



Forward-Looking Statements

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

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

1998 – A Successful Year Despite Challenges

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

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

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

The main engines for this growth in the future are:

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



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

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

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

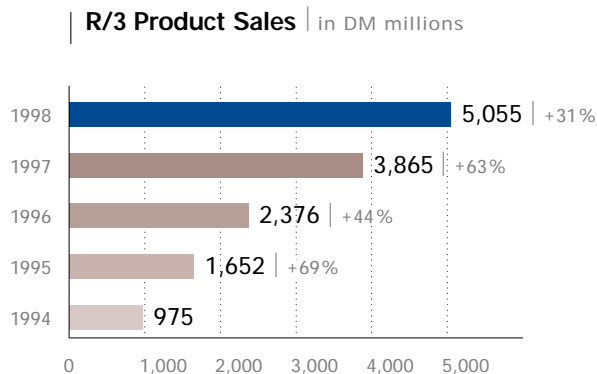
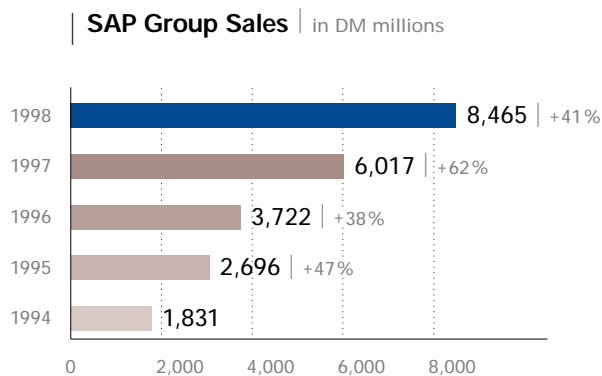
With the exception of Japan, all the Company's major markets contributed to realizing the goal set by SAP of increasing revenue by approximately 40% in 1998. SAP's actual sales grew by 41% in 1998. A shortfall of approximately DM 200 million in anticipated software sales revenue from Japan and Russia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

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

Revenues Increase by 41%

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

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

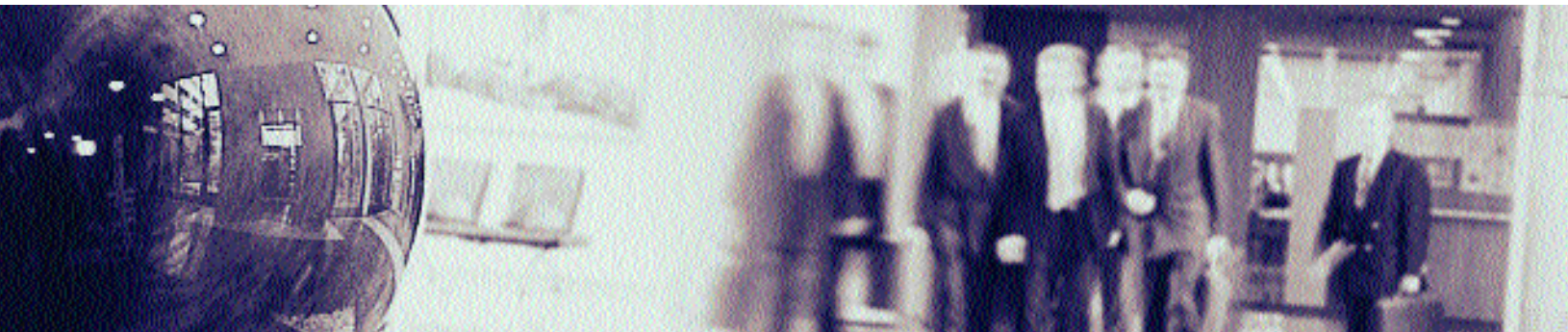


DM 2.19 billion. The reason for this steep rise was the launch of TeamSAP, a concept that involves the Company taking a more active role in supporting customers' SAP software implementation projects. Training revenue increased by 54% to DM 893 million. Miscellaneous revenues, principally income from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

