



## SELECTED FINANCIAL HIGHLIGHTS

in millions of DM, unless  
otherwise indicated

	1993	1994	1995	1996	1997
Sales	1,101.7	1,831.1	2,696.4	3,722.2	6,017.5
per employee	0.320	0.414	0.419	0.455	0.521
Personnel expenditure	466.2	675.2	956.7	1,338.5	2,074.9
as % of sales	42.3	36.9	35.5	36.0	34.5
Employees at year-end	3,648	5,229	6,857	9,202	12,856
Development expenditure	267.7	369.6	438.2	588.9	813.3
as % of sales	24.3	20.2	16.3	15.8	13.5
Net income	146.3	281.2	404.8	567.5	925.4
as % of sales	13.3	15.4	15.0	15.2	15.4
Earnings per share (DM) *	1.46	2.78	4.00	5.48	8.87
(adjusted according to DVFA/SG ** method)					
Cash flow (DVFA/SG ** method)	212.1	386.5	559.0	782.7	1,230.1
as % of sales	19.3	21.1	20.7	21.0	20.4
Balance sheet total	1,306.2	1,749.7	2,218.2	3,367.1	5,070.3
Equity	1,008.6	1,236.2	1,529.5	2,211.3	3,062.4
as % of balance sheet total	77.2	70.7	69.0	65.7	60.4
Dividend per ordinary share (DM) *	0.44	0.85	1.30	1.80 ***	2.80
Dividend per preference share (DM) *	0.48	0.90	1.35	1.85 ***	2.85

\* Per DM 5.00 par value share

\*\* German Association for Financial  
Analysts and Investment Consultants

\*\*\* In 1996 an anniversary bonus of  
DM 0.50 was added to the dividend  
per ordinary and preference share

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SAP: PROVIDING A BETTER RETURN ON INFORMATION

SAP's key focus is to insure that its customers earn "a better return on information." It accomplishes this goal by delivering state-of-the-art information technology solutions which enable customers to meet market challenges, both today and tomorrow. SAP's commitment extends to companies of all sizes operating in a variety of industries, thus insuring an enterprise-wide, process-oriented approach to business solutions which enhance the entire value chain.

As it strengthens its leadership in the world market for enterprise business software, customer reliance on SAP continues to grow. According to a recent study by International Data Corporation, a respected US market research firm, SAP has established a commanding lead in the client/server industry, holding a market share of 28%, a figure greater than the combined shares of its next five competitors. In the European market for integrated enterprise software, its position is even stronger, with a market share of 41%. Through its subsidiaries, branches, or representative offices, SAP is now present in virtually all of the world's industrialized markets. Its products are used in more than 90 countries, representing around 98% of the world's economic capacity – conclusive proof of SAP's global reach.

The twenty-sixth year of the company's history was a highly successful one. Sales revenues grew by 62% to DM 6.02 billion, with 81% of sales made outside Germany. Pre-tax profit for 1997 grew even faster than sales, rising by 72% to DM 1,667 million. Net profit (DM 925 million) and earnings per share (DM 8.87) grew in line with sales, increasing by 63% and 62% respectively. This vigorous growth was fueled by continued worldwide demand for enterprise business software. The demands of the year-2000 challenge and the coming introduction of the euro had a particular effect on demand characteristics. More than two million users now work with over 13,000 R/3 installations worldwide, while some 1,400 companies use the mainframe R/2 System.

A key factor in this global sales success is SAP's capacity to constantly develop new and innovative solutions. SAP has consistently led the software industry in terms of research and development. In 1997, the company invested DM 813 million – just under 14% of its total sales – in enhancing and developing existing and new products. Users particularly appreciate that SAP is evolving its software in stages and is actively committed to protecting its customers' software investments. The current R/3 Releases – 3.1 and 4.0 – are clear evidence of this commitment. With Release 3.1, SAP brought to market a business application package that delivers easier-to-implement Internet features which support all R/3 business processes and can be tailored to individual customer requirements. R/3 Release 4.0, focusing on value chain innovation, supports the entire process chain from point-of-sale to manufacturing and procurement. The enhanced functions increase the speed of company-wide logistics, financials and human resources, while other innovations create opportunities for closer cooperation with business partners.

SAP's component strategy, based on its Business Framework technology approach, represents an aggressive evolution in SAP's product portfolio. The company is refashioning the R/3 System into a family of integrated components, while simultaneously developing a range of independent applications that can be marketed separately. This boosts SAP's potential for tapping new horizontal and vertical markets.

The rapid growth of the company is also reflected in the development of the workforce. At the end of the year, the SAP Group employed 12,856 people, representing a rise of 40% compared to the previous year. The number of people employed outside Germany rose by 51% to 7,340 – an increase significantly greater than for Germany, where in 1997, 1,171 new employees were hired, increasing the headcount by 27% to 5,516. SAP owes its success to the capabilities, performance, and commitment of its employees. The Group is committed to strengthening its unique corporate culture, a culture characterized by respect and mutual trust. SAP nurtures individuality, and provides considerable latitude for innovation and creativity to blossom. Teamwork, an open exchange of information, flat hierarchies, and tolerance of risk-taking all promote entrepreneurial thinking and actions.



SAP PROFILE



The revolving granite ball in the lobby of SAP's headquarters in Walldorf symbolizes the company's international orientation

In its 25th anniversary year, SAP's successes with its products, services, and customer events were numerous. These efforts and achievements were often recognized and cited by media and other institutions.



JANUARY

: Construction begins on the new Basis Application Center. Upon completion, the new facility will provide space for approximately 1,600 employees.

FEBRUARY

: Deutsche Post AG goes live with SAP's Human Resources component, the largest R/3 Human Resources installation in the world. Its tasks include handling payroll accounting for 300,000 German postal service employees.

: SAP and Software AG found a joint consulting enterprise.

MARCH

: SAP's participation in CeBIT '97, the world's largest information technology trade show, generates 3,000 sales contacts during the seven-day fair – a 25% increase over the previous year. R/3 and the Internet, R/3 Retail, the euro, and year 2000 compliance are the hot topics.

: SAPNet is introduced, offering an Internet-based information and communication service for customers, prospects, partners, and employees.

APRIL

: SAP celebrates its 25th anniversary in Mannheim with special guests German Chancellor Helmut Kohl and the Prime Minister of the state of Baden-Württemberg, Erwin Teufel. Chancellor Kohl makes a speech: "The SAP Success Story is Unparalleled."

: SAP hires its 10,000th employee.

MAY

: More than 3,000 shareholders attend SAP's tenth Annual General Meeting.

: SAP and Stevie Wonder jointly found the "SAP/Stevie Wonder Vision Award" to promote innovative technical solutions to help integrate blind and visually impaired people into the workplace.

JUNE

: Auto industry giants VW and Daimler-Benz close deals for extensive R/3 installations. In November, the largest auto manufacturer in the world, General Motors, will decide to use SAP's financial software company-wide.

: The European user conference SAPHIRE in Amsterdam sets a new record with over 5,200 visitors from 53 countries. SAP showcases the Business Information Warehouse and announces plans to introduce AcceleratedSAP worldwide (a faster, more efficient way to implement R/3).

: Prof. Dr. Hasso Plattner, co-founder and Deputy Chairman of the Executive Board of SAP, receives the renowned "Information Technology Leadership Award" in Washington D.C. Prof. Plattner's acceptance speech will become a part of the permanent archive of the National Museum of American History at the Smithsonian Institute.

JULY

: SAP hosts over 7,500 employees and their partners at a celebration of the company's 25th anniversary.

: The Japanese user conference SAPHIRE takes place in Yokohama. It is the most successful customer event in Asia, with over 10,000 visitors.

: The Supervisory Board approves proposals to list SAP on the US stock market. Dietmar Hopp and Hasso Plattner are named Co-Chairmen of the Executive Board.



January: Construction begins on the new Basis Application Center opposite the Development and Sales Center in Walldorf

AUGUST

: SAP America, Inc. and Intel found Pandesic. This joint venture offers an integrated hardware, software, and service solution that enables companies to conduct business with their suppliers and customers over the Internet.

: SAPHIRE '97 in Orlando, the user conference hosted by SAP America, again breaks all records with over 12,000 visitors from 65 countries. Intel CEO Andy Grove and Hasso Plattner make the keynote speeches.



HIGHLIGHTS '97

August: With over 12,000 visitors, SAPHIRE Orlando, the user conference hosted by SAP America, breaks all records

June: Prof. Dr. Hasso Plattner receives the "Information Technology Leadership Award" in Washington, D.C.



SEPTEMBER

: In a study of German companies listed on the DAX, SAP receives an AA rating from the German monthly "manager magazin", putting SAP in first place for the fifth consecutive year.

: SAP America, Inc. announces plans to erect a new headquarters for approximately 2,400 employees in Newtown Square, Pennsylvania. Construction costs are estimated at US \$150 million.

OCTOBER

: Nearly 3,000 visitors attend the Technology Days in Karlsruhe, where Microsoft founder and CEO Bill Gates is the keynote speaker.

NOVEMBER

: "manager magazin" votes SAP "Company of the Year" for the fourth time, with top marks in "Balance Sheet Analysis" and "Stock Development."

: SAP is awarded the first German "Investment in Jobs" prize. The prize recognizes SAP's creation of 748 permanent positions in 1996.

DECEMBER

: Another honor is bestowed by "manager magazin". In an analysis of the 500 largest quoted securities in Europe, SAP takes first place by a wide margin.

: Release 4.0 of R/3 is completed and shipped to pilot customers on schedule. Just four weeks after delivery, the first pilot user goes live.

November: SAP is awarded the first German "Investment in Jobs" prize in recognition of its creation of 748 positions in Germany



March: SAP records 3,000 sales contacts at CeBIT '97, significantly more than expected



**"THE SAP SUCCESS STORY  
IS UNPARALLELED"**

German Chancellor Dr. Helmut Kohl paid tribute to SAP and the achievements of the founders and employees of the company in his keynote address at SAP's 25th anniversary celebration in April. Kohl praised SAP's success and innovation and cited SAP as a model company. "SAP has created 10,000 jobs, with 5,000 in Germany, and contributes significantly to our tax base. I am extremely grateful for this," he said. The Prime Minister of the German federal state of Baden-Württemberg, Erwin Teufel, was also among the 750 guests of honor from the German political, business and media world who participated in the April 11 event in Mannheim. "SAP is a dynamic company in a dynamic market," said Teufel in his open-



ing address. "The headquarters are in Walldorf, Baden-Württemberg – the market is the whole world. Baden-Württemberg is proud of SAP." Dr. Heinrich von Pierer, Chairman of the Executive Board of Siemens AG, emphasized in his address SAP's unique corporate culture as one of the secrets of the company's success: "One of the prerequisites for continued success is a distinctive corporate identity. SAP is certainly not lacking in this respect. Employees can be proud that they are able to contribute to the success of such a dynamic company."

**A BETTER RETURN ON INFORMATION**

In the spirit of SAP's team-focused corporate culture, co-founders Dietmar Hopp, Prof. Dr. h. c. Hasso Plattner, and Dr. h. c. Klaus Tschira each highlighted a key aspect of SAP. Dietmar Hopp assessed the company and its employees: "We recognized that by avoiding bureaucracy we can promote efficiency and innovation with informal teamwork. We have been fortunate in the selection of our employees. We are proud of the SAP workforce and their constant commitment to high performance." Referring to SAP's product development, Hasso Plattner commented: "Concentrating on the product is fundamental to SAP's success. The ability of our employees to identify themselves with the product has always been central to our excellent performance." Klaus Tschira stressed the benefits of SAP's partnerships: "SAP's partner strategy is based on fairness, openness, non-exclusion, and mutual learning." Helga Classen, Deputy Chairperson of SAP's Supervisory Board, congratulated SAP on behalf of company employees. Emphasizing SAP's team spirit, partnership, and service-oriented thinking, she said: "We must insure that the flexibility, independence and responsibility we give our employees are reflected in our relationships with customers and partners."



German Chancellor Dr. Helmut Kohl, SAP founders Prof. Dr. Hasso Plattner, Dr. Klaus Tschira, Dietmar Hopp, and the Prime Minister of the state of Baden-Württemberg, Erwin Teufel (from right to left) at SAP's 25th anniversary celebrations in April 1997



**A SUPERLATIVE ANNIVERSARY  
CELEBRATION**

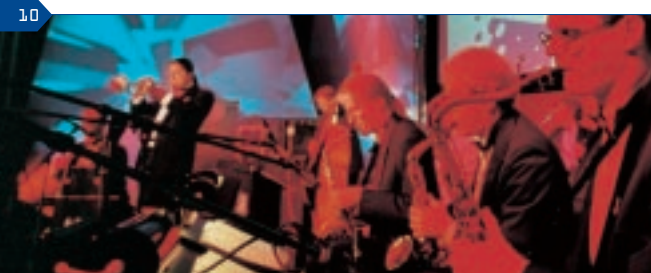
On July 5, a party was held for over 7,500 employees and their partners to celebrate the company's anniversary. Guests were treated to a culinary feast, while magicians, performers and fire-eaters contributed to the festive atmosphere. The music provided an upbeat tempo, bringing employees and their partners out on the dance floor. The Althoff Circus presented selections from its latest program. And the celebration was topped off with a spectacular fireworks display to the accompaniment of Ravel's Bolero. SAP employees voiced their enthusiasm and appreciation: "Fantastic party", "excellent", "just brilliant", "thanks to everyone who made this event possible."

Over 7,500 employees and their partners celebrate SAP's 25th anniversary in July



**EVENING FESTIVITIES**

Guests enjoyed the entertainment provided by some 40 artists from all over the world, performing on four separate stages. Songs from the 20's and 30's, flamenco sounds, samba rhythms, and a range of acrobatic and folklore performances represented the global spectrum of music and dance. The surprise appearance of the Mannheimer Adler, the German ice-hockey team, was received with overwhelming applause. The professional team, sponsored by SAP, had won the German championship games on the same evening.



In 1997, SAP celebrated the 25th anniversary of its founding, and we received many messages congratulating us on this milestone, and extending best wishes for the continued success of the company. I would like to express my thanks to everyone for these sentiments.

SAP had a great year in 1997. Our efforts to expand the company's global position continued in the year. As a result, the share of total sales outside Germany increased to 81%. SAP is now represented in more than 40 countries by wholly owned subsidiaries or branch offices, and SAP products are used in more than 90 countries which produce roughly 98% of the world's economic output. According to the findings of a study conducted by IDC, a market research company, SAP has a market share of more than 28%, making it larger than its next five competitors combined. In Europe, we dominate the market for integrated enterprise software, with IDC estimating that SAP has achieved a European market share of 41%. With our strategic position so strong, and supported by our own marketing, service, and support network, we are seeking not just to consolidate our market and technology leadership, but to grow it.

We are also continuing to widen our global presence on the world's equity markets: In the third quarter of 1998, SAP will list on the world's largest stock market, the New York Stock Exchange (NYSE). We are taking this step to broaden our shareholder base and significantly enhance our company's image.

The vigorous growth in sales in the 1997 fiscal year – an increase of 62% – is based on the steady global demand for standardized application software to support business processes. Our focus on tailoring our products to customer requirements and our proven ability to supply a steady stream of new, innovative products have stimulated the growing interest in SAP software worldwide and paced its sales strength among companies of all sizes. The challenge of the new millennium and the introduction of the euro have given an extra surge to demand.

We achieved the targets we set for 1997, and set new standards of quality in our products and services. At the same time, we dramatically shortened implementation times for the R/3 System with the aid of new concepts, methods, and tools.

The on-time shipment of the new Release 4.0 of the R/3 System is yet further evidence of the capabilities of our workforce. With this new version we have implemented our vision of progressively evolving the R/3 System into a portfolio of independent software components. The key innovations of Release 4.0 include functional enhancements along the entire value chain, the separation of the main Human Resources component from the core areas of Logistics and Financials, additional Internet applications, and new industry solutions – including those for retailing and the public sector.



SAP's Co-Chairmen:  
Prof. Dr. Hasso Plattner (left) and Dietmar Hopp

We have once again set ourselves ambitious goals for 1998. Foremost is to strengthen our role as the world leader in client/server application software, and thus to continue our impressive financial performance. A central theme of our software development plans will be the implementation of the Industry Business Unit (IBU) structure. This new organizational approach is an integral step in SAP's development into a vendor of turnkey solutions for enterprises operating in a variety of industries.

Over many years I have said that SAP's success is inseparable from our unique corporate culture, as well as our ability to recognize and adapt to change. I have always been wary of getting stuck in familiar ways of thinking where yesterday's good ideas turn into today's and tomorrow's rigid strictures and dogma. When this happens, the urge to seek out and adopt unconventional solutions may be inhibited. At SAP, we do not want this to happen.

My colleague and co-founder on the Executive Board, Dr. h. c. Klaus Tschira, and I have therefore decided to leave our positions on SAP's Executive Board and gain election to the Supervisory Board: I will seek to become chairman of the Supervisory Board. By doing so we want to place our experience and knowledge at SAP's disposal.

In addition to my Supervisory Board tasks, my intention is to serve the Executive Board by providing advice and council as necessary. One of my primary goals will be to strengthen our corporate culture. Much of my future efforts and commitment will continue to be focused on SAP. Like my co-founders, I view this company as my life's work to which I owe a great deal and to which I will always feel closely linked.

I wish every success to Prof. Dr. Henning Kagermann, who will succeed me as co-chairman of the Executive Board. I greatly respect and admire Dr. Kagermann's personal qualities, technical knowledge, and managerial skills.

I would like to thank all of those who have placed their trust and confidence in SAP and its products. I look forward to its continued success.

*Dietmar Hopp*

Dietmar Hopp, Co-Chairman of the Executive Board of SAP AG

The main drivers of SAP's rapid expansion have been its constant focus on its core skills, and its ability to achieve broad technological breakthroughs. This was again evident in 1997 as SAP's advanced product offerings appealed to an even wider group of corporate customers. During the year, 38% of new customer sales worldwide were to small and mid-sized companies with annual revenues of less than US \$ 200 million. On the technological front, the market-leading quality of our products again significantly improved: R/3 Release 4.0 is now regarded as the most advanced and comprehensive enterprise software solution available on the market. At the same time we have also strengthened our service capabilities, and thus boosted our performance in the most important category: customer satisfaction. All of these factors will play a crucial role in our future growth.

To speed the transfer of knowledge and expertise to our customers, SAP has put in place an array of powerful tools, ranging from our newest Advanced Training Solution to SAPNet. These resources, as well as our programs for speeding software implementation, have had a major impact on our customers. By leveraging our TeamSAP approach, SAP and its partners are effectively supporting thousands of customers. We are continually focused on strengthening the trust and confidence our customers have in SAP.

As a result of these efforts, SAP is not only the world's fourth-largest software company, but is also the undisputed global leader in enterprise software – an industry growing rapidly in influence and visibility. Business Week magazine, for example, observed that SAP can now be considered an industry in its own right.

In our view, a market leader really has only one choice: to remain the leader. At SAP, this means that we must set the standard, and continually lead in every market and at all times. To achieve this, we have built a coordinated global sales and distribution network. Wherever they are, customers and prospects have easy access to SAP through a variety of routes such as the indirect sales channels and the Internet. The global know-how and expertise of our organization can be accessed at any time on SAPNet. The extensive development efforts at SAP's Walldorf headquarters are being strengthened by labs in Berlin, Saarbrücken, Palo Alto, Tokyo, and Moscow. This will be expanded in the future to sites in other countries as well.

As SAP has advanced to become a truly international provider of solutions, its flagship R/3 System has also continued to evolve. SAP customers today have much greater flexibility in how they use the R/3 System. They have the ability to choose from a total of 16 specialized solutions based on the SAP Business Framework. Each of these solutions is tailored to the specific needs of industry segments, including the chemical industry, the public sector, retailing, and the aerospace industry.

In addition to enhancing product flexibility, we have also taken steps to sharpen our industry focus by creating Industry Business Units (IBUs) within SAP's development organization, alongside Core Development and Generic Business Units. The IBUs are globally operating

business units that apply their expertise to a clearly defined segment of SAP's broad range of industry solutions. This organizational structure allows SAP to leverage its industry knowledge, enabling us to provide customized solutions within the framework of industry-wide standard approaches.

SAP's focused approach is designed to weave the strength of enterprise software together with industry-specific solutions to create clear business benefits. This component strategy also ends the debate about the merits of tight integration versus "best-of-breed" concepts. Today, enterprises in all industries can have the best of both worlds. By bringing about this fundamental change, SAP has set new standards whose impacts are rippling powerfully across our market.

SAP's Aerospace & Defense industry solution illustrates the importance of our industry focus. The A & D business unit wasn't in existence until early 1997, yet we were chosen over our peers in 21 out of 24 contracts for which we competed. It is now rightly regarded as the market leader in this segment. SAP is chalking up similarly spectacular successes with its new industry initiatives for the public sector, retailing, and banking.

SAP's industry focus has been further sharpened by our componentization strategy and the associated Business Framework. We are evolving the R/3 System into a family of integrated components, and introducing more new independent applications. These new-generation SAP products are assuming an important place alongside and parallel to further development of the R/3 System. Examples include the Pandesic Internet package, the Business Information Warehouse, solutions for supporting sales activities and customer services (for example, Sales Force Automation), and other products of development initiatives aimed at addressing all aspects of supply chain management (SCOPE). These are designed to enhance our customers' business performance and lay the groundwork for expansion into new horizontal and vertical markets.

