The Power of PROCESS INNOVATION

Annual Report | 2009

MISSION

Software AG is the global technology leader in business process excellence. Our 40 years of innovation include the invention of the first high-performance transactional database, Adabas; the first business process analysis platform, ARIS; and the first B2B server and SOA-based integration platform, webMethods.

We are unique in offering the world's only end-to-end—and easiest to use—business process management (BPM) solutions, with the lowest total-cost-of-ownership. Our industry-leading brands, ARIS, webMethods, Adabas, Natural and IDS Scheer Consulting, represent a unique portfolio for: process strategy, design, integration and control; SOA-based integration and data management; process-driven SAP implementation; and strategic process consulting and services.

ACHIEVEMENTS

1

number 1 in business process excellence

€ 2.19 bn.

market value of Software AG

€ 847.4 mn.

total revenue

25.8 %

EBIT margin

6,013

employees worldwide

10,000

customers in a variety of sectors all over the world rely on Software AG technology

KEY FIGURES 2009

KEY FIGURES on December 31, 2009
IFRS, unaudited

€ million (unless otherwise stated)	2009	2008	change in %	Q4 2009	Q4 2008	change in %
Revenue	**847.4**	**720.6**	**18**	**292.1**	**212.4**	**38**
Product revenue	580.5	539.1	8	181.1	163.2	11
of which						
Licenses	269.9	272.0	−1	98.7	87.5	13
Maintenance	310.6	267.1	16	82.4	75.7	9
Professional Services	262.5	177.8	48	109.0	47.3	130
Other	4.4	3.7		2.0	1.9	
EBIT	**218.2**	**180.5**	**20.9**	**79.4**	**54.9**	**44.6**
as % of revenue	25.8	25.1		27.2	25.8	
Net income	**140.8**	**115.9**	**21.5**	**48.1**	**35.2**	**36.6**
as % of revenue	17.0	16.0		16.0	17.0	
Earnings per share (€ basic)	4.92	4.05	21	1.65	1.23	34
Earnings per share (€ diluted)	4.91	4.04	22	1.65	1.23	34
Total assets	**1,652.5**	**1,060.0**				
Cash and cash equivalents	**218.1**	**96.9**				
Shareholders' equity	**647.5**	**549.1**				
as % of total assets	39.0	52.0				
Employees*	**6,013**	**3,526**				
of which in Germany	2,149	772				

KEY SHARE DATA

	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS
Year-end closing price (Xetra) in €	76.40	40.00	60.57	59.74
Year high in €	77.77	60.37	77.20	59.89
Year low in €	34.78	29.50	50.12	37.43
Number of shares at year end	28,708,410	28,638,842	28,539,455	28,112,715
Market capitalization at year end in € million	2,193.3	1,145.6	1,728.6	1,679.5
Dividend per share in €	1.15	1.10	1.00	0.90
Earnings per share in €	4.92	4.05	3.11	2.60
Price/earnings ratio at year end	15.5	9.9	19.5	23.0
Operating cash flow per share at year end in €	6.98	4.89	3.29	2.18

Frankfurt (Prime Standard/TecDAX), ISIN DE 0003304002

* Full-time equivalents

BUSINESS MODEL

Business Process Excellence

	Enterprise Transaction Systems	webMethods	Enterprise Process Innovation
Maintenance & Licenses	■ Adabas ■ Adabas SQL Gateway ■ Adabas SOA Gateway ■ Event Replicator ■ Adabas Manager ■ Natural ■ Natural for Ajax ■ Natural Business Services ■ Natural SQL Gateway ■ Natural for Eclipse ■ Natural Engineer	**webMethods Suite** ■ Application Modernization ■ Business Activity Monitoring (BAM) ■ Business Process Management (BPM) ■ Business-to-Business Integration ■ Composite Applications ■ Enterprise Service Bus (ESB) ■ Service-Oriented Architecture (SOA) ■ XML Data Management (Tamino) ■ EntireX **CentraSite** ■ Service and Process Governance ■ ActiveSOA	**Modules of ARIS Platform** ■ ARIS Strategy Platform ■ ARIS Design Platform ■ ARIS Implementation Platform ■ ARIS Controlling Platform
Services	**Global Consulting Services**	**Global Consulting Services**	**IDS Scheer Consulting**

BUSINESS LINES REVENUE SEGMENTS PRODUCTS

CONTENTS

THE COMPANY

LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,

2009 was a successful and very eventful fiscal year for Software AG. We laid the foundation for our future. Above all, I'm referring to our acquisition of IDS Scheer AG, which has added a whole new dimension to our value chain, market reach, and company size. Joining forces with IDS Scheer has created a vendor-neutral, global market leader in business process excellence with over one billion euros in expected annual revenues and a staff comprised of more than 6,000 employees.

RECORD RESULTS AGAIN IN 2009

Despite a challenging economic climate, we achieved 18 percent growth in Group revenue, totaling €847 million, while operating earnings (EBIT) improved 21 percent to hit €218 million. This record-breaking result confirms that we are growing profitably.

Our success benefits all those involved in our business: employees, customers, and investors. We secured jobs. We invested in research and development to expand our leading technology portfolio. And, we became more profitable.

RECOGNITION FOR OUR INNOVATIVE PRODUCTS

As a leading software company worldwide, Software AG considers innovation to be of pivotal importance to our growth strategy. We therefore maintained a stable level of investments in 2009. This paid off. IT analysts again recognized our existing products as leaders. We also launched new products in 2009, further expanding our portfolios in the ETS and webMethods business divisions. In addition to our takeover of IDS Scheer AG, we also increased our technological strength with the acquisitions of itCampus of Leipzig and Swiss software company Teconomic.

ACQUISITION OF IDS SCHEER AG

Our takeover of IDS Scheer AG in 2009 marked a further large-scale acquisition for us. Customers and market observers alike deemed the merger a strategic match for both companies, which are top-class in their respective markets.

The merger was welcomed in the financial world as well. Our positive fourth-quarter and full-year financial results for 2009 had a convincing impact. We proved that we are capable of achieving a good EBIT margin even after integration of IDS Scheer.

IDS Scheer AG is a perfect fit for our company. Software AG's strong points—technological leadership in middleware products, financial strength, and a global presence—are complemented by those of IDS Scheer. In particular I'd like to emphasize IDS Scheer's impressive consulting presence with 7,500 customers, its extensive industry expertise, and its strong position in SAP consulting. You can read more about the reasons for our takeover, IDS Scheer AG, and our plans for working together in the future on pages 14–17 of this annual report.

GRATEFUL TO EMPLOYEES

I would like to express my gratitude to our dedicated, qualified, and highly motivated employees. Thanks to them, Software AG was successful in an extremely challenging period. Our last annual report was dedicated to the subject of Corporate Social Responsibility. It documented the following: We believe in success by doing business in a sustainable way. For this reason, we continued investing in the qualification of our employees in spite of a rigid savings plan implemented early in 2009.

CONTINUED PROFITABLE GROWTH

We will continue doing everything in our power to keep Software AG on a profitable growth path. We expect to achieve the revenue target of one billion euros we had set for 2011 in the current 2010 fiscal year. Now we must continue increasing company value in a sustainable manner. Our primary focus this year will be successfully completing integration of IDS Scheer. With our track record of successful integration of acquired companies, for example, webMethods and others, we consider ourselves to be well prepared.

We are an internationally leading software company, a technology leader with solid growth. We are at the top of the list in our industry

when it comes to how customers rank us and how existing and new employees value us as an employer.

The combination of IDS Scheer's and Software AG's two successful business models should lead to an increase in operating earnings per share as early as 2010.

RECORD SHARE PRICE

Capital markets also gave their seal of approval on our efforts and recognized the significance of our strategic focus through the acquisition of IDS Scheer AG. Our share price almost doubled last year, reaching a five-year high in December 2009.

Esteemed shareholders, despite our large investment in securing the future of our Company, we also want you to be a participant in the development of Software AG. The Executive and Supervisory Boards will therefore propose a dividend of €1.15 per share at the Annual Shareholders' Meeting.

Thank you for your trust.

Yours sincerely,

Karl-Heinz Streibich
Chief Executive Officer

THE EXECUTIVE BOARD

Karl-Heinz Streibich **Chief Executive Officer (CEO)**
Member of the Executive Board since 2003
Born in 1952; Karl-Heinz Streibich is responsible for Global Marketing, Human Resources, Legal, Internal Audit, Processes, Corporate Communicatons and Partners.

Arnd Zinnhardt **Chief Financial Officer (CFO)**
Member of the Executive Board since 2002
Born in 1962; Arnd Zinnhardt is responsible for Finance and Treasury, Controlling, Business Operations, Taxes, Global Purchasing, Investor Relations, Mergers and Acquisitions, Global IT, Support and Administration.

David Broadbent **Chief Operating Officer (COO)**
Region East
Member of the Executive Board since 2007
Born in 1960; David Broadbent is Chief Operating Officer and responsible for both business divisions, ETS and webMethods, Region East (Asia/Pacific, Nordic, Central Europe, South Africa).

Mark Edwards Chief Operating Officer (COO)
Region West
Member of the Executive Board since 2003
Born in 1956; Mark Edwards is Chief Operating Officer and responsible for both business divisions, ETS and webMethods, Region West (North America, Latin America, Northern/Western/Southern Europe).

Dr. Peter Kürpick Chief Product Officer (CPO)
Member of the Executive Board since 2005
Born in 1966; Dr. Peter Kürpick is responsible for Research & Development in both business divisions, ETS and webMethods.

Ivo Totev Chief Services Officer (CSO)
Member of the Executive Board since 2009
Born in 1967; Ivo Totev is responsible for the Global Consulting Services business unit worldwide with a focus on IT transformation.

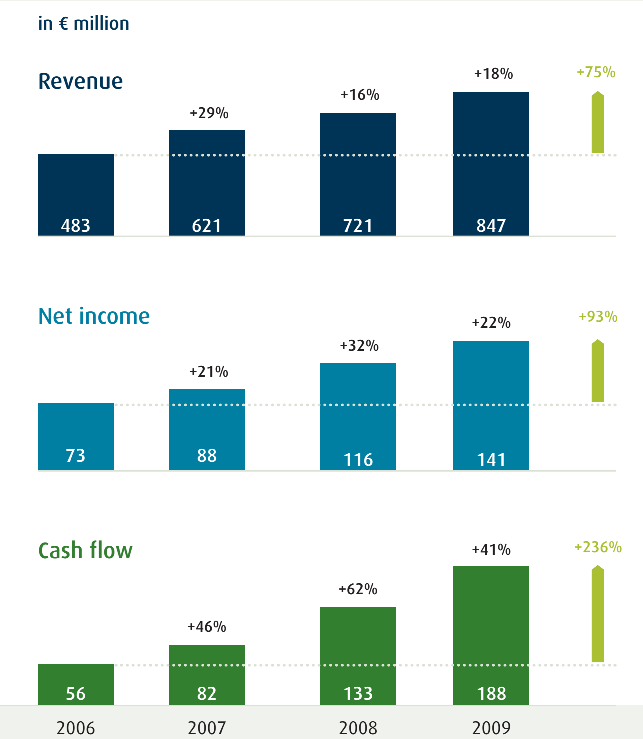
STRATEGY

Software AG wrote yet another chapter in its story of success in the same year it celebrated its 40th anniversary. Our record-breaking financial results join an impressive lineup. In the past four years, revenue has increased at a rate of 75 percent; net income has risen by 93 percent; cash flow has improved by 236 percent to total €188 million; and, the number of employees has more than doubled to total 6,013.

PROFITABLE GROWTH

Even during a global financial and economic recession, Software AG was able to maintain its profitable growth. In 2009 revenue grew 18 percent, net income 22 percent, and cash flow 41 percent year on year.

THROUGH THE CRISIS WITH PROFITABLE GROWTH



The foundation of this unique success is a long-term corporate strategy, whose consistent implementation and further development progressed significantly in the year under review. A result of the strategy was our robust business model that allowed Software AG to grow profitably in a global recession as was the case in 2009.

ROBUST BUSINESS MODEL

- Our business-oriented software solutions control the core processes of our enterprise customers, thereby safeguarding their business operations.
- As long as these business processes exist, our software will be needed—even if a company is taken over by another.
- Maintenance and a large percentage of service and license fees represent continuous sources of income and account for a large portion of our earnings.
- From a customer standpoint, these fees are recurring operating costs and therefore less vulnerable to economic conditions than investment spending, which is typically reduced in times of crisis.

In 2009 a further milestone toward the long-term securing of our Company was met. In the past Software AG had been a specialized provider of infrastructure software for business processes worldwide. This included modernization, automation, and optimization of enterprise customers' existing IT systems and processes. The acquisition of IDS Scheer expanded our strategic focus during the course of the year: from provider of infrastructure to provider of software solutions for business process excellence.

The acquisition of IDS Scheer takes Software AG to a new dimension with respect to value chain, market access, company size, and market position. By joining forces with IDS Scheer, we became global technology leader in business process excellence, with over one billion euros in expected annual revenue and more than 6,000 employees.

MISSION

It is our long-term goal to become one of the leading providers of enterprise software in the world, whose technologies and expertise drive efficient processes in industry and society.

Our vision is that our technologies and expertise contribute to solving central problems in society. For example:

- Improved standard of living and productivity through innovation based on enterprise software
- Improved security in banking and financial sector enabled by software-driven transparency and controllability through digital processes
- Improved healthcare enabled by secure, efficient connectivity between medical care facilities
- Reduced CO_2 emissions with software-driven, intelligent energy grids and resource optimization based on digital processes
- Modernized state-run offices with efficient services for citizens and companies with intelligent internal administrative processes

VISION

In order to achieve this, we want to become market and technology leader in multiple enterprise software market segments. At present we are the technology leader in process optimization and IT-based process implementation. Here we aim to become the market leader in various segments by increasing our market share through a dedicated growth strategy.

Secondly, we want to expand our role as an innovation partner to customers. Our customers are companies and public institutions that want to realize efficiency boosts and benefits through digitization of their business models or organizational structures and optimization of their processes.

We are convinced that process innovation will become equally as important to our customers as product innovation. Vendors in many sectors do not differentiate themselves by their products. But rather process excellence plays the decisive role in gaining a competitive edge in all industries.

We estimate that the process innovation market will be larger than the ERP (enterprise resource planning) market is today. Repositioning ourselves in the process optimization space opens up great growth potential and thus excellent prospects for the future. Our role will reach from that of project partner to strategic process innovation partner. Optimization of core processes is not a product, but rather a system, which requiers a systems partner like Software AG.

Thirdly, we want to focus our software solutions and consulting on the realization of process innovation. This means that our IT solutions make companies and public institutions flexible enough to react to changing requirements. We are specialized in bridging existing IT silos and creating end-to-end processes on agile IT systems. Our technology will thus remain platform-independent, easy to use and fast to implement (ease of use). Innovation must be cost-effective. For this reason, we develop software solutions that significantly improve our customers' operational business and provide them with these improvements as inexpensively as possible. To achieve this, low implementation and operating costs are essential.

We apply our experience with customers and the market to all new software developments (customer-centric innovation). Our goal is to be ranked at the top by industry analysts for each one of our products, because this type of reference distinguishes us as an innovation partner for our customers.

We intend to keep the strategic focus of our product portfolio on horizontal, cross-industry software. We rely on the assistance of systems integrators and technology and sales partners to transform our products into vertical (industry-specific) software solutions. With respect to consulting, we are establishing new and expanding existing industry expertise which has become significantly stronger with the addition of the IDS Scheer consulting business.

We stand out from the competition because of our technologically leading process optimization product offering and the technological independence of our solutions, which means freedom for our customers. The ease and speed with which we develop new concepts and implement IT solutions, our 40-plus years of experience with business-oriented software, and our financial stability due to our anchor investor, Software AG Foundation, make us a strong, trustworthy partner for our customers.

GROWTH PATH

Our Company is following a path of sustainable growth. Success is the prerequisite for growth. Furthermore, customers demand a successful technology partner. Growing, stable companies are attractive to customers, partners, employees, and investors. One look at the market shows that the trend in the software market is one of consolidation. Software AG therefore believes that successful software companies must realize size advantages through organic growth and acquisitions.

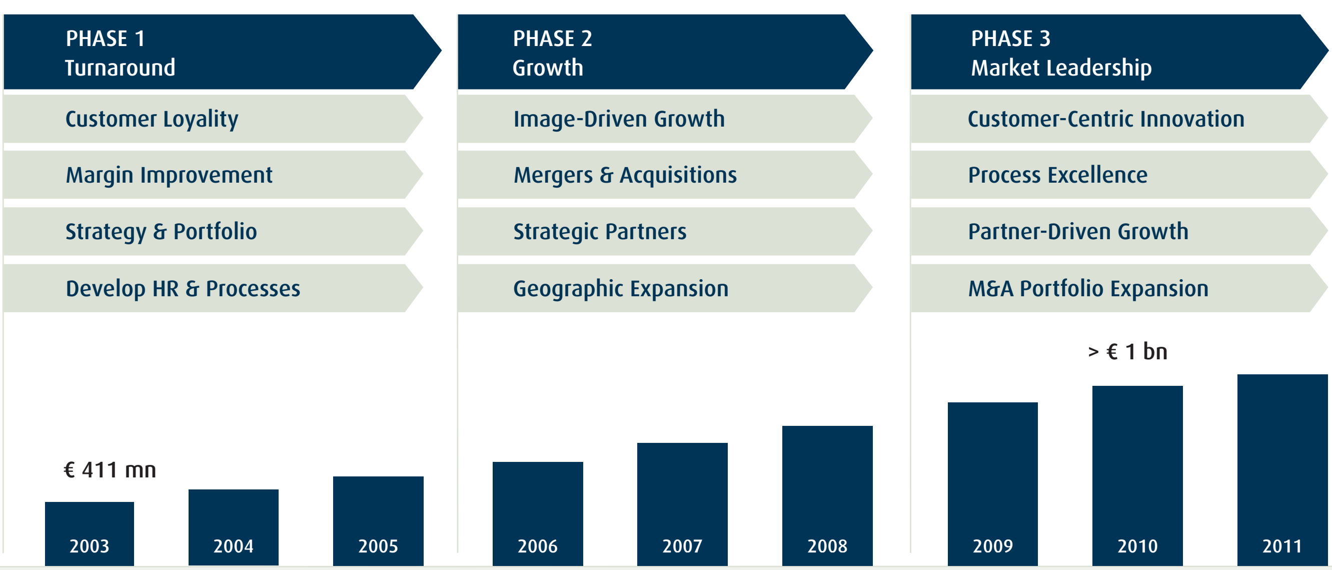
Our sustainable corporate growth consists of customer orientation, in-house research and development, close cooperation with partners, personal development for employees, and social responsibility. We want to become bigger and better all the time.

OPERATIONAL IMPLEMENTATION

Software AG has been implementing a clear and long-term strategy since 2003. This strategy has led the Company from a difficult economic position to growth. The period between 2009 and 2011 is our "market leadership" phase, which will culminate in the achievement of our revenue target of one billion euros combined with dynamic earnings growth. The following four growth-driving concepts will enable this:

1. Customer-centric innovation
2. Process excellence
3. Partner-driven growth
4. M&A portfolio expansion

SOFTWARE AG HAS A CLEAR COMPANY STRATEGY TO ACHIEVE €1 BILLION IN REVENUE (TEN-YEAR PLAN EXCERPT)



These growth engines represent the four pillars of our growth strategy. Each of them generates additional revenue from a different area. They complement each other's strengths and compensate for each other's risks. The result is a sound, innovative, and successful company whose organic growth is supplemented with external growth at the same time. All four growth engines were expanded and contributed to overall growth in 2009.

1. CUSTOMER-CENTRIC INNOVATION

Innovation is our core business and includes ongoing development of our portfolio. As a highly customer-oriented innovation leader, ongoing enhancement and expansion of our offering is essential. Up to now Software AG has always been known as a product provider that has developed its own software products and solutions for more than 40 years. This approach continuously provides customers with the market's best technology and direct service. Customers are thus eager to invest in new projects and maintenance agreements. Our Company generates stable income and margins, thereby safeguarding its long-term future. Customers' IT investments are protected.

The year 2009 showed how important maintenance business is to software companies. Customers look for two critical factors before signing maintenance agreements: optimal support and ongoing product innovation (new products). We accomplished this in 2009 with webMethods 8, and in ETS, with our new Discovery Edition for Natural and Mainframe Edition for Optimize for Infrastructure.

New products, which will drive future growth, were a focal point of 2009 in addition to further developments.

At CeBIT 2009 we presented our new AlignSpace Community. This product creates a bridge between social communities and business process management (BPM). AlignSpace is the first social network for BPM experts. It links public, collaborative software platforms with company-internal development platforms. We integrated this product with ARIS and introduced it at Cebit 2010 as ARISalign.

Various new products in 2009 were ranked number-one among the competition by top industry analysts. Software AG customers continue to receive one of the best offerings in the market, as of this year, in business process management, SOA governance, and enterprise service bus.

Our role as an innovation leader naturally had a positive impact on our growth. Software AG occupied first place in the SOA governance market with a share of about 14 percent, leaving the second-place competitor almost three points behind.

Software AG's two technology acquisitions in 2009 also contributed to our innovation potential. The first was research-oriented software company itCampus of Leipzig, and the second was Swiss software firm Teconomic, specialist in IT solutions and services for the European financial sector.

A further strategic component of customer-centric innovation are development partnerships. In the year under review Software AG, SAP, and other partners from German industry and academia launched a research project entitled the Alliance for the Digital Flow of Goods (ADiWa). With the help of BPM and RFID, they will investigate the use of intelligent business processes in the Internet of Things.

Because of the strategic importance of innovation to our Company's growth strategy, corporate R&D investment remained a top priority despite a stringent savings plan as part of our Crisis Response Program 2009. R&D and training were not targets of our cost-cutting efforts.

2. PROCESS EXCELLENCE

Our second growth engine, process excellence, encompasses both the development of innovative products and solutions for customers, but also use of them for our internal processes. We continued to digitize Software AG based on our own product portfolio in 2009. Optimized, automated processes for central contract approval and personnel administration based on SOA, BPM, and webMethods solutions contributed to achieving Software AG 2.0.

3. PARTNER-DRIVEN GROWTH

Our partner business—the third growth engine in Software AG's corporate strategy—also evolved positively, contributing to growth in 2009. Our network of partners, consisting of systems integrators, OEMs, and independent software vendors, sustainably bolstered business particularly in the webMethods product line. Our partners had a positive effect on Software AG's revenue from webMethods licenses in 2009 contributing more than 30 percent. This represents a 24 percent increase over 2008. Ninety percent of webMethods license revenue through partners were new projects with new or existing customers. Vertical-industry expertise plays an important role in our successful partner business. Our partners' industry-specific know-how is directed at the following four sectors: public sector, financial, telecommunications, and manufacturing.

4. M&A PORTFOLIO EXPANSION

Our takeover bid for software company IDS Scheer AG of Saarbrücken, Germany was the focal point of our Company's strategic development and future-securing activities in 2009. Merging with IDS Scheer created a global player in business process excellence. (Refer to the Special Section on IDS Scheer AG Takeover, p.14.)

From a strategic perspective the acquisition means an extended value chain and a broader market reach.

(1) Extended value chain

Through the acquisition of IDS Scheer, Software AG has gained new expertise in the analysis, design, and monitoring of business processes. In the past, Software AG's strengths lay in the implementation of digital business processes. Now our offering has been enriched to encompass prior modeling of optimal processes. For example, the IDS Scheer ARIS product line enables existing business processes to be analyzed and modeled to subsequently be translated into IT-driven processes. With ARIS process flows can be developed and modeled. The webMethods Suite translates and implements them. In other words, ARIS and webMethods are perfect complements to each other.

Software AG's existing product portfolio has been expanded to cover the entire value chain: a one-of-a-kind product portfolio in the global market. For the first time, Software AG provides a comprehensive business process optimization offering: analysis, modeling, design, and implementation of IT-driven business processes as well as real-time control and monitoring. Further confirmation of this ideal combination is the fact that industry analysts have described the IDS Scheer portfolio as "leading" for market segments in which Software AG previously was not active. Thanks to IDS Scheer, Software AG will win new market segments such as business process analysis (BPA) and enterprise architecture tools (EA).

(2) Broader market reach

Software AG's broadened market reach is a result of IDS Scheer's consulting business. IDS Scheer is known for both products and consulting company, while IT consulting is its primary focus. Their consulting business employs some 1,700 IT specialists and generates about 70 percent of their revenue. The consulting operation is comprised of independent IT experts, who carry out process optimization at management level, and SAP consultants, who are specialized in the process-oriented implementation of SAP applications. IDS consultants think and speak the language of business, catering to managers as users of IT.

Software AG has thus gained an additional market entry point in that IT assumes a supporting role to management. This reflects current market trends. Business and IT are becoming more and more enmeshed every day. Digitization produces new business models and process innovations that are not limited to just the IT department, but become a foundation for all levels of management.

Our company will market the following brands in the future: Adabas, Natural, ARIS, webMethods, and IDS Scheer Consulting. These products, solutions, and services enable our customers to design and optimize their processes as well as automate (BPM), integrate (SOA), monitor (PI), and manage them. Furthermore, this is combined with our unique consulting expertise in process-oriented SAP implementation and strategic process consulting and services.

In addition, the merged company will be able to leverage a broader spectrum of go-to-market approaches starting in 2010: customer base (particularly ETS) support and maintenance , projects with existing and new customers with our webMethods offering, service management for Global Consulting business, SAP consulting, and strategic process consulting for ARIS and BPM customers.

Aside from Software AG's award-winning software products, we also strengthened our international consulting expertise by encompassing SAP and vendor-neutral strategy consulting. Customers around the world thus now have one-stop access to one-of-a-kind know-how, innovative products, and qualified industry-specific consulting.

OUTLOOK

Software AG is a globally leading software company—with respect to our technology, how customers value us, our growth, and our image as an attractive employer to new and existing employees.

WE WANT TO

- Become one of the leading providers of business process excellence in the countries in which we are represented
- Become one of the economically most successful software companies in the world
- Retain our independence, with the help of our anchor investor, Software AG Foundation
- Realize large-scale acquisitions on a regular basis in order to combine organic with external growth
- Double revenue at least every five to six years

Hitting our target of one billion euros in revenue will mark the beginning of a new phase of profitable growth for Software AG. Qualitative growth and a sustainable increase in company value will be our focal points.

IDS SCHEER AG TAKEOVER
TECHNOLOGY LEADERSHIP IN BUSINESS PROCESS EXCELLENCE

TAKEOVER BID

A key element of strategic development and securing the future of Software AG in 2009 was the takeover bid for German software and consulting company IDS Scheer AG, Saarbrücken. The merger with IDS Scheer makes us a global player in business process excellence, with 6,000 employees and annual revenues of more than €1 billion. For further information on the strategic integration and market positioning, refer to Corporate Strategy, p. 8.

MOTIVES FOR THE TAKEOVER

Software AG's strengths—technological leadership in middleware products and business process automation, financial power, and a global presence—are complemented by IDS Scheer's strengths in modeling, analysis, and monitoring of business processes, its strong partner network, and a large consulting presence in their approximately 7,500 customer base. IDS Scheer offers extensive industry expertise, direct access to vertical markets, and a strong position in the SAP consulting business.

The combination of the two technologically leading product portfolios covers all the links in the value-added chain for business process excellence—from analyzing business processes to modeling, implementing, and monitoring them, as well as measuring performance in real time. This depth of products is unique on the world market, thereby strengthening Software AG's competitiveness in the long term.

Achieving critical mass in more key European markets actively improves our Company's position. In addition, IDS Scheer's consulting expertise increases the ability to implement our own products in industry-specific and major projects. The merged company will gain importance throughout the world in the growth market of business process management (BPM/BPA), emerging as a new, more powerful provider for integrating SAP solutions into heterogeneous application landscapes and giving customers competitive advantages through more efficient, Web-based overall systems.

The merger allows IDS Scheer to grow sustainably, secure the long-term future of ARIS, and expand worldwide the consulting expertise and market presence it has built up over many years. Both companies have strong brands, an excellent image around the world, and similar cultures. It is fitting, therefore, that the strong IDS Scheer brand is retained for consulting services, along with the ARIS software platform. The name IDS Scheer will continue as a consulting brand and stand for outstanding consulting expertise.

SHORT DESCRIPTION OF IDS SCHEER

IDS Scheer was founded by Professor August-Wilhelm Scheer in 1984 as a spin-off from Saarland University. From May 1975 to February 2005, Professor Scheer was the Director of Saarland University's Institute for Information Systems (IWi), and focused research on information and business process management for industry, services, and

75 %
September 23
Publication of takeover bid

90 %
October 23
End of offer period

Publication of 3rd quarter results (consolidated results as of Aug. 20, 2009)

August 17, 2009

October 8, 2009

November 5, 2009

OFFER PERIOD

PREPARATION FOR INTEGRATION CONTINUES

administration. Since March 2005, he has been a consulting professor at the German Research Center for Artificial Intelligence (DFKI).

With Professor Alexander Pocsay as CEO and research staff from the IWi, IDS—Integrierte Datenverarbeitungssysteme GmbH commenced operations as a consulting company in Saarbrücken. The company's IPO on the Frankfurt stock market took place in 1999 (ISIN DE0006257009), followed by a listing on the NEMAX and founding membership in the TecDAX starting in 2003. With revenues of €259.4 million as of September 30, 2009, 2,697 employees, and more than 7,500 customers in over 70 countries, IDS Scheer can look back on 25 years of success and innovation. The company is considered one of Europe's most successful software startups to originate in the world of academia and become an international player.

Leading industry analysts confirm that IDS Scheer AG has the world's best product portfolio for business process analysis (BPA). Since 1997, the company has been number one in the market rankings for BPA; in recent years, the same has been true for enterprise architecture (EA) as well. EA is a method of IT governance and standardization aimed at setting the right course to make changes to the IT landscape that provide long-term, flexible, ideal support for corporate strategy.

The key software product for this is the ARIS Platform for Process Excellence, an integrated solution portfolio for business process strategy, analysis, design, implementation, and controlling.

From small and medium enterprises (SMEs) to the Global 1000, IDS Scheer helps companies optimize their investments in strategic business and technology initiatives. Through its ARIS Value Engineering (AVE) approach, IDS Scheer offers process-oriented consulting expertise and worldwide, industry-specific experience with projects dealing with consumer goods/retail, chemicals/pharmaceuticals, manufacturing, and public administration. The Managed Services offering supports the entire business process lifecycle and helps customers during the execution and continuous improvement of business process.

IDS Scheer's consulting expertise creates added value for customers in the customer-specific implementation of service-oriented architectures (SOA) and BPM/BPA solutions, especially in an SAP environment.

TAKEOVER PROCESS ON TARGET

Software AG announced the takeover of IDS Scheer AG, Saarbrücken, on July 13, 2009. The period for accepting the takeover bid began for IDS Scheer AG shareholders on August 17, 2009, with the publication of the bid documents. Software AG's bid offered IDS Scheer shareholders €15 in cash for their shares. The purchase price for the entire share capital and the settlement costs totaled around €443 million. The takeover bid was issued via SAG Beteiligungs GmbH, a wholly owned subsidiary of Software AG.

Companies completely integrated

expected in late 2010

January 8, 2010	February 4, 2010	February 11, 2010	March 2 - 6, 2010	May 21, 2010	2011
IDS Scheer Extraordinary General Meeting	Annual results press conference	Domination and profit-transfer agreement registered	CeBIT 2010 first joint market presence	Software AG Annual Shareholders' Meeting 2010	

DETAILED COMMUNICATION ON JOINT OPERATIONS

IMPLEMENTATION OF JOINT OPERATIONS

By the end of the first bid acceptance period, on September 18, 2009, Software AG held about 88 percent of IDS Scheer shares. This figure included the approximately 48 percent of shares transferred by the company's founders and principal shareholders, Professor Scheer and Professor Pocsay.

Subsequently, Professor Scheer (Chairman of the Supervisory Board) and Professor Pocsay (Deputy Chairman of the Supervisory Board) stepped down as of September 30, 2009. Karl-Heinz Streibich and Arnd Zinnhardt were appointed to the IDS Scheer AG Supervisory Board. And the IDS Scheer AG Supervisory Board elected Helmut Mader as its new Chairman on November 2, 2009.

After extending the bid acceptance period, Software AG owned 90.002 percent of IDS Scheer AG shares through its wholly owned subsidiary, SAG Beteiligungs GmbH, as of October 23, 2009. As a result, IDS Scheer shares were removed from the Frankfurt Stock exchange index because the number of shares in free float fell below the minimum level. On December 31, 2009, Software AG held 91 percent of IDS Scheer shares. Our goal is complete integration within the framework of a merger in the course of fiscal year 2010.

The next step toward integration was a domination and profit transfer agreement concluded between IDS Scheer AG and SAG Beteiligungs GmbH and approved by the IDS Scheer AG Extraordinary General Meeting on January 8, 2010. This agreement takes effect when registered in the Commercial Register and allows the two organizations to integrate their operational business and take advantage of cost and sales synergies. Cost synergies on the order of 25 to 30 million euros are expected as a result.

FINANCING PROCEEDED SMOOTHLY

To finance the purchase price of approximately €443 million, Software AG is employing outside capital raised on favorable terms in the amount of €329 million in the form of bank loans and promissory notes (€284 million) and a subordinated loan from the majority shareholder, Software AG Foundation (€45 million). Software AG's own resources amounted to €218 million at the end of 2009. The liabilities to banks will be repaid from operating cash flow by 2012 and the subordinated liabilities in 2013.

The common strategy will have a clear focus on growth, with growth drivers being increased sales of the expanded product offerings, increased market access, and the specialized IDS Scheer consulting business.

It is expected that the combination of the two successful business models within Software AG will lead to higher earnings per share as early as the first full year of consolidation (2010).

TECHNOLOGICAL ASPECTS

On the product side, implementation of the combined ARIS and webMethods product offerings leads to definitive competitive advantages for customers.

- The integration of ARIS with webMethods BPM allows automated model transfer of business processes to IT-supported enterprise processes with no additional manual programming necessary.

- The ARIS product Process Performance Monitoring (PPM) enables monitoring of business process performance. Integration with Software AG's business activity monitoring (BAM) tool provides customers with a comprehensive solution for real-time monitoring of process flows. With this new product solution, customers can continually monitor business processes and determine how successfully the defined processes run in reality. Inefficient processes can therefore be identified, analyzed, and optimized, resulting in a closed loop.

- Improved modeling and planning of the IT landscape is made possible by the integration of the IDS Scheer Enterprise Architecture tool with Software AG product CentraSite. ARIS and CentraSite allow business and technical modeling of the IT landscape. ARIS helps clear up such issues as the following: Which business processes are supported by which applications and which system software do these applications run on? Can CentraSite help determine on a technological level which services are needed to conduct processes and which computers the services belong to? This gives rise to integrated offerings, from planning at CIO level to detailing of individual services that provide customers with competitive advantages.

Despite this integration of the ARIS and webMethods product portfolios, ARIS will remain a neutral, manufacturer-independent product. Customers and partners will continue to receive full ARIS support. The goal of the planned integration with webMethods is to optimize the benefit of ARIS content through common standards and interfaces. Customers and partners who use both ARIS and webMethods will receive a range of products that sets itself far apart from competitors' products.

EMPLOYEES

The Software AG Group, which now includes IDS Scheer, is poised for growth. In the long term, therefore, the number of employees is expected to increase. The merger gives IDS Scheer and Software AG employees the opportunity to work for an expanded and interesting company that is a technology leader for infrastructure software and business process management and offers multifaceted, attractive, and long-term international career opportunities.

The two companies are positioned in a complementary way to a great extent: in the product and consulting business, in research and development, in the regional sales structure, as well as with industries and partners. The complementary structure is to remain in a future organization. Therefore, one goal of the takeover is to maintain and further expand employees' knowledge, experience, motivation, and loyalty. There will be representatives from both companies at all management levels. For the operational areas, a strong incentive system will be established for cross-selling activities that mutually promote the sale of Software AG and IDS Scheer products or consulting services through both sales teams.

In addition, the corporate cultures of the two software companies fit well together. The IDS Scheer corporate culture is characterized by skill and motivation, innovation and integrity, ambition and success—virtues that correspond to Software AG's corporate values: innovation, trust, responsibility, open communication, and a spirit of success. This is an excellent basis for successful future collaboration.

SOFTWARE AG TECHNOLOGY AND CUSTOMERS
BUSINESS PROCESS EXCELLENCE

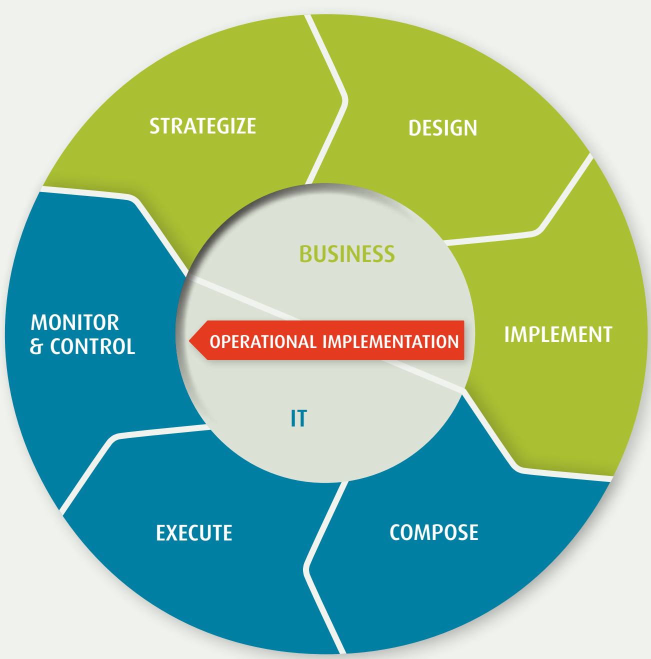
Business process excellence equips organizations for global competition. Only with optimized processes is it possible to stake a claim as a long-term competitive enterprise in the global market. Companies of tomorrow must therefore prioritize innovative IT solutions and process management with a view to improving existing processes and developing new business models.

