



Annual Report 1998



The software works the way I do

Selected Financial Highlights

	(in millions of DM, unless otherwise indicated)					(in millions of EUR)
	1994	1995	1996	1997	1998	1998
Sales revenues	1,831.1	2,696.4	3,722.2	6,017.5	8,465.3	4,328.2
thereof product revenues as a % average per employee	71.2	71.9	70.7	68.1	62.1	
(in thousands of DM/EUR)	414	419	455	521	489	250
Employee at year-end	5,229	6,857	9,202	12,856	19,308	
Personnel expenses	675.2	956.7	1,338.5	2,074.9	3,043.6	1,556.1
as a % of sales revenues	36.9	35.5	36.0	34.5	36.0	
Research and development expenses	369.6	438.2	505.5	701.8	1,121.7	573.5
as a % of sales revenues	20.2	16.3	13.6	11.7	13.3	
Net income	281.2	404.8	567.5	925.4	1,052.3	538.1
as a % of sales revenues	15.4	15.0	15.2	15.4	12.4	
Income according to DVFA/SG³⁾	280.3	403.3	566.2	923.0	1,049.3	536.5
Cash flow according to DVFA/SG³⁾	386.5	559.0	782.7	1,230.1	1,337.7	683.9
as a % of sales revenues	21.1	20.7	21.0	20.4	15.8	
Shareholders' equity	1,236.2	1,529.5	2,211.3	3,062.4	3,756.4	1,920.6
	(in DM)					(in EUR)
Earnings per share acc. to DVFA/SG³⁾	2.77	3.98	5.47	8.85	10.04	5.13
Dividends per ordinary share	0.85	1.30	1.80¹⁾	2.80		1.57²⁾
Dividends per preference share	0.90	1.35	1.85¹⁾	2.85		1.60²⁾

¹⁾ 1996 includes a 25th anniversary bonus of DM 0.50 per ordinary and preference share

²⁾ 1998 proposed dividend

³⁾ German Association For Financial Analysts and Investment Consultants

Profile

SAP has more than 25 years' experience in developing forward-looking information management software solutions in continuous dialog with its customers, who are companies and organizations of all sizes and in all sectors. Starting from raw data and facts, SAP's products and services create information that supports strategic action for business success. The Company orients its efforts strictly to the practical needs of customers, and has an emphatic worldwide market and technology lead in Enterprise Resource Planning software. An analysis by prominent researcher AMR shows SAP's world market segment share is 33% – bigger than the next four competitors combined. According to a study by Gartner Group, a noted market research institute in the field of information technology, SAP is the only ERP vendor qualifying as a "leader", scoring ahead of all competitors both for completeness of vision and ability to execute.

Constant innovation is SAP's recipe for further strengthening its market position. The Company continuously improves existing products, and is fast to market with products from new development initiatives and technologies. The driving forces behind this process are the employees (approximately 19,300 worldwide) and research and development investment (DM1.12 billion, corresponding to 13% of 1998 sales revenue). For SAP, the education, training, and motivation of employees is just as important as product development. There is no other sector where the market position of vendors is so dependent on employees' creativity and enthusiasm for innovation as in the software industry.

The foundation of SAP's worldwide success is the R/3 System. It is in use in more than 107 countries, and is today recognized as the industry standard. Since the introduction of R/3 in 1992, SAP and its partners have installed approximately 20,000 R/3 Systems. This broad customer base opens wide avenues for SAP growth, for example by orienting software development to specific industry sectors. This removes the distinction between standard systems and industry software, and accomplishes the step from a standardized solution to a family of individual solutions.

The New Dimension product offensive is penetrating additional growth markets outside the core R/3 area. For example, SAP Supply Chain Management answers customers' growing demands for efficient control of logistics processes across company boundaries. The worldwide EnjoySAP initiative focuses on the needs of software users. The goal of EnjoySAP is to further improve the user-friendliness of SAP products, including the ability to tailor solutions to individual users' procedures.

Successful continued development of the R/3 product, orientation to industry sectors, and the New Dimension initiative have combined to give SAP a promising outlook for future growth.

Today and in the future, SAP solutions control value processes across company and sector boundaries to support the work of ever more users in ever more organizations.

To our shareholders, partners, and customers:



Co-Chairmen and CEOs of SAP AG:
Hasso Plattner and Henning Kagermann

This year's Annual Report is more than just an account of another successful year in SAP's 26 years of thriving business. We hope it will provide you with insight into the variety of environments in which our customers use our products, and the benefits they – and in turn their customers – derive from them. SAP's recipe for success includes more than good business results: The quality and variety of our products and the innovative spirit of our employees are essential ingredients. Our ambition is to help everyone who uses our products gain more satisfaction from their work and from the results of their work. A strict orientation to the needs of our customers is our incentive. Future development will be driven not by what is technically

achievable, but by what will benefit our customers. The EnjoySAP initiative channels all our efforts toward this goal. EnjoySAP is much more than a regular product development project: It expresses the vision and culture of SAP as a company.

We reached some important milestones this year: SAP co-founders Dietmar Hopp and Klaus Tschira became Supervisory Board members, signaling a new phase for the company. SAP's debut on Wall Street was the biggest new listing in the history of the New York Stock Exchange. Quotation on the NYSE was a natural step for us as a global organization.

One of our most significant accomplishments in fiscal 1998 was the recruitment of nearly 6,500 highly qualified new employees worldwide. This sizeable investment creates the right conditions for our continued success, enabling us to reach out to new customers and offer existing customers new products. We needed efficient human resources management to manage recruitment on that scale: We are developing Advanced HR, a software platform for optimizing differentiated utilization of all resources, for our own use – and soon for the benefit of our customers. In the past we've demonstrated our speed and reliability in responding to customer and market issues like the euro changeover and year 2000. Our job now is to exploit our lead with new initiatives and developments.

Global business conditions were challenging in 1998 and we're pleased to have met our target sales revenue growth of 40%. We also increased profit before taxes and before creation of STAR program accruals by 18%, although this was short of our target. This shortfall was caused by unanticipated sales delays in Japan at the end of the 1998 fiscal year. These challenges notwithstanding, we again grew our share of the big five competitors' market by 2% to just under 60%. In fact, SAP's software sales revenues are four times

greater than the software sales revenues of all four biggest competitors combined. According to a study by Gartner Group, a noted U.S. market researcher in the field of information technology, SAP is the only Enterprise Resource Planning software vendor with both a complete vision of new software solutions as well as the ability to execute them. Industry Business Units and Solution Maps of complete business processes support our successful orientation toward industry sectors. We are expanding our indirect marketing to small and medium-sized enterprises – in the Value Added Resellers field alone we doubled our installed base during 1998.

New Dimensions is the initiative behind our drive to become a multi-product vendor. We anticipate that in

five years or less, Supply Chain Management, Customer Relationship Management, and Business Intelligence will account for a third of SAP's sales revenues. In 1999 we will be able to achieve greater profitability by focusing more on expenses, particularly the cost of buying services, and by improving the efficiency of our sales, marketing, and development operations. Our productivity will receive an extra boost with new employees "going live" in 1999. Our target for sales revenue growth this year is 20% to 25%, and we aim to double sales over the coming three years. This will strengthen our position as market leader.

Thank you all for your continued confidence in SAP's business and technological vision. We look forward to achieving sustained success together.



| Hasso Plattner | Co-Chairman and CEO, SAP AG



| Henning Kagermann | Co-Chairman and CEO, SAP AG



Forward-Looking Statements

Any statements contained in this document that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as “believe”, “expect” and “project” as they relate to the Company are intended to identify such forward-looking statements. The Company undertakes no obligation publicly to update or revise any forward-looking statements. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect the Company’s future financial results are discussed more fully in the Company’s filings with the Securities and Exchange Commission, including the Company’s Form 20-F for 1998 that is expected to be filed in April 1999.

Pictures and graphs are included for illustrative purposes only and are not part of the Review of Operations.

1998 – A Successful Year Despite Challenges

In 1998, the SAP Group built important foundations for the future. It was a successful year, even though in some areas the Company did not achieve its targets.

The strategy for the year was to win more market share by accelerating the pace of innovation and continuing to broaden SAP’s edge over its competition, while also focusing on the core competency, pursuing massive investment in refining products and extending the product range. It proved highly successful.

SAP put even more ground between itself and the competition in the enterprise software market, where the Company leads by a big margin. SAP’s impressive growth in 1998 (as reported by prominent market research institute International Data Corporation – IDC) won more market share for the Company. An analysis by another leading researcher, Advanced Manufacturing Research, shows SAP’s market share in the enterprise software market in 1998 was 33%, a gain of two percentage points over 1997. In addition, by pursuing its expansion and investment strategy, SAP laid the foundations for the Company’s growth in the future.

The main engines for this growth in the future are:

- Constantly expanding and improving the R/3 family of Enterprise Resource Planning software products
- Developing and marketing complete, specialized industry solutions based on the R/3 System



■ Broadening the product offering with New Dimension products. The New Dimension products shown below are business solutions that are independent of R/3 and span system platform, enterprise, and organizational boundaries:

- Supply Chain Management software
- Customer Relationship Management software
- Business Intelligence software

Reorganizing the development function into Core Development plus 13 independent Industry Business Units (IBUs) contributed to the growth of sales volume, as did intensification of marketing efforts through direct and indirect channels. The creation of the 13 IBUs, where currently 17 complete industry-specific software solutions are under development, underlines the focus of the Company's business on the requirements of selected industry sectors.

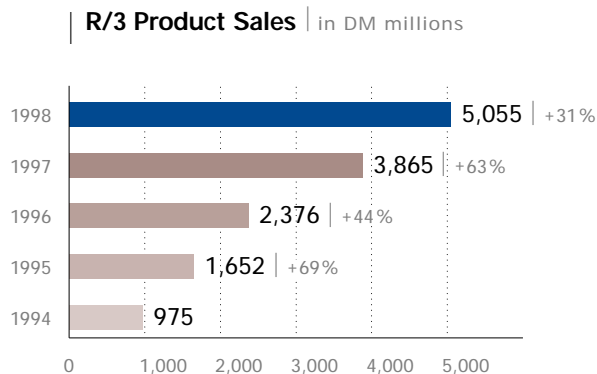
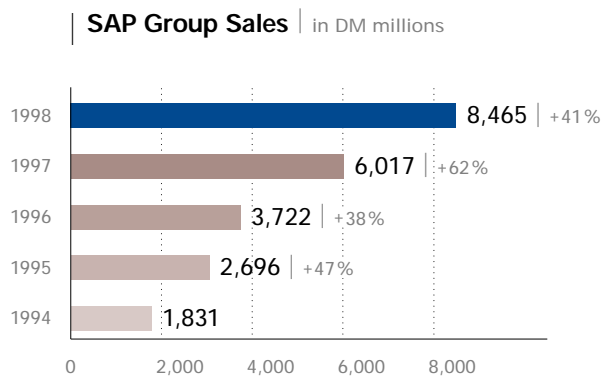
With the exception of Japan, all the Company's major markets contributed to realizing the goal set by SAP of increasing revenue by approximately 40% in 1998. SAP's actual sales grew by 41% in 1998. A shortfall of approximately DM 200 million in anticipated software sales revenue from Japan and Russia in the fourth quarter of 1998 was unexpected, and did not become apparent until the end of the year. The problems in Japan and Russia represented the major reasons for the Company's failure to achieve the targeted 30% to 35%

increase in pretax profits before the creation of accruals for the employees' STAR (Stock Appreciation Rights) program in 1998. Pretax profits before accruals for the STAR program grew 18% to DM 1.97 billion.

Revenues Increase by 41%

As expected, SAP consolidated sales increased 41% to DM 8.47 billion. Excluding the negative foreign exchange effect, the growth in sales was even higher at 45%.

Product sales (software and maintenance) grew 28% to DM 5.26 billion, accounting for the largest portion of revenue. Under the assumption that 50% of the maintenance revenues are related to the distribution of new software releases and the other 50% to service-related maintenance, software sales, comprising sales of new software licenses and of new software releases, increased 25% to DM 4.68 billion. Revenue from service related maintenance increased 68% to DM 573 million. Overall, the percentage of product sales in the total sales figure declined to 62% from 68% in the previous year. The SAP R/3 System was the biggest contributor to product sales, increasing by 31% to DM 5.05 billion. The R/2 System, introduced in 1979 for mainframe computers, contributed DM 176 million to SAP sales. R/2 is no longer actively marketed, and most of the R/2 revenue was from sales of new releases and maintenance. Consulting sales grew 75% to



DM 2.19 billion. The reason for this steep rise was the launch of TeamSAP, a concept that involves the Company taking a more active role in supporting customers' SAP software implementation projects. Training revenue increased by 54% to DM 893 million. Miscellaneous revenues, principally income from customer events, increased by 37% to DM 122 million.

Problems in Japan Impact Results

In general, the global economic situation in 1998 remained, to a large degree, without particular influence on SAP's business. However, the specific circumstances in Japan and Russia significantly impacted SAP's results for 1998.

At the beginning of the year, it appeared the Company's operations in Japan would not be significantly influenced by the economic and financial crisis in that country. Not until late in the second quarter did the crisis in Japan begin to impact SAP's business. Japanese businesses began to scale down planned SAP software implementation projects or to schedule projects over a longer period than first anticipated. These developments led to lower product sales revenue than SAP Japan had planned. Although at that time SAP assumed the situation in Japan would not improve quickly, and consequently adjusted internal expectations more than once, the worsening of the crisis and its effects on SAP,



in particular at the end of the final quarter, took the Company by surprise. A reorganization of the Japanese sales operation was carried out immediately, from which SAP expects a marked improvement in the accuracy and quality of sales forecasting, as well as improved orientation to the altered purchasing behavior of major companies in Japan.

