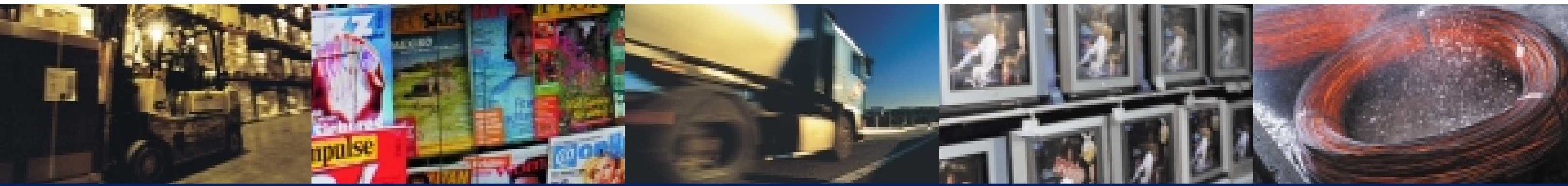


SAP ANNUAL REPORT 2000

SOLUTIONS FOR THE *NEW* NEW ECONOMY

CONTENTS

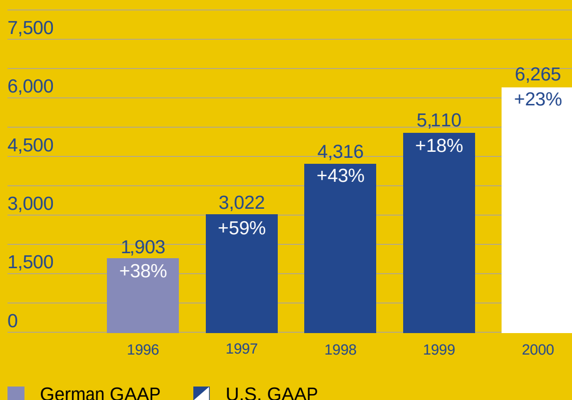
"WITH MYSAP.COM, FIRMS CAN RELY ON SOLID APPS AND KNOW-HOW TO ENSURE EFFECTIVE INTEGRATION OF ERP, CUSTOMER RELATIONSHIP MANAGEMENT, AND SUPPLY CHAIN MANAGEMENT SYSTEMS WITH E-MARKETPLACES."

Charles Homs
Forrester Research
The new mySAP.com takes SAP into e-business
June 2000

FINANCIAL SUMMARY

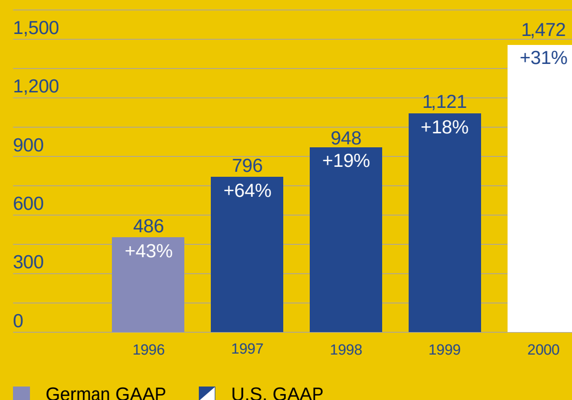
Total revenue

in € millions | change since previous year



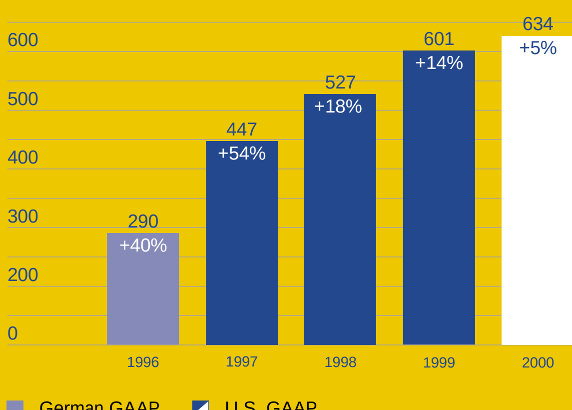
Income (before Income Taxes and STAR expenses)

in € millions | change since previous year



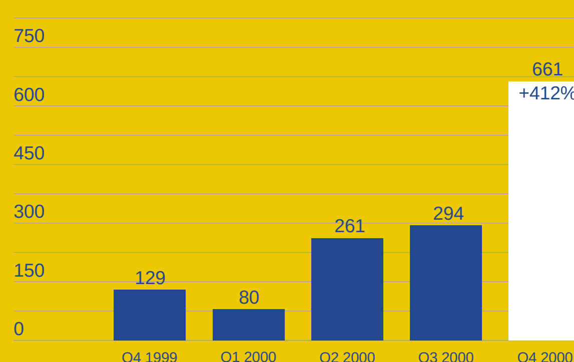
Net income

in € millions | change since previous year



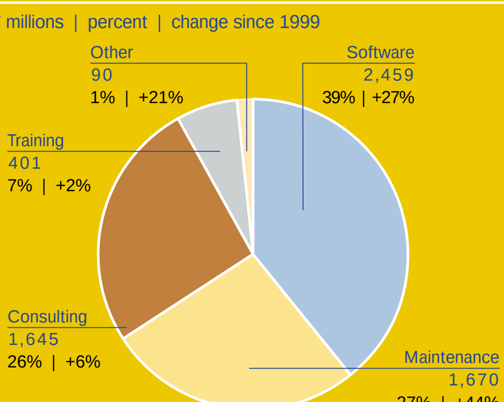
mySAP.com revenues

in € millions | change since previous year



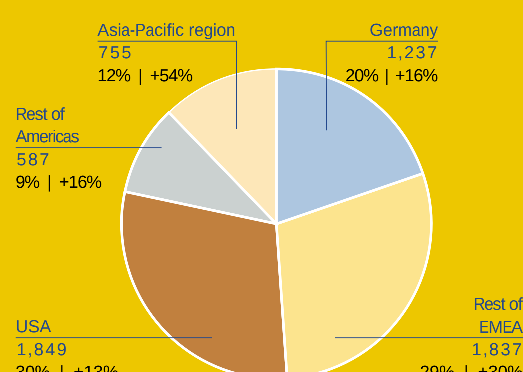
Revenue breakdown by types of activity

in € millions | percent | change since 1999



Revenue breakdown by sales destination

in € millions | percent | change since 1999



LETTER FROM THE EXECUTIVE BOARD

Dear shareholders, partners, and customers,

The millennium changeover really brought home to everyone just how much our daily lives depend on robust and reliable software. And it was no accident that the troubles many people feared did not materialize for SAP customers. With our leading consulting services, top-quality products, and highly skilled employees, we were in a position to ensure a good start to 2000 for all of our customers.

Naturally, the millennium issue also influenced the buying behavior of our customers. For example, 1999 showed a disproportionately high demand for consulting, which decreased dramatically thereafter. Hence, in the first quarter of 2000, we did not need the consulting force that was in place for emergencies. While this was fortunate for our customers, it was less fortunate for SAP, as we incurred a major expense during a customarily slow quarter for software sales.

Throughout each of the quarters in 2000, the share of our revenues generated by the new mySAP.com e-business platform grew. However, in the early quarters, revenue development caused some unease about the outlook for our new product.

Other market factors also affected SAP in early 2000. The dot-com euphoria captured the attention of customers and employees alike. The New Economy was on everyone's minds – an economy with a completely different set of business rules. In addition, the use of stock options both to reward employees and to buy customer references led to unusual distortions in market forces. This particularly affected our employee turnover in the U.S. With our shareholders' approval, we launched our own stock option plan, which helped to retain management resources.

Even with these challenges, SAP moved forward successfully on all fronts to change itself from a vendor of components to a provider of solutions, a journey that started with the enjoySAP initiative. As part of SAP's reinforced customer orientation, we introduced a new, comprehensive Customer Engagement Model for field operations. We also aligned our R&D teams more closely with the sales and consulting forces, so that all three are now focused even more closely on the issues at the heart of our customers' business.

What are customers looking for?

At the top of customers' list is the ability to leverage new e-business technologies to improve old-fashioned goals like profitability, customer satisfaction, and delivering the goods. Customers want solutions that help them better manage their customer relationships and their supply chains. Marketplaces and portals are their other key focus areas.

Electronic marketplaces can connect separate software and hardware systems in a way that lets people and companies work together in every possible kind of business. Here the electronic processes flow smoothly from partner to partner as if there were no boundaries between companies. A portal like mySAP Workplace is a convenient, secure access point to all of the information, services and applications that people need to do their job.

In 2000, SAP established SAPMarkets, a wholly owned subsidiary based in Palo Alto, Calif., to provide electronic marketplace solutions to customers. By forging a strategic partnership with Commerce One, SAP solidified its leading position in this new market and gained immediate access to new business opportunities. SAP has also achieved more flexibility by establishing two other new affiliates: SAPHosting AG & Co., an ASP and hosting provider and SAP Systems Integration AG, a largely independent company devoted to systems integration.

We have also globalized SAP's marketing and have centered the operation in New York. The goals of this move are to tighten the ties with our subsidiaries to present a more unified and consistent view of SAP to the world and to sharpen our corporate profile and corporate communications.

These measures, as well as the successful reorganization of a number of country organizations, came to fruition in 2000. The Americas SAPPHIRE customer conference in Las Vegas not only won over customers and partners, it also convinced the media and analysts that we are on the right track and gaining momentum. At the conference, we announced our biggest deal ever, which we closed with Nestlé for the mySAP.com e-business platform, and our alliance with Commerce One. By the fourth quarter, the numbers we posted were already better than our expectations – testament to a year spent winning back the confidence of our customers and providing the most comprehensive e-business solutions available anywhere.

So, after a turbulent and challenging year, we are in a strong position and we look forward to the future with great confidence. We thank you for your support thus far and encourage you to stay with us as our exciting success story continues to unfold.

Hasso Plattner
Co-chairman and CEO, SAP AG

Henning Kagermann
Co-chairman and CEO, SAP AG

EXECUTIVE BOARD

Hasso Plattner

Hasso Plattner is CEO, co-chairman, and co-founder of SAP AG. He has served as co-chairman since 1997. In 1972, he founded SAP together with four IBM colleagues. An electrical engineer, he is responsible for strategy, marketing, corporate communications and development of SAP solutions in the areas of discrete manufacturing and service industries. He is also CEO of SAPMarkets.

Werner Brandt

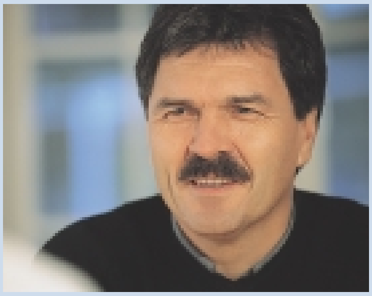
Werner Brandt is the chief financial officer of SAP AG. He has been a member of the Executive Board since February 1, 2001. Before joining SAP he was a member of the executive management board of Fresenius Medical Care AG, where he acted as CFO and labor relations director.

Gerhard Oswald

Gerhard Oswald joined SAP from Siemens AG as an application consultant. A member of the Executive Board since 1996, he oversees SAP's internal systems as well as the entire service sector. In addition, he is responsible for the certification of and relationship with global outsourcing partners.

Henning Kagermann

Henning Kagermann is co-chairman and CEO of SAP AG. He has been co-chairman since 1998 and a member of the Executive Board since 1991. A physicist and mathematician, he joined SAP in 1982. His areas of responsibility include sales and distribution, consulting and, international customer relations.



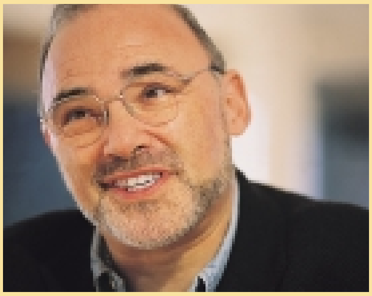
Claus E. Heinrich

Claus E. Heinrich, a business economist, joined SAP in 1987 and the Executive Board in 1996. His responsibilities include the development of SAP solutions in the areas of finance and accounting, human resources management, logistics, and supply chain management, as well as industry solutions. He has also been responsible for labor relations since 1998.

Peter Zencke

Peter Zencke, a mathematician, joined SAP in 1984. As a member of the Executive Board since 1993, he is responsible for the development of new solutions for the management of customer and partner relations and the coordination of SAP's international research groups.

EXTENDED MANAGEMENT BOARD

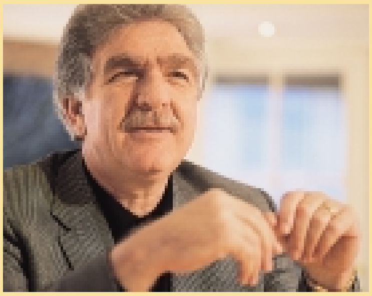


Leo Apotheker

Leo Apotheker joined the Extended Management Board in 2000 and is responsible for the Europe, Middle East, and Africa (EMEA) region. He joined SAP France as president in 1988 before taking on southwest Europe in 1995.

Erwin Gunst

Erwin Gunst has been a member of the Extended Management Board since 2000. He is responsible for Germany and Switzerland. Since he joined SAP in 1988 his responsibilities have included managing the subsidiaries in Belgium, Switzerland, and the United Kingdom.



Leslie Hayman

Leslie Hayman joined the Extended Management Board in 2000 to manage the Asia-Pacific region. He joined SAP in 1994 and has held several executive positions in Australia, New Zealand, and the South Asia-Pacific region.

Karl-Heinz Hess

Karl-Heinz Hess joined SAP in 1980 and has held a variety of research and development posts. He has been a member of the Extended Management Board since 1996 with responsibility for technology development.

Wolfgang Kemna

Wolfgang Kemna joined SAP in 1987 and has served in executive positions in sales and management in Africa, the Middle East, southeast Europe, and Germany. He joined the Extended Management Board in 2000 with responsibility for the Americas.
He is chief executive officer of SAP America, Inc.

Dieter Matheis

Dieter Matheis joined SAP in 1984 and the Extended Management Board in 1993 as commercial director. He drove the company's listing on the stock exchanges in Frankfurt (1988) and New York (1998) and led the change to U.S. GAAP financial reporting.

E-BUSINESS IS TRANSFORMING THE WORLD

The e-business economy offers great opportunities – and great challenges. E-business solutions from SAP can help companies meet these challenges.

The new, New Economy means a return to the old business priorities. It's all about the bottom line – about value for the customers and profits for the business.

In the old New Economy, companies bought future success by postponing present profits, and the Internet seemed paved with gold. But now the Internet gold rush is over, and the dot-com bubble has burst.

In the new, New Economy, e-business and the Internet are still changing how business is done and businesses are run. The new, New Economy means a networked environment with global connectivity 24x7 and business conducted at an ever-accelerating pace. Decisions are made and tactics executed at Internet speed.

THE *NEW* NEW ECONOMY IS HERE.
IT'S OLDER. IT'S WISER.
IT'S FOCUSED ON BUSINESS RESULTS.

Collaboration is the name of the game in the new, New Economy. A business is no longer defined solely by its own capabilities. It is now defined by the value added by multiple companies in many locations.

A business is the sum total of the collaboration along its entire supply chain. Employees, suppliers, partners, and customers now work together seamlessly to create value in real time.

E-business is one business everybody wants to be in

How hot is e-business? Forrester Research has projected business-to-business Internet sales in North America to grow from U.S. $236 billion in 2000 to U.S. $2.7 trillion in 2004, while business-to-consumer Internet sales (despite a disappointing fourth-quarter 2000) will increase from U.S. $30 billion to U.S. $204 billion.

Enterprises that are not e-businesses now will be e-businesses soon – or else. Only an e-business has the speed and agility to stay competitive in today's markets. And only an e-business has the resources to meet the growing expectations of Internet-empowered customers.

In the e-business economy, it no longer matters whether an enterprise is large or small or if its customers are local or global. Every enterprise now participates in what SAP has defined as "business ecosystems," and these collaborative matrices are redefining the way the world does business.

An e-business lives on the Internet so it can access more information and collaborate more easily, reach out to new partners and suppliers, find new markets, and develop new products and bring them to market at the lightning speed required to remain competitive today.

But with new opportunities come new challenges. As competition increases and the pace accelerates, simply being an e-business is no longer enough.

More products, more partners, more transactions, in more places, every day.

The mySAP.com® e-business platform and its mission-critical solutions, such as mySAP™ Workplace™, mySAP Customer Relationship Management, mySAP Supply Chain Management, and mySAP Marketplace*, give enterprises the competitive edge they need to compete and succeed in the e-business age.

To see the future of e-business, follow the Internet

The Internet gives e-business global reach. Internet protocols, standards, and systems of addresses have created a common language for global communication. Now, everyone can connect directly or through intermediaries. The Internet has become a network of enterprises – an endless supply chain, an enabler of new communities – and all can collaborate.

The more powerful the Internet becomes – and as it becomes more and more a part of our daily lives – the more transparent it will become.

The Internet has made e-business possible. To see the future of e-business, watch where Internet technology is leading:

Plugged into wireless

The wireless Internet will enable ubiquitous connectivity, and the final barrier to universal e-business will be gone. All parts and participants can be connected, visualized, and synchronized. The result? Total e-business with universal collaboration in real time.

Distributed services and infrastructures

Distributed services, technologies, and solutions mean e-business infrastructures will be shared among many clients and servers. This will result in 100% reliability – universal fault tolerance. No more lost records or transactions.

Burgeoning bandwidth

More and more bandwidth will become available. More bandwidth means greater speed, so potential customers never need to wait to access or download again. E-business will utilize broadband networks, rich media, and streaming video at low cost. And video and attractive interactive services will enliven online catalogs.

Growing global markets

The number of potential customers will skyrocket globally as more households and companies go online, opening vast e-markets (see page 20 for details). A November 2000 Gartner report estimates that 150 million households and workforces will be buying and selling online in Europe in 2003. Automated translation technologies will enable e-businesses to sell a product in 20 languages within minutes of launch.

Business basics: simplicity and value

E-business will benefit from simple, easy-to-use interfaces that empower users and facilitate online interaction. Context-based solutions will also ensure successful customer experiences by anticipating preferences and needs. And a more proactive and collaborative approach to controlling costs and meeting profit targets will further benefit the e-business bottom line.

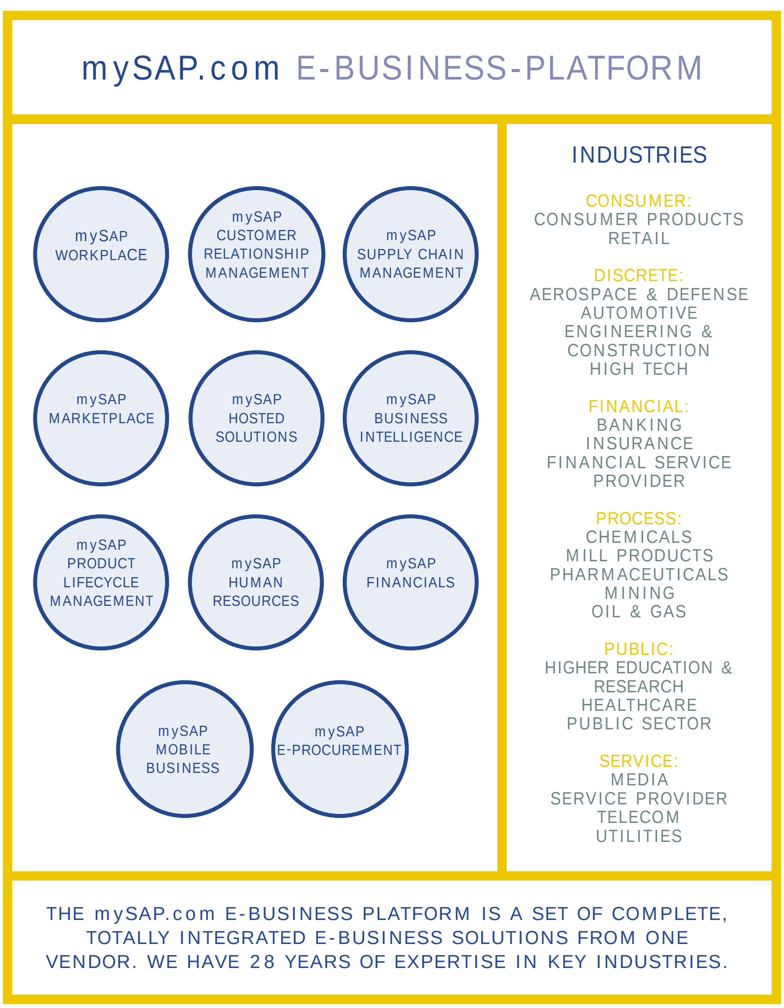
* mySAP Marketplace is delivered through MarketSet, a joint solution from SAPMarkets, Inc. and Commerce One, Inc.

ENABLING THE FUTURE: SAP SOLUTIONS FOR THE *NEW*, NEW ECONOMY

SAP is focused 100% on the business of e-business. SAP makes e-business work for more than 13,500 businesses in more than 120 countries – and these enterprises include more than half of the Fortune 500 as well as leading companies in 22 major industries.

The right e-business solution: one size does not fit all

SAP believes an e-business solution must have the right fit. A solution should not force a company to reinvent itself to make its transition into an e-business. The solution should create value by building on the investments a company has already made by leveraging the company's core competencies.



For almost 30 years, SAP has focused on creating business value – profitability, return on investment, productivity, time-to-market, and customer satisfaction. SAP's rapid growth has been the result of creating real business solutions that work for the companies that use them.

SAP made history when it created a better way to run businesses by using electronic process integration. With SAP® R/3®, SAP created the first fully integrated, cross-functional business solution. It defined a new standard for global solutions, and it provided the model for what we now call e-business.

The first global e-business platform

Today, SAP is making history again – this time with solutions that enable businesses to compete and succeed in the new New Economy. SAP has designed the first global e-business platform: mySAP.com®.

mySAP.com enables companies to connect and collaborate. It works anywhere the Internet reaches – from factory floor to Web-enabled cell phone. mySAP.com delivers a seamless flow of mission-critical information throughout an enterprise.

SAP's new open, integrated architecture ensures that everything works together seamlessly. That means enterprise applications, customer relationship management solutions, cross-enterprise supply chain solutions, and so on are all integrated and that all participants in the value chain can share information with each other.

mySAP.com means that business processes can be synchronized for collaboration across organizational boundaries. With mySAP.com, companies can create supply chains that circle the planet or plan e-marketplaces to serve entire industries. And they can do it faster than ever before.

CUSTOMER STORY: NESTLÉ SA

Switzerland-based Nestlé SA wants its employees worldwide to leverage the business potential of the Internet. With a total workforce of more than 230,000 people in about 500 factories worldwide, Nestlé is Switzerland's largest industrial company and the world's leading food and beverage company.

Today, about one-third of Nestlé employees are electronically linked. Someday soon, Nestlé employees will have access to mySAP.com applications via the role-based, personalized mySAP™ Workplace™ on the Nestlé intranet as well as on the Internet. The SAP solutions will allow Nestlé workers to take full advantage of the business potential of the Internet in marketing, supply chain management, strategic enterprise management, business intelligence, knowledge management, financial and cost management, and human capital management.

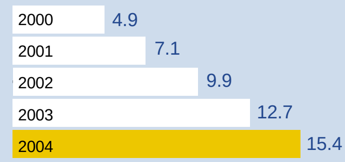
In recent years, SAP solutions have been implemented in various Nestlé markets, including Canada, France, Germany, Israel, Italy, the Netherlands, Spain, the U.S., and the U.K. Due to the development of mySAP.com solutions tailored to the consumer products industry, Nestlé signed a new agreement with SAP in June, 2000. This agreement will provide the primary software for the Nestlé worldwide implementation, which will be rolled out over the next five years. It is one of the largest software deals in the history of SAP.

"We are moving more and more into the area of e-business, and it is vital to offer our people the world over an efficient work environment and powerful functionality that is at the leading edge," says Peter Brabeck-Letmathe, CEO of Nestlé.

Nestlé's worldwide implementation of mySAP.com solutions will be expedited by an innovative rollout approach helped by the mySAP.com architecture. SAP will host role-based workplace templates designed specifically for distinct parts of the Nestlé organization. These precustomized templates will enable the individual business units within Nestlé to rapidly implement best-practice, standard workplace configurations to adapt them to the specific needs of individual markets.

Henning Kagermann, co-chairman of the Executive Board and co-CEO of SAP AG, puts it quite simply: "Nestlé puts the individual employee at the center of its e-business vision."

Customer Relationship Management Growth
Source: AMR Research, 2000
Numbers in $ billions



mySAP™ CUSTOMER RELATIONSHIP MANAGEMENT

A person who buys a product or service isn't really a customer – yet. If that's the end of the transaction, that person simply represents a one-time sale and a lifetime of lost opportunities.

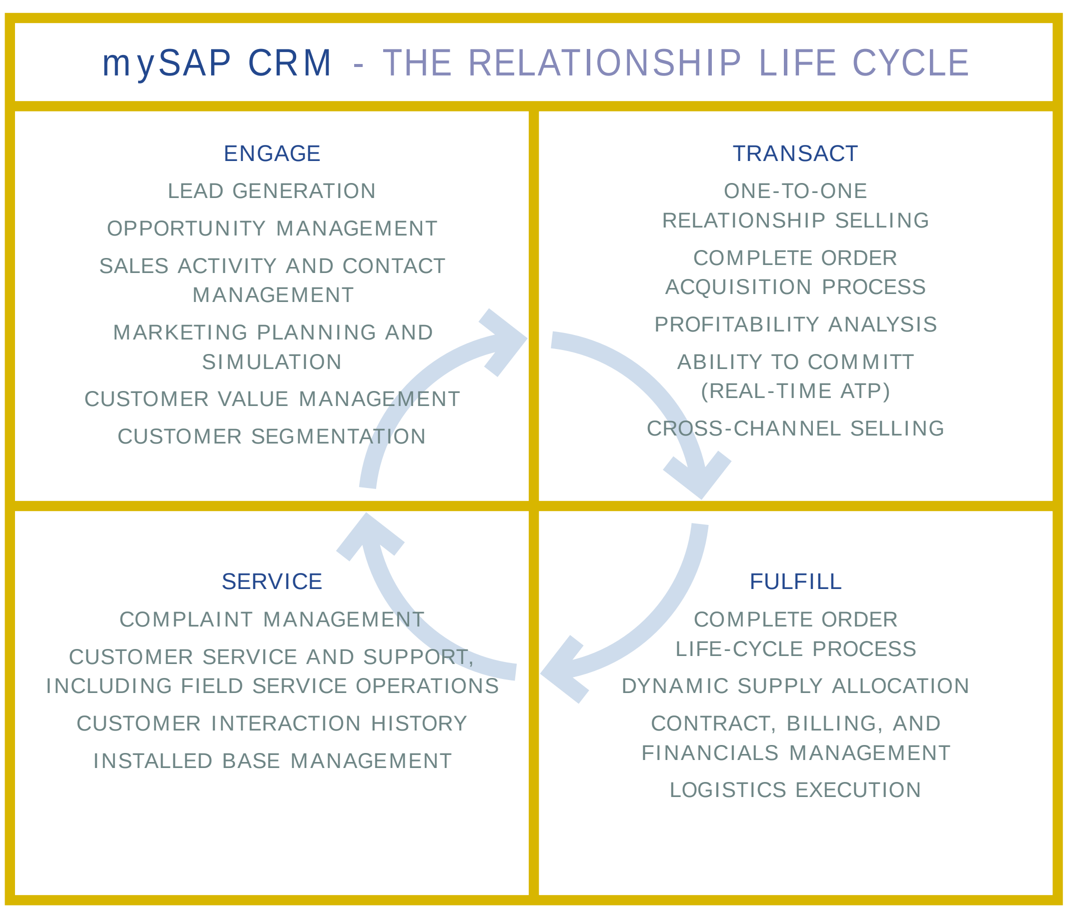
What matters in business today is the customer relationship – a long-term connection that leads to ongoing sales, mutual understanding, and the potential for word-of-mouth recommendations.

Customer relationships require much more than the sale of a product or service. They require careful planning, flawless execution of the transaction, and a feeling of trust that lasts long after the sale is completed.

SAP helps hundreds of companies large and small create and nurture these precious customer relationships with mySAP™ Customer Relationship Management.

Improving service every step of the way

What can a company do with mySAP CRM? The chart below follows a typical customer relationship life cycle.



> “mySAP CRM demonstrates the strategic capabilities that businesses around the world look for in a leading CRM solution.”
>
> Barton Goldenberg, President, ISM, Inc

A unique level of integration

mySAP CRM is a powerful, Internet-enabled system that streamlines every aspect of the entire customer relationship life cycle – from customer engagement to customer service and everything in between.

There are a number of CRM solutions on the market today, but mySAP CRM has become a world leader by delivering a unique level of front-to-back integration.

Most other CRM solutions are simply not designed to share information with a company’s other e-business systems. And even with costly retrofitting, these solutions still may not provide real-time interaction with a company’s central database. As a result, customer service personnel may not have access to the up-to-date information they need to provide world-class service to customers.

With mySAP CRM, integration is built in, not added. As a result, the solution blends seamlessly with a company’s overall e-business platform right from the start.

This means that customer service personnel can work with real-time customer information, greatly enhancing the quality of service. And it means customer information seamlessly flows to and from a company’s other e-business systems – such as e-selling, e-procurement, supply chain management, strategic enterprise management, financial management, and even human resources.

It’s a critical difference that makes mySAP CRM more effective, more cost-efficient, and more profitable for our customers – today and tomorrow.

Proven in the real world

mySAP™ CRM is the result of decades of work in helping thousands of companies manage the real-world needs of customer service.

mySAP CRM is powerful and easy to use, and it takes full advantage of the immediacy of the Internet, which is why it’s the choice of leading companies, such as Engen Petroleum Limited.

Engen, the leading oil company in South Africa, used mySAP CRM to consolidate all of its telephone contacts into a single, highly efficient call center located in Cape Town. By doing so, the company increased its average daily call rate from 1,600 to 2,500 incoming calls.

According to Keith Pinn, Engen’s customer service manager, “mySAP CRM helps to deliver our overall strategy of being world-class and delivering more value at lower cost than our competitors. It’s abundantly obvious that we are achieving enormous benefits.”

The new site was an immediate success, drawing tens of thousands of visitors the first day.

CUSTOMER STORY: SONY COMPUTER ENTERTAINMENT AUSTRALIA

For Sony Computer Entertainment Australia, mySAP™ CRM represents the best solution to help it compete and succeed in its market.

During 2000, the Australian subsidiary of Sony Computer Entertainment (SCE) used mySAP CRM to drive the local PlayStation.com initiative, a unique Web site promoting the super-hot PlayStation™ video game consoles and PlayStation 2™ computer entertainment system.

With its exciting interactive features and promotional messages, the new site was an immediate hit, drawing tens of thousands of visitors per day and generating a new direct-to-consumer sales channel. But from a business standpoint, the real excitement of PlayStation.com Australia takes place behind the scenes.

There, mySAP CRM provides the powerful business management tools that allow SCE Australia to put PlayStation products in the hands of eager consumers throughout the Australian continent.

"The overall design of the PlayStation.com solution allows Sony to continue to add features and functionality according to customer needs, delivering the sticky characteristics that an e-tailing site requires today."

