

# Letter to our shareholders



**Karl-Heinz Streibich**  
**Chief Executive Officer**  
**Darmstadt/Germany**

Chief Executive Officer since 2003.  
Previously, deputy CEO of T-Systems GmbH.  
Graduated as a Communications Engineer.  
Professional history: Dow Chemical,  
ITT Industries, ITT-SEL (now Alcatel/SEL),  
AEG Olympia Office and debis Systemhaus.

## Dear shareholders,

Software AG is once again a player in the market – the second largest software firm in Germany, and one of the major software vendors in Europe. We stopped the decline in sales and significantly increased our profitability. Our stock is among the most successful in the TecDax, and – for the first time in three years – we are planning to distribute a dividend.

These positive changes were achieved through a very clear agenda.

- **Customer feedback.** The first step was listening. I visited some 80 customers around the globe. They helped me compile a profile of Software AG's strengths and weaknesses.
- **Strategic orientation.** Based on this profile, as well as the company history, we defined a new strategy concentrating on core competencies. This resulted in the two business lines of ETS Modernization and XML Business Integration. Development and sale of products or solutions outside of the core segments was discontinued. This strategic reorientation led to structural changes: Our foreign and domestic subsidiaries were focused on the business lines; research and development was reorganized.



- **Marketing and PR.** On the product level and in addressing customers, we made use of Anglo-American communication talents. Both business lines are now managed by Anglo-American marketing and sales professionals. Furthermore, we implemented a customer visit program. It commits our world-wide top 60 executives to perform regular customer visits, and opens the doors for Software AG to approach decision makers. These activities once again raised awareness of Software AG within our customer base: Software AG is again in the customers' focus. The positive development of the share price and the raised visibility of the company in leading media shows the success of these activities.
- **Staff alignment.** Central functions were trimmed and aligned with both the market and the company's business levels. Units that did not focus on our core competencies were discontinued. Simultaneously business units with a strong customer focus were strengthened.
- **Renewal of the product portfolio.** We have focused on products and solutions that are requested by customers. Their complexity matches our customers' requirements and needs. This reduces the range of products while at the same time increasing their added value.

- **Cooperation between sales, marketing, R&D.** The triangle of sales, marketing and R&D, which is essential for corporate success, is once again operating at its optimum. We have focused our R&D clearly on the strategic business lines. R&D, marketing and sales are closely connected.
- **Regional structure strengthened.** We redefined Software AG's operational regions. Southern Europe and Latin America were combined, the Anglo-American sphere now forms a region together with Northern Europe. The markets of the Middle and Eastern European countries and APEC members are grouped with the Middle East, China, and Russia. The success of this restructuring became apparent within three months.

Support from the employees is always a key factor in a change management process. From the beginning, we communicated our strategy internally including our employees in the change process. All employees were aware of the challenges facing the company which enables us to introduce changes with widespread approval.

The focus on core competencies gave a clear signal to the employees. It showed that we intended to build on existing capabilities and technological leadership. Changes and enhancements to the product portfolio were the first, essential steps in the turnaround. We involved executives who, in some cases, already had long experience with the company. This helped to ensure continuity and reduce concerns. Employees were motivated by our quick successes. The fine development of the share price, as well as Software AG's presence in the media, convinced our employees that we had chosen the right path.



With our focus on two business lines and strengthened regional structure, we quickly implemented and consolidated the changes. The fact that Dr. Peter Kürpick will join our Executive Board, and be responsible for the integration business, emphasizes the attractiveness of Software AG for top managers. Last but not least, as an outward sign of our changed company culture, we remodeled the customer conference center at company headquarters. Today, it is an important meeting point for our employees and customers from all over the world.

2004 was a successful year for Software AG. The great support from customers, analysts and investors, journalists, and employees played a key role in our success. Please accept my thanks in the name of the entire Executive Board as well as the Supervisory Board. I am convinced that opting for Software AG – a corporation with clear goals, evident strengths and a solid basis for growth – represents a good choice, now and in the future.

Karl-Heinz Streibich