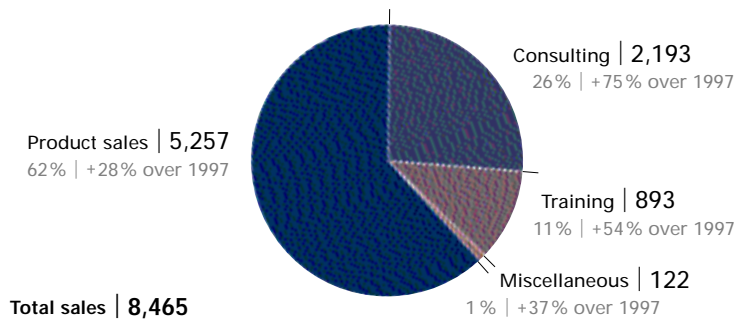
The financial crisis in Russia and the other countries of the former Soviet Union meant companies operating in the area were confronted with ever-worsening solvency problems. SAP has made allowances for this in the Consolidated Financial Statements resulting in a

reduction in 1998 pretax profits by approximately DM 40 million.

Exceptional Boom Recedes

The boom in ERP software sales related to year 2000 issues weakened during the course of 1998. From the mid-1990s through the first half of 1998, many companies invested heavily in the renewal of their software landscape, replacing noncompliant legacy systems in anticipation of year 2000. This caused an exceptional demand for SAP software from late 1996 to mid-1998.

SAP Group Sales Breakdown | in DM millions





With the approach of the millennium now imminent, the feasibility of replacing noncompliant legacy systems with enterprise systems became limited given the long lead-time to plan or install such systems. Moreover, in the second half of the year, many companies held back new investment in business software while they began to focus on their internal efforts to meet the millennium challenge.

This trend affected the whole Enterprise Resource Planning (ERP) software market, which is the market in which SAP's operations are concentrated. According to an analysis by investment bankers Goldman Sachs, the combined software licensing revenue of the five leading ERP software vendors increased 18% overall in 1998, compared to 43% in 1997. In the first quarter, the rate of growth was still 37%. In the next two quarters, the rate of increase declined to 31% and then to 23%. Goldman Sachs reports that the five major vendors' combined software licensing revenue decreased 4% in the final quarter.

It is not clear at this point when this trend in purchasing behavior will be reversed. Estimates vary from mid-1999 to the end of 1999 and beyond. The Company is adjusting to the new reality, continuing to focus on additional offerings of products and services to sustain revenues and grow market share.

SAP's expansion and investment strategy had its biggest impact in the development of employee numbers. The build-up of headcount worldwide (up 50% to 19,308 at the end of 1998, compared with 12,856 at the end of 1997) was concentrated in the research and development area. The number of research and development employees increased 68% to 4,818 in 1998 from 2,876 in 1997. This means 25% of all employees were working in research and development (1997: 22%). The number of employees in sales and marketing grew by 45% to 3,503 (1997: 2,423). There were 3,013 new positions in service and support, an increase of 46% to 9,570 employees (1997: 6,557) in this area.

Sales per employee declined to DM 489 thousand from DM 521 thousand in the previous year based on an average number of employees for the year of 17,323. The 6% downturn was caused by the significant rise in the number of employees, which SAP regards as an investment in the future, and by the negative effect of foreign exchange. Sales per employee is an important industry measure, in which SAP retains its leading position among its competitors.

In addition, the Company's continued commitment to accelerate penetration and consolidate international markets required relatively steep growth in employee numbers outside Germany. In the Americas region, SAP increased staff numbers by 58% to 5,984 (1997: 3,785). In the Europe, Middle East, and Africa re-

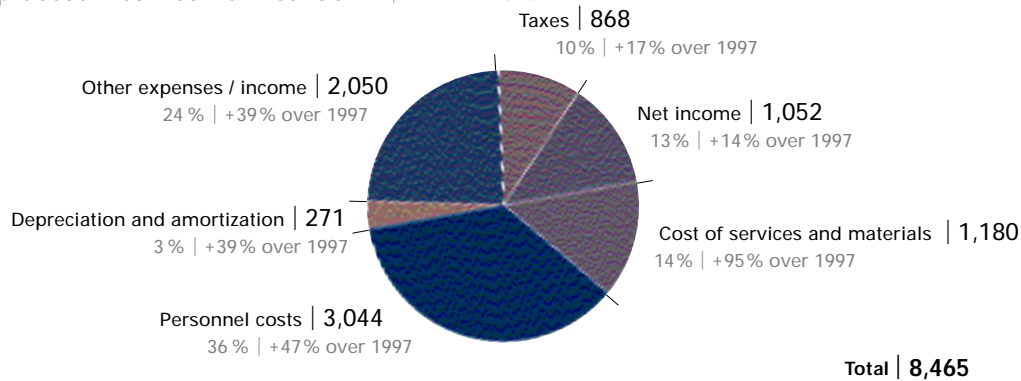


gion (EMEA), the number of employees grew 46% to 10,960 (1997: 7,485). In Germany alone the number of employees increased to 7,679, 39% more than at the end of 1997 (5,516). In the Asia-Pacific region, the number of staff increased 49% to 2,364 (1997: 1,586).

As a result, personnel expenses increased 47% to DM 3.04 billion. As a percentage of sales, personnel expenses grew from 34% to 36%. The personnel expenses include DM 48 million for the employees' stock appreciation rights program (STAR). Disregarding the expense for the STARs, the increase in personnel ex-

penses would have been 44%. The STAR program was implemented in 1998 to compensate as many SAP employees as possible based on the performance of SAP preference shares over an approximately one-year span (May 1998 to April 1999). The program is an additional value-based component in SAP's performance-oriented compensation concept. STARs were generally allocated to employees who had permanent employment contracts on June 30, 1996. The size of the allocation depended on the individual's potential performance and ability. Eligible employees are rewarded for share price

SAP Group Cost / Net Income Breakdown | in DM millions





growth in accordance with predetermined rates. Accruals were created for the expense of this STAR program. The initial program is for approximately one year, and the Company plans to extend it in a slightly modified form in the future.

While somewhat tempering SAP's results for 1998, the Executive Board believes that the investment by SAP in continuing to build a strong global infrastructure is essential to its continued growth and prospects in 1999 and beyond.

Pretax profits before creation of accruals for the employees' STAR program increased 18% to DM 1.97 billion. After creation of accruals for the STAR program, pretax profits were up 15% to DM 1.92 billion, representing a pretax margin of 23% as compared with 28% in 1997. Foreign exchange negatively impacted pretax profits by three percentage points in 1998, while they contributed positively 12 percentage points to pretax profits in 1997. The 51% rise in costs to DM 6.76 billion in part reflects the Company's growth strategy and the associated intensification of recruitment: The number of employees rose by 50%. Another factor that contributed to the higher costs was the exceptional increase in purchased services for TeamSAP. The TeamSAP initiative was launched at the end of 1997 to further improve the quality of R/3 implementation projects. This initiative was the main reason for the increase in the cost of purchased consulting services, up 134% to DM 728 million. These costs were passed on to the customers. In 1998 there was a net loss from investments of DM 32 million compared to net income of DM 4 million in 1997. This loss includes SAP's share, DM 37 million, of a start-up loss at Pandesic, a joint venture with Intel Corp. Pandesic offers complete solutions for commerce via the Internet. Net interest income grew to DM 61 million from DM 53 million last year, due to increased liquidity.



Increased Earnings per Share

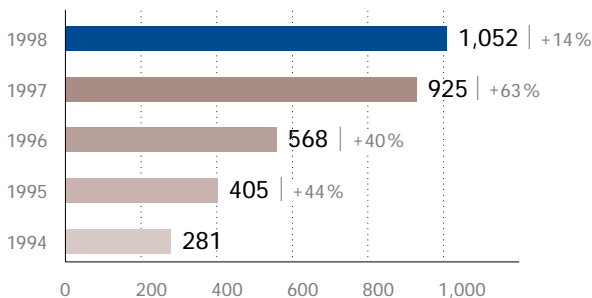
The total tax rate increased slightly to 45.2% from 44.5% in 1997, resulting in a net income growth (14% to DM 1.05 billion) that was slightly less than that of pretax income. The margin on net income fell to 12.4% from 15.4% in 1997. Earnings per share, based upon the DVFA/SG (German Association of Financial Analysts and Investment Consultants) method, grew from DM 8.85 to DM 10.04. The number of no-par shares outstanding increased from 104.3 million as of December 31, 1997 to 104.6 million as of December 31, 1998 due to the partial conversion of the 1988 and 1994 employee convertible bonds. If all convertible bond rights were to be exercised, the number of shares issued and outstanding would increase to 105.25 million.

Expenditures for research and development, consisting largely of personnel expenses, increased 60% to DM 1.12 billion (1997: DM 702 million). As a percentage of sales, research and development expenses increased from 12% to 13%, which once again was among the highest in the industry. The main center for R&D is at the Company's headquarters in Walldorf, Germany. Of SAP's 4,818 worldwide R&D headcount at the end of the year, 3,799 were employed in Germany. The Company's other development centers, which include Palo Alto, USA, Tokyo, Japan, Bangalore, India, and Sophia-Antipolis, France will be developed further as its research and development work is increasingly decentralized. As of the end of 1998, SAP had 3,984 R&D employees in the Europe, Middle East, and Africa region (including Germany), 458 in America, and 376 in the Asia-Pacific area.

The constant strengthening of the Company's efforts in research and development is a reflection of its determination to lead in innovation, and to answer customers' increasing demands for better and more efficient products. The Executive Board is convinced that through its R&D efforts SAP will broaden the range of its products and so sustain its leading position in the market, creating further benefits for its customers, employees, and shareholders.

In 1998, SAP's strategy of expansion and investment focused on developing new product lines, and the

Trends in Earnings | in DM millions





Company was right on target with deliveries and sales of the new products. The first of the New Dimension products are already established in the market. The Company already recorded more than 300 sales of the Business Information Warehouse (BW), the analytical management decision support solution, since the first shipment in August 1998. More than 100 orders were taken for the Advanced Planner and Optimizer (APO), which is the planning software for the SAP Supply Chain Management initiative that was first shipped in December 1998.

The development of sales support products was extended in 1998 to create a new Customer Relationship Management initiative. There will be three offerings in this program: SAP Sales, SAP Service and SAP Marketing.

EnjoySAP Initiative Launched

In 1998, SAP launched a development initiative named EnjoySAP with the express goal of concentrating efforts on the needs of users. The aim is to help current and future SAP software users become more productive. Another benefit will be to further improve the usability of SAP software. For example, design optimization will make the Company's products easier to learn, faster to use, and more adaptable to the ways particular users work. The Company is convinced that this initiative will

extend the potential usership of SAP software, and so strengthen sales.

Comprehensive Internet Offering

SAP recognized early the potential of the Internet for business processes. By the end of 1996, the Company had already become the first enterprise software vendor to market with applications in its R/3 core product designed for Internet use. Since that time, many innovative products have been shipped or announced by the Company. Today SAP's employee self-service applications based on Internet technology, such as internal purchase requisition processing, have nearly three million users.

The Company has also already shipped Internet products that control business processes between vendors and retail customers, such as SAP Online Store, SAP Retail Store, and Pandesic.

At the end of the first quarter of 1999, SAP plans to release the SAP B2B Procurement (Business-to-Business Procurement) product for handling business processes between companies and their suppliers. With SAP B2B Procurement, companies will be able to control their procurement of materials and components via the Internet.

In 1999 SAP will release an enhanced Web Graphical User Interface, and R/3 functions that are

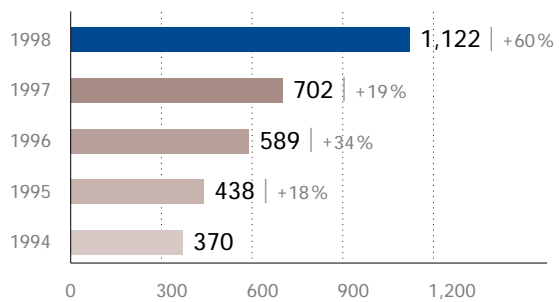


suitable for using in a browser will be made available on the Internet via this new interface.

SAP launched an initiative at the beginning of 1999 to bundle its know-how on Internet-based business and its many different Internet-based product lines. The Internet initiative is centered on role-specific support for SAP software users, and on exploiting the potential for creating innovative business processes using the Internet. The initiative leverages SAP's many years of global experience in the design and development of business solutions for multinational enterprises as well as medium- and small-sized companies.

Expenditures for Research and Development

in DM millions



Financial Statements of SAP AG

In line with increasing internationalization, the main focus of reporting has moved to the Consolidated Financial Statements. However, it is the SAP AG Financial Statements that are relevant for the shareholders' dividend, and these are summarized in this section.

SAP AG sales increased 33% to DM 3.13 billion. The growth strategy described in respect of the Group was reflected in a 44% increase in SAP AG's expenses. Net income for the year rose 17% to DM 525 million. The total assets increased 11% to DM 2.75 billion. The equity ratio was 72%, compared with 69% in the previous year.

Dividend Increase Proposed

SAP remains 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 no-par ordinary share be € 1.57 (1997: € 1.43*, DM 2.80) and the dividend per no-par preference share be € 1.60 (1997: € 1.46*, DM 2.85). Together with tax credits of € 0.67 and € 0.69 respectively, those shareholders entitled to a tax credit will receive in total € 2.24 (1997: € 2.05*, DM 4.00) and € 2.29 (1997: € 2.08*, DM 4.07) respectively, per share. Subject to approval at the Annual General Meeting, total dividend payments will rise by 10% to DM 323.6 million.

*) The 1997 per-share dividends paid in DM have been translated at € (euro) 1 = DM 1.95583 and rounded to the nearest cent.

SAP AG FINANCIAL STATEMENTS		
INCOME STATEMENTS	1998	(DM millions) 1997
Sales revenues	3,132	2,359
Increase in inventory of unfinished services	10	2
Other operating income	114	47
	3,256	2,408
Operating expenses	-2,393	-1,661
Operating results	863	747
Financial results	66	65
Results from ordinary operations	929	812
Taxes	-404	-365
Net income	525	447

SAP AG FINANCIAL STATEMENTS		
BALANCE SHEETS	12/31/1998	(DM millions) 12/31/1997
Intangible assets	44	12
Property, plant, and equipment	578	404
Financial assets	825	730
FIXED ASSETS	1,447	1,146
Inventories	18	5
Account receivable and other assets	1,011	853
Liquid assets	0	139
Cash and cash equivalents	264	329
CURRENT ASSETS	1,293	1,326
DEFERRED TAXES	0	2
PREPAID EXPENSES AND DEFERRED CHARGES	10	8
Total assets	2,750	2,482
SHAREHOLDERS' EQUITY *)	1,975	1,718
SPECIAL RESERVE WITH ACCRUAL CHARACTER	0	3
RESERVES AND ACCRUED LIABILITIES	397	505
OTHER LIABILITIES	375	254
DEFERRED INCOME	3	2
Total shareholders' equity and liabilities	2,750	2,482

*) Contingent capital DM 3,428 thousand

The complete Financial Statements and unqualified auditors' report for SAP AG are published in the Bundesanzeiger (German Federal Gazette) and deposited with the Commercial Registry of the Heidelberg Municipal Court. They can be obtained from SAP AG on request.