Through our acquisition of IDS Scheer, Software AG now offers two complementary soutions which enable enterprises to establish and expand process excellence. The technological foundation is provided by webMethods, a comprehensive business process management system (BPMS) which includes an enterprise service bus for service orchestration, business activity monitoring, and robust modeling and integration tools.

WHAT MAKES BUSINESS PROCESS EXCELLENCE UNIQUE?
In an ideal scenario, an excellent business process is digitally modeled from end to end and is based on agile, adaptable IT systems. The ideal process needs to be clearly defined, transparent, and measurable every step of the way. This is the only way of ensuring fast identification of deviations and implementation of the appropriate corrective measures or even anticipation of potential errors. Excellent processes connect management, workers, external partners, and customers regardless of their location. These processes should also be highly flexible so that they can be adapted to changing market or business climate conditions. In this way, organizations create a basis for quickly realizing new business models and efficiently integrating external suppliers into their own value chains. Key performance indicators (KPI) help organizations achieve goals such as customer satisfaction, service quality, and profitability.

INTERPLAY BETWEEN BPM AND IT OFFERS NEW LEVEL OF QUALITY
Business-oriented process management, such as that which is enabled by ARIS, focuses on solely the operational needs of a particular department. Its objective is to ascertain what the business benefits of a process are. With ongoing business process enhancement, management of business processes becomes a process in and of itself, which is implemented and executed at the organization. All phases of a process are modeled from both a departmental and business point of view—from strategy definition and process design to model implementation and control. In contrast, when business process management (BPM) has a more technical focus, such as that which webMethods supports, IT solutions automatically execute process models at an IT infrastructure level.

BUSINESS PROCESS EXCELLENCE
LIFECYCLE MODEL



Building a bridge between the business process and technical process points of view within one lifecycle model takes the interplay between operative business and IT to a new level of quality.
The tight coupling of business and technical levels makes it necessary for business units to discuss in detail their process requirements with their internal IT department. With a combined product offering Software AG and IDS Scheer have exploited a unique opportunity to expand the concept of the BPM lifecycle, to encompass phases at the technical implementation levels. Process-driven development, in which technology is automatically adjusted to reflect modeling modifications and vice versa, becomes reality. This type of closed loop—referred to as round-trip engineering by software developers—is indispensable when it comes to enabling continuous BPM as a management and control system.

Software AG provides
BUSINESS PROCESS EXELLENCE (BPE)

Enterprise Business Process Management	Business Infrastructure	Enterprise Data
IMPROVE	**ADAPT**	**OPERATE**

SOLUTIONS

Enterprise Business Process Management	Business Infrastructure	Enterprise Data
■ Process Transformation ■ Process Improvement ■ Process Intelligence ■ Enterprise Architecture Management	■ Service-Oriented Enterprise Integration ■ B2B Integration ■ SOA Enablement & Governance	■ Application Development ■ Database Management ■ Mainframe and Legacy Integration

PRODUCTS

Enterprise Business Process Management	Business Infrastructure	Enterprise Data
■ ARIS Business Architect ■ ARIS IT Architect ■ ARIS PPM, Mashzone, Performance Dashboard ■ webMethods BPMS ■ webMethods Optimize (and friends) ■ webMethods CAF	■ webMethods ESB ■ webMethods B2B ■ webMethods Adapters & eStandards ■ webMethods EntireX and Applinx ■ CentraSite ■ ARIS IT Architect	■ Adabas ■ Natural ■ NaturalOne ■ webMethods EntireX and Applinx ■ ARIS IT Architect

VODAFONE, ICELAND
Seamless integration of disparate systems via webMethods Enterprise Service Bus (ESB) Platform enables 95 percent of customer queries to be resolved the first time. Vodafone also automates order processing and service provisioning with webMethods Business Process Management Suite (BPMS).

INFINEON, GERMANY
SOX Compliance with considerably lower costs: Infineon, a leading provider and pioneer in the semiconductor industry, ensures SOX compliance with the ARIS Solution for Governance, Risk & Compliance (GRC) Management.

EXCELLENT ORDERING PROCESS PROVIDES GREATER CUSTOMER SATISFACTION AND HIGHER REVENUES

CHALLENGE

You are the operations manager for a large telecommunications company, responsible for small and medium-sized enterprises. The current order processing system at your constantly growing company no longer meets your needs. In addition, your executive board has charged you with expanding into new and innovative business areas, in particular IP-based and mobile voice and data communications. Developing the company is crucial to its survival in a competitive, liberalized market environment.

The ordering process's insufficient reporting options lead to problems such as time-consuming inquiries, complaints, and a lack of proactive order monitoring. Employees often don't discover that an order is delayed until a customer complains, because there are no reliable, traceable figures regarding order receipt, order status, and installed contracts. This leads to dissatisfaction, both internally and externally with IT partners and customers. Ultimately, this means a damaged image for the affected products, which results in lost revenue.

SOLUTION AND CUSTOMER BENEFITS

You brainstorm with your staff and establish the following goals: Monitor all relevant processes and generate automated alerts when problems arise; establish transparent and trackable reporting; measure KPIs such as number of orders; provide employees in different departments with direct access to process data; and shorten processing times. The project should also be documented so that subsequent projects will require a much shorter learning curve.

You quickly determine that you need a total overview of your processes at both technical and business level. You need to see all process lifecycle phases—from strategy definition and design, to model implementation and monitoring. You have a vision: Based on the concept of process-oriented round-trip engineering, all modifications to your process models are made automatically at implementation level and vice versa.

TECHNOLOGY

While evaluating a process monitoring system, you encounter the new combined solution by IDS Scheer AG and Software AG: ARIS Process Performance Manager (ARIS PPM) and webmethods Business Activity Monitoring (BAM). In the context of a preliminary pilot project the two integrated solutions are impressive not only because of their sophisticated process analysis function, but also due to the intelligent link to the source system. Thanks to the tight integration of technical and business levels, process analysis takes place in real time and automated alerts are based on KPIs and predefined limits. Within the scope of the project, you build a universally accessible Web platform for process management, design, and performance; interface documentation; and project procedures. Process documentation is generated using ARIS Business Architect and available via an ARIS Business Publisher Web export.

The integrated solution based on PPM and BAM now centrally monitors ordering processes, contracts, interface processes, and source system error reporting. Order and contract data, for example the purchase of a DSL installation in the phone store through to the dispatch of the invoice, is read from the source system and transferred to a graphic representation that links to data with a click of the mouse. With colored bars, speedometers, and line graphs, the performance dashboard demonstrates processing times and other order-relevant information in a format that is easy for laypeople to understand. The investment is paying off: Defined goals were achieved, processing times fell by an average of 60 percent and ROI can be achieved in as little as 9 to 12 months, rather than the planned 18 to 24 months.

IT TERMS
Business process optimization through business process monitoring with performance dashboards and KPI measurement, process transparency

PRODUCTS
webmethods Business Activity Monitoring & ARIS Process Performance Manager (ARIS PPM), ARIS Platform Suite

GEORGIA TECHNOLOGY AUTHORITY, USA
With the webMethods ESB platform, Georgia Technology Authority has streamlined the delivery of government services to constituents via its www.georgia.gov portal. ESB enables any agency to plug into the portal and integrate applications and data that needed to flow between otherwise disparate systems.

UNIQA GROUP, AUSTRIA
Faster distribution of up to 7,500 pieces of mail per day; webMethods Business Process Management Suite (BPMS) helped automate the entire process—from receiving to processing paperwork—and has created a viable foundation for future process optimization projects.

SUPPLY CHAIN MANAGEMENT (SCM) STRENGTHENS COMPETITIVE POSITION AND GROWTH

CHALLENGE

You are the production manager for an emerging capital goods company that designs, installs, and produces solar and wind power systems, with subsidiaries on five continents. To strengthen your competitive position and growth in global future markets, you and your executive committee are determined to generate at least 50 percent of your revenue outside Germany and the photovoltaics industry.

In order to both increase customer satisfaction and reduce costs, you plan to analyze, optimize, and realign the international supply chain organization (order-to-cash and demand planning). Developing a flexible supply chain planning model involves global sales planning and standardized order handling. Process and system discontinuities between sales and logistics must be eliminated, and nationally-focused processes must be designed for a new corporate strategy and planned global growth.

SOLUTION AND CUSTOMER BENEFITS

Specific individual goals were established: Lower order processing times by 30 percent, reduce warehouse inventories by 25 percent, decrease error rates, increase item availability, and implement better organizational and systematic sales planning.

To generate synergies between locations, you decide in the executive committee that your next step is to set up a European buying collective for purchasing activities. Because many locations have their own processes and ERP applications, there is no overview of current purchasing data and unified supplier and warehouse master data. The goal is to have proactive expenditure management including expenditure controls, better purchasing conditions, more efficient contract management, and reliable forecast planning. The expected ROI amounts to €2.8 million in less than three years.

TECHNOLOGY

After thoroughly exploring the market, you find a partner in IDS Scheer: It has BPM expertise and years of experience in supply chain optimization (SAP SCM APO).

In accordance with the ARIS Value Engineering (AVE) process model, process restructuring begins with a strategy phase and identifying processes that could be improved in sales, logistics, planning, and order handling. The design phase and the appraisal of actual processes result in a flexible supply chain planning model that includes future target processes. On this basis, the target organization, target KPIs, and future IT features can be implemented effectively.

The ARIS Design Platform products uncover organizational, structural, and technological weaknesses in the processes and unlock potential for improvement. ARIS Business Designer software is used to model and document the actual and target processes and forms a basis for process analysis and optimization.

The targeted goals are fully achieved—and in some cases exceeded—with the help of the ARIS Platform and ARIS Business Architect as well as the expertise of IDS Scheer consultants, reducing the error rate from an average of ten percent to one percent. IDS Scheer uses process intelligence and performance management (PIPM) to establish verifiable quality reporting in the further step of setting up a purchasing platform.

IT TERMS
Supply chain management (SCM), supply chain organization (order-to-cash and demand planning), process intelligence, quality reporting, return on investment (ROI)

PRODUCTS
ARIS Platform Suite &
ARIS Solutions for Business Process Excellence

MAPFRE, PUERTO RICO
An automated accident management system was built using webMethods Business Process Management Suite (BPMS). Based on a service-oriented architecture (SOA), the system replaces time-consuming manual processes, enabling the company to enjoy higher customer satisfaction rates and increased sales.

OMV, AUSTRIA
50 percent reduction in time and cost for individual integration projects; webMethods Enterprise Service Bus (ESB) is used to integrate the two central SAP retail and oil and gas industry solutions with other applications as well as to implement integration projects independent of central ERP systems.

MORE FREEDOM FOR COMPANIES TO OPTIMIZE BUSINESS PROCESSES IN A FLEXIBLE IT LANDSCAPE

CHALLENGE

You are the CIO of an internationally active chemicals and pharmaceuticals company and are facing the challenge of dealing with high double-digit growth over the next four years. In particular, the IT landscape needs to evolve flexibly and efficiently in proportion with growing production capacities. At the same time, your company aims to become a global player in its industry through cost leadership and growth. But how do you identify and avoid possible bottlenecks in business processes—from logistics and technology to human resources and finances—at an early stage, without causing unnecessary costs?

An additional challenge: In the past, your company grew through acquisitions, resulting in a heterogeneous IT landscape. Your headquarters and some country subsidiaries are currently using SAP. Others are using various solutions developed in-house and proprietary systems, especially in the key Greater China region.

SOLUTION AND CUSTOMER BENEFITS

You discuss the course of action with IT managers in key countries and decide on the following requirements: You want complete control over the processes in a dynamic environment, and so decide to standardize business processes and roll out SAP worldwide in all acquired companies. Implementing an internationally valid, unified process standard is intended to align process description content. Indeed, you need an integrated view of reality in order to optimize business processes, SAP usage, and IT maintenance.

A transparent business model that is flexible enough to meet changing requirements is needed to successfully consolidate companies and support further growth

TECHNOLOGY

You choose the best of all the offerings for your challenging BPM project: ARIS Platform, along with the consulting expertise and AVE methodology of IDS Scheer. You work with their consultants to develop five project steps based on the Six Sigma approach: Using IDS Scheer's SAP reference model, the project team determines the project plan and the starting point for process modeling in the Define phase. In the Measure phase, more than 50 workshops are conducted with the help of ARIS for end users and key SAP users, the performance of the modeled actual processes is measured, and the data is transferred to ARIS. In the Analyze phase, the project team identifies IT and process-related obstacles and uses ARIS Simulation to evaluate alternative solutions, which are then combined in the Improve phase, applied to business cases, and implemented as part of a new process flow plan. Finally, in the Change phase, the process models are synchronized with the SAP Solution Manager.

The industry-specific chemical processes are implemented based on the developed process model. In the SAP rollout, you pay particular attention to the globally standardized usability of the processes and international support. This means that best practices from Europe and the USA are implemented and supplemented with local Chinese features. All processes are documented with ARIS Design Platform and linked to transactions from the SAP Solution Manager.
You save significant amounts of time and improve quality greatly with this BPM solution, and ARIS proves to be a success factor for the SAP Certified Competence Center (CCC).

IT TERMS

Consolidating and harmonizing IT and processes, business process management (BPM), quality management based on Six Sigma, global SAP rollout, synchronizing processes with IT architecture

PRODUCTS

ARIS Platform Suite &
ARIS Solutions for Business Process Excellence

CARGOLUX, LUXEMBOURG
Cargolux, Luxembourg, is one of the world's leading air freight companies. In order to become more competitive they optimized their processes with the help of the ARIS Platform. The total cost of the BPM project is less than 20 percent of the cost-savings potential tapped by the project.

NISSAN, MEXICANA
Approximately 30 percent of the auto maker's operations are managed by Software AG tools: Nissan uses more than 250 applications—developed using different technologies—and Software AG's products provide one of the main underlying enabling technologies.

PROCESS EXCELLENCE IN MARITIME CONTAINER LOGISTICS

CHALLENGE
A good morning begins with a good breakfast. Toast with jam or honey, ham, eggs, and orange juice are musts, maybe even a bowl of fresh fruit on the side. But have you ever thought about the "guests" who have traveled so far to gather at your breakfast table? The bananas probably came from sunny Ecuador, the flour for the toast was likely made from wheat grown in China, the oranges probably flew in from Brazil, and the bees who made the honey may have buzzed around Australia. The whole world is joining you for breakfast. And how is that possible? A highly efficient, complex system of logistics processes is behind it all. Let's take your morning coffee, for example: The coffee beans perhaps matured in Brazil, and were roasted, packed, transported, loaded, and shipped. After traveling across the ocean, the beans are unloaded and repackaged. The individual beans have passed through many hands, been transported by various means, and have gone through several production processes to become the final product whose aroma beguiles you.

All these steps require a high degree of technology. Modern logistics processes would be unimaginable without the underlying IT systems. This logistical masterpiece is only possible with the help of finely coordinated software and hardware systems. Let's take a look at just part of the logistics chain. Maritime container logistics, for instance, is the shipping of goods in large, seaworthy containers on container ships, and the technological implementation to meet the high demands of the complicated process chain.

SOLUTIONS AND CUSTOMER BENEFITS
It's easy to see the advantages of process automation, and not only for logistics. Any customer who relies heavily on smoothly functioning logistics processes enjoy the following benefits:

- Measurable DIFOT (delivered in full on time)
- Increased revenues
- Faster delivery due to constant ability to monitor delivery status
- Proactive problem solving
- Accurate cost control
- Better control of third-party suppliers

TECHNOLOGY
Maritime container logistics are a "meta process," which means that all handling processes are mapped along a transportation chain. The individual handling processes are represented by process descriptions using Software AG's webMethods technology. The specified processes are first implemented and then optimized. In addition to the physical handling process, every handling process contains upstream and downstream information processes, which are also mapped by the webMethods Suite. Key performance indicators (KPIs) are used to quantify processes, for example, the number of transportation processes, handling times, or the frequency of manual intervention needed.

The scenario can also be expanded to include RFID (radio frequency identification) technology. RFID transponders on maritime containers offer numerous potential benefits. For example, they enable rapid container identification via automated transponder readings, which can accelerate the transshipping process and lead to more efficient and effective handling in container logistics. Today, for instance, the 11-character number used to identify the container must still be manually checked and entered into the IT systems; in the future, this information could be stored on an RFID transponder and read automatically. This would eliminate the process step of manual identification and the container could be transshipped without interruption.

IT TERMS
Consolidating and harmonizing IT and processes, business process management (BPM), business activity monitoring (BAM)

PRODUCTS
webMethods 8: webMethods CentraSite Active SOA & webMethods Mediator & webMethods ESB

TRAVEL-BA.SYS, GERMANY
25 percent less travel agent training needed; using Natural for AJAX, travel-BA.Sys quickly transitioned its reservation-to-back-office and administration travel system to a fully Web-enabled platform with many new easy-to-use interfaces, menus, and enhanced business functionalities.

SWISSCOM, SWITZERLAND
ROI in nine to twelve months: ARIS PPM improved transparency of the order process. And, immediately following implementation of process monitoring, a significantly faster process cycle time was calculated.

PROCESS EXCELLENCE IN PUBLIC ADMINISTRATION
INTEGRATED BPM PLATFORM ENABLES EFFICIENT ADMINISTRATION PROCESSES

CHALLENGE
You are a department head in state government and have been charged with making the existing e-government structure more cost-effective, more innovative, and more service-oriented, all with no additional budget. You are facing some serious business and technological challenges. The multitude of existing department-specific processes and individual applications needs to be more efficiently linked and made compatible with one another. And you need to create easy-to-use services without overspending. On the one hand, citizens and companies should have centralized access to administrative information that is stored decentrally. On the other hand, department-specific and basic services should be available for state and local governments to use for their own administrative purposes, without having to make additional investment in their IT systems.

You therefore need to harmonize the existing heterogeneous IT infrastructure to create a statewide standardized e-government platform. At the same time, you need to create these new services quickly and flexibly, all while keeping costs down. The priorities are protecting your investment and minimizing risks. It boils down to establishing excellent processes in your department.

SOLUTIONS AND CITIZEN BENEFITS
You talk with other public administrators about which processes need to be implemented universally and which improvements for agencies and citizens are achievable. Common services range from the creation of a virtual building permit department, to providing a geographic information system, and internal "portal servers" for knowledge management, e-collaboration, and e-shop solutions. An additional goal is a statewide-accessible, service-oriented BPM platform for increased efficiency and effectiveness, which would ensure ongoing development at business and technical level in one continuous process lifecycle.

The advantages are clear: With cross-organization and cross-system processes, administrative tasks are simpler, more secure, and require less work. Efficiency is increased. Citizens' inquiries are processed more quickly. New services can be added flexibly. Media-break-free communication crosses system and office boundaries, thereby enabling future-oriented operations. The new system allows you to be ready to take on tomorrow's challenges.

TECHNOLOGY
You and your colleagues write the project plan for an integrated concept, which you propose to your manager in a sustainable e-government roadmap. You propose basic services, to include a statewide standardized form service, electronic signatures, and a virtual mailroom for external communication.

The new BPM platform must support department-specific processes as well as technical implementation. You find the ideal solution as the result of a statewide call for bids: the ARIS and webMethods combined software portfolio. With ARIS Business Architect you can analyze current processes and model and configure your target processes. Thanks to tight integration with webMethods based on a central process architecture, new processes are triggered at IT level through an integrated feedback feature. This allows modifications to models to be made automatically at implementation level and vice versa. This lays the foundation for continuous business process improvement—adaptable to ever changing requirements.

The new BPM platform offers a structured, standards-compliant, and modular e-government environment. It makes other basic services available centrally to various specialized applications, which can be new applications developed on the BPM platform itself or existing applications that access the new infrastructure via a service interface. The new platform guarantees that all department-specific processes will work together cleanly, while efficiently supporting cross-office and cross-departmental processes. Benefits will be even more apparent when tackling more ambitious projects such as implementing the EU Services Directive or a virtual building authority.

IT TERMS
Business process improvement; SOA governance; lifecycle management

PRODUCTS
webMethods 8: webMethods CentraSite Active SOA & ARIS Platform Suite & ARIS Solutions

WATT, GERMANY
Implementing a new integrated order-to-cash solution using the webMethods BPM Suite and automated partner data exchanges using webMethods Trading Networks.

SABIC, SAUDI ARABIA
Management of business process bottle necks during a high-growth period: The pharmaceuticals company, SABIC Europe, is cutting operating costs with ARIS Business Architect for SAP and achieving estimated time savings between one and three years.

REDUCTION OF CARBON FOOTPRINT THROUGH PROCESS EXCELLENCE IN POWER DELIVERY

CHALLENGE
There is one industry that that is undergoing major deregulation and simultaneously dealing with demands to lower its carbon emissions, and that is the power industry. Competition has opened the market to new agile entrants and alternative forms of power generation have opened the prospects of a leaner, cleaner industry.

But there is one issue preventing the industry from fully grasping these new opportunities and preventing the consumer from fully benefiting. The power distribution network in use today still uses a system of control and billing that existed fifty years ago. Despite the restructuring in the last decades, the distribution and billing infrastructure has struggled to keep up. For the average consumer it is still an annual event, an annual meter reading, an annual surprise: A rebate or a demand?

Few of the advances made in business process and communication software have filtered through to the power grid, but that is changing. Today we are seeing the introduction of the "smart grid" or the "Internet of energy:" a global, fully digitized, measurable, manageable and intelligent energy distribution system. The largest green IT project on the planet? Or the most significant contributor to cutting CO_2 emissions currently on offer?

The smart grid is possibly all of these and it starts with smart metering. The business case is overwhelming. The energy producer can predict power requirement peaks and smoothen consumption and production, can locate power theft and network breakages in real time, and can bring alternate energy sources online as and when needed.

SOLUTIONS AND CUSTOMER BENEFITS
The consumer gains control of consumption: when, from whom, and at what cost. The consumer can automate power usage for when it is cheapest, can reduce consumption when it is most expensive, can negotiate tariffs suited to their individual needs.

For the planet, the figures are staggering: Smart grids could recover the ten percent of power that disappears in Europe and the US through theft or network breakages. Smarts grids and smart buildings could reduce global CO_2 emissions by 15 percent. Smart grids could save Germany €1.5 billion annually and reduce CO_2 emissions by 5.6 million tons.

This will change with a smart meter—an advanced meter that identifies consumption continuously and communicates that information via a network back to the utility for monitoring and billing purposes. This allows the delivery of electricity from suppliers to consumers using two-way digital technology to control appliances at consumers' homes to save energy, reduce cost, and increase reliability and transparency. And it is only possible through IT. Software is the interface between smart power delivery and intelligent business processes.

TECHNOLOGY
Software is the interface between a static distribution network and rapidly changing businesses. Software is the interface between a smart supplier and a knowledgeable customer. Software is the difference between global energy waste and delivery process excellence. And Software AG provides this technology interface, this link, and makes the difference. Software AG allows the power utility to build intelligent processes linking the smart grid to knowledgeable consumers at one end to agile providers at the other. Software AG provides the key enabling technology for the most dramatic challenge that the power industry has ever faced.

IT TERMS
Business process improvement (BPI), business process monitoring, performance dashboards, key performance indicators, workflow management, Smart Metering

PRODUCTS
webMethods 8: webMethods Business Activity Monitoring & webMethods CentraSite; ARIS Platform Suite & ARIS Solutions

SOFTWARE AG STOCK

Software AG stock surpassed all benchmark indices with excellent performance in fiscal 2009. The share price almost doubled and, with a closing price of €76.40, achieved its highest value since 2001. Market capitalization increased to approximately €2.2 billion.

2009 A TURBULENT YEAR ON THE STOCK MARKET

While 2008 was one of the worst years of all time, 2009 will go down in stock-market history as one of the most turbulent. The economic and financial crisis meant global stock markets were still suffering at the start of the year, but from mid-March we witnessed a gradual recovery. In April and July 2009, in particular, share prices rose significantly around the world.

The German DAX benchmark index recorded its lowest value of the financial crisis—3,666 points—on March 6. It therefore fell by more than 50 percent compared to its high of 8,105 points in mid-2007. However, by the end of 2009, it again passed the 6,000-point mark, an increase of more than 60 percent. For the year as a whole, the index reported a rise of 20 percent, closing at 5,957 points on December 30, 2009.

Technology stocks also benefited from the upward trend that began in fiscal 2009. The technology-focused Nasdaq computer composite index increased 40 percent in value. The Nasdaq 100, which tracks the largest companies listed on the exchange, rose by 54 percent, while the German technology barometer, TecDAX, gained 59 percent over the course of the year.

SOFTWARE AG STOCK AN OUTPERFORMER ON THE TECDAX

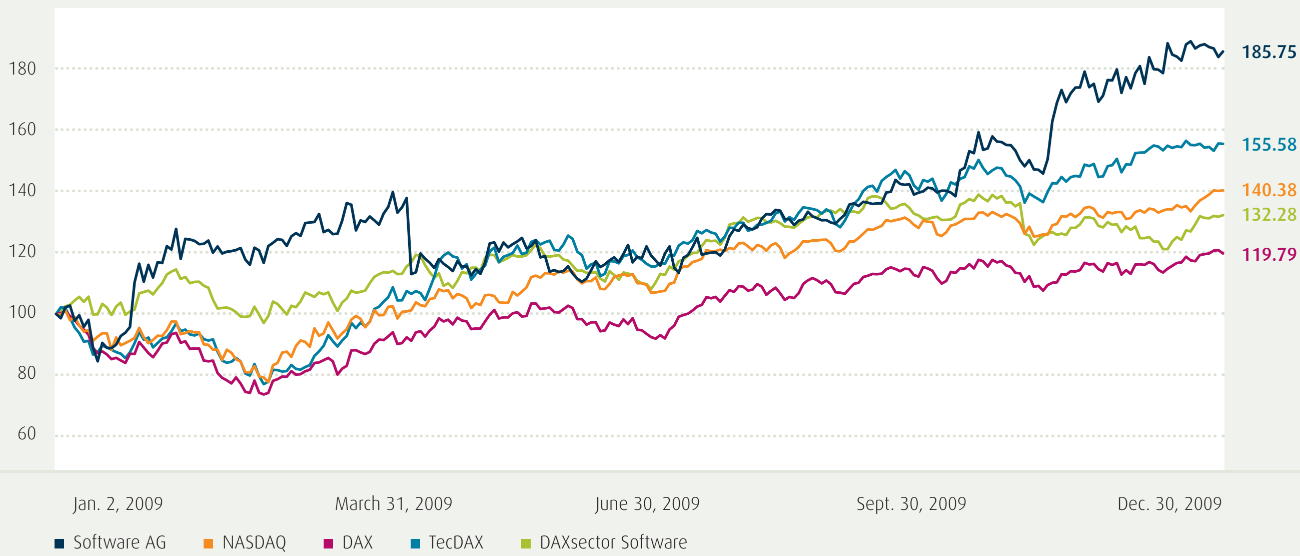
At the very start of 2009, during the course of January 15, 2009, the Software AG share price hit its low for the year, at €33.61. With the announcement of the figures for fiscal 2008 at the end of January, however, the price quickly began to recover. This upward trend was sustained by further favorable company reports and a strong CeBIT presence, a dividend increase to €1.10, and positive forecasts from leading analysts. At the end of April, prior to the announcement of the results for the first quarter of 2009, there was a slight share price adjustment, which reflected the general uncertainty on the markets. In the second and third quarters, though, the stock enjoyed solid upward development, again bolstered by good company reports. The share price continued to rise consistently after the takeover offer for IDS Scheer, announced on August 17, 2009. The reaction of financial analysts to the proposed takeover was initially cautious, due to uncertainty regarding the possibility of margin dilution. However, the share price shot up late in the year as the acquisition process progressed and third-quarter results (including the initial consolidation of IDS Scheer) were released. These results surpassed market expectations, particularly for the EBIT margin. The high for the year at €80.05 was reached on December 10, 2009.

After an opening price at €39.97 on January 2, 2009, the stock closed at €76.40 on December 30, 2009. This represents growth of 91 percent within the fiscal year.

Because of the stock's strong showing, market capitalization rose significantly in the fiscal year. At year end, it was €2.2 billion, compared to €1.1 billion at the end of 2008.

Software AG stock is still one of the 100 strongest-selling market values in Germany and therefore fulfills the highest liquidity criteria for electronic trading on the Xetra. In 2009, trading volume was around 50.0 million shares (2008: 55.1 million). In the Deutsche Börse AG's TecDAX ranking, Software AG came in third for free-float market capitalization and fifth for stock-market turnover.

SHARE PRICE DEVELOPMENT (INDEXED)



MARKET CAPITALIZATION AT YEAR END

in € million

2007	1,728.63
2008	1,145.6
2009	2,193.32

DIVIDEND INCREASE IN THE 2009 FISCAL YEAR

Software AG continued its stable dividend policy geared toward continuity. Earnings per share for the past fiscal year and the free cash flow are thus necessary guideline values. At the Annual Shareholders' Meeting on April 30, 2009 in Darmstadt, it was decided to increase the dividend from €1.00 to €1.10 per share. This is the highest dividend since the company went public. Consequently, the total dividend payout to our shareholders was around €31.5 million.

An appropriate payout to Software AG's shareholders is planned again for 2009. Earnings per share and free cash flow rose during the year.

At the same time, the Company's need to grow must be also financed in the coming year. The Executive Board and Supervisory Board will therefore again propose a dividend of €1.15 for 2009 for each share entitled to dividends at the Annual Shareholder's Meeting.

EXCELLENT INVESTOR RELATIONS WORK CONTINUES

In accordance with the principle of fair disclosure, we provide the capital market with transparent, comprehensive, and detailed information about our corporate strategy and current developments. The aim of investor relations is to ensure all investors receive the same information. The financial calendar published on our website contains all investor relations events and activities. We publish our business figures extremely promptly and present them to journalists, analysts, and investors in telephone conferences or face-to-face events. We always publish the latest corporate information such as speeches and presentations, financial reports, press releases, and ad hoc reports, detailed information on the Annual Shareholders' Meeting and corporate governance, as well as future and past analyst expectations on the Internet for investors to view or download.

In 2009, we were again rewarded for our IR work. We won the Capital Investor Relations Award for the TecDax and also achieved first place in the overall rating, which covers all German indices and the EuroStoxx50. The awards are based on assessments conducted by Capital magazine and the DVFA (Society of Investment Professionals in Germany) on the quality of IR work based on target-group orientation, transparency, track record, and extra financial reporting.

In a ranking published in the WIRTSCHAFTSWOCHE financial journal and conducted by Thomson Reuters Extel, we also came in first for the TecDax for "Best IR." The result is based on a comprehensive study and polling of fund managers and analysts worldwide. Our comprehensive online information offering was also rewarded with "Best IR Website" from NetFederation. This year, BÖRSE ONLINE again assessed how well private investors in the 160 largest listed German corporations feel they are informed about the companies' business development, strategy, and future outlook. The survey, which took place from the end of October to the end of November 2009, focused on the credibility and comprehensibility of communications from IR departments. Investors were asked, for example, about the annual report and the quality of company websites. Software AG achieved for the second time a very respectable position in the overall ranking (BIRD) of all German companies covered in the survey.

POLICY OF ACTIVE INVESTOR COMMUNICATION CONTINUED

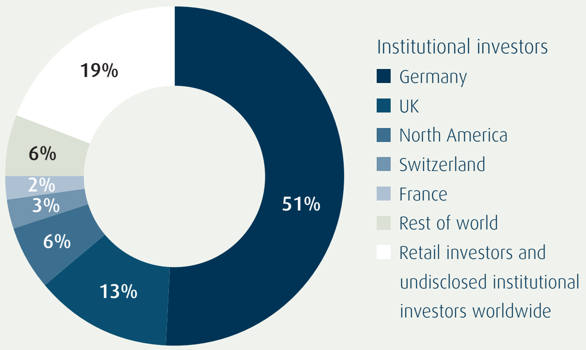
In this fiscal year, we again specifically addressed existing and potential investors, as well as analysts, and provided them with information about our company. For reasons of time and efficiency, the emphasis here was on participation in conferences. The Executive Board and/or Investor Relations took part in 18 capital market conferences, primarily in Europe and the USA. We also held one-on-one meetings with investors over 18 days of roadshows. Overall, we provided more than 320 analysts and investors with detailed information about our business model and strategy. This was particularly welcome following publication of our takeover offer for IDS Scheer.

We are active on the board of the German Investor Relations Association (DIRK) and we contribute to the definition of fundamental investor relations conditions on a national and international level. We also state our view on capital market rulings and promote the exchange of information between listed companies in Germany, and between these companies and the capital market.

TRANSPARENT SHAREHOLDER STRUCTURE

The non-profit Software AG Foundation continues to be the largest Software AG shareholder, with around 29 percent of outstanding shares. Software AG Foundation is currently one of the 10 financially strongest foundations in Germany. It supports private entities and initiatives in the areas of assistance for the disabled, education, youth and senior citizen welfare, nature and environmental protection as well as the promotion of organic farming, complementary medicine, and teaching.

SHAREHOLDER STRUCTURE*



* Source: Thomson Reuters, January 2010

TOP 10 INVESTORS IN SOFTWARE AG STOCK *

Investor name	in %
Software AG Foundation	29.00
Deka Investment GmbH	6.17
Alken Asset Management LLP	4.79
JPMorgan Asset Management U.K. Limited	3.03
Fidelity Management & Research	3.02
Allianz Global Investors Kapitalanlagegesellschaft mbH	2.95
DWS Investment GmbH	2.90
Braun, von Wyss & Müller AG	2.60
Baring Asset Management Ltd.	1.64
Classic Fund Management Aktiengesellschaft	1.47

* Source: Thomson Reuters, January 2010

With a free float of around 71, we have a broad investor structure consisting of private individuals and institutions in Germany and abroad. We have identified 70 percent of the free float holders, and the remainder is distributed among private individuals and unidentified institutional investors. Our reported free float is distributed by region as follows: Germany 51 percent, United Kingdom 13 percent, rest of the world 6 percent, and North America 6 percent.

KEY SHARE DATA

	2009 IFRS	2008 IFRS
Closing price (XETRA) in €	76.40	40.00
Year high in €	77.77	60.37
Year low in €	34.78	29.50
Total number of shares at year end	28,708,410	28,638,842
Market capitalization at year end in € million	2,193.32	1,145.6
Free float in %	71.0	70.6
Average daily trading volume (XETRA)	198,759	218,517

Our shareholder structure described above was ascertained in December 2009. For more information on this, and all other topics, please see the Investor Relations section on our homepage www.softwareag.com.

CHANGES IN SHARE CAPITAL

In the 2009 fiscal year, the number of shares issued was 28,708,410. This is 69,568 more than in 2008. The rise is due to the exercising of a conditional capital increase as part of a management option plan.

TICKER SYMBOL AND BASIC DATA

ISIN	DE 0003304002
WKN	330400
Symbol	SOW
Reuters	SOW Gn.F
Bloomberg	SOW GY
Stock exchange	Börse Frankfurt
Market segment	Prime Standard
Index	TecDAX
IPO	April 26, 1999
Offering price	€30

INDICES

- CDAX Performance Index
- HDAX Performance Index
- L-TECDAX Performance Index
- TECDAX Performance Index
- Technology All Share Performance Index
- DAXsector Software
- DAXsubsector Software
- Midcap Market Price Index
- Midcap Market Performance Index
- DAX International 100 Performance Index
- Dow Jones 600 Index

CORPORATE GOVERNANCE

The Executive and Supervisory Boards of Software AG consider efficient management and control in all areas of the Company to be essential to sustainable value creation.

In the past, both corporate bodies have thus conducted ongoing assessments of the Company's management structure and the control instruments and adapted them accordingly to meet new requirements in compliance with German legal regulations and the further reaching recommendations of the German Corporate Governance Code.

BASIC UNDERSTANDING

Good corporate governance is a core component of management at Software AG. The Executive Board and the Supervisory Board are committed to it, and all our divisions guide themselves by it. Responsible, qualified, and transparent corporate governance focuses on a company's long-term success. It 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.

COLLABORATION 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. In the year under review, the Executive Board and Supervisory Board again collaborated closely in an atmosphere of trust.

The Executive Board is solely responsible for the management of Software AG. It is committed to acting in the interests of the Company and the long-term enhancement of company value. In addition, it represents us vis-à-vis third parties. Presently our Executive Board is comprised of six members. It reports to the Supervisory Board regularly, in a timely manner, and comprehensively concerning the Company's recent performance, corporate planning, the risk situation, risk management, and compliance.

Our Supervisory Board 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 its implementation. 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 our year-end financial statements and consolidated financial statements. Key Executive Board decisions such as important 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. Each member of the Supervisory Board is elected individually. Our Rules of Procedure stipulate that if a Supervisory Board member leaves the Board prior to the 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 Supervisory Board's Rules of Procedure provide for the establishment of three committees. They include the Committee for Compensation and Succession Issues, the Audit Committee, and the Nominating Committee, 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 three times, the Audit Committee once, and the Nominating Committee once. The Supervisory Board provides information concerning its responsibilities and work executed in the year under review in the Report of the Supervisory Board. The Executive Board, Supervisory Board, and committees work together closely with the objective of enhancing Software AG's value in the long term. The following change was made to the committees in fiscal 2009: Dr. Andreas Bereczky became Software AG's new Chairman of the Supervisory Board at the Annual Shareholders' Meeting on April 30, 2009. He succeeds Mr. Frank F. Beelitz, who, after ten years as Chairman and member of the Superisory Board, withdrew from the board. Mr. Heinz Otto Geidt was elected to the Supervisory Board as the new representative of majority shareholder Software AG Foundation.

We maintain 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.

