Q3/06

Quarterly Report
as of 30th September, 2006

Key Figures

Key Figures IFRS, unaudited				
€ millions	**September 30, 2006**	**September 30, 2005**	**Q3 2006**	**Q3 2005**
Revenue	**348.6**	**314.5**	**113.8**	**103.7**
Products	253.8	223.1	85.0	75.0
of which				
Licenses	111.7	88.3	37.0	29.2
Maintenance	142.1	134.8	48.0	45.8
Professional services	93.1	90.0	28.2	28.5
Other	1.7	1.4	0.6	0.2
EBITDA	**82.5**	**73.2**	**27.5**	**24.8**
as % of revenue	24	23	24	24
EBIT	**76.8**	**67.5**	**25.6**	**23.1**
as % of revenue	22	21	22	22
Income before taxes	**83.2**	**71.6**	**27.8**	**24.6**
as % of revenue	24	23	24	24
Income after taxes	**50.9**	**43.0**	**17.1**	**15.2**
as % of revenue	15	14	15	15
Earnings per share (euro)	**1.81**	**1.57**	**0.61**	**0.55**
Total assets	**611.4**	**571.3**		
Cash and cash equivalents	**165.6**	**153.3**		
Shareholders' equity	**404.6**	**370.5**		
as % of total assets	66	65		
Employees	**2,666**	**2,664**		
of which in Germany	783	770		

Stock: key figures		
	September 30, 2006	**September 30, 2005**
Closing price (XETRA) in €	48.28	38.80
Total number of shares	28,112,715	27,933,357
Market capitalization in € millions	1,357	1,084
High/Low (52 weeks)	49.20/34.33	39.00/21.80

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

Company profile

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

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

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

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

Dear Ladies and Gentlemen,

Software AG is developing rapidly due to our increased international business activities.

In today's global market, growth and profitability are critical factors, and providing these is the cornerstone of our corporate strategy – a successful strategy as the facts show. We have consistently reported double-digit growth in sales and earnings this year, driven by a strong increase in license revenue. Software AG's own high-margin products now contribute nearly 100 percent of licensing revenue and one-third of total revenue.

Strong performance in both product lines

Both of our product groups, Enterprise Transaction Systems (ETS) and crossvision, are dependable revenue drivers and contributed once again in reaching our financial goals.

Recent market developments have endorsed our strategic direction: Contrary to expectations, the significance of mainframes in companies' IT environments is again on the rise, resulting in increased business in mainframe modernization with our Enterprise Transaction System products. At the same time, crossvision – our new service-oriented architecture (SOA) product line – is setting the standard in the integration growth market. The increase in licensing revenue is also having a positive impact on the maintenance business.

The combination of our two business lines, Enterprise Transactions Systems and crossvision, allows us to take advantage of the potential offered by the rapidly growing integration market while benefiting from the stability of our established mainframe basis. Analysts agree that Software AG is well positioned for further market success. We can meet these high market requirements and expectations on a sustained basis by expanding our product portfolio in both business units based on customer and market demands.

Increased presence in Japan and Brazil
Part of our growth strategy is based on geographical expansion. Our focus is now on Japan and, starting in 2008, Brazil. Both of these markets have been serviced by distributors for many years. Now we are taking direct control of this business to enable us to operate more effectively in these markets.

In Japan, we have a strong established customer base consisting of some 200 organizations, mainly in the area of Enterprise Transaction Systems. We plan to increase business with this customer base and to expand introduction of our crossvision products in the medium term. We anticipate annual revenue potential of approximately €10 to 20 million in Japan, and we are optimistic that the EBIT ratio here will reach Group levels.

In Brazil, we estimate a possible business volume of €50 to 100 million per year in the long term. We are currently preparing to enter this market and, starting in 2008, we will distribute our products directly.

Initiatives for more market visibility
The optimization of mainframes and their interaction within a service-oriented architecture is a global information technology market trend. We have an extensive portfolio of legacy modernization products and methods giving us the potential to be the market leader. Our legacy modernization software is part of the crossvision product family. This software enables customers to gear their existing mainframe IT structures more easily to new IT strategies and market requirements. We will be initiating a marketing and PR campaign on the topic of legacy modernization in the fourth quarter in order to make our customers more aware of the advantages of this concept.

In the months to follow, our efforts will remain centered on initiatives to promote our company and our brands, with the focus on increasing the visibility of Software AG in the market for service-oriented architecture.

Main strategic points are unchanged
We are continuing to emphasize profitable growth through our own efforts. Acquisitions remain an option if the target company would enhance our portfolio by adding technical components or products and increase our enterprise value. We are also continuing to expand geographically. Our medium-term plans involve growth in Latin America, the Middle East, and Japan in particular.

We are also expanding our cooperation network to include strategic partners. This will ensure that individual strengths are combined, which we see as an efficient method of offering our customers the best possible service and promoting the advancement of Software AG by concentrating on our core competencies.

Karl-Heinz Streibich
Chief Executive Officer

Software AG stock on upward trend

Slight recovery in the European and U.S. equity markets

Following the significant price decreases on the stock markets in May/June of this year, the third quarter brought the start of a moderate recovery, even though the indices did not post major overall gains.