Norman Scott
SAP implementation partner
PricewaterhouseCoopers

SCE AUSTRALIA AND PLAYSTATION.COM CAN IMPROVE THEIR COST-EFFECTIVENESS AND PROFITABILITY THROUGH STREAMLINED MANAGEMENT AND REPORTING PROCEDURES.

Sony's PlayStation2™ computer entertainment system

A full-service site

PlayStation.com Australia is a full-service e-commerce site, allowing customers to browse through a catalog of hardware, software, and DVD entertainment offerings. Customers can easily select the merchandise they want, place it in a virtual shopping cart, and pay with a credit card through a secure site.

And to help avoid disappointing passionate PlayStation fans, the site allows customers to see if the merchandise is currently in stock, and if not, when it will become available. It's a helpful feature made possible by the uncommon degree of integration between mySAP CRM's online order-entry capabilities and inventory management capabilities.

Integrated call center support

In addition to its online ordering system, SCE gives consumers the option of ordering PlayStation products by phone.

For this critical function, Sony implemented the call center solution of mySAP CRM, which provides agents with a complete view of all information on each PlayStation.com customer.

On their customized screens, call center agents can immediately bring up customer orders and assist with order status inquiries, order placement, order changes, and questions about product availability. This access to accurate, real-time information results in superior service and higher levels of customer satisfaction.

Seamless processing

Once a customer order is placed, it moves seamlessly to SCE's distribution system, which is supported by SAP solutions for sales and distribution, materials management, warehouse management, and financial accounting.

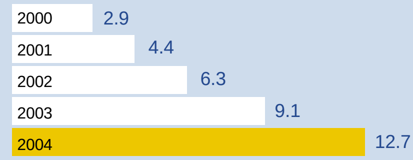
According to Chris Bennett, managing director and CEO, SAP Australia and New Zealand: "This integration is critical to ensure high satisfaction levels throughout the customer's entire contact cycle with SCE – from the ordering to the delivery to the ongoing support. It also means that Sony Computer Entertainment Australia and PlayStation.com can improve their cost-effectiveness and profitability through streamlined management and reporting procedures."

At the management level, Sony has also implemented mySAP™ Business Intelligence (mySAP BI) to deliver sophisticated reporting on the performance of the site and other critical marketing data.

It's a winning combination that has helped Sony PlayStation achieve a dominant market position in Australia.

SAP customers know they can count on SAP solutions to deliver superior features and proven performance. Just as important, they know that SAP backs its solutions with the highest level of implementation services and ongoing support.

Supply Chain Management Growth
Source: AMR Research, 2000
Numbers in $ billions



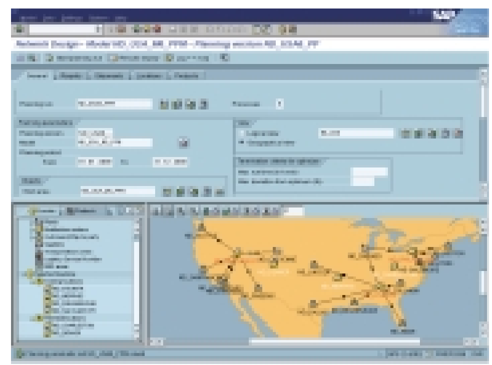
mySAP™ SUPPLY CHAIN MANAGEMENT

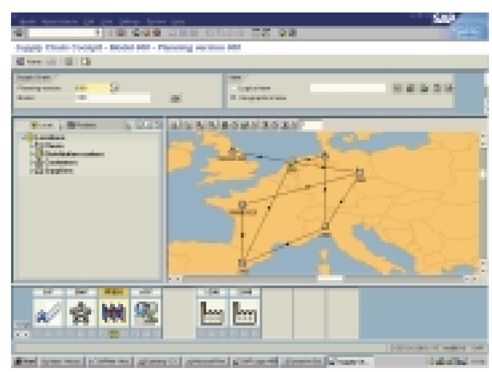
In the new, New Economy, no company is an island. Each company is part of a supply chain that consists of vendors, distributors, business partners, and customers. Everything that takes place along that chain has an impact on the company's ultimate success. As with any chain, a supply chain is only as strong as its weakest link.

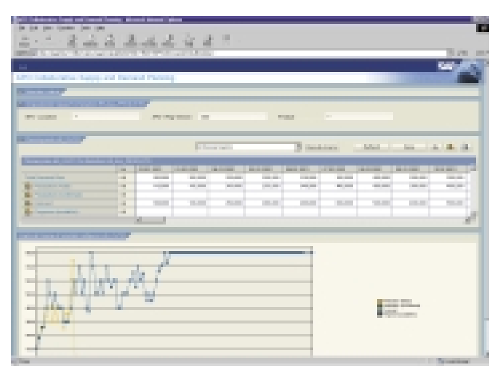
A weak supply chain – in which a company can experience bloated inventory levels, missed delivery dates, and inaccurate demand forecasts – results from silos of isolated information that prevent anyone from ever seeing the full picture.

In a strong supply chain, on the other hand, a company knows the status of every product at every minute. It can quickly assess the availability of raw materials and components being provided by suppliers and partners. It can see when finished products will be ready for delivery and make realistic promises to customers. And it can forecast customer demand based on current ordering and usage trends.

The difference between strong and weak supply chains often lies in the systems that companies use to gather, organize, and process a vast array of information at every step. And that's why enterprises around the world entrust their operations to mySAP™ Supply Chain Management (mySAP SCM).







From top to bottom:
Network Design
Supply Chain Cockpit
Collaborative Supply and Demand Planning

For Unilever East Asia-Pacific, Consolidated Regional Information

For the East Asia-Pacific operations of Unilever, a global consumer products manufacturer, SAP® Advanced Planner and Optimizer (SAP APO), an important part of mySAP SCM, delivers data transparency, consolidated regional information, and one common system for operating units spread across different countries. It also enables regional sourcing and buying.

Using SAP APO, the company's operating units from 10 Pacific Rim countries can, for the first time, share information on local purchasing and supply trends – despite the fact that they use different languages, currencies, and database systems. With this knowledge in hand, Unilever's regional buyers can identify buying trends more quickly, which helps to increase sales, reduce costs, and improve profit margins.

In phase two of the implementation project, SAP APO will be used for all product demand and production planning.

A natural evolution

mySAP SCM is a natural evolution for SAP. SAP® R/3®, first introduced in 1992, was a breakthrough in enterprise resource planning, enabling companies to control not just one or two functions, but every process within their walls.

Now, mySAP SCM harnesses the reach and immediacy of the Internet to allow that same level of control beyond a company's walls in the larger world of the supply chain.

With mySAP SCM, companies can capture and respond to critical information more quickly and efficiently than ever before. For example, they have instant access to demand forecasts, production plans, inventory levels, and other performance indicators – not only from within their own company, but also from suppliers and customers.

This type of information was once available only after considerable delay. That delay forced companies to rely on guesswork so forecasts were often inaccurate, and a host of inefficiencies resulted. Now, with mySAP SCM, decision makers have this information at their fingertips so they can take action in real time.

As a result, if a key supplier is running short of a critical material, the company now has time to adjust its production schedule or to locate another source. Or if a customer is experiencing a slowdown in orders, the company can reduce its inventory levels to reduce the chance of a surplus and notify its suppliers so that they, too, can avoid costly overproduction.

Production proceeds more smoothly. Delays are minimized. And new levels of cost-efficiency help every member of the supply chain become more competitive and more profitable.

mySAP™ SUPPLY CHAIN MANAGEMENT

For CSS, a lean, efficient supply chain

Computer Services Solutions (CSS) provides telecommunications and information technology services to businesses throughout the Netherlands and Belgium. The company's 2,000 employees serve more than 26,000 customers, generating sales of over €190 million.

Recently, CSS looked for ways to improve the timeliness and reliability of its product and service delivery – without maintaining excess inventory. As a long-time SAP user, the company chose mySAP™ Supply Chain Management (mySAP SCM).

SAP professionals and service partners worked closely with CSS and its suppliers to coordinate implementation of the mySAP SCM solution, creating interfaces with a variety of existing SAP and non-SAP systems. The entire project was completed in just six months.

Today, CSS customers can place equipment orders and check order status on a 24x7 basis over the Internet. Their orders flow directly to CSS suppliers, reducing response time, eliminating unnecessary steps, and improving delivery reliability.

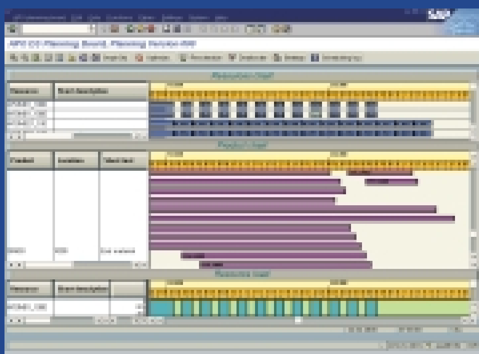
CSS is pleased with the results. "We chose SAP for a combination of reasons: their industry-specific knowledge, commitment to e-commerce, and the robustness of their solutions," says Bob Lokhorst, chief financial officer of CSS. "We are sure that SAP is in it for the long haul and are relying on their support."

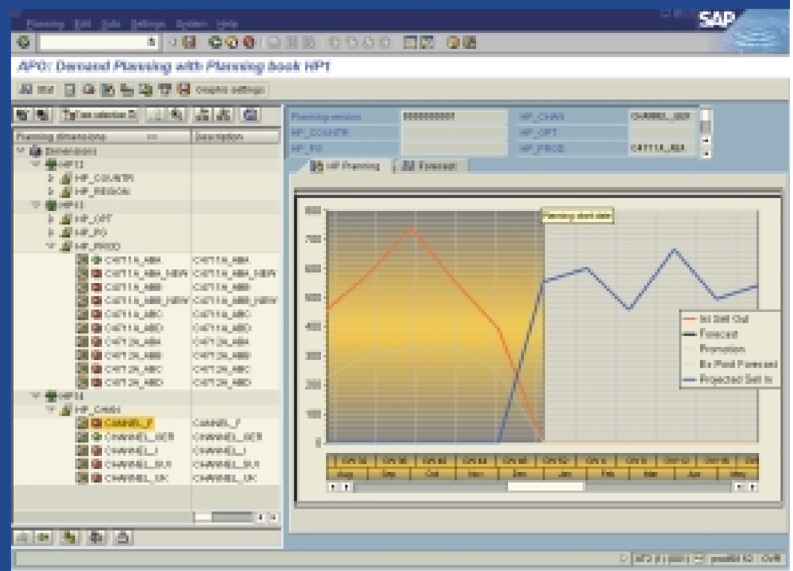
An open architecture

mySAP SCM is built on an open, standards-based architecture that integrates readily with both SAP and non-SAP solutions. As a result, users can collaborate easily with partners around the world.

For example, mySAP SCM interacts seamlessly with a wide variety of data warehousing solutions, which gather and organize massive amounts of operating and historical data. It shares this data equally well with customer relationship management solutions that contain critical information on customer demand and purchasing trends. And it is designed to participate in the new generation of Internet-based electronic marketplaces, where companies around the world gather to buy, sell, and collaborate with one another.

Through this uncommon degree of openness, mySAP SCM allows all participants in the supply chain to plan, schedule, and execute their production strategies with unparalleled consistency.





Above;
Planning Board

Right:
Demand Planning

Designed for real people – and the real world

Because it is used by people with a wide range of skills – from executives to warehouse personnel – mySAP SCM is designed for exceptional user friendliness, which is delivered by the mySAP™ Workplace™ enterprise portal.

In the role-based mySAP Workplace, each user views a screen that is personalized to meet individual work requirements and personal preferences. And mySAP Workplace eliminates data glut by delivering only the supply chain information each user needs and for which they are authorized.

mySAP SCM was built on three decades of SAP experience in serving the real-world needs of a variety of industries so it reflects the latest and best practices in such fields as automotive, consumer products, retail, high tech, chemicals, and pharmaceuticals. And the solution is supported by professionals from SAP and partner companies who have extensive experience in implementing and maintaining effective supply chain management.

Giving companies a sustainable advantage

To achieve long-term success, today's companies must be able to quickly identify and capitalize on dynamic market opportunities. They need to optimize planning and execution across enterprise boundaries and to react swiftly to changing market conditions and customer requirements.

mySAP SCM puts the enterprise at the center of an integrated, well-connected precision-orchestrated supply chain.

The key to these capabilities lies in the supply chain. An integrated, scalable, collaborative supply chain gives companies the tools they need to reduce costs, react to market changes, and increase customer satisfaction. And it gives them a sustainable advantage over their competitors – now and in the future.

From supply chain exchanges to collaborative planning, mySAP SCM places the enterprise at the center of an integrated, well-connected, precision-orchestrated supply chain.

Production planning, which previously took three days, now takes only two hours.

CUSTOMER STORY: HYLSAMEX

Steel manufacturing is one tough business. Every day, the companies in it face intense global competition, rising raw material and labor costs, decreasing profit margins, and increasing demand for quality and performance.

To succeed in this business, companies need nerves of steel. They need processes and procedures that help them stay one step ahead of the competition. Hylsamex has both.

Founded in 1943 and headquartered in Monterrey, Mexico, Hylsamex is one of the world's leading steel manufacturers, with 5,000 employees and annual sales of U.S. $1.5 billion.

Through a relentless commitment to quality and innovation, the company has not only met the challenges of the global steel industry for the past half-century, but also has emerged as the most profitable steel manufacturer in North America as measured by net margin per ton.

To protect that enviable position, Hylsamex recognized that it needed to implement world-class supply chain management tools. The company turned to SAP.

Making the most of plants, people, and resources

Hylsamex decided to begin the supply chain management project at its Hylsa Bar and Rod division, which manufactures high-quality products for concrete reinforcement, bridge cables, and other applications. The division represents more than 30% of the company's revenues.

A team of professionals from SAP Mexico analyzed Hylsa's requirements and recommended SAP® Advanced Planner and Optimizer (SAP APO), part of the mySAP™ Supply Chain Management solution.

HYLSAMEX

"Our primary objectives were to improve customer service, increase inventory turnover, and streamline production. Thanks to SAP, we achieved all this in a short time and at a low cost."

Ricardo Benitez, Supply Chain Manager, Hylsa

SAP APO enables companies to streamline production and to make the best use of their plants, people, and resources. For example, it enhances forecast accuracy, optimizes production planning, supports fact-based decision making, enables shorter production lines, and improves visibility across the supply chain.

Best of all, SAP APO integrated seamlessly with Hylsa's existing SAP solutions. As a result, any changes in stock, orders, and production schedules can be rapidly transferred into SAP APO, allowing the company to respond quickly to changing situations.

Hylsamex also installed SAP Business Information Warehouse, now referred to as mySAP™ Business Intelligence, for data analysis, as well as liveCache, an extremely fast memory-based technology for executing data intensive functions, such as supply chain management calculations.

Measurable results

Now, less than a year after implementing SAP APO, Hylsa is already enjoying measurable results.

On the supply side, Hylsa has optimized its production planning process, allowing the company to make the best use of available resources. This process, which previously took three days, now takes only two hours. As a result, the company can respond far more quickly to unexpected changes in supply and demand.

In addition, Hylsa has doubled the accuracy of its forecasts from 40% to 80%. By doing so, the company has been able to increase the number of orders fulfilled on time and in full from 70% to 90%. In fact, its entire focus has changed from one based on internal production capabilities to one based on customer needs.

Better service with less inventory

Hylsa has also gained a vital advantage over its competitors in the crucial area of inventory management.

Typically, steel manufacturers ensure their ability to meet customer delivery deadlines by maintaining high inventory levels – a costly practice. But thanks to the responsiveness of SAP APO, Hylsa is in the unique position of increasing its percentage of on-time deliveries while actually reducing inventory.

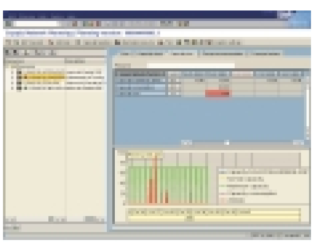
Through this improvement alone, Hylsamex has recouped its entire investment in SAP APO – including software, hardware, and consulting services – in just six months.

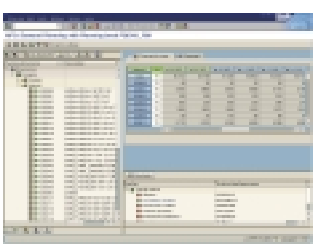
Building on success

Results like these have led Hylsamex to explore opportunities to implement SAP APO within other areas of the company, such as its flat steel division.

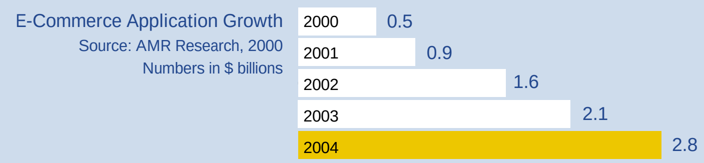
In the future, the company plans to implement mySAP™ Customer Relationship Management as part of a pilot program to enter the world of e-commerce. Five major customers have already committed to taking part in the program, which will streamline the order, delivery, and billing processes in the same way that SAP APO streamlines production.

Steel manufacturing will never be an easy business. But with the help of modern tools like SAP Advanced Planner and Optimizer, Hylsamex is demonstrating that it knows how to not only survive, but thrive.





Above: Supply Network Planning
Below: Demand Planning



mySAP MARKETPLACE AND mySAP E-PROCUREMENT

The future of commerce – it's happening right now in electronic marketplaces.

The global reach of the Internet has created unprecedented opportunities for multiple businesses to collaborate with suppliers, partners, and customers as closely as if they were a single entity, regardless of size or location. The mySAP™ Marketplace solution turns this opportunity into reality by delivering collaborative e-marketplace, e-procurement, and e-selling solutions.

mySAP Marketplace solutions make collaboration easier, whether they are creating a private marketplace for a defined community or a public marketplace open to anyone.

The frictionless buying, selling, and fulfillment powered by e-marketplaces shrink inventories and generate new value as business processes transcend traditional borders. Whole business ecosystems are connected in real-time collaboration that lowers costs, maximizes efficiency, and shortens cycle times. The mySAP Marketplace solution is provided by SAPMarkets, Inc., the U.S.-headquartered e-marketplace subsidiary of SAP AG.

The mySAP Marketplace solution incorporates the world's leading e-marketplace software, comprehensive service, consulting, and support offerings. This market-leading e-marketplace software, SAPMarkets MarketSet™, is jointly developed by SAPMarkets and Commerce One, Inc. MarketSet offers such applications as e-procurement collaborative supply chain planning, collaborative design and business process analytics. MarketSet combines e-procurement (for both indirect and direct material), through Enterprise Buyer™ collaborative supply chain planning, collaborative design and business process analytics applications. In this way, MarketSet reduces costs and product development times, improves customer relationships and increases productivity.

A unique team

The SAPMarkets and Commerce One team strategy is unique in the industry. It includes joint product strategy, codevelopment, joint marketing, sales, and support. SAPMarkets e-marketplace solutions provide the necessary infrastructure for virtual markets, allowing multiple organizations to buy, sell, and conduct collaborative business beyond enterprise boundaries. The success of SAPMarkets in creating marketplaces during the first few months after being founded, is demonstrated through a comprehensive list of customers won in 2000, including cc-markets, CorProcure, CPGmarkets, ec4ec, Emaro, Enporion, ForrestExpress, HUBWOO, IBX, Quadrem, SupplyOn, and many others.

Getting to market – with mySAP™ E-Procurement

mySAP™ E-Procurement is delivered through Enterprise Buyer™, a joint development of SAP Markets and Commerce One. It's the most comprehensive, end-to-end solution available for both ad hoc and strategic direct and indirect B2B procurement. With mySAP E-Procurement's integrated business process analytics, customers can manage the entire purchasing cycle and optimize all aspects of their supply chain.

mySAP E-Procurement is delivered through Enterprise Buyer™, a joint development of SAPMarkets and Commerce One.

Of the U.S. $2.7 trillion spent on B2B e-commerce in 2004, U.S. $1.4 trillion will pass through e-marketplaces.

Forrester Research. Inc

SAPMarkets' MarketSet means e-marketplace power for Enporion

mySAP.com® solutions – designed for fast customization and implementation – help e-businesses like Enporion create new public marketplaces. In mid-2000, while demand for power increased, utility companies in North America struggled with deregulation.

A number of these companies – Allegheny Energy, New Century Energies, Minnesota Power, Northern States Power, and PPL Corp. – chose to meet this challenge by joining forces in an e-marketplace exchange. Called Enporion, this e-marketplace was up and running – and driving efficiencies and reducing costs for participants – in six months. Thanks to SAPMarkets' MarketSet.

Today, Enporion brings utility buyers and suppliers together over the Internet to access multiple services. Buyers find more suppliers to choose from, as well as better information and a streamlined supply chain process that speeds delivery. Suppliers enjoy seamless interfacing with buyers, plus access to new markets and standardized processes that are integrated out of the box for faster collaboration.

E-marketplaces mean reduced processing costs, increased productivity, shorter product development cycles, enhanced customer relationships, and automation of the entire procurement cycle. It's the marketplace of the future. And mySAP Marketplace is how smart companies get there.

CLP switches on mySAP™ E-Procurement to save time and money

China Light and Power, which provides electricity to 1.9 million customers in Kowloon, the New Territories, Lantau Island, and other outlying islands in Hong Kong, recently implemented the mySAP™ E-Procurement solution. The result has been greater speed and cost-efficiency in the way the company contracts with vendors for key products and services, as well as the ability to reach new vendors through the power of the Internet.

"In choosing SAP," says Richard Hawtin, the company's head of contracts and purchasing, "The bottom line was that we needed a reliable and experienced partner. SAP's commitment gave us the assurance we were looking for."

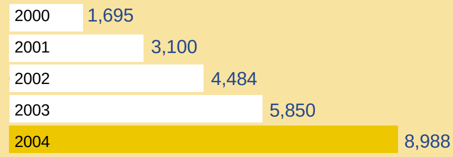
Emaro creates a global B2B marketplace that's always open

Created as a joint venture between SAPMarkets and Deutsche Bank, emaro is a unique global business-to-business marketplace that's open to all reputable companies – regardless of the type of software they use. Because of its direct end-to-end linkage of the buyer's and seller's ordering system emaro allows purchasers, suppliers, and service providers to trade freely and efficiently within a secure e-commerce environment. In addition, emaro offers participants a number of value-added services such as consulting services, supplier management, catalog management, backend integration, hosted procurement and financial services.

" ...With this initiative, Deutsche Bank and SAP combine their expertise and complementary customer base to provide an open platform business on which participants will profit from the large number of buyers and sellers, the increased level of transparency and reduced transaction costs. ..." says Hermann-Josef Lamberti, Deutsche Bank AG, member of the Board of Managing Directors Group, Division for Global Technology and Service

CUSTOMER STORY: BERTELSMANN

Potential Worldwide E-Procurement Product Revenue
Source: IDC Research, 2000
Numbers in $ billions



Bertelsmann enables world-class B2B with mySAP E-Procurement

E-procurement is important to Bertelsmann AG, because it's one of the world's biggest business-to-business (B2B) customers. With a staff of more than 76,000 people, Bertelsmann buys from some 400 companies in 58 countries.

Bertelsmann is a giant international media enterprise, commanding leading positions in the global media and entertainment industries. Bertelsmann ranks at the top of its peer market in e-commerce, with BOL in Europe and barnesandnoble.com in the U.S.

The Bertelsmann mediaSystems (BmS) division is responsible for ensuring that company profits don't disappear in B2B on their way to the Bertelsmann bottom line. To this end, BmS provides information technology and services, such as e-procurement, for all divisions in the company.

A company like Bertelsmann requires a solution that is easy to use, robust, and capable of handling multiple currencies, languages, and data types. And, of course, it has to be Internet-based.

These requirements point to the mySAP.com® e-business platform.

"The mySAP.com solution enables authorized employees to order office supplies, IT equipment, and marketing materials directly via a Web browser," Axel Mattern explains.

"We expect to save millions"

It's simple to use, but it does any kind of e-procurement you need

mySAP E-Procurement from SAPMarkets, Inc. is delivered through the new Enterprise Buyer™ software developed collaboratively by SAPMarkets and Commerce One, Inc.

mySAP E-Procurement enables employees to purchase directly or through authorized catalogs and use e-RFQs or auctions systems. It also handles online negotiation, bidding and contract management. And the enhanced collaboration made possible by mySAP.com streamlines processes to save time and cash.

"What mySAP E-Procurement has given us now," Mattern says, "is a quicker, more efficient, and a considerably cheaper order process. On top of that, we finally can bundle orders and suppliers."

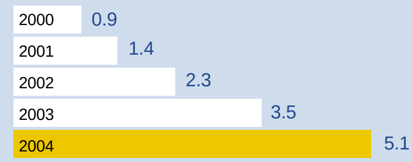
Another positive feature was the speed of implementation. "The implementation time is amazingly short, due to the Internet compatibility of mySAP.com," says Mattern.

Just how beneficial will mySAP E-Procurement be for Bertelsmann? What will be the effect on the bottom line? Mattern's answer speaks volumes: "We expect to save millions."

> "The implementation time was amazingly short due to the Internet compatability of mySAP.com®."

Axel Mattern, Project Manager, Bertelsmann mediaSystems

Worldwide Market Potential
for Enterprise Portals
Source: Ovum Ltd, 2000
Numbers in $ billions



mySAP™ WORKPLACE™

mySAP™ Workplace™ is an enterprtise portal empowering a whole new world of collaboration.

mySAP Workplace puts each user at the center of SAP's collaborative business strategy. It's a new category – role-based, personalized, enterprise portal – that gives every user (internal or external) easier access to critical solutions, services, and sources of information (internal or external). It is the integration engine that enables users to work seamlessly with SAP solutions, the Internet, and legacy systems for global collaboration everywhere.

SAP users typically must access and use more applications, services, and sources of information – spread across more networks and domains – than ever before. It takes longer to find process-related content, then still more time to make all the parts and players work together. And there are more players now as well.

Customer involvement is increasingly essential to enterprise success. Internal teams have special problems working with external suppliers and partners. Value chains and supply chains are now global, threading through multiple companies and countries. Collaboration has become the single most important factor – the difference between red ink and profitability.

SAP has delivered an innovative new solution to help customers achieve global access and collaboration – a new kind of enterprise portal called mySAP Workplace.

mySAP Workplace is the heart of the mySAP.com® e-business platform. It is literally an integration engine that can leverage the Web and any Web browser on any connectable device (PC, network appliance, and even Web-enabled cell phone) to create a personalized portal for enhanced collaboration. Each user has a personalized enterprise portal suited for his or her role, with easier access to any solutions, services, and information required.

mySAP Workplace offers business users new speed and flexibility. It can be used by internal or external users. It allows them to tighten the relationships and to manage the processes with all external communities, such as partners, suppliers, and business customers. It simplifies access and action with its point-and-click and Drag&Relate capabilities. Single sign-on allows users to conveniently and securely access all functions and applications in all environments without remembering and typing different usernames and passwords. mySAP Workplace integrates SAP and non-SAP services, and it can access desktop, enterprise, and Internet environments with ease. And because it can be used on mobile devices, large companies like Samsung improve their speed and agility by giving employees mobile enterprise portals that can be used in many ways.

mySAP Workplace is simple to use – like a generic browser – but it is powerful on the inside. It provides broad support for Internet security. It comes with a content delivery engine that assembles information, applications, and services. And it provides users with syndicated content, as well as the ability to subscribe to online services and publish online content.

Recent studies done at the University of Mannheim in Germany show that, in many cases, the business workers who used mySAP Workplace approximately doubled their productivity. Additional tests show that this new productivity was repeatable and sustainable.

mySAP Workplace is what the new, New Economy is all about – better business processes and better business results.

The BOC Group is creating the largest enterprise portal in the world

The BOC Group, one of the largest industrial gases companies in the world, has been an SAP customer in the U.K. for seven years and, late last year, it decided to standardize on SAP. The rollout has already extended worldwide, from the U.K. and Australia to Chile and Pakistan. It will now include many new countries, including the U.S. and South Africa. The move came as part of a drive to increase cost-efficiency and to maximize opportunities for adding value to customers through e-business.

As part of the implementation, BOC Group will utilize mySAP™ Workplace™, which will eventually enable 300,000 of its customers to access and interact with its systems. Currently, 11,000 users work with the solution. This will create the largest SAP enterprise portal in the world.

Individual customers of BOC will eventually be able to order products directly from the new portal via a variety of technologies including WAP, telephone, or the Web.

Built with mySAP Marketplace, the portal dynamically updates supply chain systems, streamlining business processes while improving customer service. The company will also build dedicated enterprise portals for large customers, allowing them to share systems and processes and enabling collaboration at a fraction of the cost of current systems.

"We looked at best-of-breed alternatives, but eventually opted for an integrated SAP solution because it presented the most efficient way of e-enabling our customers and employees," says Peter Dew, group director for information management at the BOC Group.

British Airways: Flying High with mySAP™ Workplace™

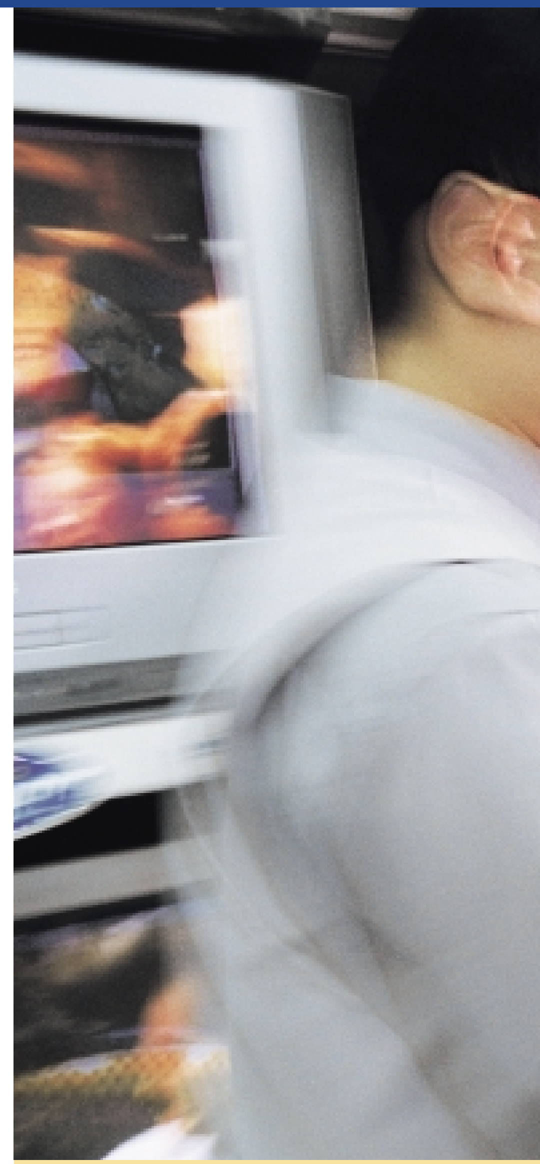
With bases on every continent, British Airways is the world's largest international passenger airline. When the company's 8,000-member maintenance team needed a global, easy-to-use solution for tracking its vast and ever-moving fleet, it chose mySAP.com®.

When mySAP Workplace is fully implemented, British Airways will know the maintenance status and location of every aircraft – and every part in every aircraft – all the time. The system, says Jim O'Sullivan, technical and quality director of British Airways, "will break new ground in the global management of aircraft engineering, as well as achieving considerable savings and efficiencies."

