases of 80 percent of SPL, webMethods, Inc. and a segment of the software business of Jacada (as of January 1, 2008) and their integration were the results of our M&A activities. The strategic reasons for the purchase of webMethods, Inc. included the additional product portfolio, approximately 1,000 new customers, a stronger market presence in the U.S., webMethods experience in additional industries, partnerships with system integrators and an established brand in the integration business. To preserve the value of the brand name, webMethods will be continued as a portfolio brand. By acquiring webMethods, Inc., Software AG has established a second key area of activity with strong sales much faster than would have been possible through organic growth of the former business division Crossvision.

The two business divisions of Software AG, ETS and webMethods, are now the essential key areas of activity. For that reason, a strategic decision was made in 2007 to reorganize the company from having a regional structure to a business division structure. Each business division was assigned one member of the Executive Board to be responsible for product development member of the Executive Board to be responsible for product development and one for sales. After being organized regionally in the past, sales activities were distributed to both business divisions.

The evolution of the software industry



Software AG regards IT solutions based on SOA and BPM as a market of the future.

The prerequisites for innovation in the company are a creative working environment as well as continuing education and scientific cooperation. This is implemented in the form of an in-house Corporate University and an international university relations program. Research and development is based in five major locations in a global research and development network. The largest research and development teams are in Germany and the U.S.

In addition to innovation, efficient processes promote organic growth. They include optimization of the sales organization, in particular increasing the contract size, as well as efficient global processes in purchasing, IT, controlling and marketing.

Growth through geographic expansion

We will also achieve organic growth in the business divisions through geographic expansion. In recent years, we have expanded our business particularly in Israel, Venezuela, South Africa, Japan and Chile. We replaced our indirect sales through partners by a direct market presence, the goal of which is to increase our revenues in those markets by more strongly focusing on our product portfolio. We quadrupled our sales in South Africa and Japan, for example, after implementing a direct market presence. In markets such as South Africa, Japan or Brazil, Software AG primarily has ETS customers to whom we are also offering the new webMethods product portfolio.

Growth through acquisitions

Another strategy of Software AG is to achieve additional growth through acquisitions. Large companies acquire smaller ones that are below a critical size, thus consolidating the market. More than 900 company acquisitions took place in the area of infrastructure software in the last three years alone (Source: 451 Group / M&A Knowledge Base).

Software AG is positioned on the side of the consolidators. In 2007, we acquired three companies: the software firm SPL in Israel, the software firm webMethods, Inc. in the U.S. and segments of the software firm Jacada in Israel as of January 1, 2008. Software AG has developed a clear acquisitions policy under which the target companies should either strengthen the product portfolio (purchase of products) or increase the market presence in certain markets (purchase of customers).

New customer groups through partnerships

Another strategic orientation of Software AG concerns the partner network consisting of technology and sales partners as well as System Integrators. The development of partner networks enables Software AG to offer a comprehensive product portfolio while developing complex software solutions without increasing its own vertical integration. An example of this is the CentraSite community, a development community of more than 50 partners, who together offer a comprehensive SOA governance product portfolio. The third category of partners, the system integrators, enables Software AG to develop new customer groups in vertical industries without having to build the relevant industry know-how itself. This enables Software AG to stay lean and efficient and concentrate on its core competence of infrastructure software development while simultaneously addressing new customer groups. In 2007, the total number of partners was doubled to 120.

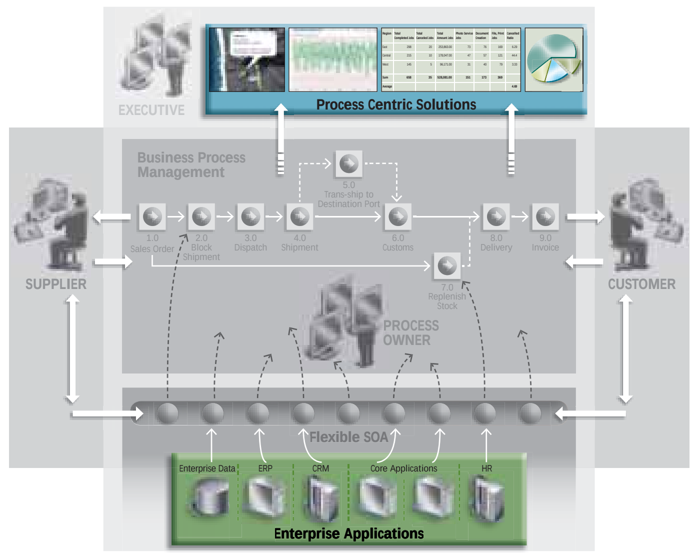
Continuing the success story

We already have an outstanding position in the market. In 2007, Software AG advanced to fifth place among the largest software companies in Europe. In addition, since last year we have been one of the top 25 in the software industry worldwide. The successful implementation of our corporate strategy continues Software AG's success story and will lead to an important interim result: In 2010, Software AG would like to cross the sales threshold of one billion euros and we are confident that we will succeed.

An integrated approach to process innovation

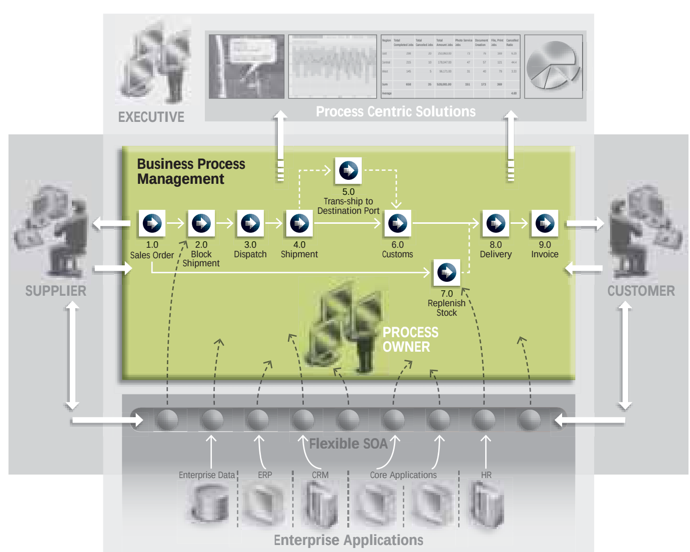
1

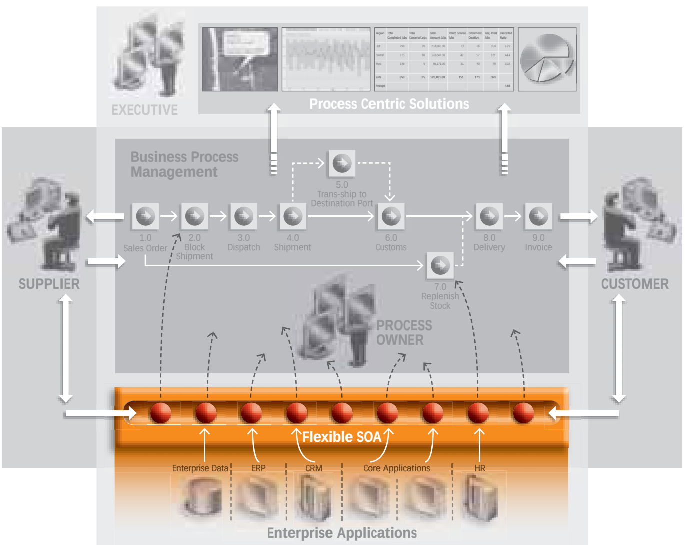
Global businesses today are forced to compete on process – as a result they require flexible, process-centric IT solutions. Unfortunately, out-of-the-box Enterprise Applications do not offer the core flexibility needed to support these kind of process-centric solutions. The question for most global organizations is, how can they adapt, transform and modernize their existing Enterprise Applications into a new generation of scalable process-centric solutions without pursuing a risky rip-and-replace strategy?



2

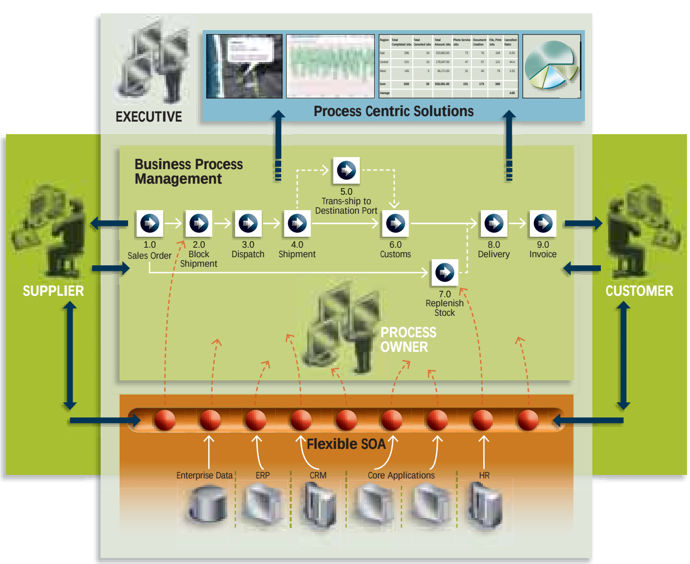
To achieve process-centric solutions, it is important to understand and measure what's happening within any existing processes first. Understanding your current challenges together with modelling new processes in an intuitive and easy to understand way, is the best approach for future success. It is also very important that any new processes are built within a service-oriented IT approach in order to facilitate improved process re-use, flexibility and adoption.





3

Service-Oriented Architecture (SOA) allows IT to transform existing enterprise applications into modular services, which then are used to power the individual process steps. IT's existing application infrastructure is expensive to change and maintain. By leverage this existing investment through a non-invasive service oriented approach, you gain access to critical business information without the long term cost of customization.



4

This allows the IT and business user to model, create and adapt various new processes and deliver the kinds of process centric solutions continuously improve the way the business operates. With the right measurements its possible to gain efficiencies, reduce costs, and create an environment that caters to the customers needs, rather than IT's limits.

With a process-centric approach based on a service oriented foundation, we deliver on the ultimate goal: **business results faster.**

Together toward success. After their merger, Software AG and webMethods, Inc. were able to accomplish something that they would not have been able to do alone. The "Power of Two" made it possible for us to obtain a large order from the UNIQA Group.

The Power of Two

The UNIQA Group is one of Austria's largest insurance companies while the Raiffeisen Group is one of the country's leading banks. For several years, the two companies have worked together in a sales cooperation arrangement under which the insurance products of Raiffeisen Insurance – a wholly-owned subsidiary of the UNIQA Group – are sold through the branch network of Raiffeisen's 570 independent local banks as a preferred provider.

Liberalization within Eastern and Central Europe, including these countries entry into the European Union, have presented the two companies with the opportunity to significantly expand their partnership. By taking advantage of both Service-Oriented Architecture (SOA) and Business Process Management (BPM), each company has secured the agility, efficiency and accountability needed to seize upon this opportunity.

For most financial services institutions, the equation is simple. To maximize return-on-equity, they need to fully leverage all of their financial resources and corporate strengths, including complementary customer channels as well as potential synergies across their back-office infrastructure. The challenge that they face is doing so without jeopardizing the speed-to-market and customer-focus. Further complicating this issue is the need to maintain the utmost transparency, security and redundancy throughout these operations. In the case of UNIQA and Raiffeisen, these issues needed to be addressed across multiple, often unrelated operating companies.

Recognizing these challenges, both organizations had partnered with Software AG since 2001 on the implementation of a SOA to better leverage their mainframe systems. Replacing these systems wasn't an option as to do so would require "an investment of 400 man-years" according to Karl Unger, member of the Management Board of UNIQA, "and a development freeze lasting two or three years". As an alternative to this 'rip & replace', SOA allowed them to implement a 'update & extend' strategy in which core functionality was exposed as services for reuse in new applications.

This approach quickly paid real dividends. For example, UNIQA has expanded rapidly throughout Central, Eastern and South Eastern Europe, with the company now serving 20 international markets. Each of these market entries required that new systems and processes be put in place in accordance with local underwriting laws, distribution and marketing strategies, and financial requirements. Through the use of SOA, these objectives were met.

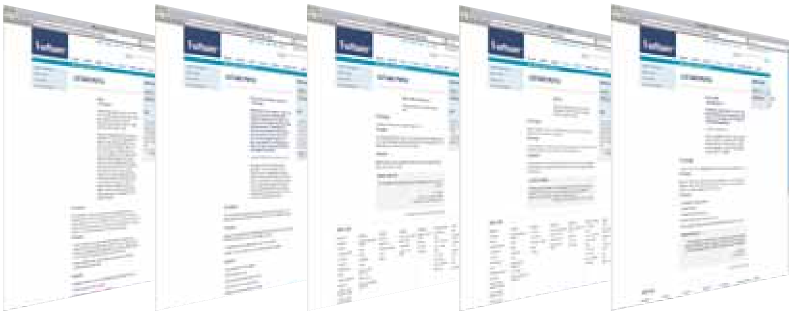
With this foundation in place, the two companies have subsequently decided to implement Software AG's comprehensive Business Process Management suite – webMethods BPMS – across their entire SOA implementation. The use of BPM allows users to create the framework – business logic, rules and process models – needed for transforming distinct services into more complex business processes.

For UNIQA, this will allow the company to replace their current sequential processing of applications with a parallel processing approach. As a result, tasks can be distributed to different operational centers, based on availability or expertise, as a means for reducing the time needed to complete the end-to-end transaction. The goal is to realize cost reductions while increasing accountability via improved monitoring and control capabilities.

from left to right:

Georg Hahn
Managing Director
Raiffeisen Software Solutions & Servcies

Karl Unger
Member of the Management Board
UNIQA Versicherungen AG



CUSTOMERS

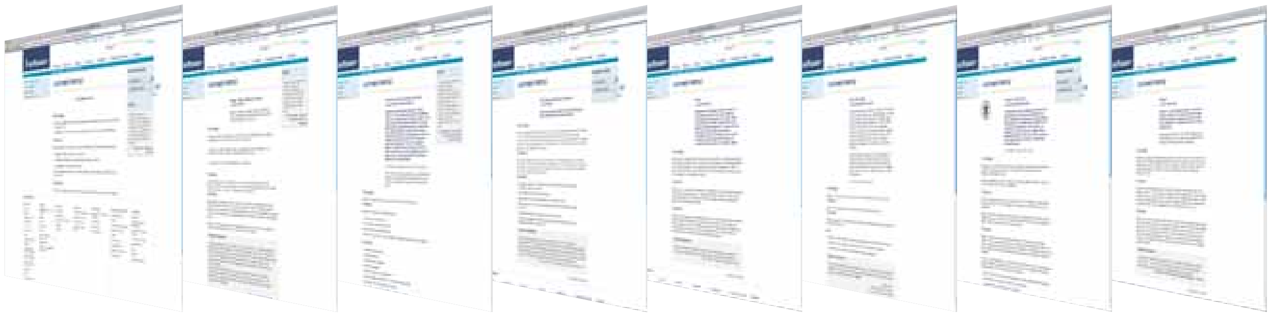
Software AG serves organizations in virtually every industry and in countries around the globe. Among our largest clients are customers from the public sector as well as from financial services and logistics.

Software AG provides innovative technology, but it is our customers who bring our products and services to life and fully utilize their potential.

Our products provide the mission critical backbone to our customer base; individual, innovative solutions that enable our customers to compete in fast-moving, global markets.

MACIF

Macif is the premier insurance company in France, providing coverage for its 4.6 million members in vital areas such as health, savings, retirement and others. Adabas and Natural applications are used by 7,500 Macif staff throughout France to manage approximately 14.5 million contracts. Macif recently launched a major initiative to enhance business services through innovative use of technology. As part of the project, the company decided to speed access to vital information by using web services to extend Adabas and Natural applications to a Service-Oriented Architecture (SOA). Macif chose Software AG's webMethods EntireX and Natural Productivity Package as part of this business services initiative, citing ease of implementation and integration, as well as the products' adaptability to Macif's evolving architecture.



TELE2

3COM

HSBC Bank A.Ş.

Tele2 is Europe's leading alternative telecom operator with 25 million customers in 15 countries.

Tele2 has implemented the webMethods product suite to create a more adaptive and flexible IT infrastructure, which has proven critical to keeping pace with the rapid changes impacting the telecommunications sector. For example, the new European Union (EU) roaming directives, which are designed to reduce customer costs for inter-European calls, were fully implemented by Tele2 in just three months. Tele2 leveraged the webMethods ESB to create the Tele2 Integration Platform (TIP). This platform is being used to ensure interoperability between various IT systems, and to speed and simplify reuse of assets across subsequent implementations. In the project's second phase, Tele2 is implementing the CentraSite Enterprise Edition for service lifecycle and metadata management. This will help Tele2 monitor and manage service usage and performance to ensure continued adherence with business-critical standards for reliability and quality.

Like many businesses, 3COM recognized the need to get closer to its customers. As a result, the networking leader for enterprises of all sizes sought to re-architect its worldwide customer support operations to secure more direct control over performance. A key element of this project was the webMethods ESB. Using this solution as the foundation for their SOA, 3COM was able to streamline core processes, reduce IT costs, synchronize master data and secure better real-time visibility into these global operations. As a result, 3COM is now able to respond to customer inquiries faster and more accurately. As an added bonus, the project was deployed faster than expected and under-budget due to the ease-of-use that the webMethods products offer.

HSBC is one of the largest banking and financial services organizations in the world, with an international network comprised of more than 10,000 offices in 82 countries and territories. HSBC Turkey currently has over 2.5 million customers, and is planning to double its branch size until 2010. Because of its planned expansion, HSBC needs to be sure its IT environment is sufficiently scalable and flexible to handle the increased demands. For this reason HSBC has chosen to govern, modernize and extend its core banking system (developed on Software AG's Natural) to become an integral part of the bank's SOA platform. HSBC is using Software AG's Natural Business Services to perform modernization and CentraSite for SOA Governance. In addition, Software AG's Natural Productivity Package is helping HSBC to quickly enhance existing business logic in support of new processes – providing greater business efficiency and faster time to market.

For more references visit our website
www.softwareag.com / Corporate / partners

PARTNERS

Partners and alliances are an important component of Software AG's business model and one of the top four growth drivers in the company's drive to achieve revenue of €1 billion by 2010.

Software AG's Partner Accelerator Program is designed to deliver top quality products and services to help our clients realize the value of SOA & BPM.

accenture
High performance. Delivered.

Software AG and Accenture have joined together in providing first-class technology solutions and services to clients who are focused on realizing the promised value of SOA and BPM. The Software AG BPMS (Business Process Management Solution) provides an exceptional technology vehicle to the Accenture BPM and BPR value-driven methodologies. Our global relationship began in 1999, with a formal alliance established in 2001. Accenture is now recognized as a Strategic Global Alliance Partner of Software AG with 800 certified Software AG consultants.

Software AG has recently enjoyed a significant momentum increase with Accenture. Together they have co-hosted multiple training events for Accenture employees, executive luncheons for joint prospects / customers, and customer alignment / strategy sessions. This has led to many joint contracts in Europe and North America.

Software AG continues to gain traction on the Accenture strategic vendor radar. We are currently building joint process frameworks to be hosted by the Accenture Delivery Center in France (Paris). Software AG's market leading solutions brought to fruition by Accenture's delivery excellence and industry expertise offer excellent opportunities to customers around the world.

Atos Origin is the first partner with whom Software AG worked with in France in 2000. From that date the partnership has evolved to a global reach: Atos Origin has over 250 webMethods experts and consultants, who deliver national and international projects.

"The success of our collaboration is in its complementarities: the qualitative and innovative webMethods products in combination with the validated and capitalized approach of Atos Origin. Therefore we are able to improve the Time to Market and the agility of our customers going towards service oriented platforms, wanting to orchestrate their business processes and manage the complexity of their solutions" says Mohammed Bellamine, Director of IT Consulting, Atos Origin France. "Both organizations understand the growing importance of governance and SOA. Software AG's webMethods products give us the necessary technology to deliver global IT governance, which increases the value of our customers' information systems."

Atos Origin is an international information technology services company, headquartered in France. The company's annual revenues are EUR 5.4 billion and it employs 50,000 people in 40 countries. Atos Origin is the Worldwide Information Technology Partner for the Olympic Games.

"Satyam is proud of the long standing partnership with Software AG. Together we have delivered a full range of global services from consulting to implementation" said Joseph Lagioia, Global Head, Consulting & Enterprise Solutions at Satyam. "Our partnership provides scalable solutions that address the core business issues of the people, process and technology needs of organizations. Our results speak for themselves – helping clients become more agile and compete better in today's changing business environments."

The first jointly developed solution, a process and SOA framework for the telecommunication industry, addresses the unique requirements of that industry. Based upon the webMethods product suite, this newly-introduced order management and service fulfillment solution can be used to configure and manage core business processes associated with the provisioning, servicing, and billing of customers. The solution enables organizations to adapt business needs and provide total business agility.

Satyam has more than 300 Software AG certified consultants and operates through 27 state-of-the-art development centers serving 600 global companies. The company delivers consulting, systems integration, and outsourcing solutions to clients in over 20 industries and 57 countries.

"Tata Consultancy Services (TCS) and Software AG have enjoyed a long and successful global partnership together and we are looking forward to continuing that relationship with Software AG," said Dr. Santosh Mohanty, Global Director and Head of the Business Intelligence, Performance Management and Technology Practice, TCS. "Our collaboration over the years has resulted in the establishment and growth of a TCS webMethods Center of Excellence working in various areas including knowledge management, technology change management, and delivery assurance. Today, TCS is a strategic, preferred global system integrator and offshore development partner as well as preferred partner for product development and testing. Our valued partnership will continue to provide customers with innovative solutions to their business challenges."

Tata Consultancy Services, headquartered in India, is an IT services, business solutions and outsourcing organization offering a consulting-led, integrated portfolio of IT and IT-enabled services delivered through its unique Global Network Delivery Model. TCS has over 108,000 consultants in 47 countries. The Company generated consolidated revenues of US$4.3 billion for fiscal year ended March 31, 2007.

SOFTWARE AG STOCK

In July 2007, the share price significantly surpassed the previous 5-year high, setting a new record of €77.20. But due to the weakness of the market in the second half of the year it was not possible to sustain this high price level. Therefore the market capitalization of Software AG rose slightly to €1.7 billion in 2007.

Blue chips lead the list of winners in 2007

A look at the international stock markets in 2007 reveals a divided situation: in the first half of the year the equity markets achieved new record levels. The most important drivers of this trend were dynamic global economic growth, high corporate profits, and an exceptionally active merger and acquisition environment. In the second half of the year the mortgage crisis in the USA and the growing confidence crisis in the financial sector dampened investors' appetite for risk.

Within Europe, the German stock market turned out to be the most resistant to the economic distortions associated with the U.S. mortgage crisis. The DAX benchmark index gained 22 percent in value since the beginning of 2007. Performance of secondary stocks and other European indexes varied. The MDAX posted an increase of 4.9 percent for the year. In 2006, this mid-cap index had achieved gains of 29 percent. The companies listed on the SDAX recorded an average decline of 6.8 percent in the course of the year. Conversely, the EuroStoxx50 picked up 6.9 percent in 2007.

The Dow Jones, which tracks 30 standard stocks, gained 6.0 percent – despite the fact that this index experienced its weakest fourth quarter in twenty years. The broader-based S&P 500 rose 4.2 percent. Both indexes had posted record highs in October.

Second-line technology stocks remained investor favorites in 2007. The technology-laden Nasdaq computer composite index rose 10.7 percent in 2007. The Nasdaq 100, which tracks the largest companies listed on the Nasdaq exchange, climbed by as much as 19.9 percent. The 30.2 percent increase of the TecDAX to 974 points surpassed the previous year's impressive 25.5 percent gain. As in prior years, the rally was primarily led by renewable energy stocks.

Wide price fluctuations for Software AG's share price

Software AG shares were not able to maintain pace with the performance of the TecDAX and Nasdaq 100 benchmark indices in 2007. The Xetra closing price on December 28, 2007 was €60.57. This means the stock gained 1.4 percent from the prior-year closing price of €59.74. Initially, strong financials and the acquisition of webMethods, Inc., as a confirmation of our growth trend, boosted the share price, particularly in the second quarter. On July 19, the share price reached its five-year high of €77.20. But as a consequence of the general weakness of the market it later declined significantly. Initially, competitors' profit warnings had an adverse effect on the share. The mortgage crisis in the USA and its repercussions on the financial sector led to fears that IT demand could plummet in the banking sector. Software AG generates roughly 15 percent of its revenues in this industry. Also, our strengthened, and highly competitive, position in the USA was considered as a critical issue in view of the persistent weakness of the dollar and mounting fears of recession. Dynamic growth companies with acquisition plans were increasingly discounted in the market.

SHARE PRICE DEVELOPMENT (INDEXED)

Due to the macroeconomic uncertainty, many investors also shifted their portfolios from smaller and medium-sized companies to large caps. In addition, more securities were sold in the capital markets where the investors could realize profits. All of these individual factors led to a decline in the share price in the second half of the year.

Another investment criterion is the liquidity of a share on the stock exchange. Software AG stock was able to assert its relatively strong position here: 45.7 million Software AG shares were traded in 2007 – nearly twice as many as in the year before (28.6 million shares). The average daily order book volume was more than €7 million. In the meantime, our share is one of the 100 most liquid market values and fulfills the highest liquidity criteria for electronic trading on the Xetra. This means that the costs for trading support provided by a bank (acting as a designated sponsor) have been eliminated.

In the past fiscal year, market capitalization rose slightly once again. After €1.68 billion in 2006, it is now approx. €1.73 billion. Because of the Company's increasing size, we are approaching new investor groups to expand our shareholder base.

MARKET CAPITALIZATION AT YEAR-END
in € million

05	1,153.68
06	1,679.45
07	1,728.63

Dividend for 2007

In 2007, our investors were able to participate in our Company's success with an attractive dividend payment. At the Annual Shareholders' Meeting on May 11, 2007 we decided to increase the dividend from €0.80 per share to €0.90 per share. In other words, a total of approx. €25.3 million were distributed to shareholders as dividends. Also in the future we plan to adhere to an earnings- and liquidity-dependent dividend policy. The Executive Board and Supervisory Board of Software AG therefore propose a dividend of €1.00 for each share entitled to dividends. Based on the share price at the end of 2007 (€60.57), this represents a dividend yield of 1.65 percent.

Our continuous corporate growth, our dividend yield, and our sustainable cash flow make the Software AG share attractive both for growth-oriented and value-oriented investors.

TOTAL DIVIDEND PAYOUT
in € million

05	22.43
06	25.30
07	28.50

Investor relations intensified

In fiscal year 2007, our contact with all members of the financial community was intensive, transparent, and continuous. It is one of our primary concerns to consistently expand our investor group and reduce the volatility of Software AG stock. Twenty-five national and international financial analysts regularly monitor Software AG. Most of them rated our stock as “buy” or “outperform” at year end and consider it to have sustainably high price potential.

With a relaunch of our IR website in 2007, we made our investor relations information more user-friendly than ever. To this end, we restructured the website, expanded and improved its content, and revamped its look. The standard for these improvements was based on the requirements of the private shareholders who are increasingly interested in Software AG due to our intensive media coverage.

In the year under review we were able to maintain first place on the TecDAX for state-of-the-art IR, securing both the “Best IR in Germany 2007” study conducted by Thomson Extel and first place in the survey carried out in connection with the 2007 Capital Investor Relations Award. This, too, is proof of our successful, transparent reporting in the capital market.

Investor communications enhanced

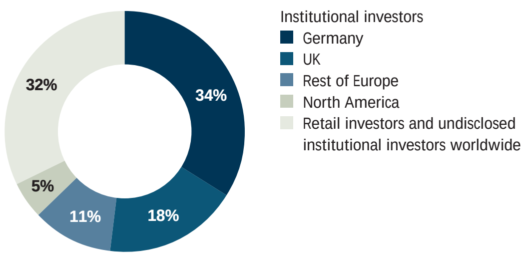
Intensive contact with existing and potential investors is one of our most important activities. The emphasis of our investor communications in the past fiscal year was on the USA, since we wanted to take advantage of the increased interest in our share following the acquisition of webMethods, Inc. We organized more than 30 road show events in Europe and the USA in order to introduce our corporate strategy and establish a trusting, personal relationship with investors and analysts. We also attended 20 investor conferences and had more than 300 one-on-one meetings.

Providing timely information to the capital market is another important quality criterion for us. According to “Close Cycle Ranking 2007”, a study on the publication of annual reports conducted by the IT consulting firms; ifb group and BPM International, Software AG is one of Germany’s leading companies in this area. This testifies to the quality of our financial processes and systems. We also actively represent our investor relations quality standards in the German Investor Relations Association (DIRK).

THE 10 TOP INVESTORS IN SOFTWARE AG STOCK

Investor name	No. of shares held	in %
Software AG – Stiftung	8,332,920	29.20
Deka Investment GmbH	1,745,100	6.11
DWS Investment GmbH	1,385,407	4.95
Allianz Global Investors Kapitalanlagegesellschaft	1,064,188	3.74
Alken Asset Management LLP	954,086	3.34
JPMorgan Asset Management U.K. Limited	868,511	2.98
Braun, von Wyss & Müller AG	745,066	2.61
Baring Asset Management Ltd.	470,491	2.46
Universal-Investment-Gesellschaft mbH	373,933	1.30
Cominvest Asset Management GmbH	335,157	1.18

SHAREHOLDER STRUCTURE (PERCENTAGE OF FREE FLOAT)*



* As of January 2008, Source: Thomson Financial

Shareholder structure

The Software AG foundation, with registered offices in Darmstadt still holds approx. 8.3 million shares (29.2 percent of the outstanding shares). In addition, Software AG has a diversified investor structure. Notable institutional investors each hold more than 3 percent of the Software AG's shares. In keeping with our objectives, the shares in the Company's capital held by North American investors increased from approx. 3 percent of the free float in the previous year to 5.2 percent in 2007. In the medium-term we are seeking to achieve an increase to the double-digit percentage range. Private investors and unregistered investors hold approx. 24 percent of the free float.

Changes in share capital

Employees and managers of Software AG once again took advantage of the opportunity to exercise stock options in 2007. As a consequence, the number of outstanding shares increased by 426,740 shares to a total of 28,539,455 shares.

Indices:

- ¬ CDAX
- ¬ German Entrepreneurial Index
- ¬ HAFixD
- ¬ HDAX
- ¬ L-TecDAX Performance Index
- ¬ Midcap Market
- ¬ Prime All Share
- ¬ Prime IG Software
- ¬ Prime Software
- ¬ TecDAX
- ¬ Technology All Share

KEY SHARE DATA

	2007 IFRS	2006 IFRS
Closing price (Xetra) in €*	60.57	59.74
Year-high in €*	77.20	59.89
Year-low in €*	50.12	37.43
Total number of shares at year-end	28,539,455	28,112,715
Market capitalization at year-end in €	1,728.6	1,679.5
Free float in %	70.8	69.9
Average daily trading volume (Xetra)	181,485	112,635

* Xetra closing rate in €

TICKER SYMBOL AND BASIC DATA

ISIN	DE 0003304002
WKN	330400
Symbol	SOW
Reuters	SOWGn.F
Bloomberg	SOW GY
Stock exchange	Börse Frankfurt
Marekt segment	Prime Standard
Index	TecDax
IPO	April 26, 1999
Offering price	€30
Total number of shares outstanding	28,539,455

Corporate Governance

Software AG

- ¬ Complies with the German Corporate Governance Code
- ¬ Manages the company efficiently and safeguards shareholder interests
- ¬ Communicates effectively, in a timely manner and transparently
- ¬ Deals with risks appropriately
- ¬ Bases its management decisions on adding value long-term

Standards of sound and responsible corporate management

Corporate governance generally encompasses the totality of all international and national values and principles for sound corporate management.

Good corporate governance guarantees responsible, qualified and transparent corporate management, focused on the long-term success of the Company. The Executive Board and Supervisory Board of Software AG are strongly committed to good corporate governance. This includes both compliance with the law and extensively following generally accepted standards and recommendations. The focus is on values such as sustainability, transparency and value orientation.

Software AG's Corporate Governance Report has been prepared jointly by the Executive Board and the Supervisory Board pursuant to Section 3.10 of the German Corporate Governance Code. It describes the principles of the Company's management and control structure and the fundamental rights of Software AG shareholders.

Trust-based cooperation between the Executive Board and Supervisory Board

The corporate bodies of Software AG are the Executive Board, the Supervisory Board and the Annual Shareholders' Meeting. The duties of these corporate bodies are governed by the German Stock Corporation Act, the Articles of Incorporation and the Rules of Procedure for the Executive Board and the Supervisory Board. The Executive Board and Supervisory Board cooperate in an atmosphere of trust.

The Executive Board is solely responsible for the management of Software AG. It is committed to act in the interests of the Company and the long-term increase of the enterprise value. In addition, it represents the Company in relation to third parties. Presently the Executive Board of Software AG is comprised of six members. It is obligated to report to the Supervisory Board regularly, in a timely manner and comprehensively, concerning all relevant matters relating to the development of business activities, the condition of the Group, including the risk situation, as well as corporate planning.

The Supervisory Board of Software AG is also comprised of six members. It advises and supervises the Executive Board in managing the Company. The two bodies jointly decide on corporate strategy and the implementation thereof.