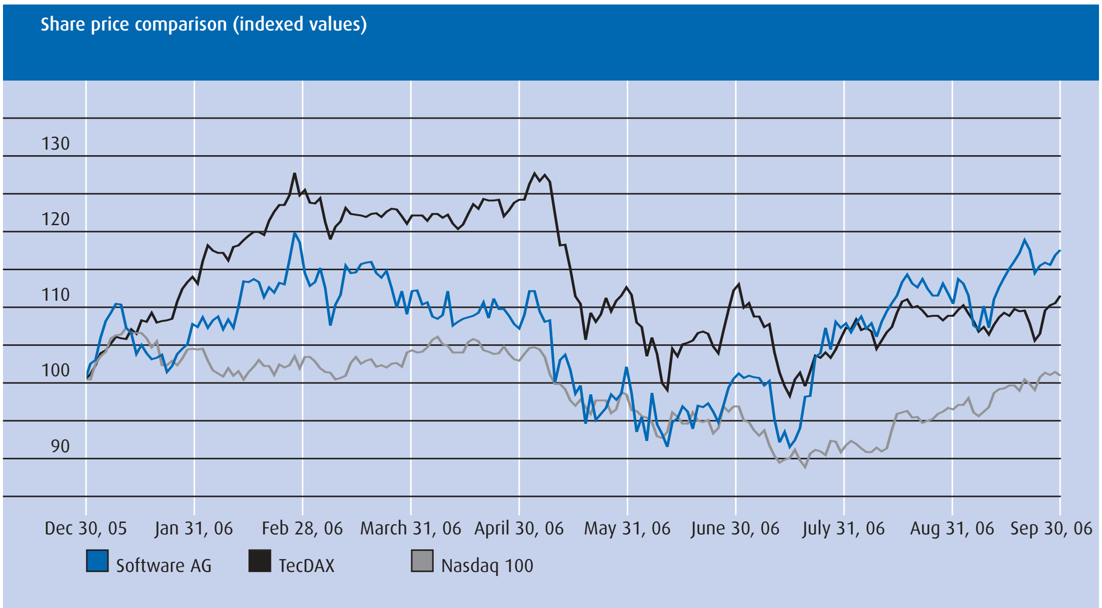
In July, equity market sentiment was still subdued due to the conflict in the Middle East and continuing discussion on base interest rates in the euro zone. However, the situation improved in mid-August, thanks to the end of the interest rate hiking cycle and falling crude oil prices. The U.S. technology index Nasdaq 100 gained 4.3 percent in the third quarter, closing at 1,654 points on September 30. By contrast, the TecDAX started the third quarter at 667 points, slipped under the 600 point mark in mid July, and closed at 663 points on September 30, representing a decrease of 0.6 percent.

Software AG stock outperforms benchmark indices

Our Company's stock experienced a remarkable upswing in the third quarter, outperforming the TecDAX and Nasdaq 100 benchmark indices by a wide margin.

Following an initial decline with the stock bottoming out at €37.43 on July 18, our share price reached a high of €48.80 on September 20. The stock gained a total of 17.2 percent in the third quarter to close at €48.28 on September 30 in Xetra electronic trading. A total of 6.2 million Software AG shares were traded in the third quarter, corresponding to an average volume of 95,000 shares per trading day (prior year: 88,000).

Software AG stock moved up again in the TecDAX ranking of Deutsche Börse AG. As of the end of September 2006, Software AG had reached 6th place (Q2 2006: 7th place) in terms of market capitalization, and 9th place (Q2 2006: 10th place) in terms of trading volume.



Analyst coverage increases again

In September, Société Générale, a major Paris bank, started covering Software AG. The Company is now covered by a total of 21 global and regional analysts' firms in Germany, Great Britain and France. At the end of September, our stock had 18 "buy" recommendations and 3 "hold" recommendations. No financial analysts advised selling the stock. After publication of the third quarter results on October 24, the average target price set by financial analysts was €53. At present, we are holding discussion with two more renowned banks on taking up coverage with the goal of further increasing the quality and range of the recommendations.

Investor contact remains intensive

We have continued our investor relations activities at a high level. Road shows were held on the East and West Coasts of the USA, and we participated in an investor conference in San Francisco in order to intensify contact with U.S. investors. We also held investor conferences in Europe and road shows in Frankfurt, London, the British Channel Islands, and Brussels aimed at maintaining existing contacts. To tap additional capital markets, we returned to Scandinavia in September after a fairly long break and talked with investors in Copenhagen, Oslo, and Stockholm. These investors indicated strong interest in Software AG with a high level of willingness to invest in the Company. We are planning additional activities in this region in the future. To further enhance our investor relations work, we have commissioned a market study to obtain assessments from analysts and investors. The results will be available in the fourth quarter of 2006 and will be used for planning activities in 2007.

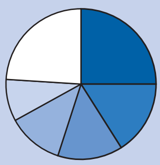
Dynamic growth continues
License revenue drive sales and profit

Software AG is still expanding: We achieved double-digit growth rates in both revenue and earnings in the third quarter. The licensing business was also encouraging, with above-average growth rates making a substantial profit contribution.