SHAREHOLDERS AND ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting is one of our core institutions, through which shareholders can exercise their rights and their voting rights. Software AG invites its shareholders to participate in its Annual Shareholders' Meeting. Important decisions are made at the meeting, including approval of the actions of the Executive and Supervisory Boards, election of the Supervisory Board and external auditors, amendments to the Articles of Incorporation and corporate measures. Not least, the shareholders decide on profit distribution. As scheduled in the financial calendar, we inform our shareholders of our business developments, financial performance, and financial position four times per year. We held our most recent Annual Shareholders' Meeting on April 30, 2009 in Darmstadt. Approximately 66 percent of voting shares were present. The next Annual Shareholders' Meeting will convene on May 21, 2010 in Darmstadt.

Pursuant to the recommendations of the Corporate Governance Code, we conduct the Annual Shareholders' Meeting in an expedient manner, preferably within a time frame of four hours. To conduct our Annual Shareholders' Meeting efficiently, the chairperson has the option to cut short speakers who stray from the topic at hand and to refer to detailed information already published on the website. 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 shareholder's instructions. The Annual Shareholders' Meeting is also broadcast live via the Internet. The invitation to the Annual Shareholders' Meeting and related documents and information such as the agenda, financial statements, 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.

OPEN AND TRANSPARENT COMMUNICATION

We communicate openly, transparently, comprehensively, and in a timely manner with all market participants. In 2009 we further intensified communication, taking part in additional conferences and meetings for efficiency and cost-savings purposes.

A globally consistent corporate message is required to earn the trust of investors, analysts, and journalists. Regulatory bodies and the media review publications and press releases for inconsistencies and to ensure that laws and regulations are upheld. Our communications guidelines define how we handle corporate communication. To read them, please visit http://www.softwareag.com and click on Investors.

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 have been instructed to maintain confidentiality. Software AG provides information to investors, analysts, and journalists in accordance with standard criteria. This information is transparent for all capital market participants. All ad hoc disclosures, press releases, as well as presentations given at press and analysts' conferences and road shows are published promptly on the website of Software AG. The corresponding dates can be found in our financial calendar.

Software AG has commissioned independent consulting firm IR Consult to carry out an annual study evaluating how investors and financial analysts perceive our financial communication. Criticism and suggestions provide motivation for further improvement. Our performance in the most recent study, conducted in September 2009, was good, with an overall rating of 2.07.

We also publish the purchase or sale of Software AG shares or related financial instruments, particularly derivatives, by members of our Executive and Supervisory Boards and 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 three percent of the voting rights, effective January 20, 2007. Foreign investment companies in particular had difficulties with publishing voting rights changes according to form and in due time. In close collaboration with Germany's Federal Financial Supervisory Authority (BaFin), Software AG supported investors in improving the notification processes. TUG also stipulates that companies must make such notifications available throughout Europe. 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.

CHANGING VOTING SHARES PURSUANT TO SECTION 26 (1) OF THE SECURITIES TRADING ACT (WPHG):

Date	Content
October 18, 2007 (published on February 18, 2009)	Withdrawal of the following voting rights disclosure of October 24, 2007: The voting share of Alken Asset Management LLP exceeded the threshold of three percent.
October 18, 2007 (published on February 18, 2009)	The voting share of Virmont S.á.r.l. exceeded the threshold of three percent.
October 18, 2007 (published on March 11, 2009)	Correction of the voting rights disclosure of October 24, 2007: The voting share of Alken Fund SICAV exceeded the threshold of three percent.
January 23, 2008 (published on May 4, 2009)	Correction of the voting rights disclosure of January 29, 2008: The voting share of Baring Asset Management Limited fell below the threshold of three percent.
January 23, 2008 (published on May 4, 2009)	The voting share of MassMutual Holdings (Bermuda) Limited fell below the threshold of three percent.
January 23, 2008 (published on May 4, 2009)	The voting share of MassMutual Baring Holding LLC fell below the threshold of three percent.
January 23, 2008 (published on May 4, 2009)	The voting share of MassMutual Holding LLC fell below the threshold of three percent.
January 23, 2008 (published on May 4, 2009)	Correction of the voting rights disclosure of January 29, 2008: The voting share of Massachusetts Mutual Life Insurance Company fell below the threshold of three percent.
April 29, 2008 (published on February 18, 2009)	Withdrawal of the following voting rights disclosure of June 9, 2008: The voting share of Alken Asset Management LLP exceeded the threshold of five percent.
June 4, 2008 (published on February 18, 2009)	The voting share of Virmont S.á.r.l. exceeded the threshold of five percent.
June 4, 2008 (published on March 11, 2009)	Correction of the voting rights disclosure of June 20, 2008: The voting share of Alken Fund SICAV exceeded the threshold of five percent.
January 26, 2009 (published on February 2, 2009)	The voting share of DWS Investment GmbH fell below the threshold of five percent.
February 24, 2009 (published on March 2, 2009)	The voting share of Virmont S.á.r.l.fell below the threshold of five percent.
February 24, 2009 (published on March 2, 2009)	The voting share of Alken Fund SICAV fell below the threshold of five percent.
September 4, 2009 (published on September 8, 2009)	The voting share of FIL Investments International exceeded the threshold of three percent.
September 4, 2009 (published on September 8, 2009)	The voting share of FIL Investment Management Limited exceeded the threshold of three percent.
September 4, 2009 (published on September 8, 2009)	The voting share of FIL Limited exceeded the threshold of three percent.
September 25, 2009 (published on September 29, 2009)	The voting share of DWS Investment GmbH fell below the threshold of three percent.
October 28, 2009 (published on October 30, 2009)	The voting share of DWS Investment GmbH exceeded the threshold of three percent.
December 8, 2009 (published on December 18, 2009)	The voting share of DWS Investment GmbH fell below the threshold of three percent.

See business register at https://www.unternehmensregister.de

Software AG deals with risks and opportunities responsibly, aided by an opportunity and risk management process that identifies and monitors all significant risks and opportunities. It is consistently refined and adjusted to correspond to changing conditions.

We present our risk management concept in the Risk and Opportunities Report. Opportunities that are strategic to the company are described in the Outlook section of the Management Report. Please refer to the Notes for information on Group accounting.

DIRECTOR'S DEALINGS

No reportable transactions were announced in the 2009 calendar year.

2009 DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AktG)

On December 17, 2009, the Executive and Supervisory Boards of Software AG submitted a declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG). The Company follows all recommendations of the government commission's German Corporate Governance Code dated June 6, 2008 and of the revised version dated June 18, 2009 with the following exception:
Section 3.8. D&O liability insurance: Upon expiration of the existing D&O policy, on January 1, 2010, the deductible will be adjusted to ten percent of the claim amount or a maximum of one-and-a-half times the fixed annual compensation of the member of the Executive Board. A similar deductible has also been agreed upon for the D&O policy for the Supervisory Board and will take effect on January 1, 2010.
The Executive Board and the Supervisory Board intend to comply with the Code (as drafted on June 18, 2009) in the future as well.

Software AG implements the recommendations of the German Corporate Governance Code. Separate preparation of Supervisory Board meetings by shareholder or employee representatives does not take place in a formal sense.

Additional details can be found on the Internet at www.softwareag.com under Investors. The current version of the German Corporate Governance Code published by the Commission of the German Corporate Governance Code can be found in English at www.corporate-governance-code.de/index-e.html.

FINANCIAL REPORTING STANDARDS AND AUDITING

The 2009 Annual Shareholders' Meeting 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, its corporate bodies, or audit managers and Software AG or the members of its corporate bodies.

Pursuant to the Annual Shareholders' Meeting resolution, the Supervisory Board, represented by the chairman of the Audit Committee, has appointed the auditor and agreed on the fee. In connection with the awarding of the contract, 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 concerning the financial statements and consolidated financial statements and reports on key audit findings.

REMUNERATION REPORT

The remuneration report is prepared in accordance with the recommendations of the German Corporate Governance Code and contains the information required by the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS). It is a part of the audited consolidated financial statements. As in 2008, the remuneration report was prepared pursuant to the provisions of the new German financial reporting standard No. 17 (DRS 17).

The 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, 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 2009 is composed as follows:

in €	Fixed remuneration	Variable remuneration / bonuses	Other remuneration components*
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	2,348,814.65	34,210.93
David Broadbent			
GBP	168,000.00	489,507.94	31,567.19
EUR	188,576.62	558,773.50	35,024.18
Mark Edwards			
GBP	161,497.45	926,280.41	45,261.24
EUR	181,277.76	1,057,349.45	50,785.21
Holger Friedrich* (until March 13, 2009)	62,499.99	0.00	1,111,410.18
Dr. Peter Kürpick	200,000.04	917,293.53	30,966.51
Ivo Totev (since March 13, 2009)	200,268.78	424,666.67	23,542.84
Arnd Zinnhardt	231,999.96	1,513,680.55	28,467.45

* €1,102 thousand of Holger Friedrich's other remuneration components is compensation associated with the end of his Board service.

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 achieved.

MEDIUM AND LONG-TERM REMUNERATION COMPONENTS

a) Stock option program

The stock option plan (Management Incentive Plan II) 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, 2009, 860 (2008: 14,367) subscription rights had been issued to Executive Board members. The plan will continue until the end of 2011. The conditions for exercising options were again met in fiscal 2009. Net revenue rose by more than 10 percent over the previous year, and profit from ordinary activities surpassed 10 percent of sales. The exercise price averaged €49.37 (2007: €49.64) for all persons eligible to exercise options in the year under review.

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 1)

	Balance on Jan. 1, 2009	Average base price	Fair value of stock option at grant time	Remaining term of options	Granted options in 2009
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	9,375	22.43	8.63	2.5	0
David Broadbent	2,808	22.33	8.36	2.5	0
Mark Edwards	2,184	21.31	8.34	2.5	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 2)

	Forfeited options in 2009	Exercised options in 2009	Average base price	Average market price on day exercised	Expired options in 2009
	No. of options	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	8,750	22.14	48.47	0
David Broadbent	0	2,573	22.19	52.01	0
Mark Edwards	0	2,184	21.31	49.86	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 3)

	Balance on Jan. 1, 2009	Of which were exercisable	Remaining term of options	Base price	Expenses from MIP II stock options
	No. of options	No. of options	Years	in €	in €
Karl-Heinz Streibich (Chief Executive Officer)	625	625	1.8	26.47	8,548.21
David Broadbent	235	235	2.0	23.89	2,601.22
Mark Edwards	0	0	0	0	1,866.93

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 2009 is converted into virtual (phantom) shares on the basis of the average share price of Software AG stock at the end of February 2010 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 2011 to 2013, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount is adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and is then paid to the members of the Executive Board. The adjustment for this out- or underperformance is limited to 50 percent. 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. For the phantom shares due in 2010, Executive Board members could elect to extend the shares due for a period of six years, rather than receiving a payment. During the extension period, the Board member has an opportunity four times per year (each time the Company's financial results are announced) to demand payment of extended shares. The number of phantom shares is adjusted over the extended term by the amount (measured in percent) by which Software AG shares outperform or underperform the TecDAX index. The adjustment for this out- or underperformance is limited to 50 percent. At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading day after publication of the financial results. 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 the phantom shares. Personnel expenses of €5,932 thousand (2008: €4,851 thousand) were incurred under this plan during fiscal 2009; these expenses are reflected under "long-term components" in the table.

c) Management Incentive Plan III (MIP III)
An incentive program based on the performance of Software AG stock was initiated for Executive Board members and managers in the third quarter of 2007. So far, 1,050,000 ownership rights have been issued to Executive Board members. If 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 performance target was defined as the attainment of Group revenues of €1,000,000 thousand with a simultaneous doubling of net income after taxes compared to fiscal year 2006 by no later than 2011.

STOCK OPTION AWARDS (TABLE 1)

	Balance on Jan. 1, 2009 No. of options	Base price in €	Value of option at time of grant in €	Remaining term Years	Granted options in 2009 No. of options	Base price in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	72.36	20.41	3.4	0	–
David Broadbent	150,000	72.36	20.41	3.4	0	–
Mark Edwards	150,000	72.36	20.41	3.4	0	–
Holger Friedrich (until March 13, 2009)	150,000	72.36	6.22	3.4	0	–
Dr. Peter Kürpick	150,000	72.36	20.41	3.4	0	–
Ivo Totev (since March 13, 2009)	0	–	–	–	150,000	72.36
Arnd Zinnhardt	150,000	72.36	20.41	3.4	0	–

STOCK OPTION AWARDS (TABLE 2)

	Forfeited options in 2009 No. of options	Base price in €	Exercised options in 2009 in €	Expired options in 2009 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	–	0	0
David Broadbent	0	–	0	0
Mark Edwards	0	–	0	0
Holger Friedrich (until March 13, 2009)	150,000	72.36	0	0
Dr. Peter Kürpick	0	–	0	0
Ivo Totev (since March 13, 2009)	0	–	0	0
Arnd Zinnhardt	0	–	0	0

STOCK OPTION AWARDS (TABLE 3)

	Balance on Dec. 31, 2009 No. of options	Of which were exercisable No. of options	Remaining term Years	Expenses from MIP III stock options* in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	2.4	894,827.19
David Broadbent	150,000	0	2.4	447,413.59
Mark Edwards	150,000	0	2.4	447,413.59
Holger Friedrich (until March 13, 2009)	0	0	–	−996,455.16
Dr. Peter Kürpick	150,000	0	2.4	447,413.59
Ivo Totev (since March 13, 2009)	150,000	0	2.4	411,446.81
Arnd Zinnhardt	150,000	0	2.4	447,413.59

* These expenses amounting to €2,099 thousand (2008: €3,719 thousand) were reduced by hedging earnings amounting to €2,216 thousand (2008: increased by hedging expenses amounting to €775 thousand).

LONG-TERM REMUNERATION COMPONENTS

	Long-term remuneration components in €	Performance phantom shares No. of options	Expenses from performance phantom shares* in €
Karl-Heinz Streibich (Chief Executive Officer)	1,261,989.97	14,460	1,475,754.94
David Broadbent			
GBP	372,279.15		
EUR	424,803.93	4,935	657,149.43
Mark Edwards			
GBP	602,627.66		
EUR	687,602.50	7,929	1,317,298.27
Holger Friedrich** (until March 13, 2009)	−988,555.56	−1,115	−55,555.56
Dr. Peter Kürpick	652,280.84	7,624	894,705.83
Ivo Totev*** (since March 13, 2009)	1,984,814.81	4,030	334,814.81
Arnd Zinnhardt	1,121,400.10	12,865	1,307,926.22

* The expenses attributable to the fair value at commitment time are included in the long-term remuneration components. The expenses from the phantom share program were reduced by hedging earnings amounting to €5,048 thousand (2008: increased by €856 thousand in hedging expenses).
** The negative value of the long-term remuneration components is due to the withdrawal of the options from the MIP III program as well as the withdrawal of the entitlements from the phantom share program.
*** Ivo Totev's long-term compensation components include 150,000 stock options with a fair value of €11.00 each awarded in fiscal year 2009.

Total remuneration for members of the Executive Board amounted to €14,794 thousand (2008: €9,066 thousand) in the year under review.

The Executive Board members received a total of 50,728 (2008: 71,962) phantom shares under the phantom share plan.

Remuneration for former Executive Board members totaled €190 thousand (2008: €291 thousand).

Pension provisions for former Executive Board members amounted to €2,143 thousand (2008: €1,765 thousand).

OTHER REMUNERATION COMPONENTS

A member of the Executive Board who resigns due to a change of control within twelve 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.

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. Another member will receive severance payment equal to the member's total fixed salary for the remainder of the contract period, but 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 62nd year of age, the German members of the Executive Board will receive a disability pension of €13 thousand per month, and the CEO will receive €19.5 thousand

per month. The disability pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year. 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 five percent. If the inflation rate exceeds five percent, the entitlement will be adjusted annually by five 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.

The pension plan for members of the Executive Board was revised and standardized at the end of 2009. Members of the Executive Board will receive pensions for life after completing their 62nd year of age, regardless of their age when they joined the Company. For four members of the Executive Board, the pension amounts to €13 thousand per month; the amount is €11 thousand per month for one member, due to crediting of pension benefits earned in England. The CEO's pension amounts to €19.5 thousand per month. The pension is increased annually by the percentage by which the consumer price index for Germany published by the Federal Statistical Office has increased in comparison to the previous year. This pension commitment also includes a widow's annuity of 60 percent of the Executive Board member's pension. In the event an Executive Board member leaves the Company prior to the age of 62, and before reaching the 15th year as a member of the Company's Executive Board, such Executive Board member will still be entitled to pension benefits, but they will be reduced on a pro rated basis. In the event an Executive Board member leaves the Company prior to the age of 62, but after reaching the 15th year as a member of the Company's Executive Board, such Executive Board member will still be entitled to full pension benefits. In addition, Executive Board members who have served on the board for more than three years can, at the discretion of the Company, be given the opportunity to waive portions of their future variable target remuneration to finance additional supplementary benefits. In such a case, the Company pays an annual amount corresponding to the amount waived, raised to the percentage of the average target performance ratio for the preceding three full fiscal years before the respective waiver, into a pension plan negotiated by the Company for the benefit of the Executive Board member. This option has thus far not been granted to any Executive Board member. 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 shareholder change occurs, nor regarding supplementary state benefit paid to unemployed people who enter self-employment or found a new business, 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.

Remuneration of Executive Board members for fiscal 2008 is composed as follows. Due to the changes to the Corporate Governance Code made in fiscal year 2009, the previous year's data was adapted according to the new regulations.

in €	Fixed remuneration	Variable remuneration/ bonuses	Other remuneration components
Karl-Heinz Streibich (Chief Executive Officer)	450,000.00	1,883,018.36	28,376.78
David Broadbent			
GBP	168,000.00	446,692.66	30,096.63
EUR	211,331.25	465,838.63	38,499.43
Mark Edwards			
GBP	161,497.56	845,262.43	32,256.35
EUR	203,151.68	881,491.74	40,596.07
Holger Friedrich	62,499.99	87,500.00	6,279.18
Dr. Peter Kürpick	200,000.04	690,578.47	31,261.56
David Mitchell	76,894.78	0.00	273,848.00
Arnd Zinnhardt	231,999.96	1,203,694.65	34,687.66

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 1)

	Balance on Jan. 1, 2008	Base price	Fair value of stock option at time of award	Remaining term of options	Granted options in 2008
	No. of options	in €	in €	Years	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	16,875	20.38	8.44	3.5	0
David Broadbent	6,558	10.82	7.80	3.5	0
Mark Edwards	10,152	13.58	7.30	3.5	0
Arnd Zinnhardt	1,250	9.73	4.40	2.0	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 2)

	Forfeited stock options in 2008	Exercised options in 2008	Average exercise price	Average market price on day exercised	Expired options in 2008
	No. of options	No. of options	in €	in €	No. of options
Karl-Heinz Streibich (Chief Executive Officer)	0	7,500	21.00	52.98	0
David Broadbent	0	3,750	18.92	45.11	0
Mark Edwards	0	7,968	17.30	48.10	0
Arnd Zinnhardt	0	1,250	9.73	52.98	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN II (MIP II) (TABLE 3)

	Balance on Dec. 31, 2008	Of which were exercisable	Remaining term	Base price range	Expenses from MIP II stock options
	No. of options	No. of options	Years	in €	in €
Karl-Heinz Streibich (Chief Executive Officer)	9,375	9,375	2.5	15.72—26.47	10,551.99
David Broadbent	2,808	2,574	2.5	16.47—23.89	4,100.74
Mark Edwards	2,184	2,184	2.5	16.47—22.93	6,348.07
Arnd Zinnhardt	0	0	–	–	781.63

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 1)

	Balance on Jan. 1, 2008 No. of options	Granted options in 2008 No. of options	Base price in €	Value of option at time of award in €	Forfeited options in 2008 No. of options	Exercised options in 2008 No. of options	Expired options in 2008 No. of options
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	72.36	20.41	0	0	0
David Broadbent	150,000	0	72.36	20.41	0	0	0
Mark Edwards	150,000	0	72.36	20.41	0	0	0
Holger Friedrich	0	150,000	72.36	6.22	0	0	0
Dr. Peter Kürpick	150,000	0	72.36	20.41	0	0	0
David Mitchell	125,000	0	72.36	20.41	125,000	0	0
Arnd Zinnhardt	150,000	0	72.36	20.41	0	0	0

STOCK OPTION AWARDS FROM THE MANAGEMENT INCENTIVE PLAN III (MIP III) (TABLE 2)

	Balance on Dec. 31, 2008 No. of options	Of which were exercisable No. of options	Remaining term Years	Expenses from MIP III stock options* in €
Karl-Heinz Streibich (Chief Executive Officer)	300,000	0	3.4	1,236,806.65
David Broadbent	150,000	0	3.4	618,403.83
Mark Edwards	150,000	0	3.4	618,403.83
Holger Friedrich	150,000	0	3.4	63,455.16
Dr. Peter Kürpick	150,000	0	3.4	618,403.83
David Mitchell	0	0	3.4	−54,568.23
Arnd Zinnhardt	150,000	0	3.4	618,403.83

* The figures from 2008 included hedging expenses.

LONG-TERM REMUNERATION COMPONENTS

	Long-term remuneration components in €	Performance phantom shares No. of options	Expenses from performance phantom shares** in €
Karl-Heinz Streibich (Chief Executive Officer)	1,055,191.13	20,589	1,364,477.69
David Broadbent			
GBP	388,291.42		
EUR	438,582.59	8,658	542,284.43
Mark Edwards			
GBP	642,305.59		
EUR	726,678.41	14,125	1,035,704.65
Holger Friedrich*	988,555.56	1,115	55,555.56
Dr. Peter Kürpick	494,429.48	9,620	669,010.03
David Mitchell	−2,654,334.80	0	0.00
Arnd Zinnhardt	915,103.01	17,855	1,183,411.93

* The value presented above of Holger Friedrich's MIP III options at commitment time is included in the long-term compensation components.

** The expenses attributable to the fair value of the phantom shares at commitment time, amounting to €49.82 per performance phantom share, are included in the long-term compensation components. The figures from last year included hedging expenses.

SUPERVISORY BOARD REMUNERATION

Remuneration for Supervisory Board members is made up of fixed and performance-related components. Members receive additional remuneration for their work on the Committee for Compensation and Succession Issues, the Audit Committee, as well as the Nominating Committee.
In addition to reimbursement of their expenses, members of the Supervisory Board receive a fixed annual remuneration in the amount of €25 thousand as well as annual performance-related remuneration of €2 thousand for each percentage point or fraction thereof in excess of five 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 TecDAX index for the same period (Variable Remuneration II). Starting in fiscal year 2008, the growth in value of the stock is assessed on the basis of a three-year comparison of the XETRA closing rates, and the growth in value of the TecDAX will be assessed on the basis of a three-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 during the first month of activity and one-twelfth of the annual remuneration for each additional month.

REMUNERATION OF SUPERVISORY BOARD MEMBERS FOR FISCAL YEAR 2009 IS COMPOSED AS FOLLOWS:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman until April 30, 2009)	16,438.36	0.00	6,312.33	5,000.00
Dr. Andreas Bereczky (Deputy Chairman until April 30, 2009) (Chairman since April 30, 2009)	46,027.40	0.00	17,674.52	6,500.00
Willi Berchtold	25,000.00	0.00	9,600.00	4,500.00
Rainer Burckhardt	25,000.00	0.00	9,600.00	1,500.00
Heinz Otto Geidt (since April 30, 2009)	16,849.32	0.00	6,470.14	0.00
Monika Neumann	25,000.00	0.00	9,600.00	4,500.00
Alf Henryk Wulf (Deputy Chairman since April 30, 2009)	33,493.15	0.00	12,861.37	3,000.00

Total remuneration for members of the Supervisory Board amounted to €285 thousand (2008: €519 thousand) in the year under review.

REMUNERATION OF SUPERVISORY BOARD MEMBERS FOR FISCAL YEAR 2008 IS COMPOSED AS FOLLOWS:

in €	Fixed remuneration	Variable remuneration I	Variable remuneration II	Remuneration for committee work
Frank F. Beelitz (Chairman)	50,000.00	64,000.00	17,200.00	7,500.00
Willi Berchtold (since April 29, 2008)	16,803.28	21,508.20	5,780.33	1,500.00
Dr. Andreas Bereczky (Deputy Chairman)	37,500.00	48,000.00	12,900.00	5,500.00
Rainer Burckhardt	25,000.00	32,000.00	8,600.00	1,500.00
Justus Mische (until April 29, 2008)	8,196.72	10,491.80	2,819.67	3,000.00
Monika Neumann	25,000.00	32,000.00	8,600.00	4,500.00
Alf Henryk Wulf	25,000.00	32,000.00	8,600.00	3,000.00

REPORT OF THE SUPERVISORY BOARD

Fiscal year 2009 at Software AG was dominated by the acquisition of IDS Scheer AG. Because of this acquisition, Software AG will not only exceed €1 billion in revenues, but it will also become the largest provider of comprehensive, integrated business process management offerings, thanks to the resulting expansion of the product and service lines. The acquisition of IDS Scheer AG is therefore a major step toward securing Software AG's future. At the same time, the financial crisis required Software AG to be extremely aware of costs and make rapid, flexible decisions about measures needed to minimize the effects of the recession. Despite the financial crisis, Software AG succeeded in increasing revenues as expected in 2009 and reported results exceeding expectations.

COLLABORATION BETWEEN THE EXECUTIVE BOARD AND SUPERVISORY BOARD

In fiscal year 2009, the Supervisory Board fulfilled all duties required of it by law and the Company's Articles of Incorporation. It advised the Executive Board in running the company and supervised its management. In doing so, the Supervisory Board was directly involved in all key decisions about Software AG. Via oral and written reports, the Executive Board informed the Supervisory Board regularly, comprehensively, and promptly about all important aspects of planning, business development, the risk situation, and risk management, as well as compliance and was available to the Supervisory Board in meetings for questions and discussions. Deviations from planned business developments were explained in detail.

The Supervisory Board Chairman was in regular contact with the CEO and consulted with him about Software AG's strategy, business development, and risk management. The CEO informed him immediately of important occurrences. The close cooperation between the Executive Board and Supervisory Board is based on trust and an open, constructive dialog.

These deliberations addressed the Company's strategic direction and measures for the implementation of strategies and risk management. The Supervisory Board analyzed ongoing business development 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. Relevant documents for decision-makers were forwarded to the Supervisory Board in due time before the meeting.

SUPERVISORY BOARD MEETINGS

The Supervisory Board held six ordinary and five extraordinary meetings during the year under review. At least one session took place each quarter. Three times, the Supervisory Board took advantage of the option permitted by the Articles of Incorporation to hold meetings by telephone. All members of the Supervisory Board attended all sessions, with one exception, in which case the ballot was cast in writing.

At the meeting on January 23, 2009, the Supervisory Board decided to extend David Broadbent's Executive Board membership for an additional five years, from January 8, 2010 to January 7, 2015. The Supervisory Board further decided to change the remuneration system for members of the Executive Board to allow an Executive Board member whose phantom shares are due to elect to extend them for a maximum of six additional years, rather than being paid out.

The extraordinary meeting of February 25, 2009, which took place by telephone, dealt with taking over a majority share in itCampus Software- und Systemhaus GmbH. After exhaustive debate about the benefits of purchasing the shares in itCampus, the Supervisory Board agreed to acquire the shares.

At the accounts meeting on March 13, 2009, in the presence of auditors, the 2008 annual financial statements and the consolidated financial statements were discussed and approved on the recommendation of the Audit Committee after it performed an audit. The Supervisory Board approved the proposals for the Annual Shareholders' Meeting agenda. In this regard, the Supervisory Board agreed to the Nomination Committee's proposal to nominate Heinz Otto Geidt for

DR. ANDREAS BERECZKY
Chairman of the
Supervisory Board

election as the successor to Frank F. Beelitz, who stepped down at the Annual Shareholders' Meeting. The Chairman of the Supervisory Board presented the results of the survey distributed in January 2009 to the members of the Supervisory Board regarding the efficiency of the Supervisory Board's work. The crisis response program was introduced to the Supervisory Board. This program enables the Company to monitor cost trends in real time and introduce any necessary measures in a prompt and focused manner. Subsequently, the Supervisory Board decided to appoint Ivo Totev, SVP of Global Marketing and Product Marketing, as a member of the Executive Board for a period of three years, until March 12, 2012 to replace retiring member Holger Friedrich.

On April 30, 2009, a meeting was held before and after the Annual Shareholders' Meeting. Prior to the Annual Shareholders' Meeting, the results of the first quater of 2009 were presented. After the Annual Shareholders' Meeting, at the end of which the Chairman of the Supervisory Board left the Company's Supervisory Board, the Supervisory Board constituted itself and elected a new Chairman, his Deputy Chairman, and the Committee members.

The extraordinary meeting on June 27, 2009 focused on preparations leading to the submission of a takeover bid for IDS Scheer AG. The Supervisory Board discussed the effects of acquiring IDS Scheer AG on Software AG's strategy, details of the deal and the target company's finances, transaction financing, aspects of the integration, and individual steps for the acquisition. The Supervisory Board was convinced of this acquisition's great strategic significance to Software AG and approved—subject to satisfactory due diligence results—the presentation of a takeover bid to IDS Scheer AG shareholders for all shares at a purchase price of €15 per share. At this meeting, the Supervisory Board approved the acquisition of Teconomic AG as well.

In an extraordinary meeting of the Supervisory Board on July 9, 2009, the results of the due diligence conducted on IDS Scheer AG were presented, along with the details of the transaction's financing. Following extensive debate, the Supervisory Board confirmed its decision of June 27 to present a takeover bid to IDS Scheer AG shareholders.

At the ordinary meeting on July 31, 2009, the Supervisory board was presented with and approved of the bid documents for the takeover bid to acquire all shares of IDS Scheer AG at a purchase price of €15 per share, along with the financing structure and conditions. In addition, the Supervisory Board discussed the financial results for the second quarter of 2009 and Software AG's risk control system. The Supervisory Board was satisfied with the effectiveness of Software AG's risk control system.

A potential cooperation was discussed at the extraordinary meeting on October 2, 2009.

At the meeting on October 27, 2009, the Supervisory Board conducted an extensive audit of the remuneration system for the members of the Software AG Executive Board. The Supervisory Board examined the entire system consisting of the system to establish annual remuneration, the stock option plan geared toward long-term company development, and the pension plan for Executive Board members, as well as the individual components. It assured itself by conducting external and internal comparisons and examining the development of the rates of Executive Board remuneration that Software AG's Executive Board remuneration system conforms to the requirements set by the German Act on the Appropriateness of Management Board Remuneration (VorstAG). The Supervisory Board is convinced that the Executive Board remuneration at Software AG is commensurate with the role and work of the Executive Board members and the Company's situation and does not exceed the prevailing remuneration. The Executive Board remuneration system decided by the whole board in late 2003 is geared in an exemplary fashion toward long-term company development. The system includes, along with fixed and variable remuneration components, commensurate long-term and short-term incentives, as well as an upper limit, and responds to both positive and negative developments at the Company. In light of the significance of the available data, the Supervisory Board decided not to consult an external consultant to review the appropriateness of Executive Board remuneration. The Executive Board and Supervisory Board of Software AG will present the Executive Board remuneration system to the 2010 Annual Shareholders' Meeting for approval.

At the meeting on November 6, 2009, third quarter financial results were discussed.

At the last meeting of 2009, on December 17, 2009, the Supervisory Board approved the 2010 financial plan, which contains consolidated figures for Software AG and IDS Scheer AG.

COMMITTEES

To fulfill its duties efficiently, the Supervisory Board established three committees to prepare the Supervisory Board's resolutions and the topics to be discussed by the plenum. Decision-making powers were transferred to the committees to the extent allowable. The committee chairmen reported to the plenum about the results of the committee meetings.

The Committee for Compensation and Succession Issues prepares human resources decisions made by the Supervisory Board, to the extent that they affect the appointment, reappointment, or dismissal of Executive Board members. It has four members and was chaired by Frank F. Beelitz until April 30, 2009. Dr. Andreas Bereczky has been chairman of the Committee since April 30, 2009. The Committee for Compensation and Succession Issues met three times in fiscal year 2009. It dealt with human resources issues for the Executive Board and actively consulted on the remuneration system for members of the Executive Board in its entirety, as well as individual components of it. The proposals developed by the Committee regarding the remuneration system were reviewed and decided on before the German Act on the Appropriateness of Management Board Remuneration took effect.

The Auditing Committee dealt with issures related to financial reporting standards, auditing, risk management, and strategy. The Committee has four members. Dr. Andreas Bereczky was chairman of the Committee until April 30, 2009. Willi Berchtold took the chair on April 30, 2009. The Auditing Committee met once in fiscal year 2009 and, in the presence of auditors, dealt with the annual financial statements and the management report, the consolidated financial statements and Group management report, Software AG's risk management system, and the Executive Board's proposal on the appropriation of profits.

The Nominating Committee consists of the four representatives of the capital shareholders. It was chaired by Frank F. Beelitz until April 30, 2009. Dr. Andreas Bereczky took the chair on April 30, 2009. The Committee met once in fiscal year 2009 to consult on a possible successor for Frank F. Beelitz, who resigned as a member of the Supervisory Board at the 2009 Annual Shareholders' Meeting.

ANNUAL AUDITING

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 2009.

BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, examined the financial statements, consolidated financial statements, and management report for the year ended December 31, 2009, including the accounting books and records. The auditors issued an unqualified audit option.

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. The Audit Committee and the Supervisory Board thoroughly reviewed the audit results in their meeting of March 13, 2009. 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.

GERMAN CORPORATE GOVERNANCE CODE

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 2009. The Supervisory Board and Executive Board took the necessary steps to comply with the recommendations of the Code during the year under review, with one exception. Remuneration of Executive and Supervisory Board members is again reported individually for fiscal year 2009. (For further information, refer to the Remuneration Report, p. 33.) Conflicts of interest on the part of members of the Supervisory Board did not arise. No agreements were concluded with members of the Supervisory Board.

Detailed reports from the Executive Board and the Supervisory Board about the implementation of the German Corporate Governance Code can be found in the Corporate Governance Report (refer to p. 30). This declaration of compliance has been made public on the Company's website.

CHANGES TO THE EXECUTIVE BOARD AND SUPERVISORY BOARD

The following personnel changes took place on the Executive Board and Supervisory Board of Software AG in 2009:

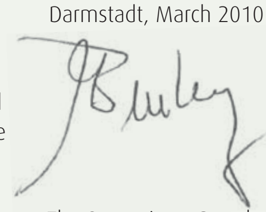
Holger Friedrich left the Company by mutual agreement on March 13, 2009. Effective March 13, 2009, Ivo Totev was appointed as a member of the Executive Board and took on global responsibility for the Global Consulting Services unit.

The term of office of Frank F. Beelitz ended at the Annual Shareholders' Meeting on April 30, 2009. Mr. Beelitz had been a member of the Supervisory Board since January 1, 2000. Upon the recommendation of the Supervisory Board, the shareholders elected Heinz Otto Geidt as successor to Frank F. Beelitz. Mr. Geidt is the Director of Asset Management at Software AG Foundation in Darmstadt.

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

The Supervisory Board would also like to thank the Executive Board and all employees for their great dedication and their achievements during fiscal year 2009.

Darmstadt, March 2010



The Supervisory Board
Dr. Andreas Bereczky
Chairman

Please refer to page 120 of the Notes for more information about the members of the Supervisory Board.

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 is the world's leader in business process excellence. For more than 40 years we have been providing innovations, starting with Adabas—the first high-performance transactional database—later webMethods—the SOA-based integration platform, including the first B2B server—and most reecently ARIS, the business process analysis platform. With the combination of ARIS and the webMethods platform, we are the first to offer completely integrated BPM (business process management) solutions covering the value chain from beginning to end.

Our industry-leading ARIS, webMethods, Adabas, Natural, and IDS Scheer brands comprise a unique portfolio which meets all the needs for process management in modern enterprises today: Strategy, design, implementation, visibility, and monitoring of processes, SOA-based integration and data management, process-oriented SAP implementation and strategic consulting and services.

With more than 6,000 employees and 10,000 customers in 70 countries around the world, we expect more than one billion euros in revenue. Our broad offering of software and services enables our customers to achieve their business processes faster.

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

1.2 ORGANIZATION

The Software AG Group consists of three strategic business divisions: Enterprise Transaction Systems (ETS), webMethods, and Enterprise Process Innovation. The ETS and webMethods divisions are supported by the Global Consulting Services (GCS) business unit.

ETS, webMethods, and Enterprise Process Innovation business divisions

With our data management (ETS) business division we have played a vital role in the IT landscapes of companies and government agencies around the world for many years. Software AG provides software solutions for mainframes and modernizes mainframe-based IT systems. In this way, we ensure the long-term protection of customers' investments. Adabas offers our customers a high-performance database that is able to process 320,000 calls or 80,000 transactions per second. For decades, the Natural development environment has been the foundation of hundreds of thousands of software applications that make up the technical backbone of business-critical processes at 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 the Internet and e-business. The ETS business division includes technologies such as database management, application development, and application modernization.

Our comprehensive webMethods offering enables customers to develop and run automated, flexible, and efficient business processes (business process management, BPM) by integrating data from existing systems. These processes can be used by internal staff and external business partners alike. This is achieved through Web-based programs that, as Web services, can be easily controlled and managed within a service-oriented architecture (SOA). The rapid creation of new processes through the reuse of programs or parts of programs in these Web services, the control of these services, and the monitoring of all created services and applications in real time are equally important. In this way, IT provides optimum support for the business development of an organization. The technologies in the webMethods business division include control software for service-oriented architectures (SOA governance), business process management (BPM), business activity monitoring (BAM), enterprise service bus (ESB), and B2B integration technology.

