SAP AKTIENGESELLSCHAFT SYSTEMS APPLICATIONS PRODUCTS IN DATA
Form 20-F
March 23, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to

Commission file number: 1-14251

SAP AKTIENGESELLSCHAFT

SYSTEME, ANWENDUNGEN, PRODUKTE IN DER DATENVERARBEITUNG
(Exact name of registrant as specified in its charter)

SAP CORPORATION

SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING
(Translation of Registrant s name into English)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Neurottstrasse 16
69190 Walldorf
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
	New York Stock Exchange

American Depositary Shares, each representing one-fourth of one Ordinary Share, without nominal value	
Ordinary Shares, without nominal value	Frankfurt Stock Exchange New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock at the close of the period covered by the annual report:

Ordinary Shares, without nominal value (as of December 31, 2003)**	315,413,553

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

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* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares.

** Including 4,565,000 treasury shares.

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* Omitted because the Item is not applicable or the answer is negative.

** The Registrant has responded to Item 18 in lieu of this Item.

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INTRODUCTION

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, is a German stock corporation (*Aktiengesellschaft*) and is referred to in this Annual Report on Form 20-F as SAP AG and, together with its subsidiaries, as SAP, or as the Company, we, our, or us. Our consolidated financial statements included in Item 18. Financial Statements in this Annual Report on Form 20-F have been prepared in accordance with generally accepted accounting principles in the United States of America, referred to as U.S. GAAP.

In this Annual Report on Form 20-F: (i) references to U.S.$, $, or dollars are to U.S. dollars; (ii) references to or euro are to the euro, currency of the countries currently participating in the European Economic Monetary Union (EMU). Certain amounts that appear in this Annual Report on Form 20-F may not sum because of rounding adjustments. In this Annual Report on Form 20-F, except as otherwise specified, financial information with respect to SAP has been expressed in euro and/or dollars.

Unless otherwise specified herein, all euro financial data that have been converted into dollars have been converted at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2003, which was 1.00 per $1.2597. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or could be converted into dollars at that or any other exchange rate on such date or on any other dates. The rate used for the convenience translations also differs from the currency exchange used for the preparation of the Consolidated Financial Statements. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. At March 9, 2004, the Noon Buying Rate for converting euro to dollars was U.S.$ 1.2428 per 1.00.

Unless the context otherwise requires, references in this Annual Report on Form 20-F to ordinary shares are to SAP AG s ordinary shares, without nominal value, and references to preference shares are to SAP AG s non-voting preference shares, without nominal value, which were converted to ordinary shares as of June 18, 2001. References in this Annual Report on Form 20-F to ADSs are to SAP AG s American Depositary Shares, each representing one-fourth of an ordinary share.

On June 26, 2000, we effected a division of our capital stock by means of a three-for-one stock split of the ordinary shares and the preference shares. Contemporaneously with the stock split, we reduced the ratio of ADSs to preference shares from 12:1 to 4:1. All references to subscribed capital, ordinary shares, preference shares, shares outstanding, average number of shares outstanding, convertible bonds, stock options or per share amounts in this Annual Report on Form 20-F prior to the effectiveness of the stock split have been restated to reflect the three-for-one stock split on a retroactive basis.

The Annual General Shareholders Meeting and a special meeting of holders of the preference shares on May 3, 2001 approved a conversion of the preference shares into ordinary shares on a share for share basis, which came into effect on June 18, 2001. The amount of subscribed capital for ordinary shares was therefore increased by the amount of the outstanding preference shares on the effective date of the conversion.

SAP, the SAP logo, R/2, R/3, mySAP, mySAP.com, xApp, xApps, SAP NetWeaver and other SAP product and service nan herein are trademarks or registered trademarks of SAP AG in Germany and/or in several other countries. This Annual Report on Form 20-F also contains product and service names of companies other than SAP that are trademarks of their respective owners.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 20-F contains forward-looking statements based on beliefs of our management. Any statements contained in this Annual Report on Form 20-F that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events, including, but not limited to:

- general economic and business conditions;
- attracting and retaining personnel;
- competition in the software industry;
- implementing our business strategy;
- developing and introducing new services and products;
- regulatory and political conditions;
- obtaining and expanding market acceptance of our services and products;
- terrorist attacks or other acts of violence or war;
- meeting our requirements with customers; and
- other risks and uncertainties, some of which we describe under Item 3. Key Information Risk Factors.

The words anticipate, believe, continue, counting on, is confident, estimate, expect, forecast, intend, may, plan, proj wants, will, would and similar expressions as they relate to us are intended to identify such forward-looking statements. Such statements reflect our current views and assumptions and 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 our future financial results are discussed more fully under Item 3. Key Information Risk Factors, as well as elsewhere in this Annual Report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements.

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PART I

Item 1. ***Identity of Directors, Senior Management and Advisers***

Not Applicable.

Item 2. ***Offer Statistics and Expected Timetable***

Not Applicable.

Item 3. ***Key Information***

Selected Financial Data

The following table represents selected consolidated financial information of SAP. The table should be read together with Item 5. Operating and Financial Review and Prospects. The selected consolidated financial data of SAP is a summary of, is derived from and is qualified by reference to, our consolidated financial statements and notes thereto audited for the years ended December 31, 2003 and 2002 by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), independent auditors and for the years ended December 31, 2001, 2000 and 1999 by ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH (Arthur Andersen), independent auditors. For a discussion of the risks relating to Arthur Andersen s audit of our financial statements, please see Item 3. Key Information Risk Factors We and our shareholders face certain risks related to our former employment of Arthur Andersen as our independent auditors.

The audited consolidated income statements, consolidated statements of cash flows and consolidated statements of changes in shareholders equity for the years ended December 31, 2003, 2002 and 2001, and the consolidated balance sheets at December 31, 2003 and 2002 are included in Item 18. Financial Statements. Certain reclassifications have been made to prior year amounts to conform to the current year s presentation.

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SELECTED FINANCIAL DATA

	Year Ended December 31, (in thousands, except per share and exchange rate data)					
	2003	2003	2002	2001	2000[2]	1999
	U.S.$[1]					
Income Statement Data:						
Total revenue	8,848,896	7,024,606	7,412,838	7,340,804	6,264,595	5,110,213
Operating income	2,171,747	1,724,019	1,625,678	1,312,374	802,658	796,180
Income before income taxes and extraordinary gain	2,238,002	1,776,615	1,107,698	1,068,757	1,012,869	980,347
Net income	1,356,776	1,077,063	508,614	581,136	615,732	601,001
Earnings per share[3]						
Basic	4.37	3.47	1.62	1.85	1.96	1.92
Diluted	4.36	3.46	1.62	1.85	1.95	1.90
Other Data:						
Weighted average number of shares outstanding[3][4]						
Basic	310,781	310,781	313,016	314,309	314,423	313,815
Diluted	311,409	311,409	313,980	314,412	315,737	315,750
Balance Sheet Data:						
Total assets	7,968,692	6,325,865	5,608,463	6,195,604	5,618,971	4,826,889
Shareholders equity	4,672,788	3,709,445	2,872,091	3,109,513	2,517,081	2,559,355
Subscribed capital	397,327	315,414	314,963	314,826	314,715	267,805
Short-term bank loans and overdrafts	23,988	19,043	22,657	458,266	146,877	24,600
Long-term financial debt[5]	15,051	11,948	11,318	7,375	6,543	32,913

(1) Amounts in the column are unaudited and translated for the convenience of the reader at 1.00 to U.S.$ 1.2597, the Noon Buying Rate for converting 1.00 into dollars on December 31, 2003. See Exchange Rates for recent exchange rates between the euro and the dollar. Our auditors have not audited these converted dollar amounts.

(2) The 2000 figures have been adjusted for the effect of the change in the investment in Commerce One, Inc. (Commerce One) to the equity method. See Note 4 of Item 18. Financial Statements.

(3) Amounts are adjusted for our one-for-one conversion of preference shares to ordinary shares in 2001 and the three-for-one stock split in 2000.

(4) Includes preference and ordinary shares for periods prior to June 18, 2001, the effective date of the conversion of the preference shares into ordinary shares on a share-for-share basis.

(5) Long-term financial debt represents financial liabilities with a remaining life beyond one year, which is comprised of bank loans and overdrafts and convertible bonds issued pursuant to stock-based compensation plans. See Item 6. Directors, Senior Management and Employees Share Ownership Stock-Based Compensation Plans.

Exchange Rates

The prices for ordinary shares traded on German stock exchanges are denominated in euro. Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the ordinary shares traded on the German stock exchanges and, as a result, may affect the price of the ADSs in the United States. In addition, SAP AG pays cash dividends, if any, in euro, so that such exchange rate fluctuations will also affect the dollar amounts received by the holders of ADSs on the conversion into dollars of cash dividends paid in euro on the ordinary shares represented by the ADSs. The deposit agreement for the ADSs requires the depositary to convert any dividend payments from euro into dollars as promptly as practicable upon receipt.

A significant portion of our revenue and expenses is denominated in currencies other than the euro. Therefore, movements in the exchange rate between the euro and the respective currencies to which we are exposed may materially affect our consolidated financial position, results of operations and cash flows. See Item 5. Operating and Financial Review and Prospects Foreign Currency Exchange Rate Exposure and for

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our foreign currency risk and hedging strategy see Item 11. Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Risk.

The following table sets forth the average, high, low and period-end Noon Buying Rates for the euro expressed as dollars per 1.00.

