

Analyst Meeting – July 30, 2003

2nd Quarter 2003

1st Half Year 2003

Q2 market development

- Demand is weak in the IT industry for the 6th quarter in a row
- A price war is going on in the service sector
- Germany's economy is particularly weak
- The market appears to have bottomed out
- Customer interest is reviving

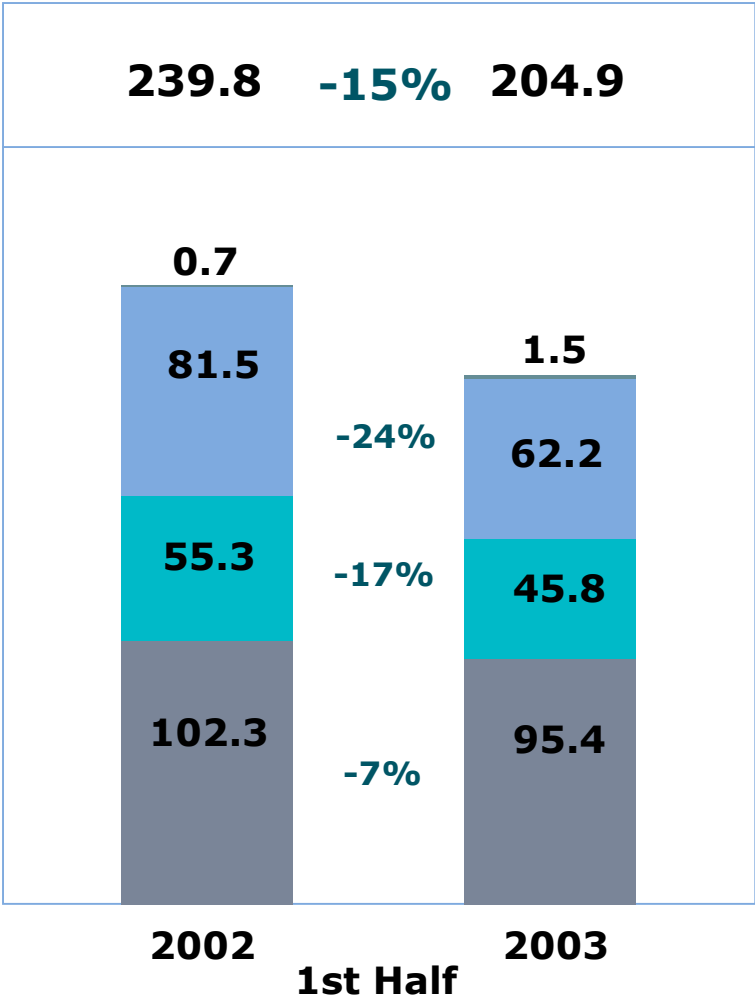
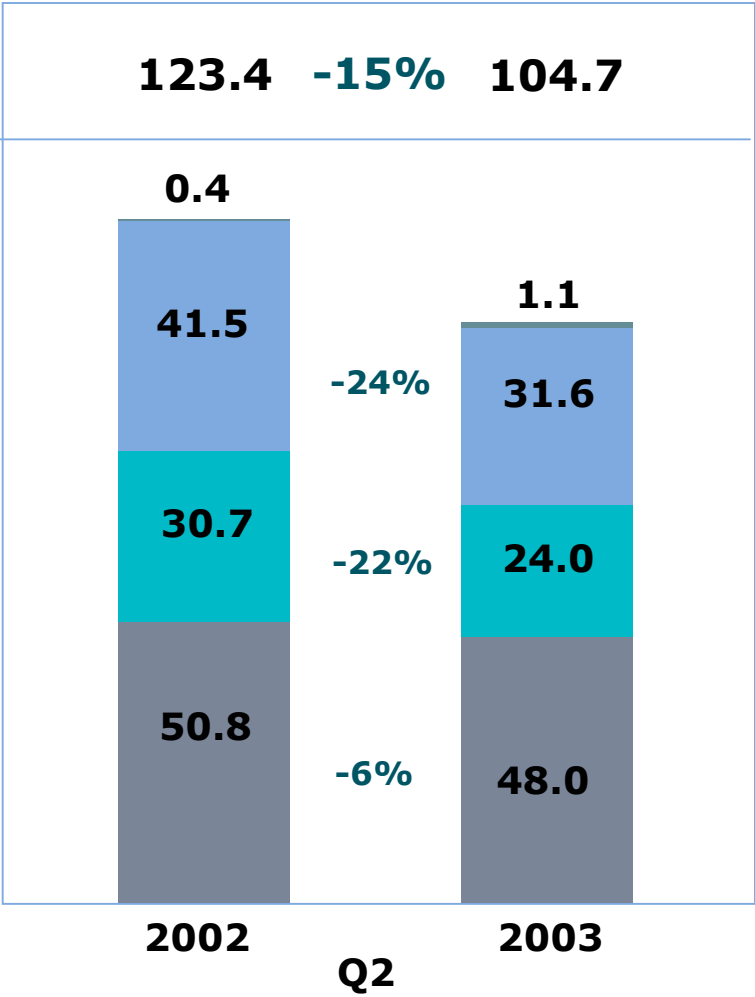
Financial Data

