
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended:

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-14251

SAP AKTIENGESELLSCHAFT
SYSTEME, ANWENDUNGEN, PRODUKTE IN DER DATENVERARBEITUNG
(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

Neurottstraße 16
69190 Walldorf
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each Representing One-Twelfth of One Non-Voting Preference Share, without nominal value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the registration statement:

Ordinary Shares, without nominal value	60,996,050
Non-Voting Preference Shares, without nominal value	43,307,249

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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* Omitted because the Item is inapplicable or the answer is negative.

** The Registrant has responded to Item 18 in lieu of this Item.

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung (“SAP” and, together with its subsidiaries, the “Company”) was incorporated under the laws of the Federal Republic of Germany (“Germany”) in 1972. Where the context requires, “SAP” refers to its predecessors, Systemanalyse und Programmentwicklung GdbR (1972-1976) and SAP, Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988). SAP became a stock corporation (*Aktiengesellschaft*) in 1988. The Company’s principal executive offices are located at Neurottstraße 16, 69190 Walldorf, Germany. Its telephone number is 49-6227-7-47474.

“SAP,” “ABAP/4,” “SAP EarlyWatch,” “SAP Business Workflow,” “R/2,” “R/3,” “ABAP,” “Team-SAP,” “BAPI,” “SAP SCOPE,” “AcceleratedSAP,” “ALE,” “IBU,” “SAPNet,” “SAP Aerospace & Defense,” “SAP Automotive,” “SAP Banking,” “SAP Chemical,” “SAP Consumer Products,” “SAP Engineering & Construction,” “SAP Healthcare,” “SAP High Tech & Electronics,” “SAP Insurance,” “SAP Media,” “SAP Oil & Gas,” “SAP Pharmaceuticals,” “SAP Public Sector,” “SAP Retail,” “SAP Telecommunications” and “SAP Utilities” are trademarks of the Company. This document also contains trademarks of companies other than the Company.

Unless the context otherwise requires, references in this Registration Statement on Form 20-F (“Form 20-F”) to “Ordinary Shares” are to SAP’s ordinary shares, without nominal value, and references to “Preference Shares” are to SAP’s non-voting preference shares, without nominal value. From August 4, 1988 to July 17, 1995, SAP’s share capital consisted of ordinary shares, nominal value DM 50 per share (the “DM 50 Ordinary Shares”), and (on and after June 7, 1990) non-voting preference shares, nominal value DM 50 per share (the “DM 50 Preference Shares”). From July 18, 1995 through June 16, 1998, SAP’s share capital consisted of: (i) DM 50 Ordinary Shares and ordinary shares, nominal value DM 5 per share (the “DM 5 Ordinary Shares”); and (ii) DM 50 Preference Shares and non-voting preference shares, nominal value DM 5 per share (the “DM 5 Preference Shares”). Generally, the DM 50 Ordinary Shares were treated as ten DM 5 Ordinary Shares and the DM 50 Preference Shares were treated as ten DM 5 Preference Shares. On May 7, 1998, SAP’s shareholders passed a resolution converting SAP’s share capital to no nominal value shares in accordance with recently enacted amendments to the German Stock Corporation Act. This resolution took effect on June 16, 1998, when it was recorded in the commercial register in Heidelberg, Germany.

PRESENTATION OF FINANCIAL INFORMATION

In this Form 20-F, references to “U.S.\$” or “Dollars” are to United States Dollars and references to “DM” or “Marks” are to German Deutsche Marks. Certain amounts which appear in this Form 20-F may not sum because of rounding adjustments. In this Form 20-F, except as otherwise specified, financial information with respect to the Company has been expressed in Marks or in Dollars; however, the operations of the Company are based primarily in Germany and the Company’s consolidated financial statements included herein are expressed in Marks.

Unless otherwise specified herein, all constant Mark financial data that have been converted into Dollars have been converted at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on December 31, 1997, which was DM 1.7991 per U.S.\$1.00. No representation is made that such Mark amounts actually represent such Dollar amounts or that such Mark amounts could have been or could be converted into Dollars at that or any other exchange rate on such date or on any other dates. For information regarding recent rates of exchange between Marks and Dollars, see “Item 8. Selected Consolidated Financial Data — Exchange Rates.” At June 18, 1998, the Noon Buying Rate was DM 1.7927 per U.S.\$1.00.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE

This Form 20-F contains forward-looking statements that involve risks and uncertainties. When used in this Form 20-F, the words “anticipate,” “believe,” “estimate,” “intend,” “may,” “will” and “expect” and similar expressions as they relate to the Company or its business are intended to identify such forward-looking

statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading “Risk Factors” in SAP’s Registration Statement on Form F-1, filed with the United States Securities and Exchange Commission (the “SEC”) on June 22, 1998, Registration Number 333-57383 (the “Form F-1”), as well as the factors discussed elsewhere in this Form 20-F. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

GLOSSARY OF CERTAIN DEFINED TERMS

- “ABAP Objects” extends the current ABAP/4 Workbench with object technology and delivers a new extended, virtual machine capable of running both new applications, implemented using ABAP Objects, and all existing ABAP/4 applications.
- “Activity Based Costing” or “ABC” allows the benchmarking of processes to be based not only on time requirements but also on costs.
- “Advanced Business Application Programming” or “ABAP” is the Company’s fourth-generation programming language, which is specifically designed for integrated standard software applications. It also supports all of the steps involved in improving the client/server solution, from prototyping through implementation and testing, to final optimization.
- “Application” refers to software designed for a specific purpose to be used by an individual, such as a spreadsheet, which performs mathematical operations, or a planning program that allocates tasks to a timetable.
- “Application Link Enabling” or “ALE” enables expanded use of the R/3 System within a company and within a company’s business partners and provides the R/3 System with distribution models and technologies for linking business applications across technically independent systems by enabling, among other things, multiple database servers to share transaction update information.
- “Business Framework” is offered by the Company as an integrated, open, component-based product architecture that has the flexibility to accept new business processes and is open to other technologies and applications.
- “Business Application Programming Interfaces” or “BAPIs” are interfaces to link SAP components to one another and SAP components to third party components.
- “Component” is a grouping of applications that work together to perform specific tasks. A component can be implemented separately as an element of a user’s company-wide software.
- “Distributed Component Object Model” or “DCOM” provides a means for users to simultaneously integrate objects (*e.g.*, blocks of information from a spreadsheet, a graphic from a drawing program or an audio clip from a sound program, and blocks of code) from diverse applications.
- “Graphical user interface” or “GUI” refers to the display of software on a screen using graphics, symbols and icons rather than text alone. An example of a GUI is Microsoft Corporation’s “Windows” format.
- “Integration” allows data to flow freely from one corporate area to another without having to pass through time-consuming and trouble prone interfaces. Integration also permits companies to maintain the same data from various sites.
- “Open architecture” means that a software product’s components can conform to non-proprietary standards of other software suppliers, thus permitting multi-tiered functioning on database servers, application servers, personal computers, workstations or Web-browsers.
- “Point Solutions” are one or more functional components such as a general ledger or accounts receivable.
- “Real-time” refers to the immediate access to a given piece of data by multiple users throughout the different departments or divisions of a company.
- “Relational Database Management Systems” or “RDBMS” allows the R/3 System to have fully integrated products and to utilize the full functionality provided by each of the RDBMSs.
- “Scalable architecture” permits a company to size its computer systems based on actual needs and to continually add users and enhance business/decision processes.

“Systems” are the Company’s primary products, the R/3 System and the R/2 System, which are designed to provide customers with a palette of standard business solutions arranged in applications which provide integrated enterprise-wide processing of business work flows.

“Three-tier client/server architecture,” consisting of the database, the applications and the presentation logic, may run simultaneously on three different physical computers. Distributing these functions among several computers enhances scalability and performance.

“Web” is the Worldwide Web on the Internet.

PART I

Item 1. Description of Business.

Certain terms used in this “Description of Business” have been given specific meanings or abbreviations set forth in “Glossary of Certain Terms.”

Overview

The Company is a leading international developer and supplier of integrated business application software designed to provide cost-effective comprehensive solutions for businesses. The Company’s mission is to market products and provide services that improve user productivity and add value to its customers by decreasing the total cost of ownership of business application software. The Company believes that its products provide the technological infrastructure to enhance customers’ growth and organizational agility. The Company’s products include enterprise resource planning software and both complementary and independent business application components. The Company’s services include consulting, support and training.

The Company’s primary products are the R/3 System for client/server (distributed) architectures and the R/2 System (together with the R/3 System, the “Systems”) for mainframe data processing systems. The Systems are designed to provide customers with a palette of standard business solutions arranged in applications which provide integrated enterprise-wide processing of business workflows. Additionally, the Company provides industry-specific solutions, independent business solutions, custom components and the necessary technological infrastructure to support complementary software solutions. The Company has many strategic partners that offer complementary software, services and hardware.

On December 31, 1997, the Company had more than 13,000 System installations in over 8,500 customers ranging in size from multinational enterprises to medium- and smaller-sized companies. For the year ended December 31, 1997, the Company’s sales revenues were approximately DM 6.02 billion as compared to DM 3.72 billion for the year ended December 31, 1996, with net income after taxes of DM 925.4 million and DM 568 million, respectively. The Company consists of SAP and its network of approximately 50 operating subsidiaries and has a presence or a representative in approximately 90 countries.

Strategy

The Company’s business strategy is to increase its profitability and market share by offering software products and services through its business framework approach to enterprise systems. In implementing this strategy, the Company has focused on three primary initiatives: (i) continuous enhancement and improvement of enterprise software that offers customers a total enterprise solution; (ii) providing consulting and support services that effectively meet the customer’s needs and reduce the customer’s total cost of ownership; and (iii) increasing market penetration of the Company’s products.

Enhancing and Improving Products

The Company’s product strategy is to offer customers both total enterprise software solutions and point solutions. The Company seeks to achieve this by (i) enhancing its R/3 System with updated releases which incorporate best business practices and new business processes, (ii) the creation of industry-specific software solutions tailored to meet the functionality needs of targeted vertical industries, (iii) the creation of the necessary technical infrastructure to support the interoperability of complementary software solutions, (iv) the creation of custom components to address specific customer requirements, and (v) the introduction of the Company’s independent business components.

R/3 System Enhancements. The Company continually enhances the R/3 System to run with new database systems and new hardware and software technologies. To this end, the Company is a party to joint development and cooperation agreements with leading hardware and software vendors. In addition, the Company’s product development effort is also focused on allowing the R/3 System to process business content provided by third parties and to expand its Internet-enabled applications.

Industry-Specific Solutions. Industry-specific solutions are designed to address the unique functionality requirements of the Company's targeted vertical industries. These requirements are defined by the Company in conjunction with its partners and its customers in the targeted industries and allow for the specific enhancement of the R/3 System to effectively match the specialized needs of such industries.

Complementary Software Products. In addition to the R/3 System and the specific industry solutions, the Company has developed a comprehensive technological infrastructure to provide for the interfacing of complementary software products to the Company's underlying R/3 System solution. The Company has developed within the R/3 System more than 400 currently available standard business application programming interfaces ("BAPIs"), which enable multiple outside parties' application components to function with the R/3 System. Through its own distribution channels, the Company also offers its customers certain complementary software products in conjunction with the Company's products.

Custom Components. In furthering its goal of providing a complete enterprise solution, the Company offers customized software components to address specific functional requirements which are not otherwise addressed by the Company's R/3 System, industry solutions or complementary software infrastructure.

Independent Business Components. The Company, through various initiatives, intends to offer a number of independent business components. Such components can be utilized in conjunction with the R/3 System or on a stand-alone basis. The Company anticipates that the component family within the SAP Supply Chain Optimization, Planning and Execution ("SAP SCOPE") initiative initially will consist of the *SAP Business Information Warehouse*, *SAP Advanced Planner and Optimizer* and the *SAP Sales Force Automation Solution*. The SAP SCOPE initiative is ongoing and there can be no assurance that the Company will be able to complete or implement the enhancements contemplated by this initiative. It is anticipated that the Company may develop and offer other independent business components based on market requirements.

Consulting and Support Services

The Company offers a range of consulting and support services, both directly and through partnerships with third parties. A current focus of the Company's efforts is to reduce a customer's total cost of ownership of its enterprise systems. To simplify and speed implementation and use of the R/3 System, the Company seeks to provide increasingly flexible, component-based installation options. The Company has established AcceleratedSAP, a Company-wide initiative that comprises a basket of accelerators, tools, templates and services. The Company believes that AcceleratedSAP has significantly reduced installation times. AcceleratedSAP became available in English to customers worldwide in June 1997, and the Company released French, German and Spanish versions of AcceleratedSAP in the first quarter of 1998. The Company expects to release industry-specific versions of AcceleratedSAP in the future. The Company has an initiative to develop an accelerated upgrade program. The Company intends to design the accelerated upgrade program to include accelerators, tools, templates and services to allow for cost-effective and timely upgrades of R/3 Systems to future R/3 System releases. There can be no assurances that the accelerated upgrade program will be developed or that it will meet its design goals.

The Company has also established the TeamSAP initiative, which is designed to coordinate the personnel, products and processes necessary for the implementation of the R/3 System. TeamSAP plays an ongoing role in maintaining customers' R/3 Systems even after implementation. As part of the TeamSAP initiative, the Company certifies third-party hardware and software vendors involved in the R/3 System implementation process.

While the Company generally handles its own marketing, sales, distribution and technical support training, it supplements certain of its consulting and support services through "alliance partnerships" with hardware and software vendors, systems integrators and third-party consultants. The Company also establishes alliance partnerships with smaller systems integrators and third-party consultants with the goal of providing customers with a wide selection of third-party competencies. The role of the alliance partners in the support of the Company's products ranges from pre-sales consulting about business re-engineering to implementation of the R/3 System within the customer's business, to project management and end-user training for customers, and in the case of certain hardware and software vendors, to technology support.

Market Penetration

The Company's initial marketing and product development efforts focused on large, multinational concerns, including large companies based in Germany and elsewhere in Europe. The Company has expanded its marketing strategy to include medium- and smaller-sized companies. The Company believes that its products and consulting and support services meet important needs of rapidly growing and resource-constrained mid- and small-sized companies. The Company has introduced the Certified Business Solutions ("CBS") program, through which a group of authorized independent distributors markets the R/3 System to small businesses (*i.e.*, generally those with annual revenues of up to U.S.\$200 million per year). At December 31, 1997, over 38% of the Company's installed Systems were in small companies. The Company also believes that it can increase market penetration by building upon its experience and expertise in providing business software solutions for a variety of industries.

The Company currently has a presence or a representative in approximately 90 countries. The Company began operating in the United States in 1988 through SAP America, Inc., a wholly-owned subsidiary. The fastest growing geographic market for the R/3 System has been the United States, where businesses have readily accepted client/server systems. The Company believes that Asia, Eastern Europe and Latin America present opportunities for further growth. However, there can be no assurance that macroeconomic events in these countries or regions, including recent economic and currency exchange turmoil in Asia or elsewhere, will not adversely affect or delay these opportunities.

Background

In the early 1970s, mainframe computer systems had limited data storage capacity. "Batch operation" and "sequential data storage media" (*e.g.*, magnetic tapes or punch-cards) were the norm. Software applications for a given company had to be custom designed to achieve the functionality necessary to address that company's business. It was in this environment that the five founders (the "Founders") established SAP in 1972 with the goal of developing multi-functioned application software as a standard (rather than customized) product designed for real-time, online data processing. The Founders' objective was to allow immediate and continuous updating of computer-stored information by offering multiple users direct access in an easy-to-use format. SAP's first generation of software was introduced in 1973 and consisted of a modest financial accounting application. The Company believes that this initial system represented the first real-time standard software application ever produced. Gradually, over the next several years, new applications such as "Materials Management" and "Asset Management" were added to the initial system and enhancements expanded the functionality of existing applications. At the same time, SAP began to work on integrating various applications within the initial system.

In 1981, the Company introduced its second generation of application software, the R/2 System. The R/2 System had the capacity to be installed on an enterprise-wide basis, without requiring substantial customization. The R/2 System also reduced bottlenecks by improving and accelerating user access to data. In 1988, the Company anticipated growth in the use of a new hardware technology — client/server architecture. The three-tier client/server architecture, consisting of the database, the applications and the presentation logic, may run simultaneously on three different physical computers. Distributing these functions among several computers enhances scalability and performance. During this period, the Company designed the initial version of the R/3 System to offer the functionality of the R/2 System in a client/server environment. The R/3 System was brought to the market in the early 1990s.

Products

Integrated Business Processes in Distributed Environments

The Company's R/3 System and R/2 System currently consist of a number of major functional components, each of which contains numerous business process applications. The Systems integrate all of the business application processes through a central logical database, which is designed to eliminate data redundancy and protect data consistency and integrity. Certain multiple country versions of the business

process functions, which include multiple languages, currencies, legal regulations and accounting systems, can run on the same database server, which helps to extend a company's functional components beyond national borders. Each of the components is designed to permit separate installation, thereby complementing solutions already in place from other vendors or installation with other components of the Company to form an integrated enterprise-wide information and data processing system. Both the R/3 System and the R/2 System include integrated functions designed to have multilingual capacity (currently more than 22 languages) and the capacity to handle multiple currencies as well as multiple national legal, tax and accounting structures.

R/2 System

In 1997, the Company introduced Release 6.1 to the R/2 System, which was intended, among other things, to enable the R/2 System to support the latest IBM mainframe architecture. The Company also provides tools to facilitate the migration of R/2 System users to the R/3 System. The Company is subject to contractual obligations with certain customers to provide support for the R/2 System for varying lengths of time. Although the Company is under no obligation to provide such support once such contracts have expired, the Company currently intends to provide support for the R/2 System until the year 2004.

The R/2 System is based on the 370 computer architecture and is designed to operate on IBM and Siemens hardware platforms. The R/2 System is designed to operate with a variety of operating systems (*i.e.*, MVS/E2SA, VSE/ESA and BS2000), databases (*i.e.*, IMS-DB, DL/1, VSAM, ISAM, DB2 and ADABAS D) and terminals (*i.e.*, character terminal, PS/2 (Presentation Manager)), UNIX Workstation (Motif) and MS DOS PC (Windows)). It utilizes the Assembler and ABAP languages.

R/3 System

The R/3 System was brought to the market in the early 1990s. The Company offered it as a standard, integrated, real-time, enterprise-wide business solution which was usable on a wide variety of hardware platforms, with a variety of databases and software systems. The Company believes that the R/3 System enables companies to maximize their enterprise computing power by tying together disparate functions such as financial management, sales and distribution, logistics, manufacturing and human resources. Integration also permits companies to reduce their investment in relatively expensive hardware resources by allowing real-time access to data by multiple users. The R/3 System's architecture is intended to provide two significant benefits to users: (i) creating highly flexible and scalable systems that can be expanded to meet user's needs and to adopt technological changes; and (ii) optimizing data processing capacity, enabling wider simultaneous use of a company's systems by multiple users.

The R/3 System is designed to fit all major UNIX platforms and Windows NT platforms. The R/3 System operates with a number of databases (*i.e.*, ORACLE, Informix-Online, IBM DB2 Common Server, IBM DB2 for AS/400, IBM DB2 for OS/390 Microsoft SQL Server, ADABAS D) and the GUIs Microsoft Windows 95/NT and Microsoft Windows 3.1. Currently, the Apple Macintosh, IBM OS and UNIX OSF/MOTIF frontend platforms are supported with native GUI implementations which will be phased out in favor of the modern Java implementations which support network computers and Web browsers as well. The R/3 System utilizes the ABAP, C, C++, HTML and Java languages.

Components of the R/3 System

Logistics Applications

Within the Logistics functional area, the *Product Data Management, Sales and Distribution, Production Planning, Project System, Material Management, Quality Management, Plant Maintenance* and *Service Management* applications form an integrated suite of applications for procurement, manufacturing and sales and distribution of goods and services.

The *Product Data Management* application supports the creation and management of product data throughout the product life cycle and contains a Computer Aided Design/Computer Aided Manufacturing interface. The *Sales and Distribution* application combines sales and distribution workflows, providing

companies with online real-time information to facilitate, among other things, product sales, credit management, sales simulation analysis and multiple orders. The *Production Planning* application is designed to facilitate all major tasks within an integrated production planning chain, including production scheduling, production resources planning, and monitoring and improving efficiency in the production process. The *Project System* application defines the sequential course of a project through time in the form of activities, to which detailed dates, costs and resources are assigned. The *Project System* checks and monitors the availability of funds, capacities and materials, permitting the user to determine that appropriate resources are available for the project to be carried out. As with other applications, the user can employ *SAP Business Workflow*, a Web-enabled application for planning and tracking workflow, to improve communications within large projects. For example, one can use *SAP Business Workflow* to ensure that the purchasing department is immediately notified of any changes in schedule or quantity requirements. The *Material Management* application focuses on facilitating the full range of transactions and functions within the areas of material requirements planning, material procurement, inventory management, invoice verification and material valuation. For example, the business processes included within the application can automatically compare the prices, service and quality of suitable vendors and determine the most favorable vendor for each purchase. The *Quality Management* application assists customers in planning and implementing procedures for inspecting and controlling quality within the logistics chain. The *Plant Maintenance* application supports all the activities associated with planning and processing plant maintenance tasks ranging from the scheduling of maintenance and inspection tasks to issuing repair orders when breakdowns occur. The *Service Management* application helps a customer manage its installed base (regardless of whether it is a customer's or a competitor's installed base), including its configuration, history and service or warranty circumstances.

Financial Applications

The Company's suite of integrated financial applications and components encompasses a broad range of financial accounting, investment management, controlling, treasury management, asset management and enterprise controlling functions.

The *Financial Accounting* component gives customers the ability to track financial accounting data within an international framework of multiple companies, languages, currencies and books of accounts. The Company believes that the *Financial Accounting* component complies with International Accounting Standards as well as various national generally accepted accounting principles and that it currently satisfies local legal requirements of 36 countries and reflects the legal and accounting changes resulting from the anticipated European currency unification. Further, the application utilizes *Application Link Enabling* ("ALE"), a feature which permits the linking of business applications across technically independent systems. This is intended to enable users to implement decentralized accounting functions while at the same time maintaining a centralized enterprise-wide master general ledger. Within the *Treasury Management* component, the *Cash Management* application is designed to provide the information relevant to liquidity for analysis purposes, creating a basis for cash management decisions. Bank account management, electronic banking and control functions provide support for managing and monitoring bank accounts. The *Treasury Management* component also offers functions for managing financial transactions and positions, from trading through to transferring data to the *Financial Accounting* component. The *Treasury Management* component also supports flexible reporting and evaluation structures for analyzing financial transactions, positions and portfolio allocations. The *Treasury Management* component includes a risk management function involving a complex feedback loop encompassing data collection, risk measurement, analysis, and simulation as well as planning with respect to financial instruments. The *Controlling* application is designed to integrate external and management accounting systems to control and monitor overhead, product and production cost. A wide variety of production methods are supported, and analysis functions are designed, to enhance decision-making processes. Inherent in the *Controlling* application is activity based costing ("ABC"), which allows the benchmarking of processes to be based not only on time requirements but also on costs. ABC underlies the *Profitability Analysis* application, which is designed to permit customers to examine the sources of their returns. As a sales controlling component, *Profitability Analysis* is the last step in cost and revenue accounting, where revenues are assigned to costs according to profitability segment, or to a segment of customer operations.

The *Project System* application is designed to combine project workflows on a real-time basis to facilitate the planning, controlling and monitoring of company projects. The *Asset Management* application is intended to assist companies in managing their fixed assets by providing parallel recording of book depreciation, tax depreciation and cost accounting depreciation. The *Capital Investment Management* application provides tools for the management and oversight of general appropriations budgets and carries out bookkeeping functions associated with assets under construction on capital investment projects and orders. The *Enterprise Controlling* component is designed to allow companies automatically to generate consolidated financial statements, including necessary eliminations, such as intercompany transactions and currency translation. The *Executive Information System* application permits companies to take financial data from any R/3 System application and combine it with external sources (e.g., market data or industry benchmarks) or data from non-SAP applications to build a company-specific comprehensive enterprise information system.

Human Resources Business Applications

The Human Resources (“HR”) components encompass substantially all facets of HR management: organizational management, personnel management, travel management, benefits administration, time management, payroll accounting and personnel development.

The *HR Organizational Management* application is designed to assist companies in maintaining an accurate picture of their organization’s structure. Planning features include: graphical organization charts; staffing schedules by headcount, percentage and working hours; job and work center descriptions; and job tasks and descriptions. The *HR Personnel Administration* application contains a centralized database that allows companies to store any amount of information they need about employees from numerous online sources. The *HR Travel Management* application allows companies to process a business trip from the initial travel request through to posting in the *Financial Accounting and Controlling* application. The *HR Benefits Administration* application is designed to provide companies with the capability to manage benefits programs for diverse employee populations. The *HR Time Management* application manages work schedules by automating schedule generation and allows for a flexible definition of time models and schedules on a location and organization level, consistent with varying regulatory requirements. The *HR Payroll Accounting* application provides connectivity to third-party systems and is designed to permit companies to centralize their payroll processing or to decentralize the data based on country or legal entities. The Company currently offers the *Payroll Accounting* application for over 20 countries and is constantly adding new country-specific components. The *HR Personnel Development* application contains three principal components: (i) *HR Qualifications*; (ii) *Requirements/Career and Succession Planning*; and (iii) *HR Training and Event Management*. *HR Qualifications* enables companies to profile predefined tasks and prerequisites of each position in their organization. *HR Career and Succession Planning* provides organizations with a method of modeling suitable career opportunities for employees within the company. *HR Training and Event Management* assists companies with planning, application versus component managing, and analyzing their scheduled seminars, training courses and business events.

Industry Solutions

The Company believes that the R/3 System’s initial acceptance in various markets was due to a software architecture that was industry-neutral and that contained standardized software with cross-industry components. While the Company has focused on integrating business processes from many different industry sectors into a standard software solution, it has also developed industry-unique software components known as Industry Solutions (“IS”). As part of its initiative, the Company works with “alliance partners” who have strengths in certain industries as well as with its customers. The Company combines the expertise of its alliance partners and its customers with the Company’s applications, thereby expanding the breadth of the R/3 System to meet industry-specific requirements. The IS process applications are designed to reduce the need for customization and to extend the R/3 System to meet specific industry needs. The Company recently established Industry Business Units (“IBUs”) in order to focus on key industries and to provide best-business practices and integrated business solutions. The IBUs, and the Company’s related IS applications, currently include the following: *SAP Aerospace & Defense*; *SAP Automotive*; *SAP Banking*; *SAP Chemical*; *SAP*

Consumer Products; SAP Engineering & Construction; SAP Healthcare; SAP High Tech & Electronics; SAP Insurance; SAP Media; SAP Oil & Gas; SAP Pharmaceuticals; SAP Public Sector; SAP Retail; SAP Telecommunications; and SAP Utilities.

IBUs are intended to globally facilitate “best-in-class” industry solutions, while utilizing the R/3 System’s core technology and providing pre-sales, sales and post-sales support. Each IBU is responsible for planning, initiating and coordinating relevant development projects for an individual industry solution, which is based on an “SAP Solution Map.” The IBU represents the “intelligence unit” for all relevant information concerning a specific industry segment. It manages the quality, timeliness, completeness and cost efficiency of an IS — both the development of, and services related thereto and the marketability of IS to customers.

Complementary Software Program

In order to offer its customers enhanced flexibility, the Company has introduced the CSP to promote the integration of third-party software with the R/3 System through standard, high-quality and proven interfaces. Through the CSP, the Company offers the technological infrastructure which allows the interfacing of complementary software products to the Company’s underlying solutions. The Company has developed within the R/3 System more than 400 currently available BAPIs, which enable multiple outside parties’ application components to function with the R/3 System. Through its own distribution channels, the Company also offers its customers certain complementary software products in conjunction with the Company’s products.

Custom Components

In furthering its goal of providing a complete enterprise solution, the Company offers customized software components to address specific functional requirements which are not otherwise addressed by the Company’s R/3 System, IS solutions or complementary software infrastructure.

Independent Business Components

The SAP SCOPE initiative was established in August 1997 to enhance planning and supply chain logistics. The SAP SCOPE initiative combines advanced planning and scheduling products and technologies, third-party products, Internet capabilities and the SAP Business Information Warehouse. As part of the SAP SCOPE initiative, the Company is developing a new memory resident data processing technology to ensure high-speed processing. Products that are currently in development under the SAP SCOPE Initiative are *SAP Advanced Planner and Optimizer*, which will be a complete suite of supply chain planning functions, *SAP Sales Force Automation*, which will permit a company to provide its mobile sales force with customer information, cost data and automated customer order generation, and *SAP Business Information Warehouse*, which will serve to collect, assemble and organize selected data, and make it available on a real-time basis. The products that will be made available under the SAP SCOPE Initiative are designed to be integrated with the R/3 System, but will also be designed to run independently from any of the Company’s Systems. All of the new programs will be designed to be “backward compatible” to certain R/3 releases. The SAP SCOPE initiative is ongoing and there can be no assurance that the Company will be able to complete or implement the enhancements contemplated by this initiative. It is anticipated that the Company may develop and offer other independent business components based on market requirements.

European Monetary Union and Year 2000 Capabilities

Beginning in January 1999, a new currency called the “EURO” is scheduled to be introduced in certain European Economic and Monetary Union (“EMU”) countries. By June 30, 2002 at the latest, all participating EMU countries are expected to be operating with the EURO as their single currency. As a result, in less than one year, computer software used by many companies headquartered or maintaining a subsidiary in a participating EMU country is expected to be EURO-enabled, and in less than four years all companies headquartered or maintaining a subsidiary in a participating EMU country will need to be EURO-enabled. The transition to the EURO will involve changing budgetary, accounting and fiscal systems in companies and

public administration, as well as the simultaneous handling of parallel currencies and conversion of legacy data. The R/3 System and the R/2 System are designed to fully accommodate the implementation of the EURO. The SAP EURO component offers functionality which converts existing R/3 and R/2 System environments to the EURO and handles the dual currency phase-in (occurring from 1999–2002) by enabling applications to present values in both the EURO and the customer’s national currency.

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than two years, computer systems and/or software used by many companies may need to be upgraded to comply with such “Year 2000” requirements. The Company has performed extensive testing to validate that the R/3 System and the R/2 System are Year 2000 compliant. This testing process was monitored and certified by the *Technischer Überwachungs Verein e.V.* (TÜV) to verify that such testing processes were sufficient to determine that the software is Year 2000 compliant.

R/3 System Architecture

The R/3 System’s client/server architecture is based on a functionality that permits many users to process data cooperatively. Furthermore, the architecture is “scalable,” which permits a company to continually add users and decision processes. The architecture is also “open” in that its components can conform to non-proprietary standards of other software suppliers, thus permitting multi-tiered functioning on database servers, application servers, personal computers, workstations or Web browsers. The SAP Business Framework is a key to the integration of SAP software and non-SAP software. The SAP Business Framework allows the Company to offer new solutions that are either tightly integrated with the R/3 System or independent. The SAP Business Framework utilizes existing SAP components, interface technologies and integration technologies to provide a seamless computing environment. In each successive release of the R/3 System, the Company has utilized the SAP Business Framework to integrate the Company’s products with available technologies.

The R/3 Technology Infrastructure comprises a database server along with a third-party relational database management system. The application/presentation servers provide the user’s workstation or personal computer with the ability both to draw down business applications (in order to enter and format the data and present it logically to other parties within the organization) and to take data from various users and format such data (for processing by the database server). Other users’ workstations, personal computers or Web browsers in the various departments of the business organization then perform the tasks related to the presentation of the data to these users.

The Company believes that the R/3 System architecture permits a company to maximize the portability of Company software across a broad range of hardware platforms. The advantage of such portability is that customers have the ability to efficiently design their computing environments and maximize the value of their information technology investments. The R/3 System utilizes standard interfaces to permit implementation of internal and external links, harmonizes communication between users working on different models of computers and facilitates its use with new hardware and software technologies, even in differing industry-standardized environments. The efficiency gained through the scalability of the R/3 System permits customers to realize significant hardware and maintenance cost savings by using local area networks and microcomputers rather than mainframes.

With Release 3.1 of the R/3 System, the Company made its whole suite of business applications compatible with the Web. With Release 4.0 of the R/3 System, the Company has achieved progress in implementing the standard GUI in Java, the new hardware platform-independent programming language, thus supporting cost saving network computer- and networked PC-environments and extending the access of the R/3 System to every Java-enabled Web browser.

Advanced Business Application Programming (“ABAP”) Workbench and ABAP Objects Workbench

The Company’s fourth-generation programming language, ABAP, is specifically designed for integrated standard software applications. ABAP is designed to support all of the steps involved in improving the client/server solution, from prototyping through implementation and testing, to final optimization. All applications that are written with the “ABAP Workbench” can be integrated into the standard functions provided by the R/3 System to develop customer-specific solutions which can be run, without further adjustments, on the various computers, databases, networks and GUIs supported by the R/3 System. “ABAP Objects” extends the current ABAP/4 Workbench with object technology. ABAP Objects delivers a new extended, virtual machine capable of running both new applications, implemented using ABAP Objects, and all existing ABAP/4 applications.

Relational Database Management Systems (“RDBMS”)

The R/3 System is designed to be used in conjunction with a variety of RDBMSs, allowing the R/3 System to have fully integrated products and to utilize the full functionality provided by each of the RDBMSs. A fully integrated system provides convenient access to shared data such as general ledger information and/or customer order and inventory purchasing, without requiring users to maintain this information redundantly. Having to collect and capture information only once helps ensure that all data is consistent, readily available and easier to maintain.

Application Link Enabling (“ALE”)

Release 3.0 of the R/3 System contains ALE, which enables expanded use of the R/3 System within a company and within a company’s business partners. ALE provides the R/3 System with distribution models and technologies for linking business applications across technically independent systems by enabling, among other things, multiple database servers to share transaction update information. This feature allows for central management and coordinated production between R/3 Systems and non-Company software, and between R/3 System applications and legacy R/2 System mainframe applications. ALE, for example, permits an R/3 System customer to offer access to its affiliates, dealers, distributors or suppliers that use non-Company software. Distributed applications can also process information at geographically remote locations and deliver the results to a central system for enterprise-wide management and control within a single company. With ALE, a company can centralize management of enterprise-wide sales in a decentralized production and distribution environment or distribute purchasing contracts over a number of R/3 and R/2 Systems, with individual plants and locations releasing purchase orders within their local systems. The purchase orders are then communicated to a central system where the master contract is maintained.

Research and Development

In order to meet the changing requirements of its customers and to keep abreast of technological developments, the Company must continue to enhance, develop and improve its business software solutions and other products and services. Since its inception, the Company has devoted significant resources to research and development. Research and development expenses for the years ended December 31, 1997, 1996, and 1995 were DM 813.3 million, DM 589.0 million and DM 438.2 million, respectively. Research and development expenses as a percentage of total sales revenues were 13.5%, 15.8% and 16.3% for the years ended December 31, 1997, 1996 and 1995, respectively. During 1997, 1996 and 1995, the percentage of total employees devoted to research and development was 22.4%, 22.4% and 24.0%, respectively. A major focus of the research and development effort has been to anticipate and use technological changes in the data processing industry to develop new business solutions.

The Company has also entered into agreements with a number of leading computer software and hardware vendors and telecommunications providers jointly to research and develop the compatibility of certain of the software and hardware products produced by such vendors with the Company’s products.