Year	Average(1)	High	Low	Period-End
1999	1.0588	1.1812	1.0016	1.0070
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2002	0.9495	1.0485	0.8594	1.0485
2003	1.1411	1.2597	1.0361	1.2597

Month	High	Low	Period-End
2003			
July	1.1580	1.1164	1.1231
August	1.1390	1.0871	1.0986
September	1.1650	1.0845	1.1650
October	1.1833	1.1596	1.1609
November	1.1995	1.1417	1.1995
December	1.2597	1.1956	1.2597
2004			
January	1.2853	1.2389	1.2452
February	1.2848	1.2426	1.2441
March (through March 9, 2004)	1.2431	1.2088	1.2428

(1) The average of the applicable Noon Buying Rates on the last day of each month during the relevant period.

On March 9, 2004, the Noon Buying Rate for converting euro to dollars was U.S.$1.2428 per 1.00.

Dividends

Dividends are jointly proposed by SAP AG s Supervisory Board (*Aufsichtsrat*) and Executive Board (*Vorstand*) based on SAP AG s year-end stand-alone financial statements, subject to approval by the shareholders, and are officially declared for the prior year at SAP AG s Annual General Shareholders Meeting. Dividends paid to holders of the ADSs may be subject to German withholding tax. See Item 8. Financial Information Dividend Policy and Item 10. Additional Information Taxation.

The following table sets forth in euro the annual dividends paid or proposed to be paid per ordinary share and preference share in respect of each of the years indicated. The table does not reflect tax credits that may be available to German taxpayers who receive dividend payments. If you own our ordinary shares or ADSs and if you are a U.S. resident, please refer to Taxation in Item 10.

Year Ended December 31,	Dividend Paid per Ordinary Share		Dividend Paid per Preference Share	
		U.S.$		U.S.$
1999	0.52	0.47(1)(4)	0.53	0.48(1)
2000	0.57	0.52(1)(4)	0.58	0.53(1)
2001	0.58	0.53(1)(4)	N/A	N/A
2002	0.60	0.69(1)(4)	N/A	N/A
2003 (proposed)	0.80(2)	0.99(2)(3)(4)	N/A	N/A

(1)

Translated for the convenience of the reader from euro into dollars at the Noon Buying Rate for converting euro into dollars on the dividend payment date. The depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt.

(2) Subject to approval of the Annual General Shareholders Meeting of SAP AG to be held on May 6, 2004.

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(3) Translated for the convenience of the reader from euro into dollars at the Noon Buying Rate for converting euro into dollars on March 9, 2004 of U.S.$1.2428 per 1.00. The depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt. The dividend paid can actually differ due to changes in the exchange rate.

(4) One SAP ADR (American Depositary Receipt) represents one-fourth of SAP AG s ordinary share. Accordingly, the final dividend per ADR is calculated as one-fourth of the dividend for one SAP AG share and is dependent on the euro/dollar exchange rate.

The amount of dividends paid on the ordinary shares depends on the amount of SAP AG profits to be distributed by SAP AG, which depends in part upon our performance. For years prior to 2001, a holder of preference shares was entitled to a cumulative annual preferred dividend which exceeded 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. The timing and amount of future dividend payments will depend upon our future earnings, capital needs and other relevant factors in each case as proposed by the Executive Board and the Supervisory Board of SAP AG and approved at the Annual General Shareholders Meeting.

Risk Factors

Substantial, prolonged declines in and slow or weak recovery of global technology and software markets in Europe, the Americas and Asia resulting from general adverse economic conditions may cause our revenues and profitability to suffer.

Implementation of SAP software products can constitute a major portion of our customers overall corporate budget, and the amount customers are willing to invest in acquiring and implementing SAP products and the timing of our customers investment have tended to vary due to economic or financial crises or other business conditions. Prolonged economic slowdowns or slow or weak economic recoveries may result in customers requiring us to renegotiate existing contracts resulting in less advantageous terms than those currently in place. A recession, slow or weak economic recovery or other difficulties in the economies where we license our products, including Europe, the Americas and Asia, could have a material adverse effect on our business, financial position, operating results or cash flows. In particular, our profitability and cash flows may be significantly adversely affected by a prolonged economic slowdown in Europe or the U.S. because we derive a substantial portion of our revenue from software licenses and services in those geographic regions.

One important feature of our long-term strategy for growth is to increase our offerings for the small and mid-market segment. A recession, slow or weak economic recovery could inhibit the creation and financial strength of those businesses and thereby delay that element of our expansion.

Undetected errors or delays in new products and product enhancements may result in increased costs to us and delayed demand for our new products.

To achieve customer acceptance, our new products and product enhancements can require long development and testing periods, which may result in delays in scheduled introduction. Generally, first releases are licensed after a validation process to a controlled group of customers. Such new products and product enhancements may contain a number of undetected errors or bugs when they are first released. As a result, in the first year following the introduction of certain releases, we generally devote significant resources working with early customers to correct such errors. There can be no assurance, however, that all such errors can be corrected to the customer s satisfaction, with the result that certain customers may bring claims for cash refunds, damages, replacement software or other concessions. The risks of errors and their adverse consequences may increase as we seek simultaneously to introduce a variety of new software products.

Although we test each new product and product enhancement release before introducing it to the market, there can be no assurance that significant errors will not be found in existing or future releases of SAP software products, with the possible result that significant resources and expenditures may be required in order to correct such errors or otherwise satisfy customer demands. In addition, the possibility cannot be excluded that customers may bring actions for damages, make claims for replacement of software, or demand other concessions from SAP. Significant undetected errors or delays in new products or product enhancements may affect market acceptance of SAP software products.

We are subject to pricing pressure.

In response to competition, consolidation within the industries in which we operate and general adverse economic conditions, we have been required in the past, and may be required in the future, to furnish additional discounts to customers or otherwise modify our pricing practices. These developments have and may increasingly negatively impact our revenue and earnings. We generally license our products in individual software components or a suite of software components on a right to use basis pursuant to a perpetual license providing for an initial license fee based on the number and types of identified users or other applicable criteria. Subsequent maintenance fees are typically established based on a specified percentage of the initial license fee paid by the customer. Our customers typically prepay maintenance for periods of three to twelve months. Changes in our pricing model or any other future broadly-based changes to our prices and pricing policies could lead to a decline or delay in software sales and/or a decline or delay in maintenance fees as our sales force and our customers adjust to the new pricing policies.

We, together with certain business partners, offer certain SAP software products to small and midsize customers as a component of our hosted solutions or rental offerings, in which license and maintenance fees or rental payments may be paid to us on a per user, per month or similar subscription basis rather than an upfront license fee payment as under our standard pricing models. Our hosted solutions and rental programs have not generated significant revenues in 2003 and prior years. As part of our long-term strategy for growth, we expect that these programs will generate incremental revenue from small and midsize customers. There can be no assurance that such programs will be successful or, if successful, that they will not negatively impact our standard pricing models. The recent trend of outsourcing enterprise business applications or business processes could result in increased competition through the entry of systems integrators, consulting firms, telecommunications firms, computer hardware vendors and other application-hosting providers. We may be unable to offer an outsourcing model that customers demand, or competitors may offer better, lower priced or more desirable outsourcing models. In addition, the distribution of applications through application service providers may reduce the price paid for our products or adversely affect other sales of our products.

Terrorist attacks and risk of war or international hostilities could adversely impact our business.

The financial, political, economic and other uncertainties following terrorist attacks like those in the U.S. and Spain, and other acts of violence or war, such as the recent conflict in Iraq could damage the world economy and affect our investment and our customers investment decisions over an extended period of time. We believe that geopolitical uncertainties, including hostilities against the U.S., Europe or any other country, or war or any other international hostilities may lead to cautiousness by our customers in setting their capital spending budgets. Furthermore, such occurrences could make travel more difficult, thus interfering with customers decision making processes and our ability to sell products and provide services to them.

Consolidation in the software industry may result in instability of software demand and stronger peer companies in the long term.

The entire IT sector, including the software industry, is currently experiencing consolidation through mergers and acquisitions, particularly involving larger companies. Large companies continue to expand into related industries. Transactions in which we or our competitors participate could have a material adverse effect on us in a variety of ways, such as delaying sales due to customer uncertainty and subjecting us to competition from stronger established or new peer group companies with more resources, larger customer bases and a wider variety of products than we have.

We may not be able to protect our intellectual property rights, which may cause us to incur significant costs in litigation and erosion in the value of our brands and products.

We rely on a combination of the protections provided by applicable trade secret, copyright, patent and trademark laws, license and non-disclosure agreements and technical measures to establish and protect our rights in our products. Despite our efforts, there can be no assurance that these protections will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our

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technology. Despite our efforts, it may be possible for third parties to copy certain portions of our products or reverse engineer or otherwise obtain and use information that we regard proprietary. Accordingly, there can be no assurance that we will be able to protect our proprietary software against unauthorized third party copying or use, which could adversely affect our competitive position. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as do the laws of the U.S. or Germany.

Some of our competitors may have been more aggressive than us in applying for or obtaining patent protection for innovative proprietary technologies.

Although we have been issued patents under our patent program and have a number of patent applications pending for inventions claimed by us, there can be no assurance that, in the future, patents of third parties will not preclude us from utilizing a technology in our products or require us to enter into royalty and licensing arrangements on terms that are not favorable to us. Although we do not believe that we are infringing any proprietary rights of others, third parties have claimed and may claim in the future that we have infringed their intellectual property rights. We expect that our software products will increasingly be subject to such claims as the number of products in our industry segment grows, as we expand our products into new industry segments and as the functionality of products overlap. There can be no assurance that, in the future, a third party will not assert that our products violate its patents, copyrights or trade secrets. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays, subject our products to an injunction, require a complete or partial re-design of the relevant product or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

Our encryption technology may be breached or compromised.

We rely on encryption, authentication technology and firewalls to provide the necessary security for the confidential information transmitted to and from us over the Internet. Anyone who circumvents our security measures could misappropriate proprietary information or cause interruptions in our services or operations. The Internet is a public network, and data is sent over this network from many sources. In the past, computer viruses, software programs that disable or impair computers, have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems or those of our customers or suppliers, which could disrupt our network or make it inaccessible to customers or suppliers. Our security measures may be inadequate to prevent security breaches, and our business would be harmed if we do not prevent them. In addition, we may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches.