2nd Quarter 2003

1st Half-Year 2003

Revenue

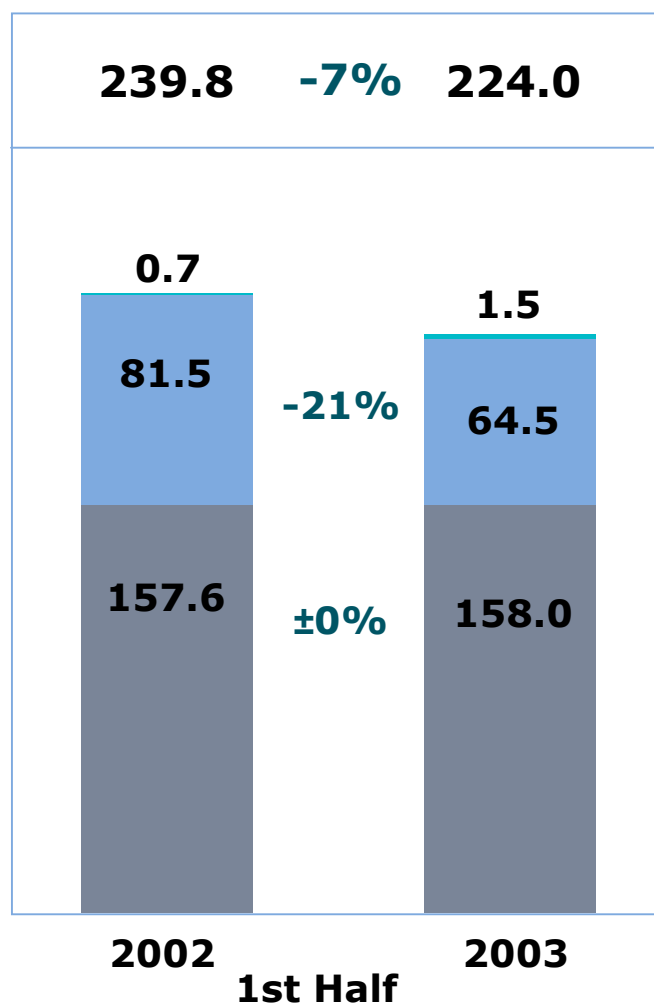
(in mio. euros)



■ Maintenance ■ Licensing ■ Project Services ■ Other

Revenue (net of currency effects)