The Supervisory Board appoints the members of the Executive Board and is entitled to dismiss them for good cause. In addition, it discusses the quarterly reports and reviews and approves the financial statements and consolidated financial statements of Software AG. Key Executive Board decisions such as financing measures and acquisitions require its consent.

At Software AG, the election of the Supervisory Board is in compliance with the recommendations of the Corporate Governance Code. All Supervisory Board members are elected individually. Our Rules of Procedure stipulate that if a Supervisory Board member leaves the Board prior to expiration of his or her term of office, the successor‘s appointment is valid only until the next Annual Shareholders' Meeting.

Efficient committee work

The Rules of Procedure of the Supervisory Board provide for the establishment of three committees. They include the Committee for Compensation and Succession Issues, the Audit Committee and the Nominating Committee implemented on December 14, 2007 which is responsible for preparing nominations for election of members to the Supervisory Board. In the past fiscal year, the Committee for Compensation and Succession Issues met six times, the Audit Committee twice. The Nominating Committee met for the first time in early 2008. The Supervisory Board provides information concerning its responsibilities and work in the Report of the Supervisory Board. The Executive Board, Supervisory Board and committees work closely together with the objective of increasing Software AG's long-term enterprise value.

The knowledge and experience of the Chairman of the Committee for Compensation and Succession Issues also reflect the sound corporate governance of our Company. Dr. Andreas Bereczky was elected Chairman of the Committee for Compensation and Succession, replacing Karl Heinz Achinger. Dr. Bereczky has extensive experience in the industry, in particular in the IT segment. He presently serves as production director at ZDF. Previously, Dr. Bereczky was one of four managing directors of T-Systems Service Line Systems Integration, a company with €2 billion in annual revenues.

Software AG maintains no direct or indirect business relationships with Supervisory Board members. In particular, no mutual consulting agreements or other contracts for work or services exist. Both employee representatives on the Supervisory Board are employees of Software AG.

Annual Shareholders' Meeting

Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Key resolutions are decided at the Annual Shareholders' Meeting. They include the approval of the actions of the Executive and Supervisory boards, appointment of the external auditors, amendments to the Articles of Incorporation and – for the purpose of good corporate governance – corporate actions. As scheduled in the financial calendar, we inform our shareholders of business developments and the financial performance and the financial position of Software AG four times per year. In 2008, the Annual Shareholders' Meeting will be held once again in Darmstadt, as the city now has a suitable meeting forum in the "Darmstadtium" convention Center.

Pursuant to the recommendations of the Corporate Governance Code, we conduct the Annual Shareholders' Meeting in an expedient manner within a time frame of 4 hours. We transmit the Annual Shareholders' Meeting live in the Internet. The amendment to the Articles of Incorporation necessary for this was adopted in the 2006 Annual Shareholders' Meeting. Shareholders who do not wish to exercise their voting rights may authorize a member of the Company to vote by proxy in accordance with the instructions of the shareholder. The invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda, the financial statements, the Articles of Incorporation, and explanations of draft resolutions are published on the Software AG website along with the date of the Meeting. The resolutions adopted by previous shareholders' meetings as well as the quarterly reports of the preceding fiscal years may also be found there.

In conformity with the Law on Corporate Integrity and Modernization of the Right of Avoidance (UMAG), we modified our registration and identification procedures for the 2006 Annual Shareholders' Meeting. Holders of bearer shares need only to present written confirmation of their shareholdings as of the 21st day before the Annual Shareholders' Meeting ("record date") from the depository bank. UMAG also makes it possible to conduct our Annual Shareholders' Meeting efficiently by allowing the chairperson to cut short speakers who stray from the topic at hand and to refer to detailed information already published on the website.

Open and transparent communication

Software AG communicates openly, transparently, comprehensively and in a timely manner. Our disclosure policy ensures that information of relevance to investors is dealt with uniformly all over the world. It governs the publication of financial results and significant events as well as internal processes in which the relevance of information is examined. Accordingly, the Executive Board immediately publishes insider information that affects Software AG, unless it is exempt from the publication requirement in specific cases. In accordance with legal stipulations, we maintain registries of persons with access to insider information who are instructed to maintain confidentiality. Software AG provides information to shareholders, analysts and journalists in accordance with uniform criteria. The information is transparent for all capital market participants. All ad hoc announcements and press releases as well as presentations given at press and analysts' conferences and road shows are published without delay on the website of Software AG.

The Company also publishes the purchase or sale of shares in the Company or related financial instruments, particularly derivatives, by members of the Executive and Supervisory Board of Software AG as well as certain other related parties. As soon as knowledge is acquired of these transactions, they must be posted on our website.

Pursuant to the Law to Implement Transparency Guidelines (TUG), the threshold for issuing a mandatory notification concerning shareholdings in listed companies was reduced to 3 percent of the voting rights, effective January 20, 2007. The law also stipulates that companies must make such notifications available Europe-wide. We use a suitable service provider for this purpose. In addition, we publish all information in German and English. We also fully comply with the "Act on Electronic Commercial Registers, Registers of Cooperatives and Business Registers (EHUG)," which came into force on January 1, 2007, by sending the operator of the electronic version of the Federal Gazette all documents requiring publication in electronic form as prescribed by the Act.

In order to provide relevant information in an even more user-friendly form, we restructured and enhanced our investor relations website in 2007. We also added to its content, for example a list of frequently asked questions and answers as well as an investor fact sheet.

We present our risk management concept in the "Risk Report." Please refer to the Notes for information on Group accounting.

Directors' Dealings

The following reportable transactions were announced in calendar year 2007.

DIRECTORS' DEALINGS

Date of transaction	**November 22, 2007**
Full name	**Dr. Peter Kürpick**
Position	**Chief Product Officer**
Title of security or right	DB Software 85 CWTS 17.06.09
WKN / ISIN	DE000DB9K807 (underlying ISIN DE0003304002)
Type of transaction	Purchase of warrants
Place of transaction	EUWAX
Quantity	15,000
Price	€0.27
Transaction volume	€4,050.00
Date of publication	November 22, 2007

Date of transaction	**November 21, 2007**
Full name	**Dr. Peter Kürpick**
Position	**Chief Product Officer**
Title of security or right	DB Software 85 CWTS 17.06.09
WKN / ISIN	DE000DB9K807 (underlying ISIN DE0003304002)
Type of transaction	Purchase of warrants
Place of transaction	EUWAX
Quantity	25,000
Price	€0.276
Transaction volume	€6,900.00
Date of publication	November 22, 2007

Date of transaction	**November 15, 2007**
Full name	**Arnd Zinnhardt**
Position	**Chief Financial Officer**
Title of security or right	Software AG Share
WKN / ISIN	DE0003304002
Type of transaction	Acquisition through exercise of options
Place of transaction	Frankfurt am Main
Quantity	1,250
Price	€9.73
Transaction volume	€12,162.00
Date of publication	November 16, 2007

Date of transaction	**August 16, 2007**
Full name	**Arnd Zinnhardt**
Position	**Chief Financial Officer**
Title of security or right	Software AG Share
WKN / ISIN	DE0003304002
Type of transaction	Acquisition through exercise of options
Place of transaction	Frankfurt am Main
Quantity	1,250
Price	€9.73
Transaction volume	€12,162.00
Date of publication	November 16, 2007

Date of transaction	**August 16, 2007**
Full name	**Arnd Zinnhardt**
Position	**Chief Financial Officer**
Title of security or right	Software AG Share
WKN / ISIN	DE0003304002
Type of transaction	Acquisition through exercise of options
Place of transaction	Frankfurt am Main
Quantity	1,250
Price	€13.58
Transaction volume	€16,975.00
Date of publication	November 16, 2007

Date of transaction	**May 21, 2007**
Full name	**Arnd Zinnhardt**
Position	**Chief Financial Officer**
Title of security or right	Software A Call / 100
WKN / ISIN	DE000SDL11K4 (underlying ISIN DE0003304002)
Type of transaction	Purchase of warrants
Place of transaction	over the counter
Quantity	66,500
Price	€0.31
Transaction volume	€20,615.00
Date of publication	May 30, 2007

2007 declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG)

On December 17, 2007, the Executive and Supervisory Boards submitted an unqualified declaration of compliance stating that the Company has followed all recommendations of the Commission of the German Corporate Governance Code as amended on June 12, 2006 and with the updated German Corporate Governance Code as amended on June 14, 2007. Software AG will continue to comply with the Code as amended on June 14, 2007.

Software AG implements the recommendations of the German Corporate Governance Code. However, separate preparation of Supervisory Board meetings by shareholder or employee representatives does not take place in a formal sense. Due to the small number of representatives, informal coordination is easily achieved.

Please see the Investor Relations section of our website at www.softwareag.com for additional details on this and corporate governance at Software AG in general.

The current version of the German Corporate Governance Code published by the Commission of the German Corporate Governance Code can be found at www.corporate-governance-code.de.

Auditor

The Annual Shareholders' Meeting of Software AG has again appointed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, as Company auditor. BDO advises the Company on individual tax matters in connection with tax returns and tax audits. No business, financial, personal, or other relationships that could cast doubt on the independence of the audit firm have existed at any time between BDO and its corporate bodies and audit managers on the one hand and Software AG and the members of its corporate bodies on the other.

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, through the Chairman of the Audit Committee, has appointed the auditor and agreed on the fee. In connection with the audit engagement, the Chairman of the Audit Committee has also agreed with the auditor to comply with the reporting duties pursuant to the German Corporate Governance Code. BDO participates in meetings of the Supervisory Board's Audit Committee and of the Supervisory Board concerning the financial statements and consolidated financial statements and reports on key audit findings.

Remuneration report

This remuneration report provides details on remuneration amounts and the structure of the remuneration system for the Executive and Supervisory Boards. Remuneration of board members is reported as total amounts,while stating the proportion of the individual remuneration components to one another. The proportions of the individual components are indicated, and the total figure is broken down into fixed payments, performance-related components, and long-term incentive components.

Executive Board remuneration pursuant to Section 314 (1) No. 6a German Commercial Code (HGB)

Remuneration of active Executive Board members for fiscal 2007 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	1,782,949.72	19,384.30
David Broadbent	244,852.38	519,034.93	204,726.01
Mark Edwards	236,073.82	1,045,009.20	331,872.87
Dr. Peter Kürpick	200,000.04	606,173.06	26,487.52
David Mitchell	102,843.71	505,621.91	15,485.30
Arnd Zinnhardt	231,999.96	1,149,012.04	34,589.40
Christian Barrios Marchant	19,333.33	36,000.00	1,799.52
Alfred Pfaff	166,666.64	0.00	21,406.92

* €176 thousand of other remuneration components of David Broadbent and €286 thousand of other remuneration components of Mark Edwards include employer contributions to social security.

Expenses amounting to €2,000 were charged to the pension commitments to the Executive Board members in fiscal 2007. Employer contributions to social security for two members of the Executive Board resulted in expenses of €462,000. In departure from the remuneration report in the notes to the financial statements these two items were recognized in the total remuneration of the Executive Board. This relates to remissions from the company for British social security, which will not increase the future pensions for either of the British executive board members.

Variable remuneration / bonuses

Individual Executive Board members are paid a bonus based on the Group's sales and earnings performance. In addition, a variety of quantitative and qualitative targets have been agreed on depending on area of responsibility. The bonuses are calculated based on the extent to which targets are reached.

Medium- and long-term remuneration components

a) Stock option plan

The stock option plan has been in existence since 2001. No new options have been issued in conjunction with this program since January 1, 2005. As of December 31, 2007, 43,402 subscription rights had been issued to Executive Board members. The plan will continue until the end of 2011. The conditions for exercising the options were again fulfilled in fiscal year 2007. Net income rose by more than 10 percent over the previous year, and profit from ordinary activities surpassed 10 percent of sales. The exercise price averaged €55.29 for all persons eligible to exercise options in the year under review. €4,416 thousand was paid out from this plan to the members of the Executive Board in fiscal year 2007.

MEDIUM- AND LONG-TERM REMUNERATION COMPONENTS

in €	Medium- and long-term remuneration components	Pension expenses*	Stock appreciation rights	Performance phantom shares
Karl-Heinz Streibich (Chief Executive Officer)	1,018,351.41	24,150.00	300,000	16,809
David Broadbent	764,790.13	35,560.82	150,000	7,258
Mark Edwards	1,328,904.03	-1,989.56	150,000	12,775
Dr. Peter Kürpick	472,916.36	8,571.00	150,000	7,830
David Mitchell	232,837.98	0.00	125,000	2,234
Arnd Zinnhardt	2,233,006.58	-32,924.00	150,000	14,640
Christian Barrios Marchant	1,115,379.57	245.67	0	0
Alfred Pfaff	-261,639.02	-30,830.00	0	-5,114

*Based on Recommendation 23 of the Corporate Governance Code and at variance with the provisions of the German Commercial Code, we have included pension expenses in this portrayal of Executive Board remuneration.

b) Phantom share plan
A portion of the variable remuneration is paid as a "long-term component" on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2007 is converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2008 less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two, and three years. On the due dates in March 2009 to 2011, the number of phantom shares will be multiplied with the then applicable average share price for February of the relevant year. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX30 index and is then paid to the members of the Executive Board. The members of the Executive Board receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche. Personnel expenses of €1,365 thousand were incurred under this program during fiscal year 2007. These expenses are reflected under "long-term components" in the table above.

c) Stock appreciation rights program
A new incentive program based on the performance of Software AG stock was initiated for Executive Board members and officers in the third quarter. So far, 1,025,000 ownership rights have been issued to Executive Board members. If the performance targets are reached by June 30, 2016, the holders of these ownership rights are entitled to a payment of the value by which the Software AG stock surpasses the base price of €72.36. The attainment of Group revenues of €1,000,000 with a simultaneous doubling of earnings after taxes compared to fiscal year 2006 by no later than 2011 was defined as the performance target.

Total remuneration for members of the Executive Board amounted to €14,858 thousand in the fiscal year.

A total of 1,025,000 stock appreciation rights were granted to the Executive Board members.

The Executive Board members received a total of 56,432 performance phantom under the phantom share plan.

Remuneration for former Executive Board members totaled €2,833 thousand.

Pension provisions for former Executive Board members amounted to €1,886 thousand.

Other remuneration components

If a member of the Executive Board resigns due to a change of control within 12 months of such change and without good cause will receive a severance payment equal to three annual salaries based on the annual target remuneration most recently agreed and the average target performance ratio for the preceding three full fiscal years. In case of resignation the above mentioned regulation is not applicable if the position of the Executive Board member has only been altered marginally with the change of control. This change of control clause for Executive Board members is intended to replace the existing regulations of paying the remaining term of the contract in the event of termination by the Company as well as the agreed escalation bonus in the amount of 0.5 percent of the increase of the Company's market capitalization as a result of a takeover bid.

In the event of illness, five members of the Executive Board will receive full pay based on the annual target remuneration for a period of six months. After six months, the variable remuneration component will be reduced by 1 / 12 for every month that follows. Salary payments will cease at the end of the term of the contract in any event. Any health insurance benefits received by the Board member must be credited against such payments. In the event of illness, one Executive Board member will continue to be paid 90 percent of his average after-tax annual remuneration for the preceding three years for a period of six months.

In case of permanent disability, the employment contract of the Executive Board member concerned will terminate at the end of the month in which the permanent disability was determined or at the end of the month in which the Executive Board member has been incapacitated for work for an uninterrupted period of twelve months. In such a case, severance pay will be provided for one Executive Board member in the amount of €158 thousand, plus an additional severance payment equal to the total of the members' fixed salary for the remainder of the contract for a period not to exceed six months. The remaining Executive Board members will receive no severance pay in such a case. From the time of their departure until completion of their 65th year of age, the German members of the Executive Board will receive a disability pension of €11,000 per month, and the CEO will receive €15,000 per month. British members of the Executive Board are subject to the provisions of the Permanent Health Insurance Plan applicable in the United Kingdom. Under this plan, British members of the Executive Board will receive 90 percent of their average annual after-tax remuneration for the preceding three years until they reach the pensionable age of 60 years. This entitlement will be adjusted to reflect inflation in years in which the inflation rate is less than 5 percent. If the inflation rate exceeds 5 percent, the entitlement will be adjusted annually by 5 percent.

The Company maintains life insurance policies for five Executive Board members. For four Executive Board members, the insured amount equals €500 thousand in the event of death and €1,000 thousand in the event of disability. For one Executive Board member, the insured amount equals four times his fixed annual remuneration.

Four members of the Executive Board will receive pensions of €11,000 per month for life after completing their 65th year of age, regardless of their number of years at the Company. The CEO's pension amounts to €15,000. This pension commitment also comprises a widow's annuity of €6,000 per month, with €9.000 per month for the widow of the CEO. In the event an Executive Board member leaves the Company prior to the age of 65, such Executive Board member will still be entitled to pension benefits, but they will be reduced on a pro rata temporis basis. The beneficiary will not be entitled to claim an adjustment or indexation of the entitlement. One member of the Executive Board will receive an annual pension for life after completing his 60th year in the amount of 1.66 percent of the average fixed remuneration for the preceding three years multiplied by the members number of service years. This entitlement will be adjusted to reflect inflation in years in which the inflation rate is less than 5 percent. If the inflation rate exceeds 5 percent, the entitlement will be adjusted annually by 5 percent.

Instead of a pension plan, one member of the Executive Board receives a monthly allowance for maintaining a second place of residence in the amount of €2,000 (US$3,000) as well as weekend flights home.

In addition, all members of the Executive Board are entitled to be provided with a suitable company car.

No additional commitments have been made regarding severance pay in the event an employment contract is not extended or a change in shareholder occurs, nor regarding bridging payments, continuation of salary payments in the event of early termination of employment, or interest on severance payments. There are also no entitlements to payments based on customary practice.

Supervisory Board remuneration

Remuneration for Supervisory Board members is made up of fixed and performance-related components. Members receive separate remuneration for their work on the Committee for Compensation and Succession Issues and the Audit Committee as well as the Nominating Committee which was established on December 14, 2007.

In addition to reimbursement of their expenses, members of the Supervisory Board receive a fixed annual remuneration in the amount of €25,000 as well as annual performance-related remuneration of €2,000 for each percentage point or fraction thereof in excess of 5 percent by which the growth of currency-adjusted net income has exceeded the previous year's figure (Variable Remuneration I).

The figures reported in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the relevant fiscal year or fiscal years are utilized for calculating performance- related remuneration.

Furthermore, Supervisory Board members receive annual compensation based on long-term corporate profits in the amount of €200 for each percentage point or fraction thereof by which the growth in value of Software AG stock exceeds the growth of value of the TecDAX30 index for the same period (Variable Remuneration II). The growth in value of the stock will be assessed on the basis of a 3-year comparison of the XETRA closing rates starting in fiscal year 2008, and the growth in value of the TecDAX30 will be assessed on the basis of a 3-year comparison of the index.

Remuneration of the Chairman / Deputy Chairman

The Chairman of the Supervisory Board receives twice the remuneration stated, and the Deputy Chairman one and a half times such amount.

Other arrangements

In addition, members of the Supervisory Board receive an attendance fee of €1,500 each time they participate in person in a meeting of one of their committees. Attendance fees are paid only once for multiple committee sessions occurring on the same day or for a session that takes place on consecutive days. The attendance fee is €2,500 for the committee chairmen.

Remuneration is payable one week after approval of the financial statements for the year by the Supervisory Board or, if applicable, the Annual Shareholders' Meeting. Members of the Supervisory Board who were on the Board for only a part of the fiscal year will receive remuneration for each day of their first month of activity and one-twelfth of the annual remuneration for each additional month.

Remuneration of Supervisory Board members for fiscal year 2007 is composed as follows:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman)	50,000.00	116,000.00	28,000.00	15,000.00
Karl Heinz Achinger (Deputy Chairman until May 11, 2007)	13,458.90	31,224.66	7,536.99	6,500.00
Dr. Andreas Bereczky (Deputy Chairman as of May 11, 2007)	33,013.70	76,591.78	18,487.67	4,500.00
Rainer Burckhardt as of May 11, 2007	16,027.40	37,183.56	8,975.34	0.00
Justus Mische	25,000.00	58,000.00	14,000.00	9,000.00
Monika Neumann	25,000.00	58,000.00	14,000.00	9,000.00
Reinhard Springer until May 11, 2007	8,972.60	20,816.44	5,024.66	3,000.00
Alf Henry Wulf as of May 11, 2007	16,027.40	37,183.56	8,975.34	0.00

Total remuneration for members of the Supervisory Board amounted to €775 thousand in the year under review.

Report of the Supervisory Board

Frank F. Beelitz
Chairman of The Supervisory Board

The Supervisory Board of Software AG supervised the Executive Board, and in consideration of all significant business events, also closely monitored the development of the Group, as required by the German Corporate Governance Code during the fiscal year 2007. The Supervisory Board met nine times during the year under review, of which one meeting was a telephone conference. At least one session took place each quarter. All members of the Supervisory Board attended all sessions.

During these sessions, the Supervisory Board analyzed the ongoing business development and strategic direction of the company in detail with the Executive Board. Any transactions requiring Supervisory Board approval in accordance with the Articles of Incorporation or applicable legislation were reviewed and approved, where appropriate.

Consultations covered the financial status of Software AG and its subsidiaries, the acquisition strategy of Software AG, the current and longer-term development of the individual business segments, and the corresponding strategies for products, sales, and marketing. The Supervisory Board also received written reports on business development from the Executive Board on a monthly basis.

The Supervisory Board includes the following committees:
¬ The Committee for Compensation and Succession Issues
¬ The Audit Committee
¬ The Nomination Committee (since December 14, 2007)

The Committee for Compensation and Succession Issues met six times, and the Audit Committee met twice during 2007. The Nomination Committee convened for the first time on January 18, 2008.

The Supervisory Board continuously held detailed deliberations on the subject of corporate governance and the German Corporate Governance Code in the course of several meetings during fiscal year 2007. The Supervisory and Executive Boards took the necessary steps to continue to comply in full with the recommendations of the Code during the year under review. Remuneration of Executive and Supervisory Board members is again reported individually for fiscal year 2007 (refer to the Remuneration Report on p. 24).

The declaration pursuant to Section 161 of the German Stock Corporation Act (AktG), issued jointly with the Executive Board, states that in 2007 Software AG complied with the recommendations of the Code in the version dated June 12, 2006, as well as the most recent version of June 14, 2007, without exception and will continue to do so in the future. This declaration of compliance has been made public on the Company's website www.softwareag.com.

In 2007, the efforts of the Supervisory Board of Software AG were primarily focused on the acquisitions undertaken by the Company with the objective of expanding the product portfolio and stabilizing the Group's growth:
¬ The meetings in March 2007 were in preparation for the Annual Shareholders' Meeting, which took place on May 11, 2007 in Frankfurt, and the acquisition of SPL Software in Israel.
¬ In the meeting in April 2007, the resolution to acquire webMethods, Inc., in Fairfax, USA, laid the foundation for the technological expansion of the product portfolio and hence for sustainable medium-term to long-term growth for Software AG.
¬ In the meetings in May and July 2007, a new Management Incentive Plan was discussed and adopted to support the integration of the acquired companies.
¬ In another meeting in July 2007, a fundamental reorganization of Executive Board responsibilities was adopted. In this connection, Software AG discontinued its existing regional sales structure and aligned the entire Company in accordance with the two business divisions webMethods and Enterprise Transaction Systems (ETS). Since then, each of the two business lines is represented by two Executive Board members: one for development and one for sales.
¬ In October 2007, the Supervisory Board decided to conclude an asset deal with Jacada Ltd., Israel.

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board appointed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, to audit the financial statements and the consolidated financial statements of Software AG for fiscal year 2007.

BDO Deutsche Warentreuhand Aktiengesellschaft examined the financial statements, consolidated financial statements, and management report for the year ended December 31, 2007, including the accounting books and records. The auditors issued an unqualified audit opinion.

The audit reports were presented to the Supervisory Board, and the head of the audit team explained the results in person to the Audit Committee. They were also presented to the Executive Board. The Audit Committee and the Supervisory Board thoroughly reviewed the audit results in their meeting of March 12, 2008. The Supervisory Board concurs with the results of the audit and approves the financial statements and consolidated financial statements. This constitutes formal approval and acceptance of the annual financial statements. We, the Supervisory Board, concur with the recommendation of the Executive Board with respect to the appropriation of profits.

The following personnel changes took place on the Executive Board and Supervisory Board of Software AG in 2007:

Effective January 8, 2007, David Broadbent was appointed as successor for Christian Barrios Marchant, who left the Company by mutual agreement. David Broadbent is responsible for development for the ETS business line.

Effective August 1, 2007, David Mitchell was appointed as a member of the Executive Board and took on responsibility for sales for the webMethods business line. Former Executive Board member Alfred Pfaff left the Company by mutual agreement.

The term of office of Karl Heinz Achinger ended at the Annual Shareholders' Meeting on May 11, 2007. Mr. Achinger had been a member of the Supervisory Board since April 30, 2002. Upon the recommendation of the Supervisory Board, the shareholders appointed Alf Henryk Wulf as successor of Karl Heinz Achinger. Alf Henryk Wulf is Executive Officer Sales & Marketing at Alcatel-Lucent Deutschland AG.

Employee representative Reinhard Springer also left the Supervisory Board effective May 11, 2007. The employees elected Rainer Burckhardt, Chairman of the Darmstadt Works Council, to the Supervisory Board.

The Supervisory Board would like to thank the outgoing members for their dedication and trusting cooperation.

The Supervisory Board would also like to thank the Executive Board and all employees for their commitment, as well as their achievements, during fiscal year 2007.

Darmstadt, March 2008

The Supervisory Board
Frank F. Beelitz
Chairman

Please refer to page 98 of the Notes for additional information on the members of the Supervisory Board.

HIGHLIGHTS

€621.3 million Revenue	**+ 29%**
€143.5 million EBITA	**+ 29%**
€88.4 million Net profit	**+ 21%**
€3.11 Earnings per share	**+ 20%**

Group Management Report

SOFTWARE AG GROUP MANAGEMENT REPORT

The Software AG Group is managed globally by the parent company, Software AG, acting as an operating holding company. The financial position of the parent company is shaped by the financial position of the Group. For this reason, the Executive Board of Software AG combines the management reports of the Group and the parent company into one report.

1. The Software AG Group

1.1 Business activities

Software AG develops and distributes software solutions that increase the value of IT systems of organizations. Our 4,000 customers worldwide achieve measurable business results by modernizing and automating their existing IT systems and speedily building new systems to meet growing business demands. The Company's industry-leading product portfolio includes best-in-class solutions for managing data, enabling Service-Oriented architecture (SOA), and improving business processes. By combining the most advanced IT technology with industry expertise and best practices, our customers improve and differentiate their businesses—faster.

Software AG has 39 years of international experience and has approximately 3,500 employees serving customers in 70 countries. The Company is headquartered in Germany and is listed on the Frankfurt Stock Exchange. Software AG posted total revenues of €621.3 million in 2007.

1.2 Organization

The Company has two business divisions: Enterprise Transaction Systems (ETS) and webMethods (formerly Crossvision). With our ETS business division, we have gained a firm footing in the IT landscapes of companies and government agencies worldwide. Software AG is their preferred partner for mainframe software and the modernization of mainframe-based IT systems, therefore ensuring the customers long-term protection of their investment. The comprehensive product range of our webMethods business division enables customers to develop automated, flexible and efficient business processes from existing systems. This is made possible by making data available that is easy to control and manage as Web services within a Service-Oriented Architecture (SOA) and by Business Process Management. IT therefore optimally supports the development of business.

Software AG generates its revenues from the licensing of enterprise software, maintenance and services in both business divisions ETS, and webMethods.

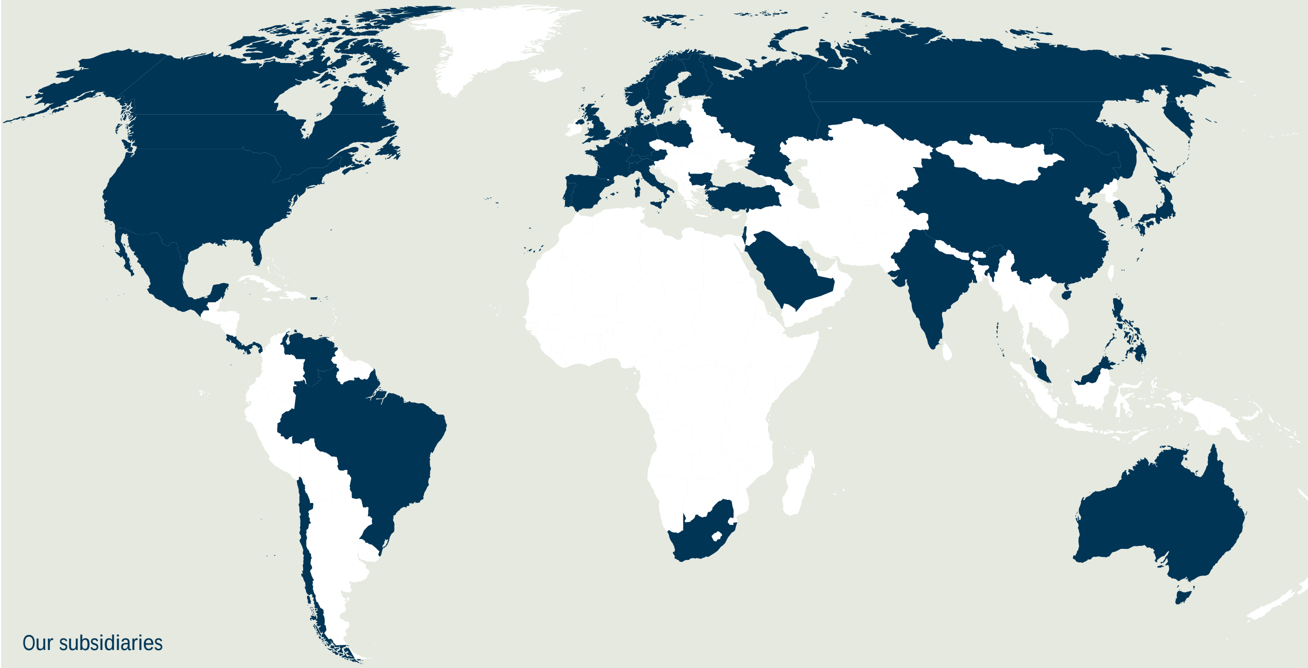
In the past fiscal year, Software AG dissolved its regional structure and systematically restructured the company's organization, basing it on the two business divisions ETS and webMethods. In August 2007, ETS and webMethods were assigned their own sales, development (ETS already in January 2007) and product marketing departments. This has further improved customer orientation.

The two business divisions are supported by the new and now globally positioned business unit Professional Services, which implements customized, innovative IT solutions based on our infrastructure software for business processes. The product range includes consulting for SOA, Business Process Management (BPM) and modernization as well as specific product-related solutions to problems.

Management structure also reorganized

The two business divisions of Software AG, ETS and webMethods, are now the main pillars of Software AG's activities. For that reason, a strategic decision was made in 2007 to reorganize the Company from having a regional structure for executive management and a business division structure for sales activities to a structure based on business divisions. Each of the two business divisions was assigned one member of the Executive Board to be responsible for product development and one for sales. From being organized regionally in the past, sales activities are now distributed to both business divisions.

Related to this was the appointment of David Broadbent to the Executive Board. He is responsible for Research & Development and product marketing in the ETS business division. Mr. Broadbent is also responsible for the Asia / Pacific region.



Our subsidiaries

At the end of July 2007, the Supervisory Board appointed David Mitchell to the Executive Board. The former CEO of webMethods, Inc., now has global responsibility for the sales of the webMethods business division.

In the year under review, Executive Board members Christian Barrios Marchant and Alfred Pfaff resigned from the Executive Board of Software AG by mutual consent. Please refer to the Corporate Governance section and the remuneration report for further details.

In addition, with regard to the acquisitions already accomplished and possible further acquisitions, we have created the function of Global Integration Management and assigned it as an administrative position under the CEO. The goal of the headquarters-level position is to coordinate all integration activities in all areas and to support the line managers in integrating their areas of activity. The responsibilities range from support in defining and implementing the optimal organization, the support of officers and employees in integrating employees, organizational structures and processes as well as participation in the internal communication of and collaboration on, M&A activities. These measures have contributed to the faster than planned integration of webMethods, Inc. in the past fiscal year (please refer to the acquisitions section).

Group structure

The corporate structure of Software AG includes 82 subsidiaries in 41 countries (please refer to the Notes). The two wholly-owned subsidiaries of Software AG, SAG Deutschland GmbH and SAG Consulting Services GmbH, are responsible for all sales, marketing, and service activities of Software AG in Germany. The two companies currently employ approximately 200 persons and have seven business centers in Germany. Additional key subsidiaries are located in the USA, the UK and Spain.