Consumers have significant concerns about secure transmissions of confidential information, especially financial information, over public networks like the Internet. This remains a significant barrier to general acceptance of e-commerce and other aspects of SAP s business. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security systems or those of other Web sites to protect proprietary information. If any compromises of security were to occur, it could have the effect of substantially reducing the use of the Web for commerce and communications and therefore could adversely impact our long-term strategy for growth.

We depend on technology licensed to us by third parties, and the loss of this technology could delay implementation of our products or force us to pay higher license fees.

We license numerous third-party technologies that we incorporate into our existing products, on which, in the aggregate, we may be substantially dependent. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party software for future products. In addition, we may be unable to renegotiate acceptable third-party license terms to reflect changes in our pricing models. While we believe that no one individual technology we license is material to our business, changes in or the loss of third party licenses could lead to a material increase in the costs of licensing or to SAP software products becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development costs to ensure continued performance of our products.

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Our SAP NetWeaver integration and application platform may not succeed or may make certain of our products less desirable.

In 2003, we announced the introduction of SAP NetWeaver, our new, web-based technology and application platform. We have devoted a significant amount of resources to the development and marketing of SAP NetWeaver. SAP NetWeaver is a new and innovative solution serving as the basis of SAP s current product strategy. While all components of SAP NetWeaver are already released, we expect to release the complete SAP NetWeaver solution to reference customers by the end of March 2004. It represents a technological shift to a web-based, open platform design that we believe will make it easier for customers to link non-SAP software related data with SAP software. There are no assurances that customers will accept this technology change or that our competitors will not develop and market more effective technology platforms that better suit the needs of customers. Further, as with the introduction of any new product, there may be errors in the SAP NetWeaver component technology that might require the devotion of a substantial amount of resources to correct. SAP NetWeaver s failure to be accepted by customers, development by competitors of superior technology or significant errors in the solution could have a material adverse impact on our revenues, earnings and results of operations. In addition, as with any open platform design, the greater flexibility provided to customers to use data generated by non-SAP software may reduce customer demand to elect and use certain of our software products.

Because our products are critical to the operations of our customers businesses, we could incur substantial costs as a result of warranty or product liability claims.

The use of SAP software products by customers in business-critical applications and processes and the increased complexity of our software create the risk that customers or other third parties may pursue warranty, performance or other claims against us in the event of actual or alleged failures of SAP software products, the provision of services or application hosting. We have in the past been, and may in the future continue to be, subject to such warranty, performance or other claims. In addition, certain of our Internet browser-enabled products include security features that are intended to protect the privacy and integrity of customer data. Despite these security features, our products may be vulnerable to break-ins and similar problems caused by Internet users, such as hackers bypassing firewalls and misappropriating confidential information. Such break-ins or other disruptions could jeopardize the security of information stored in and transmitted through the computer systems of our customers. Addressing problems and claims associated with such actual or alleged failures could have a material adverse effect on our business, financial position and results of operations or cash flows.

Although our agreements generally contain provisions designed to limit our exposure as a result of actual or alleged failures of SAP software products, the provision of services or application hosting or security features, such provisions may not cover every eventuality or be effective under applicable law. Any claim, regardless of its merits, could entail substantial expense and require the devotion of significant time and attention by key management personnel. The accompanying publicity of any claim, regardless of its merits, could adversely affect the demand for our software.

Our failure to develop new relationships and enhance existing relationships with third-party distributors, software suppliers, system integrators and value-added resellers that help sell our services and products may adversely affect our revenues.

We have entered into agreements with a number of leading computer software and hardware suppliers and technology providers to cooperate and ensure that certain of the products produced by such suppliers are compatible with SAP software products. We have also supplemented our consulting and support services (in the areas of product implementation, training and maintenance) through alliance partnerships with third-party hardware and software suppliers, systems integrators, consulting groups formerly associated with major accounting firms and other consulting firms. Most of these agreements and alliances are of relatively short duration and non-exclusive. In addition, we have established relationships relating to the resale of certain of our software products by third parties. These third parties include value-added resellers and, in the area of application hosting services, certain computer hardware vendors, systems integrators and telecommunications providers.

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There can be no assurance that these third parties or business partners, most of whom have similar arrangements with our competitors and some of whom also produce their own standard application software in competition with us, will continue to cooperate with us when such agreements or partnerships expire or are up for renewal. In addition, there can be no assurance that such third parties or partners will provide high-quality products or services or that actions taken or omitted to be taken by such parties will not adversely affect us. There can be no assurance that slow or weak economic recovery will not affect such third parties or partners or the products and services that they provide pursuant to the agreements with us. The failure to obtain high quality products or services or to renew such agreements or partnerships could adversely affect our ability to continue to develop product enhancements and new solutions that keep pace with anticipated changes in hardware and software technology and telecommunications, or could adversely affect the demand for our software products.

Because we conduct our operations throughout the world, our results of operations may be affected by currency fluctuations.

Although the euro has been our financial and reporting currency since January 1, 1999, a significant portion of our business is conducted in currencies other than the euro. Approximately 59.3% of our consolidated revenue in 2003 was attributable to operations in non-EMU member states and translated into euro. As a consequence, period-to-period changes in the average exchange rate in a particular currency can significantly affect reported revenue and operating results. In general, appreciation of the euro relative to another currency has a negative effect on reported results of operations, while depreciation of the euro has a positive effect.

Because a significant portion of our revenue is from countries other than EMU member states and denominated in currencies other than the euro, we have significant exposure to the risk of currency fluctuations, especially to fluctuations in the value of the dollar, the Japanese yen, the British pound, the Swiss franc, the Canadian dollar, and the Australian dollar. As of March 9, 2004, the Noon Buying Rate for converting euro to dollars was U.S.$1.2428 per 1.00 a sharp decrease in the value of the dollar relative to the euro compared to the Noon Buying Rate of December 31, 2002 of 1.0485 U.S.$.. Conversely, increases in the value of currencies relative to the euro may positively affect earnings, although such positive effects may be only short-term in nature.

We continually monitor our exposure to currency risk and pursue a company-wide foreign exchange risk management policy and may hedge such risks with certain financial instruments. However, there can be no assurance that our hedging activities, if any, will be effective. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

If we are unable to keep up with rapid technological changes, we may not be able to compete effectively.

Our future success will depend in part upon our ability to:

- continue to enhance and expand our existing products and services;
- provide best-in-class business solutions and services; and
- develop and introduce new products and provide new services that satisfy increasingly sophisticated customer requirements, that keep pace with technological developments and that are accepted in the market.

We continue to transform our suite of business applications to reduce the total cost of IT ownership for our customers and to allow our customers to better integrate heterogeneous systems. In addition we provide industry-specific business solutions. There can be no assurance that we will be successful in anticipating and developing product enhancements or new solutions and services to adequately address changing technologies and customer requirements. Any such enhancements, solutions or services may not be successful in the marketplace or may not generate increased revenue. We may fail to anticipate and develop technological improvements, to adapt our products to technological change, changing country-specific regulatory requirements, emerging industry standards and changing customer requirements or to produce high-quality products, enhancements and releases in a timely and cost-effective manner in order to compete with applications offered by our competitors.

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Due to intense competition, our market share and financial performance could suffer.

The software industry is intensely competitive. As part of our business strategy, we have focused our efforts in areas of our business where demand is expected to grow more rapidly. In particular, we have expanded our focus to include customer relationship management, supply chain management, technology integration platform solutions and the needs of small and medium sized businesses. Our expansion from the traditional large enterprise ERP product offerings exposes us to different competitors. Competition, with respect to pricing, product quality and consulting and support services, could increase substantially and result in price reductions, cost increases or loss of segment shares.

We compete with a wide range of global, regional and local competitors. Some of our competitors and many of our potential competitors are involved in a wider range of businesses, and some competitors and potential competitors have a larger installed customer base for their products and services, or have significantly greater financial, technical, marketing and other resources than we have, enhancing their ability to compete with us. There are many other companies engaged in the research, development and marketing of integrated web-based business solutions, standard business application software and associated applications development tools, decision support products and services. Some of these companies may develop (or may have already developed) an overall concept or individual product offering which may be perceived to be as good as or better than our product offerings.

New distribution methods (e.g. electronic channels) and opportunities presented by the Internet and electronic commerce have removed many of the barriers to entry to the segments in which we compete. Historically, most of our competitors provided solutions which covered certain functional areas offering the customer a software application product designed for a specific business or manufacturing process. Such products compete with individual functions offered by us. Our competitors have already broadened, or are implementing plans to broaden, the scope of their business activities. A competitor may be able to capitalize upon the success of a niche product by developing and marketing broader system applications in competition with us. Niche competitors may also benefit from alternative delivery systems, such as the Internet, to become more competitive with us.

Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs. In addition, we believe that competition will increase as a result of industry consolidations among potential customers of our products as well as among our competitors. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant segment shares. There can be no assurance that our strategies will prove to be successful or that our competitors strategies will not be more successful than ours.

We believe that our experience with business process applications, our increasingly flexible, component-based installation options and our focus on flexible, open standards technologies and industry solutions give us a strong competitive position. However, there can be no assurance that our strategies will prove to be successful or that our competitors strategies would not be more successful than ours.

Our future revenue is dependent in part upon our installed customer base continuing to license additional products, renew maintenance agreements and purchase additional professional services.

Our large installed customer base has traditionally generated additional new software, maintenance, consulting and training revenues. In future periods, customers may not necessarily license additional products or contract for additional services or maintenance. After an initial term, maintenance is generally renewable annually at a customer s option, and there are no mandatory payment obligations or obligations to license additional software. If our customers decide not to renew their maintenance agreements or license additional products or contract for additional services, or if they reduce the scope of their maintenance agreements, our revenues could decrease and our operating results could be adversely affected.