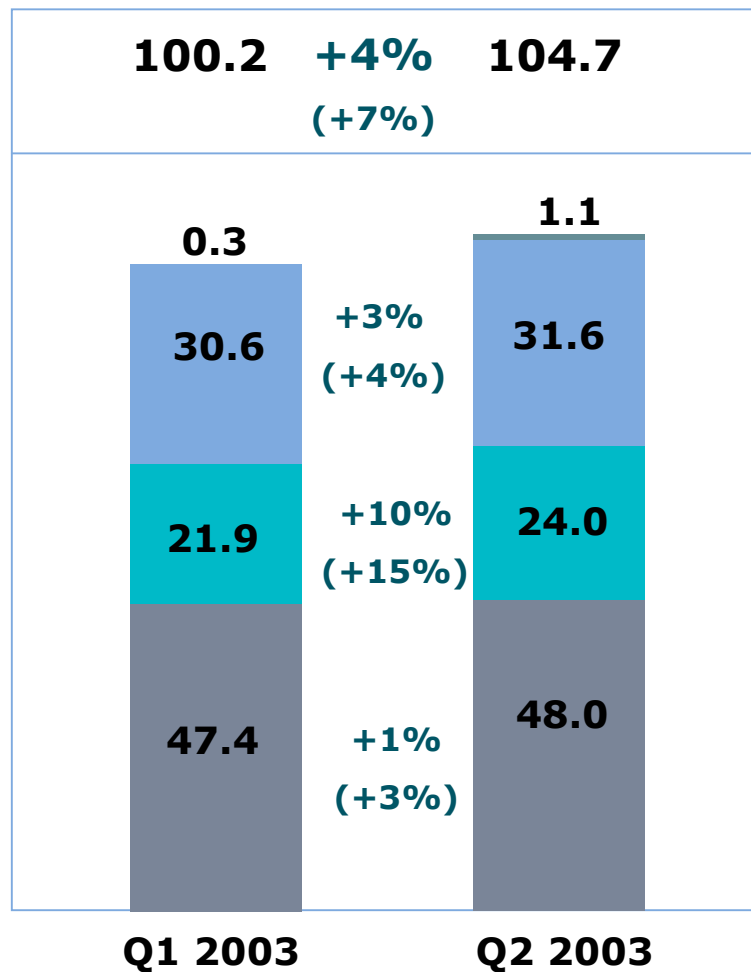
(in mio. euros)



- Products (Licensing + Maintenance)
- Projects
- Other

Revenue

Sequential Growth Q1 / Q2 2003



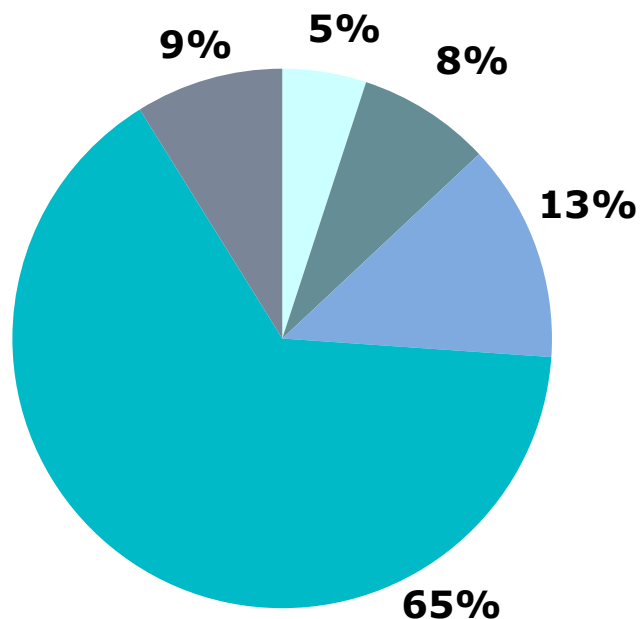
- Maintenance
- Licensing
- Project Services
- Other