Major locations

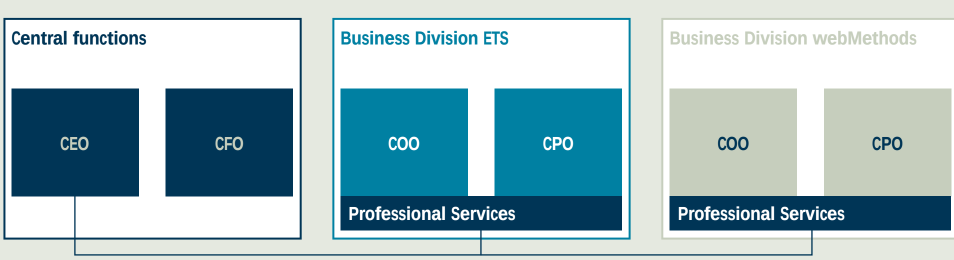
Software AG has more than 80 locations worldwide. Our most important locations include Darmstadt (Germany), Reston, Virginia (U.S.), Madrid (Spain) and Bracknell (UK).

1.3 Market position

In 2007, we reinforced and expanded our international market position. Our 39 years of experience in the international IT market in support of currently more than 4,000 customers in 70 countries contributed to this result. Our primary strengths are our leading products, our consistent customer focus, the financial stability of the Group and our global orientation.

After the merger of webMethods, Inc., Software AG has advanced to fifth place among the largest software companies in Europe. This position is confirmed by the "Truffle 100 Europe," a ranking of the largest software companies in Europe based on their global software sales in 2006. In addition, we have been ranked among the top 25 worldwide since 2007. We are the second largest software company in Germany. At the same time, Software AG is the largest provider of infrastructure software in Europe.

ORGANIGRAM



Two of the largest internationally recognized IT industry analysts (Forrester, Gartner) have recognized the products of software AG as leading in the areas of SOA Governance and Business Process Management (BPM).

According to Gartner, the market for enterprise-infrastructure software, consisting of the product segments integration software, Business Process Management software (enterprise service bus (ESB)), application integration software (AIS) and others, is expected to nearly double between 2006 and 2011, from $9.4 billion to $17.0 billion. The segments Business Process Management (BPM), enterprise service bus (ESB) and application integration software (AIS) are expected to grow most robustly. Software AG has the potential to further increase its market share in these growing market segments.

1.4 Corporate strategy and objectives

Long-term goals

We will systematically continue on our growth course in order to exceed the revenue threshold of €1 billion in fiscal 2010. At that time, our EBIT margin is expected to exceed 25 percent. On this basis, we plan to accelerate corporate growth even more. Our long-term goal is to be one of the top three in the global market in the area of infrastructure software for corporate customers.

We present our financial goals for 2008 in the “Forecast”.

Software AG pursues four growth strategies

1. Organic growth in long-standing markets through innovation
2. Geographic expansion
3. Growth through acquisitions
4. Addressing new customer groups through partnerships

In 2008, we will focus on organic growth in both business divisions, including the expansion of our market presence in Brazil.

Organic growth through innovation

Software AG wants to achieve organic growth of 10 percent annually in both business divisions, ETS and webMethods, through innovation, a consistent customer focus and efficient processes.

Growth through geographic expansion

We also plan to achieve organic growth in the business divisions through geographic expansion. In recent years, we have expanded our business particularly in Israel, Venezuela, South Africa, Japan and Chile. We replaced our indirect sales through partners by a direct market presence, the goal of which is to increase our revenues in those markets by more strongly focusing on our product portfolio.

Growth through acquisitions

In 2007, we acquired three companies: The software firm SPL in Israel, the software firm webMethods, Inc. in the U.S., and a business division of the software firm Jacada in Israel. The latter became legally effective as of January 1, 2008. Software AG has developed a clear acquisitions policy under which the target companies should either strengthen the product portfolio (purchase of products) or increase the market presence in certain markets (purchase of customers).

New customer groups through partnerships

Another strategic orientation of Software AG concerns the partner network consisting of technology and sales partners as well as System Integrators. This enables Software AG to stay lean and efficient and concentrate on its core competence of infrastructure software development while simultaneously developing new customer groups.

Efficiency improvements support profitability

To further increase our profitability, we improve our global processes and accordingly our efficiency on an ongoing basis. In doing so, we continuously generate financial leeway, which contributes to innovation management and the strengthening our sales activities. Innovation encompasses technological progress, which includes our own research and development as well as the purchase of technologies.

1.5 Value-oriented control

The goal of Software AG’s internal control system is a long-term increase in profitability and improvement of the Group’s financial strength. The key indicators for our Company are sales, operating result (EBIT), the EBIT margin, earnings per share, and cash flow. Value-oriented financial indicators referring to employment of capital play a minor role for us, since our commitment of capital is low and personnel expenses represent the most significant pool of costs. As is typical of the software industry, EBIT is our most important financial indicator.

Ongoing sales and earnings monitoring

As a basis for solid profitability growth, we perform ongoing sales and cost monitoring as well as forecasting for the revenue areas of licenses, maintenance, and Professional Services. Licensing revenues are the key growth drivers for maintenance and Professional Services revenues. For that reason, we continuously monitor licensing revenues from the initial customer contact to conclusion of the licensing agreement on all management levels.

We continuously monitor the development of the operating margin (EBIT margin) in a multidimensional matrix structure. This monitoring takes into account the breakdown by business divisions, revenue types and a varying regional structure within the divisions. In addition, we constantly observe the operating margins of our Professional Services business at the project level from the time of offer preparation to project finalization. One focus lies on maximizing sales efficiency, which we achieve by improving the quality of our personnel and increasing project size. The newly established interregional sales and service structure offers additional significant potential with regard to sales efficiency.

The acquisition of webMethods, Inc. makes us able to leverage significant synergies in the administrative departments. In addition to the efficiency improvement measures already initiated, these synergies have already had a positive impact in the year under review by offsetting the financial burdens resulting from the acquisition.

Dynamic budget model ensures optimized cost management

All cost items in the Group are subject to stringent budget control. Monitoring occurs on a monthly basis and involves reviewing historical adherence to the budget and forecasting cost development. The basis of this is a dynamic budget model, ensuring that the cost budget remains flexible in relation to sales growth for all key components. We adjust the cost budget throughout the year to be able to achieve or exceed our profit targets.

A mix of in-house development, purchasing and international division of labor ensures the control of R&D

Our success as a product enterprise in the software industry is based on research and development. We continuously adapt our portfolio to meet the needs of our customers and take management concerns into account. To this end, we calculate the profit contribution of our products on an ongoing basis. We optimize our use of resources by combining purchases of technology and in-house development. At the same time, we are currently pressing ahead with the development of new locations, such as in Bulgaria and India. The goal is an optimal mix of nearby high-cost and distant low-cost locations for the development of our products.

Cash flow optimized by receivables management and central cash management

Receivables management has a significant influence on cash flow. Receivables management is performed locally and is subject to a variety of internal control processes based on strict rules relating to bad debt allowances. Software AG's cash management is a centralized function, for which we use a globally standardized cash management system. This enables us to optimize our investment strategy and minimize investment risks.

Our key financial indicators performed as follows in the year under review:

FINANCIAL INDICATORS

In € million	2007	2006	Change in %
Revenue	621.3	483.0	29
Licensing revenue	241.3	165.7	46
Maintenance revenue	212.9	187.3	14
Professional services revenue	161.2	126.2	28
EBIT	136.8	111.2	23
EBIT margin in %	22	23	
Operating cash flow	94.0	61.4	53
Earnings per share (diluted) in €	3.09	2.55	21

2 Underlying economic conditions

2.1 Overall economic situation

In 2007, the global economy continued its expansion of recent years. Global gross domestic product grew by 5.1 percent (2006: 5.4 percent). The growth was essentially supported by the sustained high momentum in the emerging economies, primarily in Asia and in particular in China. It was also relatively resistant to the global turbulences on the financial markets in the second half of the year. A further softening of economic growth was evident in the U.S. In contrast, the German economy continued its upswing.

Performance of significant currencies

The foreign currencies of greatest importance for the performance of Software AG are the U.S. dollar, the British pound, the South African rand, and the Australian dollar. Throughout the year, the U.S. dollar continued its decline in relation to the euro.

The exchange rates used for currency translation from the euro changed as follows compared to the previous year:

CLOSING RATE (€1)

	Dec. 31, 2007	Dec. 31, 2006	Change in %
U.S. dollar	1.4718	1.3184	11.6
Pound sterling	0.7347	0.6716	9.4
South African rand	10.03	9.23	8.7
Australian dollar	1.6750	1.6698	0.3

Source: Commerzbank AG, Frankfurt

AVERAGE RATE FOR THE YEAR (€1)

	Dec. 31, 2007	Dec. 31, 2006	Change in %
U.S. dollar	1.3700	1.2557	9.1
Pound sterling	0.6845	0.6818	0.4
South African rand	9.6539	8.5143	13.4
Australian dollar	1.6352	1.6663	– 1.9

Source: Commerzbank AG, Frankfurt

USA

The economy in the U.S. continued to cool in 2007. A significant reason for this was the persistent weakness in the real estate market that started in 2006. In addition, the crisis in the international financial markets, the high energy prices and the uncertainty concerning the impact of the real estate crisis had a dampening effect on the overall economy. Private consumption continued to be the most important pillar of the U.S. economy. Overall growth was 2.2 percent weaker than in 2006.

Europe

The upturn in the eurozone continued at a slightly reduced pace throughout 2007. Economic development in the member states was less diverse than in 2006. Exports and gross investment in fixed assets spurred growth in the first six months of 2007 while private consumption accelerated in the second half.

The strong economic performance in Germany also contributed to the positive trend in the eurozone. The German economy continued its upturn with 2.6 percent growth, which was, however, slightly slower than in the previous year. This softening was partly due to the increase of the value added tax in early 2007 and the uncertainties surrounding the U.S. financial crisis.

The economies in Eastern Europe continued to grow at a fast pace in 2007 with 5.6 percent growth. This, however, fell short of the previous year's figure of 6.0 percent.

Asia

The economy in Asia continued to grow at a dynamic pace in 2007 in spite of the slowing of the Japanese economy. Overall, the Japanese economy grew by 1.9 percent. In contrast, China was able to increase its economic momentum even further, growing at a breakneck pace of 11.4 percent. As a result, economic growth in China exceeded 10 percent for the fifth year in a row. The positive performance is due in particular to a robust increase in production as well as high capital expenditure and exports. The emerging economies of South East Asia also performed very positively with growth rates from 4 to 6 percent. In these countries, the expansion was supported primarily by the robust domestic demand.

Latin America

Latin America evidenced robust economic expansion in 2007; however, the 4.9 percent growth fell short of the 5 percent threshold for the first time in three years. High commodity prices supported the economy. Brazil's economic performance was particularly positive.

2.2 Sector trend

The ICT market includes the IT and the telecommunications sector. The IT market contains the segments IT accessories (hardware), IT services and software. Network infrastructure and telecommunications services make up the telecommunications sector. Software AG is active as a provider of systems software in the software market segment of the ICT industry. Software accounted for approximately 11 percent of the entire ICT market in 2006.

ICT market

According to the calculations of the European Information Technology Observatory (EITO), the global market volume for information and communications technology (ICT) grew by 4 percent to €2,114.7 billion during 2007. The U.S. and Europe continue to be the strongest regions, each with a one-third share of the total volume. In the European Union, the market grew by 2.9 percent to €700 billion. At €135 billion, Germany continued to lead the United Kingdom as the largest single market.

IT market

Within the technology sector, information technology exhibits the highest growth rates. Worldwide, the IT market grew by approximately 5.5 percent to €977.8 billion in 2007. The IT market has grown by 6.0 percent in North America and by 4.4 percent in Europe according to calculations by EITO. The growth in the European Union was also calculated to be 4.4 percent, while the German market grew by 3.5 percent to €69.9 billion.

Software market

As in the previous year, the software market exhibited the strongest growth within the ICT industry in 2007. According to information from EITO, the European software market grew by 6.6 percent, while the German software market expanded by 5.7 percent to €17.9 billion.

2.3 Changes in legal requirements

During 2007, there were no changes in legal requirements having a significant impact on our business.

3 Business trend and economic situation

3.1 Summary of business trends

2007 was a very successful and important fiscal year for Software AG. We clearly increased all key indicators and had the best fiscal year in the history of our Company. In addition to the organic growth, the acquisition of webMethods, Inc., USA in particular contributed to this result.

In the past fiscal year, we exceeded our high target for Group revenues. After we had forecast a currency-adjusted increase in operating Group revenues of 30 to 35 percent, we actually realized 36 percent. A significant growth driver for this was the licensing business. Its 53 percent operating* growth at year-end exceeded the predicted increase of 45 to 50 percent. Both the maintenance and Professional Services businesses were within the range of our expectations.

The ETS business division also exceeded our expectations. Our guidance had predicted growth of 8 to 10 percent. A particularly strong fourth quarter brought delivered operating* growth of 12 percent. Excluding a single large order closed in Q4, the rate of increase was 10 percent and within our guidance range.

The performance of the webMethods business division was positive and within the range of our expectations. After being acquired by Software AG, the webMethods organization exhibited rising revenues for the first time. The acquisition-related growth of the webMethods business division was 104 percent (operating* and currency-adjusted).

On the earnings side, our business figures are fully on track. We achieved our predicted EBIT margin of 22 percent. At US$19 million, the synergy potentials obtained from the acquisition of webMethods, Inc. even exceeded the anticipated US$15 million. Earnings per share came to €3.11 and therefore were also in line with our expectations. In addition, we made preparations for acquiring a software division from the firm Jacada based in Israel, which was completed on January 1, 2008.

Important steps in 2007

In the past fiscal year, Software AG took many important steps.

We completed two acquisitions: SPL in Israel and webMethods, Inc. in the U.S. The acquisition of webMethods, Inc. was one of the largest transactions in the history of the European software industry in the U.S. Based on its size and significance, its impact on our business trend is unique (please refer to webMethods, Inc. in the Acquisitions section).

We meaningfully complemented and expanded our product portfolio with the successful introduction of webMethods Suite 7.1 and SOA Governance. As a result, we offer our customers increased added value. In addition, we are increasing our presence in new markets with high growth potential: Asia, the Middle East, Eastern Europe, and Latin America. In 2007, we successfully continued our business activities in Japan and prepared the way for a direct market presence in Brazil.

We are making continuous investments in marketing and sales activities. A high point in this connection was our new global brand identity including a new logo, intranet and new brand strategy.

The product brands Adabas, Natural, CentraSite and webMethods constitute the enterprise IT infrastructure solutions of Software AG, which are characterized by seamless data management, the possibility of developing and modernizing applications, the implementation of a Service-Oriented Architecture and fast process optimization. This advanced software suite helps companies to free their data, systems, applications, processes and services from everyday limitations and control them in such a way that a completely new dimension of business automation and transparency is opened up. By combining this proven IT technology with almost 40 years of industry experience, we assist our customers in differentiating their businesses and achieving their goals—faster.

* operating values not including recognition of effects from the purchase price allocation

To ensure that our products are firmly rooted in the market, we cooperate with technology and sales partners as well as system integrators. In 2007, we doubled the number of our partnering companies in our partner network to 120.

TARGETS ACHIEVED IN 2007*

in %	Actual 2007	Forecast 2007
Revenues (operating* and currency-adjusted)	**+ 36**	**+ 30 to 35**
Licenses	+ 53	+ 45 to 50
Maintenance	+ 25	+ 25 to 27
Service	+ 30	+ 30 to 35
EBIT margin	**22**	**22**
Revenue		
ETS	+ 12	+ 8 to 10
webMethods	+ 142	+ 120 to 130

3.2 Overall statement on financial position

Software AG is financialy stabile. Contributing factors are our high revenue growth and increasing profitability. For several years, process optimization has brought us increased profitability and a constant inflow of liquidity, part of which we invest in new technologies and the expansion of our business.

4 Financial performance

4.1 Revenue trends

Group revenues increased to €621.3 million (2006: €483.0 million) in fiscal year 2007, up 29 percent from the previous year. This increase resulted primarily from organic growth and the acquisition of webMethods, Inc. Excluding the IFRS adjustment for the initial consolidation of webMethods Inc., Group operating revenue came to €631.7 million. Currency adjusted, the increase over the previous year was 36 percent. Software AG was therefore able to record dynamic revenue growth without experiencing negative effects from the U.S. mortgage crisis.

Product revenues (licenses and maintenance) increased by 29 percent to €454.2 million (2006: €353.0 million). Adjusted for currency effects as well as the effects of initial consolidation, the increase amounted to 38 percent. The licensing revenues included in the product revenues performed especially well, climbing significantly by 46 percent to €241.3 million from €165.7 million. Currency adjusted, the rate of increase was 53 percent. Maintenance revenues, also benefiting from the acquisition of SPL and webMethods, Inc. were up by 14 percent (operating* and currency-adjusted: 24 percent) to €212.9 million from €187.3 million in 2006. As a result, licensing revenues exceeded maintenance revenues for the first time in seven years. This is confirmation of the sound dynamic growth of Software AG.

In the Professional Services business unit, Software AG generated revenues of €161.2 million, or 28 percent (currency-adjusted: 30 percent) more than in 2006 (€126.2 million).

Exchange rates have a direct impact on the local business of Software AG. The greatest share of the costs (marketing, sales, services, etc.) is incurred in local currency, changes in the dollar price, for instance, are reflected in the revenues reported in euros. However, they have only a limited impact on earnings. The translation effect from foreign currencies on the Group revenues level totaled €25.3 million, with the U.S. dollar accounting for 75 percent of that amount. Since the business in the U.S. is driven by licensing and maintenance revenues, the currency fluctuations in that business exhibit the greatest computed effect. We use financial instruments to hedge net currency translation gains/losses. In addition, the 2007 acquisitions were executed in U.S. dollars, with the result that the outflow of liquidity exceeded the inflow of liquidity in U.S. dollars in fiscal 2007.

EXCHANGE RATE VARIATIONS

	Effects of exchange rate variation on 2007 revenues in € million	Revenue share in foreign currency 2007 in %
USD	– 17.0	30
GBP	– 0.5	7
ZAR	– 4.0	4
CAD	– 0.5	2
JPY	– 1.4	2

SALES BY REVENUE TYPE

Fiscal year 2007 in € million	2007	2006	Change in %	Change in %, operating* and currency-adjusted
Product	**454.2**	**353.0**	**+ 29**	**+ 38**
Licenses	241.3	165.7	+ 46	+ 53
Maintenance	212.9	187.3	+ 14	+ 24
Service	161.2	126.2	+ 28	+ 30
Other	5.9	3.8	+ 55	
Total	**621.3**	**483.0**	**+ 29**	**+ 36**

4.2 Earnings performance

Net income was also at a record level in 2007. The systematic implementation of process optimizations and the use of synergy potentials are therefore positively reflected in the figures. The gross profit margin rose to 71 percent (2006: 69 percent) while the gross profit of Software AG rose even more than sales, increasing by 32 percent to €439.8 million (2006: €333.5 million). Our focusing on our own products and placing a priority on the growth of the licensing business has proven to be very effective. It has enabled us to achieve a sales structure with higher margins.

EBITA increased by 29 percent to €143.5 million (2006: €111.2 million) in fiscal year 2007. Significant contributing factors were the increased sales, efficient processes and the cost synergies totaling US$19 million realized from the webMethods acquisition. Amortization resulting from the acquisition of webMethods, Inc., and to a lesser degree SPL, totaled €6.7 million in fiscal 2007. This resulted in EBIT of €136.8 million, representing a gain of 23 percent compared to the 2006 figure of

* operating values not including recognition of effects from the purchase price allocation

€111.2 million. As planned, the EBIT margin came to 22 percent (2006: 23 percent). In view of the acquisitions and the associated expenses, this figure is outstanding.

Net income increased by 21 percent to €88.4 million (2006: €73.2 million). The tax rate for our company came to 36 percent for the year as a whole, a significant improvement compared to 2006 (38.3 percent). For the future, we expect a tax rate of 35 percent, due among other things to the business tax reform in Germany. Due to the acquisitions, net financial income was reduced significantly from €7.3 million to €0.3 million. Pre-tax earnings rose by 16 percent to €137.1 million (2006: €118.6 million).

4.3 Cost structure

In order to continuously improve the EBIT margin, in addition to programs to enhance customer loyalty and sales efficiency, we have introduced cost optimization measures. These measures have proven worthwhile in fiscal year 2007; except for research and development, our costs have increased at a lower rate than revenues.

Cost of sales amounted to €181.5 million compared to €149.5 million in 2006 (up 21 percent). The increase arose in the webMethods business division, while costs in ETS were actually reduced. The reasons for this include an increased margin in Professional Services as well as technical support consolidation.

Expenses for research and development rose significantly in 2007, growing by 47 percent from €44.9 million to €65.9 million. Moreover, 275 more persons were employed in R&D at year-end than in the previous year. This is related to the acquisition of webMethods, Inc. and is in line with our planning. The integration of R&D will not be completed until the first half of 2008, after which the cost ratio for research and development will drop back again.

Sales and marketing expenses grew in parallel with sales, rising at a significantly lower rate by 25 percent to €159.2 million (2006: €127.2 million). The proportion of these expenses to total sales was therefore 25.6 percent, down from 26.3 percent in 2006.

General and administrative expenses increased by 13 percent from €52.3 million to €59.3 million. In relation to the total revenues, these expenses were reduced from 10.8 percent in 2006 to 9.5 percent in 2007. Our goal is to keep this ratio continuously under 10 percent.

4.4 Net income and appropriation of profits

Net income

Net income improved by 21 percent to €88.4 million in fiscal 2007 (2006: €73.2 million). Among other things, this is attributable to a larger business volume and a lower tax rate.

For 2007 as a whole, basic earnings per share came to €3.11, up by €0.51 from the previous year. The average number of shares outstanding amounted to 28,439,959 (2006: 28,084,763). The increase in the number of shares was due to the issue of 426,740 new shares based on the exercise of options. In addition, 191,907 stock options are still outstanding under existing programs. A total of 123,690 of these may be exercised by the end of 2008. Diluted earnings per share amounted to €3.09.

Appropriation of profits

Our business figures have shown pleasing development in the past fiscal year. For that reason, the Executive Board and Supervisory Board of Software AG will propose to the Annual Shareholders' Meeting that a dividend in the amount of €1.00 per share (2006: €0.90) be distributed. This is equivalent to total dividends of €28,539,455 and a payout ratio of approx. 33.5 percent. The basis for calculating the payout ratio is earnings after taxes and free cash flow.

KEY EARNINGS INDICATORS

in € million	Q4 2007	Q4 2006	Change in %	2007	2006	Change in %
EBIT	42.8	34.4	+ 24	136.8	111.2	+ 23
EBITA	45.2	34.4	+ 31	143.5	111.2	+ 29
Financial income / expense, net	– 2.2	0.9		0.3	7.3	
Net income	26.9	22.3	+ 21	88.4	73.2	+ 21
Earnings per share in Euro (basic)	0.95	0.78	+ 22	3.11	2.60	+ 20

COST STRUCTURE

in € million	Q4 2007	Q4 2006	Change in %	2007	2006	Change in %
Total revenue	186.5	134.4	+ 39	621.3	483.0	+ 29
Cost of sales	– 50.8	– 42.8	+ 19	– 181.5	– 149.5	+ 21
Gross profit	135.7	91.6	+ 48	439.8	333.5	+ 32
margin in %	72.8	68.2		70.8	69.0	
Research & development	– 20.6	– 11.5	+ 79	– 65.9	– 44.9	+ 47
Sales & Marketing	– 46.8	– 33.3	+ 41	– 159.2	– 127.2	+ 25
Management & Administration	– 18.8	– 14.4	+ 31	– 59.3	– 52.3	+ 13
Other income / expense	– 4.3	+2.0		– 11.9	+2.1	
EBIT	42.8	34.4	+ 24	136.8	111.2	+ 23
margin in %	22.9	25.6		22.0	23.0	

4.5 Software AG financial statements

The financial statements of Software AG (parent company of the Group) were prepared in accordance with the German Commercial Code (HGB). The revenues of Software AG amounting to €188.6 million resulted primarily from royalty income and management fees from subsidiaries. Income of €12.4 million was due to profit transfers and €24.7 million from dividends from affiliated companies. Net income of the parent company amounted to €62.1 million (2006: €39.0 million).

5. Financial position

5.1 Capital expenditure

Capital expenditure for property, plant and equipment normally plays a minor role at Software AG. These investments totaled €5.8 million (excluding additions to the consolidated group) in fiscal year 2007, €0.4 million more than in 2006, and primarily comprised operating and office equipment in the sales branches and at the administrative headquarters in Darmstadt.

Capital expenditure for financial assets rose from €0.3 million to €6.1 million.

We completed two acquisitions in the past fiscal year, significantly increasing our investments in affiliated companies from €0.6 million to €362.3 million. At €321.4 million including ancillary acquisition costs, the largest acquisition was webMethods, Inc. in the United States.

5.2 Consolidated statement of cash flows

In the past fiscal year, Software AG generated free cash flow of €82.2 million (2006: €56.2 million), reflecting an increase of 46 percent. The percentage of free cash flow in total revenues was 13 percent compared to 12 percent in 2006. Free cash flow per share rose by 45 percent from €2.00 to €2.89. Our cash flow performance is therefore sound, the result of the activities implemented in 2007.

Strong operating cash flow

In fiscal 2007, our operating cash flow rose 53 percent to €94 million. The 2006 amount was €61.4 million. This results primarily from the increased net income for the year as well as the increase in impairments relating to the acquisitions.

Cash outflows from investing activities increased from €5.8 million to €374.1 million. This significant increase is the result of the two acquisitions. Cash inflows from financing activities amounted to €179.8 million (2006: cash outflows of €23.7 million). The acquisition of webMethods, Inc. made it necessary to raise bank loans in the amount of €328.4 million, €119.3 million of which was already repaid in fiscal year 2007.

In total, cash and cash equivalents decreased by €103.5 million (2006: increase of €23.2 million), reflecting the cash transactions for the acquisitions. Accordingly, cash and cash equivalents decreased from €184.8 million to €81.3 million.

5.3 Financing

Principles and goals of financial management

The financial management of Software AG ensures that all Group companies are continuously solvent. Based on the guidelines adopted by the Executive Board, the financial policy and risk management are implemented by the central Treasury department. Active working capital management controls the companies' liquidity position centrally. Financial investments are essentially oriented toward the short term. We minimize default risk by careful selection of transaction partners based on stringent criteria and broadly diversified investments. The focus on short-term investments means that Group funds are invested at near money-market rates. Our central Treasury department monitors the currency risks for all Group companies and hedges them using derivative financial instruments. In doing so, we only hedge existing balance sheet items or expected cash flows. A high equity-to-assets ratio and a robust free cash flow create the basis for the Company's internal and external growth.

Liquidity and financing

Due to the acquisitions in fiscal year 2007, cash and cash equivalents were reduced significantly. Software AG's cash and cash equivalents amounted to €81.3 million (2006: €184.8 million) as of December 31. Shareholder's equity rose to €462.5 million (2006: €422.2 million). The acquisition of webMethods, Inc., which was partially financed through borrowing, and the resulting increase in total assets reduced the equity-to-assets ratio from 66 percent at year-end 2006 to 45 percent as of December 31, 2007. The acquisition-related borrowing totaling €328.4 million was reduced to €214.3 million by year-end.

CONSOLIDATED STATEMENT OF CASH FLOWS

in € million	Q4 2007	Q4 2006	2007	2006	Change in %
Operating cash flow	47.4	23.4	94.0	61.4	+ 53
CapEx*	– 9.6	– 1.6	– 11.8	– 5.2	+ 127
Free cash flow	37.8	21.8	82.2	56.2	+ 46
as % of revenue	20.3	16.2	13.2	11.6	
Free cash flow per share (in €)	1.33	0.78	2.89	2.00	+ 45
Average number of shares (in € million)	28.5	28.1	28.4	28.1	+ 1

* Cash flow from investing activities except acquisitions

Financing instruments
The Company uses bank loans, finance leasing and the free cash flow as financing instruments. The financing risk arises from the possibility that the Company may not be able to satisfy existing financial liabilities, e.g. arising from loan agreements, lease agreements or trade accounts payable. The risk is limited by active working capital management and Group-wide liquidity control and it is, if necessary, balanced by available cash and bilateral lines of credit. The bank loans used are predominantly at variable interest rates and have terms to maturity of no later than 2013. Partial amounts are converted into synthetic fixed-interest rate loans using interest rates swaps. The table below shows the contractually fixed payments arising from recognized financial liabilities. The values show the undiscounted liabilities. Variable interest payments are based on the level of interest at the reporting date. Liabilities in foreign currency are measured at the conversion price as of December 31, 2007.

5.4 Assets

Our total assets increased by 59 percent to €1,023.3 million in fiscal 2007 (2006: €643.9 million). While current assets were reduced, non-current assets increased significantly.

At year end, current assets amounted to €306.6 million after €373.1 million in 2006. This reflects a reduction of 18 percent. Cash on hand and bank deposits declined while trade receivables increased due to the acquisitions.

At year end 2007, our non-current assets came to €716.7 million, exceeding the 2006 figure of €270.8 million by 165 percent. All items showed an increase, in particular goodwill and intangible assets.

Off-balance sheet assets and financing instruments
In addition to the assets reported in the consolidated balance sheet, Software AG also has off-balance sheet assets. These relate primarily to office space, company cars, and hardware. Off-balance sheet assets also include the Software AG brand name, which is one of the Group's most significant intangible assets. The brand image was continuously enhanced in the year under review.

5.5 Balance sheet structure and key financial indicators

In the period under review, the Group's total assets rose 59 percent to €1,023.3 million (2006: €643.9 million). The increase on the assets side of the consolidated balance sheet is attributable primarily to higher non-current assets. Intangible assets increased from €4.7 million to €139.3 million. Goodwill rose from €187.9 million to €431.6 million, which is attributable to the acquisitions. Current and non-current trade receivables rose by €42.5 million to €225.0 million, which is attributable to the consolidation of webMethods, Inc. and SPL, the commencement of business activities in Japan and the increased licensing volume in the strong fourth quarter. In addition we had great success in credit management; on an annual average we were able to post cash receipts after only 87 days. The average for 2006 was 109 days. Our goal for 2007 was to reduce the average to less than 100 days.

Deferred tax assets amounted to €55.5 million (2006: €22.0 million). The increase was due to the loss carryforward of webMethods, Inc.

Non-current assets more than doubled from €238.7 million to €628.9 million. This increase is primarily related to the increase in goodwill and other intangible assets. Goodwill totaled €431.6 million after €187.9 million at year-end 2006. €195.3 million of that amount is attributable to the acquisition of webMethods, Inc. and €50.5 million to the acquisition of SPL.

On the liabilities side, Group equity increased from €422.2 million to €462.5 million, reflecting a 10 percent gain. The increased retained earnings contributed substantially to this result. The equity-to-assets ratio dropped from 66 percent to 45 percent in fiscal year 2007.

Current liabilities increased by €90.8 million to €196.4 million (2006: €105.7 million). Of that amount, financial liabilities amounted to €46.7 million after €1.9 million in 2006. This item includes the current portion of the loans for the acquisition of webMethods, Inc. Other current liabilities increased in line with the expansion of business. Non-current liabilities rose from €33.5 million to €197.6 million. They include the debt financing of the webMethods acquisition in the amount of €167.6 million. Deferred taxes increased from €18.2 million to €79.6 million. Deferred income rose from €64.3 million to €87.2 million due to the strong maintenance pipeline.

FINANCIAL LIABILITIES

in € thousands	up to 1 year	1 to 5 years	>5 years	Total
Liabilities to financial institutions				
Repayment	44,849	164,975	2,672	212,496
Interest	9,883	15,155	25	25,063
Other financial liabilities	1,771	0	0	1,771
Liabilities from finance leasing	32	1	0	33
Trade accounts payable	31,300	64	0	31,364
Other financial liabilities	64,199	2,966	0	67,165
Derivative financial liabilities	294	279	0	573

Due to the acquisitons of SPL Software Ltd., Israel and webMethods, Inc., USA executed in the fiscal year 2007, intangible assets for customer base, software and trade name have been capitalized in the opening balance sheets of these two companies. The table below shows the amounts of amortization of intangible assets in the fiscal years 2007 to 2009. As a result of the purchase price allocation pursuant to IFRS 3, the opening balance sheets show the deferred revenue as lower market value compared to the carrying amount. This results in a reduction of the product revenue in fiscal years 2007 to 2009. The impact of the acquisition of the software branch of Jacada Ltd., Israel is included in the table below effective from the fiscal year 2008 based on a preliminary evaluation.

6 Additional earnings-related factors

6.1 Research & Development

During 2007, we undertook a series of measures in the research and development area in order to further expand our innovative product portfolio. Of course, R&D activities play a significant role in a product enterprise in the software industry. They are the basis for future growth and for maintaining or improving market position. Total investments in research and development amounted to 15 percent of our product revenues (2006: 13 percent). As of December 31, 2007, 676 persons were employed in development, 69 percent more than at year-end 2006. This corresponds to a 19 percent share of the overall number of employees of our company.

Organizationally, research and development reports directly to the Executive Board. The persons responsible for R&D in the business divisions report directly to the member of the Executive Board responsible for research and development at webMethods or ETS, respectively. Consistent with the different requirements, Software AG's two business divisions, webMethods and ETS, have their own specific but interrelated R&D strategies. (Please refer to section 7.1.6 and 7.2.6 for details relating to R&D in the ETS and webMethods business divisions).