The system, which is being developed jointly by British Airways and SAP, is the first step in creating a global maintenance and engineering solution.

In experiments at the University of Mannheim, users of mySAP Workplace approximately doubled their productivity.

CUSTOMER STORY: SAMSUNG ELECTRONICS



mySAP™ Workplace™ is more than just an Internet portal. It's more than an enterprise portal. mySAP Workplace is a role-based enterprise portal.

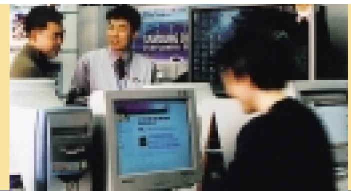
That means it delivers content based on each user's role – whether that person is an employee, a partner, a customer, or a supplier. In the Internet economy, the sheer wealth of information available can overwhelm the individual user. mySAP Workplace solves that problem by giving all users personalized access to the exact information, applications, and services they need to do their jobs.

And it does this in the most user-friendly manner possible, by running on a standard Web browser as well as on a variety of mobile devices. That means quick, easy access to role-specific business information and related applications – anytime, anywhere. And that translates into greater productivity, better service, and easier collaboration both inside and outside the enterprise.

"Samsung is a huge company committed to e-business with many departments and divisions.... mySAP Workplace provides a single portal, guaranteed compatability, and a significant increase in usability."

Won Yoon Hee, CIO, Samsung Information Strategy Group

SAMSUNG



Korean company Samsung Electronics is a U.S. $29.8 billion enterprise that competes in sectors ranging from home appliances to semiconductors. Samsung Electronics has been a leader in bringing innovative products to global markets. It has also been a leader in Web-based e-business.

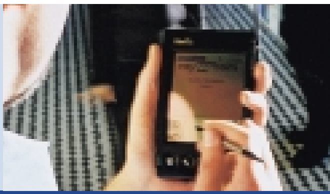
Samsung Electronics was one of the first companies to offer its customers a cell phone capable of connecting to the Internet. Samsung Electronics also provided its salespeople with mobile access to mySAP Workplace. With a single log-on, they're connected to a portable, personalized enterprise portal.

Kwang Seong Lee, CIO of Samsung Electronics, says the company chose mySAP Workplace because of its capacity for integration.

"Samsung is such a huge company, our processes must mesh with many other departments and divisions. It took too much time to deal with data exchange, multiple log-ons, and multiple passwords," he says.

"mySAP Workplace provides a single portal, guaranteed compatibility, and a significant increase in usability. We approached it from an integration point of view, but it also turned out to solve many problems of security, communications, and, of course, mobility," he adds.

In the future, Samsung plans to further enhance the capabilities of mySAP Workplace for its users by implementing mySAP™ Business Intelligence.



mySAP MOBILE BUSINESS

Bosch

For Bosch Thermotechnik of Germany, the world's largest manufacturer of water heaters, mySAP™ Mobile Business solutions are enabling faster, more efficient service to customers. Bosch's field service technicians now use mySAP Mobile Business to distribute service orders, print invoices on-site, and streamline the ordering of spare parts. In addition, technicians receive up-to-the-minute scheduling information through their mobile devices, helping them manage their time more efficiently than ever.

Wuerth Japan

Wuerth Japan, which sells chemicals, fasteners, and tools to automobile maintenance and repair facilities, relies on a direct sales approach. The company needed a handheld solution that would keep its traveling sales team connected and collaborating with the company's order processing systems. SAP provided a mobile solution for handheld PCs that allows sales representatives to enter orders remotely for immediate processing.

Next, Wuerth Japan's managing director, Satoshi Ueda, wants to expand the use of mySAP Mobile Business to his company's warehouse with wireless barcode readers that will eliminate product identification errors and make it easier for the company to process repeat orders from customers.

Mobile business is the future. Soon, every device, everywhere, will be online. At this moment, sales forces are ordering aluminum via handhelds, and factory workers are reading blueprints from interactive headgear. Your next refrigerator could automatically send replenishment orders directly to your local grocery store.

Users will require a powerful software infrastructure to connect all of these devices and realize the full value of the data they hold. mySAP Mobile Business is a wireless-ready solution that allows for immediate immersion into the wireless world of mobile business with mySAP.com.

"SAP is a key component to Palm's personalized handheld portal. Our employees can now access mission-critical information anytime, anywhere."

Marina Levinson, CIO, Palm, Inc.

With mobile devices like the Palm platform, mySAP.com goes everywhere business goes.

CUSTOMER STORY: PALM

Great global enterprises aren't built overnight – unless you're Palm, Inc. Palm provides two-thirds of the world's handheld computers. And what started as a digital appliance for individuals is now an important part of the future of global business collaboration. The Palm OS™ platform, with wireless Web, is used for many mobile business solutions.

Palm turned to SAP when it became an independent entity in early 2000. Palm's separation from 3Com enabled it to build a world-class IT system from the ground up. And as part of the vision, Palm created the Palm@Palm program, which deploys global mobile e-business solutions internally within Palm to not only make the company more efficient, but to showcase Palm solutions to external enterprise clients.

"What separated SAP from other providers," explains Colleen Berube, director of enterprise applications at Palm "was that they brought in the actual applications we needed for our business. They could provide end-to-end solutions that worked right from the Web interface to the back end."

SAP already has a comprehensive mobile e-business solutions platform. It provides Palm solutions to other global customers and actually uses Palm solutions itself. Palm's enterprise platform and wireless Web services are ideal for cutting the time and cost of distributing information to employees in the field. SAP can perform real-time reporting using the Palm platform.

Palm CIO Marina Levinson says, "SAP provided important functionality to our Palm@Palm program and a key component to Palm's personalized handheld portal. Our employees can now access mission-critical information anytime, anywhere."

"That means we can close potential gaps in our enterprise operations," adds Marina. "We can move faster and make better decisions. It's clear that the leading companies will leverage mobile technology like Palm's and SAP's to create and sustain a competitive advantage."

SOLUTIONS FOR SMALL BUSINESS

Small business is big business. There are millions of small and midsize companies around the world, representing a huge opportunity for SAP.

While SAP has traditionally been viewed as a solution provider for the Fortune 500, it has made a major commitment to developing solutions for companies of all sizes. There is no better example than the mySAP.com® e-business platform.

mySAP.com is ideal for small and midsize companies, because it provides powerful solutions for companies of all sizes and supports the unique needs of users in specific industries. Because many mySAP.com solutions can be delivered using nothing more than a standard Web browser, such as Microsoft Internet Explorer or Netscape Navigator, smaller companies don't need to invest precious capital in hardware and software.

The business solutions in the mySAP.com family perform effectively for companies of any size, helping to level the global playing field for entrepreneurial firms. The robust functionality of mySAP.com provides unlimited scalability to support aggressive growth, avoiding costly and time-consuming future migrations. No wonder North American sales of mySAP.com solutions for smaller businesses nearly doubled in 2000. In fact, small and medium-size businesses are now SAP's fastest growing market segment. One-third of all SAP installations worldwide are now in organizations with revenues under U.S. $200 million. Since smaller businesses generally grow more rapidly than large global enterprises, this segment offers outstanding long-term prospects for SAP.

Small and midsize businesses are now SAP's fastest-growing market segment.

“The most important thing was that we didn’t have to take all the services offered. We always had a choice.”

Robert Lankhart, CIO, Kronen GmbH & Co

BENEFITS FOR SMALLER COMPANIES

Netrail implements industry best practices

Netrail, a fast-growing Internet service provider in Atlanta, chose to go with an SAP solution based upon industry best practices because of its low cost and rapid implementation. As Rick Schmidt, the company’s corporate controller, explains, “SAP can get you live fast and at a cost that fits your business.”

Ofishop discovers mySAP.com is the right size for every company

“At first we thought mySAP.com® e-business platform solutions would be too much for a firm our size,” recalls Marcelo Garcia, systems manager for Ofishop, a midsize office supplies company based in Argentina. But the company soon found that mySAP.com is flexible enough to fit companies of all sizes. Today, Ofishop has an active e-business presence on the Web, serving customers throughout Argentina. Ofishop knows that mySAP.com, like Ofishop itself, has unlimited potential for growth.

Kronen gets up and running fast with mySAP.com

SAP’s cost-efficiency and speed were key selling points for Kronen GmbH & Co. KG Nahrungsmitteltechnik, a midsize German manufacturer. When selecting an SAP ready-to-work engineering solution, CIO Robert Lankhart says, “The most important thing was that we didn’t have to take all the services offered. We always had a choice.”

In addition, Lankhart was pleased that his own in-house staff was able to implement the SAP solution within just 30 days. He knows that as his company continues to expand, it can easily add the functions that were not initially activated.

TechSmart relies on industry best practices

One growing company that has discovered the SAP advantage is TechSmart, a New York-based firm that repairs and resells office technology products that are coming out of lease agreements and from corporations replacing their equipment.

According to Michael Beller, the company’s chief operating officer: “One of the most important advantages of SAP’s solution for a company like TechSmart is the complete integration of mySAP.com across all aspects of our business.” Speed was also important, “It was critical that we be up and running quickly with an integrated, end-to-end e-business solution at an affordable cost – and SAP delivered,” Beller says.

Through its flexible, affordable, and user-friendly solutions, SAP continues to demonstrate that it understands the needs of small and midsize companies. After all, SAP started with five engineers sitting in one room, writing what would become the world’s most widely used e-business software.

mySAP™ HOSTED SOLUTIONS

mySAP Hosted Solutions use an Internet-style approach to deliver powerful business applications. They're becoming the choice for customers of all sizes.

On the Internet, services originate from computer servers in remote locations and are delivered over communications lines. It's a method that makes it easy for end users to take advantage of diverse applications using nothing more than an ordinary Web browser.

Now, SAP has applied that same model to delivering high-level business applications, with mySAP™ Hosted Solutions.

mySAP Hosted Solutions originate from robust servers that are managed by SAP or by a SAP-Certified Hosting Partner. But they look and respond as though they were provided right at the user's desktop. The difference is the user's company never has to install, operate, or upgrade any software or solutions. It's all done automatically for them, saving time, effort, and money.

Analysts predict that remote hosting will become the preferred method of delivering applications, services, and solutions.

SAP offers three primary types of hosting services:

The most popular type is application hosting. This includes providing the infrastructure, implementation, operation, and ongoing support for selected applications.

The second type is marketplace hosting, in which SAP provides everything a company needs to join or even operate an online marketplace.

The third type is application service provider (ASP), through which SAP provides the fastest, most cost-effective way to use the mySAP.com® e-business platform if little or no customization is required. This is an ideal level for small and midsize companies.

Through these services, any SAP application can be implemented and delivered as an efficient and reliable hosting solution.

A popular choice with companies of all sizes

Analysts have predicted that remote hosting will become the preferred method of delivering applications, services, and solutions in the future. The explosive growth of mySAP Hosted Solutions in 2000 indicates that this future has already arrived.

Mitsubishi

In Salem, Oregon, Mitsubishi Silicon America (MSA) chose mySAP Hosted Solutions for its critical production facility, which manufactures integrated circuits and semiconductors on a 24x7 basis. With the help of Qwest Cyber Solutions (QCS), an industry-leading enterprise ASP and an SAP-certified Hosting Partner, MSA now has a highly reliable environment for its key SAP applications. This approach, says C.P. Brauch, MSA's chairman and CEO, "…allows MSA to run a better business by predicting costs, mitigating risks, and freeing up resources to focus on more strategic issues."

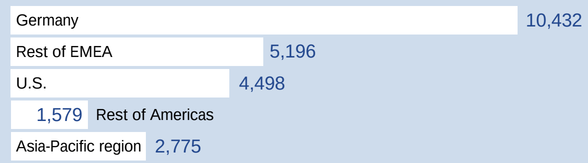
OfficeXL.de

The economics of mySAP Hosted Solutions are compelling. Customers pay only for the services they need. This eliminates the need to manage and upgrade in-house software systems – an important factor in today's tight labor market. Customers always enjoy the latest in powerful, reliable business solutions. These advantages make mySAP Hosted Solutions an important part of the future for SAP and its customers.

And in Germany, OfficeXL.de, the nation's major online procurement service for office products, needed a strong, integrated back-end solution for its rapidly growing Internet business. After thoroughly researching its options, the company chose mySAP Hosted Solutions.

According to Dr. Christian Clermont, managing director, "Only SAP could cover 95% of our requirements with the standard solution. With mySAP Hosted Solutions and CSC Ploenzke as partners, we realized our aim to go live in only five weeks." Getting to market faster paid off. The company has acquired more than 10,000 new corporate customers since the first quarter of 2000.

officeXL.de
alles fürs büro – clever per click.



Number of employees
Source: FTEs, 2000

HUMAN RESOURCES

SAP's success is created by its people. It is engineered each day from their passion and focus on delivering powerful e-business solutions that give every SAP customer sustainable advantage and real business results.

The power of collaboration and collaborative teams

Because the Internet is a global network of networks, SAP is a global team of teams. SAP believes in the power of collaboration. That's what makes e-business work. As a global company, the ability to collaborate across borders and time zones and cultures enables SAP to be market driven, agile, and responsive. It gives SAP employees the opportunity to expand and enhance their experience.

SAP began with five engineers and a shared vision, writing software to make it easier to manage business resources. That was 28 years ago. Today, 24,000 SAP employees work to deliver better results and new value to businesses around the world.

The people who come to SAP still share that entrepreneurial spirit. They thrive on the challenge of turning cutting-edge technology into robust business results. They understand that success depends on making our customers successful.

Recruiting for the new economy

Today, every company competes in a battle for the best talent. E-business is the future of every business – and the success of that future depends on the talented employees who will drive SAP there. The death of the old New Economy offers SAP an opportunity to attract a new generation of gifted individuals who seek the stability and stature of SAP while thriving in an environment of collaboration and innovation. And SAP is launching a global campaign to make sure it takes advantage of this experienced talent.

Current economic conditions also make SAP attractive to a new pool of potential employees shifting to the new, New Economy from the world of dot-com startups. For people with both technical skills and experience, SAP offers the best of two worlds – an innovative, entrepreneurial environment with the stability of a successful global company.

At the same time, in a job market that remains tight, particularly for technical people, recruiting and keeping first-rate talent requires tangible rewards. SAP offers its employees first-rate incentives in terms of both compensation and ongoing training and professional development, two areas that concern them most directly.

SAP's Performance Feedback System makes it easy for employees and managers to evaluate performance and to keep salary levels for performance-based compensation in line with market conditions. In addition to regular compensation, SAP provides two stock option plans that encourage top performance at both the personal and organizational level.

The Stock Appreciation Rights (STAR) Plan, initiated in 1998, has been improved. The program now offers stock options, depending on individual performance and position, after employees have been with the company for only a year, thus substantially increasing the number of employees who can participate. A stock purchase plan that enables employees to purchase company shares on preferential terms is also available.

The Long-Term Incentive (LTI) Plan offers top managers worldwide an attractive incentive system to ensure their continuing contribution to the company's success. The financial incentives are well-balanced, geared to retaining top employees, and focused on the long-term growth of both employees and the company.

Training for the e-business world

The world of e-business requires new skills at all levels. To support its strategic goals, SAP has developed SAP University, a permanent internal training organization consisting of staff and facilities that provide professional development for all employees.

Current economic conditions make SAP attractive to a new pool of potential employees shifting to the new New Economy from the world of dot-com startups. For people with both technical skills and experience, SAP offers the best of two worlds: an innovative, entrepreneurial environment with the stability of a successful global company.

Training is delivered in traditional classroom-based meetings, in virtual classrooms, or via the Web, avoiding the costs associated with travel and time spent away from work. As soon as a course has been produced, it is available to every employee. Currently, SAP has an online library of 650 Web-based courses.

Another key area is the continual improvement of management competencies. As a long-term initiative, SAP has established a global program for high-level executives in cooperation with internationally recognized business schools and institutes, including top-ranked INSEAD in France, with which the company has instituted the Global Leadership Development program. Additional training programs for managers at all levels are being consolidated worldwide. SAP University is playing its part here by promoting an employee-oriented management culture.

Using human resources strategically

To compete in the e-business world, SAP must effectively use human resources on a global basis. SAP makes extensive efforts to locate employees with specific knowledge and experience worldwide and to ensure that each employee has the job best suited to his or her skills. Individual qualification profiles, based on a standardized global skills catalog, have been a significant asset in building the collaborative project teams that have been key to the success of mySAP.com.

Using effective skills assessment and planning, SAP can determine what human resources will be required on a medium- or long-term basis and where they will be needed, thus offering employees greater choice among career opportunities. In addition, this effort helps employees and their managers create and implement personal development plans.

Measuring satisfaction

Every two years, SAP conducts an international employee survey of management and employees at all levels. The survey measures employee satisfaction with the company as a place to work, in terms of company vision and strategy, employee participation and empowerment, recognition of performance, and professional development. The results enable SAP to identify its strengths and to target areas for further development. The SAP Employee Survey 2002 will continue SAP's dedication to open communication and continual improvement.

SAP's most compelling competitive advantage is the ability to attract and retain the best people. An enhanced compensation program, SAP University, and global personnel development exemplify SAP's commitment to its workforce.

INVESTOR RELATIONS

A clear message in a turbulent market

Throughout a tough year in the financial markets, SAP continued to highlight its clear strategy, strong product portfolio, and solid financial position to the global financial community. The focus of the message was simple: mySAP.com picked up momentum as the year progressed.

In the early stages of the year, as excitement and demand grew for shares of companies in the Internet and B2B space, SAP benefited from its leading position in that new market. In March, SAP's preference share price reached €363 (ordinary share: €285; ADR: U.S. $85), its high for 2000. SAP continued to experience success with mySAP.com throughout 2000, and at the SAPPHIRE conference in June the company made several important announcements, including one of SAP's largest single software sale ever with Nestlé and a partnership with Commerce One to develop next-generation e-business marketplaces. After releasing solid half-year financials, SAP preference shares closed on July 20 at €249 (ordinary share: €198; ADR: U.S. $58). SAP further solidified its position as the leading e-business software provider in the fourth quarter, as mySAP.com sales accounted for 63% of software sales in SAP's best quarterly performance ever.

2000 was not a good year for software stocks: the Goldman Sachs Software Index declined by 47%. SAP preference shares ended the year at €150 (ordinary share: €121; ADR: U.S. $33), outperforming the Goldman Sachs Software Index by 22 percentage points.

Shares of SAP on the Frankfurt and New York Stock Exchanges continued to be traded heavily throughout 2000. The SAP preference share traded an average of over 3.6 million shares per day, one of the highest volumes on the Frankfurt Stock Exchange. In the U.S., an average of over 700,000 ADRs traded daily. This figure is well above the average volume for the other German companies listed on the New York Stock Exchange.

SAP SHARES: KEY FIGURES € per share except as stated	2000	1999*
Earnings per ordinary share – basic	2.01	1.91
Earnings per ordinary share – diluted	2.01	1.90
Ordinary share dividend*	0.57	0.52
– with German tax credit	0.81	0.75
Ordinary share high/low for year**	286.33/ 107.00	171.33/ 76.33
Earnings per preference share – basic	2.02	1.92
Earnings per preference share – diluted	2.01	1.90
Preference share dividend**	0.58	0.53
– with German tax credit	0.83	0.76
Preference share high/low for year***	364.14/ 133.00	211.33/ 85.37
Cash earnings according to DVFA/SG	1.85	2.85
Equity (€ billions)	2.9	2.6
Number of shares (millions)	314.7	314.3
Market capitalization (€ billions)	42.7	56.3

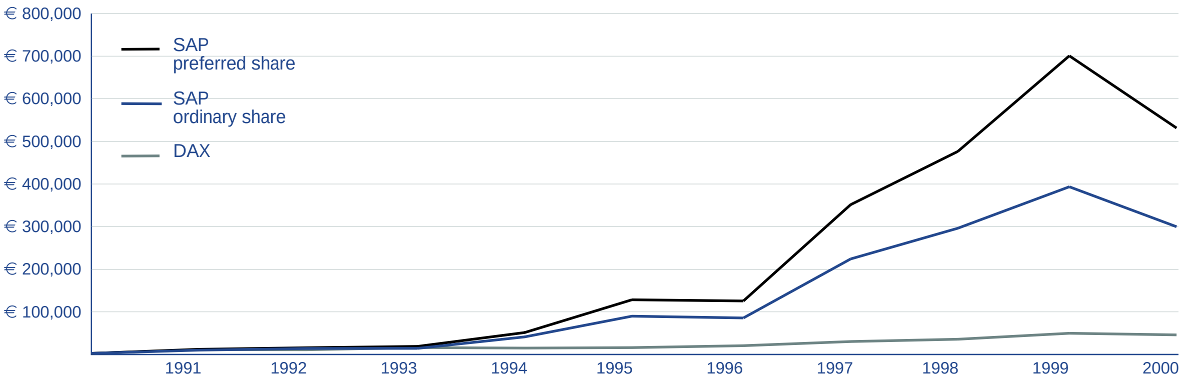
* adjusted for the 3-for-1 stock split
** proposed dividend for 2000
*** Frankfurt Stock Exchange floor

CASH EARNINGS ACCORDING TO DVFA/SG* in € millions	2000	1999
Net income before minority interest	632.3	601.0
Minority interest	5.3	2.9
Net income	639.6	603.9
Depriation and amortization	243.1	174.9
Write-ups	–0.7	–0.6
Change in reserves and accrued liabilities	–99.5	88.2
Change in deferred taxes	–132.0	14.7
Other material non cash expenses and income	–67.4	15.8
Cash Earnings according to DVFA/SG	583.1	896.9
Cash Earnings per share according to DVFA/SG* (in €)	1.85	2.85

* based on 314,714,655 shares in 2000;
314,268,342 shares in 1999

Return on SAP shares vs. DAX portfolio

Initial investment 10,000 €



With an aim to make SAP shares more affordable to a wider audience of investors, in May, SAP shareholders authorized a three-for-one stock split on SAP's shares.

Taking the message to a wider audience

SAP hosted over 250 one-on-one meetings with institutional investors and held several well-attended group meetings worldwide. In addition, senior management continued to host quarterly conference calls and webcasts following the release of each quarter's results. Hundreds of investors and analysts also participated in product-focused investor workshops, as well as the global SAPPHIRE user conferences.

To support SAP's strong position in the Americas, in 2000 the company dedicated even more time and resources to communicating with the U.S. financial community. To this end, SAP established a dedicated investor relations office in New York. For the first time, management was present in New York to announce its half-year results. In addition to accessing senior management on the day of the results announcement, the U.S. media and financial community had the opportunity to experience mySAP.com firsthand through product presentations and live demos.

Global shareholder base

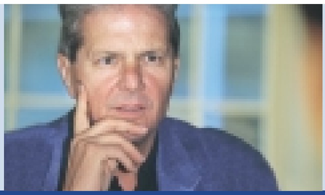
At the end of 2000, there were 183 million SAP ordinary shares and approximately 131.7 million SAP preference shares. 63% of SAP's ordinary shares and 5% of the preference shares were held by SAP's three founders, their families, trusts and holding companies. The balance of the shares, or approximately 61% of the shares, remains well-distributed around the globe. Of the free float, 30% is owned by German institutional investors, 24% by European (non-German) and U.K. institutional investors, and 18% by North American institutions.

The year 2000 also saw an increase in the number of institutional investors owning SAP shares.

RETURN ON SAP SHARES
Initial Investment: 10,000 €

Date of investment	Dec 31, 1990	Dec 31, 1995	Dec 31, 1999
Period of investment	10 years	5 years	1 years
€ value, Dec. 31, 2000			
– SAP ordinary share	299,783	33,354	7,618
– SAP preference share	531,400	41,391	7,584
Average annual return (in %)			
– SAP ordinary share	40.5	27.2	–23.8
– SAP preference share	48.8	32.9	–24.2
Comparable return: DAX	16.5	23.3	–7.5
Comparable return: REXP *	8.2	6.0	6.9
Comparable return: S&P 500 (€-Basis)	21.6	27.8	–2.1
Comparable return: Goldman Sachs Software Index (€-Basis)			–41.7

* Performance index of the German bond market



Dietmar Hopp
Chairperson of Supervisory Board

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

SAP had a strong year in 2000 despite difficult circumstances and has defended its dominant position in the market well. In an uncertain environment with much stronger competition, SAP successfully managed its transformation from a business application software vendor to a provider of complete, interenterprise e-business solutions. This process of change was accompanied by encouraging developments in SAP's business. The mySAP.com e-business platform became a major source of revenues, endorsing the strategic repositioning that SAP began during the previous year.

Once again SAP attributes its success to strength in innovation and to a commitment to customer orientation, underpinned by the hard work of its employees. Because these strengths are also the key to success in the future, business policy will continue to be directed toward building on them.

As in previous years, SAP AG's Supervisory Board did not restrict its work to its legal supervisory function. It also shared fully in discussion of operational business policy and contributed actively to the processes of strategic transformation. It was involved in the decisions made by the Executive Board and was always apprised of all details.

Five regular meetings of SAP AG's Supervisory Board during 2000

SAP AG's Supervisory Board met for five regular meetings in 2000. The Executive Board provided detailed information allowing the Supervisory Board to deal with current and future developments in business at these sessions. Strategic measures and the resulting plans for human resources, investment, and finance were discussed in equal depth.

The Supervisory Board discussed and approved the Executive Board's plans to establish SAP's German subsidiary as a separate legal entity and to set up new subsidiaries to build the virtual marketplace and hosting/application service provision business areas. The Supervisory Board was also involved in key matters, such as the new marketing strategy, the hedging of expenses for the STAR Plan for 2000, the resulting opportunities and risks, and the Employee Survey 2000. It was also kept fully informed of matters related to business, for example, SAP's quality standards and partner strategies.

In its supervisory role, the Board discussed and oversaw all actions requiring its input or agreement in accordance with the law and SAP's internal rules. These included strategic acquisitions, as well as agreements and transactions between SAP AG and members of the SAP boards or companies in which board members have a substantial stake. As required by the German corporate governance regulations, the Supervisory Board received the annual report of the Executive Board on the allocation of donations and the annual report of the compliance representative under the insider trading rules.

Two new Supervisory Board committees

To improve the efficiency of its work, the Supervisory Board formed two new committees in 2000 in addition to the existing three.

The role of the Technology Committee, which was established at the end of 2000, is to observe current technological developments and to advise the Supervisory Board specifically on decisions requiring detailed technological knowledge. The other new committee, the Venture Capital Committee, had, at the end of the fiscal year, not yet met. It is responsible for discussing and approving SAP's venture capital acquisitions when these exceed the agreed investment budget.

The other committees of the Supervisory Board are the Compensation and Audit Committees and the Company's Mediation Committee required by the German Participation Act, section 27 (3). The Company's Mediation Committee did not meet during 2000.

The Audit Committee met three times in 2000 to examine SAP and SAP Group annual financial statements for 1999, to discuss the internal audit report, to review the audit and audit scope for subsidiaries newly admitted to the consolidation group. Together with the auditors, the committee determined the auditing focus for the 2000 annual financial statements.

The Compensation Committee held two meetings to discuss Executive Board personnel matters and various human resources issues.

Appointments to the Executive Board

During its meeting on October 17, 2000, the Supervisory Board discussed the reappointment of Executive Board members Prof. Dr. Claus Heinrich and Gerhard Oswald. On the recommendation of the Compensation Committee, both members were reappointed to the Executive Board of SAP AG for an additional five years.

The chairman of the Supervisory Board and the board itself were actively involved in the selection process for applicants for the position of chief financial officer on the Executive Board. The Supervisory Board appointed Dr. Werner Brandt as CFO on the Executive Board for a term of four years at its meeting on October 17, 2000.

The financial statements

The auditors ARTHUR ANDERSEN Steuerberatungsgesellschaft Wirtschaftsprüfungsgesellschaft mbH, Eschborn/Frankfurt were elected by the general meeting of shareholders on May 5, 2000 and appointed by the Supervisory Board to carry out the audit. The company examined the consolidated financial statements, the SAP AG financial statements, and the review of SAP Group operations, which includes a review of the operations of SAP AG, for the 2000 fiscal year and issued an unqualified audit opinion. It also confirmed that the consolidated financial statements, which were prepared in accordance with U.S. GAAP, complied with the exemption requirements of the German Commercial Code, section 292a. The auditors also examined the SAP AG risk management system, and the results showed that management duties stipulated by German legislation on corporate control and disclosure were carried out and that the current risk management system performs satisfactorily.

All members of the Supervisory Board received the auditor's reports by ARTHUR ANDERSEN Steuerberatungsgesellschaft Wirtschaftsprüfungsgesellschaft mbH on March 6, 2001 and they all had access to the reports at the meeting of the Audit Committee and at the audit meeting of the Supervisory Board to approve the statements on March 16, 2001.

The Audit Committee meeting and the audit meeting of the Supervisory Board to approve the statements on March 16, 2001 discussed in full the auditor's reports by ARTHUR ANDERSEN Steuerberatungsgesellschaft Wirtschaftsprüfungsgesellschaft mbH. The auditors attended both of these meetings to report on the audit and to provide information as required.

The Supervisory Board approved the financial statements. At its Audit Committee's meeting and at its own audit meeting on March 16, 2001, it approved the SAP AG annual financial statements, the SAP Group consolidated financial statements, and the combined review of SAP Group and SAP AG operations. The financial statements were thus finalized.

The Supervisory Board endorses the Executive Board's proposal for appropriation of earnings retained in 2000. The proposed dividends are €0.57 per no-par ordinary share and €0.58 per no-par preference share.

In accordance with an agreement with the Schutzgemeinschaft der Kleinaktionäre e.V. (an association that represents the interests of small shareholders), the Supervisory Board accepted and noted the report voluntarily produced by SAP AG's Executive Board for the period January 1 to December 31, 2000 concerning the relations between SAP AG, the voting pool established by SAP's founder-shareholders, the members of the voting pool, and the companies in which voting pool members have controlling interests. The Supervisory Board added all of the legal relations between SAP AG or its subsidiaries and Hasso Plattner and the companies in which he has a controlling interest.

The Supervisory Board would like to thank all members of the Executive Board and all SAP employees for working so hard to reposition SAP as an e-business company and for contributing so much to its value.

Walldorf, March 16, 2001

The Supervisory Board

Dietmar Hopp

Dietmar Hopp

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited the consolidated balance sheets of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. Company management is responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with professional standards prescribed by the German Institute of Certified Public Accountants (IDW) and in accordance with auditing standards generally accepted in the United States (U.S. GAAP). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The determination of audit procedures considers the knowledge about the Company's business and legal environment as well as expectations about possible errors. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the U.S.

Our audit which also covered the management's review of operations for the fiscal year from January 1, 2000 through December 31, 2000, did not raise any qualifications. In our opinion, the management's review of operations presents fairly the position of the Group as well as the risks related to future developments.

Furthermore we confirm that the consolidated financial statements for the fiscal year from January 1, 2000 through December 31, 2000, are in compliance with the exemption rules for the preparation of consolidated financial statements according to German law.

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Groß
Wirtschaftsprüfer

Turowski
Wirtschaftsprüfer

Eschborn/Frankfurt am Main, February 1, 2001

REVIEW OF SAP GROUP AND SAP AG OPERATIONS

Forward-looking statements

Any statements contained in review of operations 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", "estimate", "intend", "may", "expect", "anticipate", "predict", "project", "forecast", "should", and "will" and similar expressions as they relate to the Company are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly 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 U.S. Securities and Exchange Commission, including the Company's Form 20-F for 1999 filed with the SEC on April 17, 2000 and the Company's Form 20-F for 2000 that will be filed before June 30, 2001. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

2000 was a successful year for SAP in a number of respects. The Company fully accomplished its transformation, which began in 1999, from a manufacturer of business software products to a provider of comprehensive e-business solutions. It also introduced organizational measures needed to efficiently implement this new business strategy. With total revenues up by 23% and a 33% increase in operating income (before expenses for the employees' STAR Plan), the Company can also point to a clear improvement in business development compared to the previous year.