(...) Net of currency effects

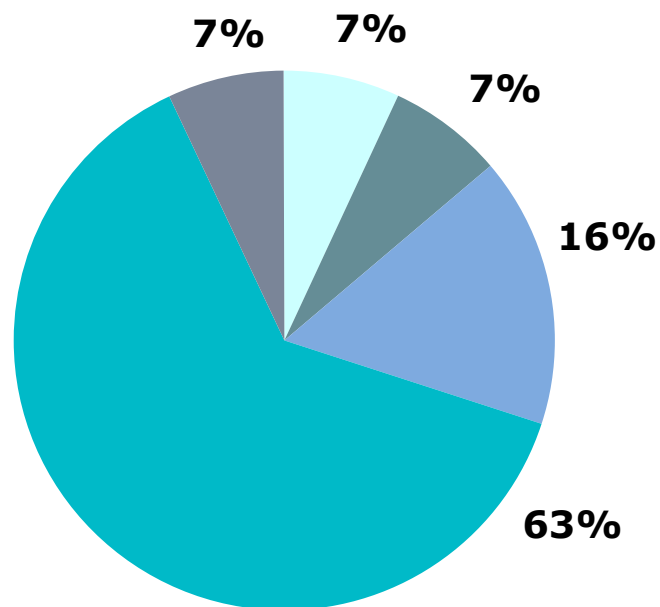
Licensing Revenue by Product Group

(in mio. euros)

1st Half 2002:



1st Half 2003:



■ Solutions ■ Tamino ■ EntireX ■ Enterprise Transaction ■ Other

Revenue by Region

(in mio. euros)

Americas

Southern / Western Europe

Northern Europe Asia-SA

Central / Eastern Europe

46.2 35.2

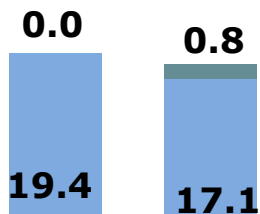
31.1 30.3

20.1 16.5

26.1 23.0



7.9



1.9



■ Maintenance ■ Licensing ■ Project Services ■ Other □ Currency Effects

Operating EBITA by Region

(in mio. euros)