Our third and newest business division is Enterprise Process Innovation. It is comprised of operations belonging to IDS Scheer which was acquired in the third quarter of 2009. According to market analysts, IDS Scheer is the global leader in business process management (BPM). Its software products and IT solutions and services provide companies and government agencies with one of the world's most innovative and comprehensive BPM offerings. This division's key software product is the ARIS Platform for Process Excellence, an integrated solution portfolio for business process strategy, analysis, design, implementation, and control. IDS Scheer also offers consulting expertise, which enables organizations to optimize their investment in strategic business and technological initiatives. Furthermore, it creates added value for customers in the implementation of service-oriented architectures (SOA) and BPM/BPA solutions, especially in an SAP environment. (For further information, refer to the Special Section on IDS Scheer AG Takeover, p. 14.)

OUR SUBSIDIARIES

Global Consulting Services (GCS) business unit

In addition to our three business divisions—ETS, webMethods, and Enterprise Process Innovation—Software AG also has the Global Consulting Services (GCS) business unit (formerly Professional Services). This unit implements customized IT solutions based on our own products and thereby provides customers with further operational benefits for their business. GCS offers consulting on service-oriented architectures (SOA), business process management (BPM) and modernization as well as product-specific solutions. GCS is a Software AG-internal group. As such, it differentiates itself from other IT service providers by having the best product expertise in the market thanks to close cooperation with development departments and proximity to customers.

Changed responsibilities

Ivo Totev (formerly Chief Marketing Officer) was appointed to the Executive Board on March 13, 2009, at which time he assumed worldwide responsibility for the Global Consulting Services unit.

Group structure

Since the acquisition of IDS Scheer AG, the corporate structure of the Software AG Group consists of 118 subsidiaries worldwide. (For further information, refer to the Financial Statements, pp. 84–87.) Our largest subsidiaries are in the USA, Spain, Germany, and the United Kingdom. Brazil is also becoming one of the most important sales markets for Software AG.

The Group's structure underwent the following changes as a result of the acquisition of IDS Scheer: A third and new division, Enterprise Process Innovation, was added to the Group's two existing business divisions, ETS and webMethods. It comprises operations belonging to the acquired company IDS Scheer AG. (For further information, refer to 1.2 Organization, p. 50.)

Major locations

Software AG has more than 70 locations worldwide. Based on number of employees, our largest locations include Darmstadt and Saarbrücken (Germany), Reston (USA), Madrid (Spain), Bracknell (UK), Sydney (Australia), and Sao Paulo (Brazil).

1.3 MARKET POSITION

Software AG is the world's leading provider of infrastructure software for business processes. Our merger with IDS Scheer created a global player in business process excellence solutions. The combination of the two technologically leading, complementary product portfolios covers the entire business process excellence value chain. It is a unique mix in the global market that will ensure a sustainably strengthened position in an increasingly consolidated software market. (For further information, refer to Strategy, p. 8 and the Special Section on IDS Scheer AG Takeover, p. 14.)

As in the previous year, Truffle Capital, a leading private equity firm, rated Software AG in the Truffle 100 Ranking 2009 fourth among software companies in Europe. Among providers of enterprise Software AG in Germany, we ranked second only to SAP.

Leading IT and market research firm Gartner categorized us as a "leader" in SOA governance technologies. With our new versions of CentraSite ActiveSOA and webMethods Insight we further strengthened our leadership role in this space. Another survey conducted by Gartner accredited us with approximately 14 percent of this market, which is almost three points ahead of the company in second place. Software AG is thus the world's leading provider of SOA governance technologies. We are also a global leader in the second component of infrastructure software, business process management (BPM). Here, as well, numerous industry analysts have ranked our products in the "leader" quadrant.
This puts us among the top three largest providers worldwide in the market space for business process infrastructure, while at the same time being the largest independent vendor. In addition, ARIS by IDS Scheer is positioned as a vendor-neutral platform which supports the analysis, optimization, communication, and implementation of business process models. Organizations employ it to define strategic corporate goals, identify potential areas of improvement in their enterprise processes, and, if necessary, efficiently introduce, control, and monitor change processes.

1.4 CORPORATE STRATEGY AND OBJECTIVES

Software AG's success is based on a clear, long-term strategy and its consistent implementation and development. Our long-term vision is to become a global technology and market leader in infrastructure software. Because the trend in the mature software market is heavily leaning toward consolidation, we believe that successful software companies must realize size advantages by growing organically and through acquisitions. Software AG is committed to sustainable corporate growth through customer orientation, in-house research and development, close cooperation with partners, staff development, and social responsibility. Our goal is to double our revenues every five to six years.

In the wake of our strategic realignment from 2003 to 2006, the period until 2009 can be described as our "growth" phase. During that time, we were able to significantly accelerate our newly achieved profitable growth. Our growth was driven by organic growth through innovation, geographic expansion, new customer groups via partners, and growth through acquisitions. The phase from 2009 to 2011 is entitled "market leadership." It will culminate in the achievement of our goal to reach one billion euros with dynamic earnings growth. Our growth drivers during this phase are customer-centric innovation, process excellence, partner-driven growth, and M&A portfolio expansion. The four components of our corporate strategy enable us to achieve additional revenue in various areas. They complement and strengthen each other as well as compensate for each other's risks. All four growth drivers were further developed in 2009 and contributed to Software AG's overall growth.

1. Customer-centric innovation
   Customer-centric innovation is Software AG's core business and is the ongoing development of our portfolio in a market-driven manner. As a highly customer-oriented leader of innovation, we continually improve and expand our customer offering. In 2009 we extended our portfolios in both the ETS and webMethods divisions. We were ranked as a "leader" on multiple occasions from top industry analysts. Collaborative development is a further component of our strategic approach. (For further information, refer to Research and Development, p. 62.)

2. Process excellence
   At the heart of our second growth engine is not just the development of innovative products and solutions for customers, but also the continuous enhancement of internal processes. In 2009 we further digitized Software AG based on our own product portfolio. Optimized, automated processes for centralized contract approval and personnel administration based on SOA, BPM, and webMethods solutions contributed to the creation of a digital Software AG 2.0.

3. Partner-driven growth
   Our partner business also contributed to corporate growth in fiscal 2009. Our network of partners, consisting of systems integrators, OEMs, resellers, and independent software vendors, bolstered business particularly in the webMethods and ARIS product lines. Our partners enable us to reach a broader and deeper market with our webMethods and ARIS products via their customer base. As a technology leader, Software AG is attractive to new partners and can therefore lay the foundation for sustainable growth. (For further information, refer to Partners, p. 65.)

4. M&A portfolio expansion
   The focal point of our strategic development and future-securing activities in 2009 was our takeover bid for German software company IDS Scheer AG of Saarbrücken. The merger created a global player in business process excellence solutions with approximately one billion euros in expected annual revenues and more than 6,000 employees. From a strategic point of view, this acquisition extends the value chain for Software AG and broadens our market reach.

Please refer to the Forecast section starting on page 73 for our complete 2010 financial targets, strategic opportunities, and the general outlook on further development of the Group.

Acquisition of IDS Scheer AG

Software AG announced the takeover of market leader in business process management, IDS Scheer AG of Saarbrücken, Germany on July 13, 2009. The period for accepting the takeover bid began for IDS Scheer AG shareholders on August 17, 2009, with the publication of the bid documents. On December 31, 2009, Software AG held 91 percent of IDS Scheer shares. A domination and profit transfer agreement was approved by the IDS Scheer AG extraordinary shareholders' meeting on January 8, 2010. Our goal is complete integration within the scope of a merger in the course of fiscal year 2010. We expect resulting cost synergies between 25 and 30 million euros after integration activities have been concluded.

Our motives for the takeover can be summarized as follows: Software AG's strong points—technological leadership in middleware products, financial strength, and global presence—complement those of IDS Scheer in modeling, implementation, and monitoring of business processes, its solid partnerhips, and a large consulting presence with approximately 7,500 customers. IDS Scheer offers extensive industry expertise, direct access to vertical markets, and a strong position in the SAP consulting business.

The combination of the two technologically leading product portfolios covers all the links in the value chain for business process excellence: from analyzing business processes to modeling, implementing, and monitoring them, as well as measuring their performance. This end-to-end coverage is unique in the global market, thereby sustainably strengthening Software AG's competitiveness. Achieving critical mass in more key European markets actively improves our market reach. Furthermore, IDS Scheer's consulting expertise increases our ability to implement our own products in industry-specific and large-scale projects. The merged company will gain importance throughout the world in the growth market of business process management (BPM/BPA), emerging as a new, more powerful provider for integrating SAP solutions into heterogeneous application landscapes and giving customers competitive advantages through more efficient, Web-based systems.

The merger will allow Software AG and IDS Scheer to achieve stronger growth. It will also globally expand and sustainably secure their market presence and the product and consulting expertise they have built up over many years. Both companies have strong brands, an excellent image around the world, and similar cultures. Because of IDS Scheer's first-rate image as a consulting specialist and for the ARIS software platform, the name IDS Scheer will continue to be used as a consulting brand and to represent outstanding consulting expertise.

1.5 VALUE-ORIENTED CONTROL

We aim to achieve a sustained increase in enterprise value. To do this, we must continue growing profitably and increasing the financial strength of our Group. We use an internal information system in order to control these strategic goals. It provides us with relevant key indicators, such as revenue, operating result (EBIT), EBIT margin, earnings per share, and cash flow based on IFRS reporting. Value-oriented financial indicators relating to employment of capital play a minor role for us, as our commitment of capital is low and personnel expenses make up the largest expense block. As with most other companies in the software industry, EBIT is therefore the most important financial indicator for Software AG.

Revenue and earnings monitoring—important basis

We perform ongoing sales and cost monitoring as well as forecasting for the revenue areas of licenses, maintenance, and services. License revenue is the key growth driver of maintenance and services revenue. For this reason, we intensively monitor at all levels of management the development of license revenues from the initial customer contact to the signing of the license agreement. We also employ a multidimensional matrix structure to continuously monitor the development of our EBIT margin. The matrix structure is divided according business divisions, revenue types, and regional structures within the business divisions. Furthermore, we constantly observe the operating margins of our service business with respect to specific projects, from the time a quote is prepared through to project conclusion.
One of our most important goals is the ongoing improvement of sales efficiency, which we achieve through more highly qualified employees and larger projects. Our interregional sales and service structure offers significant additional potential for sales efficiency.

Consistent cost-management optimization

All cost items in the Group are subject to stringent budget control. On a monthly basis we determine whether budgets were adhered to and ascertain how forecast costs have evolved. We use 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 dynamically throughout the year in order to achieve or surpass our profit targets.

Customer-centric R&D management

Our long-term business success as a product enterprise in the software industry is based on research and development (R&D). We therefore continuously adapt and develop our portfolio to meet the needs of our customers and to reflect business demands. 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 and by maintaining a balanced mix of high-wage and low-wage product development centers. (For further information, refer to Research and Development, p. 62.)

Cash flow management—an essential instrument

Receivables management has a significant effect on cash flow. At Software AG, receivables management is conducted locally and is subject to a variety of internal control processes based on stringent rules associated with bad debt allowances. In order to improve our receivables structure, we selectively sell certain accounts receivable. Software AG's cash management, in contrast, is a centralized function, for which we use a global, standardized cash management system. This enables us to optimize our investment strategy and minimize investment risk.

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

FINANCIAL INDICATORS

in € million	2009	2008	Change in %
Revenue	847.4	720.6	18
Licensing revenue	269.9	272.0	–1
Maintenance revenue	310.6	267.1	16
Consulting & service revenue	262.5	177.8	48
EBIT	218.2	180.5	21
EBIT margin in %	25.8	25.1	+70 pts.
Earnings per share (diluted) in €	4.91	4.04	22
Operating cash flow	200.5	140.1	43

2 UNDERLYING ECONOMIC CONDITIONS

2.1 OVERALL ECONOMIC SITUATION

General economic trend

In 2009 the global economy suffered the worst recession since World War II. In the wake of the massive collapse during the winter half-year of 2008/09, governments around the world implemented comprehensive measures to deter the global financial and economic crisis. Monetary policy was loosened to a great extent, including central banks' drastic interest cuts. Colossal economic stimulus packages were designed to counteract the quickly collapsing economy. As a result, the first signs of recovery emerged in the second quarter. By the end of September 2009, the recession was on its way out, according to the International Monetary Fund (IMF). Nevertheless, because private households and companies were concentrating on consolidating their finances and reducing debt, an upswing was not immediately apparent in many countries.

According to the Kiel Institute for the World Economy (ifw), the global economy as measured by the real gross domestic product (GDP) shrank 1.0 percent year on year. The strongest national economies were, however, able to expand in the last few months of 2009 and did not end up losing as much as had been forecast at the beginning of the year.

Performance of major currencies

The foreign currencies of greatest importance to Software AG are the U.S. dollar, the pound sterling, the Brazilian real, and the Japanese yen. On average the U.S. dollar was more stable compared to the previous year. Due to economic turmoil in Venezuela, the Venezuelan government devalued its national currency, the bolivar, at the beginning of 2010. The official exchange rate was adjusted from 2.15 bolivars per U.S. dollar to 4.30 bolivars per U.S. dollar. At the end of 2009 the exchange rate had been 5.97 bolivars per U.S. dollar in the parallel market. Due to the negative outlook for Venezuela, we will use the exchange rate from the parallel market in the future. As a result of this conversion, the revenue and earnings contribution from our subsidiary in Venezuela will be considerably lower. In addition, it will be classified as a nation with hyperinflation. The resulting impact on the Software AG Group is nevertheless of minimal consequence.

The following table shows the exchange rates of the currencies against the euro year on year:

USA

The U.S. economy shrank by a rate of 2.5 percent in the year under review. This indicates that the U.S. was less scathed by the financial and economic crisis than the euro zone (4.0 percent). This is remarkable when considering that the recession originated in the U.S. The slowdown became evident in the first half of 2009. But by the third quarter of 2009, the GDP started to grow again, primarily a result of private consumption. The American economy found itself on its way out of the slump thanks to a bold economic stimulus package, recovery in the financial and real-estate markets, and an upswing in foreign demand.

Europe

The financial and economic recession took a serious toll on the European economy. The first quarter of 2009 was hit particularly hard. The European economy bottomed out in the spring and gradually started to emerge from the crisis mid-year. Growing exports and the implemented stimulus programs contributed to the upturn. In total, the euro-zone economy shrank by 4.0 percent. Due to its strong dependency on exports, Germany's economy suffered extremely negative effects. Thanks to the improved situation in foreign economies, growth rebounded as of the third quarter albeit from a very low starting point. As a result, Germany's GDP fell by a rate of 5.0 percent.

Asia

The Asian economy was also not able to entirely avoid the negative impact of the global economic climate. Most countries did manage to recover quickly however after the temporary collapse of exports. Bold monetary-policy measures and major stimulus packages had a positive effect on domestic demand here as well. Japan suffered deeply from the crisis particularly because of the country's export dependency. Despite ongoing improvement in the Japanese economy since the spring, the country's GDP declined by 5.6 for the full year 2009. In contrast, China was less seriously hit, and, thanks to a comprehensive stimulus package, achieved GDP growth of 8.6 percent in spite of the global recession.

Latin America

Latin America was slightly less affected by the global recession than industrialized nations. The region's GDP fell 2.7 percent in 2009. But a positive growth rate for the current fiscal year is expected. Measures implemented by most countries even before the recession aided the situation. Financial systems were subjected to stricter monitoring and

CLOSING RATE (€1)

	Dec. 31, 2009	Dec. 31, 2008	Change in %
U.S. dollar	1.4405	1.3976	−3.1
Brazilian real	2.5097	3.2574	23.0
Pound sterling	0.8900	0.9589	7.2
Japanese yen	133.06	126.40	−5.3

Source: Commerzbank

AVERAGE RATE (€1)

	Dec. 31, 2009	Dec. 31, 2008	Change in %
U.S. dollar	1.3931	1.4705	5.3
Brazilian real	2.7705	2.6714	−3.7
Pound sterling	0.8914	0.7967	−11.9
Japanese yen	130.19	152.28	14.5

Source: Commerzbank

national debt was reduced. Brazil's economy, which grew by 5.1 percent in 2008 and shrank by 0.2 percent in 2009, is of great importance to the political and economic development of Latin America. The Brazilian market was not hit as hard by the global recession as more established markets. The slump in industrial production at the beginning of the year has already signaled an upturn in the past few months.

2.2 SECTOR TREND

The ICT market in Germany (market for information technology, telecommunications, and consumer electronics) includes the IT and telecommunications sector. The IT market includes IT accessories (hardware), software, and IT services. The telecommunications sector consists of network infrastructure, telecommunications equipment for consumers, and telecommunications services. Software AG pertains to the software and IT services market segments of the ICT industry.

ICT market

According to calculations by the European Information Technology Observatory (EITO), the ICT market in the European Union shrank 2.2 percent to €718 billion in the fiscal year under review. The global recession had a less drastic impact on the ICT sector than other industries. In Germany, the ICT market decreased by 2.5 percent to €142 billion in 2009, which was better than the overall economy.

IT market

Gartner market analyst firm expects a five-percent decline in the global IT market's revenues in 2009. According to BITKOM, the IT market in the European Union shrank by 2.6 percent to €299 billion in 2009. Companies that were struck particularly hard by the recession, for example, auto makers and mechanical engineering firms, postponed IT projects. Revenue from outsourcing services in the EU performed against the trend, growing 4 percent to €66 billion. The German IT market decreased 2.6 percent to €65.4 billion. The IT services market fell just 0.2 percent to €33 billion euros.

Software market

The software sector is, according to the Truffle 100 Europe ranking from November 2009, an important growth engine for modern national economies. The importance of a high-performing software sector to the economy increases every year. The European software industry weathered the recession better than other sectors in the European market. The German software market fell to €14.6 billion euros, which was a contraction of 3.2 percent. Comparatively, the total German economy shrank by 4.9 percent.

2.3 CHANGES IN LEGAL REQUIREMENTS

There were no changes in legal requirements that would have had a significant impact on our business in 2009.

3 BUSINESS TREND AND ECONOMIC SITUATION

3.1 SUMMARY OF BUSINESS TRENDS

Software AG's business performance was successful despite a global financial and economic crisis and the worst recession since World War II. We once again reported the best fiscal year in the Company's history, hitting new highs with all our major key indicators. We were once again able to achieve this through the systematic implementation of our growth-oriented corporate strategy. With the acquisition of IDS Scheer AG and the combining of the two product portfolios, we cover the entire value chain for business process management solutions and have broader access to the market as well as a stronger market position and a larger enterprise. The merger produced the global market leader for business process excellence with expected annual revenue of approximately one billion euros and more than 6,000 employees. (For further information, refer to the Strategy Section, p. 8 and the Special Section on IDS Scheer AG Takeover, p. 14.)

In fiscal 2009, we also celebrated the Company's 40th anniversary. Software AG was the first software company to be founded in Europe —on May 30, 1969—and has become a leading international software company. The Adabas database we developed then is still the fastest database in the world. Dr. Peter Schnell, one of the Company's founders and long-time CEO of Software AG, established Software AG Foundation in 1992. Software AG Foundation holds around 29 percent of Software AG's shares.

Measures to counteract the global financial and economic crisis

In the past year, Software AG proved that is well equipped for times of crisis, such as the continuing global economic crisis. We achieved this thanks to our robust business model with three different business divisions, our large base of existing customers with long-term maintenance agreements in all industries, and our broad global presence. We also have a world-leading, innovative product portfolio that helps customers to reduce costs by making their IT systems more efficient. Our global corporate structure is on the one hand scalable, and on the other, flexible enough to take account of regional differences. (For further information, refer to Revenue and Earnings Monitoring–Important Basis, p. 53.)

At the start of 2009, we defined proactive measures in a 10-point plan to mitigate the effects of the global financial and economic crisis as effectively as possible and even emerge from the crisis stronger. Priorities here were an accurate situation analysis and committed action on the basis of this. We safeguarded cash flow and liquidity—among other things through stringent cost management—and focused on what was really important to our business. Operational management was based on our reliable management information systems. We also drew up plans for a range of crisis situations and their effects.

Acquisition of three companies

Alongside organic growth, our Company strategy is based on external growth through mergers and acquisitions (M&A). In 2009, we strengthened our business through three takeovers: German company IDS Scheer AG, German company itCampus Software- und Systemhaus GmbH ("itCampus") and Swiss company Teconomic AG.

We announced the takeover of German software company IDS Scheer AG, Saarbrücken, on July 13, 2009. At the end of December 2009, we held over 90 percent of the shares in IDS Scheer AG through SAG Beteiligungs GmbH. An extraordinary shareholders' meeting of IDS Scheer AG in January 2010 accepted a domination and profit transfer agreement within the scope of the integration. The agreement was entered into the commercial register on February 11, 2010. This enabled the operational business of the two companies to be integrated and revenue, cost, and sales synergies to be exploited. The merger has resulted in a global player for business process excellence with annual revenue of approximately one billion euros and 6,000 employees. (For further information, refer to the Strategy Section, p. 8 and the Special Section on IDS Scheer AG Takeover, p. 14.)

We strengthened the area of Research and Development with a majority interest of 51 percent in Leipzig-based itCampus. We are thus increasing our capacities in the area of process automation in Germany. itCampus is a vendor of software and communication solutions for call centers, energy, medicine, and the public sector with approximately 120 employees and high innovation potential.

On July 1, 2009 we acquired another company, Swiss Teconomic AG. Teconomic offers extensive IT consulting services and solutions for the European financial sector. With this acquisition, we want to strengthen our position in the global market for the international exchange of financial data (SWIFT) and further expand our business activities in Switzerland. Financial institutes are currently facing significant challenges, which can be overcome with a flexible IT infrastructure that puts them in an excellent position to cope with the sector's forthcoming re-regulation around the world.

ETS

In our ETS business division, we performed well: We developed new products that were well received by the market, acquired renowned customers and large projects, and achieved good results in licensing and maintenance revenues in a difficult market environment. Our business strategy focuses in particular on ensuring the further technological development of the traditional ETS business division for existing customers with mainframes and on all platforms. This extends the lifecycle of successfully running systems, which are business-critical in the financial sector, logistics, or the telecommunications industry, for example. In turn, Software AG is able to secure part of its client base, and thus safeguard maintenance revenue. To underline this strategy, we decided that the Natural project will continue to be developed and marketed autonomously by the ETS business division.

webMethods

In the past fiscal year, the webMethods business division developed particularly well. Over the year as a whole, it reported growth in revenue of three percent, despite the economic crisis and a market environment more problematic than that for ETS. It was an excellent result in a crisis-stricken year such as 2009 compared to the industry as a whole. The improved contribution to consolidated earnings was due to continuously improved sales efficiency and the conclusion of more licensing agreements.

The main new development in the webMethods business division on the product side was the market launch of webMethods 8.0. webMethods 8.0 offers new functions for all areas covered by the suite, i.e. for enterprise-wide integration, B2B, business process management, BAM, and SOA governance (CentraSite). Since Software AG's acquisition of IDS Scheer, customers have also been able to combine webMethods 8.0 and ARIS thanks to compatible process models.

A further innovation was the webMethods Transfer product for secure data transfer within service-oriented architectures. At the CeBIT 2009 trade fair, we showcased the new Community AlignSpace, a product for social communities on the Web. The product will belong to the business process management (BPM) space. (For further information, refer to Research and Development, p. 62.)

Our partner business also made up a considerable proportion of revenue growth in the webMethods business division: Our global and regional partners made an important contribution to the success of the Company in 2009, particularly in the webMethods business division. (For further information, refer to Partners, p. 65.)

In 2009, our products were once again rated as leaders in their market segments by top industry analysts. (For further information, refer to Market Position, p. 51.) Our role as innovation leader also had a positive impact of the market share of the Software AG Group, for example in the area of SOA governance.

Enterprise Process Innovation

Since the third quarter of 2009, our new and third business division, Enterprise Process Innovation, has comprised business of acquired company IDS Scheer AG. In the fourth quarter of 2009, the first full quarter with this structure, ARIS revenue posted the best result of 2009. Maintenance revenue showed healthy growth at operating level. This positive development also applied to the business division's earning power.

SEGMENT REPORT Q4 / FY 2009 – ENTERPRISE PROCESS INNOVATION (IDS SCHEER AG)

in € million	Q4 2009 as stated*	PPA	Q4 2009 operating	FY 2009** as stated*	PPA	FY 2009** operating
ARIS product revenue	16.9	2.6	19.5	23.9	4.1	28.0
Licenses	11.5	–	11.5	16.1	–	16.1
Maintenance	5.4	2.6	8.0	7.8	4.1	11.9
External product revenue	5.6	0.6	6.2	9.0	0.6	9.6
Consulting, services & other	65.4	–	65.4	93.6	–	93.6
Total revenue	**87.9**	**3.2**	**91.1**	**126.5**	**4.7**	**131.2**
Cost of sales			–57.2			-83.3
Gross profit			33.9			47.9
Sales & marketing			–15.7			–22.4
Segment contribution			**18.2**			**25.5**

* IFRS
** Consolidation as of August 20, 2009

Global Consulting Services

During fiscal 2009, the IT services of the Software AG Group were realigned under the leadership of Executive Board member Ivo Totev. The business unit is now called Global Consulting Services (formerly Professional Services) and has a new personnel structure and revised strategy. In the third quarter of 2009, new global service offerings with international contact partners were introduced, as was a new Web portal. This will help to achieve more efficient communication and more intensive knowledge exchange around the world.

The management of digital business processes involves the implementation of a process-oriented and flexible IT structure that optimizes business solutions and helps to achieve a rapid return on IT investment. Alongside pure product innovations, process innovations are playing an increasingly important role in enterprises. For this reason, we restructured and strengthened the Global Consulting Services business unit in recent years and want to expand it into a further pillar of our Company.

3.2 OVERALL STATEMENT ON FINANCIAL POSITION

In 2009, Software AG continued its success and was able to report record annual figures for the third consecutive year. Compared to the previous year, Group revenue increased by 18 percent to €847.4 million. Our operating result rose by 21 percent to €218.2 million, which represents an EBIT margin of 25.8 percent. The 16-percent higher maintenance revenue and 48-percent higher revenue in service and consulting resulting from the acquisition of IDS Scheer AG made a particular contribution here. As a result, we again generated profitable growth in a difficult global economic environment.

The Software AG Group is on a firm footing thanks to the continuous increases in revenue and earnings in recent years. Ongoing process optimization improves profitability and ensures a constantly growing cash flow. We are investing some of this in new technologies and the expansion of our business. Our cost reduction plan, which we introduced at the start of 2009, also contributed to the renewed increase in earnings. Its full impact had already been felt by the third quarter of 2009.

4 FINANCIAL PERFORMANCE

4.1 REVENUE TRENDS

Group revenue rose by 18 percent to €847.4 million in fiscal year 2009 (2008: €720.6 million). This includes the revenues of IDS Scheer AG, which were consolidated as of August 20, 2009. They will also be included in the annual report for the first time as the third business division.

In 2009, currency effects on revenue diminished further. This was partially the result of consolidating IDS Scheer AG, as most of its revenue is generated in the euro zone. Over the year as a whole, 39 percent of revenue was attributable to the euro, 24 percent to the U.S. dollar. The total currency effect on revenue was 0.3 percent, or €2.5 million (2008: €28.2 million).

The share of revenue generated in foreign currency in fiscal 2009 was as follows:

EXCHANGE RATE VARIATIONS

	Revenue share in foreign currency in 2009 in € million	Revenue share in foreign currency in 2009 in %
U.S. dollar (USD)	201.3	24
Pound sterling (GBP)	44.5	5
South African rand (ZAR)	30.7	4
Canadian dollar (CAD)	20.7	2
Japanese yen (JPY)	20.0	2
Brazilian real (BRL)	63.8	8

Sales by revenue type

Product revenue, which consists of licenses and maintenance, is extremely important for a software company and boosts profit margin. Product revenue rose by 8 percent in 2009 to €580.5 million (2008: €539.1 million). Once again, the revenue driver was maintenance, which grew by 16 percent from €267.1 million to €310.6 million. License revenue amounted to €269.9 million (2008: €272.0 million), and thus reflected the difficult market environment and clients' subsequent caution in embarking on new projects.

Revenue for services and consulting rose 48 percent to €262.5 million (2008: €177.8 million). Consequently, Global Consulting Services contributed 31 percent (2008: 25 percent) to Group revenue. This increase was primarily due to the contribution of IDS Scheer.

Revenue by business division

The webMethods business division is a clear growth driver for Software AG's revenue. While the global recession persisted, the division's total revenue increased by 3 percent to €324.9 million (2008: €315.7 million). Product revenue even improved by 5 percent to €219.9 million (2008: €208.5 million)—an excellent level compared to the industry as a whole for this year marked by crisis. License revenue fell slightly from €115.3 million to €110.2 million, a drop of 4 percent. In the fourth quarter of 2009 we were able to double license revenue compared to the third quarter of 2009, in a period in which the global economy slowly started to recover. Maintenance revenue saw growth of 18 percent with a figure of €109.7 million, compared to €93.2 million in the previous year. Service revenue fell by just 3 percent to €101.8 million (2008: €105.0 million). The greater contribution of webMethods to the consolidated earnings result was particularly welcome. Thanks to an improved sales mix and greater sales efficiency, its segment contribution to consolidated earnings grew by 10 percent to €118.0 million (2008: €107.1 million). As a result, webMethods made its largest-ever contribution to Group earnings.

Revenue in the ETS business division fell from €404.9 to €396.0 million. The postponement of some license orders in Japan took its toll here. However, we are optimistic that we will be able to compensate for this revenue in the second half of 2010 or the first half of 2011. In contrast to this, Brazil developed well again and made a significant contribution to revenue. ETS product revenue amounted to €327.7 million and was therefore only marginally below the previous year's €330.6 million (–1 percent). The eight-percent increase in maintenance revenue to €187.9 million (2008: €173.8 million) compensated for the 11-percent fall in license revenue of €139.8 million (2008: €156.8 million). Service revenue fell eight percent from €72.8 million to €67.6 million. In the fiscal year, the ETS business division's segment contribution fell by one percent to €243.7 million (2008: €245.7 million).

The new Enterprise Process Innovation (IDS) business division contributed €126.5 million to consolidated earnings in the consolidation period as of August 20, 2009. Of this, €23.9 million were attributable to ARIS product revenue. This comprised license revenues of €16.1 million and maintenance revenue of €7.8 million. A further €9.0 million in revenue was generated with external products, €93.1 million in the service and consulting business.

SALES BY REVENUE TYPE

in € million	2009	2008	Change in %
Product	**580.5**	**539.1**	**8**
Licenses	269.9	272.0	–1
Maintenance	310.6	267.1	16
Consulting & services	262.5	177.8	48
Other	4.4	3.7	19
Total	**847.4**	**720.6**	**18**

4.2 EARNINGS PERFORMANCE

We were able to significantly increase our earnings again in 2009, particularly as a result of the two-digit growth in maintenance and the high degree of cost discipline. Both companies, Software AG and IDS Scheer AG, initiated cost reduction measures at an early stage and were thereby able to improve their margins during the crisis. Gross earnings rose by six percent to €547.1 million (2008: €515.5 million). The gross profit margin fell from 71.5 percent to 64.6 percent. This was connected to the 46-percent higher cost of sales of €300.3 million (2008: €205.1 million). Because we now have higher service revenue through IDS Scheer, our directly apportionable costs as well as revenues from external products are greater.

Operating result (EBIT) for the year as a whole increased by 21 percent from €180.5 million to €218.2 million. With a rise in revenue of 18 percent and an only moderate increase in costs, we were able to increase our efficiency further. Thus EBIT margin saw a renewed improvement from 25.1 percent to 25.8 percent, which surpassed our forecasts for 2009. We were able to achieve this despite the following extraordinary items, whose balance reduced operating result by €2.9 million:

- Price earnings of €34.7 million from the repayment of long-term, Group-internal financing
- Costs of €11.2 million from initiated restructuring measures with regard to, among other things, the forthcoming integration of the IDS Scheer Group
- €10.6 million reduction in webMethods goodwill as a result of higher-than-planned use of tax-related loss carryforward from the period prior to acquisition by Software AG
- Foreign currency losses of €6.8 million as a result of the devaluation of the Venezuelan bolivar
- Extraordinary effects caused by purchase price allocation in accordance with the IRFS 3 accounting standards, which led to a reduction of €4.7 million in maintenance revenue and amortization of €8.6 million on the margin of purchased service agreements
- Earnings balance of €4.3 million in other one-time effects

Net income improved by 22 percent to €140.8 million (2008: €115.9 million). This was primarily the result of a higher operating result and another reduction in the Company's tax rate, which fell in 2009 from 34.0 percent to 32.7 percent for the consolidated Company. Because of credit financing for the acquisitions, net financial income fell from –€5.1 million to –€8.9 million. Earnings before tax improved by 19 percent to €209.3 million (2008: €175.4 million).

KEY EARNINGS INDICATORS

in € million	Q4 2009	Q4 2008	Change in %	2009 as a whole	2008 as a whole	Change in %
EBIT	79.4	54.9	44.6	218.2	180.5	20.9
EBITA	91.7	58.2	58	245.9	195.0	26
Net financial income/expense	–7.0	–0.6		–8.9	–5.1	
Net income	48.1	35.2	37	140.8	115.9	22
Earnings per share in € (basic)	1.65	1.23	34	4.92	4.05	21

COST STRUCTURE

in € million	Q4 2009	Q4 2008	Change in %	2009 as a whole	2008 as a whole	Change in %
Total revenue	292.1	212.4	38	847.4	720.6	18
Cost of sales	–117.0	–57.8	102	–300.3	–205.1	46
Gross profit	175.1	154.6	13	547.1	515.5	6
margin in %	60.0	72.8		64.6	71.5	
Research & development	–23.2	19.5	19	–82.2	–76.2	8
Sales & marketing	–62.7	–49.2	28	–192.4	–177.1	9
Management & administration	–22.1	–17.3	28	–70.7	–65.1	9
Other	12.3	–13.7		16.3	–16.5	
EBIT	79.4	54.9	45	218.2	180.5	21
margin in %	27.2	25.8		25.8	25.1	

4.3 COST STRUCTURE

At the start of 2009, Software AG launched a crisis response program, in which 10 points were developed and implemented. Cost savings totaling €20 million were largely restricted to administrative, sales, and marketing costs. In contrast, expenditure for research and development increased, and employee costs remained stable. As a result, we were highly profitable even in this year of crisis, and at the same time, laid the groundwork for the upturn. In the 2009 fiscal year, depreciation on intangible assets caused by acquisitions was, for the first time, not posted separately and was instead included in the function costs. The figures for the previous year were adjusted accordingly. As a result, the structures of the function costs changed slightly.

In the reporting year, the cost of sales increased by 46 percent from €205.1 million to €300.3 million. This was primarily connected with the acquisition of IDS Scheer AG and the resulting higher proportion of service revenue and subsequently higher directly apportionable costs and increased revenues from third-party products. In the webMethods business division, the cost of sales increased slightly from €115.0 million to €116.4, and thus at a lower rate than revenue growth. In ETS, the cost of sales fell from €83.2 million to €81.7 million, and thus in proportion to revenue. The Enterprise Process Innovation business division reported cost of sales totaling €83.3 million.

In 2009, research and development expenses rose by 8 percent, from €76.2 million to €82.2 million. As a result of the integration of webMethods, which was concluded in 2009, the share of R&D expenses in product revenue was practically unchanged at 14.2 percent (2008: 14.1 percent).

Marketing and sales expenses increased by 9 percent to €192.4 million (2008: €177.1 million). However, the share of marketing and sales expenses in total revenue was once again reduced, from 24.6 percent to 22.7 percent. The sales expenses in the ETS and webMethods business division fell significantly as a result of the cost reduction measures: from €93.6 million to €90.5 million in webMethods, and from €75.9 million to €70.7 million in ETS. There were also sales expenses of €22.4 million for Enterprise Process Innovation.

General administrative costs also rose by 9 percent from €65.1 million to €70.7 million. This increased at a significantly lower rate than the Group's revenue growth of 18 percent. The share of total revenue is now at 8.3 percent, again below last year's at nine percent.

4.4 NET INCOME AND APPROPRIATION OF PROFITS

Net income

In fiscal 2009, the net income of the Software AG Group improved from €115.9 million to €140.8 million, a growth of 22 percent. This is due to the significant expansion of business and reduced costs.

In the fiscal year, basic earnings per share rose by €0.87 from €4.05 to €4.92. The average number of (basic) shares outstanding amounted to 28,681,849 (2008: 28,599,020). The increase in the number of shares was due to the exercising of options by the Executive Board and managers.

Appropriation of profits

In the past fiscal year, we were once again able to significantly improve profit and cash flow. Based on our ongoing dividend policy and payout ratio to date, an increase to the dividend would be logical. However, we are operating in an uncertain economic environment in which a reduction in dependency on bank loans is advisable. At the same time, we want to take advantage of the acquisition opportunities in the software market. Our net debt must therefore be reduced. The Executive Board and Supervisory Board of Software AG will again propose to the Annual Shareholders' Meeting a dividend of €1.15 per share (2008: €1.10). This results in total dividends of €32.6 million (2008: €31.5 million) and a payout ratio of 19.8 percent (2008: 25 percent).

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). Software AG's revenue amounting to €210.6 million (2008: €203.6 million) resulted primarily from royalty income and management fees from subsidiaries. €20.1 million in income (2008: €25.9 million) was due to profit transfers and €100.8 million (2008: €38.2 million) to dividends from affiliated companies. Net income totaled €200.3 million (2008: €77.1 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 €7.6 million in fiscal year 2009, compared to €3.6 million in 2008, and primarily comprised operating and office equipment in the sales branches and the administrative headquarters in Darmstadt and Saarbrücken.

Capital expenditure for financial assets rose slightly from €1.0 million to €2.8 million. Net expenditure for acquisitions rose significantly, from €38.9 million to €320.4 million, due primarily to the acquisition of IDS Scheer AG. To finance the purchase price of €443 million, Software AG is using borrowed funds of €329 million, acquired in the form of bank loans, promissory notes (€284 million), and a subordinated loan from majority shareholder Software AG Foundation (€45 million) with favorable terms. At the end of 2009, Software AG's equity of total revenue amounted to €218 million. Bank liabilities will be repaid from the operating cash flow by 2012 or 2013, the subordinated liabilities in 2013.