Positive development of the global economy

Overall, the global economy was healthy in 2000. The first six months in particular brought strong growth, driven primarily by the sustained expansion of the U.S. economy and supported by resurgence in the euro zone, the United Kingdom, and Japan. The rest of the year, however, witnessed a weakening economy, in part because of substantial increases in the price of oil. The slow down was most pronounced in the U.S. towards year-end. Japan also saw slower growth, whereas Europe proved more resilient, buoyed by a soft euro.

Software industry dominated by the Internet

The business software sector also exhibited uneven progress in 2000. After the widely predicted computer-related millennium date-change problems largely failed to materialize, the Internet proved the major driving force for growth in the software industry. Under the Internet's influence, the New Economy boom continued during the first half of the year, leading to increased competition as new software companies entered the market. At the same time, technology stock prices rose rapidly. The second half of the year witnessed a noticeable retreat, as technology stocks suffered clear losses and many young software companies had to shut down in the face of liquidity problems.

A major contributor to the expectations that fuelled these turbulent developments was the business community's growing interest in software products designed to enable business processes over the Internet. A study by investment bank Merrill Lynch found that, alongside the upturn in the economy, demand for such e-business products was a main reason why during 2000 more than half of all U.S. and European companies revised their IT budgets upward from their originally planned increase of 12% on average.

Focus of demand on new markets

Demand for e-business software focused on supply chain management (SCM) and customer relationship management (CRM), products that leverage the potential of the Internet. Consequently, the markets for these products grew appreciably faster than the market for classic enterprise resource planning (ERP) software, in which the positive effect of both the millennium date change and euro changeover tailed off. The increasing importance of Internet based transactions and interenterprise business processes conducted over the Internet, as well as the related rapid rise in the number of electronic marketplaces resulted in a strengthened interest in software products that support such trading and collaborative activities. Analysts also saw promise in the markets for the operation of applications as an outsourced service (known as hosting) and application service providing (ASP) made up of combinations of software rental, implementation, infrastructure provision, and maintenance.

Opportunities for SAP growth in markets

At the beginning of 2000, SAP was the clear leader in the ERP software market with a share of approximately 30%. By contrast, industry analysts estimated that the Company's share of the SCM market and the CRM market was only 5% and 1%, respectively. Dominated by niche players, these were highly fragmented markets that offered SAP clear potential for expansion. The markets for procurement software and electronic marketplaces were also promising. Accordingly, SAP's aims were to increase its share in the rapidly growing markets for these new software products and, at the same time, to at least defend its ERP market share, as well as to achieve the projected increased sales, reduced costs, and resulting improved earnings.

Steps taken

To achieve these goals, the Company took a number of steps during the year:

- In order to better respond to changes in market requirements and to more rapidly introduce new products to market, the Company completely restructured its development area, orienting development efforts more rigorously to market and customer needs. SAP set up six general business units for application development and seven industry business sectors for the development of mySAP.com industry solutions. Three other general business units are dedicated to special technology projects. To improve efficiency, the Company centralized the maintenance area more thoroughly and completed the restructuring of its regional field operations.

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

REVIEW OF SAP GROUP AND SAP AG OPERATIONS

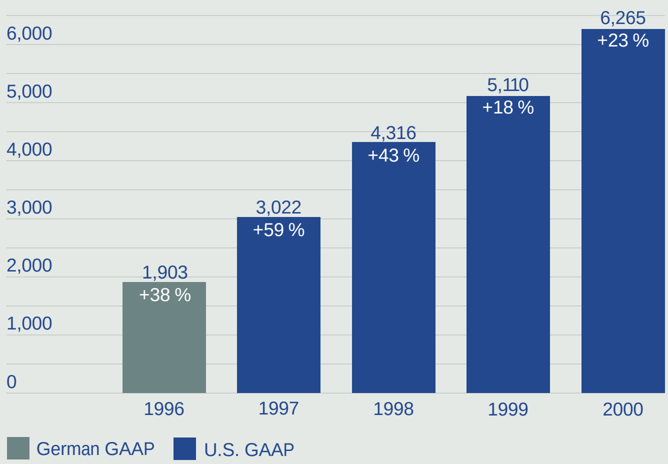
- The company accelerated development of its SCM and CRM solutions in order to catch up with competitors that, at the beginning of the year, were still ahead.
- By restructuring its global marketing operations, the Company laid the foundations for more effective communication of both its position as a leading e-business solution provider and the quality of its solution offerings. Subsequent to this reorganization, SAP started running a broad-based campaign that included television spots and newspaper advertisements in more than 25 countries by year-end.
- The Company established a new subsidiary, SAPMarkets, Inc., with headquarters in the Silicon Valley, to combine SAP's Internet marketplace activities into one specialized, flexible unit. SAPMarkets set up its own subsidiary to coordinate activities locally in Europe.
- To focus its market presence as a flexible hosting provider and ASP for SAP and other solutions, the Company established a specialized subsidiary, SAPHosting AG & Co KG in St. Leon-Rot, Germany.
- The Company entered into more cooperation agreements with other software vendors than had previously been its practice. This accelerated the realization of advanced e-business solutions. Of special note in this connection was the alliance forged mid-year with the U.S. company, Commerce One, Inc. Within a few months, Commerce One's e-marketplace infrastructure had already been successfully combined with e-procurement, supply chain, product planning, and analysis applications from SAP and SAPMarkets for next-generation e-business solutions.
- The Company merged its subsidiaries SAP Systems Integration GmbH, SAP Solutions GmbH, and SRS AG to form SAP Systems Integration AG (SAP SI). This created a powerful unit with the mission of building up SAP's share of the highly contested consulting and system integration market. SAP SI will be active not only in the narrower SAP field but will also provide services in the field of integrating heterogeneous software systems. With this in mind, SAP SI has been made substantially independent, a fact underscored by its own listing in the Neuer Markt segment of the Deutsche Börse, the German stock exchange.

Efforts rewarded by 23% revenue growth

By the second half of 2000, and especially in the final quarter, SAP's efforts were rewarded by increased revenue: total revenues for the year increased 23% to €6,265 million. Excluding the positive foreign exchange effect resulting chiefly from the strength of the U.S. dollar, revenue growth was 14%.

Total Revenue

in € millions | change since previous year

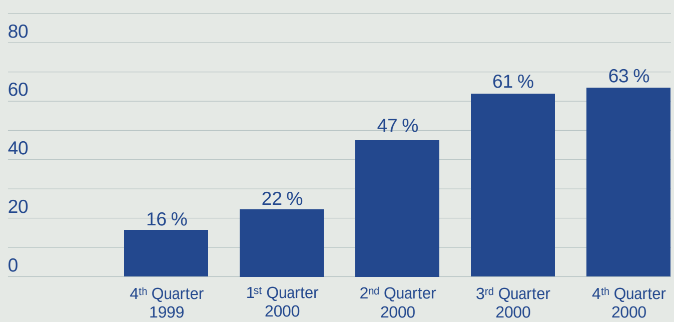


mySAP.com the primary source of revenue

The software revenue increase of €527 million to €2,459 million was the biggest element contributing to overall revenue growth. mySAP.com accounted for 53% (€1,296 million) of software revenues. This was better than the target set at the beginning of the year that the mySAP.com share of software revenues from new business should grow to 50%. In less than one year, mySAP.com became the Company's main source of software revenue. Fourth-quarter mySAP.com sales generated 63% of software revenues for the quarter and were 412% higher than in the corresponding quarter in 1999.

mySAP.com Revenues as a Proportion of Total Software Revenue

in %

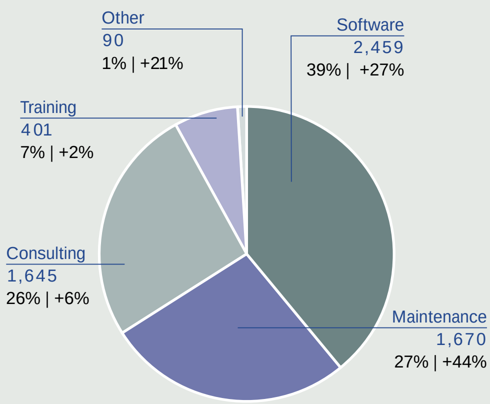


REVIEW OF SAP GROUP AND SAP AG OPERATIONS

Software revenues from the innovative products that grew out of the New Dimension initiative totaled €657 million in 2000, a rise of 251% that demonstrates acceptance of SAP's wider product offering. Software solutions for electronic marketplaces earned the Company €63 million, or approximately 10% of the total software revenue for the new products, and 3% of overall software revenue.

Revenue Breakdown by Types of Activity

in € millions | percent | change since 1999



Maintenance revenue grows by 44%

As was the case in 1999, the revenue source that achieved the highest percentage growth in 2000 was maintenance, recording an increase of 44% to €1,670 million. This strong growth is explained in part by a rise in the standard rate for maintenance charges implemented during 1999.

Overall, product revenues (software and maintenance) increased 33% to €4,129 million. In contrast to the prior year, product revenue grew more than consulting revenues, which increased 6% to €1,645 million. However, the trend in consulting also improved toward the end of the year. Fourth-quarter consulting revenues improved 27% over the same period in the previous year.

Whereas in 1999 training revenues decreased by 4%, in 2000 a 2% increase to €401 million was attained – due in part to a global reorganization of the training business – halting the previous year's downward trend. The increase is encouraging because as SAP solutions become more user-friendly, impressive growth in training revenues are not to be expected. Total service revenues (consulting and training) rose 5% to €2,046 million.

U.S. business picks up in final quarter

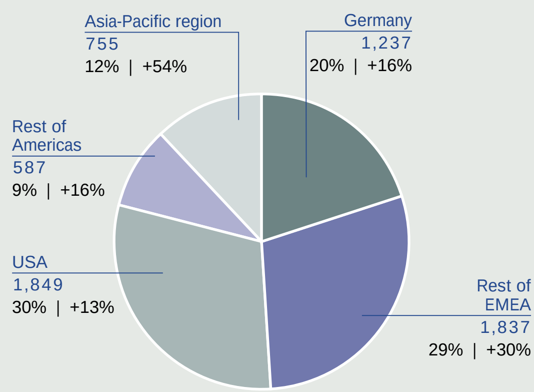
After first-quarter revenue decreased by 2% in the U.S. (equivalent to a 14% decrease after excluding the positive foreign exchange effect), the Company took effective steps. Management was reorganized and in particular given the task of stabilizing staff turnover and improving product and service sales.

As a result, the strong growth which was desired at the beginning of the year could not be realized. However, the decline in revenues in the U.S. was successfully slowed and, with the help of 23% growth in the final quarter, revenue increased by 13% to €1,848 million for the year. After adjustment for the positive foreign exchange effect, this figure shows a 2% revenue decline for the full year, but the trend at the end of the year was clearly positive. Revenues for the Americas region as a whole, which were strongly impacted by the developments in the U.S., rose to €2,436 million, an increase of 14% (but a decline of 2% after adjustment for the positive currency exchange effect).

At 16%, revenue in Germany grew less than in the rest of the Europe, Middle East, and Africa (EMEA) region, in which revenue increased by 30%. Nonetheless Germany, which accounted for 20% of total sales revenues, remained the Company's second-biggest market after the U.S. As a proportion of total revenue, revenue from outside Germany grew by one percentage point to 80%.

Revenue Breakdown by Sales Destination

in € millions | percent | change since 1999



EMEA sales revenues totaled €3,074 million, representing a 24% increase. In 1999, the Company had restructured its operations in the United Kingdom and Russia, so it was encouraging that these two countries posted particularly high increases in revenue: 55% in the United Kingdom and an even more impressive 151% in Russia.

Stronger growth in Asia

At 54%, SAP posted a clear revenue increase in the Asia-Pacific region and fulfilled the target set at the beginning of the year by the Executive Board of stronger revenue growth in this region. The number of installations grew even more quickly, by 75%. Encouragingly, two countries where SAP had reorganized over the last two years, Japan and South Korea, posted particularly high revenue increases of 126% and 192%, respectively.

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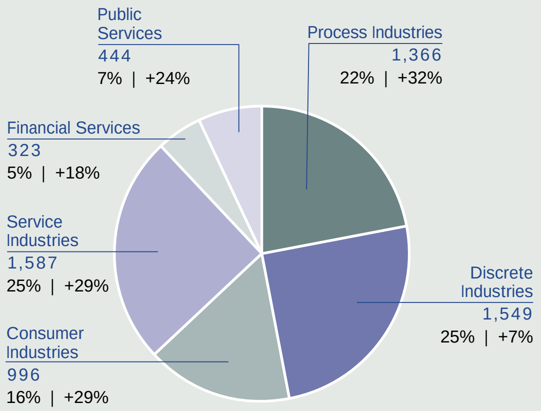
Service industries sector revenues grow 29%

The breakdown of total revenue by sector shows that discrete manufacturing declined as a source of revenue relative to all of the other sectors. The highest revenue increase, 32%, was posted by the process industries sector. Service and utility sector revenues grew 29%, consolidating that sector's position as the biggest contributor.

Revenue Breakdown by Sector

in € millions | percent | change since 1999

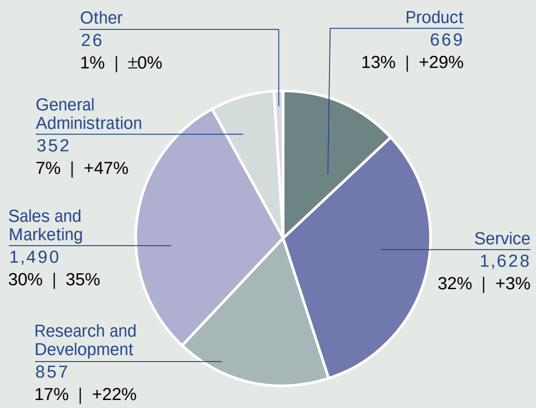


Brake on cost increases

At the beginning of the year, the Company set itself the target of keeping the increase in expenses (excluding the employees' STAR Plan) below the increase in revenue. Total operating expenses (excluding STAR expenses) rose 20% to €5,021 million, so the Company accomplished that aim. It was achieved by implementing cost reduction measures in most areas.

Operating Expenses Breakdown

in € millions | percent | change since 1999



As in the previous year, the biggest expense was for personnel. Personnel expenses (excluding STARs) increased 25% to €2,372 million. Under U.S. GAAP, the very substantial 1999 STAR payout obligation is required to be distributed as expenses over the measurement period and the payout period, that is, up to and including July 2001. As a result, program expenses considerably impacted the Company's 2000 figures. Such STAR expenses added €441 million to personnel costs in 2000, and the resulting total personnel expenses were €2,813 million.

Cost of product (excluding STAR Plan expenses) increased by 29% to €669 million. Including STAR expenses, the cost of product grew 37% to €722 million. Accordingly, even including STAR expenses, cost of product increased at a lower rate than the maintenance revenue to which it substantially corresponds. Reasons for this include the improved efficiency of maintenance operations and improved software quality.

Cost of service totaled €1,750 million in 2000. The figure excluding STAR expenses, which is more comparable to the 1999 figure, was €1,628 million and represented a 3% increase over 1999, below the rate at which service revenue (consulting and training) increased.

Research and development costs increased by 22% to €857 million. Including STAR Plan expenses, research and development costs grew by 30% to €969 million.

The level of sales and marketing costs increased by 35% to €1,490 excluding STAR or 39% to €1,577 million including STAR expense primarily due to intensified marketing activities. Training programs for sales employees in connection with the change from R/3 to mySAP.com also impacted expenses. In the light of the anticipated benefit it is acceptable that sales and marketing expenses increased at a higher rate than the corresponding software revenue.

Administrative costs rose to €352 million excluding STAR expenses or €418 million including STAR expenses. That the rise in administrative cost was so high – 47% excluding STAR costs – was due in part to severance payments made by various subsidiaries in connection with restructurings. Such expenses primarily impact administrative cost because all senior management personnel expenses for all SAP group companies are allocated to administrative expenses.

Operating income increased

The clear rise in total revenue and the comparatively small rise in expenses led to a 33% increase in operating income to €1,243 million before STAR expenses. This represents a gross operating margin (excluding STAR costs) of 19.8% compared to 18.3% in 1999. After taking into account STAR expenses of €441 million (1999: €140 million), operating income was €803 million compared to €796 million in 1999.

SAP SI's initial public offering (IPO) required a revaluation of the SAP SI shares held by SAP AG. Although SAP AG did not dispose of any shares in connection with the IPO, this revaluation led to an unrealized gain of €44 million, which was recorded as non-operating income.

Financial income improved

At the beginning of the year, the Executive Board announced that in 2000, at least a portion of STAR expenses would be covered by the sale of minority investments. The Company took advantage of the strong stock market in the first half of the year and realized finance income of €238 million in the first quarter alone. In view of the subsequent decline in the stock market and the announcement of German tax law changes for 2001 and 2002, the Company disposed of fewer investments in the second half of the year. Income for the year from the sale of listed stock totaled €355 million.

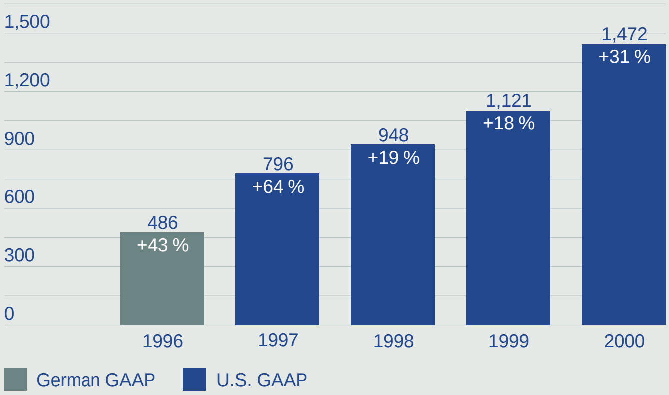
Finance income was negatively affected by the termination of the Pandesic joint venture established in 1997 by SAP and the U.S. company Intel Corp. In addition, some minority investments also had to be written down during the second half of 2000 to reflect the fall in value of small and medium-sized Internet business stock prices. Finally, the hedging of potential payment liabilities in connection with the STAR Plan led to further non-operating costs. Because the total of these factors amounted to less than the proceeds from the sale of minority interests, finance income increased 21% compared to 1999 to €284 million for the year.

31% rise in income before tax and STARs

Income before income taxes rose 5% to €1,031 million. Excluding STAR expenses for comparison with previous years and with other companies, income before income taxes was €1,472 million, a 31% increase over 1999. The effective tax rate, 38.0%, was nearly the same as in 1999, when it was 38.4%. The 6% rise in net income after income taxes in 2000 was the same as the rise in income before income taxes. Despite the high STAR costs, the margin on net income declined only 1.7 percentage points to 10%. Undiluted earnings per share calculated in accordance with U.S. GAAP and adjusted for the three-for-one SAP share split effected in June 2000 were €2.01 (1999: €1.91) for ordinary shares and €2.02 (1999: €1.92) for preference shares.

Income (before Income Taxes and STAR expenses)

in € millions | change since 1999

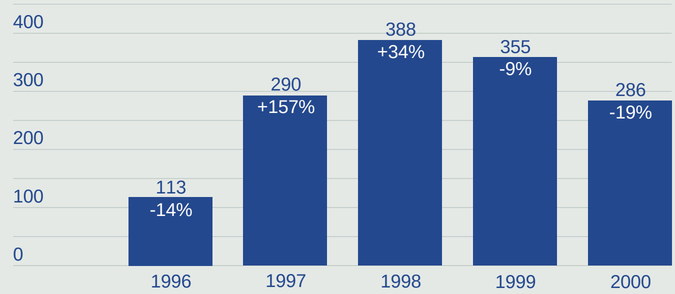


Sound asset and capital structure

The Company's total assets rose 16% to €5,586 million in 2000. The main reason was the rise of 20% in current assets. In contrast, fixed assets grew only 4%. As a result, the equity-to-fixed-assets ratio rose from 168% to 182%.

Capital Expenditure (Intangible Assets and Property, Plant & Equipment)

in € millions | change since 1999



In 2000, accounts receivable and liquid assets increased substantially. The higher accounts receivable figure was responsible for almost half of the total asset growth, reflecting the fact that many product sales were closed shortly before year end. As in 1999, however, tight receivables management kept the rise in accounts receivable down to 19%, which was lower than sales revenue growth. The days sales outstanding (DSO), which measures the average time before accounts receivable are settled, fell from 103 days to 93.

Increase in liquid assets

The sale of marketable equity security in the final days of 1999 was reflected in a clear increase in other assets reported that year. In 2000, securities were sold earlier in the year and so impacted liquid assets rather than other assets. As a result, other assets declined by 39% to €189 million, whereas liquid assets, which also included proceeds to SAP SI from its IPO, rose 34% to €1,087 million.

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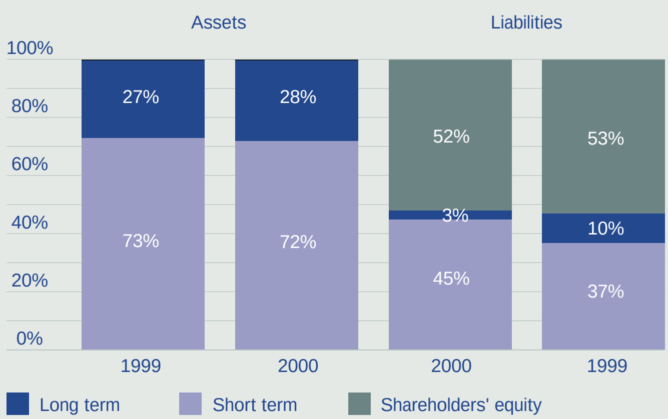
To allow employees to participate in rising SAP preference share prices under the STAR Plan, while avoiding an accompanying high burden on income, the Company took steps to hedge the potential costs of the 2000 STAR Plan. This hedging transaction resulted in a reclassification of €409.5 million in the Company's 2000 balance sheet. However, because of its temporary nature, it is shown separately in the balance sheet as temporary shareholders' equity.

Including this temporary shareholders' equity, at the end of 2000, shareholders' equity totaled €2,894 million. At 13%, the increase in comparison with the previous year was not as great as the increase in total assets. This resulted in part from the decline in unrealized gains from marketable securities compared to the previous year due to the difficult stock market situation at the end of 2000. As a result, the equity ratio fell slightly from 53% to 52%. The return on equity also declined one point to 22%, chiefly because of the STAR Plan expenses.

Consolidated Balance Sheet Breakdown



SAP AG annual figures also sound

Total revenue rose 32% to €2,499 million. Almost the entire expense of the 1999 STAR Plan was recognized in the 1999 annual financial statements of SAP AG and so, as expected, did not impact 2000 expenses. As a result, personnel expenses declined 22% to €65.3 million. On the other hand, the cost of hedging the 2000 STAR Plan did impact income. Nonetheless, income from subsidiaries' dividends was one reason for the substantial increase in tax expenses to €245 million. Net income for 2000 was €279 million, representing a decrease of 11%.

Dividend increased

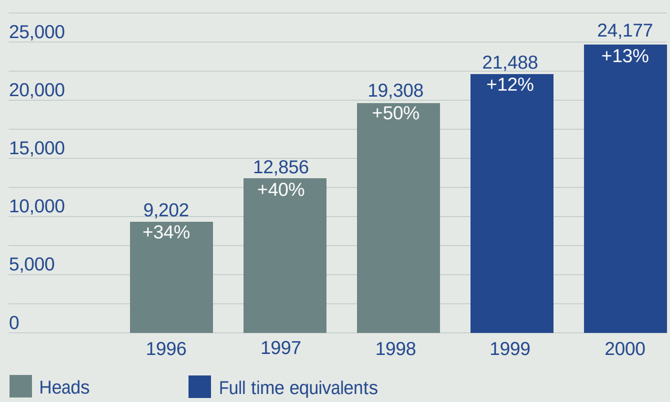
Although the payment of dividends by software companies is not customary in many countries, the SAP Executive Board maintains its position that shareholders should participate in good corporate results through the distribution of profits. In light of the marked increase in the Company's income before STAR expenses and income taxes, the Executive Board will recommend to the annual general shareholders' meeting that a dividend be paid that is approximately 10% higher than the 1999 dividend after taking into account the share split in June 2000. The dividend would be €0.57 per ordinary share and €0.58 per preference share. If the general meeting approved these proposed dividends, the amount distributed to shareholders would not exceed €180.7 million (€165.8 million in 1999). The actual amount distributed would be less if on the qualifying date the Company itself owns SAP shares because such shares would not be entitled to dividend payments. Despite the recent German tax system changes, with a tax credit of €0.24 per ordinary share and €0.25 per preference share, shareholders entitled to the credit will receive €0.81 per ordinary share and €0.83 per preference share.

Sustained growth in employee numbers

In 2000, the Company had to contend with employment markets generally characterized by serious supply deficits due to growing global demand for software products. Nonetheless, the Company again succeeded in increasing the headcount, thus reinforcing its most valuable asset. Headcount grew 13% to 24,480 at year end. The figure includes employees of newly consolidated companies. Converted to full-time equivalents, the year-end total of 24,177 is only slightly below the absolute number of employees. The Company thus achieved its target, set at the beginning of the year, that it would exceed the previous year's headcount growth of 12%. The average number of employees for the year was 23,335.

Employees at Year End

heads | change since previous year



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A breakdown of headcount growth by line of business and region substantially reflects the Company's development of business and the strategic orientation. For example, at 25% the increase was greatest in research and development but because of substantial efficiency gains in maintenance, headcount actually declined 15% in service and support, which includes maintenance, consulting, and training.

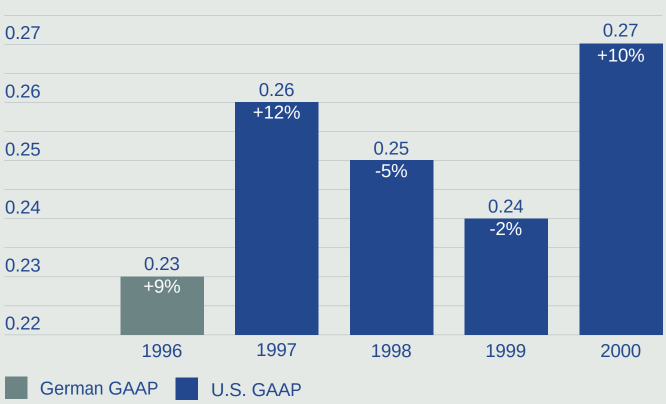
Because development is still concentrated chiefly in Germany, the 17% headcount growth in that country was higher than average. By contrast employee numbers grew far less in the Americas (1%) and in Asia-Pacific (6%), where a contributory factor was a reorganization in Australia. In these regions headcount growth was restrained with a view to increasing efficiency. However, especially in the first six months a tight employment market also led to increased employee turnover, particularly in the U.S.

Gains in productivity

Although fewer third-party services were bought in, 2000 saw a pronounced increase of 14% in employee productivity – expressed in terms of revenue per employee – to €0.27 million. This is better than the figure prior to the exceptional headcount increase of 1998 that was the backdrop for the productivity decline in 1998 to 1999. Personnel expenses per employee (excluding STAR expenses) – also affected by the reduction in third-party services – rose 17% to €0.10 million.

Revenue per Employee

in € millions | change since previous year



SAP employees are very highly qualified, as befits the Company's needs. More than 90% have a university degree, predominantly in a technology or a science discipline. To maintain and develop workforce skills, the Company again intensified training and education efforts. SAP University, founded expressly for this purpose, and the internal training area were the main training providers. Total training and education costs increased 11% to €108 million.

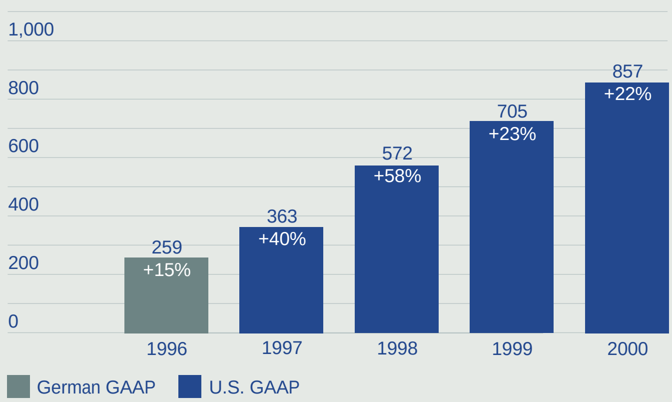
Strengthened development efforts

Development efforts concentrated on new solutions, especially CRM and SCM, as well as on the extension of functions in the classic applications and on various industry solutions. A further focus was on the cooperation with Commerce One concerning innovative e-business solutions for electronic marketplaces. Efforts were also dedicated to the portal solution for mySAP Workplace.

As expected, the strengthened development efforts resulted in higher research and development (R&D) expenses, which are overwhelmingly comprised of personnel costs. The Company came within one percentage point of its 22% R&D expense growth forecast, published at the beginning of the year. As a percentage of total revenue, R&D costs excluding STAR expenses for 2000 were virtually unchanged since the previous year at 13.7%, a figure that bears witness to SAP's commitment to R&D.

Research and Development Expenses

in € millions | change since previous year



As in previous years, the majority of the Company's development work took place in Germany at the Walldorf headquarters. Measured as the number of employees, the proportion of developers working outside Germany at facilities in France, India, Japan, and in the Silicon Valley fell slightly by 2 percentage points to 25%.

The views of independent analysts and researchers underscore the improvements to SAP solutions on which the Company concentrated development work in 2000. For example, a study by the University of Mannheim, Germany found that savings of 40% to 60% can be made in the work of carrying out business processes if the mySAP Workplace portal is used. AMR Research, an independent market research and consulting firm, judged that mySAP Customer Relationship Management is on the right track, offering customers a mature product. Forrester

REVIEW OF SAP GROUP AND SAP AG OPERATIONS

Research rated mySAP Supply Chain Management one of the leading SCM products.

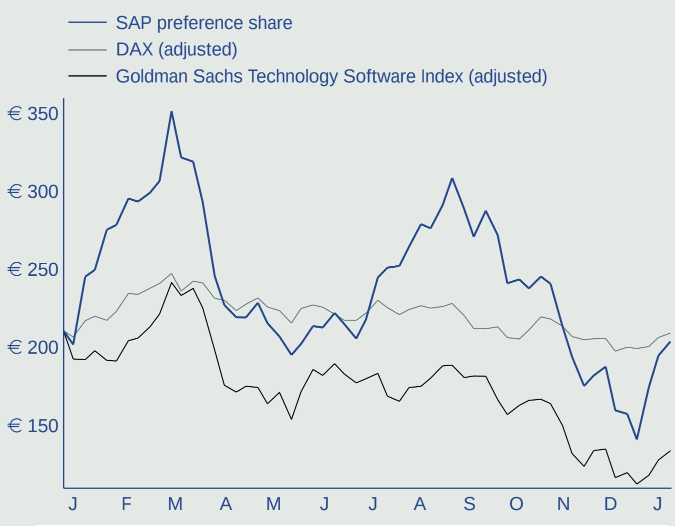
Slight recuperation of technology stocks at the start of 2001

The overall economic picture at the start of 2001 is one of constrained growth. Especially the U.S. economy is slowing down considerably. This is also affecting the Internet sector, which is struggling with the effects of the sudden end in the second half of 2000 to fairy-tale growth. The press reported that in January 2001 alone the number of employees in U.S. Internet companies fell by 23%. On the other hand, technology shares are displaying tentative signs of recuperation. The downward trend of the second half of 2000 did not continue during the early weeks of 2001. For example, the NASDAQ Composite index climbed 12% in January after having retreated 33% in the final quarter of 2000.