Group sales rose in the third quarter significantly over the prior-year period to a total of €113.8 million. This increase of 10 percent (currency-adjusted: 12 percent) is in line with the trend for full-year 2006: In the first nine months, we increased total sales by €34.1 million to €348.6 million. This represents growth of 11 percent (currency-adjusted: 10 percent).

We continued to successfully implement our strategy of growing via geographical expansion, increasing sales in Latin America, Eastern Europe and the Middle East by more than one quarter. These promising future markets already make up 12 percent of Group revenue.

Revenue share of the core markets (nine-month basis)



USA/Canada	25 %
Spain	16 %
Germany	14 %
Growth markets	12 %
UK	9 %
Other	24 %

Significant increases in vital licensing revenue

Licensing revenue was once again the driving force behind growth. We increased revenue in the third quarter of this strategically important area by 27 percent to €37.0 million. The share of licensing revenue of total Group revenue increased to 33 percent, up from 28 percent in the prior-year period.

Software AG has been focusing on sales of its own products since 2005. We have been gradually reducing sales of licenses for third-party products in favor of concentrating our distribution capacities on the more profitable marketing of our own software. Consequently, licensing revenue in the reporting period were generated almost completely with our own portfolio. Products from other providers only contributed €0.2 million (prior year 0.5) to licensing revenue in the third quarter.

Sales growth accelerates for both product lines

The licensing business is made up of two product groups, Enterprise Transaction Systems (ETS) and crossvision, both of which made considerable gains in revenue. ETS product revenue increased by 37 percent to €27.0 million in the third quarter, up from €19.7 in the prior-year period. crossvision revenue increased even more, climbing 76 percent to €9.7 million delivering more than one quarter of total licensing revenue for the first time. Still a young product suite, crossvision is expanding and is viewed as the business of the future for Software AG.

Growth of licensing revenue continued to pick up over the course of 2006. Revenue for Enterprise Transaction Systems increased by nearly one-third to €84.1 million in the first nine months of the current fiscal year (prior year: €63.6 million), and revenue for crossvision rose 57 percent to €26.3 million (prior year: €16.8 million). Total licensing revenue reached €111.7 million in the first nine months (prior year: €88.3 million).

Licensing revenue by product line

in € millions	Q3 2006	Q3 2005	Sept. 30, 2006	Sept. 30, 2005
ETS	27.0	19.7	84.1	63.6
crossvision	9.7	5.5	26.3	16.8
External products	0.2	0.5	1.0	3.0
Other	0.1	3.5	0.3	4.9
Total	37.0	29.2	111.7	88.3

ETS products benefit from a good investment climate

Enterprise Transaction Systems software products are focused on mainframe modernization. Licensing revenue in this business line have benefited primarily from a positive market response to the new generation of our core products. We offer Adabas 2006, a data management platform, and Natural 2006, a development and implementation environment, along with their add-on products, to meet the high demand for software to optimize legacy systems.

Growth was spurred not only by the attractive features these products offer, but also the increasing significance of mainframe computers. With new market requirements for IT in terms of security and efficiency, the interest in high-performance, reliable mainframe systems is growing.

SOA product placed successfully on the market

In the crossvision business line, which specializes in the integration and networking of varying software systems, our licensing revenue increased primarily due to the market launch of our new crossvision product suite. This product supports the configuration, administration and monitoring of service-oriented architectures (SOA). SOA uses Internet technology to link existing applications, often varying greatly, to create a uniform corporate-wide IT system. This enables companies to react to new market requirements more quickly and with greater cost effectiveness. SOA also makes it possible to use processes and data established over the years as separate IT systems on a corporate-wide basis. Software AG is one of the most promising competitors in the attractive SOA market, above all due to the Company’s clear strategy.

Maintenance revenue on the rise

Licensing revenue forms the basis for future maintenance revenue. For this reason, growth in the licensing business, which has been steady for more than three years, also drives an increase in maintenance revenue. In the third quarter, maintenance income increased by 5 percent to €48.0 million. This segment thus generated an increase in quarterly revenue (in comparison with the prior-year period) for the fourth time in a row.

Maintenance revenue for the first nine months totaled €142.1 million (prior year: €134.8 million). Of this amount, €121.8 million was attributable to Enterprise Transaction Systems (prior year: €115.8 million) and €19.2 million to crossvision (prior year: €17.1 million).

Professional services focus on Software AG products

Professional services revenue declined slightly from €28.5 million to €28.2 million in the period under review. This is the effect of a strategic decision to concentrate on the implementation of our own products and to scale back other, less profitable projects. The revenue contribution of professional services for external software decreased accordingly. Moreover, since crossvision is a suite involving pre-integrated products, it requires less service expenditure than implementing separate, independent products or components.

Sales by segment

in € millions	Q3 2006	Q3 2005	Sept. 30, 2006	Sept. 30, 2005
Licenses	37.0	29.2	111.7	88.3
Maintenance	48.0	45.8	142.1	134.8
Professional services	28.2	28.5	93.1	90.0
Other	0.6	0.2	1.7	1.4
Total	113.8	103.7	348.6	314.5

Profitable sales structure increases earnings power

Earnings before interest and taxes (EBIT) improved to €25.6 million in the third quarter despite increased expenditure for intensifying marketing and distribution activities. This resulted in an EBIT ratio of 22.5 percent after 22.3 percent in the prior-year period. Net income increased by 12.5 percent to €17.1 million.