6.2 Customers & sales

Expanded global market presence

Software AG has branches in more than 40 countries. We service more than 4,000 customers in more than 70 countries worldwide. Further geographic growth is an essential component of our corporate strategy. For that reason, we are increasing our presence in new markets with high growth potential: Asia, the Middle East, Eastern Europe, and Latin America. In the past fiscal year, we established direct sales in Japan. The startup of our direct business there was very positive. In addition, we prepared the way for the start of direct sales in Brazil. On January 1, 2008, we initiated our own sales activities in Brazil and we expect a significant revenue contribution in 2008.

New structure leads to even better customer orientation

The new organizational structure of Software AG has also resulted in changes in the sales structure. We have built a strong regional sales structure in the webMethods and ETS business divisions as well as in the Professional Services business unit. This enables our employees in sales to further specialize in the products of the corresponding business division, making them even more highly qualified contact persons for the customers. In addition we have bundled our resources in regions rather than in countries. This makes it possible for us to compete with large rivals for large projects. The managers of the regions report directly to the member of the Executive Board responsible for the sales of their business division.

Marketing activities stepped up

Another strategic focus for us is the continuous investment in our marketing and sales activities, especially in the training and development of our employees. Related to this is our global rebranding with a new corporate identity and a new brand strategy, carried out in fiscal year 2007. Consistent with the significance of this rebranding, we combined our global marketing activities in 2007. They are now controlled centrally. The Global Marketing manager reports directly to the CEO.

Additional marketing activities in 2007 included in particular our participation in numerous important tradeshows worldwide. One of the highlights was the first joint user conference of webMethods, Inc. and Software AG in November 2007 in Orlando, Florida, USA. At the sixth, annual customer conference, the Software AG Executive Board members informed customers concerning the new products and current market trends. A global customer survey conducted in the fourth quarter of 2006 produced interesting results for our business with regard to legacy systems and their significance for customers.

Successful marketing strategy

The aforementioned activities enabled us to gain numerous prominent new customers as well as follow-up orders in the past fiscal year. Obtaining the first order for the combined webMethods / Software AG product portfolio in the third quarter of 2007 was something that we consider to be a special success. By combining forces, Software AG obtained a large order, which previously neither Software AG nor webMethods, Inc. would have been able to obtain alone.

6.3 Partners

We also intend to achieve our ambitious growth targets through the expansion of our partner program. For that reason, Software AG introduced a new partner program in fiscal 2007, which focuses on both large system integrators and smaller, local service providers with industry-specific knowledge. They receive the same materials and resources as the internal Software AG sales teams. At year-end 2007, Software AG had 120 partners, or twice as many as the year before. In the current fiscal year, we plan to further intensify the cooperation with our partners and significantly expand the share of sales generated through working with them. To that end, we are developing joint offers with the leading suppliers of our industry, which will offer the customer added value and also provide advantages for both partners.

INFLUENCE OF THE ACQUISITIONS ON THE FINANCIAL ITEMS

Repayment in € million webMethods, Inc., SPL und Jacada	2007 as a whole	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2008 as a whole	2009 as a whole
Amortization of intangible assets	6.3	3.7	3.4	3.4	3.3	13.8	14.2
Effects from the purchase price allocation to product revenues	10.4	2.6	0.6	0.5	0.5	4.2	0

6.4 Employees

Number of employees

The number of employees increased by 33 percent in the past year. This increase is due in particular to the acquisitions. As of December 31, 2007, Software AG employed 3,479 persons worldwide, compared to 2,621 employees as of the 2006 reporting date. Of that number, 760 persons are employed in Germany (2006: 761), 731 in the U.S. (2006: 322). Therefore, as planned, we have pressed ahead with the internationalization of our Company: At the New Year, 78 percent of our employees worked outside of Germany; the number was 71 percent in 2006.

In terms of functional area, the number of employees in the research and development departments in particular increased by 69 percent.

HEADCOUNT BY FUNCTIONAL AREAS

	Dec. 31, 2007	Dec. 31, 2006	Change in %
Sales & Marketing	755	590	+ 28
Maintenance & Service	1,545	1,190	+ 30
Research & Development	676	401	+ 69
Management & Administration	503	440	+ 14
Total	**3,479**	**2,621**	**+ 33**

New organizational structures in HR

In line with the development of our Company and the new global structures, we also reorganized the Human Resources department in the year under review. We have introduced an international management structure. There is now one person responsible for HR at all larger SAG locations who reports to corporate headquarters. Our business divisions will be better served by a uniform HR service.

Training and continuing education are a priority for us

A constant focus of our human resources activities is the continuing education and qualification of our employees. In the past fiscal year, we have intensified the activities of our Corporate University and obtained very good results. The Corporate University is geared towards all employees around the world. In 2007, approximately 2,300 participants (2006: 2,100 participants) took advantage of the seminars offered by the Corporate University. In the past year, we offered 185 training programs worldwide compared to 155 in 2006. The qualification program is geared to the corporate strategy and supports its implementation. The Corporate University can therefore be seen as an active change management instrument. In the second half of 2007, participants in the training programs gave them an overall satisfaction rating of 90 percent. Overall, the rolling six-month figure was never below 85 percent.

As of September 1, 2007, responsibility for the Corporate University was transferred from the Corporate Business Excellence Center to Human Resources. This goes hand-in-hand with an intensification of the focus on social competence and management themes. In addition, the fields of technology, sales and marketing continue to play an important role. The training program also comprises global management development, customer-first seminars, technical training weeks, and an evening academy. In October 2007, we also introduced a Learning Management System. During the three-month pilot phase, the system was used for the global sales enablement program of the webMethods and ETS business divisions. During that time, we recorded 8,000 downloads of e-learning content by 900 participants.

The Corporate University also has responsibility for the development of training materials for customer training programs and Software AG certifications.

First international development program for high potentials completed successfully

The first “High Potentials Program” started by the Corporate University in May 2006 was completed in October 2007 after running for 18 months. The program was geared to Software AG employees from all departments with a diverse professional background who display outstanding performance and should actively support the Company’s growth through management functions in the coming years. The next “High Potentials Program” will be started in the second half of 2008 with the term shortened to one year.

We have been active in training for many years. Currently, Software AG is training people for the occupation of office administrator and bachelor’s degree in IT (cooperative course of studies with the University of Darmstadt). As of December 31, 2007, we employed 11 trainees. Furthermore, we conduct various other structured training programs, e.g. for our managers, management trainees, project managers in the R&D area, secretaries and assistants.

University relations

The intense competition for new graduates in the IT industry makes close contact with universities increasingly important. Today’s graduates are the IT managers of the future and will therefore be our customers of tomorrow. Particularly in times of shortage of skilled labor, it is important to take suitable actions early to support young talent for our own needs and the needs of our customers. Long-lasting and trust-based contacts in universities are therefore strategically critical for the future success of a software company.

Since early 2007, Software AG has had a globally based “University Relations” department. The department offers an attractive program, the goal of which is to place all Software AG products in universities globally and free of charge for educational and research purposes. In connection with this, we offer students in IT and business the possibility to become acquainted with us in guest lectures, corporate visits and events. We create jobs and internships for students and provide support for masters and bachelors theses. During their university education, interested students are given the opportunity to gain practical and reality-based experience in fully equipped and predefined projects. In 2007, 40 software packages were delivered to universities for student projects. In the meantime, we are in direct contact with more than 100 professors at more than 50 universities.

Idea management strengthened

Another focus of our work in 2007 was on expanding our innovation program “Innogize” (Innovation & Energize). A group from the “High Potentials Program” was responsible for this project. Using “Innogize” as the basis, we want to establish a globally binding culture of innovation at Software AG. The program was developed using in-house software and contains standardized processes as well as an innovation campaign, which are valid over all regions, countries and functional areas. The goal is to collect, manage, implement and honor innovative ideas associated with any areas of our business. The basis for this is an “idea database” in which all employees can present their ideas and open them up for discussion. Following that, every participant can follow precisely whether and to what extent his or her idea was implemented. The model contains a special incentive system for all employees. A global pilot project in this area was launched in September 2007. We use the idea and innovation management program to develop additional areas for potential optimization within our Company and in doing so support our strategic goals.

Transfer of corporate culture to the new companies
We derived and implemented a large number of comprehensive measures from our worldwide employee survey in 2005. Among other things, they included strengthening the corporate culture of Software AG. We have therefore redefined the mission, vision and values within our company. Derived from this was a comprehensive corporate project that was officially introduced in January 2007. Since then, we have conducted workshops on a worldwide basis to convey to all employees the importance of cultural diversity and common values with the objective of ensuring that it is experienced and implemented worldwide. Innovation, trust, responsibility, open communications and a winning spirit are the core values of this initiative and they form the basis for the special working environment at Software AG. After the acquisitions, a new challenge was to recognize and tolerate cultural differences and implement a joint culture and identity what this would encompass for the new companies. Under the motto "Get Together," we have also been conducting worldwide workshops on this topic since 2007 in order to integrate the employees from the new companies and give the newly created teams the opportunity to become acquainted with one another.

Outlook
We will continue the above-described human resources policy in the coming fiscal year. Our activities will be focused in particular on recruiting as well as personnel development and qualification. In addition, we will continue to work on overcoming the cultural challenges as well as implementing a joint Software AG culture and identity in all the companies of the Group.

6.5 Corporate responsibility

Software AG, as a good corporate citizen, assumes social responsibility. We are particularly committed to the areas of education and innovation, which is also the basis for our success as a software company. Knowledge management, training and continuing education are crucial to our corporate success. That is why the educational programs of Software AG's Corporate University focus on the continuous implementation of the idea of lifelong learning. We also support education and research worldwide. The core of these activities is the university relations program that we started in 2007. Under this program, we maintain close cooperation with universities in Germany and all over the world. However, these activities in universities are not limited to technical topics. In Chile, for example we support an endowed professorship for administrative modernization and citizens' involvement.

Software AG's Executive Board is dedicated to ensuring future opportunities for Germany and Europe as high-tech production locations. Close cooperation between European software firms is intended to strengthen the prospects and competitiveness of the European software industry. In this connection, our CEO has become a member of the Presiding Committee of the German industry association BITKOM and the general directorship of the non-profit initiative D21 e.V. Most recently he headed the working group "Information and communication technology in medium-sized companies" as part of the IT summit initiated by German Federal Chancellor Angela Merkel. The goal of this annual summit is to bring together as many representatives as possible from politics, economics and research in Germany with expertise in information and communication technology in order to strengthen Germany's position as a high-technology country. The working group is one of nine groups established in the first summit and presented the results of their work in the second meeting. All of them dealt with the theme "IT made in Germany." The third Summit in 2008 will take place in Darmstadt, Software AG's hometown.

In addition, Software AG's CEO, Karl-Heinz Streibich, is a member of the Board of Trustees of the University of Applied Sciences in Darmstadt.

In addition to this long-term commitment, we also support selected projects such as the European Youth Meeting in 2007 and the project "Habitat for Humanity" in South Africa.

Special mention should be given to the major shareholder of Software AG, the Software AG Stiftung based in Darmstadt. In the 1990s, the Company's founder Dr. h.c. Peter M. Schnell transferred all of his Software AG shares to this foundation. It is devoted to the themes education, therapeutic pedagogy, welfare services to young and senior citizens, environmental issues and research in the area of ecological agriculture and alternative medicine. With annual grants totaling more than €20 million, it is one of the largest charitable institutions in Germany. Since Software AG's IPO in 1999, Software AG Stiftung has held approximately 30 percent of the shares. Almost one-third of the dividend payments of Software AG (dividend of €7.5 million in 2006) is sent to charitable projects via the foundation.

7 Presentation of the business segments

7.1 ETS

¬ Operating* revenues increased by 12 percent to €384.6 million
¬ Acquisitions also strengthen ETS business
¬ Market position expanded
¬ Focus on continued growth

7.1.1 Business activities and strategy

Our Enterprise Transaction Systems (ETS) business division is well-established in the IT landscapes of companies and government agencies worldwide. Software AG is their preferred partner for mainframe modernization and we therefore ensure the long-term protection of customers' investments. In Adabas, we offer our customers a high-performance database that is capable of processing 300,000 transactions per second. For decades, the development environment Natural has been the basis for hundreds of thousands of software applications that make up the technical backbone of business-critical core processes of large companies and government agencies. Today, customers modernize their business systems with our help by optimizing their performance and opening up these business-critical systems to new environments such as Web and E-business. The technologies in the ETS business division include database management, application development and application modernization. As of the end of the fiscal year, we changed the name of the modernization of mainframe applications from "legacy modernization" to "application modernization."

We plan to continue to expand our traditional business in ETS, for which reason Software AG will continue to invest in organic growth. Our products will be further developed to meet the expectations of our customers. The development activities include technologies for archiving databases, for database search engines and new product suites. In addition, we will continue to move ahead with our global geographic expansion. After a successful start in Japan, we will begin to introduce our products in Brazil in 2008.

In addition, we will support the growth of the webMethods business division. webMethods will in turn extend the life of our customers' investments in ETS.

* operating values not including recognition of effects from the purchase price allocation

7.1.2 Sales markets and competition

Software AG has held a leading position in traditional data management for 39 years. Our products in the ETS business division can be assigned to various markets.

a) Application Development

This market includes instruments that adapt applications to a production environment for their entire life cycle. The trend is in the direction of web-based technologies. In Natural 2006, Software AG has a competitive development environment for corporate-wide applications, Internet applications based on AJAX technologies and SOA-capable Web services. This makes it possible to adapt the IT more rapidly to different business requirements. Our primary rivals in this market are Java, COBOL and programming languages such as JavaScript, Perl or Ruby. The competitive advantages of Software AG products lie in their user friendliness, compatibility with other platforms (Linux, UNIX, Windows), fast development as well as lower complexity and simpler development of corporate-wide applications and Web services.

b) Database Management System

This market is defined by a set of software programs that controls the organization, archiving, management and retrieval of data. Software AG's Adabas 2006 is a highly scalable, robust transaction database that operates on the mainframe and open systems. Adabas makes high reliability and data reproduction possible. Standardized SQL and SOA interfaces make it possible for developers and end users to use Adabas for their business applications. Our competitors in this area include DB2, Oracle and SQL Server. Our products are attractive due to their reliability, compatibility with different platforms and their high-performance, which is manifested by immense capacity and minimal requirements.

c) Application Modernization

The market for application modernization includes instruments and solutions that companies can use to make their IT suitable for new IT environments and modern IT architectures as well as SOA, for example. Software AG's Application Modernization Suite enables customers to make their core systems Internet-compatible by modernizing existing user interfaces, using their core systems in a SOA environment and integrating their corporate-wide data into existing and new environments without difficulty. Our competitors in this area include Attachmate, GT Software, IBM, Microsoft, Progress Software and Seagull Software. Our products are leading because of their comprehensive functionality and performance. In addition, Software AG is attractive due to its independence from suppliers and platforms, its expertise in legacy and modern architectures such as SOA and BPM, its global presence and international products as well as its own strength in a consolidating market.

7.1.3 Operating trend

Acquisitions strengthen ETS business

Both of the acquisitions completed by Software AG in fiscal 2007 have had a positive impact on our ETS business. The acquisition of SPL in Israel gained us a solid customer base for Adabas and Natural. The integration of SPL has been fast and smooth, so that we now have a strong sales organization in Israel, which already had outstanding knowledge of our products. ETS has benefited from the acquisition of webMethods, Inc. in the U.S. because of the fact that we are now able to offer our Adabas and Natural customers a more complete product line in the area of SOA. More than 90 percent of all Adabas and Natural customers also use SOA.

The third business acquired in January 2008, the application modernization segment of Jacada, a company based in Israel, will become a part of the ETS business division.

Acquisition of the Jacada software division

In a cash transaction, we acquired a software dividion of the Israeli-based company Jacada for US$26 million on January 1, 2008. The acquisition has expanded our product portfolio to include additional products for the modernization of the user interfaces of applications running on mainframes and mid-sized computers. The division previously earned annual revenues of approximately US$12 million, primarily in the U.S., and generated profit margins above Software AG's Group average. Eight Jacada employees from Research and Development as well as support have transferred to Software AG and are continuing product development and support. The acquisition has gained us more than 200 corporate customers, primarily in the U.S., and has reinforced our leading position in the market for application modernization.

7.1.4 Revenues and earnings performance

Operating* revenues in the ETS business division rose by 8 percent to €384.6 million (2006: €357.3 million), or 12 percent after currency adjustment. Overall, this business division contributed 61 percent to total revenues in 2007. A particularly strong fourth quarter with a 21 percent increase in operating* revenues contributed significantly to this pleasing development. They included a large order from an international bank. A significant growth driver in ETS was the licensing business, the operating* growth of which was 32 percent higher than in the previous year. Maintenance revenues increased considerably in the fourth quarter, resulting in a 1 percent operating* and currency-adjusted rise in a year-on-year comparison. Currency-adjusted, Professional Services revenues increased by 3 percent compared to the previous year.

This business line's contribution was therefore increased once again, rising from €212.6 million to €238.8 million. Compared to the previous year, cost of sales was reduced from €82.6 million to €79.8 million. Selling expenses rose at a lower rate than revenues, increasing from €62.1 million to €64.5 million. This is proof of increased productivity, especially of the employees in Professional Services.

* operating values not including recognition of effects from the purchase price allocation

7.1.5 Research & Development

We are working on the development of our ETS product portfolio at a total of five locations in Germany, the U.S., India, Israel and Bulgaria. At year end, 188 employees were involved in this activity. We use the specific innovation potential and the cost advantages of the individual countries in this global network. Each location specializes in specific products or product groups. Furthermore, the Software AG areas of marketing and sales, services and research and development are closely interlinked.

Investments in research and development in ETS amounted to €28.6 million in 2007.

Close collaboration with customers

We continuously perform analyses of existing customer requirements among the existing user groups and our customers. These analyses form the basis for product improvement and innovative processes, which result in the formulation of concrete requirements for our products. We review them and provide appropriate offers and solutions in a timely manner. We check each proposed individual innovation for feasibility and its relevance to the market as a whole. Therefore our innovation processes start directly with the customer who is also the direct beneficiary.

Numerous new products brought to market

As a result of our intensive R&D work, we brought numerous product innovations to the market in the ETS business division in 2007. Our customers have accepted them very well. These innovations include the Adabas High Availability Solution, Event Replicator for Adabas, Natural for Eclipse, Natural for Ajax as well as the localized Natural version for the Japanese market.

Our product strategy for Adabas requires that starting in 2008, we will concentrate on innovative products and functionalities in research and development that meet the requirements of customers with respect to data preservation and management. The requirements include performance and reliability, user-friendliness, easy access, high compatibility and lifecycle management and administration. For Natural we will continue to work on the most efficient environment for application development. The new products and functionalities that we develop focus on development productivity and application maintenance, compatibility and SOA as well as lifecycle management.

Expansion of capacities

As of January 1, 2008, responsibility for application modernization was transferred to ETS. In 2008 we will further intensify our activities for all product groups and accordingly create additional development capacities in order to continuously bring innovative products to market.

7.1.6 Employees

In fiscal 2007, ETS employed 1,518 persons, 325 of them in sales. This reflects an increase of 2.5 percent compared to the previous year (1,481 employees).

7.2 webMethods

¬ Operating* revenues nearly doubled to €247.1 million
¬ Acquisition of webMethods strengthens the business division
¬ Integration faster than planned
¬ Focus on continued growth

Acquisition of webMethods, Inc.

As of May 25, 2007, we implemented the acquisition of webMethods, Inc., based in the U.S., a leading supplier for the integration and optimization of business processes. This was one of the largest transactions in the history of the European IT industry. The value of the transaction came to €417 million, including ancillary acquisition costs. This has given rise to a new, globally leading provider of infrastructure software for business processes with more than 4,000 enterprise customers worldwide. It has made Software AG one of the biggest independent suppliers in the world in two growth markets at once: Service-Oriented Architecture (SOA) and Business Process Management (BPM). In September 2007, Software AG received the award “Best Cross-Border Deal of 2007” from the M&A magazine “ACQ Finance” for the webMethods acquisition.

There was a variety of reasons for the acquisition: The product portfolio of webMethods, Inc. complements that of Software AG extremely well; in webMethods, Inc. we obtained a strong market position in the important U.S. market as well as important partners, in particular business integrators for servicing industries as well as a strong brand. Customers will benefit from the numerous advantages of the merger: Great financial strength will complement the significantly reinforced product portfolio worldwide and the expanded services.

We will use the known brand webMethods for the joint range of integration products. We have changed the name of the Crossvision business division to webMethods. Through the acquisition we have doubled our revenues in the integration segment. We therefore achieve a balanced distribution of revenues between the two business divisions ETS and webMethods.

The integration of webMethods, Inc. has proceeded according to plan, in part even faster than planned. As of year-end 2007, most of the important areas such as administration, sales (except the U.S.) and Professional Services had been combined. The integration of Research and Development as well as sales in the U.S. is expected to be completed in the first half of 2008. As early as September 2007, we were able to launch the first joint product line “webMethods 7.1”. This product line combines the former product group “Crossvision Suite” and the webMethods products into first-class products for the areas SOA governance, business integration and Business Process Management in one completely modular product suite. We presented the new Version 7.1 at our customer conference “Integration World” in early November in Orlando, Florida, USA.

The acquisition is accompanied by significant synergy potential. The merger is expected to make it possible to achieve annual cost savings of up to US$50 million, especially through process optimization and efficiency improvements in administration. In 2007 the synergies at US$19 million exceeded the planned amount by US$4 million.

* operating values not including recognition of effects from the purchase price allocation

7.2.1 Business activities and strategy

By acquiring webMethods, Inc., Software AG has strengthened its product line with first-class products for integration and Business Process Management. The products EntireX, ApplinX, Tamino XML Server and CentraSite SOA Governance were included in the new product suite webMethods. With this comprehensive range of products, our customers use the data from their legacy systems for the creation of new business processes and then make them available to internal users and external business partners through integration. Just as much importance is attached to the rapid creation of new processes through the reutilization of services, control of those services and the monitoring of all created services and applications in real time. The technologies in the webMethods business division include governance for Service-Oriented Architecture (SOA), Business Process Management (BPM), Business Activity Management (BAM) as well as Enterprise Service Bus (ESB) and integration. In late 2007, the Application Modernization department was transferred to the ETS business division; however, it continues to represent the product-technical integration of the two business divisions.

SOA is a global trend in the software industry. We already have an outstanding position in this global market of the future. We plan to develop our technological leadership in SOA and BPM and gain additional market shares with the goal of global market leadership. In order to achieve this, we constantly invest in the development of our webMethods product suite. In addition, we also plan to further expand our Web methods business division and benefit from the opportunities in the markets with high future potential such as Latin America, Asia and Eastern Europe.

7.2.2 Sales markets and competition

Software AG is a global leader as an independent provider in areas that constitute the market for infrastructure software:

¬ Service-Oriented Architecture (SOA) and Governance
¬ Business Process Management (BPM)
¬ B2B and Application Integration
¬ Enterprise Service Bus
¬ Application Modernization

Software AG is the sole software provider to hold a position of leadership in BPM and SOA-governance, the two pillars of infrastructure software. Current studies by leading industry analysts are proof of this. Furthermore, Software AG is active in the CentraSite community, a forum in which software partners and customers collaborate. The software industry primarily focuses on technologies that permit different standards to interact, are Web 2.0-capable and improve operating processes. With this in mind, we pursue a product strategy that improves the cooperation of IT and other operating processes, makes user-friendly applications available and creates solutions through which the business results are improved. The competitors of our webMethods business division include BEA, IBM, Tibco and Oracle. Our competitive advantages include the user friendliness of our products, our corporate size as an independent provider which brings a high potential for innovation, as well as the easy implementation of our products which produces a high time benefit for our customers. In addition, Software AG has first-class customer references, best in class technologies as well as a high level of competence in service and consulting.

7.2.3 Operating trend

The operating trend of the webMethods business division in 2007 was primarily marked by the acquisition of the US company webMethods, Inc. (please also refer to "Acquisition of webMethods, Inc."). However, the acquisitions of SPL in Israel and the Jacada software division as of January 1, 2008 are also having a positive impact on this business division as we have obtained a strong sales and R&D team for the Group as well as a broad customer base which can benefit from the expanded product range of Software AG.

7.2.4 Revenues and earnings performance

Operating* revenues in the webMethods business division nearly doubled in 2007 to €247.1 million (2006: €125.6 million). Overall, this business division contributed 39 percent to total revenues in 2007. Since both sales as well as the product portfolio have been combined, it is no longer possible to report the revenues acquired through webMethods, Inc. separately. However, in addition to organic growth, the dynamic increase in the business division's total revenues is primarily attributable to the acquisition. The business division's operating* and currency-adjusted licensing revenues increased by 113 percent compared to the previous year. Due to a particularly pleasing fourth quarter, operating* and currency-adjusted licensing revenues increased by 174 percent. This is in particular due to the consolidation of webMethods. Professional Services operating* and currency-adjusted revenues increased by 66 percent.

webMethods' earnings contribution shows that a turnaround has been achieved in profitability. After a negative figure of €6.4 million in 2006, webMethod's earnings were clearly in the black in 2007 at €41.8 million. This underscores the importance of economies of scale as well as the correctness of the decision to undertake the acquisition. Due to the rise in revenue, cost of sales rose from €66.8 million to €101.7 million. In line with this, selling expenses rose from €65.1 million to €94.7 million. Profitability is to be increased even further in the future.

7.2.5 Research & Development

The webMethods business division has a number of development locations worldwide. To safeguard our innovations, we filed 22 patent applications in the past fiscal year compared with 12 patent applications in 2006.

"Power of Two" strengthens development

The merger with webMethods, Inc. also had a significant impact on the R&D department in the webMethods business division in 2007. The focus was on the integration of the R&D departments of both companies, which was completed as early as the end of the year. The "Power of Two" also significantly strengthened the development potential in the webMethods business division. Moreover, the product portfolio of both companies was combined. As early as September 2007, Version 7.1 was the first release within the integrated product line to include technologies for SOA governance, business integration and Business Process Management.

After the merger, various studies identified the webMethods products as market leaders, in particular in the BPM and SOA areas.

* operating values not including recognition of effects from the purchase price allocation

CentraSite Community expanded

In mid-2006, Fujitsu and Software AG jointly developed the CentraSite Community. This is an initiative in which customers and partners collaborate to advance implementation of SOA environments. This community is based on CentraSite, which is marketed and developed by Fujitsu and Software AG together.

In the past year, we systematically advanced the initiative and achieved great successes. The Community now includes more than 50 partners compared with 25 partners at year-end 2006. The partners include prominent companies such as Novell and leading companies in their markets such as Progress Actional, ILOG, MEGA, IDS Scheer, iTKO as well as Parasoft. Some of these partners presented their solutions and their integration in CentraSite at our SOA Governance Summit in Copenhagen, Denmark in October 2007. With 150 participants from 14 countries, this event was a great success. The CentraSite Community was also designated as the "Best Web Services or XML Site" at SYS-CON Media 2007. By bringing CentraSite 3.1 to the market at mid-year, we offered a new solution for SOA governance which makes it possible to offer customized SOA solutions even faster.

Product partnerships expanded

We have also expanded our cooperation with product partners. A partnership with Layer 7 Technologies increases the security for Service-Oriented architectures. It now enables us to offer additional security functions that were developed based on the webMethods product suite. In the past year, we expanded our already existing global partnership with Satyam Computer Services Ltd., a leading IT consulting and services firm. Based on our webMethods product suite, we jointly develop vertical solutions tailored to the needs of special industries such as insurance companies, manufacturing and telecommunications. In addition, we have concluded a new strategic partnership with Cognos, a leading provider of business intelligence and performance management solutions. Embedding "Cognos 8 Business Intelligence" into the webMethods product suite gives us the most comprehensive solution for SOA governance, BPM, business process integration and Application Modernization.

New products for our markets

We expect that the completely integrated product line for SOA governance – the product CentraSite Governance Edition as a complete integration of Software AG's CentraSite and webMethods Infravio – will be available in an updated version in the second quarter of 2008. On that basis, we also intend to ship the next webMethods suite release – Version 8.0 of the webMethods product line – as planned in late summer 2008. This release will address themes such as the accelerated provision of applications and their simpler reutilization as a cost and time saving alternative to new development. Version 8.0 will make it possible to make faster and more sound business decisions in order to achieve sustained process improvements.

In addition we will bring a new product to market in 2008: Enterprise Application Composer will contain further optimized functionality of the webMethods / Software AG products for the creation of combined applications. Enterprise Application Composer therefore supports the development of Web 2.0 Rich Internet Applications and is compatible with other products.

In addition, we will strengthen our product line for Business Process Management in 2008 by including new innovations. One of these is the possibility to drag Web content within the MyWebMethods environment to a context-recognizing desktop, the respective contexts of the content then being placed in relationship to one another in order to make it possible to answer specific questions easily (e.g. breaking down consolidated revenue figures by product and region, etc.). We also will offer the capability to add new process steps that were still unknown or not considered in the design to BPM models in real time. Customers will therefore be able to flexibly adapt their BPMS (Business Process Management software) structures during operation.

7.2.6 Employees

In fiscal 2007, the webMethods business division employed 1,961 persons, 429 of them in sales. This reflects an increase of 72 percent compared to the previous year (1,140 employees), primarily resulting from the acquisition.

7.3 Professional Services

¬ Adjusted revenues climb by 30 percent to €161.2 million
¬ A new global business unit established
¬ Integration of webMethods and SPL completed

Professional Services supports our customers in the areas of system integration, SOA and BPM; this support is based on the Software AG infrastructure software for business processes. The task of Professional Services is to provide our customers in project management with operating benefits for their business. In doing so, we rely on the global expertise and experience of our employees. We will continuously develop best practices and methods and therefore accelerate the process of putting software solutions into operation. Professional Services is not shown separately in the segment report but instead as a part of ETS and webMethods.

Milestones in 2007

In 2007, Professional Services was established as a new global business unit of Software AG. As part of the restructuring, we combined the existing Professional Services organizations of Software AG and of those of webMethods and SPL. This resulted in a large new organization with a clear focus. An important aspect is the independence of Professional Services as a global business unit alongside the two business divisions

ETS and webMethods. Professional Services can now benefit from the experience and know-how of experts from all over the world. We can therefore offer our customers significant value-added, proven methods and best practices. To this end, we also increased the number of experts in the areas of integration, SOA and BPM. The potential of the new organization has therefore grown exponentially, and we expect this to result in significant increases in efficiency.

The milestones in the past fiscal year included the integration of the employees of the acquired companies webMethods, Inc., U.S., and SPL, Israel. With the Professional Services organization of webMethods, we have made a great advance in North America. SPL which was acquired in Israel previously generated the greatest portion of its revenues from the Professional Services business. We have therefore also gained a strong unit in Israel which operates as a system integrator. The most important tasks in the course of integrating the two companies in 2007 included familiarizing our consultants all over the world with the webMethods product world as well as the global networking and continuous transfer of know-how.

Strategy and objectives

The objective of Professional Services is to make a contribution to the profitable growth of Software AG. To that end, the business unit is to grow organically and continue to increase its profitability. We see the potential for organic growth primarily in the expansion of activities in the area of webMethods. The high growth in licensing will also contribute to strong growth of Professional Services. We will also achieve profitability improvements through a systematic use of nearshoring and offshoring.

Another focus of the activities of Professional Services in the future will be the continued know-how transfer and the continuing education of our employees. To that end, our consultants will be specifically trained in webMethods. Consistent with the high demand, we will also increase the number of our employees worldwide by approximately 200 persons starting in 2008. In addition, we will continue to work on integrating the various global cultures and further support the networking and exchange of the global business units.

Revenues and earnings performance

The revenues of the Professional Services business unit developed positively in fiscal 2007. We generated revenues of €161.2 million, 28 percent (currency-adjusted: 30 percent) more than in 2006 (€126.2 million). We generate the greatest share of our revenues in Spain, where Professional Services has a staff of 537. We operate as a general system integrator in Spain. The second largest single market is the U.S., followed by Germany and Israel.

8 Takeover-related disclosures

Subscribed capital and voting rights

Software AG's share capital totaled €85,618,365 and is divided into 28,539,455 bearer shares. Each share represents €3.00 of the issued share capital and entitles the holder to one vote. Shareholders can exercise their rights at the Annual Shareholders' Meeting, when they exercise their voting rights in accordance with legal stipulations and the Company's Articles of Incorporation.

Authorized capital and share repurchase

Software AG has authorized capital pursuant to Section 5 (5) of the Company's Articles of Incorporation. The Executive Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 12, 2011 up to a total of €41,803,362 by issuing up to 13,934,544 million new bearer shares against cash contributions or contributions in kind (Authorized Capital).

Furthermore, the Company is authorized to purchase treasury shares having a share in the issued share capital not to exceed €8,531,934 on or before November 10, 2008 in order to realize the benefits associated with the acquisition of treasury shares in the interest of the Company and its shareholders. Treasury shares may be purchased on the stock market or through a public purchase offer directed to all shareholders of the Company.