Development in the Regions



The contribution of sales outside Germany to total sales rose slightly from 81 % in 1997 to 82 % in 1998. The most dynamic growth was again seen in the Americas region, which reported a 51 % increase over last year to DM 3.93 billion. Sales in the Europe, Middle East, and Africa region (EMEA) climbed 44 % to DM 3.80 billion, notwithstanding the problems in Russia. In

the Asia-Pacific region (APA) sales declined 6 % to DM 740 million due to the disappointing results from Japan and negative foreign exchange effects. In Germany, sales grew 36 % to DM 1.57 billion. The German market remains SAP's second largest after the United States of America, where sales increased 46 % for the year to DM 3.07 billion.

BREAKDOWN OF SALES REVENUES BY DESTINATION	1997 (DM millions)	1998 (DM millions)	Percentage of total sales	% Increase over 1997
Germany	1,149	1,565	18	36
Rest of EMEA ¹⁾ region	1,488	2,234	27	50
EMEA ¹⁾ Region	2,637	3,799	45	44
U.S.A.	2,106	3,068	36	46
Rest of Americas region	489	858	10	75
Americas region	2,595	3,926	46	51
Asia-Pacific region	785	740	9	-6
Sales revenues	6,017	8,465	100	

¹⁾ Europe/Middle East/Africa

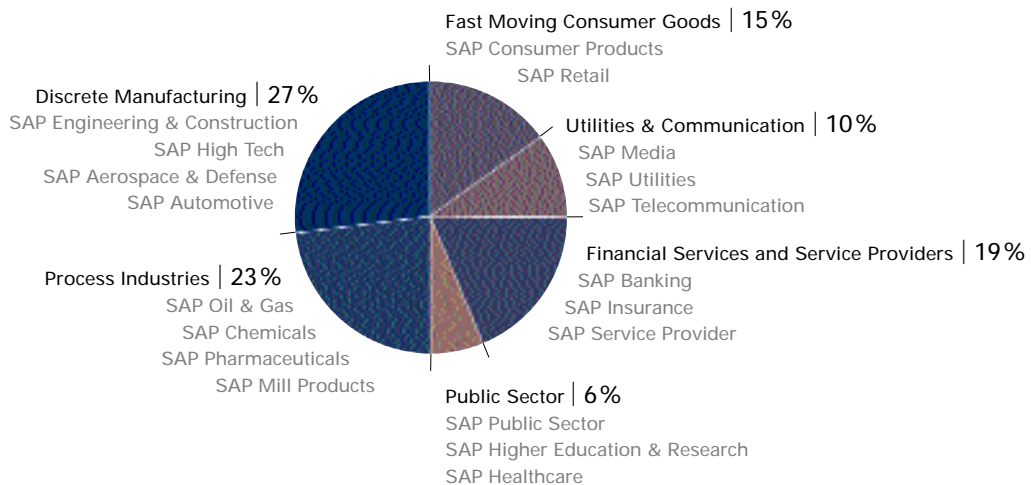
Development by Industry Sectors



In 1998, SAP allocated product sales by Industry Business Units for the first time. The industry solution figures are shown in six major groupings to provide meaningful revenue information. Among the most successful contributors to SAP's product sales are Discrete Manufacturing Industry (27%), Process Industries (23%), and Financial Services and Service Pro-

viders (19%). Fast Moving Consumer Goods contributed 15% of total product sales, Utilities & Communication 10%, and sales to Public Sector customers 6%.

Breakdown of Product Sales Revenues | by sector



Development of the Consolidated Balance Sheets



Consolidated Balance Sheet Breakdown

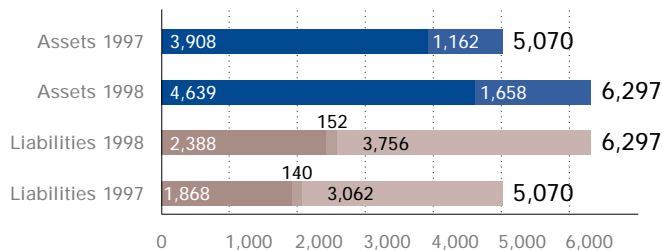
in DM millions

ASSETS

- Short- and medium-term assets
- Long-term assets

SHAREHOLDERS' EQUITY AND LIABILITIES

- Short-term liabilities
- Long-term debts
- Shareholders' equity



Total assets rose by DM 1.23 billion to DM 6.30 billion, due mainly to increases in fixed assets. Facility expansion was the chief factor in the rise in capital spending by 32% to DM 760 million. Other expenditures were aimed at improving SAP's physical infrastructure and extending computer capacity. Depreciation and amortization increased by 39% to DM 271 million. Both the equity to fixed assets ratio (227% in 1998), and the fact that no long-term debt was needed to fund capital expenditures, speak for SAP's strong capital and asset structure. As a result, SAP funded capital expenditures with cash flows from ordinary operations during 1998.

Effective Receivables Management

Current assets rose 19% to DM 4.51 billion. The 21% growth of receivables to DM 3.16 billion was much smaller than the 41% rise in sales, mainly as a result of the Company's successful receivables management. The allowance for doubtful accounts, totaling DM 157 million in 1998 (DM 92 million in 1997), accounted for foreseeable individual and country risks. Liquidity (liquid assets and marketable securities) grew 13% to DM 1.31 billion.

Due to the Group's strong performance, shareholders' equity increased by DM 694 million to DM 3.76 billion. Subscribed capital increased by 0.3% to DM 523 million as employee bond conversion rights



were exercised. In relation to the total assets of DM 6.30 billion (an increase of 24 % from DM 5.07 billion in 1997), the equity ratio is unchanged at 60%. The return on equity after taxes decreased to 31 % in 1998 from 35 % in 1997. Accrued liabilities increased 13% to DM 1.31 billion. This increase was not significant when measured against the sales growth, and is mainly explained by the reduction in accrued taxes.

Foreign Currency Management

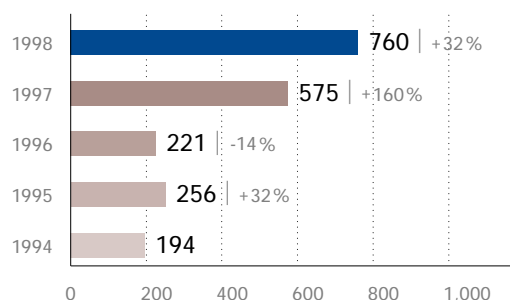
SAP is active worldwide with more than 80% of total sales outside the domestic market. The Group is therefore subject to exchange fluctuation risks in the ordinary course of business. To reduce these risks, SAP uses derivative financial instruments as part of its foreign exchange management policy.

Minor Differences Under U.S. GAAP Reporting

The listing of SAP's preference shares on the New York Stock Exchange in August 1998 succeeded in clearly increasing SAP's profile in the U.S.A., the world's biggest market for information technology. In preparation for its listing on the New York Stock Exchange, SAP had been changing the basis of its financial reporting to comply with the U.S. Generally Accepted Accounting Principles (U.S. GAAP) instead of GAAP

under the German Commercial Code. The conversion was largely completed during 1998, and as of fiscal 1999 the Consolidated Financial Statements will be prepared exclusively in compliance with U.S. GAAP. There are only minor differences between the Group's revenues and pretax profits measured using U.S. and German GAAP. A detailed reconciliation of German to U.S. GAAP is shown in the Notes to the Consolidated Financial Statements.

Capital Expenditures | in DM millions





Sales and Pretax Profits Growth of 20% to 25% Expected in 1999

Against the backdrop of the risks mentioned throughout this review of operations, the Executive Board believes that sales growth of between 20% and 25% can be achieved in 1999. Pretax profit growth should also be of this order, so that the target pretax profit as a percentage of sales revenue is up to one percentage point higher than last year's 23%.

SAP will continue new recruitment in 1999. The growth in employee numbers will, however, be very closely tied to the quarterly performance figures. The percentage rise in employee numbers will not be as high as 1998's 50% increase. The Company will remain committed to its policy of returning value to shareholders with a dividend reflecting success in 1999.

Doubling Sales in Three Years

The Executive Board believes that sales can be approximately doubled in the next three years with the help of the initiatives that it has set up successfully, and the considerable investment in nearly 6,500 new employees in 1998.

Major Challenges in Achieving Targets

In order to achieve the target of doubled sales over the next three years, and 20% – 25% sales and pretax profit growth in 1999, SAP will face a number of challenges, a few of which are summarized below:

■ Acceptance of New Products

SAP's New Dimension products represent a tremendous opportunity for SAP to become a market leader in business software products – Supply Chain Management, Customer Relations Management, and Business Intelligence. These now reside on the periphery of the enterprise software market, but they have significant potential for market growth. SAP's projections for 1999, and three-year sales growth target, assume that these new products will be successful in the market. However, this success cannot be assured.

■ Revenue Mix

As indicated above, ERP industry-wide growth in software licensing revenues has exhibited a declining trend since the middle of 1998. At the same time, industry growth in revenues generated from services continues to accelerate. On average, revenues derived by the Company from services historically require a higher level of expenditures as a percent-



age of revenues when compared with revenues derived by the Company from licensing of its software products. To the extent that the percentage of the Company's total revenues derived from software licensing is lower than the percentage projected by management, the Company's overall profit margins, and targeted pretax profit growth, may be adversely affected.

■ Year 2000 Issues

Industry analysts have expressed competing views regarding the anticipated effects of the millennium change on purchasing behavior in the Enterprise Resource Planning software market. The Executive Board believes that customers will return to focusing on updating internal systems and implementing Enterprise Resource Planning software once they are comfortable that their existing legacy systems will function following the change of millennium, and that this shift in customer behavior should begin to occur during the second half of 1999. This would have the effect of increasing demand for ERP software toward the end of 1999. There can be no assurance, however, that this shift in customer behavior will occur during 1999 as expected. A failure of this anticipated shift in customer behavior to occur during 1999 could result in sales and pretax profit growth below expectations in 1999, and could also require more substan-

tial sales growth in 2000 and 2001 in order for SAP to reach its target to double sales over the next three years.

■ Global Economic Climate

In 1998, SAP directly witnessed some of the effects of the economic and financial crises in Japan and the former Soviet Union. Because SAP relies upon activities outside of Germany for a substantial majority of its sales, SAP's financial performance is subject to changes in the global economy. While SAP continues to take into account the economic circumstances around the world in setting its projections and targets, significant changes in the global economic climate could impact SAP's future sales and performance.

Research and Development

SAP expects to spend a total of about 13% of its sales revenues on research and development in 1999. Approximately 20% of R&D expenditures is expected to be used for continued development of the New Dimension products. The remaining 80% will be invested in the further development of the R/3 System, including specialized functions for individual industries. The main focus of this work will be improving the usability of SAP software, whereas the emphasis last year was on



introducing new functions. More than half of the Company's core R/3 development capacity will be dedicated to the EnjoySAP initiative, which was launched for this purpose.

Comprehensive Risk Management

Beside the currency fluctuation risks to ordinary operations (transaction risks) that SAP addresses with its foreign exchange management policy, currency fluctuation also implies risks in translating foreign revenues and profits (translation risks). SAP is assuming negative translation effects will adversely affect its sales growth in fiscal 1999 by approximately five percentage points.

The market in which SAP is active is highly competitive and dynamic, and is characterized by rapid technological progress. This means SAP faces some risks that are inseparable from its entrepreneurial dealings. Moreover, current financial and economic trends in general, and particularly the situation in markets such as Latin America and Asia, which are of growing importance for SAP, bear significant risks. SAP will analyze developments in these regions very closely. SAP trusts its ongoing benchmarking of all relevant business processes and the sustained strengthening of its innovative ability to contain the business risks. The Company's controlling and internal audit functions provide the necessary controls that continuously test

the suitability and effectiveness of the management tools used.

Euro Changeover on Target

The inauguration of Economic and Monetary Union with the introduction of the euro on January 1, 1999 is another important step toward the creation of the common market in Europe. SAP, seeing the important opportunities for business as well as the challenges, was prepared well in advance. The Company shipped euro-compliant software to its customers ahead of the advent of the euro. This means SAP customers can use the euro as their transaction and local currency. Among the first to benefit were all nine central banks of the German federal states, which carried out problem-free changeovers to the euro on January 3, 1999.

As of January 1, 1999, SAP is ready to conduct business with all its business partners in euros. SAP's Group currency will retroactively be converted to the euro effective January 1, 1999.

Well-Prepared for Year 2000

As the leading vendor of enterprise software, SAP was early in recognizing the challenge and importance of the year 2000 issue. Year 2000 compliance was specified when the R/3 system was developed in the late



1980s, and the older R/2 System was also made compliant. Both systems have been tested and certified by TÜV, a German compliance authority.

Naturally, SAP uses its own software to drive its internal business processes, and so does not envision any problem with year 2000 compliance. Nonetheless, the Company's business processes also rely on third-party products, including network technology, telecommunications, and other software and hardware that could possibly be noncompliant. SAP established a task force to test all of these products for year 2000 compliance, identify any noncompliant products, and adapt or replace them, with the goal of securing year 2000 compliance for the Company's internal business processes. SAP cannot guarantee such compliance where, for example, vendors fail to deliver compliant products in time. The task force will have substantially completed the project by September 1999. SAP is conscious of its responsibility to customers, business partners, shareholders, and employees, and it expects to achieve continuity of its business, its internal business processes, and the functionality of its products, systems, and services into the new millennium.

