

Report of the Supervisory Board

During the year, the Software AG Supervisory Board supervised the performance and activities of management, and monitored Company development and all key business events. The Supervisory Board met six times during fiscal 2003, and at least once per quarter. There was full attendance at all six sessions.

Each meeting involved comprehensive analysis of current business development and discussion of strategy with the Executive Board. In addition, any transactions requiring Supervisory Board sanction to comply with the Articles of Incorporation or with applicable legislation were examined in detail, carefully considered and, where appropriate, approved.

Topics included the current status of Software AG and its subsidiaries, prospects for individual business segments, and the corresponding product, sales, and marketing strategy. The Supervisory Board also received monthly written reports on business development from the Executive Board.

At the beginning of fiscal 2003, the following Supervisory Board committees existed:

- The Committee for Compensation and Succession Issues
- The Stock Options Committee
- The Audit Committee

During 2003, the Supervisory Board decided to restructure its committees. The Stock Options Committee was initially established as a precautionary measure, to carry out duties relating to the exercise of share options for employees. However, it has never convened, as no share options have been exercised since it was established. As a result, the committee has been dissolved, and its duties transferred to the Audit Committee, which was founded by the Supervisory Board in December 2002. In accordance with the German Corporate Governance Code, the Audit Committee has its own Articles of Incorporation.

Both the Committee for Compensation and Succession Issues and the Audit Committee met twice during fiscal 2003.

At the 2003 Annual Shareholders' Meeting, a resolution was passed on Supervisory Board compensation. In line with the suggestions of the German Corporate Governance Code, Supervisory Board remuneration will now take account of committee membership or chairmanship.

The Supervisory Board and Executive Board membership changed as follows during 2003:

Dr. Detlef Purschke, Executive Board member with responsibilities including Professional Services and in-house IT infrastructures, stepped down at the beginning of April 2003. On February 28, 2003, the Supervisory Board appointed Dr. Peter Mossack, longstanding employee and Head of Research and Development, to the Executive Board. Initially a deputy member, Dr. Mossack became a full member of the board on July 1, 2003. The Supervisory

Board strongly believed that, as a cutting-edge software company, Software AG should place greater emphasis on R&D by including an R&D representative on the Executive Board.

Furthermore, the Supervisory Board believed the Executive Board should reflect more accurately the international nature of a company which generates the lion's share of revenue outside Germany. As a result, three Executive Board seats were allocated to Software AG regional managers based abroad. As of April 9, 2003, Christian Barrios Marchant, Mark Edwards and Gary Voight, heads of the three largest national subsidiaries, joined the Executive Board. Mr. Barrios Marchant is in charge of Southern and Western Europe, (core country: Spain); Mark Edwards is regional manager for Northern Europe, Asia Pacific, South Africa, (core country: UK); and Gary Voight is head of the Americas region, (core country: USA). Responsibility for the fourth region, Central and Eastern Europe, (core country: Germany), was allocated to Andreas Zeitler, who already sat on the Executive Board.

Pursuant to Section 105 Subsection 2 of the German Stock Corporation Act (AktG), Karl Heinz Achinger was appointed CEO of the Company by fellow Supervisory Board members for the interim period of December 1, 2002, to September 30, 2003. The provisions of the Act required the suspension of Mr. Achinger's Supervisory Board membership during this time. The Supervisory Board would like to express its gratitude to Mr. Achinger, not only for providing an interim solution to the CEO vacancy, but also for his considerable personal investment, and for the momentum he generated as the Company sought a new strategic direction. The decision to appoint Mr. Achinger as interim CEO

after his predecessor's premature departure relieved the Supervisory Board of the need to find an immediate successor, allowing it to appoint the ideal candidate: Karl-Heinz Streibich.

The Supervisory Board appointed Mr. Streibich as member of the Executive Board and CEO, effective October 1, 2003. Mr. Streibich boasts a long and distinguished track record of management positions throughout the IT industry. His most recent role was as member of the T-Systems Executive Board.

On April 29, 2003, Justus Mische was voted onto the Supervisory Board by the Annual Shareholders' Meeting. Mr. Mische had sat on the board since December 2002, after his appointment by the courts.

Dr. Peter Lex assumed the deputy chairmanship of the Supervisory Board while Mr. Achinger served the Company on the Executive Board, filling this role until September 30, 2003. The Supervisory Board has since reassigned this position to Mr. Achinger, effective October 17, 2003. As of this date, Mr. Achinger is also Chairman of the Audit Committee, a role previously held by Justus Mische. By virtue of his office as Chairman of the Supervisory Board, Frank F. Beelitz is Chairman of the Committee for Compensation and Succession Issues.

On December 4, 2003, the Supervisory Board examined in detail the Company's compliance with the German Corporate Governance Code. In close liaison with the Executive Board, wording was agreed for a Declaration of Compliance, contained in this annual report. At the same meeting, the Supervisory Board decided to critically review its effectiveness. Each member answered a series of questions compiled from recommendations for change made by leading German shareholder bodies. The results were then discussed at the meeting of January 30, 2004. No changes to the work of the Supervisory Board or to the way it interacts with the Executive Board were deemed necessary.

In accordance with the wishes of the Annual Shareholders' Meeting, the Supervisory Board confirmed BDO Deutsche Warentreuhand Aktiengesellschaft, Frankfurt am Main, as auditors of the Software AG financial statements and consolidated financial statements for fiscal 2003.

BDO Deutsche Warentreuhand Aktiengesellschaft examined the financial statements and consolidated financial statements as of December 31, 2003, as well as the management report, and these were certified without qualification.

The results of the audit were presented to the Audit Committee, to a plenary session of the Supervisory Board, and to the Executive Board, and were explained in person by the head of the auditing team. The Audit Committee and Supervisory Board studied the results in detail at their respective



Frank F. Beelitz, Chairman of the Supervisory Board

meetings on March 4, 2003. The Supervisory Board concurs with the findings and gives its approval for the financial statements and consolidated financial statements. This completes the sanctioning process. Further, the Supervisory Board accepts the proposal of the Executive Board to carry forward the loss posted in fiscal 2003. The Supervisory Board would like to thank the Executive Board and all Software AG employees for their hard work and commitment during fiscal 2003.

Darmstadt, March 2004

The Supervisory Board
Frank F. Beelitz
Chairman

Members of the Supervisory Board:

Frank F. Beelitz (Chairman)

Karl Heinz Achinger
(Deputy Chairman since October 17, 2003)

Dr. Peter Lex
(Deputy Chairman from December 18, 2002,
to October 17, 2003)

Karl-Heinz Hageni
(employee representative)

Justus Mische

Reinhard Springer
(employee representative)

Further details of Supervisory Board members can be found in the notes to the consolidated financial statements of the Software AG Group.