

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)	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