Earnings per share rose to €0.61 compared to €0.55 in the previous year. The current figure takes a broader base into account: An average of 28.1 million Software AG shares were in circulation in the third quarter, an increase of 0.5 million over the prior-year period.

This significant increase reflects the above-average growth of our high-margin licensing business. Additional structural improvements and continued cost discipline were additional factors in the increase in earnings per share. Software AG increased EBIT by 14 percent, net income by 18 percent, and earnings per share by 15 percent in the first nine months.

Key earnings indicators

in € millions	Q3 2006	Q3 2005	Change in %	YTD 2006	YTD 2005	Change in %
EBIT	25.6	23.1	+ 11	76.8	67.5	+ 14
Financial result	+ 2.2	+ 1.5	+ 47	+ 6.4	+ 4.1	+ 56
Earnings before taxes	27.8	24.6	+ 13	83.2	71.6	+ 16
Taxes	– 10.7	– 9.4	+ 14	– 32.3	– 28.6	+ 13
Net income	17.1	15.2	+ 12.5	50.9	43.0	+ 18
Earnings per share (in euros)	0.61	0.55	+ 11	1.81	1.57	+ 15
Weighted average shares outstanding (in millions)	28.1	27.6		28.1	27.4	

Excellent performance in North America/Northern Europe

Software AG is growing in all regions. The trend in North America/Northern Europe was especially encouraging. Sales in this major market rose 14 percent to €56.4 million. As a result, the region's share of Group sales increased from 47 to 49 percent.

The licensing business in North America/Northern Europe performed particularly well in the third quarter, with revenue increasing more than 61 percent, or €8.1 million, to reach €21.3 million. The high licensing revenue help to improve EBITA for the region to €15.3 million (prior year: €13.7 million). In the first nine months, we achieved revenue of €169.1 million (prior year: €152.9 million) and EBITA of €50.2 million (prior year: €43.5).

In Southern and Western Europe and including Latin America, revenue from professional services notably improved in the third quarter. We generated a total of €27.4 million in this region, up from €25.8 million in the prior-year period. In the first nine months, regional sales increased to €87.1 million (prior year: €79.0 million). The decrease in EBITA to €–4.9 million (prior year: €7.2 million) reflects planned investments in expanding our market presence in Latin America and the Middle East and conservative accounting of accounts receivable.

In the Central and Eastern Europe/Asia region, third-quarter sales increased from €29.3 million to €30.2 million. The maintenance business saw the greatest expansion. In the first nine months, regional sales came to €93.3 million (prior year: €83.9 million). EBITA increased to €12.9 million after €12.3 million in the prior-year period.

Sales by region*

in € millions	Q3 2006	Q3 2005	Sept. 30, 2006	Sept. 30, 2005
North America/Northern Europe	56.4	49.3	169.1	152.9
Central and Eastern Europe/Asia	30.2	29.3	93.3	83.9
Southern and Western Europe/ Latin America	27.4	25.8	87.1	79.0

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

Equity base allows room to maneuver

Net cash from operating activities amounted to €12.6 million in the third quarter (prior year: €9.7 million), surpassing the figure for the prior-year period by 29 percent. The free cash flow, which increased to €11.2 million (prior year €5.9 million), corresponds to one-tenth of total sales. In terms of individual shares, free cash flow nearly doubled from €0.21 to €0.40. Operating cash flow for the first nine months declined from €48.2 million to €38.0 million, primarily due to higher tax payments in the amount of €10.9 million.

Software AG had €404.6 million in equity as of September 30, 2006 (prior year: €370.5 million). The rise of €34.1 million increased the equity-to-assets ratio to 66 percent (prior year: 65 percent). Cash and cash equivalents rose by €12.3 million over the reporting date for the prior-year period to €165.6 million.

This solid equity base will give Software AG more opportunities to implement the Company's growth strategy by guaranteeing expansion of our international market position and affording us flexibility for possible acquisitions.

SOA products added to portfolio

One of the distinctive qualities of Software AG is the close ties between marketing, distribution, and R&D. This leads to marketable products with corresponding sales potential. In the third quarter, we introduced product expansions in both business lines in response to the high level of interest in service-oriented architectures.

Version 5.1 of our ApplinX technology allows legacy systems to be prepared for service-oriented architectures or the Internet more quickly and simply.

Version 2.1 of our CentraSite SOA solution represents the second generation of the product developed jointly with Fujitsu. The new version improves transparency and monitoring of service-oriented architectures and enables more efficient reuse of SOA services

CentraSite promotes cross-company cooperation

We worked together with Fujitsu to start the CentraSite Community, the first standards-based SOA forum. The Community is a forum for customers and partners offering a platform for cooperation. The goal of the CentraSite Community is to provide compatible SOA solutions for the purpose of advancing the implementation of SOA environments. The Community consists of a total of 17 renowned companies and organizations, including IDS Scheer and the Hasso Plattner-Institute.