Americas

+15%

10.0

11.5

2002 **2003**
Q2

Southern / Western Europe

-9%

4.4

4.0

2002 **2003**
Q2

Northern Europe Asia-SA

-15%

5.2

4.4

2002 **2003**
Q2

Central / Eastern Europe

-19%

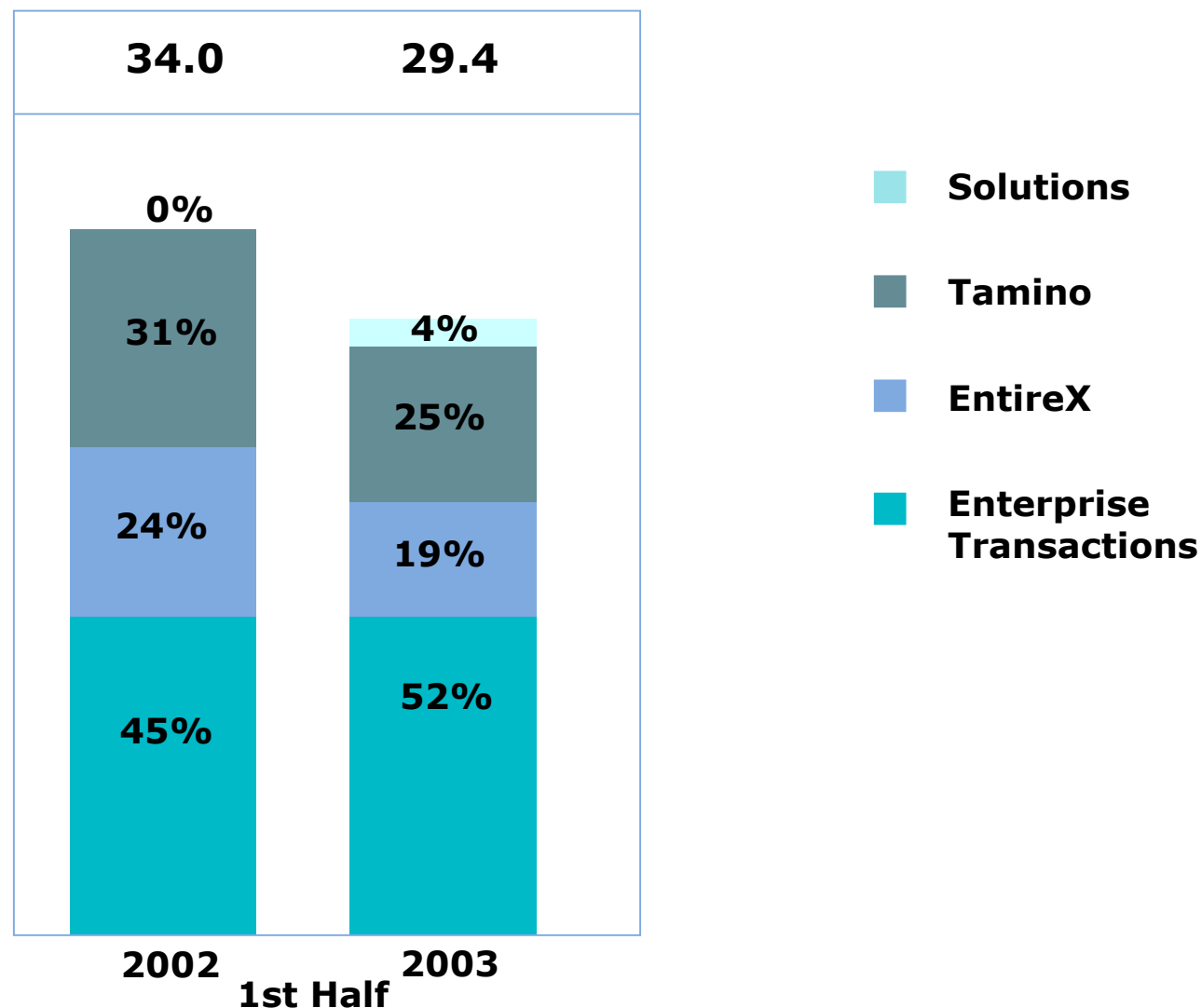
1.6

1.3

2002 **2003**
Q2

Research & Development Expenses by Product Group

(in mio. euros)



Result

(in mio. euros)

	Q2 2003	Q2 2002	1st Half 2003	1st Half 2002
Operating EBITDA	17.2	15.9	26.2	21.5
Depreciation	-2.1	-5.7	-4.3	-8.4
Operating EBITA	15.1	10.2	21.9	13.1
Goodwill	-5.5	-5.5	-10.9	-10.9
Financial income	+1.0	+1.0	+1.9	+1.5
Operating result	10.6	5.7	12.9	3.7
Income from investments	-	+22.3	-	+31.6
Restructuring expenses	-	-1.8	-23.8	-13.1
Profit before tax	10.6	26.2	-10.9	22.2
Taxes	-8.3	-12.1	+3.5	-10.4
Net income	2.3	14.1	-7.4	11.8
Earnings per share (in euro)	0.08	0.52	-0.27	0.43

Balance Sheet

(in mio. euros)

Assets	June 30, 2003	Dec. 31, 2002	Liabilities	June 30, 2003	Dec. 31, 2002
Fixed assets	209.0	221.1	Shareholders' equity	219.7	214.5
Inventories	5.7	4.6	Provisions	116.7	108.7
Trade receivables and other assets	131.5	132.6	Liabilities to banks	0.0	0.0
Cash and cash equivalents	75.1	75.4	Other liabilities	33.9	35.9
Prepaid expenses	36.4	7.1	Deferred income	87.4	81.7
Total	457.7	440.8	Total	457.7	440.8

Cash flow

(in mio. euros)