Our revenue mix may vary and may negatively affect our profit margins.

From 2001 to 2003, our software revenue has decreased both in terms of absolute dollar value and as a percentage of total revenue while our maintenance revenue increased during the same period. Our service revenue increased from 2001 to 2002 but decreased from 2002 to 2003. Variances or slowdowns in our licensing activity may negatively impact our current and future revenue from services and maintenance since such services and maintenance revenue typically lag behind license fee revenue. In addition, growth in service revenue will depend on our ability to compete effectively in obtaining customer engagements to provide services related to SAP software products. Any decrease in the percentage of our total revenue derived from software licensing could have a material adverse effect on our business, financial position and results of operations or cash flows.

Customer implementation and installation involves significant resources and is subject to significant risks.

Implementation of SAP software is a process that often involves a significant commitment of resources by our customers and is subject to a number of significant risks over which we have little or no control. Some of our customers have incurred significant third-party consulting costs and experienced protracted implementation times in connection with the purchase and installation of SAP software products. We believe that these costs and delays were due in many cases to the fact that, in connection with the implementation of the SAP software products, these customers conducted extensive business re-engineering projects involving complex changes relating to business processes within the customer s own organization. We offer accelerated installation support and/or fixed fees for certain SAP software products installation projects. However, criticisms regarding these additional costs and protracted implementation times have been directed at us, and there have been, from time to time, shortages of our trained consultants available to assist customers in the implementation of our products. In addition, the success of new SAP software products introduced by us may be adversely impacted by the perceived time and cost to implement existing SAP software products or the actual time and cost to implement such new products. We cannot provide assurances that protracted installation times or criticisms of us will not continue, that shortages of our trained consultants will not occur or that the costs of installation projects will not exceed the fixed fees being charged by us.

Business process outsourcing may adversely impact our business

Some of our customers offer other companies business process outsourcing (BPO) services, which involve the transfer by end user customers of all of or significant portions of their internal processes to third-party BPO providers. Some or all of our existing end user customers and potential customers may decide to shift business process systems to BPO providers rather than continue to run these systems themselves, especially in the areas of human resources, finance, accounting and supply chain. The perception of value created by our products among end user customers could be diminished to the extent BPO providers bundle our applications with their services. While most of our revenues are currently derived from contracts directly with end user customers, a general trend to outsourcing business processes to BPO providers could have a material adverse impact on our revenues, earnings and results of operations.

If we were to lose the services of members of management and employees or fail to attract new personnel who possess specialized knowledge and technology skills, we may not be able to manage our operations effectively or develop new products and services.

Our operations could be adversely affected if senior managers or other skilled personnel were to leave and qualified replacements were not available. Despite recent adverse economic trends, competition for managerial and skilled personnel in the software industry remains intense. Especially as we embark on the introduction of new and innovative technology offerings to our client base such as our SAP NetWeaver platform initiative, we are relying on being able to build up and maintain a specialized workforce with deep technological know-how to ensure an optimal implementation of such new technologies in accordance to our clients demands. Such personnel in certain regions (including the U.S. and Europe) are in short supply. We expect continued increases in compensation costs in order to attract and retain senior managers and skilled employees, especially as the current weakened economy improves. Most of our current key employees are subject to employment agreements or conditions that (i) do not contain post employment non-competition provisions and (ii) in the case of most of our existing employees outside of Germany, permit the employees to terminate their employment on relatively short notice. There can be no assurance that we will continue to be able to attract and retain the personnel we require to develop and market new and enhanced products and to market and service our existing products and conduct our operations successfully.

Our internal risk management policies and procedures may not be sufficient for us to identify, analyze and respond appropriately in a timely manner.

We believe we have a system comprising multiple mechanisms across the SAP group to recognize and analyze risks early and respond appropriately. These mechanisms include recording, monitoring and controlling internal enterprise processes using internal reporting functions, a number of management and controlling systems and a planning process that is uniform throughout our group. We have created standard documentation of key business processes of SAP AG and its largest subsidiaries, which will be extended to all major subsidiaries in 2004. Further elements of the system include a corporate-wide Code of Business Practice which was formalized in 2003, our internal audit function, comprehensive published reports and the work of the Supervisory Board in monitoring and controlling the Executive Board. In early 2003, we created a central dedicated Corporate Risk Management function tasked to consolidate and enhance SAP s various existing risk management activities in accordance with a corporate-wide uniform methodology. SAP s Principles of Corporate Governance, ratified by our Supervisory Board at the end of 2001 and updated in August 2002 and March 2004, constitute a further component in the system. They comprise, among others, standards and guidelines for the work of the Executive Board and Supervisory Board, and for the cooperation between them. In addition, SAP promptly started to implement measures in accordance with the Sarbanes-Oxley Act, a U.S. law on corporate governance and financial reporting that came into effect on July 30, 2002. Amongst other measures, we established a Disclosure Committee, whose main task is to monitor the quality of information released to the financial markets. For further information on the measures we have undertaken relating to the Sarbanes-Oxley Act, please refer to Item 6. Directors, Senior Management and Employees and Item 15. Controls and Procedures.

Although we believe our risk management policies and procedures are sufficient, there is no guarantee that all risks will be identified, analyzed or responded to appropriately in a timely manner, especially those which are outside of our control.

Future changes in financial accounting standards regarding the accounting for stock based compensation may have an adverse effect on our reported results of operation.

As part of its convergence project, the Financial Accounting Standards Board (FASB) is currently reconsidering U.S. GAAP rules for stock-based compensation accounting in light of the recent standard issued by the International Accounting Standards Board that will require the expensing of all stock-based compensation awards. Changes requiring SAP to record stock-based compensation expense in the income statements for our employee stock options using the fair market value method would have a significant negative effect on our reported operating results. Changes to other existing accounting standards or the questioning of current accounting practices by the SEC, analysts, or the investing public may also adversely affect our reported financial results. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies.

Management s use of estimates may affect our results of operations and financial position.

Our financial statements are based upon the accounting policies as described in Note 3 of our consolidated financial statements and included in Item 18. Financial Statements. Such policies require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Facts and circumstances which management uses in making estimates and judgments may change from time to time and may result in significant variations, including adverse effects on our results of operation or financial position. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies.

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The market in which we compete continues to evolve and, if it does not grow rapidly in the longterm, our business will be adversely affected.

SAP is investing significant resources in further developing and marketing new and enhanced products and services. The areas of customer relationship management, supply chain management, technology integration solutions (including SAP NetWeaver) and solutions for the small and mid-market segment are expected to experience high growth rates. Demand and customer acceptance for recently introduced products and services are subject to a high level of uncertainty, especially where acquisition of SAP software products requires a large capital commitment or other significant commitment of resources. Moreover, the adoption of mySAP Business Suite solutions and newer offerings that allow greater levels of flexibility in software application and data utilization, particularly by those individuals and enterprises that have historically relied upon traditional means of commerce and communication, will require a broad acceptance of new and substantially different methods of conducting business and exchanging information. These products and services involve a new approach to the conduct of business and, as a result, we have invested in, and intend to continue to pursue, intensive marketing and sales efforts to educate prospective customers regarding the uses and benefits of these products and services in order to generate demand. Demand for these products and services may not develop, or SAP may not develop acceptable solutions in a timely or cost-effective manner. This could have a material adverse effect on our business, financial position and results of operations or cash flows.

Our insurance coverage may not be sufficient to avoid negative impacts on our financial position or results of operations resulting from the settlement of claims.

We maintain extensive insurance coverage for protection against many risks of liability. The extent of insurance coverage is under continuous review and is modified if we deem it necessary. Our goal of insurance coverage is to ensure that the financial effects, to the largest extent possible, resulting from risk occurrences are excluded or at least limited considering the costs associated with the insurance coverage. Despite these measures, it is possible that claims may have a significant adverse impact on our financial position or results of operations. Also, adequate insurance coverage may not be available to us at all.

Our sales forecasts may not be accurate.

We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of proposals, including the date when they estimate that a customer will make a purchase decision and the potential revenue from the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We compare the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenue in a particular quarter or over a longer period of time. A variation in the conversion of the pipeline into revenue or in the pipeline itself could cause us to improperly plan or budget and thereby adversely affect our business or results of operations. In particular, a slowdown in the economy may cause customer purchasing decisions to be delayed, reduced in amount or cancelled, which will in turn reduce the overall license pipeline conversion rates in a particular period of time.

If we do not effectively manage our growth, our existing personnel and systems may be strained and our business may not operate efficiently.

We have a history of rapid growth and will need to effectively manage our future growth to be successful. In 2003, we experienced an industry-wide trend in customer spending away from a lower volume of very large contracts to a higher volume of smaller contracts. In order to support our future growth, we expect to continue in the long-term to incur significant costs to increase headcount in key areas of our business, explore and/or enter new markets and build infrastructure ahead of anticipated revenue. Revenue on a per employee basis decreased from 2002 to 2003 by 8.0% from 252,361 to 232,211 and in average full time equivalents by 5.4% from 255,140 to 241,412. As such there can be no assurance that significant increases in employees and infrastructure will result in growth in revenue or operating results in the future. There can be no assurance that we can effectively retain and utilize our personnel, accurately forecast revenue and control costs, maintain and

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control adequate levels of quality of service (especially of our partners or other third parties) or implement and improve our operational and financial infrastructure.

If we acquire other companies, we may not be able to integrate their operations effectively and, if we enter into joint ventures, we may not work successfully with our alliance partners.

