

Report of the Supervisory Board



*Frank F. Beelitz,
Chairman of the
Supervisory Board*

During fiscal 2004, the Software AG Supervisory Board oversaw the performance and activities of management and closely monitored all key business events, as well as the development of the Company and the Group. The Supervisory Board met six times during the year under review 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. Any transactions requiring Supervisory Board sanction in accordance with the Articles of Incorporation or with the 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 strategies. The Supervisory Board also received written reports on business development from the Executive Board on a monthly basis.

The following Committees are active:

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

The Committee for Compensation and Succession Issues met six times and the Audit Committee met twice in the year under review.

The Supervisory Board and Executive Board membership changed as follows during 2004: Dr. Peter Mossack, Chief Research and Development, left the Executive Board effective July 23, 2004. Research was reorganized into two departments supporting the two business lines to insure a stronger focus on market requirements. The R+D department head report directly to the CEO. On September 10, 2004, Gary Voight, previously Director of the America Region, resigned to pursue other career interests.

The Supervisory Board appointed Dr. Peter Kürpick as member of the Executive Board, effective April 1, 2005. He will be responsible for the business line XML Integrations and its Research and Development department.

The tenure of Dr. Peter Lex, a member of the Supervisory Board since 1999, terminated at the end of the Annual Shareholders' Meeting on April 30, 2004. On the recommendation of the Supervisory Board, the Annual Shareholders' Meeting elected Dr. Ing. Andreas Berczky to succeed Dr. Peter Lex on the Board. Dr. Berczky is Director of Production at ZDF in Mainz.

Karl-Heinz Hageni, employee representative, left the Supervisory Board on April 30, 2004. On June 25, 2004, the employees elected Monika Neumann, Chairperson of the Works Council, to replace him in the Supervisory Board. The Supervisory Board would like to express its gratitude to the former members for their commitment and contribution.

The Supervisory Board deliberated during several sessions in detail on the subject of corporate governance, as well as on the German Corporate Governance Code. Together with the Executive Board, final measures were implemented in the year under review in order to comply in full with the recommendations under the Code. Accounts were prepared according to IFRS for the first time in 2004 and remuneration for members of the Executive and Supervisory Boards was reported individually for the first time. Starting in fiscal 2005, remuneration of the Executive Board is being restructured and will be even more closely related to corporate profits. Since the beginning of fiscal 2005, two thirds of remuneration has been linked to sales, earnings and other corporate targets. A further criterion is that this variable remuneration will in part (30 percent) be paid only in subsequent years based on a phantom share program. The stock option plan in effect previously will be discontinued.

The declaration submitted jointly with the Executive Board according to Section 161 of the German Stock Corporation Act specified that Software AG has complied in 2004 with the recommendations of the Code as of May 21, 2003, without exception and will continue to do so in future. The declaration of compliance is available for review by shareholders on a permanent basis on the Company's website.

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 2004.

BDO Deutsche Warentreuhand Aktiengesellschaft examined the financial statements and consolidated financial statements as of December 31, 2004, as well as the management report, and these were certified without qualification. The auditors have issued the following certificate:

The results of the audit were submitted to the Supervisory Board and explained in person by the head of the auditing team to the Audit Committee and the complete Supervisory Board and Executive Board. The Audit Committee and Supervisory Board thoroughly reviewed the reports in their sessions on March 16 and 18, 2005. The Supervisory Board is in agreement with the results of the audit and approves the annual financial statements and consolidated financial statements. The financial statements presented are thereby deemed approved. We agree with the recommendation of the Executive Board with respect to the appropriation of profits.

The Supervisory Board wishes to thank the Executive Board and all employees for their commitment as well as the work they have performed in 2004.

Darmstadt, March 2005

The Supervisory Board
Frank F. Beelitz
Chairman

Members of the Supervisory Board:

Frank F. Beelitz (Chairman)

Karl Heinz Achinger (Deputy Chairman)

Dr. Andreas Bereczky (since April 30, 2004)

Dr. Peter Lex (until April 30, 2004)

Justus Mische

**Karl-Heinz Hageni (employee representative
until April 30, 2004)**

**Monika Neumann (employee representative
since June 25, 2004)**

Reinhard Springer (employee representative)

**Additional information on members of the
Supervisory Board is included in the notes to
the consolidated financial statements of Soft-
ware AG.**