Please refer to the Notes for additional information on the conditional capital, authorized capital and the acquisition of treasury stock.

Significant shareholders

Software AG Stiftung, Darmstadt, holds approximately 30 percent of the outstanding shares in Software AG. The foundation is a separate non-profit legal entity and is devoted worldwide to the themes of therapeutic pedagogy, social therapy, education, services to youth and senior citizens, environment and research. No other shareholders hold more than 10 percent of the share capital.

Appointment / dismissal of Executive Board members and changes in the Articles of Incorporation

Executive Board members are appointed and dismissed in accordance with Section 84 et seqq. of the German Stock Corporation Act.

Any changes in the Articles of Incorporation are resolved by the Annual Shareholders' Meeting by a majority of at least three-fourths of the share capital represented at the time of the resolution in accordance with Section 179 of the German Stock Corporation Act. Changes in the wording of the Articles of Incorporation in connection with the utilization of conditional and authorized capital were resolved by the Supervisory Board in accordance with resolutions of the Annual Shareholders' Meeting of September 21, 1998 (Section 5, Paragraphs 1 and 2 of the Articles of Incorporation); April 27, 2001 (Section 5, Paragraphs 1 and 3 of the Articles of Incorporation); May 13, 2005 (Section 5, Paragraphs 1 and 4 of the Articles of Incorporation); and May 12, 2006 (Section 5, Paragraphs 1 and 5 of the Articles of Incorporation).

Change of control

In the event of a change of control, the lenders can call due liabilities to financial institutions amounting to € 197.0 million in their entirety or partially. If a member of the Executive Board should resign due to a change of control within 12 months of such change and without good cause, this member will receive a severance payment equal to three annual salaries based on the annual target remuneration most recently agreed and the average target performance ratio for the preceding three full fiscal years. In case of resignation the above mentioned regulation is not applicable if the position of the Executive Board member has only been altered marginally with the change of control. This change of control clause for Executive Board members is intended to replace the existing regulations of paying the remaining term of the contract in the event of termination by the Company as well as the agreed escalation bonus in the amount of 0.5 percent of the increase of the Company's market capitalization as a result of a takeover bid.

Other takeover-related disclosures not mentioned in this section do not apply to Software AG.

9 Principles of the remuneration system

The remuneration of the Executive Board is made up of a base remuneration and variable remuneration. At least four-fifths of the remuneration is linked to sales, earnings and other corporate targets. A portion of the variable remuneration is paid as a "long-term component" on the basis of a phantom share plan (PPS). Furthermore, a stock option plan exists for Executive Board members and officers in the Group, from which no allocations have been made since January 2005. In July 2007, a new, share-linked long-term incentive program was established for Executive Board members and officers in the Group.

The members of the Supervisory Board receive a fixed and a performance-linked remuneration. The performance-linked components are linked to the annual performance of the Company, measured as sales revenue before taxes and the long-term performance of the Software AG stock.

Please refer to the Remuneration Report of the Corporate Governance Report and the Notes for details concerning the remuneration of board members.

10 Risk report

10.1 Risk and opportunity management system

Always a focus on security

Software AG's primary goal is long-term, profitable growth. Based on that, we intend to increase our enterprise value on a sustainable basis. To that end, we combine established, stable business activities with an involvement in promising new market segments and regions. We strive for balance between opportunities and risks and take on risks only if the business activities associated with them have a high probability of enhancing the value of Software AG. It is always a prerequisite that the risks remain manageable and controllable.

Risk and opportunity management system throughout the Group

Through a Group-wide risk and opportunity management system, we identify possible risks at an early stage so as to correctly evaluate them and limit them to the extent possible. By continuously monitoring risks, we can constantly evaluate the presumed overall status systematically and in a timely manner and better assess the effectiveness of appropriate countermeasures. In doing so, we include operational risks as well as financial, economic and market risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas.

One of our tools for ongoing monitoring of the risk areas identified is a balanced scorecard system. The Executive Board is kept constantly informed of all current and future risks and opportunities as well as the overall risk and opportunity structure via established channels. Software AG updates and monitors the applicable specifications for preventing and reducing threats on an ongoing basis throughout the Group.

Central responsibility for Group-wide processes

Risks and opportunities throughout the Group are managed and controlled at corporate headquarters for both the main offices of Software AG and the other locations. This is where risk and opportunity reports are prepared, further development of the risk management system is initiated, and guidelines for the entire Group that serve to mitigate risk are elaborated. We constantly review the functioning and reliability of the system as well as the reporting.

The internal control system of Software AG has operationalized business risks by way of internal guidelines on business policies and practices. Software AG classifies these policies by field: (general, Professional Services, financial powers and financial markets). The policies defined regulate internal procedures at the global and local levels. They are designed to provide information for management and to monitor the operating business risks of the Software AG Group. In order to enhance transparency, these policies are administered and published centrally.

Another component of risk and opportunity management is the transfer of operating risks to insurance carriers. The General Services department at corporate headquarters coordinates this function globally.

Expansion of Internal Audit

The Internal Audit department of Software AG is an active component of the Company's risk management system. Through a systematic and targeted approach, it ensures that the effectiveness of risk management, the internal control systems and the management and supervision processes are evaluated and continuously improved. It is also geared to the creation of added value for Software AG by optimizing business processes. The Internal Audit department was expanded to include two new employees in June 2007 and now has a staff of four specialists.

10.2 Presentation of key individual risks

We explore key risk areas and individual risks discerned from the totality of risks identified through the risk and opportunity management system. The related opportunities are detailed in the Forecast and in the segment sections in the Management Report.

10.3 Environment and sector risks

Market risks

Among other things, market risks are related to the different economic developments in individual countries or regions. Furthermore, the technological progress of the individual sectors of the IT industry can adversely impact the business potential of the mainframe market. Due to our increasing global expansion, Software AG is not particularly dependent on individual regional markets. Both business divisions market a technology that is used in a large number of industries, ruling out a concentration on individual industries or single customers. We have also decreased our reliance on developments in the mainframe market thanks to the strong integration business we have built up. We take advantage of our technical innovations and growing range of integration products, including the integration of main frame-based applications, to foster the satisfaction of our ETS customers and to secure our broad customer base over the long term.

10.4 Corporate strategy risks

Product risks

Close collaboration between our sales force and the research and development team makes it possible for the development of new products to be market-driven and also market-relevant. As is customary in the software industry, one of our greatest challenges is to optimally allocate our R&D resources. Development of the webMethods business division is particularly susceptible to being negatively impacted by new competitor products. We reduce this risk by implementing our functional triangle (Sales – Marketing – R&D) and by close contact with customers in all industries and countries. Moreover, we maintain close contact with technology analysts so as to be continuously informed of new market and product developments.

Performance risks

Price is often a key factor in obtaining orders in the area of Professional Services. This results in the risk of accepting orders at prices below cost. Furthermore the actual costs can exceed the cost accounting framework. A special process approach streamlines our approval processes for Professional Services and places emphasis on adequate risk-adjusted profit margins, and it is continuously monitored.

Ensuring productive acquisitions

Through selective acquisitions, we expand our technological product range and continue to build up our global presence. This entails the risk that the companies acquired cannot be successfully integrated. The challenges arising from this refer to the integration of the product portfolio, the processes, the organization, the human resources and the different corporate cultures. In order to successfully integrate the companies involved, we have defined safeguarding processes for the time prior to and after acquisition:

- Pre-acquisition phase: prior to a takeover, an intensive review is conducted to ascertain whether the technology of the company in question effectively expands Software AG's product portfolio, how market access and market penetration will change and what synergy potentials can be realized. Every acquisition is preceded by a precise analysis of the financial condition of the target company. Moreover, the question of whether its corporate culture is compatible with ours is explored.
- Post-acquisition phase: We identify potential problem areas as quickly as possible using established control mechanisms. We look at all key areas of the acquired company, including finance, legal affairs, research and development, sales, marketing, and internal communication. The corporate department "Integration Management" which was created in 2007 supports this process.

10.5 Product distribution risks

Sales risks

The complexity of our products requires a high level of experience and expertise on the part of our sales force. In addition, the advanced technology of our products necessitates the provision of a considerable amount of information when selling them. The establishment of product communities and ongoing intensive training of our sales employees and of our customers significantly facilitates the sale of these products.

Distribution partner risks

Due to the complexity of our products, undertaking sales via partnerships is a challenge. We offer intensive training and favor a few, carefully selected partnerships in order to assure that these requirements are met, also with respect to indirect sales via our partners.

10.6 Financial risks

Exchange rate risks

Due to its global business activities, Software AG is exposed to exchange rate risks. Our sales organizations operate in the countries in which the sales are transacted. The sales-related expenses are basically in the same currency as the sales themselves. This natural hedging relationship is further strengthened in the U.S. due to the fact that components of our research & development and global marketing are based in the U.S. We further utilize derivative financial instruments to mitigate the effects of exchange rate fluctuations. Our hedging instruments are used to cover existing foreign currency receivables and payables and anticipated payment streams. Income generated in foreign currencies from individual Group companies is also hedged against changes in value due to exchange rate fluctuations. All exchange rate risks are monitored centrally.

Other financial risks

Other financial risks predominantly refer to the risk of bad debt losses. Due to Software AG's diversified markets and customer structure, no cluster risks exist. On a long-range average, default risks are quite marginal as a result of the generally high level of creditworthiness on the part of our customers.

The intensified geographic expansion in 2006 into countries of the Middle East and Latin America with below-average payment behaviors resulted in one-time effects in fiscal 2007 which led to increased write-downs of receivables. To reduce the impacts of this risk, we have optimized the approval process for customer contracts and improved the monitoring processes.

10.7 Legal risks

Litigation risks

Especially in the U.S., a large number of software patents have been issued and the peculiarities of U.S. procedural law favor the bringing of patent lawsuits. This also affects Software AG. Furthermore, a small number of judicial proceedings arise concerning issues related to distribution or the scope of rights of use; generally the number of legal disputes is very low.

One patent right suit is already pending before a court in the U.S. However, Software AG sees nothing to substantiate the claimed patent infringement and assumes that the present suit represents a low risk of loss. For additional information, please refer to the Notes.

Risks arising from U.S. export regulations

Software AG's U.S. locations are subject to U.S. export regulations. Restrictions exist against exports of the developments achieved in the U.S. to countries under U.S. embargo or to companies on the U.S. black list. United States export regulations also apply to products in which the provenance of component parts greater than a certain minimum can be traced back to development undertaken in the United States. Failure to respect these export regulations may result in sanctions from the U.S. administration. Software AG, which has a customer base in over 70 countries around the globe, has eliminated this risk by implementing an internal monitoring system that precludes deliveries to customers in U.S. embargo countries.

10.8 Other risks

Personnel risks

Due to our position as technological leader in our business lines, our employees are valuable experts in their fields and in demand by other software companies. We present employee poaching by tying our employees closely to the Company by means of profit-sharing, continuing education opportunities and an attractive working environment. Staff turnover is low, both at the Group level and at corporate headquarters.

10.9 General statement on the Group's risk situation

An overall view indicates that risks in the Software AG Group are limited and manageable. No risks can be identified that are likely to jeopardize the continued existence of the Company now or in the future.

11 Events after the balance sheet date

11.1 Acquisition of Jacada

Please refer to Section 7.1.3 “Operating trend” regarding the acquisition of the Jacada software division (as of January 1, 2008).

11.2 Exercise of the option to sell with respect to SPL

In February 2008, the former owner of SPL Software Ltd., Israel, the Silverboim Group, exercised its option to sell with respect to the remaining 19.92 percent of the shares. Based on the operating result of the SPL Group for 2007, a purchase price for these shares of €19,437 thousand was arrived at. It was paid on February 22, 2008.

12 Forecast

12.1 Future direction of the Group

The growth phase that began in fiscal 2006 is expected to continue in 2008. Implementing growth strategies will remain our primary focus, meaning that we will not rule out additional acquisitions during the current fiscal year. Furthermore, we will keep adding prominent software companies and system integrators to our partner network. We also intend to use ongoing product development to expand our technological leadership in the areas of SOA, BPM, and application modernization and gain additional market shares in this area.

Our primary operational tasks in 2008 include:

- Completion of the integration activities for webMethods in the first half of 2008
- Start of direct sales in Brazil
- Taking advantage of opportunities on the M&A market
- Expansion of technological leadership in SOA through portfolio innovation

Efficiency improvements support profitability

To further increase our profitability, we improve our global processes and accordingly our efficiency on an ongoing basis. In doing so, we continuously generate financial resources that we allocate to innovation management to support the profitable expansion of Software AG. Innovation encompasses technological progress, which includes both our own research and development as well as the purchase of technologies. Therefore we see operational excellence as a driver of innovation and growth for our company.

Long-term goals

We will systematically continue on our growth course in order to exceed the revenue threshold of €1 billion in fiscal 2010. At that time, our EBIT margin is expected to exceed 25 percent.

12.2 Overall economic outlook

We expect that the global economy will lose momentum in 2008. At this time, no end to the turmoil in the financial markets is foreseen. The real estate and construction crisis may weigh down not only the U.S. economy in 2008 but also a number of European economies. The softening of the U.S. dollar against the euro is also expected to continue for a time in 2008, as are the high oil prices. Much is expected of the development in the emerging countries of Eastern Europe and Asia. This could cushion a moderate softening of growth in the large industrialized economies. Overall, 4.7 percent growth is forecast for the global economy in 2008.

A definite cooling of the economy is expected for the U.S. The impacts of the real estate crisis on private consumption will have a profound influence on performance. Robust growth in exports and an expansive fiscal policy should have a stabilizing effect. On the whole, growth of the U.S. economy is expected to reach 2.3 percent, approximately the same level as in 2007.

The cool-down of the global economy is expected to make itself felt in the European economies in 2008. Significant contributing factors are the appreciation of the euro, lower demand in the U.S. and persistent turmoil in the financial markets. In Germany, the extent of the economic softening will depend on whether and to what extent private consumption is sustained. For the eurozone, growth is forecast to be 1.8 percent, and for Eastern Europe approximately 5.1 percent. The German economy is also expected to grow by approximately 1.8 percent and therefore slower than in the two previous years.

Economic growth of approximately 7.5 percent is expected for Asia in 2008. China (10 percent) and India (8 percent) are again expected to contribute significantly to the growth, although the pace will be somewhat lower than in 2007. By contrast, the Japanese economy will probably grow by hardly more than 1 percent in 2008.

Economic growth in Latin America is predicted to continue at a slightly slower pace in 2008. Overall, the economy is expected to grow by approximately 4.7 percent. An especially good trend is forecast for Argentina and Brazil due to higher prices for commodity exports.

12.3 Expected sector trend

The global expansion of the IT market is also expected to continue in 2008. According to calculations by the European Information Technology Observatory (EITO), the global market volume for information and communications technology (ICT) should increase by 3.8 percent to €2,194.5 billion during 2008. Growth will therefore be at approximately the 2007 level. In the U.S., volume is expected to increase by approximately 4.3 percent, and in Europe by approximately 2.9 percent. The global IT market is forecast to grow by approximately 5.3 percent to €1,030.0 billion in 2008. Growth is expected to be 4.7 percent in Europe and 5.6 percent in the U.S.

The highest growth rates within the ICT market will continue to be achieved on the software market. At an average growth rate of 7.4 percent between 2006 and 2008, the value of the software market is expected to be at €238.5 billion in 2008. The market volume in the European Union is expected to rise to approximately €81.2 billion in 2008, in the U.S. to €105.6 billion and in Japan to €24.5 billion.

According to estimates of the EITO, the market for SOA is anticipated to nearly quadruple by 2010 from a market volume of approximately €500 million in 2006 to approximately €2 billion. According to industry analysts, the market for business and infrastructure software should nearly double between 2006 and 2011, from €9.4 billion to €17.0 billion. The relevant segments Business Process Management (BPM), enterprise service bus (ESB) and application integration software (AIS) are expected to grow most robustly.

12.4 Future financial performance

We plan to continue our profitable growth in fiscal 2008. In our estimation, currency-adjusted Group revenues will increase by 24 to 27 percent. We expect that our webMethods business division will make the greatest contribution with a 45 to 50 percent expansion of business. We anticipate that revenues from the ETS business division will increase by approximately 9 to 11 percent. In our estimation, revenues from licenses, maintenance, and Professional Services will see clear growth. The EBIT margin should significantly increase from 22 percent in 2007 to 24 percent in 2008.

Continued attractive dividend policy

We plan to maintain our attractive dividend policy in the future as well and pay out 33.5 percent calculated from the average of net income and free cash flow for each share.

FORECAST FOR 2008

	2007 (in € million)	Forecast for 2008
Revenues	621.3	+ 24–27%
Licenses	241.3	+ 24–28%
Maintenance	212.9	+ 26–28%
Professional Services	161.2	+ 23–26%
Business Line ETS	383.1	+ 9–11%
Business Line webMethods	238.1	+ 45–50%
EBIT ratio	22%	24%

12.5 Corporate strategy opportunities

Software AG sees numerous corporate strategy opportunities which we would like to realize. We plan to benefit from the consolidation trend in our industry by specifically taking advantage of opportunities for further acquisitions. We are extremely well-positioned for this, both financially and organizationally.

In addition, we will continue to specifically take advantage of the potential offered by rapidly emerging growth markets. Our worldwide locations and our flexible structures make this possible. We anticipate further revenue growth primarily in the new markets of Japan and Brazil. Already in 2007, our expectations for revenue growth in Japan were exceeded after the start of direct sales in that country. We completed the preparations for the direct entry in Brazil in the year under review and commenced our business activities there as of January 1, 2008. We expect the business in Brazil to contribute US$ 20 to US$ 30 million to our revenues as early as 2008.

We expect additional potential from our acquisitions once the integration has been fully completed and we can derive additional synergy. Furthermore, the acquisition of the Jacada software division became effective on January 1, 2008 so that it will be reflected in the figures as of 2008. We expect this to provide us with additional market penetration in the area of application modernization.

The launch of the new products from both business divisions will bring additional opportunities for revenue expansion. We expect that the new products, which were developed based on customer specifications, will meet with market acceptance.

Opportunities for Software AG will also result from the growing collaboration with our partnering network, which we will continuously expand.

12.6 General statement on the anticipated development of the Group

Software AG is extremely well-positioned for the future. In fiscal 2007, we recorded the best result in the history of our Company and we will make every effort to continue the dynamic profitable growth achieved in the current fiscal year. The measures initiated in the past fiscal year will contribute to that effort. They include the new, even more focused customer-oriented organization, our three acquisitions, geographic expansion, the further development of our product portfolio, and the expansion of our strategic partnerships. Moreover, we plan to take advantage of the aforementioned corporate strategy opportunities. Our long-term goal is to become the global market leader in the field of infrastructure software for enterprise customers.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT
JANUARY 1, 2007 TO DECEMBER 31, 2007

€ thousands	Note	2007	2006
Licenses		241,339	165,742
Maintenance		212,938	187,278
Professional Services		161,182	126,214
Other		5,800	3,733
Total revenue	**[1]**	**621,259**	**482,967**
Cost of sales	[2]	– 181,511	– 149,512
Gross profit		**439,748**	**333,455**
Research and development expenses	[3]	– 65,900	– 44,858
Sales, marketing and distribution expenses	[4]	– 159,208	– 127,246
General and administrative expenses	[5]	– 59,299	– 52,337
Operating result		**155,341**	**109,014**
Other operating income	[6]	21,503	20,290
Other operating expenses	[7]	– 33,384	– 18,087
Earnings before interest, taxes and amortization		**143,460**	**111,217**
Amortization	[8]	– 6,663	0
Earnings before interest and taxes		**136,797**	**111,217**
Net financial income	[9]	294	7,339
Earnings before taxes		**137,091**	**118,556**
Income taxes	[10]	– 45,722	– 43,275
Other taxes	[11]	– 2,962	– 2,105
Net income for the year		**88,407**	**73,176**
thereof attributable to shareholders of Software AG		88,375	72,920
thereof attributable to minority interest	[12]	32	256
Earnings per share (€, basic)	[13]	3.11	2.60
Earnings per share (€, diluted)	[13]	3.09	2.55
Weighted average number of shares outstanding (basic)		28,439,959	28,084,763
Weighted average number of shares outstanding (diluted)		28,563,649	28,542,343

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

Assets

€ thousands	Note	Dec. 31, 2007	Dec. 31, 2006
Current assets			
Cash on hand and bank balances	[14]	80,822	163,199
Securities	[14]	472	21,575
Inventories		90	339
Trade receivables	[15]	209,311	172,440
Other receivables and other assets	[16]	10,125	10,877
Prepaid expenses	[17]	5,794	4,654
		306,614	**373,084**
Non-current assets			
Intangible assets	[18]	139,265	4,694
Goodwill	[19]	431,596	187,947
Property, plant and equipment	[20]	49,847	44,403
Financial assets	[21]	8,232	1,699
Trade receivables	[15]	15,704	10,039
Other receivables and other assets	[16]	16,582	0
Deferred taxes	[22]	55,484	22,011
		716,710	**270,793**
		1,023,324	**643,877**

Equity and liabilities

€ thousands	Note	Dec. 31, 2007	Dec. 31, 2006
Current liabilities			
Financial liabilities	[23]	46,652	1,851
Trade payables	[24]	31,300	22,931
Other liabilities	[25]	64,199	28,937
Other provisions	[26]	42,802	37,186
Tax provisions	[28]	11,485	14,726
Deferred income	[29]	83,878	62,231
		280,316	**167,862**
Non-current liabilities			
Financial liabilities	[23]	167,648	26
Trade payables	[24]	64	33
Other liabilities	[25]	2,966	2,765
Pension provisions	[27]	17,229	24,609
Other provisions	[26]	9,686	6,075
Deferred taxes	[22]	79,621	18,174
Deferred income	[29]	3,332	2,102
		280,546	**53,784**
Equity			
Share capital	[30]	85,618	84,338
Capital reserve		31,933	23,576
Retained earnings		299,532	247,447
Net income attributable to shareholders of Software AG		88,375	72,920
Currency translation differences		– 80,008	– 41,133
Other reserves	[31]	36,343	34,446
Minority interest	[32]	669	637
		462,462	**422,231**
		1,023,324	**643,877**

CONSOLIDATED STATEMENT OF CASH FLOWS
JANUARY 1, 2007 TO DECEMBER 31, 2007

€ thousands	Note	2007	2006
	[33]		
Net income for the year		88,407	73,176
Income taxes		45,722	43,275
Net financial income		– 294	– 7,339
Amortization / depreciation of non-current assets		15,140	8,215
Other non-cash income / expense		5,429	– 8,889
Operating cash flow before changes in working capital		**154,404**	**108,438**
Changes in inventories, receivables and other current assets		– 7,119	– 40,731
Changes in payables and other liabilities		– 25,370	14,812
Income taxes paid		– 28,299	– 28,474
Interest paid		– 9,335	– 4,379
Interest received		9,728	11,724
Net cash from operating activities		**94,009**	**61,390**
Proceeds for sale of tangible / intangible assets		1,135	967
Purchase of tangible / intangible assets		– 10,964	– 6,090
Proceeds from the sale of financial assets		2,945	198
Purchase of financial assets		– 4,916	– 265
Payments for acquisitions, net		– 362,321	– 597
Net cash used in investing activities		**– 374,121**	**– 5,787**
Proceeds from issue of share capital		7,225	2,157
Dividends paid		– 25,302	– 22,429
Proceeds from financial liabilities		328,403	0
Repayments of financial liabilities		– 119,295	– 3,457
Payments for hedging instruments		– 11,260	0
Net cash provided by / used in financing activities		**179,771**	**– 23,729**
Change in cash and cash equivalents from cash relevant transactions		– 100,341	31,874
Adjustment from currency translation		– 3,139	– 8,678
Net change in cash and cash equivalents		**– 103,480**	**23,196**
Cash and cash equivalents at beginning of period		184,774	161,578
Cash and cash equivalents at end of period		**81,294**	**184,774**

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

€ thousands	2007	2006
Currency translation differences	– 38,875	– 25,930
Net gain / loss from fair value measurement of financial instruments not recognized in income	1,983	130
Net loss / gain from fair value measurement of net investments in foreign operations not recognized in income	– 86	810
Net gain / loss from actuarial gain / loss on pension obligations not recognized in income	4,467	108
Total income and expense recognized directly in equity	**– 32,511**	**– 24,882**
Net income for the year	88,407	73,176
Total recognized income and expense	**55,896**	**48,294**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General

Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) and as applicable in the EU. The IAS / IFRSs applicable as of December 31, 2007 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The same accounting policies were used as in the financial statements for 2006 with the exception of the new standard IFRS 8 Operating Segments. In fiscal year 2007, the notes were supplemented to include the disclosures required pursuant to IFRS 7.

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. It is the parent company of a Group that is globally active in the fields of development, licensing, and maintenance of software as well as IT services.

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

New accounting provisions with regard to which Software AG has not opted for early application

The IASB has published the following standards, interpretations, and amendments to standards that are not yet required to be applied and with regard to which Software AG has not opted for early application to the consolidated financial statements for the year ended Desember 31, 2007. For these IFRSs to be applied, they must first be endorsed by the EU.

- The revised IAS 1 Presentation of Financial Statements will come into effect for fiscal year 2010.
- The revised IAS 23 Borrowing Costs will come into effect for fiscal year 2009.
- The revised IFRS 3 Business Combinations will come into effect for fiscal year 2010.
- The revised IAS 27 Consolidated and Separate Financial Statements will come into effect for fiscal year 2010.
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions will come into effect for fiscal year 2008.
- IFRIC 12 Service Concession Arrangements will come into effect for fiscal year 2009.
- IFRIC 13 Customer Loyalty Programmes will come into effect for fiscal year 2009.
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction will come into effect for fiscal year 2009.

Software AG does not expect initial application of the aforementioned standards and interpretations to have a significant influence on the consolidated financial statements.

Principles of consolidation

The separate financial statements of the companies included in the consolidated financial statements were prepared in accordance with uniform accounting policies pursuant to IFRS as of the balance sheet date for the consolidated financial statements (December 31, 2007).

The initial consolidation method applied to business combinations was based on the respective date of foundation in the case of companies founded by Software AG. For acquired companies, the date of acquisition was taken as the consolidation date.

The initial consolidation of the companies that were first consolidated prior to December 31, 2002 was performed on the basis of the book value method in accordance with Section 301 (1) Sentence 1 of the German Commercial Code (HGB). Accordingly, the acquisition and start-up costs were offset against the Group's share in equity of the consolidated subsidiaries. Initial consolidation after the transition to IFRS on January 1, 2003 was performed in accordance with IFRS 3 regulations. Subsequent consolidations were derived from the relevant initial consolidation.

Goodwill arising from business combinations was offset against retained earnings for acquisitions prior to January 31, 2001 in accordance with Section 309 (1) of the Commercial Code. Goodwill arising after January 31, 2001 was capitalized in accordance with previously applicable HGB (German Commercial Code) 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 German Commercial Code.

Since the transition to IFRS on January 1, 2003 (date of transition), goodwill previously capitalized in line with the Commercial Code has been 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 the case of impairment. Goodwill reported on the balance sheet is tested annually for impairment.

Revenue, expenses and income, and receivables and payables arising between consolidated companies have been eliminated. Intercompany earnings are eliminated where they have not arisen from services to third parties. Group equity and net income attributable to minority interests are reported separately from equity and net income attributable to the shareholders in the parent company.

Scope of consolidation

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

The following affiliated companies are part of the Group of Software AG (parent company):

a) Domestic companies	Shareholding in %	Abbreviations
Software Financial Holding GmbH, Darmstadt (formerly Software GmbH Marketing)	100	SAG-MK
SAG East GmbH – A Software Company, Darmstadt	100	SAG-ME
SAG Deutschland GmbH, Darmstadt (formerly SAG Systemhaus GmbH)	100	SAG-D
SAG Consulting Services GmbH, Darmstadt (formerly SQL Datenbanksysteme GmbH, Berlin)	100	SAG-PS

b) Foreign companies	Shareholding in %	Abbreviations
Software AG (UK) Limited, Derby / United Kingdom and its subsidiary	100	SAG-UK
Software AG Belgium S.A., Brussels / Belgium,	76	SAG-B
in which Software AG also has a direct stake	24	
Software AG Development Center Bulgaria EOOD, Sofia / Bulgaria	100	SAG-BULG
Software AG (Gulf SPC), Manama / Kingdom of Bahrain	100	SAG-GULF
Software AG France S.A.S, Gentilly / France and its subsidiary	100	SAG-F
webMethods France Sarl, Paris / France	100	wM-F
Software AG Italia S.p.A, Segrate (MI) / Italy	100	SAG-I
Software AG Nederland B.V., Nieuwegein / Netherlands and its subsidiary	100	SAG-NL
webMethods B.V., Amsterdam / Netherlands	100	wM-NL
Software AG Nordic A / S, Taastrup / Denmark and its subsidiaries	100	SAG-DK
Software AG Norge A / S, Oslo / Norway	100	SAG-N
Software AG Nordic AB, Kista / Sweden	100	SAG-S
OY Software AG Nordic, Helsinki / Finland	100	SAG-SF
Software AG Österreich, Vienna / Austria	100	SAG-A
Software AG Polska Sp. Z o.o., Warszawa / Poland	100	SAG-PL
Software AG s.r.o., Praha / Czech Republic	100	SAG-CZ

Foreign companies (continued)	Shareholding in %	Abbreviations
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul / Turkey	100	SAG-TR
Softinterest Holding AG, Zug / Switzerland and its subsidiary	100	SIH
SAG Software Systems AG, Dietikon / Switzerland	100	SAG-CH
Software AG España, S.A. Unipersonal, Tres Cantos, (Madrid) / Spain and its subsidiaries	100	SAG-E
Software AG España Systemhaus, S.L. Unipersonal, Tres Cantos (Madrid) / Spain (merged with Software AG España, S.A. Unipersonal on July 12, 2007)	100	SAG-ESYS
Software AG Portugal, Alta Tecnologia Informática, Lda., Lisboa / Portugal	100	SAG-P
Software AG Factoria S.A., Santiago / Chile	100	SAG-CL
Software AG Latinoamérica, S.L., Tres Cantos (Madrid) / Spain and its subsidiaries	100	SAG-LATAM
Software AG Brasil Informática e Servicos Ltda, São Paulo / Brazil	100	SAG-BRAS
Software AG Chile S.A., Santiago / Chile	100	SAG-CLSA
Software AG de Puerto Rico, Inc., San Juan / Puerto Rico	100	SAG-PUER
Software AG Venezuela, C.A., Chacao Caracas / Venezuela	100	SAG-VEN
A. Zancani & Asociados, C.A., Chacao Caracas / Venezuela	100	AZA
Software AG de Panama, S.A., Clayton / Panama and its subsidiaries	100	SAG-PAN
Sinsa Móvil, S.A., Clayton / Panama	100	SINSA
Soluciones de Integración de Negocios, S.A., San José / Costa Rica	100	SAG-CR
Software AG, Inc., Reston, VA / USA and its subsidiaries	100	SAG-USA
Software AG (Canada) Inc., Ontario / Canada	100	SAG-CAN
Software AG, S.A. de C.V. (Mexico), Mexico, Distrito Federal / Mexico	100	SAG-MEX
Software AG, LLC, Reston, VA / USA	100	SAG-LLC
Software AG Funding Corporation, Reston, VA / USA	100	SAG-FUN
Software AG International, Inc., Reston, VA / USA and its subsidiary	100	SAG-INT
webMethods Inc., Fairfax, VA / USA and its subsidiaries	100	wM-USA
Intellifram Corporation, Fairfax, VA / USA	100	wM-INTELLI
Door Acquisition, Inc., Fairfax, VA / USA	100	wM-DOOR
The Dante Group, Inc., Fairfax, VA / USA	100	wM-DANTE
The Mind Electric, Inc., Fairfax, VA / USA	100	wM-MIND
Infravio, Inc., Fairfax, VA / USA and its subsidiary	100	wM-INFRAV
Infravio Software Technologies Private Limited, Channai / India	100	wM-INFIND
Chameleon Acquisitions Corp., Fairfax VA / USA	100	wM-CHAMEL
webMethods West, Inc., Fairfax, VA / USA and its subsidiaries	100	wM-WEST
webMethods Canada Corporation, Toronto, Ontario, Canada		wM-CAN
webMethods Worldwide, Inc., Fairfax / USA and its subsidiaries	100	wM-WW
webMethods Australia Pty Ltd., North Sydney, North South Wales / Australia	100	wM-AUS
webMethod Development Center India Private Limited, Bangalore / India	100	wM-IN
webMethods Software Development (Beijing) Co. Ltd., Beijing / China	100	wM-CHINA
webMethods Germany GmbH, Darmstadt / Germany	100	wM-D
webMethods Hong Kong Ltd., Wanchai / Hong Kong	100	wM-HK
webMethods Japan Kabushiki Kaisha (webMethods Co., Ltd.), Tokyo / Japan	100	wM-JAP
webMethods Korea Co., Ltd., Seoul, South Korea	100	wM-KOR
webMethods Malaysia Sdn Bhd., Kuala Lumpur / Malaysia	100	wM-MAL
webMethods Singapore Pte Limited, Singapore / Singapore	100	wM-SIN
webMethods UK Limited, Egham, Surrey, United Kingdom	100	wM-UK
webMethods Sweden AB, Stockholm / Sweden	100	wM-S
Software AG, Ltd., Tokyo / Japan	100	SAG-JAP
Software AG Australia (Holdings) Pty Ltd., North Sydney / Australia and its subsidiary	100	SAG-AUS (Holding)
Software AG Australia Pty Ltd., North Sydney / Australia	100	SAG-AUS (operat)
SGML Technologies Limited, Derby / United Kingdom	100	SGML
Software AG R&D Ireland, Ltd., Wicklow-Town / Ierland (liquidated as of May 22, 2007)	100	SAG-IRL
Software AG (Hong Kong) Limited, Hong Kong / PR China	100	SAG-HK
Software AG (Singapore) Pte Ltd, Singapore / Singapore and its subsidiary	100	SAG-SIN
Software AG (Asia Pacific) Support Centre Pte Ltd, Singapore / Singapore	100	SAG-AP
Software AG (M) Sdn. Bhd., Kuala Lumpur / Malaysia	100	SAG-MAL

Foreign companies (continued)	Shareholding in %	Abbreviations
Software AG (Philippines), Inc., Pasig City / Philippines	100	SAG-PHI
Software AG South Africa (Pty) Ltd, Bryanston / South Aftica	100	SAG-ZA
Software AG (India) Private Limited, Maharashtra / India	51	SAG-IN
Software AG (Shenzhen) Co Ltd, Shenzhen / PR of China	100	SAG-CHINA
Software A.G. (Israel) Ltd, Or-Yehuda / Israel and its subsidiary	100	SAG-ISR
Sabratec Technologies, Inc., Or-Yehuda / Israel	100	SAG-ISRUS
SAG Systems RUS Limited Liability Company, Moscow / Russia	100	SAG-RUS
Software AG Saudi Arabia, LLC, Riyadh / Saudi Arabia	95	SAG-SA
in which SAG East GmbH also has a direct stake	5	
S.P.L. Software Ltd, Or-Yehuda / Israel and its subsidiaries	80.08	SPL-ISR
SPL Systems (1986) Ltd, Or-Yehuda / Israel and its subsidiaries	100	SPL-SYS86
SPL Idor Management Ltd, Or-Yehuda / Israel	51	SPL-IM
SPL Idor Business Solutions, Or-Yehuda / Israel	51	SPL-IBS
SPL Holding B.V., Or-Yehuda / Israel and its subsidiary	100	SPL-HOLD
SPL Systems B.V., Or-Yehuda / Israel	100	SPL-SYS
SPL Text Systems International Inc, Washington, USA	100	SPL-TXT
SPL Inter Dibitech Ltd, Or-Yehuda / Israel (in liquidation in 2007)	100	SPL-ID

Changes in the consolidated group

The number of consolidated companies increased from the level as of December 31, 2006 due to the following transactions:

Effective April 1, 2007, Software AG acquired 80.08 percent of the shares in SPL Software Ltd. Israel (SPL) along with its four subsidiaries and three second-tier subsidiaries. The fixed cost for obtaining 80.08 percent of the shares, including costs directly attributable to the acquisition, amounted to €43,174 thousand. With regard to the remaining 19.92 percent of the shares, Software AG held a call option and the seller a put option that was exercised in February 2008. The purchase price for the remaining shares was calculated on the basis of the operating result for fiscal year 2007. The price was set at €19,437 thousand in connection with initial inclusion of SPL in the consolidated financial statements of Software AG.

