

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

A. GENERAL INFORMATION

(1) APPLICATION OF THE GERMAN LEGAL REGULATIONS

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

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

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

B. SIGNIFICANT ACCOUNTING POLICIES

(2) CONSOLIDATED COMPANIES

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

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

One joint venture, SRS Software- und Systemhaus Dresden GmbH, Dresden/Germany, in which SAP AG holds a 50% interest, is consolidated on a proportional basis.

The following associated companies were consolidated by the equity method:

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

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

Two subsidiaries have not been consolidated, since their impact on the Group's net worth, financial position and results of operations is immaterial (their balance sheet totals amount to approximately 0.3% of the consolidated balance sheet total). They have been excluded pursuant to Article 296 (2) of the German Commercial Code. Please refer to the information relating to the Group's investments on pages 88 and 89.

(3) CONSOLIDATION POLICIES

The book value method of consolidation has been used, unless otherwise noted. Under such method, differences between acquisition costs and attributable shareholders' equity are first allocated to identifiable assets acquired or liabilities assumed to the extent of their fair market values. Any remaining goodwill is set off against the reserves as of December 31, 1996, pursuant to Article 309 (1) sentence 3 of the German Commercial Code. On January 1, 1997, goodwill was capitalized for the first time.

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

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

(4) ACCOUNTING AND VALUATION POLICIES

The accounting and valuation policies of SAP AG also apply to the consolidated financial statements. The financial statements of consolidated subsidiaries whose accounting policies differ from those of the parent company have been adjusted. Such adjustments are waived only where the effect is immaterial.

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

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

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

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

Investments in affiliated companies and other shareholdings are shown at the lower of cost or market value. Long-term investments are shown at cost. Interest-bearing loans to employees and to third parties are shown at their nominal value. Interest-free loans to employees and to third parties are discounted to their present value.

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

Accounts receivable from software sales are posted on the basis of the number of authorized users, provided that the customer has legally signed an irrevocable contract with the Company, and the software has been delivered in full. Maintenance revenues are recognized proportionally over the term of the maintenance contract. Accounts receivable for consulting and training services are recognized after performance of these services. Accounts receivable are stated at their nominal value. Foreseeable individual risks are written down on a case-by-case basis. General credit risk is reflected by means of a lump-sum allowance for doubtful accounts. Interest-free loans with a remaining term exceeding one year are discounted to their present value. Other assets equal to the cash surrender value of life insurance policies are capitalized at the value of the insurance company's premium reserve, as shown in its general operational plan.

Marketable securities are valued at the lower of cost or market as of the balance sheet date. Other assets are shown at their nominal value. Cash and cash equivalents in Postbank accounts and in banks are stated at their nominal amounts.

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

DEFERRED TAXES: On the balance sheets of SAP AG and the other companies included in the consolidated financial statements, deferred taxes are established for temporary differences between assets, liabilities and net income calculated for tax purposes and for financial reporting purposes which are expected to be reversed in the future. Moreover, deferred taxes are established on the consolidated balance sheets for temporary differences in net income resulting from consolidation measures affecting current-period income.

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

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

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

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

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

LIABILITIES: Liabilities are shown at the amounts payable.

(5) CURRENCY TRANSLATION

The financial statements of the individual companies include accounts receivable in foreign currencies, which are translated at the lower of the exchange rate on the transaction date or the buying rate on the balance sheet date. Losses arising from movements in exchange rates are recorded. Accounts payable in foreign currencies are valued at the higher of the applicable rates.

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

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

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

The exchange rates of key currencies changed as follows:

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

C. NOTES TO THE BALANCE SHEETS

(6) FIXED ASSETS

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

(7) INTANGIBLE ASSETS

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

(8) TANGIBLE FIXED ASSETS

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

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

(9) INVESTMENTS IN AFFILIATED COMPANIES

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

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

(10) FINANCIAL ASSETS

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

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

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

(11) INVENTORIES

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

(12) ACCOUNTS RECEIVABLE

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

(13) ACCOUNTS DUE FROM AFFILIATED COMPANIES

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

(14) OTHER ASSETS

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

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

(15) MARKETABLE SECURITIES

This item consists primarily of fixed-income securities.