No new STAR expense despite rise in stock price

The Company's shares did not escape the general downturn in technology stocks in the second half of 2000. At the beginning of 2001, it became apparent that some of the ground lost by SAP shares resulted from the market's misunderstanding of how SAP's business was developing. Between publication of the Company's last quarter and year-end numbers and the end of January, the SAP preference share price increased by 68%.

Share Price 2000



However, this rapid climb was not enough to reestablish the price at the previous year's levels. This means that the 2000 STAR Plan will not pay out; nor will it result in a personnel expense.

After giving appropriate notice, the Company began on January 24 to buy its preference shares from the stock exchange in an amount not to exceed 1.5% of the total issued preference shares. One purpose of this stock buy-back is to be able to service the Long Term Incentive Plan share options and convertible bonds without diluting the earnings per share.

On February 1, 2001, Dr. Werner Brandt was appointed to the Executive Board as Chief Financial Officer, a Board responsibility he assumes from Prof. Dr. Henning Kagermann, co-chairman and CEO of SAP AG. Dr. Brandt replaces the previous CFO, Dieter Matheis, a member of the Extended Management Board, who retires at the end of 2001.

New markets with encouraging potential

Fears grew in the first few weeks of 2001 that the U.S. economy was entering a crisis, and most economic forecasts are now less optimistic than at the end of 2000. For example, the International Monetary Fund (IMF) revised its forecast for growth in the global economy in 2001 downward from 4.2% to 3.5%, citing the slackening of the U.S. economy as the reason. The IMF now expects only 2.5% growth in the U.S. during 2001. The median of various growth forecasts for the euro zone is approximately 2.9%, and the German federal government expects 2.75% growth for the year in Germany.

Surveys conducted by the banking houses Merrill Lynch and Morgan Stanley Dean Witter conclude that, because of the overall economic prospects in Europe and the U.S., spending on information technology will not grow as fast in 2001 as it did in 2000. However, software spending is expected to rise 17% – 20%, which is more than the other spending categories addressed in the survey. The Merrill Lynch survey does not expect spending on Internet technology to decline. Indeed, it is expected on average to rise as a proportion of all IT spending to 16%, twice the level in 2000. Morgan Stanley Dean Witter predicts especially strong growth in sales of CRM and electronic procurement software products in Europe, where it collected the data for its study.

In the medium term, high growth rates are predicted in the markets for CRM, SCM, portal, and e-marketplace solutions. The investment bank UBS Warburg forecasts that, on average, the CRM license market will grow 30% each year for the next four years, reaching U.S. $9,800 million by 2004. According to the same source, the SCM market should reach U.S. $8,800 million by 2004, as a result of average annual growth of 42%. Ovum, an independent research and consulting organization, expects the market for portal software to reach U.S. $7,000 million by 2005, implying average growth of some 50% per year for the next five years. AMR Research, another independent institution, foresees the market for e-marketplace software growing 49% per year on average to attain U.S. $2,800 million by 2004.

SAP optimistic

In view of the general conditions described herein and the progress made in 2000, SAP looks toward the future with optimism for a variety of reasons:

- There is still a healthy order pipeline. Various sales were nearly finalized in the fourth quarter of 2000 and are expected to be closed in 2001.

- After the numerous organizational changes that have transformed the Company from a software component vendor to a solution provider, SAP is now well prepared for the challenges on the horizon. The focus and organization of its research and development team is now better harmonized with the Company's sales and consulting efforts. Research and development now supports SAP's new holistic field operations method, the Customer Engagement Model, which is oriented to the solutions offering. The aim is to make SAP Solutions more market-responsive. Additionally, the new global marketing organization will improve public awareness of SAP and its solutions. The reorganization that has been carried out in several country subsidiaries is intended to reinforce sales growth. Setting up separate subsidiaries for marketplace solutions and to provide hosting and ASP services, as well as floating SAP SI as a largely independent unit gives the Company greater flexibility in its positioning.

- The aim both of the classic components and of the new mySAP.com solutions is to enable customers to use the Internet for efficient, cost-effective business process handling. They also help customers set up and expand e-business activity that leverages closer ties and greater collaboration with their suppliers, customers, and other business partners, considerably broadening the scope for tapping revenue and increasing income. The demand for these qualities can be viewed as largely independent of global economic trends. Indeed, revenue-boosting and cost-cutting potentials are often in demand precisely at times of restricted growth. Therefore, the Company does not believe that the slackening of the economy will permanently impact the development of its business.

- The Company has made its various e-business solutions more competitive. They hold up better in comparison with the products of leading specialized vendors, underpinning SAP's position in the rapidly expanding markets for CRM, SCM, portal, and e-marketplace solutions.

- Unlike many of its competitors, the Company is not a niche player with a single focus. Rather, its business strategy is to offer a wide range of solutions that individually are among the best in the market and that have the further advantage of being integrated and working well together. This is an important competitive factor because success in deploying CRM, SCM, portal, or e-marketplace solutions require tightly integrated solutions including classic business applications.

- Much of the Company's existing customer base has yet to invest in e-business solutions or is just beginning to do so. As the Internet grows in importance, these customers can be expected to invest in e-business, at least in the medium term.

- In the future, the Company will market both the entire mySAP.com e-business platform and individual mySAP.com solutions. This increases market potential. There are many potential customers that the Company can interest in individual mySAP.com solutions.

- In mySAP Workplace, the Company has a product that simplifies the user's access to information and to mySAP.com solutions and non-SAP products. This solution offering is aimed at both potential new customers and all current users of the Company's solutions. In comparison with portal products from other vendors, mySAP Workplace has the advantage that, coming from the Company, it is particularly well integrated with other mySAP.com solutions.

- The Company has extended the options for deploying the mySAP.com e-business platform either centrally on a single computer system or in a distributed, heterogeneous but integrated infrastructure. The products are now more suitable both for major multinationals and for small centrally run businesses. The Company's new hosting and ASP offerings are also increasing the possibility for winning new customers from small and midsized businesses.

- The Company will remain committed to its new policy of cooperating with suitable partners to improve its range of solutions or acquiring other companies for the same purpose. The capitalization changes authorized by the annual general shareholders' meeting in 2000 also provide resources for buying stakes in suitable companies. Indeed, the Company's resources are much greater than those of most of its competitors. This allows the Company to expedite development where necessary.

- The crisis experienced by many Internet companies has released some of the pressure in the software industry employment market. The ground lost by startup stock prices during the second half of 2000 made such companies less attractive as employers for managers and developers. Conversely, SAP is now seen as a more attractive employer, not least in view of the Company's progress in 2000. In the foreseeable future, recruitment and retention issues should have less influence on the Company's development than in 2000.

REVIEW OF SAP GROUP AND SAP AG OPERATIONS

- The employees are the Company's most valuable asset, and their willingness to perform is critical to the Company's success. For future development it is therefore very significant that success in 2000 motivated the employees.

Revenue increase of 23% predicted in first six months

In light of the described general economic trends and the software industry's specific situation, as well as SAP's own growth potential, the Executive Board predicts the Company will experience healthy growth in 2001. First-half revenues in 2001 are expected to exceed revenues in the comparable period in 2000 by slightly more than the 23% by which revenues grew overall in 2000. During the first six months of 2001, product revenue is expected to grow more strongly than service revenue. However, the growth rate for maintenance revenue is not expected to reach the high figure attained in the previous two years in the wake of the maintenance price increase. As a result, the difference in growth rates between product and service revenues is predicted to be less pronounced during the first half of 2001 than for the full year 2000, coming closer to the 10 percentage point differential recorded for the last quarter of 2000.

The proportion of software revenues generated by mySAP.com is expected to continue to grow, reaching a level of approximately 70% to 80% during the first six months of 2001.

The major contributors to revenue during the first half of 2001 are expected again to be the U.S. and Europe. Revenue growth is expected especially in the U.S. and Asia. Sales revenues in Europe during this period should also grow, but not as rapidly as in the U.S. and Asia.

The doubling of the 1998 annual revenues within three years that was forecast by the Executive Board in early 1999 will therefore not quite be achieved. The Executive Board slightly qualifies that unusually long-term forecast to the extent that it now expects the total revenues for 2001 plus the first-quarter revenues for 2002 to be twice as high or higher than the revenues for 1998.

Income predicted to rise

Marketing expenses are expected to rise in the first half of 2001 as a result of the continued drive toward greater market awareness for SAP and its solutions. Other costs are expected to rise less quickly than revenues during the same period, resulting in an increase in operating income excluding STAR expenses. The Executive Board believes that this increase in operating income before STAR expenses will exceed the revenue growth rate, and therefore profitability during the first six months of 2001 will grow, by one to two percentage points compared to the same period in 2000.

Remaining expenses from the 1999 STAR Plan, which will be recognized in the first half of 2001, are expected to be €50 million in 2001, considerably less than the corresponding figure of €441 million for 2000. Because no payments will be made under the STAR Plan for 2000, it will not give rise to any personnel expenses. The STAR Plan 2001 is not expected to incur material expenses in the first half of 2001 due to a revised structure to the program. Finance income, especially the sale of minor investments, is expected to decline in comparison with 2000 because of the difficult stock market situation and the tax reductions that take effect in Germany in 2002. The effective tax rate is not expected to change significantly from 2000. Accordingly, income after taxes for the first half of 2001 is anticipated to increase by one percentage point above the projected growth rate for operating income excluding STAR expenses.

As in 2000, recruitment will reflect trends in the Company's business. Total headcount growth will probably be greater than in 2000, but will not reach the exceptional 1998 growth rate.

Risk factors

Being active in many countries and in many innovative, highly dynamic fields of business, the Company faces a number of risks. Many steps have been taken across the SAP group to recognize these risks early and respond appropriately. However, no guarantee can be given that all risks are covered. In part, this is due to the fact that some risks are outside the Company's control.

The impact of risks on the Company can affect the validity of the assumptions on which the Executive Board has based its expectations as to future trends in the Company's business. This may jeopardize targeted revenue and income trends and the Company may fail to progress as expected.

- Because of its specific range of products, SAP assumes that the downturn in the global economy that is commencing will not critically affect the Company. However, unexpected or unprojected changes in the world economic climate or in the economies of particular countries or regions could have a negative influence on trends in revenues and income.

- Currency risks arising primarily out of the fact that the Company earns 71% of its revenues in currencies other than the euro are addressed by an active foreign exchange management policy. In particular, derivative financial instruments are used to hedge license fee payments from subsidiary companies to SAP AG. These instruments are used in accordance with uniform Company standards that are strictly applied. The risk of failure in these financial transactions is addressed by concluding such contracts exclusively with banks of sound standing.

- Because of the international nature of its activities, the Company is exposed to risks arising out of the many differing rules and regulations that apply in countries where it is active. To recognize such risks in good time and respond appropriately, the Company makes extensive use of its own and independent outside counsel.

- In order to sustain growth into the future, the Company requires highly skilled and qualified employees. It works continuously on initiatives to maintain and improve its attractiveness as an employer. The Company's targets are based on the assumption that these initiatives will be successful and that the described easing of the relevant employment markets will continue so that all Company needs for additional specialist and management employees can be met. If this is not the case, a negative impact on the predicted progress of the Company cannot be excluded.

- The forecasts are based on the fundamental expectation that the markets for CRM, SCM, portal, and e-marketplace solutions will grow at the high rates predicted by the industry analysts and that SAP's solutions will be successful in those markets. Feedback from customers and the public in recent months has been encouraging in this regard, but continued success cannot be guaranteed.

- The predicted successful development of the Company's business is also based on the assumption that SAP will be able to continue to develop innovative solutions that satisfy the rapidly evolving requirements of customers. SAP relies on extensive market observation to recognize emerging requirements early enough.

- The Company has extensive insurance coverage against its liability risks. The extent of insurance coverage is under continuous review and, when necessary, is updated, in order to ensure that financial effects resulting from the manifestation of these risks are excluded or at least limited. Nonetheless, it is impossible to completely exclude the possibility that claims for damages might have a negative impact on the Company's income.

- Because the Company's activities focus on the Internet, it is subject to the typical Internet risks, such as hacker and virus attacks. The Company addresses these risks with comprehensive security measures throughout the Group.

- Among the competitive advantages that are factors in the predicted revenue growth is the fact that SAP is the biggest company in its sector. Unexpected mergers could alter the competitive landscape and impact SAP's business development.

- Part of the Company's enterprise strategy is to increasingly cooperate with other companies to develop the range of SAP solutions. Many such companies are new and are growing dynamically. Despite intensive investigation, only a limited understanding of the economic stability and prospects of these companies is possible.

- SAP is subject to management risks like any other company. It addresses them through comprehensive management reporting system with detailed budgeting and controlling processes. A great deal of information is also made public at regular intervals. Other Group supervisory functions include the Group audit and the activities of the Supervisory Board, whose members include experts drawn from many different fields and which oversees the work of the Executive Board. In 2000, the Company also introduced improved measures to better address corporate governance concerns in accordance with two published papers on corporate governance in Germany.

In the context of its financial stability, customer focus, and strategic orientation, and in the light of its many measures for early recognition of and response to risks, the Company is confident that it is well prepared for the challenges of the future and that it will meet its targets despite the risks portrayed.

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31

(in thousands except per share and exchange rate data)	Note	2000 [2] U.S. $	2000 €	1999 €	1998 [1] €
Software revenue		2,308,251	2,458,725	1,932,391	1,899,932
Maintenance revenue		1,568,138	1,670,364	1,162,062	819,824
Product revenue		3,876,389	4,129,089	3,094,453	2,719,756
Consulting revenue		1,544,512	1,645,198	1,546,933	1,121,404
Training revenue		376,051	400,566	394,478	412,221
Service revenue		1,920,563	2,045,764	1,941,411	1,533,625
Other revenue	(4)	84,250	89,742	74,349	62,233
Total revenues		5,881,202	6,264,595	5,110,213	4,315,614
Cost of product		–677,397	–721,556	–526,653	–372,365
Cost of service		–1,643,358	–1,750,487	–1,625,096	–1,255,805
Research and development		–910,051	–969,377	–744,666	–572,382
Sales and marketing		–1,480,797	–1,577,330	–1,131,917	–964,735
General and administration		–392,015	–417,570	–260,130	–207,541
Other operating income/expenses, net	(5)	–24,049	–25,617	–25,571	–41,992
Total operating expenses	(6)	–5,127,667	–5,461,937	–4,314,033	–3,414,820
Operating income		753,535	802,658	796,180	900,794
Other non-operating income/expense, net	(7)	–51,953	–55,340	–51,008	17,186
Finance income, net	(8)	266,755	284,144	235,175	13,972
Income before income taxes		968,337	1,031,462	980,347	931,952
Income taxes	(9)	–367,829	–391,807	–376,416	–403,469
Minority interest		–5,004	–5,330	–2,930	–1,539
Net income		595,504	634,325	601,001	526,944
Earnings per share – basic	(10)				
Ordinary shares		1.89	2.01	1.91	1.68
Preference shares		1.90	2.02	1.92	1.69
Earnings per share – diluted	(10)				
Ordinary shares		1.89	2.01	1.90	1.67
Preference shares		1.89	2.01	1.90	1.67

[1] The 1998 amounts have been restated from Deutsche Marks into Euros at an exchange rate of DM1.95583 to €1.00, the fixed exchange rate as of January 1, 1999.

[2] The 2000 figures have been translated solely for the convenience of the reader at an exchange rate of €1.00 to U.S. $0.9388, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 29, 2000.

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

as of December 31

(in thousands except for exchange rate data)	Note	2000 [2] U.S. $	2000 €	1999 €
ASSETS				
Intangible assets	(11)	108,988	116,093	119,885
Property, plant and equipment	(12)	817,391	870,676	794,276
Financial assets	(13)	567,222	604,199	609,815
FIXED ASSETS		1,493,601	1,590,968	1,523,976
Inventories	(14)	5,446	5,801	3,138
Accounts receivable	(15)	2,060,201	2,194,505	1,845,397
Accounts due from related parties		3,546	3,777	222
Other assets	(16)	177,072	188,615	307,911
Accounts receivable and other assets		2,240,819	2,386,897	2,153,530
Marketable securities	(17)	89,789	95,643	0
Liquid assets	(18)	1,020,214	1,086,721	810,277
SHORT-TERM ASSETS		3,356,268	3,575,062	2,966,945
DEFERRED TAXES		286,766	305,460	284,293
PREPAID EXPENSES AND DEFERRED CHARGES	(19)	107,733	114,756	51,675
TOTAL ASSETS		5,244,368	5,586,246	4,826,889
thereof current assets		3,796,743	4,044,251	3,515,569

CONSOLIDATED BALANCE SHEETS

as of December 31

(in thousands except exchange rate data)	Note	2000 [2] U.S. $	2000 €	1999 €
SHAREHOLDERS' EQUITY AND LIABILITIES				
Subscribed capital[1]		295,454	314,715	267,805
Additional paid-in capital		8,354	8,899	249,364
Retained earnings		1,873,076	1,995,181	1,698,229
Accumulated other comprehensive income		155,430	165,561	343,957
SHAREHOLDER'S EQUITY	(20)	2,332,314	2,484,356	2,559,355
TEMPORARY EQUITY	(21)	384,439	409,500	0
MINORITY INTERESTS		57,409	61,151	8,737
Pension liabilities and similar obligations	(23)	23,312	24,832	11,588
Other reserves and accrued liabilities	(24)	1,323,667	1,409,956	1,266,561
RESERVES AND ACCRUED LIABILITIES		1,346,979	1,434,788	1,278,149
Bonds	(25)	4,142	4,412	1,263
Other liabilities[3]	(26)	776,358	826,969	603,572
OTHER LIABILITIES		780,500	831,381	604,835
DEFERRED INCOME[3]	(27)	342,727	365,070	375,813
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,244,368	5,586,246	4,826,889
thereof current liabilities		2,357,224	2,510,891	1,783,914

[1] Contingent capital €19,785 thousand (1999: €1,263 thousand)

[2] The 2000 figures have been translated solely for the convenience of the reader at an exchange rate of €1.00 to U.S. $0.9388, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 29, 2000.

[3] The 1999 balances reflect a reclassification of €65,829 thousand from other liabilities to deferred income to conform to the current year presentation.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 1998 to 2000

		(In thousands of €)					
	Number of shares issued and outstanding (000)	Compre-hensive income	Retained earnings	Accumu-lated other compre-hensive income	Additional paid-in capital	Subscribed capital	Total
January 1, 1998 [1]	104,302		886,311	65,572	232,549	266,645	1,451,077
Net income		526,944	526,944				526,944
Other comprehensive income, net of tax							
Unrealized gains on marketable securities		31,991					
Currency translation adjustment		–53,206					
Other comprehensive income		–21,215		–21,215			–21,215
Comprehensive income		505,729					
Convertible bonds exercised	262				12,468	670	13,138
Dividends			–150,429				–150,429
Other			734		–1,982		–1,248
December 31, 1998	104,564		1,263,560	44,357	243,035	267,315	1,818,267
Net income		601,001	601,001				601,001
Other comprehensive income, net of tax							
Unrealized gains on marketable securities		224,127					
Currency translation adjustment		90,628					
Additional minimum pension liability		–1,625					
Unrealized losses on cash-flow hedges		–13,530					
Other comprehensive income		299,600		299,600			299,600
Comprehensive income		900,601					
Convertible bonds exercised	192				9,307	490	9,797
Dividends			–165,473				–165,473
Other			–859		–2,978		–3,837
December 31, 1999	104,756		1,698,229	343,957	249,364	267,805	2,559,355
Effect of 3-for-1 stock split	209,512				–46,463	46,463	
Net income		634,325	634,325				634,325
Other comprehensive income, net of tax							
Unrealized losses on marketable securities		–260,246					
Currency translation adjustment		46,571					
Additional minimum pension liability		–3,780					
Unrealized gains on cash-flow hedges		39,059					
Other comprehensive income		–178,396		–178,396			–178,396
Comprehensive income		455,929					
Convertible bonds exercised	447				7,160	447	7,607
Dividends			–165,780				–165,780
Effect of put option			–170,232		–209,699		–379,931
Other			–1,361		8,537		7,176
December 31, 2000	314,715		1,995,181	165,561	8,899	314,715	2,484,356

[1] The 1998 amounts have been restated from Deutsche Marks into Euros at an exchange rate of DM1.95583 to €1.00, the fixed exchange rate as of January 1, 1999.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31

(in thousands except exchange rate data)	Note	2000 [2] U.S. $	2000 €	1999 €	1998 [1] €
Net income before minority interest		595,504	634,325	601,001	526,944
Minority interest		5,004	5,330	2,930	1,539
Net income		600,508	639,655	603,931	528,483
Unrealised gain from initial public offering of a subsidiary		–41,527	–44,234	0	0
Depreciation and amortization		209,642	223,308	172,680	139,836
Loss/gain on disposal of property, plant and equipment		6,052	6,447	1,065	–692
Gain on sales of marketable equity securities		–333,404	–355,139	–224,912	–1,769
Write-downs of financial assets		18,630	19,845	2,239	2,094
Write-ups of financial assets		–665	–708	–613	–553
Change in pension reserves		5,542	5,903	–6,313	3,081
Change in other reserves and accrued liabilities, long-term		–98,965	–105,416	94,492	–28,375
Change in deferred taxes		–123,923	–132,001	14,714	–92,061
Change in inventories		–2,500	–2,663	–366	1,070
Change in accounts receivables and other assets		–162,261	–172,839	–369,043	–268,685
Change in other reserves and accrued liabilities, short-term		487,013	518,761	207,689	175,832
Change in other liabilities		143,558	152,916	108,800	129,123
Change in prepaid expenses and deferred charges		–59,220	–63,081	–31,037	–1,736
Change in deferred income		–10,086	–10,743	–41,543	27,451
Net cash provided by operating activities	(28)	638,394	680,011	531,783	613,099
Purchase of intangible assets and property, plant and equipment		–267,966	–285,435	–354,228	–388,588
Purchase of financial assets		–464,365	–494,636	–96,380	–38,838
Change in the scope of consolidation		–3,876	–4,129	–2,012	0
Proceeds from disposal of fixed assets		410,770	437,548	156,348	36,778
Change in liquid assets (maturities greater than 90 days) and marketable securities		–36,274	–38,639	–51,455	155,084
Net cash used by investing activities	(29)	–361,711	–385,291	–347,727	–235,564
Dividends paid		–155,634	–165,780	–165,473	–150,429
Proceeds from premium on convertible bonds		6,722	7,160	9,307	12,468
Other changes to additional paid-in-capital		8,015	8,537	–2,978	–1,982
Proceeds from issuance of put option		27,758	29,569	0	0
Proceeds from exercise of conversion rights		420	447	490	670
Payments made on the conversion of convertible bonds		–358	–381	–489	–657
Proceeds from issuance of convertible bonds		3,314	3,530	0	0
Proceeds from line of credit and long-term debt		93,880	100,000	0	24,596
Principal payments made on long-term debt		–27,712	–29,519	–287	–103
Proceeds from initial public offering of a subsidiary		81,980	87,324	0	0
Net cash provided by/used in financing activities	(30)	38,385	40,887	–159,430	–115,437
Effect of foreign exchange rates on cash		–2,027	–2,159	63,979	–46,599
Net increase in cash and cash equivalents		313,041	333,448	88,605	215,499
Cash and cash equivalents at the beginning of the year		666,042	709,461	620,856	405,357
Cash and cash equivalents at the end of the year	(18)	979,083	1,042,909	709,461	620,856

[1] The 1998 amounts have been restated from Deutsche Marks into Euros at an exchange rate of DM1.95583 to €1.00, the fixed exchange rate as of January 1, 1999.

[2] The 2000 figures have been translated solely for the convenience of the reader at an exchange rate of €1.00 = U.S. $0.9388, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 29, 2000.

See Notes to Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of Presentation

The consolidated financial statements of the SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung ("SAP AG"), together with its subsidiaries (collectively, "SAP", "Group" or "Company"), have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Prior to 1999, the consolidated financial statements were prepared in accordance with accounting principles generally accepted in Germany ("German GAAP") with a reconciliation to U.S. GAAP. For purposes of the current presentation, the 1998 consolidated financial statements have been restated to reflect U.S. GAAP for comparative purposes. The consolidated income statements have been presented using the cost of sales format. Certain reclassifications were made to prior year amounts to conform them to the current year presentation.

SAP is using the relief outlined in section 292a of the German Commercial Code ("HGB"), which exempts companies from preparing consolidated financial statements in accordance with German GAAP if the consolidated financial statements are prepared in accordance with an internationally accepted accounting principle (i.e., U.S. GAAP or International Accounting Standards). A description of the significant differences between U.S. GAAP and German GAAP is set forth in note 37.

Effective January 1, 1999, the Company converted its internal and external reporting to the euro and, therefore, restated the consolidated financial statements to euro using the exchange rate as of January 1, 1999. Accordingly, the Deutsche Mark ("DM") consolidated financial statements for 1998 have been restated to euro ("€") using the official fixed DM/€ exchange rate as of January 1, 1999, of €1.00 = DM1.95583. SAP's restated euro financial statements depict the same trends as would have been presented if it had continued to present its consolidated financial statements in DM. Amounts included in the consolidated financial statements are reported in thousands of euros unless otherwise stated. All euro financial data that has been presented in U.S. Dollars ("U.S. $" or "U.S. Dollars") has been converted, for the convenience of the reader, at the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 29, 2000, which was €1.00 per U.S. $0.9388.

(2) Scope of Consolidation

The consolidated financial statements include SAP AG and subsidiaries in which SAP AG holds, directly or indirectly, a majority of the voting rights.

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

Number of companies consolidated in the financial statements	German	Foreign	Total
December 31, 1999	11	51	62
Additions	6	10	16
Disposals	1	1	2
December 31, 2000	16	60	76

SAP AG directly holds between 20% and 50% of the voting rights in eight companies ("associated companies") all of which are reported under the equity method.

The impact of including new companies in the consolidated financial statements during 2000 and 1999 does not limit comparability of the annual financial statements with those of the previous years.

All affiliated companies and other associated companies are listed on page 95 to 97 with ownership percentages, revenues, net income, equity, and numbers of employees.

Separate individual financial statements were not prepared for the following subsidiaries as allowed under § 264b HGB:

SAP Retail Solutions GmbH & Co. KG, St. Ingbert
SAP CRM Consulting GmbH & Co. KG, Mannheim
eSAP GmbH & Co. KG, Walldorf
SAPHosting AG & Co KG, St. Leon-Rot

(3) Significant Accounting Policies

Consolidation Policies
The Company accounts for its business combinations using the purchase accounting method. As of the date of acquisition, 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 estimated useful life.

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

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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Currency Translation

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 the local currency, their balance sheets are translated into the Group's functional currency 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.

The effects of foreign currency translation are included in other comprehensive income in the consolidated statements of changes in shareholders' equity.

Assets and liabilities denominated in foreign currencies are translated at the closing rate with resulting gains and losses reflected in income.

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

		Closing rate at December 31 to €1.00		Annual average exchange rate to €1.00 for the year ended		
		2000	1999	2000	1999	1998
U.S. Dollar	USD	0.9302	1.0028	0.9162	1.0595	1.1196
Japanese Yen	JPY	106.83	102.51	99.071	119.28	147.61
British Pound	GBP	0.6233	0.6202	0.6087	0.6525	0.6762
Canadian Dollar	CAD	1.3929	1.4574	1.3716	1.5582	1.6735
Australian Dollar	AUD	1.6770	1.5570	1.5932	1.6349	1.8076

The exchange rates for 1998 have been restated for comparative purposes at the fixed rate of €1.00 = DM1.95583.

Revenue Recognition

The Company recognizes software revenue in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, "Software Revenue Recognition", as amended by SOP 98-4 and SOP 98-9 (collectively, "SOP 97-2").

In accordance with SOP 97-2, software license fee revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable and the collection of the fee is probable. The Company allocates a portion of its software revenues to post-contract support activities or other services or products provided to the customer free of charge or at non-standard discounts when provided in conjunction with the licensing arrangement. Amounts allocated are based upon standard prices charged for those services or products. Software license fees for resellers or other members of the indirect sales channel are based on a fixed percentage of the Company's standard prices. The Company recognizes software license revenue for such contracts based upon the terms and conditions provided by the reseller to their customer.

Revenues from post-contract support are recognized ratably over the term of the contract on a straight-line basis. Consulting and training services are generally recognized at the time the service is performed. Fees from licenses sold together with consulting services are generally recognized upon shipment provided that the contract has been executed, delivery of the software has occurred, fees are fixed and determinable and collection is probable. In instances where the aforementioned criteria have not been met both the license and the consulting fees are recognized under the percentage of completion method of contract accounting. The Company provides for sales returns and allowances.

In limited instances, the Company will enter into fixed fee consulting arrangements. Revenues under such arrangements are generally recognized using the percentage of completion method. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides the SEC's interpretations of existing revenue recognition rules. In addition, the SEC issued a Frequently Asked Questions and Answers document in October 2000, to provide additional details. The Company's accounting policies are consistent with the SEC's clarification, and accordingly, the Company's adoption of SAB 101 did not materially impact the consolidated financial statements.

Research and Development

Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires the capitalization of research and development costs incurred upon achieving technological feasibility until such product is available for sale. Historically such costs have not been material. Development costs incurred prior to achieving technological feasibility are expensed as incurred.

Advertising Costs

The Company generally expenses advertising costs as incurred.

Intangible Assets and Property, Plant and Equipment

Purchased intangible assets are recorded at cost and amortized on a straight-line basis over their estimated life, generally three to five years. All existing goodwill included in the consolidated financial statements relates to acquisitions of software related companies and is amortized on a straight-line basis over its estimated life which does not exceed five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Property, plant, and equipment are shown at cost less accumulated depreciation, where appropriate, based on their expected useful lives.

	Useful lives of property, plant and equipment
Buildings	25 to 50 years
Leasehold improvements	Based upon the lease contract
Information technology equipment	3 to 5 years
Office furniture	4 to 20 years
Automobiles	5 years

Buildings and leasehold improvements are depreciated using the straight-line method. Other fixed assets are generally depreciated using the straight-line method. Certain assets with expected useful lives in excess of three years are depreciated using the declining balance method. Low-value assets are expensed in the year of acquisition. If assets are deemed to be impaired based upon an estimate of future undiscounted operating cash flows, carrying amounts are reduced to fair value. For the years ended December 31, 2000, 1999 and 1998, no such impairments have been recorded.

Financial Assets

Other loans are recorded at cost. Interest-free loans to employees and to third parties are discounted to their present value. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as either trading, available for sale or held to maturity, depending on management's intent with respect to holding such investments. The Company's marketable securities within financial assets are considered to be available for sale and, therefore, are valued at fair market value at the balance sheet date. Unrealized gains and losses are excluded from earnings and reported net of tax in comprehensive income within shareholders' equity. Investments in privately held companies for which the Company does not have the ability to exercise significant influence are accounted for under the cost method of accounting.