Problems in Japan Impact Results

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

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



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

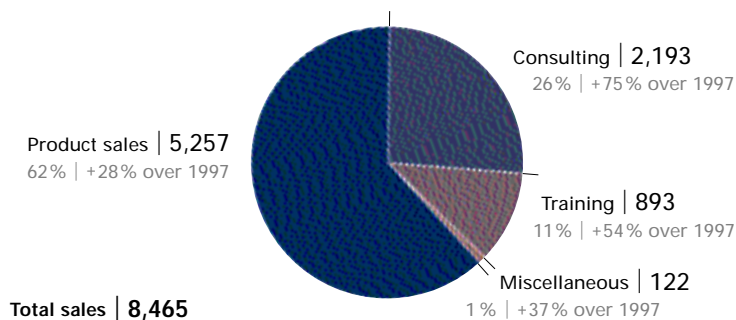
The financial crisis in Russia and the other countries of the former Soviet Union meant companies operating in the area were confronted with ever-worsening solvency problems. SAP has made allowances for this in the Consolidated Financial Statements resulting in a

reduction in 1998 pretax profits by approximately DM 40 million.

Exceptional Boom Recedes

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

SAP Group Sales Breakdown | in DM millions





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

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

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

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

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

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

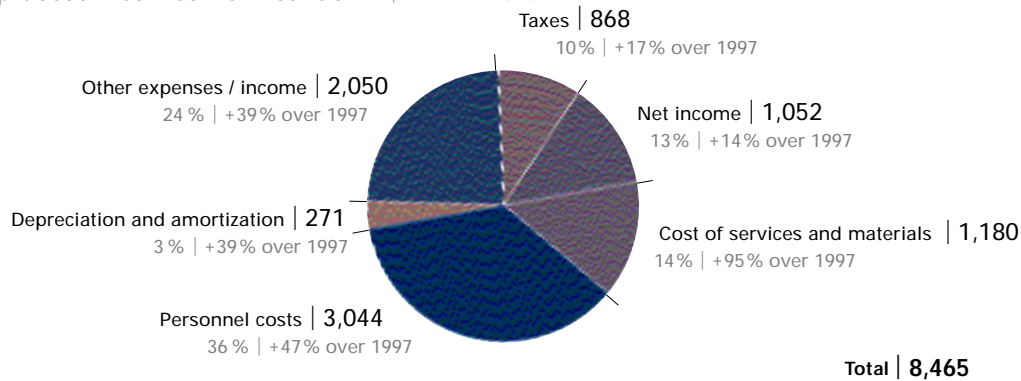


gion (EMEA), the number of employees grew 46% to 10,960 (1997: 7,485). In Germany alone the number of employees increased to 7,679, 39% more than at the end of 1997 (5,516). In the Asia-Pacific region, the number of staff increased 49% to 2,364 (1997: 1,586).

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

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

SAP Group Cost / Net Income Breakdown | in DM millions





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

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

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

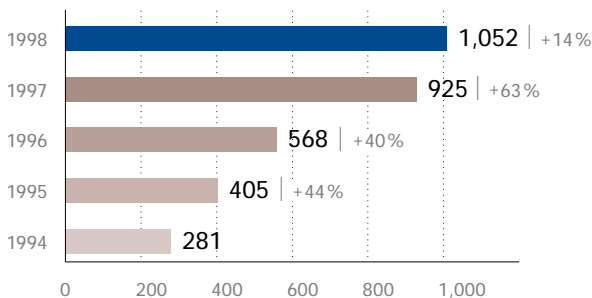


Increased Earnings per Share

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

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

Trends in Earnings | in DM millions



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

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



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

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

EnjoySAP Initiative Launched

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

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

Comprehensive Internet Offering

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

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

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

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

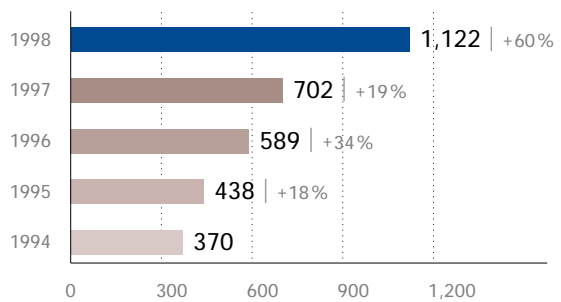


suitable for using in a browser will be made available on the Internet via this new interface.