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

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

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

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

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

(16) CASH AND CASH EQUIVALENTS

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

(17) DEFERRED TAXES

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

(18) SUBSCRIBED CAPITAL

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

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

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

(19) CAPITAL RESERVE

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

(20) REVENUE RESERVES

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

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

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

Group revenue reserves are as follows:

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

(21) SPECIAL RESERVE WITH ACCRUAL CHARACTER

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

(22) SPECIAL RESERVES FOR CAPITAL INVESTMENT SUBSIDIES AND ALLOWANCES

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

(23) PENSION RESERVES AND SIMILAR OBLIGATIONS

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

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

Pension reserves and similar obligations contain an amount of DM 19,726,000 that corresponds to the difference between the admissible value under commercial law of the obligations computed in accordance with Article 6a of the German Income Tax Act, and the value of the assets held by the relief fund.

(24) OTHER RESERVES AND ACCRUED LIABILITIES

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

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

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

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

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

(25) BONDS

This item comprises the outstanding portion of the 6% 1994/2004 convertible bond, which amounts to DM 4,709,000 (DM 8,661,000 as of December 31, 1996), and the outstanding portion of the 1988/1998 floating-rate convertible bond, which amounts to DM 4,000 (DM 8,000 as of December 31, 1996). The 1988/1998 convertible bond issue is divided into DM 50 registered convertible bonds, and carries a right to convert to SAP ordinary and preference shares at a ratio of 1:6.25 of the share's par value. The conversion right can be exercised up until October 20, 1998. The exercise of the conversion right related to the remaining 1988/1998 convertible bonds would result in 445 ordinary shares with a par value of DM 50 each and 112 preference shares with a par value of DM 50 each. The 1994/2004 convertible bond issue is divided into 4,000,000 registered convertible bonds with a par value of DM 5. This convertible bond carries the right to convert to preference shares at a ratio of 1:1 of the share's nominal value. This conversion right can be exercised on June 30, July 31, August 31, September 30, October 31 and November 30 of every year up until June 30, 2004. The exercise of the conversion right related to the remaining 1994/2004 convertible bonds would result in 941,761 preference shares with a par value of DM 5 each.

(26) OTHER LIABILITIES

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

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

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

SAP AG

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

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

(27) CONTINGENT LIABILITIES

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

(28) OTHER FINANCIAL COMMITMENTS

Commitments under rental and leasing contracts:

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

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

(29) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

D. NOTES TO THE INCOME STATEMENTS

(30) SALES REVENUES

Sales revenues by types of activity were as follows:

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

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

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

(31) OTHER OPERATING INCOME

Other operating income comprises:

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

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

(32) PERSONNEL EXPENSES/NUMBER OF EMPLOYEES

Personnel expenses comprise:

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

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

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

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

(33) DEPRECIATION AND AMORTIZATION

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

(34) OTHER OPERATING EXPENSES

Other operating expenses comprise the following:

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

(35) INCOME FROM INVESTMENTS

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

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

(36) WRITE-DOWN OF FINANCIAL ASSETS

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

(37) NET INTEREST INCOME

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

(38) TAXES ON INCOME

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

The Group's tax charges are as follows:

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

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

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

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

E. ADDITIONAL INFORMATION

(39) MEMBERS OF THE SUPERVISORY BOARD AND EXECUTIVE BOARD

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

(40) TOTAL REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD AND EXECUTIVE BOARD, LOANS GRANTED

Subject to the adoption of the dividend resolution by the shareholders at the Annual General Meeting, the total annual remuneration of the Supervisory Board will amount to DM 1,086,750. The total annual remuneration of the Executive Board will amount to DM 15,972,681. In addition, members of the Executive Board were granted interest-free loans in the amount of DM 8,500 (repayments of DM 265,500 were made in 1997), with a remaining term to maturity of 4 to 5 years. All loans extended to members of the Executive Board in 1996 and bearing interest at the annual rate of 6% were repaid in 1997 (DM 75,000).

(41) PROPOSED APPROPRIATION OF RETAINED EARNINGS

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

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

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

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

Walldorf, February 13, 1998

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

The Executive Board

Hopp Plattner Heinrich Kagermann Oswald Tschira Wahl Zencke

CASH FLOW

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

CASH FLOW

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

INDEPENDENT AUDITORS' REPORT

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

SAP Aktiengesellschaft
Systems, Applications and Products in Data Processing

we are issuing the following unqualified auditors' certificate:

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

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

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Prof. Dr. Weber
Auditor

Klein
Auditor