In order to complement or expand our business, SAP has made and expects to continue to make acquisitions of additional businesses, products and technologies, and has entered into, and expects to continue to enter into, a variety of transactions, including alliance arrangements. Our current strategy for growth includes, but is not limited to, the acquisition of companies as a key element of future growth, especially acquisitions of smaller companies that specifically aim at strengthening our geographic reach, broadening our offering in particular industries, or complementing our technology portfolio. Management s negotiations of potential transactions, including acquisitions or alliances, and management s integration of acquired businesses, products or technologies could divert its time and resources. In addition, risks commonly encountered in such transactions include:

- inability to successfully integrate the acquired business;
- inability to integrate the acquired technologies or products with our current products and technologies;
- potential disruption of our ongoing business;
- inability to retain key technical and managerial personnel;
- dilution of existing equity holders caused by capital stock issuances to the stockholders of acquired companies or capital stock issuances to retain employees of the acquired companies;
- assumption of unknown material liabilities of acquired companies;
- incurrence of debt and/or significant cash expenditure;
- difficulty in maintaining controls, procedures and policies;
- potential adverse impact on our relationships with partner companies or third-party providers of technology or products;
- regulatory constraints;
- impairment of relationships with employees and customers; and
- problems with product quality, product architecture, legal contingencies, product development issues or other significant issues that may not be detected through the due diligence process.

In addition, acquisitions of additional businesses may require large write-offs of any in-process research and development costs related to companies being acquired and amortization costs related to certain acquired tangible and intangible assets. Ultimately, certain acquired businesses may not perform as anticipated, resulting in charges for the impairment of goodwill and/or other intangible assets. Such write-offs and amortization charges may have a significant negative impact on operating margins and net income in the quarter in which the business combination is completed and subsequent periods. In addition, we have entered and expect to continue to enter into alliance agreements for the purpose of developing new products and services. There can be no assurances that any such products or services will be successfully developed or that we will not incur significant unanticipated liabilities in connection with such arrangements. We may not be successful in overcoming these risks or any other problems encountered in connection with any such transactions and may therefore not be able to receive the intended benefits of those acquisitions or alliances.

Currency fluctuations may impact the value of our ADSs.

The currency in which our ordinary shares are traded is the euro. While the currency in which our ADSs are traded is the dollar, the trading price of our ADSs is expected to be largely based upon the trading price of the underlying ordinary shares in its principal trading market, the

Frankfurt Stock Exchange. Cash dividends payable to holders of ADSs will be paid to the depositary pursuant to the Amended and Restated Deposit Agreement between SAP AG and the depositary in euro and, subject to certain exceptions, will be converted by the depositary into dollars as promptly as practicable upon receipt for payment to such holders. The amount of dividends received by the holders of ADSs, therefore, will also be affected by fluctuations in exchange rates as well as by the specific exchange rate used by the depositary (which may incorporate fees charged).

The market price for our ADSs and ordinary shares may remain volatile.

The trading prices of the ADSs and the ordinary shares have experienced and may continue to experience significant volatility. The current trading price of the ADSs and the ordinary shares reflect certain expectations about the future performance and growth of SAP, particularly on a quarterly basis. However, our revenue can vary, sometimes substantially, from quarter to quarter, causing significant variations in operating results and in growth rates compared to prior periods. Any shortfall in revenue or earnings from levels projected by us quarterly or other projections made by securities analysts could have an immediate and significant adverse effect on the trading price of the ADSs or the ordinary shares in any given period. Additionally, we may not be able to confirm our projections of any such shortfalls until late in the quarter or following the end of the quarter because license agreements are often executed late in a quarter. Finally, the stock prices for many companies in the software sector have experienced wide fluctuations, which have often not been directly related to individual companies operating performance. The trading price of the ADSs or the ordinary shares may fluctuate in response to such factors, including but not limited to:

- the announcement of new products or product enhancements by us or our competitors;
- technological innovation by us or our competitors;
- quarterly variations in our competitors results of operations;
- changes in revenue and revenue growth rates on a consolidated basis or for specific geographic areas, business units, products or product categories;
- speculation in the press or analyst community;
- general market conditions specific to particular industries;
- general and/or country specific political conditions (particularly wars, terrorist attacks etc.); and
- proposed and completed acquisitions or other significant transactions by us or our competitors.

Many of these factors are beyond our control. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. Any such securities class action litigation against us, with or without merit, could result in substantial costs and the diversion of management s attention and resources.

We may incur losses in connection with strategic and venture capital investments.

SAP has acquired and expects to continue to acquire equity interests in or makes advances to technology-related companies, many of which currently generate net losses. Such activities may individually and in the aggregate involve significant capital outlay. Most of these companies are recently established. It is possible that changes in market conditions, the performance of companies in which we hold investments or to which we made advances or other factors will negatively impact our results of operations and financial position or our ability to recognize gains from the sale of marketable equity securities. Additionally, due to changes in German tax laws in 2000 effective January 2001 (Steuersenkungsgesetz), capital losses or write-downs of equity securities are no longer tax deductible, which may negatively impact our effective tax rate, cash flows and net income going forward. See Item 4. Partnerships, Alliances and Acquisitions.

Because we expect to continue to expand globally, we may face special economic and regulatory challenges that we may not be able to meet.

Our products and services are currently marketed in over 120 countries, with a focus on Europe, Middle East and Africa (EMEA), North and South America (Americas) and Asia-Pacific (APA) regions. In 2003,

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revenue derived from outside Germany totaled 5,354.3 million, representing approximately 76% of our total revenue. Sales in these regions are subject to risks inherent in international business activities, including, in particular:

- general economic or political conditions in each country;
- overlap of differing tax structures;
- management of an organization spread over various jurisdictions;
- exchange rate fluctuations; and
- regulatory constraints like export restrictions, governmental regulations of the Internet, additional requirements for the design and for the distribution of software and/or services.

Other general risks associated with international operations include import and export licensing requirements, trade restrictions, changes in tariff and freight rates and travel and communication costs. There can be no assurance that our international operations will continue to be successful or that we will be able to manage effectively the increased level of international operations.

Principal shareholders may be able to exert control over our future direction and operations.

As of March 9, 2004, the beneficial holdings of SAP s principal shareholders (not counting immediate family members) and/or the holdings of entities controlled by them constituted in the aggregate approximately 34.568% of the outstanding ordinary shares of SAP AG. If SAP s principal shareholders and/or the holdings of entities controlled by them vote the shares held by them in the same manner, it may have the effect of delaying, preventing or facilitating a change in control of SAP or other significant changes to SAP or its capital structure. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

Sales of ordinary shares by principal shareholders could adversely affect the price of our capital stock.

As stated above, SAP s principal shareholders (not counting immediate family members) and/or related entities own beneficially approximately 34.568% of the outstanding ordinary shares of SAP AG as of March 9, 2004. The sale of a large number of ordinary shares by any of the principal shareholders and/or related entities could have a negative effect on the trading price of the ADSs or the ordinary shares. SAP is not aware of any restrictions on the transferability of the shares owned by the principal shareholders or any related entity.

The cost of derivative instruments for hedging of the STAR Plan may exceed the benefits of those arrangements.

Under our Stock Appreciation Rights Plan (the STAR Plan), stock appreciation rights (STARs) are granted to eligible employees of SAP. The STARs are primarily granted in the first quarter of each year and generally give the participants the right to a portion of the appreciation in the market price of the ordinary shares for the relevant measurement period. We have entered into in the past, and expect to enter into in the future, derivative instruments to hedge all or a portion of the anticipated cash flows in connection with the STARs in the event cash payments to participants are required as a result of an increase in the market price of the ordinary shares. We believe hedging anticipated cash flows in connection with the STARs limits the potential exposure associated with the STAR Plan, including potentially significant cash outlays and resulting compensation expense. There can be no assurance that the benefits achieved from hedging our STAR Plan exceed the related costs.

Our sales are subject to quarterly fluctuations.

Our revenue and operating results can vary, sometimes substantially, from quarter to quarter. Our revenue in general, and in particular our software revenue, is difficult to forecast for a number of reasons, including:

- the relatively long sales cycles for our products;
- the size and timing of individual license transactions;

- the timing of the introduction of new products or product enhancements by us or our competitors;
- the potential for delay of customer implementations of SAP software products;
- changes in customer budgets;
- seasonality of a customer s technology purchases; and
- other general economic and market conditions.

As is common in the software industry, our business has historically experienced its highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2003, 2002 and 2001 first quarter revenue being lower than revenue in the prior year s fourth quarter. We expect to experience a similar trend of seasonality in the future and that our revenue will peak in the fourth quarter of each year and decline from that level in the first quarter of the following year.

Because our operating expenses are based upon anticipated revenue levels and because a high percentage of our expenses are relatively fixed in the near term, any shortfall in anticipated revenue or delay in recognition of revenue could result in significant variations in our results of operations from quarter to quarter. We significantly increased in 2001 through 2003, and plan to continue to increase throughout 2004, the following expenditures depending on our results and outlook during 2004:

- expenditures to fund continued development of our operations;
- levels of research and development directed towards new products and product enhancements; and
- development of new distribution and resale channels for small and midsize businesses.

Such increases in expenditures will depend, among other things, upon ongoing results and evolving business needs. To the extent such expenses precede or are not subsequently followed by increased revenue, our quarterly operating results would be materially adversely affected and may vary significantly from preceding or subsequent quarters.

Increasing government regulation of the Internet could harm our business.

As the Internet commerce evolves, we expect that U.S. federal, U.S. State, German, European Union or other foreign governments will adopt laws or regulations covering issues such as taxation, user privacy, pricing, content and quality of products and services. For example, the United States Telecommunications Act sought to prohibit transmitting various types of information and content over the Internet. Several telecommunications companies have petitioned the U.S. Federal Communications Commission to regulate Internet service providers and other online service providers in a manner similar to long distance telephone carriers and to impose access fees on those companies. This could increase the cost of transmitting data over the Internet. Moreover, it may take years to determine the extent to which existing laws relating to issues such as property ownership, libel and personal privacy are applicable to the Internet. It is possible such laws or regulation could expose companies involved in electronic commerce to liability, which could limit the growth of electronic commerce generally. In addition, such regulation could weaken growth in Internet usage and decrease our acceptance as a communications and commercial medium. If enacted, these laws or regulations could limit the market for our products and services.