Based on the requirements of IFRS 3 regarding the treatment of combined put and call options, 100 percent of the shares in the SPL companies was included in the consolidated financial statements of Software AG as of the date of acquisition. At the time of their acquisition, these companies contributed equity of €2,958 thousand to the consolidated accounts. In fiscal year 2006, the SPL companies generated revenues amounting to €29,873 thousand.

On May 25, 2007, a controlling interest was acquired in webMethods, Inc., Fairfax, Virginia, USA. A 100-percent shareholding was subsequently acquired as of June 1, 2007. Given that Software AG effectively acquired control of webMethods, Inc. as of May 25, 2007 (date of acquisition), webMethods, Inc. and its 23 subsidiaries were included in the consolidated accounts of Software AG as of that date. The cost of acquiring 100 percent of the shares, including costs directly attributable to the acquisition, amounted to €416,675 thousand (USD 559,594 thousand). As of the date of acquisition, the webMethods Group had an equity balance of €150,244 thousand in the consolidated accounts. In the fiscal year extending from April 1, 2006 to March 31, 2007, the webMethods Group generated revenues in the amount of €156,719 thousand.

In addition, Software AG R&D (Ireland) Limited was liquidated as of May 22, 2007.

Exemption for Domestic Group Companies pursuant to Section 264 (3) of the German Commercial Code (HGB)

With the approval of the relevant shareholders' meetings, SAG Deutschland GmbH, Darmstadt, SAG East GmbH – A Software Company, Darmstadt, and SAG Consulting Services GmbH, Darmstadt, which are included in the consolidated financial statements of Software AG, have been exempted from the duty to prepare and publish annual financial statements in compliance with provisions applicable to corporations in accordance with Section 264 (3) of the German Commercial Code.

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. For this reason, net income for the year and equity are the chief indicators with regard to corporate management. A high equity-to-assets ratio represents the basis for continued internal and external growth and increases the attractiveness of the Group for shareholders. Dividends are calculated as the average of net income for the year and free cash flow. This resulted in total dividends of €28,539 thousand and a payout ratio of 33.5 percent.

Use of estimates

In the preparation of the consolidated financial statements, estimates and assumptions have been made for certain items that have an impact on the recognition and measurement of the assets, liabilities, income, expenses, and contingent liabilities reported. Actual amounts may differ from these estimates.

Currency translation

Financial statements of foreign subsidiaries are translated in accordance with 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 the relevant monthly average rate, assets and liabilities are translated at the closing rate, and the respective equity of the subsidiaries is translated at historical rates.

Currency translation differences arising from the equity consolidation are offset against equity and reported on a separate line in the statement of changes in equity.

Currency translation differences related to the elimination of intragroup balances are recognized under “other operating income” and “other operating expenses” on the income statement.

In the fixed assets schedule, the balances at the beginning and the end of the fiscal year are translated at the applicable closing rates, and other items are translated at average rates. Any differences arising from exchange rate fluctuations are shown as currency translation differences on a separate line under both “cost” and “accumulated depreciation / amortization.”

In the 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 realized as of the balance sheet date are included in profit or loss for the period, except for translation differences from long-term, intercompany monetary items that are part of a net investment in a foreign company. These differences are recognized directly in equity under “other reserves.”

The exchange rates used for the translation of the most important currencies changed as follows compared to the previous year:

Closing rate (€1)	Dec. 31, 2007	Dec. 31, 2006	Exchange rate change in %
U.S. dollar	1.4718	1.3184	– 11.6
Pound sterling	0.7347	0.6716	– 9.4
South African rand	10.0300	9.2300	– 8.7
Australian dollar	1.6750	1.6698	– 0.3

Average rate (€1)	2007	2006	Exchange rate change in %
U.S. dollar	1.3700	1.2557	– 9.1
Pound sterling	0.6845	0.6818	– 0.4
South African rand	9.6539	8.5143	– 13.4
Australian dollar	1.6352	1.6663	+ 1.9

Accounting policies

Total revenue

Software AG sales revenues primarily consist of revenue from granting software licenses – usually of indefinite duration, maintenance revenue, and revenue from Professional Services. Revenue from granting 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 maintenance business is recognized proportionately over the period of service provision.

Revenue resulting from contracts for Professional Services, which are invoiced on the basis of hours performed, is recognized in the period in which the services are rendered by the SAG companies.

Pursuant to IAS 11, revenues and expenses from fixed-price service contracts are recognized in accordance with the percentage-of-completion (POC) method if the 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 the costs to complete 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, the cost of sales includes the individual unit costs that can be directly allocated 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 expenses
Research and development expenses are recognized 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 38.57 in conjunction with 38.53 (revised in 2004) are therefore not fulfilled. Software acquired for a consideration in connection with business combinations is capitalized at market value.

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

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

Borrowing costs
In accordance with the provisions of IAS 23, interest expenses are recognized in income in the period in which they are incurred.

Cash on hand and bank balances
Software AG classifies cash on hand, bank balances and term deposits with maturities of up to three months as well as current securities as cash and cash equivalents. The securities item includes only current, highly liquid financial instruments that are readily convertible to known amounts of cash and are only subject to negligible risk of changes in value.

The Company classifies all current securities as assets held for trading. These securities are initially recognized at cost as of the settlement date. They are measured at their fair value as of the balance sheet date. Any changes in the fair value are recognized in income.

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

Trade receivables
Receivables are carried at the fair value applicable at the time the revenues or the consideration paid are realized. They are measured at amortized cost less any allowances for bad debt.

Trade receivables are carried at their principal amounts unless specific valuation allowances were required in order to account for credit risks. Longer maturities (more than one year) are taken into account by means of discounts at market rates.

This item also includes services performed under fixed-price contracts that have not yet been invoiced and that are recognized in accordance with the percentage-of-completion method.

Other receivables and other assets
Other receivables and other assets are measured at cost and written down to the relevant market price, if applicable.

Prepaid expenses
Prepaid expenses are recognized for prepayments of expenses relating to future periods.

Intangible assets
Intangible assets for which a useful life can be established are measured at cost less any accumulated amortization and impairment losses. Amortization is applied in accordance with the straight-line method over the estimated useful life of the asset. Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Goodwill
In accordance with IFRS 3, goodwill is not amortized, but tested for impairment on an annual basis and written down to its fair value in case of impairment.

Property, plant and equipment

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

The cost of items 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. Any subsequent expenditure, such as service and maintenance charges arising once the asset is put into operation, is recognized as an expense in the period in which it is 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	1–7 years

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

Assets under construction are recognized at cost. Depreciation on these items begins only after they have been 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 also include assets provided under lease contracts. Software AG leases computer equipment as well as operating and office equipment. Lease agreements are classified in accordance with IAS 17, under which the lease agreement is evaluated on the basis of risks and returns, with the leased asset being attributed to the lessee (finance leases) or the lessor (operating leases).

¬ Finance leases

Leased assets 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 asset at the inception of the lease and the present value of the minimum lease payments. Capitalized leased assets are depreciated in accordance with the straight-line method over the useful economic life of the asset or, if shorter, the lease term. Payment obligations resulting from future lease payments are recognized as financial liabilities.

¬ Operating leases

Lease payments under operating leases are recognized as an expense over the term of the lease.

Financial assets and derivative hedging instruments

Generally, financial assets are initially recognized at fair value plus transaction costs. Subsequent measurement depends on the classification of the financial assets.

Available-for-sale financial instruments are recognized at their fair value on the balance sheet date (market value). Foreign exchange gains or losses are recognized directly in equity under other reserves. Items of financial assets are recognized individually at their fair values, provided these can be reliably determined.

Loans and receivables included in financial assets that are not held for trading purposes, and financial assets with no published price quotation 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 substantial objective evidence of impairment. Impairment losses are charged against profit or loss for the period.

Deferred taxes
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 in connection with consolidation adjustments recognized in income. 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 anticipated to apply in the relevant countries in accordance with 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 recognized 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 in the event the Company has a current legal or constructive obligation towards a third party due to a past event that 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 and similar obligations
Defined benefit plans and defined contribution plans exist with respect to company 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 as of the balance sheet date.

Employees do not receive illness-related allowances either in Germany or abroad.

Pension provisions are measured by recognizing actuarial gains and losses directly in equity. Accordingly, pension provisions are reported at the full present value of the defined obligation, less the fair value of the reinsurance cover taken out for defined benefit obligations, or less the fair value of the plan assets accumulated to cover pension entitlements. 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 determined on the basis of the biometric calculations in the 2005G mortality tables compiled by Prof. Dr. Klaus Heubeck.

Software AG does not incur any obligations for defined contribution plans other than premium payments on life insurance policies and contributions to special-purpose funds. These payments are recognized in profit or loss for the period.

Deferred income
Deferred income consists of advance payments received from customers relating to maintenance services to be rendered in future periods. The deferred item is reversed and taken to income in the period in which the service is rendered.

Notes to the Consolidated Income Statement

1| Revenue

License and maintenance revenues can be broken down by business division as follows:

	ETS		webMethods		Total	
€ thousands	2007	2006	2007	2006	2007	2006
Licenses	153,026	122,344	88,313	43,398	241,339	165,742
Maintenance	155,735	161,885	57,203	25,393	212,938	187,278
Product sales	**308,761**	**284,229**	**145,516**	**68,791**	**454,277**	**353,020**

Breakdown of license revenues by sector:

	2007		2006	
	€ thousands	in %	€ thousands	in %
Public sector	50,804	21.1	51,535	31.1
Banks and insurance companies	60,098	24.9	37,952	22.9
Industry and other	130,437	54.0	76,255	46.0
Total	**241,339**	**100.0**	**165,742**	**100.0**

Revenues from Professional Services

Professional service revenues include sales of €19,502 thousand, recognized in accordance with the percentage-of-completion method. The individual revenue and expense components of this item can be broken down as follows:

€ thousands	2007	2006
Expenses recognized in 2007	21,371	13,615
Costs accumulated over the term of a (multi-year) project and not yet invoiced	12,871	9,604
Advance payments received	3,826	1,871
Recognized profit / loss	– 1,869	1,150
Revenue recognized under the POC method in 2007	19,502	14,765
Retentions	5	0

2| Cost of sales

The cost of sales amounted to €181,511 thousand (2006: €149,512 thousand) and primarily consists of personnel expenses incurred by the customer support and Professional Services businesses as well as purchased services in the service business.

3| Research and development expenses

The research and development expenses of €65,900 thousand (2006: €44,858 thousand) mainly contain personnel expenses for product development and related IT expenses.

4| Selling expenses

Selling expenses amounted to €159,208 thousand (2006: €127,246 thousand). In addition to personnel expenses relating to the sales division, these costs mainly include marketing expenses. The significant increase over the previous year was primarily the result of the successful takeover of webMethods Inc., USA.

5| General and administrative expenses

General and administrative expenses amounted to €59,299 thousand (2006: €52,337 thousand). They include administrative expenses which are attributable neither to cost of sales nor to sales activities.

6| Other operating income

Other operating income includes the following items:

€ thousands	2007	2006
Foreign exchange gains	14,938	16,253
Income from the reversal of provisions	1,968	286
Rental income	1,210	1,515
Other income	3,387	2,236
	21,503	**20,290**

7| Other operating expenses

Other operating expenses consist of the following items:

€ thousands	2007	2006
Restructuring expenses	12,756	5,740
Foreign exchange losses	10,114	7,589
Losses from the disposal of non-current assets	4,793	68
Receivables write-offs	0	3,752
Other expenses	5,721	938
	33,384	**18,087**

Restructuring costs and receivables write-offs are generally shown under functional costs. Only particularly high individual amounts are reclassified as other operating expenses.

8| Amortization

This item includes the amortization on the customer base and the software identified as an asset in connection with the acquisition of the SPL Group (€417 thousand) and the webMethods Group (€6,246 thousand). The amortization on the amounts recognized as an asset in previous years from the acquisition of Casabac, Sabratec, and the APS Group continue to be shown as functional costs. Amortization amounted to €1,005 thousand in fiscal year 2007 (2006: €1,037 thousand).

9| Net financial income / expense

Financial expense rose considerably due to the loan taken out in 2007 to finance acquisitions. Net financial income decreased to €294 thousand and is composed of the following:

€ thousands	2007	2006
Financial income	9,678	11,799
Financial expense	– 9,384	– 4,460
	294	**7,339**

10| Income taxes

Taxes on income can be broken down as follows:

€ thousands	2007	2006
Current domestic taxes	– 10,125	– 3,453
Current foreign taxes	– 20,425	– 24,734
	– 30,550	**– 28,187**
Deferred domestic taxes	– 9,712	– 17,524
Deferred foreign taxes	– 5,460	2,436
	– 15,172	**– 15,088**
	– 45,722	**– 43,275**

In Germany, a uniform corporate income tax of 25 percent applies. Based on the average municipal trade tax collection rate and a solidarity surcharge of 5.5 percent on corporate tax, the income tax rate for domestic companies will be 30.7 percent starting in 2008 (2007: 39.9 percent). Tax rates abroad range between 15 and 43 percent (2006: between 15 and 39 percent).

The tax expense increased significantly due to changes in national tax rates amounting to €2,858 thousand (2006: €0).

The income tax expense of €45,722 thousand in fiscal year 2007 (2006: expense of €43,275 thousand) is €7,795 thousand less than the expected income tax expense of €53,517 thousand (2006: expense of €46,464 thousand) that would result from applying the domestic tax rate of 39.9 percent currently applicable (2006: 39.9 percent) at Group level. The difference between the expected and current tax expense can be attributed to the following:

€ thousands	2007	2006
Earnings before income tax	**134,129**	**116,451**
Expected income tax (39.9%; 39.9%)	– 53,517	– 46,464
Tax rate-related adjustments	8,992	1,785
Tax refunds (+) / back tax payments (–)	129	4,257
Tax decreases (+) / tax increases (–) due to tax-exempt income or non-tax deductible expenses	– 959	1,687
Other adjustments	– 367	– 4,540
Reported income tax expense	**– 45,722**	**– 43,275**

Other adjustments primarily include changes due to remeasurement of deferred taxes related to tax loss carryforwards.

11| Other taxes
Other taxes mainly include property taxes, vehicle taxes, and non-deductible value added tax.

12| Minority interest
Minority interests relate to the 49 percent stake in Software AG (India) Pvt., Pune, India (SAG-IN), a joint venture established together with iGate Solution Limited in 2003.

13| Earnings per share
Earnings per share are calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued during the period under review. Software AG has only issued common shares. In fiscal year 2007, the average weighted number of shares was 28,439,959 (2006: 28,084,763).

A total of 426,740 stock options were exercised in 2007 (2006: 76,706).

The number of shares increased correspondingly by 426,740. Another 123,690 stock options may be exercised from the second stock option plan in fiscal year 2008. Diluted earnings per share were therefore calculated for these potential shares using the treasury stock method for the period under review. Diluted earnings per share are computed by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares issued to date plus the weighted average number of exercisable stock options.

Notes to the consolidated balance sheet

14| Cash on hand and bank balances, securities
This item includes:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Cash on hand and bank balances	80,822	163,199
Current securities with extremely low price risk	472	21,575
	81,294	**184,774**

15| Trade receivables
Trade receivables include:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Trade receivables with maturities of less than 1 year	169,471	152,060
Uninvoiced services (<1 year)	39,840	20,380
	209,311	**172,440**
Trade receivables with maturities of more than 1 year	10,406	8,862
Uninvoiced services (>1 year)	5,298	1,177
	225,015	**182,479**

The following trade receivables were not yet due or past due as of the reporting date:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Carrying amount	**225,015**	**182,479**
of which neither impaired nor past due as of the balance sheet date	166,159	146,405
of which past due in the following time bands		
1 to 3 months	41,078	29,870
4 to 6 months	11,419	3,458
7 to 12 months	6,359	2,746
> 12 months	0	0

In a number of countries, bad debt allowances are deducted directly from the trade receivables.

16| Other receivables and other assets

Other receivables and other assets mainly consist of hedging transactions related to the management incentive plan in the amount of €14,802 thousand. This item also contains receivables due from tax authorities based on input taxes as well as rent deposits.

17| Prepaid expenses

Prepaid expenses primarily include advance payments made by Software AG under license and lease agreements.

Non-current assets

FIXED ASSETS SCHEDULE AS OF DECEMBER 31, 2007

€ thousands	Goodwill	Intangible assets	Land and buildings	Operating and office equipment	Financial assets	Total
Cost						
Balance as of Jan. 1, 2007	**231,601**	**35,891**	**51,252**	**42,589**	**7,060**	**368,393**
Currency translation differences	– 15,709	– 13,287	– 1,118	– 2,227	– 224	– 32,565
Additions to the group of consolidated companies	261,138	154,315	5,811	5,283	3,577	430,124
Additions	100	1,283	1,352	4,475	6,125	13,335
Disposals	– 1,880	– 276	– 3,945	– 4,099	– 2,945	– 13,145
Balance as of Dec. 31, 2007	**475,250**	**177,926**	**53,352**	**46,021**	**13,593**	**766,142**
Accumulated depreciation / amortization						
Balance as of Jan. 1, 2007	**– 43,654**	**– 31,197**	**– 17,981**	**– 31,457**	**– 5,361**	**– 129,650**
Currency translation differences	0	1,143	363	1,837	0	3,343
Additions	0	– 8,887	– 993	– 5,260	0	– 15,140
Disposals	0	280	447	3,518	0	4,245
Balance as of Dec. 31, 2007	**– 43,654**	**– 38,661**	**– 18,164**	**– 31,362**	**– 5,361**	**– 137,202**
Net book value as of Jan. 1, 2007	**187,947**	**4,694**	**33,271**	**11,132**	**1,699**	**238,743**
Net book value as of Dec. 31, 2007	**431,596**	**139,265**	**35,188**	**14,659**	**8,232**	**628,940**

CONS. FINANCIAL STATEMENTS

FIXED ASSETS SCHEDULE
AS OF DECEMBER 31, 2006

€ thousands	Goodwill	Intangible assets	Land and buildings	Operating and office equipment	Financial assets	Total
Cost						
Balance as of Jan. 1, 2006	**231,756**	**36,015**	**52,152**	**44,992**	**6,994**	**371,909**
Currency translation differences	– 621	– 383	– 536	– 1,089	– 1	– 2,630
Additions	593	459	656	4,729	265	6,702
Disposals	– 127	– 200	– 1,020	– 6,043	– 198	– 7,588
Balance as of Dec. 31, 2006	**231,601**	**35,891**	**51,252**	**42,589**	**7,060**	**368,393**
Accumulated depreciation / amortization						
Balance as of Jan. 1, 2006	**– 43,654**	**– 29,922**	**– 16,948**	**– 33,872**	**– 4,761**	**– 129,157**
Currency translation differences	0	167	169	808	0	1,144
Additions	0	– 1,646	– 1,704	– 4,265	– 600	– 8,215
Disposals	0	204	502	5,872	0	6,578
Balance as of Dec. 31, 2006	**– 43,654**	**– 31,197**	**– 17,981**	**– 31,457**	**– 5,361**	**– 129,650**
Net book value as of Jan. 1, 2006	**188,102**	**6,093**	**35,204**	**11,120**	**2,233**	**242,752**
Net book value as of Dec. 31, 2006	**187,947**	**4,694**	**33,271**	**11,132**	**1,699**	**238,743**

18| Intangible assets
This item mainly includes software and customer bases obtained in connection with acquisitions.

19| Goodwill
Goodwill amounted to €431,596 thousand as of December 31, 2007, an increase of €243,649 thousand over December 31, 2006. This increase resulted from the acquisitions of SPL Software Ltd., Israel (€51,232 thousand) and webMethods Inc., USA (€209,906 thousand). Goodwill for Casabac Technologies increased by €100 thousand due to subsequent changes in acquisition costs after making the earn-out calculation. For the same reason, goodwill for Sabratec Ltd., Israel decreased by €315 thousand and goodwill for the APS Group by €1,565 thousand. Goodwill was reduced by another €15,709 thousand due to exchange rate fluctuations.

Goodwill is tested for impairment on an annual basis by comparing the carrying amount of the cash-generating unit to which the goodwill is allocated with the recoverable amount. Testing for impairment involves regularly checking the recoverable amount with regard to value in use. Value in use is calculated on the basis of discounted cash flows based on the strategic budgets calculated for the next three years and approved by management. The forecasts take into account historical values and estimates of future developments. The valuation model does not include growth rates beyond the three-year planning horizon. The discount factors after tax were between 6.5 and 10 percent.

20| Land and buildings
Land and buildings are reported as fixed assets of the parent company and the Spanish subsidiary only. In both cases, amounts pertain to the central administrative buildings of these companies.

The capital expenditure of €1,352 thousand primarily relates to expenses for leasehold improvements.

20| Operating and office equipment
Operating and office equipment mainly includes office furniture and IT equipment.

The capital expenditure in the amount of €4,475 thousand consisted predominantly of replacement purchases of IT equipment.

21| Financial assets
Financial assets chiefly relate to the provision of collateral as part of long-term customer contracts as well as rent deposits and assets held to cover the value of long-term employee time accounts.

22| Deferred taxes

Deferred taxes were composed of the following as of the balance sheet date:

€ thousands	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Securities	1,659	165	993	138
Current assets	3,604	1,643	8,555	4,855
Goodwill	4,154	5,441	0	0
Intangible assets	20,598	0	51,399	892
Property, plant and equipment	2,171	14	5,414	4,084
Tax loss carryforwards	20,206	11,981	0	0
Current liabilities	4,110	3,595	12,189	6,614
Non-current liabilities	3,300	6,741	11,642	14,443
Business combinations	– 4,318	– 5,569	– 10,571	– 12,852
	55,484	**24,011**	**79,621**	**18,174**
Write-downs	0	– 2,000	0	0
	55,484	**22,011**	**79,621**	**18,174**

Deferred tax assets on tax loss carryforwards increased over the prior year by €8,225 thousand. The increase was mainly due to deferred taxes from losses carried forward of the webMethods companies acquired.

The tax loss carryforwards in the Group totaled €85,712 thousand as of December 31, 2007 (2006: €49,478 thousand). Generally speaking, these losses may be carried forward indefinitely with the exception of €16,756 thousand (2006: €8,634 thousand).

No deferred tax liabilities were recognized for retained profits at subsidiaries. The retained profits are available to the subsidiaries for planned capital expenditure.

In fiscal year 2007, deferred tax expenses totaling €2,933 thousand (2006: €118 thousand) were recognized directly in equity. These expenses mainly resulted from actuarial gains / losses recognized directly in equity based on changes in the measurement of pension obligations as well as from financial instruments also recognized directly in equity.

23| Financial liabilities

Financial liabilities can be broken down as follows:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Current financial liabilities		
Liabilities to banks	44,849	0
Bills payable	1,771	1,596
Liabilities from finance leases	32	255
	46,652	**1,851**
Non-current financial liabilities		
Liabilities to banks	167,647	0
Liabilities from finance leases	1	26
	167,648	**26**

Liabilities to banks had the following maturities as of the reporting date:

€ thousands	Up to 1 year	More than 1 year
Loans with fixed interest rates	1,133	13,579
Loans with variable interest rates	43,716	154,068
	44,849	**167,647**

The Company had no liabilities to banks in fiscal 2006.

The fair values of the liabilities to banks with variable interest rates are equal to their carrying amounts. The fair values of the liabilities with fixed interest rates amounted to €14,672 thousand. The fair values were calculated by discounting the future cash flows using interest rates for similar financial liabilities with corresponding maturities.

As of December 31, 2007, financial liabilities resulting from finance leases consisted of:

€ thousands	Up to 1 year	1–5 years	More than 5 years	Total
Present value of lease payments	32	1	0	33

24| Trade payables

Trade payables can be broken down as follows:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Current liabilities		
Payables to suppliers	28,620	21,932
Payments received on account of orders	2,680	999
	31,300	**22,931**
Non-current liabilities		
Payables to suppliers	64	29
Advance payments received	0	4
	64	**33**

25| Other liabilities

Other liabilities relate to the following items:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Other current liabilities		
Tax liabilities	15,520	9,422
Liabilities due to employees	15,684	7,868
Liabilities for social security	6,590	3,302
Deferred lease payments	2,419	0
Outstanding purchase price payments (acquisitions)	21,191	6,160
Remaining liabilities	2,795	2,185
	64,199	**28,937**
Other non-current liabilities		
Outstanding purchase price payments (acquisitions)	0	2,540
Deferred lease payments	2,501	0
Liabilities due to employees	171	123
Tax liabilities	2	43
Remaining liabilities	292	59
	2,966	**2,765**

26| Other provisions

€ thousands	Other provisions for personnel expenses	Restructuring provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2007	19,848	5,581	17,832	43,261
Currency translation	– 954	– 52	– 472	– 1,478
Additions to the group of consolidated companies	3,588	254	5,365	9,207
Additions	17,584	157	11,493	29,234
Utilization	– 11,454	– 4,029	– 10,285	– 25,768
Reversal	– 1,037	– 366	– 565	– 1,968
Balance as of Dec. 31, 2007	**27,575**	**1,545**	**23,368**	**52,488**
of which with a remaining term of more than 1 year	1,450	71	8,165	9,686

Miscellaneous other provisions

Miscellaneous other provisions include:

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Bonuses	11,151	10,271
Lease payment obligations	5,152	1,753
Impending losses for PS projects	1,984	1,483
Obligations from stock price-based remuneration plans	1,471	0
Asset retirement obligations	746	783
Other taxes	603	479
Auditing fees	478	471
Litigation risks	977	373
Guarantee obligations for PS projects	86	247
Remaining miscellaneous other provisions	720	1,972
Balance as of Dec. 31, 2007	**23,368**	**17,832**

27| Pension provisions

€ thousands	Dec. 31, 2007	Dec. 31, 2006
Pension provisions (foreign)	8,912	14,098
Pension provisions (domestic)	8,317	10,511
	17,229	**24,609**

Pension commitments in Germany consist of fixed commitments to a select group of people.

These commitments are partially covered by life insurance policies. The remaining defined benefit obligations outside of Germany are covered to a large extent by external funds.

Actuarial assumptions in %	Domestic plans*		Foreign plans*	
	2007	2006	2007	2006
Actuarial interest rate	5.3	4.0	5.6	4.8
Future salary increases	0.0	0.0	4.9	4.3
Future pension increases	1.7	1.7	2.9	3.0
Expected return on plan assets	4.5	4.3	6.4	6.9

*) weighted average for individual plans

Since fixed pension commitments granted under domestic plans do not take into account salary levels, salary increases are assumed to be 0.0 percent.

Pension commitments in foreign countries are calculated in accordance with country-specific accounting principles and parameters.

Due to the fact that pension commitments in Germany are exclusively invested in life-insurance policies, the expected return on plan assets corresponds to the minimum return stated by the insurance company.

The expected return on plan assets for foreign plans was calculated as an expected weighted average of the individual asset classes. The expected returns on such asset classes were determined on the basis of the relevant local capital market conditions.

The computation of the pension expenses is based on planned service cost and the expected return on plan assets. The changes in the defined benefit obligations and plan assets are as follows:

Changes in defined benefit obligations (DBO) € thousands	Domestic pension plans		Foreign pension plans	
	2007	2006	2007	2006
DBO as of January 1	**11,649**	**11,179**	**41,519**	**38,158**
Additions related to the initial accounting for a business combination	0	0	5,674	0
Service cost	336	215	2,426	1,711
Contributions of plan participants	0	0	149	0
Interest expense	457	438	2,135	1,870
Actuarial gains (–) / losses (+)	– 2,082	250	– 5,621	1,044
Pension payments	– 438	– 433	– 2,110	– 2,169
Exchange differences	0	0	– 3,497	905
DBO as of December 31	**9,922**	**11,649**	**40,675**	**41,519**

Changes in plan assets € thousands	Domestic pension plans		Foreign pension plans	
	2007	2006	2007	2006
Fair value of plan assets as of January 1	**1,138**	**861**	**27,421**	**23,368**
Additions related to the initial accounting for a business combination	0	0	4,862	0
Return on plan assets	48	43	2,021	1,579
Employer contributions	169	195	3,132	2,692
Employee contributions	0	0	149	0
Actuarial gains (+) / losses (–)	250	39	-1,180	1,394
Pension payments	0	0	-2,007	-2,169
Exchange differences	0	0	-2,635	557
Fair value of plan assets as of December 31	**1,605**	**1,138**	**31,763**	**27,421**
Pension provisions	**8,317**	**10,511**	**8,912**	**14,098**

The additions to the defined benefit obligation and plan assets related to the initial accounting for a business combination refer to pension provisions of SPL Israel, which was acquired as of April 1, 2007.

The differences between the expected values of the defined benefit obligations, plan assets, and pension provisions and their actual values are as follows:

€ thousands	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
DBO		50,597	53,168	49,337	40,727	35,006
Expected DBO	55,113	57,319	52,534	48,546	40,805	35,949
Difference		– 6,722	634	791	– 78	– 943
Difference in %		– 13.3	1.2	1.6	– 0.2	– 2.7
Plan assets		33,368	28,559	24,229	18,578	15,340
Expected plan assets	38,776	33,382	25,912	24,675	19,640	16,218
Difference		14	– 2,647	446	1,062	878
Difference in %		0.0	– 9.3	1.8	5.7	5.7
Pension provisions		17,229	24,609	25,108	22,149	19,666
Expected pension provisions	16,337	23,937	26,622	23,871	21,165	19,731
Difference		– 6,708	– 2,013	1,237	984	– 65
Difference in %		– 38.9	– 8.2	4.9	4.4	– 0.3

With regard to pension provisions, the differences between expected and actual figures have only exceeded 5 percent twice in the past five years. Once was in fiscal year 2007, when the defined benefit obligation and thus the pension provision was 38.5 percent below the expected figure. This significant deficit was due to increases in long-term interest rates and a weak British pound against the euro. Fiscal year 2006 presented another exception, when above-average returns were achieved on plan assets due to the strength of the equities markets.