5.2 CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow developed particularly well again in 2009. Free cash flow for 2009 as a whole was €188.4 million, which exceeded the 2008 figure of €133.4 million by 41 percent, as well as 2009's net income of €140.8 million. Free cash flow was 22.2 percent of total revenue (2008: 18.5 percent). Free cash flow per share rose from €4.66 to €6.57. This strong cash-flow trend over the long term enables us to foster our strategic business development through liquidity and rapidly reduce net liabilities.

Operating cash flow

In fiscal 2009 Software AG achieved €200.5 million in operating cash flow compared to €140.1 million the previous year. This 43-percent increase is largely attributable to Software AG's organic growth.
Cash outflows from investing activities increased from €45.5 million to €332.5, mainly as a result of the acquisition of IDS Scheer AG.
Cash inflows from financing activities amounted to €259.4 million, compared to outflows of €76.3 million in 2008. A repayment of financial liabilities totaling €41.2 million was set against new acquisition-related borrowing of €330.6 million.
In total, cash and cash equivalents decreased by €121.2 million in 2009, compared with a decrease of €15.6 million in the previous year.

CONSOLIDATED STATEMENT OF CASH FLOWS

in € million	Q4 2009	Q4 2008	2009 as a whole	2008 as a whole	Change in %
Operating cash flow	73.6	43.8	200.5	140.1	43
CapEx*	–5.0	–1.6	–12.1	–6.6	83
Free cash flow	68.6	42.2	188.4	133.4	41
% of revenue	23.5	19.9	22.2	18.5	
Free cash flow per share (in €)	2.39	1.48	6.57	4.66	41
Average number of shares (in million)	28.7	28.6	28.7	28.6	

* Net cash used in investing activities adjusted for acquisitions

5.3 FINANCING

The financial management of Software AG ensures that all Group companies are continuously solvent. Based on the guidelines adopted by the Executive Board, financial policy and risk management are implemented by the central Treasury department. Active working capital management controls the Group's 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 investment. The focus on short-term investment means that Group funds are invested at near money-market rates. Our central Treasury department monitors the current 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. High equity-to-assets ratio and a robust free cash flow create the basis for the Group's organic growth and M&A transactions.

Liquidity and financing

In 2009, cash and cash equivalents more than doubled, amounting to €218.1 million at the end of the year (2008: €96.9 million). Equity rose from €549.1 million to €647.5 million. As a result, the equity-to-assets ratio was 39 percent (2008: 52 percent). Because of acquisitions, net debt rose from €70.0 million to €272.0 million. However, we were already able to repay approximately €50.0 million in the fourth quarter of 2009. At the end of the year, non-current liabilities were €419.3 million, compared to €162.3 million at the end of 2008.

Financing instruments

Software AG uses bank loans, finance leasing, and free cash flow as financing instruments. A financing risk arises from the possibility that the Company may not be able to satisfy existing financial liabilities, for example, 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 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 2021. Partial amounts are converted into synthetic fixed-interest rate loans using interest rate swaps. The table below shows the contractually fixed payments arising from recognized financial liabilities. The values listed here 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 exchange rate as of December 31, 2009.

NON-DERIVATIVE FINANCIAL LIABILITIES

in € thousands	Up to 1 year	1 to 5 years	> 5 years	Total
Non-derivative financial liabilities				
Liabilities to financial institutions and other financial liabilities				
Repayment	197,308	286,845	4,362	488,515
Interest	13,724	19,722	346	33,792
Trade payables	62,030	260	0	62,290
Other financial liabilities	1,031	96	0	1,127
Liabilities from finance leasing	177	106	0	283
Other non-derivative liabilities	71,497	1,067	0	72,564
Derivative financial liabilities	1,839	64	0	1,903

5.4 ASSETS

Software AG's assets increased by 56 percent to €1652.5 million in fiscal 2009 (2008: €1,060.0 million). Both current and non-current assets rose significantly, primarily as a result of acquisitions.

Current assets stood at €597.2 million, 61 percent higher than in 2008 (€371.4 million). Bank deposits, trade receivables, other receivables, and other assets rose.

At year end, our non-current assets amounted to €1,055.3 million (2008: €688.6 million). This is an increase of 53 percent year on year. All items except non-current financial assets and trade receivables increased in the period under review.

Off-balance sheet assets and financial instruments

In addition to the assets reported in the consolidated balance sheet, Software AG has off-balance sheet assets. These relate primarily to rented office space, leased company cars, and hardware. Off-balance sheet assets also include the Software AG brand name, which is an important intangible asset. The brand image was continuously enhanced in the year under review.

5.5 BALANCE SHEET STRUCTURE AND KEY FINANCIAL INDICATORS

As a result of the acquisition of IDS Scheer AG, the balance sheet and its key financial indicators have undergone considerable changes. In the year under review, the total assets of the Software AG Group increased by 56 percent to €1,652.5 million, compared to €1,060.0 million in the previous year. Since the time of acquisition, the IDS Scheer Group has contributed €126.5 million to Software AG's consolidated earnings. These figures take account of the effects of amortizing the acquired intangible assets and the revaluation of deferred income.

On the assets side, the items changed as follows: Current assets increased significantly from €371.4 million to €597.2 million. Cash and cash equivalents rose from €96.9 million to €218.1 million, an increase of 125 percent. Trade receivables increased from €247.3 million to €330.5 million as a result of business expansion. Other receivables and other assets also increased from €21.2 million to €38.2 million. Prepaid expenses increased from €5.9 million to €9.6 million.

Non-current assets also rose considerably, from €688.6 million to €1,055.3 million. Goodwill, in particular, increased from €442.7 million to €682.5 million. This includes goodwill of €247.0 million for IDS Scheer. The value of goodwill is regularly tested in an impairment test and is ensured over the long term by the future cash flows of the acquired business units. In 2009, the impairment test once again identified no need for devaluation.

On the liabilities side, current liabilities rose from €348.6 million to €585.6 million. Of this, financial liabilities amounted to €198.5 million (2008: €61.4 million). Deferred income rose considerably from €100.5 million to €117.3 million. This relates to future maintenance revenues, of which the proportion paid in advance by customers was deferred in the balance sheet. The non-current liabilities, which contain the largest portion of debt financing for the IDS Scheer acquisition, amounted to €419.3 million (2008: €162.3 million). Financial liabilities increased from €105.8 million to €291.4 million. Deferred tax liabilities increased from €22.7 million to €66.7 million. This increase is due to carrying deferred taxes as a liability as a result of the purchase of IDS Scheer AG. Equity rose from €549.1 million to €647.5 million. As a result, our equity-to-assets ratio is 39 percent (2008: 52 percent).

6 ADDITIONAL EARNINGS-RELATED FACTORS

6.1 RESEARCH & DEVELOPMENT

Innovation is one of the pillars of our long-term growth strategy. We can continue to grow profitably only if we continuously develop product innovations that meet our customers' current needs. That is why Research and Development (R&D) is a key department for Software AG as a software company. In addition, we place great value on close cooperation between Sales and Marketing, Services, and Research and Development.

Software AG's investments in research and development in 2009 amounted to 14.2 percent of our product revenue (2008: 14.1 percent). Because of its major significance for our company, the R&D department was not affected by cost-cutting measures. As of December 31, 2009, we employed 854 people in R&D, 31 percent more than at the end of the previous year; 14.2 percent of all employees at Software AG work in R&D.

The R&D work of the two business divisions, ETS and webMethods, is now the direct responsibility of Executive Board member Dr. Peter Kürpick. Both product lines are tied closely together from the start of the process chain, in research and development, and downstream in product management. Various products still have different requirements, so we will continue to pursue specific R&D strategies for the two business segments. They are closely linked to one another, however.

In the fiscal year under review, we strengthened our R&D with a majority interest of 51 percent in Leipzig-based itCampus Software- und Systemhaus GmbH (itCampus). (For further information, refer to the Summary of Business Trends, p. 57.)

In January 2009, Germany's three largest software companies—SAP AG, Software AG, and IDS Scheer AG—initiated the ADiWA research project (Alliance for the Digital Flow of Goods) in conjunction with additional partners. The aim of the project is to use all process-relevant information from the Internet of Things to make corporate processes more flexible and adapt them dynamically, thereby recording and analyzing all events in a structured fashion. This enables automated planning, monitoring, and optimization of the entire business process with the flow of products and information to be done from economical and environmental perspectives. The research project is supported by a €17.7 million grant from the Federal Ministry of Education and Research (BMBF).

ETS

R&D is conducted for ETS at five locations in Germany, the UK, Israel, Bulgaria, and the United States, to develop our product portfolio. As a result of this global positioning, we can effectively exploit cost benefits and the specific expertise of the individual countries, as each location specializes in certain products or product groups. We typically develop products on the basis of our customers' needs. We regularly conduct needs analyses to determine their specific needs and derive product-improvement and innovation processes from them. Our actual development work therefore starts with the customer—to our mutual advantage. Our development work in 2009 focused on integrating ETS products with webMethods.

ETS linked even more closely with webMethods

We introduced Optimize for Infrastructure: Mainframe Edition in December 2009. With this new product, our customers can monitor the performance of several products, such as Adabas, Natural, EntireX, or ApplinX, at the same time with a single view. In addition, Optimize for Infrastructure analyzes previous performance data to create forecasts of potential problems, enabling customers to efficiently fine tune their system performance. Thus, a company's IT decision-makers recognize system problems at an early stage and eliminate them to keep business running smoothly.

NaturalONE is a new tool to simplify the modernization of programs for our maintenance customers and develop new Web and service-based programs in Natural. Furthermore, NaturalONE helps our customers secure their existing investments in their business-critical applications and integrate them into new business processes (webMethods). In so doing, the new platform brings Natural closer to the webMethods product world, such as enterprise service bus, CentraSite SOA governance, BPM, and Optimize. The launch took place in December 2009.

New innovations in development

Adabas Archiving will be an important development topic in the coming fiscal year. The volume of business information is growing rapidly. Databases that hold terabytes of information are very difficult to manage. Lengthy processes for backing up and archiving data have a significant negative effect on availability. Although the majority of the data is not relevant for day-to-day business, it cannot simply be deleted. This is where Adabas Archiving comes in: it defines, manages, and initiates archiving, removing data from the production environment and storing it securely in an archive. This data can then be accessed and searched again whenever necessary.

In 2010, as in previous years, we will continue to work hard to develop new products and continue to develop existing applications. This way, the R&D team will support the ongoing expansion of ETS business. We will focus in particular on product enhancements that will provide even better integration between the ETS and webMethods product portfolios in both directions. Furthermore, we will press ahead in 2010 with integrating ETS products with the ARIS product family by IDS Scheer and foresee further product innovations for our customers in this realm. We will also concentrate on developing new products from the integrated product portfolio.

webMethods

One of the focal points of our webMethods research and development in 2009 was the complete integration of Software AG and webMethods products. This has now been completed in all areas as of the fiscal year under review. In the course of integration with ETS, we initiated many other process optimizations as well, for example, fully integrating CentraSite in all products.

The webMethods Research and Development team had four development locations around the world with 453 employees as of the end of the year. Since April 2009, webMethods R&D (just as ETS R&D) has been overseen by the business division's head of R&D, who reports directly to the Board.

WEBMETHODS: R&D LOCATIONS/STAFF

	Dec. 2009
Germany	109
USA (San Jose, Seattle, Denver, Reston)	122
India (Bangalore, Chennai)	154
Bulgaria (Sofia)	53
Israel	15
Total	**453**

New products launched

In the second quarter of 2009, we introduced webMethods 8.0, the first completely integrated version of the software platform since the takeover of webMethods, Inc. With it, companies can better utilize both new, open architectures and investments in existing infrastructures. In addition, they lower the time and costs for process optimization and system integration and can significantly increase productivity thanks to close collaboration between IT and departments. As with previous versions, webMethods 8.0 also focuses on the demands that globally operating companies place on infrastructure software for business processes. This version focuses in particular on harmonizing systems and departments, as well as on automating and optimizing processes that add value faster within the company. Time and costs can be reduced by at least 25 percent on extensive projects, which can lead to savings in the millions, in particular for large-scale enterprises. The latest release includes CentraSite Active-SOA, the first fully integrated business service repository for the unique link between BPM and SOA, providing IT and business experts maximal transparency, reusability, and change management. The new webMethods 8.0 has been available since December 2009.

As announced in the last annual report, we have launched the first platform for social BPM. AlignSpace (formerly webMethods Align) is the largest social network for BPM experts and a platform for collaboration between all parties involved in a BPM environment. The data, documents, and services generated in such an environment are available across company boundaries and can be reused in this manner. Other social networks can be integrated as well. The new product is available as a SaaS (software-as-a-service) offering. Within the scope of a social network, the functionality encompasses the identification and modeling of collaborative processes as well as a marketplace for systems integrators, consultants, and application developers. Over the course of the year, the product was developed sufficiently for the market and was released to all Software AG employees in the fourth quarter. It will be introduced to the public at CeBIT 2010, with access granted to external users.

Research and innovation in 2010

Among the focal points of our R&D work in 2010 was the integration of ARIS products from IDS Scheer into the webMethods product portfolio. The two product groups have very little crossover, but they complement each other very well. With an integrated product portfolio, we will be able to deliver interesting, one-of-a-kind new products that enhance and complement existing applications. We also see it as our duty to continue working on sustainably reducing our customers' total cost of ownership. We will focus on a variety of areas, especially on simplifying operation of our software for users. Specific solutions that we want to develop this year include rules management and event processing. (For further information, refer to Special Section on IDS Scheer AG Takeover, p. 14.)

6.2 CUSTOMERS & SALES

Two members of the Executive Board became responsible for the sales organizations of the two business divisions with different regional jurisdiction. Our aim was to increase sales efficiency and in particular accelerate the global revenue growth of the webMethods division. Both sales areas still function separately, preserving the sales specialization for the different products. At the same time, however, there is standard, customer-oriented market strategy, which enables landing major projects and stronger cross-selling effects. Software AG's Sales and Marketing department accounted for 1,072 employees—nearly 17.8 percent of all Software AG employees.

Expanded global market presence

The continued expansion of our market presence around the world is a major component of our long-term strategy. We are increasing our presence in new markets with high growth potential: Asia, the Middle East, Eastern Europe, and Latin America. In recent years, we entered the important markets of Japan and Brazil. We established direct distribution in Brazil at the beginning of 2008 and have since gained many well-known new customers and major orders, especially in the ETS business division. We had 178 customers under contract in the South American market at the end of 2009 and, combined with IDS Scheer, more than 80 employees. Revenues increased by 25 percent over the previous year and, for the first time, we held events for major customers in Brasilia, Rio de Janeiro, and Sao Paulo, with more than 400 participants.

More events for our customers

We continually conduct a multitude of sales-support measures to promote customer loyalty and awareness of other interesting products from our portfolio. For example, we publish our customer magazine, the Software AG Independent, three times per year and use it to feature reference projects and product innovations. Software AG's Customer Briefing Center originated from our philosophy of customer orientation. We conduct customized events in a conference center outfitted with the latest in technology and give our customers a virtual look over our developers' shoulders. Through our customer success program, companies can demonstrate how using Software AG technologies helped them succeed. In addition, Software AG presents an annual Customer Innovation Award, recognizing customers who have created particularly innovative, exemplary solutions with our technologies.

We also offer numerous other customer events and training sessions, provide a great deal of information on our Website about our technologies and application options, and organize business communities on the Internet.

Organizing and attending numerous events

Trade shows, forums, and other events are a good opportunity for us to meet customers, prospective customers, and other stakeholders and to present our new technologies to them. Furthermore, countless one-on-one interviews gave us valuable feedback from the market which we were able to integrate into our product strategy. In addition, events such as CeBIT provide us with extensive coverage in business and technology press. Our participation in CeBIT 2009 was another resounding success: We were able to increase the number of customer contacts and press reports. Other events during the fiscal year under review included the Business Innovation Forum (BIF) in France; the fourth BPM Day in Vienna, Austria; the Business Innovation Forum in Darmstadt, Germany; and the "Process-Oriented IT—The Digital Company of the Future" roundtable in Zurich, Switzerland.

New major orders

We again gained a multitude of new orders in 2009, including both follow-up orders from existing customers and orders from new customers. Customer success stories and references can be found in the Customers section of our website as well. Moreover, we have succeeded in winning increasingly large orders. In the webMethods division, we concluded almost 200 agreements with values of more than €100,000 in 2009. The average order volume was about €500,000.

Our increasing size has allowed us to take on increasingly large orders. Software AG has a customer base of 4,000 customers in 70 countries. The volume of the orders from our top ten customers accounts for less than 10 percent of total revenues, which indicates relatively low dependence on individual customers. By taking over IDS Scheer AG, we have added 7,500 customers in 70 countries. Through this merger, we are achieving critical mass in more European countries, among other things, which will allow us to win an even greater order volume.

6.3 PARTNERS

Distribution partners gaining importance

2009 was another good year for distribution partners at Software AG, building on the excellent results in fiscal year 2008. Our partner network made up of systems integrators, OEMs, resellers, and independent software vendors largely drives our business in the webMethods product line. In 2009, our partners again contributed significantly to Software AG's webMethods licensing revenues. Our partnerships play an important role in our success in the economically challenging webMethods space. The webMethods licensing revenues achieved with our partners can mostly be accredited to new projects with new or existing customers. Vertical industry expertise plays a major role in our success with our distribution partners. Our partners' industry-specific expertise is primarily focused on four sectors: government, financial services, telecommunications, and manufacturing. At the beginning of 2009, we identified our major global partners who accounted for a significant percentage of webMethods licensing revenues. Our partnership with Accenture continued to be the most productive.

Further expanding the partner network

We will concentrate on a proactive partner program with our most important partners in 2010. We will further expand our partnerships with our 12 largest partners worldwide while starting initiatives with key regional partners. We will add new success factors to the partner program, such as annual planning sessions, balanced scorecards, and a vertical industry focus. During the current fiscal year, we will continue to work with existing, tried-and-true methods by developing vertical process templates and solutions with our partners.

6.4 EMPLOYEES

Number of employees grew significantly

In fiscal year 2009, the real number of employees increased (i.e., part-time employees are counted on a pro-rata basis) by 71 percent over the previous year. This can, in large part, be traced to the takeover of IDS Scheer. As of December 31, 2009, our company employed 6,013 persons worldwide, compared to 3,526 employees as of the 2008 reporting date. Of that number, 2,149 persons were employed in Germany (2007: 772), and 742 in the U.S. (2007: 691). Thus, 64 percent of our employees worked outside of Germany at year end (2008: 78 percent).

Focal points of Human Resources activities in 2009

Key focal points of Human Resources activities in the year under review were the continued expansion of the IT infrastructure for Global Human Resources and the optimization of the central structures of the global HR organization. In addition, Human Resources developed the international benefits structure, added to offerings, and implemented standardized incentive systems, primarily in Sales and Consulting. By using global benchmarks for remuneration and benefits, we ensure that our employees' remuneration is highly attractive and in line with the market. Additional crucial focal points in 2009 were the further expansion of existing Human Resources development and continuing education programs, and optimizing Software AG's position on the employer market.

HEADCOUNT BY FUNCTIONAL AREAS

	Dec. 31, 2009	Dec. 31, 2008	Change in %
Sales & Marketing	1,072	703	52
Consulting & Service & Support	3,246	1,634	99
Research & Development	854	651	31
Management & Administration	841	538	56
Total	**6,013**	**3,526**	**71**

We implemented additional initiatives in the realms of work/life balance and health management to benefit our employees. Developing an HR strategy in line with the corporate strategy completes the picture. The HR strategy allows us to align ourselves with corporate objectives, with a focus on winning, developing, motivating, and retaining qualified employees in a constantly developing environment.

The objective of Software AG's human resources policies is to make available standardized services offerings that are oriented toward the corporate strategy and geared toward the labor market of the future, creating an innovative and productive working environment for our current and future employees as well as for management.

Training and continuing education are consistently encouraged

Another constant focus of our Human Resources activities is the continuing education and qualification of our employees. Our Corporate University, started in 2005, conveys the message that learning and training are of high, strategic importance to us. The Corporate University's qualification program is geared towards all employees around the world. Its core task is ensuring the qualifications of all target groups by customizing training to Software AG's vision, values, and strategy.

More than 8,000 courses were completed via the globally-established learning management system in 2009, and more than 300 certifications were awarded. Along with traditional classroom instruction, new models of teaching are gaining importance, including e-learning and virtual classrooms, as well as interactive and collaborative forms of learning based on Web 2.0 technologies.

Overall, we expanded the topics offered by the Corporate University significantly and published 160 new internal e-learning units. We integrated an e-learning library on business skills with more than 1,000 individual topics into the system.

Along with its core task of providing training and qualification for our employees, the Corporate University also bears responsibility for the development of training materials for customer training sessions and certifications, thereby contributing to stronger customer relationships.

Human Resources development programs expanded

We successfully concluded the second international High Potentials Program in 2008/2009. It is geared toward Software AG employees from all departments with a diverse professional background who display outstanding performance and will actively support the Company's growth in the coming years. In addition, various other programs were offered in the fields of management development and project management. A survey subsequent to the program showed that participating employees were very satisfied and almost half of them had already been entrusted with more duties.
Currently, we are working on a new concept for the next High Potentials Program for 2010, which will be geared toward three target groups: professional career, managerial level, and advanced managerial level. The nomination process for the managerial level has begun already, and the other areas will follow. The new program will be carried out in conjunction with IDS Scheer.

We introduced an electronic method (an appraisal tool developed in-house) as a pilot project in numerous countries. As a result, the process for conducting annual employee evaluations in our company is now standardized throughout the world. A single tool is used for data collection. After concluding the pilot phase, we will make some slight modifications and then implement the tool worldwide in the first quarter of 2010.

Another new item was the introduction in 2009 of a Management Development Toolbox for the DACH region (Germany, Austria, and Switzerland), which includes training sessions for managers regarding change and conflict management. At least one training unit per month is planned for 2010.

Two new components were developed for the Global Consulting Services business unit in 2009: an orientation and development plan for junior consultants and a standardized development path for consultants. A plan is to be developed in 2010 for determining the necessary training sessions and certifications for every level.

University Relations implemented worldwide

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 when there is a 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. Thus, it is of great strategic importance for any software company's future success to establish long-term and trusting relationships with colleges and universities.

Since early 2007, Software AG has had a globally-oriented University Relations department. The crux of the University Relations program is to put all Software AG products into colleges and universities around the world free of charge for teaching and research purposes. In connection with this, we offer IT and business students an opportunity to get to know us through guest lectures, corporate visits, and events. We offer internships and jobs for students, as well as provide support for master's and bachelor's theses. During their university education, interested students are given the opportunity to gain practical and real-world experience in fully equipped and predefined projects. The students work on topics covered by our product range, such as SOA, BPM, mainframe technology, and application modernization. The University Relations Program began very successfully in Germany and is now active on all continents. We foster trusting relationships with more than 300 computer-science and business departments at universities worldwide, including more than 200 in Germany.

Corporate culture conducive to long-term company management

Our Corporate Culture Program, brought to life in 2006, was continued in 2009. Based on employees' feedback from corporate culture workshops, we have determined that a good work/life balance promotes long-term development and motivation. That is why we have work/life balance programs worldwide that are customized to country-specific needs, including the following:

- Consultation on childcare and dependent care, addiction, and workplace bullying
- Sports offerings
- Youth exchange programs
- Health and fitness days
- Laundry service

Also in 2009, we conducted workshops communicating our common values of innovation, trust, responsibility, open communication, and a winning spirit. The foundation for our successful customer-oriented business is an understanding of cultural differences and promoting tolerance. We bring new teams and cultures together with the help of common values and an understanding of cultural differences.

New employee survey planned

To investigate employee satisfaction at Software AG, the Human Resources department conducted a second global employee survey in October 2008, through which we were able to draw clear conclusions on our leadership culture and employee satisfaction. We were particularly pleased by the high level of attachment employees reported to the Company and their appreciation for their jobs within the Company. In 2009, we implemented the measures identified, and we are now preparing to conduct a new global employee survey to take place in 2010.

Software AG—an attractive employer

Software AG conducted an analysis of its employer brand, which involved both external feedback and interviews with employees around the world. The target groups for these interviews were high potentials, new hires, rehires, industry experts, and top managers. The purpose of the survey was to find out why people want to work for Software AG, what motivates them, and what makes them successful. The results will be used as a basis for Human Resources marketing activities in 2010. In addition, we continued to participate in employer surveys and were able to further improve our image in the United Kingdom and Germany.

Human Resources strategy pursued in line with corporate goals

Our employees are our most valuable asset, which is why the Global Human Resources department is continuing to work on providing the right environments, benefits, and programs to win, motivate, develop, and retain highly qualified employees. Our HR strategy is linked to the overall corporate strategy and its goals of growth, profitability, global market leadership, and innovation. Not only do we want to win and retain the best employees, but we also want to be a partner for our managers and employees within Software AG. We are achieving this by establishing a values-oriented culture consisting of trust, responsibility, innovation, open communication, and a winning spirit. In addition, we have lean structures and use process-oriented infrastructures and processes. We will continue with our ongoing HR activities in 2010 while improving our Human Resources marketing strategy with the help of our analysis conducted in 2009. An additional goal is the seamless integration of new employees.

6.5 CORPORATE SOCIAL RESPONSIBILITY

On the occasion of Software AG's 40th anniversary, we published our first report entitled Corporate Social Responsibility—Sustainability and Responsibility in 2009. This report is not a traditional CSR report that conforms to the guidelines of recognized CSR standards. It is Software AG's first report of this type and illustrates based on facts how we are exercising our corporate social responsibility. The report focuses on the last two years.

Sustainability means more than just environmental sustainability; rather, we see it as creating long-term values in a broader sense. Our customer relationships, technology, partnerships, investments in our company, and our knowledge capital through employees are values that endure for many years. These sustainable values benefit all stakeholders as well as society.

For Software AG, sustainable and responsible action means being a successful company, whereby we have a special definition of success. For us, having a successful business means:

- making our customers globally successful
- researching and developing our own solutions
- setting standards, developing patents
- being a convincing and reliable partner for our partners
- developing employees with the Company
- growing and being profitable
- benefitting society
- maintaining exemplary values and social standards in our day-to-day business operations
- promoting education and innovation, globally and locally

Our software solutions can serve as tools for transparency and trust, speed and control, flexibility and efficiency. These solutions are, among other things, our contribution to minimizing global crises. They support those who understand and are aware of their responsibility. We are aware of our responsibility.

More information about Corporate Social Responsibility, as well as the full report, can be found at www.softwareag.com/de/Press/csr/

7 TAKEOVER-RELATED DISCLOSURES

Subscribed capital and voting rights

Software AG's share capital totaled €86,125,230 and is divided into 28,708,410 bearer shares. Each share represents €3.00 of the 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 non-issued 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 €41,803,632 by issuing up to 13,934,544 new bearer shares against cash contributions or contributions in kind (authorized capital).

Furthermore, the Company is authorized to purchase own shares up to €8,600,861 par value on or before October 29, 2010 in order to realize benefits associated with the acquisition of own shares in the interest of the Company and its shareholders. Own 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 Foundation, Darmstadt, holds 29 percent of the outstanding shares in Software AG. The foundation is a separate nonprofit 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); May 12, 2006 (section 5, paragraphs 1 and 5 of the Articles of Incorporation); April 2, 2007 (section 5, paragraphs 1, 2, and 3 of the Articles of Incorporation); December 14, 2007 (section 5, paragraphs 1 and 3 of the Articles of Incorporation); March 12, 2008 (section 5, paragraphs 1 and 3 of the Articles of Incorporation); December 11, 2008 (section 5, paragraphs 1 and 3 of the Articles of Incorporation); March 13, 2009 (section 5, paragraphs 1 and 3 of the Articles of Incorporation); and December 17, 2009 (section 5, paragraphs 1 and 3 of the Articles of Incorporation).

Change of control

Liabilities to banks in the amount of €399 million (2007: €152 million) could become due, in full or in part, in the case of a change of control on the part of the creditors.

A member of the Executive Board who resigns due to a change of control within twelve 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.

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

8 MAIN FEATURES OF THE REMUNERATION SYSTEM

The Remuneration Report is part of the Corporate Governance Report (refer to pp. 33–43), which is an integral component of the Management Report.

9 RISK REPORT

9.1 RISK AND OPPORTUNITY MANAGEMENT SYSTEM

9.1.1 OBJECTIVES OF THE RISK MANAGEMENT SYSTEM

Software AG's primary goal is to generate long-term, profitable growth, accompanied by a steady increase in enterprise value. 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 we can evaluate risks and that they remain manageable and controllable.

In addition, we systematically observe risks from ongoing business, for example, by keeping a constant eye on product quality thorough evaluating support queries or managing exchange-rate risks. For details, please refer to the following information.

9.1.2 ORGANIZATION OF THE RISK MANAGEMENT SYSTEM

Fundamental organization as risk and opportunity management system throughout the Group

Close collaboration between our Sales force and the Research and Development team (R&D) makes it possible for the development of new products to be market-driven and also market-relevant. By continuously monitoring risks, we can constantly evaluate the 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, legal, and market risks. Opportunities are generally congruent to the operational and functional risk structure in all risk areas.
Software AG uses various controlling tools for ongoing monitoring of the risk areas identified, including a key performance indicator system (KPI) that contains short, middle, and long-term KPIs. The Executive Board is continuously informed of current and future risks and opportunities as well as the overall risk and opportunity situation 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 world are managed and controlled at corporate headquarters for both Software AG and the individual Group companies. Corporate headquarters compiles risk and opportunity reports, initiates further development of our risk management system, and elaborates risk-mitigating guidelines for the entire Group. We constantly review the functioning and reliability of the system as well as the reporting.

Software AG's internal control system has operationalized business risks by way of internal guidelines on business policies and practices. The defined policies regulate internal procedures and areas of responsibility 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.

Structure of the risk management system

1. Controlling
Controlling—which is under unified global leadership—monitors operating business risks in real time and reports operational figures monthly to the Executive Board. In addition, both operational and strategic risks are analyzed by means of a key performance indicator system and reported quarterly to the Executive Board.

2. Treasury
The Corporate Treasury Team creates daily cash reports for the Executive Board, and all Group-wide risks from foreign-currency transactions are reported to the Executive Board weekly. All high-risk foreign-currency and hedging transactions may be conducted only by the Corporate Treasury Team, which is directly below the CFO. The country subsidiaries are forbidden by a central treasury policy from engaging in any high-risk transactions with derivatives. Regular internal audits monitor compliance with this policy.

3. Internal Audit
Software AG's Internal Audit is an active component of the Company's risk management system. Through a systematic and targeted approach, it ensures the effectiveness of risk management along with the evaluation and continual improvement of the internal control systems and the management and supervision processes. It is also geared to the creation of added value for Software AG by optimizing business processes. Internal Audit reports directly to the CEO and operates worldwide.

4. Risk management in the financial reporting process
The risk of errors in the financial reporting process is largely eliminated by the following processes:

- Detailed, global, IFRS-compliant accounting standards must be used. Compliance with these standards is monitored regularly at all levels by both Corporate Finance and Internal Audit.
- The countries' accounting departments are monitored by the local managers, who are in turn supervised by the regional Senior FC&A directors. Country subsidiaries report their figures to Corporate Accounting, which is part of the Corporate Finance team. There, the figures from the country subsidiaries are consolidated with the SAP/BCS tool. At the same time, the Business Intelligence team consolidates the countries' profit and loss statements with the Office Plus System (management information system). This team is part of Corporate Controlling. Finally, the two consolidated Group profit and loss statements are compared with each other, any deviations are investigated, and discrepancies that arise are reported.
- Worldwide separation of functions in generating and reviewing accounting figures is guaranteed by splitting into two areas: Corporate Finance and Corporate Controlling. Both of them, with different managers, report to the CFO separately.
- As part of monthly report generation, the Corporate Finance and Corporate Controlling departments analyze and review the figures from all reporting entities. Any differences that arise are corrected on a monthly basis.
- All internal Group supplier and service relationships are centrally administered through cooperation agreements and are legally regulated. Central departments in the areas of Corporate Finance and Corporate Controlling handle essential accounting for services in the divisions. In addition, the intercompany transactions policy standardizes internal Group coordination processes throughout the world.
- The implementation process is strictly controlled by means of the Global Deal Desk in the commencement of contract negotiations phase. All customer contracts go through this approval process, in which Corporate Finance and Corporate Controlling are also involved.

- After completing the quarterly reporting, Internal Audit reviews all key customer contracts worldwide with a view to their correct representation in accounting.
- A global policy regulates access rules for the local and central accounting programs, which are monitored by the General Information Services (GIS) and Internal Audit departments.
- Only employees of Group accounting have access to the data from the SAP/BCS consolidation program.
- All Group reports are reviewed by a second person in Corporate Finance in accordance with the dual control principle.
- External experts are commissioned to evaluate such complex matters as pension provisions, legal risks, and purchase-price assignments within the framework of acquisitions.

5. Strategic risk management (RCM)
The strategic risk management system is composed of a central Group team that reports to the CFO and the employees responsible for risk ("risk owners"). One risk owner, who is at the level just below the Executive Board, is responsible for monitoring and managing each recognized strategic risk. Risks are evaluated according to a specially-developed, standard point system. All Group managers are requested to report new strategic risks to the central Group team when they are discovered. The Group team then informs the Executive Board for advice on the course of action. The central Group team reports to the Executive Board regularly about the ongoing development of the recognized risks.

9.1.3 ENSURING THE EFFECTIVENESS OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

Internal Audit regularly reviews the effectiveness of the risk management system (RMS) and the internal control system (ICS) and develops suggestions for improvement, which are then introduced centrally or their introduction is monitored centrally. Furthermore, the auditors conducting the audit also review the risk management system and the internal control system and devise suggestions for improvement, which are then implemented in a timely manner. Corporate Finance and Corporate Controlling regularly conduct an internal review of accounting-relevant control processes and modify them for new developments. Teams of specialist auditors review the accounting systems in use specifically for shortcomings as part of annual IT audits. The specialist auditors also review and approve newly implemented systems before they are put into service.

9.2 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.

9.2.1 ENVIRONMENT AND SECTOR RISKS

Market risks

Among other things, market risks are related to the different economic developments in individual countries or regions. The technological evolution 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. The three business divisions market a technology that is used in a large number of industries, ruling out a concentration on individual industries or single customers. That way, there is no undue concentration on individual industries or customers. The subsequently strong business process innovation and integration business reduces our dependence on the development of a single IT submarket. We take advantage of our technological innovations and growing range of integration products, including the integration of mainframe-based applications, to promote the satisfaction of our customers and to secure our broad customer base over the long term.

The global financial crisis that began in 2007 presents a particular risk for sales of our products. Our customers' IT budgets were cut in conjunction with this crisis, and Software AG was affected only in that it did not experience any further organic growth. The Group's total revenues did not decline. By deploying integration and modernization products from both our product lines, our customers achieve considerable cost reductions for their IT infrastructure. The return-on-investment times are very short for our customers. Hence, our products offer a way to cope with crisis-induced cost pressures. The overwhelming majority of our customers use our software for business-critical applications that cannot be shut down even in times of economic crisis. Therefore, our revenue flow is very stable, especially from maintenance services. In addition, we are continuing our expansion, especially in Brazil and Japan. The company expects to see revenue growth in the future on the basis of the opportunities discussed here.

9.2.2 CORPORATE STRATEGY RISKS

Product risks

Close collaboration between our Sales force, Product Marketing and the Research and Development team (R&D) 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 affected 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.

With newer development trends, Software AG's products are also augmented by acquisitions. For this reason, among others, IDS Scheer, itCampus, and Teconomic were all acquired in the year under review. As technological leaders—a fact confirmed by independent analysts—in the webMethods and ARIS product areas in particular we are often operating in unknown technological territory. This carries the risk of marketing products that are not completely technologically mature, which can then damage customer relationships. In order to manage this risk, we started our Entire Readiness of Software AG for New Technology/Release initiative during the previous year to prepare the whole Software AG Group optimally for launching new products. The Company's Research and Development group uses open-source code in its product development to a lesser extent. In doing so, the self-developed source code absolutely must function separately from the open-source code components. In order to guarantee this, Software AG implemented R&D internal approval processes in 1998. Furthermore, we introduced measures to conduct a controlling analysis for using open-source elements by reviewing the program code's software technology. There is a risk that these processes could fail in isolated cases and the company would not be able to impose any licensing fees for products contaminated with open-source code rights.

Risks in services

Price is often a key factor in winning projects in the area of services. This results in the risk of accepting orders at prices below cost. Furthermore, the actual costs can exceed budgeted costs. A standard, automated approval process across the Group (Global Deal Desk) mitigates this risk and places emphasis on adequate risk-adjusted profit margins, and it is continuously monitored.

Rights management

Our growth strategy for the ETS business division is based in part on the possibility of extending customers' existing licensing rights to generate new sales revenues. This option cannot be repeated arbitrarily after contracts have been adjusted. Through this, the risk arises that revenue growth in individual core countries could fall, especially for the ETS product line. We are reducing this risk by steadily adding to our ETS product line.

Acquisitions

Through selective acquisitions, we are expanding our technological product range and continuing to build up our global presence. There is a risk that the companies acquired will not be integrated successfully. The challenges arising from this include the integration of the product portfolio, the processes, the organization, the human resources, and the different corporate cultures. In order to successfully integrate the acquired companies, 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 technologies of the company in question effectively expand 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 with central responsibility for integration. We look at all key areas of the acquired company, including finance, legal affairs, research and development, sales, marketing, and internal communication.