Report of Independent Auditors

We have audited the consolidated financial statements (consolidated balance sheet, consolidated income statement, notes to the consolidated financial statements including the consolidated statement of cash flows and the consolidated segment reporting) of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and the management's review of group operations as well as the reconciliation of consolidated shareholders' equity and consolidated net income from German GAAP to U.S. GAAP as of and for the years ended December 31, 1998. Company management is responsible for the preparation and content of the German GAAP consolidated financial statements and the management's review of group operations. Our responsibility is to express an opinion on these consolidated financial statements and the management's review of group operations based on our audit.

We conducted our audit following Article 317, German Commercial Code, in accordance with professional standards prescribed by the German Institute for Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the management's review of group operations as well as the reconciliation of consolidated shareholders' equity and consolidated net income from German GAAP to U.S. GAAP are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and the management's review of group operations. The audit also includes stating an opinion on the financial statements of the consolidated subsidiaries, the definition of the group of consolidated subsidiaries, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and management's review of group operations. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not raise any qualifications.

In our opinion, the consolidated financial statements, as well as the reconciliation of consolidated shareholders' equity and consolidated net income from German GAAP to U.S. GAAP and the statement of changes in shareholders equity in accordance with U.S. GAAP referred to above present fairly, in all material respects, the consolidated financial position and the results of operation of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and subsidiaries in conformity with generally accepted accounting principles. Management's review of group operations gives a true and fair view of the position of the Group as well as risks related to future developments.

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Prof. Dr. Weber
Auditor

Klein
Auditor

Eschborn/Frankfurt am Main, February 26, 1999

Consolidated Income Statements

SAP Group | in thousands of DM

	Note*	1998	1997
Sales revenues	7	8,465,294	6,017,466
Increase in inventory of unfinished services		20,300	2,472
Other operating income	8	169,271	79,966
		8,654,865	6,099,904
Cost of services and materials	9	-1,180,143	-605,719
Personnel expenses	10	-3,043,564	-2,074,920
Depreciation and amortization		-271,348	-195,321
Other operating expenses	11	-2,266,660	-1,611,728
Operating expenses		-6,761,715	-4,487,688
Operating result		1,893,150	1,612,216
Loss / Income from investments	12	-31,522	3,500
Income from marketable securities and loans of financial assets		1,874	1,469
Write-down of financial assets	13	-4,096	-2,811
Net interest income	14	60,816	52,562
Results from ordinary operations		1,920,222	1,666,936
Taxes on income	15	-822,706	-708,354
Other taxes		-45,168	-33,228
Total taxes		-867,874	-741,582
Net income		1,052,348	925,354
Minority interests		-3,023	-2,372
Group income		1,049,325	922,982
Beginning retained earnings – SAP AG		294,328	240,698
Distribution of dividends to SAP AG shareholders		-294,213	-240,192
Transfer to revenue reserves		-723,858	-629,160
Group retained earnings (retained earnings of SAP AG)		325,582	294,328

*) See Notes to Consolidated Financial Statements

Consolidated Balance Sheets SAP Group

Assets | in thousands of DM

	Note*	12/31/1998	12/31/1997
Intangible assets	16	151,354	81,299
Property, plant and equipment	17	1,262,317	853,312
Financial assets	18	244,379	227,794
FIXED ASSETS		1,658,050	1,162,405
Inventories	19	36,893	7,515
Accounts receivable	20	2,964,629	2,435,699
Accounts due from related companies		643	6,030
Other assets	21	194,387	167,152
Accounts receivable and other assets		3,159,659	2,608,881
Marketable securities	22	0	167,092
Liquid assets	23	1,310,831	997,420
CURRENT ASSETS		4,507,383	3,780,908
DEFERRED TAXES		90,981	89,978
PREPAID EXPENSES AND DEFERRED CHARGES	24	40,364	36,969
TOTAL ASSETS		6,296,778	5,070,260

Shareholders' Equity and Liabilities

Subscribed capital ¹⁾	25	522,822	521,513
Capital reserve	26	452,854	428,469
Revenue reserves		2,440,986	1,803,510
Group retained earnings		325,582	294,328
Minority interests		14,147	14,552
SHAREHOLDERS' EQUITY		3,756,391	3,062,372
SPECIAL RESERVES FOR CAPITAL			
INVESTMENT SUBSIDIES AND ALLOWANCES	27	265	418
Pension reserves and similar obligations	28	42,122	41,461
Other reserves and accrued liabilities	29	1,266,149	1,120,114
RESERVES AND ACCRUED LIABILITIES		1,308,271	1,161,575
Bonds	30	3,428	4,713
Other liabilities	31	1,114,697	814,239
OTHER LIABILITIES		1,118,125	818,952
DEFERRED INCOME	32	113,726	26,943
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,296,778	5,070,260

* See Notes to Consolidated Financial Statements

¹⁾ Contingent capital DM 3,428 thousand

Consolidated Statements of Cash Flows

SAP Group | in thousands of DM

	Note*	1998	1997
Net income before minority interest		1,049,325	922,982
Minority interests		3,023	2,372
Net income		1,052,348	925,354
Depreciation and amortization		271,348	195,321
Write-up of property, plant and equipment		0	-102
Gain on disposal of property, plant and equipment		-1,353	-2,067
Write-downs of financial assets		4,096	2,811
Write-up of financial assets		-1,081	-863
Increase in pension reserves		661	11,935
Decrease / increase in other long-term reserves and accrued liabilities		-55,497	55,340
Increase in deferred taxes		-1,003	-52,516
Increase / decrease in inventories		-29,378	284
Increase in accounts receivable and other assets		-550,778	-997,117
Increase in short-term reserves and accrued liabilities		201,532	459,914
Increase in other liabilities		252,554	319,600
Increase in prepaid expenses and deferred charges		-3,395	-18,249
Increase in deferred income		86,783	8,654
Net cash provided by operating activities	33	1,226,837	908,299
Purchase of intangible assets and property, plant and equipment		-760,013	-574,709
Purchase of financial assets		-75,961	-79,106
Proceeds from disposal of property, plant and equipment		68,471	85,384
Decrease / increase in special reserves for capital investment subsidies and allowances		-153	352
Decrease / increase in liquid assets (maturities greater than 90 days)		275,160	-58,511
Net cash used by investing activities	34	-492,496	-626,590
Dividends paid		-294,213	-240,193
Proceeds from premium on convertible bonds		24,385	75,125
Proceeds from the increase in capital stock from the exercise of the conversion rights		1,309	3,976
Payments made on the conversion of the convertible bonds		-1,285	-3,956
Proceeds from the issuance of long-term debt		48,106	316
Principal payments made on long-term debt		-202	-59
Net cash used in financing activities	35	-221,900	-164,791
Effect of foreign exchange rates on cash		-90,962	86,798
Net increase in cash and cash equivalents		421,479	203,716
Cash and cash equivalents at the beginning of the year		792,810	589,094
Cash and cash equivalents at the end of the year	36	1,214,289	792,810

* See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity

SAP Group | in thousands of DM

	Number of shares issued and outstanding (000)	in thousands of DM					Minority interests	Total
		Subscribed capital	Capital reserves	Revenue reserves	Group retained earnings			
January 1, 1997	103,507	517,537	353,344	1,095,491	240,698	4,242	2,211,312	
Net income					925,354		925,354	
Convertible bonds exercised	795	3,976	75,125				79,101	
Dividends					-240,192		-240,192	
Transfer to revenue reserves				624,082	-624,082		0	
Minority interests					-2,372	2,372	0	
Currency translation adjustment				88,118			88,118	
Other				-4,181	-5,078	7,938	-1,321	
December 31, 1997	104,302	521,513	428,469	1,803,510	294,328	14,552	3,062,372	
Net income					1,052,348		1,052,348	
Convertible bonds exercised	262	1,309	24,385				25,694	
Dividends					-294,213		-294,213	
Transfer to revenue reserves				699,108	-699,108		0	
Minority interests					-3,023	3,023	0	
Effect of excluding companies								
from consolidation				24,354	-24,168		186	
Currency translation adjustment*				-87,866			-87,866	
Other				1,880	-582	-3,428	-2,129	
December 31, 1998	104,564	522,822	452,854	2,440,986	325,582	14,147	3,756,391	

* The cumulative translation adjustment resulting from the translation of foreign subsidiaries financial statements was a negative DM 15,913 thousand as of December 31, 1998.

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

a | General Information

1 | Application of the German Legal Regulations

The consolidated financial statements of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung ("SAP AG"), together with its subsidiaries (collectively, "SAP", "Group" or "Company"), are prepared in accordance with the German Commercial Code and Stock Corporation Act. In line with the ongoing internationalization of the Group's accounting policies, since January 1, 1998 the SAP consolidated Financial Statements have also been prepared in compliance with U.S. Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as far as permissible under German GAAP. As a result, there have been changes from 1997 in the treatment of currency translation and pension reserves. The impact of adopting these changes was less than 1% on the 1998 consolidated net income. In addition the 1997 consolidated statement of cash flows has been modified to reconcile to cash and cash equivalents for comparative purposes. In all other respects, the accounting and consolidation methods employed are unchanged since the previous year. In Section C of these notes, "Significant Differences between German GAAP and U.S. GAAP", there is a detailed reconciliation showing the effect of applying U.S. GAAP on net income and shareholders' equity where to have done so in the consolidated financial statements would have led to noncompliance with German commercial regulations.

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. In situations where additional information is required to be disclosed it has been done in the notes to the financial statements.

b | Significant Accounting Policies

2 | Consolidated Companies

The consolidated financial statements include, in addition to SAP AG, all major subsidiaries in which SAP AG holds, directly or indirectly, a majority of the voting rights. German GAAP enabled the Company to not consolidate three subsidiaries, as their impact on the Group's net worth, financial position, and results of operations is immaterial (their balance sheet totals amount to 0.1% of the consolidated balance sheet total).

The investments in unconsolidated subsidiaries are recorded at cost and included in the investment in affiliated companies.

The following table summarizes the change of companies included in the consolidated financial statements:

	Domestic	Foreign	Total
12/31/1997	7	42	49
Additions	1	4	5
Retirements	1	1	2
December 31, 1998	7	45	52

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.

Four companies of which SAP AG directly holds between 20% and 50% ("Associated Companies") are consolidated by the equity method.

The effect of including new companies in the consolidated financial statements during 1998 did not limit comparability of the annual financial statements with those of the previous year.

All subsidiaries, joint ventures, and associated companies are listed on pages 68 and 69 with ownership percentages, sales, net income, equity, and numbers of employees.

3 | Consolidation Policies

The Consolidated Financial Statements include the financial statements of individual subsidiaries in accordance with German GAAP and in conformity with the accounting and valuation policies of SAP. The book value method of consolidation has been used, which is substantially equivalent to the purchase method under U.S. GAAP. 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 capitalized as an intangible asset and amortized using the straight-line method over its expected useful life of five years.

Intercompany receivables, payables, revenues, expenses, and profits among the consolidated companies are eliminated. Deferred taxes are calculated for 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.

Goodwill arising from associated companies' equity is calculated based upon the same principles. 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 | Currency Translation

Effective January 1, 1998 the financial statements of the fully consolidated foreign subsidiaries are translated according to the functional currency method. Since all subsidiaries are economically independent and thus their functional currency is their local currency, their balance sheets are translated into DM at median rates on the balance sheet date ("closing rate") and their income statements are translated at annual average rates. Differences from the prior year's translation of assets and liabilities and translation differences between the balance sheet and the income statement do not affect income. These currency translation differences are disclosed in the "Consolidated Statement of Changes in Shareholders' Equity" on page 30.

Further in fiscal 1997, fixed assets (excluding loans), shareholders' equity, depreciation, and amortization of foreign subsidiaries were translated using the historical exchange rate. The remaining assets and liabilities were translated at the closing rate. Differences arising from the translation of balance sheet items were charged directly to the revenue reserves, without affecting income for the year. In fiscal 1997, 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.

During 1997, the financial statements of the individual companies include accounts receivable in foreign currencies, which were 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 were recorded. Accounts payable in foreign currencies were valued at the higher of the applicable rates. Effective January 1, 1998 the valuation of foreign accounts receivable and liabilities are translated at the closing rate.

The significant exchange rates of key currencies affecting the Consolidated Group changed as follows:

Currency	ISO Code	Median exchange rate to the DM at December 31		Average exchange rate to the DM for the year	
		1998	1997	1998	1997
1 U.S. Dollar	USD	1.6730	1.7921	1.7469	1.7371
100 Japanese Yen	JPY	1.4505	1.3838	1.3250	1.4309
1 British Pound	GBP	2.7980	2.9820	2.8924	2.8493
1 Canadian Dollar	CAD	1.0770	1.2445	1.1687	1.2506
1 Australian Dollar	AUD	1.0230	1.1725	1.0820	1.2805

5 | Accounting and Valuation Policies

Intangible Assets and Property, Plant and Equipment

Purchased intangible assets are shown at cost and amortized on a straight-line basis over a maximum of five years. All existing goodwill included in the financial statements is derived from the acquisition of software companies and is amortized on a straight-line basis over its estimated life of five years.

Property, plant and equipment is shown at cost less accumulated depreciation, where appropriate, based on its expected useful life. Where permanent impairments were incurred, unplanned write-downs have been made.

	Useful life of property, plant and equipment
Buildings (placed in service before 1990)	50 years
Buildings (placed in service after 1991)	25 years
Leasehold improvements	Based upon the lease contract
IT equipment	3 to 5 years
Office equipment	4 to 15 years
Automobiles	5 years

Buildings and leasehold improvements are depreciated using the straight-line method. Other fixed assets with an expected useful life of up to three years are depreciated using the straight-line method. For property, plant and equipment with an expected useful life of more than three years the declining balance method is generally used, and the depreciation method is changed to the straight-line method in the year in which the amount of depreciation under the straight-line method exceeds that calculated under the declining balance method. Low-value assets are expensed in the year of acquisition.

Financial Assets

Financial assets are shown at cost. A write-down in the value of financial assets, at the balance sheet date, only occurs if there is a permanent impairment. 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 / production cost or market value. Production costs consist of direct salaries, indirect salaries, and materials. Other costs are not included in inventories.