All of our efforts are aimed at creating a broad base for future growth. We believe that growth in our industry is not dependent on the scarcity of resources like energy or raw materials. The factors governing the growth of companies like SAP are the human intellect and the ideas it produces. These are not subject to any narrow limits, and thus we are confident that SAP will remain at the center of a dynamic, expanding industry into the new millennium.



Prof. Dr. h.c. Hasso Plattner, Co-Chairman of the Executive Board of SAP AG



## 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 Communications

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

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

**Prof. Dr. Henning Kagermann**  
Hockenheim  
Development Financials,  
Human Resources, Industry 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



SAP AG Executive Board (from left to right):

Paul Wahl, Dr. Claus E. Heinrich, Prof. Dr. Henning Kagermann,

Prof. Dr. Hasso Plattner, Dr. Peter Zencke, Dietmar Hopp,

Gerhard Oswald, Dr. Klaus Tschira



SAP exceeded its sales and earnings targets by a significant margin in fiscal 1997. Consolidated sales grew 62% to DM 6.02 billion and net income rose to DM 925 million.



SAP 1997: OVERVIEW

In 1997, SAP AG's growth far exceeded expectations and its profit performance surged in line with the increase in sales levels. SAP's rapid expansion during the year was due to a number of factors, including consistently strong demand for enterprise software, the positive customer response to SAP products and innovations, the beneficial exchange rate of the deutsch-mark against other major currencies, and other events such as the impending introduction of the euro currency and the year-2000 challenge. SAP was also able to significantly increase efficiency and productivity in its consulting and training activities. Once again, SAP invested heavily in new employees, a commitment which is essential in the fast-growing and fast-paced software industry, and one which will strengthen the company's future growth potential, market leadership, and competitiveness.

POWERFUL GROWTH IN THE ENTERPRISE SOFTWARE MARKET

The relatively stable economic activity in 1997 had little impact on SAP's rate of growth. Even the financial crisis in Southeast Asia at the end of 1997 failed to significantly affect SAP's business in the region. The market for SAP's core products – enterprise software in a client/server environment – continues to strengthen worldwide. Industry experts predict the market to grow by approximately 30% on average each year until the year 2000. The most recent data indicates that SAP holds the dominant position in the client/server market segment, with approximately 30% of the market.

SALES INCREASE 62%

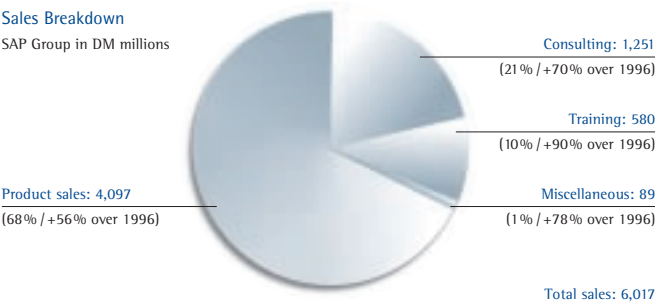
With a 62% increase in consolidated sales to DM 6.02 billion for 1997, SAP considerably exceeded the previous year's growth rate of 38%. This achievement surpassed even the 50% increase that was forecast in October 1997. Software product sales accounted for the largest portion of revenue, growing 56% to DM 4.10 billion. Sales of the R/3 System (client/server applications) totaled DM 3.87 billion (+63%), while sales of the R/2 System (introduced for mainframe environments in 1979) totaled DM 223 million. While R/2 sales declined by 8%, the decrease was less than expected. Product sales, as a percentage of total sales, decreased from 71% to 68%. The balance included revenues from consulting of DM 1.25 billion (+70%), from training of DM 580 million (+90%), as well as miscellaneous revenues of DM 89 million (+78%).

Sales growth was helped considerably by favorable currency trends. In particular, the stronger US dollar and British pound contributed DM 423 million to the sales figure. The increase in revenue attributable to favorable exchange rates amounted to 11 percentage points of the 62% rise in sales.

Sales per employee grew from DM 455,000 in 1996 to DM 521,000 in 1997. This is another important industry measure where SAP has established a leadership position. This improvement is more impressive considering that the average number of employees for the year was 11,558 – an increase of 3,381 employees over 1996.

Sales Breakdown

SAP Group in DM millions

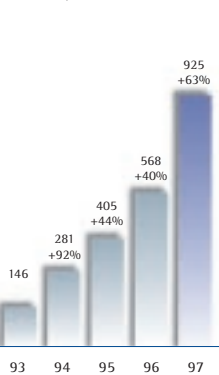


PROFIT PERFORMANCE

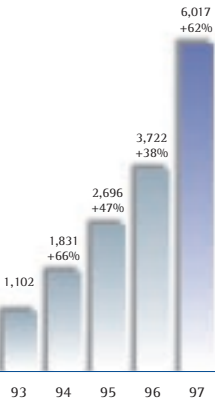
Pre-tax profits increased 72% to DM 1.67 billion, representing a pre-tax margin of 28% as compared to 26% in 1996. The positive effect of foreign exchange alone accounted for DM 117 million, or 12 percentage points of the increase in earnings before taxes. The growth in costs (up 57%) to DM 4.49 billion was outpaced by strong sales growth. The higher rate of cost growth in 1997 as compared with 1996 (when costs increased 36%) was due primarily to SAP's efforts to strengthen its competitive position by increasing personnel. Net interest income grew to DM 52 million from DM 28 million last year due to increased cash and cash equivalents.

Trends in Earnings

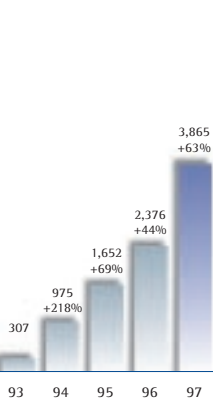
SAP Group in DM millions



SAP Group Sales  
in DM millions



R/3 Sales  
in DM millions



OPERATIONS



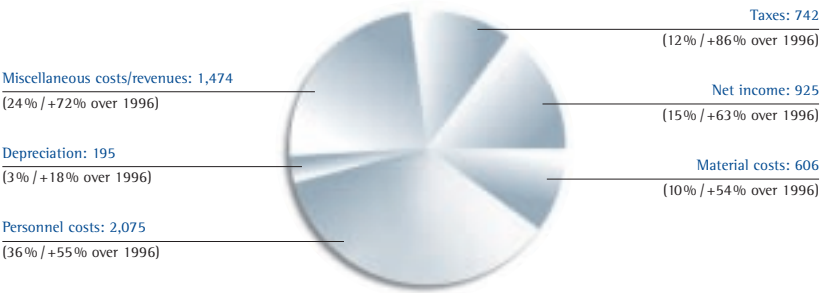
INCREASED EARNINGS PER SHARE

The growth in the contribution to earnings from countries with higher tax rates combined with the end of tax benefits in one country led to an increase in the consolidated income tax rate from 39.5% in 1996 to 42.5% in 1997. The total tax rate increased from 41.3% to 44.5%. These developments led to an increase in net income of 63% to DM 925 million. The net margin remained relatively unchanged at 15.4% (1996: 15.2%).

Earnings per share grew from DM 5.48 to DM 8.87. The number of shares outstanding (DM 5 par value) increased from 103.5 million at the end of 1996 to 104.3 million at the end of 1997 due to the partial conversion of the 1988 and 1994 employee convertible bonds. If all convertible bonds were to be converted, the number of shares issued would increase to 105.25 million.

Cost Breakdown

SAP Group in DM millions



DIVIDEND INCREASE PROPOSED

SAP is committed to returning value to its shareholders. At the Annual General Meeting the Executive Board and the Supervisory Board will propose that the dividend per ordinary share (DM 5 par value) be raised from DM 1.80 to DM 2.80 and the dividend per preference share (DM 5 par value) from DM 1.85 to DM 2.85. Together with tax credits of DM 1.20 and DM 1.22 respectively, those stockholders entitled to a tax credit will receive in total DM 4.00 or DM 4.07 per share. Pending approval at the Annual General Meeting, total dividend payments will rise by 22.5% to DM 294 million, an increase of 56.2% if the anniversary bonus dividend is excluded.

In addition to being traded on the Frankfurt, Stuttgart and Berlin stock exchanges, SAP shares are traded off the floor in other regional stock exchange centers in Germany

REGIONAL DEVELOPMENT

Foreign sales' contribution to earnings continued to increase, rising from 75% of sales in 1996 to 81% in 1997. The most dynamic growth was seen in the American region, which reported an 87% increase over last year to DM 2.60 billion. Sales in the Asia/Pacific region (APA) grew 69% to DM 785 million. The financial crisis which hit Asia in late 1997 had little effect on SAP's sales there.

In the European region (excluding Germany), sales increased 58% to DM 1.40 billion. In Germany, sales grew 26% to DM 1.15 billion. The German market remains the second largest after the United States, where sales increased 82% to DM 2.11 billion. Following Germany is Japan (DM 380 million; +67%), the United Kingdom (DM 274 million; +123%) and Canada (DM 221 million; +93%).

Sales and Income Before Tax by Region

Region	Customer location			SAP subsidiary location					
	Sales in DM millions			Sales in DM millions			Pre-tax profit in DM millions		
	1996	1997		1996	1997		1996	1997	Profit-sales ratio
Germany	914	1,149	+26%	1,015	1,263	+24%	503	793	+58% 63%
Rest of Europe	885	1,395	+58%	838	1,370	+64%	172	297	+73% 22%
(Subtotal)	1,799	2,544	+41%	1,853	2,633	+42%	675	1,090	+61% 41%
Americas	1,386	2,595	+87%	1,373	2,558	+86%	225	462	+105% 18%
Asia/Pacific	465	785	+69%	437	746	+71%	53	99	+87% 13%
Africa	72	93	+29%	59	80	+36%	14	16	+14% 20%
(Subtotal)	1,923	3,473	+81%	1,869	3,384	+193%	292	577	+98% 17%
Total	3,722	6,017	+62%	3,722	6,017	+62%	967	1,667	+72% 28%

OPERATIONS



BALANCE SHEET DEVELOPMENT

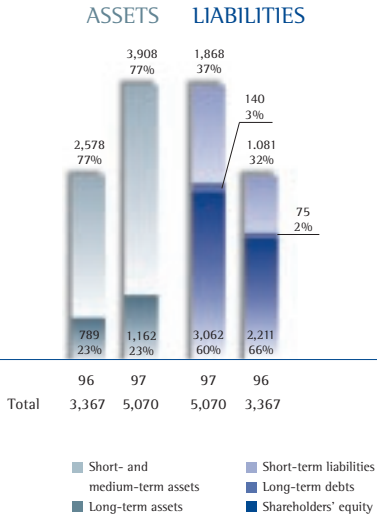
Consolidated shareholder equity increased by DM 851 million to DM 3.06 billion. Consolidated net income of DM 685 million – after deducting DM 240.2 million for dividends paid out in 1997 and new capital contributions of DM 79 million – contributed to this increase. Based on a balance sheet total of DM 5.07 billion (up from DM 3.37 billion at year-end 1996), this represents an equity ratio of 60%, down from 66% last year. Return on equity after taxes amounted to 30% (1996: 26%). The decreased equity ratio resulted from increases in accrued liabilities and other liabilities. The rise in accrued liabilities was mainly due to profit-based remuneration outstanding to employees, which will be paid in future fiscal years, and to tax obligations. Other liabilities increased 65% to DM 814 million and are comprised mainly of accounts payable, taxes, social security payments, and short-term financial obligations.

SAP's robust balance sheet made the company one of the most financially stable German firms in 1997. In September 1997, the German business monthly "manager magazin" gave SAP its highest "AA" rating for its 1996 balance sheet strength – the only German corporation to receive that rating.

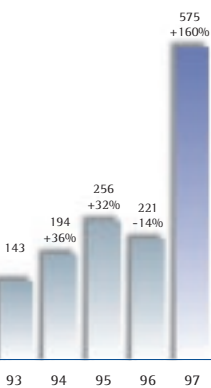
INVESTMENT INCREASED

Total assets increased DM 1.70 billion to DM 5.07 billion due mostly to the increases in accounts receivable, and cash and cash equivalents. Capital spending rose from DM 221 million in 1996 to DM 575 million in 1997, due primarily to facility expansion, including new buildings at the Walldorf headquarters site and new offices in the UK. Other expenditures were aimed at improving SAP's infrastructure, including extending computer capacity and the

Consolidated Balance Sheet Breakdown  
in DM millions



Capital Expenditures  
SAP Group in DM millions



acquisition of land in Newtown Square, Pennsylvania for the new headquarters of SAP America, Inc. Depreciation and amortization increased 19% to DM 195 million.

Cash flow after operating activities (DM 1.23 billion) exceeded the impressive 1996 level of DM 783 million. Once again, it was possible to fund both capital expenditures and the company's growth entirely from internal sources.

PERSONNEL DEVELOPMENT

The outstanding success of the R/3 System led SAP to dramatically increase staffing levels. SAP staff grew 40% worldwide to 12,856 employees at year-end 1997 (YE 1996: 9,202). This growth was spread more or less equally across all areas. The Sales and Marketing departments grew 40% to 2,423 employees (YE 1996: 1,735), while the service division added 1,895 new positions, representing an increase of 41% to 6,557 employees (YE 1996: 4,662). The rapid growth in Sales, Marketing, and Services employees highlights SAP's focus on increasing its market presence while it continues to strengthen its comprehensive service offerings and products.

STAFF OUTSIDE GERMANY GROWS RAPIDLY

SAP's increasingly global profile has led to a significant rise in the number of its staff employed outside of Germany. The number of employees outside of Germany grew 51% to 7,340 (1996: 4,857). At the end of 1997, headcount in Germany totaled 5,516 – 27% more than at the end of the previous year (1996: 4,345). In the Americas, the number of employees grew 64% to 3,785 (1996: 2,302). In the Asia/Pacific Region staff grew 53% to 1,586 (1996: 1,039) and in Europe (excluding Germany) personnel increased 30% to 1,844 (1996: 1,419).

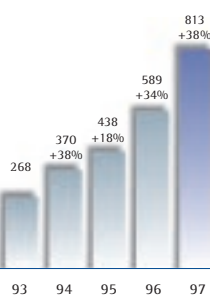
Personnel expenses increased 55% to DM 2.07 billion, but decreased as a percentage of sales from 36% in 1996 to 34% in 1997.

RESEARCH AND DEVELOPMENT

The strong growth in the number of employees in Research and Development continued in 1997. Last year 817 new positions were created for employees with excellent technical development skills. At year-end, 2,876 employees (40% more than last year) were engaged in developing new software as well as continuously enhancing existing SAP products. SAP employed 22% of its overall workforce in Research and Development, the same percentage as in 1996.

Expenditures for Research and Development increased 38% to DM 813 million (1996: DM 589 million), but decreased slightly as a percentage of sales to 14% as compared with 16% in 1996. In this area SAP again leads the industry. The company's efforts in Research and Development are a reflection of its determination to answer

Expenditures for  
Research and Development  
SAP Group in DM millions



OPERATIONS



SAP is substantially expanding its Walldorf facilities with the new Basis Application Center, which will provide office space for 1,600 employees



customers' increasing demands for better and more efficient products, and to lead innovation. The Executive Board is convinced that through its R&D efforts SAP will sustain a leading position in its core markets, creating further benefits for its customers, employees, and shareholders.

GERMAN STOCK CORPORATION LAW,  
ARTICLE 17: STATEMENT

In the opinion of the Executive Board, SAP AG is not a controlled company as defined by German Stock Corporation Law, and it therefore sees no reason to prepare a dependent company report.

OUTLOOK

R/3 BECOMING A PORTFOLIO OF INDEPENDENT COMPONENTS

Throughout 1997, SAP continued its efforts to enhance the R/3 System on the basis of the Business Framework Architecture. The main aim of this work has been to evolve the R/3 System into individual components. These separate R/3 modules and third-party products that can be linked to SAP applications will comprise a portfolio of independent software components. The smooth assembly of these components via programming interfaces increases flexibility within an integrated software system. The open architecture provides the basis for designing comprehensive, industry-specific solutions which form the core of SAP's growing focus on individual industries.

In December 1997, the newest version of R/3, Release 4.0, was delivered on schedule to the first pilot customers. This version already contained many of the Business Framework Architecture concepts. General release of R/3 4.0 is planned for the end of the second quarter of 1998 at the latest. Among the important customer enhancements in Release 4.0 are: functional enhancements for managing the value chain; separation of the main Human Resources component from the core areas of Logistics and Financials; a large number of new functions in applications such as Treasury Management; additional Internet applications; and new industry solutions for areas such as retailing and the public sector.

PENETRATION OF NEW MARKETS

SAP has launched a series of initiatives aimed at strengthening its long-term growth prospects and competitive position by increasing the pace of product innovation and penetration of new markets. The Business Information Warehouse signals SAP's entry into the large and growing market for systems to support management decision-making processes. The SCOPE (Supply Chain Optimization, Planning and Execution) initiative is designed to optimize the flow of information along the entire supply chain, from supplier to customer. This represents SAP's entry into the market for supply chain solutions. The company's close relationship with Kiefer & Veitinger, in which it has a 50% share, gives it a solid foothold in the expanding market for sales force automation solutions. SCOPE and the investment in Kiefer & Veitinger

widen SAP's focus beyond the core enterprise software area. The focus is now also on providing applications which support internal company processes and optimize information flows among customers and suppliers.

LISTING SAP IN THE US

In addition to its product initiatives, SAP has taken other steps to strengthen its position and to secure its growth. This includes the listing of the company in the United States on the New York Stock Exchange in the third quarter of 1998. By doing so SAP will accomplish three things. First, it will expand its market visibility and presence in the largest and most important information technology market. Second, it will further improve its relationship with shareholders and the global financial community. Third, SAP employees in the United States will find it easier to acquire shares.

FOCUS ON SPECIFIC INDUSTRIES

Toward the end of 1997, SAP completed the reorganization of its development operations. With the creation of Industry Business Units (IBUs), SAP is orienting its research and development efforts more closely and efficiently toward the needs of companies in an initial group of 16 key global industries. The IBUs are designed to work independently under the leadership of one or two directors who report to the Executive Board. The IBUs are run as profit centers in order to insure the optimal, market-driven allocation of resources between development, regional sales, consulting, training, and third-party activities.

PLANS FOR UP TO 5,000 NEW EMPLOYEES

The Executive Board is confident that the structural changes and product innovations already in progress will secure and strengthen SAP's growth and competitiveness in the coming years. Resolution of short-term challenges like year-2000 compliance and the introduction of the euro should not cause a marked decrease in demand. These factors provide SAP with tremendous room to grow well into the next century. SAP is therefore planning another recruitment drive in 1998 aimed at hiring approximately 5,000 new employees worldwide. In addition, SAP has begun preparing for this growth by investing in a new Training and Service Center in St. Leon-Rot, near company headquarters in Walldorf, as well as by building new headquarters for SAP America, Inc. in Newtown Square, Pennsylvania.

SALES AND PROFIT FORECASTS

The Executive Board expects sales to increase 30-35% in the current fiscal year. Profit before taxes should increase at a similar rate. These expectations assume that year-2000 issues and the advent of the euro will continue to help demand, and take into consideration the uncertainty created by the Asian financial crisis.



SAP's shares will be listed on  
the New York Stock Exchange as of  
the third quarter of 1998



OPERATIONS





During 1997, SAP shares were the best performing of all stocks in the German "DAX" index of leading German companies. SAP was also among the DAX volume leaders.



In a very successful year for the German stock market overall, the performance of SAP's shares was a clear standout. The SAP preferred stock price rose almost 175%, considerably outpacing the DAX, which rose by around 47%. This movement has in turn led SAP's preferred stock to increase its effect on the index performance. The weighting of SAP shares in the DAX increased from 3.04% at the beginning of the year to 5.86% by year-end.

**SAP'S MARKET CAPITALIZATION GROWS  
DM 36.8 BILLION**

SAP's market value increased steadily throughout 1997. The main drivers of this increase were a stream of important product and cooperative announcements, and the company's ability to meet and exceed market expectations in each quarter. From a low of DM 211 on January 2, 1997, the preference share climbed to a high of DM 597 on December 8, 1997. SAP's market capitalization increased from DM 21.8 billion at the beginning of 1997 to DM 58.6 billion by year-end. As a result of continuous price advances into the first weeks of 1998, SAP's market capitalization grew to around DM 70 billion, ranking it number three among German companies, behind Allianz and Deutsche Telekom.

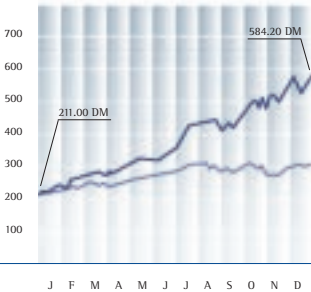
**STRONG RETURN AND VOLUME PERFORMANCE**

In November 1997, for the fourth consecutive year, the prominent German monthly "manager magazin" named SAP "Company of the Year". In a comparison of the financial performance of Germany's 500 largest public companies, SAP was the most successful in the key measurements of return on capital, stability, and growth.

The rapid rise in SAP share prices was closely matched by their volume performance as one of the most traded shares on the DAX. With a sales volume of DM 106 billion, SAP ranked eighth among DAX securities.