Marketing, distribution and R&D teams reinforced

As of September 30, Software AG employed 2,666 full-time equivalents. The total number of employees was thus nearly unchanged from the reporting date for the prior-year period (September 30, 2005: 2,664 employees).

Increases in some functional divisions were offset by decreases in others. Maintenance & Service, for example, had fewer employees, mainly as a result of efficiency increases and our concentration on core areas. In R&D and Marketing & Distribution, however, we expanded our human resources capacities. More than 70 percent of all of our employees work outside of Germany, which reflects Software AG's global positioning.

Number of employees by area of activity

In full-time equivalents	Sept. 30, 2006	Sept. 30, 2005	Change in %
Marketing & Distribution	623	589	+ 6
Maintenance & Service	1,211	1,269	– 5
Research & Development	386	368	+ 5
Administration	446	438	+ 2
Total	2,666	2,664	0

Outlook: Positive expectations for 2006 as a whole

Software AG continues to anticipate a rise in Group sales by 10 percent for the current fiscal year on a currency-adjusted basis. For the crossvision business line, we are still forecasting an annual increase of 20 to 25 percent. For ETS, we now believe that an increase of 8 to 10 percent is likely (previously 6 to 8 percent).

From a current perspective, we expect revenue from professional services to increase by 2 to 4 percent (previous forecast: 5 to 8 percent), and revenue from maintenance to rise by 4 to 5 percent (previously 2 to 4 percent). Licensing will remain the primary growth driver, with revenue growth expected to total 25 to 27 percent (previously 22 to 25 percent).

We still anticipate a Group operating margin of between 22 and 23 percent of total sales.

Licensing will continue to drive growth in 2007

An increase in Group sales of approximately 10 percent is also targeted for fiscal 2007, with software products expected to make up a greater portion of revenue. We also anticipate that the EBIT ratio will continue improving toward the medium-term goal of 25 percent with a rise of approximately 1 percentage point. Increased proliferation of the crossvision SOA Suite is expected to contribute to a higher EBIT ratio.

Consolidated income statement for the nine months ended September 30, 2006

IFRS, unaudited

€ thousands	September 30, 2006	September 30, 2005	Q3 2006	Q3 2005
Licenses	111,672	88,256	37,013	29,163
Maintenance	142,084	134,786	47,994	45,824
Professional services	93,136	90,027	28,199	28,463
Other	1,696	1,390	556	243
Total revenue	**348,588**	**314,459**	**113,762**	**103,693**
Total costs of sales	– 106,696	– 104,942	– 34,574	– 33,606
Gross profit	**241,892**	**209,517**	**79,188**	**70,087**
Research and development	– 33,395	– 32,460	– 11,028	– 10,934
Sales, marketing and distribution	– 93,929	– 75,730	– 30,921	– 25,256
Administrative costs	– 37,949	– 33,410	– 13,467	– 11,201
Operating result	**76,619**	**67,917**	**23,772**	**22,696**
Other income	17,077	10,509	10,627	3,619
Other expenses	– 16,882	– 10,898	– 8,765	– 3,228
Earnings before interest and taxes	**76,814**	**67,528**	**25,634**	**23,087**
Interest result	6,404	4,079	2,161	1,543
Earnings before taxes	**83,218**	**71,607**	**27,795**	**24,630**
Income taxes	– 30,990	– 27,340	– 10,350	– 8,980
Other taxes	**– 1,340**	**– 1,308**	**– 354**	**– 402**
Consolidated income	**50,888**	**42,959**	**17,091**	**15,248**
Thereof for shareholders of Software AG	**50,888**	**42,959**	**17,091**	**15,248**
Thereof for minority interest	**0**	**0**	**0**	**0**
Earnings per share (Euro, basic)	1.81	1.57	0.61	0.55
Earnings per share (Euro, diluted)	1.81	1.56	0.61	0.55
Weighted average shares outstanding (basic)	28,075,445	27,377,853	28,112,715	27,600,055
Weighted average shares outstanding (diluted)	28,116,241	27,561,688	28,119,716	27,783,890

Consolidated balance sheet as of September 30, 2006

IFRS, unaudited

Assets

€ thousands	September 30, 2006	December 31, 2005	September 30, 2005
Current assets			
Cash on hand and bank balances	148,402	151,767	136,318
Securities	17,157	9,811	16,982
Inventories	356	335	399
Trade receivables	156,277	138,494	125,993
Other receivables and other assets	5,352	4,766	6,075
Deferred expense	4,626	4,549	6,059
	332,170	**309,722**	**291,826**
Non current assets			
Intangible assets	5,066	6,093	6,234
Goodwill	187,962	188,102	187,274
Property, plant and equipment	44,657	46,324	45,628
Financial assets	2,304	2,233	2,343
Trade receivables	8,259	11,780	7,881
Deferred taxes	30,951	35,083	30,080
	279,199	**289,615**	**279,440**
	611,369	**599,337**	**571,266**