Significant areas of research and development expenditures include: (i) developing enhancements to the R/3 System by adding new components and expanding existing applications with broader functionality;

(ii) developing new and enhanced productivity tools and decision support products; (iii) developing industry-specific solutions; (iv) enhancing the flexibility and openness of the R/3 System architecture through broader integration capabilities with distributed business systems and through access to business content provided by third-parties; and (v) developing and enhancing common interfaces for conducting business transactions over the Internet.

The Company maintains research and development facilities in Germany, the United States, India and Japan. The Company intends to open additional research and development facilities in order to diversify the locations of its research and development facilities, to maximize efficient use of localized resources and to leverage access to industry expertise and customers.

Services

The Company has refocused and expanded its consulting and training organization over the last several years. At December 31, 1997, approximately 47% of the Company's employees were committed to consulting and support services. Release 4.0 of the R/3 System provides customers with broader online access to information and new implementation tools that assist customers in trouble-shooting as well as customizing the R/3 System to specific business needs. Along with its integrated software products, the Company offers, and charges separately for, consulting and training services which include (i) business consulting, (ii) implementation services, (iii) customer employee training, and (iv) ongoing information services and maintenance.

Business Consulting

After licensing a System to a customer, Company employees with specialized knowledge advise the customer's "project team" and support the customer in project planning, usage tests, analyses, organizational consulting, system adaptation, system optimization, release change, system implementation and interface setup.

Implementation Services

Recently, the Company undertook several initiatives designed to assist customers in achieving faster, less costly and more efficient implementation of their R/3 System. AcceleratedSAP, designed to speed the implementation of the R/3 System, became available in English to customers worldwide in June 1997, and the Company released French, German and Spanish versions of AcceleratedSAP in the first quarter of 1998. The Company expects to release industry-specific versions of AcceleratedSAP in the future. The Company has also established the TeamSAP initiative, which is designed to coordinate the personnel, products and processes necessary for the implementation of the R/3 System. TeamSAP plays an ongoing role in maintaining customers' R/3 Systems even after implementation. As part of the TeamSAP initiative, the Company certifies third-party hardware and software vendors involved in the R/3 System implementation process. The Company offers its SAP GoLive Check and SAP Early Watch Services to facilitate implementation and efficient utilization of the Company's solutions.

Training of Customers' Employees and Partners

For successful implementation of the Company's products, knowledge of their scope and functionality is essential. The Company has expanded and enhanced its training services and considers its training services to be a strategic element of its core business. The Company believes that revenues from this line of business will play an increasing role in the Company's future growth. There can be no assurance that the Company's objective of increasing revenue from training services will be achieved.

Generally, the Company focuses on training project team members of its customers. Project team members typically train end users, frequently with the support of the Company's implementation partners. The Company's primary training facility is located in Walldorf, Germany, with an additional 60 training facilities available globally. Training is also provided at customer locations, at the option of the customer.

The Company has expended substantial resources to expand its training curriculum, to employ technology to enhance effectiveness of its training services, and to offer more flexibility in the delivery of its training services. While the Company continues to offer “traditional” R/3 System training curriculum in its classrooms, it has begun to offer additional training services that include IS and CSP software. The Company has also expanded its curriculum to include workshops for customers and for partners addressing business functions as they relate to the R/3 System. To enhance the effectiveness of training, the Company has developed new technologies such as multi-media and interactive training modules and direct customer access to an R/3 System information database. In order to offer customers more flexibility in training, the Company has begun to offer its customers “portable classrooms” which permit training to be accomplished at customers’ or other designated locations, and it is planning to enhance its Internet-accessible training components.

Information Services and Maintenance

The Company performs maintenance services which provide the customer with technical support, including telephone hotline and remote online support for the Company’s products, assistance in resolving problems, the provision of user documentation, updates for software products, and new releases, versions and correction levels. The Company also provides its customers with an online software system supported in a “bulletin board” format, permitting customers to monitor the progress of their requests for assistance, to access information about the solutions provided to other customers and to obtain information such as release planning, application descriptions, SAP publications and training course dates. Access to information about the Company and its solutions are available on the Company’s home-page on the Web, which is found at “www.SAP.com.” Portions of SAPNet, the Company’s company-wide intranet, is accessible by partners, vendors and customers of the Company.

As part of the maintenance for every R/3 System and R/2 System, each customer is provided with a telephone hotline number which project team members can use to ask questions or to receive assistance when experiencing difficulties with the Company’s Systems. Trained personnel are available 24-hours a day, seven days a week. If a customer is experiencing difficulties which cannot be solved over the telephone, the customer may “dial-in” his organization’s computer system to provide the Company’s technicians with online access to the customer’s computer system.

Marketing and Distribution

The Company seeks to market its solutions to a broadening customer base. In implementing its marketing strategy, the Company has expanded its distribution channels to meet the increased demand for its solutions. The Company markets its solutions through its direct sales organization as well as through other distribution channels.

Direct Sales Organizations

In Germany, the Company markets its products and services primarily through its own direct sales and support force. The Company’s primary sales and support groups are based in the Company’s headquarters in Walldorf and in field offices located in Berlin and Hamburg and in suburban Munich and Düsseldorf. Outside of Germany, the Company primarily utilizes its network of approximately 50 operating subsidiaries to market and distribute its products. Most of the subsidiaries have entered into license agreements with SAP pursuant to which the subsidiary acquires the exclusive right to sublicense the Company’s products to customers within a specific territory and agrees to provide primary support to those customers. Under these agreements, the subsidiaries retain a certain percentage of the revenues generated by the sublicensing activity. In certain countries, including Greece, Saudi Arabia and Turkey, the Company has established distribution agreements with independent resellers rather than with subsidiaries.

Other Distribution Channels

The Company has developed an independent sales and support force through the establishment of resellers who assume responsibility for the implementation and support of the Systems licensed by them,

including ongoing telephone hotline support. The Company provides these third-party distributors with product information, a project demonstration system license, a second tier of customer hotline support and certain other product resources, including, for a separate fee, Systems consultants. The resellers are primarily used to market the Systems to small businesses not currently serviced by the Company's direct sales force. The Company has introduced the CBS program, through which a group of authorized independent distributors markets the Company's solutions to small businesses (*i.e.*, generally those with annual revenues below U.S.\$200 million per year).

Competitive Environment

There are many other companies engaged in the research, development and marketing of standard application software and associated applications development tools and decision support products. The Company has global, regional and local competitors. The Company's primary global competitors include Oracle Corporation, PeopleSoft, Inc., Baan B.V., Systems Software Associates, Inc. and J.D. Edwards. Historically, most of these competitors provided solutions which covered certain functional areas, offering the customer a software application product designed for a specific business or manufacturing process. Such products compete with individual functions offered by the Company. The Company's competitors have already broadened, or are implementing plans to broaden, the scope of their business activities into other areas of the market. The Company believes that its products can be installed as efficiently as comparable software offered by its competitors. Nevertheless, certain of the Company's competitors have alleged that implementation of the R/3 System is generally more costly and takes longer than that of their comparable systems. However, because of the substantial business re-engineering that the Systems enable, installations often coincide with expensive and time-consuming restructuring of customers' businesses. While business re-engineering is an important part of the value that enterprise-wide programs provide, it is not necessary in all cases. Further, because the Company's initial customers were large, global multinational companies with complex IT infrastructures, multiple currencies and multiple languages, the Company believes implementations in those environments were inherently more time-consuming than implementations made by smaller customers or by customers that elect to implement point solutions. The Company believes that its recent initiatives to offer accelerated installation support, such as AcceleratedSAP, will counter the perception that the Company's competitors have sought to create.

Some of the Company's competitors devote more resources to customer implementation, preferring to use their own employees as consultants rather than using third parties to service their customers and implement their software systems. In addition, some of the Company's competitors and many of the Company's potential competitors are involved in a wider range of businesses, and some such competitors and potential competitors have a larger installed customer base for their products than the Company, enhancing their ability to compete with the Company.

The Company believes that the principal competitive factors affecting the market for the Company's products include vendor and product reputation, architecture, functionality and features, ease of implementation and use, continuous adaption to changes in business processes, quality of customer support, product quality, performance and price. Performance in these areas depends upon the Company's ability to attract and retain highly qualified technical and sales personnel in a competitive market for experienced and talented software developers, sales representatives and managers.

Intellectual Property, Proprietary Rights and Licenses

The Company relies on a combination of the protections provided by applicable trade secret, copyright, patent and trademark laws, license and nondisclosure agreements, confidentiality agreements and technical measures to establish and protect its rights in its software products. There can be no assurance that these protections will be adequate or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology. Despite the Company's efforts, it may be possible for third parties to copy certain portions of the Company's products or reverse-engineer or obtain and use information that the Company regards as proprietary. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States or

Germany. Accordingly, there can be no assurance that the Company will be able to protect its proprietary software against unauthorized third-party copying or use, which could adversely affect the Company's competitive position.

The Company generally licenses its products to customers on a "right to use" basis pursuant to a perpetual license. The license agreements are generally in standard form, although each license is individually negotiated and may contain variations. The licenses generally restrict the use of the Company's products to specific named users, which may include (usually on a screen-only basis) access by customer's dealers, distributors and suppliers, and prohibit a customer from disseminating or distributing the Company's products to any unauthorized person. The licenses are generally non-transferable or, if transferable, the transfer is subject to the Company's reasonable approval. The Company's products are licensed to end-users not only by the Company but also by independent third-party distributors. Although the Company seeks to establish the conditions under which its products are licensed by such distributors, there can be no assurance that such distributors do not use other conditions. Some of the Company's products contain third-party intellectual property that the Company licenses or otherwise acquires.

The Company's products are generally provided to end-users in object code and certain source code. In addition, licensed end-users of the Company's products can be beneficiaries of a master source code escrow for its products, pursuant to which the source code will be released to end users upon the occurrence of certain events, such as the commencement of bankruptcy or insolvency proceedings by or against the Company, or certain material breaches of the license. The Company has the right to object to the release of source code in any such circumstance, and to submit the matter to dispute resolution procedures. In the event of any release of the source code from escrow, the end-user's license is limited to use of the source code to maintain, support and customize the Company's products.

The Company actively pursues trademark registrations in countries in which its software products are licensed and used. The Company believes that, except as disclosed below, the trademarks which are material to its business are registered in the countries in which the Company has significant sales. SAS Institute, Inc. ("SAS"), a United States software company located in North Carolina, has opposed SAP's effort to register the "SAP" trademarks in the United States, claiming possible confusion between the SAP trademarks and SAS's previously registered trademarks. SAP disagrees with this contention and, in addition, has filed counterclaims relating to certain registered trademarks held by SAS. While there can be no assurance that SAP will be successful in its efforts to register the SAP trademarks in the United States, the Company believes that an adverse determination in this matter will not have a material adverse effect upon the Company's business, results of operations, financial condition or cash flows. See "Item 3. Legal Proceedings." The Company has received a notice from SCOPE Consulting GmbH ("SCOPE"), a German computer, software and consultancy company located in Mannheim, Germany, that the Company's use of the "SAP SCOPE" trademark in Germany may be in violation of a registered trademark belonging to SCOPE. To the knowledge of the Company, no legal proceedings have been initiated as of yet with respect to this claim. The Company has not registered or applied for registration of the trademark "SAP SCOPE" in Germany. The Company believes that an adverse determination in this matter will not have a material adverse effect upon the Company's business, result of operations, financial condition or cash flows. The Company has a patent program; however, no patents have yet issued, although the Company has a number of patent applications pending for inventions claimed by the Company. The Company is not presently aware of any claims of infringement by its products of third-party proprietary rights that it believes will have a material adverse effect upon the Company's business, results of operations, financial condition or cash flows. However, the Company expects that its software products will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products overlap. Any such claim, with or without merit, could be time-consuming, result in costly litigation, or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company. In the event of a successful claim against the Company and the failure of the Company to develop or license a substitute technology, the Company's business and operating results may be materially adversely effected.

Employees

At December 31, 1997, the Company employed 12,856 persons worldwide, of which 7,309 (56.9%) were in Europe, 3,785 (29.4%) were in the Americas and 1,762 (13.7%) were in Asia-Pacific/Africa. Of such employees, 6,014 (46.8%) were in customer service, 2,876 (22.4%) were in research and development, 2,423 (18.8%) were in sales and marketing and 788 (6.1%) were in general and administrative. Sales revenues per average employee exceeded DM 521,000 for the year ended December 31, 1997, up from DM 455,000 for the year ended December 31, 1996.

None of the Company's employees is subject to a collective bargaining agreement. The Company has never experienced a work stoppage and believes that its employee relations are excellent. The Company's success depends upon its ability to attract and retain highly skilled managerial, research and development, technical (e.g., customer service) and marketing personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel, and the failure to attract and retain such personnel could have a material adverse effect on the Company's business, results of operations and financial condition.

Item 2. Description of Property.

The Company's principal administrative, marketing and sales, training, customer service and research and development facilities are located in Walldorf, Germany, 60 miles south of Frankfurt. The Company owns its principal Walldorf facility and plans to expand this facility in the near future. The Company is in the process of building a new headquarters, which it will own, for its North and South American operations in Newtown Square, Pennsylvania. The building is expected to be completed in June 1999 and will be approximately 400,000 square feet. The Company owns sufficient undeveloped land to expand the facilities in Newtown Square as required.

The location of each of the Company's other facilities in excess of 40,000 square feet, all of which are leased (unless otherwise indicated), is set forth below.

<u>United States</u>	<u>Germany</u>	<u>Austria</u>	<u>Brazil</u>
Lester, PA	Alsbach (owned)	Vienna	São Paulo
Palo Alto, CA	Ratingen		
Waltham, MA	St. Ingbert (owned)		
Chicago, IL	St. Leon-Rot (owned)		
Foster City, CA			
Tinicum, PA			
Atlanta, GA			
<u>Canada</u>	<u>France</u>	<u>Italy</u>	<u>Japan</u>
North York, Ontario	Paris	Agrate Brianza	Tokyo
<u>The Netherlands</u>	<u>Singapore</u>	<u>South Africa</u>	<u>Switzerland</u>
's-Hertogenbosch	Singapore	Woodmead	Biel (owned)
<u>United Kingdom</u>			
Feltham (owned)			

The Company believes that its facilities are in good operating condition and adequate for their present usage.

Item 3. Legal Proceedings.

On September 8, 1992, SAS initiated proceedings with the United States Patent and Trademark Office in Washington, D.C. in opposition to SAP's application to register the "SAP" trademark. SAS argues in its petition that there is a likelihood of confusion by consumers between its trademark, "SAS", and the "SAP"

trademark. SAP disagrees with this contention and, in addition, has filed counterclaims relating to certain registered trademarks held by SAS. To date, the SAS opposition action as well as SAP's counterclaims are pending with the Trademark Trial and Appeal Board. While there can be no assurance that SAP will be successful in its efforts to register the "SAP" trademark in the United States, the Company believes that an adverse determination in this matter would not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

In 1994, the Company sponsored an employee convertible bond program (the "1994 Program") by issuing 400,000 bonds, each with a nominal amount of DM 50 and convertible into DM 50 Preference Shares (the "1994 DM 50 Bonds"). On July 17, 1995, SAP effected a 1:10 stock split with respect to 1,950,000 DM 50 Preference Shares to reflect the reduction in the nominal value of such DM 50 Preference Shares from DM 50 to DM 5. See "Item 14. Description of Securities to be Registered — Share Capital." The 1994 DM 50 Bonds were split accordingly into 4,000,000 bonds, each with a nominal amount of DM 5 (the "1994 Bonds"). In late July 1996, a lawsuit was filed by a German shareholders' advocacy group, *Schutzgemeinschaft der Kleinaktionäre e.V.* ("SdK"), against SAP in the trial court in Heidelberg, Germany. The SdK was seeking the voidance of two resolutions of SAP's 1996 annual general shareholders' meeting regarding the general approval of the Executive Board's actions during the previous business year (*Entlastung*) and the authorization of the Executive Board to convert the 1994 Bonds from registered to bearer form. In its complaint, the SdK alleged, among other things, that: (i) the parties to the Pooling Agreement (see "Item 4. Control of Registrant") constituted an entity controlling SAP pursuant to the provisions of the German Stock Corporation Act; (ii) the shareholders of SAP were misled by its Executive Board in connection with the resolution authorizing the Executive Board to convert the 1994 Bonds from registered to bearer form and the authorization for such conversion allowed principal shareholders and Executive Board members to profit from such conversion at the expense of the minority shareholders and Company employees; and (iii) the Executive Board did not completely answer shareholders' questions at the 1996 annual general shareholders' meeting and thereby violated its duty to provide information. On September 24, 1997, the Heidelberg trial court dismissed the suit. SdK has since filed an appeal with the appeals court in Karlsruhe, Germany. While there can be no assurance that SAP will be successful on appeal, SAP believes that an adverse determination in this matter would not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

In December 1996, certain employees of SAP became the subject of independent insider trading investigations by the German Federal Supervisory Office for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) and the Frankfurt criminal prosecutor's office. Such investigations remain ongoing. Further investigations by both the Federal Supervisory Office for Securities Trading and the Frankfurt criminal prosecutor's office with regard to other persons, including employees and non-employees of SAP, are also pending. To the Company's knowledge, the Company has never been the target of any such investigations. The Company is cooperating with all such investigations. Although the outcome of such investigations and claims cannot be predicted with certainty, the Company believes that any resulting adverse judgments against one or more of the persons under investigation would not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

The Company is also subject to other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Although the outcome of these proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. Any litigation, however, involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that any litigation which is now pending or which may arise in the future would not have such a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Item 4. Control of Registrant.

The share capital of SAP consists of the Ordinary Shares and the Preference Shares. At June 18, 1998, the issued share capital of SAP amounted to DM 521,516,495, consisting of 60,996,050 Ordinary Shares and 43,307,249 Preference Shares. See "Item 14. Description of Securities to be Registered — Share Capital."

The Ordinary Shares and the Preference Shares are issued only in bearer form. Accordingly, SAP generally has no way of determining who its shareholders are or how many shares a particular shareholder owns. However, under Section 21 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), which became effective on January 1, 1995, holders of voting securities of a German company admitted to official trading on a stock exchange within the European Union or the European Economic Area are obligated to notify a company of the level of their holdings whenever such holdings reach, exceed or fall below certain thresholds, which have been set at 5%, 10%, 25%, 50% and 75% of a company's outstanding voting rights.

To its knowledge, SAP is not owned or controlled directly or indirectly by any government or by any other corporation. The following table sets forth certain information regarding the beneficial ownership of the Ordinary Shares and the Preference Shares at June 18, 1998 of (i) each person or group known by SAP to own beneficially 10% or more of the outstanding Ordinary Shares or Preference Shares and (ii) the beneficial ownership of all members of the Supervisory Board and all members of the Executive Board, as a group, in each case as reported to SAP by such persons.

<u>Principal Shareholders</u>	<u>Ordinary Shares Beneficially Owned</u>		<u>Preference Shares Beneficially Owned</u>	
	<u>Number</u>	<u>% of Outstanding</u>	<u>Number</u>	<u>% of Outstanding</u>
Dietmar Hopp Chairman, Supervisory Board	15,297,600 ⁽¹⁾	25.1%	—	—
Dietmar Hopp Stiftung GmbH ⁽²⁾	9,339,100	15.3%	—	—
Prof. Dr. h.c. Hasso Plattner Co-Speaker, Executive Board	12,507,200	20.5%	—	—
Dr. h.c. Klaus Tschira Member, Supervisory Board	11,592,350 ⁽³⁾	19.0%	*	*
Klaus Tschira Stiftung gGmbH ⁽⁴⁾	7,051,600	11.6%	—	—
Pooling Shareholders ⁽⁵⁾	30,500,100	50.003%	**	**
Executive Board Members and Supervisory Board Members, as a group (18 persons) . . .	39,401,028	64.6%	2,088,704	4.8%

* Less than 10%.

** Not applicable. See note (5) below.

- (1) Includes (i) 4,038,000 Ordinary Shares owned in the aggregate by Mr. Hopp's immediate family and (ii) 9,339,100 Ordinary Shares owned by Dietmar Hopp Stiftung GmbH, as to which Mr. Hopp exercises sole voting power. Mr. Hopp disclaims beneficial ownership with respect to such Ordinary Shares. Mr. Hopp is a party to the Pooling Agreement described in note (5) below.
- (2) Effective January 1, 1996, Mr. Hopp transferred 9,339,100 Ordinary Shares to the Dietmar Hopp Stiftung GmbH, a newly established non-profit foundation. The Dietmar Hopp Stiftung GmbH is a party to the Pooling Agreement described in note (5) below.
- (3) Includes (i) 705,000 Ordinary Shares owned in the aggregate by Dr. Tschira's immediate family and (ii) 7,051,600 Ordinary Shares owned by Klaus Tschira Stiftung gGmbH, as to which Dr. Tschira exercises sole voting power. Dr. Tschira disclaims beneficial ownership with respect to such Ordinary Shares. Dr. Tschira is a party to the Pooling Agreement described in note (5) below.
- (4) Effective January 1, 1996, Dr. Tschira transferred 7,051,600 Ordinary Shares to the Klaus Tschira Stiftung gGmbH, a newly established non-profit foundation. The Klaus Tschira Stiftung gGmbH is a party to the Pooling Agreement described in note (5) below.
- (5) The Company has been informed that certain shareholders of SAP (the "Pooling Shareholders"), who in the aggregate hold over 60% of the Ordinary Shares, have entered into a pooling agreement (the "Pooling Agreement") with respect to Ordinary Shares owned by them that constitute in the aggregate 50.003% of the outstanding Ordinary Shares (the "Pooled Shares"). Pursuant to the Pooling Agreement, the Pooling Shareholders have agreed to vote their Pooled Shares jointly with respect to certain matters coming before SAP's general shareholders' meetings, including the election of the members of the Supervisory Board elected by SAP's shareholders (who comprise 50% of the members of the Supervisory Board). The Pooling Agreement contains restrictions on the transfer of the Pooled Shares to non-Pooling Shareholders and provides for a right of first refusal in the event a Pooling Shareholder wishes to transfer its Pooled Shares. Any Pooling Shareholder may terminate its participation in the Pooling Agreement by giving 12 months' notice prior to the end of a calendar year, with effect at the earliest on December 31, 1999.

Item 5. Nature of Trading Market.

General

The Ordinary Shares and the Preference Shares are listed on each of the Frankfurt Stock Exchange, the Berlin Stock Exchange and the Stuttgart Stock Exchange. The Ordinary Shares are also listed on each of the Geneva Stock Exchange and the Zurich Stock Exchange. In addition, the Ordinary Shares and the Preference Shares are traded in the over-the-counter markets (*Freiverkehr*) in each of Düsseldorf, Munich, Bremen, Hamburg and Hannover. The principal trading market for the Ordinary Shares and the Preference Shares is the Frankfurt Stock Exchange. The Ordinary Shares and the Preference Shares are issued only in bearer form.

The Preference Shares currently trade in the United States in the form of American Depositary Shares evidenced by American Depositary Receipts. SAP currently has three sponsored American Depositary Receipt facilities with respect to the Preference Shares in the United States: (i) a facility (the “Unrestricted Facility”) established pursuant to a Deposit Agreement dated September 12, 1995 among SAP, The Bank of New York (the “Unrestricted Depository”) and the owners and holders of the American Depositary Receipts (the “Unrestricted ADRs”) issued thereunder evidencing American Depositary Shares (the “Unrestricted ADSs”); (ii) a facility (the “1995 Rule 144A Facility”) established pursuant to a Deposit Agreement (the “1995 Rule 144A Deposit Agreement”) dated May 31, 1995 among SAP, The Bank of New York (the “1995 Rule 144A Depository”) and the owners and beneficial owners of the American Depositary Receipts (the “1995 Rule 144A ADRs”) issued thereunder evidencing American Depositary Shares (the “1995 Rule 144A ADSs”); and (iii) a facility (the “1996 Rule 144A Facility”) established pursuant to a Deposit Agreement (the “1996 Rule 144A Deposit Agreement”) dated August 14, 1996 among SAP, The Bank of New York (the “1996 Rule 144A Depository”) and the owners and beneficial owners of the American Depositary Receipts (the “1996 Rule 144A ADRs”) issued thereunder evidencing American Depositary Shares (the “1996 Rule 144A ADSs”). As used herein, (a) the “Rule 144A Facilities” means the 1995 Rule 144A Facility and the 1996 Rule 144A Facility; (b) the “Rule 144A Depositories” means the 1995 Rule 144A Depository and the 1996 Rule 144A Depository; (c) the “Rule 144A ADRs” means the 1995 Rule 144A ADRs and the 1996 Rule 144A ADRs; (d) the “Rule 144A ADSs” means the 1995 Rule 144A ADSs and the 1996 Rule 144A ADSs; and (e) the “Rule 144A Deposit Agreements” means the 1995 Rule 144A Deposit Agreement and the 1996 Rule 144A Deposit Agreement. Each Rule 144A ADS and each Unrestricted ADS represents one-third of one Preference Share. The 1995 Rule 144A Facility was closed to new deposits of Preference Shares as of January 26, 1995. See “Item 14. Description of Securities to be Registered — Description of Preference Shares — Rule 144A Facilities and Unrestricted Facility.”

The Company intends to conduct an exchange offer (the “Exchange Offer”), whereby it will offer to exchange four American Depositary Shares (each, an “ADS”), each representing one-twelfth of one Preference Share and evidenced by an American Depositary Receipt (an “ADR”), for each outstanding Rule 144A ADS. The ADSs issued pursuant to the Exchange Offer will be registered with the SEC pursuant to the Form F-1. The ADSs will be substantially identical to the Rule 144A ADSs except that (i) the Rule 144A ADSs are only accepted for quotation in the United States on the Private Offerings, Resales and Trading through Automated Linkages (“PORTAL”) system of the National Association of Securities Dealers, Inc. whereas the ADSs may be eligible for listing on a United States national securities exchange or quotation on a United States inter-dealer system and (ii) resale of the ADSs will not be subject to the restrictions contained in the Rule 144A Deposit Agreements. Upon commencement of the Exchange Offer, the Company intends to direct the Rule 144A ADS Depository to terminate each of the Rule 144A Deposit Agreements in accordance with its terms, which will adversely affect the trading market for Rule 144A ADSs that are not tendered in the Exchange Offer.

Trading on the Frankfurt Stock Exchange

The Frankfurt Stock Exchange is the largest of the eight German stock exchanges. The aggregate annual turnover of the Frankfurt Stock Exchange in 1997 of DM 6.9 trillion (based on the Frankfurt Stock Exchange’s practice of separately recording the sale and purchase components involved in any trade) for both equity and debt instruments made it the fifth largest stock exchange in the world behind the New York Stock Exchange, the Nasdaq Stock Market, the London Stock Exchange and the Tokyo Stock Exchange in terms of

turnover. At December 31, 1997, the equity securities of 1,461 corporations, including 1,011 foreign corporations, were traded on the Frankfurt Stock Exchange.

Prices are continuously quoted on the Frankfurt Stock Exchange floor each business day between 10:30 a.m. and 1:30 p.m. Central European Time for the Ordinary Shares and the Preference Shares as well as for other actively traded shares. Beginning July 1, 1998, the Frankfurt Stock Exchange intends to extend trading hours to between 8:30 a.m. and 5 p.m. For all shares, an official daily quote (*Einheitspreis*) is determined by auction around mid-session of each trading day. For some less actively traded shares, this official daily quotation is the only price determined, and for such shares the trading time of between 10:30 a.m. and 1:30 p.m. will remain unchanged after July 1, 1998. Markets in listed securities are generally of the auction type, but listed securities also change hands in inter-bank dealer markets off the Frankfurt Stock Exchange. Price formation is determined by open outcry by state-appointed specialists (*amtliche Makler*) who are themselves exchange members, but who do not, as a rule, deal with the public. Transactions on the Frankfurt Stock Exchange are settled on the second business day following trading. Transactions off the Frankfurt Stock Exchange (which may be the case if one of the parties to the transaction is foreign) are generally also settled on the second business day following trading (although a different period may be agreed upon by the parties). Under German law, customers' orders to buy or sell listed securities must be executed on a stock exchange unless the customer gives other specific instructions for an individual transaction or an indeterminate number of transactions. A quotation can be suspended by the Frankfurt Stock Exchange if orderly stock exchange trading is temporarily endangered or if a suspension is necessary in order to protect the public interest.

The Ordinary Shares and the Preference Shares are traded on XETRA, a computerized trading system of the Frankfurt Stock Exchange. Securities traded on XETRA include the securities of the 30 companies comprising the *Deutsche Aktienindex* ("DAX"), the leading index of trading on the Frankfurt Stock Exchange, as well as other high-volume shares, equity warrants, government obligations and government agency securities. The Preference Shares have been included in the DAX since September 15, 1995.

The table below sets forth, for the periods indicated, the high and low closing sales prices for the Preference Shares on the Frankfurt Stock Exchange, as reported by the Deutsche Börse AG, together with the high and low of the DAX. See the discussion under "Item 8. Selected Consolidated Financial Data — Exchange Rates" with respect to rates of exchange between the Dollar and the Mark applicable during the periods set forth below.

	Price Per Preference Share ⁽¹⁾		DAX ⁽²⁾	
	High (DM)	Low (DM)	High	Low
1996				
First Quarter	238.50	198.00	2525.42	2284.86
Second Quarter	228.70	182.00	2573.69	2457.49
Third Quarter	262.80	202.00	2666.55	2447.80
Fourth Quarter	284.00	191.80	2909.91	2655.73
1997				
First Quarter	286.00	210.90	3460.59	2848.77
Second Quarter	363.20	268.50	3805.29	3215.24
Third Quarter	472.00	358.00	4438.93	3819.85
Fourth Quarter	596.00	479.10	4347.24	3567.22
1998				
First Quarter	807.00	562.00	5095.79	4094.54
Second Quarter (through June 18, 1998)	1208.00	759.50	5779.09	5018.67

(1) On May 7, 1998, SAP's shareholders passed a resolution converting SAP's share capital to no nominal value shares, in accordance with recently enacted amendments to the German Stock Corporation Act. This resolution took effect on June 16, 1998, when it was recorded in the commercial register in Heidelberg, Germany. For periods set forth in this table prior to June 16, 1998, the Preference Share price data assumes that each DM 50 Preference Share equals ten DM 5 Preference Shares. See "Item 14. Description of Securities to be Registered — Share Capital."

(2) The DAX is a continuously updated, capital-weighted performance index of 30 German blue chip companies. The shares included in the DAX were in principle selected by the Frankfurt Stock Exchange on the basis of their stock exchange turnover and the issuer's market capitalization. Adjustments to the DAX are made by the Frankfurt Stock Exchange for capital changes, subscription rights and dividends.

The average daily volumes of Preference Shares traded on the Frankfurt Stock Exchange during the years 1996 and 1997 were approximately DM 198.0 million and DM 321.6 million, respectively. These numbers are based on total yearly turnover statistics quoted by the Deutsche Börse AG.

On June 18, 1998, the closing sale price per Preference Share was DM 1208.00, as reported by the Börsenzeitung.

Principal United States Trading Market

The Rule 144A ADSs are traded in the PORTAL system of the National Association of Securities Dealers, Inc. Price information with respect to Rule 144A ADS transactions conducted in PORTAL is not publicly available. The Unrestricted ADSs trade in secondary transactions published in inter-dealer quotations in the so-called “pink-sheets.” The table below sets forth, for the periods indicated, high and low trading prices for the Unrestricted ADSs.

	Per Unrestricted ADS ⁽¹⁾	
	High U.S. \$	Low U.S. \$
1996		
First Quarter	54.75	45.50
Second Quarter	50.00	39.75
Third Quarter.....	57.88	44.50
Fourth Quarter	61.75	42.00
1997		
First Quarter	56.50	45.50
Second Quarter	71.88	52.50
Third Quarter.....	89.25	69.50
Fourth Quarter	114.00	89.00
1998		
First Quarter	149.50	99.00
Second Quarter (through June 18, 1998)	226.5	140.00

(1) Data provided by The Bank of New York.

On June 18, 1998, the closing price per share of the Unrestricted ADSs was U.S.\$ 226.50.

At June 18, 1998, 1,833,258 Preference Shares were held in the form of Unrestricted ADSs (representing approximately 4.2% of the then outstanding Preference Shares) and 250,868 Preference Shares were held in the form of Rule 144A ADSs (representing less than 1% of the then outstanding Preference Shares).

Based on information provided by the Rule 144A ADS Depositaries and the Unrestricted ADS Depository, at June 18, 1998, there was approximately one registered holder of Rule 144A ADSs and approximately 1,484 registered holders of Unrestricted ADSs and, based on information received by the Company, 110 holders of Preference Shares are in the United States. At June 18, 1998, there were 752,604 Rule 144A ADSs, 5,500,324 Unrestricted ADSs and 6,169,150 Preference Shares (totaling 8,253,459.3 Preference Shares) held of record by 1,483 record holders with United States addresses (representing approximately 19% of the then outstanding Preference Shares).

Item 6. Exchange Controls and Other Limitations Affecting Security Holders.

At the present time, Germany does not restrict the export or import of capital, except for investments in areas like Iraq and Libya in accordance with applicable resolutions adopted by the United Nations and the

European Union. However, for statistical purposes only, every individual or corporation residing in Germany (“Resident”) must report to the German Central Bank (*Deutsche Bundesbank*), subject only to certain immaterial exceptions, any payment received from or made to an individual or a corporation resident outside of Germany (“Non-resident”) if such payment exceeds DM 5,000 (or the equivalent in a foreign currency). In addition, Residents must report any claims against or any liabilities payable to Non-residents if such claims or liabilities, in the aggregate, exceed DM 3 million (or the equivalent in a foreign currency) during any one month. Residents must also report any direct investment outside Germany if such investment exceeds DM 100,000. For a discussion of the treatment of remittance of dividends, interest or other payments to nonresident holders of Preference Shares or ADSs, see “Item 7. Taxation — German Taxation of Holders of Preference Shares or ADSs.”

There are no limitations imposed by German law or the Articles of Association (*Satzung*) of SAP (the “Articles of Association”) on the right of Non-residents or foreign holders to hold or vote the Preference Shares or the ADSs. For a discussion of the voting rights of holders of Preference Shares, see “Item 14. Description of Securities to be Registered — Description of Preference Shares — Voting Rights.”

Item 7. Taxation.

General

The following discussion summarizes certain German tax and United States federal income tax consequences of the acquisition, ownership and disposition of Preference Shares or ADSs evidenced by ADRs. Although the following discussion does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of ADSs, such discussion (i) in the opinion of Haarmann, Hemmelrath & Partner, special German tax counsel to SAP, summarizes the material German tax consequences to a holder of Preference Shares or ADSs and (ii) in the opinion of Morgan, Lewis & Bockius LLP, special United States tax counsel to SAP, summarizes the material United States federal income tax consequences, to a United States Holder (as hereinafter defined) of Preference Shares or ADSs that is not resident (in the case of an individual) or domiciled (in the case of a legal entity), as the case may be, in Germany (in either case, referred to herein as “not resident” or as a “nonresident”) and does not have a permanent establishment or fixed base located in Germany through which such Preference Shares or ADSs are held. Dr. Wilhelm Haarmann, a partner in Haarmann, Hemmelrath & Partner, is a member of SAP’s Supervisory Board.

German Taxation of Holders of Preference Shares or ADSs

The following discussion generally summarizes the principal German tax consequences of the acquisition, ownership and disposition of ADSs or Preference Shares to a beneficial owner. This summary is based on the laws that are in force at the date hereof and is subject to any changes in German law, or in any applicable double taxation conventions to which Germany is a party, occurring after such date. It is also based, in part, on representations of the Depositary and assumes that each obligation of the Deposit Agreement and any related agreements will be performed in accordance with its terms.