Risk assessment is currently focused on the 2009 acquisition of IDS Scheer. The integration of the IDS Scheer Group presents a major challenge in the coming years, offering many opportunities while also entailing many risks. This takeover makes us a global player in infrastructure software and business process management, with more than 6,000 employees and revenues of more than €1 billion, based on figures for fiscal year 2009. Software AG and IDS Scheer both have strong brands, excellent global images, and similar cultures. The integrated company's success in terms of strategies for growth and adding value will depend significantly on whether current employees can be retained and new, highly qualified ones can be added. To this end, long-term prospects must be opened up for employees of the new Software AG. Planned structural changes associated with the takeover have created a certain amount of insecurity for the staff. This risk can be reduced by giving employees the opportunity to work for a larger, more attractive company that is a technology leader for infrastructure software and business process management and one that offers multifaceted, attractive, and long-term international career opportunities. The future development of financial performance will also depend on the successful integration of the IDS Scheer Group.

9.2.3 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 user groups in connection with intensive training of our sales employees and of our customers significantly facilitates the sale of these products.

Partner risks

Due to the complexity of our products, undertaking sales via partnerships is a challenge. To ensure these conditions with indirect sales via partners, we are offering targeted training sessions and are focusing on select partners.

9.2.4 FINANCIAL RISKS

Exchange rate risks

Due to our 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 in the same currency as the sales themselves. This natural hedging relationship is further strengthened in the USA due to the fact that components of our Research and Development and Global Marketing are based in the USA. 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 cash flows. 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.

Risks from financial instruments

The financial instruments open on the balance sheet date mean that a hypothetical increase in the market interest rate level by 100 basis points would reduce Group net income by €0.6 million. This presupposes that no future hedging transactions will take place. Provided that the Company did not finalize any additional hedging strategies and no negative effects were present on the balance sheet, a ten percent decrease in the euro's value against the U.S. dollar would cause Group net income to decrease by €1.2 million and the remaining reserves by €0.4 million.

Constantly monitoring the creditworthiness of the affected banks helps us minimize the risk of losing our business partners with whom we conclude derivative financial instruments. Liquidity and cash-flow risks concerning derivative financial instruments are eliminated by the fact that we secure existing balance sheet items or highly likely cash flows.

Other financial risks

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

We have allowed for the global economic recession's negative influence on our customers' creditworthiness with additional allowances in accounts receivable. To reduce the impacts of this risk, we are using an automated approval process for customer contracts introduced in 2008, the Global Deal Desk, based on our own technology.
To protect our cash holdings, we constantly monitor our partner banks' creditworthiness and adjust our investment decisions accordingly.

9.2.5 LEGAL RISKS

Patent infringements

Especially in the USA, the large number of software patents granted as well as the peculiarities of American procedural law favor the bringing of patent lawsuits. This also affects Software AG. Such patent litigation in the USA entails the risk of higher procedural costs to defend ourselves against claims without provision for reimbursement in American procedural law.

The Company has established an intellectual property rights team to counter patent law suits. This team handles our own patent applications and coordinates our defense against patent suits. Our own portfolio of patents is the best protection against competitors' claims, because it offers opportunities for cross-licensing agreements. Not least because of that, Software AG is constantly working to expand its patent portfolio. Software AG owns 51 patents from 24 patent families. In addition, 158 registrations from 72 patent families are pending. Of a total of 31 (2008: 65) filings in 2009, 13 (2008: 20) were for new inventions. These patents could contribute in the future to generating additional licensing revenues.

Other litigation

Sporadically, we are faced with legal proceedings that are distribution oriented or relate to the extent of usage rights. Generally, however, the number of other legal disputes is very low.

9.3 RISK SITUATION FOR THE IDS SCHEER SUBGROUP

At the time of writing, the two companies' risk management systems had not yet been integrated. The integration of the two systems is now in the implementation phase. Therefore, a description of the IDS Scheer subgroup's individual risks follows.

9.3.1 RISK THAT INTERNATIONAL SUBSIDIARIES ARE NOT LARGE ENOUGH

Many of IDS Scheer's international subsidiaries do not have the critical mass to build up vertical industry expertise, in particular. This is reflected in insufficient profitability or losses for these subsidiaries. These risks will be reduced significantly in many countries by merging the country subsidiaries of Software AG and IDS Scheer AG, because the Software AG subsidiaries are often much larger.

9.3.2 ACCOUNTS RECEIVABLE RISKS

The IDS Scheer subgroup is at increased risk for accounts receivables defaults due to the global economic crisis, as is Software AG. This risk will decrease in the future through the implementation of improved accounts receivables management, which is currently ongoing.

9.3.3 RISKS IN SERVICES

The Corporate Risk Board currently administers selling price risks associated with services, as well as calculation risks, especially for fixed-price projects. All contracts for work to be concluded with customers are reviewed by the Corporate Risk Board. In addition, centralized project management was established to ensure quality and reduce costs. In the future, this system will be further strengthened by the introduction of the Deal Desk, further reducing risks from this area.

9.3.4 EMPLOYEE RISKS

IDS Scheer AG has some key staff members who cannot be replaced easily. The takeover by Software AG has resulted in an increased fluctuation risk, which is significantly reduced by integration that is as rapid as possible and identifying the entire Group's future strategy.

9.3.5 INTERNAL IT RISKS

The current reorganization brings the risk that information is not available when needed and data could be accessed by unauthorized parties. This is counteracted by intensified IT audits and the continued development of guidelines, organization, processes, and regulations.

9.4. 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 going concern of the Company now or in the future.

10 EVENTS AFTER THE BALANCE SHEET DATE

The following are particularly significant events that occurred after the year under review ended.

Litigation

A software company from Virginia, USA sued Software AG USA Inc., and Software AG along with other defendants, including IBM and SAP, in February 2010 for infringing on several of its software patents. The suit was brought before the court in Virginia, USA. The case is at a very early stage, and a date has not yet been set for the trial. As a result, its possible financial effects cannot be foreseen.

IDS Scheer acquisition

The domination and profit transfer agreement between SAG Beteiligungs GmbH and IDS Scheer AG was concluded on November 24, 2009, approved at the extraordinary general meeting on January 8, 2010, and registered with the Saarbrücken district court on February 11, 2010, making it legally effective. The integration of the two companies' operations began immediately. Both are now under common management and the expected synergies are being realized, thereby reinforcing the increases in revenues and results forecast by Software AG for fiscal year 2010.

Software AG now holds 91 percent of IDS Scheer shares. To accelerate the complete organizational integration of the two companies, a merger is planned. As part of this merger, the remaining minority shareholders will receive Software AG shares in exchange for their IDS Scheer AG shares. To do this, Software AG is presently buying back up to 400,000 of its own shares. Software AG assumes that it will take until the end of this year to complete the takeover.

11 FORECAST

11.1 OVERALL ECONOMIC OUTLOOK

Most experts are expecting the global economy to improve slightly in fiscal year 2010. However, the return to growth is based largely on special developments, such as the stimulus packages put together by many countries and relaxed monetary policies. Initially, the growth will be accompanied by numerous risks, and there is a danger that private demand will remain weak in many industrialized nations. The timing of a reversal in monetary policy will play a major role in the further course of events: In light of low inflation rates, most industrialized nations are not expected to change course, while in many emerging markets, a change of course on monetary policy could happen more quickly. Overall, a slight increase in central bank interest rates is expected in 2010.

A study by the Kiel Institute for the World Economy (ifw), published in January 2010, assumes that there will be global growth of 2.0 percent in 2010. Growth of 2.5 percent is expected in the USA. Much indicates that the U.S. economy will gradually return to the path of recovery; the strongest effects of the stimulus package will develop there in winter 2009/2010.

Growth of 0.9 percent is expected in the euro zone. Continued increases in unemployment are expected to further strain domestic demand. Minimal growth is expected for Germany as well (about 1.4 percent), primarily because German exports and domestic demand should rise gradually.

The Asian economies are benefitting from China's dynamic economy. Forecast growth of 5.2 percent overall is therefore based largely on China's anticipated growth of 10.4 percent. Japan is more dependent on international developments. The GDP is anticipated to increase there by about 1.7 percent.

According to the Kiel Institute, the gross national product throughout Latin America should grow again by 3.2 percent. Numerous measures introduced by most countries before the crisis are having a positive effect there. A gain of 4.8 percent is anticipated for Brazil, based on its strengthening industrial production.

The Kiel Institute's forecasts for 2011 are even more optimistic: The overall global economy should expand by 3.6 percent, sustained largely by a major upswing in emerging markets and moderate growth rates in industrialized countries.

11.2 EXPECTED SECTOR TREND

Industry association BITKOM believes that the European ICT market will stabilize in fiscal year 2010. This forecast is based on current data from the European Information Technology Observatory (EITO). According to it, revenues in the European Union's ICT market will decline by 0.5 percent in 2010 to about €714 billion. An upswing in the overall economy will also lead to an acceleration in the high-tech markets. Enterprises are expected to increase their demand. In Germany, minimal growth of 0.2 percent is expected for the ICT market in 2010, reversing the downward trend.

According to the EITO forecast, the EU's IT market is projected to grow by 0.6 percent, exceeding €300 billion. The slowdown in investment as a result of the economic crisis is expected to resolve itself within the next two years. Gartner market research firm predicts that the global IT market will climb by more than 4.5 percent in 2009. In addition, a shift in investment is anticipated. According to Gartner, investments will be directed more at IT services and less at new hardware in the future. BITKOM is certain that services will be the biggest growth driver in 2010. The latest BITKOM forecast has the German IT market growing by one percent to €66 billion. BITKOM also believes that the German software market will improve by another 0.5 percent over the course of 2010, to €14.6 billion.

11.3 CORPORATE STRATEGY OPPORTUNITIES

We have proven that we can hold our ground even in a difficult economic environment. In a comprehensive management system at all levels of the Group, we identify the opportunities presented to us. The details about our corporate strategy and our objectives can be found on pp. 52–53; the risk report describes the potential risks for Software AG on pp. 68–72.

Currently, we see opportunities for Software AG primarily in the following areas:

1. Increasing significance of software for business and society

Software has become a central component of the information society. Innovative products and services cannot be realized without reliable software. The German economy's international competitiveness is characterized by the ability to develop top-quality software and IT services quickly and economically. World-class corporate software is a prerequisite for Germany maintaining and expanding its position in the realm of engineering and building a corresponding position in new industries. The economic significance of software and IT services has grown and will continue to do so. (For further information, refer to 2.1. Overall Economic Situation, p. 54.) At Germany's 4th National IT Summit in Stuttgart, the following was stated in regard to the importance of software: "Germany is already one of the world's most important locations for software development. Software is plainly the key technology for innovation. An above-average number of premium jobs in Germany are in the software sector. To further build on these strengths, we will turn our attention to this area in particular for the new ICT strategy. Some key objectives include strengthening Germany's software skills, further promotion of cooperation between companies, clusters, and innovative business models for small and medium-sized enterprises, as well as greater consideration for software in the promotion of research and development."

The economic importance of software is gaining recognition at a European level as well, as shown by the speech given by Viviane Reding, former EU commissioner for Information Society and Media, on the occasion of the 2009 Truffle 100 reports. She emphasized that the software industry is one of the most important strategically-significant growth drivers in a modern economy and it is a key element in digitalizing the economy.

2. The importance of software as an interdisciplinary technology for companies' and institutions' innovation processes

While software was previously an isolated component within an enterprise, because of increasing digitalization it will be an integrated —in some cases dominant—component for flexible and agile corporate processes in the future. The increasing digitalization of the economy and society, based in large part on software, is leading to crucial changes for companies in particular. Tomorrow's digital companies will automate routine work in order to dedicate themselves to strategic issues. To that end, the exchange of information must first be digitalized. Secondly, high-performance, open-information systems must be integrated into business processes. Specifically, this means that employees will take responsibility for core processes and IT will become an interdisciplinary technology in every department. Chief Information Officers are becoming Chief Process Officers, project managers are process managers, and IT is becoming efficiency technology on the basis of a flexible IT infrastructure. Middleware will gain strategic significance, because IT infrastructure is the basis for business process excellence. Business process excellence is especially important for companies in times of economic crisis, in order to reduce operating costs and develop new business models. A trend is slowly emerging in which process innovations are becoming just as important as product innovations. Business process excellence will therefore become a future market for IT and a growth market for providers.

3. Business process excellence

Software AG, a global leader in the field of business process excellence, offers such solutions. We have been delivering innovations for more than 40 years: from Adabas, the first transactional high-performance database, and webMethods, the SOA-based integration platform including the first B2B server, to ARIS, the platform for analyzing business processes. Through the combination of ARIS and the webMethods platform, we are the first company to offer fully integrated BPM solutions (business process management) throughout the value chain.

Our industry-leading brands—ARIS, webMethods, Adabas, Natural, and IDS Scheer Consulting—form a unique portfolio for all the process-management requirements of modern enterprises: strategy, design, implementation, visibility, and control of processes; SOA-based integration and data management; process-oriented SAP implementations; and strategic consulting and services. (For further information, refer to Strategy, p. 8 and Software AG Technology and Customer, p. 18).

11.4 FUTURE EARNINGS SITUATION AND FINANCIAL POSITION

We have set a course for Software AG's continued profitable growth. By integrating IDS Scheer, we aim to meet our goal of exceeding €1 billion in revenue—originally set for 2011—in 2010. For fiscal year 2010, Software AG is expecting overall revenues to grow by 25 to 30 percent over 2009, taking into account currency translation effects. Product revenues will likely climb 12 to 15 percent, and we are assuming that profit after tax will increase by 8 to 12 percent. In addition, single-digit organic revenue growth is expected in the medium term. Moreover, we will continue to make acquisitions which, as a component of our strategy, promote company growth.

Continued attractive dividend policy

We plan to maintain our stable, continuity-focused dividend policy in the future as well. The economic environment and our current liquidity requirements must also be taken into account, however.

FORECAST FOR 2010 (IDS Scheer consolidated)
IRFS

in € million	2009	Forecast for 2010 in %
Total revenue	847.4	+25-30*
Product revenue	580.5	+12-15*
ETS	327.7	+2-4*
webMethods/ARIS	244.0	+25-30*
Net income	140.8	+8-12
Earnings per share	4.92	+8-12

* taking into account currency translation effects

11.5 GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

Based on Software AG's proven robust business model and the measures introduced in past years, we are well positioned for the future. We aim to be an internationally leading software company on all levels: technology, growth, as an attractive employer, and in customer satisfaction.

Our goal of achieving one billion euros in revenues is the beginning of a new, profitable growth phase for Software AG. For this reason, the upcoming phase of our corporate strategy is called "market leadership." The focus is on qualitative growth and long-term added value for the Company. This includes the challenges of successfully integrating IDS Scheer in 2010. In addition, Software AG would like to position itself with more customers as a strategic technology partner for process solutions, and we want to expand our high level of expertise in successful large-scale projects while achieving critical mass with significant revenue contributions in more countries. Further optimization of our Sales force in the webMethods business division, combined with the consulting and services business, will be one of the growth drivers for new customers and new projects.

12 STATEMENT ON CORPORATE GOVERNANCE

The Company submitted its Statement on Corporate Governance on February 26, 2010. It will be published in March 2010 on our homepage at http://www.softwareag.com/de/ir/corpgovernance/default.asp. This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on our homepage at http://www.softwareag.com/de/ir/corpgovernance/default.asp on December 17, 2009.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
for fiscal years 2009 and 2008

in € thousands	Note	2009	2008
Licenses		269,862	272,028
Maintenance		310,604	267,059
Professional Services		262,456	177,763
Other		4,454	3,760
Total revenue	[5]	**847,376**	**720,610**
Cost of sales	[6]	-300,300	-205,119
Gross profit		**547,076**	**515,491**
Research and development expenses	[7]	-82,166	-76,224
Sales, marketing and distribution expenses	[8]	-192,396	-177,119
General and administrative expenses	[9]	-70,683	-65,083
Operating result		**201,831**	**197,065**
Other operating income	[10]	78,747	44,509
Other operating expenses	[11]	-62,417	-61,026
Earnings before interest and taxes		**218,161**	**180,548**
Financial income/expense net	[12]	-8,885	-5,122
Earnings before taxes		**209,276**	**175,426**
Income taxes	[13]	-65,540	-54,781
Other taxes	[14]	-2,941	-4,785
Net income for the year		**140,795**	**115,860**
thereof attributable to shareholders of Software AG		140,978	115,860
thereof attributable to minority interest		-183	0
Earnings per share (basic)	[16]	4.92	4.05
Earnings per share (diluted)	[16]	4.91	4.04
Weighted average number of shares outstanding (basic)		28,681,849	28,599,020
Weighted average number of shares outstanding (diluted)		28,689,540	28,671,237

STATEMENT OF COMPREHENSIVE INCOME
for fiscal years 2009 and 2008

in € thousands	Note	2009	2008
Net income for the year		**140,795**	**115,860**
Currency translation differences		−1,385	3,264
Net gain/loss marketable securities and derivatives	[32]	6,809	−7,059
Net gain/loss arising from translating net investments in foreign operations		−35,603	2,059
Net actuarial gain/loss from defined benefit plans	[27]	−4,990	−2,415
Other comprehensive income	[29]	**−35,169**	**−4,151**
Total comprehensive income		**105,626**	**111,709**
thereof attributable to shareholders of Software AG		105,798	111,709
thereof attributable to minority interest		−172	0

CONSOLIDATED BALANCE SHEET as of December 31, 2009, 2008 and 2007

in € thousands	Note	2009	2008	2007
ASSETS				
Current assets				
Cash and cash equivalents		218,141	96,925	81,294
Inventories		748	85	90
Trade receivables	[17]	330,465	247,251	209,311
Other receivables and other assets	[18]	38,192	21,187	10,125
Prepaid expenses		9,616	5,945	5,794
		597,162	**371,393**	**306,614**
Non-current assets				
Intangible assets	[19]	236,567	150,931	139,265
Goodwill	[19]	682,502	442,676	431,596
Property, plant and equipment	[20]	67,064	46,988	49,847
Financial assets	[21]	5,692	6,456	8,232
Trade receivables	[17]	11,427	17,208	15,704
Other receivables and other assets	[18]	26,231	8,563	16,582
Prepaid expenses		758	47	0
Deferred taxes	[22]	25,083	15,693	11,355
		1,055,324	**688,562**	**672,581**
		1,652,486	**1,059,955**	**979,195**
EQUITY AND LIABILITIES				
Current liabilities				
Financial liabilities	[23]	198,516	61,360	46,652
Trade payables	[24]	62,030	35,824	31,300
Other liabilities	[25]	73,101	45,151	64,199
Other provisions	[26]	92,395	69,011	42,802
Provisions for taxes	[28]	42,297	36,688	11,485
Deferred income		117,309	100,528	83,878
		585,648	**348,562**	**280,316**
Non-current liabilities				
Financial liabilities	[23]	291,410	105,841	167,648
Trade payables	[24]	260	68	64
Other liabilities	[25]	1,067	378	2,966
Provisions for pensions	[27]	29,562	16,650	17,229
Other provisions	[26]	27,548	13,959	9,686
Deferred taxes	[22]	66,711	22,735	35,492
Deferred income		2,765	2,623	3,332
		419,323	**162,254**	**236,417**
Equity	[29]			
Share capital		86,125	85,917	85,618
Capital reserve		39,406	35,810	31,933
Retained earnings		584,211	474,735	387,415
Other reserves		−82,504	−47,323	−43,173
Minority interest		20,277	0	669
		647,515	**549,139**	**462,462**
		1,652,486	**1,059,955**	**979,195**

CONSOLIDATED STATEMENT OF CASH FLOWS
for fiscal years 2009 and 2008

in € thousands	Note [30]	2009	2008
Net income for the year		140,795	115,860
Income taxes		65,540	54,781
Net financial income/expense		8,885	5,122
Amortization/depreciation of non-current assets		38,937	25,538
Other non-cash income/expense		−29,142	4,967
Operating cash flow before changes in working capital		**225,015**	**206,268**
Changes in inventories, receivables and other current assets		33,553	−56,611
Changes in payables and other liabilities		28,477	40,713
Income taxes paid		−76,674	−45,168
Interest paid		−17,328	−10,528
Interest received		7,449	5,408
Net cash provided by operating activities		**200,492**	**140,082**
Proceeds from the sale of property, plant and equipment/intangible assets		1,369	2,553
Purchase of property, plant and equipment/intangible assets		−14,359	−11,278
Proceeds from the sale of financial assets		3,682	3,097
Purchase of financial assets		−2,830	−1,009
Payments for acquisitions, net		−320,360	−38,854
Net cash used in investing activities		**−332,498**	**−45,491**
Proceeds from issue of share capital		1,524	1,809
Dividends paid		−31,503	−28,539
Additions to financial liabilities		330,624	0
Repayments of financial liabilities		−41,225	−46,203
Payments for hedging instruments		0	−3,361
Net cash provided by/used in financing activities		**259,420**	**−76,294**
Change in cash and cash equivalents from cash-relevant transactions		127,414	18,297
Currency translation adjustment		−6,198	−2,666
Net change in cash and cash equivalents		**121,216**	**15,631**
Cash and cash equivalents at the beginning of the period		96,925	81,294
Cash and cash equivalents at end of period		**218,141**	**96,925**

STATEMENT OF CHANGES IN EQUITY [29]
for fiscal years 2009 and 2008

in € thousands	Common shares	Share capital	Capital reserve	Retained earnings
2008				
Equity as of Jan. 1, 2008	**28,539,455**	**85,618**	**31,933**	**387,415**
Total comprehensive income				115,860
Transactions with shareholders				
Dividend payment				−28,539
New shares issued	99,387	299	1,510	
Stock options			2,367	
Transactions between shareholders				
Equity as of Dec. 31, 2008	**28,638,842**	**85,917**	**35,810**	**474,736**

in € thousands	Common shares	Share capital	Capital reserve	Retained earnings
2009				
Equity as of Jan. 1, 2009	**28,638,842**	**85,917**	**35,810**	**474,736**
Total comprehensive income				140,978
Transactions with shareholders				
Dividend payment				−31,503
New shares issued	69,568	208	1,316	
Stock options			2,280	
Transactions between shareholders				
Equity as of Dec. 31, 2009	**28,708,410**	**86,125**	**39,406**	**584,211**

Other reserves				Attributable to share-holders of Software AG	Attributable to minority interest	Total
Currency translation differences	Net gain/loss on marketable securities and derivative	Actuarial gains/ losses from defined benefit plans	Currency translation gains/losses from net investments in foreign operations			
−80,008	**2,019**	**492**	**34,324**	**461,793**	**669**	**462,462**
3,264	−7,059	−2,415	2,059	111,709		111,709
				−28,539		−28,539
				1,809		1,809
				2,367		2,367
				0	**−669**	**−669**
−76,744	**−5,040**	**−1,923**	**36,383**	**549,139**	**0**	**549,139**
−76,744	**−5,040**	**−1,923**	**36,383**	**549,139**	**0**	**549,139**
−1,386	6,809	−5,000	−35,603	105,798	−172	105,626
				−31,503		−31,503
				1,524		1,524
				2,280		2,280
				0	**20,449**	**20,449**
−78,130	**1,769**	**−6,923**	**780**	**627,238**	**20,277**	**647,515**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

1_ 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 and in accordance with the additional provisions required under German commercial law as set forth in Section 315a (1) of the German Commercial Code (HGB). The IFRSs applicable as of December 31, 2009 were observed, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC—formerly SIC).

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 software development, licensing, and maintenance as well as IT services. The functional currency of Software AG is the euro.

Some of the previous year's figures have been adjusted to conform to the current presentation.

The presentation of deferred taxes, which was adjusted to comply with IAS 12.71 given that the necessary information is now available (see Note 22).

In addition, the presentation of the consolidated income statement was changed in the third quarter of 2009. Since the third quarter, amortization of purchased intangible assets has been shown within functional costs, for which reason this is no longer reported separately in the consolidated income statement. The previous year's figures have been adjusted to conform to the new presentation. Please see the segment report (Note 31) for more information on the effects of this change.

To enhance comparability of the adjusted previous year's figures, these consolidated financial statements include two comparative periods.

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

2_ SCOPE OF CONSOLIDATION

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

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

a) Domestic entities	Shareholding in %	Abbreviation
Software Financial Holding GmbH, Darmstadt	100	SAG-MK
SAG East GmbH - A Software Company, Darmstadt	100	SAG-ME
SAG Deutschland GmbH, Darmstadt	100	SAG-D
SAG Consulting Services GmbH, Darmstadt	100	SAG-PS
SAG Beteiligungs GmbH, Darmstadt and its subsidiary	100	SAG-BET
IDS Scheer Aktiengesellschaft, Saarbrücken and its domestic subsidiaries	91	
IDS Scheer EMEA GmbH, Munich	100	
FACT Unternehmensberatung GmbH, Frankfurt/Main	65	
FACT Informationssysteme and Consulting AG, Neuss	55	
itCampus Software und Systemhaus GmbH, Leipzig	51*	

b) Foreign entities	Shareholding in %	Abbreviation
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, Courbevoie Cedex/France	100	SAG-F
Software AG Italia S.p.A, Segrate (MI)/Italy	100	SAG-I
Software AG Nederland B.V., Amsterdam/Netherlands	100	SAG-NL
Software AG Nordic A/S, Hvidovre/Denmark and its subsidiaries	100	SAG-DK
Software AG Norge A/S, Oslo/Norway	100	SAG-N
Software AG Nordic AB (Aktiebolag), Kista/Sweden	100	SAG-S
OY Software AG Nordic, Espoo/Finland	100	SAG-SF
Software GmbH 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
Software AG Bilgi Sistemleri Ticaret A.S., Istanbul/Turkey	100	SAG-TR
Software AG Argentina S.R.L., Buenos Aires/Argentina	95	SAG-ARG
Softinterest Holding AG, Zug/Switzerland and its subsidiary	100	SIH
SAG Software Systems AG, Dietikon/Switzerland and its subsidiary	100	SAG-CH
Teconomic AG, Freienbach/Switzerland (merged with SAG Software Systems AG as of July 1, 2009)	100	SAG-TEC
Software AG España, S.A. Unipersonal, Tres Cantos, (Madrid)/Spain and its subsidiaries	100	SAG-E
Software AG Portugal, Alta Tecnologia Informática, Lda., Lisboa/Portugal	100	SAG-P
Software AG Factoria S.A., Santiago/Chile	100	SAG-CL
Software AG Brasil Informática e Serviços Ltda, São Paulo/Brazil	100	SAG-BRAS
Software AG de Puerto Rico, Inc., San Juan/Puerto Rico	100	SAG-PUER
Software AG Venezuela, CA., Chacao Caracas/Venezuela	100	SAG-VEN
A. Zancani & Asociados, CA., Chacao Caracas/Venezuela	100	AZA
Sinsa Móvil, S.A., Clayton/Panama	100	SINSA
Software AG de Panamà, S.A., Clayton/Panama and its subsidiary	100	SAG-PAN
Software AG de Costa Rica, 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 International, Inc., Reston, VA/USA and its subsidiary	100	SAG-INT
Software AG USA, Inc., Reston, VA/USA and its subsidiaries	100	wM-USA
Infravio, Inc., Reston, VA/USA and its subsidiary	100	wM-INFRAV
Infravio Software Technologies Private Limited, Chennai/India	100	wM-INFIND
webMethods Australia Pty Ltd., North Sydney/ Australia	100	wM-AUS
webMethods Development Center India Private Limited, Bangalore/India	100	wM-IN
webMethods Software Development (Beijing) Co. Ltd., Beijing/China (PRC)	100	wM-CHINA
webMethods Germany GmbH, Darmstadt/Germany	100	wM-D
webMethods Hong Kong Ltd., Hong Kong/China (PRC)	100	wM-HK

* The shareholding recognized for accounting purposes is 100 percent (see explanation in Note 4)

Foreign entities (continued)	Shareholding in %	Abbreviation
Software AG Ltd. Japan, Tokyo/Japan	100	SAG-JAP
Software AG Korea, Ltd., Seoul/Korea	100	SAG-KOR
Software AG Operations Malaysia Sdn Bhd., Kuala Lumpur/Malaysia	100	wM-MAL
webMethods Singapore Pte Limited, Singapore/Singapore	100	wM-SIN
webMethods UK Limited, Derby/UK	100	wM-UK
webMethods Sweden AB, Kista/Sweden	100	wM-S
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 (Hong Kong) Limited, Hong Kong/China (PRC)	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
Software AG (Philippines), Inc., Pasig City/Philippines	100	SAG-PHI
Software AG South Africa (Pty) Ltd, Bryanston/South Africa	100	SAG-ZA
Software AG (India) Private Limited, Maharashtra/India	100	SAG-IN
Software AG (Shenzhen) Co Ltd, Shenzhen/China (PRC)	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	100	SPL-ISR
SPL Systems (1986) Ltd, Or-Yehuda/Israel and its subsidiaries	100	SPL-SYS86
SPL Idor Management Ltd, Or-Yehuda/Israel	100	SPL-IM
SPL Idor Business Solutions, Or-Yehuda/Israel	100	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, D.C./USA	100	SPL-TXT
Foreign subsidiaries of IDS Scheer AG		
IDS Scheer Canada Ltd, Toronto, Ontario/Canada	100	
IDS Scheer Sistemas de Processamento de Dados, São Paulo/Brazil	100	
IDS Scheer Japan Co. Ltd., Tokyo/Japan	100	
IDS Scheer China Ltd., Shanghai/China (PRC)	100	
IDS Scheer UK Ltd., Birmingham/United Kingdom	100	
IDS Scheer Sverige A.B., Bromma/Sweden	100	
IDS Scheer Nederland B.V., Den Haag/Netherlands	100	
IDS Scheer Finland Oy, Espoo/Finland	100	
IDS Scheer SDC s.r.o., Kosice/Slovakia	100	
IDS Scheer Belgium S.A., Brussels/Belgium	100	
IDS Scheer Schweiz AG, Wallisellen/Zurich/Switzerland	100	
IDS Scheer Saudi Arabia LLC., Riyadh/Saudi Arabia	95	
in which IDS Schweiz AG also has a direct stake	5	
IDS Scheer Luxemburg S.A., Capellen/Luxembourg	100	
IDS Scheer Slovakia, s.r.o., Bratislava/Slovakia	100	
IDS Scheer CR, s.r.o., Brno/Czech Republic	100	
IDS Scheer Polska Sp. z o.o., Poznan/Poland	100	
IDS Scheer Hungaria Kft., Budapest/Hungary	100	
IDS Scheer Austria GmbH, Vienna/Austria	100	
IDS Scheer Iberia S.L., Madrid/Spain	100	
IDS Scheer Australia – New Zealand, North Sydney/Australia	100	
IDS Scheer s.r.l (Headquarters), Rome/Italia	100	
IDS Scheer Ukraine LLC, Lviv City/Ukraine	100	
IDS Scheer CEE S.A., Capellen/Luxembourg	100	
IDS Scheer, d.o.o., Ljubljana/Slovenia	100	
IDS Scheer d.o.o. Croatia (Headquarters), Split/Croatia	100	
IDS Scheer Russia, Moscow/Russia	100	

Foreign subsidiaries of IDS Scheer AG (continued)	Shareholding in %	Abbreviation
IDS Scheer A.S. Turkey, Istanbul/Turkey	100	
IDS Scheer India PVT.LTD., Mumbai, India	100	
FACT Unternehmensberatung Schweiz AG, Zurich/Switzerland	90	
IDS Scheer Americas, Inc., Berwyn, PA/USA and its subsidiary	100	
IDS Scheer Canada, Inc., Montreal, Canada	100	
IDS Scheer France S.A., Saint-Cloud Cedex (Paris)/France	100	
IDS Scheer Singapore Pte. Ltd., Singapore/Singapore	100	
IDS Scheer Malaysia SDN BHD, Kuala Lumpur/Malaysia	100	
Expert Consulting S.A., Brussels, Belgium (in liquidation)	100	
Foreign subsidiaries of itCampus GmbH		
itCampus (UK) Limited, Newcastle Upon Tyne/United Kingdom	51	
itCampus Schweiz AG, Sursee/Switzerland	51	
itCampus Italia s.r.l., Bozen/Italy	51	

CHANGES IN THE CONSOLIDATED GROUP
The number of consolidated entities changed from the level as of December 31, 2008 as follows:

	Domestic	Foreign	Total
January 1, 2009	5	78	83
Additions	6	41	47
Disposals (including mergers)	0	11	11
December 31, 2009	**11**	**108**	**119**

The additions resulted from the acquisitions of itCampus GmbH, Teconomic AG and IDS Scheer AG as described in Note 4. The disposal resulted from the merger and liquidation of consolidated enterprises.

3_ ACCOUNTING POLICIES
Use of estimates
In the preparation of the consolidated financial statements, estimates and assumptions were 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.

Principles of consolidation
The separate financial statements of the entities 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, 2009).

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 entities 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. Subsequent consolidations were derived from the relevant initial consolidation.

Any reduction in ownership interest without a loss of control is recorded against the minority interest in the proportionate amount of the decrease and is deducted from goodwill.

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 recognized 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 continued 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, goodwill previously recognized 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 (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 entities 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.

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 resulting from 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 entities, 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 arising 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, 2009	Dec. 31, 2008	Exchange rate change in %
U.S. dollar	1.4405	1.3976	–3.1
Brazilian real	2.5097	3.2574	23.0
Pound sterling	0.8900	0.9589	7.2
Japanese yen	133.06	126.40	–5.3

Average rate (€ 1)	2009	2008	Exchange rate change in %
U.S. dollar	1.3931	1.4705	5.3
Brazilian real	2.7705	2.6714	–3.7
Pound sterling	0.8914	0.7967	–11.9
Japanese yen	130.19	152.28	14.5

Since the fourth quarter of 2009 we have used the parallel market rate rather than the official rate for translating the Venezuelan bolivar, since Software AG is no longer able to transfer significant sums on the basis of the official rate. Moreover, starting January 1, 2010 Software AG will count Venezuela as a hyperinflationary economy as defined in IAS 29. However, we do not expect this to have a significant impact on the Group's figures.

Total revenue

Software AG sales revenues primarily consist of revenue from granting software licenses (usually of indefinite duration, though in certain cases temporary software licenses), 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 granting temporary licenses is treated in accordance with the specific features of the license. If the transaction resembles a sale, i.e. involves immediate payment, and the other requirements mentioned above are fulfilled, the income is recognized immediately. However, if the transaction resembles a transfer of use, the income is recognized in installments.

In the case of multiple element arrangements, revenue recognition is based on the individually identifiable elements of the transaction. Accordingly, revenue is attributed to the individual elements on the basis of their respective market values.

If reliable market values cannot be determined for all elements, revenue recognition is based on the residual method. Under the residual method, all determinable market values are deducted from the total transaction value. The residual amount is then attributed to the elements for which no reliable market values can be determined, using list prices.

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 entities.

Pursuant to IAS 18 in conjunction with 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. The stage of completion of a contract is calculated on the basis of the proportion of contract costs incurred for work performed as of the balance sheet date to the estimated total contract costs. Some of the costs for making this calculation are estimated using the number of consulting hours/consulting days charged.

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. No write-downs on inventories were necessary during the reporting period.

Research and development expenses
Research and development expenses are recognized in the income statement as incurred.
New products are not technologically realizable until shortly prior to being ready for market launch. In the run-up to technological realizability, research and development processes are closely linked. Any research and development expenses incurred after technological realizability has been achieved are immaterial.

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

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

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. Other borrowing costs are recognized as an expense.

Share-based payment
In accordance with IFRS 2, share-based payment transactions are divided into cash-settled and equity-settled transactions. Both types of payment transactions are measured at the fair value as of the grant date and then amortized as personnel expenses over the period in which the employees acquire an unconditional right to the cash settlement or equity instrument. Rights granted under cash-settled share-based payment transactions are remeasured at fair value on each reporting date until settlement.

If Software AG has a choice of settling either in cash or by providing equity instruments (shares), the right granted is accounted for as an equity-settled transaction, unless there is a present obligation to settle in cash.

The fair values are determined using either an option pricing model (Black-Scholes) or, if the rights granted are hedged with derivatives, by reference to the fair values of such derivatives.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, bank balances, and term deposits with maturities of up to three months as well as short-term, highly liquid securities classified as current assets that are readily convertible to known amounts of cash and are only subject to negligible risk of changes in value.

Trade receivables

The carrying amount of trade receivables corresponds to their respective invoiced amount, less sales deductions and valuation allowances. If there is objective evidence that the receivables may be impaired, we recognize specific valuation allowances. In addition, certain classes of receivables are subject to portfolio-based valuation allowances based on past experience, taking into account the age of receivables. Non-interest bearing receivables with maturities of more than one year are discounted using an adequate interest rate.

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. The amortization period and method of amortization for key intangible assets are as follows:

	Amortization period in years	**Amortization method**
Acquired software	5–7	straight line
Acquired customer base	5–17	straight line
Acquired order portfolio	–	in accordance with order completion

Intangible assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Goodwill

Goodwill is not amortized. Instead, it is tested for impairment at least once per year (as of December 31) and written down to its recoverable amount 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.

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

Buildings	40 – 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 is any indication that an intangible asset or an item of property, plant and equipment might be impaired, an impairment test is carried out and, if an impairment loss is ascertained, the carrying amount of the asset is written down to its recoverable amount. 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.

Derivative financial instruments

Derivative financial instruments such as forward currency contracts, interest rate swaps and stock options are recognized at fair value. Instruments for which hedge accounting is not applied are classified as held for trading. Changes in the fair value of the instruments are recognized directly in profit or loss.

If the criteria for hedge accounting in accordance with IAS 39 are met, the derivative financial instrument is designated as a hedging instrument and accounted for pursuant to the hedge accounting provisions of IAS 39.

Accordingly, in the case of cash flow hedges, the effective portion of changes in the fair value of derivatives is recognized directly in equity. The ineffective portion is recognized directly in profit or loss. Cumulative amounts previously recognized in equity are reclassified to the income statement for the fiscal years in which the hedged item affects profit or loss.

The Company did not have any derivative financial instruments to be accounted for as fair value hedges.

Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the tax accounts (tax base) and the carrying amounts in the consolidated balance sheet. 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 highly probable.

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 amount.