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, which approximates fair market value. Receivables with foreseeable individual and country risks are written down on a case-by-case basis. Interest-free loans with a remaining term exceeding one year are discounted to their present value using interest rates effective locally. Marketable securities are valued at the lower of cost or market as of the balance sheet date. Gains on marketable securities are recognized when realized. Other assets are shown at their nominal value, which approximates fair value.

Prepaid Expenses and Deferred Charges

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

Deferred Taxes

On the consolidated balance sheet, deferred taxes are established for temporary differences, which are expected to reverse in the future, between assets, liabilities, and net income calculated for tax purposes and for financial reporting purposes. Moreover, deferred taxes are established on the consolidated balance sheet for temporary differences resulting from consolidation measures. Deferred taxes are computed by the deferral method, under which the enacted tax rate applicable to the local subsidiaries is applied. Deferred tax amounts are shown net on the consolidated balance sheet.

Reserves and Accrued Liabilities

Effective January 1, 1998 provisions for pensions of domestic and foreign subsidiaries are based on actuarial computations according to the "Projected Unit Credit Method". These assumptions used to calculate the provision for pensions are shown in note 28 – "Pension Reserves and Similar Obligations."

Until the end of 1997, reserves for pension obligations in Germany were stated at the highest amounts allowable for tax purposes, in accordance with German tax law. An interest rate of 6% per annum was applied. Foreign subsidiaries recorded 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, established a reserve for indirect pension obligations until 1997.

Accrued taxes are calculated on the basis of the planned distribution of income.

The other reserves and accrued liabilities take into account foreseeable risks and contingent obligations which are probable and reasonably estimable.

Liabilities

Liabilities are shown at the amounts payable, which approximates their fair value.

Derivative Financial Instruments

The SAP Group uses derivative financial instruments for hedging purposes. Forward exchange contracts, and to a lesser extent currency options, are employed to reduce currency risk that results from engaging in international transactions.

The hedges cover risk from potential currency fluctuations arising from existing as well as forecasted underlying transactions. Existing underlying transactions represent transactions that have been already recorded in the financial statements. The forecasted underlying transactions reflect budget assumptions, which historically have approximated actual results. The derivatives used to hedge existing transactions are treated together with the ordinary operations as one valuation unit, and the contracts are grouped in portfolios for each currency.

The derivative instruments used to hedge forecasted transactions are marked to market individually at the end of the accounting period. In accordance with German commercial valuation regulations, for a portfolio with a negative valuation a provision for anticipated losses is recorded currently in income. By contrast, positive valuations are not recognized into income.

Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows show the effect of inflows and outflows in the course of the fiscal year on the group's liquid assets, and have been prepared in accordance with Statement of Financial Accounting Standards No. 95 – Statement of Cash Flows ("SFAS 95"). The statements distinguish between cash flows from operating activities, investing activities, and financing activities. The liquid assets are comprised of cash and cash equivalents with an original maturity of less than three months and time deposits with maturities exceeding three months. Liquid assets are reconciled to cash and cash equivalents in note 36 of Section F – "Information on the Consolidated Statements of Cash Flows".

Use of Estimates

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

c | Significant Differences between German GAAP and U.S. GAAP

6 | Reconciliation to U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with German GAAP as prescribed by the German Commercial Code and the German Stock Corporation Act. The effect of the application of U.S. GAAP to net income and shareholders' equity as of and for the years ended December 31, 1998 and 1997 are set out in the tables below:

Reconciliation of net income from German GAAP to U.S. GAAP			
	Note	1998 DM (000)	1997 DM (000)
Net income as reported in the consolidated financial statements			
under German GAAP		1,052,348	925,354
Minority interests	a)	-3,023	-2,371
Net income as reported in the consolidated financial statements under			
German GAAP after minority interests		1,049,325	922,983
Revenue recognition	b)	-49,393	-77,491
Pension provisions	c)	-5,363	1,901
Business combinations			
(goodwill & in-process R&D)	d)	-2,148	-10,568
Income taxes	e)	12,623	-2,296
STAR program	f)	15,641	0
Other	g), h)	-11,052	10,122
Tax effect of U.S. GAAP adjustment	e)	20,966	28,796
Minority interests	a)	14	127
Net income in accordance with U.S. GAAP		1,030,613	873,574

Reconciliation of shareholders' equity from German GAAP to U.S. GAAP			
	Note	1998 DM (000)	1997 DM (000)
Shareholders' equity as reported			
in the consolidated balance sheets under			
German GAAP		3,756,391	3,062,372
Less: minority interests	a)	-14,147	-14,552
Equity of SAP AG shareholders		3,742,244	3,047,820
Revenue recognition	b)	-445,222	-395,829
Pension provisions	c)	0	5,363
Business combinations			
(goodwill & in-process R&D)	d)	-5,436	-3,288
STAR program	f)	15,641	0
Unrealized gains on-available-for-			
sale marketable securities	g)	68,041	5,472
Other	e), h)	18,927	37,461
Tax effect of U.S. GAAP adjustment	e)	162,026	141,060
Shareholders' equity under U.S. GAAP		3,556,221	2,838,059

Changes in shareholders' equity in accordance with U.S. GAAP		
	1998 DM (000)	1997 DM (000)
U.S. GAAP shareholders' equity (beginning of year)	2,838,059	2,031,869
Net income	1,030,613	873,574
Dividends paid	-294,213	-240,193
Exercise of convertible bonds	25,693	79,101
Tax benefit of convertible bond program	2,814	2,296
Change in unrealized gains on available-for-		
sale marketable securities, net of tax	62,569	4,865
Currency translation adjustment	-104,061	95,933
Other	-5,253	-9,386
Shareholders' equity (end of year)	3,556,221	2,838,059

Explanatory Notes to the Reconciliation

a) Minority Interests

In contrast to the position under the applicable German law, under U.S. GAAP minority interests are not included in net income or shareholders' equity. Minority interests are shown as liabilities on the balance sheet.

b) Revenue Recognition

The Company recognizes software revenue for U.S. GAAP in compliance with the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"). Under SOP 97-2, software revenue is recognized when a noncancellable contract is signed, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Revenues for licenses with extended payment terms are recognized as payments become due.

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

Generally, software maintenance agreements are concluded in conjunction with the software license agreement. Maintenance fees are mostly based upon a standard percentage of the related software license fee and commence the month immediately following software delivery. SOP 97-2 regards deviations from standard maintenance agreements as discounts to be considered in recognizing software revenue. The value from nonstandard maintenance arrangements reduces the related software license revenue and is recognized as maintenance revenue in subsequent periods. Under German GAAP, future costs under maintenance agreements are accrued based on estimated cost when a free-of-charge service period is provided. By contrast, under U.S. GAAP, the relative fair market of the free service period is reduced from the related software license revenue.

c) Pension Benefits

Until 1997, reserves for pension obligations in Germany were determined by the ongoing-concern method applying an interest rate of 6% per annum, in accordance with German tax law. In 1998 the Company adopted the projected unit credit method, which is required under U.S. GAAP and permitted under German tax law. By contrast to the ongoing-concern method, the projected unit credit method makes allowance for projected compensation and pension increases and is based on actual rates of interest derived from the long-term borrowing rates in the countries concerned.

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

In accordance with German GAAP, the difference between the purchase price and the aggregate fair value of tangible and identifiable intangible assets and liabilities acquired in a business combination may either be charged directly to shareholders' equity or capitalized as goodwill and amortized over its estimated useful life. Under U.S. GAAP, direct goodwill charges to shareholders' equity are prohibited. For acquisitions prior to January 1, 1997, the Company has elected to record goodwill as a direct reduction to shareholders' equity. Goodwill arising from business combinations consummated thereafter is capitalized and amortized through the income statement over its estimated useful life, generally five years.

Under German GAAP, the in-process research and development costs of companies acquired are not identified separately. Under U.S. GAAP these costs are separately determined at the time of acquisition and charged to expense.

e) Deferred Taxes

Under German GAAP, deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses. A valuation allowance is established when it is more likely than not that deferred tax assets will not be realized. In addition, the tax effect of U.S. GAAP adjustments is included in the reconciliation.

f) Stock Appreciation Rights Program ("STAR")

A pro-rata reserve reflecting the one-year valuation period was created December 31, 1998 for expenses anticipated in relation to the STAR program. STAR amounts will be paid in three installments over a twenty-six month payment period. Under U.S. GAAP, the expense is recognized over the payment period.

g) Marketable Securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or market value at the balance sheet date. Under U.S. GAAP, marketable debt and equity securities are categorized as either trading, available-for-sale or held to maturity. The Company's securities are considered to be available-for-sale and, therefore, are valued under U.S. GAAP at fair market value at the balance sheet date. Unrealized gains and losses are excluded from earnings and reported in a separate component of shareholders' equity.

h) Other

Other items consist primarily of foreign currency translation differences, unrealized foreign currency transaction gains and expenses for the employee share program under German GAAP which are recorded as a direct reduction in shareholders' equity under U.S. GAAP.

d | Notes to the Consolidated Income Statements

7 | Sales Revenues

Sales revenues by types of activity were as follows:

	1998 DM (000)	1997 DM (000)
Product	5,256,941	4,097,117
Consulting	2,193,276	1,251,128
Training	893,360	579,928
Other	121,717	89,293
Total	8,465,294	6,017,466

Other revenues are derived mainly from marketing events. Further revenue informations is disclosed in note 41.

8 | Other Operating Income

Other operating income comprises:

	1998 DM (000)	1997 DM (000)
Exchange gains	127,680	43,401
Employee contributions for company cars	12,965	9,923
Gain on disposal of fixed assets	5,838	4,958
Gain on sale of marketable securities	4,551	1,640
Cafeteria sales	2,496	1,633
Rental income	2,121	3,553
Income from prior periods	806	1,666
Other income	12,814	13,192
Total	169,271	79,966

The significant change in exchange gains resulted from the high volatility of foreign currencies and income from hedging transactions.

9 | Cost of Services and Materials

Cost of services and materials consists of the following:

	1998 DM (000)	1997 DM (000)
Raw materials and supplies, purchased goods	23,604	16,485
Purchased services	1,156,539	589,234
Total	1,180,143	605,719

The change in purchased services resulted from additional purchases of consulting services, which have been re invoiced to SAP customers.

10 | Personnel Expenses / Number of Employees

Personnel expenses comprise:

	1998 DM (000)	1997 DM (000)
Salaries	2,615,945	1,786,980
Social security	336,106	217,988
Pension expense	91,513	69,952
Total	3,043,564	2,074,920

The average number of employees, excluding apprentices and interns, was as follows:

	1998	1997
Employees	17,323	11,558

The 1998 figures include 362 employees of the consolidated joint venture company, determined on a proportional basis. The corresponding number of employees for 1997 was 330.

11 | Other Operating Expenses

Other operating expenses comprise the following:

	1998 DM (000)	1997 DM (000)
Travel	424,008	292,029
Marketing	391,518	279,871
Licences and commissions	322,363	209,215
Rent	280,213	202,067
Additional personnel expenses	165,143	96,398
Telecommunication / postage	118,130	84,905
Bad debt expense	110,978	52,034
Consulting / administration	108,955	89,195
Exchange rate differences	101,380	83,305
Service costs / maintenance	85,296	63,003
Entertainment	46,479	48,988
Documentation	35,150	28,320
Other third-party services	25,322	21,402
Computer supplies	10,492	6,453
Insurance	9,340	8,254
Other	31,893	46,289
Total	2,266,660	1,611,728

Major changes in other operating business expenses resulted from increased business transactions as well as the increased number of employees.

12 | Loss / Income from Investments

	1998 DM (000)	1997 DM (000)
Income from investments	863	591
- thereof from affiliated companies	(863)	(591)
Result of associated companies	-32,385	2,909
Total	-31,522	3,500

The negative result from associated companies in 1998 includes a DM 36,549 thousand start-up loss at Pandesic, held jointly with Intel Corp.

13 | Write-Down of Financial Assets

The write-down of financial assets includes the discounting to present value of interest-free loans to employees.

14 | Net Interest Income

	1998 DM (000)	1997 DM (000)
Other interest and similar income	67,739	56,344
Interest and similar expenses	6,923	3,782
	60,816	52,562

Interest income is derived primarily from cash and cash equivalents, marketable securities, long-term investments and other loans.

15 | Taxes on Income

Income tax expense is as follows:

	1998 DM (000)	1997 DM (000)
Domestic corporation tax on income (including solidarity surcharge)	283,283	228,570
Domestic trade tax on income	126,962	107,949
Foreign income taxes	442,301	417,161
	852,546	753,680
Deferred taxes	-29,840	-45,326
Total taxes on income	822,706	708,354

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

	1998 DM (000)	1997 DM (000)
Domestic	908,576	785,122
Foreign	966,478	848,586
Income before income taxes	1,875,054	1,633,708

The effective tax rate, before other taxes, of the SAP Group for the years ended December 31, 1998 and 1997 was 42.8 % and 42.5 % respectively. The table below shows the reconciliation of the current German statutory retained earnings corporate income tax rate of 45 % and the effective tax rate. Because of the lower German tax rate for income distributed to shareholders, the domestic corporation tax is reduced according to the Executive Board's proposal for income appropriation.

The corporation tax reduction applies to the year that gives rise to dividend distribution.

In addition, shareholders tax-resident in Germany receive a credit of the full corporation tax against their personal income tax liability. A solidarity surcharge of 5.5 % is imposed in respect of German corporation tax liability. The effective domestic trade tax rate, before other taxes, for the years ended December 31, 1998 and 1997 was 14.3 % and 13.5 %, respectively.

	1998 DM (000)	1997 DM (000)
Corporation tax on income	785,198	686,907
German trade tax on income	130,169	107,249
Solidarity surcharge	12,799	15,927
Tax reduction for dividend payment	-69,351	-63,046
Foreign tax rate differential, net	-92,779	-51,098
Utilization of loss carryforwards	-929	-613
Tax on non-deductible expenses	19,041	11,092
Tax effect on current year losses	53,326	1,701
Consolidation effects	-7,701	1,990
Other	-7,067	-1,755
Taxes on income	822,706	708,354

In accordance with the deferral method, the differences between assets, liabilities and net income calculated for tax purposes and for financial reporting purposes that are expected to reverse in the future are shown below. In contrast to U.S. GAAP, net operating losses are not recorded as a deferred tax asset under German GAAP. Based upon past results of subsidiaries and expectations of similar performance in the future, the taxable income of these subsidiaries will more likely than not be sufficient to fully recognize the net deferred asset related to these subsidiaries.