Equity and Liabilities

€ thousands	September 30, 2006	December 31, 2005	September 30, 2005
Current liabilities			
Current financial liabilities	2,882	2,654	2,586
Trade payables	19,123	22,760	21,263
Other current liabilities	29,367	27,711	29,853
Current provisions	27,725	25,437	25,295
Tax provisions	12,735	15,711	18,566
Deferred income	63,317	58,579	58,389
	155,149	**152,852**	**155,952**
Non-current liabilities			
Non-current financial liabilities	188	1,698	2,336
Trade payables	0	0	84
Other non-current liabilities	2,768	4,201	580
Provision for pension	24,970	25,108	22,624
Non-current provisions	4,050	2,544	828
Deferred taxes	17,202	15,502	13,376
Deferred income	2,488	4,444	5,012
	51,666	**53,497**	**44,840**
Equity			
Share capital	84,338	84,108	83,800
Capital reserve	23,296	20,428	16,946
Retained earnings	247,339	208,143	210,707
Consolidated income	50,888	61,625	42,959
Currency translation differences	– 33,311	– 15,203	– 19,075
Other reserves	31,623	33,506	34,897
Minority interest	381	381	240
	404,554	**392,988**	**370,474**
	611,369	**599,337**	**571,266**

Statement of cash flows for the nine months ended September 30, 2006

IFRS, unaudited

€ thousands	September 30, 2006	September 30, 2005	Q3 2006	Q3 2005
Income after taxes	50,888	42,959	17,091	15,248
Income taxes	30,990	27,340	10,350	8,980
Interest result	– 6,404	– 4,079	– 2,161	– 1,544
Depreciation	5,687	5,670	1,891	1,686
Non-Cash income/expense	– 9,208	63	– 9,675	31
Cash generated from operations	**71,953**	**71,953**	**17,496**	**24,401**
Changes in inventories, receivables and other current assets	– 15,196	– 9,624	2,368	– 9,353
Changes in payables and other liabilities	2,567	– 1,562	– 2,495	2,305
Income taxes paid	– 27,710	– 16,776	– 6,944	– 9,078
Interest paid	– 1,438	– 1,673	– 99	– 116
Interest received	7,835	5,923	2,320	1,608
Net cash used in/provided by operating activities	**38,011**	**48,241**	**12,646**	**9,767**
Cash received from the sale of tangible/ intangible assets	730	162	22	0
Investments in tangible/ intangible assets	– 4,249	– 6,566	– 1,260	– 3,189
Cash received from the sale of financial assets	193	3,350	104	3
Investments in financial assets	– 264	– 4,128	– 227	– 620
Investments in consolidated companies	– 173	– 8,897	– 173	– 1,478
Net cash used in/provided by investing activities	**– 3,763**	**– 16,079**	**– 1,534**	**– 5,284**
Cash proceeds from issuing shares	2,157	18,814	0	18,814
Dividend payments	– 22,429	– 20,450	0	0
Repayment of loans from acquisitions and other finance liabilities	– 1,448	– 1,397	– 466	– 572
Net cash used in/provided by financing activities	**– 21,720**	**– 3,033**	**– 466**	**18,242**
Change in cash funds from cash relevant transactions	**12,528**	**29,129**	**10,646**	**22,725**
Adjustment from currency translation	**– 8,547**	**5,079**	**– 1,008**	**1,740**
Net change in cash and cash equivalents	**3,981**	**34,208**	**9,638**	**24,465**
Cash and cash equivalents at the beginning of the period	161,578	119,092	155,921	128,835
Cash and cash equivalents at the end of the period	**165,559**	**153,300**	**165,559**	**153,300**

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

IFRS, unaudited

€ thousands	September 30, 2006	September 30, 2005	Q3 2006	Q3 2005
Currency translation differences	– 18,108	22,499	336	941
Net gain/loss from fair value measurement of financial instruments not recognized in income	165	– 1,207	146	149
Net gain/loss from fair value measurement of net investments in foreign operations not recognized in income	– 2,048	– 15,743	– 10,311	934
Total income and expense directly recognized in equity	**– 19,991**	**5,549**	**– 9,829**	**2,024**
Net income for the period (from P&L)	50,888	42,959	17,091	15,248
Total recognized income and expense	**30,897**	**48,508**	**7,262**	**17,272**

* These valuation impacts are posted directly to equity and are therefore not recognized as a part of the P&L statement

Segment report for the nine months ended September 30, 2006 IFRS, unaudited						
€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	59,032	20,943	31,715	111,690	– 18	111,672
Maintenance	83,181	19,974	38,975	142,130	– 46	142,084
Services	26,095	45,843	22,518	94,456	– 1,320	93,136
Other	777	372	110	1,259	437	1,696
Total revenue	**169,085**	**87,132**	**93,318**	**349,535**	**– 947**	**348,588**
EBITA	**50,207**	**– 4,894**	**12,890**	**58,203**	**18,611**	**76,814**
Interest result						6,404
Profit before taxes						83,218
Taxes						– 32,330
Net income						**50,888**
Total revenue proportion per region in %	48.4	24.9	26.7	100.0		
Product revenue	142,213	40,917	70,690	253,820		
Proportion per region in %	56.0	16.1	27.9	100.0		