A write-down in the value through a charge to finance expense occurs if a decline in market value is deemed to be other than temporary, that is, if the fair market value remains below cost for an extended period. See note 13. Fair values are based on available market prices as of December 31, 2000, 1999 and 1998. Gains or losses recognized on sales of securities are based on the average cost method.

Short-Term Assets

Inventories are shown at the lower of purchase/production cost or market value. Production costs consist of direct salaries, materials, and production overhead. No write-downs of inventory were necessary for the periods presented.

Accounts receivable are stated at their nominal value, which approximates fair market value. Included in accounts receivable are unbilled receivables related to fixed fee consulting arrangements. Allowances are provided when deemed necessary to reduce accounts receivables to their estimated net realizable value after giving consideration to specific customer and regional economic risks. Non-interest bearing receivables with a term exceeding one year are discounted to their present value using local interest rates.

Other assets are shown at their nominal value, which approximates fair value.

Marketable securities within short-term assets are considered trading. Accordingly these securities are valued at fair market value at the balance sheet date with realized and unrealized gains/losses included in earnings. Recognized gains or losses are based on the average cost method.

Liquid assets are comprised of cash and cash equivalents and time deposits with original maturities exceeding 90 days. Cash and cash equivalents consist of cash at banks and highly liquid investments with original maturities of 90 days or less. Liquid assets are reconciled to cash and cash equivalents in note 18.

Deferred Taxes

Deferred taxes are established for temporary differences between assets, liabilities and net income calculated for tax purposes and for financial reporting purposes. Deferred taxes are also recorded for temporary differences resulting from consolidation.

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

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", deferred tax amounts are shown gross on the consolidated balance sheets. Net operating loss carryforwards that are available to reduce future taxes are recognized as deferred tax assets. Such amounts are reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Prepaid Expenses and Deferred Charges

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

Liabilities

Provisions for pensions of domestic and foreign subsidiaries are based on actuarial computations according to the "Projected Unit Credit Method." In accordance with the Projected Unit Credit Method, current pensions and remuneration existing at the balance sheet date as well as expected future increases in these obligations are included in the valuation. The assumptions used to calculate the provision for pensions are shown in note 23.

Other reserves and accrued liabilities are recorded when an obligation to a third party has been incurred and payment is probable and reasonably estimable. In determining other accrued liabilities, all applicable costs are taken into consideration.

Liabilities are shown at the amounts payable, which approximate fair market value.

Accounting for Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company applies the intrinsic value-based method in accordance with Accounting Principles Board Opinion 25 ("APB 25") for its employee stock-based compensation plans. Under APB 25, the Company records no expenses relating to the convertible bonds issued under its 2000 Long Term Incentive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Program ("LTI 2000 Plan") since the conversion price is equal to the market price of a SAP preference share on the date of grant. Because the exercise price for stock options issued under the LTI 2000 Plan is variable, an expense is recorded over the vesting period based upon the stock options' intrinsic value on the reporting date. See note 22 for a description of the Company's LTI 2000 Plan and for a summary of the pro forma effects on reported net income and earnings per share based on the fair value of convertible bonds and stock options as required by SFAS 123.

Derivatives

The Group primarily uses forward exchange derivatives to reduce the currency risk that results from engaging in transactions denominated in currencies other than the euro, including anticipated cash flows resulting from transactions with subsidiaries. These anticipated cash flows reflect forecast assumptions, which historically have reflected actual results.

Effective January 1, 1999, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires derivative financial instruments to be recorded on the balance sheet at their fair value. The effective portion of the realized and unrealized gain or loss on a derivative designated as a cash flow hedge is reported net of tax in other comprehensive income at the time related changes in the fair value of such instruments occur. The portion of gains or losses on derivatives is reclassified from other comprehensive income into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of gain or loss on a derivative designated as a cash flow hedge is reported in earnings when the ineffectiveness occurs. In measuring the effectiveness of cash flow hedges, the Company excludes differences resulting from the time value (i.e. spot rates versus forward rates for forward contracts). Changes in value resulting from the excluded component are recognized in earnings immediately.

Prior to the implementation of SFAS 133, the Company accounted for its foreign exchange forward contracts in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". Forward contracts used to manage risk relating to anticipated cash flows do not qualify for hedge accounting treatment under SFAS 52 and were therefore recorded on the balance sheet at fair value with changes in fair value recognized in earnings immediately. Forward contracts hedging firm commitments were also recorded at fair value with changes in value offset against the foreign exchange gains or losses recognized on the item being hedged.

Credit Arrangements

Certain of the Company's foreign subsidiaries have lines of credit available which allow them to borrow in the local currency to the extent SAP AG has guaranteed such amounts. At December 31, 2000, SAP AG and its subsidiaries had approximately €300,318 thousand available through its lines of credit under which they may borrow on an overdraft or short-term basis. As of Decenmber 31, 2000, SAP AG had €100,000 thousand borrowed against these lines of credit. Interest under all lines is determined at the time of borrowing based on current market rates.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", requires companies to separately report the components of comprehensive income which is comprised of net income and other comprehensive income. Other comprehensive income comprises the change in equity from transactions and other events not affecting net income except those resulting from investments by owners and distributions to owners.

Both other comprehensive income and comprehensive income are disclosed in the consolidated statements of changes in shareholders' equity. Other comprehensive income includes currency translation differences, additional minimum pension liabilities, unrecognized gains and losses from derivatives designated as cash flow hedges and unrealized gains and losses from marketable debt and equity securities considered available for sale.

Cash Flows

The consolidated statements of cash flows show the effect of inflows and outflows during the course of the fiscal year on the Group's cash and cash equivalents, and have been prepared in accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows". The consolidated statements of cash flows distinguish among cash flows from operating activities, investing activities, and financing activities. The statement of cash flows is reconciled to cash and cash equivalents, which are reconciled to liquid assets in note 18.

New Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), which replaces SFAS No. 125. SFAS 140 provides the accounting and reporting standards for securitizations and other transfers of financial assets and collateral. These standards are based on consistent application of a financial-components approach that focuses on control. SFAS 140 also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS 140 is effective for transfers after March 31, 2001 and is effective for disclosures about securitizations and collateral for fiscal years ending after December 15, 2000. The Company does not anticipate that the adoption of SFAS 140 will have a material impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. NOTES TO THE CONSOLIDATED INCOME STATEMENTS

(4) Revenue

Segment information with respect to revenue is disclosed in note 35. Other revenue is derived mainly from marketing events.

(5) Other Operating Income/Expense, Net

Other operating income/expense for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
Amortization of goodwill	–33,485	–16,725	–11,319
Expenses to obtain rental income	–5,308	0	0
General bad debt expense	0	–9,582	–17,339
Other operating expense	–5,477	–3,083	–15,863
Other operating expense	–44,270	–29,390	–44,521
Rental income	6,988	1,510	1,375
Reduction of general bad debt allowance	5,792	0	0
Receipt of insurance proceeds	1,389	1,535	684
Other operating income	4,484	774	470
Other operating income	18,653	3,819	2,529
	–25,617	–25,571	–41,992

(6) Functional Costs and Other Expenses

The information provided below is classified based upon the type of expense. The consolidated income statements include these amounts in various expenses based upon the applicable line of business.

Cost of Services and Materials

Cost of services and materials, which is included in various operating expenses in the consolidated income statements for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
Raw materials and supplies, purchased goods	18,444	15,176	12,069
Purchased services	725,097	758,238	591,329
	743,541	773,414	603,398

The changes in purchased services in 1999 resulted from additional purchases of consulting services.

Personnel Expenses/Number of Employees

Personnel expenses, which are included in various operating expenses in the consolidated income statements for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
Salaries	2,450,329	1,750,770	1,326,505
Social costs	275,839	226,736	171,434
Pension expense	86,599	54,233	49,508
	2,812,767	2,031,739	1,547,447

Included in personnel expenses for the years ended December 31, 2000, 1999 and 1998, are expenses associated with the Stock Appreciation Rights Plan ("STAR Plan"), in the amount of €440,818 thousand, €140,324 thousand and €16,327 thousand, respectively.

The average number of employees was as follows:

	2000	1999	1998
Employees	23,335	20,975	17,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(7) Other Non-Operating Income/Expense, Net

Other non-operating income/expense for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
Foreign currency losses	–176,785	–89,707	–44,014
Losses on disposal of fixed assets	–9,192	–3,131	–2,293
Other non-operating expenses	–5,333	–2,916	–1,937
Other non-operating expenses	–191,310	–95,754	–48,244
Foreign currency gains	82,729	34,828	59,609
Gains on disposal of fixed assets	2,745	2,066	2,987
Gain from IPO of subsidiary	44,234	0	0
Other non-operating income	6,262	7,852	2,834
Other non-operating income	135,970	44,746	65,430
	–55,340	–51,008	17,186

In July 2000, two of the Company's subsidiaries, SAP Solutions GmbH and SRS AG, merged into SAP Systems Integration GmbH to form SAP Systems Integration AG ("SAP SI"). SAP SI completed an initial public offering in September 2000, which resulted in the dilution of the Company's beneficial ownership of SAP SI voting shares from 62% to 53.7%. Net proceeds received by SAP SI from the offering, based on the offering price of €19 per share, totaled €87,324 thousand. The Company recorded an unrealized gain of €44,234 thousand in other non-operating income as a result of SAP SI's public offering.

(8) Finance Income, Net

Finance income, net for the years ended December 31, are as follows:

Interest income is derived primarily from cash and cash equivalents, long-term investments and other assets. The negative results from associated companies include a loss of €69,829 thousand, €23,354 thousand, and €18,687 thousand for 2000, 1999 and 1998, respectively, resulting from Pandesic LLC, a joint venture founded in 1997 with Intel Corp. The 2000 figure includes the Company's share of a non-recurring charge in 2000 of approximately €23,400 thousand for exit costs recorded in conjunction with the decision and plan design for Pandesic LLC to cease operations. The majority of the remaining €16,000 thousand costs accrued at December 31, 2000 are expected to be incurred in the first quarter of 2001.

	2000 € (000)	1999 € (000)	1998 € (000)
Interest and similar income	69,658	34,472	34,635
Interest and similar expenses	–10,464	–3,265	–3,540
Interest Income, net	59,194	31,207	31,095
Loss from associated companies	–78,350	–19,631	–16,117
Income from marketable securities and loans of financial assets	1,071	910	958
Write-down of financial assets	–19,845	–2,239	–2,094
Gains on sales of marketable equitiy securities	355,139	224,912	1,769
Other net	–33,065	16	–1,639
Other finance income/loss, net	303,300	223,599	–1,006
	284,144	235,175	13,972

(9) Income Taxes

Income tax expense for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
Current taxes – Germany	235,679	110,071	209,755
Current taxes – Foreign	279,342	226,442	226,145
	515,021	336,513	435,900
Deferred taxes – Germany	–106,752	88,183	–1,922
Deferred taxes – Foreign	–16,462	–48,280	–30,509
	–123,214	39,903	–32,431
	391,807	376,416	403,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2000 € (000)	1999 € (000)	1998 € (000)
Germany	307,420	454,745	448,948
Foreign	724,042	525,602	483,004
	1,031,462	980,347	931,952

The effective tax rate of the Group for the years ended December 31, 2000, 1999, and 1998, is 38.0%, 38.4% and 43.3%, respectively. The table below shows the reconciliation of the current German statutory retained earnings corporate income tax rate of 40% (45% for 1998) 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 dividend proposal.

	2000 € (000)	1999 € (000)	1998 € (000)
Income before income taxes	1,031,462	980,347	931,952
German trade tax on income	– 43,431	– 62,742	– 66,554
Income after German trade tax on income	988,031	917,605	865,398
Corporation tax on income 40% in 2000 and 1999, 45% in 1998	395,212	367,042	389,429
German trade tax on income	43,431	62,742	66,554
Solidarity charge	6,127	1,611	6,544
Tax reduction for dividend payments	–28,014	– 28,331	–35,459
Foreign tax rate differential, net	– 44,954	– 28,006	– 49,035
Utilization of loss carryforwards	– 3,697	–19,938	– 475
Tax on non-deductible expenses	17,058	11,383	9,736
Tax effect on current year losses	588	395	27,265
Consolidation effects	–7,598	– 3,130	– 3,937
Other	13,654	12,648	–7,153
Income taxes	391,807	376,416	403,469

A solidarity surcharge of 5.5% is imposed in respect of German corporation tax liability. The effective German trade tax rate, before income taxes, for the years ended December 31, 2000,1999 and 1998 was 14.1%, 13.8% and 14.3%, respectively.

Changes to German tax laws (“Steuersenkungsgesetz – StSenkG”), effective in 2001, were enacted in October 2000. The new laws reduce the existing German corporate tax rates from 30% for distributed earnings and 40% for undistributed earnings to 25% for both, effective 2001. Additionally, capital gains and losses realized on the sale of securities of German corporations are exempt beginning 2002. Capital gains and losses realized on the sale of securities of foreign corporations are most likely exempt effective in 2001, or at the latest, 2002. Deferred taxes arising from temporary differences have been computed based on the tax rates enacted for the years in which such differences are expected to reverse. These changes in German tax law do not materially impact 2000 earnings and result in a net asset increase of approximately €13.4 million at December 31, 2000. This includes reductions of deferred tax liabilities associated with unrealized capital gains for which the Company does not expect to incur a tax liability under the new tax laws.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the liability 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. 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 tax assets related to these subsidiaries.

	2000 € (000)	1999 € (000)
Deferred tax assets		
Property, plant & equipment and intangibles	20,455	13,026
Financial assets	3,510	3,763
Accounts receivable	36,699	70,395
Net operating loss carryforwards	40,440	11,317
Pension provisions	4,368	2,214
STAR provisions	40,832	23,001
Other provisions	99,348	81,484
Deferred income	55,560	76,977
Other	4,836	2,588
	306,048	284,765
Less: Valuation allowance	–588	–472
Deferred tax assets	305,460	284,293
Deferred tax liabilities		
Property, plant & equipment and intangibles	8,825	19,291
Financial assets	24,835	146,665
Accounts receivable	688	18
Pension provisions	3,482	3,324
STAR provisions	10,555	111,850
Other provisions	12,183	14,244
Deferred income	3,007	10,992
Other	69	68
Deferred tax liabilities	63,644	306,452
Net deferred tax (liabilities)/assets	241,816	–22,159

With regard to their duration, deferred tax assets and deferred tax liabilities are classified as follows:

	2000 € (000)	1999 € (000)
Deferred tax assets		
Short term	232,131	224,333
Long term	73,329	59,960
	305,460	284,293
Deferred tax liabilities		
Short term	26,223	60,503
Long term	37,421	245,949
	63,644	306,452

Certain foreign subsidiaries of the Company have net operating loss carryforwards at December 31, 2000 and 1999, totaling €112,785 thousand and €30,393 thousand, respectively, which may be used to offset future taxable income. These net operating loss carryforwards include €22,322 thousand for 2000 and €25,015 thousand for 1999 relating to the Japanese subsidiary and €60,475 thousand for 2000 relating to the newly formed SAPMarkets, Inc.

The majority of net operating loss carryforwards will expire at different dates over the next three to five years. The deferred tax assets, which have been established for these net operating loss carryforwards, have been reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The 1998 valuation allowance of €17,850 thousand relating to Japan was eliminated in 1999 as a result of net operating loss utilization and changes in facts and circumstances. Deferred tax liabilities are provided for the unremitted earnings of non-German subsidiaries unless management considers such amounts to be permanently reinvested. As of December 31, 2000, the cumulative amount of earnings considered permanently reinvested is approximately €1,255,067 thousand.

(10) Earnings Per Share

Earnings per ordinary share and preference share have been calculated using the two-class method in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Net income is allocated between ordinary shares and preference shares in calculating earnings per share for each class of stock. This allocation weights net income available (net income less dividends) to the extent that each class of stock may participate in the earnings as if all of the earnings for the period had been distributed. Distributed earnings are allocated to each class of stock based on the respective dividends paid. In arriving at earnings per share, the total allocated earnings for each class of stock is divided by the weighted average number of shares outstanding to which the earnings are allocated. The Company's convertible bonds and stock options are considered for the diluted earnings per ordinary and preference share calculations to the extent they have a dilutive effect. The dilutive impact is calculated using the treasury stock method. Additionally, the dilutive effect of the Company's written put option described in note 22 is considered in dilutive earnings per share using the reverse treasury stock method. All amounts shown have been adjusted for the Company's 3-for-1 stock split as described in note 20.

	2000 € (000)	1999 € (000)	1998 € (000)
Net income applicable to basic and diluted EPS	634,325	601,001	526,944
Less dividends:			
Ordinary shares	95,770	95,770	87,323
Preference shares	70,010	69,703	63,106
Net income available to holders of ordinary shares and preference shares	468,545	435,528	376,515

	2000		1999		1998	
In thousands except per share data	€ Ord.	€ Pref.	€ Ord.	€ Pref.	€ Ord.	€ Pref.
Allocated net income available	272,702	195,843	253,977	181,551	219,267	157,248
Distributed earnings	95,770	70,010	95,770	69,703	87,323	63,106
	368,472	265,853	349,747	251,254	306,590	220,354
Impact of assumed conversion of dilutive securities:						
Convertible bonds and stock options	–1,050	1,050	–1,557	1,557	–1,707	1,707
Put options	–85	85	0	0	0	0
Total allocated earnings – diluted	367,337	266,988	348,190	252,811	304,883	222,061
Weighted average shares – basic	183,000	131,423	183,000	130,815	182,994	130,308
Convertible bonds and stock options	0	1,216	0	1,935	6	2,442
Put options	0	98	0	0	0	0
Weighted average shares – diluted	183,000	132,737	183,000	132,750	183,000	132,750
Earnings per share – basic	2.01	2.02	1.91	1.92	1.68	1.69
Earnings per share – diluted	2.01	2.01	1.90	1.90	1.67	1.67

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

(11) Intangible Assets

	Trademarks, similar rights and other intangibles € (000)	Goodwill € (000)	Total € (000)
Purchase cost			
1/1/00	81,622	101,342	182,964
Foreign currency exchange	362	654	1,016
Changes in the scope of consolidation	1,053	0	1,053
Additions	34,258	29,663	63,921
Retirements/disposals	–1,615	–731	–2,346
12/31/00	115,680	130,928	246,608
Accumulated amortization			
1/1/00	37,426	25,653	63,079
Foreign currency exchange rate changes	249	102	351
Changes in the scope of consolidation	194	0	194
Amortization expense	34,905	33,485	68,390
Retirements/disposals	–1,442	–57	–1,499
12/31/00	71,332	59,183	130,515
Book value 12/31/00	44,348	71,745	116,093
Book value 12/31/99	44,196	75,689	119,885

The additions to trademarks, similar rights and assets relate primarily to acquired software programs. The additions to goodwill in the Group relate to acquisitions during the year.

(12) Property, Plant, and Equipment

	Land, leasehold improvements and buildings, including buildings on third-party land € (000)	Other property, plant and equipment € (000)	Payments and construction in progress € (000)	Total € (000)
Purchase cost				
1/1/00	682,338	574,515	14,432	1,271,285
Foreign currency exchange	16,191	6,861	92	23,144
Changes in the scope of consolidation	2,221	6,997	0	9,218
Additions	41,218	145,060	35,672	221,950
Retirements/disposals	–21,680	–61,694	0	–83,374
Transfers	9,469	2,279	–11,748	0
12/31/00	729,757	674,018	38,448	1,442,223
Accumulated amortization				
1/1/00	110,768	366,241	0	477,009
Foreign currency exchange	1,061	3,316	0	4,377
Changes in the scope of consolidation	678	5,270	0	5,948
Depreciation expense	43,633	111,285	0	154,918
Retirements/disposals	–15,762	–54,943	0	–70,705
12/31/00	140,378	431,169	0	571,547
Book value 12/31/00	589,379	242,849	38,448	870,676
Book value 12/31/99	571,570	208,274	14,432	794,276

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(13) Financial Assets

	Investments in other associated companies € (000)	Equity securities € (000)	Debt securities € (000)	Other loans € (000)	Total € (000)
Purchase cost					
1/1/00	7,316	106,019	54,673	28,550	196,558
Foreign currency exchange	0	3,844	230	33	4,107
Additions	76,732	403,568	2,336	12,000	494,636
Retirements	– 67,226	– 24,337	– 1,377	– 5,298	– 98,238
12/31/00	16,822	489,094	55,862	35,285	597,063
Changes in fair value of marketable securities					
1/1/00	0	418,511	1,125	0	419,636
Foreign currency exchange	0	27,223	0	0	27,223
Changes in unrealized gains/losses	0	– 416,802	– 614	0	– 417,416
12/31/00	0	28,932	511	0	29,443
Accumulated amortization					
1/1/00	0	0	0	6,379	6,379
Foreign currency exchange	0	– 620	0	20	– 600
Addtions	2,092	15,758	6	1,989	19,845
Retirements	0	– 1,945	0	– 664	– 2,609
Write-ups	0	0	0	– 708	– 708
12/31/00	2,092	13,193	6	7,016	22,307
Book value 12/31/00	14,730	504,833	56,367	28,269	604,199
Book value 12/31/99	7,316	524,530	55,798	22,171	609,815

Amounts pertaining to marketable equity and debt securities available for sale at December 31, are as follows:

	2000			
	Amortized costs € (000)	Gross unrealized gains € (000)	Gross unrealized losses € (000)	Carrying value € (000)
Equity securities	489,094	67,743	52,004	504,833
Securities with fixed maturities	51,129	511	0	51,640
Other securities	4,733	0	6	4,727
Debt securities	55,862	511	6	56,367
	544,956	68,254	52,010	561,200

	1999			
	Amortized costs € (000)	Gross unrealized gains € (000)	Gross unrealized losses € (000)	Carrying value € (000)
Equity securities	106,019	421,730	3,219	524,530
Securities with fixed maturities	51,129	1,125	0	52,254
Other securities	3,544	0	0	3,544
Debt securities	54,673	1,125	0	55,798
	160,692	422,855	3,219	580,328

In 2000, the Company recorded a charge of €15,764 thousand to reduce the value of certain available for sale marketable securities for declines in value considered other than temporary. Unrealized losses as of December 31, 1999 and 1998 were considered temporary.

Securities with fixed maturities mature in 2004. Other loans include interest bearing and non-interest bearing loans to employees and third parties.

In September 2000, SAP AG and SAPMarkets, Inc., a wholly owned subsidiary, entered into a strategic alliance agreement with Commerce One, Inc. to jointly deliver next-generation e-business marketplace solutions for the Internet economy. Additionally, SAP AG entered into certain investment agreements and acquired approximately 5.1 million shares of Commerce One, Inc. common stock for an aggregate purchase price of U.S. $250 million.

A portion of these shares are recorded at cost since they are restricted from sale subject to provisions within the investment agreements. Such shares will be considered available for sale and recorded at fair value twelve months prior to the date they are no longer restricted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(14) Inventories

Inventories consist of cost of services for which revenues have been deferred, office supplies and documentation.

(15) Accounts Receivable

Amounts shown on the consolidated balance sheets are net of allowance for bad debts of €76,223 thousand and €96,734 thousand at December 31, 2000 and 1999, respectively.

Accounts receivable based on due dates at December 31, are as follows:

	2000 € (000)	1999 € (000)
Due within one year	2,184,716	1,742,219
Due between one and five years	9,789	103,178
Due in greater than five years	0	0
	2,194,505	1,845,397

License fees having extended payment terms are deferred if such payments are not considered fixed and determinable under SOP 97-2. Included in accounts receivable are unbilled receivables related to fixed fee consulting arrangements.

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 5% or more of revenues for fiscal year 2000, 1999 or 1998.

(16) Other Assets

	2000 € (000)	1999 € (000)
Fair value of derivatives	42,330	5,070
Prepaid corporate tax	33,193	80,045
Proceeds due from sale of marketable securities	20,289	118,599
Others	92,803	104,197
Total other assets	188,615	307,911
– thereof with a remaining term greater than 1 year	34,560	43,174

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

(17) Marketable Securities

Marketable securities primarily consist of investments the Company made with three creditworthy financial institutions during 2000. These financial institutions have created individual funds in which they independently trade securities, subject to guidelines prescribed by the Company. Such guidelines limit investments in equity securities to 20% of the total value with remaining amounts in interest bearing securities. Securities held by the funds are limited to investments in companies within the European market. The Company considers these short-term marketable securities as trading. Fair values are based on available market prices as of December 31, 2000 as reported by the financial institutions.

Amounts pertaining to marketable securities at December 31, are as follows:

	2000		
	Amortized cost € (000)	Unrealized gains € (000)	Market values € (000)
	91,516	4,127	95,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(18) Liquid Assets

Liquid assets at December 31, consist of the following:

	2000 € (000)	1999 € (000)
Cash at banks	289,733	195,889
Time deposits with original maturities of 3 months or less	753,176	513,572
Cash and cash equivalents	1,042,909	709,461
Time deposits which mature in less than 1 year	38,911	60,125
Time deposits with maturities exceeding 1 year	4,901	40,691
	1,086,721	810,277

(19) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred changes are mainly comprised of prepayments for software royalties, rental contracts, leases and maintenance contracts. Increases in 2000 primarily relate to prepaid royalties to software vendors.

(20) Shareholders' Equity

Subscribed Capital
At December 31, 2000, issued and outstanding subscribed capital of SAP AG was as follows:

Number and type of shares	€
183,000,000 no-par ordinary shares	183,000,000
131,714,655 no-par preference shares	131,714,655
	314,714,655

By resolution of the Annual General Shareholders' Meeting held May 5, 2000, the shareholders approved a 3-for-1 stock split of both the Company's ordinary and preference shares. In connection with the stock split, the Company reclassified €46,463 thousand from additional paid-in capital to subscribed capital to adjust the calculated nominal value per share to €1.

After giving effect to the 3-for-1 stock split, four American Depositary Receipts ("ADRs") are equivalent to one preference share. The Company did not hold any of its own shares or ADRs as of the balance sheet closing date.

In 2000, the number of preference shares increased by 446,314 (corresponding to €446 thousand) resulting from the conversion of the 1994/2004 convertible bonds.

The shareholdings in SAP AG at December 31, were as follows:

				2000	1999
	Ordinary shares (000)	Preference shares (000)	Total shares (000)	% of subscribed capital	% of subscribed capital
Dietmar Hopp (including immediate family)	16,076	0	16,076	5.1%	5.1%
Dietmar Hopp Stiftung gGbmbH	28,017	0	28,017	8.9%	8.9%
Hasso Plattner GmbH & Co. Beteiligungs-KG	31,241	0	31,241	9.9%	9.9%
Hasso Plattner Förderstiftung gGmbH	6,000	0	6,000	1.9%	2.0%
Dr. h. c. Klaus Tschira (including immediate family)	13,622	6,344	19,966	6.3%	6.4%
Klaus Tschira Stiftung gGmbH	21,155	0	21,155	6.7%	6.7%
Free float	66,889	125,371	192,260	61.2%	61.0%
	183,000	131,715	314,715	100.0%	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Preference shares rank equally with the ordinary shares with respect to liquidation rights and pre-emptive rights. A holder of preference shares is entitled to a cumulative annual preferred dividend which exceeds the annual dividend paid to holders of ordinary shares by an amount equal to €0.01 per preference share but in no event less than a minimum dividend equal to €0.01 per preference share. Holders of preference shares have no voting rights except in limited instances. The preference shares are not entitled to a preference in liquidation but rank pari passu with the ordinary shares.

Authorised and contingent capital
By resolution of the Annual General Shareholders' 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. The issuance of all of these additional preference shares would increase subscribed capital by €5,113 thousand. The issuance of the additional preference shares is subject to the preemptive rights of existing shareholders. No such additional preference shares were issued during the fiscal year.

The Company received authorization at the January 18, 2000 Extraordinary General Shareholders' Meeting to issue a maximum of 6,250 thousand (18,750 thousand after 3-for-1 stock split) additional preference shares (contingent capital) to satisfy shares needed in conjunction with the SAP AG 2000 Long Term Incentive Plan (LTI 2000 Plan) as described in note 22. The Company may also acquire shares from the market to satisfy obligations under the LTI 2000 Plan up to the same amount.

At the Annual General Shareholders' Meeting held May 5, 2000 the shareholders gave authorization for an increase of subscribed capital not to exceed €25,000 thousand. Such authorization allows the Company to raise additional capital until May 1, 2005 by issuing additional preference shares in return for contributions in cash or in kind. The additional shares are subject to preemptive rights of existing shareholders only to the extent they are issued for cash. No such additional preference shares were issued during the fiscal year ended December 31, 2000.

Contingent capital represents shares that have been authorized in conjunction with a convertible bond or stock option program which are not yet issued or outstanding. In 2000, the conversion of the 1994/2004 bonds decreased contingent capital by €446 thousand, leaving €1,035 thousand of contingent capital under this program. Additionally, contingent capital increased by €18,750 thousand as a result of the LTI 2000 Plan.

Refer to the Consolidated Statements of Changes in Shareholders' Equity in the consolidated financial statements.

Additional paid-in capital
The change of additional paid-in capital of €240,465 thousand is primarily related to a €209,699 thousand reclassification to temporary equity resulting from the put option described in note 22 and a €46,463 thousand reclassification to subscribed capital resulting from the Company's 3-for-1 stock split.

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

Accumulated other comprehensive income
Accumulated other comprehensive income consists of the following at December 31:

	Unrealized gains/losses on securities € (000)	Currency translation adjustment € (000)	Additional minimum liability € (000)	Cash flow hedges € (000)	Total € (000)
December 31, 2000					
Before tax	–16,250	–146,767	8,783	–37,271	–191,505
Tax impact	17,580	0	–3,378	11,742	25,944
Net amount	1,330	–146,767	5,405	–25,529	–165,561
December 31, 1999					
Before tax	–419,636	–100,196	2,936	30,377	–486,519
Tax impact	160,720	0	–1,311	–16,847	142,562
Net amount	–258,916	–100,196	1,625	13,530	–343,957

Upon sale of marketable equity securities, the company reclassified €174,827 thousand in 2000, €125,046 thousand in 1999 and €885 thousand in 1998 of gains, net of tax, from accumulated other comprehensive income to finance income/loss. The Company reclassified €53,161 and €47,323 thousand of net foreign exchange losses, net of tax, relating to the Company's anticipated cash flow hedges in 2000 and 1999, respectively, from accumulated other comprehensive income to other non-operating income/expense.

(21) Temporary Equity

Due to a put option as explained in note 22, a reclassification from additional paid in capital and retained earnings to temporary equity was recorded.

Amounts represent the cash redemption amount to be paid by the Company if it elects physical settlement under the terms of the put option.

(22) Stock Compensation Plans

Employee Discounted Stock Purchase Programs

The Company acquires SAP AG preference shares and ADRs under various employee stock purchase plans and transfers the shares to employees. Discounts provided to employees through such plans do not exceed 15% and are treated as a direct reduction of equity. During the fiscal year, SAP AG acquired 127,516 of its own preference shares, representing 0.04% of the total shares outstanding at December 31, 2000, at an average market price of €210.51 per share. Such shares were transferred to employees during the year at an average price of €171.47 per share. Certain of SAP AG's foreign subsidiaries purchased 305,199 ADRs, at an average price of U.S. $53.58 per ADR and were distributed to employees during the year at an average price of U.S. $46.05 per ADR by an administrator.