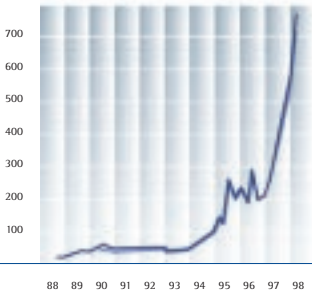
Share Price Development in 1997

- SAP preference shares
- DAX \*



Share Price Development since Flotation

- SAP preference shares \*
- SAP ordinary shares \*



**SAP'S SHAREHOLDER VALUE CONCEPT**

SAP's success in significantly increasing total shareholder returns has been achieved without resorting to short-sighted strategies. SAP's value-oriented management policy focuses instead on a long-term and durable business approach, which seeks to harmonize customer, employee and shareholder interests. SAP is convinced that leveraging its core business and innovative capabilities for the benefit of the customer and encouraging employee participation in the company's progress will create increasing shareholder value. As in previous years, SAP's shareholder value concept has gained broad approval. In a survey conducted jointly by Price Waterhouse, the Gesellschaft für Finanzkommunikation [Association for Financial Communication], and the Zentrum für Europäische Wirtschaftsforschung [Center for European Economic Research], 75 international analysts and investors ranked SAP among the top three German companies which applied the shareholder value concept most consistently.

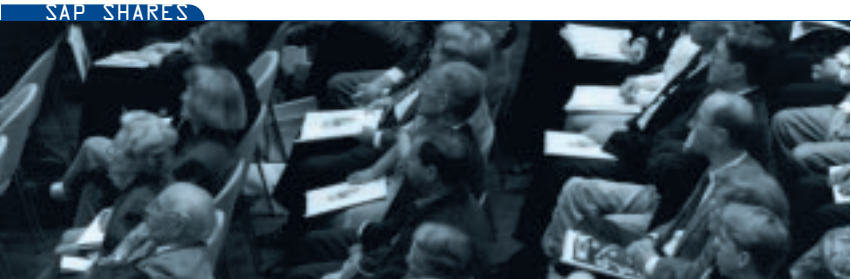
**INCREASING EMPLOYEE INCENTIVES**

In conjunction with its planned listing on the New York Stock Exchange in 1998, the company will further extend its concept of value-oriented management by giving SAP employees the chance to link part of their remuneration to the performance of SAP's share price. This will allow employees to share in SAP's progress, and to have a direct stake in increasing shareholder value. The plan continues SAP's tradition of increasing employee participation. Other plans include the convertible bond issues of 1988 and 1994, the ongoing equity savings plan, and the employee capital formation program. Out of a total of 4,824 eligible SAP AG employees at year end, 3,032 participated in the company's share subscription plan, while 1,796 participated in its equity savings plan.

**SAP TO LIST SHARES IN THE US**

In addition to being traded on the Frankfurt, Stuttgart, and Berlin stock exchanges, SAP shares are traded in other German regional stock exchange centers and are listed in Switzerland. In the US, SAP shares are traded in the form of unlisted American Depositary Receipts (ADRs). In the third quarter of 1998, after almost exactly ten years since its shares began to trade publicly, the ADRs will be listed in the US on the New York Stock Exchange. This will allow SAP's relatively large base of US investors to trade in their home market, as well as in Germany. With the US listing, SAP stock will now be tradable on major stock exchanges for a total of around 14 hours per day.

Over 3,000 SAP shareholders  
attended the 1997  
Annual General Meeting



SAP SHARES

GERMAN INSTITUTIONS INCREASE INVESTMENT IN SAP

Of SAP's shares in free float, the number held by US institutional investors such as investment management firms, mutual funds, or insurance companies went from around 29% to approximately 21%. This reduction came on the back of general consolidation in the US high tech segment at the beginning of the year and the exit of two large institutional investors. In contrast, there has been an appreciable accumulation of SAP stock among institutional investors in Germany. By year-end, these investors held well over 29% of the widely held stock, against 24% at the end of 1996. Including the holdings of private investors, Germany thus remains the primary market for SAP shares. Institutional investors from the rest of Continental Europe hold almost 7% of the freely traded stock, while those in the UK hold over 7%.

Out of a total outstanding 61 million ordinary shares and 43.3 million preference shares (5 DM par value), three of the founding shareholders, their families, or trusts established by them hold around 66% of the common stock and some 5% of the preferred stock.

INVESTOR RELATIONS EFFORTS INCREASED

As a result of the significantly increased information demands from the markets and its shareholders, SAP has further extended its investor relations program. In addition to two international analysts' conferences in Frankfurt and an investor and analyst symposium in New York, the company for the first time held an analysts' workshop at its Walldorf headquarters. Around 50 European financial analysts spent a day discussing the company's product and growth strategy with SAP executives, customers, and partners. In addition, SAP showcased itself at more than 30 international investor conferences, trade fairs, and roadshows in all major financial centers such as New York, Boston, San Francisco, Tokyo, London, Edinburgh, Paris, Zurich, Geneva, Milan, Copenhagen, Frankfurt, and Munich. The Group also participated in 15 group presentations and 200 one-on-one meetings aimed at establishing and maintaining direct dialog with analysts, fund managers, and other investment professionals. More than 300 financial analysts and investors worldwide joined in each of the telephone conferences held when the Group's quarterly results were announced.



Open, ongoing interaction with business journalists and financial analysts is an important aspect of SAP's investor relations activities

ANNUAL RETURN OF 54% SINCE GOING PUBLIC

All these efforts are part of SAP's value-oriented management approach, which emphasizes open, consistent and transparent corporate communications. They are aimed at bringing long-term benefits to shareholders. Since its listing on the Frankfurt Stock Exchange in November 1988, SAP's ordinary shares have achieved an annual return of around 54%.

If an investor had purchased common stock at the initial issue price of DM 750 and reinvested the dividends (after deduction of capital gains tax and without tax credits) in additional SAP shares, with capital stock increases and without any further investment, this amount would have increased to around DM 36,500 by the end of 1997 – equal to an increase of 4,767% in value.

SAP Shares (in DM per DM 5 share)	1996	1997
Earnings	5.48	8.87
Dividend on ordinary share	1.80	2.80
Additional dividend (anniversary bonus)	0.50	–
– with tax credit	3.29	4.00
Maximum/minimum price for ordinary share *	275.80/172.90	565.00/208.00
Dividend on preference share	1.85	2.85
Additional dividend (anniversary bonus)	0.50	–
– with tax credit	3.36	4.07
Maximum/minimum price for preference share *	283.50/179.00	592.00/211.00
Cash flow	7.56	11.79
Shareholders' equity	21.36	29.36
Number of shares (millions)	103.5	104.3
Market value at year end (in DM billions)	21.8	58.6

Security ID number SAP ordinary shares: 716460  
Security ID number SAP preference shares: 716463

\* Spot rates

SAP's ordinary shares have averaged an annual return of 54% since their 1988 flotation

SAP SHARES



A fundamental part of SAP's success is the willingness of each employee to take on responsibility and work with others, and a corporate culture that nurtures openness and initiative.





The foundation for SAP's success is undoubtedly the skill, dedication, and motivation of its employees. In order to assure that SAP remains a technological and market leader, the company and its employees are dedicated to upholding SAP's commitment to constant innovation. SAP considers its focus on innovative thinking to be invaluable to the company as a whole. SAP employees are expected to be ready to learn new skills, to be flexible to change and to recognize and react to new trends. Whatever their role in the company, all SAP employees must be prepared to adopt a customer- and service-oriented approach to their work.

Because of SAP's profile as a global company, it is essential that all SAP employees exercise tolerance and respect toward the people, customs and traditions of diverse countries and cultures. The company is continually strengthening its open corporate culture with the aim of fostering a willingness to take on responsibility, help others and seize new opportunities. The unique SAP ethos creates an environment of trust and nurtures unconventional thinking and creativity. By maintaining a flat hierarchy and a flexible organizational structure, SAP has created an ideal framework for its corporate culture to flourish. The company works to insure that equal career opportunities are developed for both specialized personnel and management positions. A performance-related pay system, enabling employees to take part in the company's success, is also an integral part of SAP's corporate culture.

#### EMPLOYEE NUMBERS CONTINUE TO GROW

During 1997, the SAP Group headcount grew significantly, rising by 3,654 to 12,856 (up 40%). The Asia/Pacific region and North and South America were responsible for the majority of this growth. The number of employees in the Americas, Asia/Pacific (including Australia), and Africa grew by 2,085 to 5,496 (up 59.9%). European growth was moderate in comparison, growing by only 1,596 to 7,360 (up 27.6%). A breakdown of the figures shows that growth was particularly strong in Research and Development (2,876 in 1997 compared to 2,059 in 1996) and in Sales and Marketing (2,423 compared to 1,735). In 1997, 6,557 employees provided service and support functions – 1,895 more than in the previous year – once again making services the largest group in SAP.

#### FLEXIBLE, PERFORMANCE-RELATED COMPENSATION

Through its flexible compensation approach, SAP focuses on rewarding individual effort. Competitive salaries and performance-related pay, recognition of internal organizational structures and the safeguarding of the company's competitiveness are the cornerstones of the SAP compensation approach. On top of base salary, SAP AG offers various bonus plans and an annual profit-sharing program, where an annual payment is made to employees based on the success of the company as a whole. Other benefit programs for SAP employees in Germany include a capital savings program, a company retirement pension plan, enhanced leave policy, comprehensive insurance, and an attractive equity savings package.

#### SAP WORLDWIDE EMPLOYEE SURVEY

In spring of 1996, SAP conducted its first employee survey in Germany, the results of which were overwhelmingly positive. All SAP teams across the company were quick to enact the new initiatives and practices covered in the survey. In order to widen the scope of the survey and encourage suggestions for additional areas for improvement across the entire organization, SAP conducted its first worldwide employee survey in the beginning of 1998. The survey was undertaken to gauge the satisfaction of all SAP employees and to insure that SAP maintains its high standards of efficiency. One indicator of employee satisfaction is the low staff turnover rate in 1997 of just over 2%.

#### THE SAP COMMUNITY

Today, the average age of SAP employees is, as in previous years, slightly under 35, with approximately four fifths of all employees under 40. The average length of service at SAP has increased slightly to around four years. The proportion of SAP employees with college degrees has remained constant at 85%, while the proportion of employees with doctorates has increased by one percent to 14%. 28% of SAP employees are women. The number of foreign nationals based in Germany has remained fairly stable at 9%. SAP has created a "Welcome Package" aimed at speeding the relocation process for foreign nationals working at SAP in Germany. The package contains information about life in Germany and includes opportunities to meet new people.

#### AROUND THE WORLD, PEOPLE WANT TO WORK FOR SAP

The ever-increasing number of job applications sent to SAP is another indicator of the high profile the company enjoys as an employer. Every month, SAP's personnel department in Walldorf receives around 1,750 job applications, both in response to the company's recruitment efforts and applicants' own initiatives. SAP's international subsidiaries also received record numbers of job applications in 1997. An increasing number of people are exploring



SAP's job advertisements on the Internet. In 1997, approximately 16,000 people visited the Jobs site on SAP's home page each month. Comprehensive application information and forms have been available online since March 1998. All data entered in the online form feeds through directly into the R/3 applicant administration system. Other useful and efficient recruitment tools for forging links with prospective employees are the career fairs held at colleges and universities. These events allow the SAP recruitment team to showcase SAP's many opportunities. A new recruiting technique consists of a three-day workshop aimed at attracting college and university graduates, as well as experienced employee prospects.

SAP TAKES ITS SOCIAL OBLIGATIONS SERIOUSLY

SAP's strong recruitment drive over the last few years has already had a positive impact on the job market. In 1997, it was awarded the first "Investment in Jobs" prize by the German Federal Labor Office for its contributions. Positive market conditions are also enabling SAP to create a significant number of new jobs in the current fiscal year. The company is planning to hire around 5,000 new employees, 2,000 of whom will be based in Germany. SAP's hiring efforts are taking place in a competitive environment, as high-caliber graduates in IT, engineering, or business subjects are becoming more and more scarce while the demand for qualified personnel continues to grow. The company is committed to maintaining its high standards and expectations for new employees.



Employees in all areas of the company are committed to innovative thinking and action

SAP has been a consistent contributor to equal opportunity efforts, most recently through the SAP/Stevie Wonder Vision Awards. These awards are jointly sponsored by SAP and the well-known US singer Stevie Wonder and are aimed at promoting innovative technological solutions to encourage the integration of visually impaired employees into the workforce. SAP is currently establishing workstations and offering internships to visually impaired people in a wide range of areas. The results so far have proved to be very positive.

A WIDE RANGE OF TRAINING OPPORTUNITIES

During 1997, SAP introduced measures to increase opportunities for young people at the start of their careers. SAP, working with the Vocational Academy in Mannheim, Germany, is training 53 college students of information/industry management. An additional 13 young people are undergoing vocational training for business administration/office communication at SAP. In 1998, SAP will begin offering on-site training for non-graduate IT specialists. This new training program, endorsed by Germany's Chamber of Industry and Commerce, is geared toward the rapidly changing area of information technology. SAP gives students a detailed insight into the working world through partnerships for dissertations and masters theses, and numerous internships and training programs.



SAP employees are highly qualified professionals

SAP Staffing (as of December 31, 1997)		
Management		34
Research and Development	2,876	
Service and Support	6,557	
Sales and Marketing	2,423	
Administration	788	
Facilities/Internal Services	178	
TOTAL		12,856
Germany	5,516	
Rest of Europe	1,844	
Americas	3,785	
Asia/Pacific Region	1,586	
Africa	125	

Teamwork plays a key role in SAP's development operations

EMPLOYEES



In addition to readying R/3 Release 4.0 for general availability in the second quarter of 1998, SAP has recently introduced three new independent business software products.



Long-term thinking instead of knee-jerk reactions to fashionable short-term market trends. Continuity in product development. Focusing on application software as the core competency. These strategies have always been, and still remain, at the heart of SAP product development. As a result, SAP and its products continue to enjoy strong market confidence.

### IMPROVING QUALITY, REDUCING MAINTENANCE COSTS

In 1997, SAP achieved some key goals in its development efforts: simpler and more efficient R/3 implementations; additional quality improvements; enhanced customer service and support; developing and delivering R/3 Release 4.0 on schedule; developing new stand-alone products built on the Business Framework Architecture; and strengthening its industry-specific activities. Customer satisfaction surveys have shown that the quality of the R/3 System substantially improved over the past year. A considerable decrease in the number of inquiries to our internal help desks and call centers is another sign that quality improvement measures have worked. In spite of the large number of new R/3 System implementations in 1997, the number of daily incoming calls for assistance in this area has remained constant. Contributing further to this positive customer response, SAP has introduced an innovative approach to training that has improved the ways in which R/3 System know-how can be attained. User-friendly training materials, software teaching tools and standardized documentation explain the R/3 System more clearly and concisely to end-users. System operation has also been simplified by enhancements made to standard user interfaces.

### REDUCING IMPLEMENTATION TIME WITH ACCELERATEDSAP (ASAP)

The discovery that the business processes and operations employed by many companies are similar to one another, and that these processes could therefore be standardized, was the foundation for SAP's first software systems. SAP's US subsidiary was the first to leverage this standardization approach into a methodology for streamlining the R/3 installation procedure. First used in the US, this accelerated method for R/3 implementation carries the appropriate name AcceleratedSAP (ASAP). ASAP was developed from the R/3 Procedure Model and contains the latest technological advances for expediting R/3 System implementations. ASAP's main objectives are to reduce the time and costs of implementation, while improving the quality of the process by more efficiently utilizing resources. All technical steps and documents required can be easily and repeatedly accessed from the Implementation Assistant. The result: With ASAP, customers have a solution that reduces the time and expense of a complete R/3 System installation by up to 50%. With the availability of Release 4.0, ASAP is now available for the European market.



SAP's product developers are based in Walldorf, Berlin, Saarbrücken, St. Leon-Rot, Mannheim, Palo Alto, Detroit, Tokyo and Bangalore

### MAINTAINING CUSTOMER-FOCUSED DEVELOPMENT

Clients expect long-term practical solutions from SAP for their business processes, and SAP's development teams thus continue to remain focused on fulfilling customer needs. SAP Development is now organized into three main areas: Core Development, Generic Business Units (GBUs) and Industry Business Units (IBUs), where development is focused on specific industries. The Core Development area focuses on all core functionalities and core processes in the Logistics and Accounting components. The Generic Business Units support development in cross-application areas such as enhancements to the Business Framework Architecture or Internet technology, as well as development in the Basis and Human Resources components. The sixteen Industry Business Units are charged with the task of creating the best possible solutions for "their" individual industries. To accomplish this task, the IBUs leverage existing SAP products, integrate software from other providers, and internally develop industry-specific software in order to provide an overall industry software solution based on the R/3 System. By incorporating industry-specific functionality in their business processes, enterprises can react quickly to activity in the international marketplace, minimize product development time and insure seamless integration with all manufacturers, suppliers, distributors and service providers. Furthermore, by integrating specific business processes and applying them above and beyond their own individual industries or niche markets, companies can achieve the competitive edge required in today's international marketplace.

### REGIONAL DEVELOPMENT CAPABILITIES INCREASE CUSTOMER FOCUS

At present, SAP has Development Centers (SAP Labs) in the following locations: Walldorf, Berlin, Saarbrücken, St. Leon-Rot and Mannheim in Germany; Palo Alto, California, and Detroit, Michigan, in the USA; Tokyo, Japan; and Bangalore, India. Construction has already begun on a development center in Moscow, Russia. Additional locations in the UK, France, the Czech Republic and Brazil are also being considered. Regional development centers provide even closer contact with customers in specific industries – IBU Automotive development, for example, takes place in both Walldorf and Detroit; and IBU Aerospace & Defense development is spread between Walldorf and Palo Alto.

### LATEST PRODUCT ARCHITECTURE DEVELOPMENTS

The open architecture of the Business Framework has allowed the R/3 System to evolve into a flexible software solution comprised of independent components for business processes. Integration technologies such as Application Link Enabling (ALE) and open BAPIs (Business Application Programming Interfaces) insure that individual components work together transparently and enable applications from other providers to be integrated when necessary. BAPIs make R/3 business processes available to internal and external developers, customers and partners. The Business Framework offers a tremendous range of advantages including: addi-



tional simplification and streamlining of R/3 System implementations and ongoing business process optimization; step-by-step implementation of individual business components; rapid modification and interactive reconfiguration of business processes outside conventional release cycles; effortless integration of the Internet and intranets in corporate processes; easy connection of the R/3 System to third-party software and in-house developments; as well as evolutionary implementation of the latest technology without disrupting daily business operations. By utilizing established technologies such as ALE and SAP Business Workflow for the exchange of data, the Business Framework insures both software integration and distribution of business information.

DEVELOPING STAND-ALONE SAP PRODUCTS WITH THE BUSINESS FRAMEWORK

The first R/3 System built on the Business Framework was made available for Release 4.0 pilot customers at the end of 1997. The collective response from our 40 pilot customers – including Texas Instruments, Inc. (USA), Philips Taiwan Ltd. (Republic of China), and Air New Zealand (New Zealand) – has been very positive. In addition to R/3 Release 4.0, which is scheduled for general availability in the second quarter of 1998, SAP has, for the first time, put three stand-alone business software products on the market.

These innovative products are: the Advanced Planner & Optimizer (APO), the Sales Force Automation solution, and the Business Information Warehouse – all of which can be installed independently from the R/3 System.

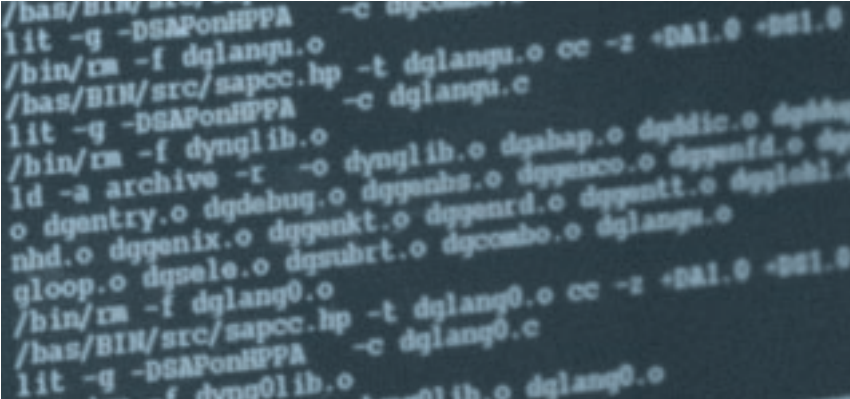
IMPROVING SUPPLY CHAIN PROCESSES

The Sales Force Automation solution is the first in the family of new products from SAP's Customer Care service area. APO is a stand-alone product that can be integrated into the R/3 System via the Business Framework. As a result of SAP's SCOPE initiative, APO is now inte-

grated in R/3 Core Applications. SCOPE (Supply Chain Optimization, Planning & Execution) is the most comprehensive business software solution for more efficiently managing supply chain processes. The combined installation of the APO and the Business Information Warehouse insures optimal customer performance and streamlined costs along the entire supply chain. The APO operates at unprecedented speed due to the latest state-of-the-art SAP technology, liveCache. LiveCache is a main memory management solution for data object processing, simultaneous cross-system and cross-enterprise simulations, and decision support.