Revenue recognition accounting pronouncements may adversely affect our reported results of operations.

We continuously review our compliance with all new and existing revenue recognition accounting pronouncements. Depending upon the outcome of these ongoing reviews and the potential issuance of further accounting pronouncements, implementation guidelines and interpretations, we may be required to modify our revenue recognition policies and business practices, which could have a material adverse effect on our results of operation. Our existing revenue recognition policies are described in Note 3 of our consolidated financial statements included in Item 18. Financial Statements and in Item 5. Operating and Financial Review and Prospects Critical Accounting Policies.

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We and our shareholders face certain risks related to our former employment of Arthur Andersen as our independent auditors.

Prior to May 3, 2002, Arthur Andersen served as our independent auditors. On May 3, 2002, we dismissed Arthur Andersen and retained KPMG as our independent auditors for the fiscal years ended December 31, 2002. On August 31, 2002, Arthur Andersen LLP, an affiliate of Arthur Andersen, ceased practicing before the SEC.

Arthur Andersen did not participate in the preparation of this report, reissue its audit report with respect to the consolidated financial statements included in this report, or consent to the inclusion in this report of its audit report. As a result, investors in SAP may have no effective remedy against Arthur Andersen in connection with a material misstatement or omission in the financial statements to which its audit report relates. In addition, even if such investors were able to assert such a claim, Arthur Andersen may fail or otherwise have insufficient assets to satisfy claims made by investors that might arise under Federal securities laws or otherwise with respect to its audit report.

SEC rules and regulations require us to present historical audited financial statements in various SEC filings, such as registration statements, along with Arthur Andersen s consent to our inclusion of its audit report in those filings. In light of the cessation of Arthur Andersen s SEC practice, we will not be able to obtain the consent of Arthur Andersen to the inclusion of its audit report in our relevant current and future filings. The SEC has provided regulatory relief designed to allow companies that file reports with the SEC to dispense with the requirement to file a consent of Arthur Andersen in certain circumstances, but purchasers of securities sold under our registration statements, which were not filed with the consent of Arthur Andersen to the inclusion of its audit report, will not be able to sue Arthur Andersen pursuant to Section 11(a)(4) of the Securities Act of 1933 and, therefore, their right of recovery under that section may be limited as a result of the lack of our ability to obtain Arthur Andersen s consent.

U.S. judgments may be difficult or impossible to enforce against us.

SAP AG is a stock corporation organized under the laws of Germany. With one exception, all members of SAP AG s Executive Board and Supervisory Board are non-residents of the U.S. A substantial portion of the assets of SAP and such persons are located outside the U.S. As a result, it may not be possible to effect service of process within the U.S. upon such persons or us or to enforce against them judgments obtained in U.S. courts predicated upon the civil liability provisions of the securities laws of the U.S. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Germany.

Item 4. *Information about SAP*

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung is our legal corporate name, which is translated in English to SAP Corporation Systems, Applications and Products in Data Processing. SAP AG was incorporated under the laws of the Federal Republic of Germany in 1972. Where the context requires, in the discussion below, SAP AG refers to our predecessors, Systemanalyse und Programmentwicklung GdbR (1972-1976) and SAP, Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988). SAP AG became a stock corporation (*Aktiengesellschaft*) in 1988. Our principal executive offices, headquarters and registered office are located at Neurottstrasse 16, 69190 Walldorf, Germany. Our telephone number is +49-6227-7-47474. SAP AG s agent for U.S. federal securities law purposes in the U.S. is Brad Brubaker. He can be reached c/o SAP America, Inc. at 3999 West Chester Pike, Newtown Square, PA 19073.

Availability of this Report

We intend to make this Annual Report on Form 20-F and other periodic reports publicly available on our web site (www.sap.com) without charge immediately following our filing with the U.S. Securities and Exchange Commission. We assume no obligation to update or revise any part of this Annual Report on Form 20-F, whether as a result of new information, future events or otherwise, unless we are required to do so by law.

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Description of the Business

Overview

SAP is a leading provider of business software solutions, with headquarters in Walldorf, Germany and over 30,000 employees in more than 50 countries.

Our principal activities are the development, marketing, sales and support of a variety of software solutions, primarily enterprise application software products for organizations including corporations, governmental agencies, and educational institutions.

SAP solutions are designed to meet the demands of companies of all sizes from small via midsize businesses to global enterprises. The SAP NetWeaver open integration and application platform aims at reducing the complexity and total cost of ownership (TCO) of a customer s information technology landscape business process change and evolution. While SAP Business Suite solutions are helping enterprises around the world improve customer relationships, enhance partner collaboration, and create efficiencies across their supply chains and business operations. The core business processes of various industries, from aerospace to utilities, are supported by SAP s industry-specific solution portfolios. Today, more than 21,600 customers in over 120 countries run more than 69,700 installations of SAP software. With subsidiaries in more than 50 countries, the company is listed on several exchanges, including the Frankfurt Stock Exchange and NYSE under the symbol SAP.

SAP s total 2003 revenues decreased by 5.2% from 2002 to 7,024.6 million (2002: 7,412.8 million). Net income for 2003 increased by 111.8% to 1,077.1 million (2002: 508.6 million). In 2003, total revenues were derived as follows: sales of software products 2,147.6 million (30.6%), maintenance 2,568.8 million (36.5%), consulting services 1,953.5 million (27.8%), training services 299.3 million (4.3%), and other revenue 55.4 million (0.8%).

See Item 4. Information about SAP Description of the Business Revenue by Industry Sector and Note 34 to our consolidated financial statements for further details on revenues by industry sector.

Evolution of SAP s Solutions

We introduced our first generation of software in 1973, initially consisting of only a financial accounting application. The software was later expanded to include materials management.

Expanding beyond this first generation, SAP began to develop integrated, cross-functional, multi-language, multi-currency solutions for a broader range of business processes. In 1981, SAP introduced its second generation of application software, the SAP R/2 system, which could be installed on an enterprise-wide basis. SAP R/2 was our first enterprise resource planning (ERP) system, designed to integrate all aspects of business, including distribution centers, field operations centers, corporate headquarters, and sales offices. Among its many functions, SAP R/2 included cost accounting, human resource management, logistics, and manufacturing. We believe that SAP R/2 also reduced processing bottlenecks by improving and accelerating user access to data.

In 1988 we anticipated and capitalized upon growth in the demand for more decentralized business software solutions. During this period, we designed the initial version of the SAP R/3 system, moving from mainframe computers to open systems such as client/server networks composed of multiple computers. Introduced in 1992, SAP R/3 offered the functionality of SAP R/2 in an open, three-tier client/server architecture, and quickly became the category leader in ERP systems. We believe that SAP R/3 not only improved manufacturing efficiency but also such processes as distribution, finance, sales, procurement, inventory, and human resources. In the years following the introduction of SAP R/3, we also introduced several new business software applications and enhanced existing products to operate independently of SAP R/3.

During the 1990s, we introduced several solutions built on SAP R/3 to provide capabilities tailored to specific industries. In addition, we developed new solutions to address a variety of critical business issues, such as SAP Business Information Warehouse (SAP BW) for managing large quantities of data and SAP Advanced Planner and Optimizer (SAP APO) for managing supply and demand trends. Emerging customer needs also led us to create additional solutions.

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In 1999 we introduced the mySAP.com e-business platform. This Internet-based platform not only linked together disparate business functions but also enabled collaboration among different organizations. As a result, it enabled companies to participate in a larger collaborative community of customers, suppliers, and partners, which could shift functions and responsibilities as needed.

In 2002, we renamed mySAP.com into mySAP Business Suite. mySAP Business Suite is a suite of powerful business solutions that help companies manage the entire value chain across business networks. mySAP Business Suite is designed to allow organizations to excel in a business environment that requires rapid adaptation to changing business conditions. SAP NetWeaver aims at lowering customers total cost of information technology (IT) ownership by allowing easy integration of key business processes.

In 2003, we announced SAP NetWeaver, our open integration and application platform. In addition, we announced the successor to SAP R/3 called mySAP ERP. mySAP ERP provides organizations with a complete enterprise resource planning solution that can be extended through the addition of other SAP solutions, for example: mySAP CRM, mySAP SCM and mySAP SRM. mySAP ERP is part of the mySAP Business Suite solution. In 2004 we intend to develop most of our SAP solutions on our SAP NetWeaver platform.

SAP s Strategy

SAP s business and product strategies have been designed to increase software license sales, segment share and profitability by offering solutions composed of software and services that enable the existing customer base and prospective new customers to increase business performance and flexibility. We expect to leverage our large customer base to generate revenues through licenses of additional software solutions, either individually by solution, or collectively as mySAP Business Suite.

Our product strategy is to extend the range of software applications and solutions that can deliver more value, faster implementation, and better integration, to meet the needs of core customers and reach new customer segments. As also discussed below, our solutions for small and mid-market segment are another area of anticipated growth for SAP.

One of the keys to our product strategy is the use of Enterprise Services Architecture (ESA), which SAP announced in January 2003. ESA represents an evolution towards a services oriented architecture. The architecture is designed to improve flexibility and reduce TCO. Based on open standards the architecture aims at enabling customers to integrate SAP and non-SAP solutions more quickly. In addition, it will extend the reach of our solutions to yet unsupported business processes. SAP NetWeaver is our open integration and application platform in order to realize an enterprise services architecture for our customers. SAP NetWeaver is described in detail below.