The following discussion is not a complete analysis or listing of all potential German tax consequences to holders of ADSs or Preference Shares and does not address all tax considerations that may be relevant to all categories of potential purchasers or owners of ADSs or Preference Shares. In particular, the following discussion does not address the tax consequences for (i) a person that owns, directly or indirectly, 10% or more of SAP’s shares, (ii) a holding which forms part of a German permanent establishment of a person not resident in Germany or (iii) a person that is resident in Germany and at the same time resident in another country. Prospective purchasers of ADSs or Preference Shares are urged to consult their own tax advisors concerning the overall German tax consequences of the acquisition, ownership and disposition thereof.

For purposes of applying German tax law and the double tax conventions to which Germany is a party, a holder of ADSs will be treated as owning the Preference Shares represented thereby.

German Taxation of Dividends

Under German domestic income tax laws, German corporations are required to withhold tax on dividends in an amount equal to 25% of the gross amount paid to resident and nonresident shareholders. A 5.5% surtax on the German withholding tax is currently levied on dividend distributions paid by a German corporation, such as SAP. The surtax equals 1.375% (5.5% x 25%) of the gross amount of a cash dividend. Certain persons resident in Germany (*e.g.*, qualifying investment funds or tax-exempt organizations) may obtain a partial or full refund of such taxes.

For a holder of ADSs or Preference Shares that is resident in Germany, according to German income tax law, dividends are subject to German income tax or corporation tax. For such a holder, the taxable amount will be the sum of (i) the cash payment by SAP, (ii) the taxes withheld and (iii) $\frac{3}{7}$ of the sum of (i) and (ii). Subject to certain conditions, the tax withheld and the gross-up of $\frac{3}{7}$ will be eligible for credit against the holder's income or corporation tax. If the dividend is paid out of tax-exempt foreign income, there will be neither the $\frac{3}{7}$ gross-up of the income nor a credit for this amount. For holders subject to German Trade Tax, such tax is also imposed on the dividends received (including any gross-up).

Refund of German Tax to United States Holders

A partial refund of the 25% withholding tax equal to 10% of the gross amount of the dividend and a full refund of the surtax can be obtained by a United States Holder (as that term is defined under "United States Taxation of United States Holders of Preference Shares or ADSs") under the United States-Germany income tax treaty (Convention between the Federal Republic of Germany and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on Income (German Federal Law Gazette (BGBl.) 1991 II. 355)) (the "Treaty"). In addition, so long as the German imputation system provides German resident individual shareholders with a tax credit for corporate taxes with respect to dividends paid by German corporations, the Treaty provides that United States Holders are entitled to a further refund equal to 5% of the gross amount of the dividend. Thus, for each U.S.\$100 of gross dividends paid by SAP to a United States Holder, the dividends after partial refund of the 25% withholding tax and a refund of the surtax under the Treaty will be subject to a German withholding tax of U.S.\$15. If the United States Holder also applies for the additional 5% refund, then the German withholding tax is effectively reduced to U.S.\$10. Thus, the cash received per U.S.\$100 of gross dividends is U.S.\$90 after refund of German withholding tax from the German tax authorities.

To claim the refund of amounts withheld in excess of the Treaty rate, a United States Holder must submit (either directly or, as described below, through the Depositary) a claim for refund to the German tax authorities, with, in the case of a direct claim, the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, within four years from the end of the calendar year in which the dividend is received. Claims for refund are made on a special German claim for refund form, which must be filed with the German tax authorities: Bundesamt für Finanzen, 53221 Bonn, Germany. The German claim for refund form may be obtained from the German tax authorities at the same address where applications are filed, or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998.

United States Holders must also submit to the German tax authorities certification of their most recently filed United States federal income tax return (IRS Form 6166). Certification is obtained from the office of the Director of the Internal Revenue Service Center by filing a request for certification with the Internal Revenue Service, AC/I-FIRPTA, DR 543, P.O. Box 16347, Tax Treaty Division, Philadelphia, PA 19114-0447. Requests for certification are to be made in writing and must include the United States Holder's name, social security number or employer identification number, tax return form number, and tax period for which certification is requested. This certification is valid for three years and need only be resubmitted in a fourth year in the event of a subsequent application for refund.

In accordance with arrangements under the Deposit Agreement, the Depositary (or a custodian as its designated agent) will hold the Preference Shares and receive and distribute dividends to the United States Holders. The Depositary has agreed that, to the extent practicable, it will perform administrative functions

necessary to obtain the refund of amounts withheld in excess of the Treaty rate for the benefit of United States Holders who supply the necessary documentation.

The Depositary will send to the United States Holders of ADSs a notice explaining how to claim a refund, the form required to obtain the IRS Form 6166 certification and the German claim for refund form. The notice will describe how to obtain the certification on IRS Form 6166. In order to claim a refund, the United States Holder should deliver the certification provided to it by the IRS to the Depositary along with the completed claim for refund form. In the case of ADSs held through a broker or other financial intermediary, the required documentation should be delivered to such broker or financial intermediary for forwarding to the Depositary. In all other cases, the United States Holders should deliver the required documentation directly to the Depositary. The Depositary will file the required documentation with the German tax authorities on behalf of the United States Holders.

The German tax authorities will issue the refunds, which will be denominated in Marks, in the name of the Depositary. The Depositary will convert the refunds into Dollars and issue corresponding refund checks to the United States Holders or their brokers.

Refund of German Tax to Holders of ADSs or Preference Shares in Other Countries

A holder of ADSs or Preference Shares resident in a country other than Germany or the United States that has a double taxation convention with Germany may obtain a partial refund of German withholding taxes. Rates and procedures may vary according to the applicable treaty. For details, such holders are urged to consult their own tax advisors.

Taxation of Capital Gains

A capital gain derived from the sale or other disposition by a holder resident in Germany of ADSs or Preference Shares is taxable if the ADSs or Preference Shares are held as part of his or her trade or business or if the ADSs or Preference Shares are sold within a period of six months after acquisition.

A holder resident in a country other than Germany is not subject to German income or corporation tax on the capital gain derived from the sale or other disposition of ADSs or Preference Shares.

Other German Taxes

There are no German net worth, transfer, stamp or similar taxes on the holding, purchase or sale of ADSs or Preference Shares.

German Estate and Gift Taxes

A transfer of ADSs or Preference Shares by gift or by reason of death of a holder will be subject to German gift or inheritance tax, respectively, if one of the following persons is resident in Germany: the donor or transferor or his or her heir, or the donee or other beneficiary. If one of the aforementioned persons is resident in Germany and another is resident in a country having a treaty with Germany, regarding gift or inheritance taxes, different rules may apply. If none of the aforementioned persons is resident in Germany the transfer is not subject to German gift or inheritance tax. For persons giving up German residence, special rules apply during the first five years, and under specific circumstances, during the first ten years, after the end of the year in which the person left Germany.

In general, in the case of a United States Holder, a transfer of ADSs or Preference Shares by gift or by reason of death that would otherwise be subject to German gift or inheritance tax, respectively, will not be subject to such German tax by reason of the current estate tax treaty between the United States and Germany unless the donor or transferor, or the heir, donee or other beneficiary, is domiciled in Germany for purposes of the current estate tax treaty between the United States and Germany at the time of the making of the gift or at the time of the donor's or transferor's death.

In general, the United States-Germany estate tax treaty provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where the ADSs or Preference Shares are subject to German inheritance or gift tax and United States federal estate or gift tax.

United States Taxation of United States Holders of Preference Shares or ADSs

The following discussion generally summarizes certain United States federal income tax consequences of the acquisition, ownership and disposition of ADSs or Preference Shares to a beneficial owner (i) who is an individual citizen or resident of the United States or a corporation organized under the laws of the United States or any political subdivision thereof, (ii) who is not resident in Germany for German tax purposes, (iii) whose holding of ADSs or Preference Shares does not form part of the business property or assets of a permanent establishment or fixed base in Germany and (iv) who is fully entitled to the benefits of the Treaty in respect of such ADSs or Preference Shares (a “United States Holder”).

This summary deals only with ADSs and Preference Shares that are held as capital assets and does not address tax considerations applicable to United States Holders that may be subject to special tax rules, such as dealers or traders in securities, financial institutions, life insurance companies, tax-exempt entities, United States Holders that hold Preference Shares or ADSs as a part of straddle, conversion transaction or other arrangement involving more than one position, United States Holders that own (or are deemed for United States tax purposes to own) 10% or more of the total combined voting power of all classes of voting stock of SAP, United States Holders that have a principal place of business or “tax home” outside the United States or United States Holders whose “functional currency” is not the United States Dollar.

The discussion below is based upon the United States Internal Revenue Code of 1986, as amended (the “Code”), the Treaty and regulations, rulings and judicial decisions thereunder at the date hereof. Any such authority may be repealed, revoked or modified, perhaps with retroactive effect, so as to result in federal income tax consequences different from those discussed below. Opinions of tax counsel have no binding effect or official status of any kind; no assurance can be given that the conclusions set out below would be sustained by a court if challenged by the Internal Revenue Service (the “IRS”). The discussion below also is based upon representations made by SAP, which in turn rely upon certain significant assumptions as to facts and circumstances in the future. It is also based, in part, on representations of the Depositary, and assumes that each obligation in the Deposit Agreement and any related agreements will be performed in accordance with its terms.

THE DISCUSSION SET OUT BELOW IS INTENDED ONLY AS A SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN ADSs OR PREFERENCE SHARES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE APPLICATION TO THEIR PARTICULAR SITUATION OF THE TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF STATE, LOCAL OR FOREIGN TAX LAW. THE STATEMENTS OF UNITED STATES TAX LAW SET OUT BELOW ARE BASED ON THE LAWS IN FORCE AND INTERPRETATIONS THEREOF AT THE DATE OF THIS FORM 20-F AND ARE SUBJECT TO ANY CHANGES OCCURRING AFTER THAT DATE.

ADSs and Preference Shares

For United States federal income tax purposes, a United States Holder of ADSs will be considered to own the Preference Shares represented thereby.

Distributions

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” distributions made by SAP with respect to Preference Shares (other than distributions in liquidation and certain distributions in redemption of stock), including the amount of German tax deemed to have been withheld in respect of such distributions, will be taxed to United States Holders as ordinary dividend income to the extent

that such distributions do not exceed the current and accumulated earnings and profits of SAP as computed for United States federal income tax purposes. As discussed above, a United States Holder may obtain a refund of German withholding tax to the extent that the German withholding tax exceeds 10% of the amount of the associated distribution. However, for United States federal income tax purposes, the net cash distribution (equal to 90%) will be treated as if it had been subject to a 15% German withholding tax and will be “grossed up” accordingly. The total amount of the distribution therefore will be equal to the sum of (i) the actual cash distribution net of the 10% withholding tax, (ii) the 10% tax actually withheld and (iii) an amount equal to 5.88% of the sum of (i) and (ii). For example, if SAP distributes a cash dividend equal to U.S.\$100 to a United States Holder, the distribution currently will be subject to German withholding tax of U.S.\$25 plus U.S.\$1.375 surtax, and the United States Holder will receive U.S.\$73.625. If the United States Holder obtains the Treaty refund, he will receive an additional U.S.\$16.375 from the German tax authorities. For United States tax purposes, such United States Holder will be considered to have received a total distribution of U.S.\$105.88, which will be deemed to have been subject to German withholding tax of U.S.\$15.88 (15% of U.S.\$105.88).

Distributions, if any, in excess of SAP’s current and accumulated earnings and profits will constitute a non-taxable return of capital to a United States Holder and will be applied against and reduce the United States Holder’s tax basis in its Preference Shares. To the extent that such distributions exceed the tax basis of the United States Holder in its Preference Shares, the excess generally will be treated as capital gain.

In the case of a distribution in Marks, the amount of the distribution generally will equal the Dollar value of the Marks distributed (determined by reference to the spot currency exchange rate on the date of receipt of the distribution (receipt by the Depositary in the case of a distribution on ADSs)), regardless of whether the holder in fact converts the Marks into Dollars, and the United States Holder will not realize any separate foreign currency gain or loss (except to the extent that such gain or loss arises on the actual disposition of foreign currency received).

Dividends paid by SAP generally will constitute “portfolio income” for purposes of the limitations on the use of passive activity losses (and, therefore, generally may not be offset by passive activity losses) and as “investment income” for purposes of the limitation on the deduction of investment interest expense. Dividends paid by SAP will not be eligible for the dividends received deduction generally allowed to United States corporations under Section 243 of the Code.

Under certain circumstances, a United States Holder may be deemed to have received a distribution for United States federal income tax purposes upon an adjustment, or the failure to make an adjustment, to the conversion price of the 1988 Bonds (see Item 12. “Options to Purchase Securities from Registrant or Subsidiaries — 1988 Program”) or the 1994 Bonds.

Sale or Exchange

In general, assuming that SAP at no time is a passive foreign investment company, upon a sale or exchange of Preference Shares to a person other than SAP, a United States Holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the United States Holder’s adjusted tax basis in the Preference Shares. Such gain or loss will be capital gain or loss. Upon a sale of Preference Shares to SAP, a United States Holder may recognize capital gain or loss or, alternatively, may be considered to have received a distribution with respect to the Preference Shares, in each case depending upon the application to such sale of the rules of Section 302 of the Code.

Deposit and withdrawal of Preference Shares in exchange for ADSs by a United States Holder will not result in its realization of gain or loss for United States federal income tax purposes.

Foreign Tax Credit

In general, in computing its United States federal income tax liability, a United States Holder may elect for each taxable year to claim a deduction or, subject to the limitations on foreign tax credits generally, a credit for foreign income taxes paid or accrued by it. For United States foreign tax credit purposes, subject to

the applicable limitations under the foreign tax credit rules, the 15% German tax that is treated as having been withheld from dividends paid to a United States Holder will be eligible for credit against the United States Holder's federal income tax liability. Thus, in the numerical example set out above, a United States Holder who receives a cash distribution of U.S.\$90 from SAP (U.S.\$100 of the initial distribution net of U.S.\$25 of German withholding tax and U.S.\$1.375 of surtax plus the Treaty refund of U.S.\$16.375) will be treated as having been subject to German withholding tax in the amount of U.S.\$15.88 (15% of U.S.\$105.88) and will be able to claim the United States foreign tax credit, subject to applicable foreign tax credit limitations, in the amount of U.S.\$15.88.

For United States foreign tax credit purposes, dividends paid by SAP generally will be treated as foreign-source income and as "passive income" (or in the case of certain holders, as "financial services income"). Gain realized by a United States Holder on the sale or exchange of Preference Shares generally will be treated as United States-source income.

The IRS is authorized to issue regulations to govern the source of losses recognized on the sale of personal property (such as the Preference Shares). Relevant legislative history suggests that the regulations generally should treat a loss recognized by a United States Holder on the sale or exchange of Preference Shares as United States-source loss. In connection with recently proposed regulations, the IRS has stated that the sourcing of a loss from the sale or exchange of portfolio stock (generally stock held by a less than 10% shareholder) will be reviewed in the context of a broader regulations project. The proposed regulations suggest that, in the interim, a loss on the sale or exchange of Preference Shares generally would be treated as foreign-source loss. At present, it is unclear whether these proposed regulations will be adopted and, if adopted, whether they will be adopted in their present form. United States Holders are encouraged to consult their own tax advisors regarding the proper treatment of these losses for foreign tax credit purposes.

The availability of foreign tax credits depends on the particular circumstances of each United States Holder. United States Holders are advised to consult their own tax advisors.

Foreign Personal Holding Company Considerations

SAP does not believe that it or any of its subsidiaries currently is a "foreign personal holding company" (an "FPHC") for United States federal income tax purposes. SAP is not aware of any changes that would affect this conclusion in the foreseeable future. A foreign corporation is an FPHC for a taxable year if (i) at any time, more than 50% of its stock (by vote or by value) is owned (directly, indirectly or by attribution) by or for not more than five individuals who are citizens or residents of the United States (the "ownership requirement") and (ii) at least 60% (50% in certain cases) of its gross income is FPHC income, which generally includes dividends, interest, royalties (except certain active business computer software royalties) and other types of investment income (the "income requirement"). If SAP or one of its subsidiaries were treated as an FPHC, then each United States Holder owning ADSs or Preference Shares on the last day in the taxable year on which the ownership requirement with respect to SAP or its subsidiary is met would be required to include currently in taxable income as a dividend a *pro rata* share of SAP's or the subsidiary's undistributed FPHC income, which is, generally, SAP's or the subsidiary's taxable income with certain adjustments and after reduction for certain dividend payments.

SAP does not believe that the ownership requirement is met at the date hereof with respect to SAP or any of its subsidiaries. However, there can be no assurance that the ownership requirement will not be met at some later time. Whether the income requirement would be met with respect to SAP or any of its subsidiaries at any such later date would depend on the nature and sources of SAP's and each subsidiary's income at that time.

Passive Foreign Investment Company Considerations

Classification as a PFIC. Special and adverse United States tax rules apply to a United States Holder that holds an interest in a "passive foreign investment company" (a "PFIC"). In general, a PFIC is any non-United States corporation, if (i) 75% or more of the gross income of such corporation for the taxable year is passive income (the "income test") or (ii) the average percentage of assets (by value) held by such

corporation during the taxable year that produce passive income (*e.g.*, dividends, interest, royalties, rents and annuities) or that are held for the production of passive income is at least 50% (the “asset test”). A corporation that owns, directly or indirectly, at least 25% by value of the stock of a second corporation must take into account its proportionate share of the second corporation’s income and assets in applying the income test and the asset test.

Based on current projections concerning the composition of the SAP income and assets, SAP does not believe that it will be treated as a PFIC for its current or future taxable years. However, because this conclusion is based on the Company’s current projections and expectations as to its future business activity, SAP can provide no assurance that it will not be treated as a PFIC in respect of its current or any future taxable years.

Consequences of PFIC Status. If SAP is treated as a PFIC for any taxable year during which a United States Holder holds Preference Shares, then, subject to the discussion of the QEF and “mark-to-market” rules below, such United States Holder generally will be subject to a special and adverse tax regime with respect to any gain realized on the disposition of the Preference Shares and with respect to certain “excess distributions” made to it by SAP. The adverse tax consequences include taxation of such gain or excess distribution at ordinary-income rates and payment of an interest charge on tax which is deemed to have been deferred with respect to such gain or excess distributions. Under the PFIC rules, excess distributions include dividends or other distributions received with respect to the Preference Shares, if the aggregate amount of such distributions in any taxable year exceeds 125% of the average amount of distributions from SAP made during a specified base period.

In some circumstances, a United States Holder may avoid certain of the unfavorable consequences of the PFIC rules by making a qualified electing fund (“QEF”) election in respect of SAP. A QEF election effectively would require an electing United States Holder to include in income currently its *pro rata* share of the ordinary earnings and net capital gain of SAP. However, a United States Holder cannot elect QEF status with respect to SAP unless SAP complies with certain reporting requirements and there can be no assurance that SAP will provide such information.

Effective for taxable years beginning after December 31, 1997, a United States Holder that holds “marketable” stock in a PFIC may, in lieu of making a QEF election, also avoid certain unfavorable consequences of the PFIC rules by electing to mark the PFIC stock to market at the close of each taxable year. SAP expects that the Preference Shares will be “marketable” for this purpose. A United States Holder that makes the mark-to-market election will be required to include in income each year as ordinary income an amount equal to the excess, if any, of the fair market value of the stock at the close of the year over the United States Holder’s adjusted tax basis in the stock. If, at the close of the year, the United States Holder’s adjusted tax basis exceeds the fair market value of the stock, then the United States Holder may deduct any such excess from ordinary income, but only to the extent of net mark-to-market gains previously included in income. Any gain from the actual sale of the PFIC stock will be treated as ordinary income, and any loss will be treated as ordinary loss to the extent of net mark-to-market gains previously included in income.

Taxation of Holders of ADSs or Preference Shares in Other Countries

Holders or potential holders of ADSs or Preference Shares who are resident or otherwise taxable in countries other than Germany and the United States are urged to consult their own tax advisors concerning the overall tax consequences of the acquisition, ownership and disposition of ADSs or Preference Shares.

Item 8. *Selected Consolidated Financial Data.*

The following selected consolidated financial information of the Company is derived from, and is qualified by reference to, the Company’s consolidated financial statements included herein and notes thereto audited, in respect of 1997, 1996 and 1995, by ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH and, in respect of 1994 and 1993, by AW Treuhand Andersen & Wipfler GmbH Wirtschaftsprüfungsgesellschaft (a subsidiary of ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH), each independent auditors. The audited consolidated income

statements for the years ended December 31, 1997, 1996 and 1995, consolidated statements of fixed assets for the years ended 1997 and 1996 and consolidated balance sheets at December 31, 1997 and 1996 are included under "Item 18. Financial Statements." The Company's consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in Germany ("German GAAP").

The selected consolidated financial data in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") at and for the years ended December 31, 1997 and 1996 have been derived from the Company's consolidated financial statements included in "Item 18. Financial Statements." German GAAP differs in certain significant respects from U.S. GAAP. A reconciliation of the differences between German GAAP and U.S. GAAP which materially affect the determination of net income for the years ended December 31, 1997 and 1996, and shareholders' equity at December 31, 1997 and 1996 is set forth in note 40 to the Company's consolidated financial statements included herein.

The selected financial data set forth below should be read in conjunction with, and are qualified by reference to, the related consolidated financial statements of the Company included herein and notes thereto and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31, (in thousands, except share and per share data and employee numbers and where otherwise indicated)					
	1997 U.S.\$ ⁽¹⁾	1997 DM	1996 DM	1995 DM	1994 DM	
Income Statement Data:						
<i>Amounts in accordance with German GAAP</i>						
Product revenues	2,277,315	4,097,117	2,630,512	1,933,811	1,304,470	685,760
Consulting and training revenues . . .	1,017,762	1,831,056	1,041,404	724,134	493,885	387,074
Other	49,632	89,293	50,234	38,436	32,788	28,900
Total sales revenues	3,344,709	6,017,466	3,722,150	2,696,381	1,831,143	1,101,734
Other operating income ⁽²⁾	45,822	82,438	74,673	54,789	31,918	34,491
Cost of services and materials and operating expenses:						
Cost of services and materials . . .	336,679	605,719	394,384	300,647	187,822	100,667
Personnel expenses	1,153,310	2,074,920	1,338,473	956,744	675,212	466,161
Depreciation and amortization . . .	108,566	195,321	164,591	144,456	88,662	61,785
Other operating expenses	895,852	1,611,728	955,746	697,455	462,126	279,852
Total cost of services and materials and operating expenses	<u>2,494,407</u>	<u>4,487,688</u>	<u>2,853,194</u>	<u>2,099,302</u>	<u>1,413,822</u>	<u>908,465</u>
Operating results	896,124	1,612,216	943,629	651,868	449,239	227,760
Financial results ⁽³⁾	30,416	54,720	23,584	22,198	22,016	28,959
Results from ordinary operations . . .	926,540	1,666,936	967,213	674,066	471,255	256,719
Taxes on income	393,727	708,354	382,414	258,665	176,160	101,311
Other taxes	18,469	33,228	17,263	10,573	13,921	9,094
Total taxes	<u>412,196</u>	<u>741,582</u>	<u>399,677</u>	<u>269,238</u>	<u>190,081</u>	<u>110,405</u>
Net income	514,344	925,354	567,536	404,828	281,174	146,314
Earnings per share ⁽⁴⁾	4.93	8.87	5.48	4.00	2.78	1.46

Year Ended December 31,
(in thousands, except share and per share data and
employee numbers and where otherwise indicated)

	1997	1997	1996	1995	1994	1993
	U.S.\$ ⁽¹⁾	DM	DM	DM	DM	DM
<i>Amounts in accordance with U.S. GAAP</i>						
Total sales revenues	3,285,017	5,910,073	3,552,365	N/A	N/A	N/A
Net income	485,564	873,574	452,151	N/A	N/A	N/A
Earnings per share:				N/A	N/A	N/A
Basic						
DM 50 Ordinary Shares and DM 5 Ordinary Shares	4.66	8.38	4.40	N/A	N/A	N/A
DM 50 Preference Shares and DM 5 Preference Shares	4.70	8.46	4.47	N/A	N/A	N/A
Diluted						
DM 5 Ordinary Shares and DM 50 Ordinary Shares	4.61	8.30	4.29	N/A	N/A	N/A
DM 5 Preference Shares and DM 50 Preference Shares	4.61	8.30	4.31	N/A	N/A	N/A
Other Data:						
Ratio of earnings to combined fixed charges and preferred dividends in accordance with German GAAP ⁽⁵⁾	N/A	23.97x	23.55x	21.90x	24.55x	18.09x
Ratio of earnings to combined fixed charges and preferred dividends in accordance with U.S. GAAP ⁽⁵⁾	N/A	23.24x	20.81x	N/A	N/A	N/A
Balance Sheet Data:						
<i>Amounts in accordance with German GAAP</i>						
Cash and cash equivalents and marketable securities	647,274	1,164,512	902,285	397,755	347,225	433,873
Total assets	2,818,221	5,070,260	3,367,104	2,218,162	1,749,729	1,306,185
Shareholders' equity	1,702,169	3,062,372	2,211,312	1,529,520	1,236,206	1,008,618
Short-term bank loans and overdrafts	90,675	163,134	90,272	59,686	47,189	25,442
Long-term financial debt ⁽⁵⁾	2,849	5,126	8,825	20,546	21,946	1,000
<i>Amounts in accordance with U.S. GAAP</i>						
Total assets	2,909,248	5,234,028	3,467,803	N/A	N/A	N/A
Shareholders' equity	1,577,489	2,838,059	2,031,869	N/A	N/A	N/A

(1) Amounts in the column are unaudited and translated at DM 1.7991 to U.S.\$1.00, the Noon Buying Rate on December 31, 1997. See "— Exchange Rates" for recent exchange rates between the Mark and the Dollar.

(2) Other operating income includes increases in inventory of unfinished services.

(3) Financial results include income from investments, net interest income, write-down on financial assets, and income from marketable securities and loans of financial assets.

(4) Earnings per share have been calculated in accordance with the guidelines established by the German Association of Financial Analysts (*Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V.*). Such amounts are equal to net income divided by (a) the total number of DM 50 Ordinary Shares and DM 5 Ordinary Shares outstanding at year end and (b) the total number of DM 50 Preference Shares and DM 5 Preference Shares outstanding at year end. Historical earnings per share and dividends per share have been calculated assuming that (i) each DM 50 Ordinary Share equaled ten DM 5 Ordinary Shares and (ii) each DM 50 Preference Share equaled ten DM 5 Preference Shares. Earnings per share amounts are computed on a DM 5 per share basis. On May 7, 1998, SAP's shareholders passed a resolution converting SAP's share capital to no nominal value shares, in accordance with

recently enacted amendments to the German Stock Corporation Act. This resolution took effect on June 16, 1998, when it was recorded in the commercial register in Heidelberg, Germany. See “Item 14. Description of Securities to be Registered — Share Capital.”

- (5) In calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges. Fixed charges consist of interest expense plus one-third of rental expense under operating leases (the portion that has been deemed by the Company to be representative of an interest factor).
- (6) Long-term financial debt represents financial liabilities with a remaining life beyond one year. Most of the Company’s long-term financial debt represents outstanding 1988 Bonds (See “Item 12. Options to Purchase Securities from Registrant or Subsidiaries — 1988 Program”) and 1994 Bonds issued to Company employees. See “Item 12. Options to Purchase Securities from Registrant or Subsidiaries.”

Exchange Rates

The Mark is part of the European Monetary System (“EMS”) exchange rate mechanism. Within the EMS, exchange rates may fluctuate within permitted margins, controlled by central bank intervention. Against currencies outside the EMS, the Mark has, in theory, free floating exchange rates, although central banks sometimes try to confine short-term exchange rate fluctuations by intervening in foreign exchange markets. Beginning in January 1999, the EURO is scheduled to be introduced in certain EMU countries. By June 30, 2002 at the latest, all participating EMU countries will need to be operating with the EURO as their single currency.

Fluctuations in the exchange rate between the Mark and the Dollar will affect the Dollar equivalent of the Mark price of the Preference Shares traded on the German stock exchanges and, as a result, will affect the price of the ADSs in the United States. Such fluctuations will also affect the Dollar amounts received by the holders of ADSs on the conversion into Dollars of cash dividends paid in Marks on the Preference Shares represented by the ADSs. See “Item 14. Description of Securities to be Registered — Description of ADSs.”

A substantial portion of SAP’s revenues and expenses is denominated in currencies other than the Mark. Therefore, results of operations and cash flows may be materially affected by movements in the exchange rate between the Mark and the respective currencies to which SAP is exposed. The effect of the planned adoption of the EURO on SAP’s operations is difficult to predict with certainty at this stage because of the complexity of the relevant factors and the uncertain timing of such adoptions. For a discussion of the effect exchange rate fluctuations have on SAP’s business and operations, as well as the hedging techniques used to manage SAP’s exposure to such fluctuations, see “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The following table sets forth, for the periods and dates indicated, the average, high, low and period-end Noon Buying Rates for Marks expressed in Marks per Dollar.

<u>Year Ended December 31,</u>	<u>Period-End</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
1993	1.7395	1.6610	1.7405	1.5675
1994	1.5495	1.6119	1.7627	1.4920
1995	1.4345	1.4261	1.5612	1.3565
1996	1.5387	1.5049	1.5655	1.4354
1997	1.7991	1.7371	1.8913	1.5389
1998 (through June 18, 1998)	1.7927	1.8067	1.8542	1.7590

(1) The average of the Noon Buying Rates on the last day of each month during the relevant period.

On, June 18, 1998, the Noon Buying Rate was DM 1.7927 per U.S.\$1.00.

Dividends

Dividends are jointly proposed by SAP’s Supervisory Board and Executive Board based on the Company’s year-end financial statements, subject to approval by holders of Ordinary Shares, and are officially declared in respect of the prior year at SAP’s annual general shareholders’ meeting. SAP’s annual general shareholders’ meeting is usually convened during the second quarter of each year. Historically, SAP has declared and paid its dividends in Marks. Since Ordinary Shares and Preference Shares are in bearer form,

dividends are either remitted to the custodian bank on behalf of the shareholder within one business day following the annual general shareholders' meeting or, in the case of shareholders holding physical certificates, available promptly following the annual general shareholders' meeting upon submission of the dividend coupon to the paying agent therefor. See "Item 14. Description of Securities to be Registered — Description of Preference Shares — Dividend and Liquidation Rights." Record holders of the ADSs on the dividend record date will be entitled to receive payment in full of the dividend declared in respect of the year for which it is declared. Cash dividends payable to such holders will be paid to the Depositary in Marks and, subject to certain exceptions, will be converted by the Depositary into Dollars. See "Item 14. Description of Securities to be Registered — Description of ADSs." The amount of dividends received by holders of ADSs may be affected by fluctuations in exchange rates. See "— Exchange Rates." Dividends paid to holders of the ADSs or Preference Shares may be subject to German withholding tax. See "Item 7. Taxation."

The following table sets forth the annual dividends paid per Ordinary Share and Preference Share in Marks in respect of each of the years indicated.

<u>Year Ended December 31,</u>	<u>Dividend Paid per Ordinary Share⁽¹⁾</u>		<u>Dividend Paid per Preference Share⁽¹⁾</u>	
	<u>DM</u>	<u>U.S.\$⁽²⁾</u>	<u>DM</u>	<u>U.S.\$⁽²⁾</u>
1993	0.44	0.27	0.48	0.30
1994	0.85	0.62	0.90	0.65
1995	1.30	0.85	1.35	0.88
1996	2.30 ⁽³⁾	1.35	2.35 ⁽³⁾	1.38
1997	2.80	1.58	2.85	1.61

(1) Adjusted to reflect (i) the capital increase from reserves which took effect on August 9, 1994, pursuant to which holders of Ordinary Shares and Preference Shares received four additional shares for each such share owned by such holders, and (ii) a 1:10 stock split with respect to 706,000 DM 50 Ordinary Shares and 1,950,000 DM 50 Preference Shares to reflect the reduction in the nominal value of such DM 50 Ordinary Shares and DM 50 Preference Shares from DM 50 to DM 5. On May 7, 1998, SAP's shareholders passed a resolution converting SAP's share capital to no nominal values shares. This resolution took effect on June 16, 1998, when it was recorded in the commercial register in Heidelberg, Germany. See "Item 14. Description of Securities to be Registered — Share Capital."

(2) Translated into Dollars at the Noon Buying Rate on the dividend payment date.

(3) Includes anniversary bonus in the amount of DM 0.5.

The amount of dividends paid on the Preference Shares depends on the amount of profits to be distributed by SAP, which depends in part upon the performance of the Company. A holder of Preference Shares is entitled to a cumulative annual preferred dividend which exceeds the annual dividend paid to holders of Ordinary Shares by an amount equal to DM 0.05 per Preference Share but in any event no less than a minimum dividend equal to DM 0.05 per Preference Share. See "Item 14. Description of Securities to be Registered — Description of Preference Shares — Dividend and Liquidation Rights." Although SAP expects to continue to pay dividends on the Preference Shares, the timing and amount of future dividend payments will depend upon the Company's future earnings, its capital needs and other relevant factors.

Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Investors are cautioned that this Item 9 contains forward-looking statements that involve risks and uncertainties. When used in this Item 9, the words "anticipate," "believe," "estimate," "intend," "will" and "expect" and similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading "Risk Factors" in the Form F-1, as well as the factors discussed elsewhere in this Form 20-F. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements included herein and notes thereto.

Accounting Principles

The consolidated financial statements of the Company included herein have been prepared in accordance with German GAAP, which varies in certain significant respects from U.S. GAAP. The following discussion is based upon financial information prepared in conformity with German GAAP. For a discussion of significant German accounting principles used in preparation of the consolidated financial statements, see the notes to the Company's consolidated financial statements included herein. Application of U.S. GAAP would have affected net income for each of the two years ended December 31, 1997 and 1996 to the extent shown in note 40 to the Company's consolidated financial statements included herein.

Overview

The Company is a leading international developer and supplier of integrated business application software designed to provide cost-effective comprehensive solutions for businesses. The Company's primary products, the R/3 System and the R/2 System, are designed to provide customers with a palette of standard business solutions arranged in applications which provide integrated enterprise-wide processing of business work flows. Additionally, the Company provides independent industry-specific solutions, independent business solutions, custom components and the necessary technological infrastructure to support complementary software solutions. The Company has many strategic partners that offer complementary software, services and hardware. The Company's services include consulting, support and training.

On December 31, 1997, the Company had more than 13,000 System installations in over 8,500 customers ranging in size from multinational enterprises to medium- and smaller-sized businesses. For the year ended December 31, 1997, the Company's sales revenues were approximately DM 6.02 billion as compared to DM 3.72 billion for the year ended December 31, 1996, with net income after taxes of DM 925.4 million and DM 568 million, respectively. The Company consists of SAP and its network of approximately 50 operating subsidiaries and has a presence or a representative in approximately 90 countries.

The Company's principal sources of revenue are product revenues and consulting and training revenues. Product revenues consist primarily of license fees and maintenance fees. License fees are derived from the licensing of the R/3 System and the R/2 System to customers. The Company provides optional maintenance services for a fixed fee calculated on the basis of the initial license fee paid by the customer. The maintenance services entitle the customer to upgrades and enhancements through new System releases, versions and correction levels, telephone support on the use of the products and assistance in resolving problems, remote support, access to online bulletin board support services and, if purchased separately, SAP EarlyWatch, a world-wide remote monitoring and diagnosis service for the R/3 System. The Company's consulting and training revenues are derived primarily from the services it renders with respect to implementation, consulting and training of customer project teams and end users in connection with the installation of the Systems in customers' enterprises, as well as training third-party consultants with respect to the Company's products.