	1998 DM (000)	1997 DM (000)
Deferred tax assets		
Accounts receivable	22,434	23,791
Other loans	3,489	2,822
Pension provisions	0	5,486
Other provisions	105,561	100,678
Other	2,836	2,310
Deferred tax assets	134,320	135,087
Deferred tax liabilities		
Fixed assets	-13,305	-19,842
Pension provision	-5,518	0
Deferred income	-24,516	-25,267
Deferred tax liabilities	-43,339	-45,109
Net deferred tax asset	90,981	89,978

Certain foreign subsidiaries of the Company had net operating loss carryforwards at December 31, 1998 and 1997, totaling approximately DM 125,973 thousand and DM 17,283 thousand, respectively. The increase in net operating loss carryforwards resulted principally from losses in Japan in the amount of DM 110,226 thousand.

The majority of these carryforward losses will expire between three and five years.

e | Notes to the Consolidated Balance Sheets

16 | Intangible Assets

in thousands of DM	Trademarks, similar rights, and assets	Goodwill	Total
Purchase cost 1/1/98	61,799	55,006	116,805
Foreign currency exchange			
rate changes	3,119	0	3,119
Additions	46,622	65,206	111,828
Retirements	13,851	0	13,851
Transfers	34	0	34
12/31/98	97,723	120,212	217,935
Accumulated depreciation			
1/1/98	31,465	4,041	35,506
Foreign currency exchange			
rate changes	2,499	0	2,499
Additions	20,205	22,136	42,341
Retirements	13,769	0	13,769
Transfers	4	0	4
12/31/98	40,404	26,177	66,581
Book value 12/31/98	57,319	94,035	151,354
Book value 12/31/97	30,334	50,965	81,299

The additions to trademarks, similar rights and assets relate to software programs. The additions to goodwill in the Group relate to the capitalization of goodwill arising from consolidation.

17 | Property, Plant and Equipment

in thousands of DM	Land, leasehold improvements and buildings, including buildings on third-party land	Other property, plant and equipment	Advance payments and construction in progress	Total
Purchase cost 1/1/98	609,679	747,028	99,076	1,455,783
Foreign currency exchange				
rate changes	4,361	442	-165	4,638
Additions	154,387	256,580	237,218	648,185
Retirements	7,230	148,539	0	155,769
Transfers	81,801	11,473	-93,308	-34
12/31/98	842,998	866,984	242,821	1,952,803
Accumulated depreciation				
1/1/98	103,009	499,462	0	602,471
Foreign currency exchange				
rate changes	780	3,155	0	3,935
Additions	48,838	180,169	0	229,007
Retirements	4,832	140,091	0	144,923
Transfers	-220	216	0	-4
12/31/98	147,575	542,911	0	690,486
Book value 12/31/98	695,423	324,073	242,821	1,262,317
Book value 12/31/97	506,670	247,566	99,076	853,312

The additions in other property, plant and equipment comprise primarily the purchase of computer hardware.

18 | Financial Assets

in thousands of DM	Shares in affiliated companies	Investments in associated companies	Other investments	Long-term investments	Other loans	Total
Purchase cost 1/1/98	11,984	18,773	50,920	109,499	50,154	241,330
Foreign currency exchange						
rate changes	940	0	-542	-571	3	-170
Additions	12,902	7,085	41,822	331	13,821	75,961
Retirements	13,229	156	29,090	2,335	17,744	62,554
12/31/98	12,597	25,702	63,110	106,924	46,234	254,567
Accumulated depreciation						
1/1/98	4,966	0	0	0	8,570	13,536
Foreign currency exchange						
rate changes	0	0	0	0	1	1
Additions	891	0	0	0	3,205	4,096
Retirements	5,756	0	0	0	608	6,364
Write-ups	0	0	0	0	1,081	1,081
12/31/98	101	0	0	0	10,087	10,188
Book value 12/31/1998	12,496	25,702	63,110	106,924	36,147	244,379
Book value 12/31/1997	7,018	18,773	50,920	109,499	41,584	227,794

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

	1998 Book values DM (000)	Market values DM (000)	Un- realized gains DM (000)	1997 Book values DM (000)	Market values DM (000)	Un- realized gains DM (000)
Securities with						
fixed maturities	100,000	107,850	7,850	100,000	104,750	4,750
Other securities	6,924	6,924	0	9,499	9,499	0
	106,924	114,774	7,850	109,499	114,249	4,750

Securities with fixed maturities mature in more than five years.

The other loans include interest bearing and non-interest bearing loans to employees and third parties.

19 | Inventories

Inventories primarily consist of work in process of DM 31,472 thousand which are services performed on consulting contracts, and office supplies and documentation of DM 5,421 thousand.

20 | Accounts Receivable

Amounts shown on the consolidated balance sheets are net of allowance for bad debts of DM 157,201 thousand and DM 92,362 thousand at December 31, 1998 and 1997, respectively. At December 31, 1998 and 1997, accounts receivable having a remaining term greater than one year and less than two years are DM 56,140 thousand and DM 86,732 thousand, respectively. Concentrations of operating risks are limited due to the Company's large customer base and its dispersion across many different industries and countries worldwide. No single customer accounted for 10% or more of revenues for fiscal year 1998 and 1997.

21 | Other Assets

	1998 DM (000)	1997 DM (000)
Other assets	194,387	167,152
- thereof with a remaining term greater than one year	(110,950)	(95,927)

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

22 | Marketable Securities

During the fiscal year, SAP AG acquired 39,402 of its own shares, representing 0.04 % of the capital stock, at an average market price of DM 829, 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 824 per share. The Company did not hold any of its own shares as of the balance sheet closing date.

The foreign subsidiaries of the Company purchased 196,225 American Depository Receipts ("ADRs"), at an average price of USD 45.94 and were distributed by an administrator to employees. Twelve ADRs are equivalent to one preference share.

23 | Liquid Assets

As in the previous year, this balance sheet item includes cash and cash equivalents and time deposits at banks.

Liquid assets are as follows:

	1998 DM (000)	1997 DM (000)
Cash at banks	313,304	213,220
Time deposits with original maturities of 3 months or less	900,985	579,590
Cash and cash equivalents	1,214,289	792,810
Time deposits with maturities greater than 3 months and less than 1 year	26,542	123,710
Time deposits with maturities exceeding 1 year	70,000	80,900
Liquid assets	1,310,831	997,420

Liquid assets in the consolidated balance sheets are reconciled to cash and cash equivalents shown on the consolidated statements of cash flows, in section F, note 36.

24 | Prepaid Expenses and Deferred Charges

This balance sheet line item is mainly comprised of prepayments for rental contracts, leases and maintenance contracts.

25 | **Subscribed Capital**

At December 31, 1998, the subscribed capital of the Company was comprised as follows:

Number and type of shares	DM
61,000,000 no-par ordinary shares	305,000,000
43,564,499 no-par preference shares	217,822,495
	522,822,495

By resolution of the Annual General Meeting held May 7, 1998, the Executive Board was authorized, subject to the approval of the Supervisory Board, to issue additional no-par bearer preference shares which may be issued through the period ending May 15, 2003. If all of these shares are issued they will increase capital stock by DM 10,000 thousand. The new shares are to be offered to shareholders for subscription. This right was not exercised during the fiscal year.

The subscribed capital increased only to the extent holder exercised their conversion rights under convertible bonds. As conversion rights under the 1988/1998 convertible bond issue were exercised, DM 28 thousand of contingent capital (corresponding to 4,450 no-par ordinary shares and 1,120 no-par preference shares) was converted into capital stock. As conversion rights under the 1994/2004 convertible bond issue were exercised in 1998, DM 1,281 thousand of contingent capital (corresponding to 256,260 no-par preference shares) was converted into capital stock. As a result, contingent capital decreased by DM 1,309 thousand, and totaled DM 3,428 thousand on December 31, 1998. Subsequent to the conversion of these bonds, there were 685,501 approved preference shares remaining that had not yet been converted at December 31, 1998.

Refer to the "Consolidated Statement of Changes in Shareholders' Equity" in the "Financial Statements."

26 | **Capital Reserve**

Of the increase in the capital reserve, DM 40 thousand resulted from the premium necessary to cover the exercise of conversion rights for the 1988/1998 convertible bonds, and DM 24,345 thousand from the premium necessary to cover the exercise of conversion rights for the 1994/2004 convertible bonds.

27 | **Special Reserves for Capital Investment Subsidies and Allowances**

The consolidated balance sheets include special reserves for capital investment subsidies and allowances pursuant to regional development programs.

28 | Pension Reserves and Similar Obligations

The accrued pension and other similar obligations consist of the following:

	1998 DM (000)	1997 DM (000)
Domestic pension plans reserves	35,974	15,059
Other pension plans and similar obligations	6,148	26,402
	42,122	41,461

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.

Effective January 1, 1998, the German pension plans and their respective costs are determined using the projected unit credit method in accordance with U.S. GAAP as defined by SFAS No. 87, "Employers' Accounting for Pensions". Current pensions and remunerations prevailing on the balance sheet date as well as forecast future increases in these parameters are included in the valuation.

In 1997, similar obligations contained an amount of DM 19,726 thousand that corresponds to the difference between the admissible value under commercial law of the obligations computed in accordance with the German Income Tax Act, and the value of the assets held by the relief fund. As a result of the adoption of U.S. GAAP this obligation is included in pension reserves in 1998. The following disclosure as of December 31, 1997 does not correspond to the values included in the balance sheet, and is included only for comparative purposes in accordance with U.S. GAAP.

Domestic Plans

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. Members of the Executive Board are covered by individual, performance-oriented benefit plans, for which reserves have been established.

The change of the pension obligation and the change in plan assets for the German plans are as follows:

	1998 DM (000)	1997 DM (000)
Change in benefit obligation		
Benefit obligation at beginning of the year	151,599	122,449
Service cost	21,799	18,327
Interest cost	9,861	7,963
Actuarial (gain) / loss	3,938	2,970
Benefits paid	-139	-110
Benefit obligation at end of year	187,058	151,599
Change in plan assets		
Fair value of plan assets at beginning of the year	79,260	59,547
Actual return on plan assets	6,253	4,684
Employer contribution	24,187	19,483
Life/disability insurance premiums and expenses	-3,533	-4,344
Benefits paid	-139	-110
Fair value of plan assets at end of the year	106,028	79,260
Funded status	81,030	72,339
Unrecognized net actuarial gain	-31,803	-24,611
Unrecognized transition (obligation) asset	-27,121	-29,076
Accrued benefit cost	22,106	18,652

Included in the 1998 benefit cost (DM 22,106 thousand) is the fair value of plan assets in the amount of DM 14,868 thousand for the Board of Directors plan. In the consolidated balance sheets the amount is included in other assets.

The following assumptions were used to develop the change in pension obligation and the change in plan assets of the German plans:

	1998 %	1997 %
Discount rate	6.0	6.5
Expected return on plan assets	6.5	6.5
Rate of compensation increase	4.0	5.0

Components of net periodic benefit cost:

	1998 DM (000)	1997 DM (000)
Service cost	21,799	18,327
Interest cost	9,861	7,963
Expected return on plan assets	-6,619	-5,137
Net amortization	2,600	2,564
Net periodic pension cost	27,641	23,717

Foreign Plan

SAP has a noncontributory defined benefit plan for certain of its foreign employees who are at least 21 years old and have been employed by the Company for at least one year. The plan provides benefits based upon compensation levels, age, and years of service.

The change of the pension obligation and the change in plan assets for the foreign plan are as follows:

	1998 DM (000)	1997 DM (000)
Change in benefit obligation		
Benefit obligation at beginning of the year	22,477	9,725
Service cost	13,356	6,975
Interest cost	1,626	1,392
Actuarial (gain) / loss	2,907	2,516
Foreign currency exchange rate changes	-2,380	1,868
Benefit obligation at end of the year	37,986	22,476
Change in plan assets		
Fair value of plan assets at beginning of the year	20,913	5,293
Actual return on plan assets	2,200	1,441
Employer contribution	18,022	12,866
Foreign currency exchange rate changes	-2,394	1,312
Fair value of plan assets at end of the year	38,741	20,912
Funded status	-757	1,565
Unrecognized net actuarial gain	-5,830	-3,628
Prepaid benefit cost	-6,587	-2,063

The following assumptions were used to develop the change in pension obligation and the change in plan assets of the foreign plan:

	1998 %	1997 %
Discount rate	6.75	7.0
Expected return on plan assets	8.0	8.0
Rate of compensation increase	6.0	6.0

Components of net periodic benefit cost:

	1998 DM (000)	1997 DM (000)
Service cost	13,356	6,975
Interest cost	1,626	1,392
Expected return on plan assets	-1,981	-900
Net amortization and deferral	115	59
Net periodic benefit cost	13,116	7,526

29 | Other Reserves and Accrued Liabilities

	1998 DM (000)	1997 DM (000)
Accrued taxes	298,813	489,676
Other reserves and accrued liabilities	967,336	630,438
	1,266,149	1,120,114

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

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

	1998 DM (000)	1997 DM (000)
Obligations to employees	575,372	397,601
Obligations to suppliers	173,918	81,777
Vacation entitlement	112,334	77,954
STAR program obligation	47,581	0
Warranty and service costs	24,126	50,297
Contribution to employees' accident insurance account	5,445	4,003
Financial statement preparation costs	3,673	2,435
Other	24,887	16,371
	967,336	630,438

SAP accrues only for obligations when they are probable and reasonably estimable.

Obligations to employees relate primarily to variable bonus payments tied to earnings performance, paid out after the balance sheet date. Obligations to suppliers represent services received or goods purchased which SAP has not yet been invoiced. Warranty and service costs accruals represent estimated future warranty obligations for maintenance free periods.