In the services area, SAP Customer Services Network (SAP CSN) offers consulting, education, active global support, hosting, and custom development services. The strategy is for SAP CSN to maintain 15%-20% of the overall SAP-related service revenues, with the remainder to be provided by SAP s global network of certified business partners. For that reason, SAP CSN focuses on the ramp up of SAP solutions, integration architecture and quality assurance.

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SAP intends to primarily pursue organic growth. In addition, as an element of our future growth we intend to acquire smaller companies to strengthen our geographic reach, broadening our offering in particular industries, and complementing our technology portfolio.

SAP Software Products

We license components of our software solutions on an individual user basis. Licenses may be issued for individual solutions or for mySAP Business Suite, which is described below. In addition to the user licenses for a solution, certain specialized functionality that is not user-specific may be licensed separately as one of our software engines.

mySAP Business Suite

mySAP Business Suite is a suite of business solutions that aims at enabling companies to manage the entire value chain across business networks. Each solution is based on the SAP NetWeaver integration and application platform. As a result, mySAP Business Suite solutions allow companies to adapt quickly and remain flexible when faced with changing business conditions. In addition, mySAP Business Suite solutions aims at reducing TCO and managing a company s overall information technology infrastructure. Because of their flexible platform, mySAP Business Suite solutions may be deployed on a variety of computer hardware types and software operating systems.

mySAP Business Suite consists of the following SAP solutions:

mySAP Customer Relationship Management (mySAP CRM)

mySAP CRM helps organizations manage virtually every aspect of their relationships with customers. It includes a complete set of capabilities that help maximize the value delivered to and the value derived from customers throughout the customer interaction cycle.

Key functions of mySAP CRM include support for sales, marketing, channel management, interaction center, and service management. In addition, mySAP CRM offers analytics that allow a company to leverage customer data for better and quicker business decisions. Through these capabilities, mySAP CRM continuously enhances an organization s ability to:

identify and engage potential customers;

perform business transactions with customers;

fulfill individual customer needs as contracted; and

provide after-sales care such as customer service and product maintenance.

mySAP ERP

mySAP ERP is an enterprise resource planning (ERP) solution that aims at enabling organizations to run their core business functions, including analytics, human resources, financials, operations, corporate services, and planning. mySAP Financials and mySAP Human Resources have been renamed to mySAP ERP Financials and mySAP ERP Human Capital Management, respectively. They are now part of mySAP ERP.

mySAP ERP addresses customer needs for an expandable enterprise resource planning environment. As such, it is available as an individual solution or as a part of mySAP Business Suite. Customers can upgrade from mySAP ERP to the full mySAP Business Suite either in a single step or incrementally as their business needs change. As a result, mySAP ERP offers an easy path to a comprehensive business solutions suite.

mySAP ERP runs on the SAP NetWeaver technology platform, as described below.

mySAP ERP Financials is a finance, analytics, and accounting solution that helps organizations process and interpret financial and business data, and handle financial transactions. In addition, it aims at an efficient management of profitability, business performance, and growth for organizations.

mySAP ERP Financials helps to gain organization-wide control over the business information that is essential to strategic and operational decision-making. This includes the ability to track financial accounting data within an international framework of multiple companies and organizations, languages, currencies, and books of accounts.

Key functional areas of mySAP ERP Financials include general ledger, special purpose ledger and subledger, cost management, and profitability analysis.

mySAP ERP Human Capital Management (mySAP ERP HCM) provides comprehensive tools to help an organization optimize its investment in its employees. It supports human resources professionals in managing employee capabilities down to the line-management level.

mySAP ERP HCM combines strategic human capital management features with workforce analytics. In addition, its employee transaction management capabilities aims at allowing a company to streamline a wide range of essential HR transactions and processes, including compliance with global regulatory requirements.

Key functional areas of mySAP ERP HCM include administration, payroll, benefits, legal reporting, online recruiting, blended learning, organizational management, compensation, manager self-services, employee collaboration, and workforce analytics.

mySAP Product Lifecycle Management (mySAP PLM)

mySAP PLM helps companies manage the complete life cycle of a product, from initial concept, to design and engineering, to production, to product change management and to service and maintenance. It allows companies and their suppliers to collaborate in such key processes as engineering, custom product development, and project, asset, and quality management.

Key functional areas of mySAP PLM include life-cycle data management, life-cycle collaboration, program and project management, quality management, asset life-cycle management, and environmental health and safety.

mySAP PLM is particularly valuable to industries that require product innovation and rapid product development, such as high-tech, industrial manufacturing, construction, aerospace and defense, and automotive. Process, consumer products, and service industries can also benefit from the functions of mySAP PLM.

mySAP Supply Chain Management (mySAP SCM)

mySAP SCM helps companies manage materials, information, and finances along the entire supply chain, which encompasses the many processes involved in sourcing, manufacturing, and distribution. Supply chain management involves coordinating and integrating these processes both within an enterprise and among suppliers, customers, and business partners.

Key functions of mySAP SCM include supply chain planning, execution, collaboration, and coordination. Through these functions, mySAP SCM helps companies and their partners to easily view inventory levels, orders, supplier and customer allocations, forecasts, production plans, and key performance indicators so that they can work collaboratively toward an efficient supply chain. In addition, mySAP SCM supports fulfillment processes through availability checks, inventory management, and delivery. It also monitors the execution of supply chain activities, creating alerts in the event of deviation from plans. This helps a company to react quickly and remain flexible when faced with sudden changes in customer demand or production requirements.

mySAP Supplier Relationship Management (mySAP SRM)

mySAP SRM helps organizations manage their spending practices to achieve lower costs and higher profitability. It helps to connect suppliers through automated bidding and procurement processes. As a result, it offers immediate insights into spending trends while helping reduce the cost of goods and services organization-wide.

From strategy to execution, mySAP SRM covers the full supply cycle, helping organizations optimize supplier selection, increase collaboration, and compress purchasing cycle times. By standardizing key purchasing processes, mySAP SRM helps ensure that all buyers throughout the organization follow established rules and contract pricing guidelines.

mySAP SRM aims at a full integration with other procurement-related business processes, including supply chain management, product life-cycle management, customer relationship management, and ERP.

SAP R/3 Enterprise

SAP R/3 Enterprise is the last release of SAP R/3, succeeded by mySAP ERP. Standard maintenance will be provided until March 2009, extended maintenance will be provided until March 2012.

SAP Industry-Specific Solutions

Because different industries have different requirements and business processes, SAP has developed distinct industry-specific solutions that contain tailored versions of mySAP Business Suite solutions. These industry-specific solutions draw on SAP s extensive experience in serving the unique needs of each of these industries, and are frequently updated based on information derived through our close relationships with our customers and with various industry groups. We believe our focus on industry-specific solutions gives SAP a unique position in the marketplace over companies that offer generic business solutions.

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Our different industry solutions are grouped into six industry sectors as shown below:

Process Industries

SAP for Chemicals
SAP for Mill Products
SAP for Oil & Gas
SAP for Pharmaceuticals
SAP for Mining

Discrete Industries

SAP for Aerospace & Defense
SAP for Automotive
SAP for Engineering, Construction & Operations
SAP for High Tech
SAP for Industrial Machinery & Components

Consumer Industries

SAP for Consumer Products
SAP for Retail

Services Industries

SAP for Media
SAP for Hospitality Services
SAP for Logistics Service Providers
SAP for Postal Services
SAP for Railway Services
SAP for Telecommunications
SAP for Utilities
SAP for Professional Services

Financial Services

SAP for Banking
SAP for Insurance
SAP for Financial Service Providers

Public Services

SAP for Healthcare
SAP for Higher Education & Research
SAP for Public Sector
SAP for Defense & Security

SAP NetWeaver

The technical foundation of our Enterprise Services Architecture is referred to as SAP NetWeaver. As discussed above, with it s integration and application platform it allows users to integrate and process business information from disparate sources in a variety of ways.

SAP NetWeaver incorporates the integration capabilities of today s flexible Web Services architecture and aims to be fully interoperable with two of the major development standards, Microsoft .NET and IBM WebSphere (J2EE). By doing so, SAP NetWeaver makes it easier for customers to link both non-SAP and SAP applications to work together. SAP NetWeaver also makes it easier for customers to evolve into a more flexible technology architecture while containing costs.

Through its ability to integration of data from different applications, SAP NetWeaver gives customers new ways of making use of all their current application investments while also allowing them to create new applications that are composed of components from older, pre-existing applications. For example, it brings together data from multiple SAP and non-SAP applications to be viewed through a Web-based portal. In addition, it enables analytical applications to gather the data from every other application and create a single, unified view for making better business decisions. SAP NetWeaver also aims at allowing the customer to organize multiple applications into an automated business process.

Because of its open platform design, we believe that SAP NetWeaver will permit customers to reduce the maintenance costs of all their IT systems. While all components of SAP NetWeaver are already released, we expect to release the complete SAP NetWeaver solution to reference customers by the end of March 2004. Sales for SAP NetWeaver alone are not expected to be significant as it is a value-added component of our products, and the majority of our existing customers will receive SAP NetWeaver as an upgrade to their current software packages. But SAP NetWeaver will make it easier for customers to upgrade older SAP applications and implement new ones.

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SAP NetWeaver currently includes the following components:

SAP Business Intelligence (SAP BI)

SAP Business Intelligence is an information and knowledge management component that includes a business intelligence platform, a comprehensive set of data management tools, and data warehousing capabilities. It enables organizations to access, analyze, and disseminate relevant and timely information. Key features of SAP Business Intelligence include data warehousing, online analytical processing of information, report design and creation, and performance management.