The Company generally licenses its products to customers on a "right to use" basis pursuant to a perpetual license. These license agreements are generally in standard form, although each license is individually negotiated and may contain variations. The license is generally non-transferable or, if transferable, the transfer is subject to the Company's reasonable approval. The standard end user license agreement for the R/3 System provides for an initial license fee based on the number and types of identified users. Additional licensing fees are charged when the designated number of users is increased. The standard end user license agreement for the R/2 System provides for an initial fee based on the number and nature of functions and applications licensed by the customer and on the type of mainframe computer class being used. This standard license agreement provides that the R/2 System, as configured, can be used in perpetuity by the specified users on a limited number of central processing units. Additional R/2 System licensing fees are charged when additional functions or applications are licensed or when the type of mainframe computer class being used is changed.

The Company recognizes software license fee revenues when the customer has legally signed an irrevocable contract with the Company and the software has been delivered in full. Under certain license agreements, customers may agree to license additional groups of users at prescribed future dates on a non-

cancelable basis. License agreements with customers seeking to implement the Systems with a large number of users sometimes provide for increases in the number of users over a period of time. Under these circumstances, the Company recognizes revenue for such additional users at the date on which the customer's commitments with respect to such additional users become effective.

Maintenance fees are generally payable in advance at the beginning of each maintenance period and maintenance revenues are recognized *pro rata* over the duration of the maintenance period. Virtually all of the Company's customers elect to receive maintenance services from the Company. Few of the Company's customers have terminated such services.

Consulting and training fees are recognized at the time the service is rendered and are typically calculated at the Company's list price for such services.

SAP intends to convert all of SAP's share capital and its financial accounting and reporting currency into the EURO by January 1, 1999.

Exchange Rate Exposure

A significant portion of the Company's business is conducted in currencies other than the Mark. International sales are primarily made through the Company's subsidiaries in the respective regions and are generally denominated in the local currency. Expenses incurred by the subsidiaries are also denominated in the local currency. Accordingly, the functional currency of the Company's subsidiaries is the local currency. Of the Company's consolidated revenues in 1997 and 1996, approximately 81% and 75%, respectively, were attributable to non-German operations and translated into Marks. As a consequence, period to period changes in the average exchange rate in a particular currency can significantly affect revenues and operating income denominated in that currency. In general, appreciation of the Mark relative to another currency has an adverse effect on revenues and operating income denominated in that currency, while depreciation of the Mark has a positive effect on revenues and operating income denominated in the non-Mark currency.

The principal non-Mark currencies in which SAP's subsidiaries conduct business that are subject to the risks described in the immediately preceding paragraph are the U.S. Dollar, the Japanese Yen, the Swiss Franc, the British Pound Sterling, the Canadian Dollar and the Australian Dollar. The effect of depreciation in the value of the Mark relative to such currencies on the Company's consolidated revenues, results from ordinary operations and net income was in each case approximately DM 423.1 million, DM 117.2 million and DM 85.5 million, respectively, for 1997 and DM 58.9 million, DM 17.7 million and DM 15.3 million, respectively, for 1996. The Company utilizes foreign currency forward contracts and foreign currency options to manage currency exchange rate risks as further discussed in "Item 9A. Quantitative and Qualitative Disclosure About Market Risk."

Interest Rate Exposure

The Company invests its cash primarily in bank time deposits and fixed and variable rate marketable debt securities. The majority of such investments are denominated in Marks. Cash held by foreign subsidiaries is generally held in short-term time deposits denominated in the local currency.

Net interest income increased to DM 52.6 million in 1997 compared to DM 27.8 million and DM 22.2 million in 1996 and 1995, respectively. The increases in net interest income for fiscal 1997 and fiscal 1996 are primarily the result of a larger average portfolio of cash and cash equivalents and marketable securities. See note 34 to the Company's consolidated financial statements included herein.

While the Company is exposed generally to fluctuations in the interest rates of many of the world's leading industrialized countries, the Company's interest income and expense is most sensitive to fluctuations in the level of German interest rates. The fair market values of both fixed and variable rate investments are exposed to such interest rate risk. To the extent that interest rates rise, fixed interest securities may be adversely impacted whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments. The Company utilizes interest rate swaps to manage interest rate risks as further discussed in "Item 9A. Quantitative and Qualitative Disclosure About Market Risk."

Inflation

During the years 1997, 1996 and 1995, the effects of inflation on the Company's operations have not been material.

Quarterly Results of Operations

The Company's net revenues and operating results can vary, sometimes substantially, from quarter to quarter, causing significant variations in operating results during certain quarters. The Company's revenues in general, and in particular its license revenues, are difficult to forecast for a number of reasons, including (i) the relatively long sales cycles for the Company's products, (ii) the size and timing of individual license transactions, (iii) the timing of the introduction of new products or product enhancements by the Company or its competitors, (iv) the potential for delay or deferral of customer implementations of the Company's software, (v) changes in customer budgets, (vi) seasonality of technology purchases and (vii) other general economic conditions. Historically, the Company's business, as is common in the software industry, has experienced its highest revenues in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 1997, 1996 and 1995 first quarter revenues being lower than revenues in the prior year's fourth quarter. The Company believes that this trend will continue and expects that its operating results will peak in the fourth quarter of each year and decline from that level in the first quarter of the following year. Because the Company's operating expenses are based upon anticipated revenue levels and because a high percentage of the Company's expenses are relatively fixed in the near term, any shortfall in anticipated revenue or delay in recognition of revenue could result in significant variations in the operating results from quarter to quarter. In addition, the Company may not be able to confirm any such shortfalls until late in the quarter or following the end of the quarter because license agreements are often executed late in a quarter.

Year 2000

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than two years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. The Company has performed extensive testing to validate that the R/3 System and the R/2 System are Year 2000 compliant. This testing process was monitored and certified by the *Technischer Überwachungs Verein e.V.* (TÜV) to verify that such testing processes were sufficient to determine that the software is Year 2000 compliant.

The Company utilizes third-party vendor network equipment, telecommunication products and other third party software products which may or may not be Year 2000 compliant. The Company has in place a plan which identifies the third-party software products which must be upgraded and provides for a timetable with respect to completion of these upgrades. Such plan contemplates system upgrades from existing vendors. The Company has requested assurances from such third-party software vendors that plans are in process to make necessary modifications to achieve compliance with Year 2000 processing requirements. The Company does not expect that the cost of such upgrades will be material and does not anticipate a material disruption in its operations, capital resources or cash flows as a result of such upgrades. However, there can be no assurance that the software products supplied to the Company by such third-party vendors will achieve Year 2000 compliance in a timely manner. Failure of any critical technology components to operate properly in the Year 2000 may have an adverse impact on the business, operations, financial condition or cash flows of the Company.

Revenue by Geographic Location

The Company operates its business in three principal geographic locations, namely Europe, North and South America (the “Americas”) and Asia-Pacific/Africa. The Company allocates revenue amounts to the region in which the customer is located. The following table sets forth, for the periods indicated, the sales revenues allocated to each of the Company’s three principal geographic locations.

	(in millions of DMs)		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Europe	2,544.5	1,799.7	1,422.5
Americas	2,594.8	1,385.7	947.9
Asia-Pacific/Africa	878.2	536.8	325.8
Total	<u>6,017.5</u>	<u>3,722.2</u>	<u>2,696.2</u>

Europe. Approximately 42.3% of the Company’s 1997 revenues were derived from Europe compared to 48.3% and 52.8% in 1996 and 1995, respectively. The Company’s revenues from Europe are derived primarily from Germany, the United Kingdom, France, Switzerland, the Netherlands and Austria.

Americas. Revenues from the United States represent approximately 81.1% of the Company’s total Americas market, with the majority of the remaining balance from Canada, Brazil, Mexico, Argentina, and Venezuela. Approximately 43.1% of the Company’s 1997 revenues were derived from the Americas, compared to 37.2% in 1996 and 35.2% in 1995. The shift of the net revenue percentages to the Americas from other regions from year to year reflects the Company’s continued expansion in the United States.

Asia-Pacific/Africa. Approximately 14.6% of the Company’s 1997 revenues were derived from this region, compared to 14.4% and 12.1% in 1996 and 1995, respectively. The Company’s revenues from the Asia-Pacific/Africa region derive primarily from Japan, Australia, South Africa, South Korea, Singapore and Malaysia.

The Company has reassessed, and continues to closely monitor, its international business risks due to recent economic and political conditions in the Asian-Pacific region. During 1997, 1.7% of the Company’s revenues were derived from Asian-Pacific countries that the Company believes to be subject to significant economic and currency exchange risks (Indonesia, Thailand, Malaysia, the Philippines and Korea). Other Asian-Pacific countries (Japan, Australia, New Zealand, Singapore, India, China and Taiwan) accounted for 11.7% of the Company’s revenues during 1997. Although the Company does not believe that the conditions in the Asian-Pacific region will materially impact its business based upon management’s most current evaluation of the present situation, there can be no assurance that the current economic or political conditions in the Asian-Pacific region will not worsen or that the situation will not negatively affect the Company’s financial condition or results of operations.

Results of Operations

Year Ended December 31, 1997 Compared with Year Ended December 31, 1996

Revenues

Total sales revenues increased from DM 3,722.2 million for 1996 to DM 6,017.5 million for 1997, representing an increase of DM 2,295.3 million or 61.7%. The primary revenue items contributing to the increase in total sales revenues were increases in product and consulting and training revenues.

Product Revenues. Product revenues increased from DM 2,630.5 million for 1996 to DM 4,097.1 million for 1997, representing an increase of DM 1,466.6 million or 55.8%. Aggregate product revenues as a percentage of total sales revenues were 70.7% in 1996 and 68.1% in 1997. The primary reason for this growth in product revenue was an increase in the number of software licenses for new and existing customers, the expansion of the Company’s operations, particularly in North America, Latin America and Asia-Pacific and growth in vertical markets through the Company’s industry solutions program. The growth in product revenue is also attributable to demand for software that complies with “Year 2000” requirements and with the EMU’s

conversion to the EURO, including business processing during the dual-currency phase. In addition, increased demand within the application software industry was driven by continued globalization of businesses and the need for an increased level of integration between businesses and their partners in the areas of collaboration, supply chain and electronic commerce. Furthermore, a general increase in information technology spending results from companies' desires to obtain better data more quickly, thus allowing for faster responses to increased levels of industry competition. There can be no assurance that these positive effects on product revenues will continue in the future.

Product revenues attributable to the R/2 System declined by 9% from DM 242.5 million in 1996 to DM 222.6 million in 1997. This decline was due primarily to the general shift in computer hardware from mainframe-oriented data processing to the client/server model of computing. The Company believes that R/2 System product revenues will continue to decline.

Consulting and Training Revenues. Consulting revenues increased from DM 735.3 million in 1996 to DM 1,251.2 million in 1997, representing an increase of 70.2%. Consulting revenues as a percentage of total sales revenues increased from 19.8% in 1996 to 20.8% in 1997.

Training revenues increased by 89.4% from DM 306.1 million in 1996 to DM 579.9 million in 1997. This increase was primarily due to the increase in the number of installations, significant capital investments that were made in the infrastructure of the training operations during 1996 and increased customer satisfaction. Additionally, during 1997 customers were able to purchase training materials that allowed the training application to be customized for their internal training needs.

Consulting and training fee revenues attributable to the R/2 System declined by 32.1% from DM 235.4 million in 1996 to DM 159.9 million in 1997. The Company believes that these revenues will continue to decline.

Costs of Services and Materials and Operating Expenses

Cost of services and materials and operating expenses increased from DM 2,853.2 million for 1996 to DM 4,487.7 million for 1997, representing an increase of DM 1,634.5 million, or 57.3%. The primary expense items contributing to the increase in these expenses are outlined below.

Cost of Services and Materials. Cost of services and materials consists primarily of fees paid to independent contractors assisting the Company in supporting its customers and in developing enhancements to the Company's products. The cost of services and materials also consists of telephone hotline support of customers and the cost of multilingual product documentation. The cost of services and materials increased by 53.6% from DM 394.4 million for 1996 to DM 605.7 million for 1997. The primary reason for this increase is the continuing growth of purchased services for third-party consulting.

Personnel Expenses. Personnel expenses represent the costs of the salary and benefits payable to personnel. Personnel expenses increased by 55.0% from DM 1,338.5 million for 1996 to DM 2,074.9 million for 1997. The overall number of employees increased from 9,202 to 12,856 at December 31, 1996 and 1997, respectively. The number of sales and marketing employees increased from 1,735 to 2,423 at December 31, 1996 and 1997, respectively, representing an increase of 39.7%.

Depreciation and Amortization. Depreciation charges relate primarily to the depreciation of buildings, computer hardware and equipment and other tangible fixed assets owned by the Company. Amortization arises primarily from the amortization of the cost of software purchased by the Company and goodwill arising from business acquisitions consummated in 1997. Depreciation and amortization increased from DM 164.6 million for 1996 to DM 195.3 million for 1997, representing an increase of 18.7%.

Other Operating Expenses. Other operating expenses include marketing, travel, license fees paid to third parties for databases and the CSPs, rental and leasing, communications, administration and entertainment expenses. Other operating expenses increased from DM 955.8 million for 1996 to DM 1,611.7 million for 1997, representing an increase of 68.6%. This increase is attributable to increased marketing, license, travel and rent expenses to support the continued growth of operations. The Company continued to lease computer

hardware and equipment in 1997 to keep pace with the rapid advancement of computer hardware technology, which in turn increased rent expenses in 1997.

Operating Results

Operating results, which reflect total revenues less operating expenses, increased from DM 943.6 million for 1996 to DM 1,612.2 million for 1997, or 70.9%. Operating results as a percentage of total sales revenues increased from 25.4% in 1996 to 26.8% in 1997.

Financial Results

Financial results are comprised primarily of net interest and similar income, write-down of financial assets, income from marketable securities and loans of financial assets. Financial results increased from DM 23.6 million for 1996 to DM 54.7 million for 1997, an increase of 132%. The continuing improvement in financial results was due to a larger average portfolio of cash and cash equivalents and marketable securities.

Taxes

The Company's effective income tax rate on results from ordinary operations increased from 39.5% for 1996 to 42.5% for 1997. This increase was due primarily to differing local tax treatments associated with the 1996 conversions and distributions under the 1994 Program. The deductions taken for the 1997 distribution related to the 1994 Program were not significant.

Net Income

Net income increased from DM 567.5 million in 1996 to DM 925.4 million in 1997, or 63.1%. Net income as a percentage of total sales revenues increased from 15.2% for 1996 to 15.4% for 1997.

Research and Development Expenses

The Company expenses research and development expenses on a current basis when incurred. The Company does not present research and development expenses separately in its financial statements. The Company considers its research and development expenses to include those personnel expenses related to research and development employees, expenditures on computer hardware used in research and development and expenditures on independent contractors retained by the Company to assist in its research and development. Research and development expenses increased by DM 224.3 million, or 38.1%, from DM 589.0 million in 1996 to DM 813.3 million in 1997. As a percentage of total sales revenues, research and development expenses decreased from 15.8% for 1996 to 13.5% for 1997. The reason for the decline in research and development expense as a percentage of total revenues was the continued rapid growth rate of revenues related to sales of the R/3 System. Of the Company's total research and development expenses for 1996 and 1997, 43.3% and 47.1%, respectively, constituted personnel expenses. The number of research and development employees increased from 2,059 in 1996 to 2,876 in 1997, representing an increase of 39.7%.

Year Ended December 31, 1996 Compared with Year Ended December 31, 1995

Revenues

Total sales revenues increased from DM 2,696.4 million in 1995 to DM 3,722.2 million in 1996, representing an increase of DM 1,025.8 million or 38%. The primary revenue items contributing to the increase in total sales revenues were increases in product revenues and consulting and training revenues.

Product Revenues. Product revenues increased from DM 1,933.8 million in 1995 to DM 2,630.5 million in 1996, representing an increase of DM 696.7 million or 36.0%. Aggregate product revenues as a percentage of total sales revenues were 71.7% in 1995 and 70.7% in 1996. The increase in product revenues was due primarily to a significant increase in licensing fees attributable to the R/3 System. System licensing fee revenues increased significantly in most of the countries in which the Company operated. The greatest

increase with respect to such revenues occurred in the United States. See “— Revenue by Geographic Location.”

Consulting and Training Revenues. Consulting revenues increased from DM 499.1 million in 1995 to DM 735.3 million in 1996, representing an increase of 47.3%, due primarily to increases in the licensing of the R/3 System. Consulting revenues as a percentage of total sales revenues increased from 18.5% in 1995 to 20% in 1996. The rate of consulting revenue increases, however, was slower than the rate of increases in total sales revenues during the corresponding periods as a result of the Company’s strategy of supplementing its customer support services through cooperation with third-party consultants, while concentrating on marketing the R/3 System to a broadening customer base and promoting the development and enhancement of the R/3 System.

Training revenues increased from DM 225.0 million in 1995 to DM 306.1 million in 1996, representing an increase of 36.0%. The rate of growth in training revenues increased in 1996, due primarily to the large number of R/3 Systems licensed and the release of the training curriculum with respect to Release 3.0 of the R/3 System.

Cost of Services and Materials and Operating Expenses

Cost of services and materials and operating expenses increased from DM 2,099.3 million for 1995 to DM 2,853.2 million for 1996, representing an increase of DM 753.9 million, or 35.9%. The primary expense items contributing to the increase in these expenses are outlined below.

Cost of Services and Materials. The cost of services and materials increased from DM 300.6 million in 1995 to DM 394.4 million in 1996, representing an increase of 31.2%. The increase in cost of services and materials in 1996 compared to 1995 was due primarily to the Company’s investments in infrastructure and a new training curriculum, the development and testing of Release 3.0 of the R/3 System as well as an increased use of independent contractors to reduce the need to further increase the Company’s own work force.

Personnel Expenses. Personnel expenses increased from DM 956.7 million in 1995 to DM 1,338.5 million in 1996, representing an increase of 39.9%. The increase was due primarily to an increase in the number of employees and salaries (including benefits) and social security payments during the periods. The Company increased the number of its employees concurrently with the substantial growth in licensing over this period. The number of employees increased from 6,857 to 9,202 at December 31, 1995 and 1996, respectively, representing an increase of 34.2%.

Depreciation and Amortization. Depreciation and amortization increased from DM 144.5 million in 1995 to DM 164.6 million in 1996, representing an increase of 13.9%. The increase was due primarily to increased capital expenditures in 1996, comprised mainly of personal computers and other hardware and a shorter useful life of the personal computers and new building construction.

Other Operating Expenses. Other operating expenses increased from DM 697.5 million in 1995 to DM 955.8 million in 1996, representing an increase of 37.0%. The increase in other operating expenses in 1996 compared to 1995 was due primarily to an increase in marketing expenses, travel expenses, building rent and computer hardware leasing expenses. Due to the fast rate at which computer hardware technology continued to change, there was an effort to increase the percentage of electronic data processing equipment which was leased, rather than purchased, in 1996. Overall, however, other operating expenses as a percentage of total sales revenues for such period remained relatively constant.

Operating Results

Operating results increased from DM 651.9 million in 1995 to DM 943.6 million in 1996, or 44.7%. The increase in operating results was due primarily to the significant increase in product revenues, the generation of which entails lower personnel costs and a correspondingly higher profit margin than is associated with the Company’s other sources of revenues. Operating results as a percentage of total sales revenues increased from 24.2% in 1995 to 25.4% in 1996. The increase in 1996 was primarily due to expenses for purchased services, infrastructure costs (particularly in new geographic markets such as China and Brazil), depreciation and other operating expenses increasing at a higher rate in 1995 than total revenues.

Financial Results

Financial results remained approximately the same in 1995 and 1996 at DM 22.2 million and DM 23.6 million, respectively.

Taxes

The Company's effective income tax rate on results from ordinary operations increased marginally from 38.4% in 1995 to 39.5% in 1996. The increase in the effective rate from 1995 to 1996 was due primarily to the increase in operating losses in 1996 from subsidiaries that began operations in 1995. The Company was unable to utilize these losses to reduce taxes in 1996. This increase in the 1996 effective tax rate was partially offset by differing local tax treatments associated with the 1996 conversions and distributions under the 1994 Program.

Net Income

Net income increased from DM 404.8 million in 1995 to DM 567.5 million in 1996, or 40.2%. Net income as a percentage of total sales revenues increased from 15.0% in 1995 to 15.2% in 1996.

Research and Development Expenses

The Company's research and development expenses increased from DM 438.2 million in 1995 to DM 589.0 million in 1996, representing an increase of 34.4%. As a percentage of total sales revenues, however, research and development expenses decreased from 16.3% in 1995 to 15.8% in 1996. The decrease in such percentages over the periods was due primarily to the faster growth in revenues relating to the R/3 System. Of the Company's total research and development expenses in 1995 and 1996, 45% and 43.3%, respectively, constituted personnel expenses. The number of research and development employees increased from 1,643 at year-end 1995 to 2,059 at year-end 1996, representing an increase of 25.3%. The portion of the increase in research and development expenses not attributable to the number of research and development employees relates to increases in salaries for existing employees, increases in expenditures on computer hardware and increases in the number of independent contractors retained by the Company to assist in research and development.

Liquidity and Capital Resources

Historically, the Company has funded most of its growth internally from cash flow from operations and the sale of equity securities. Over the past several years, the Company's principal use of cash was to support continuing operations and capital additions resulting from the Company's growth. At December 31, 1997, the Company's liquid assets provided by operations amounted to DM 835.3 million, an increase of DM 351.8 million from DM 483.5 million at December 31, 1996. Accounts receivable increased from DM 1,555.9 million at December 31, 1996 to DM 2,435.7 million at December 31, 1997, representing an increase of 56.5%. The increase in accounts receivable during the period is attributable generally to the increased level of licensing of the R/3 System and the relatively large monetary commitment of customers who are parties to such license agreements. Customers committing to a large licensing fee often negotiate payment terms over a longer period than the term contained in the Company's standard licensing agreement. Accounts payable during the same period increased at a rate of 60.0% or DM 119.9 million to DM 318.3 million from DM 198.9 million at December 31, 1996. The increase in accounts payable was due primarily to the large increase in the amount of fixed assets, including buildings, computer hardware and third-party customer support services purchased by the Company, generally to support the growth in licensing of the R/3 System.

Investing activities used DM 570.1 million of liquid assets in 1997, an increase of DM 363.1 million from DM 207.0 million in 1996. Capital expenditures of the Company during 1997 were DM 487.4 million, an increase of DM 271.2 million from DM 216.2 million in 1996. Most of the capital expenditures in 1997 related to the construction of buildings and to the purchase of computer hardware and other business equipment to support the increased number of employees. Additions to intangible assets totaled DM 87.3 million, up DM 82.9 million from 1996 additions of DM 4.4 million, due primarily to the capitalization of goodwill

associated with 1997 acquisitions. In addition, the Company plans to spend approximately DM 395.0 million during fiscal 1998, primarily to fund the development of additional corporate campuses in Walldorf, Germany, and in the Commonwealth of Pennsylvania.

In 1994, the Company acquired a 52% interest in DACOS Software GmbH. In 1997, DACOS Software GmbH became a wholly-owned subsidiary when the Company purchased 100% of DACOS Holding GmbH, which held the remaining 48% interest in DACOS Software GmbH, and the subsidiary was renamed SAP Retail Solutions GmbH & Co. In the third quarter of 1997, the Company acquired a 25.2% interest in IDS Prof. Scheer Gesellschaft für integrierte Datenverarbeitungssysteme mbH (“IDS”). The principal shareholder of IDS is Professor Dr. August Wilhelm Scheer, who was a member of SAP’s Supervisory Board at the time of such acquisition. In the fourth quarter of 1997, the Company acquired a 50% interest in Kiefer & Veitinger GmbH; in the second quarter of 1998, it acquired an additional 30.2% and has an option to acquire the remaining 19.8% until March 31, 1999. Acquisitions individually and in the aggregate do not materially affect the comparability of the current financial information with that of prior years.

Financing activities used liquid assets of DM 77.9 million in 1997, a decrease of DM 24.6 million from DM 102.5 million in 1996. At December 31, 1997, the Company had outstanding long-term financial debt of DM 5.1 million, consisting primarily of outstanding 1988 Bonds and 1994 Bonds, and short-term financial debt of approximately DM 163.1 million, consisting primarily of money borrowed by SAP Japan Co., Ltd., a wholly-owned subsidiary, and guaranteed by the Company.

Certain of the Company’s foreign subsidiaries have lines of credit available which allow them to borrow in the local currency, to the extent SAP has guaranteed the repayment of amounts borrowed. At December 31, 1997, the Company had approximately DM 151.4 million available through such arrangements under which the Company may borrow on an overdraft or short-term basis. In addition, the Company has a DM 89.6 million line of credit available for which no guarantee is required. Interest under these lines of credit is determined at the time of borrowing based on current market rates.

The Company’s Stock Appreciation Rights Plan (the “SAR Plan”) provides for the grant of stock appreciation rights (“SARs”) to Executive Board members and eligible employees of SAP and its wholly-owned subsidiaries. See “Item 12. Options to Purchase Securities from Registrant or Subsidiaries — Stock Appreciation Rights Plan.” On May 1, 1998, the Executive Board granted 1.1 million SARs to employees who were employed by the Company on or prior to June 30, 1996 (the “May 1998 Awards”). The May 1998 Awards entitle the eligible employee to receive a portion of the appreciation in the price of Preference Shares during the measuring period that begins when the grant price is set and ends when the end price is set approximately one year later. The grant price is DM 785 (which was the average closing price of a Preference Share over the 10 business days beginning on March 27, 1998 and ending on April 8, 1998). The end price is the average closing price of a Preference Share over the 10 business days immediately following the date of the announcement of SAP’s first quarter earnings in 1999. For each SAR awarded under the May 1998 Awards, the eligible employee will be entitled to receive cash equal to 100% of the first DM 100 increase, 50% of the next DM 100 increase and 25% of any additional increase in the value of the Preference Shares over the measuring period. Payment of the May 1998 Awards will be made in three equal installments in July 1999, January 2000 and July 2000, provided that (subject to certain exceptions) the eligible employee continues to be actively employed on such dates. Any amounts accrued under the SAR Plan will be recorded as compensation expense in the Company’s consolidated income statements and may negatively impact the Company’s results of operations, earnings per share and cash flows.

The Company believes that cash flow from operations, existing cash and cash equivalents and short-term marketable securities will be sufficient to meet the Company’s working capital needs and currently planned capital expenditure requirements for the next twelve months. However, there can be no assurance that a downturn in the economy worldwide, or for a particular region, or for the Company’s products and services in general, will not change this outlook.

The Company may from time to time consider acquisitions of complementary businesses, products or technologies, which could require additional financing. In addition, continued growth in the Company’s business may from time to time require additional capital. There can be no assurance that additional capital

will be available to the Company if and when required, or that such additional capital will be available on acceptable terms to the Company.

Item 9A. Quantitative and Qualitative Disclosure About Market Risk.

Foreign Currency Risk

Most SAP subsidiaries have entered into license agreements with SAP pursuant to which the subsidiary acquires the right to sublicense the Company's products to customers within a specific territory. Under these agreements, the subsidiaries generally are required to pay SAP a royalty equivalent to a percentage of the product fees paid to them by their customers within 90 days following the end of the month in which the subsidiary recognizes the revenue. These inter-company royalties payable to SAP are generally denominated in the respective subsidiary's local currency in order to centralize foreign currency risk with SAP in Germany. The delay between the date when the subsidiary records product revenue and the date when payment is made to SAP by such subsidiary exposes SAP to foreign exchange risk.

The Company enters into foreign exchange forward contracts and currency options to protect the existing and/or expected foreign currency inter-company claims and liabilities. Specifically, these foreign exchange contracts offset existing and anticipated inter-company receivables in the countries with significant operations, including the United States, Japan, the United Kingdom, Switzerland and Canada. Anticipated receivables represent expected inter-company amounts resulting from revenues generated within the next 12 months from the purchase date of the derivative instrument. Management believes the use of foreign currency derivative financial instruments reduces the risks that arise from doing business in international markets and holds such instruments for purposes other than trading. Generally, the maturities of such derivative instruments do not exceed 12 months from the date of purchase.

The table below provides information about the Company's derivative financial instruments that are sensitive to foreign currency exchange rates, including foreign exchange forward and option contracts. The table presents fair values, notional amounts (at the contract exchange rates) and the respective weighted average contractual foreign currency exchange rates. The fair values do not reflect any foreign exchange gains or losses on the underlying inter-company receivables and payables. In addition, the table below does not include foreign currency risks associated with third-party receivables and payables denominated in currencies other than the functional currency of the reporting subsidiary. See notes to the consolidated financial statements included in "Item 18. Financial Statements" for further information on the Company's foreign exchange derivative instruments.

<u>Foreign Currency Risk (Value in DM (000))</u>	<u>DM Functional Currency</u>	
	<u>Contract Notional Amounts</u> <i>Expected Maturity Date 1998</i>	<u>Fair Value December 31, 1997⁽¹⁾</u>
Derivatives used to manage balance sheet transactions		
Foreign Currency Forward Contracts (Receive DMs, Sell Local Currency)		
U.S. Dollars	168,956	4,023
Weighted Average Contractual Exchange Rate	1.79	
Japanese Yen	39,541	(1,008)
Weighted Average Contractual Exchange Rate	0.014	
British Pounds	41,311	1,001
Weighted Average Contractual Exchange Rate	2.92	
Swiss Francs	5,913	(78)
Weighted Average Contractual Exchange Rate	1.25	
Canadian Dollars	12,400	45
Weighted Average Contractual Exchange Rate	1.24	

	DM Functional Currency	
	Contract	Fair Value
	Notional Amounts	December 31, 1997 ⁽¹⁾
	<i>Expected Maturity Date</i>	
	1998	
Derivatives used to manage anticipated transactions		
Foreign Currency Forward Contracts		
(Receive DMs, Sell Local Currency)		
Japanese Yen	27,199	(693)
Weighted Average Contractual Exchange Rate	0.014	
British Pounds	25,152	534
Weighted Average Contractual Exchange Rate	2.92	
Swiss Francs	19,088	(273)
Weighted Average Contractual Exchange Rate	1.25	
Currency Options (Purchased Puts)		
British Pounds	11,200	—
Weighted Average Contractual Exchange Rate	2.80	
Japanese Yen	14,400	(562)
Weighted Average Contractual Exchange Rate	0.014	

(1) Equivalent to the unrealized gain or (loss) on existing contracts.

Interest Rate Risk

The Company invests its cash primarily in bank time deposits and fixed and variable rate marketable debt securities denominated in Marks. The Company does not expect changes in the quoted market prices of time deposits to have a material effect on income or cash flows. The Company enters into interest rate swaps to better manage the interest income on its cash equivalents and marketable securities and to partially mitigate the impact of German interest rate fluctuations on these investments. The Company holds such derivative instruments for purposes other than trading. No swaps were outstanding at December 31, 1997.

The table below presents principal (or notional) amounts, respective fair values at December 31, 1997 and related weighted average interest rates by year of maturity for the Company's investment portfolio. Average variable interest rates are based on rates at December 31, 1997 and may change significantly, affecting future cash flows. The fair value of derivatives generally reflects the estimated amounts the Company would pay or receive to terminate the contracts at the reporting date, thereby considering unrealized gains or losses of open positions. See notes to the Company's consolidated financial statements included in "Item 18. Financial Statements" for further information on the Company's interest rate derivative instruments.

	Expected Maturity Date						Total	Fair Value December 31, 1997
	1998	1999	2000	2001	2002	Thereafter		
Interest Rate Risk								
Value in DM(000)								
Marketable Securities (DM)								
Floating Rate	5,000	35,000		25,000	30,000	30,413	125,413	128,139
Average Interest Rate	3.79%	4.88%		4.63%	4.46%	6.83%		
Fixed Rate		15,000	20,000			5,000	40,000	39,903
Average Interest Rate		3.77%	3.77%			3.71%		
Total Marketable Securities	<u>5,000</u>	<u>50,000</u>	<u>20,000</u>	<u>25,000</u>	<u>30,000</u>	<u>35,413</u>	<u>165,413</u>	<u>168,042</u>
Long Term Investments (DM)								
Fixed Rate	42	8,575	—	—	—	100,881	109,498	114,248
Average Interest Rate	3.66%	5.30%				6.19%		
Other Instruments (DM)								
Fixed Rate			10,000				10,000	10,000
Average Interest Rate			3.66%					
Total Investments	<u>5,042</u>	<u>58,575</u>	<u>30,000</u>	<u>25,000</u>	<u>30,000</u>	<u>136,294</u>	<u>284,911</u>	<u>292,290</u>

To ensure the adequacy and effectiveness of the Company's foreign exchange hedge positions, and to monitor the risks and opportunities of the non-hedge portfolios, the Company continually monitors its foreign forward and option positions. In addition, the Company monitors its interest rate swap positions, both on a stand-alone basis and in conjunction with its underlying foreign currency and interest rate exposures, from an economic and an accounting perspective. However, there can be no assurance that the aforementioned programs with respect to the management of currency exchange and interest rate risk will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either the foreign exchange rates or interest rates.

Item 10. Directors and Officers of Registrant.

General

In accordance with the German Stock Corporation Act (*Aktiengesetz*), SAP has a Supervisory Board (*Aufsichtsrat*) and an Executive Board (*Vorstand*). The two Boards are separate and no individual may serve simultaneously as a member of both Boards.

The Executive Board is responsible for managing the day-to-day business of SAP in accordance with the German Stock Corporation Act and the Articles of Association. The Executive Board is authorized to represent SAP and to enter into binding agreements with third parties on behalf of SAP. The principal function of the Supervisory Board is to supervise the Executive Board. It is also responsible for appointing and removing the members of the Executive Board. The Supervisory Board may not make management decisions, but may determine that certain types of transactions require its prior consent. In carrying out their duties, the members of the Supervisory Board and the Executive Board must exercise the standard of care of a diligent and prudent business person. In complying with such standard of care, the members must take into account a broad range of considerations, including the interests of SAP and its shareholders, employees and creditors. In addition, the members of the Executive Board and the Supervisory Board are personally liable for certain violations of the German Stock Corporation Act by SAP.

Supervisory Board (*Aufsichtsrat*)

The Supervisory Board of SAP consists of 12 members, of which six members are elected by SAP's shareholders at a general shareholders' meeting and six members are elected by SAP's employees pursuant to the German Co-determination Act of 1976 (*Mitbestimmungsgesetz*). Any Supervisory Board member elected by the shareholders at the general shareholders' meeting may be removed by two-thirds of the votes cast at a general shareholders' meeting. Any Supervisory Board member elected by the employees may be removed by three-quarters of the votes cast by the employees.

The Supervisory Board chooses a Chairman and a Vice Chairman from among its members by a majority vote of its members. If such majority is not reached on the first vote, the Chairman will be chosen solely by the members elected by the shareholders and the Vice Chairman will be chosen solely by the members elected by the employees. Unless otherwise provided for by law, the Supervisory Board acts by simple majority. In the case of any deadlock, the Chairman has the deciding vote.