Stock Appreciation Rights Plan

In 1998, the Company granted stock appreciation rights ("1998 STARs") to eligible employees. The 1998 STARs entitled participants to receive cash equal to a portion of the appreciation in SAP AG preference shares during the measurement period, approximately one year. The grant price of the 1998 STARs was higher than the end price and accordingly no payments were made with respect to the 1998 STARs.

In May 1999, the Company granted stock appreciation rights ("1999 STARs") to eligible employees. Amounts to be paid are based upon the €161.67 appreciation in SAP AG preference shares during the measurement period of approximately nine months after consideration of the 3-for-1 stock split. Payments under the 1999 STARs are made in three equal installments (July 2000, January 2001 and July 2001) provided that, subject to certain exceptions, the eligible employee continues to be actively employed on the payment dates. Compensation expenses related to 1999 STARs are recorded based upon the appreciation of the 1999 STAR's market price over the vesting period (May 1999 – July 2001) after consideration of estimated forfeitures.

In February 2000, the Company granted stock appreciation rights ("2000 STARs") to eligible employees. As of December 31, 2000, the 2000 STARs grant price of €274 exceeded the preliminary end price based on SAP AG's preference share price at such date. The final end price is based upon the average XETRA closing price of a preference share over the 20 business days immediately following the announcement of the SAP's preliminary 2000 full year earnings on January 23, 2001.

Expenses recorded for the various STAR Plans for the years ended December 31, are as follows:

	2000 € (000)	1999 € (000)	1998 € (000)
1998 STAR	0	–16,327	16,327
1999 STAR	440,818	156,651	N/A
2000 STAR	0	N/A	N/A
Total expense	440,818	140,324	16,327

In September 2000, the Company purchased a call option from a sophisticated financial institution to hedge the cash flow exposure resulting from the non-vested expense relating to the 2000 STAR Plan. Upon exercise of the call option, the Company would receive cash equal to a portion of the market price appreciation for 1.5 million SAP AG preference shares in excess of €274 per share. The call option is recorded in other assets at its fair market value with changes in value recorded in earnings and shareholders' equity, depending upon the effectiveness of the hedging relationship. As of December 31, 2000, approximately €29 million has been recorded as an expense in financial income. This amount represents fair market value changes attributable to time value. The call option may be exercised in February 2001, and expires if not exercised at such time.

Long Term Incentive Plan

On January 18, 2000, the Company's shareholders approved the LTI 2000 Plan. The LTI 2000 Plan is a stock based compensation program providing members of the SAP AG Executive Board, members of subsidiaries' executive boards and selected employees a choice between convertible bonds, stock options or a 50% mixture of each. If stock options are chosen, the participant receives 25% more stock options than convertible bonds. Under the LTI 2000 Plan, each convertible bond having a €1 nominal value may be converted into one preference share over a maximum of 10 years subject to vesting requirements. The conversion price is equal to the market price of a preference share as quoted on the XETRA trading system the day immediately preceding the granting. Each stock option may be exercised in exchange for one preference share over a maximum of 10 years subject to the same vesting requirements. The exercise price varies based upon the outperformance of the preference share price appreciation versus the appreciation of the Goldman Sachs Technology Software Index from the day immediately preceding granting to the date being measured. Both the convertible bonds and stock options vest 33% after 2 years from date of grant, 33% after 3 years and 34% after 4 years. Forfeited convertible bonds or stock options are disqualified and may not be reissued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A summary of the LTI 2000 Plan activity for both convertible bonds and stock options is as follows:

		Stock options		Convertible bonds	
	Shares available for grant (000)	Number of options outstanding (000)	Weighted average exercise price per option €	Number of bonds outstanding (000)	Weighted average exercise price per bond €
January 1, 2000	–	–	–	–	–
Additional shares authorized	18,750	–	–	–	–
Granted	3,145	767	167.08	2,378	289.78
Reduction due to option/bond ratio (25% of bonds issued)	595	–	–	–	–
Exercised	–	–	–	–	–
Forfeited	–	111	168.07	216	293.25
December 31, 2000	15,010	656	166.91	2,162	289.43

The following tables summarize information about convertible bonds and stock options outstanding as of December 31, 2000:

	Outstanding Stock Options		
Range of exercise prices €	Number of options (000)	Weighted average remaining contractual life (in years)	Weighted average exercise price €
124.96 – 140.21	20	3.5	134.66
157.80 – 168.07	636	3.1	167.93
124.96 – 168.07	656	3.1	166.91

	Outstanding Convertible Bonds		
Range of exercise prices €	Number of bonds (000)	Weighted average remaining contractual life (in years)	Weighted average exercise price €
183.67 – 247.00	80	3.5	231.56
290.32 – 334.67	2,082	3.1	291.67
183.67 – 334.67	2,162	3.1	289.43

See note 36 for stock options and convertible bonds awarded to members of the board.

As of December 31, 2000, none of the outstanding stock options or convertible bonds were exercisable.

In September 2000, SAP AG sold a put option to a sophisticated financial institution. The put option, if exercised, requires SAP AG to acquire 1.5 million of its preference shares for €273 per share. SAP AG may also elect, at its sole discretion, not to acquire shares but rather to pay cash equal to any decline in the preference share market price upon exercise below €273 per share for the 1.5 million preference shares. The put option is considered an equity instrument as a result of its settlement terms. Accordingly, its original fair market value of €29,569 thousand is recorded in shareholders' equity with no recognition for changes in such value. Additional paid in capital and retained earnings have been reduced for amounts shown in temporary equity. See note 21. The put option may be exercised in February 2001, and expires if not exercised at such time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting for Stock Based Compensation

SFAS 123 requires disclosure of pro forma information regarding net income and earnings per share as if the Company had accounted for its stock-based awards granted to employees using the fair value method. The fair value of the Company's stock based awards was estimated as of the date of grant using the Black-Scholes option-pricing model. The fair value of the Company's stock-based awards described above was calculated using the following weighted average assumptions:

	2000
Expected life (in years)	4.5
Risk free interest rate	5.36%
Expected volatility	50%
Expected dividends	0.25%

For pro forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the vesting period. The Company's pro forma information for the year ended December 31, is as follows:

	2000	
	Ordinary	Preference
Net income (in thousands of €)		
As reported	368,472	265,853
Pro forma	325,505	234,996
Earnings per share (in €)		
Basic – as reported	2.01	2.02
Diluted – as reported	2.01	2.01
Basic – pro forma	1.78	1.79
Diluted – pro forma	1.77	1.78

The weighted-average fair value of all options and convertible bonds granted during 2000 was €96.33 and €120.95, respectively. In 1999 and 1998, the fair value method did not materially impact net income or earnings per share. The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 2000 are not likely to be representative of the pro forma effects on net income and earnings per share in the future since the assumptions used to determine fair value can vary significantly.

(23) Pension Liabilities and Similar Obligations

The accrued pension and other similar obligations at December 31, consist of the following:

	2000 € (000)	1999 € (000)
Domestic pension plans	7,218	5,245
Foreign pension plans	10,485	4,330
Defined contribution plans	6,263	0
Other pension plans and similar obligations	866	2,013
	24,832	11,588

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.

Domestic Plans

Members of the Executive Board are covered by individual, performance-oriented benefit plans, for which reserves have been established. The pension plans for German employees 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. During 1999, the Company implemented a defined contribution plan which replaced the benefits of the existing defined benefit plan for certain eligible employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 88, "Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", this change resulted in net curtailment gain of €10,763 thousand and a net settlement gain of €374 thousand for the year ended December 31, 1999.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2000 € (000)	1999 € (000)
Change in benefit obligation		
Benefit obligation at beginning of year	22,694	95,641
Service costs	1,002	4,582
Interest costs	1,438	2,440
Liability decreased due to curtailment	0	–38,628
Liability decreased due to settlement	–267	–42,176
Actuarial loss	1,477	1,088
Settlement	–494	0
Benefits paid	–186	–98
Payments for settlement of deferred vested employees	–48	–155
Benefit obligation at end of year	25,616	22,694
Change in plan assets		
Fair value of plan assets at beginning of the year	14,991	54,211
Actual return on plan assets	766	8,353
Employer contributions	2,610	1,597
Life/disability insurance premiums and expenses	–631	–298
Benefits paid	–186	–98
Payments for settlement of deferred vested employees	–48	–155
Assets transferred to defined contribution plan	–111	–48,619
Fair value of plan assets at end of year	17,391	14,991
Funded status	8,225	7,703
Unrecognized net actuarial loss	–4,766	–2,687
Unrecognized prior service cost	–2	0
Unrecognized transition assets	–658	–703
Net amount recognized	2,799	4,313
Amounts recognized in the consolidated balance sheets		
Accrued benefit liability	7,218	5,245
Intangible asset	–41	0
Accumulated other comprehensive income	–4,378	–932
	2,799	4,313

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

	2000 %	1999 %	1998 %
Discount rate	6.5	6.5	6.0
Expected return on plan assets	6.5	6.5	6.5
Rate of compensation increase	4.0	4.0	4.0

Components of Net Periodic Benefit Cost:

	2000 € (000)	1999 € (000)	1998 € (000)
Service cost	1,002	4,582	11,146
Interest cost	1,438	2,440	5,042
Expected return on plan assets	–1,096	–2,013	–3,384
Net amortization	246	741	1,329
	1,590	5,750	14,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign Plans

SAP has non-contributory defined benefit plans for certain of its foreign employees. These plans provide 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 plans are as follows:

	2000 € (000)	1999 € (000)
Change in benefit obligation		
Benefit obligation at beginning of year	38,637	19,422
Service costs	20,944	12,283
Interest costs	3,246	1,544
Plan amendments	505	0
Actuarial loss	6,568	2,869
Benefits paid	–3,741	–1,956
Foreign currency exchange rate changes	2,070	4,475
Benefit obligation at end of year	68,229	38,637
Change in plan assets		
Fair value of plan assets at beginning of the year	35,341	19,808
Actual return on plan assets	–164	4,533
Employer contribution	15,178	9,307
Benefits paid	–3,140	–1,956
Foreign currency exchange rate changes	2,891	3,649
Fair value of plan assets at end of year	50,106	35,341
Funded status	18,123	3,296
Unrecognized transition (asset)/obligation	–610	0
Unrecognized prior service cost	–462	0
Unrecognized net actuarial gain/(loss)	–12,043	–3,335
Net amount recognised	5,008	–39
Amounts recognized in the consolidated balance sheets		
Prepaid benefit cost	0	–1,688
Accrued benefit liability	10,485	4,330
Intangible assets	–1,072	–677
Accumulated other comprehensive income	–4,405	–2,004
	5,008	–39

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

	2000 %	1999 %	1998 %
Discount rate	7.5	7.75	6.75
Expected return on plan assets	8.0	8.0	8.0
Rate of compensation increase	6.0	6.0	6.0

Components of Net Periodic Benefit Cost:

	2000 € (000)	1999 € (000)	1998 € (000)
Service cost	20,944	12,283	6,829
Interest cost	3,246	1,544	831
Expected return on plan assets	–3,358	–1,766	–1,013
Net amortization	517	175	59
	21,349	12,236	6,706

The Company also has defined contribution plans for a significant number of its employees. Company contributions to these plans are generally based upon various percentages of compensation or upon the amount of the employees' contributions to the plans. The cost associated with defined contribution plans are €63,660 thousand, €36,248 thousand and €25,951 thousand for 2000, 1999 and 1998, respectively. These costs increased subsequent to 1998 as a result of SAP AG's replacement of the defined benefit plans in Germany with a defined contribution plan as described above.

(24) Other Reserves and Accrued Liabilities

Accrued taxes include current and prior year tax obligations.

	2000 € (000)	1999 € (000)
Current and deferred taxes	241,292	456,916
Other reserves and accrued liabilities	1,168,664	809,645
	1,409,956	1,266,561

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

Other reserves and accrued liabilities of €1,960 thousand (€107,376 thousand in 1999) are due in greater than one year.

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 for which SAP has not yet been invoiced. Warranty and service costs accruals represent estimated future warranty obligations and other minor routine items provided under maintenance.

	2000 € (000)	1999 € (000)
STAR Plan obligations	366,530	157,397
Vacation entitlement	99,238	79,479
Other obligations to employees	457,356	342,525
Obligations to suppliers	189.516	142,267
Customer claims	38,014	36,393
Fair value of foreign exchange contracts	0	29,363
Warranty and service costs	5,184	7,955
Auditing and reporting costs	3,521	3,261
Contribution to employees' accident insurance account	2,506	2,330
Other	6,800	8,675
	1,168,664	809,645

(25) Bonds

This item consists primarily of outstanding convertible bonds related to the Company's LTI 2000 Plan. Additional amounts pertain to outstanding bonds issued in conjunction with the Company's 1994/2000 convertible bond program and other subsidiaries' convertible bond programs.

(26) Other Liabilities

Other liabilities based on due dates at December 31, are as follows:.

	Term less than 1 year € (000)	Term between 1 and 5 years € (000)	Term more than 5 years € (000)	Balance on 31/12/2000 € (000)	Balance on 31/12/1999 € (000)
Bank loans and overdrafts	146,877	2,131	0	149,008	56,250
Advanced payments received	21,085	0	0	21,085	484
Accounts payable	355,547	0	0	355,547	303,601
Taxes	173,686	0	0	173,686	137,902
Social security	39,068	0	0	39,068	38,762
Other liabilities	72,776	622	15,176	88,574	66,573
	809,040	2,753	15,176	826,969	603,572

The liabilities are unsecured, excluding retention of title and similar rights customary in the industry. The bank loans and overdrafts relate primarily to outstanding lines of credit in Germany in 2000 and loans in Japan in 1999.

In 1999, liabilities with a remaining term not exceeding one year amounted to €556,681 thousand and those with a remaining term exceeding five years amounted to €14,535 thousand.

(27) Deferred Income

Deferred income consists mainly of deferred software license revenues. Such amounts will reverse as software, maintenance or service revenue depending upon the reasons for the deferral.

D. INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

See the reconciliation from cash and cash equivalents to liquid assets in note 18.

(28) Net Cash Provided by Operating Activities

Net cash provided by operating activities increased in 2000, 1999 and 1998 due to an increase in the Company's net income. The increase of short-term reserves and other accrued liabilities also increased cash flows from operating activites in 2000, primarily due to the additional STAR and bonus accruals. Increases in accounts receivable reduced cash flows from operating activities for all years presented.

Interest payments in 2000, 1999 and 1998 were €6,847 thousand, €3,511 thousand and €3,122 thousand, respectively. Income taxes paid in fiscal 2000, 1999 and 1998, net of refunds were €459,629 thousand, €419,471 thousand and €450,575 thousand, respectively.

(29) Net Cash Used by Investing Activities

In 2000 and 1999, the Company received significant proceeds upon sale of its marketable equity securities within financial assets. The Company's continued venture capital and strategic investment activities offset these cash receipts, particularly in 2000. This includes the investment in Commerce One, Inc. during 2000. The Company also made investments in property, plant and equipment during 2000, 1999 and 1998 to keep pace with the overall growth in business activites and related headcount increases. In all years shown, cash provided by operating activities was sufficient to fund the Company's investing activities.

(30) Net Cash Provided by/used in Financing Activities

The payments of dividends for the prior year continued to be the primary use of cash for financing activities. In 2000, the Group received cash from lines of credit and the initial public offering of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

E. ADDITIONAL INFORMATION

(31) Contingent Liabilities

Contingent liabilities listed right have not been accrued because the associated risk of loss is not probable.

	2000 € (000)	1999 € (000)
Notes receivable sold	10	9
Guarantees and endorsements	4,530	2,331
Guarantees for unused lines of credit and other commitments	206,305	278,066
Liabilities from the extension of collateral securities for others	13,467	27,253
	224,312	307,659

(32) Other Financial Commitments

Other financial commitments amounted to €673,028 thousand and €562,721 thousand as of December 31, 2000 and 1999, respectively, and are comprised of commitments under rental and operating leases of €553,917 thousand and €488,814 thousand as of December 31, 2000 and 1999, respectively, and purchase commitments of €119,111 thousand and €73,907 thousand as of December 31, 2000 and 1999, respectively.

Commitments under rental and operating leasing contracts as of December 31, 2000:

	€ (000)
Due 2001	153,350
Due 2002	105,198
Due 2003	74,674
Due 2004	52,207
Due 2005	41,483
Due thereafter	127,005

Rent expense was €209,172 thousand, €182,064 thousand and €143,271 thousand for the years ended December 31, 2000, 1999 and 1998, respectively.

(33) Litigation and Claims

The bankruptcy trustee of the U.S. company FoxMeyer Corp. ("FoxMeyer") instituted legal proceedings against SAP America, Inc., the U.S. subsidiary of SAP AG, and SAP AG, in 1998. FoxMeyer was a pharmaceutical wholesaler that filed for bankruptcy protection in 1996. The discovery phase of the litigation is now proceeding. While the ultimate outcome of this matter cannot be presently determined 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(34) Financial Instruments

Fair Value of Financial Instruments

	2000		1999	
	Carrying value € (000)	Fair value € (000)	Carrying value € (000)	Fair value € (000)
Financial assets: Debt/equity securities	561,200	454,802	580,328	580,328
Marketable securities	95,643	95,643	0	0
Other loans	28,269	28,269	22,171	22,171
Bank loans and overdrafts	149,008	149,008	56,250	56,250
Derivative financial instruments				
Forward exchange contracts	37,890	37,890	–29,355	–29,355
Currency options	4,440	4,440	0	0
Equity swaps	–2,312	–2,312	5,070	5,070
	874,138	767,740	634,464	634,464

The Company utilizes various types of financial instruments in the ordinary course of business. The market values of these financial instruments are determined as follows:

- Marketable debt and equity securities: The fair values of marketable debt and equity securities are based upon available quoted market prices on December 31.
- Other loans, bank loans and overdrafts: The fair values of other loans, bank loans and overdrafts approximate their carrying values.
- Derivative financial instruments: The fair value of derivatives generally reflects the estimated amounts the Company would pay or receive to terminate the contracts at the reporting date.

The difference between the carrying and fair value of financial assets relates to equity securities which are restricted for sale. As described in note 13, these securities are recorded at cost as of December 31, 2000. Because these securities are restricted, quoted market prices may not represent actual fair values.

Detailed information about the fair value of the Company's financial instruments is included in notes 13 and 17.

Derivative Financial Instruments
As an internationally active enterprise, the Company is subject to risks from interest-rate and currency fluctuations in its ordinary operations. The Company utilizes derivative financial instruments to reduce such risks as described below. The derivative financial instruments employed by the Company are exclusively marketable instruments with sufficient liquidity. The Company has established internal guidelines that govern the use of derivative financial instruments.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. To avoid these counterparty risks, the Company conducts business exclusively with major financial institutions.

Foreign Exchange Risk Management
Most of SAP AG's subsidiaries have entered into license agreements with SAP AG pursuant to which the subsidiary has acquired the right to sublicense SAP AG software products to customers within a specific territory. Under these license agreements, the subsidiaries generally are required to pay SAP AG a royalty equivalent to a percentage of the product fees charged by them to their customers within 90 days following the end of the month in which the subsidiary recognizes the revenue. These intercompany royalties payable to SAP AG are generally denominated in the respective subsidiary's local currency in order to centralize foreign currency risk with SAP AG in Germany. Because these royalties are denominated in the various subsidiaries local currencies, whereas the functional currency of SAP AG is Euro, SAP AG's anticipated cash flows are subjected to foreign exchange risks. In addition, the delay between the date when the subsidiary records product revenue and the date when the subsidiary remits payment to SAP AG also exposes SAP AG to foreign exchange risk.

SAP AG enters into derivative instruments, primarily foreign exchange forward contracts and currency options, to protect all or a portion of anticipated cash flows from foreign subsidiaries. Specifically, these foreign exchange contracts offset anticipated cash flows and existing intercompany receivables relating to the countries with significant operations, including the U.S., Japan, the United Kingdom, Switzerland, Canada and Australia. SAP AG uses foreign exchange derivatives that generally have maturities of twelve months or less, which are usually rolled over to provide continuing coverage until the applicable royalties are received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Generally, anticipated cash flows represent expected intercompany amounts resulting from revenues generated within the next twelve months from the purchase date of the derivative instrument. However, management extends the future periods being hedged for a period of up to two years from the purchase date of the derivative instrument based on the Company's forecasts and anticipated exchange rate fluctuations in various currencies. Management believes the use of foreign currency derivative financial instruments reduces the aforementioned risks that arise from doing business in international markets and holds such instruments for purposes other than trading.

Foreign exchange derivatives are recorded at fair value in the consolidated balance sheets. Gains or losses on derivatives hedging anticipated cash flows are included in accumulated other comprehensive income, net of tax. When intercompany accounts receivables resulting from product revenue royalties are recorded, the applicable gain or loss is reclassified to other non-operating income/expense. Going forward, any additional gains or losses relating to that derivative are posted to other non-operating income/expense when the position is closed or the derivative expires.

At December 31, 2000, €25,528 thousand of gains, net of tax were deferred on foreign exchange derivatives, which are expected to be recognized into income within the next twelve months. €53,161 thousand of net losses were recognized in earnings during 2000. At December 31, 1999, €13,531 thousand of losses, net of tax were deferred on foreign exchange contracts. During 1999, €47,323 thousand of net losses were recognized into earnings, of which €15.0 million was reclassified when it became probable that the originally forecasted transactions would not occur in the period of time designated.

Equity Derivatives

SAP AG will infrequently enter into equity swap arrangements with creditworthy financial institutions. Under the terms of such equity swaps, SAP AG either receives or pays money to the extent the value of the underlying marketable security changes compared to the value of such securities at the inception of the swap. Gains or losses are immediately recognized in non-operating income and are based on changes in the fair value.

The fair values recorded at December 31 represent the amount the Company would receive or pay if the equity swaps were terminated on such date.

The notional values and fair values of the derivative financial instruments as of December 31, are as follows:

	2000		1999	
	Notional value € (000)	Fair value € (000)	Notional value € (000)	Fair value € (000)
Forward exchange contracts				
Gains	757,232	37,985	4,978	8
Losses	18,249	–95	476,752	–29,363
	775,481	37,890	481,730	–29,355
Currency options	77,869	4,440	0	0
Equity swap				
Gains	0	0	69,030	5,070
Losses	20,289	–2,312	0	0
	20,289	–2,312	69,030	5,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(35) Segment Information

SAP discloses segment information in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Disclosures" ("SFAS 131"). SFAS 131 presents standards for reporting information about operating segments as well as for related disclosures about products and services and geographic areas.

SFAS 131 generally requires financial information about operating segments to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. SAP did not have a structure of operational segments in 1998 for which separate financial data was available. In 1999, SAP adopted the cost of sales format for its consolidated income statements and changed the accounting principles under which its consolidated financial statements are prepared from German GAAP to U.S. GAAP. These changes also resulted in a major change in the Company's internal reporting. The Company now prepares for its internal use financial data based upon its major line of business operating segments; however, such line of business information has only been prepared as far as it was necessary for consolidated income statement purposes. It would therefore be impracticable to disclose operating segment data for the fiscal year 1998.

SAP is organized by line of business and geographically. Furthermore, certain subsets of the Company are organized by industry segments. The Company's internal reporting system produces reports in which business activities are presented in a variety of different ways. Based on these reports, the Executive Board, which has been identified as the chief operating decision-maker according to the criteria of SFAS 131, evaluates business activities in a number of different ways. Neither the line of business nor the geographic structure can be identified as primary. Therefore, in accordance with SFAS 131, the line of business structure is regarded as constituting the operating segments.

SAP has three operating segments: "Product," "Consulting" and "Training". The Product segment is primarily engaged in the marketing and licensing of the Company's software products and in the performance of maintenance services that include technical support for the Company's products, assistance in resolving problems, the provision of user documentation, updates for software products, and new releases, versions and correction levels. The Consulting segment assists customers in the implementation of SAP software products. Consulting services also include customer support in project planning, feasibility studies, analyses, organizational consulting, system adaptation, system optimization, release change and interface setup. The Training segment provides training services on the use of SAP software products and related topics.

Accounting policies for each segment are the same as those described in the summary of significant accounting policies as disclosed in note 3 except for differences in the currency translation that results in minor differences between the figures reported internally and the respective figures of the financial statements. Depending on the type of service provided, SAP accounts for internal sales and transfers either on a cost basis or at current market prices.

	2000			
	Product € (000)	Consulting € (000)	Training € (000)	Total € (000)
External revenue	4,208,863	1,575,490	401,260	6,185,613
Internal revenue	118,024	379,587	67,322	564,933
Total revenue	4,326,887	1,955,077	468,582	6,750,546
Segment expenses	–2,070,409	–1,663,082	–338,910	–4,072,401
Segment contribution	2,256,478	291,995	129,672	2,678,145
Segment profitability	52.2%	14.9%	27.7%	

	1999			
	Product € (000)	Consulting € (000)	Training € (000)	Total € (000)
External revenue	3,091,511	1,514,030	453,758	5,059,299
Internal revenue	68,253	276,905	60,007	405,165
Total revenue	3,159,764	1,790,935	513,765	5,464,464
Segment expenses	–1,477,462	–1,527,995	–334,871	–3,340,328
Segment contribution	1,682,302	262,940	178,894	2,124,136
Segment profitability	53.2%	14.7%	34.8%	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenues

The external revenue figures for the operating segments differ from the revenue figures disclosed in the consolidated income statements because internally revenue is generally allocated to the segment that is responsible for the related project whereas in the consolidated income statements, revenue is allocated based on the nature of the transaction regardless of the segment it was provided by. Internal revenues comprise revenues from transactions with other parts of the Company.

The following table represents a reconciliation from the total of the segments' revenues to the total consolidated revenues as reported in the consolidated income statements:

	2000 € (000)	1999 € (000)
Total revenue for reportable segments	6,750,546	5,464,464
Elimination of internal revenues	–564,934	–405,165
Other external revenues	78,808	62,298
Other differences	175	–11,384
	6,264,595	5,110,213

Other external revenues result from services provided from outside the reportable segments. Other differences primarily comprise currency translation differences.

Segment Contribution

The segment contributions reflect expenses that are only allocated to the segments. They do not represent the actual margins for the operating segments since general and administrative, STAR, research and development and other corporate expenses are not allocated to the operating segments. Interest revenues and expenses are not included in segment contributions. Because depreciation and amortization expenses are mainly charged to the segments indirectly as part of cost allocations, they are not identified separately on the segment level in the internal reporting system. It would therefore be impractical to provide such disclosure.

The following table represents a reconciliation from the total contribution for reportable segments to the income before income taxes as reported in the consolidated income statements:

	2000 € (000)	1999 € (000)
Total contribution for reportable segments	2,678,145	2,124,136
Contribution from activities outside the reportable segments	–1,440,777	–1,181,840
STAR expenses	– 440,818	–140,324
Other differences	6,108	–5,792
Operating income	802,658	796,180
Other non-operating income/expenses, net	–55,340	–51,008
Finance income, net	284,144	235,175
	1,031,462	980,347

The contribution from activities outside the reportable segments mainly comprises research and development, general and administrative and other corporate expenses that are not allocated to the operating segments. Other differences primarily comprise currency translation differences.

Segment Profitability

A segment's profitability is calculated as the ratio of the segment contribution to segment total revenues.

Segment Assets

The Company does not track assets or capital expenditures by operating segments in its internal reporting system. It would therefore be impractical to show assets, capital expenditures or related data by operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Geographic Information

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		
	2000	1999	1998	2000	1999	1998
	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)
Germany	1,237,383	1,067,266	797,883	1,380,439	1,154,288	882,387
Rest of EMEA [1]	1,836,550	1,407,437	1,138,714	1,710,632	1,347,150	1,058,877
Total EMEA	3,073,933	2,474,703	1,936,597	3,091,071	2,501,438	1,941,264
United States	1,848,281	1,638,277	1,564,320	1,877,879	1,630,094	1,570,541
Rest of America	587,287	507,528	437,602	561,973	506,255	437,230
Total America	2,435,568	2,145,805	2,001,922	2,439,852	2,136,349	2,007,771
Asia-Pacific region	755,094	489,705	377,095	733,672	472,426	366,579
	6,264,595	5,110,213	4,315,614	6,264,595	5,110,213	4,315,614

Sales by destination are based upon the location of the customer whereas sales by operation reflect the location of the SAP subsidiary responsible for the sale.

	Income before income tax			Total assets		
	2000	1999	1998	2000	1999	1998
	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)
Germany	307,420	454,746	448,948	1,932,725	1,525,095	1,078,513
Rest of EMEA [1]	239,773	199,968	174,694	1,235,233	997,172	820,359
Total EMEA	547,193	654,714	623,642	3,167,958	2,522,267	1,898,872
United States	336,299	234,974	257,866	1,647,102	1,634,374	1,002,311
Rest of America	70,041	75,657	58,334	356,925	333,556	223,737
Total America	406,340	310,631	316,200	2,004,027	1,967,930	1,226,048
Asia-Pacific region	77,929	15,002	–7,890	414,261	336,692	321,015
	1,031,462	980,347	931,952	5,586,246	4,826,889	3,445,935

	Property, plant and equipment			Capital expenditures		
	2000	1999	1998	2000	1999	1998
	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)	€ (000)
Germany	472,900	433,059	345,160	117,758	156,160	162,766
Rest of EMEA [1]	136,353	137,337	130,442	30,143	35,075	57,346
Total EMEA	609,253	570,396	475,602	147,901	191,235	220,112
United States	215,916	177,433	130,866	46,874	43,690	90,128
Rest of America	13,608	16,586	15,624	3,960	8,286	9,149
Total America	229,524	194,019	146,490	50,834	51,976	99,277
Asia-Pacific region	31,899	29,861	23,320	23,215	16,099	12,023
	870,676	794,276	645,412	221,950	259,310	331,412

[1] Europe/Middle East/Africa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Depreciation			Employees as of December 31		
	2000 € (000)	1999 € (000)	1998 € (000)	2000	1999	1998
Germany	75,350	67,226	61,174	10,432	8,912	7,679
Rest of EMEA [1]	33,914	29,695	24,164	5,196	4,162	3,281
Total EMEA	109,264	96,921	85,338	15,628	13,074	10,960
United States	21,784	16,994	13,899	4,498	4,408	4,463
Rest of America	7,592	7,598	7,892	1,579	1,597	1,521
Total America	29,376	24,592	21,791	6,077	6,005	5,984
Asia-Pacific region	16,278	13,311	9,960	2,775	2,620	2,364
	154,918	134,824	117,089	24,480	21,699	19,308

[1] Europe/Middle East/Africa

Germany incurs the majority of research and development costs as SAP AG has title to the majority of internally developed software. As of December 31, 2000, approximately 75% of the research and development personnel are located in Germany, 4% in the rest of EMEA, 12% in the U.S. and 9% in the Asia-Pacific region.