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

Expenditures for Research and Development

in DM millions



Financial Statements of SAP AG

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

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

Dividend Increase Proposed

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

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

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

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

*) Contingent capital DM 3,428 thousand

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

Development in the Regions



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

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

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

¹⁾ Europe/Middle East/Africa

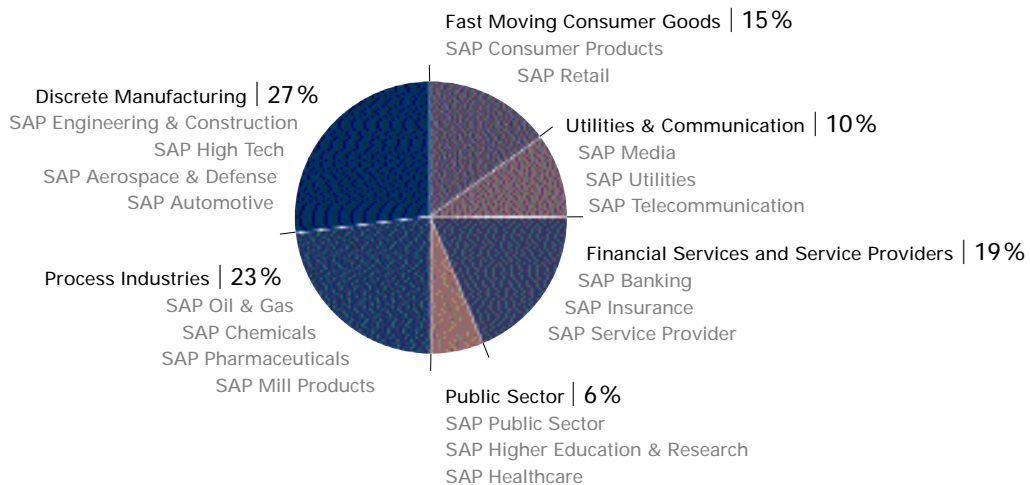
Development by Industry Sectors



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

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

Breakdown of Product Sales Revenues | by sector



Development of the Consolidated Balance Sheets



Consolidated Balance Sheet Breakdown

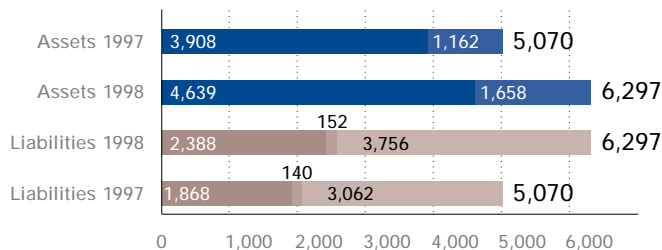
in DM millions

ASSETS

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

SHAREHOLDERS' EQUITY AND LIABILITIES

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



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

Effective Receivables Management

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

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



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

Foreign Currency Management

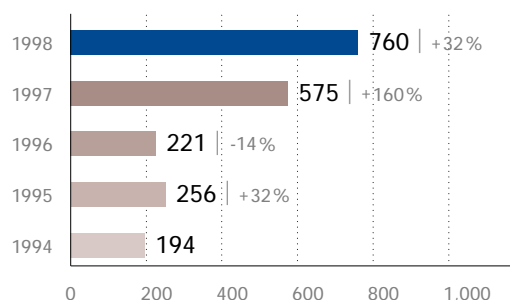
SAP is active worldwide with more than 80% of total sales outside the domestic market. The Group is therefore subject to exchange fluctuation risks in the ordinary course of business. To reduce these risks, SAP uses derivative financial instruments as part of its foreign exchange management policy.

Minor Differences Under U.S. GAAP Reporting

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

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

Capital Expenditures | in DM millions





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

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

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

Doubling Sales in Three Years

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

Major Challenges in Achieving Targets

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

■ Acceptance of New Products

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

■ Revenue Mix

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



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

■ Year 2000 Issues

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

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

■ Global Economic Climate

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

Research and Development

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



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

Comprehensive Risk Management

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

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

the suitability and effectiveness of the management tools used.

Euro Changeover on Target

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

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

Well-Prepared for Year 2000

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



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

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