The members of the Supervisory Board are each elected for the same fixed term of approximately five years. The term expires at the end of the annual general shareholders' meeting after the fourth fiscal year following the year in which the Supervisory Board was elected. Reelection is possible. The term of a member of the Supervisory Board appointed by a court to cure a deficiency in the composition of the Supervisory Board ends at the time when such deficiency is cured. The term of a member of the Supervisory Board elected by the shareholders to succeed a departing member ends at the time when the term of the original member would have ended. A substitute member of the Supervisory Board may be elected by the shareholders at the same time as a member to replace such member in case he or she departs. The term of a substitute member who replaces a departing member ends with the conclusion of the next general shareholders' meeting where members of the Supervisory Board are elected or, at the latest, at the time when the term of the original member would have ended. The remuneration of the members of the Supervisory Board is determined by the Articles of Association.

The Supervisory Board may appoint committees from among its members and may, to the extent permitted by law, vest committees with the authority to make decisions. Currently, two committees exist: the Audit Committee (*Bilanzprüfungsausschuss*) and the Executive Committee (*Ausschuss für Vorstandsangelegenheiten*).

The current members of the Supervisory Board of SAP, each such member's principal occupation, the year in which each was first elected, and the year in which the term of each expires, respectively, are as follows:

<u>Name</u>	<u>Principal Occupation</u>	<u>Year First Elected</u>	<u>Year Term Expires</u>
Dietmar Hopp, Chairman ⁽¹⁾⁽²⁾	Former Co-speaker of SAP's Executive Board	1998	2003
Dr. Wilhelm Haarmann ⁽¹⁾	Attorney, Haarmann, Hemmelrath & Partner	1988	2003
Klaus-Dieter Laidig ⁽¹⁾	Managing Partner, Laidig Business Consulting GmbH	1996	2003
Hartmut Mehdorn ⁽¹⁾	Chairman of Executive Board, Heidelberger Druckmaschinen AG	1998	2003
Dr. Dieter Spöri ⁽¹⁾	Partner, Baumgartner & Partner Unternehmensberatung GmbH	1998	2003
Dr. h.c. Klaus Tschira ⁽¹⁾⁽³⁾	Former Member of SAP's Executive Board	1998	2003
Helga Classen, Vice Chairman ⁽⁴⁾	Employee	1993	2003
Willi Burbach ⁽⁴⁾	Employee	1993	2003
Bernhard Koller ⁽⁴⁾	Employee	1989	2003
Dr. Gerhard Maier ⁽⁴⁾	Employee	1989	2003
Dr. Barbara Schennerlein ⁽⁴⁾	Employee	1998	2003
Alfred Simon ⁽⁴⁾	Employee	1993	2003

(1) Elected by SAP's shareholders on May 7, 1998.

(2) Mr. Hopp is a party to the Pooling Agreement. See "Item 4. Control of Registrant."

(3) Dr. Tschira is a party to the Pooling Agreement. See "Item 4. Control of Registrant."

(4) Elected by SAP's employees on April 3, 1998.

Executive Board (*Vorstand*)

Pursuant to the Articles of Association, SAP's Executive Board must consist of at least two members. Any two members of the Executive Board or one member of the Executive Board and the holder of a procuration (a power of attorney) may legally represent SAP. Each member of the Executive Board is appointed by the Supervisory Board for a maximum term of five years and is eligible for reappointment thereafter. Under certain circumstances, such as a serious breach of duty or a vote of no confidence (*Vertrauensentzug*) by a majority of the holders at a general shareholders' meeting, a member of the Executive Board may be removed by the Supervisory Board prior to the expiration of such term. A member of the Executive Board may not vote on matters relating to certain contractual agreements between such member and the Company and may be liable to SAP if such member has a material interest in any contractual agreement between the Company and a third party which was not disclosed to, and approved by, the Supervisory Board.

The current members of the Executive Board, the year in which each such member was first appointed, and the year in which the term of each expires, respectively, are as follows:

<u>Name</u>	<u>Year First Appointed⁽¹⁾</u>	<u>Year Current Term Expires</u>
Prof. Dr. h.c. Hasso Plattner, Co-Speaker	1988	2002
Prof. Dr. Henning Kagermann, Co-Speaker	1991	2002
Dr. Peter Zencke	1993	2002
Dr. Claus Heinrich	1996	2000
Gerhard Oswald	1996	2000
Paul Wahl	1996	2000

(1) SAP became a stock corporation (*Aktiengesellschaft*) with an Executive Board in 1988.

The members of the Executive Board and a description of their management responsibilities and backgrounds are as follows:

Prof. Dr. h.c. Hasso Plattner, Co-Speaker, 54 years old, engineering graduate. Prof. Dr. h.c. Plattner is one of the Founders of SAP. He became Vice Chairman of the Executive Board in 1988 and Co-Speaker in 1997. He is responsible for basis development and technology, several industry solutions and corporate communications.

Prof. Dr. Henning Kagermann, Co-Speaker, 51 years old, mathematics and physics graduate. Prof. Dr. Kagermann joined SAP in 1982. He became a member of the Executive Board in 1991 and Co-Speaker in 1998. He is responsible for financial development and accounting applications, several industry solutions, international business development and human resources development. He also oversees finance and administration and the management of the European region including Germany.

Dr. Peter Zencke, 48 years old, mathematics and economics graduate. Dr. Zencke joined SAP in 1984 and became a member of the Executive Board in 1993. He is responsible for the R/3 System's logistic applications, development and implementation tools and several industry solutions. He also oversees the Company's operations in Asia-Pacific.

Dr. Claus Heinrich, 43 years old, business management and operations research graduate. Dr. Heinrich joined SAP in 1987. He is responsible for the R/3 System logistic applications as well as several industry solutions and has been involved in logistics development for SAP since 1987.

Gerhard Oswald, 45 years old, economics graduate. Mr. Oswald joined SAP in 1981. Mr. Oswald is responsible for R/3 System services and internal business consulting.

Paul Wahl, 45 years old, is the Chief Executive Officer of SAP America, Inc. Mr. Wahl joined SAP in 1991. He is the member of the Executive Board responsible for operations in the Americas region as well as for worldwide marketing and partner relationships.

Item 11. Compensation of Directors and Officers.

The total remuneration of all members of the Supervisory Board for the year 1997 amounted to DM 1,086,750. In addition to reimbursement of out-of-pocket expenses, members of the Supervisory Board receive an annual fixed payment, which amounts to DM 20,000 for the Chairman, DM 15,000 for the Vice Chairman and DM 10,000 for all other members of the Supervisory Board, plus a variable payment that depends on the dividends based on capital stock paid to SAP's shareholders, *i.e.*, DM 3,500 for each percentage of SAP's share capital constituted by such dividends. Notwithstanding the foregoing, the Chairman, the Vice Chairman and the other members of the Supervisory Board will not receive annual remuneration in excess of DM 280,000, DM 157,500 and DM 70,000, respectively. The total remuneration of all members of the Executive Board for the year 1997 amounted to DM 15,972,681.

Item 12. Options to Purchase Securities from Registrant or Subsidiaries.

1988 Program

In 1988, the Company sponsored an employee convertible bond program (the "1988 Program") to provide an opportunity for its employees to participate in the appreciation in the value of the Ordinary Shares

by issuing 20,000 bonds, each with a nominal amount of DM 50 (the "1988 Bonds") in the aggregate nominal amount of DM 1 million to its employees. Each 1988 Bond accrues interest at a floating rate and is convertible into four Ordinary Shares and one Preference Share. The conversion rights with respect to approximately 99% of the 1988 Bonds have been exercised as of December 31, 1997. At June 18, 1998, 3,950 Ordinary Shares and 990 Preference Shares would be issued upon the conversion of the remaining outstanding 1998 Bonds. The conversion rights of the holders of 1988 Bonds will expire on October 20, 1998.

1994 Program

In 1994, the Company sponsored the 1994 Program to provide an opportunity for its worldwide employees to participate in the appreciation of the value of the DM 50 Preference Shares by issuing 400,000 1994 DM 50 Bonds in the aggregate nominal amount of DM 20 million. On July 17, 1995, SAP effected a 1:10 stock split with respect to 1,950,000 DM 50 Preference Shares to reflect the reduction in the nominal value of such DM 50 Preference Shares from DM 50 to DM 5. The 1994 DM 50 Bonds were split accordingly into 4,000,000 1994 Bonds. Each 1994 Bond accrues interest at the rate of 6% per annum and is convertible into one Preference Share at the conversion price of DM 100. Under the 1994 Program, the Company issued 1994 Bonds in the aggregate nominal amount of approximately DM 11.4 million (the "German 1994 Bonds") to Volksbank Wiesloch eG, which holds such German 1994 Bonds as a trustee for the Company's German employees participating in the 1994 Program. The conversion rights with respect to the German 1994 Bonds became exercisable for the first time on September 30, 1996 and may be exercised thereafter on each June 30, July 31, August 31, September 30, October 31, and November 30, until June 30, 2004. In respect of the Company's non-German employees participating in the 1994 Program, the Company issued 1994 Bonds in the aggregate amount of approximately DM 8.6 million (the "Non-German 1994 Bonds") to Volksbank Wiesloch eG, which acts as trustee for a special purpose vehicle (the "Administrator"), whereupon the Administrator issued to such employees participation rights (the "Rights") related to the Preference Shares into which the Non-German 1994 Bonds are convertible. Upon an employee's exercise of his or her Rights, an appropriate number of Non-German 1994 Bonds would be converted into Preference Shares and those Preference Shares promptly sold on the open market in order to obtain cash to pay the value of the exercised Right. The Rights became exercisable for the first time on September 30, 1996 and may be exercised thereafter on each June 30, July 31, August 31, September 30, October 31 and November 30, until June 30, 2004. The cash payout price approximates the market price of the Preference Shares sold, less DM 100 per Preference Share and certain other costs. At June 18, 1998, 23.5% of the 1994 Bonds remained outstanding and 941,761 Preference Shares would be issued upon the conversion thereof.

Stock Appreciation Rights Plan

The Company's SAR Plan provides for the grant of SARs to Executive Board members and eligible employees of SAP and its wholly-owned subsidiaries. The SAR Plan is administered by SAP's Executive Board with respect to eligible employees and by the Supervisory Board with respect to Executive Board members. The Executive Board or the Supervisory Board, as applicable, has the authority to determine (i) the persons to whom grants may be made under the SAR Plan, provided that, except for the May 1998 Awards, they have been employed by the Company for two years as of the date of grant, (ii) the size and other terms and conditions of each grant, (iii) the time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for vesting and the acceleration of vesting, and (iv) any other matters arising under the SAR Plan.

On May 1, 1998, the Executive Board granted the May 1998 Awards, consisting of 1.1 million SARs, to employees who were employed by the Company on or prior to June 30, 1996. The May 1998 Awards entitle the eligible employee to receive a portion of the appreciation in the price of Preference Shares during the measuring period that begins when the grant price is set and ends when the end price is set approximately one year later. The grant price is DM 785 (which was the average closing price of a Preference Share over the 10 business days beginning on March 26, 1998 and ending on April 8, 1998). The end price is the average closing price of a Preference Share over the 10 business days immediately following the date of the announcement of SAP's first quarter earnings in 1999. For each SAR awarded under the May 1998 Awards, the eligible

employee will be entitled to receive cash equal to 100% of the first DM 100 increase, 50% of the next DM 100 increase and 25% of any additional increase in the value of the Preference Shares over the measuring period. Payment of the May 1998 Awards will be made in three equal installments in July 1999, January 2000 and July 2000, provided that (subject to certain exceptions) the eligible employee continues to be actively employed on such dates. Any amounts accrued under the SAR Plan will be recorded as compensation expense in the Company's consolidated income statements and may negatively impact the Company's results of operations, earnings per share and cash flows.

German Employee Stock Purchase Plan

SAP maintains two employee stock purchase plans for its German employees: (i) an ongoing payroll deduction plan (the "German Payroll Deduction Plan"); and (ii) an annual purchase plan (the "German Annual Plan"). Under the German Payroll Deduction Plan, eligible German employees are able to purchase Preference Shares or Ordinary Shares through payroll deductions of up to 10% of the gross monthly salary of an employee and Company contributions of 15% of the Preference Share or Ordinary Share purchase price as well as the assumption of ancillary purchase expenses. As soon as the amount available for an employee is sufficient together with the Company contribution to purchase a Preference Share or an Ordinary Share, such purchase is effected at the market price and credited to the employee's account. The acquired shares are not subject to a holding period. Under the German Annual Plan, eligible German employees may buy a determined number of Preference Shares per year on a set date from the Company's shareholding, with a Company contribution and the participating employee's contribution, which for 1998 amounted to DM 500 (as well as the assumption of ancillary purchase expenses) and DM 249.30, respectively. The acquired shares are transferred to a special account of the participating employee, where they are subject to a holding period of six years. Employees must elect each year to participate in the German Annual Plan.

United States Employee Stock Purchase Plan

United States employees of the Company are entitled to participate in an employee stock purchase plan (the "U.S. Stock Purchase Plan"), pursuant to which an administrator makes open market purchases of Unrestricted ADSs for the accounts of participating employees on a semi-monthly basis. Such purchases are made out of amounts deducted from each participating employee's salary. The Company does not make any contributions in connection with the U.S. Stock Purchase Plan.

The Company is currently considering introducing an employee stock purchase plan for its non-German employees similar to the German Payroll Deduction Plan.

Item 13. *Interest of Management in Certain Transactions.*

For the years ended December 31, 1997, 1996 and 1995, certain members of the Executive Board had interest-free loans outstanding from the Company in the amount of DM 8,500, DM 274,000 and DM 414,500, respectively. At December 31, 1997, these loans had a maturity of four to five years. In addition, for the years ended December 31, 1997, 1996 and 1995, certain members of the Executive Board had loans bearing interest at 6% per annum outstanding from the Company in the amount of DM 0, DM 75,000 and DM 200,000, respectively. Members of the Supervisory Board had interest-free loans outstanding from the Company of DM 66,750, DM 44,000 and DM 23,000 at December 31, 1997, 1996 and 1995, respectively.

In the third quarter of 1997, the Company acquired a 25.2% interest in IDS from IDS's existing shareholders and directly from IDS pursuant to a capital increase. The principal shareholder of IDS is Prof. Dr. August Wilhelm Scheer, who was a member of SAP's Supervisory Board at the time of such acquisition.

In October 1997, the Company entered into a consulting agreement with a company controlled by Klaus-Dieter Laidig, a member of SAP's Supervisory Board. In April 1998, the Company entered into a software license agreement with Golfplatzbeteiligung AG, a company controlled by Dietmar Hopp, who is Chairman of SAP's Supervisory Board. In March 1998, the Company entered into a software license agreement with St. Leon Rot GmbH & Co., a company controlled by Prof. Dr. h.c. Hasso Plattner, who is

Co-Speaker of SAP's Executive Board. The Company believes that the terms of each of the three agreements described above are on terms no less favorable than are included in similar agreements with unaffiliated third parties.

Dr. Wilhelm Haarmann, a member of SAP's Supervisory Board, is a partner in Haarmann Hemmelrath & Partner, which serves as special German tax counsel to the Company and counsels the Company with regard to other legal matters.

PART II

Item 14. *Description of Securities to be Registered.*

The following general description of the share capital of SAP and description of the material terms of the Preference Shares does not purport to be complete and is qualified in its entirety by reference to SAP's organizational documents, including the Articles of Association. For information with respect to the Deposit Agreement pursuant to which Preference Shares will be held on behalf of U.S. shareholders, see "— Description of ADSs."

Share Capital

The share capital (*Grundkapital*) of SAP consists of the Ordinary Shares and the Preference Shares. At June 18, 1998, the issued share capital of SAP amounted to DM 521,516,495, consisting of (i) 60,996,050 Ordinary Shares and (ii) 43,307,249 Preference Shares. All of the issued Ordinary Shares and Preference Shares are in bearer form. Prior to July 17, 1995, the share capital of SAP consisted only of DM 50 Ordinary Shares and DM 50 Preference Shares. On that date, pursuant to an amendment of the German Stock Corporation Act (*Aktiengesetz*) which permitted stock corporations to lower the minimum nominal value of their share capital to DM 5, SAP effected a 1:10 stock split with respect to 706,000 DM 50 Ordinary Shares and 1,950,000 DM 50 Preference Shares to reflect the reduction in the nominal value of such DM 50 Ordinary Shares and DM 50 Preference Shares from DM 50 to DM 5. On May 7, 1998, SAP's shareholders passed a resolution converting SAP's share capital to no nominal value shares, in accordance with recently enacted amendments to the German Stock Corporation Act. This resolution took effect on June 16, 1998, when it was recorded in the commercial register in Heidelberg, Germany.

Generally, SAP's share capital may be increased and new shares corresponding to the increased share capital may be issued in consideration of contributions in cash or in property and upon prior approval at a general shareholders' meeting. If SAP plans to issue new Ordinary Shares against a contribution in cash or kind, a resolution approving such increase must be passed by the holders of two-thirds of the Ordinary Shares present at the annual general shareholders' meeting scheduled to vote on the subject. If SAP plans to issue new Preference Shares against a contribution in cash or kind, a resolution approving such increase must be passed by the holders of three-fourths of the Ordinary Shares and Preference Shares present at the annual general shareholders' meeting scheduled to vote on the subject.

The Articles of Association provide for: (a) a conditional increase of SAP's share capital (*bedingtes Kapital*), pursuant to which such share capital increase will become effective and Ordinary Shares and Preference Shares will be issued, if and to the extent that the holders of the 1988 Bonds exercise their conversion rights; and (b) a conditional increase of SAP's share capital (*bedingtes Kapital*), pursuant to which such share capital increase will become effective and Preference Shares will be issued, if and to the extent that the holders of the 1994 Bonds exercise these conversion rights. On May 7, 1998, SAP's shareholders approved resolutions: (i) authorizing the Executive Board, with the Supervisory Board's approval, to increase SAP's share capital up to a total of DM 10 million by issuing Preference Shares by May 15, 2000, subject to the preemptive rights of existing holders of Preference Shares; (ii) converting from DM to EURO the share capital of SAP as well as other provisions of the Articles of Association referring to DM, to take effect as soon as the legal requirements therefor are met and the rate for the conversion from DM to EURO is fixed; and (iii) authorizing SAP to acquire and cancel up to 10 million Preference Shares and Ordinary Shares prior to October 31, 1999.

Description of Preference Shares

Voting Rights

Holders of Preference Shares are generally not entitled to vote at general meetings of SAP's shareholders. Under the German Stock Corporation Act, the holders of Preference Shares (i) are entitled to vote on matters affecting their preferential rights, such as changes in the rate of the preferential dividend or the issuance of additional Preference Shares or other share capital that rank equal to or above the Preference Shares and (ii) will have the same voting rights as the holders of Ordinary Shares if (x) the preferential dividend is not paid in full for a year and (y) the shortfall is not made up in the following year or the following year's preferential dividend is not paid in full. The voting rights will remain effective until the shortfall and all preferential dividends that fall due prior to the payment of the shortfall have been paid in full. Any vote taken on matters adversely affecting the preferential rights of the holders of Preference Shares requires a majority of 75% of votes cast in the meeting of holders of Preference Shares at which the vote is taken.

Each Ordinary Share and, in the circumstances described above, each Preference Share entitles the holder thereof to one vote at a general shareholders' meeting. Resolutions are passed at a general shareholders' meeting by a majority of the votes cast, unless a larger majority is required by law, in which case the Articles of Association provide that (unless the size of the larger majority so required by law is mandated by applicable law) a majority of two-thirds of the represented share capital is required. Neither the German Stock Corporation Act nor the Articles of Association have any minimum quorum requirements applicable to general shareholders' meetings.

Dividend and Liquidation Rights

Dividends are jointly proposed by the Supervisory Board and the Executive Board, based on the Company's year-end financial statements, subject to approval by holders of Ordinary Shares, and are officially declared in respect of the prior year at the annual general shareholders' meeting. SAP's annual general shareholders' meeting is usually convened during the second quarter of each year. Historically, SAP has declared and paid its dividends in Marks. Since Ordinary Shares and Preference Shares are in bearer form, dividends are either remitted to the custodian bank on behalf of such shareholder, generally within one business day following the annual general shareholders' meeting, or, in the case of shareholders holding physical certificates, available promptly following the annual general shareholders' meeting upon submission of the dividend coupon to the paying agent therefor. Record holders of the ADSs on the dividend record date will be entitled to receive payment in full of the dividend declared in respect of the year for which it is declared. Cash dividends payable to such holders will be paid to the Depository in Marks and, subject to certain exceptions, will be converted by the Depository into Dollars. See "— Description of ADSs." The amount of dividends received by holders of ADSs may be affected by fluctuations in exchange rates. See "Item 8. Selected Consolidated Financial Data — Dividends." Dividends paid to holders of the ADSs or Preference Shares may be subject to German withholding tax. See "Item 7. Taxation." The amount of dividends paid on the Preference Shares depends on the amount of profits to be distributed by SAP.

For each fiscal year, the Supervisory Board and the Executive Board ratify the financial statements and recommend the disposition of all unappropriated profits of the Company, including the amount of net profits which will be distributed in the form of dividends among the holders of Ordinary Shares and Preference Shares, subject to (i) the requirements of law regarding the amounts to be attributed to SAP's reserves (*gesetzliche Rücklage*) and (ii) the entitlement of the Supervisory Board and the Executive Board to allocate net profits to SAP's earned surplus (*Gewinnrücklage*) (subject to a ceiling as provided in the Articles of Association).

A holder of Preference Shares is entitled to a cumulative annual preferred dividend which exceeds the annual dividend paid to a holder of Ordinary Shares by an amount equal to DM 0.05 per Preference Share but in any event no less than DM 0.05 per Preference Share.

In accordance with the German Stock Corporation Act, upon a liquidation of SAP, any liquidation proceeds remaining after paying off all of the Company's liabilities will be distributed among the holders of

Ordinary Shares and Preference Shares in proportion to the amount of the share capital represented by the shares held by each holder. The Ordinary Shares and the Preference Shares rank *pari passu* with respect to their rights to liquidation proceeds.

Preemptive Rights

Under the German Stock Corporation Act, an existing shareholder in a stock corporation, including a holder of non-voting preferred stock, such as the Preference Shares, has a preemptive right to subscribe for issues by such corporation of shares, debt instruments convertible into shares and participating debt instruments in proportion to the shares held by such shareholder in the existing capital of such corporation. Preemptive rights can only be excluded by a shareholder resolution passed at the same time as the resolution authorizing the capital increase by a majority of at least three quarters of the voting stock present at the meeting. Holders of non-voting preferred stock also must approve an exclusion of preemptive rights with a separate vote by a majority of at least three quarters of the non-voting preferred stock present at the meeting, unless such exclusion relates only to the preemptive rights of the holders of common stock. In addition, the Executive Board must provide a written report to the shareholders containing a material justification for the exclusion of preemptive rights by showing that the Company's interest in the exclusion of the preemptive rights outweighs the shareholders' interest in exercising their preemptive rights. No specific justification is necessary if: (i) the share capital is increased for cash contributions, (ii) the amount of such increase does not exceed 10% of the issued share capital, and (iii) the shares are sold at a price which is not substantially lower than the current quoted share price. Preemptive rights are generally transferable and are traded on the German stock exchanges for a limited period of time prior to the final date for the exercise of such rights.

Rule 144 Facilities and Unrestricted Facility

In 1995, SAP sponsored the 1995 Rule 144A Facility and the Unrestricted Facility. In 1996, SAP sponsored the 1996 Rule 144A Facility. The Bank of New York is the depository for all three facilities. The 1995 Rule 144A Facility was created in connection with an offering on May 31, 1995 pursuant to Rule 144A under the Securities Act by four of the Founders to certain "qualified institutional buyers" in the United States of ADSs representing 100,000 Preference Shares. The 1996 Rule 144A Facility was created in connection with an offering on August 14, 1996 pursuant to Rule 144A under the Securities Act by a principal shareholder of SAP to certain "qualified institutional buyers" in the United States of ADSs representing 1,128,485 Preference Shares. The Rule 144A ADSs are eligible for trading in the PORTAL System of the National Association of Securities Dealers, Inc. The 1995 Rule 144A Facility was closed to new deposits of Preference Shares on January 26, 1996. The Unrestricted Facility is open to holders of unrestricted ADRs. The Unrestricted ADRs were registered with the SEC, thereby enabling such holders to trade in the over-the-counter market and on the Nasdaq bulletin board. See "Item 5. Nature of Trading Market."

The Company intends to conduct the Exchange Offer, whereby it will offer to exchange four ADSs for each outstanding Rule 144A ADS. The ADSs issued pursuant to the Exchange Offer will be registered with the SEC pursuant to the Form F-1. The ADSs will be substantially identical to the Rule 144A ADSs except that (i) the Rule 144A ADSs are only accepted for quotation in the United States on the PORTAL System of the National Association of Securities Dealers, Inc. whereas the ADSs may be eligible for listing on a United States national securities exchange or quotation on a United States inter-dealer system and (ii) resale of the ADSs will not be subject to the restrictions contained in the Rule 144A Deposit Agreements. Upon commencement of the Exchange Offer, the Company intends to direct the Rule 144A ADS Depository to terminate the respective Rule 144A Deposit Agreements, in accordance with their terms, which will adversely affect the trading market for Rule 144A ADSs that are not tendered in the Exchange Offer.

Description of ADSs

ADSs relating to Preference Shares will be evidenced by ADRs and will be issuable pursuant to a Deposit Agreement among SAP, The Bank of New York, as depository (the "Depository"), and the owners and holders of ADRs (the "Deposit Agreement"). As used herein, "ADR Owner" means the person in whose name an ADR is registered on the books of the Depository and "ADR Holder" means any person who has a

beneficial interest in any ADR or ADS. The following is a summary of material provisions of the Deposit Agreement. It does not purport to be a complete statement of all the terms and conditions of the Deposit Agreement and is therefore qualified in its entirety by reference to the Deposit Agreement. The Deposit Agreement will also govern the Unrestricted ADSs and, accordingly, the Deposit Agreement is filed as an exhibit to a post-effective amendment to the Form F-6 pursuant to which the Unrestricted ADSs were registered under the Securities Act. Copies of the Deposit Agreement will be available for inspection at the Corporate Trust Office of the Depository, currently located at 101 Barclay Street, New York, New York 10286. The Depository's principal executive office is located at 48 Wall Street, New York, New York 10286.

American Depositary Receipts

ADRs evidencing ADSs will be executed and delivered by the Depository pursuant to the Deposit Agreement. Each ADS represents one-twelfth of one Preference Share, or evidences the right to receive one-twelfth of one Preference Share. The Preference Shares represented by the ADSs will be held in the account of the Depository at the Frankfurt/Main office of DG Bank Deutsche Genossenschaftsbank, as custodian and agent of the Depository (the "Custodian") or at *Deutsche Börse Clearing AG* and are, together with any additional Preference Shares at any time deposited or deemed deposited under the Deposit Agreement and any and all other securities and/or cash received by the Depository or the Custodian in respect or in lieu of such Preference Shares, considered as the "Deposited Securities". Only persons in whose names ADRs are registered on the register of the Depository will be treated by the Depository and SAP as owners of such ADRs.

ADSs will represent Preference Shares in bearer form. Pursuant to the terms of the Deposit Agreement and under German law, ADR Owners and ADR Holders will be subject to any applicable disclosure requirements regarding acquisition and ownership of Preference Shares that are applicable to Preference Shares pursuant to German law, as amended from time to time. See "Item 4. Control of Registrant." Failure to comply with such disclosure requirements may, for so long as such failure continues, result in the withholding of certain rights, including voting, dividend and other rights relating to Deposited Securities. In order to facilitate compliance with these notification requirements, an ADR Owner or ADR Holder may deliver such notification to the Depository with respect to Preference Shares represented by ADSs and the Depository shall, as soon as practicable thereafter, forward such notification to SAP.

Deposit, Transfer and Withdrawal of Preference Shares and Issuance of ADRs

Upon deposit with the Custodian of Preference Shares or evidence of rights to receive Preference Shares, accompanied by any appropriate instruments of transfer or endorsement, and any dividend coupons for dividends to be paid in the future or rights to receive in the future such dividend coupons, if any, and upon payment of applicable fees, taxes and other charges, the Depository will, subject to the terms of the Deposit Agreement, execute and deliver an ADR or ADRs registered in the name of the person depositing such Preference Shares or as directed by such person for the number of ADSs representing such deposited Preference Shares. Each deposit of Preference Shares will be accompanied by evidence satisfactory to the Depository that all conditions to such deposit under German law will have been satisfied and that all necessary German governmental approvals have been granted and, if required by the Depository, an agreement or assignment, or other instrument satisfactory to the Depository which will provide for the prompt transfer to the Custodian of any dividend, right to subscribe for additional Preference Shares or any other securities or right to receive other property or right to vote which any person depositing Preference Shares may thereafter receive. Notwithstanding the foregoing, subject to the terms and conditions described below, the Depository may also issue ADRs prior to receipt of Preference Shares by the Custodian.

Upon surrender of ADRs at the Corporate Trust Office of the Depository for the purpose of withdrawal of the Preference Shares represented by the ADSs evidenced thereby, and upon payment of the fees of the Depository and all taxes and governmental charges, if any, payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of the Deposit Agreement and the Articles of Association, the Deposited Securities and applicable law, ADR Owners and ADR Holders are

entitled to due assignment, transfer and delivery of all right, title, legal ownership and interest, of such whole number of Deposited Securities requested to be withdrawn at the time represented by the ADS or ADSs evidenced by such ADR to the account of a German securities bank with *Deutsche Börse Clearing AG* or through the facilities of Cedel S.A. or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (“Euroclear”), or in the form of certificated Preference Shares and delivery to the ADR Owner or as ordered by it of any other securities, property and cash to which such ADR Owner or ADR Holder is entitled in respect of the ADRs surrendered and a new ADR for the number of ADSs representing any fractional Deposited Securities and any Deposited Securities not being withdrawn, except that the Depositary may deliver any dividends or distributions with respect to the Preference Shares represented by the ADSs or any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary at its Corporate Trust Office.

Pre-Releases

Subject to the terms and conditions of the Deposit Agreement and any limitations established by the Depositary, unless requested by SAP to cease doing so, the Depositary may deliver ADRs prior to the receipt of Preference Shares (a “Pre-Release”), may deliver Preference Shares upon the receipt and cancellation of ADRs which have been Pre-Released whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such ADR has been Pre-Released, and may receive ADRs in lieu of Preference Shares in satisfaction of a Pre-Release of ADRs. In no event will the Depositary deliver Preference Shares prior to the receipt and cancellation of ADRs. Each Pre-Release must be (a) preceded or accompanied by a written representation and agreement from the person to whom the Preference Shares or ADRs are to be delivered (the “Pre-Releasee”) that such Pre-Releasee, or its customer, (i) owns the Preference Shares or ADRs to be remitted, as the case may be, (ii) assigns all beneficial right, title and interest in such Preference Shares or ADRs to the Depositary for the benefit of the owners of the Preference Shares or ADRs, and (iii) will not take any action with respect to such Preference Shares or ADRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Preference Shares or ADRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, government securities or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five business days’ notice and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Company will not incur any liability to any ADR Owner or ADR Holder as a result of any Pre-Release transaction. The Depositary will also set dollar limits with respect to Pre-Release transactions to be entered into under the Deposit Agreement with any Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. The collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee’s obligation to deliver Preference Shares or ADRs upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities under the Deposit Agreement). The number of Preference Shares not deposited but represented by ADRs outstanding at any time as a result of Pre-Releases will not normally exceed 30% of the Preference Shares deposited under the Deposit Agreement. The Depositary may retain for its own account any compensation received by it in connection with the foregoing. The Company shall have no liability to any Holder or Owner with respect to any representations, actions or omissions by the Depositary, or any of its agents, pursuant to the section of the Deposit Agreement regarding Pre-Releases.

Dividends, Other Distributions and Rights

Whenever the Depositary, or, on its behalf, its agent, receives any cash dividend or other cash distribution on any Deposited Securities, which dividend or distribution is denominated in currency other than Dollars (“Foreign Currency”), the Depositary will, or will cause its agent, as promptly as practicable after receipt of such dividend or distribution, to, convert such Foreign Currency into Dollars; provided, however, that such Foreign Currency can, in the reasonable judgment of the Depositary, be converted on a reasonable basis into Dollars transferable to the United States. Upon conversion, the amount received and subsequently converted will be distributed as promptly as practicable (net of reasonable and customary expenses incurred by the

Depository in converting such Foreign Currency) to the ADR Owners entitled thereto, in proportion to the number of ADSs representing Deposited Securities evidenced by ADRs held by them respectively. The amount distributed will be reduced by any amounts required to be withheld by SAP or the Depository, including amounts on account of any applicable taxes and certain other expenses. For further details about applicable taxes, see “Item 7. Taxation — German Taxation of Holders of Preference Shares or ADSs — German Taxation of Dividends” and “Item 7. Taxation — United States Taxation of United States Holders of Preference Shares or ADSs — Distributions.” If the Depository determines in its judgement that any Foreign Currency received by it cannot, pursuant to applicable law, be so converted on a reasonable basis into U.S. Dollars transferable to the United States, or if any approval or license necessary for conversion is denied or in the reasonable opinion of the Depository is not obtainable or if any such approval or license is not obtained within a reasonable period as determined by the Depository, the Depository may in its discretion distribute such Foreign Currency received by the Depository to, or may hold such Foreign Currency uninvested and without liability for interest for the respective accounts of, the ADR Owners entitled to receive the same. If any such conversion of Foreign Currency cannot be effected for distribution in Dollars to some of the ADR Owners entitled thereto, the Depository may in its discretion make such conversion and distribution in U.S. Dollars to the extent permissible to the ADR Owners entitled thereto, and may distribute the balance of the Foreign Currency received by it to, or hold such balance uninvested for the respective accounts of, the ADR Owners entitled thereto.

If SAP declares a dividend in, or free distribution of, additional Preference Shares, upon receipt by or on behalf of the Depository of additional Preference Shares, the Depository may, and upon the request of SAP will, distribute to ADR Owners, in proportion to the number of ADSs representing Deposited Securities evidenced by ADRs held by them, additional ADRs for an aggregate number of ADSs representing the number of Preference Shares so received as such dividend or free distribution, in each case subject to the terms and conditions of the Deposit Agreement, including the withholding of taxes or any other governmental charges and the payment of fees required under the Deposit Agreement. If such adjustments in the record of the Depository are not made or additional ADRs are not so issued, each ADS shall thereafter also represent the additional securities distributed in respect of the Preference Shares represented by such ADS prior to such dividend or free distribution. In lieu of delivering ADRs for fractional ADSs in the event of any such distribution, the Depository will sell the amount of Preference Shares represented by the aggregate of such fractions and will distribute the net proceeds, converted into U.S. Dollars if in a Foreign Currency, to ADR Owners in accordance with the terms and conditions of the Deposit Agreement. The Depository may withhold any such distribution of ADSs or ADRs if it has not received satisfactory assurances from SAP that such distribution does not require registration under the Securities Act or is exempt from registration under the provisions of the Securities Act. If for any reason (including any requirement that SAP or the Depository withhold an amount on account of taxes or other governmental charges or that such Preference Shares must be registered under the Securities Act in order to be distributed to ADR Owners or ADR Holders) the Depository determines that it is not lawful and feasible to make a distribution of Preference Shares to all ADR Owners or to certain ADR Owners, the Depository may adopt such method as it may deem lawful, equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the Preference Shares thus received, or any part thereof, and the net cash proceeds of any such sale will be distributed by the Depository to the ADR Owners entitled thereto as in the case of a distribution received in cash.