EVALUATING DATA QUICKLY WITH THE BUSINESS INFORMATION WAREHOUSE

Efficient, reliable reporting and analyses of enterprise data form the basis of today's flexible, market-driven enterprise, and can be the decisive factor for successfully competing in the international marketplace. By having continuous reporting on critical key business ratios, enterprises can react more quickly, and increase profitability. Targeted analyses of buyer groups and purchasing patterns, and marketing plans to exploit this data, ultimately lead to greater success in penetrating or capturing market segments. SAP's Business Information Warehouse facilitates these tasks, combining the most modern data warehousing technology with SAP's years of business know-how into a pre-configured turnkey solution. Implementation, access and maintenance are simplified because the business processes of an enterprise are already integrated in the warehouse. All Business Information Warehouse components can be used immediately after installation, guaranteeing a quicker return on investment. The three main elements of the Business Information Warehouse – the Business Information Warehouse Server, the Business Explorer and the Administrator Workbench – fully support end-users by capturing and evaluating data swiftly, which in turn speeds business decisions. The Business Information Warehouse is the first enterprise solution available that combines a data warehouse based on a unified business process model with SAP's R/3 applications, and thereby bridges the technology gap between business processes and decision support.



SAP's development activities are customer-driven, with an increasing focus on specific industries





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SAP software development continues to set standards  
in information technology for enterprises of all sizes in all  
types of industry worldwide.



SAP's flagship R/2 and R/3 business application software systems continue to set standards in the IT sector. Both systems meet the business requirements of all types of enterprises around the globe, regardless of size or industry. What makes the SAP software system stand heads above the crowd is its greatest and most basic feature – flexibility. The R/2 and R/3 Systems allow customers to optimize critical business processes, and adapt them to ever-changing corporate needs and market conditions. SAP maintains its position as market leader by developing state-of-the-art technology that is quickly accepted worldwide by a broad number of industries. Some examples of this advanced technology include the Internet-enabled R/3 Release 3.1, now being used productively by numerous companies engaging in electronic commerce; or R/3 Release 4.0, delivered on schedule to its first customers at the end of fiscal year 1997. With the addition of a number of innovative value-added products, Release 4.0 brings with it significant enhancements in all functional areas.

THE R/3 SYSTEM – THE DE FACTO INDUSTRY STANDARD

The R/3 System is a software solution based on established business processes. The most critical processes in an everyday business environment can essentially be divided into three areas: accounting, logistics, and human resources. The R/3 System offers comprehensive functionality in each of these business areas, allowing companies to model their entire operational flow of values and goods. The Accounting solutions define the ground rules for every corporate activity, and cover all aspects of financial accounting, management accounting, capital investment, treasury management, enterprise controlling, and risk management. Enterprise Controlling monitors performance ratios and other key factors for success while supporting the automatic consolidation of financial transactions between companies and the automatic calculation of various types of currency.

The R/3 Logistics solutions improve productivity and quality while saving valuable time and reducing costs. They support the logistics chain of products and services by fully integrating business applications in the areas of procurement, production, sales and distribution. Each application consists of tightly knit process chains that simplify and streamline the flow of information within an enterprise. Processes in capacity and production planning, for example, as well as those for forecasting revenue and service needs, use data from the same consistent database. Human resources management solutions consolidate all key functions required in personnel management and also link personnel tasks to cross-application functions.



In addition to its adaptable functionality and modular building-block structure, the growing number and increasing success of R/3 System implementations worldwide is due, in part, to the development of country-specific versions. Localized versions of the R/3 System have made SAP a global leader in client/server software by offering multinational corporations comprehensive support in the international marketplace, taking into account various language and character sets, local currencies, tax regulations, and other national accounting specifications.

APPLICATION SOFTWARE FOR THE INTERNET:  
R/3 RELEASE 3.1 AND PANDESIC

With the introduction of R/3 Release 3.1, SAP became the first software provider to market a business application software package offering simple and unrestricted Internet functionality for a broad spectrum of R/3 System business processes. This extensive Internet functionality can also be modified to suit individual customer requirements. Furthermore, the newest Internet and intranet applications have been integrated into ready-to-use application components, offering customers a variety of individually configurable applications for business-to-business, consumer-to-business and intranet communication. Applications are designed for a very large number of users, who can access the R/3 System via the Internet or any company-wide intranet. Using open and stable "Business Application Programming Interfaces" (or BAPIs), the R/3 System can be integrated over the Internet with a business partner's applications and systems. In this way, business processes can be spread across the complete supply chain. One such benefit from implementing this Internet functionality can clearly be recognized in the human resources management area. Corporations can, for example, advertise their employment openings over the Internet and reach potential applicants anywhere in the world. Interested applicants can submit employment applications online, and with the click of a mouse, the applications are then sent and processed automatically in the R/3 Human Resources component.

Pandesic is an attractive e-commerce package for providers, end-users, and suppliers operating via the Internet. The product was developed by Intel Corporation and SAP America and is being marketed by the two companies jointly. It comprises hardware, software, and related services and is especially cost-effective for small businesses wanting to make their goods and services available over the Internet. Integrated processes support the entire business operation. The Pandesic solution, based on some of the core business processes in R/3, is already available in Canada and the USA.

As of December 31, 1997, there were a total of 13,433 R/3 installations around the world

R/3 RELEASE 4.0 – A FLEXIBLE  
AND DYNAMIC APPROACH TO THE VALUE CHAIN

R/3 Release 4.0 offers users a business software solution with clear enhancements made to its previous scope of functionality. This release includes innovative value-added elements that support the entire process chain from point-of-sale to procurement and production. Enhanced functionality streamlines enterprise-wide processes in Logistics, Accounting and Human Resources and offers additional ways of working with external business partners. Release 4.0 also helps reduce time-to-market for products and services. Users profit from greater flexibility in the Logistics component, as well as improved cost and risk management. Highlights of Release 4.0 in Accounting include the addition of the Consolidation and Joint Venture Accounting components. Consolidation is a new application in Enterprise Controlling that consolidates financial data from the operationally integrated R/3 Systems on company, business area, and profit center levels. Additionally, transferring data from companies that do not have an R/3 System is simplified. Joint Venture Accounting enables companies to combine the financial and human resources required for projects entailing high risk, substantial financial investment, and long payback periods. Treasury Management offers functionality for handling financial transactions and related items such as money market trading, foreign exchange, derivatives, loans, and securities. Risk Management plays an important role in insuring corporate competitiveness. In Cash Management, all information relating to a company's liquid assets is prepared for analysis, providing a basis for important business decisions. As of Release 4.0, the Travel Management function contains even more international functionality, and is now integrated in the R/3 Financial Accounting component.

TOOLS FOR LEAN PRODUCTION  
AND IMPROVED FLOW OF INFORMATION

In the R/3 Logistics component area, Release 4.0 enhancements deserving special mention are the Available-To-Promise (ATP) Server, continuous flow production, catalog integration, distribution resource planning, and payment card processing. The ATP Server guarantees integrated real-time availability checks along the supply chain, a requirement for companies with a high throughput in sales and production. The R/3 System can define delivery expectations and support their fulfillment as demand arises. With its ATP Server technology, SAP has created an entirely new benchmark for providing enterprise-wide availability data. The new line design functions in Release 4.0 offer companies with continuous flow production and repetitive manufacturing processes a key tool for streamlining production and improving information flow for production based on demand. Procurement via Catalogs is an Internet application for Release 4.0 that simplifies ordering office supplies or materials required for production. Employees at any workstation can call up and browse through internal and external product catalogs using an easy-to-operate Internet browser interface and then select items for procurement. Additional focal points in the R/3 Logistics component area include auto-

matic availability checks, reservations, material groups, and account assignment types. Distribution Resource Planning (DRP) calculates distribution centers' net requirements and insures that required stock is shipped to centers on a strict distribution schedule. The Payment Card Accounting function in Release 4.0 supports sales transactions made by credit cards, procurement cards, and customer cards by checking for valid authorization when deliveries are scheduled or goods are issued.

HUMAN RESOURCES SPANS EVEN MORE OF THE GLOBE

The localized versions of the R/3 Human Resources (HR) component enhance the international functionality in all personnel management and payroll accounting areas by including functions that adhere to the legal requirements and standard business processes and policies of individual countries. With the latest addition of Mexico, Indonesia, Malaysia, New Zealand, and Taiwan (ROC) to the list, the number of R/3 HR country versions for the complete human resources management area has reached 20. For the growing number of multinational corporations, the ability to operate several localized versions productively at the same time is a real value-added advantage. Compensation Management is an additional function that schedules, monitors, and manages company wage and salary plans. As of Release 4.0, R/3 Human Resources is the first core application of the R/3 System delivered as an independent component, while remaining fully integrated in the Business Framework architecture.

EMPLOYEE SELF-SERVICE – MORE EFFICIENT  
MANAGEMENT OF HUMAN RESOURCES

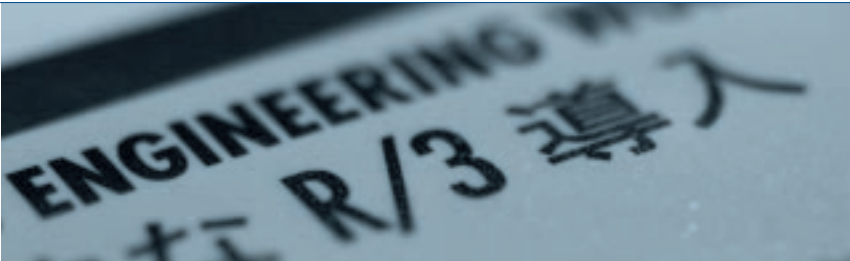
One of the Release 4.0 highlights in the R/3 Human Resources component area is the Employee Self-Service applications. These applications are simply easy-to-use intranet scenarios, enabling employees to view and update their own personnel data when necessary, thus relieving human resources staff of often routine administrative tasks that consume valuable time and expense. At the same time, the Employee Self-Service applications improve the information flow in an enterprise by allowing employees to check, change, or add to their address data, record a new member of the family, review leave entitlement and status of leave requests (up to and including approval), call up information regarding employee benefits, enter business trip or other travel costs, calculate expenses, and print out statements on any of the above.

FIT FOR THE YEAR 2000 – COMPETITIVE  
ADVANTAGES OF THE R/3 SYSTEM

While numerous companies are spending millions to revamp their existing software for the turn of the century, SAP customers can confidently face the year 2000 with peace of mind. Migration or upgrades are not required for R/3 System users because the software was originally developed using four-digit year fields. This forethought results in yet another competitive advantage for companies using R/3. They save the enormous cost of installing new soft-

The localized versions of the R/3 System  
have contributed significantly to the product's  
success in the international marketplace

PRODUCTS AND SERVICES



ware or adapting existing software, and can focus completely on core business operations, free from concern over the "millennium bug". Nor can any problems arise with data transferred from an external application to the R/3 System that is not year-2000 compliant: The R/3 System recognizes two-digit year representations and automatically converts them into a four-digit format.

EUROPE'S NEW CURRENCY MADE EASY - SAP EURO

European Monetary Union (EMU) and its new currency, the euro, will impact almost every area of an enterprise. External accounting is the area perhaps most affected by the upcoming currency changeover, requiring significant conversions and modifications to support the introduction of the euro. Every single account ledger has to be modified, and entire reporting and payment transaction systems have to be readied for calculations with the new currency. In addition, internal corporate areas of reporting, controlling, payroll accounting, materials management, and sales and distribution have to support the changeover to the euro. The R/3 System meets requirements for the currency changeover head on. SAP Euro, a complete software solution for EMU and the euro, includes the comprehensive euro functionality necessary to keep business transactions simple during the dual currency phase. Furthermore, SAP Euro insures compliance with all applicable legal regulations and allows companies to review monetary amounts in both the euro and their local currency. SAP Euro software also contains functionality for automatically calculating local currency into euros.

CONTINUED SERVICE AND MAINTENANCE  
GUARANTEED FOR THE R/2 SYSTEM

Around 1,400 companies worldwide continue to use the R/2 System for mainframe computers as their business software solution. SAP has always been committed to safeguarding the software investments of its customers whenever possible, and will continue to enhance, maintain, and support the R/2 System up to the year 2004. Releases 6.0 and 6.1 are the latest examples of the improved range of R/2 System functionality, with both releases containing new Basis System functions to increase the level of system availability. Release 6.1 combines Basis functionality from 6.0 with special developments created for Release 5.0. Because more and more R/2 users want to profit from the significant advantages of the modern client/server environment provided by an R/3 System, SAP has developed specific tools to support the migration process from R/2 to R/3. In addition, customers holding existing SAP R/2 maintenance contracts receive R/3 migration tools free of charge.

SUCCESSFUL IMPLEMENTATION PROJECTS WITH TEAMSAP

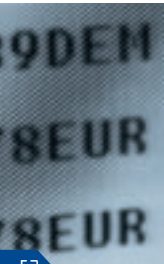
SAP AG supports the "TeamSAP" initiative, which was successfully inaugurated in 1997 in North America, and has now spread across the globe. SAP has now taken on increased responsibility for insuring successful R/3 System installations for its customers in Europe and Asia. From initial client contact with SAP to actual software implementation, including regu-

lar system updates in concert with project managers and certified partners, TeamSAP offers an integrated infrastructure of people, products and processes. TeamSAP is based on a brand-new concept in which an SAP consultant, or "coach," is assigned to each customer project. At the same time, it leverages the proven AcceleratedSAP's state-of-the-art implementation methods, reflecting experience gained during the course of thousands of R/3 installations. SAP project coaches guarantee the success of the software implementation by providing hands-on assistance with the following: partner certification, coordination of resources, quality assurance, and efficient knowledge transfer. They even assume the project leadership role when required.

COMPETENT SERVICE ORGANIZATION CREATES  
COMPETITIVE ADVANTAGE

The SAP Services area faces the daily challenge of supporting the rapidly growing number of R/3 installations (13,433 as of December 31, 1997), with over two million users worldwide, including an increasing number of medium-sized companies. A strong R/3 service organization is required for a variety of reasons. First, it must provide optimal support for the implementation process and infrastructure to insure trouble-free operation of customers' R/3 Systems. Second, a strong service organization is essential not only to distinguish SAP from the competition, but also to help it achieve the competitive edge in its core business. And, above all, a strong service organization offers an opportunity to gain valuable feedback and insight from customers, resulting in improvements to both products and services.

The numbers speak for themselves in terms of SAP service and support. In December 1997, SAP had a worldwide service and support infrastructure comprising more than 4,200 SAP consultants. These were joined by over 30,000 qualified external consultants from SAP part-



SAP's enterprise business software complies  
with the requirements for EMU



The R/3 Services area is divided into  
Support, Education and Consulting.  
One of the Support Services' tasks  
is to operate helpdesks

ners, all supporting R/3 customers with their system implementations. In addition, SAP maintains 60 training centers, 35 local support centers with 300 employees, four regional support centers with approximately 320 employees, as well as six regional service centers with approximately 200 employees around the world. Strong partner integration and efficient remote communication links insure that support processes and infrastructures are standardized across the board.

### 24-HOUR SERVICE WORLDWIDE

R/3 Services is divided into three main areas: Support Services, Education Services, and Consulting Services. Support Services is chiefly responsible for software maintenance and trouble-shooting. A three-tiered service concept has been established to offer customers the best possible service and support with quick response times.

A worldwide, 24-hour Online Service System (OSS) is available which SAP customers can use to enter messages, search for notes, or download software patches. Over 80% of SAP customers now use remote connections and the OSS. For additional support for live system operation, SAP offers an automatic situation analysis function. With the aid of an automatic data download from the customer server, the customer's system load is checked at certain intervals. If any essential parameters differ greatly from standard parameters, an automatic warning is generated and sent to the support organization. These preventive measures enable corrective action to be taken long before a critical situation occurs.

SAP is again in the forefront by using the Internet to make a wide range of information available to the world. With SAPNet, SAP has established a new information and communication channel offering information on SAP to customers, partners, employees, and prospects. SAPNet distinguishes itself from conventional corporate web sites by transparently linking the functionalities of the Internet and the R/3 System, making the information provided of a much better quality. Internet users interested in SAP can call up a typical home page detailing SAP, the company and its products. SAP customers and partners, on the other hand, can enter a user ID and then view a pre-determined web page specifically targeted at them. Remote Services is another important area, and includes services that SAP provides via "remote" connections (up to customers' R/3 Systems). Some remote services, such as Early-Watch, which enable a customer's live R/3 System to be analyzed, monitored and optimized while in operation, have been active for a number of years. Other Remote Services include Remote Upgrade, used to carry out a complete system upgrade from a remote location, Remote Archiving and Remote Consulting.

### TRAINING AND CONSULTING INSURE OPTIMAL BENEFITS

SAP's Education Services represents an important focus of the company's service activities. Its goals are to improve user qualifications and insure continuous knowledge transfer through business-process-oriented training for various target groups. Customer project teams are trained at SAP; training for end-users is usually carried out by partners or by the customers themselves. They are supported by the R/3 Information Database, which contains all licensed training materials and is updated regularly. Using these authorized training tools, customers and partners can put together their own internal training programs. Essential teaching materials for end-users are also available in the form of multi-media learning units on CDs. With its computer-based training and knowledge products, SAP provides valuable support in expanding and reinforcing knowledge learned because the tools accurately simulate the R/3 System environment. Testing and training examples provided in the form of an integrated "test case" enterprise are especially valuable.

Consulting Services offers complete support worldwide for R/3 implementations. Consulting can be carried out directly at the customer location, or remotely over data lines. Consulting Services is responsible for optimizing the potential of the R/3 System for the customer, assisting customers in setting up and customizing their systems, testing live systems, making recommendations to optimize performance, performing system upgrades, and helping customers adapt their systems to reflect ever-changing business situations.





SAP's software today is used in more than 90 countries. Together, these nations account for some 98% of the world's economic output.

Clear evidence of SAP's position as a company with worldwide impact.



SAP's worldwide growth has been paced by a number of strategic efforts, including systematic geographic expansion, a focused push into new vertical industries such as retailing, banking, and the public sector, and success in attracting small and mid-sized companies.

GERMANY REMAINS THE SECOND-LARGEST MARKET

Germany is not only the site of SAP's headquarters and the center of product development efforts. It is also the market in which SAP products have achieved the highest penetration. With sales rising by 26% to DM 1.15 billion, SAP experienced yet another highly successful year in Germany, and it remains second only to the USA in terms of sales. Our success in Germany has been due both to our efforts to expand existing customer relationships and to the development of new customer groups, especially small and mid-sized companies. During 1997, SAP worked to increase customer and prospect familiarity with current topics and new developments by its participation in a number of events, presentations, and trade shows. As in past years the high point was CeBIT in March, where attention centered on the Internet-enabled R/3 Release 3.1. At the show, SAP also unveiled the Business Framework Architecture for the first time for broad public review. Another key event was the SAP Technology Days in Karlsruhe. Addressing some 3,000 participants from 25 countries, Microsoft CEO Bill Gates stressed the important role that SAP plays for Microsoft: "No other company is having such a great impact on product development at Microsoft as SAP." More than 90 detailed presentations rounded out the Forum.

EUROPEAN SALES REGION RESTRUCTURED

In order to speed our growth, better exploit collaborative synergies, and achieve faster penetration of new industries, SAP combined its organizations in Belgium, Luxembourg, France, Spain, and Portugal into a new "Southwest Europe" subregion. Europe is now divided into four subregions: Southwest, Nordic (Denmark, Finland, Sweden, and Norway), Southeast (the Yugoslav Federation, Croatia, Israel, Turkey, Greece, Bulgaria, and Romania) and Central (Austria, Hungary, Slovenia, Czech Republic, Slovakia, and Poland). The Republic of Ireland, Northern Ireland, Scotland, and Wales are served by our subsidiary in England, SAP (UK) Limited. The Netherlands, Switzerland, and Italy are covered by local SAP subsidiaries. SAP is also represented in Russia, Belarus, Ukraine, Latvia, and Kazakhstan. Sales throughout the European region grew significantly in the 1997 fiscal year.

UNITED KINGDOM: LARGEST SALES VOLUME IN EUROPE

With sales of DM 274 million (up 123%), the United Kingdom advanced to occupy fourth place in terms of sales. A number of factors contributed to this success: a TeamSAP orientation, the introduction of ASAP, an intensified industry focus, and steps to strengthen the

partner certification programs and training activities. Important roles were also played by the Customer Support Group and improved services such as Healthcheck and Remote Consulting via the Online Service System (OSS). In recognition of its achievements, SAP (UK) also became the first software vendor to be honored with the "Post Office Award for First Class Supplier." SAP (UK) recruited major new customers in both the United Kingdom and Ireland: Allergan (pharmaceuticals), AST and Horizon (computers), Vision Express (retail), Visio (CAD software), Hyder (utility), Allied Irish Banks, and Telecom Eireann.

NORDIC SUBREGION - FASTEST GROWTH

Sales more than doubled in Finland, Denmark, and Sweden, growing at rates between 121% and 158%. SAP has only been represented in Finland since 1996, yet has already advanced to become the market leader in the country. Companies in the paper and pulp industry in particular now widely rely on SAP solutions. Other customers belong to the food and beverages industry, telecommunications, and the retail sector. The R/3 System has experienced a genuine sales boom in Sweden, where the installation base has burgeoned by more than 200%. Bergen in Norway hosted this year's Scandinavian users' conference, Nordic SAPHIRE, which was attended by over 1,000 visitors. SAP achieved a breakthrough in Norway in the retail sector by signing NKL and Statoil as new customers. It also gained a foothold in the engineering and construction markets.