Segment report for the nine months ended September 30, 2005 IFRS, unaudited						
€ thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	44,663	19,577	24,181	88,421	– 165	88,256
Maintenance	80,786	18,422	35,939	135,147	– 361	134,786
Services	27,125	40,556	23,618	91,299	– 1,272	90,027
Other	317	493	175	985	405	1,390
Total revenue	**152,891**	**79,048**	**83,913**	**315,852**	**– 1,393**	**314,459**
EBITA	**43,545**	**7,206**	**12,317**	**63,068**	**4,460**	**67,528**
Interest result						4,079
Profit before taxes						71,607
Taxes						– 28,648
Net income						**42,959**
Total revenue proportion per region in %	48.4	25.0	26.6	100.0		
Product revenue	125,449	37,999	60,120	223,568		
Proportion per region in %	56.1	17.0	26.9	100.0		

To optimize the management of the Group, as of January 2006 several distribution areas have been differently assigned to the regions. The regions have changed as follows:
– The region "North Europe/North America" took over the responsibility for the distribution areas of France and Italy from the region "South".
– The region "South" took over the responsibility for the distribution areas of Middle East including Israel and the distribution partner SPL-Israel from the region "Central Europe/Asia".
– The region "Central Europe/Asia" took over the responsibility for the distribution area of Netherlands from the region "South".
A restated Segment Report for the year 2005 under the new regional structure can be found on our homepage at Investor Relations/Financial reports and presentations (www.softwareag.com/Corporate/InvestorRelations/reports/default.asp).

Segment report Q3 2006 IFRS, unaudited € thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	21,347	6,935	8,749	37,031	– 18	37,013
Maintenance	26,951	6,745	14,218	47,914	80	47,994
Services	7,794	13,655	7,237	28,686	– 487	28,199
Other	269	82	27	378	178	556
Total revenue	**56,361**	**27,417**	**30,231**	**114,009**	**– 247**	**113,762**
EBITA	**15,348**	**– 6,324**	**999**	**10,023**	**15,611**	**25,634**
Interest result						2,161
Profit before taxes						27,795
Taxes						– 10,704
Net income						**17,091**
Total revenue proportion per region in %	49.4	24.1	26.5	100.0		
Product revenue	48,298	13,680	22,967	84,945		
Proportion per region in %	56.9	16.1	27.0	100.0		

Segment report Q3 2005 IFRS, unaudited € thousands	Northern Europe, North America	Southern and Western Europe	Central and Eastern Europe, Asia	Total Region	Development, Central function, Consolidation	Total Group
Licenses	13,230	7,225	8,751	29,206	– 43	29,163
Maintenance	27,197	6,335	12,408	45,940	– 116	45,824
Services	8,744	12,185	8,087	29,016	– 553	28,463
Other	85	29	27	141	102	243
Total revenue	**49,256**	**25,774**	**29,273**	**104,303**	**– 610**	**103,693**
EBITA	**13,675**	**2,756**	**5,264**	**21,695**	**1,392**	**23,087**
Interest result						1,543
Profit before taxes						24,630
Taxes						– 9,382
Net income						**15,248**
Total revenue proportion per region in %	47.2	24.7	28.1	100.0		
Product revenue	40,427	13,560	21,159	75,146		
Proportion per region in %	53.8	18.0	28.2	100.0		

Accounting Policies

Basis of presentation

Software AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB). The IAS/IFRSs applicable as of December 31, 2005 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC). The same accounting policies have been applied in these interim financial statements as in the 2005 financial statements. Therefore, the accounting policies are not explained in detail in these quarterly financial statements. These quarterly financial statements have been prepared in accordance with IAS 34, Interim Financial Statements.

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

Changes in the consolidated group

The number of consolidated companies was increased from the level as of December 31, 2005 due to the formation of the following companies:

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

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

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

Earnings per share

Earnings per share were calculated by dividing net income for the period attributable to Software AG's shareholders by the weighted average number of shares outstanding during the reporting period and have been presented accordingly. Software AG has only issued common shares. In the third quarter of 2006, the weighted average number of shares amounted to 28,112,715. In the first three quarters of 2006, the weighted average number of shares was 28,075,445.

All three criteria for exercising options as set out in the first stock option plan for members of the Executive Board, officers and other employees were also met in the third quarter of 2006. None of the outstanding options under this stock option plan were exercised during the third quarter. The remaining 7,001 options under this plan may be exercised until 2008, provided the share price is at least €30 at the time the options are exercised. The diluted earnings per share were calculated for these potential shares using the treasury stock method and presented for the reporting period. Diluted earnings per share were calculated by dividing net income for the period attributable to Software AG's shareholders by the number of shares in issue and the exercisable stock options.

Notes to the consolidated balance sheet

Goodwill

The decline in goodwill of €140 thousand compared to December 31, 2005 resulted from currency translation differences due to exchange rate fluctuations.