If SAP offers, or causes to be offered, to the owners of Deposited Securities any rights to subscribe for additional Preference Shares or any rights of any other nature, the Depository will, following consultation with the Company as to the procedure to be followed, (i) make such rights available to ADR Owners, (ii) dispose of such rights on behalf of any ADR Owners and make the net proceeds available in Dollars to such ADR Owners or (iii) allow the rights to lapse if, by the terms of such rights offering or for any other reason, the Depository may not either make such rights available to any ADR Owner or dispose of such rights and make the proceeds available to such ADR Owners. If at the time of the rights offering the Depository, following consultation with the Company, determines it to be lawful and feasible to make such rights available to all or to certain but not to other ADR Owners, the Depository may make such rights available to such ADR Owners to whom it determines such distribution, following consultation with the Company, to be lawful and feasible

through the distribution in proportion to the number of ADSs evidenced by ADRs held by such ADR Owners, of rights, warrants or other instruments therefor in such form and upon such terms and representations as it may determine. If the Depositary determines, following consultation with the Company, that it is not lawful or feasible to make such rights available to all or certain ADR Owners, it may sell the warrants or other instruments and allocate the net proceeds of such sales (net of the fees of the Depositary as provided in the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement), converted into U.S. Dollars if in a Foreign Currency, for the account of such ADR Owners otherwise entitled to such rights, warrants or other instruments as in the case of a distribution received in cash, upon an averaged or other practical basis without regard to any distinctions among such ADR Owners because of exchange restrictions or the date of delivery of any ADR or otherwise.

The Depositary will not offer rights to ADR Owners unless both the rights and the securities to which such rights relate either are exempt from registration under the Securities Act with respect to a distribution to all ADR Owners or are registered under the provisions of the Securities Act. If an ADR Owner requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act, the Depositary will not effect such distribution unless it has received an opinion from counsel in the United States for SAP upon which it may rely that such distribution to such ADR Owner is exempt from such registration. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to ADR Owners in general or any ADR Owner in particular.

If the Depositary has distributed warrants or other instruments for rights to all or certain ADR Owners, then upon instruction of such ADR Owner pursuant to such warrants or other instruments to the Depositary to exercise such rights, upon payment by such ADR Owner to the Depositary for the account of such ADR Owner of an amount equal to the purchase price of the Preference Shares receivable upon exercise of such rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such ADR Owner, exercise the rights and purchase the Preference Shares, and SAP will cause the delivery of such Preference Shares to the Depositary on behalf of such ADR Owner. As agent for such ADR Owner, the Depositary will cause such Preference Shares to be deposited as described above and execute and deliver ADRs to such ADR Owner as described above. See “— Description of American Depositary Shares — Deposit and Withdrawal of Shares and Issuance of Receipts.”

Whenever the Custodian or the Depositary will receive any distribution other than cash, Preference Shares or rights in respect of the Preference Shares, the Depositary shall, as promptly as practicable, cause the securities or property received by it or the Custodian to be distributed to the ADR Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to their holdings, respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if SAP so directs or in the reasonable opinion of the Depositary such distribution cannot be made proportionately among the ADR Owners entitled thereto, or if for any other reason (including any requirement that SAP or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed) the Depositary deems such distribution not to be lawful or feasible, the Depositary may adopt such method as it may reasonably deem lawful, equitable and practicable for the purpose of effecting such distribution, including the sale (public or private) of the securities or property thus received, or any part thereof, and the net cash proceeds of any such sale will be distributed by the Depositary to the ADR Owners entitled thereto as in the case of a distribution received in cash. To the extent such securities or property or the net proceeds thereof are not effectively distributed to ADR Owners as provided in this paragraph, each ADS shall thereafter also represent the additional securities or property distributed in respect of the Preference Shares represented by such ADS prior to such distribution.

If the Depositary determines that any distribution of property (including Preference Shares and rights to subscribe therefor) is subject to any taxes or governmental charges that the Depositary is obliged to withhold, the Depositary may, by public or private sale, dispose of all or a portion of such property in such amounts and

in such manner as the Depositary deems necessary and practicable to pay such taxes or governmental charges, and thereafter will distribute the net proceeds of any such sale after deduction of such taxes or governmental charges to the ADR Owners entitled thereto in proportion to the number of ADRs held by them respectively.

Upon any change in nominal or par value, any split-up, consolidation or other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting SAP or to which it is a party, any securities that shall be received by the Depositary or the Custodian in exchange for, in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and ADSs shall thereafter represent the new securities so received in exchange or conversion, unless additional ADSs are issued. In any such case the Depositary may, and upon the request of SAP shall, execute and deliver additional ADRs as in the case of a distribution in Preference Shares, or call for the surrender of outstanding ADRs to be exchanged for new ADRs specifically describing such new Deposited Securities. In the event that any securities so received may not be lawfully distributed to some or all ADR Owners, the Depositary may, and if SAP so requests shall, sell such securities at a public or private sale and allocate the net proceeds of such sale for the account of the ADR Owners otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions among such ADR Owners and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash.

Record Dates

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Preference Shares that are represented by each ADS, or whenever the Depositary shall receive notice of any meeting of holders of Preference Shares or other Deposited Securities, or whenever the Depositary finds that it is necessary or convenient in respect of any matter, the Depositary shall fix a record date which shall be, to the extent practicable, the same date as the record date for the Preference Shares or other Deposited Securities, as the case may be, or as close thereto as practicable, after consultation with SAP, (a) for the determination of the ADR Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to exercise, or give instructions for the exercise of, voting rights at any such meeting, or (b) for fixing the date on or after which each ADS will represent the changed number of Preference Shares.

Voting of Deposited Securities

Upon receipt of (a) notice from the Company of any meeting of holders of Preference Shares or other Deposited Securities (the "Notice"), (b) the statement of the Custodian or such other major commercial German bank as may be reasonably chosen by the Depositary to act as a proxy bank (the "Proxy Bank"), setting forth its recommendations with regard to voting of the Preference Shares represented by ADSs as to any matter which is set forth in the notice from the Company on which a vote is to be taken by holders of Preference Shares represented by ADSs, together with an English translation thereof (the "Recommendation"), unless otherwise requested by SAP, the Depositary shall, as soon as practicable thereafter, mail to all ADR Owners a notice containing (i) such information as is contained in the notice of such meeting sent by SAP to the Depositary, (ii) a statement that each ADR Owner and Holder ("Voters") at the close of business on a specified record date will be entitled, subject to any applicable provisions of German law, the Articles of Association, the ADR and the Deposited Securities, to exercise, or to give instructions for the exercise of, the voting rights, if any, pertaining to the whole number of Preference Shares or other Deposited Securities evidenced by such ADR Owner's ADSs, (c) the Recommendation and (d) a statement as to the manner in which such instructions may be given including an express indication that if no voting instructions are received on or before the date established by the Depositary for such purpose in accordance with the Deposit Agreement (the "Instruction Date") then the Holders shall in each case be deemed to have instructed the Depositary to vote the shares or cause the shares to be voted in accordance with the Recommendation. See "— Description of Preference Shares — Voting Rights."

Voting rights with respect to the ADRs representing ADSs may be exercised only in respect of 12 ADSs or integral multiples thereof. Pursuant to the terms of the Deposit Agreement, and under German law, holders and beneficial owners of ADRs will be subject to any disclosure requirements regarding acquisition and ownership of Preference Shares as are applicable to Preference Shares pursuant to the terms of the Articles of Association of SAP or German law, as each may be amended from time to time. Failure to comply with such disclosure requirements will, for so long as such failure continues, disqualify such ADR Owner from exercising voting rights.

Each ADR Owner who desires to exercise, or give instructions for the exercise of, voting rights shall be required to execute and return to the Depositary on or before the Instruction Date, a document provided by the Depositary which (a) either (i) authorizes such Voter's ADSs to be delivered to a blocked account established for such purpose at the Depositary Trust Corporation (the "DTC") (as provided below), or (ii) instructs the Depositary to block the Preference Shares without delivering the ADSs to the Depositary or (b) instructs the Depositary as to how the whole number of Preference Shares or other Deposited Securities represented by the ADSs evidenced by such ADRs are to be voted.

Upon the written request of a Voter, as applicable, on such record date, received on or before the Instruction Date, the Depositary shall endeavor, insofar as practicable and permitted under German law, the Articles of Association and the ADRs, to vote or cause to be voted the amount of Preference Shares or other Deposited Securities so represented in accordance with the instructions set forth in such request. The Company agrees, without any liability to the Voters arising hereunder, to provide notice, to the extent practicable, of any meeting of Voters of Shares or other Deposited Securities containing the requisite information, together with English translations, to the Depositary within the twelve days following the publication of the invitation to the shareholders meeting in the German Federal Gazette. Voting rights may be exercised only in respect of twelve (12) ADSs, or integral multiples thereof. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Preference Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions received from the Voters, as applicable, as of such record date.

If no specific voting instructions are received by the Depositary from any Voter (to whom Notice was sent by the Depositary) with respect to the Deposited Securities represented by the ADSs evidenced by such ADRs on or before the Instruction Date, such Voter shall be deemed, and the Depositary shall deem such Holder, to have instructed the Depositary to vote such Deposited Securities or to cause such Deposited Securities to be voted in accordance with the Recommendation. In no event may the Depositary itself exercise any voting discretion over any Shares or other Deposited Securities.

Anything in the Deposit Agreement to the contrary notwithstanding, in the event that the Proxy Bank shall fail to supply the Recommendation to the Depositary at least 21 calendar days prior to any meeting of holders of Preference Shares represented by ADSs or other Deposited Securities with respect to which the Depositary has received notice from the Company, the Depositary shall mail the Notice (which in this case will not contain the Recommendation or the indication concerning the proxy to be given to the Proxy Bank) to the Voters as herein above provided, and, thereafter, in any case in which no specific voting instructions are received by the Depositary from a Voter on or before the Instruction Date with respect to the Deposited Securities represented by the ADSs evidenced by such ADRs, no votes shall be cast at such meeting with respect to such Deposited Securities.

Nothing in the Deposit Agreement shall be construed to grant to a Voter any voting rights with respect to Deposited Securities to which, by their terms, voting rights do not otherwise attach.

Reports and Notices

The Depositary will make available for inspection by ADR Owners at its Corporate Trust Office any reports, notices and other communications, including any proxy soliciting material, received from SAP, which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of Deposited Securities by SAP. The Depositary will also send to ADR Owners copies of such reports when furnished by SAP pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by SAP shall be furnished in English only to the extent that such materials are required to be translated into English pursuant to any regulations of the SEC.

Disclosure of Interests

To the extent that provisions of, or governing, any Deposited Securities (including the Articles of Association or applicable law) may require disclosure of beneficial or other ownership of Deposited Securities, other Preference Shares or other securities and may provide for blocking voting or other rights to enforce such disclosure or limits, ADR Owners and ADR Holders agree to comply with all such disclosure requirements. The Depositary agrees to comply with all applicable laws.

Amendment and Termination of the Deposit Agreement

The form of the ADRs and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between SAP and the Depositary in any respect they may deem necessary or desirable without the consent of the ADR Owners or ADR Holders. Any amendment that imposes or increases any fees or charges (other than taxes and other governmental charges, registration fees, air courier costs, cable, telex or facsimile transmission costs, delivery costs or other such expenses) or that otherwise prejudices any substantial existing right of ADR Owners or ADR Holders, will not take effect as to the outstanding ADRs until the expiration of 30 days after notice of such amendment has been given to the ADR Owners. Every ADR Owner and ADR Holder at the time such amendment becomes effective will be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of any ADR Owner to surrender its ADRs and receive therefor the Deposited Securities evidenced thereby, except in order to comply with mandatory provisions of applicable law.

The Depositary shall at any time, at the direction of SAP, terminate the Deposit Agreement by mailing notice of such termination to all ADR Owners of ADRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to SAP and ADR Owners if, at any time 30 days after the Depositary shall have delivered to SAP a notice of its election to resign, a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the termination date, the ADR Owner will, upon (a) surrender of the ADR to the Depositary, (b) payment of the Depositary's fee for surrender of ADRs and (c) payment of any applicable taxes or governmental charges, be entitled to delivery of the amount of Deposited Securities represented by the ADSs evidenced by such ADR. If any ADRs remain outstanding after the date of termination, the Depositary thereafter will discontinue the registration of transfers of ADRs subject to the Deposit Agreement, will suspend the distribution of dividends and other distributions to the holders thereof and will not give any further notice or perform any further acts under such Deposit Agreement, except that the Depositary shall continue (i) the collection of dividends and other distributions pertaining to the Deposited Securities, (ii) the sale of rights and other property as provided in the Deposit Agreement, and (iii) the delivery of Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for ADRs surrendered to the Depositary, subject to the applicable terms of the Deposit Agreement, including the payment of the fees and other charges of the Depositary. At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the

Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, unsegregated and without liability for interest, for the *pro rata* benefit of the owners of ADRs that have not theretofore been surrendered, such ADR Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement except to account for net proceeds and other cash and its obligations to the Company regarding indemnification under the Deposit Agreement. Upon termination of the Deposit Agreement, SAP shall be discharged from all obligations thereunder, except for certain obligations to the Depositary.

Charges of Depositary

Subject to the applicable law and the regulations of any exchange upon which the ADSs are listed, the following charges, as applicable, shall be incurred by any party depositing or withdrawing Preference Shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by SAP or an exchange of stock regarding the ADRs or Deposited Securities or a distribution of ADRs pursuant to the Deposit Agreement): (i) taxes and other governmental charges, (ii) registration fees as may from time to time be in effect for the registration of transfer of Preference Shares generally applicable to the transfer of Preference Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals of Preference Shares pursuant to the Deposit Agreement, (iii) such air courier, cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (iv) expenses as are incurred by the Depositary in the conversion of Foreign Currency pursuant to the Deposit Agreement, (v) a fee not in excess of U.S.\$5.00 per 100 ADSs (or portion thereof) for the execution and delivery of ADRs pursuant to the Deposit Agreement and the surrender of ADRs pursuant to the Deposit Agreement, (vi) a fee not in excess of U.S.\$0.02 per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement except for any distribution of cash dividends and (vii) a fee for the distribution of securities pursuant to the Deposit Agreement in an amount equal to the fee for the execution and delivery of ADRs which would have been charged as a result of the deposit of such securities but which securities are instead distributed to ADR Owners.

Liability of ADR Owners or ADR Holders for Taxes or Other Charges

If any tax or other governmental charge shall become payable with respect to any ADR or any Deposited Securities represented by the ADSs evidenced by any ADR, such tax or other governmental charge shall be payable by the ADR Owner or ADR Holder. The Depositary may and at the request of the Company shall refuse to effect any transfer of such ADR (or any split-up or combination thereof) or any withdrawal of the Deposited Securities represented by the ADSs evidenced by such ADRs until such payment is made, and may withhold any dividends or other distributions or may sell for the account of the beneficial owner thereof any part or all of the Deposited Securities represented by the ADSs evidenced by such ADRs and may apply such dividends or other distributions or the proceeds of any such sale in payment of any such tax or other governmental charge and the ADR Owner or ADR Holder shall remain liable for any deficiency.

To the extent practicable and in accordance with instructions from SAP, the Depositary and the Custodian will take all practicable administrative actions necessary to obtain all tax refunds and to reduce German withholding taxes on dividends and other distributions on the Deposited Securities. See “Item 7. Taxation — German Taxation of Holders of Preference Shares or ADSs — Refund of German Tax to United States Holders.”

Limitations on Execution, Delivery, Transfer and Surrender of ADRs

The ADRs are transferable on the books of the Depositary, and the Depositary may close the transfer books, at any time and from time to time, when transfer agents in New York City generally close their transfer books or when deemed expedient by it or at the request of the Company. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any Deposited Securities, or withdrawal of any Deposited Securities, the Depositary, or the Custodian or Registrar may require

(1) payment from the person presenting the ADR or the depositor of such Preference Shares of a sum sufficient to reimburse it for any tax or other governmental charge and, if applicable, any stock transfer or registration fee with respect thereto and payment of any applicable fees payable to the Depositary pursuant to the Deposit Agreement, (2) the production of proof satisfactory to it as to the identity and genuineness of any signature and (3) compliance with such regulations as the Depositary may establish consistent with the provisions of the Deposit Agreement. The execution and delivery or transfer of ADRs generally may be suspended during any period when the transfer books of the Depositary are closed or if such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement or applicable law or any government or governmental body or commission, or under any provisions of the Deposit Agreement or the Articles of Association of the Company, or for any other reason, subject to the provisions of the following sentence. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the surrender of outstanding ADRs and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or SAP or the deposit of Preference Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the Deposited Securities.

General

None of the Depositary, SAP or any of their respective officers, directors, employees, agents or affiliates will be liable to any ADR Owner or other person if by reason of any provision of any present or future law or regulation of the United States, the Federal Republic of Germany or any other country, or of any other governmental or regulatory authority or stock exchange or by reason of any provision, present or future, of the Articles of Association of SAP, or by reason of any provision of any securities issued or distributed by SAP or any offering or distribution thereof, or by reason of any act of God or war or other circumstance beyond its control, the Depositary, SAP or any of their respective directors, employees, agents or affiliates shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or the Deposited Securities it is provided shall be done or performed; nor will the Depositary, SAP or any of their respective officers, directors, employees, agents or affiliates incur any liability to any ADR Owner or ADR Holder by reason of any nonperformance or delay, caused as stated in the preceding clause, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for by the Deposit Agreement.

None of the Depositary, SAP or any of their respective agents shall be liable for any action or nonaction by it in reliance upon the advice or information from legal counsel, accountants, any person presenting Preference Shares for deposit, any ADR Owner or ADR Holder or any other person believed by it in good faith to be competent to give such advice or information. The obligations of the Depositary to ADR Owners and ADR Holders under the Deposit Agreement are expressly limited to performing its obligations specified therein without negligence or bad faith.

The Depositary will keep books at its Corporate Trust office, for the registration and transfer of ADRs, which at all reasonable times will be open for inspection by the ADR Owners or ADR Holders provided that such inspection shall not be for the purpose of communicating with holders in the interest of a business or object other than the business of SAP or a matter related to the Deposit Agreement or the ADRs.

The Depositary may appoint one or more co-transfer agents approved by SAP for the purpose of effecting transfers, combinations and split-ups of ADRs at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by beneficial owners of ADSs or persons entitled to ADRs and will be entitled to protection and indemnity to the same extent as the Depositary.

Governing Law

The Deposit Agreement will be governed by the laws of the State of New York.

PART III

Item 15. *Defaults Upon Senior Securities.*

Not applicable.

Item 16. *Changes in Securities and Changes in Security for Registered Securities and Use of Proceeds.*

Not applicable.

PART IV

Item 17. *Financial Statements.*

The Company has responded to Item 18 in lieu of responding to this item.

Item 18. *Financial Statements.*

Reference is made to pages F-1 through F-39 and Item 19.

Item 19. *Financial Statements and Exhibits.*

(a) The following financial statements are filed as part of this Form 20-F:

Report of ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH.

Consolidated Balance Sheets as of December 31, 1997 and 1996 (audited).

Consolidated Income Statements for the years ended 1997, 1996 and 1995 (audited).

Consolidated Statement of Fixed Assets for the year ended 1997 (audited).

Consolidated Statement of Fixed Assets for the year ended 1996 (audited).

Notes to the Consolidated Financial Statements.

Schedule for the years ended December 31, 1997, 1996 and 1995:

Schedule II — Valuation and Qualifying Accounts and Reserves.

(b) The following documents are filed as exhibits to this Form 20-F:

3.1 Articles of Association (*Satzung*), as amended to the date of filing (English translation included). (Incorporated by reference to Registration Statement on Form F-1 of SAP (Registration No. 333-57383), filed on June 22, 1998.)

4.1 Form of Amended and Restated Deposit Agreement among SAP, The Bank of New York, as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts. (Incorporated by reference to Registration Statement on Form F-1 of SAP (Registration No. 333-57383), filed on June 22, 1998.)

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Registration Statement on Form 20-F and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized.

SAP AKTIENGESELLSCHAFT SYSTEME,
ANWENDUNGEN, PRODUKTE IN DER
DATENVERARBEITUNG
(Registrant)

By: /s/ Prof. Dr. Henning Kagermann
Name: Prof. Dr. Henning Kagermann
Title: Member of the Executive Board

Dated: June 22, 1998

By: /s/ Dieter Matheis
Name: Dieter Matheis
Title: Principal Financial Officer

SAP AKTIENGESELLSCHAFT AND SUBSIDIARIES
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REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying consolidated balance sheets of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and subsidiaries as of December 31, 1997 and 1996, and the related consolidated income statements for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Germany which, as applied by us, are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and subsidiaries as of December 31, 1997 and 1996 and the results of their operations for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles in Germany.

Application of accounting principles generally accepted in the United States would have affected shareholders' equity as of December 31, 1997 and 1996 and net income for each of the years in the two year period ended December 31, 1997 to the extent summarized in Note 40 to the consolidated financial statements.

Eschborn/Frankfurt/M.
February 18, 1998

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH



Prof. Dr. Weber
Wirtschaftsprüfer



Klein
Wirtschaftsprüfer

SAP AKTIENGESELLSCHAFT
CONSOLIDATED BALANCE SHEETS
as of December 31,

ASSETS

	Note	1997 ⁽¹⁾ \$ (000)	1997 DM(000)	1996 DM(000)
Intangible assets	(7)	45,189	81,299	5,742
Tangible fixed assets	(8)	474,299	853,312	621,903
Financial assets	(9)	<u>126,616</u>	<u>227,794</u>	<u>161,429</u>
Fixed assets		<u>646,104</u>	<u>1,162,405</u>	<u>789,074</u>
Inventories	(10)	4,177	7,515	7,799
Accounts receivable	(11)	1,353,843	2,435,699	1,555,869
Accounts due from related parties		3,352	6,030	—
Other assets	(12)	<u>92,909</u>	<u>167,152</u>	<u>55,895</u>
Accounts receivable and other assets		<u>1,450,104</u>	<u>2,608,881</u>	<u>1,611,764</u>
Marketable securities	(13)	92,875	167,092	164,891
Cash and cash equivalents	(14)	<u>554,399</u>	<u>997,420</u>	<u>737,394</u>
Current assets		<u>2,101,555</u>	<u>3,780,908</u>	<u>2,521,848</u>
Deferred taxes	(15)	50,013	89,978	37,462
Prepaid expenses and deferred charges		<u>20,549</u>	<u>36,969</u>	<u>18,720</u>
Total assets		<u><u>2,818,221</u></u>	<u><u>5,070,260</u></u>	<u><u>3,367,104</u></u>
SHAREHOLDERS' EQUITY AND LIABILITIES				
Subscribed capital ⁽²⁾	(17)	289,875	521,513	517,537
Capital reserve	(17)(18)	238,157	428,469	353,344
Revenue reserves	(17)	1,002,452	1,803,510	1,095,491
Retained earnings — SAP AG	(17)	163,597	294,328	240,698
Minority interests		<u>8,088</u>	<u>14,552</u>	<u>4,242</u>
Shareholders' equity		<u>1,702,169</u>	<u>3,062,372</u>	<u>2,211,312</u>
Special reserves for capital investment subsidies and allowances	(19)	232	418	66
Pension reserves and similar obligations	(20)	23,045	41,461	29,526
Other reserves and accrued liabilities	(21)	<u>622,598</u>	<u>1,120,114</u>	<u>604,860</u>
Reserves and accrued liabilities		<u>645,643</u>	<u>1,161,575</u>	<u>634,386</u>
Bonds	(22)	2,620	4,713	8,669
Other liabilities	(23)	<u>452,581</u>	<u>814,239</u>	<u>494,382</u>
Other liabilities		455,201	818,952	503,051
Deferred income		<u>14,976</u>	<u>26,943</u>	<u>18,289</u>
Total shareholders' equity and liabilities		<u><u>2,818,221</u></u>	<u><u>5,070,260</u></u>	<u><u>3,367,104</u></u>

(1) The 1997 figures have been translated solely for the convenience of the reader at an exchange rate of DM 1.7991 to \$1.00, the Noon Buying Rate on December 31, 1997.

(2) Contingent capital DM 4,737 thousand and DM 8,713 thousand as of December 31, 1997 and 1996, respectively.

See Notes to Consolidated Financial Statements

SAP AKTIENGESELLSCHAFT
CONSOLIDATED INCOME STATEMENTS
For the years ended December 31,

	Note	1997 \$ (000) ⁽¹⁾	1997 DM (000)	1996 DM (000)	1995 DM (000)
Sales revenues	(27)	3,344,709	6,017,466	3,722,150	2,696,381
Increase in inventory of unfinished services		1,374	2,472	961	628
Other operating income	(28)	<u>44,448</u>	<u>79,966</u>	<u>73,712</u>	<u>54,161</u>
		<u>3,390,531</u>	<u>6,099,904</u>	<u>3,796,823</u>	<u>2,751,170</u>
Raw materials and supplies, purchased goods		(9,163)	(16,485)	(13,967)	(11,475)
Purchased services		<u>(327,516)</u>	<u>(589,234)</u>	<u>(380,417)</u>	<u>(289,172)</u>
Cost of services and materials		<u>(336,679)</u>	<u>(605,719)</u>	<u>(394,384)</u>	<u>(300,647)</u>
Personnel expenses	(29)	(1,153,310)	(2,074,920)	(1,338,473)	(956,744)
Depreciation and amortization	(30)	(108,566)	(195,321)	(164,591)	(144,456)
Other operating expenses	(31)	<u>(895,852)</u>	<u>(1,611,728)</u>	<u>(955,746)</u>	<u>(697,455)</u>
Operating expenses		<u>(2,157,728)</u>	<u>(3,881,969)</u>	<u>(2,458,810)</u>	<u>(1,798,655)</u>
Operating results		<u>896,124</u>	<u>1,612,216</u>	<u>943,629</u>	<u>651,868</u>
Income from investments	(32)	1,945	3,500	1,745	—
Income from marketable securities and loans of financial assets		817	1,469	2,188	2,109
Write-down of financial assets	(33)	(1,562)	(2,811)	(8,192)	(2,124)
Net interest income	(34)	<u>29,216</u>	<u>52,562</u>	<u>27,843</u>	<u>22,213</u>
Result from ordinary operations		926,540	1,666,936	967,213	674,066
Taxes on income	(15)	(393,727)	(708,354)	(382,414)	(258,665)
Other taxes		<u>(18,469)</u>	<u>(33,228)</u>	<u>(17,263)</u>	<u>(10,573)</u>
Total taxes		<u>(412,196)</u>	<u>(741,582)</u>	<u>(399,677)</u>	<u>(269,238)</u>
Net income		514,344	925,354	567,536	404,828
Minority interests		(1,318)	(2,371)	(1,317)	(1,504)
Beginning retained earnings — SAP AG...		133,788	240,698	133,784	88,081
Distribution of dividends of SAP AG shareholders		(133,507)	(240,193)	(133,615)	(88,058)
Transfer to revenue reserves		<u>(349,708)</u>	<u>(629,160)</u>	<u>(325,690)</u>	<u>(269,563)</u>
Ending retained earnings — SAP AG		<u>163,599</u>	<u>294,328</u>	<u>240,698</u>	<u>133,784</u>

(1) The 1997 figures have been translated solely for the convenience of the reader at an exchange rate of DM 1.7991 to \$1.00, the Noon Buying Rate on December 31, 1997.

See Notes to Consolidated Financial Statements

SAP AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF FIXED ASSETS
For the year ended December 31, 1997
DM (000)

	Purchase or manufacturing cost					Accumulated depreciation and amortization					Book Value		
	1/1/97	Additions	Retirements	Transfers	12/31/97	1/1/97	Additions	Retirements	Transfers	Write-ups	12/31/97	12/31/97	12/31/96
I. Intangible assets													
1. Trademarks, similar rights and assets	29,426	32,342	85	116	61,799	23,684	7,838	71	116	102	31,465	30,334	5,742
2. Goodwill	—	55,006	—	—	55,006	—	4,041	—	—	—	4,041	50,965	—
	<u>29,426</u>	<u>87,348</u>	<u>85</u>	<u>116</u>	<u>116,805</u>	<u>23,684</u>	<u>11,879</u>	<u>71</u>	<u>116</u>	<u>102</u>	<u>35,506</u>	<u>81,299</u>	<u>5,742</u>
II. Tangible fixed assets													
1. Land, leasehold rights and buildings, including buildings on third-party land	442,972	229,856	76,078	12,929	609,679	78,109	33,656	8,756	—	—	103,009	506,670	364,863
2. Other property, plant and equipment	621,548	173,975	48,554	59	747,028	393,160	149,786	43,368	(116)	—	499,462	247,566	228,388
3. Advance payments and construction in progress	28,652	83,531	3	(13,104)	99,076	—	—	—	—	—	—	99,076	28,652
	<u>1,093,172</u>	<u>487,362</u>	<u>124,635</u>	<u>(116)</u>	<u>1,455,783</u>	<u>471,269</u>	<u>183,442</u>	<u>52,124</u>	<u>(116)</u>	<u>—</u>	<u>602,471</u>	<u>853,312</u>	<u>621,903</u>
III. Financial assets													
1. Shares in affiliated companies	12,112	—	128	—	11,984	4,802	164	—	—	—	4,966	7,018	7,310
2. Loans due from affiliated companies	228	—	228	—	—	228	—	228	—	—	—	—	—
3. Investments in associated companies	2,947	15,826	—	—	18,773	—	—	—	—	—	—	18,773	2,947
4. Other investments	9,348	41,572	—	—	50,920	—	—	—	—	—	—	50,920	9,348
5. Shares in cooperatives	1	—	—	—	1	—	—	—	—	—	—	1	1
6. Long-term investments	100,704	8,801	7	—	109,498	—	—	—	—	—	—	109,498	100,704
7. Other loans	48,529	12,907	11,282	—	50,154	7,410	2,647	624	—	863	8,570	41,584	41,119
	<u>173,869</u>	<u>79,106</u>	<u>11,645</u>	<u>—</u>	<u>241,330</u>	<u>12,440</u>	<u>2,811</u>	<u>852</u>	<u>—</u>	<u>863</u>	<u>13,536</u>	<u>227,794</u>	<u>161,429</u>
FIXED ASSETS	<u>1,296,467</u>	<u>653,816</u>	<u>136,365</u>	<u>—</u>	<u>1,813,918</u>	<u>507,393</u>	<u>198,132</u>	<u>53,047</u>	<u>—</u>	<u>965</u>	<u>651,513</u>	<u>1,162,405</u>	<u>789,074</u>

See Notes to Consolidated Financial Statements

SAP AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF FIXED ASSETS
For the year ended December 31, 1996
DM (000)

	Purchase or manufacturing cost					Accumulated depreciation and amortization						Book Value			
		Changes in consolidated companies	Additions	Retirements	Transfers	12/31/96	1/1/96	Changes in consolidated companies	Additions	Retirements	Transfers	Write-ups	12/31/96	12/31/96	12/31/95
	1/1/96														
I. Intangible assets															
1. Trademarks, similar rights and assets	25,894	(78)	4,414	327	(477)	29,426	18,421	(57)	5,472	225	73		23,684	5,742	7,473
	<u>25,894</u>	<u>(78)</u>	<u>4,414</u>	<u>327</u>	<u>(477)</u>	<u>29,426</u>	<u>18,421</u>	<u>(57)</u>	<u>5,472</u>	<u>225</u>	<u>73</u>		<u>23,684</u>	<u>5,742</u>	<u>7,473</u>
II. Tangible fixed assets															
1. Land, leasehold rights and buildings, including buildings on third-party land	411,309	(41)	33,000	2,755	1,459	442,972	57,195	(28)	26,200	3,133	12	2,137	78,109	364,863	354,114
2. Other property, plant and equipment	539,409	(2,866)	153,223	69,179	961	621,548	319,359	(2,206)	132,919	56,827	(85)		393,160	228,388	220,050
3. Advance payments and construction in progress	850		30,001	256	(1,943)	28,652								28,652	850
	<u>951,568</u>	<u>(2,907)</u>	<u>216,224</u>	<u>72,190</u>	<u>477</u>	<u>1,093,172</u>	<u>376,554</u>	<u>(2,234)</u>	<u>159,119</u>	<u>59,960</u>	<u>(73)</u>	<u>2,137</u>	<u>471,269</u>	<u>621,903</u>	<u>575,014</u>
III. Financial assets															
1. Shares in affiliated companies	15,379		288	3,555		12,112	351		6,591	2,140			4,802	7,310	15,028
2. Loans due from affiliated companies	228					228	228						228	—	—
3. Investments in associated companies	—		2,947			2,947								2,947	—
4. Other investments	2,500		6,848			9,348								9,348	2,500
5. Shares in cooperatives	1					1								1	1
6. Long-term investments	100,499		205			100,704								100,704	100,499
7. Other loans	58,755		6,020	16,246		48,529	7,319		1,601	721		789	7,410	41,119	51,436
	<u>177,362</u>		<u>16,308</u>	<u>19,801</u>		<u>173,869</u>	<u>7,898</u>		<u>8,192</u>	<u>2,861</u>		<u>789</u>	<u>12,440</u>	<u>161,429</u>	<u>169,464</u>
FIXED ASSETS	<u>1,154,824</u>	<u>(2,985)</u>	<u>236,946</u>	<u>92,318</u>		<u>1,296,467</u>	<u>402,873</u>	<u>(2,291)</u>	<u>172,783</u>	<u>63,046</u>		<u>2,926</u>	<u>507,393</u>	<u>789,074</u>	<u>751,951</u>

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See Notes to Consolidated Financial Statements

SAP AKTIENGESELLSCHAFT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION

(1) Business and Basis of Presentation

Business

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung ("SAP AG"), together with its subsidiaries (collectively, "Company"), is a leading international developer and supplier of integrated business application software designed to provide cost-effective comprehensive solutions for businesses. The Company's primary products, the R/3 System and the R/2 System, are designed to provide customers with a palette of standard business solutions arranged in applications which provide integrated enterprise-wide processing of business work flows. Additionally, the Company provides independent industry-specific solutions, independent business solutions, custom components and the necessary technological infrastructure to support complementary software solutions. The Company has many strategic partners that offer complementary software, services and hardware. The Company's services include consulting, support and training. Customers range in size from large multinational enterprises to medium- and smaller-sized companies. Concentrations of operating and credit risks are limited due to the Company's large customer base and its dispersion across many different industries and countries worldwide. No single customer accounted for 10% or more of revenues for fiscal year 1997, 1996 and 1995.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Germany ("German GAAP") as prescribed by the German Commercial Code and the German Stock Corporation Act.

Application of certain items of United States generally accepted accounting principles ("U.S. GAAP") would have resulted in a material difference to the net income and shareholders' equity as of and for the years ended December 31, 1997 and 1996. See Note 40 for a summary of these differences.

All monetary amounts in the notes to the consolidated financial statements are shown in Deutsche Marks ("DM" or "Marks"). All Mark financial data that have been converted into United States Dollars ("\$" or "Dollars") have been converted at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs by the Federal Reserve Bank of New York (the "Noon Buying Rate") on December 31, 1997, which was 1.7991 Marks per Dollar.

B. SIGNIFICANT ACCOUNTING POLICIES

(2) Consolidated Companies

The consolidated financial statements include, in addition to SAP AG, 8 domestic and 42 foreign subsidiaries in which SAP AG holds, directly or indirectly, a majority of the voting rights. The following 9 companies were established in 1997 and are fully consolidated in the financial statements for the first time:

- SAP Systems Integration GmbH, Alsbach-Haehnlein/Germany
- DACOS Software Holding GmbH, St. Ingbert/Germany
- SAP Hungary Rendszeres, Alkalmazások és Termékek az Adatfeldolgozásban Kft., Budapest/Hungary
- SAP Retail Solutions Nederland B.V., 's Hertogenbosch/Netherlands
- SAP Service and Support Center (Ireland) Limited, Dublin/Ireland
- SAP America Public Sector, Inc., Washington, DC/USA

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- PT SAP Asia, Jakarta/Indonesia
- SAP Taiwan Co. Ltd., Taipei/Taiwan
- SAP HONG KONG Co. Limited, Taikoo Shing/Hong Kong

The effect of including the above companies in the consolidated financial statements does not limit comparability of the annual financial statements with those of the previous year.