SOUTHWEST SUBREGION - SUCCESSFUL REFOCUSING

In 1997, the 263 employees of SAP France S.A. and the 116 staff of our Spanish-Portuguese subsidiary, SAP ESPANA Y PORTUGAL S.A., celebrated the tenth anniversary of their companies' founding. SAP now leads the French market. The reasons for our success in France include: restructuring activities to focus more heavily on industries, close ties with partners, and highly reliable products and services. SAP France counts a host of customers among the top corporations of the French economy: the car makers Renault and PSA (Peugeot and Citroën); the world's largest glass producer, St. Gobain; the chemical company Rhône-Poulenc; and the Alcatel electrical goods group. Having gained Aérospatiale as a new customer, SAP France now counts one of the world's largest aerospace companies among its clientele. Its market success was also buoyed by the Univers trade show organized entirely by SAP, a show that has already grown larger than many public IT fairs. Now that the R/3 Retail and R/3 Public Sector solutions have become available, these sectors will assume new strategic importance for us. In terms of both new customers and sales, SAP experienced vigorous growth in Spain (sales up 74%) and Portugal (up 93%).

CENTRAL SUBREGION - GROWTH CONTINUES

In 1997, SAP's Austrian subsidiary became the site of the headquarters for the Central Subregion. It now serves not only its domestic market, but also the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. Taken together, these countries represent a sales volume of

SAP Executive Board member

Prof. Dr. Henning Kagermann welcoming

Microsoft CEO Bill Gates

at the Technology Days in Karlsruhe



MARKETS



DM 77 million. The prospects for further growth in the region are encouraging. SAP has already gained its 100th customer in the Czech Republic; SAP held its first conference in Poland under the theme of "Solutions for Companies," which was attended by over 800 visitors and received positive coverage in the media; and in Austria "Die Presse," one of the country's leading newspapers, honored SAP with an award for its leading corporate performance.

ITALY INVESTS IN STRENGTHENING ITS INFRASTRUCTURE

To better serve the 80 new customers gained during 1997, SAP Italia S.p.A. bolstered its staff and invested in improving its infrastructure. The most prominent new customer recruited during the 1997 fiscal year was the insurance group Assicurazioni Generali. SAP Italia also teamed up with universities to launch several initiatives for training new R/3 specialists. These are to help support the rapidly growing number of R/3 implementations.

SIGNIFICANT SUCCESS WITH GLOBAL ACCOUNTS IN SWITZERLAND

Business developed well in Switzerland (sales up 25% to DM 162 million), paced primarily by large new customers such as Aluisse Lonza Holding, Basler Versicherungen, COOP Schweiz, Hoffmann-La Roche, the Swiss Banking Association, and Novartis. New alliances were established and existing ones strengthened. At the end of 1997 alone, 100 new R/3 Systems went live; now over 600 R/3 Systems are installed in Switzerland. The certification program for consulting partners is also making good headway. Our customer satisfaction index jumped up noticeably as a result of the expansion of the support department and more intensive use of the Online Service System (OSS).

SAP NETHERLANDS CELEBRATES ITS TENTH ANNIVERSARY

Since SAP Nederland B.V. was established, sales have increased by an average of 40% annually. In 1997, sales in the Netherlands climbed even faster by 48% to DM 130 million. The new customers recruited in 1997 included the Dutch mint, four government ministries, and numerous utilities. Almost immediately after the release of ASAP, four customers decided to take advantage of this implementation method. SAP Nederland also hosted the European SAPHIRE conference for the first time. More than 5,200 participants from 53 countries attended the wide range of presentations and numerous industry forums in Amsterdam.

AMERICAS REGION – GREATEST SINGLE SHARE OF GROUP SALES

The Americas Region concluded the 1997 fiscal year with sales 87% above the previous year's level and revenues of DM 2.6 billion. All of the region's subsidiaries operated extremely successfully. The Americas Region includes SAP America, Inc. – which serves our customers in the United States – SAP Canada, Inc., and subsidiaries in Mexico and Central and South America. Australia and New Zealand were assigned to the South Asia/Pacific Region in the 1997 fiscal year.

USA – ABSOLUTE TOPS IN SALES

With a sales volume of DM 2.1 billion and growth of 82%, the United States takes first place as SAP's single best-performing country. In identifying SAP's R/3 as one of the "most important products of 1997", Information Week noted, "SAP R/3 emerged this year as the dominant enterprise software package. Top U.S. companies including General Motors, Pillsbury and Coca-Cola turned to R/3 to help run their operations. Indeed, it seems as if the German software vendor is ready to break away from competitors..."

SAP's success in the United States was helped by initiatives such as the introduction of AcceleratedSAP (ASAP). ASAP's acceptance in the marketplace prompted the TeamSAP initiative. TeamSAP meets customers' wishes for greater involvement of SAP in projects, better coordination and integration of partners and vendors, reliable implementation processes and methods, and a stable environment for change and flexibility. TeamSAP forges a network comprising people, processes and products from SAP and its partners to offer customers a continuous, fast, integrated, and secure solution.

To fulfill the expectations of the rapidly growing market and meet users' needs even better, SAP has also strengthened its own organization. Personnel at SAP America, Inc. grew by 67%, reaching 2,580 employees at the end of fiscal 1997. SAP's user conference in Orlando, Florida, was attended by over 12,000 people. The guest speakers were Andy Grove, President and CEO of Intel Corporation, and Michael Hammer, who has been an outspoken advocate of reengineering corporate processes for many years.

STRONG GROWTH IN CANADA

With sales climbing 94% from DM 114 million to DM 221 million, 1997 was a tremendously successful year for Canada. Yet our Canadian subsidiary also recorded significant growth in other areas as well: It was able to sign 79 new customers in the year under review, and 30 customers went live with R/3.

Among the most important new customers is the Canadian Federal Government, which decided to implement R/3 at the beginning of the year. The contract signed in October with the Canadian finance ministry was the largest such agreement concluded between SAP and a user in the public sector.

SAP DOMINATES THE SOFTWARE MARKET IN MEXICO AND CENTRAL AND SOUTH AMERICA

The economies of Latin America expanded noticeably in 1997, and SAP continued growing in this region as well. For example, sales in Argentina climbed by 259%, thus contributing DM 36.5 million to the Group's total sales. In Brazil sales skyrocketed by 235% to DM 120.1 million. Brazil now occupies the tenth place in the list of countries with the highest sales volumes. Mexico as well was able to more than double its sales, registering growth of 107%. SAP

Andy Grove, President and  
CEO of Intel, making his keynote  
speech at SAPHIRE, Orlando



MARKETS



now employs over 800 people in Latin America, with branches in Buenos Aires, São Paulo, Caracas, Mexico City and Monterrey, now joined by new offices in Bogotá; Santiago de Chile, Ribeirão Preto, and Porto Alegre. Plans for 1998 include significant personnel growth in order to secure SAP's strong local market presence and insure high customer service levels.

ASIAN REGION RECEIVES A NEW STRUCTURE

In order to optimize SAP's sales and consulting activities in this region and to reflect the cultural, political, and economic differences inherent in operating there, SAP's organization in the Asia/Pacific Region was restructured during the year. The region was realigned and subdivided into three zones: South Asia/Pacific with headquarters in Singapore; Northeast Asia (based in Tokyo); and Greater China (headquartered in Beijing). The Asia Language Support Organization (ALSO) belongs to the Tokyo office. The Singapore office is now responsible for Australia, India, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, and Thailand. Tokyo looks after Japan and South Korea, while China, Hong Kong, and Taiwan report to Beijing. The Asia/Pacific Region continues to be one of SAP's fastest-growing markets. This applies both to sales and to the size of the workforce. About one-third of SAP's international subsidiaries are located in this region, employing roughly 10% of the SAP Group's total workforce.

In 1997, the Asia/Pacific Region registered sales of DM 785 million (1996: DM 465 million), an increase of 69%. In all, the region accounted for 13.1% of Group sales. The countries with the largest sales were Japan with DM 380 million (up 67%) and Australia with nearly DM 183 million (plus 61%). On the basis of these results, Japan takes third place after the United States and Germany; Australia occupies sixth place after the UK and Canada.

JAPAN CONTINUES TO LEAD THE FIELD IN ASIA

The customer roster of SAP Japan Co, Ltd. reads like a roll call of world-famous Japanese corporations: Asahi, Hitachi, Japan Tobacco, Kawasaki, Matsushita, NTT, and Yamaha, and it also includes many Japanese subsidiaries of non-Japanese groups. These and many other companies – there are now considerably more than 150 – have organized their own SAP user group. SAP's success in the Japanese market was assisted by the launch of the Internet-enabled R/3 Release 3.1 with integrated BAPIs in Japanese, as well as our activities in vertical markets. Particularly deserving of mention is the industry solution IS-Oil for the Japanese market. A highlight during the year under review was the second Japanese SAPHIRE users' conference in Yokohama. Attended by significantly more than 10,000 participants, it was SAP's most successful customer event in the entire Asia/Pacific Region.

KOREAN-LANGUAGE VERSION LAUNCHED

Our South Korean subsidiary also gained a number of new internationally prominent customers during 1997, including Hyundai Information Technologies, Korea Telecom Freetel, and Daewong Pharma. Its other accomplishments included the opening of partner training academies staffed by local instructors, shipping of the Korean-language versions of R/3 Releases 3.0 and 3.1, and establishment of a local help desk to support Korean customers in their own language.

CHINA: DEALS WITH LARGE ENTERPRISES

In China, a contract was signed with the Ting Hsin Group – the world's largest producer of noodles – during 1997. So far, R/3 has been installed in mainland China over 50 times, in Hong Kong more than 30 times, and in Taiwan 26 times. The Mandarin Chinese version of R/3 Release 3.1, the opening of two new competence centers, and the expanding network of consulting and implementation partners form an excellent basis for SAP's continuing success.

THE AUSTRALIAN PUBLIC SECTOR OPTS FOR R/3

In Australia (where sales were up 61% to DM 183 million) and New Zealand, the TeamSAP initiative and the ASAP program were successfully launched with 35 certified partners. The most important marketing event for both countries was the SAPHIRE held there, with over 2,000 participants and more than 60 partners. Among the most important new customers gained were the Australian Broadcasting Corporation and a number of public-sector institutions. A large number of government agencies and both federal and state ministries now work with SAP software, so that SAP may already be considered to be a standard in the public sector. Companies in the transportation, oil and gas, utilities, chemicals, financial services, and agricultural sectors also use R/3.



FROM SINGAPORE TO INDONESIA: SIGNIFICANT GROWTH IN SALES

The other countries of the South Asia/Pacific Region also registered high growth rates – although some of them started out from very low levels. The leader was Singapore, which increased its sales by 121%, followed by Indonesia with growth of 108%. They were followed by India (up 90%), Malaysia (up 74%), the Philippines (up 33%), and Thailand (up 5%).

GROWTH IN AFRICA

The biggest share of Africa's DM 93 million in sales (up 29%) was once again accounted for by South Africa, which by itself registered sales of DM 77 million. The most important deal closed in 1997 was with the South African utility Eskom, which describes itself as the world's fifth-largest energy supply company and provides over half of all the electric power consumed throughout Africa. One of the main reasons it decided for R/3 is SAP's strong presence in the utilities market. It was also attracted by the best business practices contained in R/3, of which Eskom wants to use more than 900.

NEW CUSTOMER GROUPS TAPPED

About 260 of the world's 500 largest companies are now SAP customers. This figure is perhaps even more impressive when considering the relative economic weighting enjoyed by these super-large firms. However, looked at within the context of all companies, these large corporations represent only the tip of a very broadly based pyramid. An analysis of the 13,433 SAP systems now installed worldwide (as of December 31, 1997) shows that companies with sales of more than US \$ 2.5 billion only account for about 17% of all installations. A comparable percentage is accounted for by customers with revenues between US \$ 1 and 2.5 billion. Another 13% are running at companies with sales between US \$ 500 million and 1 billion. This third group offers tremendous opportunity. For example, the fact that many existing customers are adding more modules to their R/3 Systems to take advantage of its comprehensive functionality offers potential areas of further growth.

More than half (about 53%) of all SAP systems in use are installed at medium-sized companies (with sales volumes between US \$ 200 and 500 million) and smaller companies (with sales of less than US \$ 200 million). Medium-sized companies are often prompted to install SAP systems because they do business with global players. These business activities give rise to relationships that extend far along the supply chain. The supplying companies are organized into their own business process chains, while simultaneously being integrated into a larger value chain. This web of relationships is most highly developed in the automotive industry. At the same time, the wide distribution of SAP installations demonstrates the inherent scalability of the R/3 System.

Smaller and medium-sized companies are increasingly recognizing the advantages of using R/3. Their business processes and the entrepreneurial challenges they must meet hardly differ from those of companies with larger sales volumes, which means that they can also benefit from the business and logistical experience and expertise of SAP and its customers. For the most part, SAP targets this growth market through indirect sales channels.

PROGRAMS AND INITIATIVES FOR SMALL AND MIDSIZED COMPANIES

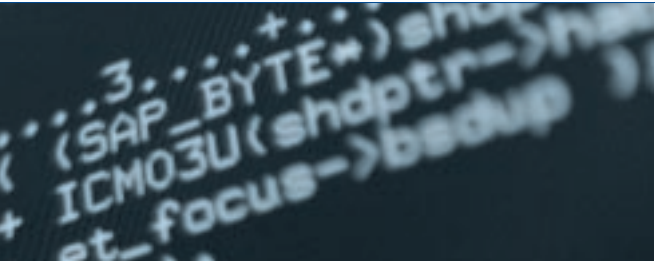
The backbone of the German economy is formed by its 3.2 million small and midsize companies. Together with the R/3 System resellers – SAP's sales partners who take care of customers with revenues below DM 250 million – SAP has bundled together the intensive experience it has accumulated from many projects in Germany and applied it to develop packages for implementing R/3 in companies of this size. These packages offer, for example, implementation of the R/3 System at a fixed price; this gives smaller companies a clear basis for calculation. They also offer guaranteed implementation times of less than six months. SAP and the system resellers are mainly targeting businesses with legacy systems that are not up to meeting the challenges of year-2000 compliance and the switch to the euro. In all, SAP gained 300 new customers in 1997 through its system resellers.

In addition, under the heading of "Higher Enterprise IQ," SAP launched an initiative to help smaller German companies leverage information technologies to boost their productivity. SAP is investing a total of DM 5 million to equip 10 companies with annual sales below DM 250 million with the R/3 System. Another 5 million deutschmarks is being contributed by SAP partners in the form of hardware and operating system software. The great interest in this initiative is proof of its success.

SAP America already initiated its own program for smaller companies in 1996, working with value-added resellers (VARs). These VARs are now operating very successfully. With this approach, SAP is pursuing a strategy of working through independent partners to develop the market of small and midsize companies with sales volumes of less than US \$ 200 million. These partners are certified by SAP and empowered to sell, distribute, and implement R/3 and provide support for it. These VARs have already helped 150 companies to successfully implement the R/3 System.

INDUSTRY ORIENTATION HELPS CUSTOMERS SUCCEED

SAP's worldwide activities are focusing on specific industries in order to meet the particular needs of users more effectively. To achieve this, SAP has closely collaborated with consulting partners and market leaders in different industries to develop a number of industry-specific solutions into which new industry knowledge is continually incorporated. They are extensions



Customer events like SAP's international SAPHIRE conferences are a valuable forum for communicating with users and gaining new customers



of the core R/3 System, adding industry-specific functionality. In developing the industry solutions, a role is played by the integration of Complementary Software Products in R/3. This industry-specific functionality and the integration of specific business processes along the entire value chain enable companies operating in a given sector to respond more nimbly to international market trends, speed up their product development cycles, and gain an international competitive edge by seamlessly integrating producers, suppliers, retailers, and service providers. The resulting solutions are increasingly evolving into industry standards. This concept for vertical markets is rounded out by industry-specific implementation models and tailored training offerings.

SAP is currently concentrating on solutions for the following industries: aerospace and defense, automotive, banks, chemicals, media, health care, retail, high-tech and electronics, consumer goods, mechanical and systems engineering, oil and gas, public sector, pharmaceuticals, telecommunications, insurance, and utilities.

Use of the industry solutions has progressed to varying degrees in different markets. Worldwide, over 170 banks and more than 300 insurance companies are using the solutions tailored to their needs. The oil and gas industry solution has gained strong acceptance in the United States, Norway, Canada, and Japan. SAP's expertise in the public sector is being leveraged in the United States by many federal, state, and municipal administrations, institutions, universities, schools, and nonprofit organizations. They are being serviced by SAP America Public Sector, Inc., based in Washington, D.C. In addition, the public sector solution has been

so successfully introduced in Australia that it can almost be described as an official government standard there. SAP's intensified industry focus has, for example, significantly facilitated SAP America's penetration of additional industries including retail, aerospace and defense, and financial services.

MARKET LEADERS RELY ON INDUSTRY SOLUTIONS

The success of our industry solutions is evident in many examples: The solution for the automotive industry is being used by more than 450 companies worldwide. These include the multinational carmakers BMW, Mercedes-Benz, Opel, Volkswagen, Chrysler, Nissan, Toyota, Volvo, and General Motors, as well as major suppliers like ITT, Bosch, Hella, VDO, Pirelli, Delphi, Firestone, and Allied Signals. R/3 for the chemical industry has been installed more than 700 times in Asia, Europe, and throughout the Western Hemisphere. The R/3 Systems installed by the world's ten largest chemical corporations have already gone live. The users include multinational enterprises such as Hoechst Marion Roussel, Dow Chemical, ICI, Rhône-Poulenc, and BASF. The consumer product solution also boasts over 450 installations. The globally prominent users include Nestlé, Philip Morris, Colgate-Palmolive, Sony Europe, and Hershey. Seven of the eight largest computer makers now also rely on SAP's high-tech and electronics industry solution. In all, R/3 is now being used by over 500 high-tech companies around the world, including Compaq, Hewlett-Packard, IBM, Microsoft, Motorola, and Siemens. R/3 is also firmly established in the pharmaceuticals industry (170 installations), in the retail business (200 installations), at utility companies (350 installations), and in the telecommunications sector (80 installations).



SAP is currently focusing its  
worldwide marketing activities on  
16 industry sectors

MARKETS



Businesses in over 90 countries  
use SAP software



The R/3 System is running in more than 13,000 installations worldwide, helping companies of all sizes and in all industries to work more efficiently and increase their competitive edge.





## THE NEW HOECHST

Hoechst is an international group of companies that focus on developing innovative products for the expanding markets of health and nutrition. In 1997, the companies consolidated in the Hoechst Group achieved total sales of approx. DM 52 billion and employed over 120,000 people.

Since 1994, Hoechst has undergone a far-reaching realignment. The company has transformed itself from an integrated chemical and pharmaceuticals conglomerate with centrally managed processes into a holding company consisting of independent Group companies that autonomously steer and shape their businesses in a decentralized manner. This realignment has been accompanied by a sharper focus on the life sciences. By developing and marketing innovative products for people, animals and plants, the members of the Hoechst Group are aiming to achieve above-average growth and sustainable increases in shareholder value.

## NEW IT STRUCTURE

The realignment of Hoechst called for a new IT structure to accommodate the new business processes. SAP was chosen for this long-term partnership because its R/3 System supports both multiple languages and different currencies. Another major consideration for Hoechst was the fact that SAP is rapidly becoming the international industry standard. The implementation plans call for all data processing at Hoechst to migrate to client/server architectures by the year 2001. And considerable progress has already been made in this direction: The first companies in the Group went live with R/3 at the beginning of 1996. Once the system has been fully implemented, a total of 60,000 users around the world will be able to access the software at networked PC workstations. This will make SAP R/3 the international standard within the Hoechst Group as well.

## FLEXIBLE R/3 SYSTEM NETWORK

HiServ, the information technology company of the Hoechst Group, collaborated with SAP to devise a model for the Group's future IT architecture. The first step was to model the specific business processes of the individual companies in R/3. Then a loosely linked cluster of systems was implemented. "Speed to market" is a decisive criterion for Hoechst – which is why work is proceeding concurrently on many R/3 projects. Globally uniform standards insure that the individual systems can be networked with one another. So far more than 200 such projects have been undertaken using this method.

## FLEXIBLE AND SENSITIVE TO THE MARKET

The business processes of the Hoechst Group differ according to markets and customer needs, and each independent Group company has complete responsibility for its own business activities. The new IT architecture is therefore based on a flexible approach designed to permit Group-wide integration of the IT systems despite varying local conditions. All business processes are modeled in "Business Oriented Applications," which are designed along similar lines for the Group companies around the world. At the same time, they incorporate special features to meet the needs of specific markets and customers and comply with local legal requirements, invoicing and tax rules, environmental protection codes, and product regulations. Users have access to all data required for different business processes.

## OVER 100 R/3 SYSTEMS ALREADY UP AND RUNNING

The new IT concept has demonstrated its effectiveness in the more than 100 systems that have gone live thus far in various companies of the Hoechst Group. They include Hoechst Marion Roussel, the pharmaceutical company of Hoechst. At the start of 1998, HMR had more than 3,500 users at 20 subsidiaries around the world working with SAP R/3.