The defined benefit obligations by type of funding are as follows:

€ thousands	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
DBO fully funded	40,675	41,519	38,158	30,657	24,954
DBO partially funded	8,366	9,747	9,335	7,704	7,863
DBO unfunded	1,556	1,902	1,844	2,366	2,189
	50,597	**53,168**	**49,337**	**40,727**	**35,006**

The plan assets used to fund the pension obligations can be broken down as follows:

€ thousands	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Equities	21,497	22,296	17,760	9,546	7,518
Life insurance policies	6,289	1,138	861	632	271
Bonds	3,821	4,407	5,141	5,328	6,220
Other	1,761	718	467	3,072	1,331
	33,368	**28,559**	**24,229**	**18,578**	**15,340**

In total, the pension provisions have changed as follows since 2003:

€ thousands	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Defined benefit obligation (DBO)	50,597	53,168	49,337	40,727	35,006
Present value of plan assets	– 33,368	– 28,559	– 24,229	– 18,578	– 15,340
Pension provisions	**17,229**	**24,609**	**25,108**	**22,149**	**19,666**

The realized gains on plan assets changed as follows:

€ thousands	2007	2006	2005	2004	2003
Realized gains	2,069	1,622	1,286	1,149	818

Since realized gains on plan assets deviated only slightly (3.8 percent) from planned gains in 2007, no analysis of planned and actual data has been made here.

Contributions from the Software AG Group to plan assets for fiscal year 2008 are expected to amount to €3,513 thousand.

Taking into account deferred taxes, actuarial gains and losses have changed as follows since the date of transition (January 1, 2003):

€ thousands	Accumulated	2007	2006	2005	2004	2003
Actuarial gains after deferred taxes	8,307	5,482	999	1,327	279	220
Actuarial losses after deferred taxes	8,932	1,015	891	3,891	2,701	434
Net actuarial gains / losses	– 625	4,467	108	– 2,564	– 2,422	– 214
of which included in retained earnings	– 411	4,467	108	– 2,564	– 2,422	0
of which recognized as an expense	– 214	0	0	0	0	– 214

Expenses related to pension obligations recognized in the income statement can be broken down as follows:

€ thousands	2007	2006
Service cost	2,762	1,926
Interest cost less return on plan assets	523	686
	3,285	**2,612**

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This expense was recognized in the income statement as follows:

€ thousands	2007	2006
Cost of sales	1,504	548
Research and development expenses	58	120
Selling expenses	497	922
General and administrative expenses	703	336
Net financial income	523	686
	3,285	**2,612**

28| Tax provisions

€ thousands	2007	2006
Balance as of January 1	14,726	15,711
Currency translation	– 383	– 586
Additions to the group of consolidated companies	1,561	0
Additions	10,344	9,623
Utilization	– 14,496	– 9,913
Reversal	– 267	– 109
Balance as of December 31	**11,485**	**14,726**

29| Deferred income

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

30| Shareholders' equity

The change in shareholders' equity is shown in the following statement of changes in equity as of December 31, 2007.

€ thousands	Shares								
2006	Number	Share capital	Capital reserve	Retained earnings	Net income attributable to shareholders	Currency translation differences	Other reserves	Minority interest	Total
Equity as of January 1, 2006	**28,036,009**	**84,108**	**20,428**	**269,768**	**0**	**– 15,203**	**33,506**	**381**	**392,988**
New shares issued	76,706	230	1,927						2,157
Stock options			1,221						1,221
Net income for the year					72,920			256	73,176
Dividend payment				– 22,429					– 22,429
Currency translation differences						– 25,930			– 25,930
Net gain from fair value measurement of financial instruments not recognized in income							130		130
Net gain from fair value measurement of net investments in foreign operations not recognized in income							810		810
Net gain from actuarial gain / loss on pension obligations not recognized in income				108					108
Equity as of December 31, 2006	**28,112,715**	**84,338**	**23,576**	**247,447**	**72,920**	**– 41,133**	**34,446**	**637**	**422,231**

€ thousands 2007	Shares Number	 Share capital	Capital reserve	Retained earnings	Net income attributable to shareholders	Currency translation differences	Other reserves	Minority interest	Total
Equity as of January 1, 2007	**28,112,715**	**84,338**	**23,576**	**320,367**	**0**	**– 41,133**	**34,446**	**637**	**422,231**
New shares issued	426,740	1,280	5,945						7,225
Stock options			2,412						2,412
Net income for the year					88,375			32	88,407
Dividend payment				– 25,302					– 25,302
Currency translation differences						– 38,875			– 38,875
Net gain from fair value measurement of financial instruments not recognized in income							1,983		1,983
Net gain from fair value measurement of net investments in foreign operations not recognized in income							– 86		– 86
Net gain from actuarial gain / loss on pension obligations not recognized in income				4,467					4,467
Equity as of December 31, 2007	**28,539,455**	**85,618**	**31,933**	**299,532**	**88,375**	**– 80,008**	**36,343**	**669**	**462,462**

Conditional capital

The following conditional capital existed as of December 31, 2007:

1.) Up to €2,712 thousand divided into up to 903,866 bearer shares to service subscription rights under the first stock option plan (Management Incentive Plan I, or MIP I) for members of the Executive Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented under other disclosures / stock appreciation rights plans. Based on the options exercised during 2007 by officers, the Executive Board made partial use of this authorization for a conditional capital increase in the amount of €20 thousand, divided into 6,750 bearer shares.

All options allocated via this plan have been exercised. No new options will be issued.

2.) Up to €1,740 thousand divided into a maximum of 580,010 bearer shares to service subscription rights under the second stock option plan (Management Incentive Plan II, or MIP II) for members of the Executive Board and officers of the Software AG Group. The requirements of this plan and the status of allocations and options exercised are presented under other disclosures / stock appreciation rights plans. Based on the options exercised during 2007 by officers, the Executive Board made partial use of this authorization for a conditional capital increase in the amount of €1,260 thousand, divided into 419,990 bearer shares.

3.) Up to €33,000 thousand divided into a maximum of 11,000,000 bearer shares, each with a notional share in the share capital of €3.00, 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 an aggregate principal amount of up to €500,000 thousand and a term not to exceed 15 years in accordance with the terms and conditions of the bonds, as resolved by the Annual Shareholders' Meeting on May 13, 2005. Pursuant to this authorization, the Executive Board may, subject to the consent of the Supervisory Board, resolve on or before May 12, 2010 that the rights described 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 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 based option or conversion obligations with a share in the issued share capital not to exceed €8,180 thousand, or 10 percent of the issued share capital in existence at the time the authorization is acted upon.

As of December 31, 2007, the Executive Board had not made use of this authorization.

Authorized capital

As of December 31, 2007, the Executive Board is also authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before May 12, 2011 by up to a total of €41,804 thousand by issuing up to 13,934,544 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 shareholders' subscription rights.
- The Executive Board is authorized, subject to the consent of the Supervisory Board, to exclude subscription rights in an amount not to exceed €89 thousand of the par value of the new shares issued in order to allow the Company to offer new shares to the employees of the Company and its affiliated companies as defined in Sections 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.
- Subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude subscription rights in the event of capital increases against contributions in kind, provided the contribution in kind is for the purpose of acquiring companies, parts of companies, or equity interests in companies.
- Subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude subscription rights in the event of capital increases against cash contributions, provided the capital increases resolved on the basis of this authorization do not, in total, exceed 10 percent of the issued share capital at the time the authorization is first acted upon and provided the issue price is not significantly lower than the stock market price. The upper limit of 10 percent of the issued share capital will be reduced by the par value of the issued share capital attributable to those treasury shares of the Company that are sold during the term of the authorized capital, subject to exclusion of shareholders' subscription rights pursuant to Section 71 (1) No. 8, Sentence 5 and Section 186 (3) Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the par value of the issued share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act.

The Executive Board did not make use of this authorization in fiscal year 2007.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated May 11, 2007, the Company is authorized to purchase on or before November 10, 2008:

a) Treasury shares having an interest in the issued share capital of up to €8,532 thousand.

b) Treasury 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 via the stock exchange, the consideration paid for the shares (not including transaction costs) may be up to 10 percent higher or lower than the average listed price – the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system – during the five days preceding the purchase or commitment to purchase. The date of acquisition is the date upon which the transaction is concluded. If the shares are purchased via a public offer, the consideration paid for the shares (not including transaction costs) may be up to 20 percent higher or lower than the average listed price – the unweighted average of the closing rates in Xetra trading on the Frankfurt stock exchange or a successor system – on the fifth to ninth trading days prior to publication of the offer.

c) The Executive Board is authorized to sell the treasury shares purchased via the stock exchange or in another manner that fulfills the requirement to treat all shareholders equally.

d) The Executive Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholder subscription rights, to sell the treasury shares purchased, provided the shares are sold for cash at a price that is not significantly lower than the listed prices of Company shares that have the same terms and features at the time of the sale. This authorization is limited to shares with an interest in the issued share capital not to exceed a total of €8,532 thousand. The upper limit will be reduced by the par value of the issued share capital attributable to those shares issued during the term of this authorization as part of a capital increase subject to the exclusion of subscription rights pursuant to Section 186 (3), Sentence 4 of the German Stock Corporation Act. Furthermore, the upper limit will be reduced by the par value of the issued share capital attributable to those shares issued to service warrants and convertible bonds with option or conversion rights or option or conversion obligations, provided the bonds were issued during the term of the authorized capital subject to the exclusion of subscription rights as set forth in Section 186 (3) Sentence 4 of the German Stock Corporation Act. The average listed price of the Company shares – the unweighted average closing price in Xetra trading on the Frankfurt stock exchange or a successor system – during the five trading days preceding the sale will be considered the applicable listed price within the meaning of this paragraph. The date of acquisition is the date upon which the transaction is concluded.

e) The Executive Board is also authorized, subject to the consent of the Supervisory Board and the exclusion of shareholders' subscription rights, to dispose of the treasury shares as follows:
   (i) To sell the shares to third parties, provided such sale is for the purpose of acquiring companies, parts of companies, or equity interests in companies;
   (ii) To offer the shares to the Executive Board or officers of the Company and its affiliated companies under the Company's stock option plan for Executive Board members and officers of the Company (Resolution on Agenda Item 8b of the Annual Shareholders' Meeting of April 27, 2001); if shares are offered to Executive Board members in accordance with the above, this authorization shall also apply to the Supervisory Board; or
   (iii) 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.

f) In the event of a sale of treasury shares via an offer to all shareholders, the Executive Board is furthermore authorized, subject to the consent of the Supervisory Board, to grant subscription rights to the holders of warrants or convertible bonds issued by the Company or by a wholly-owned direct or indirect subsidiary of the Company equivalent to that to which the warrant holders or bondholders would be entitled upon exercising their option or conversion rights or fulfilling their option or conversion obligations and in the scope necessary to exclude shareholder subscription rights.

g) The Executive Board is also authorized to recall all or part of the treasury shares in one or several steps without any additional authorization from the Annual Shareholders' Meeting.

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

i) The authorization to purchase treasury shares on or before November 11, 2007 as resolved by the Annual Shareholders' Meeting of May 12, 2006, Agenda Item 7 ("authorization to acquire treasury shares") has been rescinded.

As of December 31, 2007, the Executive Board had not made use of its authorization to acquire treasury shares.

Dividend payment

Pursuant to the proposal of the Executive Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 11, 2007 to appropriate €25,302 thousand for a dividend payout from the 2006 net retained profits of €77,080 thousand reported by Software AG, the controlling Group company, and to carry forward €51,778 thousand of such amount. This corresponds to a dividend of €0.90 per share.

The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €113,907 thousand for 2007 of Software AG, the controlling Group company, as follows: to transfer €9,455 thousand to other retained earnings, to use €28,539 thousand for the payment of dividends – corresponding to a dividend of €1.00 per share – and to carry forward €75,913 thousand.

31| 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 profit or loss 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.

Of the unrealized minority interests recorded in other reserves as of December 31, 2006, a loss of €61 thousand was recognized in income during fiscal year 2007.

32| Minority interest

Minority interests relate to the 49 percent stake in Software AG (India) Pvt., Pune, India (SAG-IN), a joint venture established together with iGate Global Solutions Limited in 2003.

33| Notes to the statement of cash flows

The cash and cash equivalents of €81,294 thousand (2006: €184,774 thousand) are composed of the balance sheet items "cash on hand and bank balances" (€80,822 thousand; 2006: €163,199 thousand) and "securities" (€472 thousand; 2006: €21,575 thousand). The securities only include short-term, highly liquid financial instruments subject to insignificant risk of changes in value.

Net cash from operating activities includes interest payments in the amount of €9,335 thousand (2006: €4,379 thousand) as well as interest receipts of €9,728 thousand (2006: €11,724 thousand). Cash outflows for investments in property, plant and equipment and intangible assets are primarily due to the acquisition of hardware and software as well as office and operating equipment.

A total of €362,321 thousand was expended for acquisitions. This amount can be broken down as follows:

€ thousands		
Purchase price for SPL	– 62.611	
Bank balances received	4.833	
Revolving credit facilities acquired	– 276	
Purchase price payments still outstanding	19.437	
Purchase price paid for SPL		**– 38.617**
Purchase price for webMethods	– 416.675	
Bank balances received	95.247	
Purchase price paid for webMethods		**– 321.428**
Earn-out payment (Casabac)		– 780
Earn-out payment (Sabratec)		– 726
Earn-out payment (APS)		– 770
Payment for the acquisition of consolidated companies		**– 362.321**

Please see "Notes on significant business events" for further details on these acquisitions.

No acquisitions under finance leases were made in fiscal year 2007.

Additions to financial liabilities amounted to €328,403 thousand and primarily relate to cash inflows from the borrowings taken out to finance the acquisition of webMethods, Inc. A total of €119,295 thousand of this amount was repaid during the course of 2007.

Software AG defines free cash flow as cash flow from operating activities less cash flow from investing activities, not including net cash outflows for acquisitions. Accordingly, free cash flow amounted to €82,209 thousand (2006: €56,200 thousand).

Segment report as of December 31, 2007

SEGMENT REPORT AS OF DECEMBER 31, 2007

	ETS		webMethods		Total	
€ thousands	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Licenses	153,026	122,344	88,313	43,398	241,339	165,742
Maintenance	155,735	161,885	57,203	25,393	212,938	187,278
Product sales	**308,761**	**284,229**	**145,516**	**68,791**	**454,277**	**353,020**
Professional Services	72,934	71,535	88,248	54,679	161,182	126,214
Other	1,418	1,578	4,382	2,155	5,800	3,733
Total revenue	**383,113**	**357,342**	**238,146**	**125,625**	**621,259**	**482,967**
Cost of sales	–79,812	–82,637	–101,699	–66,875	–181,511	–149,512
Gross profit	**303,301**	**274,705**	**136,447**	**58,750**	**439,748**	**333,455**
Sales, marketing and distribution expenses	–64,522	–62,117	–94,687	–65,129	–159,208	–127,246
Business line contribution	**238,779**	**212,588**	**41,760**	**–6,379**	**280,540**	**206,209**
Research and development expenses					–65,900	–44,858
General and administrative expenses					–59,299	–52,337
Other operating income / expenses					–11,881	2,203
EBITA					**143,460**	**111,217**
Amortization					–6,663	0
Earnings before interest and taxes					**136,797**	**111,217**
Net financial income					294	7,339
Earnings before taxes					**137,091**	**118,556**
Taxes					–48,684	–45,380
Net income for the year					**88,407**	**73,176**

Notes on segment reporting

The segment report is prepared in accordance with IFRS 8 Operating Segments. This IFRS is effective for annual periods beginning on or after January 1, 2009. Software AG has opted for early application of this standard beginning with fiscal year 2007. Segmentation is defined along internal control and reporting lines in the Group (management approach). In 2007, the segment report was restructured to reflect the two product lines as part of an internal organizational change in the Group. The Group was broken down into two segments, ETS and webMethods. Internal reporting processes were adapted in line with the new structure and the previous years' figures were accordingly adjusted.

Information on geographic regions

Revenues generated with external customers can be broken down into geographic regions as follows:

Geographic distribution of revenues

€ thousands	Germany		USA		Spain		Other countries		Group total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Licenses	34,055	24,504	66,839	34,318	10,644	15,868	129,801	91,052	241,339	165,742
Maintenance	28,778	26,021	81,691	64,322	14,410	14,219	88,059	82,716	212,938	187,278
Professional Services	2,183	17,472	26,500	13,986	55,015	51,543	77,484	43,213	161,182	126,214
Other	910	764	610	353	3,320	1,753	960	863	5,800	3,733
Total	**65,926**	**68,761**	**175,640**	**112,979**	**83,389**	**83,383**	**296,304**	**217,844**	**621,259**	**482,967**

Countries included in "other countries" are presented separately once the revenue generated in the country in question reaches a significant level. Revenues with external customers in the U.S. and Spain each contributed more than 10 percent to Group revenue and are therefore listed separately.

Non-current assets

The non-current assets reported under this item are comprised of intangible assets, property, plant and equipment, financial assets (not including financial instruments) and goodwill.

€ thousands	2007	2006
USA	467,138	178,826
Other countries	132,190	32,226
Germany	29,612	27,691
Group total	**628,940**	**238,743**

Deferred tax assets

Deferred tax assets were created primarily by recognizing available loss carryforwards as an asset.

€ thousands	2007	2006
USA	42,297	3,802
Other countries	11,634	10,630
Germany	1,553	7,579
Group total	**55,484**	**22,011**

Pension obligations

€ thousands	2007	2006
Germany	8,317	10,512
United Kingdom	7,829	14,098
Other countries	1,083	0
Group total	**17,229**	**24,610**

Other disclosures

Additional information on financial instruments

The table below shows the fair values and the carrying amounts of the financial assets and liabilities that are measured at cost or amortized cost.

The fair values of cash and cash equivalents, current receivables, trade payables, other current financial liabilities, and other financial liabilities correspond approximately with their carrying amounts, primarily due to the short terms of such instruments.

The Company uses various parameters to measure non-current receivables, mainly interest rates and the customers' individual credit profile. Software AG calculates bad debt allowances to reflect expected defaults based on the measurement results.

Accordingly, the carrying amounts of these receivables corresponded approximately with their fair values as of December 31, 2006 and 2007. The fair values of exchange-listed securities were based on their listed prices as of the reporting date.

Software AG calculates the fair values of liabilities to banks and other financial liabilities as well as other non-current financial liabilities by discounting the estimated future cash flows using the interest rates applicable to similar financial liabilities with comparable maturities.

€ thousands	Dec. 31, 2007		Dec. 31, 2006	
	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets measured at cost or amortized cost				
Cash and cash equivalents	81,294	81,294	184,774	184,774
Trade receivables and other receivables	197,294	197,294	161,901	161,901
Other non-derivative financial assets	8,120	8,101	1,483	1,462
Financial liabilities measured at cost or amortized cost				
Liabilities to banks and other financial liabilities	214,260	214,300	1,877	1,877
Trade payables	31,364	31,364	22,964	22,964
Other non-derivative financial liabilities	64,518	64,518	31,652	31,652

Market risk and the use of derivative financial instruments

As an international company, Software AG operates in a variety of currency zones and is therefore subject to exchange rate risks. Management continuously monitors these risks. Derivative financial instruments are used in accordance with internal guidelines in order to reduce risks arising from changes in interest rates, exchange rates, or the value of financial investments. Hedging transactions using derivatives are entered into to cover existing risk positions and highly probable forecast transactions.

a) Interest rate risks

The Company is subject to interest rate fluctuations that affect both assets and equity and liabilities on the balance sheet.

On the assets side, income from investing cash and cash equivalents and future interest income resulting from discounting non-current receivables are particularly subject to interest rate risks. On the equity and liabilities side, interest expenses for current and non-current financial liabilities as well as pension provisions and other items related to long-term borrowings are especially exposed to interest rate risks.

This risk is reduced due to the fact that both financial investments and existing financing carry variable interest rates for the most part. Moreover, interest rate swaps are used to hedge a part of the borrowings bearing variable interest rates against changes in market interest rates (cash flow hedges). The changes in value of the interest rate swaps are reported under "other reserves."

The sensitivity analysis required by IFRS 7 relates to interest rate risks arising from monetary financial instruments bearing variable interest. Based on the current structure of the interest-bearing financial instruments, a hypothetical increase in the market interest level of 100 basis points would reduce earnings by €179 thousand while increasing other reserves included in equity by €2,151 thousand.

b) Exchange rate risks

In order to hedge the risk of future fluctuations in exchange rates, the Company enters into currency forwards and currency option transactions. In addition to simple euro call options, combinations of euro call options purchased and euro put options sold are also utilized. The premium payments generally offset each other. Foreign currency receivables and liabilities are offset if possible, and only the remaining net exposure is hedged. Estimated cash flows are also hedged in accordance with internal guidelines.

Hedging transactions are measured at their fair value. The amounts are reported in the balance sheet under other assets or current liabilities. Changes in the fair value of derivative financial instruments designated to hedge future foreign currency cash flows are reported under other reserves until the hedged item is required to be recognized in income. The ineffective portions of cash flow hedges as well as changes in the value of hedging instruments that do not meet the requirements of hedge accounting are recognized immediately in profit or loss for the year in which they are incurred.

The sensitivity analysis required by IFRS 7 relates to exchange rate risks arising from monetary financial instruments that are denominated in a currency other than the functional currency in which they are measured. Exchange differences arising from the translation of financial statements into the Group currency (translation risk) and non-monetary items are not taken into account. Most significant monetary financial instruments are denominated in the functional currency. For Software AG, significant effects on earnings result only from the relationship of the euro to the U.S. dollar. Hedging transactions are based on existing hedges or estimated cash flows and thus reduce any potential effects on earnings. In the case of designated cash flow hedges, exchange rate changes affect other reserves included in equity.

Based on the monetary financial instruments available as of the reporting date, a hypothetical devaluation of the euro in amount of 10 percent against the U.S. dollar would increase earnings by €1,595 thousand and other reserves by €119 thousand.

c) Market risk
In line with the Group's policy, assets are controlled in terms of maturity, interest type, and rating such that the Company does not expect any significant fluctuations in value.

d) Credit risk
Software AG is exposed to default risk in its operating business and in connection with certain financial transactions if contracting parties fail to meet their obligations. Most financial instruments have terms of up to one month and all are entered into with banks having very good credit ratings. We consider the default risk of our business partners to be extremely low.

In the operating business, our receivables are continuously monitored and default risks are taken into account via specific bad debt allowances. As of December 31, 2007, there was no indication of the existence of any risks beyond those taken into account through bad debt allowances. The theoretical maximum exposure to credit risk is reflected in the carrying amounts of the receivables, without taking any collateral into account.

e) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations arising from credit agreements, leases, trade payables, or the like. Risk is limited by pursuing active working capital management and Group-wide liquidity management and, if necessary, covered by available cash funds or bilateral credit lines. The table below shows the contractually agreed payments arising from recognized financial liabilities. The figures represent the undiscounted liabilities. In the case of variable interest payments, the interest rate applicable on the reporting date is used for the calculation. Liabilities in foreign currencies were measured at the exchange rate as of December 31, 2007.

€ thousands	Up to 1 year	1–5 years	More than 5 years	Total
Non-derivative financial liabilities				
Liabilities to banks				
Repayments	44.849	164.975	2.672	212.496
Interest	9.883	15.155	25	25.063
Other financial liabilities	1.771	0	0	1.771
Finance lease liabilities	32	1	0	33
Trade payables	31.300	64	0	31.364
Other liabilities	64.199	2.966	0	67.165
Derivative financial liabilities	**294**	**279**	**0**	**573**

Volume and measurement of derivative financial instruments

Derivative financial instruments are used only to hedge existing or estimated currency risks, interest rate risks, or other market risks.

The tables below show the transaction volumes and fair values of derivative financial instruments as of December 31, 2006, and December 31, 2007. The fair value of the financial instruments is based on the figures supplied by the respective banks and is equivalent to the replacement cost as of the balance sheet date.

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Effects on income / expense resulting from the fair value measurement of financial instruments:

Financial instruments (fair value hedges)	Currency	Transaction volumes		Positive fair value		Negative fair value	
€ thousands		2007	2006	2007	2006	2007	2006
Forward currency contracts	GBP	2,361	1,037	20	0	30	4
	USD	1,379	1,577	20	65	0	0
Currency options	USD	6,825	3,189	47	136	35	1
Interest rate swaps	EUR	0	5,000	0	0	0	42
Stock options	EUR	4,959	2,308	536	675	0	0

The financial instruments presented in the table above are designated to hedge the fair value of recognized assets or liabilities (fair value hedges). Changes in the fair value of the hedging instruments are recognized in profit or loss. In addition, the Company has entered into cash flow hedges for forecast transactions. Changes in the fair value of such financial instruments are reported under other reserves.

Forward currency contracts are entered into for the purpose of hedging foreign exchange risks related to future cash flows

The forward currency contracts and currency options serve to hedge foreign exchange risks related to existing balance sheet items.

The interest rate swaps hedge against interest rate risk arising from borrowings bearing variable interest rates. The interest accrued on the interest rate swaps is reported under "other receivables," while settlement payments associated with the swaps are shown as interest income or interest expense. The stock options serve to hedge against future changes in the fair values of stock appreciation right commitments.

In order to hedge the risks arising from changes in value of the phantom share program, the Company has acquired derivative financial instruments on Software AG stock from banks. The resulting changes in fair value reduce the fluctuations in value of the phantom share plan commitments in relation to the performance of Software AG stock. The positive fair value of these financial instruments corresponds with the negative fair value of the PPS commitments in the amount of €536 thousand.

Effects on other reserves resulting from the fair value measurement of financial instruments:

Financial instruments (cash flow hedges)	Currency	Transaction volumes		Positive fair value		Negative fair value	
€ thousands		2007	2006	2007	2006	2007	2006
Forward currency contracts	USD	7,543	3,920	65	139	0	0
Interest rate swaps	EUR	90,000	0	56	0	316	0
Stock options	EUR	74,169	0	3,542	0	0	0

The financial instruments used to hedge against currency risks have maturities of less than one year. The interest rate swaps mature in 2010 at the latest. The stock options used for hedging the commitments from the third stock price-based remuneration plan fall due in 2011.

Financial investment policy

Software AG takes a very conservative approach with regard to its financial investments. The Company invests primarily in time deposits and short-term fixed-income securities with a credit rating of at least "investment grade." The average return on capital invested was approximately 4.6 percent in fiscal year 2007 (2006: 4.3 percent).

Operating leases

Rental agreements or operating leases in the Group relate chiefly to office space, vehicles, and IT equipment. Lease payments under operating leases are recognized as an expense over the term of the lease.

€ thousands	Up to 1 year	1–5 years	More than 5 years	Total
Contractually agreed payments	9,590	35,280	9,657	54,527
Estimated income from subleases	– 1,125	– 3,708	– 617	– 5,450

Contingent liabilities

As of December 31, 2007, no provisions were recognized for the following contingent liabilities, expressed at nominal value, since it appeared unlikely that claims would be asserted:

€ thousands	2007	2006
Guarantees	15,337	11,723
Other	1,341	5,243
	16,678	16,966

At year-end, the carrying amount of collateral granted amounted to €5,394 thousand, and the carrying amount of collateral received was €521 thousand.

Seasonal influences

Revenues and pre-tax earnings were distributed over fiscal year 2007 as follows:

€ thousands / in %	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2007
Total revenue	172,581	167,093	157,797	186,544	684,015
in % of annual revenue	25.2	24.4	23.1	27.3	100.0
Earnings before taxes	28,163	37,946	30,412	40,570	137,091
in % of net income for the year	20.5	27.7	22.2	29.6	100.0

For the purpose of demonstrating seasonal influences, the revenue from SPL Software Ltd., Israel from January 1, 2007 to March 31, 2007 and the revenue from webMethods, Inc., USA from January 1, 2007 to May 24, 2007 were added to the revenue of the Software AG Group. The distribution of revenues was similarly structured in previous years, primarily due to the purchasing behavior of our customers.

The earnings before taxes show the figures of the Software AG Group not adjusted for the earnings contributions from the acquired companies from the start of the year to the date of acquisition. Due to the acquisitions of companies and the cost synergies achieved during the fiscal year, the figures shown do not represent the normal distribution of earnings. For this reason, no forward-looking statements can be derived from this distribution of earnings.

In view of the forward-looking nature of these figures, we have dispensed with a depiction of the previous years' figures.

Notes on significant business events

1. Acquisition of SPL Software, Ltd., Israel and webMethods, Inc., USA

Software AG carried out two acquisitions in the second quarter of 2007. As a result, due to IFRS requirements for measuring the cost of business combinations, deferred income has been stated at fair value in the opening balance sheet, instead of at the higher carrying amount. Initial inclusion of these acquisitions in the consolidated accounts of Software AG has, therefore, reduced the Company's revenues, since the deferred income primarily relates to future maintenance revenues as well as future licensing and service revenues. Revenues for fiscal year 2007 were reduced by a total of €10,448 thousand. Of this figure, €9,779 thousand relates to maintenance, €639 thousand to non-perpetual licenses, and €30 thousand to professional services. Under IFRS, maintenance and license revenues are €10,418 thousand lower. These revenues have been presented separately by Software AG in the overview of key figures for revenue as well as for EBIT and EBITA. Additional revenue reductions of €2,881 thousand will occur in fiscal year 2008, with maintenance revenues declining by €2,129 thousand and licensing revenues by €752 thousand.

2. Acquisition of SPL Software Ltd., Israel

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

Cost of the business combination

The fixed cost for the 80.08 percent of the shares acquired amounted to €43,174 thousand. The first installment was paid on April 1, 2007. With regard to the remaining 19.92 percent of the shares, Software AG held a call option and the seller a put option. The seller exercised its put option in February 2008. The purchase price for the remaining shares will be calculated on the basis of the operating result for fiscal year 2007. The purchase price was set at €19,437 thousand in connection with initial inclusion of SPL in the consolidated financial statements of Software AG.

The cost of the business combination has been allocated as follows:

€ thousands	Fair value as of April 1, 2007	Carrying amount prior to acquisition
Cash and cash equivalents	4,833	4,833
Trade receivables and other current assets	6,957	6,957
Customer base	17,911	0
Goodwill	51,232	7,248
Property, plant and equipment	2,185	2,185
Non-current financial assets	1,319	108
Deferred tax assets	219	219
Liabilities to banks	– 3,416	– 3,416
Liabilities	– 9,244	– 9,246
Pension provisions	– 812	0
Deferred tax liabilities	– 5,655	– 141
Deferred income	– 2,918	– 5,789
Carrying amount of the assets acquired		**2,958**
Cost of the business combination	62,611	
less cash and cash equivalents	– 4,833	
plus current liabilities to banks	276	
Payments for acquisitions, net	**58,054**	

Goodwill
It was necessary to recognize goodwill in the amount of €51,232 thousand due to the good market position of SPL Software and the possibility of leveraging this position to establish direct client relationships and penetrate new market segments.

Customer base and company name
SPL Software has been Software AG's exclusive sales partner in Israel for 30 years. Based on modern software infrastructure technology from Software AG such as the "Adabas 2006" database software, the "Natural 2006" programming language, and the "SOA Crossvision Suite", SPL has developed modern business applications for its customers. SPL's customers include leading companies in Israel, among them banks, insurance carriers, telecommunications service providers, industrial enterprises, and government agencies. Over 80 companies and public institutions utilize Software AG products distributed by SPL Software. For these reasons, a total of €17,911 thousand was recognized as goodwill for the customer base and company name as part of the initial consolidation.

Deferred income
Deferred income mainly includes future maintenance and licensing revenues for non-perpetual licenses for which customers had already made advance payments as of the acquisition date. Based on the requirements of IFRS 3, these items have been stated in the opening balance sheet at the fair values of future maintenance obligations, which are €2,871 thousand less than the carrying amounts. The above effects of determining the cost of the business combination led to a decrease in revenues of €1,645 thousand in fiscal year 2007. In fiscal year 2008, revenues will be reduced by another €1,103 thousand.

Earnings since the date of acquisition
Since the date of acquisition, the acquired company, SPL Software Ltd., Israel, has contributed €5,576 thousand to Software AG's net income for the year.

Revenue and earnings since initial inclusion in the consolidated accounts as of January 1, 2007
If SPL Software Ltd., Israel, had been included in the Software AG Group since January 1, 2007, revenues would have been €8,197 thousand higher and net income would have been €3,015 thousand higher in fiscal year 2007.

Expenses related to the acquisition of SPL Software, Ltd., Israel
The customer base of SPL Software, Ltd., Israel, which was identified as an asset in connection with the acquisition, will be amortized over a period of 17 years for the Enterprise Transaction Services (ETS) division and 8 years for the webMethods division. Amortization in fiscal year 2007 amounted to €417 thousand.

The deferred tax liabilities resulting from the accounting treatment of the customer base will be reversed in line with the amortization period. Deferred tax liabilities also resulted from the reduction in deferred income. These tax liabilities will be reversed in line with the corresponding reductions in revenue. These three factors together resulted in deferred tax income of €557 thousand in fiscal year 2007.