One joint venture, SRS Software- und Systemhaus Dresden GmbH, Dresden/Germany, in which SAP AG holds a 50% interest, is consolidated on a proportional basis. Balance sheet, income statement and cash flow amounts recorded on a proportional basis are insignificant to the consolidated financial statements.

Investments in associated companies in which the Company has the ability to exercise significant influence are accounted for under the book value method as described below. The following associated companies were consolidated by the book value method:

- SAP Solutions GmbH, Freiberg/Germany
- IDS Prof. Scheer Gesellschaft für integrierte Datenverarbeitungssysteme mbH, Saarbrücken/Germany (“IDS”)
- Schmidt, Vogel und Partner Consult, Gesellschaft für Organisation und Managementberatung mbH, Bielefeld/Germany

Two subsidiaries have not been consolidated, because their impact on the Company’s net worth, financial position and results of operations is immaterial (their balance sheet totals amount to approximately 0.3% of the consolidated balance sheet total). They have been excluded pursuant to Article 296 (2) of the German Commercial Code and are included in “Shares in affiliated companies”. Please refer to the information relating to investments of SAP AG and the Company on pages F-34 through F-37.

(3) Consolidation Policies

The book value method of consolidation has been used, unless otherwise noted. Under such method, differences between acquisition costs and attributable shareholders’ equity are first allocated to identifiable assets acquired or liabilities assumed to the extent of their fair market values. Any remaining goodwill is set off against the reserves as of December 31, 1996, thus reducing equity, pursuant to Article 309 (1) sentence 3 of the German Commercial Code. On January 1, 1997, the Company changed its policy and, prospectively, goodwill is capitalized and amortized through the income statement over its estimated useful life.

Inter-company receivables, payables, revenues, expenses and profits among the consolidated companies are eliminated. Minority interest is identified for subsidiaries not wholly owned by the parent company.

Equity investments consolidated by the book value method are recorded at book value plus equity in their undistributed earnings since acquisition and are included in “Investments in associated companies”. Goodwill associated with equity purchases is included in intangible assets.

The retained earnings of the Company, as shown in the consolidated financial statements, are the retained earnings of SAP AG. The retained earnings of the subsidiaries are included in the Company’s revenue reserves.

(4) Accounting and Valuation Policies

The accounting and valuation policies of SAP AG also apply to the consolidated financial statements. The financial statements of consolidated subsidiaries whose accounting policies differ from those of the parent company have been adjusted where material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fixed Assets

Purchased intangible assets are shown at cost and amortized on a straight-line basis over a maximum of 5 years. Goodwill is amortized on a straight-line basis over its estimated useful life, generally 5 years.

Tangible fixed assets are shown at cost less accumulated depreciation. Buildings are depreciated using the straight-line method over useful lives of 25 to 50 years. Computer equipment is depreciated using the straight-line method over useful lives of 3 to 5 years. Leasehold improvements are depreciated using the straight-line method over the term of the lease. Generally, other movable fixed assets are depreciated using the declining-balance method. The depreciation method is changed to the straight-line method in the year in which the amount of depreciation under the straight-line method exceeds that calculated under the declining balance method. The useful lives of other movable fixed assets range between 2 and 20 years. Low-value assets are expensed in the year of acquisition.

Long-term investments are shown at cost. Interest-bearing loans to employees and to third parties are shown at their nominal value. Interest-free loans to employees and to third parties are discounted to their present value using an effective interest rate of approximately 6% per annum.

Current Assets

Inventories are shown at the lower of cost or market.

Accounts receivable from software sales are posted on the basis of the number of authorized users, provided that the customer has legally signed an irrevocable contract with the Company, and the software has been delivered in full. Maintenance revenues are recognized proportionally over the term of the maintenance contract. Accounts receivable for consulting and training services are recognized after performance of the services. Accounts receivable are stated at their nominal value, which approximates fair value. Interest-free accounts receivable with remaining terms exceeding 1 year are discounted to their present value using an effective interest rate of 6% per annum. Other assets equal to the cash surrender value of insurance policies are capitalized at the value of the insurance company's premium reserve, as shown in its general operational plan.

Marketable securities are valued at the lower of cost or market as of the balance sheet date. Gains on marketable securities are recognized when realized. Other assets are shown at their nominal value, which approximates fair value.

Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges are determined by allocating expenses to the periods to which they are attributable.

Related Party Transactions

In 1997, the Company acquired a 25.2% interest in IDS from IDS's existing shareholders and directly from IDS pursuant to a capital increase. The principal shareholder of IDS was also a member of SAP AG's Supervisory Board at the time of such acquisition. Approximately 16% of the aggregate purchase price for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

such 25.2% interest was paid to the selling shareholders and 84% was paid to IDS. The majority of the purchase price was paid in 1997. Balances outstanding as of December 31, 1997 were paid in 1998 and are included in other liabilities in the 1997 balance sheet. The purchase price for IDS and the effect on net income was not significant to the consolidated financial statements.

Deferred Taxes

On the consolidated balance sheet, deferred taxes are established for temporary differences between assets, liabilities and net income calculated for tax purposes and for financial reporting purposes which are expected to reverse in the future. Moreover, deferred taxes are established on the consolidated balance sheet for temporary differences resulting from consolidation measures.

Deferred taxes are computed by the “deferral method,” under which the enacted tax rate applicable to the local subsidiaries is applied. Deferred tax amounts are shown net on the consolidated balance sheet.

Reserves and Accrued Liabilities

Reserves for pension obligations in Germany are stated at the highest amounts allowable for tax purposes, in accordance with Article 6a of the German Income Tax Act. An interest rate of 6% per annum has been applied. Foreign subsidiaries record their pension reserves in accordance with similar principles.

The relief fund of SAP Altersvorsorge e.V. has assumed indirect pension commitments towards employees of SAP AG. SAP AG, as the sponsor of the relief fund, has established a reserve for indirect pension obligations, exercising its option to establish accruals under Article 28(1) sentence 2 of the Introductory Act to the German Commercial Code.

Accrued taxes are calculated on the basis of the planned distribution of income. The other reserves and accrued liabilities take into account all foreseeable risks and contingent obligations.

Liabilities

Liabilities are shown at the amounts payable, which approximate fair market value.

Derivatives

The Company uses derivative financial instruments to manage foreign currency and interest rate risks and holds such instruments for purposes other than trading. Unrealized losses associated with currency rate changes on forward foreign exchange contracts and foreign currency options are recorded currently in income and are included in other liabilities. Gains are recorded when realized. For interest rate swaps, the net cash amounts paid or received are accrued and recognized as an adjustment to interest income.

Credit Arrangements

Certain of the Company’s foreign subsidiaries have lines of credit available which allow them to borrow in the local currency to the extent SAP AG has guaranteed such amounts. At December 31, 1997, the Company had approximately DM 151.4 million available through such arrangements under which the Company may borrow on an overdraft or short-term basis. In addition, the Company has a DM 89.6 million line of credit available for which no guarantee is required. Interest under all lines is determined at the time of borrowing based on current market rates.

(5) Currency Translation

The financial statements of the individual companies include accounts receivable in foreign currencies, which are translated at the lower of the exchange rate on the transaction date or the buying rate on the balance

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

sheet date. Losses arising from movements in exchange rates are recorded. Accounts payable in foreign currencies are valued at the higher of the applicable rates.

Fixed assets (excluding loans), shareholders' equity, depreciation and amortization of foreign subsidiaries are translated using the historical exchange rate. The remaining assets and liabilities are translated at the median exchange rates on the balance sheet date (closing rate).

Differences arising from the translation of balance sheet items are charged directly to the revenue reserves, without affecting income for the year.

With the exception of depreciation and amortization, which are translated at historical rates, expense and income items are translated at the average exchange rate for the year. The net income for the year is translated at the closing rate at December 31. The translation difference from the income statement is charged to income.

The exchange rates of key currencies changed as follows:

	<u>Closing rate to the DM at December 31,</u>		<u>Average exchange rate to the DM for the year</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
1 USD	1.7921	1.5548	1.7371	1.5083
100 JPY	1.3838	1.3408	1.4309	1.3811
1 GBP	2.9820	2.6267	2.8493	2.3689
1 CAD	1.2445	1.1356	1.2506	1.1050
1 AUD	1.1725	1.2405	1.2805	1.1848

C. NOTES TO THE CONSOLIDATED BALANCE SHEETS

(6) Fixed Assets

Fixed assets activities during 1997 and 1996 are shown on pages F-4 and F-5.

(7) Intangible Assets

The additions to trademarks, similar rights and assets relate to software programs. The additions to goodwill relate to the first-time capitalization of goodwill.

(8) Tangible Fixed Assets

Additions to tangible fixed assets consist primarily of the construction of office buildings, the acquisition of land and the purchase of computer hardware, automobiles and other business equipment.

	<u>Additions 1997 DM (000)</u>	<u>Book value 12/31 1997 DM (000)</u>	<u>Additions 1996 DM (000)</u>	<u>Book value 12/31 1996 DM (000)</u>
Geographic region:				
Germany	193,242	484,854	130,012	389,186
Rest of Europe	150,652	184,806	36,630	132,150
Americas	112,646	136,862	25,854	64,961
Asia-Pacific/Africa	<u>30,822</u>	<u>46,790</u>	<u>23,728</u>	<u>35,606</u>
	<u>487,362</u>	<u>853,312</u>	<u>216,224</u>	<u>621,903</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(9) Financial Assets

Financial assets include long-term investments at December 31, as follows:

	1997			1996		
	<u>Book values</u> <u>DM (000)</u>	<u>Market values</u> <u>DM (000)</u>	<u>Unrealized gains</u> <u>DM (000)</u>	<u>Book values</u> <u>DM (000)</u>	<u>Market values</u> <u>DM (000)</u>	<u>Unrealized gains</u> <u>DM (000)</u>
Securities with fixed maturities	100,000	104,750	4,750	100,000	100,750	750
Other securities	<u>9,498</u>	<u>9,498</u>	<u>—</u>	<u>704</u>	<u>704</u>	<u>—</u>
	<u>109,498</u>	<u>114,248</u>	<u>4,750</u>	<u>100,704</u>	<u>101,454</u>	<u>750</u>

Financial assets also include interest-bearing and non-interest-bearing loans to employees, to members of SAP AG's supervisory board and to third parties, investments in associated companies, and other investments. Investments in associated companies are equity investments. Other investments consist of marketable equity securities which are recorded at the lower of cost or market. Unrealized gains on marketable equity securities were not significant in 1997 or 1996.

(10) Inventories

Inventories primarily consist of office supplies, documentation and work in process for services performed on consulting contracts accounted for under the completed contract method. Under the completed contract method, the cost of services provided are recorded in inventory and the related gross profit is recognized upon project completion and customer acceptance.

(11) Accounts Receivable

Amounts shown on the consolidated balance sheets are net of allowance for bad debts of DM 92,362 thousand and DM 50,296 thousand at December 31, 1997 and 1996, respectively.

At December 31, 1997 and 1996, accounts receivable having a remaining term greater than 1 year are DM 86,732 thousand and DM 90,837 thousand, respectively.

(12) Other Assets

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Other assets	167,152	55,895
— thereof with a remaining term greater than 1 year	(95,927)	(30,378)

Other assets include interest receivable for the period, tax refund claims, notes receivable, cash surrender value of insurance policies and rental deposits.

(13) Marketable Securities

This item consists primarily of fixed-income securities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The book values, market values and unrealized gains of the marketable securities on the consolidated balance sheets as of December 31, are as follows:

	1997			1996		
	<u>Book values DM (000)</u>	<u>Market values DM (000)</u>	<u>Unrealized gains DM (000)</u>	<u>Book values DM (000)</u>	<u>Market values DM (000)</u>	<u>Unrealized gains DM (000)</u>
Securities with fixed maturities	167,050	167,984	934	164,891	166,162	1,271
Other securities	<u>42</u>	<u>58</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>167,092</u>	<u>168,042</u>	<u>950</u>	<u>164,891</u>	<u>166,162</u>	<u>1,271</u>

Marketable securities with fixed maturities as of December 31, are as follows:

	Nominal Value	
	<u>1997 DM (000)</u>	<u>1996 DM (000)</u>
Due within 1 year	5,000	27,000
Due between 1 and 5 years	125,000	102,480
Due after 5 years	<u>35,413</u>	<u>33,856</u>
	<u>165,413</u>	<u>163,336</u>

During the fiscal year, SAP AG acquired 54,171 of its own ordinary shares and preference shares, in each case with a nominal value of DM 5, representing 0.05% of the capital stock, at an average market price of DM 353 per share, for the purpose of offering them to its employees (Article 71 (1) no. 2 of the German Stock Corporation Act). Such shares were transferred to employees during the year at an average price of DM 277 per share. SAP AG did not hold any of its own shares as of the balance sheet date.

(14) Cash and Cash Equivalents

Cash and cash equivalents in Postbank accounts and in banks are stated at their nominal amounts. The Company has cash investment policies that limit investments to investment grade securities.

Liquid assets consist of cash and cash equivalents less short-term bank loans and overdrafts. The Company considers all time deposits as cash equivalents.

Cash, cash equivalents and liquid assets at December 31, consists of the following:

	<u>1997 DM (000)</u>	<u>1996 DM (000)</u>
Cash at banks	213,220	208,307
Time deposits with maturities of 3 months or less at the date of acquisition	579,590	380,787
Time deposits with maturities greater than 3 months and less than 1 year	123,710	138,300
Time deposits with maturities exceeding 1 year	<u>80,900</u>	<u>10,000</u>
Total cash and cash equivalents	997,420	737,394
Short-term bank loans and overdrafts	<u>(163,134)</u>	<u>(90,272)</u>
Liquid assets	<u>834,286</u>	<u>647,122</u>

The Company paid income taxes of DM 560,725 thousand, DM 314,847 thousand and DM 254,272 thousand in 1997, 1996 and 1995, respectively. Interest paid in 1997, 1996 and 1995 was DM 3,803 thousand, DM 2,864 thousand and DM 5,293 thousand, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(15) Income Taxes

Income tax expense for the years ended December 31, consists of the following:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Current taxes			
German corporation tax on income	228,570	139,099	64,974
German trade tax on income	107,949	70,485	32,809
Foreign	<u>417,161</u>	<u>207,443</u>	<u>169,923</u>
	753,680	417,027	267,706
Deferred taxes	<u>(45,326)</u>	<u>(34,613)</u>	<u>(9,041)</u>
Total taxes on income	<u>708,354</u>	<u>382,414</u>	<u>258,665</u>

Income taxes in 1997 compared to 1996 increased mainly due to higher earnings in 1997.

The income before income taxes is attributable to the following geographic locations:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
German	785,122	495,497	247,524
Foreign	<u>848,586</u>	<u>454,453</u>	<u>415,969</u>
Income before income taxes	<u>1,633,708</u>	<u>949,950</u>	<u>663,493</u>

In Germany, current year earnings are subject to a 45% corporate income tax. Income distributed to shareholders is taxed at 30%; any excess paid over 30% is refunded. Additionally, there is a local trade tax levied on German income and a solidarity surcharge based on the current year's domestic corporate tax expense.

The reconciliation of the German statutory corporate income tax rate of 45% and the effective tax rate in terms of DMs is as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Income before income taxes	1,633,708	949,950
German trade tax on income	<u>107,249</u>	<u>68,211</u>
Profit after German trade tax on income	<u>1,526,459</u>	<u>881,739</u>
Corporation tax on income @45%	686,907	396,782
Solidarity charge	15,927	9,556
Tax reduction for dividend payments	(63,046)	(51,470)
Foreign tax rate differential, net	(51,098)	(43,661)
Other	12,415	2,996
Trade tax on German income	<u>107,249</u>	<u>68,211</u>
	<u>708,354</u>	<u>382,414</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
<u>Deferred tax assets</u>		
Accounts receivable	23,791	11,801
Other loans	2,822	2,342
Pension provision	5,486	6,844
Other provisions	100,678	44,697
Other	<u>2,310</u>	<u>—</u>
Deferred tax assets	<u>135,087</u>	<u>65,684</u>
<u>Deferred tax liabilities</u>		
Fixed assets	(19,842)	(23,952)
Deferred income	(25,267)	(3,466)
Other	<u>—</u>	<u>(804)</u>
Deferred tax liabilities	<u>(45,109)</u>	<u>(28,222)</u>
Net deferred tax asset	<u>89,978</u>	<u>37,462</u>

At December 31, 1997, DM 94,535 thousand of deferred tax assets are short-term and DM 40,552 thousand are long-term, while short-term deferred tax liabilities amount to DM 25,267 thousand and long-term deferred tax liabilities amount to DM 19,842 thousand. At December 31, 1996, DM 45,001 thousand of deferred tax assets are short-term and DM 20,683 thousand are long-term, while short-term liabilities amount to DM 4,270 thousand and long-term deferred tax liabilities amount to DM 23,952 thousand.

Certain foreign subsidiaries of the Company have net operating loss carryforwards at December 31, 1997 and 1996, totaling approximately DM 17,283 thousand and DM 10,897 thousand, respectively, which may be used to offset future taxable income. The carryforward losses will expire at different dates over the next 5 years.

(16) Shareholders' Equity

The issued and outstanding share capital of the Company as of December 31, 1997 consists of the following:

- 5,393,555 ordinary shares, nominal value DM 50 each;
- 7,060,000 ordinary shares, nominal value DM 5 each;
- 2,074,888 nonvoting, participating, cumulative preference shares, nominal value DM 50 each; and
- 22,558,239 nonvoting, participating, cumulative preference shares, nominal value DM 5 each.

Preference shares rank equally with the ordinary shares with respect to liquidation rights and pre-emptive rights. The annual dividend payable on the preference shares exceeds the ordinary dividend by 1% of the preference shares' nominal value (or DM 0.05, in the case of preference shares with DM 5 nominal value, or DM 0.50, in the case of preference shares with DM 50 nominal value), but no less than a minimum dividend equal to 1% of the preference shares' nominal value. Holders of preference shares have no voting rights except in limited instances. The preference shares are not entitled to a preference in liquidation but rank pari passu with the ordinary shares.

By way of shareholder resolution in 1988 and 1994, the Company was authorized to issue additional capital (contingent capital) to support the conversion rights of the 1988 and 1994 convertible bonds program.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The contingent capital increases are carried out only to the extent to which the holders of the convertible bonds exercise their rights of conversion. As conversion rights for the 1988/1998 convertible bond issue were exercised, DM 24 thousand of contingent capital, corresponding to 385 ordinary shares, with a nominal value of DM 50 each, and 96 preference shares, with a nominal value of DM 50 each, was converted into capital stock. As conversion rights for the 1994/2004 convertible bond issue were exercised in 1997, DM 3,952 thousand of contingent capital, corresponding to 790,424 preference shares, with a nominal value of DM 5 each, was converted into capital stock. As a result, contingent capital decreased by DM 3,976 thousand, to DM 4,737 thousand as of December 31, 1997. As of December 31, 1997, 4,450 ordinary shares and 942,881 preference shares remain authorized but unissued under these convertible bond plans.

(17) Changes in Shareholders' Equity
DM (000)

	Shares Issued and Outstanding ⁽¹⁾	Subscribed Capital	Capital Reserve	Revenue Reserves/ Retained Earnings	Minority Interests	Total
Balance, December 31, 1994	101,232	506,153	137,837	589,806	2,410	1,236,206
Net income	—	—	—	403,324	1,504	404,828
Convertible bonds exercised	2	10	14	—	—	24
Dividends	—	—	—	(88,058)	(862)	(88,920)
Goodwill	—	—	—	(1,428)	—	(1,428)
Currency translation adjustment	—	—	—	(21,190)	—	(21,190)
Balance, December 31, 1995	101,234	506,163	137,851	882,454	3,052	1,529,520
Net income	—	—	—	566,219	1,317	567,536
Convertible bonds exercised	2,273	11,374	215,493	—	—	226,867
Dividends	—	—	—	(133,615)	—	(133,615)
Other	—	—	—	(924)	(127)	(1,051)
Goodwill	—	—	—	(1,078)	—	(1,078)
Currency translation adjustment	—	—	—	23,133	—	23,133
Balance, December 31, 1996	103,507	517,537	353,344	1,336,189	4,242	2,211,312
Net income	—	—	—	922,983	2,371	925,354
Convertible bonds exercised	795	3,976	75,125	—	—	79,101
Dividends	—	—	—	(240,193)	—	(240,193)
Other	—	—	—	(9,259)	7,939	(1,320)
Currency translation adjustment	—	—	—	88,118	—	88,118
Balance, December 31, 1997	<u>104,302</u>	<u>521,513</u>	<u>428,469</u>	<u>2,097,838</u>	<u>14,552</u>	<u>3,062,372</u>

⁽¹⁾ Includes ordinary shares and preference shares. Assumes (i) each ordinary share, nominal value DM 50 each, equals 10 ordinary shares, nominal value DM 5 each, and (ii) each preference share, nominal value DM 50 each, equals 10 preference shares, nominal value DM 5 each.

(18) Capital Reserves

Of the increase in the capital reserve in 1997, DM 35 thousand resulted from the premium necessary to cover the exercise of conversion rights for the 1988/1998 convertible bonds, and DM 75,090 thousand from the premium necessary to cover the exercise of conversion rights for the 1994/2004 convertible bonds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(19) Special Reserves for Capital Investment Subsidies and Allowances

The consolidated balance sheets include special reserves for capital investment subsidies and allowances pursuant to Article 1 of the German Capital Investment Subsidy Act and the corresponding regional development programs.

(20) Pension Reserves and Similar Obligations

Reserves for pension obligations are established on the basis of benefit plans that promise old age, disability and survivors' benefits. In most cases, the benefit plans are performance-oriented, based on the length of service and compensation of employees.

The pension plans in Germany are performance-oriented and the related plan assets are held in accordance with the Company's policies by SAP Altersvorsorge e.V., a legally independent relief fund sponsored by SAP AG. The payments of the Company to the relief fund are recorded as current period expense. Members of the Executive Board are covered by individual, performance-oriented benefit plans, for which reserves have been established.

Pension reserves and similar obligations contain an amount of DM 19,726 thousand and DM 16,500 thousand as of December 31, 1997 and 1996, respectively, which corresponds to the difference between the admissible value under German commercial law of the obligations computed in accordance with Article 6a of the German Income Tax Act, and the value of the assets held by the relief fund.

(21) Other Reserves and Accrued Liabilities

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Accrued taxes	489,676	273,933
Other reserves and accrued liabilities	<u>630,438</u>	<u>330,927</u>
	<u>1,120,114</u>	<u>604,860</u>

Accrued taxes comprise liabilities for current and prior fiscal years.

Other reserves and accrued liabilities at December 31, are as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Obligations to employees.....	397,601	183,642
Vacation entitlement	77,954	54,533
Obligations to customers and suppliers	81,777	48,122
Warranty and service costs	50,297	20,380
Professional fees	2,435	1,975
Other	<u>20,374</u>	<u>22,275</u>
	<u>630,438</u>	<u>330,927</u>

Obligations to employees relate primarily to variable bonus payments tied to earnings performance, paid out after the balance sheet date. "Other" mainly comprises contributions to the employees' accident insurance association.

(22) Bonds

This item comprises the outstanding portion of the 6% 1994/2004 convertible bond, which amounts to DM 4,709 thousand (DM 8,661 thousand as of December 31, 1996), and the outstanding portion of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1988/1998 floating-rate convertible bond, which amounts to DM 4 thousand (DM 8 thousand as of December 31, 1996). The 1988/1998 convertible bond issue is divided into DM 50 registered convertible bonds, and carries a right to convert to SAP ordinary and preference shares at a ratio of 1:6.25 of the share's nominal value. The conversion right can be exercised up until October 20, 1998. The exercise of the conversion right related to the remaining 1988/1998 convertible bonds would result in 445 ordinary shares, with a nominal value of DM 50 each, and 112 preference shares, with a nominal value of DM 50 each. The 1994/2004 convertible bond issue is divided into 4,000,000 registered convertible bonds with a nominal value of DM 5 each. This convertible bond carries the right to convert to preference shares at a ratio of 1:1 of the share's nominal value. This conversion right can be exercised on June 30, July 31, August 31, September 30, October 31 and November 30 of every year up until June 30, 2004. The exercise of this conversion right related to the remaining 1994/2004 convertible bonds would result in 941,761 preference shares, with a nominal value of DM 5 each.

(23) Other Liabilities

The information on liabilities required by German law is included in the following summary. The liabilities are unsecured, excluding retention of title and similar rights as is customary in the industry.

	<u>Balance on 12/31/1997 DM (000)</u>	<u>Remaining term less than 1 year DM (000)</u>	<u>Remaining term more than 5 years DM (000)</u>	<u>Balance on 12/31/1996 DM (000)</u>
Bank loans and overdrafts	163,547	163,134	97	90,428
Advance payments received	30,972	30,972	—	5,361
Accounts payable	318,309	318,309	—	198,862
Payables due to associated companies	8,815	8,815	—	5,514
Taxes	157,132	157,132	—	112,507
Social security	42,193	42,193	—	35,431
Other liabilities	<u>93,271</u>	<u>89,146</u>	<u>4,054</u>	<u>46,279</u>
	<u>814,239</u>	<u>809,701</u>	<u>4,151</u>	<u>494,382</u>

The bank loans and overdrafts relate primarily to loans taken out in Japan at an average interest rate of approximately 1%. In the previous year, liabilities with a remaining term not exceeding 1 year amounted to DM 491,920 thousand, and those with a remaining term exceeding 5 years amounted to DM 2,426 thousand.

(24) Contingent Liabilities

	<u>1997 DM (000)</u>	<u>1996 DM (000)</u>
Notes receivable sold	13,128	—
Guarantees and endorsements	364	1,019
Guarantees for unused lines of credit and other commitments . .	162,639	105,090
Liabilities from the extension of collateral securities for others	<u>6,570</u>	<u>—</u>
	<u>182,701</u>	<u>106,109</u>

Contingent liabilities listed above have not been accrued because the associated risk of loss is not probable.

The Company is subject to legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Although the outcome of these proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

effect on the Company's results of operations, financial condition or cash flows. Any litigation, however, involves potential risk and potentially significant litigation costs and therefore there can be no assurance that any litigation which is now pending or which may arise in the future will not have such a material adverse effect on the Company's results of operations, financial condition or cash flows.

(25) Other Financial Commitments

Commitments under rental and leasing contracts:

	DM (000)
Due 1998	184,743
Due 1999	126,381
Due 2000	81,855
Due 2001	61,833
Due 2002	49,008
Due thereafter	175,631

Purchase commitments amounting to DM 124,327 thousand at December 31, 1997 are within the limit of authorized capital expenditures.

(26) Derivative Financial Instruments

As an internationally active enterprise, the Company is subject to risks from interest-rate and currency fluctuations in its ordinary operations. The Company utilizes derivative financial instruments to reduce such risks as described below. The derivative financial instruments employed by the Company are exclusively marketable instruments with sufficient liquidity. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. To avoid these counterparty risks, the Company conducts business exclusively with major financial institutions. The credit exposure on interest rate, foreign exchange forward and currency option contracts is represented by the fair value of contracts with a positive fair value at year-end.

Foreign Exchange Risk Management

Most SAP AG subsidiaries have entered into license agreements with SAP AG pursuant to which the subsidiary acquires the right to sublicense the Company's products to customers within a specific territory. Under those agreements, the subsidiaries generally are required to pay SAP AG a royalty equivalent to a percentage of the product fees paid to them by their customers within 90 days following the end of the month in which the subsidiary recognizes the revenue. These inter-company royalties payable to SAP AG are generally denominated in the respective subsidiary's local currency in order to centralize the foreign currency risks with SAP AG in Germany. The delay between the date when the subsidiary records product revenue and the date when payment is made to SAP AG by such subsidiary exposes SAP AG to foreign exchange risk.

The Company closely monitors its foreign exchange exposure. The Company enters into foreign exchange forward contracts and currency options to protect the existing and/or expected foreign currency inter-company claims and liabilities. Specifically, these foreign exchange contracts offset existing and anticipated inter-company receivables in the countries with significant operations including the United States, Japan, the United Kingdom, Switzerland and Canada. Anticipated transactions represent expected inter-company amounts resulting from revenues generated within the next 12 months from the purchase date of the derivative instrument. Generally, the maturities of such derivative instruments do not exceed 12 months from the date of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

purchase. Management believes the use of foreign currency derivative financial instruments reduces the risks that arise from doing business in international markets.

The notional values and fair values of the derivative financial instruments as of December 31, 1997 and 1996 are as follows:

	1997		1996	
	Notional Value DM (000)	Fair Value DM (000)	Notional Value DM (000)	Fair Value DM (000)
Foreign Exchange Derivatives				
<u>Forward exchange contracts</u>				
Gains	247,820	5,603	18,497	985
Losses	91,741	(2,052)	40,418	(952)
Net gain	<u>339,561</u>	<u>3,551</u>	<u>58,915</u>	<u>33</u>
Net foreign exchange losses on underlying inter-company claims and liabilities		(3,125)		(32)
		<u>426</u>		<u>1</u>
<u>Foreign currency options</u>	25,600	562	—	—

See Note (39) for additional fair value information.

Interest Rate Risk Management

The Company enters into interest rate swaps to better manage the interest income on its cash equivalents, marketable securities and long-term investments and to partially mitigate the impact of German interest rate fluctuations on these investments. The Company holds such derivative instruments for purposes other than trading. No swaps were outstanding at December 31, 1997.

The notional values and fair values of interest rate swaps as of December 31, 1997 and 1996 were as follows:

	1997		1996	
	Notional Value DM (000)	Fair Value DM (000)	Notional Value DM (000)	Fair Value DM (000)
Interest Rate Derivatives				
<u>Interest rate swaps</u>	—	—	60,000	400

See note (39) for additional fair value information.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENTS

(27) Sales Revenues

Sales revenues by types of activity for the years ended December 31, were as follows:

	1997 DM (000)	1996 DM (000)	1995 DM (000)
Product revenues	4,097,117	2,630,512	1,933,811
Consulting and training	1,831,056	1,041,404	724,134
Other	89,293	50,234	38,436
Total	<u>6,017,466</u>	<u>3,722,150</u>	<u>2,696,381</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(28) Other Operating Income

Other operating income for the years ended December 31, are as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Foreign exchange gains	43,401	27,962	20,436
Employee contributions for company cars	9,923	7,324	8,281
Sale of financial assets	—	6,748	—
Rental income	3,553	2,944	3,134
Gain on sale of marketable securities	1,640	1,826	6,431
Income from increase in cash surrender value of insurance policies	2,115	1,794	2,061
Income from prior periods	1,666	104	51
Other income	<u>17,668</u>	<u>25,010</u>	<u>13,767</u>
Total	<u>79,966</u>	<u>73,712</u>	<u>54,161</u>

Other income mainly comprises gains on the disposal of fixed assets and insurance refunds. The consolidated income statement contains income from the reversal of the special reserve for capital investment subsidies in the amount of DM 29 thousand.

(29) Personnel Expenses/Number of Employees

Personnel expenses for the years ended December 31, are as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Salaries	1,786,980	1,138,518	825,931
Social security	217,988	143,630	102,691
Pension expense	<u>69,952</u>	<u>56,325</u>	<u>28,122</u>
Total	<u>2,074,920</u>	<u>1,338,473</u>	<u>956,744</u>

Applying the calculation method prescribed by Article 267 (5) of the German Commercial Code, the average number of employees was as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Employees	11,558	8,177	6,443

The average number of employees of the joint venture company consolidated on a proportional basis, in accordance with Article 310 of the German Commercial Code, was 330 in 1997, compared with 322 in 1996 and 296 in 1995.

(30) Depreciation and Amortization

In accordance with the German Development Areas Act, additional depreciation of DM 1,282 thousand applied in accordance with the German tax rules has been charged to income with respect to the companies included within the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(31) Other Operating Expenses

Other operating expenses for the years ended December 31, are as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Travel and entertainment expenses	292,029	191,973	139,998
Marketing	279,871	162,786	102,264
Rent	202,067	118,553	79,529
Licenses and commissions	209,215	104,819	95,887
Additional personnel expenses	96,398	58,038	52,195
Telecommunications/postage	84,905	51,423	40,312
Repairs and maintenance	63,003	42,642	35,241
Bad debt expense	51,266	31,739	17,557
Warranty and service costs	29,842	11,465	8,129
Consulting/administration	89,195	58,572	39,224
Documentation	28,320	20,633	17,391
Foreign exchange losses	70,266	18,225	20,541
Translation differences from consolidation of income statements	13,039	10,371	2,793
Other	<u>102,312</u>	<u>74,507</u>	<u>46,394</u>
Total	<u>1,611,728</u>	<u>955,746</u>	<u>697,455</u>

(32) Income from Investments

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Income from unconsolidated affiliated companies	591	—	—
Results from associated companies	<u>2,909</u>	<u>1,745</u>	<u>—</u>
Total	<u>3,500</u>	<u>1,745</u>	<u>—</u>

Income from investments in the consolidated financial statements is derived from the unconsolidated company WS Investment Holdings, L.P., Wilmington, DE/USA. Results from associated companies represents income from equity affiliates.

(33) Write-down of Financial Assets

This amount includes the discounting to present value of interest-free loans to employees.

(34) Net Interest Income

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
Other interest and similar income	56,344	30,461	27,450
Interest and similar expenses	<u>(3,782)</u>	<u>(2,618)</u>	<u>(5,237)</u>
	<u>52,562</u>	<u>27,843</u>	<u>22,213</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

E. Additional Information

(35) Members of the Supervisory Board and Executive Board

The members of the Supervisory Board and Executive Board of SAP AG as of February 18, 1998 are listed on page F-38.

(36) Total Remuneration of Members of the Supervisory Board and Executive Board, Loans Granted

Subject to the adoption of the dividend resolution by the shareholders at the Annual General Meeting, the total annual remuneration of the Supervisory Board will amount to DM 1,087 thousand. The total annual remuneration of the Executive Board will amount to DM 15,973 thousand. In addition, members of the Executive Board had interest-free loans outstanding in the amount of DM 9 thousand as of December 31, 1997 (repayments of DM 266 thousand were made in 1997), with a remaining term to maturity of 4 to 5 years. Such amounts are included in other financial assets on the consolidated balance sheet. All loans extended to members of the Executive Board in 1996 and bearing interest at the annual rate of 6% were repaid in 1997 (DM 75 thousand).

(37) Proposed Appropriation of Retained Earnings

A portion of the Company's retained earnings is appropriated for payment of dividends. After the transfer of DM 153,500 thousand from 1997 net income to the revenue reserves of SAP AG, retained earnings amount to DM 294,328 thousand.

SAP AG's Executive Board will propose at the Annual General Meeting that this amount be appropriated as follows:

DM 2.80 dividend per ordinary share with a nominal value of DM 5.00 carrying dividend rights and DM 28.0 dividend per ordinary share with a nominal value of DM 50.00 carrying dividend rights	DM 170,788 thousand
DM 2.85 dividend per preference share with a nominal value of DM 5.00 carrying dividend rights and DM 28.50 dividend per preference share with a nominal value of DM 50.00 carrying dividend right	DM 123,425 thousand
To be carried forward	DM 115 thousand

Because the dividends are paid from appropriated retained earnings, they qualify for a tax credit in the amount of 3/7 of the dividend value for German tax residents.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(38) Consolidated Statements of Cash Flows for the Years Ended December 31:

The consolidated statements of cash flows are classified by operating, investing and financing activities pursuant to the principles applied in German GAAP and U.S. GAAP. The cash flow statements reconcile amounts to changes in liquid assets.