30 | Bonds

This item comprises the outstanding portion of the SAP AG 6% 1994/2004 convertible bond issue, which amounts to DM 3,428 thousand (DM 4,709 thousand as of December 31, 1997). The portion of the 1988/1998 floating-rate convertible bond issue outstanding on December 31, 1997 (DM 4 thousand) was comprised of DM 50 registered convertible bonds, and carried a right, exercisable up until October 20, 1998, to convert to SAP ordinary and preference shares. The exercise of the conversion right resulted in 4,450 ordinary shares totaling DM 22 thousand as a proportion of the capital stock, and 1,120 preference shares totaling DM 6 thousand as a proportion of the capital stock. The 1994/2004 convertible bond issue is comprised of 4,000,000 registered convertible bonds with a value of DM 5 each. These convertible bonds carry a right, which can be exercised on June 30, July 31, August 31, September 30, October 31, or November 30 of any year up until June 30, 2004, to convert to preference shares. The exercise of this conversion right would result in 685,501 no-par preference shares.

31 | Other Liabilities

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

	Term less than 1 year DM (000)	Term between 1 and 5 years DM (000)	Term more than 5 years DM (000)	12/31/98 DM (000)	12/31/97 DM (000)
Bank loans and overdrafts	188,326	48,255	62	236,643	163,547
Advance payments received	98,809	0	0	98,809	30,972
Accounts payable	450,181	0	0	450,181	318,309
Payables due to					
unconsolidated affiliates	8,447	0	0	8,447	8,815
Taxes	181,708	0	0	181,708	157,132
Social security	58,971	0	0	58,971	42,193
Other liabilities	55,442	71	24,425	79,938	93,271
	1,041,884	48,326	24,487	1,114,687	814,239

The bank loans and overdrafts relate primarily to loans taken out in Japan due to the low interest rates prevailing in that country (DM 200,169 thousand).

In the previous year, liabilities with a remaining term not exceeding one year amounted to DM 809,701 thousand and those with a remaining term exceeding five years amounted to DM 4,151 thousand.

32 | Deferred Income

This balance is comprised mainly of deferred maintenance revenue.

f | Information on the Consolidated Statements of Cash Flows

33 | Net Cash Provided by Operating Activities

The increase in net cash provided by operating activities resulted from an increase in the Company's net income and a smaller increase in the accounts receivable due to effective receivables management. Interest payments in 1998 and 1997 were DM 6,107 thousand and DM 3,803 thousand respectively. Income taxes paid in fiscal 1998 and 1997 were DM 881,249 thousand and DM 360,125 thousand respectively, net of refunds.

34 | Net Cash Used by Investing Activities

The higher financial requirement was caused by greater investment in property, plant and equipment, necessary because of growth in the business and increased employee numbers. The investments were financed wholly from ordinary operations.

35 | Net Cash Used for Financing Activities

Financing activities used cash of DM 221,91 thousand for dividend payments and provided proceeds from the issuance of debt.

36 | Cash and Cash Equivalents

The following table shows the reconciliation of liquid assets, shown in the consolidated balance sheets to cash and cash equivalents, shown in the consolidated statements of cash flows:

	1998 DM (000)	1997 DM (000)
Liquid assets	1,310,831	997,420
Time deposits greater than 3 months	96,542	204,610
Cash and cash equivalents	1,214,289	792,810

g | Additional Information

37 | Contingent Liabilities

	1998 DM (000)	1997 DM (000)
Notes receivable sold	41	13,128
Guarantees and endorsements	3,015	364
Guarantees for unused lines of credits and other commitments	437,529	162,639
Extension of collateral for third-party liabilities	55,238	6,570
	495,823	182,701

38 | Other Financial Commitments

Commitments under rental and operating leasing contracts:

	DM (000)
Due 1999	198,072
Due 2000	140,193
Due 2001	95,136
Due 2002	65,700
Due 2003	48,630
Due thereafter	149,602

Purchase commitments amounting to DM 168,061 at December 31, 1998 are within the limit of authorized capital expenditures.

39 | Litigation and Claims

The bankruptcy trustee of the American company FoxMeyer Corp. ("FoxMeyer") has instituted legal proceedings against SAP America, Inc., the American subsidiary of SAP AG, and SAP AG, claiming damages in the amount of U.S. \$ 500 million. FoxMeyer was a pharmaceutical wholesaler that filed for bankruptcy protection in 1996. FoxMeyer's bankruptcy trustee has alleged that, during the implementation phase of the R/3 System, which began in 1993, SAP America, Inc. made false assurances concerning the functionality of its software. The case is currently in the discovery phase. While the ultimate outcome of this matter cannot be determined presently with certainty, the Company believes that FoxMeyer's claims in this action are without merit. The Company is vigorously defending against the claims, and believes that this action is not likely to have a material effect on its results of operations, financial condition, or cash flows.

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

40 | Derivative Financial Instruments

As an internationally active company, the SAP Group is subject to risks from currency and interest-rate 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 major financial institutions. The use of derivative financial instruments is governed by consistent guidelines and strict controls, and is limited to hedging against risks in ordinary operations, including the related financial investments and financing transactions. Derivative financial instruments are not employed for speculative purposes, but only for hedging purposes. As of December 31, 1998, all derivatives have maturity less than one year.

The notional values and market values (beyond valuation units) of the derivative financial instruments as of December 31, 1998 and 1997 were as follows:

	1998 Notional value DM (000)	Market value DM (000)	1997 Notional value DM (000)	Market value DM (000)
Currency-related contracts				
Forward exchange contracts	614,385	607	339,560	426
Currency options	0	0	25,600	562

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 mainly with the currencies of the following major industrialized countries: United States, Australia, United Kingdom, Switzerland and Japan.

41 | Segment Information

SAP is a leading international developer and supplier of integrated business application software designed to provide cost-effective comprehensive solutions for businesses.

The Company's primary product, the R/3 System, is designed to provide customers with a palette of standard business solutions arranged in applications that provide integrated enterprise-wide processing of business work flows. Additionally, the Company provides independent industry-specific solutions, independent business solutions, custom components, and the necessary technological infrastructure to support complementary software solutions. The Company has many strategic partners that offer complementary software, services, and hardware. The Company's services include consulting, support, and training. Customers range in size from large multinational enterprises to medium- and smaller-sized companies.

SAP operates in one industry segment, the design, development, marketing, licensing, and support of client/server and mainframe standard business application software. The Company markets its products and services through its subsidiaries and distributors throughout the world. The majority of software development occurs in Germany although the Company maintains development facilities at certain of its foreign locations. SAP does not have a structure of operational segments for which separate financial data could be prepared.

The following table presents a summary of operations by geographic region. The following amounts are based upon consolidated data. Therefore, the total of each of the following categories reconciles to the consolidated financial statements.

	Sales by destination		Sales by operation	
	1998 DM (000)	1997 DM (000)	1998 DM (000)	1997 DM (000)
Germany	1,565,088	1,149,078	1,726,544	1,262,552
Rest of EMEA ¹⁾	2,233,644	1,488,449	2,107,651	1,451,065
Total EMEA	3,798,732	2,637,527	3,834,195	2,713,617
United States	3,068,493	2,105,573	3,073,749	2,053,307
Rest of Americas	858,379	489,181	851,513	504,808
Total Americas	3,926,872	2,594,754	3,925,262	2,558,115
Asia-Pacific	739,690	785,185	705,837	745,734
Total	8,465,294	6,017,466	8,465,294	6,017,466

	Results from ordinary operations		Total assets	
	1998 DM (000)	1997 DM (000)	1998 DM (000)	1997 DM (000)
Germany	911,134	792,819	1,874,280	1,659,477
Rest of EMEA ¹⁾	385,328	313,262	1,543,812	1,200,026
Total EMEA	1,296,462	1,106,081	3,418,092	2,859,503
United States	513,547	357,551	1,880,495	1,317,033
Rest of Americas	135,184	104,368	421,331	310,244
Total Americas	648,731	461,919	2,301,826	1,627,277
Asia-Pacific	-24,971	98,936	576,860	583,480
Total	1,920,222	1,666,936	6,296,778	5,070,260

¹⁾ Europe/Middle East/Africa

	Property, plant and equipment		1998 DM (000)	1997 DM (000)	1998 DM (000)	Depreciation 1997 DM (000)
	1998 DM (000)	1997 DM (000)				
Germany	675,074	484,855	119,647		95,829	
Rest of EMEA ¹⁾	255,123	187,943	47,260		30,578	
Total EMEA	930,197	672,798	166,907		126,437	
United States	255,952	106,928	27,185		28,648	
Rest of Americas	30,558	29,934	15,434		10,945	
Total Americas	286,510	136,862	42,619		39,593	
Asia-Pacific	45,610	43,652	19,481		17,422	
Total	1,262,317	853,312	229,007		183,442	

	Capital expenditures		12/31 1998	Employees 12/31 1997
	1998 DM (000)	1997 DM (000)		
Germany	318,343	193,242	7,679	5,516
Rest of EMEA ¹⁾	112,159	153,033	3,281	1,969
Total EMEA	430,502	346,275	10,960	7,485
United States	176,276	90,657	4,463	2,906
Rest of Americas	17,893	21,989	1,521	879
Total Americas	194,169	112,646	5,984	3,785
Asia-Pacific	23,514	28,441	2,364	1,586
Total	648,185	487,362	19,308	12,856

¹⁾ Europe/Middle East/Africa

The six major groups of Industry Business Units generated the following sales revenues:

	1998 DM (000)
Process Industries	1,910,980
Discrete Manufacturing	2,275,050
Fast Moving Consumer Goods	1,274,163
Utilities and Communication	886,901
Financial Service and Service Providers	1,621,530
Public Sector	496,670
Total	8,465,294

42 | Supervisory Board and Executive Board

Subject to the adoption of the dividend resolution by the shareholders at the Annual General Meeting on May 6, 1999, the total annual remuneration of the Supervisory Board will amount to DM 1,096 thousand. The total annual remuneration of the Executive Board will amount to DM 7,988 thousand. Interest-free loans granted to members of the Executive Board and outstanding in the amount of DM 9 thousand on December 31, 1997 were fully repaid in 1998. A pension accrual has been made for former Board Members in the amount of DM 2,420 thousand for 1998. The members of the Supervisory Board and Executive Board of SAP AG are listed on pages 66 and 67.

Walldorf, February 26, 1999

SAP Aktiengesellschaft
Systeme, Anwendungen, Produkte in der Datenverarbeitung
Walldorf, Germany

The Executive Board

Plattner Kagermann Heinrich Oswald Zencke

Supervisory Board

*Elected at the
Annual General Meeting:*

Dietmar Hopp

Walldorf
Chairperson
as of May 7, 1998

Dr. Wilhelm Haarmann

Kronberg/Taunus
RA WP StB HAARMANN,
HEMMELRATH & PARTNER
Frankfurt am Main

Dr. Heinrich Hornef

Weinheim
until May 7, 1998

Klaus-Dieter Laidig

Böblingen
Management Consultant
Laidig Business Consulting GmbH

Hartmut Mehdorn

Heidelberg
Chairman of the
Executive Board
of Heidelberger
Druckmaschinen AG
Heidelberg
as of May 7, 1998

Botho von Portatius

Cologne
until May 7, 1998

**Prof. Dr. August-Wilhelm
Scheer**

Saarbrücken
Director of the Institute for
Information Systems
Saarland University
Saarbrücken
until May 7, 1998

Dr. Dieter Spöri

Backnang
DaimlerChrysler AG
Berlin
as of May 7, 1998

Dr. Bernd Thiemann

Kronberg/Taunus
Chairman of the Executive Board
of DG BANK
Frankfurt am Main
until May 7, 1998

Dr. h. c. Klaus Tschira

Heidelberg
as of May 7, 1998

*Elected
by the employees:*

Helga Classen

St. Leon-Rot
Deputy Chairperson

Willi Burbach

Ratingen

Rüdiger Gerber

Bad Schönborn
until May 7, 1998

Bernhard Koller

Walldorf

Dr. Gerhard Maier

Wiesloch

Dr. Barbara Schennerlein

Dresden
as of May 7, 1998

Alfred Simon

Malsch

Executive Board

Prof. Dr. h. c. Hasso Plattner

Schriesheim/Altenbach
Co-Chairman and CEO
Basis, Technology
and Industry
Solutions Development,
Marketing,
Corporate Communications,
Americas Region

Prof. Dr. Henning Kagermann

Hockenheim
Co-Chairman and CEO
Financials, Human Resources
and Industry Solutions
Development,
Administration,
Europe Region

Dr. Claus E. Heinrich

Walldorf
Logistics, Industry Solutions
and Human Resources
Development

Dietmar Hopp

Walldorf
Administration, Sales and
Consulting Germany,
Corporate Communications
until May 7, 1998

Gerhard Oswald

Wiesloch
R/3 Corporate Services,
IT Infrastructure

Dr. h. c. Klaus Tschira

Heidelberg
Human Resources
Development
until May 7, 1998

Paul Wahl

Wilhelmsfeld
SAP America, Inc. (CEO),
Marketing
until September 3, 1998

Dr. Peter Zencke

Weinheim
Logistics and Industry Solutions
Development
Asia-Pacific

Extended Management Board

Michael Gioja

Stutensee
Human Resources Development
until October 27, 1998

Karl-Heinz Hess

Stutensee
Basis Development

Dieter Matheis

Mühlhausen
Chief Financial Officer

Kevin S. McKay

Doylestown, PA, U.S.A.
SAP America, Inc. (CEO)
as of September 3, 1998

Paul Neugart

Hockenheim
Head of Sales in Germany
until June 30, 1998

Subsidiaries, Joint Ventures, and Associated Companies

SAP AG and the Group | as of 12/31/1998, figures in DM (000), except for % and employee information