	Q2 2003	Q2 2002	1st Half 2003	1st Half 2002
Net cash used in / provided by operating activities	-5.1	14.3	6.4	26.4
Net cash used in / provided by investing activities	-1.2	23.1	-3.2	28.8
Net cash used in / provided by financing activities	0.0	-12.7	-2.9	-39.7
Change in cash funds from exchange rate movements, changes in group structure for cash funds	0.5	0.9	-0.6	1.0
Net change in cash and cash equivalents	-5.8	25.6	-0.3	16.5
Cash and cash equivalents as of start of period	80.9	41.1	75.4	50.2
Cash and cash equivalents as of end of period	75.1	66.7	75.1	66.7
Operating cash flow per share	-0.19	0.52	0.24	0.97

Restructuring Program 2003

Status as of June 30, 2003:

- New organizational structure has been implemented at headquarters and in the regions
- 300 jobs (FTE) were cut
- Effects should begin to show in Q4 2003
- Cost-savings excluding one-time restructuring expenses
 - 2003 (over 2002): approx. 25 mil. euro
 - 2004 (over 2002): approx. 55 mil. euro
- Accrual in Q1 2003: 23.8 mil. euros
(covers all restructuring costs)

Outlook for 2003

- Demand for IT is stabilizing gradually
- Product revenues at same level as in 2002 (adjusted for differences in currency)
- Maintenance business secures about 45% of revenues
- Positive operating results (similar to 2002)
- Positive operating cash flow
- Positive after-tax results

Software AG's Strategic Realignment

Increase Financial Strength

Ensure sustainable profitability

- Software AG operating profitably in all countries
- Product sales and project services have to provide returns that compare well with market average
- Adjust cost base to achieve return on sales of 15%
- Benefit from globalisation by utilizing low-cost offshore services from India

Reinforce Customer Loyalty

- Further development of Adabas/Natural
 - ◆ Extended Functionality
(Sysplex, 64 bit architecture, fastpass)
 - ◆ Multiple platforms (Open Systems, Linux)
- Further development of Tamino and EntireX

Increase Focus on Markets and Customers

- Implementation of regional structure
 - Promote transfer of projects and skills between countries / regions
 - Local management of support functions
 - Executive Board has direct access to information on market requirements
- Establishment of dedicated Business Development Department
 - Act as interface between Sales and R&D
 - Verify market analysis, define mile stones for R&D and go-to-market plans

Offer Technology and Solutions

- Reposition XML technology
 - ◆ XML as integration technology
 - ◆ Tamino as a part of solutions
- Develop standard solutions
 - ◆ Horizontal applications
 - ◆ Vertical applications

Mobile Solutions

- Tamino Mobile Suite
 - = Mobile Integration Platform
 - ◆ Available for partners also (initial projects have begun)
- Tamino Mobile Applications
 - = Components, to be customized for individual projects
 - ◆ Horizontal applications (FSA, SFA)
 - ◆ Additional industry-specific components (e.g., for pharmaceuticals distribution)
- Applications under development
 - ◆ FSA: Field Service Automation Beta version: Q2
 - ◆ SFA: Sales Force Automation Beta version: Q3
- Roll out
 - ◆ Q3 2003: Start early-adopter program
 - ◆ Q4 2003: Launch in regional market (SWE)

Content & Media Solutions

- Various areas of application
 - ◆ Web Content Management (e.g., portals)
 - ◆ Document Management (e.g., archiving)
 - ◆ Media Asset Management (e.g., video on demand)
 - ◆ Knowledge Management (e.g., self-learning systems)
- Tamino Content Suite
= Solution platform for applications to process and exchange content
- Software AG has experience with projects in all areas of application
- Consolidate solution expertise in the second half of 2003
- Develop specific applications starting in 2004

Summary

Target profitability

- Operating margin 15% before tax

Implementation

- Manage cost base in line with revenue
- Reinforce customer loyalty
 - ◆ Further development of core products
 - ◆ Renaissance of Adabas/Natural on open systems and Linux
- Increase revenue from new (XML) products
 - ◆ Market penetration via targeted project services
 - ◆ Development of solution platforms