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>	<u>1995</u> <u>DM (000)</u>
I. Cash flow from operating activities			
Net income for the year	925,354	567,536	404,828
Depreciation and amortization	195,321	164,591	144,456
Write-ups of intangible and tangible fixed assets	(102)	(2,137)	—
Write-downs of financial assets	2,811	8,192	2,124
Write-ups of financial assets	(863)	(789)	(635)
Increase in pension reserves	11,935	19,000	723
Increase in medium- and long-term accounts receivables and other assets	(113,960)	(71,377)	(33,569)
Increase in medium- and long-term reserves and liabilities	57,159	24,909	(8,746)
Increase in short-term assets	(955,839)	(630,811)	(252,629)
Increase in short-term liabilities	<u>713,487</u>	<u>404,383</u>	<u>172,150</u>
	<u>835,303</u>	<u>483,497</u>	<u>428,702</u>
II. Cash flow from investing activities			
Additions to intangible assets and tangible fixed assets	(574,710)	(220,638)	(255,619)
Additions to financial assets	(79,106)	(16,308)	(11,829)
Change in companies subject to consolidation	—	694	(74)
Disposal of fixed assets, net	83,318	29,272	58,977
Change in special reserves for capital investment subsidiaries and allowances	352	(7)	(105)
	<u>(570,146)</u>	<u>(206,987)</u>	<u>(208,650)</u>
III. Cash flow from financing activities			
Dividends	(240,193)	(133,615)	(88,058)
Premium on convertible bonds	75,125	215,493	14
Increase in capital stock resulting from exercise of conversion rights	3,976	11,374	10
Conversion of convertible bonds	(3,956)	(11,345)	(2)
Increase/decrease in long-term bank debt	257	(376)	(1,399)
Changes in shareholders' equity not affecting liquidity ⁽¹⁾	<u>86,798</u>	<u>21,004</u>	<u>(23,480)</u>
	<u>(77,993)</u>	<u>102,535</u>	<u>(112,915)</u>
IV. Change in liquid assets	<u>187,164</u>	<u>379,045</u>	<u>107,137</u>
V. Liquid assets as of January 1,	<u>647,122</u>	<u>268,077</u>	<u>160,940</u>
VI. Liquid assets as of December 31,	<u>834,286</u>	<u>647,122</u>	<u>268,077</u>

⁽¹⁾ Consists primarily of currency effects on liquid assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(39) Fair Value of Financial Instruments

The Company utilizes various types of financial instruments in the normal course of business. These instruments include recorded assets and liabilities as well as items that principally involve off-balance sheet risk. Detailed information about the fair value of the Company's financial instruments is included in Notes (9), (13) and (26). A summary of the Company's financial instrument fair values is presented below.

- **Marketable Securities and Long-Term Investments:** The fair values of marketable securities and long-term investments are based upon available quoted market prices on December 31.
- **Accounts Receivable and Other Loans:** The fair values of accounts receivables and other loans approximate their carrying values. Differences between the fair values and carrying values represent unrealized transaction gains resulting from changes in foreign currency exchange rates.
- **Short-Term Bank Loans and Overdrafts:** The carrying value of short-term debt approximates fair value because of the brief duration of time between the origination of the borrowings and their maturities.
- **Derivative Financial Instruments:** The fair value of derivatives generally reflects the estimated amounts the Company would pay or receive to terminate the contracts at the reporting date, thereby considering unrealized gains or losses of open positions. Carrying values, as required under German GAAP, represent the lower of cost or market.

	At December 31,			
	1997		1996	
	Carrying Value DM (000)	Fair Value DM (000)	Carrying Value DM (000)	Fair Value DM (000)
Accounts receivable	2,435,699	2,449,860	1,555,869	1,563,572
Marketable securities	167,092	168,042	164,891	166,162
Long-term investments	109,498	114,248	100,704	101,454
Other loans	41,584	41,826	41,119	41,322
Derivative financial instruments				
Forward exchange contracts	(2,052)	3,551	(952)	33
Foreign currency options	—	562	—	—
Interest rate derivatives	—	—	—	400
Short-term bank loans and overdrafts	163,134	163,134	90,272	90,272

F. SIGNIFICANT DIFFERENCES BETWEEN GERMAN GAAP AND U.S. GAAP

(40) Reconciliation to U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with German GAAP as prescribed by the German Commercial Code and the German Stock Corporation Act. The effect of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the application of U.S. GAAP to net income and shareholders' equity as of and for the years ended December 31, 1997 and 1996 are set out in the tables below:

Reconciliation of Net Income from German GAAP to U.S. GAAP:

	Note	December 31,		
		1997 \$ (000) ⁽¹⁾	1997 DM (000)	1996 DM (000)
Net income as reported in the consolidated financial statements under German GAAP . . .		514,344	925,354	567,536
Minority interests		(1,318)	(2,371)	(1,317)
Net income as reported in the consolidated financial statements under German GAAP after minority interests		513,026	922,983	566,219
Revenue recognition	(a)	(43,072)	(77,491)	(166,937)
Pension provisions	(b)	1,057	1,901	13,484
Business combinations (goodwill & in-process R&D)	(c)	(5,874)	(10,568)	(2,423)
Income taxes	(d)	(1,276)	(2,296)	(22,193)
Other	(e), (f)	5,626	10,122	4,502
Tax effect of U.S. GAAP adjustments	(d)	16,006	28,796	59,234
Minority interests	(g)	71	127	265
Net income in accordance with U.S. GAAP . . .		485,564	873,574	452,151
Net income per common ordinary share under U.S. GAAP				
Basic	(m)	4.66	8.38	4.40
Diluted	(m)	4.61	8.30	4.29

Reconciliation of Shareholders' Equity from German GAAP to U.S. GAAP:

	Note	December 31,		
		1997 \$ (000) ⁽¹⁾	1997 DM (000)	1996 DM (000)
Shareholders' equity as reported in the consolidated balance sheets under German GAAP		1,702,169	3,062,372	2,211,312
Less: minority interest	(g)	(8,088)	(14,552)	(4,242)
Equity of SAP AG shareholders		1,694,081	3,047,820	2,207,070
Revenue recognition	(a)	(220,015)	(395,829)	(318,338)
Pension provisions	(b)	2,981	5,363	3,462
Business combinations (goodwill & in-process R&D)	(c)	(1,828)	(3,288)	7,280
Unrealized gains on available for sale marketable securities	(e)	3,042	5,472	607
Other	(d), (f), (g)	20,822	37,461	19,524
Tax effect of U.S. GAAP adjustments	(d)	78,406	141,060	112,264
Shareholders' equity under U.S. GAAP		1,577,489	2,838,059	2,031,869

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The changes in shareholders' equity in accordance with U.S. GAAP are as follows:

	<u>1997</u> <u>\$ (000) ⁽¹⁾</u>	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
U.S. GAAP shareholders' equity, beginning of year	1,129,381	2,031,869	1,437,221 ⁽²⁾
Net income	485,564	873,574	452,151
Dividends paid	(133,507)	(240,193)	(133,615)
Exercise of convertible bonds	43,966	79,101	226,867
Tax benefit of convertible bond program	1,276	2,296	24,061
Change in unrealized gains on available for sale marketable securities, net of tax	2,704	4,865	607
Currency translation adjustment	53,322	95,933	26,843
Other	(5,217)	(9,386)	(2,266)
Shareholders' equity, end of year	<u>1,577,489</u>	<u>2,838,059</u>	<u>2,031,869</u>

⁽¹⁾ The 1997 figures have been translated solely for the convenience of the reader at an exchange rate of DM 1.7991 to \$1.00, the Noon Buying Rate on December 31, 1997.

⁽²⁾ Includes the cumulative effects of the application of U.S. GAAP on prior periods where applicable.

(a) Revenue Recognition

The Company recognizes revenue for U.S. GAAP in compliance with the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"). SOP 97-2 was issued on October 27, 1997, and becomes effective for transactions entered into in fiscal years beginning after December 15, 1997. Prior to the issuance of SOP 97-2, Statement of Position 91-1 ("SOP 91-1") prescribed the accounting treatment for revenue recognition under U.S. GAAP. Earlier application of SOP 97-2 is encouraged as of the beginning of fiscal years or interim periods for which information or financial statements have not been issued. Because the Company has not previously issued information or financial statements on a U.S. GAAP basis, SOP 97-2 has been applied for all years reported under U.S. GAAP.

In accordance with SOP 97-2, software license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable and the collection of the fee is probable. Generally, the Company's licensing arrangements do not provide for significant production, modification or customization of software. Under U.S. GAAP, the Company allocates a portion of its software revenues to post-contract support activities or other services or products provided to the customer free of charge or at nonstandard discounts when included under the licensing arrangement. Amounts allocated are based upon standard prices charged for those services or products. Under German GAAP, the Company accrues for estimated costs of providing post-contract support activities or other services or products provided to the customer free of charge when included under the licensing arrangement. Under U.S. GAAP, such cost accruals of DM 29,902 thousand and DM 2,848 thousand are reversed in 1997 and 1996, respectively, since the associated software revenue has been deferred.

Under certain license arrangements, customers agree to license additional groups of users at prescribed future dates on a noncancellable basis. Under German GAAP, the Company recognizes revenue for such additional users at the dates on which they are authorized to access to the System. Under U.S. GAAP, the Company recognizes software revenues when the criteria for recognition set forth in SOP 97-2 have been achieved.

Under U.S. GAAP, revenues from post-contract support are recognized ratably over the term of the maintenance contract on a straight-line basis. Consulting and training services are generally recognized at the time the service is performed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A portion of the Company's allowance for doubtful accounts pertains to estimated sales allowances granted in the ordinary course of business. Under German GAAP, charges to establish and increase this part of the allowance are included in bad debt expense. Under U.S. GAAP, the portions of the allowance relating to sales allowances would be recorded as a direct reduction of sales revenues. These classification differences do not impact net income and do not have a material effect on sales revenues in 1997 or 1996.

(b) Pension Benefits

Under German GAAP, the Company provides for pension costs in accordance with Article 6a of the German Income Tax Act. Under U.S. GAAP, pension costs are accounted for in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). SFAS 87 requires actuarial computation of the pension costs for defined benefit plans using the projected unit credit method and includes current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service cost. Prior service cost is amortized over the future service period of active employees. Unrecognized gains and losses exceeding 10% of the greater of the projected obligation or the market-related value of the plan assets are amortized over the average service period of active employees.

(c) Business Combinations (Goodwill, In-Process Research and Development)

In accordance with German GAAP, the difference between the purchase price and the aggregate fair value of tangible and identifiable intangible assets and liabilities acquired in a business combination may either be charged directly to shareholders' equity or capitalized as goodwill and amortized over its estimated useful life, not to exceed 40 years. For acquisitions prior to January 1, 1997, the Company has elected to record goodwill as a direct reduction to shareholders' equity. Goodwill arising from business combinations consummated thereafter is capitalized and amortized through the income statement over its estimated useful life, generally 5 years. Under U.S. GAAP, goodwill must be capitalized and amortized through the income statement over its estimated useful life, which may not exceed 40 years. The Company expects, and thus maintains, consistent useful lives under German and U.S. GAAP.

Under German GAAP, in-process research and development costs are not identified in connection with the allocation of the purchase price but rather are treated as goodwill. U.S. GAAP requires the allocation of a portion of the purchase price for acquired in-process research and development. The costs associated with in-process research and development activities having no alternative future uses must be charged to expense at the time of acquisition. Under U.S. GAAP, the Company expensed DM 7.8 million in 1997 for acquired in-process research and development relating to software products for which technological feasibility had not yet been established at the date of acquisition.

(d) Income Taxes

U.S. GAAP requires recognition of deferred tax assets and liabilities for temporary differences using enacted tax rates in effect at year-end in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, net operating loss carryforwards that are available to reduce future taxes are recognized as deferred tax assets. Such amounts are reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is DM 5,133 thousand and DM 2,944 thousand for 1997 and 1996, respectively. Under German GAAP, deferred taxes are not recorded for net operating losses.

Under both German GAAP and U.S. GAAP, deferred tax liabilities are not reported for the unremitted earnings of non-German subsidiaries as management considers such amounts to be permanently reinvested; however, under U.S. GAAP, a deferred tax liability has been established for the small amount of earnings that are expected to be remitted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In August 1994, the Company established a convertible bond program for certain of its foreign and domestic employees. Compensation expense for such plans is treated differently for financial reporting and tax purposes in certain countries. The tax effect of such differences is charged or credited directly to the related components of shareholders' equity for U.S. GAAP purposes. Under German GAAP, the tax benefit is recorded as a reduction to income taxes for financial reporting.

(e) Marketable Securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or market value at the balance sheet date. Under U.S. GAAP, marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as either trading, available-for-sale or held to maturity, depending on management's intent with respect to holding such investments. The Company's securities are considered to be available-for-sale and, therefore, are valued under U.S. GAAP at fair market value at the balance sheet date. Unrealized gains and losses are excluded from earnings and reported net of tax in a separate component of shareholders' equity. Market values were obtained based on available market prices as of December 31, 1997 and 1996. Gains or losses recognized on sales of securities are based on specific identification.

The Company acquires its ordinary shares and preference shares for the purpose of offering them to its employees. Under German GAAP, the Company records purchases of its own shares at cost within marketable securities. Upon distribution to its employees, the Company recognizes gains and losses based on the differences in the fair market value of SAP shares on the date of purchase and distribution. Under U.S. GAAP, purchases of Company stock are included in treasury stock as a separate component of shareholders' equity. Differences between the purchase and sale price of treasury stock are included in shareholders' equity and have no impact on earnings. Differences between German and U.S. GAAP resulting from treasury stock transactions did not materially impact shareholders' equity or net income in 1996 or 1997.

(f) Other

Other differences consist of miscellaneous valuation differences that individually are not material. These items include foreign currency translation differences and unrealized foreign currency transaction gains that are recognized for U.S. GAAP purposes.

(g) Minority Interests

Under German GAAP, minority interest is included as a separate component of shareholders' equity. Under U.S. GAAP, minority interest is shown as a liability.

Additional U.S. GAAP Information

(h) Newly Issued Accounting Pronouncements

The Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income" ("SFAS 130"), and Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), each of which is effective for fiscal years beginning after December 15, 1997. SFAS 130 requires business enterprises to report comprehensive income and its components. SFAS 131 requires business enterprises to report information about operating segments and establishes standards for related disclosures about products and services, geographic areas and major customers. As these statements relate to additional disclosure, their adoption will not impact the Company's financial position or results of operations.

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(i) Research and Development

Research and development costs are expensed as incurred under German GAAP. The current U.S. accounting rule, Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", does not materially affect the Company. Research and development expenses for the years ended December 31, 1997, 1996 and 1995 are DM 813 million, DM 589 million and DM 438 million, respectively.

(j) Segment and Geographic Areas

The Company operates in one industry segment, the design, development, marketing, licensing and support of client/server and mainframe standard business application software. The Company markets its products and services through its subsidiaries and distributors throughout the world. The majority of software development occurs in Germany although the Company maintains development facilities at certain of its foreign subsidiaries. Inter-company revenues are generally based on a percentage of the subsidiaries' revenue from unaffiliated customers. The following table presents a summary of operations by geographic region. The Company allocates sales revenue by destination based on the region in which the customer is located. Sales revenue by operation is based upon the location of the Company's subsidiaries.

	Years Ended December 31,	
	1997 DM (000)	1996 DM (000)
Sales revenue by destination: ⁽¹⁾		
Europe	2,544,519	1,799,650
Americas	2,594,754	1,385,654
Asia-Pacific/Africa	878,193	536,846
Total sales revenue	6,017,466	3,722,150
Sales revenue by operation: ⁽¹⁾		
Europe	2,633,219	1,853,452
Americas	2,558,115	1,373,160
Asia-Pacific/Africa	826,132	495,538
Total sales revenue	6,017,466	3,722,150
Results from ordinary operations: ⁽²⁾		
Europe	1,089,612	674,353
Americas	461,919	225,366
Asia-Pacific/Africa	115,405	67,494
Total results from ordinary operations	1,666,936	967,213
Total assets:		
Europe	2,834,561	2,190,258
Americas	1,623,648	777,812
Asia-Pacific/Africa	612,051	399,034
Total assets	5,070,260	3,367,104

⁽¹⁾ Sales revenue for each geographic region represents revenue from unaffiliated customers only.

⁽²⁾ Amounts include inter-company royalties and cost allocations.

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(k) Marketable Securities and Financial Assets

Investments classified as available for sale include marketable securities, financial assets and certain other investments. Amounts at December 31, 1997 and 1996, are as follows:

	1997 DM (000)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	12,922	5,725	—	18,647
Debt securities	<u>286,914</u>	<u>5,805</u>	<u>429</u>	<u>292,290</u>
Total	<u>299,836</u>	<u>11,530</u>	<u>429</u>	<u>310,937</u>
	1996 DM (000)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	12,922	—	911	12,011
Debt securities	<u>275,974</u>	<u>2,022</u>	<u>99</u>	<u>277,897</u>
Total	<u>288,896</u>	<u>2,022</u>	<u>1,010</u>	<u>289,908</u>

(l) Employee Benefits

The Company sponsors various retirement plans for most full-time employees. These plans, which are either defined benefit or defined contribution plans, are offered by most German and foreign locations. The benefits offered vary according to the legal, fiscal and economic conditions of each country.

In accordance with U.S. GAAP, pension plan benefits for defined benefit plans are determined in accordance with SFAS 87. Under SFAS 87, pension plans and their costs are determined using the projected unit credit method. The information provided below is in accordance with SFAS 87.

German Plans

SAP AG has noncontributory defined benefit plans as described in note (20). Plan assets consist of fixed income securities.

Net period pension expense for 1997 and 1996 for the German Plans is as follows:

	1997 DM (000)	1996 DM (000)
Service cost of benefits earned during the year	18,327	13,487
Interest cost on projected benefit obligation	7,963	6,080
Return on plan assets	(5,137)	(3,967)
Net amortization and deferral	<u>2,564</u>	<u>2,286</u>
Net periodic pension cost	<u>23,717</u>	<u>17,886</u>

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assumptions used in developing the projected benefit obligation for the German plans at December 31, were as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Discount rate	6.5%	7.0%
Rate of increase in compensation	5.0%	5.0%
Expected long-term rate of return on plan assets	6.5%	7.0%

The following table sets forth the German plans' funded status at December 31, 1997 and 1996 in accordance with U.S. GAAP:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Actuarial present value of benefit obligations		
Vested benefit obligations	66,671	52,278
Non-vested benefit obligations	<u>18,200</u>	<u>14,852</u>
Accumulated benefit obligations	<u>84,871</u>	<u>67,130</u>
Projected benefit obligation	151,599	122,449
Plan assets at fair value	<u>79,260</u>	<u>59,547</u>
Projected benefit obligation in excess of plan assets	(72,339)	(62,902)
Unrecognized net obligation	29,076	31,361
Unrecognized cumulative loss	<u>24,611</u>	<u>17,122</u>
Accrued pension cost	<u>(18,652)</u>	<u>(14,419)</u>

A portion of the unrecognized net obligation for the German plans is allocated directly to equity as of January 1, 1996, the Company's adoption date of SFAS 87. Amounts allocated to equity are based on the ratio of the number of years elapsed between 1987, the SFAS 87 effective date for foreign defined benefit plans (or the plans' effective date if later), and the remaining service period of employees expected to receive benefits as estimated at the adoption date.

U.S. Plan

SAP America, Inc. has a noncontributory defined benefit plan for employees who are least 21 years old and have been employed by the Company for at least 1 year. The plan provides benefits based upon compensation levels, age and years of service. Contributions are based on actuarial valuations of benefits payable under the plan. Plan assets consist primarily of investments in equity and fixed income securities.

Net period pension expense for 1997 and 1996 for the U.S. plan is as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Service cost of benefits earned during the year	6,975	4,219
Interest cost on projected benefit obligation	1,392	658
Return on plan assets	(900)	(576)
Net amortization and deferral	<u>59</u>	<u>370</u>
Net periodic pension cost	<u>7,526</u>	<u>4,671</u>

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assumptions used in developing the projected benefit obligation for the U.S. plan at December 31, were as follows:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Discount rate	7.0%	7.5%
Rate of increase in compensation	6.0%	6.0%
Expected long-term rate of return on plan assets	8.0%	8.0%

The following table sets forth the U.S. plan's funded status at December 31, 1997 and 1996 in accordance with U.S. GAAP:

	<u>1997</u> <u>DM (000)</u>	<u>1996</u> <u>DM (000)</u>
Actuarial present value of benefit obligations		
Vested benefit obligations	5,936	1,953
Non-vested benefit obligations	<u>14,365</u>	<u>7,026</u>
Accumulated benefit obligations	<u>20,301</u>	<u>8,979</u>
Projected benefit obligation	22,477	9,726
Plan assets at fair value	<u>20,912</u>	<u>5,293</u>
Projected benefit obligation in excess of plan assets	(1,565)	(4,433)
Unrecognized cumulative loss	3,628	1,426
Adjustment required to recognize minimum liability	<u>—</u>	<u>(678)</u>
Prepaid (accrued) pension cost	<u>2,063</u>	<u>(3,685)</u>

(m) Earnings Per Share

Earnings per ordinary share and preference share for the years ended December 31, 1997 and 1996 has been calculated using the two-class method in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share". Net income is allocated between ordinary shares and preference shares in calculating earnings per share for each class of stock. This allocation weights net income available (net income less dividends), to the extent that each class of stock may share in the earnings as if all of the earnings for the period had been distributed. Distributed earnings are allocated to each class of stock based on the respective dividends paid. In arriving at earnings per share, the total allocated earnings for each class of stock is divided by the weighted average number of shares outstanding to which the earnings are allocated. Because the Company's convertible bonds have a dilutive effect, they were considered outstanding for the diluted earnings per share calculation.

Ordinary shares with a nominal value of DM 50 have 10 voting rights, whereas ordinary shares with a nominal value of DM 5 have 1 voting right. Preference shares with a nominal value of DM 50 receive 10 times the dividends received by preference shares with a nominal value of DM 5. For purposes of basic and diluted earnings per ordinary share, ordinary shares with a nominal value of DM 50 are increased by a factor of 10 to arrive at weighted average number of ordinary shares outstanding. Similarly, preference shares are "equalized" using a factor of 10 in arriving at weighted average number of preference shares outstanding for basic and diluted earnings per preference share.

SAP AKTIENGESELLSCHAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net income applicable to basic and diluted EPS: ⁽¹⁾	<u>1997</u>		<u>1996</u>	
Net income applicable to basic and diluted EPS:	873,574		452,151	
Less dividends:				
Ordinary shares	(140,281)		(79,282)	
Preference shares	<u>(99,912)</u>		<u>(54,333)</u>	
Net income available to holders of ordinary shares and preference shares	<u>633,381</u>		<u>318,536</u>	
	<u>1997</u>		<u>1996</u>	
	<u>Ordinary</u>	<u>Preference</u>	<u>Ordinary</u>	<u>Preference</u>
Allocated net income available	370,841	262,540	189,277	129,259
Distributed earnings	<u>140,281</u>	<u>99,912</u>	<u>79,282</u>	<u>54,333</u>
Total allocated earnings — Basic EPS	511,122	362,452	268,559	183,592
Conversion of preference share bonds	<u>(5,012)</u>	<u>5,012</u>	<u>(7,160)</u>	<u>7,160</u>
Total allocated earnings — Diluted EPS	506,110	367,464	261,399	190,752
	<u>1997</u>		<u>1996</u>	
Weighted average ordinary shares outstanding applicable to basic and diluted EPS:	<u>Ordinary</u>	<u>Preference</u>	<u>Ordinary</u>	<u>Preference</u>
Weighted average shares — Basic	60,994	42,842	60,988	41,061
Conversion of preference share bonds	<u>6</u>	<u>1,409</u>	<u>12</u>	<u>3,190</u>
Weighted average shares — Diluted	61,000	44,251	61,000	44,251
Earnings per share — Basic	8.38	8.46	4.40	4.47
Earnings per share — Diluted	8.30	8.30	4.29	4.31

⁽¹⁾ Amounts are in (i) thousands, except for per share information, and (ii) DM, except for share information.

**INVESTMENTS OF SAP AKTIENGESELLSCHAFT
AND THE COMPANY**

As of December 31, 1997, figures in DM(000), except for % and employee information

<u>Name and location of company</u>	<u>Ownership %</u>	<u>Net income/ (loss) for 1997(1)</u>	<u>Equity 12/31/1997(1)</u>	<u>Number of employees as of 12/31/1997(2)</u>
I. AFFILIATED COMPANIES				
GERMANY				
SRS Software-und Systemhaus Dresden GmbH, Dresden	50	3,239	8,899	299
SAP Retail Solutions GmbH & Co., St. Ingbert ..	100	11,885	20,345	170
Steeb Anwendungssysteme GmbH, Abstatt	100	2,238	5,766	106
SAP Systems Integration GmbH, Alsbach- Haehnlein	60	(2,689)	27,311	105
AsseT GmbH Assessment & Training Technologies, Friedrichshafen	75	446	1,169	12
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf	100	(2)	50	0
STEEB-CAS Informationstechnik GmbH i.L., Abstatt	100	116	885	0
DACOS Software Holding GmbH, St. Ingbert ...	100	(632)	13,830	0
REST OF EUROPE				
SAP (UK) Limited, Feltham/UK	100	52,113	122,430	297
SAP France Systèmes Applications et Progiciels S.A., Paris/France	100	11,972	44,803	263
SAP (Schweiz) AG, Biel/Switzerland	100	21,512	165,654	187
SAP Nederland B.V., 's Hertogenbosch/ Netherlands	100	23,112	53,049	149
SAP Österreich, Systeme, Anwendungen und Produkte in der Datenverarbeitung Gesellschaft m.b.H., Vienna/Austria	100	15,471	35,808	120
SAP Danmark A/S, Brøndby/Denmark	100	19,067	39,750	136
SAP Svenska Aktiebolag, Stockholm/Sweden ...	100	23,438	29,299	101
SAP ESPAÑA Y PORTUGAL SISTEMAS APLICACIONES Y PRODUCTOS EN LA INFORMATICA, S.A., Madrid/Spain	100	9,179	23,516	116
S.A.P., Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Milan/Italy	100	7,611	21,257	110
NV SAP BELGIUM SA, Brussels/Belgium	100	10,793	32,977	97
SAP CR, s.r.o., Prague/Czech Republic	100	2,755	13,172	113
SAP Polska Sp. z.o.o., Warsaw/Poland	100	1,137	6,895	54
SAP Consult C.I.S., Moscow/Russia	100	941	2,411	53
SAP Service and Support Center (Ireland) Limited, Dublin/Ireland	100	(392)	2,220	42
DACOS Software S.A., Vaumarcus (NE)/Switzerland 3)	52	(21)	384	1
STEEB-CAS Informationstechnik AG in Liq., Pieterlen/Switzerland	100	0	0	0
SAP Ireland Ltd., Dublin/Ireland	100	2,494	82,291	6
SAP Retail Solutions Nederland B.V., 's Hertogenbosch/Netherlands	100	0	222	0

**INVESTMENTS OF SAP AKTIENGESELLSCHAFT
AND THE COMPANY — (Continued)**

As of December 31, 1997, figures in DM(000), except for % and employee information

<u>Name and location of company</u>	<u>Ownership %</u>	<u>Net income/ (loss) for 1997(1)</u>	<u>Equity 12/31/1997(1)</u>	<u>Number of employees as of 12/31/1997(2)</u>
SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Kft., Budapest/Hungary	100	(12)	2,452	0
AMERICAS				
SAP America, Inc., Wayne, PA/USA	100	199,588	702,937	2,580
SAP Canada Systems, Applications and Products in Data Processing Inc., North York, ONT/ Canada	100	21,992	60,216	350
SAP BRASIL COMERCIO E REPRESENTACOES LTDA., Sao Paulo/ Brazil				
SAP Labs, Inc., formerly SAP Technology, Inc., Palo Alto, CA/USA	100	4,333	10,826	258
SAP MEXICO S.A. DE C.V., Mexico City/ Mexico	100	15,230	23,080	125
SAP ARGENTINA S.A., Buenos Aires/ Argentina	100	10,259	16,722	90
SAP Andina y del Caribe S.A, Caracas/ Venezuela	100	(6,125)	4,565	101
SAP International, Inc., Miami, FL/USA	100	216	466	15
SAP America Public Sector, Inc., Washington, DC/ USA	100	(286)	(257)	53
WS Investment Holdings, L.P., Wilmington, DE/ USA(3)	99	528	14,773	0
ASIA/PACIFIC				
SAP Japan Co., Ltd., Tokyo/Japan	100	29,706	104,776	666
SAP AUSTRALIA PTY LTD, Sydney/Australia ..	100	12,797	40,986	249
SAP Asia Systems, Applications and Products in Data Processing Pte. Ltd., Singapore	100	(329)	12,355	202
SAP Korea Limited, Seoul/Korea	100	2,622	5,415	69
SAP India Systems, Applications and Products in Data Processing Private Limited, Bangalore/ India	100	2,272	5,037	74
SAP Data Processing (Malaysia) Sdn Bhd, Kuala Lumpur/Malaysia	100	2,089	4,884	58
SAP New Zealand Limited, Auckland/New Zealand	100	1,794	8,500	24
SAP SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING (THAILAND) LTD., Bangkok/Thailand				
SAP (Beijing) Software System Co., Ltd., Beijing/China	100	(2,955)	1,277	39
SAP (Beijing) Software System Co., Ltd., Beijing/China	100	(2,955)	6,207	91
SAP Taiwan Co. Ltd., Taipei/Taiwan	100	1,424	5,347	38
SAP HONG KONG CO., LIMITED, Taikoo Shing/Hong Kong	100	1,148	5,758	27

**INVESTMENTS OF SAP AKTIENGESELLSCHAFT
AND THE COMPANY — (Continued)**

As of December 31, 1997, figures in DM(000), except for % and employee information

<u>Name and location of company</u>	<u>Ownership %</u>	<u>Net income/ (loss) for 1997(1)</u>	<u>Equity 12/31/1997(1)</u>	<u>Number of employees as of 12/31/1997(2)</u>
SAP PHILIPPINES SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING, INC., Makati City/ Philippines				
	100	(1,568)	(523)	33
SAP India (Holding) Pte. Ltd., Singapore				
	100	(11)	794	0
PT SAP Asia, Jakarta/Indonesia				
	100	(671)	(167)	16
AFRICA				
SYSTEMS APPLICATIONS PRODUCTS (SOUTHERN AFRICA) (PTY) LTD, Woodmead/South Africa				
	100	9,083	13,921	125

- (1) These figures do not include eliminations resulting from consolidation and therefore do not reflect the contribution of these companies included in the consolidated financial statements.
- (2) As of December 31, 1997, including managing directors.
- (3) Not consolidated according to Article 296(2) of the German Commercial Code.

**INVESTMENTS OF SAP AKTIENGESELLSCHAFT
AND THE COMPANY — (Continued)**

As of December 31, 1997, figures in DM(000), except for % and employee information

<u>Name and location of company</u>	<u>Ownership %</u>	<u>Net income/ (loss) for 1997(1)</u>	<u>Equity 12/31/1997(1)</u>	<u>Number of employees as of 12/31/1997(2)</u>
II. ASSOCIATED COMPANIES				
IDS Prof. Scheer Gesellschaft für integrierte Datenverarbeitungssysteme mbH, Saarbrücken/Germany(3)	25.2	1,653	56,352	513
SAP Solutions GmbH, Freiberg/Germany	40	8,362	11,432	299
Schmidt, Vogel und Partner Consult Gesellschaft für Organisation und Managementberatung mbH, Bielefeld/Germany(3)	25.2	1,081	1,450	127

- (1) These figures do not include eliminations resulting from consolidation and therefore do not reflect the contribution of these companies included in the consolidated financial statements.
- (2) As of December 31, 1997, including managing directors.
- (3) Included in the consolidated financial statements for the first time.

SUPERVISORY BOARD AND EXECUTIVE BOARD

Supervisory Board

Elected at the Annual General Meeting:

Dr. Bernd Thiemann
Kronberg/Taunus
Chairman of the DG Bank
Frankfurt am Main
Chairperson

Dr. Wilhelm Haarmann
Kronberg/Taunus
RA WP StB HAARMANN, HEMMELRATH &
PARTNER
Frankfurt am Main

Dr. Heinrich Hornef
Weinheim

Klaus-Dieter Laidig
Böblingen

Botho von Portatius
Cologne

Prof. Dr. August-Wilhelm Scheer
Saarbrücken
Director of the Institute for Information Systems
Saarland University
Saarbrücken

Elected by the employees:

Helga Classen
St. Leon-Rot
Deputy Chairperson

Willi Burbach
Düsseldorf

Rüdiger Gerber
Bad Schönborn

Bernhard Koller
Walldorf

Dr. Gerhard Maier
Wiesloch

Alfred Simon
Malsch

Executive Board

Dietmar Hopp
Walldorf
Co-Chairman and CEO
Administration, Sales and Consulting in Germany,
Corporate Communication

Prof. Dr. h. c. Hasso Plattner
Schriesheim/Altenbach
Co-Chairman and CEO
Basis Development, Technology, Industry Solutions

Dr. Claus E. Heinrich
Walldorf
Logistics Development, Industry Solutions

Prof. Dr. Henning Kagermann
Hockenheim
Development Financials, Human Resources, Indus-
try Solutions

Gerhard Oswald
Wiesloch
R/3 Services, Training, Internal Systems

Dr. h. c. Klaus Tschira
Heidelberg
Human Resources Development

Paul Wahl
Wilhelmsfeld
SAP America, Inc. (CEO), Worldwide Marketing

Dr. Peter Zencke
Weinheim
Development Logistics, Industry Solutions

Extended Management Board

Michael Gioja as of January 1, 1998
Stutensee
Human Resources Development

Karl-Heinz Hess
Stutensee
Basis Development

Dieter Matheis
Mühlhausen
Chief Financial Officer

Paul Neugart
Hockenheim
Head of Sales in Germany

Dr. Gerhard Rodé until December 31, 1997
Östringen
Basis Development

Schedule II Valuation and Qualifying Accounts and Reserves
Years Ended December 31, 1997, 1996 and 1995
DM (000)

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>		<u>Deductions</u>	<u>Ending Balance</u>
		<u>Charged to costs and expenses</u>	<u>Charged to other accounts</u>		
Allowances for Doubtful Accounts:					
Year ended December 31, 1995	20,560	17,557		14,560	23,557
Year ended December 31, 1996	23,557	31,739		5,000	50,296
Year ended December 31, 1997	50,296	51,266		9,200	92,362

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	<u>Page No.</u>
3.1	Articles of Association (<i>Satzung</i>) of SAP as amended to the date of filing (English translation included) (Incorporated by reference to Registration Statement on Form F-1 of SAP. (Registration No. 333-57383), filed June 22, 1998)	
4.1	Form of Amended and Restated Deposit Agreement among SAP, The Bank of New York, as Depositary, and all holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts (Incorporated by reference to Registration Statement on Form F-1 of SAP. (Registration No. 333-57383), filed June 22, 1998)	