Biotechnology and genetic  
engineering are paving the way for  
new pharmaceutical products

The challenge of increasing the food  
supply: By the year 2050, the world's  
population will exceed 10 billion



## R/3 IMPLEMENTATION

New technologies act as catalysts  
for innovation: High-throughput  
screening enables fast and targeted  
testing of new active ingredients



INTERVIEW WITH RICHARD J. MARKHAM,  
CHAIRMAN OF THE BOARD OF MANAGEMENT OF  
HOECHST MARION ROUSSEL AG

**What kinds of opportunities do you see for HMR as the world's communications networks continue to expand?**

The rapid growth in communications we're seeing from the proliferation of the Internet and electronic commerce means that a leading pharmaceutical company like Hoechst Marion Roussel must continually review and update its information outlets and policies. Information is now available worldwide within seconds. We can take advantage of this to completely redesign communications with our most important partners – physicians, patients, health care organizations, and our research and development partners – as well as the content and quality of our information.

Developments such as the "Virtual Private Network" allow us to cooperate and share information in new ways with our alliance partners. At the same time, of course, we also have to insure our data security, guard against unauthorized access, and guarantee reliable data transfer.

**You chose R/3 at a time when many doubted its suitability for corporate groups. Why?**

After the Hoechst pharmaceutical division, Marion Merrell Dow and Roussel Uclaf became Hoechst Marion Roussel in 1995, we needed an information architecture that would not only support our business processes on a global level but also permit flexible adaptation to meet local requirements in each country – we have over 40 local HMR companies around the world. We were therefore on the lookout for an enterprise software package that had a clear business process orientation and embodied technology leadership in the areas of administration, production, sales and distribution. We also needed a vendor that could give us long-term support capable of meeting the growing needs of a global pharmaceutical company. And we wanted consistent, integrated information available across all corporate levels to support decision-making in our various divisions.

**What kind of an impact do you think the project will have?**

When R/3 is fully implemented, over 10,000 employees will execute our day-to-day business processes in a consistent, uniform manner. This will give us greater flexibility and accelerate decision-making on all levels. Our management processes will be based on highly integrated SAP systems around the world, each of which is directly linked to headquarters. It will also be easier for us to deal with issues such as year-2000 compliance and the introduction of the euro.

**A global project like yours poses immense logistical, technological and motivational challenges. How are you dealing with them?**

In implementing SAP R/3 at Hoechst Marion Roussel, we have decided to "think globally, but act locally". A small international project team defines the global requirements that the SAP R/3 roll-out must meet, and then implements them in a Hoechst Marion Roussel model system. The results are then given to our local HMR companies worldwide. The individual companies set up their own project teams to introduce the software based on these specifications, with the assistance of local consultants. While this is going on, the global team provides on-site advice and support. One of the main tasks of the global team is to insure the high-quality level of individual country projects.

Global business processes, that is, those that affect supply chain management and Group reporting, are defined with the help of Administration, Manufacturing, Production, Sales and Distribution. The projects at the local HMR companies build on these processes and supplement the global R/3 model with business processes of their own. Delegating the responsibility for SAP project management and implementation to the international subsidiaries raises the motivation of both local management and project team members. At the same time, we're building up an experienced global team for the maintenance and enhancement of our SAP R/3 System.

**In 1997, legacy programs at Hoechst Marion Roussel Deutschland GmbH were replaced by R/3 in a single "big bang". How would you assess the bottom-line results of this move?**

The shared business process system allowed us to manage our supply chain much more effectively by optimizing our processes and greatly improving our information availability. It has significantly enhanced the quality and speed of our logistic efforts. This leads to other benefits like better information for monitoring costs, planning, and supporting decision-making.

Germany is just one example of our successful SAP implementation in 1997. During the year, we successfully tackled similar challenges in Japan, Argentina, Colombia, and Venezuela. Projects in Brazil, Italy, Spain, Thailand, and Switzerland all went live in January 1998.

## GLOSSARY

**ASAP (AcceleratedSAP):** A standardized methodology that brings together the latest approaches and experiences in R/3 implementations. ASAP minimizes the time required for an R/3 implementation, optimizes quality, and – by more effectively using resources – lowers costs. ASAP can reduce the time required to implement the R/3 System by as much as 50%.

**ALE (Application Link Enabling):** Message-based integration of distributed applications. ALE enables cooperation between SAP's R/2 and R/3 Systems and other, non-SAP systems, by loosely linking the respective applications, even if they are running on different platforms in different companies or locations. Within the Business Framework, ALE technology enables customers to integrate business processes and information flows across component boundaries.

**APO (Advanced Planner & Optimizer):** Part of the SAP SCOPE initiative, this advanced planning and optimization tool is shipped as an independent product and integrated in the R/3 core applications. By combining the APO and the Business Information Warehouse, SAP customers can optimize performance and cut costs throughout their entire supply chain. The APO lowers operating costs, reduces complexity (since external interfaces are eliminated), increases speed, and, by synchronizing data, allows simultaneous cross-system and cross-company decision support.

**ATP (Available-to-Promise) Server:** A new technology which provides availability information throughout an entire company. It is aimed at enterprises with high production and sales volumes, and allows integrated, real-time availability checks throughout a supply chain. As soon as demand arises, the system defines and supports delivery requirements.

**BAPIs (Business Application Programming Interfaces):** Open, stable, object-oriented standard interfaces for integrating business applications, for example over the Internet. Even systems based on different technologies can be linked to one another, and business processes can be enhanced throughout the supply chain. BAPIs enable interaction between R/3 and third-party applications. In addition, customers and partners can use standard programming languages such as Visual Basic, Java, and ABAP/4 to create their own Internet and intranet applications and link them to R/3.

**Business Engineer:** A comprehensive set of tools integrated into the R/3 System which support fast, simple, and customer-specific R/3 implementation and configuration. The Business Engineer supports customers in the analysis, design, and modeling of their business processes in the R/3 System, and makes R/3 implementation as simple as possible.

**Business Framework:** The strategic R/3 product architecture that transforms the R/3 System into a family of distributed products. Integration technologies and open interfaces (BAPIs) insure seamless interaction between these components, and can also integrate applications from third-party vendors as required. The main benefits to customers of the Business Frame-

work include: simplification and acceleration of system implementation and continual business process optimization; the step-by-step implementation of business components; fast and dynamic reconfiguration of business processes independent of conventional release cycles; easy integration of the Internet and intranets in business processes; simple linking between the R/3 System and complementary software and/or customer-specific developments; and the evolutionary introduction of the latest technology without interrupting ongoing operations.

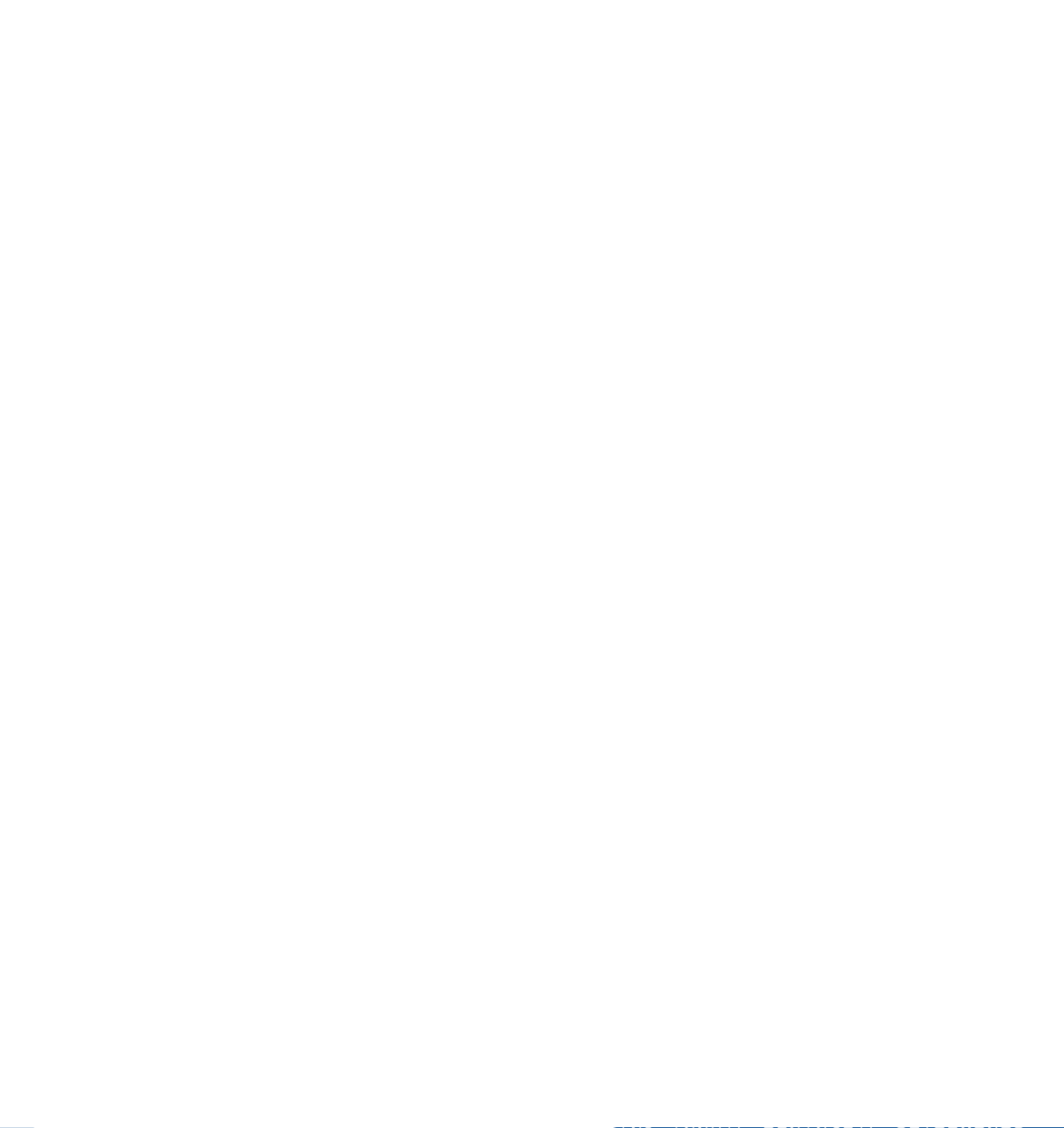
**Business Information Warehouse:** This pre-configured, integrated solution is an intelligent information system combining and summarizing data from R/3 applications and external sources into a management-level database. Besides supporting decision-making and analysis, the Business Information Warehouse controls and monitors key factors impacting overall profitability. The Business Information Warehouse links the latest warehouse technology with SAP's business know-how. The three main components – Business Information Warehouse Server, Business Explorer, and Administrator Workbench – support users in the rapid retrieval and analysis of information, thus supporting the decision-making process. The Business Information Warehouse is the first solution available on the market that links a data warehouse with the R/3 applications based on a uniform business process model.

**Business Workflow:** SAP's concept for optimizing business processes through integrated, cross-function business procedures.

**Client/server architecture:** System architecture in which business applications are split between the servers that provide specific services and the clients that use these services.

**CSP (Complementary Software Products):** Software components from third-party vendors that work together with the components of the R/3 System and take advantage of the potential offered by the new software architecture (Business Framework). Examples of CSP components include solutions for EDI (Electronic Data Interchange), GIS (Geographical Information Systems), and communications software.

**SCOPE (Supply Chain Optimization, Planning & Execution):** Combines the benefits of the R/3 System with a variety of new SAP products and technologies, including third-party solutions and Internet capabilities for managing the supply chain. SCOPE represents SAP's most comprehensive application solution for cost-efficient handling of processes along the entire supply chain.



1997 Consolidated Financial Statements and Annual Financial  
Statements of SAP Aktiengesellschaft – Systems, Applications and Products  
in Data Processing, Walldorf, Germany.

## CONSOLIDATED BALANCE SHEETS

### ASSETS

(in thousands of DM)

	Note	12/31/1997	12/31/1996
Intangible assets	(7)	81,299	5,742
Tangible fixed assets	(8)	853,312	621,903
Financial assets	(10)	227,794	161,429
<b>FIXED ASSETS</b>		<b>1,162,405</b>	<b>789,074</b>
Inventories	(11)	7,515	7,799
Accounts receivable	(12)	2,435,699	1,555,869
Accounts due from related parties		6,030	0
Other assets	(14)	167,152	55,895
<b>Accounts receivable and other assets</b>		<b>2,608,881</b>	<b>1,611,764</b>
Marketable securities	(15)	167,092	164,891
Cash and cash equivalents	(16)	997,420	737,394
<b>CURRENT ASSETS</b>		<b>3,780,908</b>	<b>2,521,848</b>
<b>DEFERRED TAXES</b>	<b>(17)</b>	<b>89,978</b>	<b>37,462</b>
<b>PREPAID EXPENSES AND DEFERRED CHARGES</b>		<b>36,969</b>	<b>18,720</b>
<b>TOTAL ASSETS</b>		<b>5,070,260</b>	<b>3,367,104</b>

See Notes to the Financial Statements

## SHAREHOLDERS' EQUITY AND LIABILITIES

	Note	12/31/1997	12/31/1996
Subscribed capital *	(18)	521,513	517,537
Capital reserve	(19)	428,469	353,344
Revenue reserves	(20)	1,803,510	1,095,491
Group retained earnings		294,328	240,698
Minority interests		14,552	4,242
<b>SHAREHOLDERS' EQUITY</b>		<b>3,062,372</b>	<b>2,211,312</b>
<b>SPECIAL RESERVES FOR CAPITAL INVESTMENT SUBSIDIES AND ALLOWANCES</b>	<b>(22)</b>	<b>418</b>	<b>66</b>
Pension reserves and similar obligations	(23)	41,461	29,526
Other reserves and accrued liabilities	(24)	1,120,114	604,860
<b>RESERVES AND ACCRUED LIABILITIES</b>		<b>1,161,575</b>	<b>634,386</b>
Bonds	(25)	4,713	8,669
Other liabilities	(26)	814,239	494,382
<b>OTHER LIABILITIES</b>		<b>818,952</b>	<b>503,051</b>
<b>DEFERRED INCOME</b>		<b>26,943</b>	<b>18,289</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>5,070,260</b>	<b>3,367,104</b>

See Notes to the Financial Statements

\* Contingent capital DM 4,737

## CONSOLIDATED INCOME STATEMENTS

(in thousands of DM)

	Note	1997	1996
<b>Sales revenues</b>	(30)	<b>6,017,466</b>	<b>3,722,150</b>
Increase in inventory of unfinished services		2,472	961
Other operating income	(31)	79,966	73,712
		6,099,904	3,796,823
Raw materials and supplies, purchased goods	-16,485		-13,967
Purchased services	-589,234		-380,417
<b>Cost of services and materials</b>		<b>-605,719</b>	<b>-394,384</b>
Personnel expenses	(32)	-2,074,920	-1,338,473
Depreciation and amortization	(33)	-195,321	-164,591
Other operating expenses	(34)	-1,611,728	-955,746
<b>Operating expenses</b>		<b>-3,881,969</b>	<b>-2,458,810</b>
<b>Operating result</b>		<b>1,612,216</b>	<b>943,629</b>
Income from investments	(35)	3,500	1,745
Income from other securities and loans of financial assets		1,469	2,188
Write-down of financial assets	(36)	-2,811	-8,192
Net interest income	(37)	52,562	27,843
<b>Result from ordinary operations</b>		<b>1,666,936</b>	<b>967,213</b>
Taxes on income	(38)	-708,354	-382,414
Other taxes		-33,228	-17,263
<b>Total taxes</b>		<b>-741,582</b>	<b>-399,677</b>
<b>Net income</b>		<b>925,354</b>	<b>567,536</b>
Minority interests		-2,372	-1,317
Beginning retained earnings – SAP AG		240,698	133,784
Distribution of dividends to SAP AG shareholders		-240,192	-133,615
Transfer to revenue reserves		-629,160	-325,690
<b>Group ending retained earnings – SAP AG</b>		<b>294,328</b>	<b>240,698</b>

See Notes to the Financial Statements

## INCOME STATEMENTS SAP AKTIENGESELLSCHAFT

(in thousands of DM)

	Note	1997	1996
<b>Sales revenues</b>	(30)	<b>2,358,511</b>	<b>1,699,340</b>
Increase in inventory of unfinished services		2,546	0
Other operating income	(31)	47,483	36,754
		2,408,540	1,736,094
Raw materials and supplies, purchased goods	-8,303		-7,220
Purchased services	-445,156		-352,149
<b>Cost of services and materials</b>		<b>-453,459</b>	<b>-359,369</b>
Personnel expenses	(32)	-697,346	-538,486
Depreciation and amortization	(33)	-96,045	-90,768
Other operating expenses	(34)	-414,395	-285,225
<b>Operating expenses</b>		<b>-1,207,786</b>	<b>-914,479</b>
<b>Operating result</b>		<b>747,295</b>	<b>462,246</b>
Income from investments	(35)	39,653	41,493
Income from other securities and loans of financial assets		1,794	2,150
Write-down of financial assets	(36)	-2,431	-2,123
Net interest income	(37)	25,820	15,239
<b>Result from ordinary operations</b>		<b>812,131</b>	<b>519,005</b>
Taxes on income	(38)	-357,349	-207,090
Other taxes		-7,460	-7,386
<b>Total taxes</b>		<b>-364,809</b>	<b>-214,476</b>
<b>Net income</b>		<b>447,322</b>	<b>304,529</b>
Beginning retained earnings		240,698	133,784
Dividend distribution		-240,192	-133,615
Transfer to revenue reserves		-153,500	-64,000
<b>Ending retained earnings</b>		<b>294,328</b>	<b>240,698</b>

See Notes to the Financial Statements



## BALANCE SHEETS SAP AKTIENGESELLSCHAFT

### ASSETS

(in thousands of DM)

	Note	12/31/1997	12/31/1996
Intangible assets	(7)	11,851	3,806
Tangible fixed assets	(8)	404,040	335,773
Investments in affiliated companies	(9)	471,524	355,938
Loans to affiliated companies		6,055	0
Other investments		114,514	14,018
Long-term investments		100,000	100,000
Other loans		38,385	38,642
Financial assets	(10)	730,478	508,598
<b>FIXED ASSETS</b>		<b>1,146,369</b>	<b>848,177</b>
Inventories	(11)	5,328	5,567
Accounts receivable	(12)	279,355	256,339
Accounts due from affiliated companies	(13)	477,295	176,691
Accounts due from other Group companies		6,003	1,998
Other assets	(14)	90,168	20,278
Accounts receivable and other assets		852,821	455,306
Marketable securities	(15)	139,035	139,264
Cash and cash equivalents	(16)	328,538	453,967
<b>CURRENT ASSETS</b>		<b>1,325,722</b>	<b>1,054,104</b>
<b>DEFERRED TAXES</b>	<b>(17)</b>	<b>2,344</b>	<b>84</b>
<b>PREPAID EXPENSES AND DEFERRED CHARGES</b>		<b>7,500</b>	<b>6,023</b>
<b>TOTAL ASSETS</b>		<b>2,481,935</b>	<b>1,908,388</b>

See Notes to the Financial Statements

## SHAREHOLDERS' EQUITY AND LIABILITIES

	Note	12/31/1997	12/31/1996
Subscribed capital *	(18)	521,513	517,537
Capital reserve	(19)	428,469	353,344
Revenue reserves	(20)	473,751	320,252
Retained earnings		294,328	240,698
<b>SHAREHOLDERS' EQUITY</b>		<b>1,718,061</b>	<b>1,431,831</b>
<b>SPECIAL RESERVE WITH ACCRUAL CHARACTER</b>	<b>(21)</b>	<b>2,945</b>	<b>2,945</b>
Pension reserves and similar obligations	(23)	34,550	27,575
Other reserves and accrued liabilities	(24)	470,167	242,953
<b>RESERVES AND ACCRUED LIABILITIES</b>		<b>504,717</b>	<b>270,528</b>
Bonds	(25)	4,713	8,669
Other liabilities	(26)	249,785	193,851
<b>OTHER LIABILITIES</b>		<b>254,498</b>	<b>202,520</b>
<b>DEFERRED INCOME</b>		<b>1,714</b>	<b>564</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2,481,935</b>	<b>1,908,388</b>

See Notes to the Financial Statements

\* Contingent capital DM 4,737

CONSOLIDATED STATEMENT OF FIXED ASSETS

(in thousands of DM)

Purchase or manufacturing cost						Accumulated depreciation and amortization							Book value		
	1/1/1997	Changes in consolidated companies	Additions	Retirements	Transfers	12/31/1997	1/1/1997	Changes in consolidated companies	Additions	Retirements	Transfers	Write-ups	12/31/1997	12/31/1997	12/31/1996
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	0
	29,426		87,348	85	116	116,805	23,684		11,879	71	116	102	35,506	81,299	5,742
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							0	99,076	28,652
	1,093,172		487,362	124,635	-116	1,455,783	471,269		183,442	52,124	-116	0	602,471	853,312	621,903
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		0	228			228			0	0	0
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
	173,869		79,106	11,645		241,330	12,440		2,811	852		863	13,536	227,794	161,429
FIXED ASSETS						1,813,918	507,393		198,132	53,047	0	965	651,513	1,162,405	789,074

See Notes to the Financial Statements

SAP AKTIENGESellschaft

(in thousands of DM)