SAP Enterprise Portal (SAP EP)

SAP Enterprise Portal is a Web-based gateway solution that brings together collaboration, knowledge management, and relevant content by integrating diverse information, applications, and services. The solution aims at allowing a user to access from one location many types of company-wide information, including SAP applications, third-party applications, databases, data warehouses, desktop documents, and Web content and services. SAP Enterprise Portal is designed to improve collaboration, speed information sharing, enhance availability of information for decision making and boost employee productivity. SAP Enterprise Portal includes patented technology that allows users to work with information from different sources. Drag and relate capabilities are designed to allow users to access, interconnect, update, edit, and delete information in multiple software applications and data sources without restrictions resulting from different technologies.

SAP Exchange Infrastructure (SAP XI)

SAP Exchange Infrastructure provides open integration technologies that support SAP and non-SAP software components working together, whether those solutions are being run by the same or different organizations.

SAP Mobile Infrastructure (SAP MI)

SAP Mobile Infrastructure is the foundation for all SAP solutions for mobile business. It provides an open and secure platform that permits mobile computing users to access software and data in either connected or disconnected mode.

SAP Master Data Management (SAP MDM)

SAP Master Data Management is a standardized offering designed to solve the challenges of data integration from multiple systems, physical locations, and vendors. SAP Master Data Management helps achieve information integrity across a network of suppliers and customers by allowing companies with different IT systems, including different software systems, to consolidate, harmonize, and centrally control data.

SAP Web Application Server (SAP Web AS)

SAP Web Application Server is the application platform of SAP NetWeaver. It is designed to allow an organization to gain more value from its existing IT assets by permitting the organization to deploy flexible solutions and develop new applications based on existing applications. It also facilitates the creation of Web-based services. This flexibility supports the exchange of data between different organizations, and the creation of business applications and processes that incorporate solutions from multiple entities IT systems with which the customer interfaces in its business.

SAP Solutions for Small and Mid-Market Segments

SAP provides a broad range of business solutions for the small and mid-market segments. In general, the combination of certain criteria such as:

company revenue;

the number of employees;

standardized versus more sophisticated solutions; and

level of desired partner involvement

will determine the solutions and channel by which our customers purchase and implement SAP solutions. The boundaries of these market segment definitions vary from country to country on a relative scale.

The small business market segment is served through a network of approved SAP business partners. Two families of solutions fall under this initiative: mySAP All-in-One and SAP Business One. Both offerings provide integrated application packages that are designed for quick implementation and priced for the small and mid-market segments. They are targeted primarily to independent small and midsize businesses, but are also of interest to subsidiaries of larger corporations in which the corporate applications are from SAP.

The mid-market segment includes two sub-segments: First, at the lower end, are those companies that require pre-packaged business solutions. These companies are served through a network of approved SAP business partners selling the mySAP All-in-One and SAP Business One solutions. Second, at the higher end of the mid-market segment, are those companies that require more sophisticated mySAP Business Suite solutions, which are delivered through SAP s direct sales and support organization.

SAP also collaborates with partners such as IBM, HP, American Express, and Dell, leveraging the distribution models of these companies to extend the customer and channel reach of mySAP All-in-One and SAP Business One solutions worldwide.

SAP solutions for the small and mid-market segments range in scope from mySAP Business Suite to SAP Business One:

mySAP Business Suite

Many mid-market organizations find that mySAP Business Suite offers scalable solutions that fit their requirements and budgets. These organizations are served through the SAP direct sales organization.

mySAP All-in-One

mySAP All-in-One solutions are software applications created and delivered through a network of approved SAP business partners. These solutions meet the needs of companies that require a high degree of industry-specific functionality. mySAP All-in-One solutions are based on components of mySAP Business Suite solutions and incorporate pre-defined business process knowledge that can be tailored to the specific needs of a customer. There are currently over 350 mySAP All-in-One certified solutions available worldwide.

SAP Business One

SAP Business One is an easy-to-use business automation software solution that aims at enabling emerging businesses to streamline their operational and managerial processes and gain better control of their organizations. Through its intuitive user interface, SAP Business One helps delivering on-demand access to critical real-time information. In addition, it supports standard horizontal (non-industry specific) business processes such as financial management, warehouse management, purchasing, inventory management, payment, and sales force automation. SAP Business One targets organizations with up to 250 employees. SAP Business One is based on the technology gained through SAP s 2002 acquisition of TopManage.

SAP xApps

In 2002 we announced a new breed of applications. SAP xApps composite applications deliver advanced business practices in applications that are easy to implement and that are built on existing software applications. SAP xApps are designed for SAP NetWeaver.

The first SAP xApps introduced was SAP xApp Resource and Program Management (SAP xRPM). SAP xRPM is a comprehensive project portfolio management application that aims at synchronizing information and processes from project, human resources, financial, and time-tracking systems both SAP and non-SAP.

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Other SAP xApps currently available include SAP xApp Emissions Management (SAP xEM) and SAP xApp Product Definition (SAP xPD). Certified partners can develop certain xApp solutions.

SAP Solutions for Mobile Business

SAP Solutions for Mobile Business allow users of SAP s solutions to access various SAP mobile business software applications beyond desktop PCs and wire-bound networks. The foundation of mySAP Mobile Business is a technology platform that enables this mobility. Online functionality enables users to deploy SAP solutions for mobile business inside a company through a wireless local area network or outside the company through wide-area mobile data networks. Off-line functionality allows applications to function locally so employees can use mobile devices such as smart phones and personal digital assistants without a network connection.

The two key functional areas of SAP solutions for mobile business are mobile access and mobile applications. Mobile access can be provided through all popular devices in both wired and wireless formats. SAP solutions for mobile business also provides mobile applications based on SAP s industry solutions and is designed to support industry-specific requirements.

Packaged Solutions

SAP packaged solutions comprise predefined combinations of applications, components, services, and content aimed at solving a specific business issue. They feature tightly scoped and limited-risk implementation, and are designed to mitigate risk and deliver faster return on investment.

SAP packaged solutions are delivered by SAP Consulting or SAP services partners, using accelerated implementation methodologies to help customers achieve a quick return on investment.

SAP Customer Services Network

In addition to its software solution portfolio, SAP provides comprehensive service offerings such as consulting, custom development, education, hosting, and support services in SAP Customer Services Network (SAP CSN). Delivered by SAP and its partners, these services focus on customers unique business requirements. SAP Customer Services Network helps customers to optimize benefit, cost and return on SAP and related IT investments.

As of December 31, 2003, 12,713 employees were providing consulting, support, and training services.

SAP CSN includes the following business areas:

SAP Consulting

SAP Consulting offers consulting, implementation, and optimization services to minimize risk and maximize return on an organization s investment in SAP software.

SAP Consulting brings together SAP specialists, SAP product development professionals, and certified partners to provide a single point of contact for customers seeking assistance with their SAP systems through the system life cycle. SAP Consulting offers the delivery of consistent services and methodologies at customer locations around the world.

SAP Consulting covers:

strategic consulting services to ensure that an organization s IT infrastructure supports its business goals;

solution delivery services to get software up and running quickly and cost-effectively;

operations services to enable solutions to grow and adapt with changing customer needs; and

life-cycle management services to cover every phase of deploying and operating a customer s solution.

SAP Education

SAP Education provides training required for SAP customers and partners to maximize the benefits attained from SAP systems. SAP Education services include assessment, education delivery, testing and certification, and continuous improvement.

SAP Education s curriculum includes more than 280 different courses, offered at more than 80 training centers worldwide, and onsite at customer locations.

SAP Active Global Support

SAP Active Global Support offers a broad range of services to cover planning, implementation, operations, upgrades, and continuous improvement.

SAP Active Global Support aims at ensuring the optimum performance of customers SAP solutions and the maximum benefit to their business. For example, SAP experts advise customers on choosing and deploying the support structures and processes that best meet their needs. In addition, they can resolve system issues before the customer s system goes live. As a result, customers benefit from optimized system performance.

Once a customer s SAP solution is up and running, support and maintenance continue with help-desk services, online monitoring, remote maintenance, and on-site assistance. SAP Active Global Support can help customers spot bottlenecks, plan resources, and migrate to new releases and technologies.

SAP Custom Development

SAP Custom Development (formerly known as SAP Global Custom Development Services) aims at delivering custom designed solutions to solve our customers unique business needs. The service portfolio includes not only full-scale custom development projects, but also spot-services such as custom development strategic planning, project management, and quality and risk assessment services for those customers that may already have development teams at hand. The services portfolio also includes continuous improvement services like maintenance to ensure the long-term health of our customers custom-developed solutions, as well as SAP Modification Clearing for those customers ready to remove existing software modifications as they move to newer releases of SAP software.

SAP Hosting

SAP Hosting allows organizations to move to SAP software solutions quickly, easily, and cost effectively. Its services include:

Application hosting: Provides infrastructure, implementation, operational, and ongoing support for selected applications that can be accessed by the customer through a Web browser.

Marketplace hosting: Includes hosting of marketplaces, private exchanges, auction sites, and specific, customized applications.

Application service provisioning (ASP) solutions: Combine software, infrastructure, service, support, and rapid implementation for turnkey solutions. These are delivered to customers as services from a single provider. With ASP solutions, customers do not obtain a perpetual license, but subscribe to the application service for a periodic fee.

Seasonality

As is common in the software industry, our business has historically experienced the highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2003, 2002 and 2001 first quarter revenue being lower than revenue in the prior year s fourth quarter. We believe that this trend will continue in the future and that our revenue will continue to peak in the fourth quarter of each year and decline from that level in the first quarter of the following year.

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Revenue by Geographic Region

We operate our business in three principal geographic regions, namely EMEA, which represents Europe, Middle East and Africa, the Americas, which represents both North America and South America, and Asia-Pacific, which represents Japan, Australia and parts of Asia. We allocate revenue amounts to the region in which the customer is located. See Note 34 to our consolidated financial statements included in Item 18. Financial Statements for additional information with respect to operations by geographic region.

The following table sets forth, for the years indicated, the total revenue attributable to each of our three principal geographic regions:

	2003	2002	2001