3. Acquisition of webMethods, Inc., USA

The acquisition of webMethods, Inc. is intended to significantly enhance the leading position of the combined companies in the growth market of Service-Oriented Architecture (SOA) and Business Process Management (BPM). The regional strengths of Software AG and webMethods, Inc. complement each other in these areas. The two companies have more than 4,000 customers and 100 partner companies, which will benefit in the future from an expanded product range. In North America in particular, Software AG has more than doubled its customer base. Moreover, the merger combines complementary strengths in specific customer industries with only minimal overlap in the customer bases of the two companies, thus supplying direct, mutual access to additional customer segments, especially in the areas of financial services, production, and in the public sector. The transaction builds on the excellent reputation and market position of both companies and represents a major step toward reaching Software AG's announced target of doubling revenues to €1 billion in the period between 2007 and 2010. The takeover has given Software AG a leading product portfolio in the areas of SOA and BPM with outstanding breadth and depth. The portfolio includes software solutions for SOA governance & enablement, BPM, business activity monitoring, application integration, and legacy modernization.

The cost of acquiring 100 percent of the shares, including costs directly attributable to the acquisition, amounted to €416,675 thousand (USD 559,594 thousand).

Cost of the business combination

The cost of the business combination has been allocated as follows:

€ thousands	Fair value as of May 25, 2007	Carrying amount prior to acquisition
Cash and cash equivalents	95,247	95,247
Trade receivables and other current assets	29,842	29,842
Software, rights, and licenses	54,796	10,001
Customer base	62,993	4,114
Company name	18,615	0
Goodwill	209,906	59,208
Property, plant and equipment	8,959	8,959
Non-current financial assets	3,467	3,467
Deferred tax assets	56,669	6,580
Trade payables and other current liabilities	– 48,130	– 39,293
Deferred tax liabilities	– 59,491	– 683
Deferred income	– 16,198	– 27,218
Carrying amount of the assets acquired		**150,244**
Cost of the business combination	416,675	
less cash and cash equivalents	95,247	
Payments for acquisitions, net	**321,428**	

Goodwill

Based on webMethods, Inc.'s technology leadership in integration software and the opportunity for the new merged company to further develop and significantly increase its market share, goodwill of €209,906 thousand was initially recognized in connection with the business combination.

Software

webMethods, Inc. supplies software solutions in the following three market segments:

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

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

Customer base

The company acquired has approximately 1,400 key corporate clients. There was only minimal overlap with Software AG's customer base. The customer base was, therefore, recorded in the opening balance sheet at €62,993 thousand.

Company name

webMethods, Inc.'s brand name is very well positioned and enjoys an excellent reputation in the U.S. market where its products are associated with the brand name of webMethods. In order to maintain this strong link, the Crossvision product line has been renamed webMethods. The webMethods brand name is now used for distributing both the webMethods products as well as the Crossvision products. Accordingly, the company name was recognized as an asset in the initial accounting for the business combination in the amount of €18,615 thousand.

The liabilities of €48,130 thousand include contingent liabilities amounting to €5,298 thousand, which primarily relate to management agreements covering a change of control.

Deferred tax assets relate to tax loss carryforwards of the companies acquired. The amount measured is based on the possibility of setting off tax loss carryforwards against taxable profits of other Group companies.

Deferred income
Deferred income includes future maintenance revenues for which customers had already made advance payments as of the acquisition date. Based on the requirements of IFRS 3, these items have been stated in the opening balance sheet at the fair value of future maintenance obligations. The effects of determining the cost of the business combination led to a decrease in revenues of €8,803 thousand in fiscal year 2007. In fiscal year 2008, revenues will decline by a further €1,778 thousand.

Earnings contribution since the date of acquisition
Since it was acquired as of May 25, 2007, webMethods, Inc. has contributed a loss of €2 million to the net income of the Software AG Group.

Contribution to revenue and earnings since initial inclusion in the consolidated accounts as of January 1, 2007
If the company had been included in the consolidated accounts of the Software AG Group as of January 1, 2007, revenues for fiscal year 2007 would have been approximately €51 million higher. Acquisition of webMethods as of January 1, 2007 would have decreased net income by approximately €14 million. As existing revenue and cost synergies cannot be allocated precisely, the above figures represent estimated revenue and earnings for the webMethods subgroup for the period from January 1 to May 24, 2007 prior to acquisition.

Expenses related to the acquisition of webMethods, Inc., USA
The customer base of webMethods, which was identified as an asset in connection with the acquisition, will be amortized over a period of 12 years. The software of webMethods, Inc. identified as an asset during acquisition will be amortized over a period of 7 years. The company's name was also recognized as an asset. However, the company name is not subject to amortization as its use is not limited in time. Total amortization amounted to €5,926 thousand in fiscal year 2007.

The deferred tax liabilities resulting from the accounting treatment of the customer base, software, and company name will be reversed in line with the amortization period. Deferred tax liabilities also resulted from the reduction in deferred income. These tax liabilities will be reversed in line with the corresponding reductions in revenue. These three factors together resulted in deferred tax income of €5,576 thousand in fiscal year 2007.

4. Court cases
As part of the newly planned business structure of Software AG in Brazil, this market will be serviced by our own sales company starting on January 1, 2008. Software AG has accordingly not prolonged its exclusive distribution agreement with its previous sales partner beyond December 31, 2007.

The sales partner in Brazil filed a suit against this action in New York, USA, in August of 2007. The initial claim for damages has meanwhile been dropped. In the main proceedings on December 17, 2007, the court in New York ruled in favor of Software AG, deeming that the distribution agreement would end as of December 31, 2007. The sales partner appealed the decision and has attempted to establish legal barriers to Software AG's access to the Brazilian market via local court proceedings. To counter these efforts, the New York court has issued an order on behalf of Software AG requiring the sales partner to terminate the proceedings in Brazil and to desist from any actions that would impede Software AG's access to the Brazilian market.

A small software company in Canada sued Software AG together with Software AG Inc., webMethods, Inc.., and 17 additional defendants, including Microsoft and IBM, for a patent violation relating to its software in August of 2007. The lawsuit was filed with a court located in Texas. To date no details concerning the nature of the patent violation have been provided. Moreover, no quantifiable information regarding alleged damage has been submitted. For these reasons this legal dispute could not be taken into account in the consolidated financial statements according to the rules of IAS 37.

5. Other
Due to the strong euro, in particular in relation to the U.S. dollar, Group revenues suffered a decline of €25,300 thousand from the previous year as a result of currency translation.

The Professional Service Margin Improvement Project and other organizational adaptation projects gave rise to restructuring costs in the amount of €12,756 thousand (€5,740 thousand).

Furthermore, trade receivables in the amount of €14,865 thousand (2006: €6,770 thousand) due from customers with good credit standings were written off due to considerable delays in payment. Income from the receipt of trade receivables already written off amounted to €721 thousand (2006: €355 thousand). Bad debt allowances have averaged €6,744 thousand over the past four years.

Employees
As of December 31, 2007, the effective number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) by employee qualification was as follows:

	Dec. 31, 2007	Dec. 31, 2006
Maintenance and service	1,545	1,190
Sales and marketing	755	590
Research and development	676	401
Administration	503	440
	3,479	**2,621**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 3,578 people (2006: 2,694) as of the reporting date.

The average absolute number of employees of the Software AG Group amounted to 3,450 in 2007 (2006: 2,780).

Personnel expenses
Personnel expenses in fiscal years 2007 and 2006 were as follows:

€ thousands	2007	2006
Wages and salaries	243,173	192,917
Social security contributions	35,377	30,670
Pension expenses	7,427	6,272
	285,977	**229,859**

Stock option plans
Software AG has various stock option plans for members of the Executive Board, officers, and other Group employees. In fiscal year 2007, personnel expenses of €2,413 thousand were recorded (2006: €1,221 thousand) based on the provisions of IFRS 2 for equity-settled stock option plans, and cash-settled stock option plans led to personnel expenses of €1,119 thousand (2006: €0 thousand).

1. Stock option plan for Executive Board members, officers, and employees
As of December 31, 2006, a total of 6,750 subscription rights had been issued to officers and employees. The options were exercised in full in the first quarter of 2007. Members of the Executive Board did not hold any options under this program.

The options had a term of seven years from the time of issue. They were able to be exercised on a quarterly basis only after publication of the annual results, the half-year results, or the quarterly results. In addition, options could only be exercised during their term, which commenced after a 24-month waiting period following the date the options were granted.

The subscription price per share was €28.12 at the time of exercise.

The share price was €56.20 at that time.

The stock option plan did not lead to any personnel expenses in fiscal year 2007.

2. Stock option plan for Executive Board members and officers
As of December 31, 2007, a total of 43,402 (2006: 136,875) subscription rights had been issued to Executive Board members and 148,505 (2006: 516,442) to officers; these subscription rights could not, however, be exercised prior to December 31, 2007. A total of 2,229 (2006: 0) options were withdrawn from Executive Board members and 39,191 from officers (2006: 146,858) due to employee turnover. No new options were issued.

The subscription price per share upon exercise of the options 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.

Since both criteria for exercising options as set out in the second stock option plan were met, it was possible to exercise 419,990 stock options at a weighted average price of €55.29 in fiscal year 2007. Of the total of 191,907 stock options still outstanding as of December 31, 2007, 123,690 will presumably be able to be exercised on or before December 31, 2008 after fulfillment of the criteria by the 2007 financial statements. Of these stock options, 32,807 have not been measured due to the expectation that some eligible employees will leave the Company. A further 570 stock options had been issued prior to November 7, 2002 and were not measured in accordance with the transition regulations set out in IFRS 2.53.

The stock option plan led to personnel expenses of €1,634 thousand in fiscal year 2007 (2006: €1,123 thousand). This amount was taken to the capital reserve.

This expense is based on an underlying average market value per option of €7.29 calculated using the Black-Scholes model. The structure of the plan in combination with the exercise behavior of the option holders made it possible to use this model for the calculation.

The valuation was based on the following parameters:

Parameters	
Expected average term until exercise of the options (in years)	3.9
Risk-free interest rate	3.59%
Expected volatility for four years as of the valuation date	50%
Expected dividend yield	3%
Weighted average share price upon exercise	€18.08
Exercise price	€18.08

The calculation of the average term until exercise of the options was based on experience with previously exercised options. This calculation took into account the previous average holding periods of the employee options as well as expected future share price performance.

The expected volatility was calculated as the average four-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.

3. Stock price-based remuneration plan for Executive Board members and officers

A new stock price-based incentive plan for members of the Executive Board and officers was launched during the third quarter. To date 2,014,000 participation rights have been issued to Executive Board members and officers. A total of 581,325 participation rights have not been included in personnel expenses due to the expectation that some eligible employees will leave the Company. Holders of the participation rights are entitled to payment of the difference of the price of the Software AG share over the strike price of €72.36 upon achievement of certain performance targets by June 30, 2016, although the Company is entitled to elect to issue shares instead at its discretion. The defined performance target involves reaching the €1,000,000 thousand mark for Group revenues by no later than 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006.

Against this background Software AG has designated a cashflow hedge for 1,025,000 OTC options. Purpose of this is to pay a cash settlement for future increases in value of the Software AG share. The requirements of IFRS 2 concerning the treatment as stock appreciation rights are met.

3.1 Stock option plan

The stock options were measured as of the grant date based on an option price model and the relevant expenses were distributed over the assumed term of 3.7 years, taking into consideration the turnover of option-holding employees calculated on a historical basis.

These options resulted in personnel expenses of €779 thousand (2006: €0 thousand). This amount was transferred to the capital reserve.

The valuation was carried out using the Black-Scholes model. The average fair value per stock option was €18.21.

The valuation was based on the following parameters:

Parameters	
Expected average term until exercise of the options (in years)	3.7
Risk-free interest rate	4.55%
Expected volatility for four years as of the valuation date	32%
Expected dividend yield	1.4%
Weighted average share price upon exercise	€69.74
Exercise price	€72.36

The calculation of the average term until exercise of the options was based on experience with previously exercised options. This calculation took into account the previous average holding periods of the employee options as well as expected future share price performance.

The expected volatility was calculated as the average volatility of Software AG's shares as of the date of valuation.

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

3.2 Cash-settled stock appreciation rights
The 1,025,000 stock appreciation rights were initially measured on the date the commitments were granted, and must be remeasured as of each reporting date. The value of each of these commitments will be spread across their estimated terms and recognized as personnel expenses.

In order to hedge the risk arising from changes in value, the Company has entered into hedging transactions with independent banks. These transactions will limit expense to the value of the stock appreciation rights as of the date they are granted. Personnel expenses of €1,119 thousand were recognized for fiscal year 2007.

This expense was based on an average price per hedging instrument of €10.99.

The stock appreciation rights were settled in cash as of December 31, 2007. An average fair value of €14.44 per option was calculated on the basis of the following parameters.

Parameters	
Expected average term until exercise of the options (in years)	3.4
Risk-free interest rate	4.5%
Expected volatility for four years as of the valuation date	39%
Expected dividend yield	1.6%
Weighted average share price upon exercise	€60.57
Exercise price	€72.36

The calculation of the average term until exercise of the options was based on experience with previously exercised options. This calculation took into account the previous average holding periods of the employee options as well as expected future share price performance.

The expected volatility was calculated as the average volatility of Software AG's shares as of the date of valuation.

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

Other provisions were recognized in the amount of €1,471 thousand based on these stock appreciation rights.

Thus as of December 31, 2007, a total of 2,205,907 stock options / stock appreciation rights had been issued to members of the Executive Board and officers. As of December 31, 2006, a total of 660,067 stock options had been issued to members of the Executive Board and officers.

Remuneration report

This remuneration report provides details on remuneration amounts and the structure of the remuneration system for the Executive and Supervisory Boards. Remuneration of board members is reported as total amounts. The proportions of the individual components are indicated, and the total figure is broken down into fixed payments, performance-related components, and long-term incentive components.

Executive Board remuneration in accordance with Section 314 (1), No. 6a of the German Commercial Code (HGB)

Remuneration of active Executive Board members for fiscal year 2007 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other components
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	1,782,949.72	19,384.30
David Broadbent	244,852.38	519,034.93	28,914.71
Mark Edwards	236,073.82	1,045,009.20	45,682.62
Dr. Peter Kürpick	200,000.04	606,173.06	26,487.52
David Mitchell	102,843.71	505,621.91	15,485.30
Arnd Zinnhardt	231,999.96	1,149,012.04	34,589.40
Christian Barrios Marchant	19,333.33	36,000.00	1,799.52
Alfred Pfaff	166,666.64	0.00	21,406.92

Expenses of €2 thousand were recorded for pension commitments for the Executive Board in fiscal year 2007. Expenses of €462 thousand accrued for two Executive Board members based on employer contributions to social security. In contrast to the Remuneration Report in the Corporate Governance Report, these two items were not included in the figure for total remuneration of Executive Board members pursuant to Section 314 (1) No. 6a of the German Commercial Code. This relates to remissions from the Company for British social security, which will not increase the future pensions for either of the British executive board members.

Variable remuneration / bonuses

Individual Executive Board members are paid a bonus based on sales and earnings performance of the Group. In addition, a variety of quantitative and qualitative targets have been agreed on depending on area of responsibility. The bonuses are calculated based on the extent to which targets are reached.

Medium- and long-term remuneration components

a) Stock option plan

The stock option plan has been in existence since 2001. No new options have been issued in conjunction with this program since January 1, 2005. As of December 31, 2007, 43,402 subscription rights had been issued to Executive Board members. The plan will continue until the end of 2011. In fiscal year 2007, all conditions for exercising the options were fulfilled once again. Net income rose by more than 10 percent over the previous year, and profit from ordinary activities surpassed 10 percent of revenue. The exercise price averaged €55.29 for all persons eligible to exercise options in the year under review. In fiscal year 2007, €4,416 thousand was paid out to Executive Board members under this program.

b) Phantom share plan

A portion of the variable remuneration is paid out as a medium-term component on the basis of a phantom share plan. As in the previous year, the portion accruing for fiscal year 2007 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2008 less 10 percent. The resulting number of shares will become due in three identical tranches with terms of one, two, and three years. On the due dates in March 2009, 2010, and 2011, the number of phantom shares will be multiplied with the then applicable average share price for February of the relevant year. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX30 index and is then paid to the members of the Executive Board. The members of the Executive Board receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche. Personnel expenses of €1,365 thousand were incurred under this program during fiscal year 2007. These expenses are reflected under "long-term remuneration components" in the table below.

c) Stock appreciation rights plan

A new incentive plan based on the performance of Software AG shares was launched in the third quarter for Executive Board members and officers of the Company. To date, 1,025,000 participation rights have been issued to Executive Board members. If the performance targets are achieved by June 30, 2016, the holders of these rights will be entitled to a payment corresponding to the amount by which the price of the Software AG shares exceeds the strike price of €72.36. The performance target has been defined as the achievement of Group revenues of €1,000,000 thousand while doubling earnings after taxes from the fiscal year 2006 level by no later than 2011.

Medium- and long-term remuneration components

	Medium- and long-term remuneration components in €	Stock appreciation rights Number	Phantom shares Number
Karl-Heinz Streibich (Chief Executive Officer)	1,018,351.41	300,000	16,809
David Broadbent	764,790.13	150,000	7,258
Mark Edwards	1,328,904.03	150,000	12,775
Dr. Peter Kürpick	472,916.36	150,000	7,830
David Mitchell	232,837.98	125,000	2,234
Arnd Zinnhardt	2,233,006.58	150,000	14,640
Christian Barrios Marchant	1,115,379.57	0	0
Alfred Pfaff	– 261,639.02	0	– 5,114

Total remuneration for members of the Executive Board amounted to €14,394 thousand in the fiscal year.

A total of 1,025,000 stock appreciation rights were granted to Executive Board members.

The Executive Board members received a total of 56,432 phantom shares under the phantom share plan.

Remuneration for former Executive Board members totaled €2,833 thousand.

Pension provisions for former Executive Board members amounted to €1,886 thousand.

Other remuneration components

If a member of the Executive Board should resign due to a change of control within 12 months of such change and without good cause, this member will receive a severance payment equal to three annual salaries based on the annual target remuneration most recently agreed and the average target performance ratio for the preceding three full fiscal years. In case of resignation, this regulation is not applicable if the position of the Executive Board member has only been altered marginally with the change of control. This change of control clause for Executive Board members is intended to replace the existing regulations of paying the remaining term of the contract in the event of termination by the Company as well as the agreed escalation bonus in the amount of 0.5 percent of the increase of the Company's market capitalization as a result of a takeover bid.

In the event of illness, five members of the Executive Board will receive full pay based on the annual target remuneration for a period of six months. After six months, the variable remuneration component will be reduced by 1 / 12 for every month that follows. Salary payments will cease at the end of the term of the contract in any event. Any health insurance benefits received by the Board member must be credited against such payments. In the event of illness, Executive Board members will continue to be paid 90 percent of their average after-tax annual remuneration for the preceding three years for a period of six months.

In case of permanent disability, the employment contract of the Executive Board member concerned will terminate at the end of the month in which the permanent disability was determined or at the end of the month in which the Executive Board member has been incapacitated for work for an uninterrupted period of twelve months. In such case, severance pay will be provided for one Executive Board member in the amount of €158 thousand, plus an additional severance payment equal to the total of the member's fixed salary for the remainder of the contract for a period not to exceed six months. The remaining Executive Board members will receive no severance pay in such case. From the time of their departure until completion of their 65th year of age, the German members of the Executive Board will receive a disability pension of €11 thousand per month, and the CEO will receive €15 thousand per month. British members of the Executive Board are subject to the provisions of the Permanent Health Insurance Plan applicable in the United Kingdom. Under this plan, British members of the Executive Board will receive 90 percent of their average annual after-tax remuneration for the preceding three years until they reach the pensionable age of 60 years.

This entitlement will be adjusted to reflect inflation in years in which the inflation rate is less than 5 percent. If the inflation rate exceeds 5 percent, the entitlement will be adjusted by 5 percent annually.

The Company maintains life insurance policies for five Executive Board members. For four Executive Board members, the insured amount equals €500 thousand in the event of death and €1,000 thousand in the event of disability. For one Executive Board member, the insured amount equals four times his fixed annual remuneration.

Four members of the Executive Board will receive pensions of €11,000 per month for life after completing their 65th year of age, regardless of their number of years at the Company. The CEO's pension amounts to €15 thousand. This pension commitment also comprises a widow's annuity of €6 thousand per month, with €9 thousand per month for the widow of the CEO. In the event an Executive Board member leaves the Company prior to the age of 65, such Executive Board member will still be entitled to pension benefits, but they will be reduced on a pro rata temporis basis. The beneficiary will not be entitled to claim an adjustment or indexation of the entitlement. One member of the Executive Board will receive a pension for life after completing his 60th year in an annual amount of 1.66 percent of the average fixed remuneration for the preceding three years multiplied by the member's number of service years. This entitlement will be adjusted to reflect inflation in years in which the inflation rate is less than 5 percent. If the inflation rate exceeds 5 percent, the entitlement will be adjusted by 5 percent annually.

One member of the Executive Board receives – in lieu of a pension – a monthly accommodation allowance for a secondary residence in the amount of €2 thousand (USD 3,000) as well as an allowance for flights home on weekends.

In addition, all members of the Executive Board are entitled to be provided with a suitable company car.

No additional commitments have been made regarding severance pay in the event an employment contract is not extended or a change in shareholder occurs, nor regarding bridging payments, continuation of salary payments in the event of early termination of employment, or interest on severance payments. There are also no entitlements to payments based on customary practice.

Supervisory Board remuneration

Remuneration for Supervisory Board members is made up of fixed and performance-related components. Members receive separate remuneration for their work on the Committee for Compensation and Succession Issues, the Audit Committee, and the Nomination Committee, which was established on December 14, 2007.

In addition to reimbursement of their expenses, members of the Supervisory Board receive a fixed annual remuneration in the amount of €25,000 as well as annual performance-related remuneration of €2,000 for each percentage point or fraction thereof in excess of 5 percent by which the growth of currency-adjusted Group revenue has exceeded the previous year's figure (Variable Remuneration I).

The figures reported in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the relevant fiscal year or fiscal years are utilized for calculating performance-related remuneration.

Furthermore, Supervisory Board members receive annual compensation based on long-term corporate profits in the amount of €200 for each percentage point or fraction thereof by which the growth in value of Software AG stock exceeds the growth of value of the TecDAX30 index for the same period (Variable Remuneration II). The growth in value of the stock will be assessed on the basis of a 3-year comparison of the XETRA closing rates starting in fiscal year 2008, and the growth in value of the TecDAX30 will be assessed on the basis of a 3-year comparison of the index.

Remuneration of the Chairman / Deputy Chairman

The Chairman of the Supervisory Board receives twice the remuneration stated, and the Deputy Chairman one and one-half times such amount.

Other arrangements

In addition, members of the Supervisory Board receive an attendance fee of €1,500 each time they participate in person in a meeting of one of their committees. Attendance fees are paid only once for multiple committee sessions occurring on the same day or for a session that takes place on consecutive days. The attendance fee is €2,500 for the committee chairmen. Remuneration is payable one week after approval of the financial statements for the year by the Supervisory Board or, if applicable, the Annual Shareholders Meeting. Members of the Supervisory Board who were on the Board for only a part of the fiscal year will receive remuneration calculated on the basis of the exact number of days in the first month of their appointment and one-twelfth of the applicable annual remuneration for each additional month.

Remuneration of Supervisory Board members for fiscal year 2007 is composed as follows:

in EUR	Fixed remuneration	Variable Remuneration I	Variable Remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman)	50,000.00	116,000.00	28,000.00	15,000.00
Karl Heinz Achinger (Deputy Chairman, until May 11, 2007)	13,458.90	31,224.66	7,536.99	6,500.00
Dr. Andreas Bereczky (Deputy Chairman, from May 11, 2007)	33,013.70	76,591.78	18,487.67	4,500.00
Rainer Burckhardt (from May 11, 2007)	16,027.40	37,183.56	8,975.34	0.00
Justus Mische	25,000.00	58,000.00	14,000.00	9,000.00
Monika Neumann	25,000.00	58,000.00	14,000.00	9,000.00
Reinhard Springer (until May 11, 2007)	8,972.60	20,816.44	5,024.66	3,000.00
Alf Henry Wulf (from May 11, 2007)	16,027.40	37,183.56	8,975.34	0.00

Total remuneration for members of the Supervisory Board amounted to €775 thousand in the year under review.

Auditors' fees
General and administrative expenses include expenses for auditors' fees for BDO Deutsche Warentreuhand AG, the Group auditor, totaling €375 thousand (2006: €293 thousand). Of this amount, €295 thousand (2006: €260 thousand) relates to the audit of the domestic companies and the Group's financial statements, €27 thousand (2006: €33 thousand) to tax advisory services, and €53 thousand (2006: €0 thousand) to other audit services.

Events after the balance sheet date

1. Acquisition of the software division of Jacada
Software AG acquired divisions and assets from Jacada Ltd., Israel as of January 1, 2008. Acquisition of the application modernization division has expanded Software AG's product portfolio to include additional products for modernizing the user interfaces of mainframe and medium-sized applications. Jacada Ltd. is listed on the Nasdaq exchange in the U.S. (symbol: JCDA). Currently, the products of Jacada's application modernization division generate annual revenues of USD 12 million.

Cost of the business combination

The cost of acquiring the application modernization division amounted to €17,665 thousand (USD 26,000 thousand). The purchase price was paid on January 2, 2008.

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

€ thousands	Fair value as of Jan. 1, 2008	Carrying amount prior to acquisition
Customer base	15,195	0
Software	2,470	0
Carrying amount of the assets acquired		0
Cost of the business combination	17,665	

Customer base
Currently, the Jacada's application modernization division generates annual revenues of USD 12 million. Its profit margins are above the average for the Software AG Group. Through the acquisition, Software AG has gained more than 200 corporate customers, primarily in the U.S. For these reasons, the customer base was included as an asset in the initial consolidation.

Software
The software acquired is used to modernize the user interfaces of applications running on mainframe and medium-sized computers. This software rounds out the profit portfolio of Software AG in the field of legacy modernization. In a preliminary calculation, the value of the software was measured at €2,470 thousand.

Earnings contribution since the date of acquisition
Since the acquisition date fell in the first quarter of 2008, net income for the fourth quarter of 2007 does not include any earnings contributions from the acquired divisions and assets.

2. Exercise of the put option for SPL
In February 2008, the Silverboim Group, the former owner of SPL Software Ltd. Israel, exercised its put option for the remaining 19.92 percent of the shares.

The price for these shares was calculated to be €19,437 thousand based on the operating profit of the SPL Group for 2007. The price was paid on February 25, 2008.

Declaration of compliance with the German Corporate Governance Code
The Company published the declaration of compliance on December 17, 2007 in accordance with the German Corporate Governance Code and Section 161 of the German Stock Corporation Act.

Date and authorization for issue
Software AG's Executive Board approved the consolidated financial statements on March 11, 2008.

CONS. FINANCIAL STATEMENTS

Members of the Supervisory Board:

Frank F. Beelitz
Chairman
Independent investment banker (Beelitz & Cie., Frankfurt / Main)
Resident of:Bad Homburg v.d.H.
Supervisory Board seats:
¬ Member of the Supervisory Board of Syntec Capital AG, Munich (until June 30, 2007)
¬ Member of the Supervisory Board of Südwestbank AG, Stuttgart
¬ Member of the Supervisory Board of IVG Immobilien AG, Bonn (since March 1, 2008)

Karl Heinz Achinger
Graduate in business administration
Deputy Chairman (until May 11, 2007)
Independent management consultant
Resident of: Seefeld
Supervisory Board seats:
¬ Chairman of the Supervisory Board of Magix AG, Berlin
¬ Member of the Supervisory Board of BWI Informationstechnik GmbH, Meckenheim (since January 1, 2007)
¬ Member of the Supervisory Board of Euro-Product-Services AG, Munich-Unterföhring
¬ Member of the Supervisory Board of Inverto AG, Cologne (since January 1, 2007)
¬ Member of the Supervisory Board of RWE Systems AG, Dortmund
¬ Member of the Supervisory Board of TDS Infomationstechnologie AG, Neckarsulm
¬ Member of the Supervisory Board of teleson AG, Munich

Dr. Andreas Bereczky
Deputy Chairman (since May 11, 2007)
Director of Production of ZDF, Mainz
Resident of: Eschweiler
Supervisory Board seats:
¬ Member of the Supervisory Board of Alfabet AG, Berlin

Rainer Burckhardt
Employee representative (since May 11, 2007)
Employee of SAG Deutschland GmbH, Chairman of the Works Council at the Darmstadt location
Resident of: Darmstadt
Supervisory Board seats: None

Justus Mische
Graduate in business administration
Member
Resident of: Kelkheim / Ts.
Supervisory Board seats:
¬ Chairman of the Supervisory Board of Altana AG, Bad Homburg v.d.H. (until May 3, 2007)
¬ Chairman of the Supervisory Board of B. Braun Melsungen AG, Melsungen

Monika Neumann
Employee representative
Employee of SAG Deutschland GmbH, Chairman of the General Works Council
Resident of: Schliersee
Supervisory Board seats: None

Reinhard Springer
Employee representative (until May 11, 2007), Employee of Software AG Global Information Services
Resident of: Fränkisch-Crumbach
Supervisory Board seats: None

Alf Henryk Wulf
Graduate in electrical engineering
Member (since May 11, 2007)
Deputy Chairman of the Management Board of Alcatel-Lucent Deutschland AG, Stuttgart
Resident of: Stuttgart
Supervisory Board seats: None

Members of the Executive Board:

Karl-Heinz Streibich
Graduate in communications engineering
Chief Executive Officer
(Strategic Marketing, Professional Services, High Performance Sales Culture, HR, Legal, Press / PR, and Internal Audit)
Resident of: Radolfzell
Supervisory Board seats: None

Christian Barrios Marchant
Executive MBA (until January 8, 2007)
Executive Board
Resident of: La Moraleja, Alcobendas, Madrid, Spain
Supervisory Board seats: None

David Broadbent
Businessman (since January 8, 2007)
Executive Board, Chief Operating Officer
ETS Business Division
Resident of: Newtown, Newbury, Berkshire, UK
Supervisory Board seats: None

Mark Edwards
Businessman
Executive Board, Chief Operating Officer
ETS Business Division
Resident of: Ascot, Berkshire, UK
Supervisory Board seats: None

Dr. Peter Kürpick
Physicist
Executive Board, Chief Product Officer
webMethods Business Division
Resident of: Darmstadt
Supervisory Board seats: None

David Mitchell
Businessman (since August 1, 2007)
Executive Board, Chief Operating Officer
webMethods Business Division
Resident of: Plano, Texas, USA
Supervisory Board seats: None

Alfred Pfaff
Graduate in electrical engineering (until August 8, 2007)
Executive Board
Resident of: Bodenheim
Supervisory Board seats: None

Arnd Zinnhardt
Graduate in business administration
Executive Board, Chief Financial Officer
Finance & Controlling, Business Operations, M&A, Investor Relations, IT, Support and Administration
Resident of: Kelkheim / Ts.
Supervisory Board seats: None

Darmstadt, March 11, 2008
Software AG

K.-H. Streibich	D. Broadbent	M. Edwards
Dr. P. Kürpick	D. Mitchell	A. Zinnhardt

Declaration by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Darmstadt, March 11, 2008

Software AG

K.-H. Streibich	D. Broadbent
M. Edwards	Dr. P. Kürpick
D. Mitchell	A. Zinnhardt

Auditors' report

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, comprising the income statement, the balance sheet, the cash flow statement, the presentation of recorded income and expenses, and the notes to the consolidated financial statements, as well as the management report on the Group and on Software Aktiengesellschaft for the financial year from 1 January 2007 to 31 December 2007. The preparation of the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft in accordance with IFRS, as these are to be applied within the EU, and in accordance with the supplementary provisions defined in Section 315a (1) HGB, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft on the basis of the audit performed by us.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit such that misstatements and irregularities materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, as prepared in accordance with the applicable accounting standards, and in the management report on the Group and on Software Aktiengesellschaft, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the management report on the Group and on Software Aktiengesellschaft are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in the consolidated financial statements, the definition of the scope of the consolidation group, the accounting and consolidation principles applied, and significant estimates made by the legal representatives as well as evaluating the overall presentation of the consolidated financial statements and the management report on the Group and on Software Aktiengesellschaft. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements have been prepared in accordance with IFRS, as these are to be applied within the EU, and in accordance with the supplementary provisions to be applied, as defined in Section 315a (1) HGB, and present a true and fair view of the net assets, financial situation and results of operations of the Group. The management report on the Group and on Software Aktiengesellschaft is consistent with the consolidated financial statements and, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 11, 2008

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Schumacher Wirtschaftsprüfer	sgd. Dr. Rosien Wirtschaftsprüfer

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FINANCIAL CALENDAR

FINANCIAL CALENDAR

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April 29	Annual Shareholders' Meeting, Darmstadt, Germany
July 23	Q2 / H1 2008 financial figures (IFRS, unaudited)
October 24	Q3 2008 financial figures (IFRS, unaudited)
	2009
January 27	Q4 / FY 2008 financial figures (IFRS, unaudited)

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