	Purchase or manufacturing cost					Accumulated depreciation and amortization						Book value	
	1/1/1997	Additions	Retirements	Transfers	12/31/1997	1/1/1997	Additions	Retirements	Transfers	Write-ups	12/31/1997	12/31/1997	12/31/1996
I. Intangible assets													
1. Trademarks, similar rights and assets	22,331	11,645			33,976	18,525	3,600				22,125	11,851	3,806
	22,331	11,645			33,976	18,525	3,600				22,125	11,851	3,806
II. Tangible fixed assets													
1. Land, leasehold rights and buildings, including buildings on third-party land	294,738	5,840	329	6,841	307,090	85,924	15,198	329			100,793	206,297	208,814
2. Other property, plant and equipment	360,729	87,069	18,848	16	428,966	256,143	77,247	17,259			316,131	112,835	104,586
3. Advance payments and construction in progress	22,373	69,392		-6,857	84,908							84,908	22,373
	677,840	162,301	19,177	0	820,964	342,067	92,445	17,588			416,924	404,040	335,773
III. Financial assets													
1. Shares in affiliated companies	384,675	115,586			500,261	28,737					28,737	471,524	355,938
2. Loans due from affiliated companies		6,055			6,055							6,055	0
3. Other investments	14,018	100,496			114,514							114,514	14,018
4. Shares in cooperatives	1				1							1	1
5. Long-term investments	100,000				100,000							100,000	100,000
6. Other loans	45,480	9,158	8,418		46,220	6,839	2,431	594		840	7,836	38,384	38,641
	544,174	231,295	8,418		767,051	35,576	2,431	594		840	36,573	730,478	508,598
FIXED ASSETS	1,244,345	405,241	27,595	0	1,621,991	396,168	98,476	18,182		840	475,622	1,146,369	848,177

See Notes to the Financial Statements

# INVESTMENTS

## OF SAP AKTIENGESELLSCHAFT AND THE GROUP

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

Name and location of company	Ownership %	Sales in 1997 <sup>1)</sup>	Net income/ loss (-) for 1997 <sup>1)</sup>	Equity 12/31/1997 <sup>1)</sup>	Number of employees as of 12/31/1997 <sup>2)</sup>
I. AFFILIATED COMPANIES					
GERMANY					
SRS Software- und Systemhaus Dresden GmbH, Dresden	50	70,867	3,239	8,899	299
SAP Retail Solutions GmbH & Co., St. Ingbert	100	62,566	11,885	20,345	170
Steeb Anwendungssysteme GmbH, Abstatt	100	32,797	2,238	5,766	106
SAP Systems Integration GmbH, Alsbach-Haehnlein	60	13,130	-2,689	27,311	105
AsseT GmbH Assessment & Training Technologies, Friedrichshafen	75	3,296	446	1,169	12
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf	100	0	-2	50	0
STEEB-CAS Informationstechnik GmbH i.L., Abstatt	100	0	116	885	0
DACOS Software Holding GmbH, St. Ingbert	100	0	-632	13,830	0
REST OF EUROPE					
SAP (UK) Limited, Feltham/UK	100	355,195	52,113	122,430	297
SAP FRANCE SYSTEMES APPLICATIONS ET PROGICIELS S.A., Paris/France	100	184,789	11,972	44,803	263
SAP (Schweiz) AG, Biel/Switzerland	100	160,990	21,512	165,654	187
SAP Nederland B.V., 's Hertogenbosch/Netherlands	100	124,893	23,112	53,049	149
SAP Österreich, Systeme, Anwendungen und Produkte in der Datenverarbeitung Gesellschaft m.b.H., Vienna/Austria	100	98,095	15,471	35,808	120
SAP Danmark A/S, Brøndby/Denmark	100	94,495	19,067	39,750	136
SAP Svenska Aktiebolag, Stockholm/Sweden	100	83,121	23,438	29,299	101
SAP ESPANA Y PORTUGAL SISTEMAS APLICACIONES Y PRODUCTOS EN LA INFORMATICA, S.A., Madrid/Spain	100	81,488	9,179	23,516	116
S.A.P. Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Milan/Italy	100	81,001	7,611	21,257	110
NV SAP BELGIUM SA, Brussels/Belgium	100	72,830	10,793	32,977	97
SAP CR, s.r.o., Prague/Czech Republic	100	45,233	2,755	13,172	113
SAP Polska Sp. z o.o., Warsaw/Poland	100	18,160	1,137	6,895	54
SAP Consult C.I.S., Moscow/Russia	100	6,711	941	2,411	53
SAP Service and Support Centre (Ireland) Limited, Dublin/Ireland	100	2,101	-392	2,220	42
DACOS Software S.A., Vaumarcus (NE) /Switzerland <sup>3)</sup>	52	252	-21	384	1
STEEB-CAS Informationstechnik AG in Liq., Pieterlen/Switzerland	100	0	0	0	0
SAP Ireland Ltd., Dublin/Ireland	100	0	2,494	82,291	6
SAP Retail Solutions Nederland B.V., 's Hertogenbosch/Netherlands	100	0	0	222	0
SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Kft., Budapest/Hungary	100	0	-12	2,452	0
AMERICAS					
SAP America, Inc., Wayne, PA/USA	100	2,105,707	199,588	702,937	2,580
SAP Canada Systems, Applications and Products in Data Processing Inc., North York, ONT/Canada	100	238,641	21,992	60,216	350

Name and location of company	Ownership %	Sales in 1997 <sup>1)</sup>	Net income/ loss (-) for 1997 <sup>1)</sup>	Equity 12/31/1997 <sup>1)</sup>	Number of employees as of 12/31/1997 <sup>2)</sup>
SAP BRASIL COMERCIO E REPRESENTACOES LTDA., São Paulo/Brazil					
100	121,362	11,756	20,182	213	
SAP Labs, Inc. formerly SAP Technology, Inc., Palo Alto, CA/USA	100	89,735	4,333	10,826	258
SAP MEXICO S.A. DE C.V., Mexico City/Mexico	100	67,832	15,230	23,080	125
SAP ARGENTINA S.A., Buenos Aires/Argentina	100	48,796	10,259	16,722	90
SAP Andina y del Caribe S.A., Caracas/Venezuela	100	38,754	-6,125	4,565	101
SAP International, Inc., Miami, FL/USA	100	5,977	216	466	15
SAP America Public Sector, Inc., Washington DC/USA	100	3,806	-286	-257	53
WS Investment Holdings, L.P., Wilmington, DE/USA <sup>4)</sup>	99	2,254	528	14,773	0
ASIA/PACIFIC					
SAP Japan Co., Ltd., Tokyo/Japan	100	416,719	29,706	104,776	666
SAP AUSTRALIA PTY LTD, Sydney/Australia	100	188,287	12,797	40,986	249
SAP Asia Systems, Applications and Products in Data Processing Pte. Ltd., Singapore	100	86,422	-329	12,355	202
SAP Korea Limited, Seoul/Korea	100	34,997	2,622	5,415	69
SAP India Systems, Applications and Products in Data Processing Private Limited, Bangalore/India	100	26,060	2,272	5,037	74
SAP Data Processing (Malaysia) Sdn Bhd, Kuala Lumpur/Malaysia	100	25,838	2,089	4,884	58
SAP New Zealand Limited, Auckland/New Zealand	100	20,404	1,794	8,500	24
SAP SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING (THAILAND) LTD., Bangkok/Thailand					
100	12,622	-1,252	1,277	39	
SAP (Beijing) Software System Co., Ltd., Beijing/China	100	10,510	-2,955	6,207	91
SAP Taiwan Co. Ltd., Taipei/Taiwan	100	10,058	1,424	5,347	38
SAP HONG KONG Co. Limited, Taikoo Shing/Hong Kong	100	7,564	1,148	5,758	27
SAP PHILIPPINES SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING, INC., Makati City/Philippines					
100	5,888	-1,568	-523	33	
SAP India (Holding) Pte. Ltd., Singapore	100	0	-11	794	0
PT SAP Asia, Jakarta/Indonesia	100	0	-671	-167	16
AFRICA					
SYSTEMS APPLICATIONS PRODUCTS (SOUTHERN AFRICA) (PTY) LTD, Woodmead/South Africa					
100	80,831	9,083	13,921	125	
II. ASSOCIATED COMPANIES					
IDS Prof. Scheer Gesellschaft für integrierte Datenverarbeitungssysteme mbH, Saarbrücken/Germany <sup>4)</sup>					
25.2	80,246	1,653	56,352	513	
SAP Solutions GmbH, Freiberg/Germany	40	48,456	8,362	11,432	299
Schmidt, Vogel und Partner Consult, Gesellschaft für Organi- sation und Managementberatung mbH, Bielefeld/Germany <sup>4)</sup>	25.2	32,469	1,081	1,450	127

<sup>1)</sup> These figures are not consolidated and therefore do not reflect the contri-  
butions of these companies to the consolidated financial statements

<sup>2)</sup> As of 12/31/1997, including managing directors

<sup>3)</sup> Not consolidated according to Article 296 (2) of the German Commercial  
Code

<sup>4)</sup> Included in the consolidated financial statements for the first time

# NOTES TO THE 1997 FINANCIAL STATEMENTS OF THE GROUP AND SAP AKTIENGESELLSCHAFT

## A. GENERAL INFORMATION

### (1) APPLICATION OF THE GERMAN LEGAL REGULATIONS

The consolidated financial statements and the financial statements of SAP Aktiengesellschaft Systems, Applications and Products in Data Processing (SAP AG) are prepared in accordance with the German Commercial Code and Stock Corporation Act.

In the interests of clarity, the notes to the financial statements include both the disclosures required by law on the individual items of the balance sheets and income statements, and the information which may optionally be included either on the balance sheets and income statements or in the notes to the financial statements.

Unless otherwise stated, the notes apply to both the consolidated financial statements and the financial statements of SAP AG.

## 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 included and fully consolidated in the consolidated financial statements for the first time:

- SAP Systems Integration GmbH, Alsbach-Haehnlein/Germany
- DACOS Software Holding GmbH, St. Ingbert/Germany
- SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Kft., Budapest/Hungary
- SAP Retail Solutions Nederland B.V., 's Hertogenbosch/Netherlands
- SAP Service and Support Centre (Ireland) Limited, Dublin/Ireland
- SAP America Public Sector, Inc., Washington DC/USA
- PT SAP Asia, Jakarta/Indonesia
- SAP Taiwan Co. Ltd., Taipei/Taiwan
- SAP HONG KONG Co. Limited, Taikoo Shing/Hong Kong

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.

The following associated companies were consolidated by the equity method:

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

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

Two subsidiaries have not been consolidated, since their impact on the Group'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. Please refer to the information relating to the Group's investments on pages 88 and 89.

### (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, pursuant to Article 309 (1) sentence 3 of the German Commercial Code. On January 1, 1997, goodwill was capitalized for the first time.

Intercompany receivables, payables, revenues, expenses and profits among the consolidated companies are eliminated. Deferred taxes are calculated after consolidation entries affecting income, when it is expected that the difference in the tax expense will be reversed in a future year. Minority interest is identified for subsidiaries not wholly owned by the parent company. Equity investments consolidated by the book value method are recorded at the book value of the equity held.

The retained earnings of the Group, as shown in the consolidated financial statements, are the retained earnings of SAP AG. The retained earnings of the subsidiaries are included in the Group'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. Such adjustments are waived only where the effect is immaterial.

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

Tangible fixed assets are shown at cost less scheduled depreciation, based on their estimated useful lives.

Buildings are depreciated using the straight-line method over useful lives of 25 to 50 years. Leasehold improvements are depreciated using the straight-line method over the period of the lease. The useful lives of movable fixed assets range between two and twenty years. In most cases, the declining-balance method of depreciation is applied, where permissible, with a scheduled transfer to the straight-line method at a subsequent date. Low-value assets are expensed in the year of acquisition.

In the financial statements of SAP AG, buildings acquired through 1991 are depreciated by the straight-line method over useful lives of 25 to 50 years. Additions from 1992 onward are depreciated by the declining-balance method pursuant to Article 7 (5) sentence 1 no. 1 of the German Income Tax Act.

Investments in affiliated companies and other shareholdings are shown at the lower of cost or market value. 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.

**CURRENT ASSETS:** Inventories are shown at the lower of purchase or production cost, or at the market value.

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 these services. Accounts receivable are stated at their nominal value. Foreseeable individual risks are written down on a case-by-case basis. General credit risk is reflected by means of a lump-sum allowance for doubtful accounts. Interest-free loans with a remaining term exceeding one year are discounted to their present value. Other assets equal to the cash surrender value of life 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. Other assets are shown at their nominal value. Cash and cash equivalents in Postbank accounts and in banks are stated at their nominal amounts.

**PREPAID EXPENSES AND DEFERRED CHARGES:** Prepaid expenses and deferred charges are determined by allocating expenses to the periods to which they are attributable.

**DEFERRED TAXES:** On the balance sheets of SAP AG and the other companies included in the consolidated financial statements, 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 be reversed in the future. Moreover, deferred taxes are established on the consolidated balance sheets for temporary differences in net income resulting from consolidation measures affecting current-period income.

Deferred taxes are computed by the "deferral method," under which the enacted tax rate applicable to the local subsidiaries is used.

The net balance of all deferred taxes, whether assets or liabilities, is stated on the assets side of the balance sheets of SAP AG and the Group.

**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.

#### (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 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 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 statements is charged to income.

The exchange rates of key currencies changed as follows:

	Closing rate to the DM at December 31		Average exchange rate to the DM for the year	
	1997	1996	1997	1996
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 BALANCE SHEETS

#### (6) FIXED ASSETS

Fixed assets activities for the Group and SAP AG during the year under review are shown on pages 84 through 87.

#### (7) INTANGIBLE ASSETS

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



#### (8) TANGIBLE FIXED ASSETS

The additions consist primarily of the construction of office buildings, the acquisition of land and the purchase of computer hardware, automobiles and other business equipment.

Region	Additions 1997 DM (000)	Book values 12/31/1997 DM (000)
Germany	193,242	484,854
Rest of Europe	150,652	184,806
Americas	112,646	136,862
Asia/Pacific	28,441	43,652
Africa	2,381	3,138
	<b>487,362</b>	<b>853,312</b>

#### (9) INVESTMENTS IN AFFILIATED COMPANIES

The additions for SAP AG, amounting to DM 115,586,000, relate to five newly established companies with an equity holding of 100%, two new acquisitions with equity holdings of 100% and 60%, respectively, and capital increases at nine companies.

The investments of the SAP Group are shown on pages 88 and 89.

#### (10) FINANCIAL ASSETS

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

	1997			1996		
	Book values DM (000)	Market values DM (000)	Unrealized gains DM (000)	Book values DM (000)	Market values DM (000)	Unrealized gains DM (000)
Securities with fixed maturities	100,000	104,750	4,750	100,000	100,750	750
Other securities	9,498	9,498	0	704	704	0
	<b>109,498</b>	<b>114,248</b>	<b>4,750</b>	<b>100,704</b>	<b>101,454</b>	<b>750</b>

The financial assets of SAP AG include interest-bearing and non-interest-bearing loans to employees and to third parties. On the consolidated balance sheets, the financial assets also include investments in associated companies not included in consolidation, as well as other investments.

#### (11) INVENTORIES

In addition to unfinished services for consulting projects, inventories primarily comprise office supplies and documentation.

#### (12) ACCOUNTS RECEIVABLE

Of the accounts receivable shown at December 31, 1997, DM 86,732,000 for the Group and DM 562,000 for SAP AG have a remaining term greater than one year.

#### (13) ACCOUNTS DUE FROM AFFILIATED COMPANIES

As in the previous year, all receivables included in the financial statements of SAP AG are due within one year.

#### (14) OTHER ASSETS

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Other assets	167,152	55,895	90,168	20,278
- thereof with a remaining term greater than 1 year	(95,927)	(30,378)	(73,436)	(10,978)

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

#### (15) MARKETABLE SECURITIES

This item consists primarily of fixed-income securities.

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

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

Marketable securities with fixed maturities at December 31 are as follows:

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

During the fiscal year, SAP AG acquired 54,171 of its own shares with a par value of DM 5, representing 0.05% of the capital stock, at an average market price of DM 353, 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. The Company did not hold any of its own shares as of the balance sheet closing date.

#### (16) CASH AND CASH EQUIVALENTS

As in the previous year, this balance sheet item includes cash and cash equivalents in Post-bank accounts and in banks.

#### (17) DEFERRED TAXES

The deferred tax asset for SAP AG results from the netting of deferred tax liabilities with deferred tax assets, arising from the differences between the depreciation of buildings shown on the commercial and tax balance sheets through 1991 (total of DM 9,885,000), against deferred tax assets arising from the discounting of interest-free loans to employees, as required under commercial law, and the accrual for indirect pension obligations and employee anniversary gifts (total of DM 12,207,000), which are not deductible for tax purposes. The corresponding item on the consolidated balance sheets primarily includes the amounts shown in the individual balance sheets, deferred taxes from depreciation differences between the individual and consolidated balance sheets for buildings added to fixed assets since 1992, and, to a minor degree, amounts from consolidation.

#### (18) SUBSCRIBED CAPITAL

The subscribed capital of SAP AG as of December 31, 1997, totaled DM 521,513,000, comprising 5,393,555 ordinary shares with a par value of DM 50 per share, and 7,060,000 ordinary shares with a par value of DM 5 per share, as well as 2,074,888 non-voting preference shares with a par value of DM 50 per share and 22,558,239 non-voting preference shares with a par value of DM 5 per share.

As conversion rights for the 1988/1998 convertible bond issue were exercised, DM 24,000 of contingent capital, corresponding to 385 ordinary shares with a par value of DM 50 each, and 96 preference shares with a par value of DM 50 each, was converted into capital stock. As conversion rights for the 1994/2004 convertible bond issue were exercised, DM 3,952,000 of contingent capital, corresponding to 790,424 preference shares with a par value of DM 5 each, was converted into capital stock.

As a result, contingent capital decreased by DM 3,976,000, amounting to DM 4,737,000 as of December 31, 1997.

#### (19) CAPITAL RESERVE

Of the increase in the capital reserve, DM 35,000 resulted from the premium necessary to cover the exercise of conversion rights for the 1988/1998 convertible bonds, and DM 75,090,000 from the premium necessary to cover the exercise of conversion rights for the 1994/2004 convertible bonds.

#### (20) REVENUE RESERVES

The other revenue reserves included in the financial statements of SAP AG are as follows:

	1997 DM (000)	1996 DM (000)
Balance as of January 1	320,250	256,250
Allocation from net income for the year	153,500	64,000
<b>Balance as of December 31</b>	<b>473,750</b>	<b>320,250</b>

Following a DM 1,000 reversal effected during the course of the fiscal year, the special-purpose reserve pursuant to Article 218 sentence 2 of the German Stock Corporation Act now amounts to DM 1,000.

Group revenue reserves are as follows:

	1997 DM (000)	1996 DM (000)
Balance as of January 1	1,095,491	748,670
Amounts allocated to the subsidiaries' revenue reserves	3,417	6,006
Amounts allocated to SAP AG revenue reserve	153,500	64,000
Adjustment to retained earnings of SAP AG	467,165	257,493
Netting of goodwill	0	-25
Effect of exclusion of companies from consolidation	2,035	-1,053
Balance sheet currency translation differences	81,902	20,400
<b>Balance as of December 31</b>	<b>1,803,510</b>	<b>1,095,491</b>

#### (21) SPECIAL RESERVE WITH ACCRUAL CHARACTER

A reserve pursuant to Article 6b of the German Income Tax Act is included in the financial statements of SAP AG. This reserve is unchanged from the previous year.

## (22) 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.

## (23) 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 19,726,000 that corresponds to the difference between the admissible value under 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.

## (24) OTHER RESERVES AND ACCRUED LIABILITIES

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Accrued taxes	489,676	273,933	275,535	143,347
Other reserves and accrued liabilities	630,438	330,927	194,632	99,606
	<b>1,120,114</b>	<b>604,860</b>	<b>470,167</b>	<b>242,953</b>

Accrued taxes comprise liabilities for the current fiscal year and for prior years.

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

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Obligations to employees	397,601	183,642	92,308	32,913
Vacation entitlement	77,954	54,533	38,131	29,319
Obligations to customers and suppliers	81,777	48,122	19,360	14,869
Warranty and service costs	50,297	20,380	36,050	11,155
Preparation of financial statements	2,435	1,975	477	490
Other	20,374	22,275	8,306	10,860
	<b>630,438</b>	<b>330,927</b>	<b>194,632</b>	<b>99,606</b>

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 and other obligations.

## (25) BONDS

This item comprises the outstanding portion of the 6% 1994/2004 convertible bond, which amounts to DM 4,709,000 (DM 8,661,000 as of December 31, 1996), and the outstanding portion of the 1988/1998 floating-rate convertible bond, which amounts to DM 4,000 (DM 8,000 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 par 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 par value of DM 50 each and 112 preference shares with a par value of DM 50 each. The 1994/2004 convertible bond issue is divided into 4,000,000 registered convertible bonds with a par value of DM 5. 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 the conversion right related to the remaining 1994/2004 convertible bonds would result in 941,761 preference shares with a par value of DM 5 each.