In 1998, the Company allocated total sales revenues by industry sectors for the first time. In 2000, the original sectors were modified. Accordingly, prior year amounts have been reclassified for comparative purposes. Six groups of industry sectors generated the following total sales revenues for the year ended:

	2000 € (000)	1999 € (000)	1998 € (000)
Process industries	1,365,882	1,033,684	975,766
Discrete industries	1,549,354	1,450,095	1,147,923
Consumer industries	996,379	769,716	677,743
Service industries	1,586,749	1,225,786	1,079,950
Financial services	322,613	272,654	177,079
Public services	443,618	358,278	257,153
	6,264,595	5,110,213	4,315,614

The following table represents software revenue by type for the year ended December 31, 2000 and 1999:

	2000 € (000)	1999 € (000)	1998 € (000)
R/3 and New Dimension products	1,162,968	1,803,599	1,899,932
mySAP.com	1,295,757	128,792	0
	2,458,725	1,932,391	1,899,932

(36) Board of Directors

Subject to the adoption of the dividend resolution by the shareholders at the Annual General Shareholders' Meeting on May 3, 2001, the total annual remuneration of the Supervisory Board for the year ended December 31, 2000, will amount to €560 thousand. The total annual remuneration of the Executive Board for the year ended December 31, 2000 was €17,066 thousand. This amount includes €2,587 thousand fixed and €14,479 thousand variable remuneration including non-recurring expense of €10,083 thousand in 2000 for the 1999 STAR Plan. As of December 31, 2000, 1999 and 1998, the Company did not provide any loans, warranties or guaranties to the Executive Board. The pension accrual as of December 31, 2000, for former Executive Board members was €1,312 thousand.

The ordinary and preference shares owned by Dietmar Hopp (Chairman of the Supervisory Board), Hasso Plattner (Co-Chairman of the Executive Board) and Klaus Tschira (Member of the Supervisory Board), their family members and related entities are disclosed in note 20. All other members of the Supervisory Board and the Executive Board own less than 1% of SAP AG shares.

Information relating to awards granted under the LTI 2000 Plan to members of the Executive Board as of December 31, 2000 is as follows:

	Stock Options			Convertible Bonds				
	Number of stock options	First year of vesting	Year of expiration	Number of convertible bonds	Granting price per option	Conversion price per option/share	First year of vesting	Year of expiration
Prof. Dr. h.c. Hasso Plattner	–	–	–	–	–	–	–	–
Prof. Dr. Henning Kagermann	9.251	2002	2010	7.400	1	290	2002	2010
	9.251	2003	2010	7.400	1	290	2003	2010
	9.530	2004	2010	7.625	1	290	2004	2010
	28.032			22.425				
Dr. Peter Zencke	6.776	2002	2010	5.420	1	290	2002	2010
	6.776	2003	2010	5.420	1	290	2003	2010
	6.980	2004	2010	5.585	1	290	2004	2010
	20.532			16.425				
Prof. Dr. Claus Heinrich	6.776	2002	2010	5.420	1	290	2002	2010
	6.776	2003	2010	5.420	1	290	2003	2010
	6.980	2004	2010	5.585	1	290	2004	2010
	20.532			16.425				
Gerhard Oswald	6.776	2002	2010	5.420	1	290	2002	2010
	6.776	2003	2010	5.420	1	290	2003	2010
	6.980	2004	2010	5.585	1	290	2004	2010
	20.532			16.425				
	89.628			71.700				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Executive Board

	Membership of supervisory boards and other comparable governing bodies of enterprises, other than the Company, in Germany and other countries, on December 31, 2000
Prof. Dr. h. c. Hasso Plattner Co-Chairman and CEO mySAP.com internet strategy, industry solution development, basis technology, marketing, corporate communications	Board of Directors, Industry To Industry Inc., Boston/USA Board of Directors, Pandesic LLC, Santa Clara/USA
Prof. Dr. Henning Kagermann Co-Chairman and CEO Sales, distribution, consulting and global customer relations, industry solutions, strategic development projects	Supervisory Board, Deutsche Bank AG, Frankfurt/Main (as of September 7, 2000) Supervisory Board, DaimlerChrysler Services (debis) AG, Berlin Supervisory Board, IDS Scheer AG, Saarbrucken Supervisory Board, Münchner Rückversicherungs-Gesellschaft AG, Munich
Prof. Dr. Claus E. Heinrich Human Resources Development of industry solutions, development mySAP.com solutions	Supervisory Board, SVC AG Schmidt Vogel Consulting, Bielefeld
Gerhard Oswald Global Support, IT infrastructure	
Dr. Peter Zencke Development of industry solutions, development mySAP.com solutions, e-business, coordination of global research	Supervisory Board, Pixelpark AG, Berlin
Dr. Werner Brandt Chief Financial Officer (as of February 1, 2001) Finance and administration	

Extended Management Board

Karl-Heinz Hess Technology Development	Les Hayman Asia-Pacific region
Dieter Matheis Chief financial officer (up to February 1, 2001) Purchasing and facilities management	Wolfgang Kemna Americas (as of April 19, 2000)
Kevin S. McKay Americas (up to April 19, 2000)	Erwin Gunst Germany and Switzerland (as of April 19, 2000)
Leo Apotheker EMEA	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Supervisory Board

	Membership of other supervisory boards and other comparable governing bodies of enterprises, other than the Company, in Germany and other countries, on December 31, 2000
Dietmar Hopp [2) 4) 6)] Chairperson	
Helga Classen [1) 4) 5) 6)] Deputy chairperson Development architect	
Willi Burbach [1) 4) 5)] Developer	
Prof. Dr. Wilhelm Haarmann [2) 3) 4)] RA WP StB Haarmann, Hemmelrath & Partner, Frankfurt am Main	Supervisory Board, iXOS AG, Grasbrunn Supervisory Board, Häussler AG, Stuttgart Supervisory Board, Depfa IT Services AG, Mainz Supervisory Board, Mannesmann AG, Dusseldorf Management Board, R. Oldenbourg GmbH & Co. KG, Munich Supervisory Board, Immobilien- und Baumanagement der Bankgesellschaft Berlin GmbH, Berlin
Bernhard Koller [1) 3)] Manager Idea management	Supervisory Board, LION CONSULT AG, Heddesheim
Klaus-Dieter Laidig [5) 6)] Business consultant Laidig Business Consulting GmbH, Boeblingen	Supervisory Board, Heiler Software AG, Stuttgart Supervisory Board, Varetis AG, Munich Supervisory Board, Grau Data Storage AG Schwaebisch Gmuend Supervisory Board ACTRIS AG, Frankfurt/Main Board of Directors, Agile Software Corporation, San José/USA Board of Directors, Latitude Communications, Santa Clara/USA
Dr. Gerhard Maier [1) 2) 6)] Development Manager	
Hartmut Mehdorn Chairman of Executive Board Deutsche Bahn AG, Berlin	Supervisory Board, Lufthansa Technik AG, Hamburg Supervisory Board, DB Station & Service AG, Berlin Supervisory Board, DB Reise & Touristik AG, Berlin Supervisory Board, DB Regio AG, Berlin Supervisory Board, DB Cargo AG, Berlin Supervisory Board, DB Netz AG, Berlin Supervisory Board, Deutsche Bahn Immobiliengesellschaft mbH, Frankfurt/Main
Dr. Barbara Schennerlein [1)] Consultant	
Alfred Simon [1)] Documentation shipping associate	
Dr. Dieter Spöri Head of Corporate Representation Federal Affairs, DaimlerChrysler AG, Berlin	Advisory Council, Contraf Nicotex Tobacco GmbH, Heilbronn
Dr. h. c. Klaus Tschira [3)] Managing director, Klaus Tschira Foundation, Heidelberg	Supervisory Board, Lion bioscience AG, Heidelberg

[1)] Elected by the employees
[2)] Member of the Company's Compensation Committee
[3)] Member of the Company's Audit Committee
[4)] Member of the Company's Mediation Committee
[5)] Member of the Company's Technology Committee
[6)] Member of the Company's Venture Capital Committee

(37) Significant differences Between German and U.S. Accounting Principles

Introduction

Because SAP AG is a holding corporation that owns the majority of voting rights in other enterprises, it is generally obliged to prepare consolidated financial statements in accordance with the accounting regulations set out in the German Commercial Code ("Handelsgesetzbuch–HGB"). Section 292a HGB offers, however, an exemption from this obligation if consolidated financial statements are prepared and published in accordance with an internationally accepted accounting principle (U.S. GAAP or IAS). To make use of this exemption, the Company is required to describe the significant differences between the accounting methods applied and German accounting methods.

Fundamental Differences

German HGB accounting rules and U.S. GAAP are based on fundamentally different perspectives. While accounting under the German HGB emphasizes the principle of caution and creditor protection, the availability of relevant information for shareholder decision-making is the chief objective of U.S. GAAP. The comparability of the financial statements–both from year to year and from company to company–and the determination of performance on an accrual basis therefore rank higher under U.S. GAAP than under HGB.

Revenue Recognition

Under German HGB, payment terms generally have no impact on revenue recognition. Under SOP 97-2 extended payment terms may indicate that license fees are not fixed and determinable and should therefore be recognized as payments become due.

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. Under German HGB, the expected costs of the maintenance service are accrued if a free-of-charge service period is provided. SOP 97-2 regards both maintenance fees below the standard percentage and the provision of free maintenance service as discounts to be considered in recognizing software revenue. Therefore the fair market value of non-standard maintenance arrangements including free service periods reduce the related software license revenue and is recognized as maintenance revenue when such services are provided in subsequent periods.

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 and a valuation allowance is established when it is more likely than not that deferred tax assets will not be realized.

STAR Plan

The STAR plan rewards selected employees based on the appreciation of SAP's preference share price over a predetermined period of time. The compensation arising from this measurement period is paid to participants in several installments. Under German GAAP, the total expense is recognized in the year the STARs were granted. In addition, the accrual is based on the preference share appreciation through the last date available before the completion of SAP AG's financial statements. Under U.S. GAAP, the expense is recognized over a period beginning with the granting of the STARs and ending with the payment of the last installment. In addition, the accrual is based on the SAP preference share appreciation through December 31.

Put Option

During 2000, SAP AG sold a put option, as described in note 22, which entitles the option holder to sell 1.5 million SAP AG preference shares to the SAP AG for €273 per share, or receive cash equal to any decline in the preference share market price upon exercise below €273. Under German GAAP, any amounts due by the Company are recorded as an expense. Under U.S. GAAP, the put option is considered an equity instrument with no charge to earnings.

LTI Plan

Participants of the LTI 2000 Plan may choose convertible bonds, stock options, or a 50% mixture of each. Under German GAAP, the Company records expense over the vesting period only to the extent the Company provides shares it acquired from the market to the participant upon conversion or exercise. The expense amount is based upon the intrinsic value on the reporting date. No expense is recorded if the Company issues shares from contingent capital to the participant. Under U.S. GAAP, no expense is recorded for convertible bonds issued since the grant price is equal to the fair market value of a SAP AG preference share on the date of grant. Because the exercise price for stock options is variable, U.S. GAAP requires recognition of an expense over the vesting period based upon the stock options' intrinsic value on the reporting date.

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. Unrealized losses are included in earnings. 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 either trading or available for sale and, therefore, are valued under U.S. GAAP at fair market value as of the balance sheet date. Unrealized gains and losses for available for sale securities are reported net of tax, in accumulated other comprehensive income. A write-down in the value through a charge to finance expense occurs if a decline in market value is deemed to be other than temporary, that is, if the fair market value remains below cost for an extended period. Unrealized gains and losses from trading securities are included in earnings.

Derivatives

Under German GAAP, most derivatives are not recorded on the balance sheet. Unrealized gains are not recognized, unrealized losses are accrued. Under SFAS 133 (which SAP implemented in 1999), derivatives are recorded on the balance sheet at their fair value. Gains or losses on derivatives qualifying as cash flow hedges are reported in accumulated other comprehensive income net of tax and are realized in earnings in conjunction with the gain or loss on the hedged item or transaction.

Employee Discounted Stock Purchase Program

Under certain employee discounted stock purchase programs, SAP employees are provided a discount on the purchase of SAP shares. Under German GAAP, all discounts provided under these programs are expensed whereas under U.S. GAAP, certain discounts provided are recorded as a direct reduction in additional paid-in capital.

Walldorf, February 1, 2001

SAP Aktiengesellschaft

Systeme, Anwendungen, Produkte in der Datenverarbeitung

Walldorf/Baden

Executive Board

Plattner Kagermann Brandt Heinrich Oswald Zencke

FINANCIAL STATEMENTS OF SAP AG - SHORT VERSION

prepared in accordance with German GAAP

Income Statement

	2000 € (000)	1999 € (000)
Total revenue	2,499,160	1,897,619
Increase in inventory of unfinished services	–11,697	16,986
Other operating income	162,816	127,020
Cost of services and materials	–704,746	–543,384
Personnel expenses	–653,248	–835,642
Depreciation and amortization	–102,742	–77,521
Other operating expenses	–771,487	–454,030
Finance income	105,441	230,115
Income from ordinary activities	523,497	361,163
Income taxes	–244,997	–48,983
Net income	278,500	312,180

Balance Sheet

as of December 31	2000 € (000)	1999 € (000)
Intangible assets	33,288	40,563
Property, plant and equipment	412,586	375,866
Financial assets	959,394	494,885
Fixed assets	1,405,268	911,314
Inventories	8,527	19,477
Accounts receivable	759,732	809,376
Marketable securities	94,127	0
Liquid assets	77,329	203,510
Short term assets	939,715	1,032,363
Deferred taxes	37,308	36,967
Prepaid expenses and deferred charges	11,515	5,086
Total assets	2,393,806	1,985,730
Shareholders’ equity	1,286,685	1,166,310
Reserves and accrued liabilities	644,605	573,956
Other liabilities	459,918	243,440
Deferred income	2,598	2,024
Total shareholders’ equity and liabilities	2,393,806	1,985,730

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.

SUBSIDIARIES, ASSOCIATED COMPANIES AND OTHER INVESTMENTS

Name and location of company	Ownership % 12/31/00	Amounts in thousands of € sales revenues in 2000 [1]	Net income/ loss for 2000 [1]	Equity as of 12/31/00 [1]	Number of employees as of 12/31/00 [2]
I. Affiliated Companies					
Germany					
SAP Systems Integration AG, Dresden [5), 6)]	54	170,986	–7,732	246,482	1,217
SAP Retail Solutions GmbH & Co. KG, St. Ingbert [4)]	100	84,739	9,794	24,205	601
SAPMarkets Europe GmbH, Walldorf [3), 4)]	100	38,339	–265	19,735	235
Steeb Anwendungssysteme GmbH, Abstatt	100	38,033	2,879	3,980	169
SAP CRM Consulting GmbH & Co. KG, Mannheim [4)]	100	27,764	5,601	6,545	225
eSAP GmbH & Co. KG, Walldorf	100	14,605	176	1,795	180
SAPHosting AG & Co. KG, St. Leon-Rot [3), 4)]	100	6,038	531	532	54
SAP Learning Solutions GmbH, Immenstaad	100	3,623	768	1,040	22
In-Q-My Technologies GmbH, Walldorf [3)]	100	1,094	–1,861	2,639	8
DACOS Software Holding GmbH, St. Ingbert	100	0	1,687	7,478	0
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf	100	0	0	30	0
eSAP Beteiligungs GmbH, Walldorf	100	0	–1	24	0
SAP CRM Consulting Beteiligungsgesellschaft mbH, Mannheim	100	0	1	25	0
SAPHosting Beteiligungs GmbH, St. Leon–Rot [3)]	100	0	–5	20	0
SAP Beteiligungs GmbH, Walldorf [3)]	100	0	0	25	0
sky7home GmbH, Walldorf [3), 4)]	100	0	0	25	0
Rest of Europe /Middle East /Africa					
SAP (UK) Limited, Feltham/Great Britain	100	370,393	40,066	103,054	663
SAP FRANCE SYSTEMES APPLICATIONS ET PROGICIELS S.A., Paris/France	100	231,952	6,195	37,563	559
SAP (Schweiz) AG Systeme, Anwendungen und Produkte der Datenverarbeitung, Biel/Switzerland	100	215,438	33,637	64,204	378
SAP Nederland B.V.,'s Hertogenbosch/The Netherlands	100	137,522	21,014	57,011	364
S.A.P. Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Milan/Italy	100	135,603	13,589	44,612	299
SAP Österreich GmbH, Vienna/Austria	100	89,178	8,389	34,893	274
NV SAP BELGIUM SA, Brussels/Belgium	100	81,686	8,004	33,031	194
SAP España Sistemas Aplicaciones y Productos en la Informática, S.A., Madrid/Spain	100	81,638	8,859	26,710	199
SYSTEMS APPLICATIONS PRODUCTS (AFRICA) (PTY) LTD, Woodmead/South Africa	100	62,036	3,311	13,222	342
SAP Svenska Aktiebolag, Stockholm / Sweden	100	56,867	2,889	16,673	183
SAP Danmark A/S, Brondby / Denmark	100	51,468	–1,614	11,560	182
SAP Finland Oy, Espoo / Finland	100	46,606	5,089	19,079	134
SAP Portugal – Sistemas, Aplicações e Produtos Informáticos, Sociedade Unipessoal, Lda. Paco d´Arços/Portugal	100	39,414	4,031	16,564	106
SAP ČR, spol. s r.o., Prague/Czech Republic	100	37,712	2,610	12,969	172
SAP Polska Sp. z.o.o., Warsaw/Poland	100	36,368	1,578	8,406	132
SAP Norge AS, Lysaker/Norway	100	25,819	160	8,478	88
SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Informatikai Kft., Budapest/Hungary	100	20,073	3,170	7,971	103
OOO SAP Consult C.I.S., Moscow/Russia	100	14,525	1,769	3,462	111
SAP Hellas S.A. Societe Anonyme of Systems, Applications & Information Technology Products, Athens/Greece	100	11,810	1,561	1,977	204
SAP Slovensko s.r.o., Bratislava/Slovakia	100	10,389	245	3,046	42
SAP Service and Support Centre (Ireland) Limited, Dublin/Ireland	100	9,873	1,912	5,514	164
SAP Public Services (Pty) Ltd., Woodmead/South Africa [3), 4)]	70	7,437	–13	–12	0

SUBSIDIARIES, ASSOCIATED COMPANIES AND OTHER INVESTMENTS

Name and location of company		Amounts in thousands of €			
	Ownership % 12/31/00	sales revenues in 2000 [1]	Net income/ loss for 2000 [1]	Equity as of 12/31/00 [1]	Number of employees as of 12/31/00 [2]
CADRA S.A., Chazay D`Azergues/France [4]	100	6,309	447	2,231	67
SAP-OFEK Ltd., Industrial Area Herzliya/Israel	100	5,286	364	2,542	46
SAP Labs France S.A., Sophia Antipolis/France	100	3,231	119	2,161	27
SAP Systems Integration (Schweiz) AG, Frauenfeld/Switzerland [3), 4]	54	1,941	– 4	162	4
IN-Q-MY Labs Limited, Sofia/Bulgaria [3), 4]	100	1,421	118	120	108
e-sap.fr, Paris/France [3), 4]	100	1,383	–78	– 38	23
SAP Cyprus Ltd., Nicosia/Cyprus [3), 4]	100	1,310	– 2	696	28
SAP Bulgaria Ltd., Sofia/Bulgaria [3), 4]	100	479	–1,563	–1,358	17
SAP Nigeria Ltd., Lagos/Nigeria [3), 4]	100	151	–30	–16	0
Ithinqcom (Pty) Ltd., Woodmead/South Africa [3), 4]	60	7	– 814	–740	0
SAP Ireland Ltd. i.L., Dublin/Ireland	100	0	581	11,548	6
LLC SAP Consult, Kiev/Ukraine [3]	100	0	0	54	0
Americas					
SAP America, Inc., Newtown Square/USA	100	1,809,470	76,482	628,222	3,543
SAP Canada Inc., North York/Canada	100	233,564	17,644	62,559	534
SAP Public Services, Inc., Washington, D.C/USA [4]	100	168,200	–11,739	– 41,298	217
SAP Labs, Inc., Palo Alto/USA [4]	100	160,946	6,776	19,506	489
SAP Brasil Ltda., Sao Paulo/Brazil	100	141,560	7,666	30,923	452
SAP México, S.A. de C.V., Mexico City/Mexico	100	86,532	6,320	39,593	236
SAP ANDINA Y DEL CARIBE C.A. Caracas/Venezuela	100	62,063	2,478	14,501	172
SAP ARGENTINA S.A., Buenos Aires/Argentina	100	60,517	4,575	27,192	185
SAPMarkets, Inc., Palo Alto/USA [3]	100	28,279	– 37,808	37,191	167
Campbell Software, Inc., Chicago/USA [4]	100	14,328	–2,169	9,184	58
SAP International, Inc., Miami/USA [4]	100	12,835	123	46	24
SAP Properties, Inc., Newtown Square/USA [3), 4]	100	353	6	46	0
SAP Investment, Inc., Wilmington/USA [4]	100	0	173,884	375,746	0
Asia / Pacific					
SAP JAPAN Co., Ltd., Tokio/Japan	100	380,458	30,337	31,163	951
SAP AUSTRALIA PTY LTD, Sydney/Australia	100	122,235	– 8,366	10,899	326
SAP Asia Pte. Ltd., Singapore	100	95,998	11,236	25,282	272
SAP Korea Limited, Seoul/Korea	100	56,081	3,070	12,419	182
SAP India Systems, Applications and Products in Data Processing Private Limited, Bangalore/India [4]	100	40,745	7,056	17,043	118
SAP MALAYSIA SDN. BHD., Kuala Lumpur/Malaysia	100	31,933	6,709	11,835	75
SAP Taiwan Co. Ltd., Taipei/Taiwan	100	26,276	1,258	12,450	69
SAP HONG KONG CO. LIMITED, Taikoo Shing/Hong Kong	100	22,533	2,669	9,456	52
SAP (Beijing) Software System Co., Ltd., Beijing/China	100	22,293	– 4,023	507	188
SAP Labs India Private Limited, Bangalore/India	100	13,914	1,104	4,375	406
SAP SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING (THAILAND) LTD., Bangkok/Thailand	100	13,060	2,524	5,802	47
PT SAP Asia, Jakarta/Indonesia	100	8,303	963	452	24
SAP Philippines, Inc., Makati City/Philippines	100	7,610	–588	1,126	27
SAP NEW ZEALAND LIMITED, Auckland/New Zealand	100	7,348	–2,570	3,570	37
SAPMarkets Asia Pacific Solutions Pte Ltd, Singapore [3), 4]	100	0	– 4	–3	1
SAP India (Holding) Pte. Ltd., Singapore	100	0	–14	410	0

SUBSIDIARIES, ASSOCIATED COMPANIES AND OTHER INVESTMENTS

Name and location of company		Amounts in thousands of €			
	Ownership % 12/31/00	sales revenues in 2000 [1]	Net income/ loss for 2000 [1]	Equity as of 12/31/00 [1]	Number of employees as of 12/31/00 [2]
II. Associated Companies					
Pandesic LLC, Santa Clara/USA	50.0	12,297	–136,997	–140,412	70
Global Virtual Marketplace GmbH, Munich/Germany [3]	50.0	0	–2,000	500	0
Emaro Verwaltungs AG, Walldorf/Germany [3]	40.0	40	–3,729	5,785	19
ec4ec.GmbH, Dusseldorf/Germany [3]	33.3	0	–1,029	13,874	6
Industry To Industry Inc., Boston/USA [6]	31.0	3,119	–33,349	11,571	60
COPA GmbH, Wesel/Germany [3]	25.1	23,309	3,988	4,742	252
cc-markets-online Ltd., Dublin/Ireland [3]	25.0	0	–7,700	5,100	15
EULOX Logistics GmbH, Vienna/Austria [3]	20.0	0	–1,864	1,873	20

Name and location of company
III. Other Investments (ownership of more than five percent)
ABACO P.R., Inc., Roswell/USA
ABC Technologies Inc., Beaverton/USA
Achilles Group Ltd., Oxon/Great Britain
Aurigin Systems, Inc., Cupertino/USA
Catalyst International Inc., Milwaukee/USA [6]
ChemConnect, Inc., San Francisco/USA
CoVia Technologies, Inc., Mountain View/USA
CPGmarket.com SA, Geneva/Switzerland
Cybersafe Corporation, Issaquah/USA
DFKI GmbH, Kaiserslautern/Germany
e-millennium 1 GmbH & Co. KG, Munich/Germany
Grau Datastorage AG, Schwaebisch Gmuend/Germany
Heiler Software AG, Stuttgart/Germany [6]
HotDispatch, Inc., Mountain View / U.S.
humanIT Human Information Technologies GmbH, Sankt Augustin/Germany
Idapta, Inc., Atlanta/USA
IDS Scheer AG, Saarbruecken/Germany [6]
Intellicorp Inc., Mountain View/USA [6]
Isochron Data Corp., Austin/USA
MarketFirst Software, Inc., Mountain View / U.S.
OCIXEM – Serviços de Telecomunicações e Transferência de Informação, S.A., Lisbon/Portugal
Onventis GmbH, Stuttgart/Germany
opsXchange.com, Inc., San Francisco/USA
Orbian Corp., New York/USA
Orbian Management Ltd., London/Great Britain
Paymentor ApS, Copenhagen/Denmark
PowerSim Corporation, Reston/USA
ProSyst Software AG, Cologne/Germany
SALT Logistics AG, Wuerzburg/Germany
Sequencia Corporation, Phoenix/USA
SkillsVillage, Inc., Sunnyvale/USA
SupplyAccess, Inc., El Segundo/USA
TeaLeaf, Inc., San Francisco/USA
TradeNetOne.com AG, Frankfurt (Main)/Germany
VCB Virtueller Campus Bayern GmbH, Hof (Saale)/Germany
Venture Capital Beteiligungs GbR, Stuttgart/Germany
YellowMap AG, Munich/Germany

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

[2] As of December 31, 2000, including managing directors

[3] Consolidated for the first time in 2000

[4] Represents a wholly or majority owned entity of a subsidiary

[5] This company results from the merger of SRS Dresden AG, SAP Systems Integration GmbH and SAP Solutions GmbH.

[6] Publicly held company

FIVE YEAR SUMMARY

SAP Group

	HGB	US-GAAP			
in millions of € unless otherwise stated	1996	1997	1998	1999	2000
Total revenue	1,903.1	3,021.8	4,315.6	5,110.2	6,264.6
% generated by foreign subsidiaries	*73%*	*71%*	*80%*	*77%*	*78%*
% product revenue	*71%*	*68%*	*63%*	*61%*	*66%*
per employee (in thousands of €)	233	261	249	244	268
Net income	290.2	446.7	526.9	601.0	634.3
Return on equity (net income as a % of average equity)	*30%*	*35%*	*32%*	*27%*	*23%*
Income before income tax	485.7	796.4	932.0	980.3	1,031.5
Return on sales (income before income tax as a % of total revenue)	*26%*	*26%*	*22%*	*19%*	*16%*
Total assets	1,721.5	2,755.2	3,445.9	4,826.9	5,586.2
Fixed assets	403.4	601.0	903.9	1,524.0	1,591.0
Intangible assets	2.9	39.9	74.6	119.9	116.1
Property, plant & equipment	318.0	444.6	645.4	794.3	870.7
Financial assets	82.5	116.5	183.9	609.8	604.2
Short term assets (incl. deferred taxes, prepaid expenses and deferred charges)	1,318.1	2,154.2	2,542.0	3,302.9	3,995.2
Inventories	4.0	3.8	2.8	3.1	5.8
Accounts receivables	937.1	1,640.4	1,869.0	2,489.5	2,902.7
Liquid assets	377.0	510.0	670.2	810.3	1,086.7
Shareholders' equity (incl. temporary equity)	1,130.6	1,451.1	1,818.3	2,559.4	2,893.9
as a % of fixed assets	*280%*	*241%*	*201%*	*168%*	*182%*
Subscribed capital	264.6	266.6	267.3	267.8	314.7
Other shareholders' equity	866.0	1,184.5	1,551.0	2,291.6	2,169.7
Temporary equity	0.0	0.0	0.0	0.0	409.5
Liabilities (incl. deferred charges and from 1997 onwards minority interests)	590.9	1,304.1	1,627.6	2,267.5	2,692.3
Long term liabilities	38.1	178.1	170.0	483.6	181.5
Current liabilities	552.8	1,126.0	1,457.6	1,783.9	2,510.8
% of total assets					
Fixed assets	*23%*	*22%*	*26%*	*32%*	*28%*
Short term assets	*77%*	*78%*	*74%*	*68%*	*72%*
Shareholders' equity	*66%*	*53%*	*53%*	*53%*	*52%*
Liabilities	*34%*	*47%*	*47%*	*47%*	*48%*
Financial liabilities	50.7	86.0	122.8	57.5	153.4
Long term	4.5	2.6	26.5	32.9	6.5
Short term	46.2	83.4	96.3	24.6	146.9
Interest income, net	+14.2	+26.9	+31.1	+31.2	+59.2

FIVE YEAR SUMMARY

SAP Group

in millions of € unless otherwise stated	HGB 1996	US-GAAP 1997	1998	1999	2000
Purchases / depreciation and amortization					
Purchase of property, plant & equipment and intangible assets	112.8	289.9	388.1	354.8	285.9
Depreciation and amortization	84.2	101.3	139.8	172.7	223.3
Depreciation and amortization as a % of purchases	*75%*	*35%*	*36%*	*49%*	*78%*
Cash earnings according to DVFA/SG [1]	351.2	547.2	586.1	896.9	583,1
as a % of total revenue	*18%*	*18%*	*14%*	*18%*	*9%*
as a % of investments	*311%*	*189%*	*151%*	*253%*	*204%*
Employees and personnel expenses					
Number of employees, year-end	9,202	12,856	19,308	21,699	24,480
Number of employees, year-end – based on full-time equivalents[1]				21,488	24,177
Number of employees, annual average	8,177	11,558	17,323	20,975	23,335
Personnel expenses	684.4	1,059.9	1,547.4	2,031.7	2,812.8
Personnel expenses – excluding STAR	n/a	n/a	1,531.1	1,891.4	2,372.0
Personnel expenses per employee – excluding STAR (in thousands of €)	84	92	88	90	102
Research and development expenses	258.5	362.7	572.4	744.7	969.4
as a % of total revenue	*14%*	*12%*	*13%*	*15%*	*15%*

SAP AG

in millions of € unless otherwise stated	HGB 1996	1997	1998	1999	2000
Net income	155.7	228.7	268.7	312.2	278.5
Transfer of reserves	32.7	78.5	102.3	146.5	98.0
Dividend distributions	122.80	150.4	165.5	165.8	180.4
Dividend per ordinary share (in €)[2]	0.31	0.48	0.52	0.52	0.57
Dividend per preference share (in €)[2]	0.32	0.49	0.53	0.53	0.58
Stock prices at year-end (spot rate in €):[3]					
– ordinary share	35.88	92.97	122.71	162.67	124.00
– preference share	36.10	99.57	136.26	201.83	152.00
Number of shares at year-end (in thousands)[3]:	310.521	312.909	313.695	314.268	314,715
– ordinary shares	182.973	182.988	183.000	183.000	183,000
– preference shares	127.548	129.921	130.695	131.268	131,715
Market capitalization (in billions of €)	11.1	30.0	40.3	56.3	42.7

1) Not available for the years prior to 1999

2) Value after 3-for-1 stock split, for year 2000 proposed dividend

3) Value after 3-for-1 stock split

ADDRESSES AND FINANCIAL CALENDAR

Headquarters

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

Financial Calendar

2001

April 19	Interim report: January – March 2001
May 3	Annual General Meeting – Mannheim, Germany
May 4	Dividend payment
July 19	Interim report: January – June 2001
October 18	Interim report: January – September 2001

2002

January 23	Preliminary figures for fiscal 2001
May 3	Annual General Meeting – Mannheim, Germany

SAP AG
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Germany

50001750