Shareholders' equity

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

Statement of changes in equity for the nine months ended September 30, 2006

IFRS, unaudited

€ thousands	Shares		Capital	Retained	Consolidated	Currency	Other	Minority	Total
	Number	Share capital	reserve	earnings	income	translation differences	reserves	interest	
Equity as of January 1, 2006	**28,036,009**	**84,108**	**20,428**	**269,768**	**0**	**– 15,203**	**33,506**	**381**	**392,988**
Cash proceeds from issuing shares	76,706	230	1,927						2,157
Stock options			941						941
Consolidated income of the period					50,888				50,888
Dividend payment				– 22,429					– 22,429
Currency translation differences						– 18,108			– 18,108
Net result from the fair value valuation of securities not recognized in income statement							165		165
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							– 2,048		– 2,048
Equity as of September 30, 2006	**28,112,715**	**84,338**	**23,296**	**247,339**	**50,888**	**– 33,311**	**31,623**	**381**	**404,554**

Statement of changes in equity for the nine months ended September 30, 2005

IFRS, unaudited

€ thousands	Shares		Capital	Retained	Consolidated	Currency	Other	Minority	Total
	Number	Share capital	reserve	earnings	income	translation differences	reserves	interest	
Equity as of January 1, 2005	**27,266,752**	**81,800**	**132**	**231,157**	**0**	**– 41,574**	**51,847**	**240**	**323,602**
Cash proceeds from issuing shares	666,605	2,000	16,664						18,664
Stock options			150						150
Consolidated income of the period					42,959				42,959
Dividend payment				– 20,450					– 20,450
Currency translation differences						22,499			22,499
Net result from the fair value valuation of securities not recognized in income statement							– 1,207		– 1,207
Net result from the fair value valuation of net investments in foreign operations not recognized in income statement							– 15,743		– 15,743
Equity as of September 30, 2005	**27,933,357**	**83,800**	**16,946**	**210,707**	**42,959**	**– 19,075**	**34,897**	**240**	**370,474**

The composition of the individual accounts of shareholders' equity did not change compared to December 31, 2005. The exercise of stock options from the first stock option plan increased the number of bearer shares by 76,706 to 28,112,715 shares in the first three quarters. This increased the Company's share capital by €230 thousand and the capital reserve by €1,927 thousand.

Dividend payment

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

Other disclosures

Seasonal influences

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

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

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

Contingent liabilities

€ thousands	
Guarantees	10,399
Other	1,392
Total	**11,791**

Stock option plans

Software AG has two different stock option plans for members of the Executive Board, officers and employees. This resulted in personnel expenses of €281 thousand in the third quarter of 2006 due to the transition regulations set out in IFRS 2. Personnel expenses for the first three quarters of 2006 amounted to €941 thousand. A total of 76,706 options have been exercised in the current fiscal year; however, no stock options were exercised in the third quarter. A total of 120,376 options were withdrawn in the first three quarters of 2006, 56,000 of them in the third quarter, due to employee turnover. As a result, as of September 30, 2006, a total of 673,376 stock options remain outstanding for exercise by members of the Executive Board and officers. As of December 31, 2005, 870,358 stock options had been issued to members of the Executive Board, officers and employees.

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

Other financial commitments

The Company has rent and lease agreements for buildings, land, computer and telephone equipment as well as vehicles. The obligations under these contracts for the remaining non-cancelable terms up to the end of fiscal year 2006 amount to €2,878 thousand. Obligations of €26,845 thousand exist for the period up to the end of fiscal year 2011, and obligations of €12,034 thousand for the period after fiscal year 2011. The lease agreements are operating leases as defined in IAS 17.

Notes on significant business events

The Professional Service Margin Improvement Project and other organizational adjustment measures gave rise to restructuring costs in the amount of €3,995 thousand. Furthermore, trade receivables in the amount of €6,255 thousand due from customers with good credit standings were written down due to considerable delays in payment. The average amount of write-downs required in the first three quarters of the past four years is only €2,058 thousand.

Due to the repayment planned in the near future of an intercompany loan resulting from a net investment in a foreign business operation, it was no longer possible to recognize the exchange rate differences in other reserves in accordance with IAS 21.32 in conjunction with IAS 21.15. For that reason, other operating income from exchange rate gains in the amount of €9.955 thousand arose in the third quarter of 2006.

Employees

As of September 30, 2006, the effective number of employees (i.e., part time employees are taken into account on a pro-rata basis only) amounted to 2,666 (September 30, 2005: 2,664), 70.6 percent of whom were employed abroad (prior year: 71.1 percent). The average absolute number of employees (i.e., part-time employees are recorded in full regardless of their average number of working hours) of the Software AG Group in the first three quarters of 2006 was 2,809 (prior year: 2,678). In absolute terms, the Group employed 2,751 people (prior year: 2,774) at the end of the third quarter on September 30, 2006.

Executive Board and Supervisory Board

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

Events after the balance sheet date

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

Financial Calendar*

November 09	German Technology Conference, Commerzbank AG, Frankfurt, Germany
November 15	UBS Global Communications and Technology Conference, New York, USA
November 16	European Mid Cap Conference, CA Cheuvreux, New York, USA
November 27	German Equity Forum, Deutsche Börse AG, Frankfurt, Germany
December 05	Exane BNP Paribas Small & Mid Cap Forum, Paris, France
January 23, 2007	Q4/FY 2006 Financial Figures
April 24, 2007	Q1 2007 Financial Figures
May 11, 2007	Annual General Meeting, Frankfurt/Main, Germany

* Status: October 2006

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

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