Non-current liabilities are recorded at amortized cost. Amortized cost is determined using the effective interest rate.

Provisions

Provisions are reported when 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 of resources and for which the amount of the obligation can be reliably estimated. Estimates are regularly reviewed and adjusted.

If the effect of discounting is significant, the provision is recognized in the amount of the present value of the expected future cash flows.

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 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.

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 for 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.

New accounting standards not yet deputed

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 December 31, 2009. For these IFRSs to be applied, they must first be endorsed by the EU.

Amendments to IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements":

Application of the acquisition method for business combinations has been revised to comply with IFRS 3 (2008), issued by the IASB in January 2008, and IAS 27. The main changes relate to the measurement of non-controlling interests (NCI), the recognition of step acquisitions, and the treatment of contingent consideration and acquisition-related costs. Under the new rules, non-controlling interests (minority interests) may be measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired. Any changes to contingent consideration must be recognized in profit or loss. Acquisition-related costs are to be recognized as period expenses.

Once control is achieved, all other increases and decreases in ownership interests are treated as transactions among equity holders and reported within equity. In the event of a loss of control, any retained interest in the former subsidiary is recognized at its fair value as of the date control is lost. The revised standard requires an entity to attribute its share of total comprehensive income to the NCI even if this results in the NCI having a deficit balance.

IAS 27 (revised) results in changes to IAS 21 pursuant to which the definition of disposals or partial disposals of foreign operations was narrowed. Only a sale or a loss of control may qualify as a disposal or partial disposal, while (partial) repayments of the net investment also qualified as a disposal under previous regulations. Accordingly, the cumulative amount of the exchange differences previously recognized in equity may no longer be reclassified to profit or loss upon repayment (see Note 10 for the effects arising from exchange difference recognized in profit or loss in fiscal 2009 due to repayments). As Software AG has not opted for early application of the amended versions of IFRS 3 and IAS 27, the resulting changes to IAS 21 are required to be applied for the first time for fiscal year 2010.

In addition, the IASB and the IFRIC have issued a number of other pronouncements that were not yet required to be applied as of December 31, 2009. However, Software AG does not expect these changes to have a significant impact on the consolidated financial statements.

4_ BUSINESS COMBINATIONS

In fiscal 2009, Software AG achieved control over the following entities and their subsidiaries through the acquisition of equity interests:

Company and Line of business	Ownership interest recognized on the balance sheet as of Dec. 31, 2009 in percent	Date of acquisition/ initial consolidation
itCampus Software- und Systemhaus GmbH, Leipzig (itCampus)		
Provider of software and communication solutions for call centers and the energy sector, health care sector, and public sector*	100	Mar. 2, 2009
Teconomic AG, Freienbach/Switzerland (Teconomic)		
Consulting and solutions business in the European financial market	100	Jul. 1, 2009
SAG Beteiligungs GmbH		
Acquisition, management, administration, and sale of companies	100	Jul. 9, 2009
IDS Scheer AG, Saarbrücken (IDS Scheer)		
Software and consulting firm, development of solutions for business process analysis (BPA)	91	Aug. 20, 2009

* Software AG held 51 percent of the shares in itCampus as of December 31, 2009. However, an ownership interest of 100 percent must be recognized on the balance sheet in accordance with the provisions of IAS 32 in conjunction with IFRS 3.

The earnings of the companies acquired have been included in the consolidated income statement as of the respective date of acquisition.

As opposed to the acquisition of IDS Scheer, the acquisitions of itCampus and Teconomic—both individually and taken together—had no material impact on the financial position, cash flows, or profit or loss of Software AG.

Information on non-material acquisitions effected by Software AG

The consideration due for all non-material acquisitions (excluding the acquisition of IDS Scheer) amounted to €9,363 thousand, net of cash acquired, and was paid in cash, with the exception of contingent consideration not yet due (earn outs) in the amount of €480 thousand and liabilities arising from put options recognized on the balance sheet in the amount of €3,919 thousand. No significant directly allocable costs were incurred in connection with the acquisitions.

The following table shows the provisional allocation of the cost of the business combination to the net assets acquired.

in € thousands	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance
Cash and cash equivalents	1,755	0	1,755
Inventories	431	0	431
Trade receivables	1,516	0	1,516
Other receivables and other assets	406	0	406
Prepaid expenses	79	0	79
Intangible assets	97	3,059	3,156
Goodwill	76	9,429	9,505
Property, plant and equipment	436	0	436
Financial assets	195	0	195
Deferred tax assets	0	51	51
Total assets	**4,991**	**12,539**	**17,530**
Financial liabilities	2,241	0	2,241
Trade payables	801	0	801
Other liabilities	1,975	0	1,975
Other provisions	282	231	513
Deferred income	26	0	26
Deferred tax liabilities	0	856	856
Total equity and liabilities	**5,325**	**1,087**	**6,412**
Acquired assets and assumed liabilities, net	**−334**	**11,452**	**11,118**
Payments to shareholders	0	0	3,619
Payments to the company for the purpose of a capital increase	-	-	3,100
Consideration not yet paid	-	-	4,399
Total consideration paid			**11,118**
Cash and cash equivalents acquired			1,755
Net cost of the business combination			**9,363**

The goodwill capitalized in connection with these acquisitions was allocated in full to the webMethods segment.

Due to intragroup mergers, it is not possible to compute the exact amount of the Group revenue and net income of Software AG attributable to these acquisitions since the date of acquisition. However, such amount is not of material significance for the financial position, cash flows or profit or loss of the Group as a whole.

Acquisition of IDS Scheer AG

The IDS Scheer Group is a globally operating software and consulting firm. It generates its revenues from the licensing and servicing of technologically leading software solutions and by offering sector-specific, method-supported consulting.

The Company’s core business is the development of solutions for business process analysis (BPA) on the basis of its ARIS Platform for Process Excellence. BPA is a part of business process management (BPM).
The IDS Scheer Group also offers sector-specific, method-supported consulting and system implementation, operation and maintenance of software solutions. With its business process excellence approach, the IDS Scheer Group supports its customers along the entire process lifecycle, from strategic process consulting and design and implementation services to management of business processes in running operations.

As of December 31, 2009, Software AG had acquired a stake of 91.01 percent in IDS Scheer AG via SAG Beteiligungs GmbH, a wholly owned subsidiary of Software AG. A stake of 70.05 percent (22,605,445 shares) was acquired as part of a public takeover bid on August 17, 2009 to purchase the shares at a price of €15 per share. An additional stake of 20.96 percent (6,764,859 shares) was acquired by purchasing stock in the company outside of the takeover bid.

The takeover bid in existence on August 20, 2009 (the date of initial consolidation) represented a put option for the IDS Scheer shareholders to sell their shares at a price of €15 per share. Pursuant to IAS 32 in conjunction with IFRS 3, this led to recognition of a liability in the amount of €405.3 million (27,021,580 shares multiplied by €15 per share), which was accounted for as an increase in the consideration paid. The following table shows the costs incurred in acquiring 100 percent of the shares as of August 20, 2009 and the change in the cost of the business combination between the date of initial consolidation and December 31, 2009:

in € thousands	
Cost of the 4,665,000 shares acquired outside of the takeover bid prior to August 20, 2009	69,845
Fair value of the liabilities to shareholders arising from put options in existence on August 20, 2009	405,324
Directly allocable acquisition-related costs	5,201
Total as of August 20, 2009	**480,370**
Less cash acquired	–120,328
Acquisition cost net of cash acquired	**360,042**
Effect of expiry of the takeover bid less the shares received in connection with the takeover bid	–66,242
Change in allocable transaction costs	–539
Cost of shares acquired outside of the takeover bid after August 20, 2009	31,888
Total as of December 31, 2009	**445,477**
Less cash funds acquired as of August 20, 2009	–120,328
Less consideration paid to IDS Scheer for the shares held directly by IDS Scheer	–7,087
Less payment from employees to IDS Scheer for new shares created under employee stock option programs in the period between August 20 and December 31, 2009	–440
Acquisition cost net of cash acquired	**317,622**

The acquisition cost net of cash acquired includes €2,226 thousand in directly allocable acquisition-related costs that have not yet been paid.

The following table shows the (pursuant to IFRS 3.62 to) preliminary allocation of the cost of the business combination the net assets acquired along with the changes prior to December 31, 2009. The cost allocation was prepared using provisional values. The assumptions and estimates are not yet complete given that certain information is still lacking and some evidence is still outstanding.

in € thousands	Allocation of the cost of the business combination as of August 20, 2009			Changes prior to December 31, 2009	
	Carrying amount prior to acquisition	Remeasurement to fair value	Opening balance	Effects of changes in ownership interests and transactions of IDS Scheer with treasury shares	Total
Cash and cash equivalents	120,328	0	120,328	7,527	127,855
Inventories	138	0	138		138
Trade receivables	93,735	0	93,735		93,735
Other receivables and other assets	16,012	0	16,012		16,012
Prepaid expenses	6,241	0	6,241		6,241
Intangible assets	2,398	110,524	112,922		112,922
Goodwill	78,098	191,219	269,317	–22,296	247,021
Property, plant and equipment	21,839	875	22,714		22,714
Financial assets	52	0	52		52
Deferred tax assets	8,557	–2,868	5,689		5,689
Total assets	**347,398**	**299,750**	**647,148**	**–14,769**	**632,379**
Financial liabilities	33,001	0	33,001		33,001
Trade payables	22,532	0	22,532		22,532
Other liabilities	23,443	1,851	25,294		25,294
Other provisions	19,185	1,900	21,085		21,085
Provisions for pensions	720	1,574	2,294		2,294
Provisions for taxes	4,742	0	4,742		4,742
Deferred tax liabilities	10,352	36,576	46,928		46,928
Deferred income	15,358	–5,670	9,688		9,688
Total equity and liabilities	**129,333**	**36,231**	**165,564**		**165,564**
Acquired assets and assumed liabilities, net	**218,065**	**263,519**	**481,584**	**–14,769**	**466,815**
thereof attributable to minority interest			–1,214	–20,124	–21,338
Total consideration paid			**480,369**	**–34,893**	**445,477**
Less acquired cash and cash equivalents			120,328	7,527	127,855
Acquisition cost net of cash acquired			**360,041**	**–42,420**	**317,622**

Due to the exercise of employee stock options, a capital increase was implemented at IDS Scheer between the date of initial consolidation and December 31, 2009. The cost of the business combination therefore increased by €1,713 thousand compared to August 20, 2009, and goodwill increased by €1,273 thousand. The difference corresponds to the payments received from exercise of the employee stock options. Moreover, goodwill increased by €7,087 thousand on the basis of treasury shares tendered by IDS Scheer in connection with the takeover bid, and decreased by €539 thousand due to the reduction in directly allocable acquisition-related costs compared to September 30, 2009.

Goodwill resulting from the acquisition of IDS Scheer accordingly amounted to €247,021 thousand as of December 31, 2009. The goodwill was allocated to the Enterprise Process Innovation segment. The recognition of goodwill resulted from the fact that synergies and staff are not separable intangible according to IAS 38.

Between the date of acquisition and the end of the year under review, the IDS Scheer Group contributed €126,463 thousand to Group revenue of Software AG and €–2,642 thousand to net income of Software AG. These figures take into account the effects of amortization of the acquired intangible assets and the remeasurement of deferred income.

If all acquisitions made during the year under review had taken effect as of January 1, 2009, revenue for fiscal 2009 would have increased by approximately €219.9 million and amounted to €1,067.3 million. Net income reported for the same period would have been €2.2 million lower and amounted to a total of €138.6 million.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5_ TOTAL REVENUE

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

in € thousands	ETS		webMethods		Enterprise Process Innovation		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Licenses	139,816	156,776	110,184	115,252	19,862	0	269,862	272,028
Maintenance	187,871	173,805	109,708	93,254	13,025	0	310,604	267,059
Product sales	**327,687**	**330,581**	**219,892**	**208,506**	**32,887**	**0**	**580,466**	**539,087**

Revenues from Professional Services

Professional Service revenues include sales of €57,995 thousand (2008: €26,757 thousand), recognized in accordance with the percentage-of-completion method. The status of uncompleted projects recognized under the percentage-of-completion method as of December 31, 2009 was as follows:

in € thousands	2009	2008
Costs accumulated over the term of a (multi-year) project and not yet invoiced	74,403	10,465
Recognized profit (+) / loss (–)	22,501	3,414
Advance payments received	71,189	1,331
Retentions	0	0

As of December 31, 2009, the net amount due from customers for unfinished project work was €25,715 thousand (2008: €9,032 thousand), and the net amount due to customers was €2,885 thousand (2008: €212 thousand).

6_ COST OF SALES

The cost of sales amounted to €300,300 thousand (2008: €205,119 thousand) and primarily consisted of personnel expenses in customer support and Global Consulting Services as well as purchased services in the Professional Services business and amortization of technologies acquired in connection with acquisitions.

7_ RESEARCH AND DEVELOPMENT EXPENSES

The research and development expenses of €82,166 thousand (2008: €76,224 thousand) mainly contain personnel expenses for product development and related IT expenses.

8_ SALES, MARKETING AND DISTRIBUTION EXPENSES

Sales, marketing and distribution expenses amounted to €192,396 thousand (2008: €177,119 thousand). In addition to personnel expenses and amortization/depreciation relating to the sales division, these costs mainly include marketing expenses.

9_ GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to €70,683 thousand (2008: €65,083 thousand). They include administrative expenses which are attributable neither to cost of sales nor to sales activities.

10_ OTHER OPERATING INCOME

Other operating income includes the following items:

in € thousands	2009	2008
Foreign exchange gains	60,456	40,461
Income from the reversal of provisions and deferred liabilities	15,643	4,042
Other income	2,648	6
	78,747	**44,509**

Foreign exchange gains include exchange differences in the amount of €40,271 thousand taken to income that were previously recognized in equity. Foreign exchange losses recognized under "other operating expenses" (see Note 11) contain exchange differences in the amount of €5,618 thousand taken to income that were previously recognized in equity. These exchange differences in a net amount of €34,653 thousand, which were previously deferred in equity, were taken to profit or loss due to settlement of intercompany loans that qualified as a partial disposal under IAS 21.49, which was applicable for Software AG until December 31, 2009.

11_ OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

in € thousands	2009	2008
Foreign exchange losses	35,652	29,192
Restructuring costs	11,220	0
Legal fees	914	4,788
Bad debt allowances	0	8,854
Other expenses	14,631	18,192
	62,417	**61,026**

Foreign exchange losses include approximately €6,800 thousand in foreign exchange losses of the Venezuelan subsidiary. The losses resulted mainly from using the parallel market rate for translating foreign currency liabilities into the local currency (VEB) in combination with using the parallel market rate for translating the financial statements of the subsidiary into the functional currency (EUR). The transition from the official rate to the parallel market rate was effected in the fourth quarter of 2009.

Other expenses include expenses in the amount of €10,567 thousand resulting from the reduction in goodwill due to subsequent recognition of deferred tax assets in connection with the acquisition of webMethods in 2007, which was recorded in profit or loss in fiscal 2009. This increase of deferred tax assets results from the larger-than-expected use of tax loss carryforwards of webMethods, which was acquired in 2007 (see Note 19). The adjustment was made in accordance with IFRS 3 as applied by Software AG until December 31, 2009. The revised IFRS 3, which Software AG is applying as of January 1, 2010, no longer allows goodwill to be adjusted in profit or loss to reflect subsequent changes in deferred tax assets after initial accounting for the combination has been completed.

12_ FINANCIAL INCOME/EXPENSE, NET

The acquisition of IDS Scheer AG resulted in an increase of liabilities to banks. As a result, the balance of financial income and financial expense declined by €3,763 thousand, broken down as follows:

in € thousands	2009	2008
Financial income	7,291	5,527
Financial expense	−16,176	−10,649
	−8,885	**−5,122**

13_ INCOME TAXES

Taxes on income are broken down into the following categories:

in € thousands	2009	2008
Current domestic taxes	−33,075	−22,398
Current foreign taxes	−42,893	−48,007
	−75,968	**−70,405**
Deferred domestic taxes	3,492	4,713
Deferred foreign taxes	6,936	10,911
	10,428	**15,624**
	−65,540	**−54,781**

In Germany, a uniform corporate income tax of 15 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 30.8 percent starting in 2009 (2008: 30.7 percent). Tax rates abroad range between 10 and 41 percent (2008: between 15 and 42 percent).

The tax expense increased by approximately 20 percent due to our improved financial performance in 2009 compared to the prior year.

The income tax expense of €–65,540 thousand in fiscal year 2009 (2008: €–54,781 thousand) is €1,989 thousand higher than the expected income tax expense of €–63,551 thousand (2008: €–52,387 thousand) that would result from applying the domestic tax rate of 30.8 percent currently applicable (2008: 30.7 percent) at Group level. The effective tax rate for the Group is 31.76 percent (2008: 32.10 percent). The difference between the expected and current tax expense can be attributed to the following:

in € thousands	2009	2008
Earnings before income tax	**206,335**	**170,641**
Expected income tax (30.8 %; 30.7 %)	–63,551	–52,387
Difference vs. foreign tax rates and changes in tax rates	–2,695	–3,868
Tax refunds (+)/back tax payments (–) for previous years	129	–354
Tax decreases (+)/tax increases (–) due to tax-exempt income or non-tax deductible expenses	–6,908	–4,102
Use of tax loss carryforwards and valuation adjustments to deferred tax assets	9,245	5,491
Other adjustments	–1,760	439
Reported income tax expense	**–65,540**	**–54,781**

14_ OTHER TAXES

Other taxes mainly include property taxes, vehicle taxes, and other indirect taxes.

15_ PERSONNEL EXPENSES

Personnel expenses in fiscal years 2009 and 2008 were as follows:

in € thousands	2009	2008
Wages and salaries	337,346	271,878
Social security contributions	44,090	26,988
Pension expenses	9,530	6,777
	390,966	**305,643**

In fiscal 2009, the average number of employees (i.e., part-time employees are taken into account on a pro-rata basis only) by area of activity was as follows:

	Dec. 31, 2009	Dec. 31, 2008
Maintenance and service	2,232	1,585
Sales and marketing	867	720
Research and development	734	632
Administration	651	524
	4,484	**3,461**

In absolute terms (i.e., part-time employees are counted in full), the Group employed 6,170 people (2008: 3,606) as of the reporting date.

16_ 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 2009, the average weighted number of shares was 28,681,849 (2008: 28,599,020).

A total of 69,568 stock options were exercised in 2009 (2008: 99,387).

The number of shares increased correspondingly by 69,568. Another 7,691 stock options may be exercised from the second stock option plan in fiscal year 2010. 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

17_ TRADE RECEIVABLES

Trade receivables include:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Trade receivables due within 1 year	252,531	196,816	169,471
Uninvoiced services (<1 year)	77,934	50,435	39,840
	330,465	**247,251**	**209,311**
Trade receivables due in more than 1 year	7,384	12,744	10,406
Uninvoiced services (>1 year)	4,043	4,464	5,298
	341,892	**264,459**	**225,015**

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

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Carrying amount	**341,892**	**264,459**	**225,015**
of which neither impaired nor past due as of the balance sheet date	244,626	199,275	166,159
of which past due in the following time bands			
1 to 3 months	60,176	43,059	41,078
4 to 6 months	26,111	19,372	11,419
7 to 12 months	10,440	2,753	6,359
> 12 months	539	0	0

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

18_ OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets mainly consist of derivative financial instruments designated to hedge the management incentive plan in the amount of €22,524 thousand (2008: €7,674 thousand). This item also contains receivables due from tax authorities as well as rent deposits.

19_ INTANGIBLE ASSETS/GOODWILL

CHANGES IN INTANGIBLE ASSETS AND GOODWILL
in fiscal year 2009

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2009	**444,572**	**186,702**	**631,274**
Currency translation differences	−6,130	−5,836	−11,966
Additions from acquisitions	256,527	116,094	372,621
Additions	0	5,853	5,853
Disposals	−10,567	−2,651	−13,218
Balance as of Dec. 31, 2009	**684,402**	**300,162**	**984,564**
Accumulated amortization/impairment			
Balance as of Jan. 1, 2009	**−1,896**	**−35,771**	**−37,667**
Currency translation differences	-4	2,101	2,097
Additions	0	−30,930	−30,930
Disposals	0	1,005	1,005
Balance as of Dec. 31, 2009	**−1,900**	**−63,595**	**−65,495**
Residual carrying amount as of Jan. 1, 2009	**442,676**	**150,931**	**593,607**
Residual carrying amount as of Dec. 31, 2009	**682,502**	**236,567**	**919,069**

CHANGES IN INTANGIBLE ASSETS AND GOODWILL
in fiscal year 2008

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2008	**433,492**	**177,926**	**611,418**
Currency translation differences	11,156	6,818	17,974
Additions from acquisitions	0	18,549	18,549
Additions	341	4,694	5,035
Disposals	–417	–21,285	–21,702
Balance as of Dec. 31, 2008	**444,572**	**186,702**	**631,274**
Accumulated amortization/impairment			
Balance as of Jan. 1, 2008	**–1,896**	**–38,661**	**–40,557**
Currency translation differences	0	–803	–803
Additions	0	–16,691	–16,691
Disposals	0	20,384	20,384
Balance as of Dec. 31, 2008	**–1,896**	**–35,771**	**–37,667**
Residual carrying amount as of Jan. 1, 2008	**431,596**	**139,265**	**570,861**
Residual carrying amount as of Dec. 31, 2008	**442,676**	**150,931**	**593,607**

CHANGES IN INTANGIBLE ASSETS AND GOODWILL
in fiscal year 2007

in € thousands	Goodwill	Intangible assets	Total
Cost			
Balance as of Jan. 1, 2007	**189,843**	**35,891**	**225,734**
Currency translation differences	–15,709	–13,232	–28,941
Additions from acquisitions	261,138	154,260	415,398
Additions	100	1,283	1,383
Disposals	–1,880	–276	–2,156
Balance as of Dec. 31, 2007	**433,492**	**177,926**	**611,418**
Accumulated amortization/impairment			
Balance as of Jan. 1, 2007	**–1,896**	**–31,197**	**–33,093**
Currency translation differences	0	1,143	1,143
Additions	0	–8,887	–8,887
Disposals	0	280	280
Balance as of Dec. 31, 2007	**–1,896**	**–38,661**	**–40,557**
Residual carrying amount as of Jan. 1, 2007	**187,947**	**4,694**	**192,641**
Residual carrying amount as of Dec. 31, 2007	**431,596**	**139,265**	**570,861**

Goodwill amounted to €682,502 thousand as of December 31, 2009, an increase of €239,826 thousand over December 31, 2008. The increase was primarily due to acquisition-related additions (see explanation in Note 4).

The goodwill disposals of €10,567 thousand in fiscal 2009 resulted from the capitalization of deferred taxes on tax loss carryforwards and the use of tax loss carryforwards acquired by the Group in connection with the purchase of webMethods in 2007, which at that time were not considered to be recoverable. An analysis in 2009 determined that these loss carryforwards, which thus far had not been capitalized, would probably be able to be used in the near future, meaning that deferred taxes had to be capitalized accordingly. Therefore, the carrying amount was adjusted by €10,567 thousand, pursuant to IFRS 3.65 in conjunction with IAS 12.68 (see Note 11 and Note 22).

Goodwill as well as intangible assets with an indefinite useful life are tested for impairment on an annual basis by comparing the carrying amount of the cash-generating unit to which the goodwill or the intangible asset 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 using discounted cash flows based on strategic budgets calculated and approved by management. The budgets are designed on the basis of past experience, information derived from current operating results, and management estimates on future developments. Revenue trends on country level, for instance, is one element of management estimates of future developments that is particularly prone to uncertainty. Three-year plans have been developed for the ETS and webMethods segments and a five-year plan for the IDS segment. The forecasts take into account historical values and estimates of future developments.

The estimated future cash flows for the ETS segment were discounted as of December 31, 2009 using a pre-tax weighted average cost of capital (WACC) before taxes of 11.1 percent. For webMethods, a pre-tax weighted average cost of capital of 10.9 percent was calculated.

The calculated value in use for the ETS and webMethods segments exceeds the carrying amounts, even if a growth rate of 0 percent is assumed. For this reason, we have opted to forego using realistic growth rates in the calculation.

In the impairment test for the IDS segment, a pre-tax WACC of 11.4 percent and a long-term growth rate of 1 percent were assumed. This resulted in the estimate for recoverable value in use exceeding the carrying amounts.

If a pre-tax WACC of 11.8 percent (instead of 11.4 percent) had been assumed, with the growth rate unchanged at 1 percent, the value in use would have been equal to the carrying amount.

The value in use and the carrying amount would also have been equal if a long-term growth rate of 0.6 percent (instead of 1 percent) had been used, with the WACC remaining the same as for the impairment test (11.4 percent).

Intangible assets mainly include software, customer bases, and brand names obtained in connection with acquisitions.

The following intangible assets with limited useful lives are of particular significance for the financial statements:

in € thousands	Carrying amount as of Dec. 31, 2009	Carrying amount as of Dec. 31, 2008	Remaining amortization period in years
Customer base obtained through webMethods acquisition	46,973	53,257	10.0
Software (rights and licenses) obtained through webMethods acquisition	30,790	38,922	4.4
Software (rights and licenses) obtained through IDS acquisition	43,504	–	5.7
Customer base obtained through IDS acquisition	24,918	–	7.7

In addition, the following intangible assets with indefinite useful lives existed as of December 31, 2009:

in € thousands	Carrying amount as of Dec. 31, 2009	Carrying amount as of Dec. 31, 2008	Reason for assuming indefinite useful life
Brand name ("webMethods") obtained through webMethods acquisition Segment: webMethods	17,355	17,888	We plan to continue using the name "webMethods" for an indefinite period of time and expand it in the future.
Brand name ("Aris") obtained through IDS acquisition Segment: Enterprise Process Innovation	17,900	–	We plan to continue using the name "Aris" for an indefinite period of time and expand it in the future.
Brand name ("IDS Scheer") obtained through IDS acquisition Segment: Enterprise Process Innovation	8,800	–	We plan to continue using the name "IDS Scheer" for an indefinite period of time and expand it in the future.

Brand names are not subject to amortization. Any changes in the carrying amounts result from currency translation effects.

The carrying amount of goodwill was allocated to the segments as follows:

in € thousands	Dec. 31, 2009	Dec. 31, 2008
Segment		
ETS	229,608	231,674
webMethods	205,873	211,002
Enterprise Process Innovation	247,021	0
	682,502	**442,676**

The segments represent the smallest cash-generating units in the Group.

20_ PROPERTY, PLANT AND EQUIPMENT

CHANGES IN PROPERTY, PLANT AND EQUIPMENT in fiscal 2009

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2009	53,201	43,258	**96,459**
Currency translation differences	–220	–754	–974
Additions from acquisitions	17,703	5,414	23,117
Additions	650	6,947	7,597
Disposals	–2,133	–11,404	–13,537
Balance as of Dec. 31, 2009	69,201	43,461	**112,662**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2009	–20,042	–29,429	**–49,471**
Currency translation differences	141	417	558
Additions	–1,949	–6,272	–8,221
Disposals	2,069	9,467	11,536
Balance as of Dec. 31, 2009	–19,781	–25,817	**–45,598**
Residual carrying amount as of Jan. 1, 2009	33,159	13,829	**46,988**
Residual carrying amount as of Dec. 31, 2009	49,420	17,644	**67,064**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT in fiscal 2008

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2008	**53,352**	**46,021**	**99,373**
Currency translation differences	–67	–531	–598
Additions from acquisitions	0	0	0
Additions	1,186	2,455	3,641
Disposals	–1,270	–4,687	–5,957
Balance as of Dec. 31, 2008	**53,201**	**43,258**	**96,459**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2008	**–18,164**	**–31,362**	**–49,526**
Currency translation differences	130	379	509
Additions	–3,636	–5,211	–8,847
Disposals	1,628	6,765	8,393
Balance as of Dec. 31, 2008	**–20,042**	**–29,429**	**–49,471**
Residual carrying amount as of Jan. 1, 2008	**35,188**	**14,659**	**49,847**
Residual carrying amount as of Dec. 31, 2008	**33,159**	**13,829**	**46,988**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT in fiscal 2007

in € thousands	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2007	51,252	42,589	**93,841**
Currency translation differences	–1,118	–2,227	**–3,345**
Additions from acquisitions	5,811	5,283	**11,094**
Additions	1,352	4,475	**5,827**
Disposals	–3,945	–4,099	**–8,044**
Balance as of Dec. 31, 2007	53,352	46,021	**99,373**
Accumulated depreciation/impairment			
Balance as of Jan. 1, 2007	–17,981	–31,457	**–49,438**
Currency translation differences	363	1,837	**2,200**
Additions	–993	–5,260	**–6,253**
Disposals	447	3,518	**–3,965**
Balance as of Dec. 31, 2007	–18,164	–31,362	**–49,526**
Residual carrying amount as of Jan. 1, 2007	33,271	11,132	**44,403**
Residual carrying amount as of Dec. 31, 2007	35,188	14,659	**49,847**

Most of the land and buildings are owned by the parent company, the Spanish subsidiary, or IDS Scheer in Saarbrücken. The properties pertain to the central administrative buildings of these entities.

Operating and office equipment mainly includes office furniture and IT equipment. The capital expenditure of €6,947 thousand primarily relates to expenses for the initial purchase of computer 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 (before offsetting):

in € thousands	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Intangible assets	14,830	18,196	72,296	47,228
Other obligations	20,168	16,398	5,173	1,754
Receivables and financial assets	5,482	8,252	22,468	11,363
Property, plant and equipment	1,268	653	4,646	2,984
Pension commitments	5,059	2,461	253	433
Prepaid expenses/deferred income	5,845	11,245	7,163	13,749
Tax loss carryforwards	17,719	13,263	-	-
Amount offset		−3,740		−3,740
Balance sheet in the previous year		**66,728**		**73,771**
Amount offset	−45,288	−51,035	−45,288	−51,035
Amount recognized in the balance sheet	**25,083**	**15,693**	**66,711**	**22,736**

Due to the changed presentation of deferred taxes, the figures differ from the previous year. This resulted from the new procedure of setting off deferred tax assets against deferred tax liabilities provided they relate to income taxes levied by the same taxation authority and a right to set off current tax assets against current tax liabilities exists. We have refrained from presenting the comparative figures for 2007 because the effort and expense required to adapt the 2007 figures to the current structure would not have been economically justifiable.

No current and non-current distinction is made in the presentation of deferred taxes in the consolidated balance sheet.

Deferred tax assets on tax loss carryforwards increased over the prior year by €4,456 thousand. The change resulted from having utilized the losses carried forward due to the good business trend, the takeover of the IDS Scheer Group, and above all, the subsequent capitalization and use of loss carryforwards in a total amount of €10,567 thousand that had been acquired in connection with acquisitions (see Note 19).

As of December 31, 2009, the consolidated Group had unutilized tax loss carryforwards in the amount of €155,541 thousand (2008: €138,922 thousand) for which no deferred tax assets have been recognized. Of the losses carried forward for which no deferred taxes were recognized, €34,757 thousand will expire in the period from 2010 to 2020, €95,838 thousand in the period from 2021 to 2030, and €24,946 can be utilized indefinitely.

As of the reporting date, taxable temporary differences associated with investments in subsidiaries existed in the amount of €2,600 thousand (2008: €1,331 thousand) on which no deferred tax liabilities had been recognized in accordance with IAS 12.39 given that no disposals or profit distributions are planned.

In fiscal year 2009, deferred taxes totaling €2,107 thousand (2008: €3,538 thousand) were recognized directly in equity. These amounts 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:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Current financial liabilities			
Liabilities to banks	192,388	59,782	44,849
Other financial liabilities	4,920	0	0
Bills payable	1,025	1,569	1,771
Liabilities from finance leases	177	9	32
Other current financial liabilities	6	0	0
	198,516	**61,360**	**46,652**
Non-current financial liabilities			
Liabilities to banks	239,241	105,771	167,647
Other financial liabilities	51,966	0	0
Liabilities from finance leases	106	0	1
Other non-current financial liabilities	97	70	0
	291,410	**105,841**	**167,648**

Liabilities to banks and other financial liabilities had the following maturities as of the reporting date:

in € thousands	Up to 1 year	> 1 Year
Loans with variable interest rates	173,772	191,783
Loans with fixed interest rates	23,536	99,424
	197,308	**291,207**

Loans amounting to €4,428 thousand are secured by liens on real property.

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 €123,291 thousand. The fair values were calculated by discounting the future cash flows using current market rates.

24_ TRADE PAYABLES

Trade payables can be broken down as follows

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Current liabilities			
Payables to suppliers	59,145	34,688	28,620
Payments received on account of orders	2,885	1,136	2,680
	62,030	35,824	31,300
Non-current liabilities			
Payables to suppliers	260	68	64

25_ OTHER LIABILITIES

Other liabilities relate to the following items:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Other current liabilities			
Tax liabilities	24,827	20,084	15,520
Liabilities due to employees	26,955	14,112	15,684
Liabilities for social security	5,899	3,306	6,590
Outstanding consideration (acquisitions)	3,920	0	21,191
Deferred lease payments	2,652	2,962	2,419
Miscellaneous other current liabilities	8,848	4,687	2,795
	73,101	**45,151**	**64,199**
Other non-current liabilities			
Outstanding consideration (acquisitions)	493	0	0
Deferred lease payments	0	0	2,501
Liabilities due to employees	150	214	171
Liabilities for social security	133	162	146
Tax liabilities	2	2	2
Miscellaneous other non-current liabilities	289	0	146
	1,067	**378**	**2,966**

26_ OTHER PROVISIONS

in € thousands	Other provisions for personnel expenses	Restructuring provisions	Miscellaneous other provisions	Total other provisions
Balance as of Jan. 1, 2009	**34,626**	**678**	**47,666**	**82,970**
Currency translation	156	0	240	396
Additions from acquisitions	14,134	976	6,180	21,290
Additions	28,928	1,500	40,543	70,971
Utilization	−20,527	−625	−23,784	−44,936
Reversal	−1,487	−641	−8,620	−10,748
Balance as of Dec. 31, 2009	**55,830**	**1,888**	**62,225**	**119,943**
of which with a remaining term of more than 1 year	1,452	14	26,082	27,548

Miscellaneous other provisions

Miscellaneous other provisions include:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Bonuses	24,863	14,372	11,151
Obligations from stock price-based remuneration plans	10,874	2,062	1,471
Lease payment obligations	7,242	7,829	5,152
Impending losses for GCS projects	3,858	1,593	1,984
Other taxes	1,897	1,129	603
Asset retirement obligations	1,156	979	746
Remaining miscellaneous other provisions	12,335	19,702	2,261
	62,225	**47,666**	**23,368**

Remaining miscellaneous other provisions primarily include provisions related to pending litigation and the audit of financial statements.

27_ PROVISIONS FOR PENSIONS

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Provisions for pensions (foreign)	16,185	8,351	8,912
Provisions for pensions (domestic)	12,632	7,511	8,317
Provisions for insignificant pension obligations from defined benefit plans and similar obligations	745	788	0
	29,562	**16,650**	**17,229**

The consolidated balance sheet includes the following items relating to significant defined benefit plans as of December 31, 2009, December 31, 2008 and December 31, 2007:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Benefit obligation, fully funded	4,932	3,887	40,675
Benefit obligation, partially funded	59,741	34,557	8,366
Benefit obligation, unfunded	2,888	1,483	1,556
	67,561	**39,927**	**50,597**
Present value of plan assets	−39,166	−24,087	−33,368
Net carrying amounts	**28,395**	**15,840**	**17,229**
of which provisions for pensions	28,817	15,862	17,229
of which plan assets	423	22	0

Pension commitments in Germany consist of fixed commitments to a select group of people. These commitments are partially covered by life reinsurance policies.

The major part of these foreign pension commitments result from a defined benefit plan of Software AG (UK) Limited, United Kingdom. The commitments comprise post-employment benefits for employees as well as benefits payable to their surviving dependents on the employee's death during their active service period. Both the pension commitments from the plan of Software AG (UK) Limited and the pension commitments of the other foreign subsidiaries are partially funded through plan assets.

The actuarial calculations of the defined benefit obligations are based on the following assumptions (weighted averages):

Actuarial assumptions in %	Domestic pension plans			Foreign pension plans		
	2009	2008	2007	2009	2008	2007
Discount rate	5.3	6.0	5.3	5.1	5.7	5.6
Expected salary increases	2.0	0.0	0.0	4.9	4.4	4.9
Expected pension increases	2.0	1.9	1.7	3.0	2.2	2.9
Expected return on plan assets	4.4	4.5	4.5	5.6	5.8	6.4

The discount rates used have been derived from available interest rates of high-quality bonds with comparable maturities.

Pension commitments in foreign countries are calculated in accordance with country-specific calculation 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 changes in the defined benefit obligations and plan assets are as follows:

in € thousands	Domestic pensions plans			Foreign pensions plans		
	2009	2008	2007	2009	2008	2007
Change in defined benefit obligations (DBO)						
DBO as of January 1	**9,554**	**9,922**	**11,649**	**30,373**	**40,675**	**41,519**
Additions related to business combinations	2,220	0	0	6,850	0	5,674
Service cost	287	248	336	1,941	1,964	2,426
Interest expense	598	512	457	1,919	2,147	2,135
Employee contributions	0	0	0	249	315	149
Actuarial gains (–) / losses (+)	1,087	–396	–2,082	8,519	–5,696	–5,621
Pension payments	–594	–732	–438	–228	–1,717	–2,110
Past service cost	2,822	0	0			
Plan curtailments	25	0	0			
Exchange differences	0	0	0	1,939	–7,315	–3,497
DBO as of December 31	**15,999**	**9,554**	**9,922**	**51,562**	**30,373**	**40,675**
Change in plan assets						
Fair value of plan assets as of January 1	**2,043**	**1,605**	**1,138**	**22,044**	**31,763**	**27,421**
Additions related to business combinations	1,031	0	0	5,512	0	4,862
Expected return on plan assets	108	72	48	1,392	2,106	2,021
Employer contributions	443	523	169	2,770	2,792	3,132
Employee contributions	10	0	0	249	315	149
Actuarial gains (+) / losses (–)	–246	–157	250	2,894	–9,580	–1,180
Pension payments	0	0	0	–361	–1,678	–2,007
Exchange differences	0	0	0	1,277	–3,674	–2,635
Fair value of plan assets as of December 31	**3,389**	**2,043**	**1,605**	**35,777**	**22,044**	**31,763**

Net periodic pension cost can be broken down as follows:

in € thousands	2009	2008
Service cost	2,228	2,212
Interest expense	2,517	2,659
Expected return on plan assets	–1,437	–2,179
Repayment of expenses/income from retroactive plan amendments (past service cost/benefits)	2,822	0
Losses/gains from plan termination and plan curtailment	25	0
Net periodic pension cost	**6,155**	**2,692**

Service cost, repayment of expenses from retroactive plan amendments (past service cost), and losses from plan termination and plan curtailment were recognized as personnel expenses under operating expenses. Interest expense, less the expected return on plan assets, was included in net financial income/expense.

