



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

SAP 1997: OVERVIEW

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

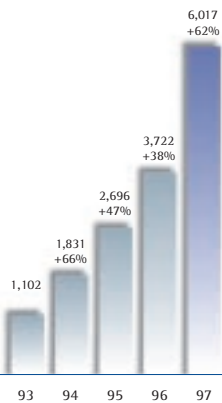
POWERFUL GROWTH IN THE ENTERPRISE SOFTWARE MARKET

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

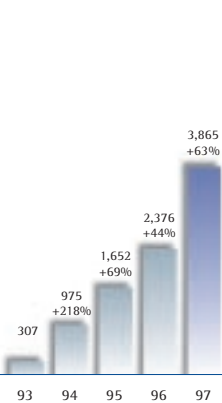
SALES INCREASE 62%

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

SAP Group Sales
in DM millions



R/3 Sales
in DM millions

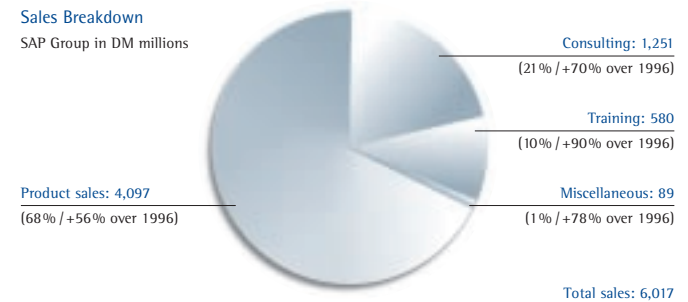


Sales growth was helped considerably by favorable currency trends. In particular, the stronger US dollar and British pound contributed DM 423 million to the sales figure. The increase in revenue attributable to favorable exchange rates amounted to 11 percentage points of the 62% rise in sales.

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

Sales Breakdown

SAP Group in DM millions

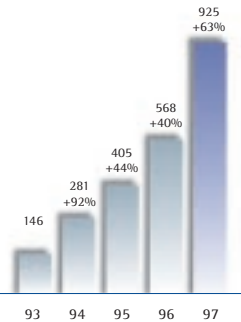


PROFIT PERFORMANCE

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

Trends in Earnings

SAP Group in DM millions



OPERATIONS



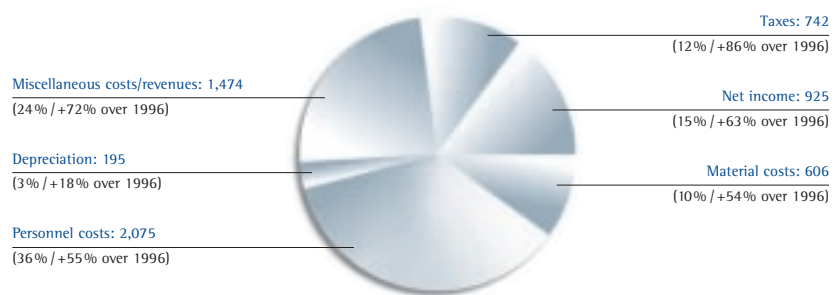
INCREASED EARNINGS PER SHARE

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

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

Cost Breakdown

SAP Group in DM millions



DIVIDEND INCREASE PROPOSED

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

In addition to being traded on the Frankfurt, Stuttgart and Berlin

stock exchanges, SAP shares are traded off the

floor in other regional stock exchange centers in Germany

REGIONAL DEVELOPMENT

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

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

Sales and Income Before Tax by Region

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

OPERATIONS



BALANCE SHEET DEVELOPMENT

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

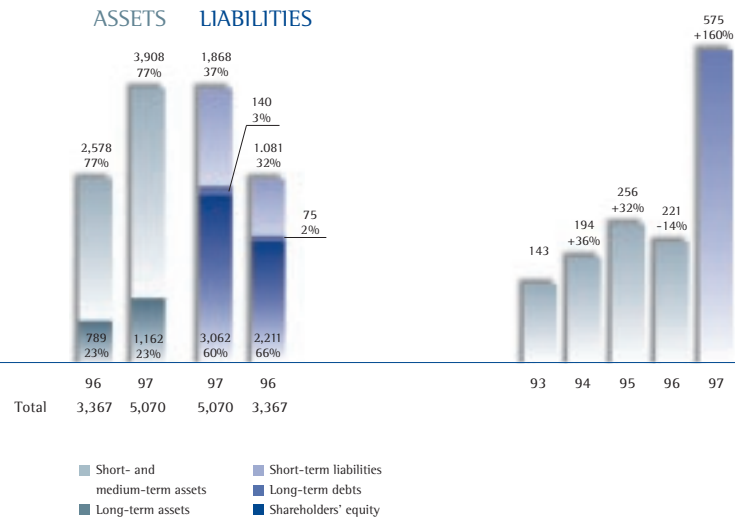
SAP's robust balance sheet made the company one of the most financially stable German firms in 1997. In September 1997, the German business monthly "manager magazin" gave SAP its highest "AA" rating for its 1996 balance sheet strength – the only German corporation to receive that rating.

INVESTMENT INCREASED

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

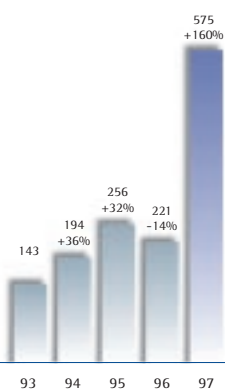
Consolidated Balance Sheet Breakdown

in DM millions



Capital Expenditures

SAP Group in DM millions



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

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

PERSONNEL DEVELOPMENT

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

STAFF OUTSIDE GERMANY GROWS RAPIDLY

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

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

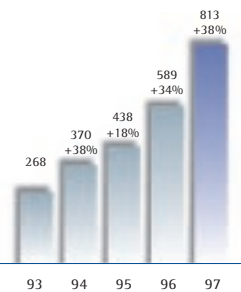
RESEARCH AND DEVELOPMENT

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

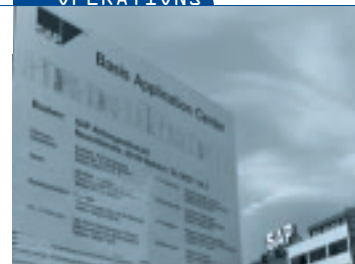
Expenditures for Research and Development increased 38% to DM 813 million (1996: DM 589 million), but decreased slightly as a percentage of sales to 14% as compared with 16% in 1996. In this area SAP again leads the industry. The company's efforts in Research and Development are a reflection of its determination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

Expenditures for Research and Development

SAP Group in DM millions



OPERATIONS



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

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

GERMAN STOCK CORPORATION LAW, ARTICLE 17: STATEMENT

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

OUTLOOK

R/3 BECOMING A PORTFOLIO OF INDEPENDENT COMPONENTS

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

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

PENETRATION OF NEW MARKETS

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

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

LISTING SAP IN THE US

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

FOCUS ON SPECIFIC INDUSTRIES

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

PLANS FOR UP TO 5,000 NEW EMPLOYEES

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

SALES AND PROFIT FORECASTS

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



OPERATIONS

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