## (26) 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.

	Group			
Other liabilities	Balance on 12/31/1997 DM (000)	Remaining term less than 1 year DM (000)	Remaining term more than 5 years DM (000)	Balance on 12/31/1996 DM (000)
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 unconsolidated affiliates	8,815	8,815	–	5,514
Taxes	157,132	157,132	–	112,507
Social security	42,193	42,193	–	35,431
Other liabilities	93,271	89,146	4,054	46,279
	<b>814,239</b>	<b>809,701</b>	<b>4,151</b>	<b>494,382</b>

The bank loans and overdrafts relate primarily to loans taken out in Japan due to the very low interest rates prevailing in that country. In the previous year, liabilities with a remaining term not exceeding one year amounted to DM 491,920,000, and those with a remaining term exceeding five years amounted to DM 2,426,000.

	SAP AG			
	Balance on 12/31/1997	Remaining term less than 1 year	Remaining term more than 5 years	Balance on 12/31/1996
	DM (000)	DM (000)	DM (000)	DM (000)
Advance payments received	11,524	11,524	–	862
Accounts payable	109,741	109,741	–	86,452
Intercompany payables	14,013	14,013	–	34,289
Payables due to unconsolidated affiliates	9,702	9,702	–	4,899
Taxes	32,867	32,867	–	33,371
Social security	13,346	13,346	–	14,742
Other liabilities	58,592	54,538	4,054	19,236
	<b>249,785</b>	<b>245,731</b>	<b>4,054</b>	<b>193,851</b>

In the previous year, liabilities with a remaining term not exceeding one year amounted to DM 191,581,000 and those with a remaining term exceeding five years amounted to DM 2,270,000.

#### (27) CONTINGENT LIABILITIES

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Notes receivable sold	13,128	–	–	–
Guarantees and endorsements	364	1,019	–	–
Guarantees for unused lines of credit and other commitments	162,639	105,090	155,273	102,727
Liabilities from the extension of collateral securities for others	6,570	–	–	–
	<b>182,701</b>	<b>106,109</b>	<b>155,273</b>	<b>102,727</b>

#### (28) OTHER FINANCIAL COMMITMENTS

Commitments under rental and leasing contracts:

	Group	SAP AG
	DM (000)	DM (000)
Due in 1998	184,743	32,278
Due 1999-2002	319,077	37,184
Due after 2002	175,631	15,246

Purchase commitments are within the limits of the authorized capital expenditures of the Group and SAP AG and amount to DM 124,327,000 and DM 72,116,000, respectively.

#### (29) DERIVATIVE FINANCIAL INSTRUMENTS

As an internationally active enterprise, the SAP Group is subject to risks from interest-rate and currency fluctuations in its ordinary operations. The derivative financial instruments employed by the Group to reduce such risks are exclusively marketable instruments with sufficient liquidity.

To avoid counterparty risks in the use of derivative financial instruments, the Group conducts business exclusively with banks that have impeccable credit standings. The use of derivative financial instruments is governed by consistent guidelines and strict controls, and is limited to hedging against risks in ordinary operations (basic business), including the related financial investments and financing transactions. Derivative financial instruments are not employed for speculative purposes, but only for hedging purposes.

The notional values and market values (beyond valuation units) of the derivative financial instruments as of December 31, 1997 and 1996 were as follows:

	Notional values		Market values	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
<b>Currency-related contracts</b>				
Forward exchange contracts	339,560	58,900	426	1
Currency options	25,600	0	562	0
<b>Interest rate-related contracts</b>				
Interest rate swaps	0	60,000	0	400

The market values of the currency and interest rate-related contracts are computed on the basis of the market values of contracts having the same conditions as of the same effective date.

Forward exchange contracts and currency options are employed exclusively to protect existing and/or expected foreign currency claims and liabilities. The goal of the hedging transactions entered into by the SAP Group is to reduce the risks associated with its claims and liabilities denominated and/or expected in foreign currencies. Currency-hedging transactions are effected exclusively with the currencies of the major industrialized countries.

## D. NOTES TO THE INCOME STATEMENTS

### (30) SALES REVENUES

Sales revenues by types of activity were as follows:

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Product revenues	4,097,117	2,630,512	1,927,044	1,327,479
Consulting and training	1,831,056	1,041,404	374,949	333,834
Other	89,293	50,234	56,518	38,027
<b>Total</b>	<b>6,017,466</b>	<b>3,722,150</b>	<b>2,358,511</b>	<b>1,699,340</b>

The geographical breakdown of sales revenues, based on the location of the registered offices of customers, is as follows:

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Germany	1,149,078	914,281	1,066,931	876,450
Rest of Europe	1,395,441	885,369	460,382	304,171
Americas	2,594,754	1,385,654	561,885	343,760
Asia/Pacific	785,185	464,489	237,632	149,377
Africa	93,008	72,357	31,681	25,582
<b>Total</b>	<b>6,017,466</b>	<b>3,722,150</b>	<b>2,358,511</b>	<b>1,699,340</b>

### (31) OTHER OPERATING INCOME

Other operating income comprises:

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Foreign exchange gains	43,401	27,962	23,176	13,534
Employee contributions for company cars	9,923	7,324	9,279	7,080
Sale of financial assets	-	6,748	-	6,748
Rental income	3,553	2,944	406	515
Gain on sale of marketable securities	1,640	1,826	709	555
Income from increase in cash surrender value of insurance policies	2,115	1,794	1,866	1,635
Income from prior periods	1,666	104	-	-
Other income	17,668	25,010	12,047	6,687
<b>Total</b>	<b>79,966</b>	<b>73,712</b>	<b>47,483</b>	<b>36,754</b>

Other income mainly comprises gains on the disposal of fixed assets, the reversal of reserves, cafeteria sales and income from insurance claims. In addition, the individual income statements of SAP AG and the consolidated income statements contain additions to financial assets (DM 120,000) and to marketable securities (DM 5,000). The consolidated income statements contain income from the reversal of the special reserve for capital investment subsidies in the amount of DM 29,000.

### (32) PERSONNEL EXPENSES/NUMBER OF EMPLOYEES

Personnel expenses comprise:

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Salaries	1,786,980	1,138,518	594,692	447,714
Social security	217,988	143,630	78,268	58,667
Pension expense	69,952	56,325	24,386	32,105
<b>Total</b>	<b>2,074,920</b>	<b>1,338,473</b>	<b>697,346</b>	<b>538,486</b>

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

	Group		SAP AG	
	1997	1996	1997	1996
Employees	11,558	8,177	4,471	3,501

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 the previous year.

### (33) DEPRECIATION AND AMORTIZATION

In accordance with the Development Areas Act, additional depreciation of DM 1,282,000, applied in accordance with the German tax rules, has been charged to income with respect to the companies included within the consolidated financial statements.

#### (34) OTHER OPERATING EXPENSES

Other operating expenses comprise the following:

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Travel and entertainment expenses	292,029	191,973	63,687	55,796
Marketing	279,871	162,786	57,381	31,994
Rent	202,067	118,553	31,814	24,774
Licenses and commissions	209,215	104,819	89,891	51,590
Additional personnel expenses	96,398	58,038	27,539	15,175
Telecommunications/postage	84,905	51,423	17,076	12,919
Repairs and maintenance	63,003	42,642	27,800	23,155
Bad debt expense	51,266	31,739	6,384	8,096
Warranty and service costs	29,842	11,465	24,895	9,268
Consulting/administration	89,195	58,572	16,928	11,334
Documentation	28,320	20,633	8,631	7,628
Foreign exchange losses	70,266	18,225	21,748	12,962
Translation differences from consolidation of income statements	13,039	10,371	-	-
Allocation to special reserve with accrual character	-	-	-	2,945
Other	102,312	74,507	20,621	17,589
<b>Total</b>	<b>1,611,728</b>	<b>955,746</b>	<b>414,395</b>	<b>285,225</b>

#### (35) INCOME FROM INVESTMENTS

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Income from investments	591	-	39,653	41,493
- thereof from affiliated companies	(591)	-	(37,197)	(41,493)
Result from associated companies	2,909	1,745	-	-

The income from investments in the consolidated financial statements derives from the unconsolidated company WS Investment Holdings, L.P., Wilmington DE/USA.

#### (36) WRITE-DOWN OF FINANCIAL ASSETS

The amounts for SAP AG and the Group include the discounting to present value of interest-free loans to employees.

#### (37) NET INTEREST INCOME

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
Other interest and similar income	56,344	30,461	27,789	17,314
- thereof from affiliated companies	-	-	-	(130)
Interest and similar expenses	3,782	2,618	1,969	2,075
- thereof to affiliated companies	-	-	(1,245)	(1,313)
	52,562	27,843	25,820	15,239

#### (38) TAXES ON INCOME

Taxes on income for SAP AG are imposed exclusively on the net income from ordinary operations.

The Group's tax charges are as follows:

	1997 DM (000)	1996 DM (000)
Domestic corporate income tax	228,570	139,099
Domestic trade earnings tax	107,949	70,485
Foreign taxes on income	417,161	207,443
	753,680	417,027
Deferred taxes	-45,326	-34,613
	<b>708,354</b>	<b>382,414</b>

At year-end, the SAP Group had accumulated net operating losses, which can be applied to reduce taxes in subsequent years, in the following countries:

	1997 DM (000)
China	6,510
Venezuela	4,772
Singapore	2,670
Ireland	1,659
Thailand	1,213
Indonesia	459
	<b>17,283</b>

The accumulated net operating losses in Singapore can be carried forward without limitation; the other accumulated deficits are subject to expiration periods ranging from five to ten years.



## E. ADDITIONAL INFORMATION

### (39) MEMBERS OF THE SUPERVISORY BOARD AND EXECUTIVE BOARD

The members of the Supervisory Board and Executive Board of SAP AG are listed on pages 16 and 17.

### (40) 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 1,086,750. The total annual remuneration of the Executive Board will amount to DM 15,972,681. In addition, members of the Executive Board were granted interest-free loans in the amount of DM 8,500 (repayments of DM 265,500 were made in 1997), with a remaining term to maturity of 4 to 5 years. 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 75,000).

### (41) PROPOSED APPROPRIATION OF RETAINED EARNINGS

After the transfer of DM 153,500,000 from 1997 net income to the revenue reserves of SAP AG, retained earnings amount to DM 294,328,000.

We will propose at the Annual General Meeting that this amount be appropriated as follows:

DM 2.80 dividend per ordinary share with a par value of DM 5.00 carrying dividend rights	DM 170,788,000
DM 2.85 dividend per preference share with a par value of DM 5.00 carrying dividend rights	DM 123,425,000
To be carried forward	DM 115,000

The dividend qualifies for a tax credit in the amount of 3/7 of the dividend value.

Walldorf, February 13, 1998

SAP Aktiengesellschaft  
Systems, Applications and Products in Data Processing  
Walldorf, Germany

The Executive Board

Hopp Plattner Heinrich Kagermann Oswald Tschira Wahl Zencke

## CASH FLOW

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
<b>I. Cash flow from operating activities</b>				
Net income for the year	925,354	567,536	447,322	304,529
Depreciation and amortization	195,321	164,591	96,045	90,768
Write-ups of intangible and tangible fixed assets	-102	-2,137	-	-
Write-downs of financial assets	2,811	8,192	2,431	2,123
Write-ups of financial assets	-863	-789	-840	-770
Increase in pension reserves	11,935	19,000	6,975	18,761
Increase in medium- and long-term accounts receivable and other assets	-113,960	-71,377	-62,674	-475
Increase in medium- and long-term reserves and liabilities	57,159	24,909	2,944	-11,742
Increase in short-term assets	-955,839	-630,811	-338,110	-217,706
Increase in short-term liabilities	713,487	404,383	281,354	199,619
	<b>835,303</b>	<b>483,497</b>	<b>435,447</b>	<b>385,107</b>
<b>II. Cash flow from investing activities</b>				
Additions to intangible assets and tangible fixed assets	-574,710	-220,638	-173,946	-121,334
Additions to financial assets	-79,106	-16,308	-231,295	-52,726
Change in companies subject to consolidation	-	694	-	-
Disposal of fixed assets, net	83,318	29,272	9,413	27,065
Change in the special reserve with accrual character	-	-	-	2,945
Change in special reserves for capital investment subsidies and allowances	352	-7	-	-
	<b>-570,146</b>	<b>-206,987</b>	<b>-395,828</b>	<b>-144,050</b>

CASH FLOW

	Group		SAP AG	
	1997 DM (000)	1996 DM (000)	1997 DM (000)	1996 DM (000)
III. Cash flow from financing activities				
Dividends	-240,193	-133,615	-240,193	-133,615
Premium on convertible bonds	75,125	215,493	75,125	215,493
Increase in capital stock resulting from exercise of conversion rights	3,976	11,374	3,976	11,374
Conversion of convertible bonds	-3,956	-11,345	-3,956	-11,345
Increase/decrease in long-term bank debt	257	-376	-	-
Changes in shareholders' equity not affecting liquidity	86,798	21,004	-	-
	-77,993	102,535	-165,048	81,907
IV. Change in liquid assets	187,164	379,045	-125,429	322,964
V. Liquid assets as of January 1	647,122	268,077	453,967	131,003
VI. Liquid assets as of December 31	834,286	647,122	328,538	453,967
	187,164	379,045	-125,429	322,964

INDEPENDENT AUDITORS' REPORT

Following our audit of the financial statements and the consolidated financial statements at December 31, 1997, and the combined annual report of

SAP Aktiengesellschaft  
Systems, Applications and Products in Data Processing

we are issuing the following unqualified auditors' certificate:

"The accounting records, the financial statements and the consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations. The financial statements and the consolidated financial statements present a true and fair view of the net worth, financial position and operating results of the Company and the Group in compliance with accounting principles generally accepted in Germany. The annual report on the Company and the Group is consistent with the financial statements and the consolidated financial statements."

Eschborn/Frankfurt am Main, Germany, February 18, 1998

ARTHUR ANDERSEN  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

Prof. Dr. Weber  
Auditor

Klein  
Auditor

## REPORT OF THE SUPERVISORY BOARD



Throughout fiscal 1997, the Supervisory Board was briefed regularly and extensively by the Executive Board on all the significant business operations, and on the status and development of the Group. Through five ordinary and two extraordinary meetings with the Executive Board, and as part of the Executive Board's ongoing briefings, the Supervisory Board gave advice and supervised company development. In addition, three staff committee meetings and three financial statements committee meetings were held to discuss personnel and financial matters in detail.

On the basis of reports by the Executive Board, the Supervisory Board reviewed the Group's investment and finance planning, product strategies, and the results of a worldwide survey on customer satisfaction. The increasing internationalization of the Group's structure was assisted by the formation of further international subsidiaries. In addition, the Supervisory Board was informed of the results of internal audits in Germany and abroad.

The Executive Board also kept the Supervisory Board continuously up-to-date on the status of investigations into possible insider trading, and on public announcement approaches, and on policies put in place by the Executive Board.

SAP's consolidated financial statements, the annual financial statements and the 1997 annual report of SAP AG, which was merged with the Group's annual report, were audited by the accounting firm ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Eschborn/Frankfurt, which was appointed at the Annual General Meeting. The auditors issued an unqualified audit opinion. The financial statements for fiscal 1997 and the auditors' report were submitted to all members of the Supervisory Board and discussed extensively in the Supervisory Board's financial statements committee and at its financial statements meeting. The auditors attended both these meetings, reported on the audit and provided supplementary information.

The Supervisory Board reviewed the annual financial statements, the annual report, and the proposed appropriation of retained earnings, and made no objections. It was not deemed necessary to prepare a dependent company report. The Supervisory Board accepted the results of the audit.

At its meeting on March 18, 1998, the Supervisory Board approved and adopted the annual financial statements submitted by the Executive Board. The Supervisory Board endorses the

Executive Board's proposed allocation of net earnings, which provides for a dividend of DM 2.80 per DM 5.00 share of common stock and DM 2.85 per DM 5.00 share of preferred stock on the company's capital stock of DM 522 million qualifying for dividends for the fiscal year 1997.

On February 5, 1998, Dietmar Hopp, Co-Chairman of SAP AG, and Klaus Tschira informed the Supervisory Board that at the end of the Annual General Meeting on May 7, 1998 they wished to resign from the Executive Board and stand for election to the Supervisory Board. The Supervisory Board wishes to thank both co-founders of SAP for their extremely successful work in building up and managing the Group and is pleased to hear that they intend to place their experience at the disposal of SAP's Supervisory Board.

The existing Supervisory Board's term of office expires at the end of the Annual General Meeting on May 7, 1998. The Supervisory Board members appointed from among the employees will be elected in accordance with the provisions of the German Codetermination Law at the beginning of April. The election of the new Supervisory Board members to represent the shareholders will take place at the Annual General Meeting on May 7, 1998.

Finally, the Supervisory Board would like to thank the Executive Board and all of the employees for their efforts on behalf of the company and its customers and shareholders during fiscal 1997.

Walldorf, March 18, 1998

The Supervisory Board

A blue ink signature, likely of Dr. Bernd Thiemann, written in a cursive style.

Dr. Bernd Thiemann  
Chairman

## FIVE-YEAR SUMMARY

### SAP GROUP

(in millions of DM)

ASSETS	1993	1994	1995	1996	1997
Intangible assets	1.9	12.3	7.5	5.7	81.3
Tangible fixed assets	419.4	514.5	575.0	621.9	853.3
Financial assets	28.8	162.6	169.5	161.4	227.8
<b>Fixed assets</b>	<b>450.1</b>	<b>689.4</b>	<b>752.0</b>	<b>789.0</b>	<b>1,162.4</b>
% of balance sheet total	34%	39%	34%	23%	23%
Inventories	5.5	4.9	5.6	7.8	7.5
Accounts receivable	416.7	708.2	1,062.9	1,832.8	2,903.0
Cash and cash equivalents	433.9	347.2	397.7	737.4	997.4
<b>Current assets*</b>	<b>856.1</b>	<b>1,060.3</b>	<b>1,466.2</b>	<b>2,578.0</b>	<b>3,907.9</b>
% of balance sheet total	66%	61%	66%	77%	77%
<b>BALANCE SHEET TOTAL</b>	<b>1,306.2</b>	<b>1,749.7</b>	<b>2,218.2</b>	<b>3,367.0</b>	<b>5,070.3</b>
SHAREHOLDERS' EQUITY AND LIABILITIES	1993	1994	1995	1996	1997
Subscribed capital	100.0	506.2	506.2	517.5	521.5
Reserves	861.5	639.5	886.5	1,448.9	2,232.0
Group retained earnings	46.3	88.1	133.8	240.7	294.3
Minority interests	0.8	2.4	3.0	4.2	14.6
<b>Shareholders' equity</b>	<b>1,008.6</b>	<b>1,236.2</b>	<b>1,529.5</b>	<b>2,211.3</b>	<b>3,062.4</b>
% of balance sheet total	77%	71%	69%	66%	60%
Equity-to-fixed-assets ratio	224%	179%	203%	280%	263%
Long-term debt	21.9	51.8	42.3	74.5	139.9
Short-term liabilities	275.7	461.7	646.4	1,081.2	1,868.0
<b>Liabilities*</b>	<b>297.6</b>	<b>513.5</b>	<b>688.7</b>	<b>1,155.7</b>	<b>2,007.9</b>
<b>BALANCE SHEET TOTAL</b>	<b>1,306.2</b>	<b>1,749.7</b>	<b>2,218.2</b>	<b>3,367.0</b>	<b>5,070.3</b>

FINANCIAL LIABILITIES	1993	1994	1995	1996	1997
Long-term	1.0	21.9	20.5	8.8	5.1
Short-term	25.4	47.2	59.7	90.3	163.1
	<b>26.4</b>	<b>69.1</b>	<b>80.2</b>	<b>99.1</b>	<b>168.2</b>
Net interest income	+30.3	+22.1	+22.2	+27.8	+52.6
INVESTMENTS/DEPRECIATION AND AMORTIZATION	1993	1994	1995	1996	1997
Investments in tangible fixed assets and intangible assets	143.3	194.1	255.6	220.6	574.7
Depreciation and amortization	61.8	88.7	144.5	164.6	195.3
Depreciation/investments	43%	46%	57%	75%	34%
SALES REVENUES/NET INCOME	1993	1994	1995	1996	1997
<b>Sales revenues</b>	<b>1,101.7</b>	<b>1,831.1</b>	<b>2,696.4</b>	<b>3,722.2</b>	<b>6,017.5</b>
% generated by foreign subsidiaries	48%	62%	67%	73%	81%
Income before taxes	256.7	471.3	674.0	967.2	1,666.9
% return on sales	23%	26%	25%	26%	28%
Taxes	110.4	190.1	269.2	399.7	741.5
<b>Net income</b>	<b>146.3</b>	<b>281.2</b>	<b>404.8</b>	<b>567.5</b>	<b>925.4</b>
Return on net equity	15%	23%	26%	26%	30%
APPROPRIATION OF NET INCOME	1993	1994	1995	1996	1997
Net income of SAP AG	64.6	122.9	189.8	304.5	447.3
Transfer to reserves	19.0	35.5	56.0	64.0	153.5
Dividend distribution	45.6	88.1	133.6	240.2	294.2

\* Including prepaid expenses/deferred items and extraordinary items

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## IMPORTANT DATES

Interim report: January – March 1998	April 21, 1998
Annual General Meeting, Mannheim	May 7, 1998
Payment of dividends	May 8, 1998
Interim report: January – June 1998	July 20, 1998
Interim report: January – September 1998	October 20, 1998
Preliminary figures for fiscal 1998	January 26, 1999
Press conference to present financial results	March 25, 1999



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