Name and location of company	Ownership %	Sales revenue in 1998 ¹⁾	Net income/(loss) for 1998 ¹⁾	Equity as of 12/31/98 ¹⁾	Number of employees as of 12/31/98 ²⁾
I. Affiliated companies					
Germany					
SAP Retail Solutions GmbH & Co., St. Ingbert ⁵⁾	100	101,007	16,853	37,198	491
SRS Software- und Systemhaus Dresden GmbH, Dresden	50	88,532	7,718	14,816	382
SAP Systems Integration GmbH, Alsbach-Hähnlein	60	58,223	5,654	32,965	214
SAP Labs GmbH Mannheim, Mannheim ⁴⁾	80,2	52,162	2,151	2,455	226
Steeb Anwendungssysteme GmbH, Abstatt	100	45,824	3,732	9,498	125
AsseT GmbH Assessment & Training Technologies, Immenstaad	75	4,451	728	1,897	16
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf	100	0	-2	48	0
DACOS Software Holding GmbH, St. Ingbert	100	0	-3,505	10,324	0
Rest of Europe, Middle East and Africa					
SAP (UK) Limited, Feltham/United Kingdom	100	438,418	17,075	134,966	500
SAP FRANCE SYSTEMES APPLICATIONS ET					
PROGICIELS S.A., Paris/France	100	277,029	14,432	72,248	415
SAP (Schweiz) AG Systeme, Anwendungen und Produkte					
der Datenverarbeitung, Biel/Switzerland	100	238,502	48,052	220,768	252
SAP Svenska Aktiebolag, Stockholm/Sweden	100	169,321	39,521	66,148	231
SAP Nederland B.V., 's Hertogenbosch/The Netherlands	100	163,768	26,109	60,062	269
S.A.P. Italia Sistemi Applicazioni					
Prodotti in Data Processing S.p.A., Milan/Italy	100	154,282	22,192	43,337	177
SAP ESPANA Y PORTUGAL SISTEMAS APLICACIONES					
Y PRODUCTOS EN LA INFORMÁTICA, S.A., Madrid/Spain	100	151,538	17,080	39,892	195
SAP Danmark A/S, Brøndby/Denmark	100	129,074	11,477	49,302	241
SAP Österreich, Systeme, Anwendungen und Produkte					
in der Datenverarbeitung Gesellschaft m.b.H., Vienna/Austria	100	119,404	17,361	53,174	178
NV SAP BELGIUM SA, Brussels/Belgium	100	105,834	15,107	38,206	143
SYSTEMS APPLICATIONS PRODUCTS (SOUTHERN AFRICA)					
(PTY) LTD, Woodmead/South Africa	100	91,780	9,358	19,950	210
SAP CR, spol. s.r.o., Prague/Czech Republic	100	46,617	2,163	18,574	124
SAP Polska Sp. z o.o., Warsaw/Poland	100	34,912	3,311	9,460	83
SAP Hungary Rendszerek, Alkalmazások és Termékek az					
Adatfeldolgozásban Informatikai Kft., Budapest/Hungary	100	22,140	6,076	7,989	47
SAP Consult C.I.S., Moscow/Russia	100	11,953	455	1,090	86
SAP Slovensko s.r.o., Bratislava/Slovakia ⁴⁾	100	11,139	27	1,812	38
SAP Retail Solutions Nederland B.V., 's Hertogenbosch/The Netherlands ⁵⁾	100	6,272	170	393	0
SAP Service and Support Centre (Ireland) Limited, Dublin/Ireland	100	6,012	1,410	3,502	45
OFEK-tech Software Industrie Ltd., Tel Aviv/Israel ³⁾	51	4,804	783	2,004	33
K & V Information Systems Ltd. I.L., Buckinghamshire/UK ^{3), 5)}	100	2,883	-686	296	0
SAP Labs France S.A., Paris/France ⁴⁾	100	164	-251	3,477	8
DACOS Software S.A., Vaumarcus (NE) /Switzerland ^{3), 5)}	52	0	-179	435	1
SAP Ireland Ltd., Dublin/Ireland	100	0	4,020	70,012	6

Name and location of company	Ownership %	Sales revenue in 1998 ¹⁾	Net income/(loss) for 1998 ¹⁾	Equity as of 12/31/98 ¹⁾	Number of employees as of 12/31/98 ²⁾
AMERICAS					
SAP America, Inc., Newtown Square/USA	100	3,074,045	302,607	947,878	3,823
SAP Canada Inc., North York/Canada	100	280,468	5,153	48,180	571
SAP BRASIL COMÉRCIO E REPRESENTACOES LTDA.,					
Sao Paulo/Brazil	100	271,793	25,768	41,697	405
SAP Labs, Inc., Palo Alto/U.S.A. ⁵⁾	100	154,034	4,060	13,930	433
SAP MEXICO S.A. DE C.V., Mexico City/Mexico	100	127,948	26,453	34,917	222
SAP Public Sector and Education, Inc., Washington DC/U.S.A. ⁵⁾	100	126,649	-6,463	-6,222	172
SAP Andina y del Caribe C.A., Caracas/Venezuela	100	96,100	11,920	14,453	160
SAP ARGENTINA S.A., Buenos Aires/Argentina	100	91,655	16,013	31,115	163
SAP International, Inc., Miami/U.S.A. ⁵⁾	100	11,061	-1,940	-1,411	35
SAP Investment Inc., Wilmington, Delaware/U.S.A. ^{4), 5)}	100	0	23	83,673	0
ASIA-PACIFIC					
SAP AUSTRALIA PTY LTD, Sydney/Australia	100	293,782	16,899	52,296	344
SAP Japan Co., Ltd., Tokyo/Japan	100	175,954	-103,898	-1,521	921
SAP Asia Pte. Ltd., Singapore	100	90,305	-1,537	10,185	269
SAP India Systems, Applications and Products in Data Processing					
Private Limited, Bangalore/India ⁵⁾	100	63,208	9,581	13,309	116
SAP (Malaysia) Sdn. Bhd., Kuala Lumpur/Malaysia	100	33,070	2,035	7,814	74
SAP Taiwan Co. Ltd., Taipei/Taiwan	100	32,120	6,679	11,499	73
SAP New Zealand Limited, Auckland/New Zealand	100	31,974	4,843	11,792	41
SAP Korea Limited, Seoul/Korea	100	31,634	4,973	18,316	100
SAP (Beijing) Software System Co., Ltd., Beijing/China	100	22,895	-405	5,042	160
SAP HONG KONG CO. LIMITED, Taikoo Shing/Hong Kong	100	20,574	3,753	9,007	41
SAP SYSTEMS, APPLICATIONS AND PRODUCTS					
IN DATA PROCESSING (THAILAND) LTD., Bangkok/Thailand	100	12,802	2,603	7,059	50
SAP Philippines, Inc., Makati City/Philippines	100	9,902	582	2,228	42
SAP Labs India Pvt. Ltd. Bangalore/India ⁴⁾	100	2,379	257	1,866	120
PT SAP Asia, Jakarta/Indonesia	100	1,577	-1,703	-1,071	13
SAP India (Holding) Pte. Ltd., Singapore	100	0	-8	712	0
II. ASSOCIATED COMPANIES					
IDS Prof. Scheer Gesellschaft für integrierte					
Datenverarbeitungssysteme mbH, Saarbrücken/Germany	25,2	101,420	6,519	62,871	575
SAP Solutions GmbH, Freiberg/Germany	40	60,441	10,390	13,521	217
Schmidt, Vogel und Partner Consult, Gesellschaft für					
Organisation und Managementberatung mbH, Bielefeld/Germany	25,2	50,300	858	3,827	241
Pandesic LLC, Santa Clara, California/U.S.A. ⁴⁾	50	620	-72,056	2,447	143

¹⁾ These figures do not include eliminations resulting from consolidation and therefore do not reflect the contribution of these companies included in the consolidated financial statements.

²⁾ As of December 31, 1998, including managing directors

³⁾ Not consolidated according to Article 296 (2) of the German Commercial Code

⁴⁾ Consolidated for the first time in 1998

⁵⁾ Represents a wholly owned entity of a subsidiary

Five-Year Summary

SAP Group

	(in millions of DM, unless otherwise stated)					(in millions of EUR)
	1994	1995	1996	1997	1998	1998
SALES REVENUES	1,831.1	2,696.4	3,722.2	6,017.5	8,465.3	4,328.2
% generated by foreign subsidiaries	62%	67%	73%	79%	80%	
% product revenue	71%	72%	71%	68%	62%	
per employee (in thousands of DM/EUR)	414	419	455	521	489	250
NET INCOME	281.2	404.8	567.5	925.4	1,052.3	538.1
Return on equity (net income as a % of average equity)	25%	29%	30%	35%	31%	
Results from operations	471.3	674.0	967.2	1,666.9	1,920.2	981.8
% return on sales (results from operations as a % of sales revenues)	26%	25%	26%	28%	23%	
Income according to DVFA/SG	280.3	403.3	566.2	923.0	1,049.3	536.5
Earnings per share according to DVFA/SG (in DM/EUR)	2.77	3.98	5.47	8.85	10.04	5.13
TOTAL ASSETS	1,749.7	2,218.2	3,367.0	5,070.2	6,296.8	3,219.5
FIXED ASSETS	689.4	752.0	789.0	1,162.4	1,658.1	847.7
Intangible assets	12.3	7.5	5.7	81.3	151.4	77.4
Property, plant and equipment	514.5	575.0	621.9	853.3	1,262.3	645.4
Financial assets	162.6	169.5	161.4	227.8	244.4	124.9
CURRENT ASSETS						
(INCL. PREPAID EXPENSES / DEFERRED CHARGES)	1,060.3	1,466.2	2,578.0	3,907.8	4,638.7	2,371.8
Inventories	4.9	5.6	7.8	7.5	36.9	18.9
Accounts receivable	708.2	1,062.9	1,832.8	2,902.9	3,291.0	1,682.7
Liquid assets	347.2	397.7	737.4	997.4	1,310.8	670.2
SHAREHOLDERS' EQUITY	1,236.2	1,529.5	2,211.3	3,062.5	3,756.3	1,920.6
as % of fixed assets	179%	203%	280%	263%	227%	
Subscribed capital	506.2	506.2	517.5	521.5	522.8	267.3
Reserves	639.5	886.5	1,448.9	2,232.0	2,893.9	1,479.6
Group retained earnings	88.1	133.8	240.7	294.4	325.6	166.5
Minority interests	2.4	3.0	4.2	14.6	14.1	7.2
LIABILITIES (INCL. DEFERRED CHARGES)	513.5	688.7	1,155.7	2,007.7	2,540.4	1,298.9
Long-term debt	51.8	42.3	74.5	139.9	152.4	77.9
Short-term liabilities	461.7	646.4	1,081.2	1,867.8	2,388.0	1,221.0
% OF TOTAL ASSETS						
Property, plant and equipment	39%	34%	23%	23%	26%	
Current assets	61%	66%	77%	77%	74%	
Shareholders' equity	71%	69%	66%	60%	60%	
Liabilities	29%	31%	34%	40%	40%	

SAP Group

	(in millions of DM, unless otherwise stated)					(in millions of EUR)
	1994	1995	1996	1997	1998	1998
FINANCIAL LIABILITIES	69.1	80.2	99.1	168.2	240.1	122.7
Long-term	21.9	20.5	8.8	5.1	51.8	26.4
Short-term	47.2	59.7	90.3	163.1	188.3	96.3
Net interest income	+22.1	+22.2	+27.8	+52.6	+60.8	31.1
CASH-FLOW ACCORDING TO DVFA/SG³⁾	386.5	559.0	782.7	1,230.1	1,337.7	683.9
as % of sales revenue	21%	21%	21%	20%	16%	
INVESTMENTS/DEPRECIATION AND AMORTIZATION						
Investments in property, plant and equipment						
and intangible assets	194.1	255.6	220.6	574.7	760.0	388.6
Depreciation and amortization	88.7	144.5	164.6	195.3	271.3	138.7
Depreciation/investments (depreciation as						
a % of investments)	46%	57%	75%	34%	36%	
NUMBER OF EMPLOYEES						
at year-end	5,229	6,857	9,202	12,856	19,308	
annual average	4,596	6,443	8,177	11,558	17,323	
Personnel expenses	675.2	956.7	1,338.5	2,074.9	3,043.6	1,556.1
RESEARCH AND DEVELOPMENT EXPENSES	369.6	438.2	505.5	701.8	1,121.7	573.5
as a % of sales revenues	20%	16%	14%	12%	13%	
SAP AG						
Net income	122.9	189.8	304.5	447.3	525.5	268.7
Transfer to reserves	35.5	56.0	64.0	153.5	200.0	102.3
Dividend distributions	88.1	133.6	240.2	294.2	323.6	165.5
	(in DM)					(in EUR)
Dividend per ordinary share	0.85	1.30	1.80 ¹⁾	2.80		1.57 ²⁾
Dividend per preference share	0.90	1.35	1.85 ¹⁾	2.85		1.60 ²⁾
Stock prices at year-end: Ordinary share	102.50	222.00	210.50	545.50	720.00	368.13
Stock prices at year-end: Preference share	88.40	217.80	211.80	584.20	799.50	408.78
Number of shares at year-end (in thousands)	101,231	101,233	103,507	104,303	104,565	
Thereof ordinary share	60,985	60,986	60,991	60,996	61,000	
Thereof preference share	40,246	40,247	42,516	43,307	43,565	
Market capitalization (in billion DM/billion EUR)	9.8	22.3	21.8	58.6	78.7	40.3

¹⁾ For 1996 plus a 25th anniversary bonus of DM 0.50 per ordinary and preference share

²⁾ 1998 proposed dividend

³⁾ German Association For Financial Analyst and Investment Consultants

Addresses and Financial Calendar

Headquarters

Address	SAP AG Neurottstrasse 16 D-69190 Walldorf, Germany
Telephone	+49 6227 747474
Fax	+49 6227 757575
Internet	www.sap.com
E-Mail	press@sap-ag.de

All international subsidiaries and sales partners are listed at www.sap.com under "Contact us".

International subsidiaries and sales partners in the Europe/Middle East/Africa region:

Greece, Ireland, Israel, Italy, Kazakhstan, Kenya, Luxembourg, The Netherlands, Norway, Poland, Romania, Russia, Saudi Arabia, South Africa, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, Hungary, Ukraine, United Arab Emirates, United Kingdom, Zimbabwe

International subsidiaries and sales partners in the Americas region:

Argentina, Brazil, Canada, Colombia, Chile, Mexico, Puerto Rico, Peru, Venezuela, U.S.A.

International subsidiaries and sales partners in the Asia-Pacific region:

Australia, China, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Taiwan

Financial Calendar

1999 |

April 28	Interim report: January – March 1999
May 6	Annual General Meeting, Mannheim
May 7	Payment of dividends
July 28	Interim report: January – June 1999
October 27	Interim report: January – September 1999

2000 |

January 26	Preliminary figures for fiscal 1999
May 4	Annual General Meeting