Taking into account deferred taxes, actuarial gains and losses recognized in equity have changed as follows:

in € thousands	2009	2008
Actuarial gains (+) / losses (–) recognized in the period	–4,939	–2,316
Net actuarial gains (+) / losses (–) recognized in the period from insignificant plans	–52	–99
Accumulated actuarial gains (+) / losses (–) recognized in the period as of December 31	–6,913	–1,922

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

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Equities	11,128	9,259	21,497	22,296	17,760
Life insurance policies	13,883	7,996	6,289	4,407	5,141
Bonds	11,525	6,386	3,821	1,138	861
Other	2,630	446	1,761	718	467
	39,166	**24,087**	**33,368**	**28,559**	**24,229**

The actual return on plan assets amounted to €4,080 thousand in fiscal 2009.

Contributions from the Software AG Group to plan assets for fiscal year 2010 are expected to amount to €3,479 thousand.

The defined benefit obligations, present values of plan assets, net carrying amounts, and experience adjustments for significant plans for the current and the four preceding reporting periods are as follows:

in € thousands	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
DBO	67,561	39,927	50,597	53,168	49,337
Present value of plan assets	−39,166	−24,087	−33,368	−28,559	−24,229
Net carrying amounts	**28,395**	**15,840**	**17,229**	**24,609**	**25,108**
Experience adjustments to DBO in %	1.5	−17.7	−6.1	1.2	1.6
Experience adjustments to plan assets in %	6.8	−36.0	7.4	−9.3	1.8

Defined contribution plans

In addition to the defined benefit plans, the Group also maintains defined contribution plans. These plans resulted in expenses of €3,628 thousand in fiscal 2009.

28_ PROVISIONS FOR TAXES

in € thousands	2009	2008	2007
Balance as of January 1	**36,688**	**11,485**	**14,726**
Currency translation	504	−1,291	−383
Additions to the group of consolidated companies	4,717	0	1,561
Additions	39,273	35,671	10,344
Utilization	−29,214	−8,983	−14,496
Reversal	−9,671	−194	−267
Balance as of December 31	**42,297**	**36,688**	**11,485**

29_ EQUITY

Share capital

As of December 31, 2009, Software AG's share capital totaled €86,125 thousand, divided into 28,708,410 bearer shares. Each share entitles its holder to one vote.

Conditional capital

The following conditional capital existed as of December 31, 2009:

1.) Up to €6,840 thousand divided into up to 2,280,000 bearer shares to service subscription rights under the third stock option plan (Management Incentive Plan III, or MIP III) for members of the Executive Board and Group officers. The requirements of this plan and the status of allocations and options exercised are presented in Notes 37 and 38.

The Executive Board did not make use of this authorization in fiscal year 2009.

2.) Up to €1,233 thousand divided into a maximum of 411,055 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 in Notes 37 and 38. Based on the options exercised during 2009 by officers and Executive Board members, the Executive Board made partial use of its option to increase conditional capital in the amount of €209 thousand, divided into 69,568 bearer shares.

3.) Up to €33,000 thousand divided into a maximum of 11,000,000 bearer shares, each with a notional interest 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 to and agreeing on conversion obligations with 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, 2011 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—if lower—10 percent of the issued share capital in existence at the time the authorization is acted upon.

As of December 31, 2009, the Executive Board had not made use of this authorization.

Authorized capital

As of December 31, 2009, 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 entities 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 pro rata amount of the 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 pro rata amount of the 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 2009.

Acquisition of treasury shares

Pursuant to the Annual Shareholders' Meeting resolution dated April 30, 2009, the Company is authorized to purchase on or before October 29, 2010:

a) Treasury shares having a notional interest in the issued share capital of up to €8,601 thousand.

b) The treasury shares may be purchased on the stock market or through a public purchase offer addressed 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 5 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—of the Company shares during the five days preceding the purchase. The date of acquisition is the date upon which the transaction is concluded.

If the shares are purchased via a public purchase offer, 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—of the Company shares between the ninth and the fifth trading days prior to publication of the offer. If the purchase offer is oversubscribed, bids will be accepted in proportion to the number of shares on offer. The offer may stipulate a preferential acceptance of a smaller number of shares of up to 100 units per shareholder.

c) The Executive Board is authorized to sell the Company shares purchased on the basis of the authorization pursuant to letter "a" above or an authorization granted at an earlier time via the stock exchange or in another manner the fulfills the requirement to treat all shareholders equally, such as through an offer addressed to all of the Company's shareholders.

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 a notional interest in the share capital not to exceed a total of €8,600,861.00, or, if lower, 10 percent of the issued share capital in existence at the time the authorization is acted upon. The upper limit will be reduced by the pro rata amount of the 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 pro rata amount of the 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, and/or equity interests in companies or within the context of business combinations;
ii) 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) Furthermore, the Executive Board is authorized to recall all or part of the treasury shares in one or several steps without any additional authorization from the Annual Shareholders' Meeting. The shares may also be recalled without a capital decrease by adjusting the pro rata amount in the Company's share capital of the remaining shares. In such case, the Executive Board is authorized to adjust the specification of the number of shares in the Articles of Incorporation.

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 currently existing authorization to purchase treasury shares on or before October 28, 2009 as resolved by the Annual Shareholders' Meeting of April 29, 2008, Agenda Item 7 ("authorization to acquire treasury shares") will be rescinded as of the effective date of the new authorization.

As of December 31, 2009, the Executive Board had not made use of its authorization to acquire treasury shares.

Equity management

The Software AG Group has an obligation to achieve long-term, profitable growth. For this reason, net income for the year is the key indicator with regard to corporate management. As a result of the low capital expenditures for property, plant and equipment—a common feature for software companies—equity is not in the focus of corporate management. Dividends are calculated as the average of net income for the year and free cash flow. This resulted in total dividends of €32,555 thousand (2008: €31,503 thousand) and a payout ratio of 19.8 percent (2008: 25.3 percent).

Dividend payment

Pursuant to the proposal of the Executive Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on April 30, 2009 to transfer €150 thousand to retained earnings, to appropriate €31,503 thousand for a dividend payout, and to carry forward €121,407 thousand from the 2008 net retained profits of €153,060 thousand reported by Software AG, the controlling Group company. This corresponded to a dividend of €1.10 per share.

The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting to distribute the net retained profits of €321,719 thousand for 2009 of Software AG, the controlling Group company, as follows: to transfer €104 thousand to other retained earnings, to use €32,555 thousand for the payment of dividends—corresponding to a dividend of €1.15 per share—and to carry forward €289,060 thousand.

Other reserves

Other reserves changed as follows, taking into account tax effects:

in € thousands	2009			2008		
	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Currency translation differences	−1,385	-	−1,385	3,264	-	3,264
Net gain/loss on remeasuring financial assets	9,828	−3,019	6,809	−10,268	3,209	−7,059
Net gain/loss arising from translating net investments in foreign operations	−35,603	-	−35,603	2,059	-	2,059
Net actuarial gain/loss on pension obligations	−6,578	1,588	−4,990	−3,243	828	−2,415
Other comprehensive income	**−33,738**	**−1,431**	**−35,169**	**−8,188**	**4,037**	**−4,151**

Of the unrealized income and expense from the fair value measurement of derivatives recorded in other reserves as of December 31, 2008, a net expense of €3,453 thousand (2008: net income of €65 thousand) was recognized in profit or loss in fiscal year 2009.

Of the unrealized income and expense arising from translating net investments in foreign operations recorded in other reserves as of December 31, 2008, a net gain of €34,852 thousand was recognized in profit or loss for fiscal year 2009 (for more information, see Notes 10 and 11).

OTHER DISCLOSURES

30_ NOTES TO THE STATEMENT OF CASH FLOWS

Cash funds amounting to €218,141 thousand (2008: €96,925 thousand) comprise both cash and cash equivalents.

Net payments for acquisitions amounted to €320,360 thousand in 2009 and resulted from €449,970 thousand in consideration paid less €129,610 thousand in cash and cash equivalents received.

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 €188,354 thousand (2008: €133,445 thousand).

31_ SEGMENT REPORTING

The segment report is prepared in accordance with IFRS 8 “Operating Segments.” Segmentation is in accordance with internal control and reporting lines in the Group (management approach).

SEGMENT REPORT AS OF DECEMBER 31, 2009
(January 1 to December 31, 2009 and January 1 to December 31, 2008)
IFRS

in € thousands	ETS		webMethods		Enterprise Process Innovation		Reconciliation		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Licenses	139,816	156,776	110,184	115,252	19,862	0	0		269,862	272,028
Maintenance	187,871	173,805	109,708	93,254	13,025	0	0		310,604	267,059
Product sales	**327,687**	**330,581**	**219,892**	**208,506**	**32,887**	**0**	**0**	**0**	**580,466**	**539,087**
Professional Services	67,577	72,777	101,783	104,986	93,096	0	0		262,456	177,763
Other	785	1,549	3,189	2,211	480	0	0		4,454	3,760
Total revenue	**396,049**	**404,907**	**324,864**	**315,703**	**126,463**	**0**	**0**	**0**	**847,376**	**720,610**
Cost of sales	−81,729	−83,229	−116,407	−115,031	−83,299	0	−18,865	−6,859	−300,300	−205,119
Gross profit	**314,320**	**321,678**	**208,457**	**200,672**	**43,164**	**0**	**−18,865**	**−6,859**	**547,076**	**515,491**
Sales, marketing and distribution expenses	−70,670	−75,941	−90,465	−93,554	−22,355	0	−8,906	−7,624	−192,396	−177,119
Business line contribution	**243,650**	**245,737**	**117,992**	**107,118**	**20,809**	**0**	**−27,771**	**−14,483**	**354,680**	**338,372**
Research and development expenses									−82,166	−76,224
General and administrative expenses									−70,683	−65,083
Other operating income/expenses, net									16,330	−16,517
Earnings before interest and taxes									**218,161**	**180,548**
Net financial income/expense									−8,885	−5,122
Earnings before taxes									**209,276**	**175,426**
Taxes									−68,481	−59,566
Net income for the year									**140,795**	**115,860**

The business line contribution does not include the amortization expense associated with acquisitions of intangible assets. These charges are therefore shown separately under "reconciliation." This presentation corresponds with internal control and reporting lines (management approach).

Information on geographic regions

Revenues by location of customers can be broken down into geographic regions as follows:

GEOGRAPHIC DISTRIBUTION OF REVENUES

in € thousands	Germany		USA		Spain		Other countries		Group total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Licenses	40,859	32,113	66,085	75,446	5,842	5,041	157,076	159,428	269,862	272,028
Maintenance	38,400	30,783	106,088	94,665	16,780	15,665	149,336	125,946	310,604	267,059
Professional Services	62,726	17,517	29,058	35,348	56,766	56,153	113,906	68,745	262,456	177,763
Other	1,098	864	19	283	1,879	2,116	1,458	497	4,454	3,760
Total	**143,083**	**81,277**	**201,250**	**205,742**	**81,267**	**78,975**	**421,776**	**354,616**	**847,376**	**720,610**

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 in the previous year) contributed more than 10 percent to Group revenue and are therefore listed separately.

Non-current assets

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

in € thousands	2009	2008
USA	448,210	479,490
Other countries	151,192	136,495
Germany	392,423	31,067
Group total	**991,825**	**647,052**

32_ ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The table below shows the carrying amounts and the fair values of loans and receivables, financial liabilities measured at amortized cost, and derivatives, with derivatives with and without hedging relationships shown separately.

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 rating. 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, 2009 and December 31, 2008.

The fair values of exchange-listed securities were based on their quoted 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.

in € thousands	December 31, 2009		December 31, 2008		December 31, 2007	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
FINANCIAL ASSETS						
Financial assets*						
Cash and cash equivalents	218,141	218,141	96,925	96,925	81,294	81,294
Trade receivables and other receivables	301,173	301,173	230,602	230,602	197,294	197,294
Other non-derivative financial assets	5,424	5,424	6,259	6,259	8,120	8,101
Derivatives						
Derivatives without qualifying hedging relationship	5,009	5,009	3	3	623	623
Derivatives with qualifying hedging relationship (cash flow hedge)	22,532	22,532	8,705	8,705	14,924	14,924
FINANCIAL LIABILITIES						
Financial liabilities*						
Liabilities to banks and other financial liabilities	490,015	489,926	167,392	167,201	214,260	214,300
Trade payables	62,291	62,291	35,892	35,892	31,364	31,364
Other non-derivative financial liabilities	72,564	72,564	69,066	69,066	64,518	64,518
Derivatives						
Derivatives without qualifying hedging relationship	1,630	1,630	1,596	1,596	65	65
Derivatives with qualifying hedging relationship (cash flow hedge)	45	45	2,904	2,904	316	316

* measured at cost or amortized cost.

With the exception of the aforementioned derivatives, no financial assets or liabilities were measured at fair value through profit or loss in the reporting period. There were also no financial assets classified as available-for-sale financial assets or held-to-maturity investments.

Apart from currency translation effects, only the bad debt allowances described in Note 11 had a significant influence on the net gain/loss from loans and receivables. The net gain from derivatives without qualifying hedging relationships amounted to €247 thousand in fiscal 2009. The net gain from derivatives designated as cash flow hedges was included in the income statement and amounted to €4,918 thousand in 2009.

Market risk and the use of derivative financial instruments

As a result of its international operating activities as well as its investing and financing activities, Software AG is exposed to various financial 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, cash flows, or the value of cash investments. Derivatives are generally entered into to hedge existing balance sheet exposure and highly probable forecast transactions.

a) Interest rate risk
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 risk. 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 risk.

This risk is reduced due to the fact that both cash 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.

The sensitivity analysis required by IFRS 7 relates to interest rate risk arising from monetary financial instruments bearing variable interest rates.

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 €625 thousand.

b) Exchange rate risk
In order to hedge the risk of future fluctuations in exchange rates, the Company enters into cross-currency swaps, 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 as cash flow hedges 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 risk 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 devaluation of the euro in amount of 10 percent against the U.S. dollar would have reduced earnings by €1,175 thousand and other reserves by €416 thousand. This amount only represents a theoretical risk for us as these instruments are hedges of recognized transactions, rather than open trading positions.

c) Market risk
In line with Group 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. All cash investments have terms of up to three months. Both cash investments as well as derivative financial instruments are entered into with banks having good credit ratings. The theoretical maximum default risk exposure is indicated by the carrying amounts. The guidelines defined by the management ensure that the credit risk from financial instruments is spread across various banks.

In the operating business, our receivables are continuously monitored and default risk is taken into account via specific and portfolio-based bad debt allowances. As of December 31, 2009, there was no indication of the existence of any risk beyond that taken into account through bad debt allowances. We see no concentration of credit risks with respect to single customers as a result of the size of our customer base or due to the distribution of our revenues across various sectors and countries. 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.

Under credit agreements having a total volume of €399 million, the Company is required to limit net debt within the Group to a maximum of 2.75-times EBITDA. As of year-end 2009, the net debt was well under this figure.

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 currency are measured at the exchange rate as of December 31, 2009.

in € thousands	**Up to 1 year**	**1–5 years**	**> 5 years**	**Total**
Non-derivative financial liabilities				
Liabilities to banks and other financial liabilities				
Repayments	197,308	286,845	4,362	488,515
Interest	13,724	19,722	346	33,792
Trade payables	62,030	260	0	62,290
Other financial liabilities	1,031	96	0	1,127
Finance lease liabilities	177	106	0	283
Other non-derivative liabilities	71,497	1,067	0	72,564
Derivative financial liabilities	**1,839**	**64**	**0**	**1,903**

Volume and measurement of derivative financial instruments

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

The table below shows the notional amounts, the carrying amounts, and the fair values of derivative financial instruments as of December 31, 2009 and December 31, 2008. The fair values of forward currency contracts are determined on the basis of forward foreign exchange rates. The fair values of stock options used to hedge stock appreciation rights as well as the fair values of interest rate hedges are based on market values, which reflect the current market situation and are equivalent to the replacement costs as of the balance sheet date.

in € thousands	**2009**			**2008**		
	Nominal amount	**Fair value**	**Carrying amount**	**Nominal amount**	**Fair value**	**Carrying amount**
Derivatives with positive fair value						
Derivatives (without qualifying hedging relationship)	–	5,009	5,009	–	3	3
Forward currency contracts	8,101	598	598	811	3	3
Stock options (phantom shares)	9,103	4,373	4,373	–	0	0
Cross-currency swaps	408	37	37	–	0	0
Derivatives (cash flow hedges)	–	22,532	22,532	–	8,705	8,705
Forward currency contracts	694	4	4	16,944	1,031	1,031
Stock options	79,596	22,527	22,527	79,596	7,674	7,674
Derivatives with negative fair value						
Derivatives (without qualifying hedging relationship)	–	−1,630	−1,630	-	−1,596	−1,596
Forward currency contracts	1,834	−27	−27	–	0	0
Stock options (phantom shares)	–	0	0	6,361	−1,596	−1,596
Interest rate swaps	103,471	−1,427	−1,427	–	0	0
Cross-currency swaps	1,299	−177	−177	–	0	0
Derivatives (cash flow hedges)	–	−45	−45	–	−2,904	−2,904
Forward currency contracts	3,471	−45	−45	13,923	−451	−451
Interest rate swaps	–	0	0	180,000	−2,453	−2,453

The derivative financial instruments presented in the table above are designated to hedge the fair value of recognized assets or liabilities. 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 and currency option transactions are entered into for the purpose of hedging foreign exchange risks related to future cash flows.

The interest rate swaps hedge against interest rate risk arising from borrowings bearing variable interest rates.

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 entered into hedging instruments on Software AG stock with banks.

The financial instruments for hedging currency and interest rate risk have remaining maturities of less than one year. The stock options used for hedging the commitments from the third stock price-based remuneration plan fall due in 2012. The individual maturities correspond to the time periods over which the expected cash flows are likely to affect profit or loss.

Cash investment policy

Software AG takes a very conservative approach with regard to its cash investments. The Company invests primarily in short-term time deposits and short-term fixed-income securities with a credit rating of at least "investment grade." Software AG has introduced a monitoring process in order to monitor the creditworthiness of the banks with which we maintain relationships. Accordingly, the performance of the relevant credit default swaps (CDS) is monitored on a weekly basis. The interest rates for term deposit investments were between 0.05 and 2.0 percent p.a. in Germany and between 0.0 and 8.0 percent p.a. abroad in fiscal 2009.

33_ DISCLOSURES ON LEASES

The Group's rental agreements and operating leases 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.

in € thousands	Up to 1 year	1–5 years	>5 years	Total
Contractually agreed payments	20,624	46,869	10,700	78,193
Estimated income from subleases	−1,444	−7,511	−2,338	−11,293

34_ CONTINGENT LIABILITIES

As of December 31, 2009, no provisions were recognized for the following contingent liabilities, expressed at nominal value, since it appeared unlikely that claims would be asserted:

in € thousands	2009	2008
Guarantees	0	1,311
Other	1,368	1,252
	1,368	**2,563**

35_ SEASONAL INFLUENCES

Revenues and pre-tax earnings were distributed over fiscal year 2009 as follows:

in € thousands	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009
Total revenue	165,290	176,377	213,585	292,124	847,376
in % of annual revenue	20	21	25	34	100
Earnings before taxes	38,520	43,571	54,773	72,412	209,276
in % of net income for the year	18	21	26	35	100

Due to the acquisition of IDS Scheer as described in Note 4, the revenue and earnings trend for 2009 does not have any great significance for predicting the trend in 2010.

36_ LITIGATION

The two legal disputes reported on in the Notes to the Consolidated Financial Statements for fiscal 2008 (one vs. a former Brazilian distributor and one vs. a Canadian software firm) were both decided in favor of Software AG and resolved via settlement during the course of 2009.

No other reportable legal disputes (disputes of material significance) are pending.

37_ STOCK OPTION PLANS

Software AG has various stock option plans for members of the Executive Board, officers, and other Group employees. These involve equity-settled plans and plans where the Company has the choice of settling either in cash or by providing equity instruments.

The total expense for share-based payment transactions amounted to €11,437 thousand in fiscal 2009 (2008: €9,146 thousand). This includes income of €5,587 thousand (2008: expense of €1,791 thousand) from hedging the commitments from the Management Incentive Plan 2007.

Expenses for stock options accounted for as equity-settled plans pursuant to IFRS 2 amounted to €2,280 thousand in fiscal 2009 (2008: €2,368 thousand).

No expenses for share-based payment transactions were capitalized as inventories or non-current assets.

Management Incentive Plan II (MIP II)

The Management Incentive Plan II is a stock option plan for Executive Board members and officers that was launched in the second quarter of 2001.

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

The Management Incentive Plan has a term of seven years for each individual tranche. Options may be exercised and acquired shares may be sold no earlier than 24 months after the start of the respective term. This restriction applies separately to each tranche. Options may only be exercised on a quarterly basis within a defined period of time after publication of the annual results or the quarterly results.

The stock option plan led to personnel expenses of €73 thousand in fiscal year 2009 (2008: €120 thousand). This amount was transferred to the capital reserve.

The options granted under the Management Incentive Plan II (MIP II) changed as follows in fiscal 2009:

	Number of options outstanding	Weighted average exercise price per option (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2008	**77,707**	**22.09**	**2.6**	**1,391**
Granted	–			
Exercised	69,568			
Forfeited/expired	448			
Balance as of Dec. 31, 2009	**7,691**	**23.57**	**1.9**	**406**
Thereof exercisable as of Dec. 31, 2009	7,691			

The exercise prices of the options outstanding as of December 31, 2009 range between €23.89 and €26.47. The average share price for the options exercised during 2009 at the date of exercise amounted to €53.12.

Management Incentive Plan 2007 (MIP III)

In the third quarter of 2007, a share-based incentive plan for members of the Executive Board and officers was launched. To date, 2,230,500 participation rights have been issued to Executive Board members and officers under the plan, 2,049,000 of that amount in 2007.

Upon achievement of certain performance targets, participants are entitled to payment of the difference between the price of Software AG shares and the strike price of €72.36 by June 30, 2016. However, the Company is entitled to elect to issue shares in lieu of a cash payment at its discretion. The defined performance target involves reaching the €1,000,000 thousand mark for Group revenues by no later than fiscal year 2011, while at the same time doubling after-tax earnings compared to fiscal year 2006.

In order to hedge the cash flow risks from the MIP III, Software AG purchased 1,100,000 stock options, which were designated as cash flow hedges as part of a hedging relationship. As a result of this hedge, 1,100,000 of the participation rights are accounted for as cash-settled share-based payment transactions in accordance with IFRS 2. Accordingly, Software AG recognizes a provision on a pro rata temporis basis based on the fair values of the rights granted as of the grant date.

The fair value of these participation rights was determined on the basis of the Black-Scholes option pricing model and corresponds to the market value of the purchased stock options as of the grant date. The fair value, which was calculated on the basis of the following parameters, amounted to €20.48 per right as of December 31, 2009.

The valuation was based on the following parameters:

Expected average term until exercise of the options (in years)	2.4
Risk-free interest rate	2.11 %
Assumed volatility	42 %
Share price on December 31, 2009	€76.40
Expected dividend yield	1.75 %

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 assumed volatility is based on the average expected volatility of various independent financial institutions.

The resulting personnel expenses are amortized over the period of service and amounted to €8,812 thousand in fiscal year 2009 (2008: €971 thousand). In addition, income of €5,587 thousand was generated from hedging the rights granted in fiscal year 2009 (2008: expense of €1,791 thousand).

The liability for the participation rights, which are accounted for as cash-settled share-based payments, amounted to €10,874 thousand (2008: €2,062 thousand) as of December 31, 2009.

The amount of the personnel expenses for non-vested rights not yet recognized in profit or loss depends on the rights' intrinsic value as of the exercise date and, therefore, cannot be forecasted. The final amount of payment is expected to be recognized in profit or loss over the next 2.4 years. The unrealized price losses of the stock options will be recognized over the same period.

If the exercise behavior and the actual term prove to be in line with current assumptions, the accumulated personnel expenses will be limited to the purchase price of the hedge (€14.6 million).

The remaining 781,854 participation rights are accounted for as equity-settled share-based payment transactions. The fair value was determined as of the grant date using the Black-Scholes option pricing model. The weighted average of the fair values of the rights granted during the reporting period amounted to €11.25 as of the grant date (2008: €6.12). The valuation of the rights allocated in 2009 was based on the following parameters:

Expected average term until exercise of the options (in years)	3.2
Risk-free interest rate	2.2 %
Assumed volatility	50 %
Expected dividend yield	2.2 %
Weighted average share price upon exercise	€50.95

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 assumed volatility is based on the average market expectations.

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

In fiscal 2009, the personnel expenses resulting from these 781,854 participation rights, taking into account the expected staff turnover, amounted to €2,207 thousand (2008: €2,248 thousand). This amount was transferred to the capital reserve.

The options granted under the Management Incentive Plan 2007 (MIP III) changed as follows in fiscal year 2009:

	Number of rights outstanding	Weighted average exercise price per right (€)	Weighted average remaining term (years)	Aggregated intrinsic value (€ thousands)
Balance as of Dec. 31, 2008	**1,919,000**	**72.36**	**7.5**	**0**
Granted	204,000			
Exercised	–			
Forfeited/expired	241,146			
Balance as of Dec. 31, 2009	**1,881,854**	**72.36**	**6.5**	**7,603**
Thereof exercisable as of Dec. 31, 2009	0			

Performance phantom share plan

A portion of the variable remuneration for Executive Board members 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 2009 will be converted into virtual (phantom) shares on the basis of the average share price of Software AG stock in February 2010, 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 2010 to 2012, the number of phantom shares will be multiplied by the then-applicable share price for February. This amount will be adjusted to reflect the amount (measured in percent) by which the shares outperform or underperform the TecDAX index and then paid to the members of the Executive Board. The members of the Executive Board will receive an amount per phantom share equal to the dividends paid to Software AG shareholders prior to payment of a phantom share tranche.

For the phantom shares due in 2010, Executive Board members may elect to extend the shares due for a period of six years, rather than receiving a payment. During the extension period, Board members have the opportunity four times per year (each time the Company's financial results are announced) to demand payment of extended shares. The number of phantom shares is adjusted over the extended term by the amount (measured in percent) by which Software AG shares outperform or underperform the TecDAX index. The adjustment for this out- or underperformance is limited to 50 percent.

At the time of payment, the number of shares is multiplied by the average price of Software AG stock on the sixth to tenth trading day after publication of the financial results. 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 the phantom shares.

This plan led to personnel expenses of €5,932 thousand in fiscal year 2009 (2008: €3,995 thousand).

The provision for the rights outstanding under the phantom share plan amounted to €12,902 thousand (2008: €6,814 thousand) as of December 31, 2009.

The intrinsic value of the rights exercisable under the phantom share plan amounted to €2,231 thousand as of December 31, 2009 (2008: €0 thousand).

38_ CORPORATE BODIES
Members of the Supervisory Board:

Frank F. Beelitz
Chairman (until April 30, 2009)
Independent investment banker (Beelitz & Cie., Frankfurt/Main)
Resident of: Bad Homburg v.d.H
Supervisory Board seats:
- Member of the Supervisory Board of Südwestbank AG, Stuttgart
- Member of the Supervisory Board of IVG Immobilien AG, Bonn

Willi Berchtold
Graduate in economics
Chief Financial Officer, Controlling and Informatics at ZF Friedrichshafen AG
Resident of: Überlingen
Supervisory Board seats::
- Member of the Supervisory Board of Lufthansa Systems AG, Kelsterbach
- Chairman of the Supervisory Board of ZF Böge Elastmetall GmbH, Bonn
- Member of the Supervisory Board of ZF Sachs AG, Schweinfurt
- Member of the Supervisory Board of ZF Lemförder GmbH, Lemförde
- Member of the Supervisory Board of ZF Passau GmbH, Passau
- Member of the Supervisory Board of ZF Getriebe GmbH, Saarbrücken
- Member of the Supervisory Board of ZF Lenksysteme GmbH, Schwäbisch Gmünd
- Member of the Supervisory Board of SupplyOn AG, Hallbergmoos (since June 19, 2009)
- Member of the Supervisory Board of Bundesdruckerei GmbH, Berlin (since July 17, 2009)
- Chairman of the Supervisory Board of Bundesdruckerei GmbH, Berlin (since December 14, 2009)

Dr. Andreas Bereczky
Deputy Chairman (until April 30, 2009)
Chairman (since April 30, 2009)
Director of Production of ZDF, Mainz
Resident of: Eschweiler
Supervisory Board seats:
- Deputy Chairman of the Supervisory Board of Alfabet AG, Berlin

Rainer Burckhardt
Employee representative
Employee of SAG Deutschland GmbH
Chairman of the Works Council at the Darmstadt location
Resident of: Darmstadt
Supervisory Board seats:
- none

Heinz Otto Geidt
Graduate in business administration
Member (since April 30, 2009)
Director of Asset Management at Software AG Foundation
Resident of: Kelkheim/Ts.
Supervisory Board seats:
- Chairman of the Supervisory Board of Bingenheimer Saatgut AG, Echzell
- Chairman of the Advisory Board of AMC Advanced Medical Communication Holding GmbH, Hamburg
- Member of the Advisory Board of Birken GmbH, Niefern-Öschelbronn

Monika Neumann
Employee representative
Employee of SAG Deutschland GmbH
Chairwoman of the General Works Council
Resident of: Schliersee
Supervisory Board seats:
- none

Alf Henryk Wulf
Graduate in engineering
Deputy Chairman (since April 30, 2009)
Chairman of the Management Board of Alcatel-Lucent Deutschland AG, Stuttgart
Resident of: Stuttgart
Supervisory Board seats:

- Member of the Supervisory Board of Alcatel-Lucent Network Services GmbH, Düsseldorf

Members of the Executive Board:

Karl-Heinz Streibich
Graduate in communications engineering
Chief Executive Officer
Strategic Marketing, Human Resources, Internal Audit/Processes & Quality, Legal Affairs, Corporate Communication
Resident of: Radolfzell

David Broadbent
Businessman
Member of the Executive Board
Chief Operating Officer
Region East (Asia/Pacific, Nordic, Central Europe, South Africa)
Resident of: Frilsham, Hermitage/Thatcham, Berkshire, UK

Mark Edwards
Businessman
Member of the Executive Board
Chief Operating Officer
Region West (North America, Latin America, Northern, Western and Southern Europe)
Resident of: Ascot, Berkshire, UK

Holger Friedrich
IT specialist
Member of the Executive Board (until March 13, 2009)
Global Professional Services
Resident of: Berlin

Dr. Peter Kürpick
Physicist
Member of the Executive Board,
Chief Product Officer
Resident of: Darmstadt

Ivo Totev
Graduate in electrical engineering
Member of the Executive Board (since March 13, 2009)
Chief Services Officer
Global Consulting Services
Resident of: Giessen

Arnd Zinnhardt
Graduate in business administration
Member of the Executive Board
Chief Financial Officer
Finance, Treasury, Controlling, Business Operations, Taxes, Global Procurement, M&A, Investor Relations, Global IT, Support and Administration
Resident of: Kelkheim/Ts.

Total remuneration for the Executive Board members in fiscal 2009 amounted to €14,794 thousand (2008: €9,066 thousand).

The comparative amounts of the previous year were adjusted based on the amendment to section 4.25 of the Corporate Governance Code.

In fiscal 2009, 150,000 stock option rights were granted to one Executive Board member from the Management Incentive Plan III (MIP III) (2008:150,000), and 150,000 stock option rights were cancelled (2008: 125,000). The stock option rights granted had a fair value as of the grant date of €11.00 per right (2008: €6.22).

The Executive Board members received a total of 50,728 phantom shares under the phantom share plan (2008: 71,962). The phantom shares granted had a fair value as of the grant date of €83.08 per phantom share (2008: €49.82).

Remuneration for former Executive Board members totaled €190 thousand (2008: €291 thousand).

Pension provisions for former Executive Board members amounted to €2,143 thousand (2008: €1,765 thousand).

Software AG did not grant any advances or loans to Executive Board members in fiscal 2009 or in fiscal 2008.

Detailed disclosures on the remuneration paid to Executive Board members are made in the Remuneration Report of the Corporate Governance Report, which forms part of the Management Report.

Supervisory Board remuneration
Total remuneration for members of the Supervisory Board amounted to €285 thousand in the year under review (2008: €519 thousand).

Software AG did not grant any advances or loans to Supervisory Board members in fiscal 2009 or in fiscal 2008.

Detailed disclosures on the remuneration paid to Supervisory Board members are made in the Remuneration Report of the Corporate Governance Report, which forms part of the Management Report.

39_ RELATED PARTY TRANSACTIONS

Software AG Foundation provided Software AG with funds in the amount of €45 million to finance the IDS Scheer acquisition. The funding was made available in the form of a subordinated promissory note loan from a special fund (Spezialfonds) in which Software AG Foundation has a 100-percent stake. The interest rate on the promissory note loan is in line with market rates. The promissory note loan is a bullet loan with a term running until August 2013.

Software AG Foundation holds 29.0 percent of the Software AG shares in issue.

40_ AUDITORS' FEES

General and administrative expenses include expenses for auditors' fees for BDO Deutsche Warentreuhand AG, the Group auditor, totaling €1,039 thousand (2008: €384 thousand). Of this amount, €938 thousand relates to the audit of the domestic entities' and the Group's financial statements (2008: €286 thousand), €27 thousand to tax advisory services (2008: €8 thousand), and €74 thousand to other audit services (2008: €90 thousand).

41_ EVENTS AFTER THE BALANCE SHEET DATE

In February 2010, a software company in Virginia, USA sued Software AG USA Inc. together with Software AG and 11 additional defendants, including IBM and SAP, for infringement of several of its software patents. The lawsuit was filed with a court in Virginia. The proceedings are still in a very early stage. No date for the main proceedings has been set.

On February 11, 2010, the control and profit transfer agreement concluded on November 24, 2009 between SAG Beteiligungs GmbH and IDS Scheer AG was entered in the commercial register of the district court of Saarbrücken, upon which it became legally enforceable. The two companies are now under uniform management. Software AG now holds approximately 91 percent of the shares in IDS Scheer. As announced on February 4, 2010, Software AG plans to merge the two companies. The merger will entail the remaining minority shareholders receiving shares in Software AG in exchange for their shares in IDS Scheer AG. To this end, Software AG will buy back up to 400,000 Company shares via the stock exchange. Software AG expects to complete the takeover in full by the end of 2010.

42_ STATEMENT ON CORPORATE GOVERNANCE

The Company submitted its Statement on Corporate Governance on February 26, 2010. It will be published in March 2010 on our homepage at http://www.softwareag.com/de/ir/corpgovernance/default.asp.

This statement includes the declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG), which was issued separately and published on our homepage at http://www.softwareag.com/de/ir/corpgovernance/default.asp on December 17, 2009.

43_ 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; SAG Consulting Services GmbH, Darmstadt; and Software Financial Holding 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, and from the duty to have them audited, in compliance with provisions applicable to corporations in accordance with section 264 (3) of the German Commercial Code.

Date and authorization for issue

Software AG's Executive Board approved the consolidated financial statements on February 26, 2010.

Darmstadt, February 26, 2010

Software AG

K.-H. Streibich	D. Broadbent
M. Edwards	Dr. P. Kürpick
I. Totev	A. Zinnhardt

Responsibility statement

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, February 26, 2010

Software AG

K.-H. Streibich	D. Broadbent
M. Edwards	Dr. P. Kürpick
I. Totev	A. Zinnhardt

Auditors´ Report

We have audited the consolidated financial statements prepared by Software Aktiengesellschaft, Darmstadt, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements together with the group management report for the business year from January 1, 2009 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of the German commercial law pursuant to sec. 315a para 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management based on our audit.

We conducted our audit of the consolidated financial statements in accordance with sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report 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 the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. 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 comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to sec. 315a para 1 HGB. The consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report 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, February 28, 2010

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

gez. Schulz
Wirtschaftsprüfer

gez. Sartori
Wirtschaftsprüferin

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FINANCIAL CALENDAR

Financial Calendar	2010
April 27, 2010	Q1 2010 financial figures (IFRS, unaudited)
May 21, 2010	Annual Shareholders´ Meeting, Darmstadt, Germany
July 29, 2010	Q2/H1 2010 financial figures (IFRS, unaudited)
October 27, 2010	Q3 2010 financial figures (IFRS, unaudited)
	2011
End of January 2011	Q4 2010 financial figures (IFRS, unaudited)

PUBLICATION CREDITS

PUBLISHER

Software AG
Corporate Communications
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 61 51-92-0
Fax +49 61 51-1191
E-Mail: norbert.eder@softwareag.com

CONTACT

Software AG
Corporate Headquarters
Uhlandstraße 12
64297 Darmstadt
Germany

Tel. +49 61 51-92-0
Fax +49 61 51-1191
www.softwareag.com